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D2630B-2013
27.02.2013

PANEL BANKS COMMENTS ON CLARIFICATIONS ON THE EURIBOR DEFINITION AND COMMON CONTRIBUTION GUIDELINES

Following the recommendations on Euribor issued by the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) 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.

Euribor-EBF sent a letter last 14 February in order to invite the Euribor panel banks to share their views on the suggested clarifications of the Euribor definition, contributions process guidelines and reduced number of maturities.

Amongst the 39 consulted banks, 16 banks replied.

Prime Bank Definition

- ***A prime bank must be understood as the G-SIFIS[1] with having good market access and access to monetary-policy instruments at the ECB.***

Regarding the prime bank clarification panel banks generally answered that the G-SIFIs list was **too restrictive**.

It seems that there is **generally confusion between the definition of prime bank and the definition of panel bank** as many responses tend to point out that the clarification is limited to a very little number of banks, which would impact the panel composition.

Another concern is **how is it envisaged for Euribor panel banks to assess level the of G-SIFIS potential market access** on an ongoing basis.

Separately, the banks on the G-SIFI list have **different credit ratings**. How should a panel bank incorporate these different ratings in the calculation of Euribor quotes?

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

It was suggested that a **prime bank should have a short term rating** of A1, P1 or F1, and good money market access through unsecured/unsecured securitized access to various investor classes. As an example, in the STEP market, 3 rating classes have been identified. Rating 1 includes issues with an underlying rating equal of A1, P1 or F1. This could be used as a rating floor for the definitions of prime banks.

Finally, it was also suggested that only banks which have a **minimum balance sheet** of eg EUR 100 bln would be classified as prime banks.

Additional questions:

- What is the intended meaning of "good" market access? Please can you clarify in what circumstances a G-SIFI may not have "access" to monetary policy instruments at the ECB?

- Who will maintain a list of those having good market access and ECB access? Will Euribor-EBF publish this list? Will it be defined by each NCB? If so is there value in adding to that list specific banks who are active in the local markets but not G-SIFIS?

- Are there given possibilities for a verification to have a good market access and access to monetary-policy instruments by a prime bank through the panel banks?

Interbank Transactions

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

Several banks asked questions on whether the proposed clarification of "interbank transactions" was referring to **any cash transactions between banks** or whether it aimed at including **cash transactions with other non-bank counterparts**.

In addition it was recommended that this clarification should also be checked from a legal point of view and accepted by the European Authorities.

Some panel banks disagreed with the proposed clarification considering that it would imply a **change in terms of quality, quantity and methodology** and would therefore not guarantee the **continuity of the fixing**:

- Initially, the Euribor definition was referring to "interbank term deposits".
- Changing the focus on the issuer would implicitly mean focusing on the bid rate of issuing banks, rather than the offering rate.

- In the short-term market for bank funding, the investor is not necessarily a bank. Panel banks may not be able to differentiate if debt issued by a prime bank has been bought by a bank or another type of investor.

Finally it was also mentioned that the determination of the contribution does not provide a solution **in the case of an illiquid market**. In this line it was pointed out that if interpolation rates were required, **there should be specific rules as to who is responsible to perform the interpolation and how**.

Additional questions:

- Does the definition of "interbank transaction" intend to replace "interbank term deposits"?

- Is it correct to conclude that only interbank transactions between banks listed G-SIFI should be considered when quoting EURIBOR? Consequently, an interbank term deposit transaction between a panel bank not listed as G-SIFI (e.g. a German Landesbank) and a G-SIFI bank (e.g. Deutsche Bank) would not qualify as a EURIBOR interbank transaction covered by Article 4.1 of the Euribor code of conduct.

- Can you please specify "short-term debt issued by a bank".

  - Should a panel bank consider short-term debt issued by other banks irrespective of whether these are panel banks or not?

- Does "bank" refer to "prime bank" using the new G-SIFI definition?

- Should a panel bank include own short term debt issuances in the calculation of Euribor quotes?

Reduction in the number of maturities

- ***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.***

Generally most of the banks agreed to reduce the number of maturities to 7. One bank has proposed bringing the maturities down to 5 (1 week, 1, 3, 6 and 12 months). Another bank proposed maintaining the 2 weeks tenor.

One bank pointed out that the elimination of some maturities could raise legal actions regarding the contracts still in force and referenced on the maturities intended to disappear. It was suggested for banks to be able to assess the number of contracts they have still in force and referenced to these maturities prior to eliminating any references.

Contribution Process Guidelines

All banks have expressed their agreement on the importance of avoiding conflicts of interest but claim the difficulty to find someone from outside the Treasury or Money Market Desk with market expertise to determine the contributions. In this line most banks have requested more flexibility on the determination of the contribution.

With regard to the "four-eye principle and pre-submission control" several banks raised the difficulty to run pre-submission controls, on a daily basis, considering the lack of market expertise this neutral group could have. Extensive pre-submission controls may also increase the risk of missing contribution deadlines due to increased operational aspects to be performed in short time.

Separately, it was recommended that the neutral group performing the pre-submission controls based on appropriate levels of alerts (thresholds) should be different from the group performing daily post-controls in order to preserve the independence of the process.

Finally, several banks disagreed with the suggestion of the Compliance Department being responsible for the controlling of the internal contribution process. In this respect most banks have maintained that the post-submission control must not necessarily be performed by the Compliance Department itself, it could be checked by other independent departments.

Additional question:

- Please can you clarify the meaning and scope of "systems" segregation that the EBF envisages?

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