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PRESS RELEASE

ESMA and the EBA take action to strengthen Euribor and benchmark rate-setting processes

The European Securities and Markets Authority (ESMA) and the European Banking Authority (EBA) have today published the results of their joint work on Euribor and propose principles for benchmark rate-setting processes. The publications include:

- A review of Euribor’s administration and management and clear recommendations to the Euribor-European Banking Federation (EEBF) to improve the governance and transparency of the rate-setting process;
- Formal EBA Recommendations to national authorities on the supervisory oversight of banks participating in the Euribor panel; and
- A joint ESMA-EBA consultation on *Principles for Benchmark Setting Processes in the EU* which establish a framework for the conduct of benchmark rate-setting and the activities of participants in the process.

Steven Maijoor, ESMA Chair, said:

“The proposed Principles, which are aligned with on-going EU and international work, will give clarity to benchmark providers and users, and are an immediate step to be taken in advance of potential wider changes in the supervisory and regulatory framework for financial benchmarks.”

Andrea Enria, EBA Chair, said:

“ESMA and the EBA are convinced that the prompt and full implementation of today’s recommendations is an important step towards ensuring that Euribor represents a transparent and reliable benchmark for financial transactions within the European Union.”

Findings & Recommendations

ESMA and the EBA have identified significant weaknesses and insufficiencies in the governance of the Euribor rate-setting mechanism and have made a number of recommendations to EEBF. These are aimed at improving the governance of the rate-setting process, which would contribute to a transparent and reliable benchmark for financial transactions. The recommendations are made within the current legislative setting, while the need for broader structural changes is being assessed by the European Commission.

The work carried out by ESMA and the EBA focuses on the governance aspects of the Euribor rate setting mechanism and complements the current legal investigations related to Euribor being conducted by competent authorities within the EU, without pre-empting their final outcome.

The main weaknesses and insufficiencies in the current rate-setting process are the following:

- The Steering Committee, responsible for the governance of the rate-setting process, is not sufficiently independent as a majority of its members come from the panel banks;
- EEBF, as manager and administrator, does not assume sufficient direct responsibility for, and exercise direct control on, the rate-setting process, including the calculation agent (currently Thomson Reuters);
- No formal requirements exist for Euribor panel banks to have adequate internal governance, a code of conduct and conflicts of interest management in relation to the submission process;
- The definition of Euribor is not sufficiently clear as it is based on terms which create ambiguity; and
- The rates being quoted are not assessed sufficiently against evidence from real transactions.

ESMA and the EBA have made a number of recommendations aimed at addressing the current weaknesses and insufficiencies in the Euribor rate-setting process. ESMA and the EBA are calling for a prompt and full implementation of these recommendations to ensure Euribor is a reliable benchmark for financial transactions. These are:

1. Governance must improve immediately including increasing the independence of the Euribor Steering Committee from the banking industry by diversifying its membership;
2. The Steering Committee should hold more regular meetings and publish its minutes promptly;
3. The references for Euribor should focus on maturities with the highest usage and volume of underlying transactions. Rates should be scaled down from the current 15 (1-3 weeks and 1-12 months) to no more than 7 (1 and 2 weeks, 1, 3, 6, 9 and 12 months);
4. The definition of Euribor should be clearer, i.e. detailing definitions of prime bank and interbank transactions;
5. EEBF should assume responsibility for the quality of the data being submitted by the panel banks and subsequently being collated, calculated and distributed;
6. EEBF's governance and code of conduct need to be improved and reinforced, specifically with regards to the identification and management of conflicts of interest;
7. EEBF should perform internal audits. External audits with public disclosure of the results should follow;
8. EEBF should clearly define its minimum expectations regarding the internal procedures and controls being applied by the calculation agent;
9. The calculation agent should have its own code of conduct related to reference-rate setting, perform internal audits and be subject to an annual EEBF audit; and
10. Both EEBF and the calculation agent should keep a complete record of all submissions.

ESMA and the EBA will review the implementation of these recommendations by EEBF within six months.

EBA Recommendations on Supervisory Oversight of activities related to banks' participation in the Euribor panel

To ensure appropriate internal governance processes are also in place within the banks participating in the Euribor panel, the EBA adopted a set of formal Recommendations addressed to national supervisory authorities aiming at setting consistent supervisory practices for the oversight of the Euribor submission process.

The Recommendations focus on strengthening the panel banks' internal governance arrangements, including a code of conduct. This should improve the identification and

management of conflicts of interest, internal control arrangements including audits, record keeping and comparison with actual transactions.

Consultation on Principles for Benchmark Setting Processes in the EU

In response to concerns regarding the perceived weaknesses in current arrangements for benchmark rate-setting, ESMA and the EBA have also developed a set of Principles to address the activities of reference-rate and other benchmark providers, administrators, publishers and market participants who submit data.

The Principles are designed as a first step towards a potential formal regulatory and supervisory framework for benchmarks to be developed in the EU and also take into account other international efforts in this field.

The proposed Principles include a general framework for benchmarks settings (calculation methodology, governance, supervision, transparency of the methodology, contingency plans, etc.). They also provide guidance to firms involved in benchmark data submissions and to benchmark administrators, calculation agents, publishers and users.

The deadline for submission of responses to this consultation is 15 February 2013.

Notes for editors

1. [Letter to EBF on Euribor](#)
2. [Report on the administration and management of Euribor](#)
3. [Principles for Benchmarks-Setting Processes in the EU](#)
4. ESMA is an independent EU Authority that was established on 1 January 2011 and works closely with the other European Supervisory Authorities responsible for banking (EBA), and insurance and occupational pensions (EIOPA), and the European Systemic Risk Board (ESRB).
5. ESMA's mission is to enhance the protection of investors and promote stable and well-functioning financial markets in the European Union (EU). As an independent institution, ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.
6. The EBA is an independent EU Authority established on 1 January 2011. As part of the European System of Financial Supervision, it works closely with the other European Supervisory Authorities responsible for market (ESMA), insurance and occupational pensions (EIOPA), and the European Systemic Risk Board (ESRB). The EBA has a broad remit in the areas of banking, payments and e-money regulation, as well as on issues related to corporate governance, auditing and financial reporting. Its tasks include preventing regulatory arbitrage, guaranteeing a level playing field (especially by building a single rule book for the European banking system) strengthening international supervisory coordination, promoting supervisory convergence and providing advice to EU institutions.

Further information:

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