ING feedback on the IOSCO consultation document on Principles for Financial Benchmarks

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About ING

ING is a global financial institution of Dutch origin, offering banking, investments, a variety of life insurance, non-life insurance and retirement services to meet the needs of a broad customer base. Going forward, we will concentrate on our position as an international retail, direct and commercial bank, while creating an optimal base for an independent future for our insurance and investment management operations.

With more than 93,000 employees, we serve over 66 million private, corporate and institutional customers in over 40 countries in Europe, North America and Latin America, Asia and Australia.

We draw on our experience and expertise, our commitment to excellent service and our global scale to meet the needs of a broad customer base, comprising individuals, families, small businesses, large corporations, institutions and governments.

Introduction

ING welcomes the opportunity given by IOSCO to provide feedback on the consultation document on principles for financial benchmarks. In reply to the IOSCO consultation, please find below the input from ING. ING Bank Treasury is contributing to multiple benchmarks. Some of them imply solely transaction data input while others only require qualitative input. For the purpose of this exercise, ING has based its responses in Euribor and Eonia since they are the most important benchmarks in the euro area.

Principles

ING is of the opinion that any benchmark should adhere to the following principles:

1. A benchmark should be based on actual trade data to avoid subjectivity. Panel banks should only submit contributions when there is actual data. If insufficient actual trade data is available estimated data or extrapolation could be used. The responsibility of extrapolation should be done by the benchmark governing body. A strong governance framework should be in place to point out what submissions are based on actual trade data and what submissions are based on estimation / extrapolation.
2. A clear and unambiguous code of conduct should be available per benchmark. The code of conduct should contain clear definition of the submission criteria, detailed processes, responsibilities and controls.
3. Benchmarks should be governed and published by public institutions. Statutory regulation of benchmarks should be introduced to assure credible independent supervision, oversight and enforcement.
4. The panel composition is the responsibility of the governing body. The panel should be a true reflection of the underlying market. Clear criteria should be in place on the composition criteria for the panel.
5. Volumes should be taken into account in the individual submission of participants and in the calculation of the overall fixing. Calculations should be made computing contributions as weighted average of the transactions undertaken for the relevant benchmark.
6. The individual contribution (including volume) of participations should not be published to avoid reputational risk and manipulation. This is also the current practice for Eonia. Alternatively the publication of individual contributions should lag by a certain period (i.e. 90 days).
7. Governance for contributing banks needs to include robust processes and effective controls specifying concrete parameters to contribute rates. The controls should be part of internal processes and procedures and will be externally audited.

IOSCO Consultation

1. **Equity indices:** Indices may be used to measure a wide range of underlying interests, using a variety of calculation methodologies and inputs. In the specific case of equity indices, inputs are typically based on transactions concluded on Regulated Markets. In light of this: are there any principles or parts of the principles that cannot, or should not, be applied to equity indices? If so, please identify these principles and explain why their application is inappropriate.
   NA

2. **Additional measures to address risks resulting from Submission-based Benchmarks or ownership or control structures:** Additional measures have been specified within certain principles to address specific risks arising from reliance on Submissions and/or from ownership or control structures.
   a. Should these additional requirements apply to Submitters and Administrators of all submission-based Benchmarks or Benchmarks with the specified ownership/control structures?

      Yes, those additional requirements should apply to Submitters and Administrators of all benchmarks. ING welcomes the initiative to empower the benchmark Administrator with the faculty to introduce an appropriate and documented control framework for Eonia and Euribor that addresses any potential risk of conflict of interest and regulates the rate contribution.
      ING agrees with the IOSCO principle 4 and considers that benchmarks should be governed and published by public institutions. Statutory regulation of benchmarks should be introduced to assure credible independent supervision, oversight and enforcement.
      Additionally, a proper documentation of the methodology and criteria used for the Benchmark determination will provide transparency on the submissions for all stakeholders.
      ING sees as an improvement for Eonia and Euribor that the Administrator develops guidelines for Submitters as a form of Code of Conduct addressing all the points specified in the Principle 13.

      Principle 13.g.xi requests for "prohibitions on the Submission of data from front office functions". ING considers that the department where the knowledge to make the Submissions may reside within front office. In order to mitigate any potential conflict of interest, strict controls should be introduced for the Submitters during the submission process, as already outlined in the IOSCO principle 13 and 17. In order not to give room for interpretation, ING would welcome a definition of the front office function (please see further elaboration on this as a response to question 4).

   b. If not, please explain why all or some submission-base Benchmarks or Benchmarks with specified ownership/control structures should be exempt.
      NA

3. **Notice Concerning Use of Expert Judgment:** Should Administrators be required to briefly describe and publish with each benchmarks assessment:

    a. A concise explanation, sufficient to facilitate a User's or Market Authority's ability to understand how the assessment was developed, terms referring to the pricing methodology should be included;

    In principle ING agrees with this statement and does not consider that a detailed explanation is required with each assessment, only when a relevant change in circumstances occurs i.e. a downgrade in data input hierarchy. Such explanation should not contain any specific trade data from the Submitters.

    In all cases, ING advocates for a clear and unambiguous code of conduct that contains clear definition of the submission criteria, detailed processes, responsibilities and controls.

    b. A concise explanation of the extent to which and the basis upon which judgment, if any, was used in establishing an assessment.

    The individual contribution (including volume) of participations should not be published to avoid reputational risk and manipulation. This is also the current practice for Eonia. Alternatively the publication of individual contributions should lag by a certain period (i.e. 90 days).

4. **Revisions to the principles:** Please provide any suggested changes to specific principles or definitions of key terms set out in Annex A, including drafting proposals and rationale.

Are any other principles needed: Should principles to address any additional issues, risks or conflicts of interest be developed? Please provide a summary of the issue and drafting for the proposed principle.

We suggest adding the definition of front office in the Annex. Please note that this is a generic term that includes different functions, such as Sales, Trading, Mergers and Acquisitions and Advisory. The main characteristic is that revenues are generated within these functions. Revenues may be linked to benchmark rates and therefore, the risk of manipulation.
However, there are functions that involve Trading and although could be considered as front office, they are not revenue driven but cost driven and work independently. This is the case of functions such as a Bank Treasury. The risk of conflict of interest when data is submitted by Bank Treasury is mitigated by the nature of this function. This mitigating factor together with strict controls in the Submission process should minimize the risk of manipulation.

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