

Draft Minutes – 82nd Oversight Committee Meeting

Meeting Title	82 nd Oversight Committee Meeting
Date and Time	10 th March 2021, 10.00 – 15.30 CET
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	M. MARQUES (Member of the EMMI Board of Directors; observer)
Excused	
Secretariat	J. CSÖRGEI; 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 82 nd EURIBOR and EONIA Oversight Committee meeting.
ITEM 1 CONFLICTS OF INTEREST	<p>Discussion Points:</p> <p>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.</p> <p>The members had no conflicts of interest to declare.</p>
ITEM 2 MINUTES OF THE PREVIOUS MEETING	<p>Discussion Points:</p> <p>The members reviewed the minutes of the previous meeting of the Oversight Committee that took place on 19th of January 2021.</p> <p>OMISSION</p> <p>Ms. M. MARQUES asked for clarification about a sentence in Item 6, where a Panel Bank not immediately agreed to implement the Annual Review changes on 19th of April. Mr. J. FELDKAMP explained that one Panel Bank could not confirm its</p>

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	<p>commitment for the changes during the relevant meeting of the Panel Bank Contact Group (PBCG) itself but that confirmed it to EMMI bilaterally after.</p> <p>Decisions and votes:</p> <p>The minutes of the previous meeting were approved unanimously.</p> <p>Action Points:</p> <p>To publish the approved minutes on the EMMI website.</p>
<p>ITEM 3</p> <p>REGULATORY UPDATE</p>	<p>Discussion Points:</p> <p>Mr. J. FELDKAMP explained that EMMI is in constant contact with the regulator.</p> <p>He explained that EMMI discussed the planned methodology for the forward-looking term rate based on €STR with the FSMA. ESMA was present in the meeting as the future regulator as well.</p> <p>Moreover, a presentation was held for the EURIBOR college where EMMI updated the authorities on recent EURIBOR developments, its work in the field of cyber security and the development of the €STR term rate. EMMI also discussed the potential expansion of the Panel with the college.</p> <p>Mr. J. FELDKAMP also reminded the Members that in the UK, IBA consulted publicly about the future of LIBOR and published a statement on the consultation. As an outcome most of the LIBOR panel signalled that they will not contribute past 2021 for most of the LIBOR currencies. FCA will not mandate banks to stay on the panel. A synthetic LIBOR may be published but not based on PB contributions.</p> <p>Finally, Mr. J. FELDKAMP informed that the Working Group on Euro Risk Free Rates will terminate its work by the end of March.</p> <p>OMISSION</p> <p>Ms. D. LE MASSON enquired about where EMMI stands with the new Panel Banks and if ECB and/or ESMA are involved. Mr. J-L. SCHIRMANN explained that EMMI contacted national banking associations and NCAs, but the participation to the Panel is voluntary. He also explained that the EURIBOR Panel composition is not in the ECB remit. On ESMA, he clarified that ESMA continues to be fully supportive of EURIBOR.</p> <p>Decisions and votes:</p> <p>N/A</p> <p>Action Points:</p> <p>N/A</p>

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ITEM 4 OVERSIGHT COMMITTEE ANNUAL WORKPLAN	<p>Discussion Points:</p> <p>Mr. J. FELDKAMP introduced the Oversight Committee annual workplan which contains analysis of the potential centralisation of Level 3 calculation, the 2nd Annual Review of the EURIBOR Hybrid Methodology, and training session for the Members.</p> <p>OMISSION</p> <p>Mr. M. VERHEIJEN asked for clarifications about the 2nd annual review of the EURIBOR Hybrid methodology review. Mr. J. FELDKAMP explained that it will be a comprehensive review, but that the potential centralisation of the Level 3 calculation would be a different exercise.</p>
	<p>Decisions and votes:</p> <p>N/A</p>
	<p>Action Points:</p> <p>N/A</p>
ITEM 5 INTRODUCTION OF OVERSIGHT SELF- ASSESSMENT	<p>Discussion Points:</p> <p>Mr. J. FELDKAMP presented the next steps EMMI would take to prepare the self-assessment of the Oversight Committee. This would cover the organisation and the duties of the Oversight Committee. Mr. A. COVIN asked if a third party provider would be involved and if the survey would be anonymous. Mr. J. FELDKAMP explained that the survey would be led by EMMI's CGRC unit and be anonymous. EMMI would present a draft survey for approval in the April meeting and present the result in June.</p>
	<p>Decisions and votes:</p> <p>N/A</p>
	<p>Action Points:</p> <p>N/A</p>
ITEM 6 RE-FIXING POLICY / TREATMENT OF CORRECTIONS	<p>Discussion Points:</p> <p>Mr. A. COVIN referred to the previous discussion of the 81st Oversight Committee and introduced the progress EMMI staff had made in the meantime, both in terms of analysis and explanations. Mr. C. CUSTINNE then presented a note on the review of the current re-fixing policy. He explained in detail the different scenarios and the potential effects of receiving contributions in the re-fixing window. Furthermore,</p>

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	<p>Mr. C. CUSTINNE outlined the principles that EMMI considered during the exercise and the IT implications of the proposed change.</p> <p>OMISSION</p> <p>Mr. M. VERHEIJEN enquired about whether a re-fixing event occurred in the past. Mr. C. CUSTINNE informed that a similar case never occurred so far.</p> <p>Ms. Z. CHATZIMPEI. asked when the changes would be documented and if Panel Banks had been involved. Mr. C. CUSTINNE explained that the clarification of reference to the published EURIBOR would be included in the BDM if the Board approves in March and that changes were partly based on Panel Banks' observations, questions and requests for clarification. These drove EMMI to a deeper analysis and more detailed explanations of some aspects of the contribution process. Technical implementation of changes to the Level 2.3 calculation would be done over the next six months to allow for testing and to respect the EBASS review cycle.</p> <p>Mr. A. COVIN asked if the Panel Bank Contact Group will be informed. Mr. J. FELDKAMP explained that after the Board issues a final decision, EMMI will communicate it to Panel Banks.</p> <p>Mr. T. MILLION shared his opinion that the planned changes will strengthen EURIBOR and the contribution process. However, he questioned what the frequency of these errors is and/or revisions by Panel Banks. Mr. C. CUSTINNE gave a practical example, based on the public EMMI's quarterly Reported Revision Report.</p> <p>Decisions and votes:</p> <p>Members approved the proposal to change the EURIBOR Re-fixing Policy unanimously.</p> <p>Action Points:</p> <p>To propose the approved amendments to the EURIBOR Re-fixing Policy to the Board of Directors.</p>
<p>ITEM 7</p> <p>PBCG UPDATE</p>	<p>Discussion Points:</p> <p>Mr. J. FELDKAMP explains that the minutes of the Panel Bank Contact Group have been shared with the Members of the Committee. He gave an overview of what was discussed during the PBCG.</p> <p>OMISSION</p> <p>Mr. J. FELDKAMP summarised the contents of the last PBCG. EMMI presented proposed changes to the EURIBOR Governance framework, including auditing requirements, and the timeline of the 2nd Annual Review of the EURIBOR Hybrid Methodology. Furthermore, a forthcoming disaster recovery test exercise was</p>

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	<p>announced. Finally, Mr. J. FELDKAMP mentioned the new proposal for a revised Reason Code system that EMMI had presented to the PBCG. Related to this point, Mr. J. CSÖRGEI summarised the possible benefits: a higher share of Level 3 contributions would be signalled as <i>anchored in transactions</i>.</p> <p>Decisions and votes: N/A</p> <p>Action Points: N/A</p>
<p>ITEM 8 REVIEW OF THE EURIBOR GOVERNANCE FRAMEWORK</p>	<p>Discussion Points:</p> <p>Mr. J. FELDKAMP summarised the minor changes to the Benchmark Determination Methodology (BDM). He also listed in detail the proposed amendments to the Code of Conduct for Panel Banks (COPB). Furthermore, Mr. J. Feldkamp clarified that EMMI does not propose any changes to the Code of Conduct for the Calculation Agent nor to the EURIBOR Governance Code of Conduct.</p> <p>In addition, Mr. J. FELDKAMP explained to the Members the final decision regarding Panel Banks' internal audit and its rationale.</p> <p>OMISSION</p> <p>Following the discussion on ITEM 9 below, Members asked for clarification that EMMI could require a follow-up audit or similar action by the Panel Banks if the external auditors included material findings and EMMI had reason to believe that they were not followed-up. EMMI further elaborated on the subject in writing, shortly after the Committee meeting, and provided an explanation, an amended proposal and reassured the Members of EMMI's entitlement to request follow-up audits if necessary.</p> <p>Decisions and votes:</p> <p>Members approved the proposal to change the COPB (paragraph 29, 89) and to change the BDM (paragraph 35) unanimously. Members approved changes to the paragraphs 105, 107 and 111 of the COPB by written procedure.</p> <p>Action Points:</p> <p>To propose the approved amendments to the Board of Directors.</p>
<p>ITEM 9 PANEL BANK EXTERNAL AUDITS (FOLLOW-UP)</p>	<p>Discussion Points:</p> <p>Mr J. FELDKAMP presented to the Members a follow up on the external audit reports of Panel Banks. He shared the results, findings and recommendations and summarised by Panel Banks.</p>

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	<p>Mr J. FELDKAMP explained that paragraph 12 of Annex 1 to the Benchmarks Regulation (BMR) and section 133 of the EURIBOR Code of Obligations of Panel Banks (COPB) require an external audit to be carried out.</p> <p>Furthermore, Mr. J. FELDKAMP clarified that this was the first external audit since the introduction of the Hybrid Methodology and that all 18 Panel Banks have submitted their external audit reports.</p> <p>OMISSION</p> <p>Mr. J. FELDKAMP listed the different audit periods taken into consideration by the Panel Banks and the different dates on which external reports were received. He also explained that no major issues in the compliance with BMR requirements or the COPB were raised. Where auditors had reservations, they were mostly concerning implementation of internal control procedures and these were generally already addressed, with the exception of two Panel Banks who had also submitted respective side letters when they submitted their Annual Declaration of Adherence to the COPB. One side letter concerned a finding regarding record keeping of non-benchmark related communications of the bank with third parties. Another pointed EMMI to ongoing remediation of findings that were not concluded when the Declaration of Adherence was submitted. Where reports included open issues highlighted by the independent auditors, EMMI also received further plans for remedial actions from some Panel Banks to address the auditors' recommendations. Finally, Mr. J. FELDKAMP provided the Members with some real examples of findings and summarised the next steps. The next external audits reports are due in 2022.</p> <p>Ms. Z. CHATZIMPEI noted a typo in the presentation ("2019" should replace "2015") and asked some clarification about the findings related to "Methodology" for one Panel Bank. Mr. J. FELDKAMP explained that these findings were not related to shortcomings, but were recommendations by the auditors related to, for example, how they calculate certain metrics and how to document it in the Level 3 methodology.</p> <p>Mr. M. VERHEIJEN asked if most of the findings were due to Hybrid Methodology. Mr. J. FELDKAMP explained that most of the findings are related to the effective implementation of procedure as they are drawn, and others concerned for example record keeping during the early stages of COVID-19 confinement.</p> <p>Mr. L. VLAMINCK referred to the follow-ups for DZ Bank and Deutsche Bank. He asked who assessed whether they were critical or not. Mr. J. FELDKAMP explained that there are no precise criteria to assess which findings were critical. Thus, such assessment was based on EMMI's judgement, with respect to EMMI experience and the likely relevance for the EURIBOR contribution process.</p> <p>Ms. M. MARQUES noted that recommendations are usually classified in terms of criticality, and these criteria could be useful for EMMI. Mr. J. FELDKAMP</p>

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	<p>acknowledged it and agreed this could be a good starting point for the assessment of criticality, where the audit reports included these classifications.</p> <p>Mr. T. MIRONCZUK shared with other Members that the presented report which describes findings at bank level is too detailed for the Oversight Committee. He believed this should be the responsibility of EMMI's only and he would prefer less details. However, the level of detail was seen as meeting the requirements and well balanced for other reports such as the 'EURIBOR Oversight Report'.</p> <p>Mr. J. L. SCHIRMANN asked the Oversight Committee to indicate the level of detail required to know to fulfil its role. Mr. A. COVIN proposed that it is fine to receive more aggregate findings. On the other hand, Mr. M. VERHEIJEN, and Mr. T. MILLION agreed that Members of Oversight Committee needed detailed information to accomplish their tasks.</p> <p>Decisions and votes:</p> <p>N/A</p> <p>Action Points:</p> <p>N/A</p>
ITEM 10 ANNUAL DECLARATIONS OF ADHERENCE (PANEL BANKS)	<p>Discussion Points:</p> <p>Mr. J. FELDKAMP presented the annual declarations of adherence to the COPB, which were duly signed by all Panel Banks.</p> <p>OMISSION</p> <p>Mr. J. FELDKAMP explained the requirements of the COPB and the conjunction with the audit reports and referred to side letters by two Panel Banks that contained references to findings by external audits that were still in the process of being mitigated.</p> <p>Decisions and votes:</p> <p>N/A</p> <p>Action Points:</p> <p>N/A</p>
ITEM 11 EURIBOR OVERSIGHT REPORT	<p>Discussion Points:</p> <p>Mr. J. CSÖRGEI presented the EURIBOR Oversight Report for February 2021</p> <p>OMISSION</p>

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	<p>Mr. J. CSÖRGEI explained that no irregularities were observed in terms of contribution data controls. However, the number of 1-day and 5-day Static Contribution Test flags remained at a high level, which may indicate a low market activity. This observation remained unchanged since the last report. He also presented a breakdown by Panel Banks and showed how this increase was driven mainly by four Panel Banks. The overall observation was still well justified.</p> <p>Mr. J. CSÖRGEI informed the Members that EURIBOR was always published on time and presented the share of contributions broken down by Levels of the Hybrid Methodology and by Reason Codes where applicable.</p> <p>OMISSION</p> <p>Mr. J. CSÖRGEI noted that aggregate volumes were declining. Most of the market participants believed that transactions would increase only in September, when a large portion of TLTRO III was expected to be repaid.</p> <p>Finally, Mr. J. CSÖRGEI explained that the share of transactions traded with different counterparty sectors depended on the tenors. For example, the 1-week tenor was dominated by the official sectors while on longer tenors “Other Financial Intermediaries” would make up the largest part.</p> <p>Decisions and votes:</p> <p>N/A</p> <p>Action Points:</p> <p>N/A</p>
<p>ITEM 12</p> <p>REPORT ON PANEL BANK CONTRIBUTION TOPICS</p>	<p>Discussion Points:</p> <p>Mr. J. CSÖRGEI presented to the Members a report on specific topics related to Panel banks contributions.</p> <p>OMISSIONS</p> <p>Mr. J. CSÖRGEI focused on three Panel Banks which were contacted by EMMI regarding observations made in late 2020/early 2021: Caixa Geral de Depósitos (CGD), Deutsche Bank (DB) and Banco Bilbao Vizcaya Argentaria (BBVA).</p> <p>Mr. J. CSÖRGEI explained that CGD was contacted because they often contribute at 0% on longer tenors. The reason is that a regulatory norm from Banco de Portugal currently sets a floor of zero percent to deposits originated from certain category of counterparties. Therefore, at the 12-month tenor, CGD contribution are not correlated to other Panel Banks' contributions. EMMI advised to CGD that they should continue to use these transactions for their Level 3, provided that they believe they accurately represent CGD's cost of funding. CGD informed EMMI that</p>

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	<p>they will review their Level 3 methodology in the forthcoming months and evaluate the use of these transactions.</p> <p>Mr. T. MIRONCZUK reminded that also in Baltic countries banks have a floor to zero by law.</p> <p>Mr. J. CSÖRGEI explained that DB was contacted because they contributed at 0% (or above) for two months on the 1-week tenor. They did not have any 1-week transactions eligible for Level 1 and had to use their Level 3 methodology. This Level 3 methodology heavily relies on previous contributions, without a time back-stop, thus it is possible that a rate with a special client remained in their contributions for a prolonged time. As a result, at the 1-week tenor, DB contributions are inversely correlated to contributions by other Panel Banks. EMMI highlighted to DB that going back in time for Level 3 calculations potentially endlessly may result in non-market contributions. EMMI suggested to finetune aspects of the methodology, such as to enlarge the perimeter of transactions eligible for their Level 3.1 and to consider the use of previous transactions only up to a certain number of consecutive days. The bank is investigating the issue and is considering EMMI's suggestions.</p> <p>Mr. J. CSÖRGEI explained that BBVA was contacted because the bank was not able to contribute to EURIBOR on the 16th of December 2020 due to IT issues. BBVA explained in detail what happened and which actions they would take to prevent that a similar issue could occur again: (i) they will start their automatic calculation the afternoon before the day of the submission; and (ii) they introduce a control to avoid that the file sent to EBASS is empty. EMMI believe that these solutions will decrease the likelihood of another occurrence.</p> <p>Mr. A. COVIN noted how problems can emerge from very different perspectives, country-specific reason, methodology and interpretation and technical IT issues.</p> <p>Ms. Z. CHATZIMPEI agreed with Mr. COVIN and claimed that these issues might be due to recent adoption of Hybrid Methodology, and it is important to be attentive. She explained that having less info in the future would probably be fine, but that for now it was key to have bank and country specific details.</p> <p>Decisions and votes: N/A</p> <p>Action Points: N/A</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>

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	Decisions and votes: N/A
	Action Points: N/A
(ADDITIONAL ITEM) COMPOSITION OF THE EURIBOR PANEL	Discussion Points: 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.
	Decisions and votes:
	Action Points: N/A
ITEM 14 ANY OTHER BUSINESS	Discussion Points: <p>Mr. J-L. SCHIRMANN informed the Members that EMMI published an audit report which confirms EMMI's compliance with BMR.</p> <p>OMISSION</p> <p>Mr. A. COVIN shared with other Members some observations on the public debate about risk-free rates and the abandonment of IBOR. In his opinion, in some countries the idea is emerging that risk free rates (in arrears) will create undue complications for borrowing and lenders, and many people in the US are starting to advocate for a credit spread to be added to SOFR, or for rates which include credit risk. This is one of the strengths of EURIBOR, and an important reason for its popularity.</p>