

**42<sup>nd</sup> MEETING OF THE EURIBOR STEERING COMMITTEE**  
**– Brussels, 5 June 13.00 to 17.30 CET –**

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**Revised Minutes**

The Chairman, Mr G. RAVOET thanked all participants attending the meeting.

A list of participants is hereby attached.

**1. STEERING COMMITTEE INSURANCE PACKAGE**

Mr G. RAVOET informed the Members that EMMI (formerly Euribor-EBF) has asked for legal advice with regards to the insurance of its Members. In light of the importance of the tasks and decisions of the Euribor Steering Committee in guaranteeing the quality of the Euribor index, it was suggested that an insurance cover for Steering Committee members should be taken.

**2. APPROVAL OF THE COMPLAINTS AND WHISTLEBLOWING POLICIES AND PROCEDURES**

Mr G. RAVOET recalled the Members that following the Euribor Code of Conduct the Steering Committee shall adopt and review complaints and whistleblowing procedures.

He recalled the Members that on the last meeting they had approved Complaints and Whistleblowing Policies and Procedures on the condition that the right of appeal for the Board Members to intervene in the process was introduced.

However, Board Members requested that the Complaints Procedure should present a clearer definition of the roles and responsibilities. To this end, the Secretariat amended the procedure specifying the role of the Complaints and Whistleblowing Manager. This role would be undertaken by a person assigned within the Secretariat.

As discussed in the last Steering Committee meeting, the procedures embody a number of decision and escalation points. Decisions may be rendered on a progressive basis by the complaints manager, the Steering Committee, and the Board of Directors, with the latter serving as points of appeal. In all instances, however, complaints and whistleblowing issues, even when resolved at the lower levels, will be regularly reported to the Board of Directors.

Members approved the complaints and whistleblowing policies and procedures.

### **3. PANEL BANKS' COMPLIANCE WITH EURIBOR CODE OF CONDUCT**

Mr G. RAVOET recalled the Members that Euribor panel banks' were requested to confirm their compliance with the Euribor Code of Conduct by 30 April 2014.

He explained that EMMI has always encouraged panel banks to notify any difficulty in complying with the Code detailing the reasons for non-compliance and providing relevant mitigating organisational controls or processes. He informed the participants that at that stage, 24 panel banks out of 26 banks in the Euribor panel, had already turned in their Declaration of Adherence to the Code. The two missing panel banks informed the Secretariat that due to their internal audit procedures or to IT developments to be carried out following the change in calculation agent, they will confirm their compliance on a delayed basis. In addition, the two panel banks confirmed that they will be submitting their Declarations of Adherence shortly.

Members agreed that it was a good signal that all panel banks had already communicated their intention of submitting the Declaration of Adherence to the Code as this probably reflects panel banks' commitment to stay in the Euribor panel.

According to the Euribor Code of Conduct panel banks are required to undertake internal and external audits. In this context, Members discussed the scopes that the internal and external audits should cover. It was suggested that in order to avoid overlapping functions between both audits, the external audits should review that policies and procedures are in place and the internal audit should monitor the daily control of risk management. Nevertheless, Members agreed that the scope of the audits should vary depending on banks' structures.

Members also agreed that some aspects of the Code of Conduct should be reviewed in the annual revision to take place in January 2015.

### **4. EBA/ESMA REVIEW ON THE IMPLEMENTATION OF THE RECOMMENDATIONS**

Mr G. RAVOET gave an update on the implementation of the EBA/ESMA recommendations by EMMI. He pointed out that most of the recommendations were partially implemented and ongoing.

He recalled the Members that a first internal audit had already been undertaken in April 2014. A second internal audit was expected for the end of 2014. He informed the participants that the external audit would be carried out during the third quarter, followed by public release of the results.

Furthermore, Mr G. RAVOET recalled the Members that following the report from the ESAs, the first recommendation on the composition of the Steering Committee was considered partially implemented as one Member was indirectly affiliated with panel banks through his current employer, Amundi, which is a company jointly owned by Crédit Agricole and Société Générale, both panel banks of Euribor. In this context, this Member informed the participants of his decision to resign from his seat in the Steering Committee. Consequently, EMMI is currently revising the composition of the Euribor Steering Committee.

Finally, Mr G. RAVOET briefly informed the Members that he was invited to a meeting of national supervisors on critical benchmarks at ESMA premises on 3 June 2014. The participants of the meeting expressed their appreciation for what was realised by EMMI in such a short timeframe.

## **5. IOSCO REVIEW**

Mr G. RAVOET highlighted the importance of making progress in the real-transaction based test project in order to be compliant with IOSCO Principle 7 on Data Sufficiency. He expressed that in the current regulatory context it was crucial to have indexes anchored in real-transactions.

Members asked about the functioning of the real-transaction based benchmark in the event that there are insufficient transactions. They discussed the operation of such benchmark on bank holidays when no transactions are reported and in particular whether quote submissions should be the fall back solution in such cases.

Mr G. RAVOET informed the Members that in the meantime, the Secretariat had launched a consultation inviting all Euribor panel banks to share the processes used when contributing to the Euribor benchmark. This survey intended to gather data on the benchmark quote submission methodology employed by each panel bank in order to assess the quality and robustness of the benchmark. He explained that following the outcome of the consultation, panel banks base their expert judgment on underlying market data and understand the relative priority accorded to each data type. Therefore, based on the feedback received, it could be concluded that the panel banks' submission methodology is in line with the Code of Conduct.

Members recommended that the Secretariat undertakes another survey in order to develop a more rigid list of the parameters used by each bank on their submission processes.

However, in the meantime, Members agreed on the importance of continuing to make progress in the strengthening of the current Euribor.

## **6. EURIBOR TRANSITION PLAN**

Members acknowledged that the current regulatory standards require provision for benchmark transitions. In this context, Members reckoned the need to develop a transition framework during 2014.

The Financial Stability Board (FSB) Task Force on Interest Rate Benchmarks is currently reviewing possible alternatives to the current IBORs and the associated transition considerations. Therefore, Members agreed that upon publication of the FSB report expected for Q3 2014, the findings and recommendations on transition issues should be reviewed.

In addition, it was concluded that the outcome of the 3<sup>rd</sup> Stakeholders Workshop on the real transaction-based index project, is also key in transition considerations.

Members discussed whether in the event that a real transaction-based benchmark is put in place, the current Euribor and the real transaction-based index should run in parallel. It was acknowledged that except if contributions are made mandatory, having banks participating in both panels would be

difficult. Furthermore, Members discussed the need for a legislative act in order to ensure a smooth transition.

It was concluded that a transition framework should be developed and discussed at Steering Committee level.

## **7. INTERNAL AUDIT REPORT**

Euribor Steering Committee Members shall review and take note of issues related to the governance of Euribor, as well as to oversee any remedial actions within their mandate.

Members discussed the scope of the internal audit report and agreed that although there is still progress to be made, the report was positive.

Mr G. RAVOET informed the Members that in light of the transition period, another internal audit is expected by the end of 2014 to enable more complete testing of the full implementation of the Code of Conduct and of the new Calculation Agent, among other aspects. He expressed that the Secretariat is currently working on the action points recommended in the report. Several Members recommended to have an audit undertaken by a third independent party as soon as possible.

Mr G. RAVOET clarified that at this stage EMMI had requested Promontory's assistance to perform the internal audit, which is an in-house audit on behalf of EMMI, as the Secretariat is not yet sufficiently staffed for this purpose. Nevertheless, he recalled the Members that the external audit would be carried out during the third quarter by a third independent party.

## **8. BACK-TESTING ON EURIBOR CONTRIBUTIONS**

Mr A. MURPHY presented the back-testing analysis for the month of April 2014 performed by Promontory on Euribor contributions. He summarized the data controls, operations testing and quality testing results.

Results suggested a slight convergence of submissions and less dispersion compared to the March 2014 report. Nevertheless, Members noted that dispersion remains significant. Furthermore, Members discussed the need to introduce contingency arrangements to ensure bank contributions on bank holidays. It was agreed that a provision for these back-up coverages should be introduced in the next revision of the Code of Conduct.

Mr A. MURPHY recommended that a later stage further testing should be put in place. He also suggested that the Secretariat assesses the back-testing analysis put in place within the panel banks.

## **9. LEVEL AND USE OF EURIBOR/EONIA**

Members discussed the Euribor/Eonia rates in light of the current market conditions. They acknowledged that the spikes in the Eonia curve reflect the market volatility.

## **10. COMPOSITION OF EURIBOR AND EONIA PANELS**

Members discussed the current composition of the Euribor and Eonia panels.

As panel banks which have confirmed compliance with the Code of Conduct have undergone many costs to adapt their internal procedures, Members are not expecting more withdrawals from the Euribor panel at this stage.

Members queried on the timing for the publication of the upcoming regulation and whether the regulation would enforce mandatory contributions for banks which have withdrawn from the panel.

Mr G. RAVOET noted that the upcoming regulation would not be in force before mid-2015.

## **11. CALCULATION AGENT TRANSITION PLAN**

Mr G. RAVOET updated the participants on the latest developments regarding the change of calculation agent.

He explained that panel banks were satisfied and validated the system capabilities in its existing format. Notwithstanding small adjustments, the current set-up of the system would be ready to accept contributions and go live on 1 July 2014.

Mr G. RAVOET informed the Members that extensive testing had been undertaken by the new calculation agent (GRSS) and by the ECB with regards to Eonia. Moreover, he explained that GRSS had been successfully replicating Thomson Reuters calculations every day for a couple of weeks.

## **12. REAL-TRANSACTION BASED TEST INDEX PROJECT**

Mr G. RAVOET updated the Members on the latest developments being carried out by EMMI, the designated Task Force and the ECB on the real-transaction based project.

He recalled the participants that on 6 June 2014, EMMI will host the 3rd Stakeholders Euribor European Stakeholders' Workshop to present a proposed methodology for a transaction-based euro unsecured money market benchmark.

All banks involved in the 2<sup>nd</sup> data collection exercise were invited to participate together with representatives of ECB, EBA/ESMA, IOSCO and the European Commission. Should the proposal be welcomed by the banking community, it shall be presented to the end-users.

## **13. EURIBOR INTRADAY RE-FIXING**

Members discussed intra-day re-fixing for Euribor. Some Members underlined that given the submission-based nature of Euribor, questioning the accuracy of a submission based on expert judgment is difficult. Therefore, they expressed that re-fixing seemed more appropriate for real transaction-based benchmarks.



However, Members agreed that there are more pressing issues in the agenda and a re-fixing for Euribor should be re-discussed at a later stage.

#### **14. EONIA**

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

He informed the Members that in April, Eonia was always published accurately and on a timely manner. However, he expressed his concerns as the number of contributions submitted via contingency measures such as email and phone had increased in the month of April. He highlighted that this could increase operational risks in the production of Eonia.

Mr H. NEUHAUS gave his feedback on the transition towards GRSS as collection and publication agent for Eonia for which the ECB would continue to be the calculating agent. He informed the Members that, as confirmed by the latest tests, the GRSS system correctly calculated and distributed the EONIA rates. Some functionalities required to support the EONIA-computation in line with the already existing process still needed to be implemented. The most crucial of these requirements needed to be implemented and successfully tested by the go-live date of 1 July 2014. This was still feasible as long as no slippage would occur. For a sub-group of these requirements, a deferred implementation had been accepted, implying a delivery only after 1 July. Mr H. NEUHAUS highlighted that in the meantime, this would imply an increased but manageable operational risk.

In addition, as a precautionary measure the ECB would make several additional staff members and management available on-site in the first few days of July when the new system was introduced, to be able to deal with even the most adverse and unlikely scenarios.

Members agreed that the Eonia Code of Conduct should be reviewed and certain aspects should be discussed at Steering Committee level. To this end, it was agreed that a Task Force should be created in order to give feedback on technical and governance details for inclusion in a revised Eonia Code of Conduct. In addition, it was suggested that the Secretariat should consult the Eonia panel banks from the Eonia panel to share their views on specific aspects.

Enclosures: D0200A-2014-List of participants

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**LIST OF PARTICIPANTS*****Chairman***

Mr Guido RAVOET

EMMI Secretary General

***Members***

Mr Alberto COVIN

Mr José María VERDUGO

Mr Patrick SIMEON

Mr Karel LANNOO

Mr Philippe JEANNE

Mr Robert PEIRCE

Mr Olivier BRISSAUD

Mr Holger WESTERMANN (*representing Mr Andreas Biewald*)***EMMI***

Mrs Gaëlle MARQUES

Ms Andrea FERNANDEZ

Mr Corentin CUSTINNE

***Guest***Mr Holger NEUHAUS (*via conference call*)

European Central Bank

***Observer***

Mr Anthony MURPHY

Promontory

***Apologies***

Mr Andreas BIEWALD

Mr Bruno COLMANT