

## EURIBOR - CODE OF OBLIGATIONS OF PANEL BANKS

Version: 1 October 2013

### 1. Objectives

The European Money Markets Institute – EMMI previously known as Euribor-EBF, as Administrator for the Euribor benchmark, has a responsibility to set uniform standards for the Euribor Panel Banks with respect to their activities in submitting data for the determination of the benchmark. These standards are defined in this Annex to the Euribor Code of Conduct. This Annex, “Euribor – Code of Obligations of Panel Banks” or “COPB”, is an integral part of the Euribor Code of Conduct.

The primary objectives of the Code of Obligations of Panel Banks are:

- to ensure the integrity of the Euribor benchmark by setting baseline standards for the conduct of the quote submissions by Panel Banks;
- to define the specific obligations of Panel Banks with respect to the governance, methodologies, control environment and independent review related to quote submissions;
- to assist Panel Banks to establish and maintain a robust internal control environment in order to discharge their obligations with respect to Euribor; and
- to provide transparency to stakeholders regarding the standards for determination of the Euribor benchmark.

### 2. Authority and Status

#### 2.1. Authority

This Euribor – Code of Obligations of Panel Banks has been developed by EMMI and approved by the Euribor Steering Committee and EMMI General Assembly.

The standards set in this COPB are additional to and do not supersede any relevant legislation, regulation or other regulatory guidance applicable to Panel Banks. EMMI and the competent supervisory authority should be notified of any potential inconsistency between the COPB and such legislation or regulation.

## **2.2. Changes and Enhancements**

This is the first edition of the COPB and is effective from 1 October 2013. Panel Banks should take active steps to comply with the provisions as quickly as possible and should achieve full compliance within 6 months of the effective date.

The COPB will be reviewed by the Euribor Steering Committee at least annually. Enhancements will be introduced where appropriate in order to cope with changes in market conditions, relevant legislation or regulation, and the development of enhanced international standards for benchmark determination.

## **2.3. Acknowledgement of Compliance by Panel Banks**

Panel Banks should confirm compliance with the COPB to EMMI, as part of their annual acknowledgement of compliance with the overall Euribor Code of Conduct. If recent changes have been introduced to the COPB and a Panel Bank is not yet in compliance at the time of the annual acknowledgement, the Panel Bank should specify a reasonable timeframe by when full compliance will be achieved.

A Panel Bank experiencing difficulty in complying with a standard in the COPB should notify EMMI, detailing the reasons for non-compliance and providing relevant mitigating organizational controls or processes.

### **3. General Obligations of Panel Banks**

#### **3.1. Documentation of Policies and Procedures**

This COPB is intended to provide guidance to Panel Banks for their activities related to quote submissions to Euribor. Panel Banks should ensure that their associated internal policies and procedures regarding organizational arrangements, processes and control environment are fully and specifically documented, and are readily available for the independent reviews required under Section 7 of this COPB.

#### **3.2. Co-operation with Supervisory Authorities**

A Panel Bank should comply with any reasonable query from its competent supervisory authority related to its Panel Bank activities and is encouraged to co-operate with the supervisory authorities responsible for the other participants in Euribor determination.

#### **3.3. Notice Period**

In order to minimize potential disruption to the determination of Euribor, a Panel Bank should give at least a three week notice to EMMI before voluntarily withdrawing from the Panel.

## 4. Governance and Organization

### 4.1. General

Panel Banks should establish and maintain effective organizational, internal oversight and staff resourcing arrangements for their activities in making quote submissions to Euribor.

These arrangements should ensure that:

- an effective organization structure is in place so that submissions are made in a disciplined and controlled fashion, in conformity with the requirements of EMMI
- clear roles and responsibilities are assigned to the units, management and staff associated with making, overseeing and reviewing the submissions activities;
- managers and staff associated with the submissions process possess sufficient knowledge and expertise for the conduct of their duties, are specifically authorized by the Panel Bank, and acknowledge their obligations;
- potential conflicts of interest associated with Euribor-related activities within the Panel Bank or between the Panel Bank and third parties, are identified, avoided or mitigated, documented and disclosed.

### 4.2. Organization

Panel Banks should establish an effective organization structure for the oversight, operation and control of Euribor quote submissions. In general, Panel Banks will leverage their existing organization structure to accommodate the submissions activities. EMMI notes that the internal structures of Panel Banks may differ significantly from one to another and that some flexibility in the detailed application of the COPB in individual Panel Banks might be necessary.

Panel Banks should acknowledge that the ultimate responsibility for the integrity of their Euribor submission activities rests with the Bank's senior management. An effective organizational structure for the discharge of this responsibility is built upon the "three lines of defence" model. Senior management is immediately responsible for the sound and compliant conduct of submissions activities. The independent control functions, Risk Management and Compliance, monitor and report to senior management and/or the Board on the conduct of the business lines. The third line of defence, Internal Audit, reviews the overall effectiveness of the operational and control environment.

As detailed further under the “Conflicts of Interest” section, the organizational structure used to oversee and operate the Euribor submission activities should include appropriate provisions for segregation of duties and independence of the control functions.

#### **4.3. Roles and Responsibilities – General**

The roles and responsibilities of the organizational units with relevant operational or oversight duties, as described above, should be clearly defined and documented.

#### **4.4. Roles and Responsibilities – Submissions Staff**

Panel Banks should operate a Submitter-Approver process. Submitters are responsible for proposing the quote submissions, based on the processes outlined in Section 5. Approvers are responsible for checking the quotes for reasonableness prior to submission and overseeing the daily submissions process. The detailed roles and responsibilities of the Submitters and Approvers should be well-defined and properly documented in the Panel Bank’s policies and procedures.

#### **4.5. Authorization of and Acknowledgment by Submissions Staff**

Submitters and Approvers must acknowledge their appointments to these roles and confirm that they understand and will comply with their responsibilities with respect to the submissions process as set out in this COPB and any associated internal Panel Bank policies and procedures. Appointments and acknowledgements should be re-confirmed at least annually.

Panel Banks should appoint at least two Submitters and two Approvers and establish appropriate back-up coverage arrangements from among the appointed individuals.

Panel Banks must communicate the names of the appointed Submitters and Approvers to EMMI and the Calculation Agent. Changes in the appointments should be communicated immediately to EMMI and the Calculation Agent. The names of the specific Submitters and Approvers for each submission should be recorded as part of the daily record-keeping. Only the appointed Submitters and Approvers will be allowed to input the Panel Bank’s submissions into the Calculation Agent’s system.

#### **4.6. Staff Training and Qualifications**

Panel Banks should ensure that the staff involved in quote submissions, including Submitters, Approvers, and management and staff in the relevant control and audit functions, have the knowledge and expertise necessary for the discharge of their responsibilities.

These staff should undergo appropriate training and development programs, including in the provisions of this COPB, associated internal controls, applicable regulations, the avoidance of

conflicts of interest, the ethical standards that they are expected to observe in their respective roles, and the employment or other consequences of acting unlawfully or improperly in relation to the Euribor submissions activities.

All Submitters and Approvers should have significant experience in the relevant Euro money markets. Approvers should possess sufficient expertise and seniority so as to challenge the rates proposed by the submitter. Submitters and Approvers should receive specific training in relation to the analytic framework and data to be used in developing the quote submissions, as well as the circumstances under which expert judgment should be applied.

#### **4.7. Conflicts of Interest**

Panel Banks should establish and maintain an effective Conflicts of Interest policy to enable them to identify potential conflicts of interest that may arise with respect to their Euribor submissions activities. The broad objective of the Conflicts of Interest policy in relation to Euribor submission activities is to ensure that the quotes submitted are accurate and unbiased rate estimates, in conformity with the technical specifications of Euribor as defined by EMMI. Panel Banks should implement organizational structures, procedures and other measures in order to avoid or manage such conflicts.

The Conflicts of Interest Policy and associated procedures should cover at a minimum the following areas:

- **Ethical Standards**

Panel Banks should develop a set of ethical standards specifically addressing the submissions activities. Panel Banks should communicate these standards clearly to their relevant staff and require them to confirm their adherence. Panel Banks should provide training in these standards, periodic reminders, and refresher courses.

All staff should immediately report, using established escalation channels, if they suspect that any person is manipulating, attempting to manipulate, or colluding in an actual or attempted manipulation of a Euribor quote submission or fixing, either currently or in the past.

All staff associated with the operation and control of the submissions activities should act with integrity in carrying out their duties. They should not use any information that they obtain in the course of their duties in return for monetary or other rewards or for personal interest. They should not disclose such information other than in association with their prescribed duties for effecting the submissions.

Submitters and Approvers, specifically, should base their quotes on the sole objective of reflecting the definition of the Euribor benchmark. Submitters and Approvers will normally be part of a Treasury function and so deal as part of their professional duties in instruments or derivatives related to Euribor. As such, they have a particular responsibility to act with integrity in carrying out their respective submission and other duties.

Panel Banks should evaluate whether to incorporate provisions in internal policies to address conflicts of interest that Submitters and Approvers for Euribor may incur with respect to their personal financial activities.

- **Segregation of Duties**

Potential conflicts of interest arise from a Panel Bank's roles as both a submitter to Euribor and a dealer in instruments or derivatives valued against or fixing off of Euribor. To mitigate these conflicts, panel banks should establish clear segregation of duties between the Submitters and Approvers, on the one hand, and staff in other dealing units.

Submitters and Approvers, while in their designated roles, shall not be employed by, or temporarily or otherwise assigned to, a unit within the Panel Bank responsible for dealing in Euribor-related instruments or derivatives, other than the Treasury unit responsible for liquidity and liability management.

- **Remuneration Policy**

Panel Banks should design the remuneration policy for Submitters and Approvers to reduce any incentive to manipulate the Euribor benchmark. Specifically, any direct link should be removed between the remuneration of Submitters and Approvers, on the one hand, and the performance or compensation of units engaged in other activities from which a conflict of interest might arise.

- **Communications**

Panel banks should establish and maintain controls on communications, both within the Panel Bank, and between the Panel Bank and third parties, including other Panel Banks and brokers, to avoid any inappropriate influence over Submitters and Approvers and any collusive activity with respect to quote submissions. Communications include, but are not limited to, physical documents, emails, exchanges through other electronic messaging systems, and telephone conversations. Communications include internal exchanges between staff at the Panel Bank, and between Panel bank staff and external parties.



Submitters and Approvers should not involve themselves in communications, whether internal or external to the Panel Bank, that attempt to influence the submissions of their own or any other Panel Bank or to cause the violation of any applicable rules related to Euribor submission activities.

Panel Banks should design the physical layout of their dealing operations to separate as far as practical the Submitters and Approver locations from other units dealing in Euribor-related instruments and derivatives, in order to discourage improper or inadvertent communications.



## 5. Quote Submissions and Corroboration

The following definitions from the Euribor Code of Conduct are included here for convenience of reference.

A **Prime Bank** should be understood as a credit institution of high creditworthiness for short-term liabilities, which lends at competitive market related interest rates and is recognized as active in Euro-denominated money market instruments while having access to the Eurosystem's open market operations.

An **Interbank Transaction** should be understood as a cash deposit between two credit institutions maturing by one year from inception.

**Euribor** is defined as the rate at which Euro interbank term deposits are being offered within the Eurozone by one Prime Bank to another Prime Bank at 11am Brussels time.

A Panel Bank should submit the Euribor rates that it believes one Prime Bank is quoting to another Prime Bank for Interbank Transactions within the Eurozone for specified tenors.

### 5.1. General Principles

Panel Banks should observe the following general principles, elaborated further in this section, in developing and corroborating their quote submissions for Euribor. Panel Banks' adherence to these principles will be evaluated as part of the independent reviews described in Section 7.

- Panel banks should develop comprehensive, structured and documented policies and procedures for determining Euribor quote submissions.
- The approach used for the determination of quote submissions should be periodically reviewed and approved by an independent Risk Management or equivalent function within the Panel Bank.
- Panel Banks should develop effective procedures for quote corroboration, with a clear audit trail to facilitate subsequent reviews.
- Panel Banks should establish clear criteria for Prime Banks for the purposes of applying the Euribor definition to the determination of quote submissions.
- Panel Banks should develop a clear list of priorities as far as data inputs are concerned, including transaction data, market quotations and expert judgment, which reflect or influence Euribor rates.

## 5.2. Policies and Procedures for Determining Quote Submissions

Panel Banks should develop a systematic approach to the determination of their quote submissions for Euribor.

The specific approach adopted by each Panel Bank should be fully documented. The approach should be reviewed and approved at least annually by an independent Risk Management or equivalent function within the bank with sufficient expertise and market knowledge to render an informed judgment and recommendations, if any, for adjustment.

## 5.3. Supporting Data

Panel Banks should identify a range of objective, verifiable market data to be used as input to informing the daily quote submissions, when possible. The general priority accorded to each data type should be specified as part of the documented policy for determining quote submissions. Expert judgment will also be used as a further factor, provided the use of such judgment is documented, based upon reasonable criteria, and applied in an objective and consistent fashion.

Relevant market data include, but are not limited to, the following:

- Panel Bank's observation of transactions in the unsecured Euro cash deposit markets, classified according to whether the parties are designated "Prime" or not;
- Panel Bank's observation of transactions in other related markets, including but not limited to, other unsecured Euro deposit markets, overnight index swaps, secured markets including repos, foreign exchange forwards, central bank operations and interest rate futures ;
- Panel Bank's observation of executable quotes in the aforementioned markets;
- Panel Bank's observation of non-executable indications of interest in the aforementioned markets.

Each Panel Bank should determine the relative priority accorded to the above data categories. Transactions may include both those to which the Panel bank is a party and those among third party banks. The following overall guidance should be observed:

- Transactions or quotes in the markets and among parties that most closely accord with the definition of Euribor (ie Interbank Transactions between Prime Banks) should be accorded relatively higher priority;

- Transaction data should be accorded relatively higher priority than executable quote data, which in turn should be accorded higher priority than non-executable price indications;
- Data closer in time to the submission deadline should be accorded relatively higher priority;
- Transactions for exceptionally large or small size relative to the respective tenor should be accorded lower priority within the overall categories of transactions.

#### 5.4. Submission Procedures and Controls

Panel Banks must provide their quote submissions in conformity with the detailed operating procedures specified by the Calculation Agent.

Panel Banks must provide their quote submissions:

- to the best of their knowledge, in accordance with the definition of Euribor set out in the Euribor Code of Conduct;
- for the complete range of tenors as set out in the Euribor Code of Conduct;
- on a timely basis, within the submission window specified by the Calculation Agent;
- on all days when Target is open;
- accurately, to two percentage decimal places.

Panel Banks belonging to the same group should provide one consolidated set of data. Intra-group transactions (e.g. branches and subsidiaries) should not be included in determining the submissions of such a group if one of the two counterparties to the transaction is consolidating the other in financial reporting.

The quotes should be prepared by an authorized Submitter, according to the Policies and Procedures for quote submissions.

The quotes should be reviewed for reasonableness by an authorized Approver prior to submission. The actual transmission of the quotes to the Calculation Agent's system should be automated to the extent feasible and overseen by the Submitter. A "four-eye" process should be applied before final transmission to avoid basic data errors, particularly where manual inputs are required. The connection ID numbers and names of the Submitter and Approver for each daily submission will be recorded and retained.

### 5.5. Support Infrastructure

Euribor quote submissions are high frequency and time critical tasks, requiring high standards of accuracy and ability for post-submission review. Panel Banks should therefore develop robust infrastructure, with appropriate resiliency and automation, to support the timeliness and accuracy of submissions.

Panel Banks should also develop a contingency plan for making quote submissions in the event of failure, either technical or human, in their normal supporting infrastructure. This contingency plan should be advised to the Calculation Agent and EMMI in advance. The Panel Bank should also undertake periodic testing of the contingency plan.

## 6. Control Environment

### 6.1. Confidentiality and Data Protection

A Panel Bank's contribution rates should be classified and treated as confidential, non-public, price-sensitive information prior to their publication on a daily basis. This designation should be reflected in the operating procedures adopted by the Panel bank for the handling of such information.

Panel Banks should maintain contingency arrangements should information related to quote submissions be exposed to unauthorized parties, either within or outside the Panel Bank, before such information is publically available. In such cases, EMMI and competent supervisory authorities should be notified promptly, in accordance with established provisions for the exposure of confidential data.

The system(s) used for the quote submission process must meet minimum security standards in order to avoid unwanted, uncontrolled changes and amendments to the quotations (eg personal logins, passwords, etc.).

### 6.2. Record Retention

Panel Banks should retain records of all relevant aspects of their activities with respect to their Euribor submission activities.

Records should be retained in a medium and format that makes it readily accessible for future reference. Appropriate security measures should be applied so that records cannot be changed or manipulated. Records should be furnished to independent reviewers, EMMI and competent supervisory authorities in a timely manner upon request.

Physical and electronic records should be retained for a minimum period of five years. Voice communication records (as detailed in section 6.3) should be retained for a minimum period of two years.

Records retained by Panel Banks should include:

- Policies and procedures relating to the governance, oversight and methodologies applied for the submissions process;
- Reports produced from the independent review processes, including regular monitoring reports and the reports of internal and external auditors. Subsequent reports on actions taken and progress in implementing remedial actions should also be retained;

- Records of submission queries and complaints, and their respective outcomes;
- Listing of the Submitters and Approvers, including their names and general roles, with the dates when submission-related roles were authorized or exited;
- Record of disciplinary actions taken against any Panel Bank staff in respect of Euribor-related activities;
- Communications of the Panel Bank with EMMI or the Calculation Agent;
- Daily records of Euribor quote submissions, including the particular Submitter and Approver; summary of market data supporting the submission; any potentially relevant material transaction or market data which was deliberately excluded from the submission determination; transactions whose data was an input to the submission but which were subsequently amended, cancelled or reversed; summary of special factors taken into account, with justification if expert judgment is being applied materially; record of when Approver over-rides Submitter's recommendations, with rationale;
- Daily position or risk reports for units which undertake dealing activity in Euribor-referencing instruments or derivatives, showing sensitivity exposure to Euribor.

### 6.3. Recording of Communications

Panel Banks should record all communications relevant to the quote submissions activities.

Submitters and Approvers should conduct all communications related to the submissions activities on the Panel Bank's recorded communications systems (email, phone or other) or on systems specifically provided by the Calculation Agent for the transmission of quotes. No communication related to quote submissions should be conducted in a manner to prevent the Panel Bank from recording them (eg by personal cellphone or through personal emails or text messages).

Specific communications which should be recorded include those:

- among Submitters and Approvers;
- between Submitters or Approvers and internal or external third parties;
- between staff in Panel Bank units that deal in Euribor-referenced instruments or derivatives and internal or external third parties.

#### 6.4. Complaint Procedures and Whistleblowing

Panel Banks should establish, implement and enforce policies and procedures for handling complaints from internal or third parties, including EMMI and the Calculation Agent, in respect of their Panel Bank obligations or of other factors of which they become aware that may compromise the integrity of the Euribor benchmark. Such complaints include those arising from internal or external whistleblowers.

The policies and procedures for handling complaints should cover at a minimum:

- the assignment of overall responsibility for complaints management to an independent function (typically Compliance);
- the operational processes to record to record all complaints;
- the implementation and communication to staff of a well-documented complaints and whistleblowing escalation process within the Panel Bank;
- the timely allocation of sufficient and independent staff resources to review and investigate complaints;
- the review of complaints by senior independent management, the Chief Compliance Officer or equivalent;
- the reporting of material complaints, actions recommended, and/or actions taken, to the Chief Executive Officer and/or Board of Directors;
- the reporting of misconduct and internal disciplinary proceedings to competent supervisory authorities.

The Panel Bank should inform EMMI and the competent supervisory authority without delay if they suspect that any person is manipulating, attempting to manipulate, or colluding in an actual or attempted manipulation of a Euribor quote submission or fixing, either currently or in the period from the Effective Date of this COPB.

## 7. Independent Review

### 7.1. General

Panel Banks should establish, implement and maintain policies for independent reviews of their compliance with Panel Bank obligations in relation to Euribor quote submissions.

Such reviews should include:

- ongoing continuous monitoring of quote submissions by independent Risk Management and/or Compliance functions;
- periodic and unscheduled reviews by independent Risk Management and/or Compliance functions;
- reviews by the Panel Bank's Internal Audit function at least annually;
- review by an external auditor or other expert third party at least annually.

Reports of the findings of the reviews, recommendations and follow-up actions should be made to senior management including the Chief Executive Officer, and, in summarized form, to the Board of Directors.

Any material issues arising from the reviews, as determined by the senior executive responsible for the review, should be reported on a timely basis to the Panel Bank senior management so that mitigating actions can be taken. In particular, where a review uncovers material breaches or unethical behaviors in the quote submissions process, the Chief Executive Officer, the Board of Directors, EMMI and the competent supervisory authority should be immediately informed.

EMMI shall have the right to commission an external audit of one or more Panel Bank's Euribor submissions activities if EMMI has reasonable grounds to believe that the integrity of the Euribor benchmark is being compromised as a result of such activities.

### 7.2. Continuous Monitoring

The Panel Bank's independent Risk Management or equivalent function should monitor quote submissions activities. Monitoring should take place on a daily basis, in relation to individual quote submissions, and on a longer time scale, typically quarterly, in relation to trends in the submissions. Daily monitoring should cover the reasonableness of the submissions in relation to market conditions and the supporting data used by the Submitter. Longer-term monitoring should back-test submissions in comparison with other Panel Banks' submissions, the final daily Euribor fixings and identified trends in the Euro money markets. The independent Risk Management



function should also review quote submission trends in comparison to significant Euribor-exposures incurred by dealing units in the Panel Bank, to identify circumstances where dealing units may benefit from a particular patterns of submissions.

The Panel Bank's Compliance or equivalent function should continuously monitor quote submissions activities for conformity with the Euribor Code of Conduct, applicable regulation and other internal controls. Breaches should be escalated to senior Panel Bank management. Material deficiencies should be reported to EMMI and competent supervisory authorities.

The Panel Bank should develop and implement analytic and exception reporting systems to facilitate such monitoring by the Risk Management and Compliance or equivalent functions.

Quarterly summary reports on monitoring should be made by the Risk Management and Compliance units to the appropriate senior management Risk Committee or equivalent.

### **7.3. Internal Audit**

The Panel Bank's Internal Audit function should review and validate all policies, procedures and operating processes relating to Euribor submissions at least annually. Internal Audit may conduct such reviews as part of broader audits within the Panel Bank, but should ensure that the reviews are appropriately focused on the detailed submissions activities.

The reviews should include random sample testing of at least three days complete submissions processes. The reviews should also cover a sampling of communications with the Submitters and Approvers. The Internal Audit function should produce a report of each review, communicating findings as detailed in 7.1 above.

### **7.4. External Audit**

The Panel Bank should commission an annual review of the Euribor submission processes by an independent, third-party auditor. This review may be conducted as part of the Panel Bank's regular external audit or equivalent, but should ensure that the review is appropriately focused on the detailed submissions processes and that a separate report of the review is produced. The review may be conducted by the Panel Bank's appointed external auditor or other party with expert knowledge of benchmark-related and audit processes. The independent auditor should provide the report of the review to the Panel Bank senior management and to the European Money Markets Institute. The Communication of material findings should be made to other parties, as detailed in section 7.1 above.