

43rd MEETING OF THE EURIBOR STEERING COMMITTEE
– Conference call, 22 September 10.00am to 12.00pm CET –

Revised Minutes

The Chairman, Mr G. RAVOET thanked all participants for joining the conference call.

A list of participants is hereby attached.

1. FSB REPORT ON REFORMING MAJOR INTEREST RATE BENCHMARKS

Mr G. RAVOET presented an update to the Members on the Financial Stability Board Report on Reforming Major Interest Rate Benchmarks published on 22 July.

He explained to the participants that the Official Sector Steering Group (OSSG) recommended strengthening existing IBORs, and other potential reference rates based on unsecured bank funding costs by underpinning them to the greatest extent possible with transactions data ("IBOR+"). In addition, the report recommends the development of alternative, nearly risk-free, reference rates. Members discussed the recommendations of the Market Participants Group (MPG), including the observation that for some financial products, including many derivatives, reference rates closer to risk-free may be more appropriate, given the use of such techniques as collateralization. The development of such alternative benchmarks would serve to increase market choice.

If the current Euribor is to be replaced by a new benchmark, members noted it would be desirable to plan a transition period during which both benchmarks would be published. They also agreed that it would be highly beneficial for a Legislative Act or a legal framework to be established in order to smooth the transition. Moreover, in light of the conclusions from the FSB¹ regarding the legal transition from the current Euribor to a transaction-based benchmark, "having this transition without an EU Regulation or national legislation bears tremendous risks for the financial system."

2. REVIEW OF THE IMPLEMENTATION OF IOSCO'S PRINCIPLES FOR FINANCIAL BENCHMARKS

Mr G. RAVOET presented the outcome of the Review of the Implementation of IOSCO's Principles for Financial Benchmarks. While the administrators of the three critical benchmarks (Euribor, Libor and Tibor) have made a lot of progress in governance related and transparency and accountability principles, further progress is needed on principles regarding benchmark design, data sufficiency and transparency of benchmark determinations.

Members asked for further clarifications with regards to Principle 9 on Transparency of Data Determinations. It was emphasized that this principle was aimed at allowing users to assess the broad assessing the parameters used in submission-based benchmarks on a daily basis. Members underlined that, should a transaction-based benchmark be placed in the market, individual input data of the panel banks should not be published. Such data may be both commercially and market sensitive. Publication of individual data could therefore pose a competitive disadvantage for panel banks and might discourage participation in the panel. Additionally, were publication of individual bank

¹ Market Participants Group Report on Reforming Interest Rate Benchmarks (pg 374)

data to occur within a few days of a benchmark determination, there is a risk that the position of individual banks could be inferred, and competitors could take advantage, causing artificial distortions in the benchmark rate.

Members agreed that consideration could be given to the publication of additional aggregate (as opposed to individual bank) data in the daily determination of Euribor, in accordance with the requirements of Principle 9. The Secretariat was asked to prepare a discussion paper for the next Steering Committee on this topic.

3. EURIBOR REFORM WORKPLAN

The Secretariat has developed a strategic workplan taking into account the recommendations from EBA/ESMA, IOSCO, FSB Report and the Internal Audit Review. In this context, Members received an update on the latest developments with regard to the Euribor reform as well as on a timeline with tentative deadlines.

In addition, Mr G. RAVOET informed the participants that, in order to pursue such tasks, two new staff members had joined the Secretariat: an adviser mainly dedicated to benchmark quality and development and an administrative assistant.

4. PANEL BANKS' COMPLIANCE WITH EURIBOR CODE OF CONDUCT

Mr G. RAVOET informed the participants that at that stage, 25 out of 26 panel banks had confirmed compliance with the Euribor Code of Conduct. He explained that the remaining bank had not confirmed compliance with the Code yet as they were waiting to receive the results of their internal audit. Nevertheless, the Secretariat was expecting to receive their Declaration of Adherence by the end of September, at the latest.²

Furthermore, the list of panel banks which have confirmed compliance with the Code will be published by the beginning of October.

5. IDENTIFICATION OF POSSIBLE SANCTIONS FOR BREACH OF THE CODE OF CONDUCT

Members acknowledged that the EBA/ESMA recommendations required consideration of potential sanctions beyond those, such as suspension or exclusion from the panel, currently specified in the Euribor Code of Conduct. EBA/ESMA made this recommendation while noting the absence of a Regulation, but nonetheless still encouraging an extension of the available sanctions.

Members discussed and agreed on the need to find appropriate sanctions for breaching the Code while avoiding demotivating the banks from remaining in the Euribor panel. It was noted that a refinement of the current sanctions may be feasible, including specifying a progressive and proportionate application. The Secretariat was requested to submit a proposal on such a refinement to the Steering Committee.

6. BACK-TESTING ON EURIBOR CONTRIBUTIONS

Members were informed on the back-testing analysis of Euribor contributions for the months of July and August 2014. Volatility increased slightly in August compared to July, but remains low compared to the volatility observed in previous months. Members took note of the increase in the dispersion for the 1-week Euribor tenor, in particular during July. This may be attributable to significant variations in short term liquidity rather than any changes in the outlook on the progression of rates.

The Secretariat reported to the Members on four contribution data anomalies that occurred during July and August. Members took note of these and acknowledged that remedial actions were taken at the time.

² Subsequently, all banks have now confirmed their adherence to the Euribor Code of Conduct.

7. LEVEL AND USE OF EURIBOR AND EONIA

Members agreed that the current interest rate levels give no incentives for lending and therefore a revitalization of the unsecured inter-bank market is not foreseen at this stage. Furthermore, term lending is not expected to increase.

Members also observed that rates at the longer tenors (6m, 9m, 1y) had not fallen as lending at lower rates in longer tenors is a “money losing proposition” given the current extremely low interest rate environment and capital requirements, as well as regulatory liquidity constraints.

8. COMPOSITION OF EURIBOR AND EONIA PANEL

Mr G. RAVOET informed the participants that Commerzbank would be withdrawing from the Euribor panel as of 1 October 2014.

He noted that the Secretariat had addressed a letter to EBA and ESMA to alert them on the consequences of such a withdrawal and to request further support in the coordination with national supervisors to strongly encourage banks to stay in the Euribor panel until a Regulation is in place and/or an alternative is operational.

Mr G. RAVOET clarified that it is not expected that an EU regulation for financial benchmarks is adopted before the beginning of 2015 and applicable before mid-2015.

Members took note that the Eonia panel is currently composed of 35 panel banks and no withdrawals are expected.

9. UPDATE ON THE NEW CALCULATION AGENT

Mr G. RAVOET informed the participants that the transition to the new GRSS Calculation Agent on 1 July 2014 went smoothly for the panel banks and data vendors.

Notwithstanding this, EMMI acknowledges that there are enhancements to be undertaken in the GRSS calculating platform. Consequently, EMMI is currently working closely with GRSS to undertake and implement these enhancements over the coming months.

10. TRANSACTION-BASED INDEX PROJECT

Members discussed the outcome of the 3rd Euribor European Stakeholders’ Workshop aimed at presenting to the banking community and public authorities a proposed methodology for a transaction-based euro unsecured money market benchmark. Most banks agreed that a real transaction-based benchmark would reduce reputational costs, ease the justifiability of the submitted rates and facilitate compliance with current regulatory guidance.

Members acknowledged that following the FSB Report and the current regulatory context, undertaking further developments on the design and methodology of “Euribor+” was crucial.

In turn, Mr G. RAVOET invited the Steering Committee Members to attend the 4th Stakeholders workshop with end-user associations which will be hosted by EMMI on 10 October. He highlighted that the discussion with the end-users will most likely focus on design and transition matters, including the impact of potentially increased volatility, the transition period and whether a Legislative Act would be necessary to facilitate the transition from the current Euribor to a new benchmark.

11. EONIA

Mr H. NEUHAUS presented the EONIA Contribution Process Quality Report for July 2014.

He informed the Members that the transition to the GRSS system had been running smoothly. During July the Eonia has always been produced correctly and on a timely manner. Moreover, he mentioned that while the multiple contributions per bank had drastically decreased, these had not disappeared completely.

He underlined that as the Eonia Code of Conduct is to be reviewed, EMMI should take this opportunity to assess certain aspects to clarify the content and process. Referring to the aforementioned multiple contributions, he proposed for example to reduce operational risks by limiting the number of banks' contributions to only one contribution per day and a correction, if needed. In addition, the application of the four-eye principle should be further enhanced. At this stage, banks did not always ensure that their submissions were confirmed in the system on time. Furthermore, the Secretariat agreed to submit to the ECB a contact list of the authorised submitters and approvers in the Eonia panel on a monthly basis.

Mr G. RAVOET invited the Members to join the Eonia Task Force to support the Secretariat in the development of a revised Eonia Code of Conduct. The following Steering Committee Members volunteered Jose Maria Verdugo, Alberto Covin, Andreas Biewald, Jac Besuijen, Karel Lannoo and Olivier Brissaud. Vladimir Tsconchev volunteered to join the Task Force representing the ECB. This review is expected to take place by the end of Q1 2015.

Enclosures: D0282A-2014-List of participants

**43rd MEETING OF THE EURIBOR STEERING COMMITTEE
-Brussels, 22 Septembre 2014, 12:30 – 16:30 am CET -**

LIST OF PARTICIPANTS

Chairman

Mr Guido RAVOET

EMMI Secretary General

Members

Mr Alberto COVIN

Mr José María VERDUGO

Mr Philippe JEANNE

Mr Olivier BRISSAUD

Mr Karel LANNOO

Mr Andreas BIEWALD

Mr Robert PEIRCE

EMMI

Mrs Gaëlle MARQUES

Ms Andrea FERNANDEZ

Mr Corentin CUSTINNE

Guest Observer

Mr Anthony MURPHY

Promontory

Excused

Mr Bruno COLMANT