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## **40<sup>th</sup> MEETING OF THE EURIBOR STEERING COMMITTEE**

**- Brussels, 6 February 2014, 10.00 to 13.30 CET –**

*Location: Avenue des Arts 56, 1000, Brussels*

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### Minutes

The Chairman, Mr G. RAVOET welcomed the participants. He thanked Mr Philippe JEANNE (Steering Committee Member), Mr Holger NEUHAUS (ECB) (Guest), and Mr Anthony Murphy (Promontory) (Observer) for joining in by conference call.

A list of participants is hereby attached.

#### **1. EONIA**

Mr G. RAVOET gave the floor to Mr H. NEUHAUS to present the EONIA Contribution Process Quality Report for January 2014. As in previous meetings, Mr H. NEUHAUS participated for this item given the ECB's function of calculating agent for EONIA.

Mr H. NEUHAUS recalled that the ECB had already previously reported at meetings of the Euribor Steering Committee on the quality of the EONIA contribution process with a view to further improve it. Indeed, on various occasions the Euribor-EBF had initiated follow-ups, e.g by clarifying rules and/or contacting panel banks. The ECB was now intending to prepare reports for Euribor-EBF on a monthly basis to systematically inform about the quality of the production process for EONIA. While the reports should be standardized, they could be adapted over time. Obvious occasions would be changes in rules but also the forthcoming switch to new IT infrastructure in May 2014.

While presenting the new report, Mr H. NEUHAUS recalled his presentation from December in which he had highlighted that currently in the EONIA contribution process, banks could send multiple contributions before the fixing time. He mentioned that allowing banks to send more than one contribution could increase operational risks in determining the correct contribution. He suggested defining clear contribution rules establishing that only one contribution ex-ante by default should be accepted. He proposed that banks should be obliged to only send a second contribution or re-fixing in case of error. This rule could be introduced as part of the EONIA process review agreed at the December 2013 Steering Committee meeting.

Mr A. COVIN asked whether establishing a rule preventing banks from sending their contributions before 5:00pm would allow to minimize the number of corrections on the contribution process.

Mr H. NEUHAUS answered that as most banks anyway contribute after 5:00 pm, accepting one contribution ex-ante by default was more important than the timing. He recalled that moreover panel banks should be reachable during the time that EONIA is being finalised.

## **2. UPDATE ON EBA ESMA RECOMMENDATIONS**

Mr G. RAVOET informed the Members that the report on the review of the implementation of EBA and ESMA recommendations by Euribor-EBF should be due in mid-February 2014. He explained that Euribor-EBF envisaged to organize a press conference on the occasion of the publication of the report to share the progress achieved in the context of the Euribor reform.

Mr G. RAVOET updated the Members on the recommendations which were already implemented and on the measures that are currently on process. Members were invited to suggest companies equipped to perform the external audit on Euribor-EBF. Members agreed that Euribor-EBF should solicit a number of bids for the external review.

Separately, the Members discussed the scope of the calculation agent audit. It was agreed that the calculation agent should have implemented a Code of Conduct and be compliant.

## **3. CONFLICTS OF INTEREST PROCEDURE**

Mr G. RAVOET highlighted the measures taken to avoid and mitigate potential conflicts of interest. He underlined that two distinct conflicts of interest policies (at Euribor level and Euribor-EBF level) had been adopted.

He informed the participants that the composition of the Conflicts of Interest Oversight Committee (CIOC), responsible for the identification and management of conflicts of interests at the administrator's level, had been finalized and was to be approved by the General Assembly.

Mr G. RAVOET added that to ensure effective implementation and follow-up of the conflicts of interest policies, Euribor-EBF had requested Promontory's assistance on the drafting of a procedure to identify and manage conflicts of interest at Euribor at structure level. He gave the floor to Mr A. MURPHY to present the Conflicts of Interest procedure to be approved by the Steering Committee members.

Mr A. MURPHY presented the conflicts of interest escalation and management process. He underlined that this procedure should be reviewed on an annual basis. He observed that after the initial implementation, it would not be anticipated that in practice there would be a significant volume of cases to be reviewed, though of course the obligation to identify and refer any potential conflicts remains constant.

Members approved the conflicts of interest procedure to be submitted to the Euribor-EBF Board of Directors, General Assembly and the finalized Conflicts of Interest Oversight Committee for approval.

#### **4. IOSCO REVIEW OF EURIBOR**

Mr G. RAVOET informed the Members about the IOSCO review on Euribor. He explained that Euribor-EBF had been requested to respond to this report by 7 February 2014.

Mr A. MURPHY presented a summary on the IOSCO review.

Members also pointed out that disclosing confidential data immediately, as per principle 9 on transparency, could entail risks. Members mentioned that at least a five-year time period before the disclosure of the data should be respected. It was suggested that rates could be disclosed on an anonymous basis, without specifying the names of the contributors.

Members discussed principle 13 which requires a transition plan in the event that Euribor were to be replaced by another benchmark. It was agreed that Euribor-EBF would take well note of the work carried out by the Financial Stability Board regarding the potential transition to alternatives to the major IBOR benchmarks. Finally, it was concluded that if a transition to another benchmark were to take place, a broad consultation to gather all inputs from the industry would have to be launched.

#### **5. BACK-TESTING ON EURIBOR CONTRIBUTIONS**

##### **a) Back-testing on Euribor**

Mr A. MURPHY presented the back-testing analysis for the month of December 2013 performed by Promontory on Euribor contributions. He summarized the data controls, operations testing and quality testing results.

##### **b) Back-testing Procedure**

Mr A. MURPHY presented the back-testing procedure aimed at establishing sound and robust procedures and organisational arrangements to ensure follow-up with panel banks on testing results.

Mr G. RAVOET informed the participants that the Euribor-EBF Secretariat had taken on a staff member who would be in charge of the follow-up of any contribution incidents. In the event of persistent anomalies on contributions, the Secretariat would contact the panel banks to check the understanding of the Euribor definition. Should the Secretariat and the panel bank be unable to resolve this contribution issue, the issue would be escalated to the Euribor Steering Committee.

Members took note that an official procedure should be in place to ensure that banks understand the general priority accorded to each data type. For this purpose, members agreed to establish a survey of panel banks to gather data on the benchmark quote submission

methodology employed by each participating panel bank. This survey would probably be performed on an anonymous basis.

Finally, Members approved the draft back-testing procedures prepared by Promontory.

## **6. LEVEL AND USE OF EURIBOR/EONIA**

Mr G. RAVOET presented a chart showing the evolution of 1M, 3M and 12M Euribor (Chart.1) and a chart on the evolution of the Eonia (Chart. 2) since January 2013, and invited the members to share comments on the level and use of Euribor and Eonia rates.

Members discussed the volatility of the rates at the end of December 2013. Members highlighted the market fragmentation and pointed out that the normal liquidity curve had still not been recovered.

## **7. COMPOSITION OF EURIBOR AND EONIA PANELS**

### **a) Current composition of Euribor and Eonia panels**

Mr G. RAVOET informed Members about the composition of the Euribor and Eonia panels, made up of 31 and 34 banks, respectively.

He informed the participants about the Bank of Ireland's decision to withdraw from the Euribor panel, while remaining on the Eonia panel, as of 14 February 2014.

Members shared their concerns about panel banks withdrawing from the Euribor panel as this could lead to a discontinuity of the index. They underlined that a change in the Euribor and prime bank definitions could have a significant impact on Euribor and on existing contracts, including consumer loans.

### **b) BayernLB's request to re-join the Eonia panel**

Mr G. RAVOET informed the Members that BayernLB had requested to re-join the Eonia panel. In this context, Members underlined the importance of capturing a large part of the overnight market activity and discussed on the optimal membership distribution in times of market fragmentation. Finally, Members approved the re-inclusion of BayernLB on to the Eonia panel.

## **8. CALCULATION AGENT TRANSITION PLAN**

Mr G. RAVOET updated the participants on the transition plan to the new calculation agent. He explained that all stakeholders had been informed about this change in the calculation agent. In addition, he informed the members that on certain set days GRSS would be running calculation tests in parallel in order to prepare for the transition taking place in May.

## **9. REAL TRANSACTIONS BASED TEST INDEX PROJECT**

Mr G. RAVOET communicated to Members that for the time being, Euribor-EBF, the designated Task Force and the ECB, are analysing data sufficiency, calculation methodology, and representativeness amongst other aspects in order to assess the feasibility of developing a real transactions-based index.

He reminded the participants that the development of the Euribor+ project is key in order to comply with the IOSCO principle on Data Sufficiency. Finally, he mentioned that another Stakeholders' Workshop to present this real transactions-based test project should be scheduled in due course.

## **10. ANY OTHER BUSINESS**

Mr G. RAVOET informed Members about the joint consultation launched by the Interim Libor Oversight Committee and BBALibor on Libor re-fixing. It was agreed that the re-fixing topic should be raised in the next Steering Committee meeting.

Enclosure: D0050A-2014 List of participants

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**LIST OF PARTICIPANTS**

***Chairman***

Mr Guido RAVOET

Euribor-EBF Secretary General

***Members***

Mr Alberto COVIN

Mr José María VERDUGO

Mr Patrick SIMEON

Mr Andreas BIEWALD

Mr Karel LANNOO

Mr Robert PEIRCE

Mr Olivier BRISSAUD

Mr Philippe JEANNE

*(via conference call)*

***Euribor-EBF***

Ms Andrea FERNANDEZ

***Guest***

Mr Holger NEUHAUS

European Central Bank *(via conference call)*

***Observer***

Mr Anthony MURPHY

Promontory *(via conference call)*

***Apologies***

Mr Bruno COLMANT