Euribor EBF Newsletter

June 2011

"After crisis policy"?

As most of the market participants know, Euribor-EBF, with the support of its members Associations, has served financial markets and the European economy at large, during the recent difficult times.

Our benchmarks and other initiatives have drastically evolved during the last 2 years by adapting themselves to the growing need of the different market participants **to have a right idea of the funding price in the Euro area** on one side and by helping the European Markets to find liquidity in the short term debt instruments (STEP initiative) on the other side.

Therefore, the governance of Euribor-EBF has been enhanced even more. **We have enlarged our panels of contributing banks and developed a very close monitoring of the contributions** from a technical and qualitative point of view (cf article p26). **The Steering Committees' activities have been broadened** and the Secretariat has been involved more than ever into ongoing and new projects: the Euribor-EBF Secretariat is no more a pure administrative one, it is a growing pool of expertise and an engine to find out market needs and to coordinate the different working groups composed of excellent European experts to apply the recommended solutions.

Additionally, the partnership between our staff and the experts from the ECB has been strong during the crisis, especially regarding liquidity management policy. This aspect of our work is very important for the market, given the growing role of market initiatives led by the professional associations and most of the time supported by the ECB.

Still, the after crisis policy has started to be slightly applied in the last months: some exceptional measures, in particular the eligibility of the STEP label as collateral debt instruments for credit Institutions, have been narrowed, negatively impacting the only European harmonized standard label in the Short Term debt market. Moreover, considering the last regulations adopted by the European Union, there is a risk to reduce the short term debt instruments position into the banks' balance sheets.

The combination of those two institutional policies might have some predictable negative effects on this particular market; despite the growing appetite of investors for short term debt instruments (two members from the European Fund and Asset Management Association have joined our STEP Market Committee): the volume of programme issuances from credit institutions will be reduced. We believe that **STEP, as the only transparent label in the European market should not only remain as an admitted collateral debt instrument for any issuer, but even more evolve from a label towards a common rule for everyone in this market. STEP is not a crisis period measure: it is a European, integrated and transparent way of financing industry and public projects.**

Guido Ravoet, Chief Executive European Banking Federation Euribor-EBF

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Interbank Market:

As one can easily notice during those hard financial times, **what works well is never stressed out… until it stops working.** This is typically what happened to the Interbank Market in the last three years.

Prior to the crisis, who knew about the interbank market? Treasurers for sure and Central Banks as well…. But who else? The large public was not aware of the importance of money exchanges between banks, in their role of lenders to the real economy.
Due to the very difficult environment, both on a macro (States needing refinancing operations, new regulations requirements) and a microeconomic point of view (corporate needs for credit lines), the European Central Bank pushed a very large amount of liquidity in the market, thereby helping its actors to finance themselves at a very low rate.

ECB liquidity operations will somehow be less active (hopefully) in the coming years, and the interbank market will recover its full utility under normal conditions.

Therefore, it **seems to be the right time to define its importance for the overall global economic system.**

The Hidden Side of the Liquidity Iceberg

Cédric QUEMENER

The interbank market is amongst the most important in the global financial system: it basically allows banks with a surplus and banks with a deficit to balance their respective needs, thereby providing the market with the necessary liquidity to finance the economy. It is also a very important focus for the Central Banks when implementing their monetary policies.

Those interbank markets, especially the short term ones (less than a year maturity), were considered to almost perfectly work before the 2007 crisis: a large number of participants and safe types of assets used in the transactions were the main reasons for this.

Having a clear idea of the interbank funding or lending costs leads to have a clear idea of the cost for financing the economy. **Therefore, the different benchmarks managed by Euribor-EBF which reflect those costs are having an important role in the global economic system** and are under a very high scrutiny from both the Central Banks and the market… but also the large public: many private loans in the EU are indexed on Euribor fixing.

We not only have the responsibility to help the market and the Institutions to have a realistic sense of the funding costs in Europe, but also the role to ensure that those fixings stay accurate whatever the liquidity in the market is. If the interbank market is the invisible part of the liquidity iceberg, Euribor-EBF is definitely meant to support this iceberg, whatever the climate changes could be…

Cédric Quéméner
Euribor-EBF Manager

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The STEP Market Committee:

Where the buy and the sell sides meet

The STEP[1] Market Committee is composed of twelve experts representing the main actors in the short-term paper market: arrangers, buy-side (two EFAMA members) and sell-side. In coordination with the STEP Secretariat, they monitor market developments and establish and review the market standards on which the STEP label is based. Additionally, they provide guidance on the appropriate and consistent interpretation of the Convention. They work in close collaboration with non-voting members from the ECB and observers from the Banque de France.

Guido Ravoet is the Chair of the Committee. He became Secretary General of the European Banking Federation and Euribor-EBF in January 2005, now Chief Executive, following his 10 years office at the helm of the Association of Belgian Banks, now Febelfin (Belgian Finance Federation). He was previously Secretary General of the European Association of Cooperative Banks and has remained throughout his career very focused on European affairs, e.g. as a former member of the European Economic and Social Committee. Guido Ravoet also has more than 10 years banking experience with Cera bank (now KBC) as Head of Research Department and then Regional Director. Guido has a PhD in Law and a Masters Degree in business economics.

Peter Balaz joined the European Investment Bank in 2005, where he is currently working in the Treasury as member of the Liquidity Management Desk. After a few years of external cooperation with STEP market initiative, Peter has been appointed as member of the STEP Market Committee in 2010. *"As an issuer under its Global Commercial Paper Programme, EIB welcomes the STEP market initiative as another step to further integration of and standardisation in the European short term paper market. EIB also appreciates STEP's contribution to the transparency in this market."*

Claudia Benci is short term and collateral trader for the Global Treasury Dept. at Banca MPS Spa. Prior to taking this position in 2000 she worked for the GDFI Dept of West LB London (1999-2000) and in Merril Lynch international London (1996-1999) as short term bond and repo/funding trader. Her roles ranged from bond specialist, funding, liquidity and collateral manager both in investment banking institutions than in Commercial and global Treasuries since over a decade. Claudia has been for 6 years in the Board of Italian ACI, and still she is member of "market development" and "Education" Committees within this Association. She holds financial classes for LSE group (Borsa Italiana) and for Italian ACI.

Philippe Billot joined Pictet Asset Management in 2006 as Head of the Money Market team. Before joining Pictet, he worked for AXA SA as Head of the Treasury Department and then at AXA Investment Managers as Head of Money Market and Treasury where he spent a total of 14 years. Philippe worked previously in the Fixed Income Assets and Liabilities division of Crédit National, a French long term Lending Institution. He has also worked at the trade commission of the French embassy in Damascus, Syria. Philippe has been a lecturer at the Paris IX Dauphine University between 1998 and 2005.

Marnix Bruning started working at ING Bank in 2003 at the Money Market Trading desk. He worked there for 3 years as Money Market Trader in CD/CP, TBills, Futures and IRS. He became dedicated to CD/CP sales and trading in 2006 and was appointed Head of CD/CP Desk in 2008.

[1] *Short Term European Paper*

Jonathan Curry is the Global Chief Investment Officer for the Liquidity business and has been working in the industry since 1989. Prior to joining HSBC in 2010, Jonathan worked as the Head of European Cash Management at Barclays Global Investors. He is a Board Member and Chair of the Technical Committee of the Institutional Money Market Fund Association, the industry association for AAA rated money market funds. He is also a member of the Bank of England's Money Market Liaison Group.

"I am delighted to be joining the STEP Committee to support its efforts to foster the integration of the European markets for short-term paper through the convergence of market standards and practices. Integration will benefit investors and issuers a like through improving the depth of issuance, market liquidity and operational efficiency."

Francisco Galiana is Head of ACPM (Active Credit Portfolio Management) at Santander Global Banking & Markets, the Corporate & Investment Banking Division of Banco Santander. He has been with Santander for 19 years and has been involved in the credit markets business since 2001, first as Head of Credit Trading (bonds, loans and derivatives) and Research and afterwards as Global Credit Product Manager focusing in the development of the Credit Asset Class within Santander.

Franck Hebeisen, is Head of the Short Term Paper (CPs and CDs) Desk of Société Générale Corporate Investment Banking. In this position, he has been responsible for conducting the business on Short Term Papers in Europe for SG since 1996. This includes Programmes Arrangement, participation in Dealerships, Trading, and coordination of product distribution and side services such as Issuing and Paying Agent. Prior to this, Franck held various positions in international capital markets financial control since he joined the SG Group in 1989. He is member of the Board of ACI France and the Board of the CNO (Comité de Normalisation Obligataire).

Patrick Siméon is Head of Money Market Management at Amundi. He joined CréditLyonnais Asset Management in 2001 as a portfolio manager in the Money Market team. He became Deputy Head of Money market management in 2003 before the merger with Crédit Agricole Asset Management which took place in 2004 and has headed the team since 2006. M. Simeon has over ten years experience in cash and forex trading for institutions such as Caixa Geral de Depositos(where he started his career in 1989), Crédit National and Natexis Banques Populaires.

"As a key European investor in commercial paper, we believe the standards promoted by STEP are of great interest. We thus endorse the STEP convention, which by giving a common recognized framework to European short term paper programs, contributes to the quality enhancement of the money market funds we manage."

Michael Schneider has been Deputy Head of Global Treasury of DZ bank since 2003. He started his carrier as a trader at Deutsche Verkehrs-Kredit-Bank Frankfurt AG before being successively Chief Dealer Money Markets and Short Term Products at DG Bank Frankfurt and Head of Treasury at DG Bank London (before the merger between DG and GZ Bank to DZ Bank). He is also a Board Member of the German ACI –The Financial Markets Association -, members of the EURIBOR ACI Money Market Liquidity Working Group and the ECB Money Market Contact Group.

Koen Schoeningh has joined the now Regional Treasury Centre of Volkswagen in Brussels after a couple of years in banking. Intragroup factoring, intercompany lending and inhouse banking are the main fields of activity. For its funding, the group uses i.a. several commercial paper programmes. Koen also is a member of ATEB, the Association of Corporate Treasurers in Belgium.

Colin Withers is Global Debt Syndicate at ING Bank NV in London. He joined ING in 2011 after spending the previous 2 years in Standard Bank Plc as part of their Treasury/Wholsale funding team. Prior to Standard Bank Colin spent 24 years in Citigroup in various management roles in their Fixed Income world including DCM and for the last 12 years as head of their international money market business. After leaving university in 1977 Colin joined JP Morgan as a graduate trainee, and spent most of his time with the firm in Europe, Asia and South America before moving to Citigroup in 1985.

Björn Fischer is a non-voting member from the ECB. He is currently Head of the Financial Statistics Section within the Directorate General Statistics of the European Central Bank. He has worked in several business areas of the European Central Bank since 1999. Previously, he has worked in the Deutsche Bundesbank and for the European Commission.

"The motivation of being a non-voting member of the STEP Market Committee is in part determined by the responsibility for the provision of STEP statistics by the ECB. This is one channel through which the European Central Bank acts as catalyst for market-driven initiatives to support financial integration in Europe. Also on a personal level, supporting integration in Europe is among his vested interests."

For further information on the STEP Market Committee and the STEP label, please visit www.stepmarket.org

STEP: When the market leads the European harmonization

The STEP (Short Term European Paper) initiative was decided by market professionals after the launch of the single currency, with the strong support of the ESCB and launched in 2006 after 4 years of work by various committees. 5 years later, more than € 400 Bn (i.e. more than 46%) of the overall outstanding issues from European short term papers' programmes were benefiting from a STEP Label. (The short term papers' market can be estimated in Europe - for those markets for which statistics are available, i.e. ECP / ECD, Belgian CP / CD and French CP/ CD - at € 900 billion at the beginning of the 2nd quarter (trimester 2011). Can this be a tangible sign of success for this initiative? Indeed, but not only because of this "hit ratio".

A significant number of issuers of various profiles have adopted the label for one or several of their short term programmes since 2006, when the STEP label was 14% of the overall market, 5 or 6 months later. This choice was sometimes guided by pragmatism: the STEP label had been analyzed, initially in some cases, as a regulatory door opener to access Money Market Funds in certain countries (these rules had been lifted before the launch of the label thanks to the new EU UCITs - regulations). Then, during the crisis, the STEP label was temporarily (from end 2008 to end 2010) a privileged tool to access ECB collateral eligibility for a number of programmes of Financial Institutions. The ECB confirmed the temporary aspect of this easing – ending 31st December 2010 – raising the question of the pertinence of maintaining STEP label on programmes.

The STEP initiative, a market initiative, was not initially conceived with a view to any immediate return. Facts and circumstances proved later that immediate returns and benefits could be expected. This is often the case when a project or a concept has been developed with a vision rather than a (request) demand for an immediate return (advantage) (for comparison, initially, internet was a communication network for the academic world).

STEP aims at providing the financial industry (investors and issuers) a global and common playground for Issuers establishing short term papers' programmes, based, on the one hand, on standardization of content and presentation of information and on the other, on transparency (statistics and free access) in Europe. The absence of capacity to anchor this project in European law imposed the concept of a label delivered by an independent entity. This label and the labelisation were designed by a group of professionals from across the financial industry (all horizons of the financial industry), with the blessing of the European System of Central Banks (ESCB), ACI (Financial Markets' Association) and EBF. For once, the design, conception and goals of a project dealing with the legal documentation, organisation, legal work, transparency and quality of information was conducted under the initial lead of market professionals. The completed project was then submitted to legal experts. The delivered project has been remaining under the monitoring of the market participants.

FRANCK HEBEISEN

Thanks to the STEP label, any investor can, independently of the nature of the short term paper programme considered:

- rationalize, in his/her risk department, the analysis of Information Memorandum;

- ensure that the information communicated in the various documents made available to him endorses the responsibility of someone (e.g. the Issuer);

- follow its retention exposure on the programme at any time, free of charge, and without the use of a third party who could, in certain cases, have a conflict of interest when delivering this data.

For the issuer, the STEP label means:

- benefiting from standardization when setting up and updating its programme, i.e. lowering exposure to legal costs and legal work incurred with law firms;

- being sure to benefit from standards which have been designed by market professionals and reviewed by legal experts and frequently updated (example of rating agencies' recent requests for non-publication of information);

- benefiting from transparency for the definition of the criteria: the STEP Market Convention and the Information Memorandum templates are freely accessible, and downloadable from the STEP website, (with no access code required). This is not the case for other markets standards.

Furthermore, recent circumstances have incited regulatory authorities to request more transparency from all markets, and short term papers markets will be affected, at some point or another, by these expected changes, as will all the OTC markets. Issuers and investors have, with STEP, the opportunity to propose to the relevant involved decision makers, a solution for market standardization and transparency which has proved reliable, efficient, and supported by the industry. It is crucial that the support provided for this project is maintained, and even intensified.

The STEP Committee will leverage the development of the market to provide evidence of the equivalence of this market with criteria requested by the ESCB for eligibility as collateral for ECB repo operations, "as an example". For the moment, the only possible way to obtain this eligibility for the short term paper issued by a financial institution is to list the short term paper issued, issuance by issuance, on an accepted stock exchange. This listing is supposed to improve transparency and liquidity on the notes. It is clear that this implied statement for short term papers is not accurate. Listing, in its present format, is not a way to increase transparency and liquidity on the short term paper market. Moreover, costs involved for listing many issues are far higher than those for getting a STEP label which cover all notes issued under the Programme.

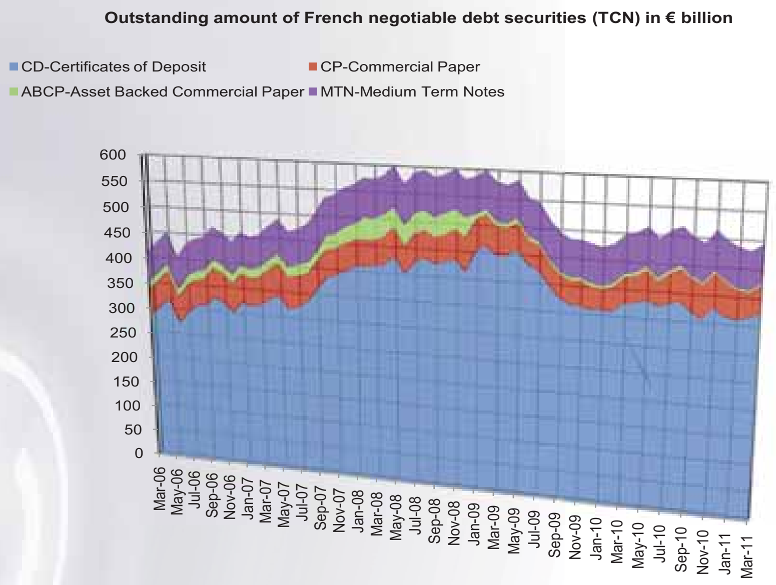
Euribor-ACI and Euribor-EBF members have to continue to support this project even more. This will help the STEP Market Committee to demonstrate that this tool is the most fitted to the ESCB request(s) for eligibility.

Franck Hebeisen, Head of Short Term Paper Desk at Société Générale and Member of the STEP Market Committee.

1- The TCN market: a developed short term securities market characterised by its dynamism during the financial turmoil...

With around 330 issuers, two third of banks, one third of corporates, the French marketable short term securities market ranks first in the Euro area. Today at 495 bn, the outstanding amount of TCN (certificates of deposits -CD- issued by bank, commercial papers -CP- by corporates, ABCP and medium term notes) has reached more than 600 bn in early 2009.

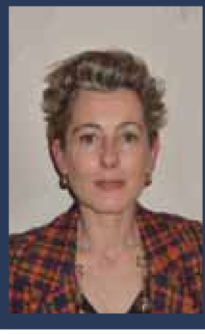
Its current level is close to the one recorded before the beginning of the financial turmoil. Between July 2007 and January 2009, the market increased by 27%, issuances of CD accounted for most of the growth. During the crisis, the TCN market has represented an alternative source of funding for banks in a context characterized by dysfunctioning interbank money markets. In October 2008, the Eurosystem decisions with respect to collateral policies increased the pool of eligible CD and boosted Step-labelled issuances. The outstanding amount has gradually decreased since then, especially since May 2009.



Source : Banque de France

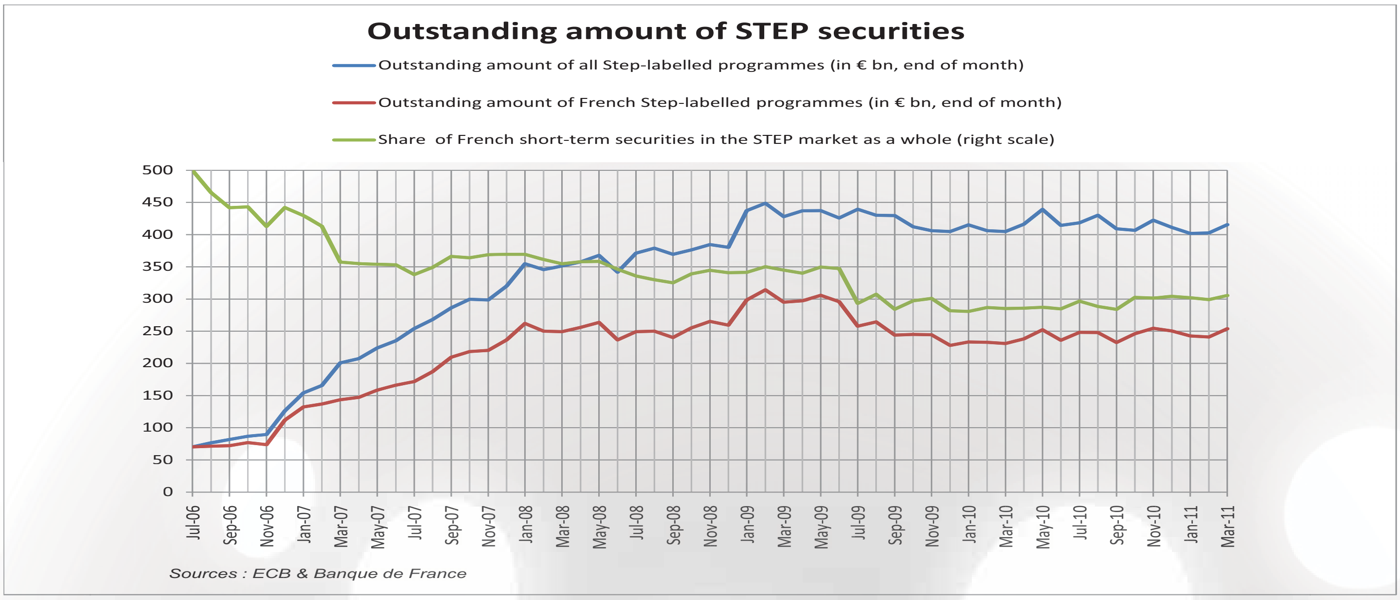
2- ...its attractiveness for foreign issuers ...

The market is rather concentrated, the top ten issuers representing 47% of the CD segment and 64% for the CP one. BNP, Natixis, SG, Crédit Agricole SA, BPCE, Banque Fédérative du Crédit Mutuel, ING, Crédit Agricole Corporate & Investment Bank, Dexia and Barclays Bank are the main issuers of CD whereas, on the CP segment, actors such as Acoss, Unedic, General Electric capital funding, Axa, GDF Suez, Sofira, Arcelor, Danone, RATP and SNCF are the most important players. 91% of the issuers are rated A-1, P-1 and above. The market is also characterised by its attractiveness for foreign banks. Their share in the outstanding amount of CDs stood at 15% at the end of 2008 and currently represents nearly 25%. The 5 following banks are the main contributors to this increase: Intesa San Paolo Spa, ING Bank NV, Lloyds TSB Bank PLC, BBVA, Rabobank NV. The eligibility of French CD to the refinancing operations of the Eurosystem but also the supervised nature of the market (the Banque de France is responsible for ensuring that the issuers comply with the conditions of issue and publishes information memos related to issuers as well as statistics on the market) mainly explain that foreign issuers reinforced their position on the French market.

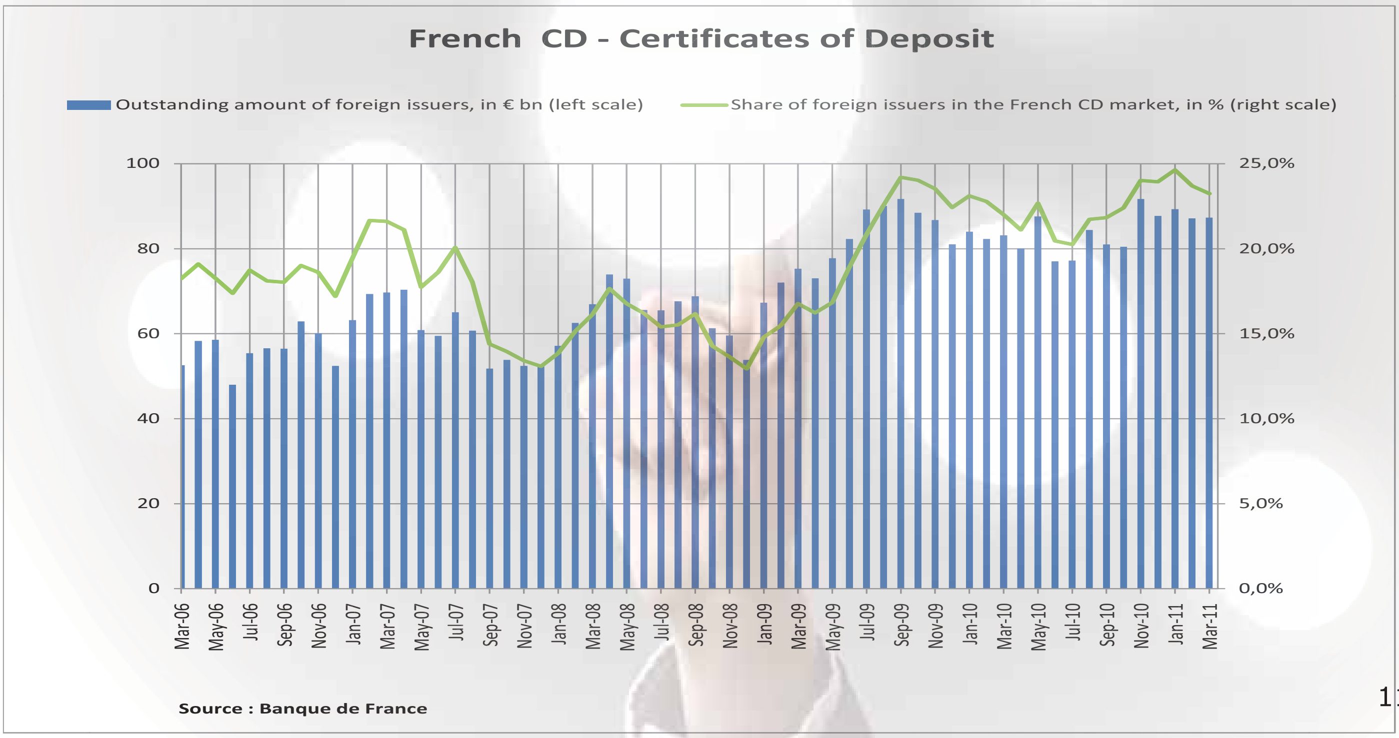


3-… the predominance of Step-labeled programmes…

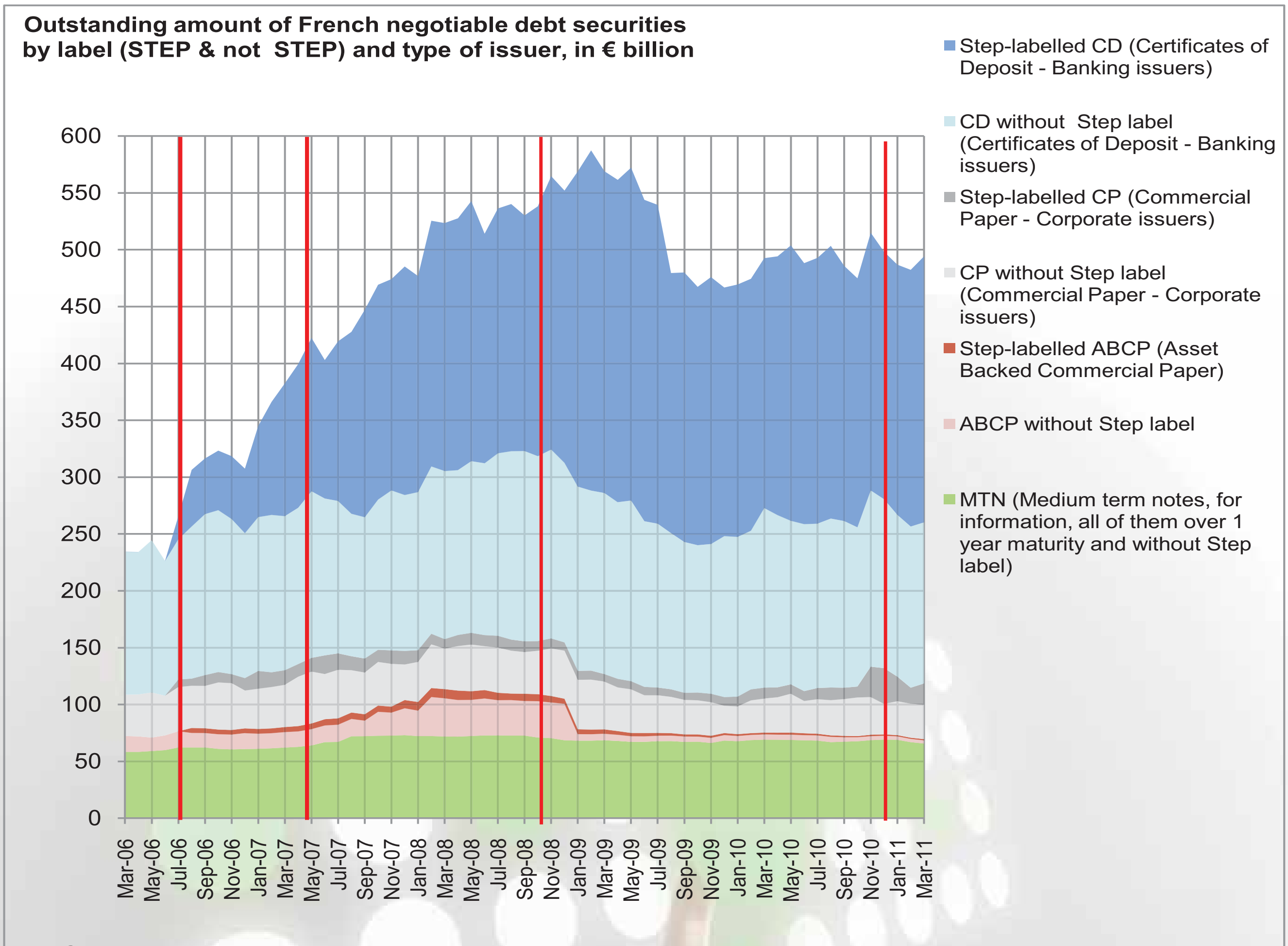
The French STEP-labeled TCN outstanding amount has stabilized at around 250 € billion for nearly two years, which represents around 60% of the STEP market as a whole.
In March 2011, the outstanding amount of French STEP-labeled programmes reached 253,8 € billion and 61,1% in terms of market share, while the STEP market as a whole stood at 415,6 € billion. The share of STEP-labeled French TCN in the ECP market has progressively decreased, from 90% in late 2006 to 60% today, other markets and particularly the ECP market becoming more and more represented on the STEP market.



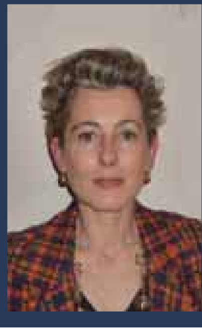
2- …its attractiveness for foreign issuers …



The outstanding amount of French Step-labeled debt securities has experienced three periods of uneven progress, which are linked to the STEP market schedule on one hand and more specifically to the evolution of different issuing sectors involved in the French short-term securities market on the other hand.



Source : Banque de France



As regards the STEP market calendar, three main events have to born in mind.

June 2006: the STEP market is set up to foster the integration of the European markets for short-term debt securities.
April 2007: the STEP market is included in the list of non-regulated markets accepted by the Eurosystem for collateral management purposes, provided that detailed criteria defined by the Eurosystem are fulfilled (for instance, at this moment, CDs issued by banks are not accepted as collateral, unless they are registered on a regulated market).
From October 2008 to December 2010: CDs issued by banks, not registered on a regulated market but registered on the STEP market are accepted as collateral by the Eurosystem.
In the meantime, the Step label has been less determining for the evolution of the CP sector (BT) since this segment of the market is recognized as a non regulated market accepted by the Eurosystem for collateral purposes.

Considering the different issuing sectors involved in the French negotiable securities market, the surge of the French STEP-labeled outstanding mainly stems from the banking sector.
Indeed, the STEP-labeled CD stock amounted to a maximum of 299,2 € billion in February 2009 and reached 233,9 € billion at the end of March 2011 and its share in the French CD market as a whole evolved in the meantime between 65% and 62%, while the STEP-labeled BT stock, at a maximum of 31,4 € billion in December 2010, represents today 18,7 € billion and accounts for 38% of the BT segment.

In March 2011, 72 French TCN issuers with STEP label have been active on the STEP market out of a total of 157 issuers. 12 French TCN programmes are registered in the top 20 STEP issuers by outstanding amount.

Top 20 - Outstanding amounts of STEP securities by programme (denominated in € million, all currencies)	Market country	Program ceiling (in € billion)	Amount outstanding 1 Apr 2011 (in € million)
BNP Paribas French Certificats de depots	French TCN	70	42.765
Natixis Certificates of Deposit	French TCN	45	21.614
KfW Multi Currency Commercial Paper Programme	German CP/ ECP	35	19.475
Societe Generale French Certificats de depot	French TCN	60	18.258
BPCE French CD	French TCN	60	15.184
Dutch State Treasury Agency	ECP	50	14.718
Banque Federative du Credit Mutuel French Certificats de Depot	French TCN	30	12.749
Credit Agricole Corporate and Investment Bank (formerly Calyon) French CD Programme	French TCN	30	11.851
ING Bank NV Certificates of Deposit Programme	French TCN	20	11.646
ACOSS French Billets de Tresorerie	French TCN	25	11.401
BBVA SA London Branch Euro Commercial Paper Programme	ECP	20	9.935
Dexia Credit Local French CD	French TCN	25	9.776
Cooperatieve Centrale Raiffeisen Boerenleenbank BA Rabobank Nederland Euro Commercial Paper and Certificate of Deposit Programme	Dutch CP/ECP	25	8.795
ING Bank NV ECP and CD Programme	ECP	20	8.513
UniCredit SpA French Certificats de Depot Programme	French TCN	20	8.315
European Investment Bank Global Commercial Paper Programme	ECP	25	8.162
Intesa Sanpaolo French CD	French TCN	15	7.866
Pohjola Bank plc ECP and CD Programme	ECP	12	6.847
Fortis Bank S.A. Global Multi Currency Short and Medium Term CD Programme	Belgian CP/ECP	unavailable	6.632
Cooperatieve Centrale Raiffeisen Boereleenbank BA Rabobank Nederland Certificates of Deposit Programme	French TCN	20	6.623
Sources : ECB & Step Market.org			

Marie-Sybille Brunet-Jailly, Chef du service des Titres de Créances Négociables
Direction de la Stabilité Financière - Direction Générale des Opérations - Banque de France

Further signs of the robustness of the STEP market

The market-led Short-Term European Paper (STEP) initiative was officially launched in June 2006. Its aim was to mitigate the negative effect on the integration of the short-term paper in Europe that stemmed mainly from differences in legal systems and regulatory requirements. The initiative helped foster the integration of this market by promoting the convergence of market standards, supported by the ECB and the Eurosystem, acting as catalysts. The outstanding amounts of STEP securities proved to be robust in the past few years, as they emerged relatively unscathed from the financial market turmoil. Indeed, the constant increase of their importance in terms of GDP and other benchmarks in past years can be seen as a clear sign of the success of the initiative. At the same time, this partly reflected the fact that STEP is accepted by the Eurosystem as a non-regulated market for collateral purposes. In addition, in October 2008 the ECB's Governing Council decided to temporarily expand the list of assets eligible as collateral in Eurosystem credit operations to include STEP-labelled securities issued by credit institutions.

Whereas this may have partly supported the market, this article shows that the STEP market has proved its robustness upon the discontinuation of this specific measure at the end of 2010. The evidence thereof from the first four months of 2011 can be seen as further sign of the success of the initiative in supporting financial market integration.

From the very outset of the STEP market initiative, the ECB and the Eurosystem have acted as catalysts for this private sector initiative, thereby fostering the integration of the euro area's financial system. Under the new STEP Market Convention, which has been applied since February 2011, the ECB continues to support the STEP initiative, in particular by producing and publishing detailed STEP statistics on a weekly basis.

These statistics are used in this article to provide evidence of a further sign of the robustness of the STEP market in the first four months of 2011.

At the end of 2010, STEP securities emerged relatively unscathed from the financial market turmoil[1]. This development can be seen as a clear sign of the success of the initiative and, in part, reflected the fact that STEP is accepted by the Eurosystem as an unregulated market for collateral purposes. In addition, in October 2008 the ECB's Governing Council decided to temporarily expand the list of assets eligible as collateral in Eurosystem credit operations to include STEP-labelled securities issued by credit institutions, i.e. certificates of deposit.

This particular measure was discontinued at the end of 2010. If used as collateral in credit operations with the European System of Central Banks (ESCB), counterparties had to replace these assets on 31 December 2010 at the latest.

The end of these exceptional measures could thus have had a negative impact on the development of STEP securities in the first months of 2011, in particular those issued by monetary financial institutions (MFIs), assuming that the temporary measures described above had been a major factor behind the robust STEP developments in recent years.

In order to evaluate the robustness of STEP securities in the first four months of 2011, this article looks at three different dimensions of STEP statistics in terms of a potential negative impact of the end of the exceptional measures of the ECB.

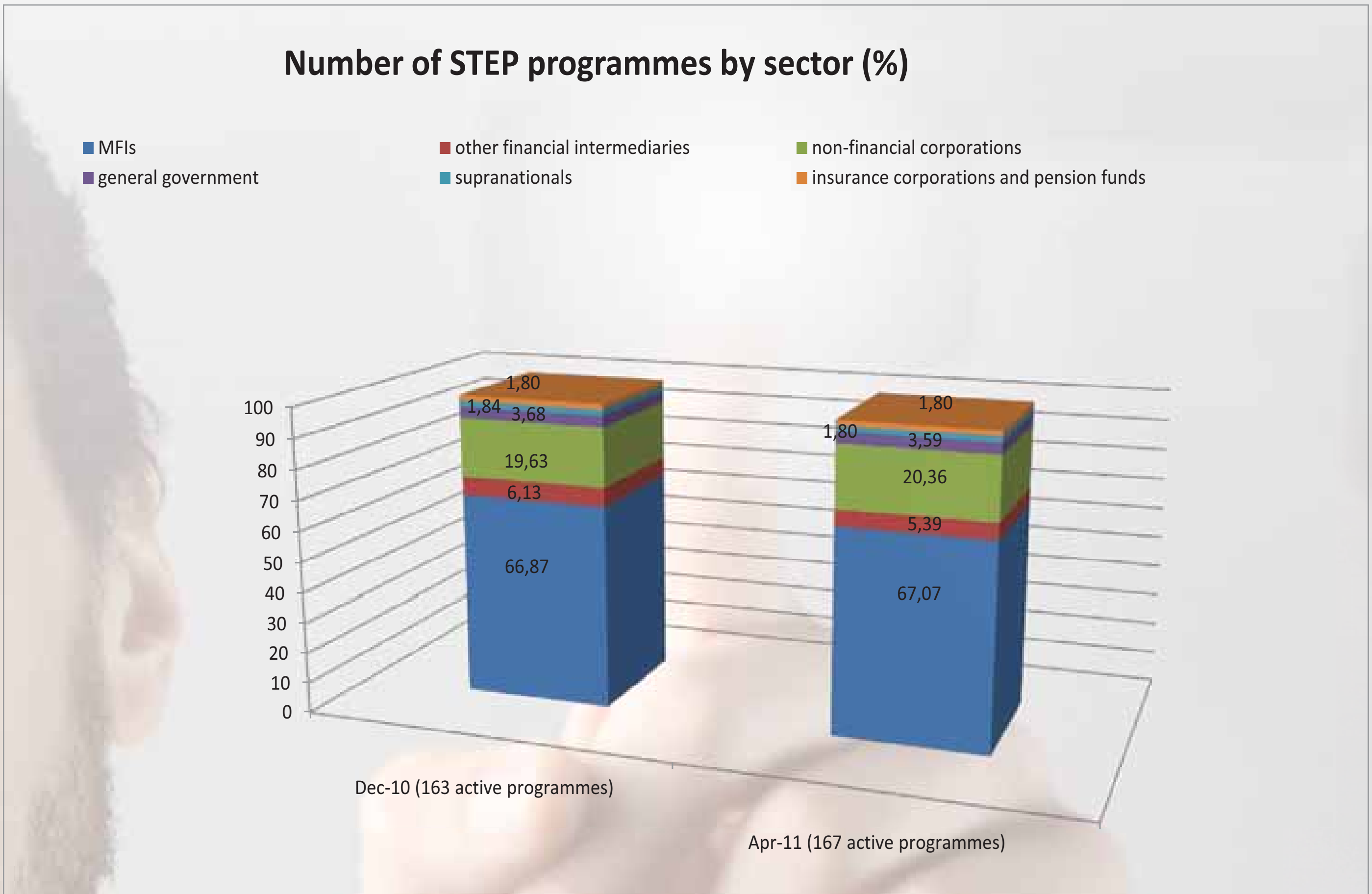
[1]For more details, please refer to Corvoisier, S. and Petit, V., "Detailed statistics on STEP: a contribution to transparency in this market segment", Euribor EBF Newsletter, February 2011.

Sandrine CORVOISIER and Vivien PETIT

a. Have the number and the distribution of active STEP programmes, broken down by sector, been affected in the first four months of 2011?

The total number and distribution of STEP programmes by sector at the end of April 2011 did not differ significantly from the figures at the end of 2010, i.e. before the end of the exceptional measure of the ECB. Around 67% of the STEP labels at the end of April 2011 were owned by MFIs, basically unchanged from the share recorded in December 2010. Programmes withdrawn since November 2010 were compensated for by new STEP labels, which led to a similar picture of active programmes' shares for all sectors in December 2010 and April 2011 (see Chart 1).

Chart 1: Number of active STEP programmes, broken down by sector, as percentages.



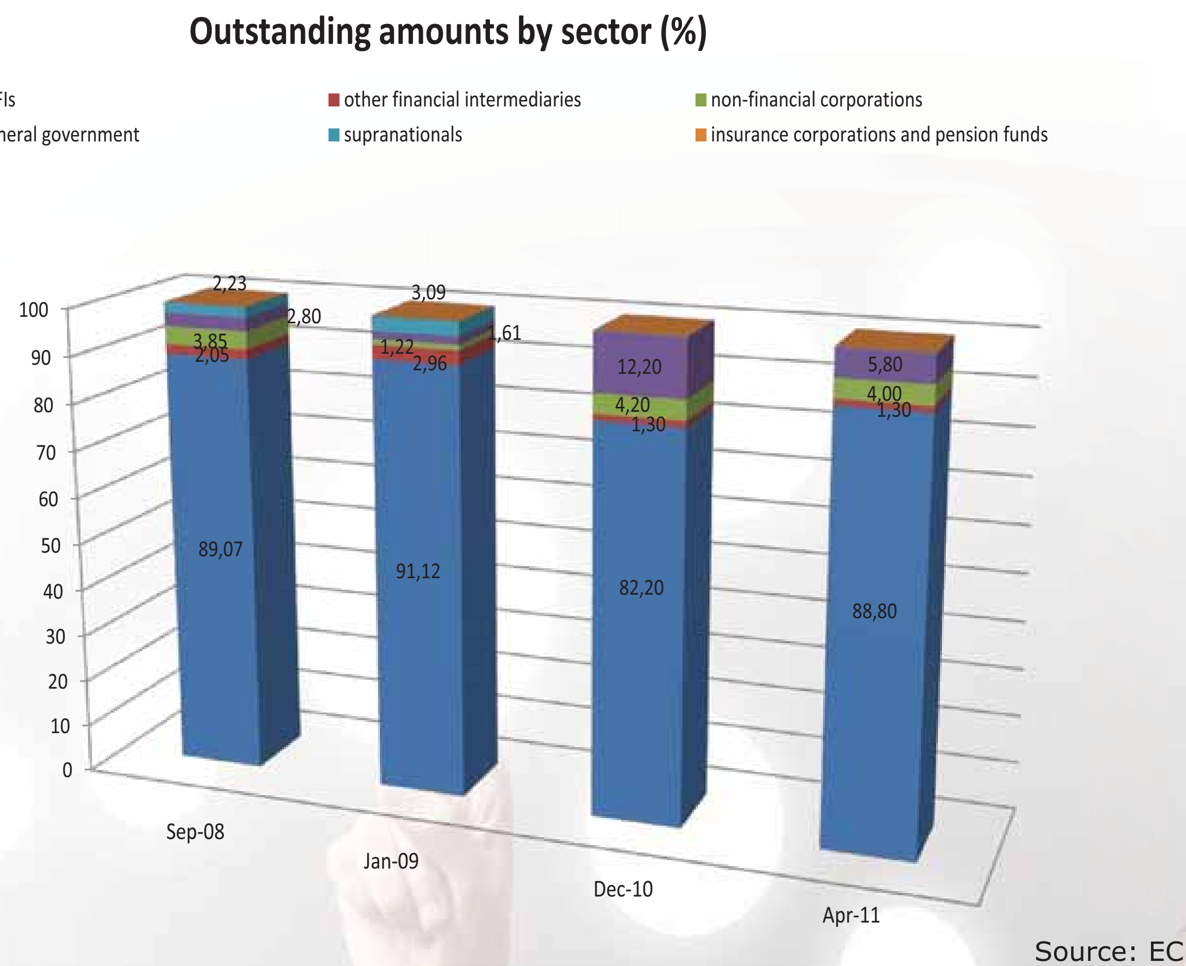
Source: ECB.

b. Have the outstanding amounts of STEP securities, broken down by sector, been significantly affected in the first four months of 2011?

At the end of April 2011, the total outstanding amounts under the STEP label came to EUR 387.3 billion. 88.8% of these outstanding amounts were issued by MFIs. Despite the expectation that the end of the exceptional measures of the ECB might have a negative impact on securities issued by MFIs, this share actually exceeds that observed in December 2010, when the corresponding share was 82.2%. Interestingly, in April 2011, the share of STEP securities issued by MFIs was basically identical to that observed before the extension of the list of eligible collaterals for ESCB credit operations in October 2008 (see Chart 2).

Issuance by the general government sector decreased from 12.2% of total issuance in December 2010 to 5.8% in April 2011. The increase in issuance by general governments observed over the last few months did not continue in April, as maturing securities were no longer compensated for by major new issuance. Nonetheless, the share of the general government sector in the total STEP amount outstanding remains much higher than before the financial crisis.

Chart 2: Amounts of STEP securities outstanding, broken down by sector, as percentages.



Source: ECB.

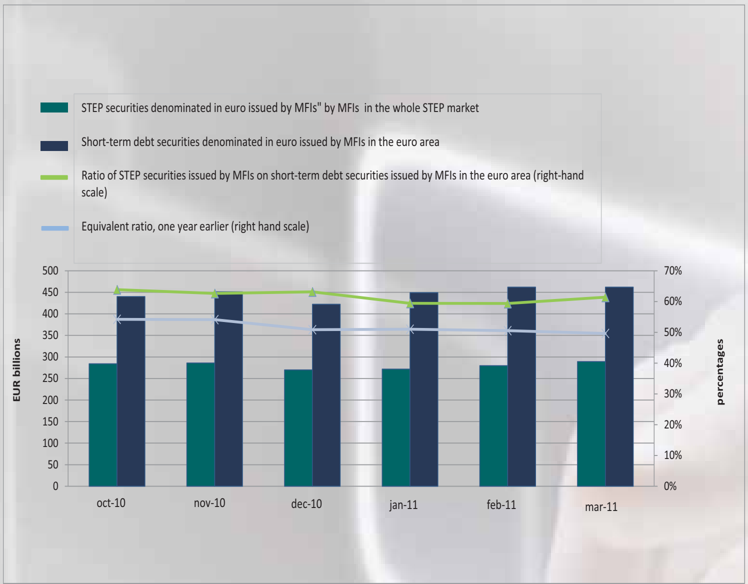
c. Have STEP securities shown signs of weakness in comparison with some benchmarks in the first months of 2011?

Whereas the two previous criteria assessed the STEP developments in absolute terms, a proper comparison with an external benchmark allows normative statements to be made as well. A direct benchmark is difficult to find, as STEP securities are issued in a number of countries in the EU, as well as in additional countries, for which monthly securities issues statistics are not available. For benchmarking purposes, STEP-labelled securities issued by MFIs in euro were thus compared with euro-denominated issuance of short-term debt securities by MFIs resident in the euro area. As seasonal effects may influence the comparison, Chart 3 also shows comparable ratios of both series for the previous year.

Chart 3 highlights that the ratio of STEP securities issued in euro by MFIs to euro-denominated issuance of debt securities by euro area MFIs decreased somewhat in January 2011, but recovered within the next two months. These data confirm that the discontinuation of the extraordinary acceptance of STEP-labelled securities as collateral by the Eurosystem at the end of 2010 does not seem to have had any significant and lasting negative effect.

Overall, developments in the first months of 2011 thus support the view that STEP securities have continued to develop robustly, despite the end of temporary policy measures of the ECB that had been a positive factor for the market in the past. This provides evidence that the STEP initiative continues successfully to contribute to financial market integration.

Chart 3: Comparison of STEP securities issued by MFIs and short-term debt securities issued by MFIs in the euro area.



Source: ECB.

Sandrine Corvoisier and Vivien Petit, European Central Bank.

Euribor Steering Committee members

Euribor[1] Steering Committee members are experienced market practitioners who are directly involved in market operations (money markets, FX markets, interest rate derivatives). In collaboration with the Euribor-EBF Secretariat, they closely monitor Euribor and Eonia's behaviour in light of market developments and review the composition of the panel as well as individual panel banks contributions (see article on benchmarks' monitoring on page 26). They are appointed by Euribor-EBF, Euribor-ACI, the European Association of Co-operative Banks (EACB) and the European Savings Banks Group (ESBG).

Guido Ravoet is the Chair of the Committee. He became Secretary General of the European Banking Federation and Euribor-EBF in January 2005, now Chief Executive, following his 10 years office at the helm of the Association of Belgian Banks, now Febelfin (Belgian Finance Federation). He was previously Secretary General of the European Association of Cooperative Banks and has remained throughout his career very focused on European affairs, e.g. as a former member of the European Economic and Social Committee. Guido Ravoet also has more than 10 years banking experience with Cera bank (now KBC) as Head of Research Department and then Managing Director. Guido has a PhD in Law and a Masters Degree in business economics.

Muriel Bescond has been Managing Director, Head of European Treasury at Societe Generale Corporate & Investment Banking since 2004. She has 20 years experience in short term rates markets as a treasurer and as a derivative market-maker. Over the past three years, the financial crisis has illustrated the importance of having reliable indices and Euribor has been a well-recognised index since its creation. Societe Generale is a major player in the Euro-zone and is involved in different market associations such as ACI-France and the Money Market Contact Group at the European Central Bank. In addition, the bank is also a major participant on the money market in other currencies, especially on the dollar. Its importance is recognised by its participation in Libor USD, GBP, CHF, JPY, CAD and EUR.

"Our application to the Euribor Steering Committee shows our willingness to continue being involved in the development of the European market as well as actively highlighting the Euribor index".

[1] *Euribor® is the rate at which Euro interbank term deposits are offered by one prime bank to another prime bank within the EMU zone, and is published at 11:00 a.m. (CET) for spot value (T+2).*

Andreas Biewald is Head of Funding within the Treasury department of Commerzbank. He is responsible for managing the central banks and nostro accounts, coverage of branches and interbank market, co-ordinating liquidity between Europe, UK, US and Asia, and for managing the liquidity buffer of the bank through unsecured and secured transactions. Andreas joined Dresdner Bank AG in 1987, starting in operations to deal with futures. In 1992, he moved to the front office supporting the liquidity manager of the bank. In 1996, Andreas was promoted to the global coordinator for all money market activities of the Dresdner Bank group. In 2002 he was also given the global mandate for repo trading in Euro. After the merger of Dresdner Bank AG into Commerzbank, Andreas was promoted to his current role as head of funding. He also represents Commerzbank AG in the ECB money market contact group, the European Repo Council and at the Eurex Repo Advisory Board.

Zinia Chatzimpei is Assistant Treasurer at the National Bank of Greece (NBG). She joined the NBG in 1984, working successively at the Treasury Sales, the Swap Desk and the Money Market Desk (Swap and Repo). She is also a member of the ACI Money Market & Liquidity Working Group.

Alberto Covin is Head of Short Term Funding and Interest Rate Management at UniCredit. He started building up an experience in fixed-income trading in Cariverona. In 1999 he had the opportunity to "cross the bridge", and started working in the structuring and derivatives sales team in UBM, where he spent the following 8 years. A short experience in the private banking industry in 2008 lead him to get in touch with UniCredit Group Treasury, where he now coordinates the short term unsecured funding.

"One usually looks at Euribor as an external measure of interest rates' level, and pays low or no attention to the assumptions and the work behind a definition we are so accustomed to. It's intellectually stimulating, and professionally challenging, to put my expertise at work on this topics; and I'm sure that, for me, it will be an enriching experience to share views with so competent and respected professionals."

Alexandre Seignat is the Treasurer of Credit Agricole in Paris. Previously, he was successively Trader US Treasuries and Eurobonds for CAI Paris and Portfolio manager for Calyon NY. Alexandre is also President of ACI France (AFTB-ACI, Association du Forex et des Trésoriers de Banque), Vice-President of the CNO (Comite de Normalisations Obligataires), and Member of the Money Market Liquidity Working Group and of the Comité de Trésorerie du Fond de Garantie.

Georg-Heinrich Sieveking is Head of Treasury of Investitionsbank Berlin. Previously, he worked consecutively as Branch Manager of Landesbank Berlin Luxembourg, Head of Unit Money Market at Bankgesellschaft Berlin AG and Head of Issuing at Landesbank Berlin. Before joining Investitionsbank, he was Global Product Head of Bankgesellschaft Group. Geaorg-Heinrich is also President of ACI Germany.

Jaana Sulin is First Vice President of Nordea Bank Finland. She started in banking in 1980, in Union Bank of Finland, as a markets dealer. During the years, she has had different resposibilities in the Group, varying from Bond issuance to emerging markets. Today, she is responsible for the Short term issuance and Liquidity Management for the Group. She was the president for ACI Forex Finland for 11 consecutive years giving her the international visibility. During the ACI years she was also a member of the Committee for Professionalism. During that time the first Code of Conduct was written. She is also a member of the ECB Money Market Contact Group.

Antonio Torralba, Spanish national and Head of Interest Rate Flow Trading at BBVA, has a degree in Economics and Business by the University of Barcelona and also followed studies at several academic Institutions (IESE, LSE). He has worked internationally (London, Frankfurt and Tokyo) within well known International Banks before starting his new role in Madrid with BBVA Global Markets. His focus has always been the interest rates markets.

"It is a privilege for me to become a member of the Steering Committee and help on the management of the benchmark that is vital for the citizens and the Institutions of the Eurozone."

José Maria Verdugo is Deputy General Manager and Head of Financial Division at CECA (Madrid). He started his carreer as a trader at Banco de Vizcaya and then Société Générale, where he was successively Head of Money Market and Head of Long Term Interest Rates. Before joining the CECA, he worked as Treasury Manager at the First National Bank of Chicago. José Maria is also a Board Member of Analistas Financieros Internacionales (AFI), Ahorro Corporación and Ahorro y Titulización as well as President of Loomis Consultancy Council.

For more information on the Euribor Steering Committee and the Euribor fixing, please visit www.euribor-ebf.eu

Strategies with 3-month Euribor Futures

In the wake of the economic recovery, and especially the higher cost of raw materials and the consequent rise in inflation, central banks have embarked on a process of reducing the monetary stimulus applied in 2008 and 2009. However, at the global level, the main feature of this process is the lack of correlation in decisions, especially between the developed and the emerging blocs. Nevertheless, there are also significant differences within the former grouping, with the ECB standing out as the first to begin raising its benchmark interest rate.

The European monetary authority's decision, as well as possible further rate increases, does not find widespread support among analysts, fund managers and academics. Hence, it has sparked an important debate on the future course of the reference rate, especially if we take account of such issues as the debt crisis in some peripheral Eurozone countries, the strength of the euro, the inability of certain countries to achieve growth beyond that made possible by external demand and the expected decline in inflation towards 2% at year end. Naturally, Euribor, in its different tenors, has already reacted to the ECB's decision and to expectations about future decisions.

Here, we wish to present alternatives for profiting if the market's expectations turn out to be incorrect. Interest rate futures, both long term and short term, are traded in the EUREX and LIFFE markets. We shall focus on the contract whose underlying is 3-month Euribor, since it is the most sensitive to monetary policy. Unlike other futures, different maturities (up to twelve) are quoted, corresponding to the quarterly cycle (March, June, September and December). The underlying of this future is the interest earned on a €1 million 3-month deposit remunerated at 3-month Euribor, beginning on the future's expiry date. To summarise, in practice it is a question of anticipating the level of 3-month Euribor on the third Wednesday (the date on which the Euribor rate is taken) of March, June, September or December. The price of the future is quoted as 100 minus the implied interest rate.

Thus, if the 3-month Euribor expected for December is 2.5%, the futures price will be 97.500. If our expectations are that the final rate will be 3.0%, we will open a short position (expecting the price to fall to 97.000), while if we consider that the 3-month Euribor will be at 2.0%, we will take a long position (the price will go up to 98.000). As the underlying is the interest earned during 90 days (base 360) on a €1 million deposit, each basis point that we achieve will mean a capital gain of €25 per contract (or a loss if the market moves in the opposite direction to our bet).

Those who believe that the ECB will not in the end be as aggressive in tightening monetary policy in 2012 may try to take advantage by taking long positions in 3-month Euribor futures. The number of contracts will depend on the potential losses that they are willing to assume. Conversely, for those who consider that the increase in the ECB reference rate, and hence in 3-month Euribor, will be higher than the market is discounting, the strategy will be to sell futures.

As often occurs, a speculative position can also be understood as a hedge. Consider a company with bank financing of €2 million, indexed to 3-month Euribor plus 150 bp, maturing in 2015, and resetting in March, June, September and December. Evidently, it assumes interest rate risk, in particular with regard to a rise in 3-month Euribor, for example, in 2012. If it wants to hedge that risk, it can do so by selling two 3-month Euribor futures in each of the four maturities (if it wanted to hedge the 2013 interest rate risk, it could sell that year's futures). Obviously, in the case of a hedge, it is likely that mismatches will arise. What if the loan principal is €1.5 million? The company may only hedge €1 million. What if the loan resets in February, May, August and November? The hedge will not be perfect. What if the loan is indexed to 6-month Euribor rather than 3-month Euribor? It assumes money market curve risk.

As can be seen, the standardization of 3-month Euribor futures may reduce the efficiency of the hedge (as is usual with exchange-traded derivatives); hence, business management tends to make greater use of OTC hedges. Conversely, however, the positions taken by portfolio managers and **the absence of counterparty risk, together with high levels of liquidity, make the 3-month Euribor futures an excellent alternative for providing alpha.**

We can examine two more strategies. Thus, as already discussed, we can bet (via a long position in the Dec 12 maturity) that throughout 2012 3-month Euribor will rise less than the market is discounting. Alternatively we may think that if the ECB raises interest rates, the market will reduce its forecast for future increases. In this case, the company could take out a **calendar spread, a strategy that involves selling and buying futures with different maturities.** The future with the nearer maturity is sold and the farther is purchased. Then, let us suppose that the ECB implements a big increase in the repo rate, 3-month Euribor rises accordingly and so does the 3-month Euribor future with the nearer maturity. However, if we have bet that the market will not discount further increases, the bp rise in the nearer maturity will be stronger than that of the farther one far (the slope will flatten), so that the profit on the short position will exceed the loss on the long one. At this point, one might think it unnecessary to buy the farther maturity. That is not the case, since by doing so we make a profit regardless of the level of increase in Euribor as it is generated only by flattening of the curve (regardless of where Euribor ends up).

Another strategy consists of a long and a short position, for the same maturity but in different currencies. So, taking a short position in the 3-month Eurodollar futures with expiry Jun 12 and a long position in the 3-month Euribor future would be betting, not so much on the final levels of two separate interest rates as on a reduction in the current difference between the Fed's monetary policy and the ECB's. Evidently, the strategy can be made more complex by dealing in different maturities, or even combining a calendar spread in Euribor with a Eurodollar calendar spread (this strategy is called a Box), so that we would be betting on differences in the changes in the slopes of the money market portions of the interest rate curves.

In short, with 3-month Euribor futures and their counterparts in other currencies, it is possible to generate revenue as well as hedging risks, a highly recommendable strategy in situations like the present, replete with turning points and divergent monetary policies.

David Cano and José Manuel Amor Analistas Financieros Internacionales*

(*) Lecturers at the Escuela de Finanzas Aplicadas (Afi)

Eurepo Steering Committee members

Eurepo[1] Steering Committee members are experienced market practitioners who are directly involved in euro repo market operations. In collaboration with the Euribor-EBF Secretariat, they closely monitor the fixing's behaviour in light of market developments and review the composition of the panel as well as individual panel banks contributions (see article on benchmarks' monitoring on page 26). They are appointed by Euribor-EBF and the European Repo Council (ERC).

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Paolo Bosio is Executive-Head of Treasury department of Banca Monte dei Paschi di Siena Group. Involved in financial markets since the beginning of his career, he started in BANCA AGRICOLA MANTOVANA in 1983 as a FX dealer. He went trough all the internal steps of a global trading room from equities to bond trading and money market activities on a proprietary account basis. In 2000, he became head of Finance dept and in 2003 moved to the headquarters of Banca Monte dei Paschi, which acquired Banca Agricola Mantovana. He matured experience in finance dept as coordinator of the Head of Finance Dept. Since 2006 he has been appointed Head of Treasury dept for the group (the third in Italy) both for the money market unsecured desk and for repo desk. His supervision involves all the international programmes on the short term funding trough our UK and US branches. Until recently, he was member for two mandates of the Euribor Steering Committee and he participates in some other working groups into the Italian financial community.

[1] *Eurepo® is the rate at which, at 11.00 a.m. Brussels time, one bank offers, in the euro-zone and worldwide, funds in euro to another bank if in exchange the former receives from the latter the best collateral within the most actively traded European repo market.*

Andreas Biewald is Head of Funding within the Treasury department of Commerzbank. He is responsible for managing the central banks and nostro accounts, coverage of branches and interbank market, co-ordinating liquidity between Europe, UK, US and Asia, and for managing the liquidity buffer of the bank through unsecured and secured transactions. Andreas joined Dresdner Bank AG in 1987, starting in operations to deal with futures. In 1992, he moved to the front office supporting the liquidity manager of the bank. In 1996, Andreas was promoted to the global coordinator for all money market activities of the Dresdner Bank group. In 2002 he was also given the global mandate for repo trading in Euro. After the merger of Dresdner Bank AG into Commerzbank, Andreas was promoted to his current role as head of funding. He also represents Commerzbank AG in the ECB money market contact group, the ICMA European Repo Council and at the Eurex Repo Advisory Board.

Eduard Cia is Head of Short Term Interest Rate Trading at Unicredit Corporate & Investment Banking at UniCredit Bank AG, Munich. He is responsible for money market, FX-Forwards, O/N Swaps, securities lending and repo for bonds and collateral trading. Eduard joined Hypo-Bank, Munich, in 1992 to set up their securities lending and repo desk. In 1994 he also established the repo desk of Hypo's London branch. From 1996 to 1998 he headed Hypo's short term desk including all short term interest rate products including. After the merger between Hypo-Bank and Vereinsbank he was appointed as head of repo & collateral trading. Since the beginning of 2005 he is again in charge for all short term interest products within UniCredit Bank AG. Before Hypo-Bank, Eduard worked for two years at Deutsche Bank, Frankfurt, as trader for securities lending. Eduard is member of ICMA European Repo Council. He holds a Business Administration degree from the University Innsbruck.

Johan Evenepoel is Global Head of Repo, Cash & Liquidity of the Dexia Group since 2006. He started his career as a mathematics teacher and joined the commercial branch of Bacob in 1987 before moving to the Financial Markets team in 1991. He became Head of Money Markets in consecutively Bacob Bank, Artesia Banking Corporation and Dexia Bank Belgium. Johan is a regular speaker at national and international seminars and is a member of the ICMA European Repo Council.

Alan Hartley is Director Global Head of Wholesale Balance Sheet - Bank of Ireland Global Markets. Financial market professional with 18 years experience in both bond and money markets, with books run on an investment and proprietary account basis. Currently responsible for the management and execution of all wholesale funding activities encompassing short dated and long term wholesale programmes, the day to day liquidity requirements of the Group (including all market repo transactions), a liquid asset bond portfolio of over €20bn, funding operations in offshore offices in the US and the UK, debt investor marketing teams, Financial Institutions Group and securitisation/structured funding teams.

Andrea Masciovecchio is Global Head of Treasury Portfolio at Intesa Sanpaolo, Milan. After joining Ca riplo in 1987, Andrea gained a long experience in the London Branch, where he carried on proprietary trading on FX, money market and fixed income products, moving to the position of Head of Fixed Income & Repo. In 2002, he moved to Banca Intesa, Milan, as Head of Repo Desk, and later on he covered the position of Head of Fixed Income & Emerging Markets in the proprietary trading division. Since 2008 Andrea is in charge of secured financing, investment and liquidity portfolios for the Treasury Division and foreign branches. Andrea is also member of the ICMA European Repo Council.

Miguel Angel Monzon Garcés is Director of Short Term Interest Rate Trading Desk (Assets deposits and derivatives) at BBVA, where he was successively Senior Trader and Director of Short Term Interest Rate Derivatives. Before joining BBVA, Miguel was a trader at Bank of America.

Fabienne Zamfiresco is Managing Director, Deputy Head of Repo & Collateral Management of Crédit Agricole CIB, where she was previously Fixed Income Markets / Treasury product line Managing Director. She started her carrer at SG Warburg in Paris in Fixed Income Markets before moving to BNP Paribas as Head of Repo desk in Paris. Before joining CA-CIB, Fabienne managed the Repo activity in Euro and launched the triparty Repo activity at Crédit Lyonnais

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For more information on the Eurepo Steering Committee and the Eurepo fixing, please visit [www.euribor-ebf.eu.](http://www.euribor-ebf.eu)

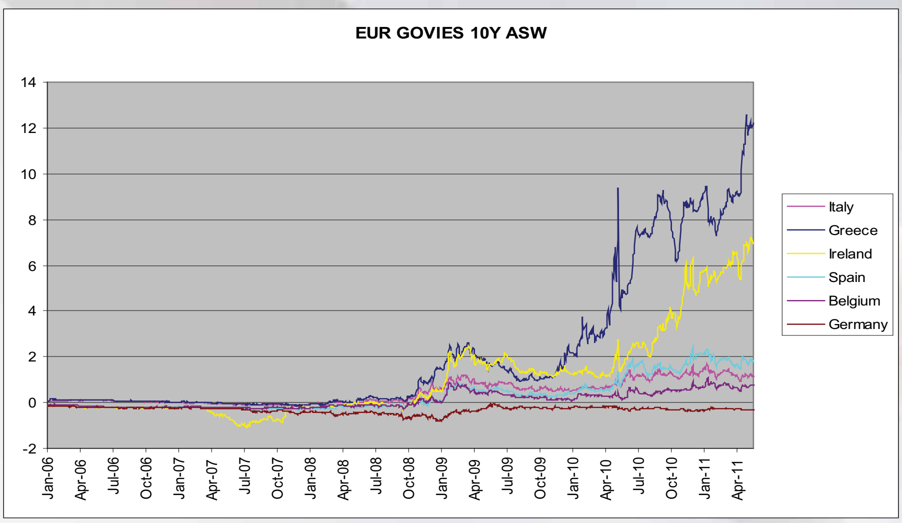
Eurepo In The Financial Crisis

One of the key lessons learned from the financial crisis since 2007 is the paramount importance for banks of having the capability to obtain liquidity in periods of stress through secured financing transactions. Banks have generally increased secured funding, in which funds are released against delivery of eligible collateral, compared to unsecured transactions, where the only guarantee is represented by the full faith and credit by the funds taker; the clear advantage for lenders is lower credit risk, so that regulations such as Basle Accords and CAD allow them to hold less regulatory risk capital than with unsecured lending.

Within the secured financing world repos are certainly the most common instrument, also adopted by central banks as their principal tool in open market operations to control short-term interest rates: repos are attractive as a monetary policy instrument because they carry a low credit risk while serving as a flexible tool for liquidity management. **The repo market is therefore one of the largest and most active sectors in today's money markets and plays a critical role in liquidity provision for the financial system, as evidenced in the recent market turmoil.**

Over the course of ten years ICMA has been publishing the European Repo Market Survey, which has become a very authoritative source of data on the cross-border repo market in Europe. According to the last December 2010 survey, the repo market is gradually recovering towards pre-crisis levels, with a market size of EUR 5.905 billion and a year-on-year increase of 6%, while the share of government bonds within the pool of EU-originated collateral stands at 76.6%.

Eurepo, the benchmark for secured money market transactions launched in 2002, has proven its resilience and reliability even during recent market turmoils related to the European sovereign debt crisis, which led to levels of market volatility and yield spreads between government bond issuers that are part of Eurepo GC basket never experienced since the launch of the Euro.



Eurepo Steering Committee members have agreed to review the benchmark definition in order to further strengthen the importance of liquidity by daily publishing reliable repo rates for top rated collateral within the GC basket. Eurepo reference rate, although an important market initiative for promoting the repo market's integration, never meant to be an average of the individual repo curves composing the Euro denominated General Collateral market.

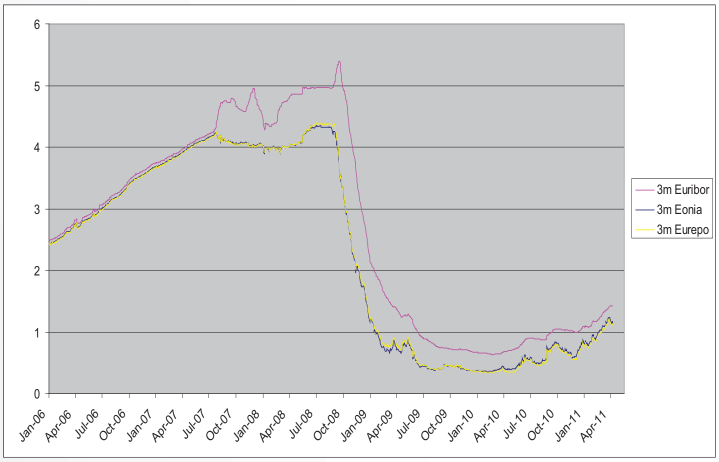
Andrea MASCIOVECCHIO

With regard to the behaviour of repo markets since the financial crisis broke out in 2007, Eurepo rates show a close correlation to Overnight Index Swap (OIS) curve rather than with Euribor curve, which has been distorted upwards by the increased credit risk premium implicit in unsecured bank lending. This phenomenon might appear counter-intuitive as repos, which require an initial transfer of funds equal to the value of collateral exchanged, are balance-sheet products as interbank deposits, while OIS are off balance-sheet instruments that don't require any initial or final exchange of principal; the different behaviour is explained by the intrinsic safety derived from the collateral exchanged and, should an event of default occur, by the legal protection and margining procedures foreseen by the ICMA Global Master Repurchase Agreement.

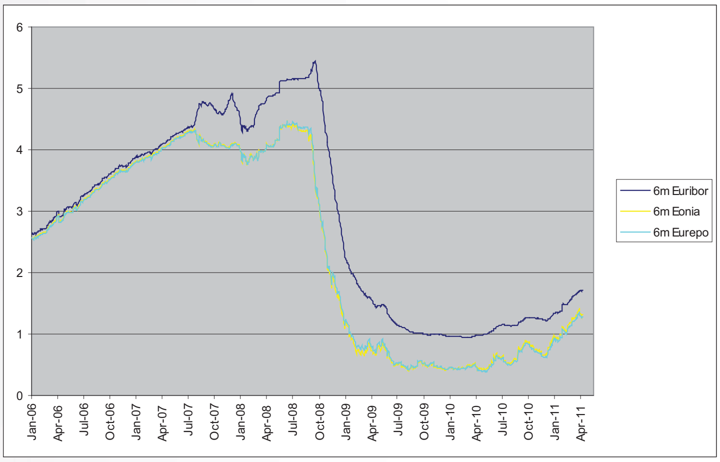
Having said that, it wouldn't be fair to say that repo markets have never experienced any dislocation due to increased counterparty risk, particularly toward financial institutions either subject to deep scrutiny about their creditworthy or because domiciled in countries deeply affected by the sovereign crisis. This explains the ever increasing importance of Central Clearing Counterparties (CCP) in order to minimize credit risk on behalf of the repo counterparty; the latest ICMA-ERC survey has shown that significant volumes of repos (13.8%) are now registered with CCP's after the trade has been completed directly between two parties or via a voice broker, not just via electronic trading systems.

Andrea Masciovecchio, Member of the Eurepo Steering Committee & the European Repo Council

3m Euribor, Eonia and Eurepo curves



6m Euribor, Eonia and Eurepo curves



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Benchmarks Monitoring:
Good contributions make Good fixings

For more than the past ten years, Euribor-EBF has been managing and developing European interbank benchmarks. Interbank fixings have been increasingly scrutinised, which underlines the need for individual contributions monitoring.

In 2010/2011, Euribor-EBF has further enhanced the monitoring of individual contributions, on a quantitative and qualitative point of view, by establishing monthly conference calls with Thomson Reuters, Euribor-EBF benchmarks calculation and publication agent, and submitting statistics to Steering Committee members at regular meetings.

How do panel banks contribute to the fixings?

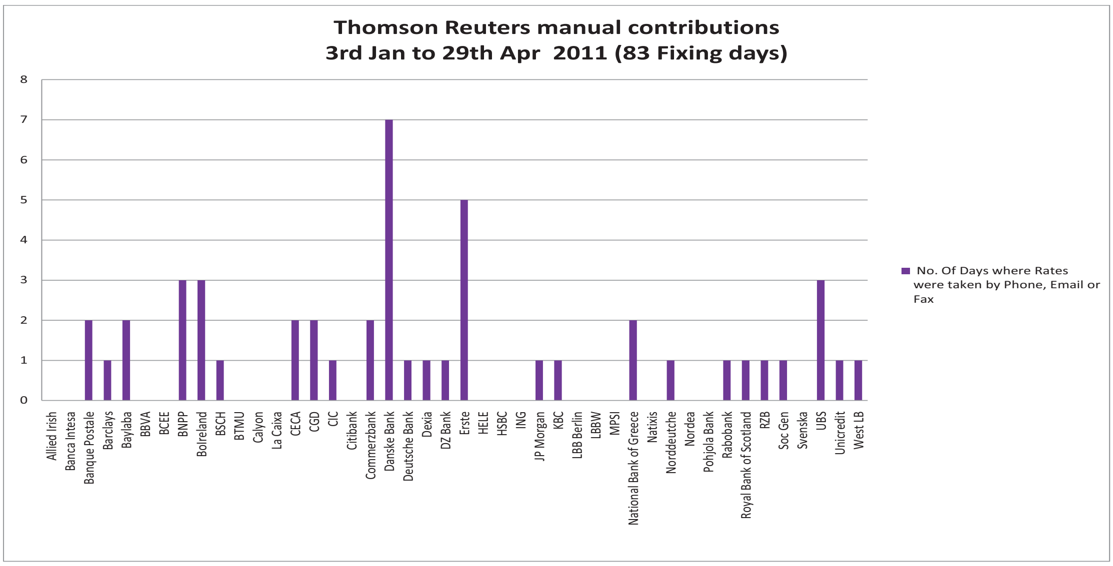
Every Panel Bank is required to directly input its data on a private page allocated by Thomson Reuters no later than 10:45 a.m. (CET) on each day that the Trans-European Automated Real-Time Gross-Settlement Express Transfer system (TARGET) is open.

While processing with the calculation of the benchmarks, Thomson Reuters eliminates the highest and lowest 15% of all the quotes collected.

It is very important that panel banks contribute in a timely manner and via the regular system, rather than orally on the telephone, in order to reduce the margin for potential errors and, consequently, risks for re-fixing.

Following a close quantitative monitoring of the contributions, Euribor-EBF has had bilateral contacts with contributors and insisted on the importance for panel banks to respect their obligations under the benchmarks' respective Codes of Conduct. As showed in Chart 1 on Euribor manual contributions, the percentage of manual contributions is now relatively low (over a period of 83 fixing days).

Chart 1:



Cédric QUEMENER and Gaëlle MARQUES dos SANTOS

On a qualitative point of view, Euribor-EBF has been analysing individual contributions from two main axes: (1) which contributions are constantly amongst the top 15% or bottom 15% and (2) are the contributions in line with the relevant definition?

The Euribor Steering Committee decided at its last meeting that the charts showing those frequently excluded contributors would be published in this newsletter.

Chart 2:

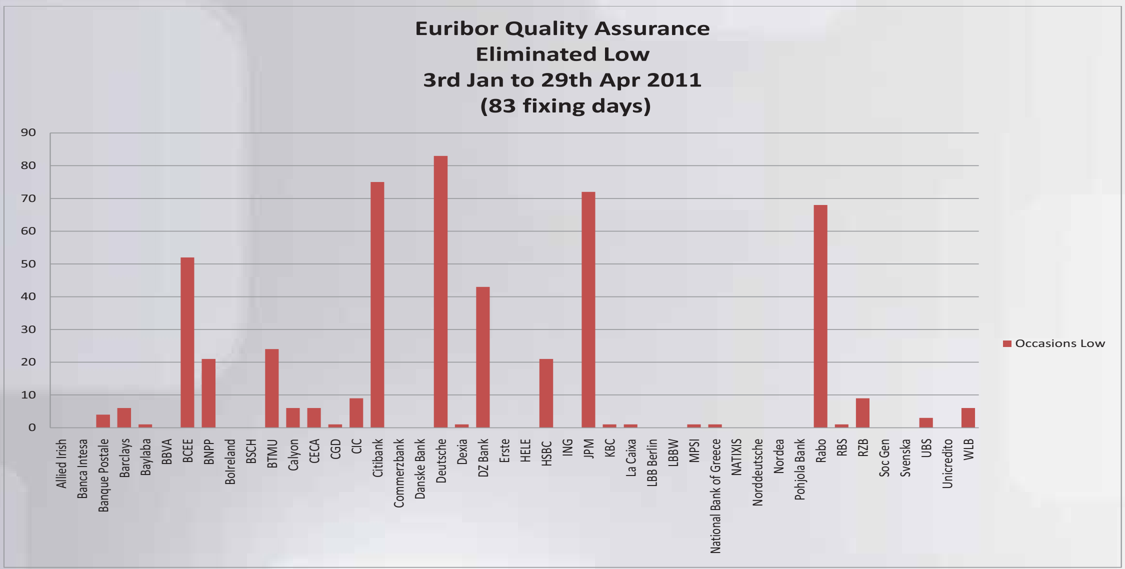
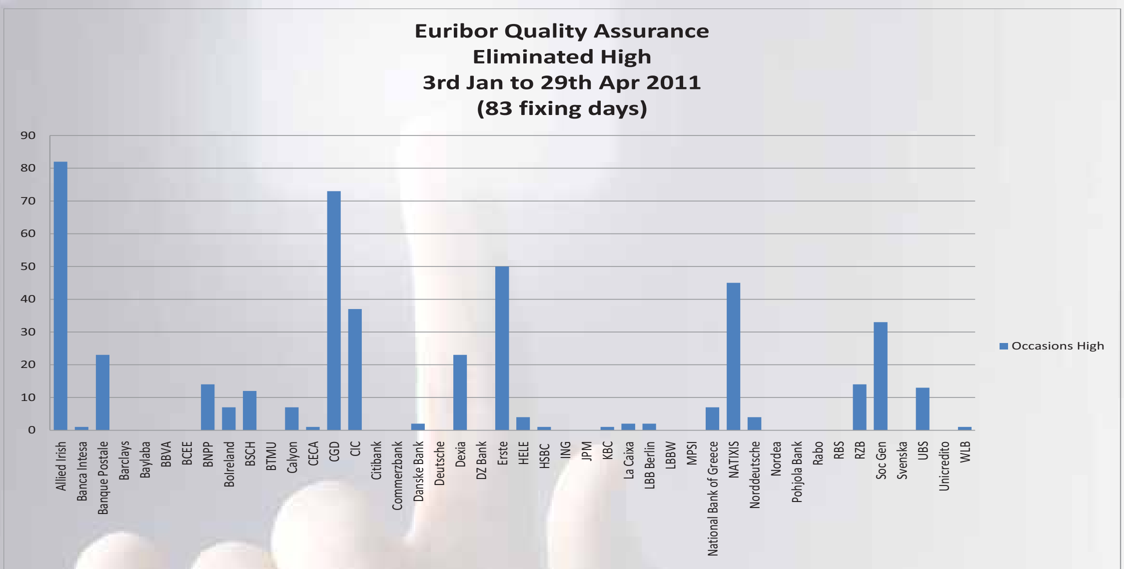


Chart 3:



The objective of the Euribor Steering Committee is mainly to give as much transparency as possible to the market: except for technical troubles, there is no bad or good contributor to Euribor fixing, taking into account the exclusion rule. We do monitor the fixing to be a perfect mirror of its market evolution, not to reach any level of fixing objective...

Cédric Quéméner, Euribor-EBF Manager
Gaëlle Marques dos Santos, Euribor-EBF Coordinator

EU Funds Regulation:

More Is Not Always Better

EU Commissioner for Internal Market and Services, Michel Barnier, recently made it clear: "there will be no going back to business as usual" for the European financial sector. Drawing on the lessons of a crisis of an exceptional magnitude, and implementing decisions taken by the G20, the European Union is currently in the midst of the most ambitious program ever of regulatory reform in the financial services sector. **Despite the fact that the European Commission does not consider it one of the root causes of the crisis, the investment management industry is no exception to the rule and has been confronted since 2009 with a continuous flow of regulatory initiatives that are going to have a profound impact on the business.**

The most emblematic of these reforms is certainly the Alternative Investment Fund Managers Directive (AIFMD), which will be applicable by summer 2013. Often wrongly described as the "hedge-fund directive", the AIFMD will actually regulate all managers of non-UCITS funds. It will not only contain organizational rules for management companies but will also, to a large extent, regulate the funds they manage or market. It will, for instance, contain detailed provisions on the use of leverage and short-selling as well as investments in securitization positions.

The legal framework for UCITS is also under review. While the entire European fund industry and national regulators are currently working very hard to implement the UCITS IV "efficiency package" before its entry into force on 1 July 2011, the Commission has already launched a new review of the directive ("UCITS V" review) focused on increasing the level of investors' protection. It will include, in particular, a strengthening of the liability regime for UCITS depositaries, rules on remuneration of UCITS managers and a strengthening and harmonization of sanctioning regimes across Member States. The legislative proposal of the Commission is expected to be published at the end of 2011.

Other legislative initiatives, although not specifically addressed to investment managers, will also have a significant impact on their legal environment. This is particularly the case for the ongoing MiFID Review (which is meant to improve the transparency, efficiency and integrity of the securities market in several ways) but also the upcoming "EMIR" regulation on Over-The-Counter (OTC) Derivatives which contains a new requirement for standardized OTC derivative transactions to be cleared via central counterparties (CCP).

efama

European Fund and Asset Management Association

These are only examples of the numerous regulatory initiatives the investment management industry is currently faced with. Without going into detail, it is also worth mentioning the regulatory initiatives regarding packaged retail investment products, auditors, credit rating agencies, short selling, financial sector taxes, corporate governance, the review of the investor-compensation schemes directive, the securities law directive and social entrepreneurship. In addition, investment managers will need to monitor and bear in mind rules impacting their institutional clients, such as Solvency II or Project Bonds. And as if all of this would not be enough on the plate, more regulation comes from the US, namely with FATCA and Dodd Frank.

The depth of the financial crisis, and the weaknesses it exposed, certainly called for ambitious reforms. We therefore welcome the initiatives taken by the Commission, each of which will undeniably contribute to the protection of investors and the prevention of future crisis. However, their cumulative effect has never been considered and no combined cost assessment has been conducted in this regard. Furthermore, one could ask whether sufficient consideration has been given to the impact of these reforms on the competitiveness of investment funds compared to substitute products which are not necessarily subject to the same level of regulation. European policy makers should not lose sight of these aspects if they truly want to achieve the goals of their "Better Regulation Strategy".

Yvonne LENOIR-GEHL – Vincent INGHAM
Regulatory Policy Advisors EFAMA

USD Euribor: A step further for European banks real funding costs knowledge

Cédric QUEMENER

Three years ago, a very large part of the European banks expressed their need for a Euribor-like benchmark to be created for dollar funding purposes.

The original idea was to replicate the successful Euribor components, by applying the Governance Structure and the way of managing a benchmark on one side, and gathering renamed experts who already collaborate in the Euribor Steering Committee into the project on the other side.

As a first step, a survey was conducted amongst the existing Euribor panel banks, with 80% positive answers as a result (question was: if we were to work on this project, would you like to join the panel?).

Then, the Euribor Steering Committee nominated 4 experts to work along with the Secretariat as a Task Force, which spent almost one year working on drafting comprehensive Code of Conduct and Technical Features.

The testing panel of banks is now composed of 24 of the active players of this market in Europe, and is meant to be enlarged if the testing period is successfully concluded.

Dollar interbank market in Europe gathers many different participants from many different locations; we would like the benchmark to mirror this state of play.

Theoretical indexes have this specificity to benefit from market participant's confidence if their Governance and management leads to a reliable result: this is why Euribor is such a reference in the Euro market, and this is why we mean USD Euribor to reach the same level of market confidence in some years.

Cédric Quéméner
Euribor-EBF Manager

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Short News

New STEP Market website

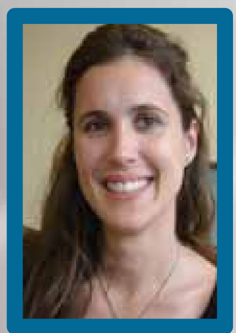
After the complete review of the Association website (www.euribor-ebf.eu), Euribor-EBF prolongs the modernisation of its Communications Tools by launching a new STEP Market website (www.stepmarket.org).

Events

Euribor-EBF Manager, speaker at Thomson Reuters' Money Markets Forum (London, 30 March 2011)

Euribor-EBF Manager and experts from the STEP Market Committee to speak at the 6th Annual European Money Fund Forum (London, 12-13 July 2011)
http://www.informaglobalevents.com/event/european-money-fund-forum-2011

Leila Kleve joined the Euribor-EBF Team



"As a novice in the financial Community, I did not know anything about the interbank market.

I really appreciated my arrival into Euribor-EBF for which it is an honour and a pleasure to work. I was warmly welcomed by all the colleagues who I admire respectively as experts in their field.

I discovered a world full of increasing activity with many projects and ideas to share. It is highly interesting to work with different people coming from different countries around the world. The recognition of the work and the efforts made to enhance its performance are constantly put ahead.

I hope to continue to put my shoulder on the wheel and constantly being improving myself as I have been learning it since I am here."

Leila Kleve, Euribor-EBF

EUROPEAN BANKING FEDERATION EBF

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