



# 93<sup>rd</sup> Euribor Oversight Committee Meeting minutes



## Meeting minutes

<b>Meeting title</b>	93 <sup>rd</sup> EURIBOR Oversight Committee Meeting
<b>Date and time</b>	26 <sup>th</sup> of January 2023, 09.30-13.50
<b>Location</b>	Conference call

<b>Attendees</b>	<p><b>Members:</b></p> <p>A. COVIN (Chair)</p> <p>Z. CHATZIMPEI (ZC)</p> <p>J.C. CUEVAS (JCV)</p> <p>M. GERANIO (MG)</p> <p>A. KOZHEVNIKOVA (AK)</p> <p>D. LE MASSON (DL)</p> <p>T. MILLION (TM)</p> <p>J. O'FARRELL (JO)</p> <p>M. SCHNEIDER (MS)</p> <p>M. VERHEIJEN (MV)</p> <p>J-L. SCHIRMANN (EMMI CEO, JLS), Non-voting member</p> <p><b>The European Money Markets Institute:</b></p> <p>J. FELDKAMP (JF) , A. FANEA (AF), G. OBOTH (GO), F. NUNZIANTE CESARO (FNC), A. FANEA (AF)</p> <p><b>Observer:</b></p> <p>Jørgen A. Horwitz (representative of the Board of Directors)</p>
<b>Excused</b>	M. BRIZEE; L. VLAMINCK;
<b>Quorum</b>	10 voting members

## Agenda items

<b>Welcome</b>	The Chair Mr A. COVIN welcomed the Members to the 93 <sup>rd</sup> Oversight Committee meeting.
<b>Item 1</b> <b>Conflict of interest</b>	<p><b>Discussion points:</b></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</p>

	<p>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>
<p><b>Item 2</b></p> <p><b>Minutes of the previous meeting</b></p>	<p><b>Discussion points:</b></p> <p>The Members reviewed the minutes of the previous meeting of the Oversight Committee that took place on the 22<sup>nd</sup> of November 2022.</p> <p><b>Decision and votes:</b></p> <p>The minutes were approved unanimously.</p>
<p><b>Item 3</b></p> <p><b>Annual Work plan</b></p>	<p>Discussion points:</p> <p>EMMI presented the draft annual workplan for the Oversight Committee for 2023.</p> <p>OMISSION</p> <p>Members discussed the work plan. M. VERHEIJEN asked when feedback from the ESMA onsite visit could be expected, to which A. FANEA replied that she would debrief the Committee in the March meeting. The Chair reminded that a conflict of interest training would have to be added for September.</p> <p>OMISSION</p>
<p><b>Item 4</b></p> <p><b>Regulatory update</b></p>	<p><b>Discussion points</b></p> <p>A. FANEA presented the regulatory update.</p> <p>A. FANEA remarked that ESMA's new website had a dedicated section for the EURIBOR Colleges of Supervisors.</p> <p>A. FANEA explained that the DORA regulation was now published in the Official Journal and had a two-year implementation period. DORA will apply to EMMI as an administrator of a critical benchmark. EMMI will perform a gap analysis and present it to the Oversight Committee.</p> <p>OMISSION</p> <p>ESMA conducted an onsite-visit at EMMI premises in November 2022. A. COVIN was interviewed by ESMA. ESMA is still finalizing their assessment.</p> <p>OMISSION</p>
<p><b>Item 5</b></p> <p><b>Oversight Report</b></p>	<p><b>Discussion points:</b></p> <p>F. NUNZIANTE CESARO presented the EURIBOR Oversight Report.</p> <p>OMISSION</p> <p>There are more transactions in the 1w and 3m tenors, but a decrease in the other tenors.</p> <p>M. SCHNEIDER and Z. CHATZIMPEI asked if the transactions with embedded options submitted by CaixaBank and CGD that led to inverted yield curve flags were should have been excluded. J. FELDKAMP explained that these types of transactions had become more popular with Panel Banks and need to be excluded, but were accepted when reported, although excluded from the calculation as outliers. A. COVIN remarked that the exclusion was not comforting as it would allow for the inclusion of transactions that would otherwise not have been eligible. J. FELDKAMP explained that transactions that were reported or determined non-eligible after the EURIBOR fixing and cut-off time for refixing will</p>

	<p>be excluded once clarified with the Panel Banks and that this will be considered in the quarterly Revision Report. J.-L. SCHIRMANN requested that the Panel Banks be informed by e-mail at short notice that such products were not eligible for EURIBOR and this exclusion will be specified in the next Annual Review of the Methodology.</p> <p>Z. CHATZIMPEI mentioned that these transactions could be taken in the Level 3 approach. J. FELDKAMP said it depends on their methodology.</p> <p>Z. CHATZIMPEI also mentioned that the impact of the transactions with optionality was visible in the chart on rate dispersion (slide 8). J.-L. SCHIRMANN said that this was an extraordinary phenomenon which should not happen again.</p> <p>M. SCHNEIDER observed that with increasing numbers of transactions the dispersion of the rates would rise and markets were not at the same level; he asked if the EURIBOR would be more volatile with more transactions.</p> <p>T. MILLION mentioned that TLTRO repayments will diminish the available liquidity, and therefore increase the market activity.</p> <p>A. COVIN summarised that the optionality is episodic. The exclusion of the optionality must be made explicit in the EURIBOR methodology, potentially on Level 3 criteria too.</p> <p>OMISSION</p> <p>The Committee members approved the report unanimously.</p>
<p><b>Item 6</b></p> <p><b>Spread anomaly test</b></p>	<p><b>Discussion points:</b></p> <p>F. NUNZIANTE CESARO presented a follow-up from the last meeting.</p> <p>OMISSION</p> <p>A. COVIN reminded EMMI that individual Panel Bank information should only be disclosed on a need-to-know basis. A. KOZHEVNIKOVA observed the dispersion was skewed down in the month of January. LE MASSON linked the presentation to the recent discussion of spread between EURIBOR and OIS, where observers assumed that the Level 2.3 calculations were too low.</p> <p>OMISSION</p>
<p><b>Item 7</b></p> <p><b>EURIBOR Data Integrity Programme</b></p>	<p><b>Discussion points:</b></p> <p>EMMI presented the revised version of the EURIBOR Controls and Input Data Integrity Framework (now the EURIBOR Data Integrity Programme). The document was revised throughout, roles were clarified and discontinued checks and tests were removed from the programme.</p> <p>OMISSION</p> <p>M. SCHNEIDER remarked that the role of the Oversight Committee was not indicated strongly enough on page 6 where the primary responsibility for suspicious activity was assigned to Panel Banks. J. FELDKAMP explained that this section was about fraudulent and manipulative behavior which could best be detected at Panel Bank level, while EMMI and the Oversight Committee remain responsible for the overall quality of the benchmark. J.-L. SCHIRMANN added that the EURIBOR Governance Framework would define roles further and beyond this document.</p>

	<p>M. VERHEIJEN remarked that the Inverted yield curve flag had moved from daily to ad-hoc tests, which EMMI agreed had to be corrected.</p> <p>OMISSION</p>
<p><b>Item 8</b></p> <p><b>Benchmarks Changes and Cessation Policy</b></p>	<p><b>Discussion points:</b></p> <p>EMMI presented the revised Benchmarks Changes and Cessation Policy, which was updated to reflect regulatory requirements and to include all aspects EMMI would have to take into account in the case of change of discontinuation of either of its benchmarks.</p>
<p><b>Item 9</b></p> <p><b>Annual Review of the EURIBOR Methodology and EURIBOR V3 Project Update</b></p>	<p><b>Discussion points:</b></p> <p>J. FELDKAMP explains that the 3rd Annual Review of the EURIBOR Methodology will be performed by EMMI in conjunction with the revision of Level 3 and that EMMI will collect additional data from the Panel Banks as in past exercises.</p> <p>Members discussed the potential revision of Level 2.3 of the methodology as was previously discussed. A. COVIN specified that the Oversight Committee discussed different possible solutions during the previous meeting and that further analysis and data should be provided to be able to thoroughly assess all consequences of a given choice.</p> <p>OMISSION</p> <p>M. SCHNEIDER expressed his discomfort with the current situation regarding Level 2.3. The previous discussion concluded that more data should be analysed but the undue Influence of 3 months futures would remain, as it was a structural issue at least for the 1 month tenor.</p> <p>G. OBOTH reminded to the Members that it was likely that Level 2.3 would become obsolete with the reform of Level 3 (EURIBOR V3). A. COVIN remarked that EMMI had followed the Committee's recommendations to continue observing and asked when V3 would become reality to which J.-L. SCHIRMANN replied that less than two years would be a fair horizon. A. COVIN specified that the Level 2.3 assessment has to be done due to the timing mismatch presented and analysed in August 2022. Moreover, he stated that the occasion of the Annual Review would be the perfect moment to acquire more data and analysed further the matter.</p> <p>G. OBOTH gave an update on the V3 project with a particular focus on the correct computation of the credit spread. He specified that there is a wide support from the Panel Banks and listed the most important comments from the Panel Banks that will be addressed in the overall analysis of the new level 3.</p> <p>D. LE MASSON suggested to use STEP CP data in the Level 3 calculation. G. OBOTH pointed out that access to the CP market is limited. J.-L. SCHIRMANN added that the STEP statistics included only data at issuance and not in the secondary market.</p> <p>A. COVIN asked if the Committee needed to discuss the proposals for further analysis of V3. J.-L. SCHIRMANN clarified that all the points stated for the further analysis are still not fully analysed but would that the Oversight Committee would be consulted before the public consultation.</p> <p>OMISSION</p>
<p><b>EXTRA ITEM</b></p> <p><b>EURIBOR vs OIS</b></p>	<p><b>Discussion points:</b></p> <p>J. FELDKAMP introduced the topics with reference to the comments made following the last MMCG. OIS term rates were above the EURIBOR short term</p>

	<p>tenors (1-week to 3-months) since October last year. The negative spread was holding up so far, although volatile. EMMI's preliminary internal analysis concluded that the negative spread is not rooted in the EURIBOR waterfall methodology.</p> <p>OMISSION</p> <p>J.-L. SCHIRMANN explained that EMMI had conducted a thorough analysis and saw no evidence that Level 2.3 or Level 3 pushed down the EURIBOR fixings. There are Panel Banks contributing systematically below and above the EURIBOR fixing and complaints may come from one side of the contributor spectrum only. There were no extraordinary effects bringing down EURIBOR. He had informed the supervisor already who would get an in-depth analysis.</p> <p>Z. CHATZIMPEI said MMCG banks are larger and should intuitively not borrow higher. J.-L. SCHIRMANN mentioned that Panel Banks may have different funding models.</p> <p>D. LE MASSON supported EMMI's views but remarked that comments on trends in EURIBOR were almost always linked to representativeness and appropriateness of the methodology and that EMMI needed to conduct its reviews more and more carefully every year. She suggested to discuss the MMCG comments with the Panel Banks.</p> <p>M. SCHNEIDER said that EURIBOR is not as predictable as it was before the move to the Hybrid Methodology, and it represents the market. EURIBOR is used for Internal and external pricing and banks should not complain to MMCG when they are not content with the pricing. A. COVIN acknowledged this point and pointed to the push by the public sector to move to risk-free rates.</p> <p>J.-L. SCHIRMANN clarified that the comment in the MMCG come from the banks and not the ECB.</p> <p>T. MILLION showed that the 3M EURIBOR-OIS spread went from positive to negative explaining that there is a lot of excess liquidity that pushes the EURIBOR down. He moreover showed that the 1W EURIBOR is lagging against OIS because the banks and investors use the OIS to hedge the position against the ECB hikes resulting in a higher increase of the OIS over EURIBOR until the hike comes effective and the EURIBOR catches up with the OIS.</p> <p>J. O'FARRELL said that the risk.net article was worse than the MMCG minutes. The criticism should not be entirely dismissed as the EURIBOR actually lagged by one day. M. SCHNEIDER disagreed and pointed out that EURIBOR was normally above RFR, but that with excess liquidity all banks had problems with their liquidity ratio.</p> <p>A. COVIN explains that it is not possible to have a benchmark perfectly in time with market developments, even the €STR it is not. He also specified that the regulation is driving the funding policy of a bank, e.g., the 1 month liquidity is becoming useless for the LCR, and banks would not see why they should pay a premium for these tenor.</p> <p>D. LE MASSON added that the Risk.net article did not fully report what was discussed in the MMCG.</p> <p>J.-L. SCHIRMANN explained that the 1-day lag of EURIBOR was well known in the market and that the negative spread not only reflected credit but also liquidity. EURIBOR and OIS also reflected different product types, speculative positions would not be taken in cash but in derivatives.</p> <p>OMISSION</p>
Item 10	Discussion points:

<b>Euro Money Market Report Q4 2022</b>	<p>G. OBOTH presented the Money Market Report of the 4th quarter 2022.</p> <p>OMISSION</p> <p>A. COVIN suggested having the Euro Money Market Report after the Oversight Report in the next meetings.</p> <p>M. SCHEIDER suggested to have a more granular view on the 3m OIS/EURIBOR spread to see immediate effects of ECB announcements.</p> <p>OMISSION</p>
<b>Item 11 Panel Banks Audits</b>	<p><b>Discussion points:</b></p> <p>J. FELDKAMP presented an overview of the Panel Bank External Audit Reports EMMI had received.</p> <p>OMISSION</p> <p>D. LE MASSON left the meeting for the discussion on BNP-Paribas and Members discussed the case. They agreed for EMMI to follow up with the Panel Bank regarding the audit cycle prescribed by BMR and COPB.</p> <p>OMISSION</p>
<b>Item 12 Update on EMMI's strategy</b>	<p><b>Discussion points:</b></p> <p>The Committee agreed to postpone the item to the next meeting.</p>
<b>Item 13 Any other business</b>	<p><b>Discussion points:</b></p> <p>J. FELDKAMP informed the Members about the unchanged composition of the EURIBOR Panel and about the Declarations of Adherence by Panel Banks for 2022 (to be followed up in detail in the next meeting).</p>