

Comments
of the German Insurance Association on

ESMA and EBA Consultation Paper
on Principles for Benchmarks-Setting Processes in the EU

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The German insurance industry appreciates the opportunity to contribute to the ESMA and EBA consultation on Principles for Benchmarks-Setting Processes in the EU. Through their investment activities, insurance companies are affected by the weaknesses and insufficiencies related to the governance of the Euribor. The investments of the German insurance industry (primary and reinsurance companies) amount to 1,318 billion Euros. Therefore, insurers are among the largest investors and their investment activities depend strongly on reliable benchmarks. It is of great importance to ensure that Euribor represents a transparent and reliable benchmark for financial transaction within the euro area.

We agree with calls for a precise definition of Euribor, an extended group of panel members, adequate internal governance, and the introduction of a Code of Conduct as expressed in the EBA/ESMA letter of 11 January to EURIBOR-EBF and the Steering Committee. We would also like to make some general comments with respect to the shared aim of establishing a transparent and reliable benchmark for financial transactions:

- Despite some improvements, the **problem of liquidity in some markets is likely to persist** due to a low number of banks, no market participants or deterioration of credit ratings and subsequent exit from the panel survey. Therefore, manipulation due to the small coverage in certain markets may still remain possible.
- We believe that the best approach would be to **publish the “Term Funding Rates” that are actually traded**. This would for example provide information at what interest rate a specific bank has been financed for three months. A neutral institution should then control if a transaction at that rate actually took place. In this case, there would still be a risk that traded market rates cannot be determined due to insufficient liquidity. In this instance, the estimate should be determined by a neutral institution. Further, we welcome the development of products that are independent of benchmark rates, e. g. in the swap area OIS swaps.
- An alternative approach to establish a reliable indicator for the inter-bank rate could be a **linkage to the prime rate plus a spread** (comparative development before the financial crisis). This way, the problem of lack of liquidity for determining the exchange rate would be manageable. Credit risk would be traded separately.

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