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37th MEETING OF THE EURIBOR STEERING COMMITTEE
- Brussels, 4 July 2013, 11.00 to 17.00 CET –

Location: Avenue des Arts 56, 1000, Brussels

Minutes

Mr G. RAVOET welcomed the participants in this 1st meeting of the Euribor Steering Committee in its new composition.

He introduced the Euribor-EBF Secretariat formed by Mr C. QUEMENER, Director, Ms G. MARQUES, Senior Adviser, Ms A. FERNANDEZ, junior adviser and Ms L. MICHEL, assistant.

He explained that Euribor-EBF was a sister organization of EBF with more or less the same members and an independent legal entity.

Mr G. RAVOET welcomed Mr H. NEUHAUS from the ECB and Mr K. LANNOO. The latter attended the meeting as an observer prior to making a decision about his membership, the former participated on a one-off basis in particular because of item 9 (transaction test). He also introduced Mr C. COMPORTI and Mr A. MURPHY from Promontory advising Euribor-EBF on the elaboration of the revised Code of Conduct.

He noted that one additional member was still to be appointed to the Steering Committee and invited the participants to introduce themselves.

A list of participants is hereby attached.

1. TASKS AND RIGHTS OF THE STEERING COMMITTEE

Mr G. RAVOET informed the members that the main task of the Euribor Steering Committee members was to promote the implementation of the Code of Conduct, check compliance, monitor its effectiveness and propose changes. He added that the Steering Committee should also monitor market developments.

He described the specific tasks of the Committee with regard to the panel banks (*i.e.* define criteria to qualify, review size and composition of the panel, monitor panel banks compliance with the Code), to the determination/calculation of Euribor (*i.e.* design definition and methodology, adopt and review the contribution process, adopt a control framework, review back-testing reports), to conflicts of interests and to controls (*i.e.* complaints and sanctions).

He added that the members of the Steering Committee were appointed by the Euribor-EBF General Assembly for a two-year mandate, renewable. He recalled that the members were appointed on a personal basis, and must be independent and not subject to instructions from the companies or organisations to which they belong.

Finally, he noted that each member of the Steering Committee would be requested to submit a declaration of absence of conflicts of interest.

Mr K. LANNOO underlined the importance of regular and ongoing contacts between the Steering Committee and the Secretariat. He suggested including as a member an academic with statistical background.

Mr G. RAVOET welcomed Mr K. LANNOO's suggestion and invited the members to propose candidates. Separately, he highlighted the importance for Euribor-EBF to operate with transparency and added that all information, including the daily contributions, was promptly published on the Euribor-EBF website.

Mr O. BRISSAUD noted the importance for non market practitioners to rely on data analyses.

Mr C. QUEMENER reminded that the ESAs in their recommendations had called for a minority of members from the banking sector, but underlined the need for market expertise within the Steering Committee. He added that any decision taken by the Steering Committee with regard to the Code of Conduct had to be approved by the Euribor-EBF General Assembly.

Mr K. LANNOO expressed his view that the Steering Committee should not take position with regard to the level of fixing.

Mr A. COVIN explained that the Steering Committee's discussions had been focused on the long-term behaviour of Euribor in light of ECB's decisions and market conditions, not on the level of the fixing.

Mr P. JEANNE raised concerns with regard to the number of banks leaving the panel. He expressed that, in addition to strengthened governance, the computation of the rate could be optimized in order to reduce risks of manipulation and litigation. He added that one possibility to reduce incentives for manipulation could be to keep a sample of contributors chosen randomly and proceed with the top and bottom 15% exclusion afterwards.

Mr G. RAVOET acknowledged the risk to see additional banks exiting the panel until supervision becomes effective and panel banks' contributions become mandatory. He indicated that Euribor-EBF had no means to keep the banks in the panel and that, in his view, the ECB, EBA and the national supervisors should further encourage the banks to remain in the panel for the sake of the continuity of the index.

2. MINUTES OF THE PREVIOUS MEETING

The members took note of the minutes of the previous Steering Committee meeting taking place in January 2013. The minutes had been approved by the previous Steering Committee and subsequently published on the Euribor-EBF website.

3. EBA/ESMA RECOMMENDATIONS

Mr G. RAVOET presented the progress made by the Secretariat following EBA/ESMA's recommendations on the Euribor governance and rate-setting process. The members took note that recommendations n° 1 and 2 with regard to the Steering Committee composition, the frequency of meetings and the publication of minutes had been implemented and reflected in the revised Euribor Code of Conduct.

He added that the Steering Committees' decisions on the Code of Conduct should be subsequently submitted for approval to the Euribor-EBF General Assembly.

Regarding recommendation n° 3, Ms G. MARQUES informed the members about the consultation on the reduction in the number of maturities sent to panel banks and explained that, following the feedback received from the panel banks', it was recommended keeping the 2 week maturity as well. She also expressed that outcome of the consultation was informally shared with EBA/ESMA, which main concern was to minimize the impact on existing contracts. Additionally, she informed the members that ISDA was working on a protocol for interpolation measures with regard to discontinuation and that a draft version should be made available to the Secretariat in the following weeks.

The Steering Committee agreed to discontinue the following maturities: 3 weeks, 4, 5, 7,8,10 and 11 months as of 1 November 2013, keeping the 1 and 2 weeks and 1, 2, 3, 6, 9 and 12 month maturities.

On recommendation n° 4 concerning Euribor definition clarifications, Mr H NEUHAUS underlined that the ECB had not formally taken position with regard to the proposed clarifications, while its money market contact group had served as a forum for market participants to discuss earlier drafts of the clarification.

The Steering Committee approved the following definition clarifications of the terms "prime bank", "interbank transaction" and "panel bank":

- **A prime bank** should be understood as a credit institution of high creditworthiness for short-term liabilities, which lends at competitive market related interest rates and is recognised as active in euro-denominated money market instruments while having access to the Eurosystem's (open) market operations.

- **Interbank transaction** should be understood as a cash deposit between two credit institutions maturing by one year from inception1.
- **A panel bank** should be understood as a bank contributing to the Euribor index, by providing daily quotes of the rate, rounded to two decimal places; each bank belonging to the panel submits the rates that it believes one prime bank is quoting to another prime bank for interbank term deposits within the euro zone.

The members noted that these clarifications had been informally shared with EBA and ESMA and that these clarifications were not aimed at changing the Euribor definition but at preserving the continuity of the index.

With regard to recommendation n° 5, Mr G. RAVOET underlined that, Euribor being an estimation of the market by panel banks (not quoting their own position but the level at which a prime bank lends to another prime bank), it was very difficult to base a back-testing on real-transactions. He added that the Steering Committee should review statistical reports on panel banks contributions (e.g. top/bottom 15% outliers) on a regular basis.

Mr H. NEUHAUS commented that the results of the real transactions based test could be used as side information to assess how Euribor behaves with regard to real transactions over time. Mr A. COVIN nevertheless underlined the differences between the results of the test *vs* the current Euribor definition (e.g. bid/offer side, panel of contributing banks, etc.).

Mr G. RAVOET mentioned that the recommendation n°6 concerning Euribor-EBF's governance and conflicts of interest policy would be further discussed under the item 4 (Revised Code of Conduct).

He added that internal/external audits (recommendation n°7) should be performed once the reform would be implemented and that the revised Code of Conduct would provide for record-keeping policies, including the names of two submitters and two approvers appointed by each panel bank (recommendation n°10).

Finally, he explained that the recommendations number 8 and 9 linked to the calculation agent would be further discussed under item 8.

4. REVISED EURIBOR CODE OF CONDUCT

Mr G. RAVOET invited Mr C. COMPORTI and Mr A. MURPHY from Promontory, who advised Euribor-EBF on the Code of Conduct, to present the main changes of the revised documentation.

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[1] A list of credit institutions is published by the ECB at:

http://www.ecb.int/stats/money/mfi/general/html/dla/MFID/euccid_130314.txt.

Mr A. MURPHY explained that the primary sources used for the revised Code of Conduct were EBA/ESMA recommendations, EBA/ESMA principles and the IOSCO draft principles. He noted that the Code of Conduct sought to find a balance between regulatory requirements and additional obligations for the panel banks. He added that, to some extent, other sources had been used such as the Wheatley review (although acknowledging the distinctions between Euribor and Libor), and other benchmarks documentation such as the HKMA Code for Submitters.

Mr C. QUEMENER recognized the difficulty to find a balance between regulatory requirements and panel banks obligations. Mr A. BIEWALD expressed that there was a risk that additional banks would leave the panel given the pressure coming from the regulators. He underlined the need for the European Authorities to intervene promptly in order to preserve the continuity of the benchmark.

Mr C. QUEMENER explained that the mandatory contribution measure proposed in the EC regulation would not be implemented before at least one year. He thanked the ECB for their collaborative approach and insisted on the need for coordination between European and national supervisors in this regard.

Mr G. RAVOET committed to send a registered letter to all panel banks to confront themselves to their responsibilities as market participants and warn them about the impact of a possible discontinuation of the index. He added that, in his view, the ECB should write to the panel banks directly to further encourage them to keep contributing to the index.

Mr C. COMPORTI commented that the revised Code of Conduct could be envisaged as a preliminary implementation of compliance measures until a regulatory framework implementing mandatory contributions is in place.

Mr A. BIEWALD also underlined the legal risk foreseen by the banks when contributing to the index.

Finally, Mr. H. NEUHAUS recalled that the ECB had publicly encouraged panel banks to remain in the panel. He reported that some current and former panel members had highlighted the need for establishing clear contributing rules. The members agreed on the need to build a robust framework to reduce the bank’s reputational risk.

On the content of the revised Code of Conduct, Mr A. COVIN commented the difficulty for the Steering Committee to check the figures laid down in the Code of Conduct in the criteria to qualify for a seat on the panel (e.g off-balance sheet items).

Mr A. MURPHY answered that off-balance sheet items should be considered as non-prescriptive factors to take into account, with no thresholds. He added that panel banks might be required to produce information upon request from the Steering Committee.

Regarding the hierarchy of supporting data included in the Code of Obligations of Panel Banks (COPB) in the annex 1 of the Code of Conduct (section B.1.), Mr A. MURPHY explained that, similarly, it aimed at providing guidance to the panel banks as to the data and criteria to be taken into account and at establishing a set of principles introducing some degree of prioritization following the IOSCO principle 8 that required "*the establishment of clear guidelines regarding the hierarchy of data inputs and the exercise of Expert Judgment*..".
Mr A. COVIN reminded the participants that the determination of Euribor was based on the following non-exhaustive parameters: the level at which panel banks consider that one prime bank lends to another prime bank; the liquidity conditions in the market (e.g. maintenance periods, ECB decisions), broker rates, repo rates and rates from the previous day. In this context, he noted the dynamic character of these parameters and therefore, the difficulty to set a mechanical hierarchy amongst data. He insisted on the importance to preserve the continuity of the benchmark.

After debate, the Steering Committee reached a consensus that the draft Code of Obligations of Panel Banks should be clarified to provide for a flexible prioritization of data inputs, recognizing that a fully mechanical hierarchy would not be appropriate for Euribor.

Mr A. BIEWALD commented that one of the consequences of over-regulation would be that all contributors would likely be in the middle range of contributions.

Mr A. COVIN also opposed to the idea that each panel bank should define a list of prime banks.

Ms G. MARQUES explained that the Code of Conduct was aimed at providing guidance to the banks on which criteria should be taken into account when considering a prime bank. She noted that the purpose was to help the banks explaining their estimates. Mr T. MURPHY added that the purpose of this section was to define a process rather than a list.

Mr J. VERDUGO commented that the concept of prime bank was generic and therefore designating a list of prime banks seemed too specific.

Finally, the Steering Committee concluded that **flexibility criteria should be added to the priority of supporting data** and that there should be **no reference list of prime banks**. It was agreed that the Code of Obligations of Panel Banks (COPB) would be amended accordingly and circulated to the Steering Committee members for final approval prior to submitting it to the General Assembly.

Separately, the members agreed that the **contribution window should not be enlarged**, considering that there was sufficient time for the panel banks to perform pre-submission validations. In addition, the members acknowledged the need for a **contingency plan that should allow the possibility for a re-fix** in case of problem during the calculation/publication process.

Finally, the Code of Conduct, including all changes described above, was approved for recommendation to the General Assembly.

5. 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) and invited the members to share comments on the level and use of Euribor and Eonia rates.

The members commented that negative rates on the Euribor fixing might be expected.

6. EURIBOR/EONIA PANEL COMPOSITION

It was agreed that former panel banks should be invited to re-join the Euribor and/or Eonia panels.

Mr A. BIEWALD suggested enlarging the geographical scope of the panel to other eurozone countries. Mr A. COVIN also suggested contacting National Banking Associations in order to invite at least one representative bank from each country.

7. COMPLIANCE OF PANEL BANKS WITH THEIR OBLIGATIONS

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 panel banks had to be chased for rates and the missing contributions from January 2013 to 21 June 2013 (120 fixing days). She added that panel banks were receiving similar reports on a monthly basis.

She also informed the members that these statistical reports had been established to reinforce the monitoring of panel banks contributions from a qualitative and quantitative point of view and explained its positive impact on the quantitative level of contributions.

Some members raised questions about the banks situated during a large proportion of time within the top/bottom 15%. Mr B. COLMANT suggested asking the relevant panel banks to explain/confirm their contributions.

The members generally requested for further details on the outliers reports. It was agreed that Euribor-EBF should ask the calculation agent to provide further statistics with regard to the level of contributions for the panel banks sitting in the outliers reports, including the spread between their contributions and the level of the fixing.

Separately, Mr H. NEUHAUS reported on the contribution and calculation process for Eonia. He explained that two contributions incidents had occurred in March and were directly reported to Euribor-EBF, which subsequently sent individual letters to the relevant banks. He also reported that, even though most of the panel banks contributed via the regular system, those which more frequently contributed *via* e-mail or telephone should be reminded to contribute *via* the system. Mr A. BIEWALD noted that it would be more impactful if the ECB would call the contributors directly. It was also suggested to remind the panel banks about the contingency plan for sending contributions.

It was agreed that similar reports on panel banks' contributions to Eonia should be sent on a monthly basis to the panel.

8. MINIMUM EXPECTATIONS WITH REGARD TO THE CALCULATION AGENT

Mr G. RAVOET explained Euribor-EBF`s concerns with regard to the calculation agent.

He explained that Euribor-EBF was not confident that the calculation agent could ensure a robust and transparent rate-setting process and comply with EBA/ESMA recommendations and IOSCO Principles. Although finally a draft Code of Conduct was received, a draft Service Level Agreement is still missing.

9. REAL-TRANSACTIONS BASED TEST PROJECT

Mr G. RAVOET informed the members that the interest rate level of the real-transactions test up to 3 months was very close to Euribor, which was a strong argument in favour of the accuracy of the current process based on estimations.

Mr C. QUEMENER informed the members that the test was based on a set of detailed daily borrowing and lending transactions data from 55 banks covering various tenors up to the 12-month maturity. The ECB had volunteered to compile the data to preserve the confidentiality of individual contributions. He added that there was almost no transaction after 3 months and that the few transactions observed for the longest maturities were mainly coming from a very small number of banks (concentration effect). In this regard, he explained that it would be technically very difficult to build a 100% transaction-based benchmark. Nevertheless, he noted that the results of the test project would have to be further assessed.

He also informed the members that the outcome of the real-transactions test would be further discussed in a workshop with a large number of market participants and other stakeholders (e.g. EC, ESMA, EBA, IOSCO) on 12 July.

It was agreed that the Steering Committee members should be informed of the conclusions of the workshop.

10. ANY OTHER BUSINESS

Mr G. RAVOET informed the members of the critical status of the USD Euribor panel. He announced that Natixis would cease contributing after 5 July, bringing down the number of contributing banks to 11, and explained that, according to the technical features of the index, a minimum of 12 banks was required to contribute the calculation of the index.

The members commented that, given it very limited use in the market, the USD Euribor index should be discontinued[2].

Mr G. RAVOET thanked the participants for the active meeting and invited the members to revert to the Secretariat in case they would have further questions. He confirmed that the minutes would be promptly circulated for approval and closed the meeting.

Enclosure:
D2747A-2013-37th Euribor SC Meeting list of participants

[2] In a subsequent written procedure, the Steering Committee decided to lower the minimum number of contributing banks to 10 as a transitionary measure and to request panel banks' feedback on potential existing contracts based on the USD Euribor.

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- Brussels, 4 July 2013, 11.00 CET -

LIST OF PARTICIPANTS

Chairman

Mr Guido RAVOET — Euribor-EBF Chief Executive

Members

Mr Andreas BIEWALD

Mr Alberto COVIN

Mr José María VERDUGO

Mr Bruno COLMANT

Mr Olivier BRISSAUD

Mr Patrick SIMEON

Mr Philippe JEANNE

Euribor-EBF

Mr Cédric QUÉMÉNER

Ms Gaëlle MARQUES

Ms Andrea FERNANDEZ

Observer

Mr Karel LANNOO

Guest Observer

Mr Holger NEUHAUS — European Central Bank

Speakers

Mr Paul ATMORE	Global Rate Set Systems (GRSS)
Mr Craig MCIVOR	Global Rate Set Systems (GRSS)

Guests

Mr Anthony MURPHY	Promontory
Mr Carlo COMPORTI	Promontory