

Intesa Sanpaolo response to the IOSCO consultation report on

Principles for Financial Benchmarks - CR04/2013

April 2013

Intesa Sanpaolo is one of the largest European banks, with a substantial presence in Italy, in Central and Eastern Europe and in the Mediterranean area. Intesa Sanpaolo is an active player in the financial markets and is a panel member of the following benchmarks: Eonia, Euribor, Eonia Swap Index and Eurepo. Given our direct experience in this field, our response will mainly reflect our views in relation to benchmarks to which we contribute.

General remarks

We welcome the opportunity to comment on the IOSCO consultation paper on Principles for Financial Benchmarks and would like to provide the following general remarks.

We appreciate the work carried out by IOSCO in order to address the issues that have emerged in relation to the determination and setting of benchmarks. In particular, we support the IOSCO objective to create an overarching framework of principles for benchmarks used in financial markets to be applied at a global level. These should restore the credibility and re-instill confidence in some of the benchmarks which have suffered from some vulnerability.

We also support the approach of having a set of high level Principles to be applied to all benchmarks, with a subset meant to address specific risks posed by some of them. Such a flexible approach should allow the Principles to be implemented according to the specific nature of the benchmark.

We also appreciate the fact that it is recognized that the proposed Principles have to be understood as a set of recommended practices that should be implemented by benchmark administrators and submitters in a manner which is proportionate to the size and risks posed by them.

As to data sufficiency, we fully support the principle according to which data inputs for the determination of a benchmark should be provided according to a specific hierarchy, which places observable arms-length transactions in the underlying interest or related markets in the first place, followed by other information or expert judgment in the case there are no other data available. We believe that anchoring the benchmark to real transactions, whenever possible, is a good way of ensuring that the benchmark provides a good picture of the market. Expert judgment should therefore intervene when either there are no observable transactions in the market or they are not representative of the market.

We firmly believe that the transition to a new benchmark is a very delicate issue that should be dealt with very carefully. In our view, ensuring legal certainty of existing outstanding contracts is crucial in order to avoid possible litigations with counterparties and minimize market disruption. A possible solution could be maintaining the benchmark to be abandoned only for outstanding contracts, while applying the new one to new contracts.

All in all, in our view, the Principles are well suited to cover benchmarks related to different asset classes.

Consultation questions

1. *Equities 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 principles that cannot, or should not, be applied to equity indices? If so, please identify these principles and explain why their application is inappropriate.*

On a general note, we believe that the Principles could be applied as such also to equity indices, although we acknowledge that some of them could not be relevant (or be applied), as for the Hierarchy data input and the Submitter Code, since equity indices are not set on the basis of submissions, but on transactions data.

Additionally, we believe that also transactions concluded on MTFs should be considered as inputs to indices, as it is already the case for the VWAP.

2. *Additional measures to address risk resulting from Submission-based Benchmarks or ownership or control structures: Additional measures have been specified within certain principles to address specific risks arising from a reliance all submission-based Benchmarks with the specified ownership/control structures on Submission (principles 4, 10, 13 and 17) and or from ownership or control structures (Principles 2, 5 and 16).*
 - a) Should these additional requirements apply to Submitters and Administrators of all submission-based Benchmarks or Benchmarks with the specified ownership/control structures?*
 - b) If not, please explain why all or some submission-bases Benchmarks with the specified ownership /control structures should be exempt.*

We agree that there are principles that should ideally apply to all Benchmarks, while there are others for which a differentiation should be envisaged. Submission-based benchmarks in illiquid markets should certainly require reinforced governance (oversight by regulatory authorities, transparent Code of Conducts, clear and

accountable policies), while indices based on real transactions concluded on regulated markets should be exempted from the application of additional requirements.

3. **Notice concerning Use of Expert Judgment:** Should Administrators be required to briefly describe and publish with each benchmark 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 (e.g. spread-based, interpolated/extrapolated or estimate-base); and
- b. A concise explanation of the extent to which and the basis upon which judgment (i.e. exclusion of data which otherwise conformed to the requirements of the relevant methodology for that assessment, basing assessments on spreads, interpolation/extrapolation or estimates, or weighting bids or offers higher than concluded transactions etc.) if any, was used in establishing an assessment.

We support both proposals, as we recognize value in the idea of improving the transparency on how a submission-based benchmark is constructed. This in order to allow a regulator to better understand the methodologies used by submitters and assessed/judged by the administrators.

For any further question or comment please contact:

Alessandra Perrazzelli
Head of International Regulatory and
Antitrust Affairs
Alessandra.Perrazzelli@intesasanpaolo.com

Marco Antonio Bertotti
Head of Money Market and Euro Payments
Systems
Treasury Department
marcoantonio.bertotti@intesasanpaolo.com