

61ST MEETING OF THE EURIBOR-EONIA STEERING COMMITTEE
–Brussels, 14 September 2017, 10:30 – 16:30 CET –

Revised Minutes

Mr. P. MERCIER thanked all participants for attending this meeting. He excused Mr G. RAVOET and Mr A. BIEWALD who were not available to participate in that meeting.

A list of participants is hereby attached.

1. CONFLICTS OF INTEREST

No conflicts of Interest were raised at the consideration of the items set at the agenda of this Steering Committee meeting.

2. REGULATORY AND SUPERVISORY ISSUES

Ms P. DE DEYNE made an update on several regulatory and supervisory issues.

- a) She explained that EONIA was declared a Critical Benchmark by the European Commission in June. According to the corresponding implementing regulation “*based on calculations by the European Central Bank, the outstanding amounts of the captured money market instruments in the unsecured and the secured market which reference EONIA can be estimated at around EUR 450 billion and EUR 400 billion for the 52 largest European banks. In addition, it is estimated that the vast majority of trades in the euro overnight index swap (OIS) market, with notional amount of some EUR 5.2 trillion, are linked to EONIA. EONIA is therefore used directly or indirectly within a combination of benchmarks as a reference for financial instruments or financial contracts or for measuring the performance of investment funds having a total value of at least EUR 500 billion on the basis of all the ranges of maturities.*”¹
- b) She shared with the members a summary of the meetings the EMMI Secretariat had held with the ECB, the European Commission and the FSMA.

Ms P. DE DEYNE explained the ECB had not yet communicated further nor taken any final or formal decision regarding the development of an alternative overnight rate. In the bilateral conversations held with the ECB, their staff recognized the need for a solid overnight rate that would be based on as much data as possible, in order to ensure representativeness. Ms P. DE DEYNE added that EMMI’s commercial policy was looked into in order to make panel bank contribution more attractive.

3. OPEN ISSUES REGARDING THE EONIA BENCHMARK

Mr A. LOPEZ made a presentation on the daily EONIA contribution and calculation process, as an introduction to the item. A number of open issues regarding the daily determination of the benchmark were discussed with the members.

¹ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R1147>

The ECB acts as calculation agent for EONIA, on behalf of EMMI. In this role, the ECB sought feedback and clarification from the EMMI Secretariat and the Steering Committee on technical and operational matters around the EONIA determination process, such as the treatment of contingency contributions or topics that would require escalation to EMMI as the benchmark administrator.

Members suggested to invite the ECB to participate in the discussion, so that the Committee has a better understanding of the current arrangements and procedures. Members agreed to revisit these issues in a follow-up call/meeting.

4. EONIA BENCHMARK OVERSIGHT

Mr. V. TSONCHEV (ECB) presented the EONIA Contribution Process Quality Report from May to August 2017.

In May 2017, EONIA was always published on time and according to the input received. There were three instances in which banks submitted multiple contributions on the same day. In all the three cases, multiple contributions were a result of an automatic feed through the Web Service, in which banks reported twice the same values.

In June 2017, EONIA was published on time, and was always calculated according to the input received. Nevertheless, on 21 June there was an incident of non-contribution by one bank, which was not able to retrieve the input data and submit its contribution due to a technical problems with the front office system. This was timely notified to the ECB. The EONIA was accordingly calculated without the contribution of that bank.

In addition, there were six instances in which banks submitted multiple contributions on the same day. In all 6 cases the banks reported twice (and once three times) the same values.

In July 2017, EONIA was published on time in 100% of the cases, and was always calculated according to the input received. There were two cases of contact details being outdated. Furthermore, there was one instance in which a bank submitted a multiple contribution on the same day.

In August 2017, EONIA was published on time in 100% of the cases, and was always calculated according to the input received. On 24 August, there was a minor technical incident in the GRSS system that did not endanger the timely publication of EONIA. The incident was followed-up by EMMI and addressed in due time.

5. ADOPTION OF THE EONIA GOVERNANCE FRAMEWORK

Mr. A. LOPEZ reminded members that the Eonia Governance Framework approved in April 2017 reviews and enhances the governance, organizational arrangements and policies and procedures supporting the administration and calculation of Eonia, emphasizing transparency, the avoidance of conflicts of interest, and clarity of roles and responsibilities for all parties involved in the benchmark determination process, in particular Panel Banks.

In light of the impact the introduction of the Governance Framework would have in the organization arrangements of Panel Banks, the EMMI Secretariat recommended to postpone the full implementation of the Eonia Governance Framework until the BMR had fully entered into application.

The EMMI Secretariat suggests January 1, 2018 as the date by which Eonia Panel Banks are requested to submit their Declaration of Adherence. To this end, an updated Declaration of Adherence was prepared reflecting:

- (a) the change in the full implementation date of the Governance Framework, and
- (b) a rewording of point b. in the published version. In particular, point b. which read
 - b. that all submitted contributions are the bank's appreciation of the evolution of the interbank market in the Eurozone according to the Eonia® definition;*

would be replaced by

- b. that all submitted contributions are an accurate and complete reflection of the input data used, according to the Eonia® definition;*

The Steering Committee Members approved the change in implementation date and corresponding changes in the Declaration of Adherence.

6. EONIA REVIEW

Due to time constraints, this item was not discussed. The Chairman proposed to have it dealt with in a follow-up conference call.

7. COMPOSITION OF THE EURIBOR AND EONIA PANELS

There has been no change to the composition of the Euribor and the Eonia panels.

8. EURIBOR BENCHMARK OVERSIGHT

Due to time constraints, this item was not discussed. The Chairman proposed to have it dealt with in a follow-up conference call.

9. EURIBOR PROJECT

Ms P. DE DEYNE informed SC members about the work done so far by the Euribor Task Force on the development of the hybrid methodology. She explained that the Task Force is composed of fifteen (15) experts: one independent member, fourteen (14) members affiliated with banking institutions, and one observer from the FSMA. Over the summer, the Task Force met regularly (either in physical meetings or by conference call) in order to discuss the new hybrid methodology.

Two more meetings will take place to finalise the methodology. The outcome of the work of the Task Force will be presented to the Panel Banks during a workshop on 18th October 2017.

10. INTERNAL AUDIT REPORTS

Due to time constraints, this item was not discussed. The Chairman proposed to have it dealt with in a follow-up conference call.

11. CALCULATION AGENT EXTERNAL REVIEW

Due to time constraints, this item was not discussed. The Chairman proposed to have it dealt with in a follow-up conference call.

12. RISK ASSESSMENT REPORT ON THE EURIBOR PROJECT

Due to time constraints, this item was not discussed. The Chairman proposed to have it dealt with in a follow-up conference call.

13. ANY OTHER BUSINESS

In order to have longer discussion on some specific topics, it is suggested to organize a dinner the day before the SC meeting and to start the meeting earlier.

It is also suggested to put first in the agenda the items for approval, then items for discussion and finally items for information.

These suggestions will be applied for the next meeting in November and for meetings in 2018.

61ST MEETING OF THE EURIBOR-EONIA STEERING COMMITTEE
–Brussels, 14 September 2017, 10:30 – 16:30 CET –

LIST OF PARTICIPANTS

Chairman

Mr Paul MERCIER

Members

Mr Jac BESUIJEN

Mr Alberto COVIN

Mr Franck HEBEISEN

Mr Karel LANNOO

Ms Dominique LE MASSON

Mr Cyril MERKEL

Mr Tomasz MIRONCZUK

Ms Agathi PAFILI

Mr Vincent VAN DESSEL

Mr José María VERDUGO

EMMI

Ms Petra DE DEYNE

Ms Andrea FERNANDEZ CARNICERO

Mr Alberto LOPEZ MARTIN

Mr David COWEN

Guest



Mr Vladimir TSONCHEV

European Central Bank (via conference call)

Excused

Mr Andreas BIEWALD

Mr Guido RAVOET

**FOLLOW-UP CALL THE 61ST MEETING OF
EURIBOR-EONIA STEERING COMMITTEE
– Conference call, 6 October 2017, 10:00 – 13:00 CET –**

Mr. P. MERCIER thanked all participants for attending this follow-up call to the last Steering Committee meeting held on 14 September.

A list of participants is hereby attached.

1. EONIA REVIEW – ADDENDUM

Mr. A. LOPEZ provided a summary of the announcement the ECB had published regarding the ECB’s Governing Council decision to produce a euro unsecured overnight interest rate based on data already available to the Eurosystem. The interest rate, which would be produced before 2020, would be published with the intention of complementing existing benchmark rates produced by the private sector, and serve as a backstop reference rate. According to the information publicly available, this interest rate will be based entirely on transactions in euro that are reported by banks in accordance with the ECB’s money market statistical reporting (MMSR).

Together with the ECB’s announcement, the FSMA, ECB, ESMA and EC had made a parallel announcement in which they communicated on their decision to constitute a working group tasked with the identification and adoption of a “risk-free overnight rate” which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area. The joint announcement also indicated that “once the group has made a recommendation on its preferred alternative rate, the group will also explore possible approaches for ensuring a smooth transition to this rate, if needed in the future.” The group will also consider the impact of the adoption of the alternative rate on legacy contracts.

Mr. LOPEZ indicated that EMMI was analysing the implications the ECB’s announcement could have in EMMI’s review of the EONIA benchmark.

Mr. LOPEZ also informed members that EMMI was invited to give a presentation to the Euribor/EONIA College of Supervisors on 11 October. The presentation will provide information on the work done by EMMI in the development of a hybrid methodology for Euribor and a preliminary assessment of the data analysis study performed in the context of the EONIA Review.

2. EURIBOR BENCHMARK OVERSIGHT

The calculation system for the EMMI benchmarks runs a number of pre-calculation checks, in order to both avoid misreporting and guarantee the quality of the submissions entering into the indices’ determination. In the case of Euribor, the system is operated by GRSS, which acts as Calculation Agent for the benchmark.

If/when an alert is raised by the calculation system on a bank’s submission, the Calculation Agent contacts banks to confirm their contribution. In cases in which alerts are flagged for a particular bank in a recurrent manner, or if

the same alert is raised on a number of occasions, GRSS has the obligation to report these incidents to EMMI, as administrator of the benchmark.

Over the summer, GRSS reported on a series of flags raised by the system and asked guidance and feedback from EMMI. The Secretariat confirmed the existence of these flags, and indicated that appropriate follow up had been exercised with the contributors (in one instance, as part of the monthly back testing program for Euribor) in order to understand and ratify submissions and rationales of the alerts.

The Steering Committee members agreed that for the issues raised by the Calculation Agent in which appropriate follow up and corresponding reporting had been done by the EMMI Secretariat, no extra measures were considered necessary. The Steering Committee members concurred that except in cases in which the rules and the spirit of the Euribor COPB are breached, or when the follow up performed by the EMMI Secretariat does not provide an explanation for the alerts, no further measures are considered necessary.

3. INTERNAL AUDIT REPORTS

Ms G. MARQUES explained that as per the internal audit plan approved by the Audit Committee, KPMG performed an internal audit on Compliance policies and procedures in particular on Confidentiality Policy, Complaints Policy and Whistleblowing Policy.

These audit works resulted in low residual risk scores.

4. CALCULATION AGENT EXTERNAL REVIEW

Ms G. MARQUES reminded members that KPMG performed in November and December 2016 its first review of GRSS, Euribor Calculation Agent. That review concluded that overall, the controls designed by the Calculation Agent with respect to Euribor benchmark services as provided to EMMI for the period covered by the review, were good. Specifically, that review highlighted exclusively low risk issues. Nevertheless, KPMG specified that it would be expecting a more proactive role from GRSS and their compliance function in terms of the upcoming BMR.

The Audit Committee requested KPMG to perform tests of operating effectiveness during the review of 2017 (among other on the calculation of Euribor), IT security framework, and to assess GRSS's financial sustainability. The scope of this audit will focus on the external review of GRSS Euribor Operations:

- Compliance with applicable regulatory requirements
- Test calculation of Euribor
- Information security, confidentiality and business continuity
- Follow-up of the current status of outstanding findings and recommendations of 2016

Subject to the Audit Committee and the Board of Directors' approval, the external review will be held in November/December 2017.

5. RISK ASSESSMENT REPORT ON THE EURIBOR PROJECT



Ms G.MARQUES presented the risk assessment report on the Euribor Project. According to the Risk Identification and Assessment Policy, the EMMI Secretariat identified seven major high inherent risks that affect significantly EMMI's progress on this particular project and might affect its own functionality.

All of these risks are considered high inherent risk since their occurrence might affect EMMI's ability to fulfil its responsibilities as a Benchmarks Administrator.

Thanks to the mitigation / remedial actions in place, the majority of the residual risks are reduced to medium. Two of them are nevertheless considered as medium-high taking into account that they are influenced by external factors that EMMI cannot fully mitigate/control.

EMMI will work on an action plan of remedial actions to be presented at the following Steering Committee meeting.

61ST MEETING OF THE EURIBOR-EONIA STEERING COMMITTEE
–Brussels, follow-up call, 10:00 – 13:00 CET –

LIST OF PARTICIPANTS

Chairman

Mr Paul MERCIER

Members

Mr Jac BESUIJEN

Mr Alberto COVIN

Mr Franck HEBEISEN

Ms Dominique LE MASSON

Mr Tomasz MIRONCZUK

Ms Agathi PAFILI

Mr Vincent VAN DESSEL

Mr José María VERDUGO

EMMI

Mr Guido RAVOET

Ms Petra DE DEYNE

Mr Alberto LOPEZ MARTIN

Mr David COWEN

Ms Gaelle MARQUES DOS SANTOS

Excused

Mr Cyril MERKEL

Mr Andreas BIEWALD