

Brussels, 14 February 2013

Circulation: To the Euribor Panel banks

Subject: *Clarifications on the Euribor definition and common contributions guidelines*

Dear Panel banks' representatives,

As you many know, following the recommendations on Euribor issued by the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA)¹, the Euribor-EBF Secretariat and experts from the Euribor Steering Committee have been working on clarifications of the “prime bank” and “interbank transactions” terminology in the Euribor definition.

Currently, Euribor is defined as *the rate at which euro interbank term deposits are being offered within the EMU zone by one prime bank to another at 11.00 a.m. Brussels time*².

A representative panel of banks provides daily quotes of the rate, rounded to three decimal places, that each panel bank believes one prime bank is quoting to another prime bank for interbank term deposits within the euro zone³.

One of the recommendations from EBA/ESMA requires that *the Euribor definition should be adjusted for more clarity. In particular, the term “prime bank” needs a clear definition. The term “interbank transactions” also needs to be clarified and, if needed, to be broadened and adjusted.*

Consequently, while acknowledging that it was impossible, in the current market environment, to reach a perfect definition without jeopardizing the continuity on the benchmark, Euribor-EBF and experts from the Steering Committee recommend clarifying the “prime bank” and “interbank transactions” terminology as follows:

- *A prime bank must be understood as the G-SIFIS⁴ with having good market access and access to monetary-policy instruments at the ECB.*
- *“Interbank transactions” must be understood as any cash transaction in the money market, including short-term debt issued by a bank.*

¹ <http://www.eba.europa.eu/cebs/media/aboutus/News%20and%20Communications/EBA-BS-2013-001--Euribor--Recommendations-to-EBF--final.pdf>

² Euribor Code of Conduct: http://www.euribor-ebf.eu/assets/files/Euribor_code_conduct.pdf

³ Euribor technical features: http://www.euribor-ebf.eu/assets/files/Euribor_tech_features.pdf

⁴ Global Systemically Important Financial Institutions as listed by the Financial Stability Board.

In addition, on the basis of panel banks' responses to the Euribor questionnaire which was circulated to all panel banks in October 2012⁵, Euribor-EBF has drawn common contributions process guidelines which should be annexed to the Euribor Code of Conduct. These guidelines are hereby attached.

Finally, following the recommendations from EBA/ESMA, it is suggested to reduce the number of maturities to 7: 1 week, 1, 2, 3, 6, 9 and 12 months.

The above-mentioned clarifications of the Euribor definition and the contributions guidelines will need to be formalised and included in the Euribor Code of Conduct. In the meantime, I would be grateful if you could share your views on the suggested clarifications of the definition, contributions process guidelines and reduced number of maturities **by Wednesday, 20 February cob**. All comments should be sent to info@euribor-ebf.eu.

Please rest assured that Euribor-EBF is committed to take all necessary actions to further enhance the Euribor benchmark's governance and methodology, thereby maintaining the benchmark's credibility and reduce any potential market disruptions.

Should you have further question, please do not hesitate to contact Mr Cédric Quémener, Euribor-EBF Director (c.quemener@euribor-ebf.eu; +32 2 508 37 14) or Ms Gaëlle Marques, Euribor-EBF Adviser (g.marques@euribor-ebf.eu; +32 2 508 37 37).

Thank you in advance for your collaboration.

Yours faithfully,



Guido RAVOET
Chief Executive

Enclosure: D2604A-2013 – Common contributions guidelines

⁵Conclusions of the questionnaire: <http://www.euribor-ebf.eu/assets/files/12octoevent/D2118B-2012-Conclusions%20of%20the%20questionnaire%20on%20Euribor.pdf>

Euribor-EBF recommendations for common contributions process

Determination of the contribution:

- There should be a clear **definition of roles** in the contribution process and segregation of duties (physical and systems) of the contribution team in order to manage and reduce conflicts of interests. This means that, in any case, conflicts of interests between the employee responsible for the quotes and Money Markets Desks (respectively Derivatives Traders) must be avoided when possible, and reduces to the minimum when not possible.
- In addition, **contributing professionals should receive appropriate training** and confirm understanding of rules and policies. **Panel banks should appoint authorized persons to make the contribution.**
- The **responsibility of Euribor submissions should be at Treasury senior management level.** The daily contributions should be done by an operational team under the control of the senior management. Treasury departments have strong market knowledge, having daily involvement in the cash balance sheet management, as well as a complete view of the degree of price liquidity in the market.
- **Four-eye principle and pre-submission control:** The **quality of the contribution** should be reviewed by a neutral group within the bank with no P&L responsibility but sufficient market expertise about the Euro cash market (e.g. Market Risk Department), taking into account evolution of interest rate level, market criteria, ECB rates with appropriate levels of alerts (thresholds).
- In case the neutral group has any issues or concerns with the respective panel Bank's contributions, the panel bank should implement a well-documented escalation process within its organisation. The panel bank should implement an information and communication process between the business and the neutral control group. Any communication or exchange of views during the pre-submission control process should be well documented on a daily basis.
- The panel bank should ensure through specific and detailed guidelines and policies that the processes for the Euribor submission, in general, and for determining the Euribor contributions, in particular, are transparent and well documented, that is, information, comments, and data used for determining the contribution rates should be stored according to the respective archiving requirements.
- A panel bank's contribution rates should be classified and treated as confidential, non-public, price-sensitive information prior to their publication on a daily basis. The respective bank internal key operating procedures, guidelines, and policies should represent the basis for this classification.

Submission of the contribution:

- The contribution team, under the supervision of the Treasury senior management, should be responsible for inputting the rates into the calculator agent's system, once it is validated by the Market Risk Department (or other neutral group as described above).
- A 'four-eye' principle should also be applied when inputting the rates, in order to avoid any mistyping mistakes.
- Panel bank must also ensure the correct and timely submission of its contribution rates to the calculation agent by implementing processes and procedures. (An automatic reminder procedure is already in place on the calculator agent's side.)
- Panel banks must communicate the names of the contributing persons and senior management responsible to Euribor-EBF and the calculator agent. (Already in place through a contact form to be returned to Euribor-EBF on an annual basis). Any change in the contact list must be communicated without delay to Euribor-EBF and the calculator agent.
- Recordkeeping of contributors' names, internal communications, argument for contribution and data related to the process for a set period of time, in particular when there are different opinions on the rate, must be ensured.
- The system(s) used for the submission process must meet minimum security standards in order to avoid unwanted, uncontrolled changes and amendments to the contribution rates (e.g. personal logins, passwords, etc.)

Post-submission controls

- In addition to the pre-contribution control, the **Market Risk Department** (or other neutral group as described above) should review and analyze the bank's contributions over a wider time horizon (e.g. one calendar month) in close cooperation with other stakeholders within the bank on a regular basis (e.g. monthly review meeting).
- The **Compliance Department** should be in charge of controlling **the internal contribution processes and respect of the Code of Conduct**. The Compliance department should be able to review the process on real-time basis.

Internal audit

- Each panel bank should ensure that the internal audit department regularly reviews, checks, and validates all processes and procedures relating to the Euribor submission.

With regard to the above-mentioned common contributions guidelines, Euribor-EBF acknowledges that banks' internal structures may differ significantly from one to another and that some adjustments might be necessary.