

56th MEETING OF THE EURIBOR STEERING COMMITTEE
–Brussels, 3 November 2016, 11:00 – 16:00 CET –

Revised Minutes

The new Chairman, Mr. P. MERCIER thanked all participants for attending this meeting and informed members that José Maria Verdugo and Olivier Brissaud are attending this meeting by conference call. As it was the first meeting that Mr. P. MERCIER was chairing, he made a *tour de table* to have more informational background on other members. Mr. P. MERCIER informed members that the item on Panel Banks compliance programme will not be treated during this meeting, but during the next meeting in January 2017.

A list of participants is hereby attached.

1. APPROVAL OF MINUTES LAST MEETING

As the minutes are not finalised yet, this item has been suppressed of the agenda. The minutes will be approved by email at a later stage.

2. REGULATORY AND SUPERVISORY ISSUES

Mr G. RAVOET gave an update on the regulatory and supervisory issues. He reminded members that on 11 August 2016 Euribor was recognised as a critical benchmark. The first meeting of the College of Supervisors took place on 16 September 2016 with only 4 effective members for now. Most of the articles will be applicable by the end of 2017. However, the articles on the formation of the College of Supervisors and on the possibility of mandatory contributions will be directly applicable. The College of Supervisors is a guiding entity or the FSMA which will take any final decision.

For now, only Euribor has been designated as a critical benchmark, but it is expected that Eonia and other benchmarks like Libor will be designated as critical at a later stage.

ESMA has launched a Consultation on Draft Technical Standards under the Benchmarks Regulation and EMMI is working on a response.

Regarding the Belgian Regulation, the Belgian Royal Decree has not been published yet. Mr G. RAVOET highlighted that even if the Royal Decree has not been published yet, the FSMA supervises EMMI de facto. However, EMMI cannot introduce the files yet in order to be officially supervised.

3. INTERNAL AUDIT REPORT ON EURIBOR POLICIES AND PROCEDURES

Ms. G MARQUES reminded that this year KPMG has been appointed as internal auditors. As part of the annual internal audit plan, KPGM already presented a report on the monitoring and analytics for Euribor and now has completed a report on Euribor policies and procedures. The role of the Steering Committee is to assess internal and external audits related to benchmarks in particular the Euribor operations and compliance, and to monitor the implementation of remedial actions.

The full report of KPMG was distributed to members and is very positive. The scope of this audit is to evaluate the effectiveness of the following policies:

- Euribor Code of Conduct;
- Euribor Transition Policy;
- Complaints and Whistleblowing Policy;
- Consultation Policy;
- Confidentiality Policy.

KPMG has two minor recommendations regarding the confidentiality policy:

- They recommend developing controls regarding the application of the confidentiality policy, more specifically regarding the correct application of classification criteria.
- They also suggest developing and maintaining a clear desk policy in order to ensure the confidentiality of physical data.

4. QUATERLY RISK REPORT AND ISSUE MANAGEMENT REPORT

Ms G. MARQUES presented the quarterly risk and issue management report. She reminded that the issue management report aims at identifying all issues related to EMMI benchmarks and tracking and monitoring the issues and taking remedial actions.

On the quarterly risk monitoring report, the matrix illustrates EMMI's risk profile with respect to the administration of Euribor. Ms G. MARQUES highlighted that thanks to the improvement of controls put in place at EMMI, the majority of high inherent risks were reduced to low. Regarding the implementation of the Euribor+ project, high risks are under permanent control by EMMI: refusal of new specifications from end-user, lack of sufficient data and failure or delay in enlarging the panel for the transaction-based Euribor.

5. CALCULATION AGENT EXTERNAL REVIEW

Ms. G. MARQUES reminded members that the performance of the Euribor calculation agent, GRSS, is reviewed on a yearly basis. This year, EMMI's audit committee appointed KPMG to perform this review. Taking into consideration the confidentiality of transactions data that will be handled by GRSS, KPMG focused its audit on IT/information security. The external review will start by mid-November and SC members will receive a report during the next meeting in Q1 2017.

6. COMPLIANCE AUDIT

Following FSMA's recommendation, EY, EMMI statutory auditors, have been appointed to perform a compliance audit with the Benchmarks Regulation. This compliance audit will start once the Belgian Royal Decree is published. The audit is then expected to take place in Q1/2 2017. In the meantime, EY suggested a compliance audit plan which were distributed to SC members.

7. REVIEW OF COMPLAINTS/WHISTLEBLOWING POLICIES – FOR APPROVAL

Mr. Q. OLBRECHTS presented the review of complaints and whistleblowing policies. Following the recommendations of the CIOC on the simplification of the EMMI Complaints and Whistleblowing policies and procedures, SC members received a revised Complaints Policy and Procedure and a revised Whistleblowing Policy and Procedure.

The main proposed revisions, as approved by the Conflict of Interest Oversight Committee (CIOC) on 17 October 2016, concern the following aspects:

- the scope of the Policies was extended in order to cover all the EMMI activities and benchmarks operations and not only the Euribor administration;
- specific reference to claims concerning potential, actual or perceived conflict of interest situations was included in the scope of the Whistleblowing Policy and Procedure;
- the procedures for the management and resolution of complaints or whistleblowing claims were clarified, including their alignment with escalation processes and reporting lines currently in place within EMMI.

The revised drafts were analysed by the Internal Auditors, before submission for approval to the CIOC, who had no significant comments.

In addition, he explained that the scope of the Policies was further aligned with the EU Benchmarks Regulation (BMR) and with the Belgian Legislation..

Couple of members interrogated why the STEP initiatives are not scope of such policy, by contrast with the Complaints Policy and Procedure. Mr. Q. OLBRECHTS explained that the reason is threefold:

- having a whistleblowing set-up is mandatory for benchmarks administrators as per the BMR and Belgian legislation, whilst STEP is not regulated;
- considering the current amount of staff members within the EMMI Secretariat, EMMI currently needs to prioritize those necessary for compliance with law ;
- by nature, STEP initiatives are not facing significant risks of fraud so that the Complaints Policy and Procedure, which is applicable thereto, ensures sufficient control. If any conflict of interest arises on STEP initiatives, the CIOC is automatically entrusted with it.

However, the EURIBOR Steering Committee suggested that, at a later stage of its development, the need to extend the scope of the Whistleblowing Policy and Procedure to the STEP initiatives be reassessed. The policies are approved by all present members.

8. ITEM REMOVED FROM THE AGENDA

9. TRANSACTION BASED EURIBOR STATE OF PLAY

Ms. P. DEDEYNE gave an update of the Euribor+ project.

a) Pre-Live Verification Program

In the context of the Pre-Live Verification Program which started on 1 September 2016, EMMI invited 62 banks to participate in this exercise. At this stage, 27 banks have confirmed their participation to the Pre-Live Verification exercise. Furthermore, all of these banks have confirmed that they started the data collection and storage as from September 2016.

EMMI has been enhancing its bank solicitation process by contacting those banks who had not responded to the invitation of participating in the Pre-Live Verification Exercise or had declined such invitation. Moreover, specific efforts were targeted at those jurisdictions that were not well represented in the PLV group and / or where the use of Euribor is important. EMMI sees this solicitation effort as an ongoing task and is in the process of having discussions with more banks.

She confirmed to members that the Pre-Live Verification Exercise started in 1 September as scheduled with the data collection and storage by participating banks. Then 3 bulks data transmission are scheduled:

- 1 from September to November 2016, to be delivered by 14 December
- 1 for December 2016, to be delivered by 13 January
- And 1 for January 2017, to be delivered by 14 February

b) Methodological Developments

During the past months, EMMI has been working on the development of the Tier 2 contingency methodology. The Tier 2 methodology is still under development. EMMI will provide further detail on the progress of this work to the Euribor Steering Committee in subsequent meetings. EMMI is mindful of a number of operational considerations that might require the establishment of documented policies and procedures to support the implementation: clear roles and responsibilities (governance) for the declaration of Tier 2, the overall design, etc., continuous monitoring, model risk management, monitoring of data sources, transparency in the documentation of the methodology(s), etc.

c) Update on the Euribor+ Project: Infrastructure development

EMMI has been working with GRSS (as a system provider) to design, develop and implement a Euribor+ Infrastructure supporting both the collection of transaction data for the Pre-Live Verification program (PLV) and the introduction of new Euribor transaction-based determination methodology in 2017.

At this stage, EMMI has developed the following documentation in conjunction with GRSS:

- Mid-July 2016: definition of the Business Requirements Documents: what the system must do to support EMMI's business needs;
- End-September 2016 : definition of the Functional Specifications: details of how the system's functions will operate;
- End October 2016: definition of the Technical Specifications: details of system workflows, processes, infrastructure and security.

GRSS has now finalized the development of the data collection module of the E+ Infrastructure (called the "web service") and also necessary for the PLV; initial testing by EMMI will begin shortly. The system will then be made available to banks for connectivity testing in preparation to submitting their transaction data to EMMI.

In terms of panel banks support, EMMI has been providing them the following documentation:

- Euribor Reporting Instructions (updated version 1.1) and accompanying Q&A
- Web service specifications
- Euribor+ Infrastructure Testing Approach

EMMI has developed a back-up solution for the transmission of PLV data for those banks that are not capable of investing in the necessary infrastructure development at this stage.

EMMI has organised a dedicated IT workshop on 07/10/2016, and more recently, EMMI has set up a dedicated mailbox as part of the Euribor+ Project for the purpose of handling requests related to the technical implementation of the Euribor Infrastructure.

In parallel, the Secretariat has been working with Allen&Overy to draft Non-Disclosure Agreements (NDAs) to ensure the confidentiality of all data to be received in the context of the Pre-Live Verification Exercise. At this stage, EMMI has received signed NDAs from 16 banks.

d) Transition

As a result of the Legal Workshop held on 27 May 2016, it was agreed that EMMI would work on a position paper to present the main works carried out by the Legal Working Group. In this context, EMMI is currently working with Allen&Overy in the drafting of a Legal Position Paper aimed at setting out the findings of the EMMI Legal Working Group with respect to the legal implications of the transition from a quote-based methodology towards a transaction-based methodology and the other changes to the Euribor specification. This position paper will give the regulatory background to explain the transition towards a transaction-based methodology and the changes to the Euribor specification and focus on what these changes would imply from a legal point of view.

The Secretariat in conjunction with Allen&Overy will be finalising the first draft in the coming weeks and submitting it to the Legal Working Group for further feedback and comments. Then, it will be circulated to EMMI's governing bodies prior to its publication.

e) Communications

EMMI is seeking to enhance its stakeholder outreach programme to obtain a more in-depth awareness and engagement of all market participants. To this end, it is currently reviewing the Communications Strategy of the project with Weber&Shandwick.

10. EURIBOR BENCHMARK OVERSIGHT (August and September)

Mr C. CUSTINNE first reminded the members of the structure and scope of the Euribor Calculation Controls and Back-testing Program which mainly consists of three parts: quality of operations, quality of submissions, and benchmark representativeness.

a) Operations Overview:

Mr C. CUSTINNE presented the Euribor benchmark Operations Dashboard covering the months of August and September 2016. He confirmed that the Euribor contribution and calculation processes were rather uneventful during both months with only a minor operational follow-up required with a Panel Bank in September.

b) Benchmark Submissions Overview:

As regards the quality of submissions, Mr C. CUSTINNE reported a peak in the number of static submissions from Panel Banks in August with only a small decrease in those for the month of September. In that respect, Members discussed the propensity of some Panel Banks to contribute identical Euribor quotes for a long period of time. Although the views were somewhat mixed among the Members, it was concluded that such behaviour could be in line with the current market conditions of excess liquidity and low money market activity. Finally, Mr C. CUSTINNE mentioned that Panel Banks submission dispersion remains relatively high for the 3-month tenor and the rest of the curve..

c) Underlying Market Monitoring:

The latest Euro Money Market Report is still in production as EMMI is currently receiving the Quarterly Turnover Data Survey for Q3 2016 from late respondents. This report will be presented to the Steering Committee members in mid-November by written procedures.

11. COMPOSITION OF EURIBOR AND EONIA PANELS

Mr G. RAVOET informed the Members that after leaving the Euribor Panel, BTMU announced their intention to withdraw from the Eonia panel. EMMI is still waiting for its official withdrawal letter confirming their date of last contribution. After this withdrawal, the Eonia panel will be composed of 33 banks.

Regarding the Euribor panel, it is still composed of 20 banks.

12) EONIA BENCHMARK OVERSIGHT

Mr V. Tsonchev presented the EONIA Contribution Process Quality Report for the September. He confirmed that the Benchmark was always calculated in accordance with input received.

However, two minor events occurred: 1 bank not reachable in the context of regular random checks. In another case, the ECB had to manually verify a contribution on behalf of a panel bank1 contribution on behalf by ECB.

On 6 September, one bank informed that their contribution for 5 September was not correct as they had included a trade that should not have been classified as an Eonia trade. However, there was not impact on the fixing.

Enclosures: D0457A-2016-List of participants

56th MEETING OF THE EURIBOR STEERING COMMITTEE
Brussels, 3 November 2016, 11:00 – 16:00 CET

LIST OF PARTICIPANTS

Chairman

Mr Paul MERCIER

Members

Mr Jac BESUIJEN

Mr Andreas BIEWALD

Mr Olivier BRISSAUD by conf call

Mr Alberto COVIN

Ms Catherine FARRER observer

Mr Franck HEBEISEN

Mr Karel LANNOO

Mr Cyril MERKEL

Mr Tomazs MIRONCZUK

Ms Agathi PAFILI

Mr Vincent VAN DESSEL

Mr José María VERDUGO by conf call

EMMI

Ms Petra DE DEYNE

Ms Andrea FERNANDEZ CARNICERO

Mr Corentin CUSTINNE

Mr David COWEN

Mr Alberto LOPEZ MARTIN

Ms Gaelle MARQUES DOS SANTOS

Mr Quentin OLBRECHT

Mr Guido RAVOET

Guest

Mr Vladimir TSONCHEV

European Central Bank (via conference call)