

Interest rates: final vote to ensure robust and transparent benchmark setting

Plenary sessions [28-04-2016 - 12:03]

Benchmark interest rates that are critical to financial market stability across Europe, such as the London Interbank Offered Rate (LIBOR) and the Euro Interbank Offered Rate (EURIBOR), will become more reliable thanks to a new law voted in by Parliament on Thursday. This law aims to clean up the benchmark-setting process, improve transparency, and prevent conflicts of interest like those that led to the LIBOR rigging scandals of recent years.

"This law should put an end to manipulation of benchmarks and I am delighted it has now been passed. These indices are important for people with mortgages, but are also used to establish the price of petrol and the Euro exchange rate and should therefore be fully trustworthy. I am proud that Europe is the first continent to regulate this", said lead MEP Cora van Nieuwenhuizen (ALDE, NL). The law was passed by 505 votes to 113, with 31 abstentions.

Benchmark categories

The law creates three categories of benchmarks, subject to different supervisory regimes depending on how much influence they have over the stability of financial markets.

"Critical" benchmarks influence financial instruments and contracts with an average value of at least €500 billion and could thus affect the stability of financial markets across Europe. A benchmark may also be deemed critical if it has no or very few appropriate substitutes and if it were to cease to be provided, there would be a significant and adverse impact on market stability.

"Significant" benchmarks influence financial instruments or financial contracts having a total average value of at least €50 billion. "Non-significant" benchmarks are those that do not fulfill the conditions set for the "significant" category. Benchmarks could be moved from one category to another when necessary.

Supervision, methodology and transparency

Under the new law, all benchmark administrators will have to be authorised by a competent authority or registered, even if they provide only non-significant benchmarks. They will have to publish a "benchmark statement" defining precisely what their benchmark measures, describing the methodology and procedures for calculating the benchmark and advising user about the impact a change or cessation of the benchmark may have on financial contracts.

Data used to set a benchmark will be subject to quality standards designed to ensure that it accurately reflects the reality that it is meant to measure. Where the benchmark is based on contributions, the data must come from reliable contributors who are bound by a code of conduct for each benchmark.

Critical benchmark administrators will have to have a clear organisational structure to prevent conflicts of interest, and be subject to effective control procedures.

Press release

Administrators of non-significant benchmarks will be exempted from fulfilling certain conditions but will have to immediately notify the competent authority if the benchmark exceeds the €50 billion threshold.

Next steps

The benchmark regulation now needs to be officially approved by the Council. It will then be published in the EU Official Journal and enter into force on the day following that of its publication.

Further information

- Adopted text will be available here (28.04.2016): <http://www.europarl.europa.eu/plenary/en/texts-adopted.html>
- Press release after the deal with the Council (24.11.2016): <http://www.europarl.europa.eu/news/nl/news-room/20151123IPR03987/MEPs-strike-deal-on-robust-and-transparent-benchmark-setting>
- EP Research background note: Benchmarks in financial instruments: <http://www.europarl.europa.eu/EPRS/EPRS-AaG-556999-Benchmarks-in-financial-instruments-FINAL.pdf>
- Audiovisual material for professionals: <http://audiovisual.europarl.europa.eu/default.aspx>

Political groups

- EPP Press Release - Benchmarks: Parliament tackles unfair deals between banks: <http://www.eppgroup.eu/press-release/Benchmarks%3A-Parliament-tackles-unfair-deals-between-banks>
- News pages of the S&D group: <http://www.socialistsanddemocrats.eu/newsroom>
- News pages of the ECR group: <http://ecrgroup.eu/news/>
- Press release by the ALDE group: <http://www.alde.eu/nc/press/press-and-release-news/press-release/article/european-parliament-adopts-legislation-to-end-interest-rate-fraud-47141/>
- News pages of the GUE/NGL group: <http://www.guengl.eu/news/archives/category/gue-ngl-news>
- News pages of the Greens/EFA group: <http://www.greens-efa.eu/press/70-press-releases.html>
- News pages of the EFDD group: <http://www.efddgroup.eu/newsroom/press-releases>

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