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Wim Mijs,
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Guido Ravoet
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Dear Messrs Clausen, Mijs and Ravoet,

Following a joint review by the EBA-ESMA team in October-November 2012, which included meetings with Euribor-EBF, the Boards of Supervisors of EBA and ESMA have agreed on a set of recommendations related to Euribor. These recommendations are focused on immediate steps to be taken to address what in our opinion are weaknesses and insufficiencies. The review was not a full supervisory or enforcement investigation under formal powers and therefore is without prejudice to the possible findings of such investigations. Also, they do not cover the possibility of more structural changes to the framework of Euribor and other financial benchmarks, which are being assessed in a broader context involving international, EU, and national public authorities as well as relevant market participants. Hence, the recommendations are immediate steps in advance of potential wider changes in the supervisory and regulatory framework for financial benchmarks.

We believe that in its current form the overall process of setting and disseminating Euribor displays weaknesses and insufficiencies related to governance at the level of Euribor-EBF, the Euribor Steering committee and the banks participating in the Euribor rate setting process:

- (a) The Steering Committee, which has the main responsibility for the governance of the rate-setting process, is not sufficiently independent as it has a majority of its members coming from the panel banks.
- (b) Euribor-EBF, as manager and administrator, does not assume sufficient direct responsibility for, and exercise direct control over, the rate-setting process, including the calculation agent (Thomson Reuters). Specifically, there are no written agreements in place between the

manager/administrator and the calculation agent to ensure that adequate pre- and post submission controls are in place.

- (c) There are no formal requirements for the Euribor panel banks to have adequate internal governance and there is no appropriate Code of Conduct for their submissions. There are no specific requirements in place to ensure a sound rate-setting and submission process including the identification and management of conflicts of interest.
- (d) The definition of Euribor is not sufficiently clear as it is based on terms which create ambiguity.
- (e) The rates being quoted are not assessed sufficiently against evidence from real transactions.

In view of the above considerations, EBA and ESMA jointly make a set of recommendations set out below in this letter. We believe that their prompt and full implementation is an important step towards ensuring that Euribor represents a transparent and reliable benchmark for financial transactions (lending, trading and investments) within the euro area and beyond.

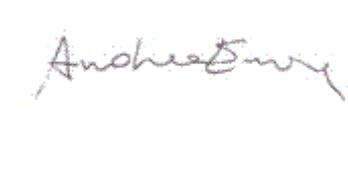
1. The governance must improve immediately and the composition of the Euribor Steering Committee should be broadened to make it more independent of the banking industry and more diverse. More specifically, it should include members who are not affiliated to panel banks (or to banks in general). Independent Steering Committee participants would inherently represent a counterbalance to panel bank committee members who currently represent a large majority. The number of members from panel banks should be limited to a minority. Details of the membership should be made public, along with any declarations of conflicts of interests and the processes for election or nomination of the Steering Committee members.
2. The Steering Committee should hold no less than one bi-monthly meeting and promptly thereafter should publish transparent minutes.
3. The references of Euribor should focus on maturities with the highest use and volume of underlying transactions. Rates should be scaled down from 15 currently (1-3 weeks and 1-12 months) to no more than 7 (1 and 2 weeks, 1, 3, 6, 9 and 12 months) at the maximum and fewer if appropriate. The reduction in the number of tenors would concentrate on eliminating those tenors that are already proven to be less used and of which fewer financial instruments are priced. Such a reduction would therefore have the benefit of simplifying the submission process without creating major financial stability risks in the transition process.
4. The Euribor definition should be adjusted for more clarity. In particular, the term “prime bank” needs a clear definition. The term “interbank transactions” also needs to be clarified and, if needed, to be broadened and adjusted.
5. Euribor-EBF should assume responsibility for the quality of the data being submitted by the panel banks and subsequently being collated, calculated and distributed by Thomson Reuters. In this context, substantive back-testing of the quoted rates should be performed on a regular and consistent basis, with the results reported to the Euribor Steering Committee.

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6. Euribor-EBF's governance and Code of Conduct need to be improved and reinforced. A specific area for improvement is the identification and management of conflicts of interest. These can arise at multiple levels: within Euribor-EBF itself; within the Euribor Steering Committee; between Euribor-EBF and the Euribor Steering Committee; between Euribor-EBF or the Steering Committee and various national banking associations or panel banks (whether they participate in the Steering Committee or not); among national banking associations or among panel banks; etc. A new enhanced Code of Conduct should also refer to sanctions for breaching various clauses, including the manner in which they would be applied and enforced.
 7. Euribor-EBF should perform internal audits. Furthermore, external audits should be carried out periodically, followed by public disclosure of the results.
 8. Euribor-EBF should define clearly its minimum expectations regarding the internal procedures and controls being applied by the calculation agent (currently Thomson Reuters). These expectations should include a clear definition of the checks to be performed by the calculation agent.
 9. The calculation agent should have its own Code of Conduct related to reference-rate setting. It should also perform earmarked internal audits and undergo a once-a-year external audit carried out by Euribor-EBF.
 10. Both Euribor-EBF and the calculation agent should keep complete, transparent and clear records of all submissions from each panel bank over the years, including data on panel banks which were either not submitting or were submitting flawed or questionable quotes over certain days or longer periods. The EBF should maintain an ongoing record of individuals responsible for submissions in individual banks.
 11. EBA and ESMA aim to review the implementation of the current recommendations by Euribor-EBF no more than six months after they are agreed upon by Euribor-EBF.

Finally, let us take the opportunity to raise with you our concern over potential disruptions to the continuity of EURIBOR from the termination of contributions on the part of individual banks. Euribor needs to remain available as a reference rate as it is widely used as a benchmark by financial industry participants for both lending and primary/secondary market activities. Recognising that participation in EURIBOR panels is a voluntary act for banks, we encourage Euribor-EBF to work decisively towards ensuring panel representativeness and maintaining participation in the panel processes going forward.

Both EBA and ESMA are convinced that a speedy and comprehensive implementation of the above recommendations would contribute to enhancing the governance and process of Euribor-setting, aiding market participants to carry out financial transactions in a credible and transparent manner and supporting overall financial stability.

Yours sincerely



Andrea Enria
EBA Chair



Steven Maijor
ESMA Chair

CC: Cédric Quéméner, Director, EURIBOR-EBF

Enc: Report on the administration and management of Euribor