

**38<sup>th</sup> MEETING OF THE EURIBOR STEERING COMMITTEE**  
**- Brussels, 26 September 2013, 10.00 to 15.00 CET –**

*Location: Avenue des Arts 56, 1000, Brussels*

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**Minutes**

Mr G. RAVOET welcomed all the participants, in particular, Mr Giles Ward, Senior Policy Officer from DG Markt (European Commission), Mr Holger Neuhaus (ECB), Mr Anthony Murphy and Mr Carlo Comporti (connected via conference call) from Promontory and Mr Robert PEIRCE present as observers. Mr G. RAVOET informed members that Mr Robert PEIRCE's nomination as a Steering Committee member was under the approval of the Euribor-EBF General Assembly.

A list of participants is hereby attached.

**1. MINUTES OF THE PREVIOUS MEETING**

Mr G. RAVOET reminded the members that the minutes of the previous meeting (Brussels, 4 July 2013), were approved and published on the Euribor-EBF website.

**2. EC PROPOSAL FOR A REGULATION ON INDICES**

Mr G. RAVOET invited Mr G. WARD to present the European Commission's Proposal for a regulation on indices used as benchmarks in financial instruments and financial contracts.

Mr G. WARD presented the European Commission's Proposal. He clarified the implementation of this draft proposal is expected by the end of this Parliamentary mandate, coming into effect in 2015.

Mr J. VERDUGO queried the reason for establishing the relevant national authority rather than a European authority as a supervisor.

Mr G. RAVOET asked if mechanisms were contemplated in order to ensure that a national supervisor could have the legal power to enforce the decision over other national supervisors. Mr G. WARD answered that this should be dealt through a college of supervisors with binding arbitration by ESMA.

Mr G. WARD also pointed out that the decision-making process could be fast at national level. Furthermore, Mr G. WARD added that the European Commission has the power to react if the

European Law is not enforced. He explained that the proposed regulation contained detailed rules regarding the composition and decision-making process of the colleges of supervisors.

The members also raised their concerns that prompt reactions may be required towards panel banks. Mr G. WARD replied that the mandatory contributions could be applied irrespective of whether banks are already on the panel.

Finally, Mr G. RAVOET thanked Mr G. WARD for his presentation and mentioned the implementation of the Proposal would be welcomed as soon as possible.

### **3. EBA/ESMA RECOMMENDATIONS – SELF-ASSESSMENT REPORT**

Mr G. RAVOET informed the members that EBA and ESMA had requested Euribor-EBF to provide a self-assessment on the measures taken by Euribor-EBF with regard to the Euribor governance and rate-setting process.

Mr G. RAVOET explained that this report, sent to the ESAs on 5 September, was composed of three main parts: (1) measures taken or to be taken by Euribor-EBF in the context of EBA/ESMA recommendations; (2) qualitative and quantitative assessments on the Euribor panel developments as of 31 August 2013; and (3) Euribor-EBF's current views on mechanisms to be used to inform submissions more thoroughly, with a particular focus on using supporting data based on related transactions to improve evidence-based quotes.

He added that representatives from EBA/ESMA would be visiting Euribor-EBF on Monday 30 September to discuss the report further.

Ms G. MARQUES pointed out that the next steps would require focusing on the pre- and post-checks and the adaptation to the final IOSCO Principles.

### **4. CONFLICTS OF INTEREST POLICY**

Mr G. RAVOET invited Mr C. COMPORTI from Promontory, who also advised Euribor-EBF on the Code of Conduct, to present the Euribor Conflicts of Interest Policy.

Mr C. COMPORTI explained that the main objective of this Conflict of Interest Policy was to capture all relevant conflicts of interest. He drafted the main lines of the Conflicts of Interest Policy providing a list of non-exhaustive examples of what may be considered as recurrent situations.

Mr G. RAVOET welcomed the flexibility in the implementation of this policy as it was principle-based rather than rule-based.

Mr A. COVIN expressed that regarding point 6 on the management of conflicts of interests, it was difficult to establish procedures in order to stop the exchange of information between relevant persons at Treasury level. Mr A. MURPHY clarified that it was not the intent to control exchange of information among relevant Treasury desk personnel, but rather to avoid

inappropriate flows of information or requests related to the submissions from other trading units. It was agreed that the word “stop” should be rephrased and substituted for “control”.

Regarding point 7 on the disclosure of conflicts of interest, Mr A. COVIN asked about the cases where the conflicts of interest should be disclosed to the Steering Committee. Mr C. COMPORTI replied that there should be an obligation to report these conflicts of interest to the Steering Committee when there were concerns about the conflict not being addressed in a satisfactory manner.

Separately, Ms G. MARQUES informed the participants that Euribor-EBF is also working on a Conflicts of Interest Policy to be applied at structural level and managed by an Oversight Committee responsible for the identification and the management of conflicts of interests at administrator’s level. In addition, Mr G. RAVOET updated the Members on the two candidates that are currently proposed for the Oversight Committee and asked the members if they could suggest one additional candidate to form part of the committee.

Finally, the Euribor Conflicts of Interest Policy to be published along with the Code of Conduct was approved.

## **5. PRE- AND POST- CALCULATION CHECKS**

Mr G. RAVOET invited Mr A. MURPHY to present the methodology and conclusions of the pre- and post- calculation tests.

Mr G. RAVOET underlined the importance of pre-calculation checks and substantive back-testing in the governance/management of the benchmark. He explained that such process should be subject to an ongoing review and informed the members of Promontory’s recommendation to dedicate back-testing review staff within the Euribor-EBF Secretariat and establish a Technical Sub-Committee of the Euribor Steering Committee.

Mr A. MURPHY explained the methodology and conclusions of pre- and post- calculation tests for the following three main streams: submission data control tests, benchmark operation tests and benchmark quality tests.

It was agreed that the Secretariat should discuss the implementation of the checks with the calculation agent and further develop back-testing reports.

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

Mr G. RAVOET presented a chart showing the evolution of 1M, 3M and 12M Euribor (Chart.1), a chart comparing Euribor 3M and Eonia Swap Index 3M (Chart. 2) and a chart on the evolution of the Eonia (Chart. 3) since January 2013, and invited the members to share comments on the level and use of Euribor and Eonia rates.

Mr J. VERDUGO noted the difficulty to compare Euribor and Eonia rates since the Eonia is based on real transactions and its definition does not take into account estimates of quotes amongst prime banks.

Mr A. COVIN added that real transactions were impacted, amongst others, by other factors such as the expectations of regulatory changes.

## **7. EURIBOR/EONIA PANEL COMPOSITION**

Mr G. RAVOET informed the Members about the composition of the Euribor and Eonia panels, made of 32 and 34 banks, respectively.

He welcomed the joint letter sent by the European Commission, ECB, EBA and ESMA to all current and former panel banks.

He also welcomed the European Commission's draft proposal on benchmarks and added that he hoped this regulation would be adopted within the current Parliamentary mandate.

## **8. COMPLIANCE OF PANEL BANKS WITH THEIR OBLIGATIONS**

### **a) Euribor**

Ms G. MARQUES reported on the statistical report provided by Thomson Reuters regarding the panel banks' level of contributions, in particular the top/bottom 15% excluded from the final fixing, the occasions when panel banks had to be chased for rates and the missing contributions from 3 June 2013 to 13 September 2013 (75 fixing days).

In addition, Ms G. MARQUES reported on a second statistical report provided by Thomson Reuters presenting the panel banks' standing chiefly in the top and bottom 15%, and showing the spread between their contributions and the level of the fixing. She underlined the difficulty in defining the tolerance level of deviation from the fixing.

Mr A. COVIN noted that given the different trading levels of banks, it would be very difficult to set a threshold establishing what level in the deviation should be considered as appropriate or inappropriate. Therefore, if the deviation is significant, he proposed discussing, on a case by case basis, with the banks.

Mr A. MURPHY specified that the problem was not so much the level of contribution, as the persistency of certain banks appearing in the top 15% or bottom 15% outlier contributions. For this purpose, it was agreed that the banks standing most of the times in the top or bottom 15% should be requested by the Secretariat to explain their contribution and confirm their understanding of the Euribor definition.

## **b) Eonia**

Mr H. NEUHAUS recalled the production process for EONIA which differs from the one for Euribor. Eonia being a transactions-based index, banks have the responsibility to submit reliable contributions while the ECB's task is to ensure that the panel banks' input is reflected correctly in the aggregated result. He underlined that these are, in principle, rather mechanical tasks and consequently there is little room for interpretation. For this reason, Mr H. NEUHAUS underlined the importance of the contributions being transmitted via the system, since manual inputs increase operational risks. The input by all banks is required by 6.30pm. Already prior to the time the ECB starts checking that all submissions were completed. Late contributors are reminded by the ECB team to contribute. The ECB also seeks confirmation if contributions received early indeed reflect the complete overnight turnover to be reported for a given day.

Mr H. NEUHAUS also mentioned that the calculation system automatically detects significant deviations and that the ECB team contacts the respective banks to confirm the contributions. Confirmations are also requested in case more tailor-made checks make this seem advisable. In the overwhelming number of cases banks confirm the data submitted. Only occasionally banks send corrections which will then be used in the EONIA calculation. A question that could arise is whether data that was submitted by banks but, upon request, is not confirmed, should count as a valid contribution or be excluded from the computation. Even though this rarely occurred, Mr H. NEUHAUS asked for the Steering Committee's guidance in order to establish contribution rules that determine what actions should be taken in such cases. Ms G. MARQUES proposed to establish a provision in the Eonia Code of Conduct and Certification Management Form requiring contributors to the Eonia panel banks to be reachable for a defined period of time after submitting their contribution, so as to ensure the submission can be confirmed. It was agreed that this topic should be further discussed at the next meeting.

Separately, the Secretariat was requested to remind some panel banks that contributors are meanwhile required to send their input with 3 decimals. Mr H. NEUHAUS undertook to provide Euribor-EBF with a list of the names of the banks that recently sent their contributions with only 2 decimals including one bank that occasionally had problems sending the correct contribution via the system and resorted to the contingency solution.

## **9. REAL-TRANSACTIONS BASED TEST PROJECT**

Mr G. RAVOET updated the Members on the conclusions of the 2<sup>nd</sup> Euribor European Stakeholders' workshop held on 12 July 2013 regarding the real transaction-based project. He shared that the test results showed that volumes were insufficient to build a robust index for maturities beyond 3 months. He added that for this reason a second data collection exercise including new data had recently been launched. In this context, Mr G. RAVOET suggested that depending on the second data collection exercise's results the possibility of launching a real transactions based benchmark, in addition to Euribor, in 2014 could be envisaged.



Mr A. COVIN highlighted that in the case of a real-transactions benchmark being made available, mechanisms to ensure the continuity of the benchmark, even if sufficient data is not available, should be foreseen. He insisted on the need to further develop the future index.

Mr J. VERDUGO added that the termination of Euribor should not be envisaged even if a new benchmark were to be launched. Should the termination of Euribor occur the legal framework should be adapted.

Mr P. JEANNE recalled that even if a new benchmark, based on real-transactions, were launched, it would lead to higher volatility. In the end, it is the market that will choose which benchmark to use.

Finally, Mr O. BRISSAUD underlined the importance of avoiding any confusion between Euribor and the new benchmark, if the latter were to be launched.

## **10. ANY OTHER BUSINESS**

Ms G. MARQUES informed members that the Secretariat would circulate a draft calendar of future Steering Committee meetings very shortly.

Mr G. RAVOET thanked the participants for the productive meeting and invited members to revert to the Secretariat should they have further questions. Before closing the meeting, he confirmed that the minutes would be promptly circulated for approval.

### Enclosure:

D2843A-2013-38th Euribor SC Meeting list of participants



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**LIST OF PARTICIPANTS**

***Chairman***

Mr Guido RAVOET Euribor-EBF Chief Executive

***Members***

Mr Alberto COVIN

Mr José María VERDUGO

Mr Bruno COLMANT

Mr Olivier BRISSAUD

Mr Philippe JEANNE

Mr Patrick SIMEON (*via Conference call*)

***Observer***

Mr Robert PEIRCE

***Euribor-EBF***

Ms Gaëlle MARQUES

Ms Andrea FERNANDEZ

***Speakers***

Mr Giles WARD DG Market EU Commission

***Guests***

Mr Anthony MURPHY Promontory

Mr Carlo COMPORTI (*via Conference call*) Promontory

Mr Holger NEUHAUS European Central Bank

***Apologies***

Mr Andreas BIEWALD

Mr Karel LANNOO