

Brussels, 1 June 2015

### Presentation of the results of the 2014 external compliance review

As part of the implementation of IOSCO principle 17 related to the audit requirements, the European Money Markets Institute (EMMI) requested its statutory auditors, KPMG Réviseurs d'Entreprises SCRL, to review EMMI's governance and control framework against the background of EBA/ESMA recommendations on the Administration and Management of Euribor<sup>1</sup> and the IOSCO's Principles for Financial Benchmarks<sup>2</sup>. In that context, IOSCO Principles 7, 8, 9 and 15 were not included in the scope of the review. The analyses performed focused essentially on the follow-up by EMMI of the recommendations issued by EBA/ESMA and IOSCO.

An extract of the "Results of the analyses performed on EMMI governance aspects and control frameworks" by KPMG dated 19 March 2015 is available below. The full report is made available to the supervisory authorities.

On the basis of the analyses performed and presented in the report, no significant issues with regard to EMMI governance and control frameworks have been noted.

A total of nine recommendations have been identified by KPMG and are presented in section 2.3 of the extract below. Out of these 9 recommendations, 6 have already been fully implemented (1, 2, 4, 7, 8 and 9). The 3 remaining recommendations (3, 5 and 6) are being addressed as part of the upcoming revised Euribor Code of Conduct.

EMMI strives to continuously strengthen the governance and control framework applicable to its benchmarks.

---

<sup>1</sup> [http://www.esma.europa.eu/system/files/2014-207\\_esma-eba\\_review\\_of\\_euribor\\_recommendations\\_0.pdf](http://www.esma.europa.eu/system/files/2014-207_esma-eba_review_of_euribor_recommendations_0.pdf)

<sup>2</sup> [http://www.financialstabilityboard.org/wp-content/uploads/r\\_140722a.pdf?page\\_moved=1](http://www.financialstabilityboard.org/wp-content/uploads/r_140722a.pdf?page_moved=1)



**European Money Markets Institute (EMMI) AiSBL**

Results of the analyses performed on  
EMMI governance aspects and control  
framework

Enquiry period:  
January 1, 2014 - November 15, 2014

**KPMG Bedrijfsrevisoren - Réviseurs d'Entreprises**

March 2015

This report contains 55 pages

## **Contents**

1	Introduction	1
2	Executive Summary	3
2.1	General observation	3
2.2	Overview of results	4
2.2.1	EMMI Governance	0
2.2.2	EBA/ESMA Recommendations	1
2.2.3	IOSCO principles on governance and control framework	3
2.3	Overview of the recommendations	5
3	Detailed results of the analyses performed	8
3.1	EMMI Governance	8
3.2	EBA/ESMA Recommendations	14
3.3	IOSCO Principles on governance and control framework	33

## **Annexes**

A	List of commonly used abbreviations	47
B	Reference documents from EBA/ESMA and IOSCO	48

# 1 Introduction

On January 1, 2013, EBA/ESMA<sup>1</sup> published the joint “EBA-ESMA Report on the Administration and Management of Euribor” including recommendations to EMMI (previously known as Euribor-EBF) to address what EBA/ESMA have identified as weaknesses and insufficiencies in the governance and the technical framework of Euribor. A review of the implementation of the recommendations was subsequently performed by EBA/ESMA and the results were published in their report “Review of the Implementation of EBA-ESMA Recommendations to Euribor-EBF” dated February 20, 2014.

In September 2013, the chairs of the Official Sector Steering Group (established by the Financial Stability Board) formally requested that IOSCO<sup>2</sup> conducts a review of the most widely used interest rate Benchmarks (LIBOR, EURIBOR and TIBOR) based on the principles developed by IOSCO in July 2013. The results of the review were presented in the IOSCO report “Review of the Implementation of IOSCO’s Principles for Financial Benchmarks by Administrators of Euribor, Libor and Tibor” published in July 2014.

In the context of the implementation of IOSCO principle 17 relating to the “external audit” requirement, European Money Markets Institute (EMMI) AiSBL (hereafter “EMMI” or “the Association”), discussed with its statutory auditor, KPMG Réviseurs d’Entreprises SCRL civile (hereafter “KPMG” or “we”), the possible implementation of the “external audit” process.

Taking into consideration the evolving character of the organization and the relating operational processes, EMMI and KPMG analyzed the possibilities to provide the users or stakeholders of EMMI with an assurance report. EMMI indicated that the criteria to be met to enable KPMG to issue an opinion in accordance with International Standards on Auditing were not yet fulfilled. Therefore, EMMI has requested KPMG to perform certain analyses relating to the three areas below:

- The compliance of the Association, for the period January 1, 2014 to November 15, 2014, with certain governance aspects included in the Euribor Code of Conduct and the Articles of Incorporation;
- The follow up of the recommendations formulated in February 2014<sup>3</sup> by EBA/ESMA that were not yet fully implemented and analysis of continuous monitoring of the recommendations fully implemented; and
- The follow up of the IOSCO recommendations<sup>2</sup> regarding governance aspects.

These analyses have been performed on the situation as of November 15, 2014 and, when applicable, for the period between January 1, 2014 and November 15, 2014 (hereafter “*the enquiry period*”). When considered relevant, we described the developments subsequent to this date.

The engagement performed was limited to the analyses described in section 3. EMMI has confirmed that the limited scope of our work was sufficient for their purpose.

---

<sup>1</sup> EBA: European Banking Authority / ESMA: European Securities and Markets Authority – Refer to annex A for a list of frequently used acronyms

<sup>2</sup> IOSCO: International Organization of Securities Commissions

<sup>3</sup> Refer to annex B for reference of the EBA/ESMA and IOSCO reports

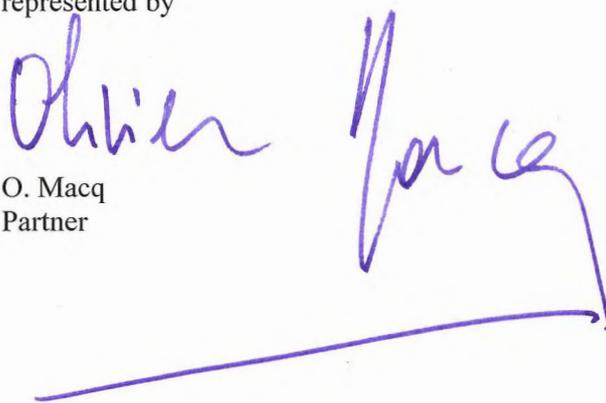
The scope of this engagement is substantially different to that of an audit or a review engagement performed under International Standards on Auditing or International Standards on Review Engagements and consequently no assurance will be expressed.

Even if recommendations are proposed to EMMI in the frame of our engagement, it does not consist of an assessment of the internal control framework. Consequently no assurance on internal control is made. In addition, no detailed analyses have been performed at the level of the determination of the benchmark.

The overview of the results of our analyses is presented in section 2. Further details on the analyses performed are presented in section 3.

Brussels, March 19, 2015

KPMG Réviseurs d'Entreprises / Bedrijfsrevisoren  
represented by



O. Macq  
Partner

## **2 Executive Summary**

### **2.1 General observation**

On the basis of the analyses performed (presented in section 2.2 and section 3), no significant issues with regards to EMMI governance and control frameworks have been noted.

We have however made some observations and recommendations that are summarized in section 2.2. and 2.3.

As indicated in section 1, our analyses were essentially focused on the follow up by EMMI of the recommendations issued by EBA/ESMA and IOSCO.

On the basis of the analyses performed, we have noted that, subsequent to the EBA/ESMA and IOSCO reviews, EMMI continued strengthening its governance and internal control framework, in particular through the following key improvements addressing to several of the EBA/ESMA and IOSCO recommendations:

- Revision of the Article of Incorporation/Statutes and Euribor Code of Conduct to incorporate the recommendations of EBA/ESMA and IOSCO.
- Definition and practical implementation of several new policies and procedures such as:
  - Record-keeping Policy and Procedure,
  - Audit Policy,
  - Issue Management Policy,
  - Training Policy,
  - Whistleblowing and Complaints Policies, and
  - Consultation Policy.
- Revision and strengthening of the control framework over the Calculation Agent activities (amongst others through the Code of Conduct, the realization of an internal audit by the Calculation Agent and of an external review by EMMI).
- Performance of a first internal audit by an external firm appointed as internal auditor.
- Review of the composition of the Euribor Steering Committee with an increased number of the independent members.
- Setup of the Audit Committee (although its composition is not in line with generally accepted corporate governance principles).
- Continuous involvement of the EMMI Secretariat and Euribor Steering Committee in the setup of the Euribor+ (including the creation of a technical subcommittee referred to as the Euribor Technical Advisory Group).

## 2.2 Overview of results

As indicated, our analyses addressed three main themes: the general governance of EMMI, the follow up of EBA/ESMA recommendations and the follow up of IOSCO recommendations. We present below an overview of the work performed and the related results. A detailed description of is presented in section 3.

For each of the analyses, we assigned an overall rating based on our perception of the compliance of EMMI with the aspects tested. The ratings using on the following scale:

0 Not tested	1 No findings to be reported	2 Minor point(s) of improvement noted	3 Non-significant deficiencies identified	4 Significant deficiencies identified.
-----------------	---------------------------------	--	--	---

With regards to the follow up of the EBA/ESMA and IOSCO recommendations, a rating 1 has been assigned only when, in our view, Management fully implemented the elements required by EBA/ESMA or IOSCO. Our rating also took into consideration, when relevant, the developments made by EMMI between November 30, 2014 and February 24, 2015.

The table below summarizes the number of topics analyzed and the results by rating:

	Not tested	No findings to be reported	Minor point(s) of improvement noted	Non-significant deficiencies identified	Significant deficiencies identified	Total
EMMI Governance	2	4	1	0	0	7
EBA/ESMA recommendations	0	7	2	1	0	10
IOSCO Principles	7	12	0	0	0	19

In addition, a total of nine recommendations have been identified (4 low risk and 5 medium risk). These recommendations are further detailed in section 2.3.



## 2.2.1 EMMI Governance

#	Topic analyzed	Rating	Comment on rating
1	Compliance with statutes - members of the association	0	No change in members through the inquiry period.
2	Compliance with statutes - General Assembly	1	No findings identified.
3	Compliance with statutes - Board of Directors	1	One meeting (October 13, 2014) was held based on an urgent request dated October 10, 2014 (convocation less than 7 days prior to the meeting). The requirements governing the convocation process for this type of meeting are not clearly defined in the statutes.
4	Compliance with Euribor Code of Conduct - Euribor Steering Committee (ESC) composition	2	As of the end of the inquiry period, the ESC was composed of nine members whereas it should be composed of at least 10 members. Two new members were proposed to the General Assembly and their nomination was approved on November 25, 2014.
5	Compliance with Euribor Code of Conduct - ESC attendance	1	No findings identified.
6	Compliance with Euribor Code of Conduct - ESC voting rights	1	No findings identified.
7	Compliance with Euribor Code of Conduct - ESC vote on Panel Banks	0	No change in members through the inquiry period.

## 2.2.2 EBA/ESMA Recommendations

#	Topic analyzed	EBA/ESMA Evaluation	Rating	Comment on rating
1	Membership Euribor Steering Committee (ESC)	Partly Implemented	1	No findings identified.
2	Publication of minutes of the ESC	Implemented	1	No findings identified.
3	Periodic review of the tenors	Implemented	1	No findings identified.
4	Monitoring of the prime bank definition	Implemented	1	No findings identified.
5	Confirmation of compliance with Code of Obligation for Panel Banks (COPB)	Partly Implemented	1	No findings identified.
6	Revision of the statutes	Partly Implemented	2	A member of the ESC was appointed by the General Assembly of September 26, 2014. We could however not trace his application to a proposal of the Board of Directors (as foreseen in the Euribor Code of Conduct).
7	Appointment of internal and external auditor	Partly Implemented	2	The Audit Policy stipulates that the internal audit oversight (including the review and approval of the audit plan) may be delegated to the EMMI Secretariat. In practice, it is delegated. EMMI also setup an Audit Committee composed of representatives of the members of the Association who are not directors of EMMI. Management indicated that, in the absence of legal requirements, the deviation from generally accepted governance principles (where the members of the Audit Committee are non-executive directors) has been decided for efficiency reasons.

#	Topic analyzed	EBA/ESMA Evaluation	Rating	Comment on rating
8	Changes in contract with the calculation agent	Implemented	3	The Service Level Agreement (SLA) with the Company Global Rate Set Systems (GRSS) was signed on October 24, 2014, whereas it was operating as calculation agent since July 1, 2014 (the SLA was in the discussion stage but not yet signed). No formal comparison took place between the SLA with the new calculation agent (GRSS) and the previous one (Thomson Reuter). Management, however, performed a brief analysis of the compliance of the new SLA with EBA/ESMA recommendations.
9	Appointment of internal and external auditor by the calculation agent	Partly Implemented	1	No findings noted.
10	Record keeping framework	Partly Implemented	1	No findings identified.

### 2.2.3 IOSCO principles on governance and control framework

#	Topic analyzed	IOSCO Evaluation	Rating	Comment on rating
1	Overall responsibility of the administrator	Fully Implemented	1	No findings identified.
2	Oversight of third parties	Fully Implemented	1	No findings identified.
3	Conflict of interests for the administrators	Fully Implemented	1	No findings identified.
4	Control framework for administrators	Broadly Implemented	1	No findings identified.
5	Internal oversight	Broadly Implemented	1	No findings identified.
6	Benchmark design	Partly Implemented	1	No findings identified.
7	Data sufficiency	Not rated	∅	Not tested.
8	Hierarchy of data input	Fully Implemented	0	Not tested.
9	Transparency of benchmark determinations	Not Implemented	0	Not tested.
10	Periodic review	Fully Implemented	1	No findings identified.

#	Topic analyzed	IOSCO Evaluation	Rating	Comment on rating
11	Content of the methodology	Broadly Implemented	0	With the exception of the Consultation Policy adopted in November 2014, no further progress has been noted compared to the IOSCO review with regards to (a) adopting procedures to encourage consistent use of expert judgment across all Panel Banks and (b) adopting procedures to govern the determination of Euribor in times of market stress or disruption, or in periods when data sources may be absent. The IOSCO indicated in its report that, the non-implementation of these elements does not substantially affect EMMI achieving the intended outcome of principle 11.
12	Changes to the methodology	Broadly Implemented	1	No findings identified.
13	Transition	Partly Implemented	0	No further progress noted compared to the IOSCO review.
14	Submitter Code of Conduct	Broadly Implemented	1	No findings identified (taking into consideration the limited means of action of EMMI in this area).
15	Internal controls over data collection	Not applicable	0	Not applicable
16	Complaints procedure	Broadly Implemented	1	No findings identified.
17	Audits	Broadly Implemented	0	Not tested.
18	Audit trail	Broadly Implemented	1	No findings identified.
19	Cooperation with regulatory authorities	Fully Implemented	1	No findings identified.

## 2.3 Overview of the recommendations

Based on the result of the analyses summarized in section 2.2 and further detailed in section 3, we proposed the following recommendations to Management:

Rec # <sup>4</sup>	Observation	Recommendation	Risk Grading <sup>5</sup>
1	There is currently no formal process in place to track the votes of the members of the different committees (General Assembly, Board of Directors and Euribor Steering Committee). It is however indicated in the minutes of the meeting when a participant voted against or abstained.	We recommend EMMI systematically record the number of votes (in favor, against and abstention) in the minutes of the committees.	<b>Low</b>
2	The Board of Directors meeting of October 13, 2014 was called by an email communication dated October 10, 2014. Management indicated that, in case of need, the BoD could meet without respecting the convocation delay foreseen in the statutes (7 days). The minutes (or discussion note in this case) of the meeting of October 13, 2014 have not been approved by the Board of Directors (but have been signed by the Chairman)	We recommend EMMI further clarify the modalities of the emergency procedure for the convocation of the Board of Directors and other relevant committees. Furthermore, we recommend EMMI ensure that the minutes of these emergency meetings are properly approved by the next Board of Directors.	<b>Low</b>
3	The EMMI statutes stipulate that the Euribor Steering Committee should be composed of a majority of members not directly or indirectly affiliated with Euribor Panel Banks. However, the statutes do not define an attendance quorum for these members.	We recommend EMMI determine a quorum of presence for members of the Euribor Steering Committee members who are not, directly or indirectly, affiliated with Euribor Panel Banks.	<b>Medium</b>

<sup>4</sup> This column indicates to the reference number assigned to the recommendation. This number is further used in section 3.

<sup>5</sup> Our perception of the underlying risk.

Rec # <sup>4</sup>	Observation	Recommendation	Risk Grading <sup>5</sup>
4	<p>The EBA/ESMA recommendations require the Euribor Steering Committee to meet (at a minimum) on a bi-monthly basis.</p> <p>Whereas six meetings were held during the calendar year 2014, no meeting was held in July and August 2014.</p>	<p>We recommend EMMI consider, in lieu of a formal meeting in July-August, the organization of a status conference call.</p>	<b>Low</b>
5	<p>EMMI requires the Panel Banks to perform an internal and external audit of their data submission process. Compliance with this measure is confirmed to EMMI through the sign-off of Code of Obligation for Panel Banks.</p> <p>However, at this stage, EMMI does not receive reports issued by the external and/or internal auditors of the Panel Banks and has not defined a standard methodology or list of minimum required procedures to be performed by the auditors.</p>	<p>We recommend EMMI (a) define a common framework for the internal and external audit of the Panel Banks with regards to the data submission process (including minimum audit requirements) and (b) obtain the reports issued by the internal and external auditors of the Panel Banks in this domain.</p>	<b>Medium</b>
6	<p>The nominations of the Euribor Steering Committee members are, according to the statutes, proposed by the Board of Directors and approved by the General Assembly. The statutes however do not define the role of the Euribor Steering Committee and EMMI Secretariat in these nominations, whereas, in practice, these bodies are involved in the nomination process.</p>	<p>We recommend EMMI clarify the role and responsibilities of the Board of Directors, Euribor Steering Committee and EMMI Secretariat in the process of nomination of Euribor Steering Committee (and subcommittees) members and ensure that the decisions taken in this domain are systematically recorded in the minutes of these committees.</p>	<b>Medium</b>



*European Money Markets Institute (EMMI) AiSBL  
Results of the analyses performed on EMMI governance aspects and  
control framework  
March 2015*

Rec # <sup>4</sup>	Observation	Recommendation	Risk Grading <sup>5</sup>
7	According to the Audit Policy of EMMI, the Board of Directors "may delegate authority of internal audit oversight, including review and approval of audit plans, to the EMMI Secretariat".	We recommend EMMI ensure that the oversight of the internal (and external) auditor remains under the responsibility of the Board of Directors (or Audit Committee) and that propositions of the EMMI Secretariat in these domains are submitted to these committees.	<b>Medium</b>
8	Despite the setup of an Audit Policy, EMMI does not have a formal and clearly defined process in place to evaluate the objectivity, competence and quality of the internal auditor on a continuous basis.	We recommend EMMI further elaborate criteria and methods used by the Board of Directors (and Audit Committee) to evaluate the internal (and external) auditors. In particular, we recommend EMMI:  a. conclude on the independence (and the perception of the independence by third parties) of the auditors;  b. document the safeguards put in place with regards to the other services provided by their internal and external auditors.	<b>Medium</b>
9	No formal analysis of the contract changes has been documented by EMMI with regards to the change in Calculation Agent SLA.	We recommend EMMI, going forward, formally document and record the changes made to the Calculation Agent SLA and assess the compliance of these changes with EBA/ESMA and IOSCO requirements.	<b>Low</b>