

55th MEETING OF THE EURIBOR STEERING COMMITTEE
–Conference call, 13 September 2016, 14:00 – 16:00 CET –

Revised minutes

The Chairman, Mr G. RAVOET thanked all participants for joining the conference call. He also welcomed Mr Paul MERCIER, Adviser to the Executive Board, at Banque Centrale du Luxembourg, who has been elected as new Chairman of the Steering Committee following FSMA's recommendation to have an independent Chairman of the Steering Committee. He also officially introduced Ms Petra DE DEYNE, successor of Mr Mirko GUTH, as the new Benchmarks Governance and Operations Manager. Mr G. RAVOET will chair this meeting for the last time, but he will go on attending Steering Committee meetings as part of the EMMI Secretariat. Finally, he welcomed Mr Benny CONINX from KPMG who will give a presentation on the internal audit report on Euribor monitoring and analytics.

A list of participants is hereby attached.

1. INTERNAL AUDIT REPORT ON EURIBOR MONITORING AND ANALYTICS

Mr G. RAVOET informed members that KPMG has been appointed as EMMI Internal Auditor since this year. Since the last internal audit, EMMI has already improved some items like the implementation of the Euribor refixing policy and the review of the back testing programme (to be discussed later).

Mr B. CONINX reminded that as the Steering Committee is responsible for oversight over the quality of the benchmarks, it is important for them to be aware of what happens within EMMI regarding the monitoring and analytics of the benchmark. He explained that the audit report is very positive: there is a good evolution with regards to internal policies, procedures, risk assessment, etc and thus, no relevant recommendation to make regarding the monitoring.

Steering Committee members will receive regular reports from internal auditors on items directly linked to the benchmark quality.

2. EONIA BENCHMARK OVERSIGHT (June, July and August)

Ms. Anne-Lise NGUYEN presented the EONIA Contribution Process Quality Report for June, July and August 2016. In June and July 2016, there were no major incidents and the EONIA rate was always published on time in accordance with the input received.

However, in August 2016, there was a technical incident in the GRSS application which delayed the Eonia publication after the 19:00 deadline. The issue was addressed rapidly and had no further impact for market participants.

Ms A. FERNANDEZ reminded Steering Committee members that upon their approval as Eonia Stakeholder Consultation had been launched in August 2016. The goals of this consultation were:

- To present the Eonia Review Program and timeline;

- To consult stakeholders on the contingency arrangements for the determination of the Eonia benchmark in case of disruption or data insufficiency;
- To consult stakeholders on the use of the Eonia benchmark.

Stakeholders were expected to share their feedback by 5 September 2016. For now, EMMI has received 33 replies and is still waiting for additional answers.

As part of the consultation, EMMI strongly recommended the following:

- 1) To establish 4 non-zero contributors as contingency triggers to invoke fallback provision.
- 2) In case the contingency trigger of 4 non-zero contributors is involved, EMMI recommended the use of the formulaic approach in line with the methodology to be applicable for a transaction-based Euribor.

Following feedback received, 24 respondents agreed on EMMI proposals and 7 don't agree. They would prefer to have a hybrid approach (based on 4 non-zero contributors and an aggregated volume) rather than a formulaic approach. EMMI is still gathering some feedback and will publish a summary of the input received in due course.

In parallel, during the summer, EMMI also consulted the Panel Banks and the ECB on the proposed draft Eonia Code of Conduct. EMMI suggested a draft stand-alone Eonia Code of Conduct aimed at mirroring to the extent possible the Euribor Code of Conduct. However, following some comments received, the proposed Code didn't reflect enough the principle of proportionality which should bear to a larger extent the differences in the nature of the benchmarks (i.e. transaction based Eonia vs quote-based Euribor). Requirements for banks should be carefully assessed to adequately reflect the nature of transaction-based Eonia with respect to the current Euribor methodology.

Moreover, the ECB is performing a legal and internal assessment with respect to the roles and responsibilities of the Calculation Agent. On the basis of the above, EMMI suggested to defer the proposed timeline of the Eonia Code of Conduct originally scheduled on 1st October 2016. EMMI will inform the FSMA about the changes to the Eonia timeline and ask for their guidance on the above-mentioned matters.

3. REGULATORY AND SUPERVISORY ISSUES

Mr G. RAVOET explained that the European Commission published on 11 August 2016 a short list of critical benchmarks in which Euribor is the only one to be recognised as a critical benchmark. As such, a College of Supervisors for Euribor is currently being formed. The first meeting of the College is scheduled by the end of September 2016. Following the EU Benchmarks Regulation should there be an insufficient number of banks contributing to the transaction-based Euribor panel, the national competent authority of the administrator may consider that the representativeness of the panel is put at risk and shall have the power to compel supervised entities to contribute to the panel under its current quote-based methodology.

It is expected that Eonia and other benchmarks like Libor will be designated as critical at a later stage.

Regarding the Belgian Regulation, the Belgian Royal Decree has not been published yet. Members will receive another update at the next meeting in November.

4. TRANSACTION BASED EURIBOR STATE OF PLAY

a) Pre-Live Verification Program

Ms P. DE DEYNE gave an update of the Euribor+ project. As a reminder, the Pre-Live Verification Program (PLVP) running from September 2016 to end February 2017, will enable EMMI to assess the proposed transaction-based methodology in the current market conditions and to determine the feasibility of a seamless transition. At this stage, 24 banks confirmed their participation on this programme. EMMI will continue its solicitation efforts to increase the sample of banks participating in the PLVP. It will also target National Banking Associations for support in their relevant jurisdictions.

EMMI updates the FSMA on the number of banks participating on a regular basis.

In terms of the operational side of the Pre-Live Verification Program, banks should store all their eligible transactions in the context of transaction-based Euribor and report them in bulks through different phases of the project. Participating banks are expected to deliver the first bulk of eligible transactions by mid December 2016.

b) Methodological developments

Ms. P. DE DEYNE reminded members that the EMMI Secretariat is still developing a robust methodology to be invoked under market stress scenarios (i.e. Tier-2 methodology). The Tier 2 methodology will be triggered in the event of transaction data unavailability for a period of 10 days.

EMMI is currently developing this methodology and will keep the Steering Committee updated about the progress made. At the same time, EMMI is mindful of a number of considerations that need a documented policies and procedures to support the implementation like for instance continuous monitoring, model risk management, monitoring of data sources, etc.

c) Update on the Euribor+ Project: infrastructure development

EMMI Secretariat has provided supporting documents to banks detailing the reporting instructions on how they are expected to contribute to the Pre-Live Verification Program. EMMI has also finalised documentation to define the functionalities of the system that will support the daily execution of the transaction-based methodology for Euribor.

Aware of the confidentiality and sensitiveness of the data to be received in the context of the PLVP, EMMI is the process of signing Non-disclosure Agreements (NDAs) with all participating banks.

d) Seamless transition

Ms P. DE DEYNE informed Members of a letter from the Belgian FSMA supporting EMMI's efforts to develop a methodology that is, amongst other things, more rigorous, continuous and capable of validation including, where appropriate, back-testing against available transaction data. Furthermore, they committed to providing EMMI with guidance in determining the nature of the transition upon the results of the Pre-Live Verification Programme.

5. EURIBOR INTRADAY RE-FIXING PROCEDURES – FOR APPROVAL

Following the adoption of the Euribor intraday re-fixing policy, effective as from 11 July 2016, it is necessary to establish additional procedures in order to insure its implementation. Ms A. FERNANDEZ explained that these procedures are aimed at establishing the roles and responsibilities of EMMI, Panel Banks and the calculation agent. These will also describe the processes, communication flows and escalation procedure in case any error affecting the collection, calculation and publication of the Euribor rate is identified as part of the post-calculation checks.

The Steering Committee Members will be informed of any error and will ensure appropriate follow-up if necessary. All Steering Committee members present during the call approved the intraday re-fixing procedures.

6. BACKTESTING PROGRAMME FOR EURIBOR – FOR APPROVAL

Ms P. DE DEYNE explained that the back testing programme is the same as the one already in place. The Data have been updated as the previous one dated from 2013. Now, EMMI is presenting a full document which includes all the criteria and controls EMMI is looking at: all the daily calculation controls in place, monthly back testing programme and clear criteria for the follow-up procedure.

The analysis on benchmarks operations allows EMMI to monitor a number of operational indicators to the benchmark contribution process. SC members have to decide if criteria are breached, EMMI should follow-up directly with the Panel Banks or escalate first to the SC for decision. In a general view, the present SC members agree that EMMI should do a direct follow-up with Panel Banks in case of a breach. Of course, in case of daily errors, the calculation agent will take immediate action, and as part of the back testing procedures, EMMI will make the follow-up.

7. EURIBOR BENCHMARK OVERSIGHT (June and July)

a) Operations Overview:

Mr A. LOPEZ presented the Euribor benchmark dashboard covering the months of June and July 2016. He confirmed that Euribor rates were always published on time during the period and in accordance with input received. For the period under review, all Panel banks participated in the rate-setting process, each day; there was no occurrence of non-submittal by banks and no reported errors. There were 13 multiple contributions in June and July and the number of late contributions increased during this period.

b) Back-Testing Highlights:

M; P. DEDEYNE reported the highlights of the back-testing analysis for the month under review. Some anomalies were detected for BBVA and Société Générale: increase and decrease in their submission. EMMI will follow up with them.

c) Underlying Market Monitoring:

Mr A. LOPEZ presented the latest Euro Money Market Report. In this issue, EMMI estimated the size of the market that references Euribor by aggregating 2015 year-end data from the European Central Bank, the Bank for International Settlements, the Securities Industry and Financial Markets



Association, and the European Covered Bond Council. The methodology is similar to the one used by the FSB's Market Participants Group in their March 2014 report.

8. COMPOSITION OF EURIBOR AND EONIA PANELS

Mr G. RAVOET informed the Members that JP Morgan announced their intention to withdraw from the Euribor and Eonia Panels. Their last contribution will be on 16 September 2016. As a result, the Euribor panel will be composed of 20 banks and the Eonia panel of 34 banks.

Members insisted on the importance of having a representative panel, not only for the launch of the transaction based methodology for Euribor, but also for the purposes of the Pre-Live Verification Exercise that just started in September 2016. In addition, it is acknowledged that the success of the Pre-Live Verification exercise is subject to the participation of a sufficient representation of banks active in the euro money markets.

Enclosures: D0354A-2016-List of participants

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LIST OF PARTICIPANTS

Chairman

Mr Guido RAVOET

EMMI Secretary General

Mr Paul MERCIER

Members

Mr Olivier BRISSAUD

Mr Alberto COVIN

Mr Franck HEBEISEN

(as of 15:30)

Mr Karel LANNOO

Mr Cyril MERKEL

Ms Agathi PAFILI

Mr Vincent VAN DESSEL

Mr José María VERDUGO

EMMI

Ms Petra DE DEYNE

Ms Andrea FERNANDEZ CARNICERO

Mr Alberto LOPEZ MARTIN

Ms Gaelle MARQUES DOS SANTOS

Guest



Mr Claus BRETERNITZ

Commerzbank

Ms Anne-Lise NGUYEN

European Central Bank

Mr Benny CONINX

KPMG

Apologies

Ms Catherine FARRER (observer)

Mr Jac BESUIJEN