

In case of discrepancies between the French and the English text, the French text shall prevail

Luxembourg, 19 March 2013

To credit institutions participating in the
Euribor panel

CIRCULAR CSSF 13/562

Re: Specific requirements concerning internal governance and internal control for credit institutions participating in the Euribor panel

Ladies and Gentlemen,

In order to protect the integrity of the financial markets facing risk of manipulation of financial market reference rates, the European Banking Authority (EBA) issued, in coordination with the European Securities and Markets Authority (ESMA), specific recommendations for credit institutions participating in the Euribor panel. This circular transposes these recommendations¹ into Luxembourg regulation.

The specific requirements laid down in this circular supplement the general requirements related to internal governance, central administration and risk management provided for in Circular CSSF 12/552. These requirements represent a specific application of the general principles stated in the above-mentioned circular to the submission process of the Euribor rate to Euribor-EBF in order to strengthen the Euribor panel banks' internal governance through a code of conduct including specific requirements relating to the identification and management of conflicts of interest, through internal control mechanisms (including internal and external audits), through record keeping of communicated data and through comparison with the actual underlying transactions.

Chapter I - Definitions and Scope

1. For the purposes of this circular:
 - “rate” shall mean the Euribor rate for all the maturities set by the Euribor-EBF;
 - “code of conduct” shall mean the parts of the general code of conduct defined by the credit institution in accordance with item 55 of Circular CSSF 12/552, which take into account the specific requirements stated under

¹ “EBA Recommendations on supervisory oversight of activities related to banks’ participation in the Euribor panel” (EBA/REC/2013/01) of 11 January 2013

Chapter II of this circular or a specific internal document drafted in relation to the participation of the bank in the Euribor panel and which takes into account the same requirements;

- “bank participating in the Euribor panel” shall mean any credit institution which participates in the Euribor panel by submitting rates to Euribor-EBF.

2. This circular applies to credit institutions participating in the Euribor panel.

Chapter II. Specific requirements applicable to the rate submissions to Euribor-EBF

3. The rate submissions to Euribor-EBF shall be determined in the credit institution’s policies relating to the risk management and control and the internal control mechanisms. In particular, the relevant banks shall apply the four-eye principle to the rate submission at all times.
4. The credit institutions shall organise appropriate training for both the submitters and users of Euribor rate.
5. The code of conduct of the participating credit institution shall explicitly cover the rate submission processes to Euribor-EBF. The employees in charge of the submission of rates to Euribor-EBF as well as their direct managers shall acknowledge in writing that they have read this code and that they commit to abide by it.

The code of conduct shall include a conflicts of interest policy covering, among others:

- effective procedures to prevent or control the exchange of information between staff engaged in activities involving a risk of conflict of interests where the exchange of that information may affect the rate submitted to Euribor-EBF;
 - rules to avoid collusion between the banks participating in the Euribor panel and the rate administrators;
 - measures to prevent or limit any person from exercising inappropriate influence over the way in which staff involved in the rate submission process carries out activities;
 - the removal of any direct link between the remuneration of staff involved in rate submissions and the remuneration of, or revenues generated by, different staff principally engaged in another activity, where a conflict of interest may arise in relation to those activities.
6. The internal control mechanisms of the credit institution shall be such so as to secure ongoing compliance with the code of conduct referred to in item 5. Controls performed on the benchmark data submitted to Euribor-EBF shall include comparisons with actual, transaction-based, verifiable data. These controls shall also aim to identify any reverse transaction (transaction executed after the submission and which reverses a transaction executed before said submission).

The compliance function shall regularly report the findings of these controls it carried out, including reverse transactions, to the authorised management, or ultimately the board of directors.

7. Submissions and relevant procedures shall be subject to periodic independent reviews by the internal audit and the *réviseur d'entreprises agréé* (approved statutory auditor). These reviews shall be included in their reports transmitted to the CSSF.
8. Credit institutions shall keep appropriate records of all relevant aspects of submissions, including the staff members involved in single submissions. Records shall be kept in a medium that allows their future reference with a documented audit trail.

Chapter III. Entry into force

9. This circular comes into force with immediate effect.

Yours faithfully,

Claude SIMON
Director

Simone DELCOURT
Director

Jean GUILL
Director General

Annexe: EBA recommendations on supervisory oversight of activities related to banks' participation in the Euribor panel ([EBA/REC/2013/01](#)) (www.eba.europa.eu)

EBA Recommendations

on supervisory oversight of activities related to banks' participation in the Euribor panel



Recommendations on supervisory oversight of activities related to banks' Euribor panel participation

Table of contents

1.	Executive Summary	3
2.	Background and rationale	4
3.	EBA Recommendations on supervisory oversight of activities related to banks' participation in the Euribor panel	6
4.	Consultation and Impact Assessment	11
5.	Confirmation of compliance with the Recommendations	12

1. Executive Summary

In the context of recent public attention to financial market reference rates, their calculation procedures and governance arrangements, the Boards of Supervisors of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) agreed, in September 2012, to enhance the cooperation among competent authorities on the investigation and enforcement regarding the Euribor panel banks. They also agreed on a joint review of the Euribor-EBF process in order to fully understand the Euribor rate setting process and its susceptibility to the risk of manipulation.

In the current institutional setting, benchmark rate-setting is not a regulated activity in the EU and Euribor-EBF as benchmark administrator of Euribor is not covered by any specific legislation related to the financial sector. Given the systemic importance of Euribor and the insufficiencies revealed by the review (Report on administration and management of Euribor) it was considered necessary to recommend immediate measures to increase the reliability and credibility of Euribor.

The Recommendations identify harmonised supervisory practices for the oversight of the Euribor submission process. Harmonised supervisory oversight of all panel banks will increase the reliability of Euribor by setting standards for supervision of submission processes. The Recommendations complement the EBA Guidelines on Internal Governance, published on 27 September 2011, which already set out in more detail the requirements for institutions' internal organisation, management body, risk management and control procedures, including the new product approval process, IT-systems and business continuity management and transparency. In addition to the Recommendations, the EBA and ESMA are providing feedback to Euribor-EBF based on the findings of the review.

The Recommendations focus on requests to strengthen Euribor panel banks' internal governance arrangements including a code of conduct with emphasis on identifying and managing internal conflicts, internal control arrangements (including audits), record keeping and comparison with actual transactions. To ensure a representative panel, competent authorities are recommended to encourage all banks active in Euro money markets to participate in the Euribor panel.

2. Background and rationale

Financial market reference rates, their calculation procedures and governance arrangements have come under close public scrutiny in recent years. A need for reform of reference rate-setting mechanisms has been expressed across the regulatory and supervisory communities as well as the financial markets.

The European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) have taken a joint initiative, considering (i) potential serious flaws in the way inter-bank and related interest rate benchmarks are being set in the EU, (ii) the widespread use of inter-bank benchmarks and the implications that a loss in confidence in these rates may have for financial markets, (iii) the distrust that the potential manipulation or improper setting of inter-bank reference rates may raise for other benchmarks or indices in the financial markets.

The Boards of Supervisors of the EBA and ESMA agreed in September 2012 to work on benchmark related issues and more specifically:

- to enhance the cooperation among competent authorities in their investigation and enforcement activities. To that end, a network of experts for exchanging information on investigations by competent authorities and for cooperating in specific cases, particularly in Euribor cases, was established in October 2012;
- to review the Euribor-EBF process in order to fully understand the Euribor rate setting process and its susceptibility to the risk of manipulation; and
- to develop principles focused on the benchmark setting processes in Europe (including but not limited to Euribor and other comparable interest rate processes) in order to have a sound framework in the short term.

In the current institutional setting, benchmark rate setting is not a regulated activity in the EU and Euribor-EBF as benchmark administrator of Euribor is not covered by any specific legislation related to the financial sector. Given the systemic importance of Euribor and the insufficiencies revealed by the review, it was considered necessary to recommend immediate measures to increase the reliability and credibility of Euribor.

The regulatory framework already contains requirements for institutions regarding their internal governance, which are also relevant for the rate setting process and the use of benchmarks. Article 22 of Directive 2006/48/EC provides that competent authorities shall require every credit institution to have robust governance arrangements in place. According to Article 16 of its founding Regulation, the EBA shall issue guidelines addressed to competent authorities and financial institutions to establish consistent, efficient and effective supervisory practices and to ensure common, uniform and consistent application of Union law, including Directive 2006/48/EC. The present Recommendations aim to establish harmonised requirements for internal governance arrangements of banks participating in the Euribor price setting process in addition to the EBA Guidelines on Internal Governance, published on 27 September 2011 which already set out in more detail the requirements for institutions' internal organisation, management body, risk

management and control procedures including the new product approval process, IT-systems and business continuity management and transparency.

The EBA and ESMA have also worked on principles for benchmark rate setting processes in Europe which cover all types of benchmarks and also benchmark administrators.

3. EBA Recommendations on supervisory oversight of activities related to banks' participation in the Euribor panel

Status of these Recommendations

1. This document contains Recommendations issued pursuant to Article 16 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (*the EBA Regulation*). In accordance with Article 16(3) of the EBA Regulation, competent authorities and financial institutions must make every effort to comply with the Recommendations.
2. Recommendations set out the EBA's view of appropriate supervisory practices within the European System of Financial Supervision or of how Union law should be applied in a particular area. The EBA, therefore, expects all competent authorities to whom these Recommendations are addressed to comply with them. Competent authorities to whom Recommendations apply should comply by incorporating them into their supervisory practices as appropriate (e.g. by amending their legal framework or their supervisory processes), including where Recommendations are directed primarily at institutions.

Reporting Requirements

3. According to Article 16(3) of the EBA Regulation, competent authorities shall notify the EBA as to whether they comply or intend to comply with these Recommendations, or otherwise state the reasons for non-compliance, by 11.03.2013. In the absence of any notification by this deadline, competent authorities will be considered by the EBA to be non-compliant. Notifications should be sent by submitting the form provided at Section 5 to compliance@eba.europa.eu with the reference 'EBA/Rec/2013/01'. Notifications should be submitted by persons with appropriate authority to report on compliance on behalf of their competent authorities.
4. Notifications will be published on the EBA website, in line with Article 16(3).

Table of contents

Title I - Subject matter, scope and definitions	8
Title II- Requirements regarding supervisory oversight of activities related to banks' Euribor panel participation	8
Title III- Final Provisions and Implementation	9

EBA Recommendations on supervisory oversight of activities related to banks' participation in the Euribor panel

Title I - Subject matter, scope and definitions

Subject matter

1. These Recommendations complement the EBA guidelines on internal governance (GL 44 of 27 September 2011) by setting out expectations on supervisory oversight of credit institutions' internal governance arrangements in relation to their participation in the panel providing Euribor rates.

Definitions

2. For the purpose of these Recommendations, the following definitions apply:
 - (a) 'Euribor' means Euribor rates for all available tenors as defined by Euribor-EBF;
 - (b) 'Euribor panel bank' means credit institutions as defined in art. 4(1) of Directive 2006/48/EC participating in the panel providing Euribor rates as defined by Euribor-EBF;
 - (c) 'submitter' means a person in the Euribor panel bank participating in the Euribor rate submission process;
 - (d) 'code of conduct' means internal documentation describing the rate submission process, and the roles and responsibilities of the different actors;
 - (e) 'management body' means the governing body (or bodies) of a credit institution, comprising the supervisory and the management function, which has ultimate decision-making authority and is empowered to set the credit institution's strategy, objectives and overall direction

Scope and level of application

3. These Recommendations apply to all competent authorities supervising Euribor panel banks.

Title II- Requirements regarding supervisory oversight of activities related to banks' Euribor panel participation

4. Competent authorities are recommended to include Euribor submissions in the processes of credit institutions that are subject to their supervisory review.
5. Competent authorities are recommended to ensure that the rate-submission process is covered by panel banks' risk management and risk control policies. More specifically, the

panel banks should apply the four-eye principle to Euribor submissions at all times. Training should be organized within panel banks for both submitters and users of Euribor rate.

6. Competent authorities are recommended to request Euribor panel banks to draft, if not available, or to review, where they already exist, internal codes of conduct for Euribor submissions. Within each Euribor panel bank, the respective submitters and their direct managers should be expected to acknowledge in writing that they have read the code of conduct and that they commit to abide by it.
7. The code of conduct should include a conflicts of interest policy covering:
 - (a) effective procedures to prevent or control the exchange of information between staff engaged in activities involving a risk of conflict of interests where the exchange of that information may affect the benchmark data submitted;
 - (b) rules to avoid collusion among contributing firms and between contributing firms and benchmark administrators;
 - (c) measures to prevent or limit any person from exercising inappropriate influence over the way in which staff involved in benchmark data submission carries out activities;
 - (d) the removal of any direct link between the remuneration of staff involved in benchmark data submissions and the remuneration of, or revenues generated by, different staff principally engaged in another activity, where a conflict of interest may arise in relation to those activities.
8. Competent authorities are recommended to request panel banks to establish, implement and maintain adequate internal control mechanisms designed to secure compliance with the code of conduct. Controls performed on the data submitted should include comparisons with actual, transaction-based, verifiable data. Controls should also aim to identify any reverse transaction subsequent to a submission. The compliance function should report its findings, including reverse transactions to senior management on a regular basis. Submissions and procedures should be subject to periodic independent internal and external reviews.
9. Competent authorities are recommended to request panel banks to keep appropriate records of all relevant aspects of submissions, including the staff members involved in single submissions. Records should be kept in a medium that allows the storage of information to be accessible for future reference with a documented audit trail.
10. Competent authorities are recommended to encourage banks to be part of the Euribor panel due to the importance of this reference rate in their own markets.

Title III- Final Provisions and Implementation

11. Competent authorities should implement these Recommendations into their supervisory practices as appropriate by 11.03.2013.

4. Consultation and Impact Assessment

Given the systemic importance of Euribor and the insufficiencies revealed by the review work it was deemed necessary to recommend immediate measures to be taken to increase the reliability and credibility of Euribor. The EBA is not launching a public consultation due to the urgency of the matter and also due to the nature of these supervisory measures which provide specifications in the application of the EBA's existing Guidelines on Internal Governance. The EBA decided to consult on these Recommendations via its Banking Stakeholder Group.

Due to the urgency of the matter, the EBA conducted only a high level impact assessment. The Recommendations proposed in this paper will generate minimal additional compliance costs to the credit institutions that will be included in the panel of the Euribor and to their national supervisory authorities as they further specify the EBA Guidelines on internal governance.

The EBA believes that this burden is outweighed by the benefits for credit institutions, consumers, investors and financial markets of having a reliable Euribor benchmark. ESMA, with which the EBA carried out the background work related to these Recommendations, has also provided the same feedback.

5. Confirmation of compliance with the Recommendations

Date:

Member/EEA State:

Competent authority:

Recommendations: On supervisory oversight of the Euribor Panel banks

Name:

Position:

Telephone number:

E-mail address:

I am authorised to confirm compliance with the Recommendations on behalf of my competent authority: **Yes**

The competent authority complies or intends to comply with the Recommendations:

Yes **No** **Partial compliance**

My competent authority does not, and does not intend to, comply with the Recommendations for the following **reasons**¹:

Details of the partial compliance and reasoning:

Please send this notification to compliance@eba.europa.eu².

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- 1 In cases of partial compliance, please include the extent of compliance and of non-compliance and provide the reasons for non-compliance for the respective subject matter areas.
 - 2 Please note that other methods of communication of this confirmation of compliance, such as communication to a different e-mail address from the above, or by e-mail that does not contain the required form, shall not be accepted as valid.