

## 2018 CONFLICTS OF INTEREST OVERSIGHT COMMITTEE REPORT TO THE BOARD OF DIRECTORS

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### Foreword

Effective and transparent management of conflicts of interest is a key element of the governance and control framework of a Benchmark Administrator.

In 2018, the Conflicts of Interest Oversight Committee ('CIOC') focused its attention on the enhancement of the Conflicts of Interest Policy and Procedure and on the improvement of the existing tools, with the objective to facilitate the implementation of the Policy and Procedure. The control framework concerning conflicts of interest was continuously monitored.

In order to enhance awareness and to promote best practice at all levels of EMMI, the CIOC has provided training seminars to the members of the EURIBOR Steering Committee and to the members of the EMMI Secretariat. The training seminars were carried out by the Chairman of the CIOC.

As Chairman of the CIOC, I thank my colleagues in the CIOC for their active contribution. I would like to express a special word of thanks to Robert Peirce, who left the CIOC at the end of 2018. Robert has been a member of the CIOC from the very beginning and his thoughtful comments were a great help in the development of CIOC's strategy. I also thank the Secretary-General and the members of the EMMI Secretariat for their support and assistance.

The CIOC remains convinced that the policy to prevent and to manage conflicts of interest is in the best interest of EMMI, as it helps to ensure independent judgement and trust in the organisation.

**Karel VAN HULLE**

Chairman of the Conflicts of Interest Oversight Committee



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## 1. Role and Responsibilities of the Conflicts of Interest Oversight Committee

The Terms of Reference of the CIOC are included in the Conflicts of Interest Policy and Procedure, whose last revision was approved by the General Assembly on 26<sup>th</sup> September 2018.

The duties of the CIOC are clearly defined in the Terms of Reference, while the specific activities to be performed in the prevention, identification, and management of conflicts of interest are further detailed in the relevant sections of the Conflicts of Interest Policy and Procedure.

The main areas of activity of the CIOC include:

- a) Monitoring the effectiveness of the Conflicts of Interest Policy, and of the procedure to manage and mitigate conflicts of interest situations;
- b) Monitoring the potential situations of conflicts of interest arising out of the administration of each of the EMMI Benchmarks, the STEP Market Convention, or the functioning of EMMI at association level, and advising the Board of Directors, or the General Assembly where relevant, on how to deal with these situations;
- c) For the purpose of identifying relevant conflicts, considering:
  - communications made by Relevant Persons;
  - representations or complaints made from external parties to EMMI;
  - other internal EMMI documents and information.

*The activities carried out by the CIOC for each of the areas described above are detailed in section 3 of this report.*



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## 2. Composition of the Conflicts of Interest Oversight Committee

In accordance with the Terms of Reference, the CIOC must be composed of at least 3 members (one Chair and two members) chosen among experts with recognized independence, with standing and experience in financial markets and/or financial services and/or in financial regulations and control systems.

The following persons were members of the CIOC in 2018<sup>1</sup>:

- **Mr Karel VAN HULLE (Chairman)**, originally appointed in February 2014, and reappointed in March 2016 and 2018 respectively for two additional two-year terms, previously Head of Unit at the European Commission, currently Emeritus Professor at the KU Leuven, Honorary professor at the Goethe University in Frankfurt, and Member of the Public Interest Oversight Board;
- **Mr Stefano CARCASCIO**, originally appointed in February 2014, and reappointed in March 2016 and 2018 respectively for two additional two-year terms, previously Head of Supervision of Financial Markets, and Representative in the UK for Banca d'Italia, currently member of the Board at the Italian Chamber of Commerce for the UK, and member of the Advisory Board at OMFIF - Official Monetary and Financial Institutions – London. He is also an independent member of the Board of CSR Bank;
- **Mr Robert PEIRCE**, appointed in September 2016, Senior Audit Partner at PWC for more than 25 years, and Former Chairman of the Belgian Accredited Financial Services Auditors, currently Professor at Louvain School of Management, and Solvay School of Economics.

The Members are elected by the General Assembly for a two-year renewable mandate.

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<sup>1</sup> In January 2019 EMMI acknowledged R. Pierce's resignation as a member of the Conflicts of Interest Oversight Committee, due to the acceptance of another mandate in a Bank which was incompatible with the performance of his mandate at the Conflicts of Interest Oversight Committee. On 29<sup>th</sup> April 2019, the General Assembly approved the appointment of Ms. Lieve Lowet to the EMMI Conflicts of Interest Oversight Committee.

### 3. Activities of the Conflicts of Interest Oversight Committee for the year 2018

The CIOC held two meetings during 2018: on 14<sup>th</sup> June and 9<sup>th</sup> October.

During those meetings, the CIOC:

- evaluated the status of implementation of the recommended actions;
- assessed the implementation and effectiveness of the Conflicts of Interest Policy and Procedure;
- approved a revised version of the Conflicts of Interest Policy and Procedure;
- reviewed the mapping of potential conflicts of interest situations and associated remedial actions;
- analysed relevant documents for the identification of potential, perceived or actual conflicts of interest, including declarations of interests of Relevant Persons and meeting minutes;
- discussed the risk review of potential conflicts of interest affecting governing bodies; and
- provided additional recommendations to ensure the full and effective implementation of the Conflicts of Interest Policy and Procedure, e.g. content and format of declarations of interests.

During their meetings, the CIOC also received regular updates on benchmarks reforms, and regulatory and supervisory developments.

#### 3.1 Monitoring the effectiveness of the Conflicts of Interest Policy and of the procedure to manage and mitigate conflicts of interest situations

##### 3.1.1 *Conflicts of Interest Policy and Procedure*

The CIOC developed and approved a revised Conflicts of Interest Policy and Procedure on 9<sup>th</sup> October 2018. The main changes were the following:

- 1) the inclusion of CIOC Members as relevant persons;
- 2) the description of legal consequences attached to a fraudulent declaration of interests; and
- 3) the specification of the exemption of the members of the General Assembly to provide Conflict of Interest declarations.

The revised Policy and Procedure was subsequently reviewed and approved by the EURIBOR Steering Committee, the Board of Directors, and the General Assembly, and entered into force on 13<sup>th</sup> December 2018.

The revised Conflicts of Interest Policy and Procedure contributes to enhancing the effectiveness of the practices in place to prevent, identify and manage conflicts of interest by providing clear operational guidelines to the relevant persons within EMMI<sup>2</sup>.

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<sup>2</sup> According to the Conflicts of Interest Policy and Procedure, relevant persons include members of the EMMI General Assembly (Banking Associations), members of the Board of Directors, members of the Audit Committee, the Secretary General, members of the Secretariat, members of the EURIBOR Steering Committee, members of the STEP Market Committee, and members of the Conflicts of Interest Oversight Committee.

The CIOC reviews the implementation and effectiveness of the Policy and Procedure at each meeting. The next annual review of the Policy will take place in October 2019.

### 3.1.2 Declarations of interests

The CIOC reviewed and discussed all signed declarations of interests received for the year 2018 from all Relevant Persons (*see section 3.3.1 below for further details*). As the members of the Conflicts of Interest Oversight Committee are now included in the list of relevant persons, it was decided to also require the members of the CIOC to prepare a declaration of interests and to collect it from 2019 onwards.

In its continuous effort to further increase the clarity and transparency in the declarations of interests, the CIOC also agreed to include the following changes to the appointment or declaration of interests forms from 2019 onwards:

- the inclusion of a commitment to respect the Confidentiality Policy in the annual declaration of interests for all relevant persons, and in the General Assembly Appointment Form;
- The inclusion of the following statement in the annual declaration of interests for all relevant persons: *“I am aware that, by making a fraudulent declaration: (i) I am exposing myself to legal actions/consequences and (ii) this fraudulent declaration can be used in legal proceedings”*;
- The indication that loans, shareholdings, warranties, or any other financial interests referenced to EURIBOR or to similar benchmarks should only be declared if material;
- The inclusion of a request to declare “Business or personal connection to a stakeholder that has an interest in EMMI activities” in the declaration of interests for members of the EMMI Secretariat.
- The inclusion of a request to declare affiliation to a banking association in the declaration of interests for members of the Board of Directors.

The CIOC also recommended to collect the declarations of interests on an annual basis at the occasion of the first meeting of the relevant governing body.

## **3.2 Monitoring potential situations of conflicts of interest**

In 2018, the mapping of conflicts of interest carried out during the previous year was implemented and closely monitored.

## **3.3 Identifying relevant conflicts**

For the purpose of identifying actual or perceived conflicts of interest, the CIOC analysed the following documents:

### 3.3.1 Communications made by relevant persons

According to the Conflicts of Interest Policy and Procedure, the CIOC expects that relevant persons communicate their interests through an annual declaration. One single exception applies to the members of the General Assembly. In fact, since the members are sitting in the Assembly as representatives of national banking associations, the respective association is also responsible for ensuring that conflicts of interest are managed by its representatives in General Assembly meetings.

In order to increase individual awareness and responsibility in managing potential conflicts within the General Assembly, the CIOC recommended to ask the national banking associations to appoint one delegate (and one alternate) as a permanent participant in the meetings of the EMMI General Assembly. This recommendation was first implemented in 2017, and applied throughout 2018.

For the year 2018, the CIOC analysed the following (new/updated) declarations:

- Declarations of interests of the Members of the Board of Directors;
- Declarations of interests of the Members of the EURIBOR Steering Committee;
- Declarations of interests of the Members of the EMMI Secretariat;
- Declarations of adherence of the Members of the STEP Market Committee.

The declarations were examined, taking into consideration the biographies of each of the signatories, and their respective roles and responsibilities. The CIOC concluded that the interests disclosed in the declarations did not show any emerging actual or potential conflict.

In order to further increase the level of awareness and the quality of the disclosure in declarations of interests, the CIOC agreed to provide training sessions to the relevant persons. The training sessions were carried out by the Chairman of the CIOC for the members of the EURIBOR Steering Committee in January 2018 and for the members of the EMMI Secretariat in October 2018.

### 3.3.2 Representations or complaints made from external parties to EMMI

In 2018, EMMI did not receive any representation or complaint on conflict of interests related matters from external parties.

### 3.3.3 Other internal EMMI documents and information

The CIOC analysed a report from the Secretariat on the following internal documents:

- Agenda and Minutes of General Assembly meetings;
- Agenda and Minutes of Board of Directors meetings;
- Agenda and Minutes of EURIBOR Steering Committee meetings;
- Agenda and Minutes of Audit Committee meetings:

Following an analysis, the CIOC concluded that during the meetings under review, the issue of potential conflicts of interest was regularly discussed and treated with appropriate attention. The preventive measures and the controls of potential conflicts of interest at the level of EMMI's governing bodies were effective during the period under review.

## **3.4 Managing/resolving actual or perceived conflicts of interest**

In the year 2018, no perceived or actual conflict of interest situation was identified by the CIOC. The CIOC also reviewed and monitored the implementation of recommendations escalated in 2017, in order to address perceived and/or actual conflicts of interest. All EMMI governing bodies complied with the recommendations of the CIOC.



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The members of the EURIBOR Steering Committee asked for a specific advice of the CIOC regarding their participation as voting members representing their banking institutions at the Euro Risk Free Rate Working Group. In April 2018 the CIOC stated that there was no conflict of interest with regard to their participation to the EURIBOR Steering Committee. The following points were taken into account when this advice was formulated: (i) EMMI is also participating in the WG, even though as a non-voting member; (ii) Most participants are involved in either EURIBOR and/or EONIA panels; (iii) Members are sitting at the EURIBOR Steering Committee on a personal basis, not representing their respective banking institutions; (iv) Documents and conclusions are made public; (v) the Euro Risk Free Rate Working Group had not, to the CIOC's knowledge, issued any guidelines or restricted access to information.