



ESMA-EBA review of the implementation of the recommendations to Euribor-EBF. March 2014.

ESMA-EBA published, on 24th February, the results of their **joint review on the implementation of the recommendations** (January 2013) that were issued with the aim of addressing weaknesses and shortcomings in the governance and technical framework of the **Euribor setting-process managed by the European Banking Federation (EBF)**. The recommendations are previous to the European Commission proposal on benchmarks (September 2013) and other more global reform initiatives on financial benchmarks, such as the ESMA-EBA principles (June 2013), IOSCO principles (July 2013), and the Financial Stability Board reports (August 2013). (See previous editions of the International Bulletin to see summaries of the European Commission proposal of the Regulation on indices used as benchmarks in financial instruments and contracts, and the IOSCO and ESMA-EBA principles on financial benchmarks.)

This review, which is part of the Euribor reforms the EBF is undertaking, is one of the initiatives that, at international and European level, are being carried out to ensure the reliability of financial benchmarks. Euribor-EBF has made significant progress enabling improved transparency of the benchmark-setting process, enhanced governance of the benchmark and improved quality of the resulting index. Euribor-EBF has put in place reform measures across all affected areas with four recommendations fully implemented and a further six recommendations partially implemented.<

Recommendations 3 and 5 deal, indirectly, with the **representativeness of the Euribor benchmark**. A benchmark index is more representative the higher the quality of the data supplied for its calculation, and the higher quality the greater number of interbank transactions that had been used. In this sense, the European Central Bank asked, in its Monthly Bulletin (October 2013), whether the reference interest rate based on unsecured interbank markets, reflecting a common bank credit risk, is still appropriate as a benchmark widespread use in other types of financial contracts.

ESMA-EBA finally address that Euribor-EBF should continue their efforts to achieve full and rapid implementation of the recommendations, taking into consideration IOSCO principles on financial benchmarks, the European Union legal framework for benchmarks, the Financial Stability Board work's on interbank reference rates and industry good standards and practices.

More detailed descriptions of the **recommendations** and their implementation status by Euribor-EBF are given in the following paragraphs:

1- Changes in the composition of the Euribor-EBF steering Committee for greater independence in governing the benchmark setting-process: partially implemented. Euribor-EBF has reduced the number of Steering Committee members belonging to the panel of banks and has established the publication of CVs and declarations of conflicts of interest of Steering Committee members. For full implementation, it is recommended that the Steering Committee members belonging to the panel of banks represent less than half of their members (currently it represents half of the members).

2- Bi-monthly at least meetings of the Steering Committee: fully implemented. The Steering Committee has held meetings every two months and has published in time the minutes of the meetings.

3- Euribor references should be set at maturities with the largest volume of underlying transactions: fully implemented. Euribor tenors would concentrate on those tenors that are already proven to be more used and on which more financial instruments are priced, reducing from 15 to 8 the tenors (1 and 2 weeks, and 1, 2, 3, 6, 9 and 12 months). In deviation from the EBA-ESMA recommendation, the two month tenor was decided to be continued, as market participants expressed interest in the maintenance of that particular tenor.

4- Euribor definition should be adjusted for more clarity: fully implemented. Euribor-EBF has refined key concepts

and included them in the new code of conduct (October 2013); within the definitions, there are the terms "panel bank", "prime bank," and "interbank transactions".

5- Euribor-EBF is responsible for ensuring the quality and accuracy of data submission: partially implemented. Euribor-EBF has introduced a code of obligations for panel banks and a code of conduct for the calculation agent and has initiated a project on defining pre- and post-fixing checks and back-testing analysis. Full implementation would require confirmation of compliance of panel banks and calculation agent with codes of conduct, the fast implementation of the proposed tests and inspections and of the procedures and arrangements to ensure follow-up with panel banks on testing results, and the systematic assessment of the extent to which submitted quotes reflect verifiable data in the underlying markets.

6- Improvement of Euribor-EBF governance and Code of Conduct: partially implemented. Euribor-EBF has adopted a revised Code of Conduct, which includes provisions on conflicts of interest at different levels (administrator, panel banks data contributors, calculation agent and investors), whistleblowing mechanism and accountability mechanisms (handling of complaints and sanctions). To achieve full implementation is necessary to clarify and specify some aspects of the rules on conflicts of interest, and appoint members of the independent oversight committee created to monitor potential conflicts at the administrator level.

7- Euribor-EBF audits: partially implemented. Euribor-EBF has committed to conduct internal and external audits on a regular basis and disclose results of the external audit. Full implementation will require the completion of internal audits, the appointment of external audits and the disclosure of the external audit when is completed.

8- Internal procedures and controls at the calculation agent: fully implemented. Euribor-EBF has defined the minimum requirements regarding the calculation and publication of the Euribor and the procedures and internal controls to be included in the service level agreement concluded with the calculation agent.

9 - Code of Conduct and audits of the calculation agent: partially implemented. The calculation agent has adopted a code of conduct and is required to confirm annually its compliance with the code. In addition, the calculation agent should conduct regular internal audits and an annual external audit to be performed by the Euribor-EBF. Full implementation is pending on the performance of internal and external audits.

10 - Record keeping by participants in the benchmark setting-process: partially implemented. Euribor-EBF and the calculation agent keep records of communications between the participants in the benchmark setting process. Euribor-EBF shall also keep a record of individuals responsible for submitting quotes on behalf of each panel bank and for overseeing submissions on behalf of the calculation agent. Full implementation would require the improvement of technical systems framework for data reception.

If you want to read the ESMA-EBA report on the review of implementation of the recommendations to the Euribor-EBF, please, click on: http://www.esma.europa.eu/system/files/2014-207_esma-eba_review_of_euribor_recommendations_0.pdf

If you want to read the article published in the Monthly Bulletin of the European Central Bank (October 2013) on reference interest rates, please, click on: <http://www.ecb.europa.eu/pub/pdf/mobu/mb201310en.pdf>

If you want to read the ESMA-EBA report on the administration and management of the Euribor, please, click on: http://www.esma.europa.eu/system/files/eba_bs_2013_002_annex_1.pdf

If you want to read the IOSCO principles for financial benchmarks, please, click on: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf>

If you want to read the ESMA-EBA report on principles for benchmark-setting processes in the European Union, please, click on: http://www.esma.europa.eu/system/files/2013-659_esma-eba_principles_for_benchmark-setting_processes_in_the_eu.pdf

If you want to read the text of the Proposal of a Regulation on indices used as benchmarks in financial instruments and contracts, please click on: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0641:FIN:EN:PDF>

If you want to read the Financial Stability Board progress report on the oversight and governance framework for financial benchmark reform, please, click on: http://www.financialstabilityboard.org/publications/r_130829f.pdf