

Minutes - 80th Steering Committee Meeting

Meeting Title	80 th Steering Committee Meeting
Date and Time	25 th November 2020, 09.30 to 12.30 & 13.30 to 15.30
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 (EMMI Secretary General, ex-officio member, non-voting member)
Observer	J.-F. PONS (Chair of the EMMI Board of Directors; observer)
Apologies	
Secretariat	J. CSÖRGEI, P. DE DEYNE; A. DE LISIO; J. FELDKAMP; A. GUZZARDI ; C. CUSTINNE ; P. COLOT
Quorum	9 voting Members

Agenda Item	
WELCOME	<p>Mr A. COVIN welcomed the Members to the 80th EURIBOR and EONIA Steering Committee meeting.</p> <p>OMISSION:</p> <p>Mr J.-F. PONS gave an overview of the work of the Board of Directors and underlined EMMI's priorities: ensuring the long term EURIBOR sustainability with the three years strategic plan and the diversification of EMMI's activities. The COVID crisis had shown EURIBOR's operational resilience and the strengths of EMMI, the Calculation Agent and the Panel Banks. This had also been publicly acknowledged by ESMA's Chairman recently. The review of the EURIBOR methodology was another big step to increase EURIBOR's resilience. EMMI would look into diversification in fall-back rates and build on the increased relevance of STEP. Mr J.-F. PONS also gave an overview of changes in membership of the Board of Directors.</p>
ITEM 1 CONFLICTS OF INTEREST	The Chair reminded everyone that Members of the Steering 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

Agenda Item	
	<p>responsible to recuse of relevant decision making in the event a conflict of interest situation might arise.</p> <p>Mr T. MIRONCZUK declared that he is currently CEO of IRF which is the administrator of the benchmark WKF, approved in November 2020 by the KNF as a new interest rate benchmark.</p> <p>Mr T. MIRONCZUK duly informed EMMI and its Conflict of Interest Oversight Committee.</p>
ITEM 2 MINUTES OF THE PREVIOUS MEETING	<p>Discussion Points :</p> <p>The members reviewed the minutes of the previous meeting of the Steering Committee that took place on 10 September 2020.</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>
ITEM 3 REGULATORY UPDATE	<p>Discussion Points :</p> <p>Ms A. DE LISIO presented an update on recent supervisory and regulatory developments and emphasised that EMMI had regular contact with supervisors in the EU and in the UK for Brexit related matters. EMMI was also actively participating in developments on the European level and followed the international regulatory discussion.</p> <p>OMISSION:</p> <p>Mr A. COVIN asked for clarification of a point of EMMI's reply to a consultation on the BMR reform, where EMMI had referred to unintended consequences of the planned statutory replacement rate. Ms. A. DE LISIO explained that EMMI could in the meantime obtain clarification from the European Commission on the initial wording of the proposal and that a statutory replacement was intended to be eligible for uses in new contracts as well.</p> <p>Mrs. DE MASSON pointed to the consultation paper of the Euro RFR WG on EURIBOR fallback triggers and the discussion around a material change to the benchmark methodology as a potential trigger for a fallback rate. Mr J. FELDKAMP explained the intervention EMMI had made to clarify that material changes to a methodology would be life cycle events and should keep a benchmark alive and robust rather than trigger its fallback.</p> <p>OMISSION:</p>

Agenda Item	
	<p>EMMI's intervention had led to a change of the draft consultation paper but the views of the RFR WG members had initially been divided.</p> <p>Mr A. COVIN reminded that it was the Steering Committee's role to determine if a change to the methodology was material.</p> <p>Decisions and votes : N/A</p> <p>Action points : To keep informing the Steering Committee on the regulatory discussion.</p>
ITEM 4 1st ANNUAL REVIEW OF THE EURIBOR HYBRID METHODOLOGY	<p>Discussion Points : Mr J. CSÖRGEI and Mr A. GUZZARDI introduced EMMI's draft Final Report on the 1st Annual Review of the EURIBOR Methodology and explained that EMMI had conducted a scenario-based analysis of transaction data provided by the Panel Bank that covered the period of 1 January to 31 August 2020. Mr J. CSÖRGEI explained ten scenarios that EMMI had analysed: different eligibility thresholds for Level 1 and Level 2, the inclusion of transactions with non-financial counterparties, the extension of the accepted settlement dates to T+3, a calibration of the transaction window for the 12m tenor, increasing the lookback period for Level 2.3 by one day, and rolling the futures dates used for the Market Adjustment Factor in Level 2.3 by one day.</p> <p>OMISSION: Mr J. CSÖRGEI explained that lowering the threshold to 10 million euro would increase volumes in Level 1 and Level 2 by 2.3 per cent and reduce the share of Level 3 contributions by 4.8 per cent. Mr M. BRIZEE pointed out that volatility levels for the 10 million threshold were similar to those of the 5 million threshold, the use of which could bring even more transactions to Level 1 and Level 2. Mr J. CSÖRGEI clarified the difference in volatility with reference to additional charts in the draft Final Report. He also explained the proposal to continue to not include transactions with non-financial counterparties ("S11"). Transaction would often not be entered into at a market rate. Including these transactions would largely increase volumes and transactions (20 per cent and 48 per cent respectively) but also introduce a large amount of outliers and volatility to the rate. Mr A. GUZZARDI explained EMMI's analysis of the proposed change of the time convention to T+3 and the extension of the 12m contribution window by three weeks at the end of the tenor. While the former would add market transactions (96) and decrease the Level 2 share accordingly, the latter would not have a significant impact and was hence not proposed by EMMI. Mr A. GUZZARDI also presented EMMI's proposal regarding</p>

Agenda Item	
	<p>changes to Level 2.3, i.e. to increase the lookback by one day and to change the use of futures in the Market Adjustment Factor to the more liquid available future at the first day of their maturity. All effects combined, EMMI's proposals to amend the EURIBOR Methodology would have resulted in an increase in volumes by 3.5 per cent, an increase in transactions by 31.6 per cent and a reduction of Level 3 by 7.6 per cent over the observed period, while the extra observed volatility would be below 1bp. Mr A. GUZZARDI also reported on the feedback that EMMI had received from five Panel Banks, who were generally in support but had added suggestions on further changes, mainly on alternative input sources for the calculation of the Market Adjustment Factor, that EMMI will further assess in the next Annual Review of the EURIBOR Methodology</p> <p>Mr L. VLAMINCK asked if manipulation could still properly be excluded with a lower threshold. Mr A. COVIN commented that manipulations attempts would have to happen on Panel Bank level, but that the EURIBOR methodology had effective measures to fend off the risk of manipulation where outliers were cut off. Banks are also required to have strong internal controls. Mr T. MILLION added that manipulation attempts would put banks also at financial risk. Mr J.-L. Schirmann explained the evolution of EURIBOR to a transaction-based benchmark and that the lower the threshold, the more transactions would be available but the more transactions could be out of market as well. Mr L. VLAMINCK added that a manipulation risk could be reduced by increasing the number of Panel Banks. Mr. A. COVIN added that the markets were difficult to assess over the observed period in 2020 and that there were surprisingly little transactions at times, with an observable normalisation more recently.</p> <p>Mr M. VERHEIJEN recalled that a 10 million threshold had already been assessed in EMMI's consultation on the Hybrid Methodology but with opposite results. EMMI would have to explain in the communication of the proposed changes that the markets had changed significantly in the meantime. Mr J.-L. SCHIRMAN added that differences in comparison to 2018, including much higher excess liquidity and rates even more negative, were indeed determinant for the observed results. The observations would have to be revisited once rates have changes in the next years. Mr M. VERHEIJEN also enquired about the impact of the proposed changes to Level 2.3 with respect to the expected reduction of Level 3. Mr A. GUZZARDI could clarify that Level 2.3 would include transactions that were now included in Level 3 and that the overall sum of transactions would hence not be expected to rise. Ms Z. CHATZIMPEI asked about the effect of a lower threshold on Level 2.2 and Mr A. GUZZARDI pointed to the breakdown in the draft report.</p> <p>Ms D. LE MASSON expressed support for all proposals in the draft report and asked if EMMI had had discussions with Panel Banks on the calculation of Level 3 by EMMI. Mr J.-L. SCHIRMAN explained that the discussion around a calculation of Level 3 by EMMI would have to be held separately from the Annual Review of the EURIBOR Methodology.</p>

Agenda Item	
	<p>Mr T. MILLION also supported the proposals and appreciated the expected reduction of Level 3. The communication of the results was important. Mr J.-L. Schirrmann added that EMMI would clarify that the proposals were rather calibration of parameters of the EURIBOR methodology rather than changes to it. Mr A. COVIN commented that Level 3 was stigmatised unduly and that Level 3 already contained many market transactions that would now move to Level 1 and 2. Furthermore, an enlarged EURIBOR panel would not necessarily lead to an increase in eligible transactions for Levels 1 and 2, as the panel already included the most active euro money market participant. Ms D. LE MASSON also expressed concern that Level 3 was still stigmatised as expert judgment.</p> <p>Members agreed that the proposed changes were not material changes of the EURIBOR methodology but would be a calibration and parametrisation of the current methodology.</p> <p>OMISSION:</p> <p>Mr M. VERHEIJEN suggested to explain the difference between LIBOR and EURIBOR waterfalls publicly. Mr J.-L. SCHIRRMANN explained that the EURIBOR waterfall with transactions, a formulaic approach and the Panel Banks' own assessment remained unchanged and advised not to compare EURIBOR to other indices to which Members agreed.</p> <p>Mr J. FELDKAMP explained the next steps for this item, including the approval by the Board of Directors and subsequently a discussion with the Panel Banks on the time they would need to implement the calibrations. EMMI would also propose required changes to the relevant governance documents, in particular the EURIBOR Benchmark Determination Methodology and the EURIBOR Code of Obligations of Panel Banks, to the next Steering (Oversight) Committee. Mr A. COVIN asked if EMMI had already formed a view whether to require Panel Banks to implement the new parameters on a concerted date. Mr J.-L. SCHIRRMANN replied that EMMI had not made a decision but was in favour of a single date rather than a phase in bank by bank.</p>
	<p>Decisions and votes :</p> <p>Members unanimously approved of the proposed amendments to the EURIBOR Hybrid methodology.</p>
	<p>Action points :</p> <p>To propose the approved amendments to the EURIBOR Methodology to the Board of Directors.</p>
ITEM 5	<p>Discussion Points :</p>

Agenda Item	
NON-EU BANK/S ON THE EURIBOR PANEL AND TREATMENT OF UK TRANSACTIONS	<p>Mr J. FELDKAMP introduced EMMI's proposal to agree to an interpretation of the EURIBOR Underlying Interest that would allow non-EU banks to contribute to EURIBOR as long as they only reported their wholesale funding transactions conducted in the EU and EFTA countries. EMMI also proposed to add a clarification to the EURIBOR Underlying Interest that EU and EFTA countries would include current and former EU and EFTA Member States. This proposal was an amendment to the proposal that EMMI had made to the 79th EURIBOR Steering Committee regarding the treatment of UK transactions in EURIBOR.</p> <p>OMISSION:</p> <p>Mr J. FELDKAMP explained that this change of view was due to the information that the ECB would change the MMSR reporting instructions before the year end to continue to include UK transactions and that EMMI was seeking to align MMSR and EURIBOR market coverage.</p> <p>Mr J. FELDKAMP also explained that the developments of the euro funding market in the UK would have to be closely monitored and that the proposed clarification to the EURIBOR Underlying Interest might have to be reviewed accordingly. Mr A. COVIN asked if EMMI proposed to also include former EFTA member countries with its proposal. Members discussed the relevance of former EFTA countries and agreed that these would not be relevant as they had all joined the EU, the proposed amendment could remain unchanged. Ms Z. CHATZIMPEI commented that an alignment with MMSR would be sensible and appreciated that EMMI had sought external legal advice in advance that supported EMMI's proposal.</p>
	<p>Decisions and votes :</p> <p>Members confirmed EMMI's reading of the EURIBOR Underlying Interest and approved to add the proposed clarification unanimously.</p>
	<p>Action points :</p> <p>To propose the approved amendment to the EURIBOR Underlying Interest to the Board of Directors.</p>
ITEM 6 AMENDMENT TO EURIBOR AND EONIA BENCHMARK STATEMENTS	<p>Discussion Points :</p> <p>Mr J. FELDKAMP introduced a proposal to amend the EURIBOR and EONIA Benchmark Statements.</p> <p>OMISSION:</p> <p>The proposed amendment to the EONIA Benchmark Statement would be required to reflect the coming changes to the MMSR reporting requirements by the ECB, as EONIA was based on ESTR. The EURIBOR Benchmark Statement would require</p>

Agenda Item	
	amendments to incorporate the interpretation of the EURIBOR Underlying Interest and its clarification following the approval of the proposal under Item 5.
	<p>Decisions and votes :</p> <p>Members approved the proposal to change the EURIBOR and EONIA Benchmark Statements unanimously.</p> <p>Action points :</p> <p>To propose the approved amendments to the EURIBOR and EONIA Benchmark Statements to the Board of Directors.</p>
12.30-13.30	LUNCH BREAK
ITEM 7 REPORT ON PANEL BANKS LEVEL 3 METHODOLOGIES	<p>Discussion Points :</p> <p>Mr A. GUZZARDI presented the first report on Panel Banks' Level 3 methodologies and their share in the calculation of EURIBOR since the beginning of 2020, in particular during the COVID-19 crisis. Panel Banks would report their Level 3 contributions to EMMI using one of six predefined Reason Codes with the one for a combination of input data used most regularly.</p> <p>OMISSION:</p> <p>Mr A. GUZZARDI explained that only three per cent of all EURIBOR contributions were Level 3 contributions based on unused T+1 transactions alone. He also presented the results of a "stress test" that EMMI had conducted to see how Level 3 methodologies behaved if one or more market segments became unavailable. The results of that test were reassuring, as a quorum for EURIBOR could be reached even if no transactions in the unsecured market, no quotes and no internal credit spreads were available. Mr A. GUZZARDI informed about the next steps regarding the communication with the Panel Banks on Level 3.</p> <p>Mr A. COVIN said that the steady use of Reason Codes by each bank over time was reassuring, in particular through unexpected events like COVID-19, and that Level 3 reflected each Panel Banks' organisational setup. The reference to expert judgement in the Level 3 methodologies would have to be understood as a last grain of discretion applied by Panel Banks to an otherwise e.g. formulaic approach and should not be misinterpreted as a general expert judgement as under the legacy EURIBOR methodology, as Mr. J.-L. SCHIRMAN confirmed.. Ms Z. CHATZIMPEI also remarked that expert judgement was perceived differently by each Panel Bank and not always used. She also observed that no Panel Bank has used the Reason Code for indicative quotes or prices, which Mr A. GUZZARDI confirmed. Ms D. LE MASSON commented that the few contributions based on T+1 transactions alone might now disappear because of the lowered threshold for Level 1 and Level 2. Mr A. GUZZARDI</p>

Agenda Item	
	<p>replied that this might be observed but that transactions would also be included in the Reason Code 600 if combined with other input.</p> <p>Mr J.-F. PONS asked what Panel Banks were using neither algorithm nor automated system were applied. Mr A. GUZZARDI explained that banks would often imitate EMMI's methodology for Level 1 and Level 2 with an increased flexibility of criteria for their Level 3. Mr J.-L. SCHIRMAN added that all criteria would be duly documented internally at Panel Bank level.</p> <p>Mr T. MILLON pointed out that Panel Banks with reference to futures curves and OIS as input data would be in advantage in difficult markets in terms of resilience as these were the most liquid sources. Mr A. COVIN added that some banks had raised the issue of circularity which could become an issue if when EURIBOR-based futures were used.</p> <p>Mr A. COVIN said that EMMI should inform the Steering (Oversight) Committee again once a meaningful period for observation has passed.</p>
	<p>Decisions and votes : N/A</p> <p>Action points : N/A</p>
<p>ITEM 8 PANEL BANK CONTACT GROUP</p>	<p>Discussion Points :</p> <p>Mr. J. FELDKAMP gave a summary of the inaugural meeting of the Panel Bank Contact Group that had taken place by conference call on 29 October. The initiative had been welcomed by all Panel Banks and the lively discussions covered the Annual Review of the EURIBOR Methodology, the treatment of UK transactions in EURIBOR and the EURIBOR Governance Framework including the requirements and frequencies of internal and external audits. Panel Banks had also asked EMMI about the plan to onboard the calculation of Level 3 at administrator level.</p> <p>Mr T. MILLON commented that the enlargement of the EURIBOR Panel was also an important point to raise. Mr J.-L. SCHIRMAN commented that EURIBOR had been strengthened on different axes, i.e. by its robust methodology, which had been proven in the COVID crisis and which would be reviewed more often than required, and the Panel Bank outreach.</p> <p>OMISSION:</p> <p>Mr J-L SCHIRMAN added that the prospective initiative to assess the onboarding of Level 3 would have to be understood as potentially an entirely new version of EURIBOR, but EMMI would have to start with an assessment of implied risks and liabilities first.</p>

Agenda Item	
	<p>Mr A. COVIN added that the responsibility for Level 3 would be shared by 18 banks now and could then potentially be concentrated at EMMI as a single entity.</p>
	<p>Decisions and votes : N/A</p> <p>Action points : N/A</p>
ITEM 9 MONEY MARKET REPORT	<p>Discussion Points : Mr J. CSÖRGEI presented the Euro Money Market Report for Q3/2020. The observed period had been characterised by central bank stimuli again and EURIBOR rates were pushed down since July by the abundance of liquidity in the market. In November, four EURIBOR tenors were below the Deposit Facility rate which would indicate a surplus of liquidity over demand. Other important decisions were the extension of the PEPP, TLTRO and the ECB decision to grant exemptions to balance sheet requirements in September. The central bank intervention had shown effects, the market recovery from the COVID crisis was advancing. Excess liquidity was still historically high.</p>
	<p>Decisions and votes : N/A</p> <p>Action points : N/A</p>
ITEM 10 EURIBOR OVERSIGHT REPORT	<p>Discussion Points : Mr J. CSÖRGEI presented the EURIBOR Oversight Report for October 2020.</p> <p>OMISSION: The report showed a slight increase in absolute and relative movement flags. Static contributions were still high which reflected the calm markets and a EURIBOR curve over tenors with less than 1bp difference between 1w and 1m. EMMI had observed no major operating issues or issues with individual Panel Banks.</p> <p>Mr A. COVIN asked why one particular Panel Bank had a remarkably high number of flags. Mr J. CSÖRGEI explained that the reason was the flagged inverted yield curve of the Panel Bank and that the Calculation Agent has obtained confirmation of the underlying submissions. Ms Z. CHATZIMPEI observed that one Panel Bank had not Level 3 contributions in the 1m tenor on any day in October which Mr J. CSÖRGEI confirmed. Mr. T. MILLON pointed to the high number five day static-flags and asked</p>

Agenda Item	
	<p>if these would reflect the current lack of volatility in the market, which Mr J. CSÖRGEI confirmed. Mr. J.-L. SCHIRMAN stressed that the report should give the Steering (Oversight) Committee comfort that EMMI duly performed its controls.</p>
	<p>Decisions and votes : N/A</p> <p>Action points : N/A</p>
ITEM 11 EONIA OVERSIGHT REPORT	<p>Discussion Points : Mr J. CSÖRGEI presented the EONIA Oversight Report for October 2020. No operational issues were observed in the production of EONIA.</p> <p>Decisions and votes : N/A</p> <p>Action points : N/A</p>
ITEM 12 COMPOSITION OF THE EURIBOR PANEL	<p>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 Steering Committee.</p> <p>Decisions and votes : N/A</p> <p>Action points : N/A</p>
ITEM 13 ANY OTHER BUSINESS	<p>Mr J.-L. SCHIRMAN announced that the meeting calendar for 2021 would soon be finalised with the first meeting of the Oversight Committee to be expected for the second half of January as a single day meeting. Mr. A. COVIN regretted that only one physical meeting had been possible during 2020 and that the departure of old and welcoming of new Members could not have taken place in physical presence. He thanked the Members for the healthy and supportive discussions over the year. Mr J.-F. PONS thanked the Members for the interesting meeting and pointed out that Members would appropriately challenge the good input from EMMI.</p>