

36th MEETING OF THE EURIBOR STEERING COMMITTEE
- Berlin, 24 January 2013, 14.00 to 17.00 CET –

Location: Commerzbank, Pariser Platz 1, 10177, Berlin

Revised Minutes

WELCOME

Mr G. RAVOET welcomed the participants, in particular Ms J. MAHON and Mr H. NEUHAUS who attended the meeting as observers. He thanked Mr A. BIEWALD and Commerzbank for hosting the meeting on the occasion of the 36th Commerzbank Treasury Symposium. The list of participants is hereby attached.

He reminded the members that the meeting discussions would focus mainly on items 2 to 4 (EBA/ESMA recommendations, Euribor definition and contributions guidelines and Eonia) as members were requested to share written comments on the standing items.

1. MINUTES OF THE PREVIOUS MEETING

The minutes of the 35th Euribor Steering Committee meeting which was held in Paris on 14 June were unanimously approved.

Mr A. TORRALBA underlined the need to check the legal implications of a definition change to the existing contracts.

2. EBA/ESMA RECOMMENDATIONS

Mr G. RAVOET expressed that the clarification of the Euribor definition and the approval of contributions guidelines constituted a key topic for panel banks, which needed more guidance on how to provide their estimations.

The members discussed EBA/ESMA recommendations:

- ***Improvement in the governance and enlargement of the Steering Committee to make it more independent of the banking industry and more diverse:***

Mr G. RAVOET acknowledged some members concerns that, in light of EBA/ESMA recommendations, the current Steering Committee should not take formal decisions. Meanwhile, given time pressure, he suggested starting working on those topics and seeking formal approval from the “new” Steering Committee.

Mr A. TORRALBA, taking into account EBA/ESMA recommendations and acknowledging the urgent need to improve governance, suggested changing the Steering Committee composition with immediate effect and asked the Chair to appoint Steering Committee members which should drive the transition to the new Steering Committee.

Mr C. QUÉMÉNER reminded that the appointment or dismissal of Steering Committee members was the responsibility of the Euribor-EBF General Assembly, not the Secretariat's role.

The other members, while understanding concerns that the newly formed Steering Committee should take the decisions, agreed with the Chair that Euribor-EBF needed to quickly move forward on those issues and have the changes formalised by the "new" Steering Committee. They agreed to work on the clarifications of the definition as requested by the authorities and to ensure continuity with the upcoming Steering Committee members, taking into account that the current members were sitting as independent experts, not representatives of panel banks.

Regarding the enlargement of the Steering Committee to non-market practitioners, Mr J.M. VERDUGO suggested including a legal expert in the new composition. Members discussed the possibility to include audit and consumer representatives. Being asked, Mr H. NEUHAUS expressed that, should the ECB receive a formal invitation, they would envisage to which extent they could be involved in the Steering Committee.

- ***Increase in the number of Steering Committee meetings (bi-monthly meetings) and prompt publication of transparent minutes:***

Mr G. RAVOET explained that the number of meetings would increase following EBA/ESMA recommendations and added that, from the meeting date, minutes would be approved by written procedure and promptly published on the Euribor-EBF website.

- ***Reduction in the number of maturities***

The members recommended reducing the number of maturities to 7: 1 week, 1, 2, 3, 6, 9 and 12 months.

- ***Clarification of the Euribor definition (prime bank and interbank transactions):***

The members discussed this topic under item 3.

- ***Ensure substantive back-testing of the quoted rates and report to the Steering Committee:***

The Euribor Code of Conduct should be amended to include criteria for back-testing, its nature depending on quality and features of the amendments to be implemented in the Code of Conduct.

- ***Identification and management of potential conflicts of interest:***

Potential conflicts of interest within the Steering Committee will be addressed with the review of its composition to ensure that the number of members affiliated to panel banks is limited to a minority.

Regarding conflicts of interests at contributors' level, panel banks must ensure, through the annual certification management form, that they respect the so-called "Chinese wall" (segregation of duties (physical and systems) of the contribution team). This requirement should also be included in the Code of Conduct. In addition, the contribution process guidelines will also include requirements to manage and reduce any conflict of interest.

Finally, Mr G. RAVOET suggested creating an independent Committee which should be responsible for identifying and managing potential conflicts of interests at structural level. Such measure should be decided at Euribor-EBF Board level.

- ***Internal audits and external audits on Euribor-EBF, followed by public disclosure:***

Mr G. RAVOET informed the members that such measures would be discussed at Euribor-EBF Board level.

- ***Minimum expectations regarding the internal procedures and controls applied by the calculator agent/Calculator agent Code of Conduct and internal/external audit carried out by Euribor-EBF:***

Mr G. RAVOET explained that the Secretariat had some concerns regarding the current calculator agent's ability to perform the necessary controls and implement the required procedures.

Mr C. QUÉMÉNER pointed out that Euribor-EBF was responsible for the quality of the index and must take all measures to ensure sufficient controls.

In addition, Mr G. RAVOET raised a potential conflict of interest, the calculator agent also being a data vendor.

Finally, he informed the members that the Euribor-EBF Board was holding a meeting on 1 February in order to discuss the choice of the calculator agent.

Mr C. QUÉMÉNER confirmed that Euribor-EBF would in any case ensure continuity and level-playing field between data vendors.

- ***Record-keeping by Euribor-EBF and the calculator agent of submissions by each panel bank and ongoing record of individuals responsible for submission in individual banks***

Euribor-EBF will establish procedures with the calculator agent in order to ensure transparent and complete record-keeping of panel banks submissions. In addition, members recommended requiring all panel banks to designate the individuals responsible for the contribution, which is already done on a yearly-basis through a contact form to be returned to the Secretariat. This requirement should be included in the Code of Conduct.

Regarding the timeframe for the implementation of the above-mentioned measures, members recommended applying all changes as one package.

It was also recommended consulting the panel banks about the clarifications brought to the Euribor definition, the contributions guidelines and the number of maturities.

3. EURIBOR DEFINITION & CONTRIBUTIONS GUIDELINES

The members discussed how to clarify two main aspects of the Euribor definition: the “prime bank” and “interbank transactions” wording.

The participants, including Mr H. NEUHAUS, agreed that the criteria to define a prime bank should be based on market activity and market access rather than on creditworthiness based on ratings.

Finally, the members recommended clarifying the prime bank concept as follows, while acknowledging that it was impossible, in the current market environment, to reach a perfect definition without jeopardizing the continuity on the benchmark:

A prime bank must be understood as the G-SIFIS¹ with having good market access and access to monetary-policy instruments at the ECB.

Regarding the “interbank transactions” terminology, after some discussions on the transactions to include, members recommended the following definition:

“Interbank transactions” must be understood as any cash transaction in the money market, including short-term debt issued by a bank .

Ms J. MAHON pointed out that short-term debt issuance was reflecting the borrowing side rather than the lending side.

In addition, Mr H. NEUHAUS pointed out the importance that the clarification of the definition is specific enough so that panel banks are able to justify their estimates, in particular if they are

¹ Global Systemically Important Financial Institutions as listed by the Financial Stability Board.

not a G-SIFI. Members replied that ECP issuances data were available and could be taken into account in panel banks' estimations as a parameter to observe.

Mr A. TORRALBA underlined the need to have a legal advice on the potential impact on the perception of the meaning of the benchmark that that the above-mentioned clarifications of the Euribor definition may have on the definition itself.

Separately, the members discussed the calculation test on real-time transactions. Mr H. NEUHAUS explained that the ECB was prepared to gather the data, calculate and analyse the test results and explain the project to the panel banks. He added that the ECB was willing to contribute to defining the features of the test. He expressed the view that, for the test to be useful, it should be based a sufficiently large historical data and be carried out as soon as possible.

Mr G. RAVOET confirmed that Euribor-EBF was committed to carry out this test. He added that, should a real-transactions based index be created, it should co-exist with Euribor, not replace it.

Regarding the contributions guidelines, Mr J. M. VERDUGO commented that the Euribor submission was not, in all banks, a responsibility of the Treasury senior management. Members had no further comments with the contributions guidelines proposed by the Secretariat, which should be submitted to the panel banks and included in the Code of Conduct.

Finally, members recommended that contributions guidelines principles should be sent to all panel banks. In return, panel banks should be requested to send a description of their internal procedures to Euribor-EBF as well as their external auditors' report on their processes.

4. EONIA

Panel composition

As reported by the ECB, some banks systematically did not contribute to the Eonia, considering that their transactions do not fall under the Eonia® definition.

In order to allow those banks to report their transactions, members agreed to extend the transactions reported outside the euro-zone. Consequently, the Eonia technical features should be amended to refer to all overnight unsecured lending transactions in the interbank market, initiated in European and EFTA countries by Panel Banks. Should a panel bank not have any transaction falling under the EONIA definition, it should contribute a "0" volume using the regular reporting system.

Refix rules and contribution window

Mr H. NEUHAUS appreciated the Steering Committee's earlier clarifications namely that (1) the published EONIA value should correctly reflect all contributions from all panel banks, (2)

the contribution should be made on time and (3) the rate should never be republished considering the impact this might have on real-time data users.

However, as a recent incident had demonstrated, there could be situations when one requirement could not be met. The Steering Committee agreed on the following proposal which should be reflected in the EONIA Technical Features: If after 18:30 CET the ECB experts compiling EONIA have reasons to believe that the contribution would not arrive on time for publishing EONIA by 19:00 (CET), the experts would release EONIA on the basis of the data available even if incomplete. A contribution flagged by the respective panel bank to be a mistake and not corrected on time would be discarded. The ECB would immediately inform Euribor-EBF.

Separately, Mr H. NEUHAUS reported that the Secretariat's previous reminders to panel banks to regularly report their EONIA contributions via the regular IT system had proven to be effective in reducing the cases where only a contingency solution was used for the data transmission. He offered to regularly share statistics, e.g. for the meetings of the Steering Committee, on panel banks' compliance with the requirement to contribute EONIA data via the dedicated system.

In order to allow sufficient time to focus on the above items, members had been requested to provide written comments on items 5 to 8, a summary of which is available below.

5. LEVEL AND USE OF EURIBOR/EONIA

The members generally agreed that the levels of Euribor and Eonia are in line with their respective definitions and extraordinary market conditions. They did not foresee negative rates.

Ms J. SULIN commented that short prices could even experience some upward pressure as liquidity would gradually dry after repayment of LTRO.

Mr A. TORRALBA also commented that Eonia levels had re-priced quickly with the last ECB meeting and Mr Draghi's speech on rates. Therefore the speculation on lower rates and the possibility of negative deposit rates evaporated. In addition, Euribor fixings followed slowly the moves on EONIA rates. Euribor-EONIA basis in different tenors were stable with slight widening (directional) but without showing liquidity / credit tensions.

Finally, Mr A. COVIN commented that the exit window at the next LTRO (30 January 2013) might change market conditions.

6. EURIBOR PANEL

The members agreed that the number of contributors (39) was still sufficiently high and confirmed that the Steering Committee should continue working in defending the panel. They welcomed Euribor-EBF's letter to the CEOs all panel banks in this respect.

It was added that the situation on panel Banks should be addressed by public authorities given the systemic risk of more banks leaving the panel.

Finally, it was comment that the Steering Committee had no means to avoid, control of stop further departures.

7. COMPLIANCE OF PANEL BANKS WITH THEIR OBLIGATIONS

Members pointed out the contribution error of 19 December with incorrect input from one contributor and the fact that Thomson Reuter's sanity software did not detect the issue. They received a copy of the letter addressed by Euribor-EBF to Thomson Reuters in order to stress out the incident and urge them to put in place all safeguards to avoid such situation, as well as the letter addressed to the contributor.

Mr J. M. VERDUGO commented that he was not entirely in line with the refix rule only allowing re-fixing one hour after the fixing time given the impact on real-time users, but he accepted the SC's decision in this regard.

8. USD EURIBOR

a. Level and use of the fixing

Members generally agree that the USD Euribor reflect the market and the EUR/USD basis. Ms J SULIN commented that, in her view, the USD Euribor did not reflect the real USD price but a swapped price.

b. Panel composition

Members expressed concerns about the number of panel banks (currently 15) and the lack of representativeness of the panel.

It was suggested discussing whether this index should be discontinued or not, taking into account that it is not currently actively used.

c. Compliance of panel banks with their obligations

Members were generally satisfied with the fact that the "no contribution" occasions had diminished and were relatively low.



They inquired why the number of occasions where banks were chased for contributions. Ms G. MARQUES explained that these statistics were reflecting the automatic reminder e-mail generated by Thomson Reuters to remind panel banks to contribute, not *ad-hoc* and individual actions taken by the calculator agent.

9. ANY OTHER BUSINESS

No other business was raised.

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