

**Intesa Sanpaolo Response to the ESMA EBA “Consultation Paper” on
Principles for Benchmark-Setting Processes in the EU
ESMA/2013/12**

February 2013

Intesa Sanpaolo is one of the leading banking groups in Italy, with a strong international presence focused in Central-Eastern Europe as well as Middle Eastern and North African countries.

As one of the European panel banks contributing to the setting of the most important benchmarks (Eonia, Euribor, Eonia Swap Index and Eurepo), Intesa Sanpaolo attaches a lot of importance to the present issue and is proactively working in different industry associations (Assiom Forex and Euribor Money Market and Liquidity Working Group) and international fora (ECB – Money Market Contact Group) in promoting a proposal aimed at revitalizing the unsecured money market as a structural and long term solution to the current problems (see attached file).

Therefore, we welcome the opportunity to comment on the joint EBA ESMA consultation paper on Principles for the benchmark setting process in the EU.

Answers to specific questions

Definitions

Question 1: Definition of the activities of benchmark setting

Do you agree with the definitions provided in this section? Is this list of activities complete and accurate?

We agree on the list of definitions provided in the section.

Question 2: Principles for benchmarks

Would you consider a set of principles a useful framework for guiding benchmark setting activities until a possible formal regulatory and supervisory framework has been established in the EU?

We deem a “principle-based approach” the most viable solution for reforming benchmark-setting processes.

In relation to paragraph 23, we believe that all efforts should be dedicated to the setting-up of “transaction-based” indices, based on “weighted average” calculation of contributions (in order to smooth-out excess volatility and potential illiquidity) and discretion should be kept at a minimum.

In relation to paragraph 24 we believe that large panels should be envisaged, so that no single member can influence the index. Trimmed data for financial benchmarks could still be a good solution provided that the panels of contributors are sufficiently large. Especially taking into consideration the most important parameter, that for us is the Euribor, we strongly suggest widening the pool of trades that will have to be reported not just to interbank transactions but to short term paper as well.

Question 3: General principles for benchmarks

Do you agree with the principles cited in this section? Would you add or change any of the principles?

We agree with the principles, but we'd like to point out the following:

- a. A1: whenever possible, actual market transactions should be used as the underlying of a benchmark, in order to limit interpretations and estimates at the minimum;
- b. A2: a robust governance framework is a prerequisite for limiting conflict of interests, even though as benchmarks are by nature built-up by market practitioners, conflicts of interests are difficult to eliminate.
On the other hand, benchmarks have to be construed by experts with a deep knowledge of the markets.

Question 4: Principles for firms involved in benchmark data submissions

Do you agree with the principles cited in this section? Would you add or change any of the principles?

We agree with the principles.

Internal policies should be elaborated in order to regulate all steps of the contribution process.

Within our institution, for the Euribor fixing, the Head of MM Euro double-checks and approves the contributions prepared by dedicated staff against a backdrop of an authorization provided by the Head of Treasury and under the supervision of the Compliance Dept. The “four eyes” principle is fulfilled in light of the fact that a manager belonging to an external structure checks and verifies every single day the coherence of the proposed levels with the guidelines set forth in the internal process.

Even if a detailed “conflict of interest” policy could not be easily achieved (specifically in small institutions), several initiatives could be taken in order to manage conflicts:

- Contributors should belong to structure whose remunerations and business are not directly linked to the benchmark levels;
- They should belong to a list of market experts , fully skilled, aware of the procedures, code of conducts , technical specifications and clearly and easily accountable;
- Their contributing activity should be subject to internal and external audits.

Question 5: Principles for benchmark administrators

Do you agree with the principles cited in this section? Would you add or change any of the principles?

We agree with the principles.

Question 6: Principles for benchmark calculation agents

Do you agree with the principles cited in this section? Would you add or change any of the principles?

We agree with the principles; additionally, communication between the benchmark calculation agent and the contributors should be enhanced; there should be a clearer identification of people responsible for the contributions (in the banks); the calculation agent should appoint and give responsibility for contribution checks to a limited number of appointed persons at the appropriate level of seniority.

Question 7: Principles for benchmark publishers

Do you agree with the principles cited in this section? Would you add or change any of the principles?

We agree with the principles.

Question 8: Principles for users of benchmarks

Do you agree with the principles cited in this section? Would you add or change any of the principles?

We agree with the principles.

Question 9: Practical application of the principles

Are there any areas of benchmarks for which the above principles would be inadequate? If so, please provide details on the relevant benchmarks and the reasons of inadequacy.

n/a

Question 10: Continuity of benchmarks

Which principles/criteria would you consider necessary to be established for the continuity of benchmarks in case of a change to the framework?

Short –term, quick and “tactical” solutions should be aimed at addressing the governance framework of current benchmarks, in order to reform them and improve their transparency.

Confidence in the major benchmarks has to be quickly restored and, in this respect, a stricter cooperation with regulatory bodies should be envisaged.

As a more structural and long-term solution, existing indices should be accompanied by new ones, developed in the context of market-led initiatives, inspired by the priority to measure real exchanges.

Amongst the latter, Intesa Sanpaolo and Unicredit, endorsed by ASSIOM FOREX, the Italian Financial Markets Association, through its representatives in the Euribor Money Market and Liquidity Working

Group and the ECB Money Market Contact Group, have recently brought forward a proposal aimed at revitalizing the unsecured market.

The initiative, totally market-led, is based on the acknowledgement that the traditional unsecured interbank market is illiquid (apart from the very short-term) and is not bound to improve materially even if the markets will regain confidence and volumes.

The project is fundamentally based on the new dynamics of supply and demand of the money markets, whereby:

- New players have gained the status of “liquidity providers” (e.g.: fund managers , insurance companies and other real money accounts);
- Products like CPs/CDs, eligible for Central Bank refinancing as well as listed in recognized exchanges, have definitely overcome the role of unsecured money market deposits.

We would like to bring to your attention the attached presentation and would be more than open to discuss the issue with you in a constructive way.

For any further question or comment please contact:

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