

2015 CONFLICT OF INTEREST OVERSIGHT COMMITTEE REPORT TO THE BOARD OF DIRECTORS

Foreword

2015 represented a turning point for EMMI in the establishment of robust and sound practices for the prevention, identification and management of conflicts of interest.

The Conflict of Interest Oversight Committee (“CIOC”), helped by EMMI’s Secretariat, focused its efforts on an enhancement of the Conflict of Interest Policy and Procedure and on the identification and application of effective tools in order to ensure its full implementation.

The CIOC supported EMMI in this process by recommending specific and tailored actions to improve the control system on conflict of interest and by approving a clear and well-structured action plan at the beginning of the year. The implementation of the recommended plan, as described in this report, contributed to the achievement of important improvements in terms of governance and of the internal control environment.

In light of the new regulatory requirements, that give the highest priority to a sound and robust management of conflicts of interest, the CIOC is ready to continue its work and to promote awareness and best practices at all levels of EMMI. In this context, CIOC Members particularly value the activation of preventive measures and have expressed their availability to provide trainings to the staff, to participate in Board of Directors and/or Steering Committee meetings as appropriate and to be regularly informed of the evolutions affecting EMMI’s internal and external environment in order to prevent possible emerging conflicts.

As Chairman of the CIOC, I recognize that a very challenging role has been assigned to the Committee. However, it is the firm intention of the Members of the CIOC to actively support EMMI with their expertise and independent judgement for the consolidation and further enhancement of its conflicts of interest management.

Karel VAN HULLE

Chair of the Conflict of Interest Oversight Committee

1. Role and Responsibilities of the Conflict of Interest Oversight Committee

The Terms of Reference of the CIOC are determined in the Conflict of Interest Policy and Procedure whose last revision was approved by the General Assembly on 12 April 2016.

The duties of the CIOC are clearly defined in the Terms of Reference, while the specific activities to be performed in the prevention, identification and management of conflicts of interest are further detailed in the relevant sections of the Conflict of Interest Policy and Procedure.

The main areas of activity of the CIOC include:

- a) Monitoring the effectiveness of the Conflict of Interest Policy and of the procedure to manage and mitigate conflicts of interest situations;
- b) Monitoring the potential situations of conflict of interest and advise the Board of Directors, or the General Assembly where relevant, on how to deal with these situations;
- c) For the purpose of identifying relevant conflicts, considering:
 - communications made by Relevant Persons;
 - representations or complaints made from external parties to EMMI;
 - other internal EMMI documents and information.
- d) Advise the Steering Committee, the Board of Directors, or the General Assembly where relevant, on actions to be taken in respect of actual or perceived conflicts of interest.

The activities carried out by the CIOC for each of the areas described above are detailed in section 3 of this report.

2. Composition of the Conflict of Interest Oversight Committee

In accordance with the Terms of Reference, the CIOC must be composed of at least 3 Members (one Chair and two Members) chosen among experts with recognized independence, standing and experience in financial markets and/or financial services and/or in financial regulations and control systems.

The following persons were members of the CIOC in 2015:

- Mr Karel VAN HULLE (Chairman), appointed in February 2014, Previously Head of Unit at the European Commission, currently Professor at the KU Leuven and at the Goethe University in Frankfurt and Member of the Public Interest Oversight Board .
- Mr Stefano Carcascio, appointed in February 2014, Previously Head of Supervision of Financial Markets, and Representative in the UK of Banca d'Italia, currently Member of the Board at the Italian Chamber of Commerce for the UK and Member of the Advisory Board at OMFIF - Official Monetary and Financial Institutions – London. He is also independent member of the Board of CSR Bank.
- Mr Robert Peirce, appointed in October 2014, senior audit partner at PwC for more than 25 years and former chairman of the Belgian Accredited Financial Services Auditors, currently Professor at Louvain School of Management and at Solvay School of Economics.

Members are elected by the General Assembly for a two-year renewable mandate.

3. Activities of the Conflict of Interest Oversight Committee for the year 2015

The CIOC held two meetings related to the period under review.

At the first meeting, the CIOC examined EMMI's organizational structure and arrangements for the prevention, identification and management of conflicts of interest and established an action plan to improve the existing systems and to activate appropriate implementation tools.

At the second meeting, the CIOC evaluated the implementation and effectiveness of the recommended actions, approved a revised Conflict of Interest Policy and Procedure and analysed relevant documents for the identification of potential, perceived or actual conflicts of interest. The CIOC also provided additional recommendations to ensure the full and effective implementation of the Conflict of Interest Policy.

3.1 Monitoring the effectiveness of the Conflict of Interest Policy and of the procedure to manage and mitigate conflicts of interest situations

3.1.1 Conflict of Interest Policy and Procedure

The CIOC analysed and approved a revised Conflict of Interest Policy and Procedure for recommendation to the Board of Directors and to the Steering Committee.

The revision was mainly aimed at:

- integrating and simplifying existing policies and procedures on conflicts of interest¹;
- reviewing and clarifying the three-tier approach proposed by the CIOC to handle potential conflicts of interest;
- clarifying roles and responsibilities of the EMMI Governing Bodies, of the Steering Committee and of the EMMI Secretariat;
- aligning the procedure to manage perceived and actual conflict of interest situations with the escalation and decision-making processes currently in place at EMMI;
- complying with the requirements of the EU Regulation on "Indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds".

The revised Conflict of Interest Policy and Procedure contributes to enhance the effectiveness of the practices in place to prevent, identify and manage conflicts of interest by providing clear operational guidelines to the Relevant Persons in EMMI².

The CIOC agreed to include as a standing item on its Agenda a close monitoring of the implementation of the Policy.

¹ The following policies and procedures were in place: Euribor Conflict of Interest Policy approved by the Steering Committee on 26.09.2013; EMMI Conflict of Interest Policy applicable at Association level and approved by the General Assembly on 13.12.2013; Conflict of Interest Procedure applicable to both Policies and approved by the General Assembly on 21.03.2014

² According to the Conflict of Interest Policy and Procedure, Relevant persons include members of EMMI General Assembly (Banking Associations), members of the Board of Directors, members of the Audit Committee, the Secretary General, members of the Secretariat, members of the Euribor Steering Committee, members of the STEP Market Committee.

3.1.2 Declarations of interest

The CIOC approved the format of the declaration of interest to be signed on an annual basis by the members of the EMMI Secretariat and the members of the Audit Committee.

In addition, a declaration of adherence to the Code of Conduct of the STEP Market Committee (Annex I of the STEP Market Convention) was approved by the CIOC. In fact, due to the nature of the role and responsibilities of the STEP Market Committee Members, as described in the STEP Market Convention, the declaration of interest takes the form of a declaration of adherence.

In accordance with the requirements established by the EU Regulation, the declaration of interest for EMMI staff members will also be applicable to any natural person whose services are placed at EMMI's disposal or under EMMI's control and who is directly involved in the provision of a benchmark.

The CIOC recommended to collect the signed declarations of interest for the year 2016.

3.2 **Monitoring potential situations of conflict of interest and advise to the Board of Directors, or to the General Assembly where relevant, on how to deal with these situations**

In order to monitor potential conflict of interest situations the CIOC established a mapping which depicts examples of potential conflict of interest situations that could arise among EMMI Relevant Persons. The mapping also includes remedial actions to mitigate or eliminate potential conflict of interest situations.

In 2015, the mapping was improved through the identification of conflict of interest situations potentially affecting the Audit Committee and the STEP Market Committee. Potential conflicts previously identified and already included in the mapping were reviewed by the CIOC and clarified as appropriate. Additionally, remedial actions were reassessed according to the following three-tier control model:

- **first tier:** the responsibility lies with the individual. Possible measures to mitigate potential conflicts of interest at this level are the disclosure of the interests and recusal from relevant decision making. The recusal of the individual from any relevant decision making must be reflected accordingly in the minutes of the meeting.
- **second tier:** control or supervision are carried out by EMMI Management. In the event that, through its monitoring and oversight activities, the CIOC identifies a new potential situation of conflict of interest, the matter should be escalated to the EMMI Management who will activate remedial actions such as operational controls, activity monitoring and oversight; remuneration arrangements; segregation of duties; control on the access to information.
- **third tier:** in case of identification of potential conflicts of interest that require the permanent withdrawal/prohibition to exercise a specific task or activity, the CIOC reports to the Steering Committee (for benchmark-related matters) or to the Board of Directors (and/or General Assembly as appropriate) for discussion and approval of the measure.

The mapping is considered as a "living" document to be regularly reviewed by the CIOC. The CIOC recommended the EMMI Secretariat to share the mapping with EMMI staff members, the Board of

Directors and the Steering Committee in order to collect their inputs on additional potential conflicts and/or on the effectiveness and feasibility of the proposed remedial actions.

3.3 Identifying relevant conflicts

For the purpose of identifying actual or perceived conflicts of interest, the CIOC analysed the following documents:

3.3.1 Communication made by Relevant Persons

According to the Conflict of Interest Policy and Procedure, the CIOC expects that Relevant Persons communicate their interests through an annual declaration. One single exception applies to the Members of the General Assembly. In fact, since the Members are sitting in the Assembly as representatives of the national banking associations, the respective association is also responsible for ensuring that conflicts of interest are managed by its representatives in General Assembly meetings. In order to increase individual awareness and responsibility in managing potential conflicts within the General Assembly, the CIOC recommended to ask the national banking associations to appoint one delegate (and one alternate) as permanent participant in the meetings of the EMMI General Assembly.

For the year 2015, the CIOC analysed the following declarations:

- Declarations of interest of the Members of the Board of Directors;
- Declarations of interest of the Members of the Steering Committee.

The declarations were examined taking into consideration the biographies of the Members of the Board of Directors and of the Steering Committee and their respective roles and responsibilities.

The CIOC concluded that the interests disclosed in the declarations did not show any actual or potential conflict.

The CIOC recommended to increase the awareness of the Members of Governing Bodies and Steering Committee on their individual responsibility in the identification and prompt reaction to conflict of interest situations. Accordingly, a specific statement will be included in the agenda and minutes of all Governing Bodies' meetings to remind that "*Members are appointed on a personal basis and should not be subject to instructions from the company/organization they are affiliated to (if any). Members are personally responsible to recuse by relevant decision making in the event a conflict of interest situation might arise*".

As already highlighted in section 3.1, the CIOC recommended to collect declarations of interest from the members of the Secretariat and of the Audit Committee in order to ensure that Relevant Persons disclose their interests.

3.3.2 Representations or complaints made from external parties to EMMI

In 2015, EMMI did not receive any representations or complaints on conflict of interest related matters from external parties.

3.3.3 Other internal EMMI documents and information

The CIOC analysed the following internal documents:

- Agenda and Minutes of General Assembly meetings;
- Agenda and Minutes of Board of Directors meetings;
- Agenda and Minutes of Steering Committee meetings.

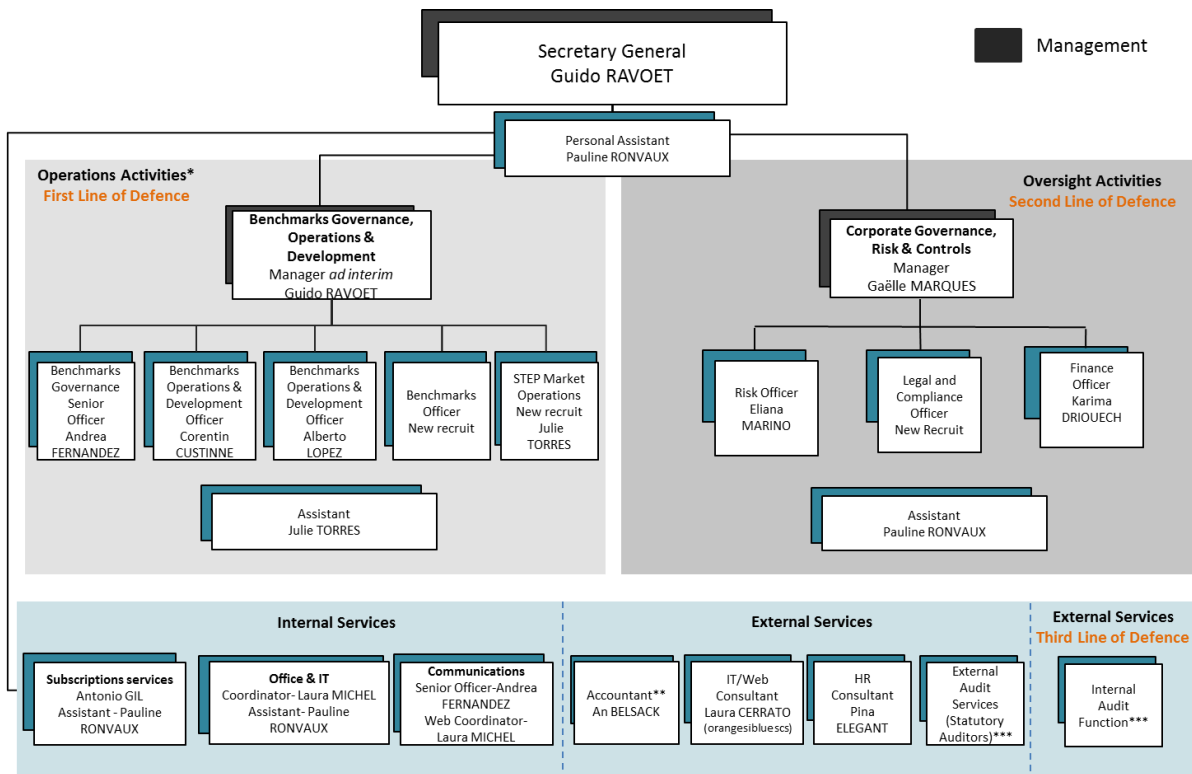
After the analysis, the CIOC concluded that the documents concerned did not show any conflict of interest situation.

Due to the amount of information included in the relevant documents provided to the CIOC, Members suggested to increase the efficiency of the analysis by providing the CIOC with a summary of the decision-making points in order to focus on relevant items of agendas of the Governing Bodies and the Steering Committee.

Additionally, the CIOC reviewed the EMMI organizational chart in order to ensure transparency of roles and responsibilities and to facilitate the identification of conflict of interest situations.

The following improvements were recommended by the CIOC and immediately included in the organizational chart:

- clear identification of the three lines of defence;
- indication that the benchmark determination and publication process is outsourced to an independent Calculation Agent;
- identification of the different control mechanisms (internal audit acting as third-line of defence and external audit).



* The determination of EMMI benchmarks is outsourced to an independent Calculation Agent.

** The Accountant is functionally overseen by the Finance Officer.

*** Audit Services report administratively to the Secretary General. Audit Services also have unrestricted access to the Audit Committee of the Board of Directors on matters relating to audits. The Corporate Governance, Risk & Controls Manager assists the Secretary General in the administrative functions related to Audit Services.

The CIOC reviewed the EMMI organizational structure in light of the provisions included in the EU Regulation: *“the provision of a benchmark shall be operationally separated from any part of the administrator’s business that may create an actual or potential conflict of interest”*.

The CIOCs analyzed the EMMI organizational chart with particular reference to the fact that benchmarks operations and STEP market activities are both included in the first line of defence.

The CIOC agreed that, according to the information at their disposal, STEP market activities do not have any influence on benchmarks activities and cannot be a source of conflicts of interest affecting the benchmark administration.

3.4 Advising the Steering Committee, the Board of Directors, or the General Assembly where relevant, on actions to be taken in respect of actual or perceived conflicts of interest

In the year 2015, as detailed in the previous section (3.3), the CIOC did not identify any perceived or actual conflict of interest situation.

In addition, the CIOC did not receive any communications or requests for advice on actual or perceived conflict of interest situations from EMMI Relevant persons or from third parties