

Draft Minutes - 81st Oversight Committee Meeting

Meeting Title	81 st Oversight Committee Meeting
Date and Time	19 th January 2021, 13.30 to 16.30
Location	Conference call
Members	A. COVIN (Chair); M. BRIZEE; Z. CHATZIMPEI; J.C. CUEVAS; D. LE MASSON; T. MILLION; T. MIRONCZUK; M. VERHEIJEN; L. VLAMINCK; J-L. SCHIRMANN (CEO, ex-officio member, non-voting member)
Observer	O. BRISSAUD (Member of the EMMI Board of Directors; observer)
Excused	
Secretariat	J. CSÖRGEI; P. DE DEYNE; A. DE LISIO; J. FELDKAMP; A. GUZZARDI ; C. CUSTINNE ; J. EVENEPOEL ; P. COLOT
Quorum	9 voting Members

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WELCOME	Mr A. COVIN welcomed the Members to the 81 st EURIBOR and EONIA Oversight Committee meeting.
ITEM 1 CONFLICTS OF INTEREST	The Chair reminded everyone that Members of the Oversight Committee 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 of relevant decision making in the event a conflict of interest situation might arise. The members had no conflicts of interest to declare.
ITEM 2 MINUTES OF THE PREVIOUS MEETING	Discussion Points: The members reviewed the minutes of the previous meeting of the Oversight Committee that took place on 25 November 2020. OMISSION: Mr A. COVIN asked for clarification if a sentence in the minutes of the previous meeting was correct (Item 3, “Mr A. COVIN reminded that it was the Steering Committee’s role to determine if a change to the methodology was material”) and if there was a distinction between a material change to the methodology and a

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	<p>material change to the Benchmark. Mr. J. FELDKAMP clarified that a material change to the methodology would also be a material change to the Benchmark.</p> <p>Decisions and votes: The minutes of the previous meeting were approved unanimously.</p> <p>Action Points: To publish the approved minutes on the EMMI website.</p>
ITEM 3 ANNUAL REPORT OF THE CHAIR TO THE BOARD OF DIRECTORS	<p>Discussion Points: Mr A. COVIN shared the annual report to the Board of Directors with the Members of the Oversight Committee.</p> <p>OMMISSION Mr A. COVIN asked if Members would like to provide feedback or observations.</p> <p>Ms Z. CHATZIMPEI and Ms D. LE MASSON praised the document as well written and accurate. Mr T. MIRONCZUK suggested that “Oversight Committee” should replace “Steering Committee” in the agenda.</p>
	<p>Decisions and votes: N/A</p> <p>Action Points: N/A</p>
ITEM 4 UPDATE ON EMMI’S CORPORATE GOVERNANCE	<p>Discussion Points: Mr J-L. SCHIRRMANN gave an update to the Members on EMMI’s corporate governance. The Articles of Associations had been reviewed and approved by the General Assembly on 10th December, in compliance with the new Belgian Code of Companies and Associations. The new Articles of Association will be published on EMMI’s website.</p> <p>OMMISSION Mr J-L. SCHIRRMANN explained that the update of the Articles of Association had been an occasion to clarify and simplify the purpose of EMMI without bringing substantial change. Since EMMI’s tasks are mostly operational, the name ‘Secretariat’ will be replaced by ‘Staff’, and the title ‘Secretary General’ by ‘CEO’. Also, the roles and the names of committees have been revised. There will be a new ‘Nomination Committee’; the ‘Audit Committee’ will be called ‘Audit and Risk Committee’ and its responsibilities will be clarified; the ‘Steering Committee’ will be</p>

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	<p>called 'Oversight Committee'; the General Assembly will transfer some of its powers to the Board of Directors; the mandate of the Board Members will be amended to 4 years with the possibility to renew only once (from the current length of 2 years with unlimited extension possible) and there will be a transitional period for current Members. The change in purpose would need to be approved by Royal Decree.</p> <p>Mr A. COVIN asked if the changes would affect the Oversight Committee. Mr. J-L. SCHIRMAN explained that only the name will change, but that the current terms and responsibilities will be maintained.</p> <p>Mr M. VERHEIJEN asked if further changes will be necessary after ESMA will take over supervisory activities from FSMA. Mr J-L. SCHIRMAN outlined that this is not expected since the Benchmark Regulation (BMR) has not changed. Also, the transition is expected to be smooth since ESMA has already been involved in discussions with the FSMA.</p> <p>Mr J-L. SCHIRMAN added one remark on communication and provided some guidance to Members on how to handle media and conferences. He asked Members to redirect media questions (e.g. related to EURIBOR, EMMI, EONIA and fallback rates) to him and to notify EMMI whenever Members are invited to conferences in order to prepare and align on the message, which should always be based on publicly available information.</p> <p>Members were informed that Mr A. COVIN will participate to the Italian Assiom Forex in February and will provide messages on the reliance, robustness and strength shown by the benchmark during the peak of the COVID-19 crisis. Mr L. VLAMINCK was concerned about the exposure of Oversight Committee Members and asked if they can refer to EMMI or Mr J-L. SCHIRMAN to avoid jeopardising their role. Mr A. COVIN acknowledged the remark but explained that he would talk to a domestic audience in Italian and that it would be a great occasion to convey comforting messages. Mr J-L. SCHIRMAN agreed and favoured a pragmatic approach: in any circumstances, Members should coordinate with EMMI; when media are present, EMMI should give the message; in any case, Members would have to be prepared and should not speak about topics which are not publicly known.</p> <p>Mr M. VERHEIJEN informed he was invited to moderate a panel on IBOR reform from an asset manager perspective. He will liaise with Mr J-L. SCHIRMAN bilaterally.</p>
	<p>Decisions and votes:</p> <p>N/A</p>
	<p>Action Points:</p> <p>N/A</p>

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ITEM 5 REGULATORY UPDATE	<p>Discussion Points:</p> <p>Ms A. DE LISIO provided an update to the Members on regulatory items.</p> <p>OMISSION</p> <p>Ms A. DE LISIO updated the Members about the quarterly meeting with FSMA. She also reported about the status of FCA authorisation for the use of EURIBOR as third-country benchmark in the UK: EMMI is preparing the documentation to notify the FCA of EMMI's intention to take advantage of HMT equivalence decision. Finally, Ms A DE LISIO informed the Members about the FSB quarterly update and on the future transitions of EMMI's supervision under ESMA.</p> <p>Mr A. COVIN informed about the two consultations by the Euro RFR Working Group and shared appreciation on improved communication by EMMI on regulatory aspects.</p>
	<p>Decisions and votes:</p> <p>N/A</p>
	<p>Action Points:</p> <p>N/A</p>
ITEM 6 ANNUAL REVIEW OF EURIBOR METHODOLOGY - PBCG FEEDBACK	<p>Discussion Points:</p> <p>Mr J. FELDKAMP summarised the recent discussion held on the Panel Bank Contact Group call of 16th December regarding the implementation of changes to the EURIBOR Hybrid Methodology.</p> <p>OMISSION</p> <p>Mr J. FELDKAMP informed the Members that all banks appreciated the content of the review and the approved changes. It was explained that amendments related to Level 2 would be executed by EMMI; panel banks who submit the full set of MMSR transactions would not be required to adapt; other panel banks might have to modify their individual filters.</p> <p>All but one panel bank confirmed they would be able to implement changes on the 19th of April 2021 (the remaining panel banks confirmed in January 2021) and that all changes would be activated at that date. Once the Board of Directors approved the agreed implementation date, an official communication would follow.</p>
ITEM 7 CHANGES TO THE EURIBOR BDM	<p>Discussion Points:</p> <p>Mr J. FELDKAMP presented the main changes to the EURIBOR Benchmark Determination Methodology following the 1st Annual Review of the EURIBOR Hybrid Methodology.</p>

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	<p>OMISSION</p> <p>Mr M. VERHEIJEN asked for a clarification on the proposed changes to paragraph 37, in particular why 'four' was replaced by 'five' and 'six' by 'seven'. Mr J. FELDKAMP explained that these changes were triggered by the increased lookback period of usable historical Level 1 contributions by one day in level 2.3.</p> <p>Ms Z. CHATZIMPEI noted that the date of the document needed to be amended. Mr J. FELDKAMP agreed to change it in the final version.</p>
	<p>Decisions and votes:</p> <p>Members approved the proposal to change the EURIBOR Benchmark Determination Methodology unanimously.</p>
	<p>Action Points:</p>
	<p>To propose the approved amendments to the EURIBOR Benchmark Determination Methodology to the Board of Directors.</p>
<p>ITEM 8 PANEL BANKS EXTERNAL AUDIT REPORTS</p>	<p>Discussion Points:</p> <p>Mr J. FELDKAMP gave a short presentation on the Panel Bank external audit reports of 2020, the first external audit following the introduction of the EURIBOR Hybrid Methodology.</p> <p>OMISSION</p> <p>Mr J. FELDKAMP summarised the status and listed the banks and the periods taken into consideration by the audit reports; he reported to the Members that no major issues were observed in the compliance with BMR requirement and with the COPB. Mr L. VLAMINCK inquired about the reaction time of panel banks in case they needed to remediate on certain findings. Mr J. FELDKAMP explained that EMMI had discussed with and asked all banks to confirm their adherence to COPB during the early stages of the COVID-19 crisis. Only a few banks expressed limits to the recording of communication. All banks had subsequently informed EMMI about a remediation in place.</p> <p>Mr Z. CHATZIMPEI noted a typo in slide 2 and asked if it was possible for EMMI to provide some examples of findings by the auditors. Mr J. FELDKAMP agreed to follow up with anonymised examples.</p>
<p>ITEM 9 COMPOSITION OF THE EURIBOR PANEL</p>	<p>Discussion Points:</p> <p>Mr J. FELDKAMP confirmed that there had not been any changes to the composition of the EURIBOR Panel since the last meeting of the Oversight Committee.</p>
<p>ITEM 10 REVIEW OF THE EURIBOR RE-FIXING POLICY</p>	<p>Discussion Points:</p> <p>Mr C. CUSTINNE presented potential amendments to the EURIBOR re-fixing policy.</p>

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	<p>He explained the difference between an 'error' and a 'revision', described the main aspects of the current refixing policy and outlined the difference between the set-up in place before and after the introduction of the EURIBOR Hybrid Methodology. He argued that with the introduction of the Hybrid Methodology, the contribution of input data to the benchmark had become more intricate, with a wider array of potential scenarios that affect the EURIBOR determination process on the day of the error and/or on subsequent days.</p> <p>Omission</p> <p>Mr M. BRIZEE asked how often these errors and revisions occur and Mr. C. CUSTINNE clarified that the discussion was not only theoretical, and that these would occur significantly more frequently than under the legacy methodology.</p> <p>Mr C. CUSTINNE divided the discussion in two main topics to clarify (1) the nature of errors to which the re-fixing policy applies, and (2) how to use corrected input data on subsequent days. He argued that some panel banks expected that a correction submitted after the publication of the Benchmark would be considered on the next day(s).</p> <p>Mr A. COVIN asked if only the second topic would have an impact on EBASS. Mr C. CUSTINNE explained that the two items were interconnected: the more (less) accommodative the decision regarding item 1 was, the more (less) important the decision on item 2 would be.</p> <p>On Item 2, Mr A. COVIN summarised that it exists a sort of trade-off between accuracy and transparency and acknowledged the role of a snowball effects due to the use of historical submission in subsequent days.</p> <p>Mr M. VERHEIJEN asked how often a EURIBOR re-fixing occurred. Mr C. CUSTINNE explained that the materiality threshold for re-fixing of 2bps had never been reached so far. As an example, the effect on a single transaction would have to be large enough to affect the panel bank contribution and, in turn, to the final benchmark fixing. However, the impact might be larger at panel bank level.</p> <p>Mr M. VERHEIJEN argued that we should try to include as many transactions in Level 1 as possible.</p> <p>Mr T. MIRONCZUK outlined that when forced to choose between accuracy and transparency, we should prioritise the second, since BMR give a strong importance to it. Also, errors could always occur, and they would be well reported publicly ex-post. Moreover, Mr T. MIRONCZUK indicated that EMMI reports the levels of accuracy to users: the level of reported errors is at a reasonable level (around 1%) and always with small impact on the fixing (<2bps). Mr L. VLAMINCK and Mr T. MILLION supported these arguments.</p> <p>Mr A. COVIN commented that accuracy was as important as transparency and Ms D. LE MASSON highlighted that we should also consider reputational risk, i.e., banks</p>

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	<p>should never be able to say that EMMI had not taken into account a correction of a contribution.</p> <p>Mr J.-L. SCHIRMANN argued that transparency should not be compromised with accuracy. The key is to be pragmatic and have a consistent approach, among different scenarios and over time. Mr A. COVIN agreed that consistency is key and proposed to rediscuss the item on a later stage, with a more informed debate.</p> <p>Mr A. COVIN and Mr. J.-L. SCHIRMANN agreed to follow up with EMMI bilaterally to prepare the discussion for the next Oversight Committee.</p>
	<p>Decisions and votes: N/A</p> <p>Action Points: N/A</p>
ITEM 11 MONEY MARKET REPORT	<p>Discussion Points: Mr A. GUZZARDI presented the Money Market report for the Q4/2020. He updated the Members on the development observed in Money Market activity and rates. After presenting the last two ECB Governing Council decisions, he showed how EURIBOR rates reached record low levels in the longer tenors amid accommodative monetary policy in the euro area and historical high level of excess liquidity.</p>
ITEM 12 EURIBOR OVERSIGHT REPORT	<p>Discussion Points: Mr J. CSÖRGEI presented the EURIBOR Oversight Report for December 2020.</p> <p>OMISSION: The report showed a slight increase in absolute and relative movement flags compared to November. Mr J. CSÖRGEI explained that the Spike Test had been discontinued and that the Absolute Movement Flag calculation had been changed. He noted that the number of Inverted Yield Curve flags remained at high levels due to the current market conditions where interbank borrowing activity is very low and active banks are trading on shorter maturities mostly. Also, the large number of Static Contributions were induced by a flat EURIBOR curve and very calm trading activity in December.</p> <p>Mr J. CSÖRGEI informed that no material changes in operating issues were observed. However, on 16th of December, one panel bank was unable to provide a Level 1 or Level 3 contribution due to an incident in their IT system. The issue will continue to be monitored together with the bank and the calculation agent and EMMI will follow up with the Oversight Committee in March.</p>

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	<p>Mr M. BRIZEE asked about the 9 High to Low Exclusions, which were all flagged by one panel bank. Mr J. CSÖRGEI explained that this was often the case and depended on the special market role of the bank, often referred to as the central bank of the corporate banking sector in German cooperative banking sector. They would price two categories of counterparties differently: banks that are members of the cooperative banking sector in Germany could deposit money at higher rates, while other financial counterparties could deposit money at lower rate (-10bps).</p> <p>Mr M. VERHEIJEN asked if these High to Low Exclusions from one panel bank were observed over all tenors. Mr J. CSÖRGEI clarified that it had occurred 8 times in the 1M tenor and once in the 1W tenor.</p> <p>Ms D. LE MASSON has praised the report but expressed dissatisfaction for the low level of transactions. Mr A. COVIN explained that this was also a reflection of the excess liquidity in the system and of the flat curve, and he questioned how long it would last.</p>
ITEM 13 EONIA OVERSIGHT REPORT	<p>Discussion Points:</p> <p>Mr J. CSÖRGEI presented the EONIA Oversight Report for December 2020. No operational issues were observed in the production of EONIA.</p>
ITEM 14 ANNUAL REVIEW OF THE EONIA METHODOLOGY	<p>Discussion Points:</p> <p>Mr J. FELDKAMP introduced EMMI's proposal not to change the EONIA Methodology. He explained that EONIA was tied to a fixed spread (8.5bps) which had been set in 2019 following 12 months assessment period, and that the ECB had published the results of the first annual review of the €STR on 11th December where they concluded that €STR fulfilled the requirements of data sufficiency, rate accuracy and rate representativeness. With the discontinuation of EONIA in perspective, EMMI sees no room for a revision of the historically determined spread. Therefore, EMMI proposed not to change the current EONIA Methodology.</p>
	<p>Decisions and votes:</p> <p>Members approved the proposal not to change the EONIA Methodology unanimously.</p>
	<p>Action Points:</p> <p>N/A</p>
ITEM 15 ANY OTHER BUSINESS	<p>Mr J.-L. SCHIRMANN reminded the Members of the upcoming discontinuation of EONIA and Mr A. COVIN emphasized that Members should promote the transition from EONIA to €STR.</p>

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	<p>Mr A. COVIN thanked Mr O. BRISSAUD, Member of the Board of Directors, who attended the meeting as observer. Mr O. BRISSAUD thanked for the opportunity to participate.</p> <p>OMISSION</p> <p>Ms D. LE MASSON recalled that French banking community is very active on the EONIA transition and reported that some parties were already trading €STR effectively.</p> <p>On the composition of the EURIBOR Panel, Mr J.-L. SCHIRMAN pointed out that it was important to note that current Panel is representative and that he already updated members about the efforts made regarding a potential increase in the number of Panel Banks. He also reminded Members that additional banks would probably increase the share of Level 3, but that this would still be a good signal.</p> <p>Ms D. LE MASSON argued that some actions might be appropriate to attract more German Panel Banks, maybe through the German supervisor. Mr J.-L. SCHIRMAN explained that the message is clear and communication with other supervisors should occur only via EMMI own supervisor.</p>