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## COVER NOTE

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From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	13 July 2018
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union

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No. Cion doc.:	C(2018) 4425 final
Subject:	COMMISSION DELEGATED REGULATION (EU) .../... of 13.7.2018 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying further the governance and control requirements for supervised contributors

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Delegations will find attached document C(2018) 4425 final.

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Encl.: C(2018) 4425 final



Brussels, 13.7.2018  
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**COMMISSION DELEGATED REGULATION (EU) .../...**

**of 13.7.2018**

**supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying further the governance and control requirements for supervised contributors**

(Text with EEA relevance)

## **EXPLANATORY MEMORANDUM**

### **1. CONTEXT OF THE DELEGATED ACT**

Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the Benchmark Regulation) introduces a common framework to ensure the accuracy and integrity of benchmarks referenced in financial instruments, financial contracts or investment funds in the European Union. In doing so it aims to contribute to the functioning of the internal market, while achieving a high level of consumer and investor protection.

This Delegated Regulation is based on a mandatory empowerment in Article 16 of the Benchmark Regulation. The issue of subsidiarity was covered in the impact assessment for the Benchmark Regulation.

### **2. CONSULTATIONS PRIOR TO THE ADOPTION OF THE ACT**

In accordance with Article 10 of Regulation (EU) No 1095/2010 ESMA has carried out a public consultation on the draft regulatory technical standards. A discussion paper was published on 15 February 2016 on the ESMA website and the consultation closed on 31 March 2016. An open hearing on the discussion paper was held on 29 February 2016 in Paris. On 29 September 2016, a consultation paper which included a first version of the draft technical standards was published. The consultation ended 2 December 2016.

In addition, ESMA sought the views of the Securities and Markets Stakeholder Group (SMSG) established in accordance with Article 37 of Regulation (EU) No 1095/2010. The SMSG submitted its response on 11 November 2016.

Together with the draft technical standards, and in accordance with the third subparagraph of Article 10(1) of Regulation (EU) No 1095/2010, ESMA has submitted an analysis of costs and benefits related to the draft technical standards. This analysis is available at [http://www.europe-economics.com/publications/ee\\_bmr\\_final\\_report\\_9-02-2017.pdf](http://www.europe-economics.com/publications/ee_bmr_final_report_9-02-2017.pdf).

### **3. LEGAL ELEMENTS OF THE DELEGATED ACT**

The right to adopt regulatory technical standards is provided for under Article 16(5) of Regulation (EU) 2016/1011. Under these provisions, the Commission is empowered to further specify requirements concerning governance, systems and controls, and policies for supervised contributors.

Article 1 defines the scope of this regulation.

Article 2 defines minimum requirements for the control framework of a supervised contributor to a critical or significant benchmark.

Article 3 sets out the systems and controls a supervised contributor to a critical or significant benchmark should install for its submissions to such benchmark.

Article 4 specifies minimum training requirements for submitters of a contributor to a critical or significant benchmark.

Article 5 specifies minimum measures for the management of conflicts of interest of a supervised contributor to a critical or significant benchmark.

Article 6 sets out that a supervised contributor to a critical or significant benchmark has to keep record of communications in relation to provision of input data and of its exposure to

financial instruments that use the benchmark as a reference. A supervised contributor to a critical benchmark should also keep record of internal and external audits.

Article 7 adds minimum requirements regarding policies in relation to the use of judgement or the exercise of discretion by supervised contributors to a critical or significant benchmark.

**COMMISSION DELEGATED REGULATION (EU) .../...**

**of 13.7.2018**

**supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying further the governance and control requirements for supervised contributors**

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014<sup>1</sup>, and in particular the fourth subparagraph of Article 16(5) thereof,

Whereas:

- (1) Article 16 of Regulation (EU) 2016/1011 imposes certain governance and control requirements on supervised contributors, including a requirement to have in place a control framework to ensure the integrity, accuracy and reliability of input data and a requirement to have in place effective systems and controls to ensure the integrity and reliability of all contributions of input data. Some of these requirements are already addressed in Articles 11 and 15 of Regulation (EU) 2016/1011 and the corresponding delegated regulations. However, in certain respects the provision of this Commission Delegated Regulation go beyond those in Articles 11 and 15 of Regulation (EU) 2016/1011 and certain supervised contributors might not be subject to the provisions of Articles 11 and 15 because they are contributing data to benchmarks provided by administrators who are exempted from the scope of Regulation (EU) 2016/1011. In order to avoid legal uncertainty, the requirements set forth by this Commission Delegated Regulation are without prejudice to Articles 11 and 15 of Regulation (EU) 2016/1011 and the corresponding delegated regulations and are therefore applicable only to the extent they complement the aforementioned provisions.
- (2) The control framework established by a supervised contributor should include a procedure for detecting and managing breaches of Regulation (EU) 2016/1011 and breaches of the applicable code of conduct, and policies on whistle-blowing, oversight and periodic review of the process for contributing input data. This is so that supervised contributors can ensure that they are acting lawfully and submitting input data that is accurate and reliable.
- (3) The training that submitters employed by a supervised contributor are required to have pursuant to Article 16(2)(b) of Regulation (EU) 2016/1011 should also include training in how the benchmark is intended to measure the underlying market or economic reality and training in all the elements of the code of conduct applicable to

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<sup>1</sup> OJ L 171, 29.6.2016, p. 1.

the contribution of input data. This is an essential tool in ensuring that submitters act appropriately and in line with the methodology of the benchmark.

- (4) The measures for the management of conflicts of interest that a supervised contributor is required to have in place pursuant to Article 16(2)(c) of Regulation (EU) 2016/1011 should include measures for the separation of submitters from other employees of the contributor and measures on the contributor's remuneration policy for submitters in order to minimise the incentives on submitters to manipulate the contribution of input data.
- (5) The record-keeping systems that a supervised contributor is required to have in place pursuant to Article 16(2)(d) of Regulation (EU) 2016/1011 should include the requirement to keep records of communications in relation to the provision of input data, including the names of the submitters. This is in order to provide an adequate level of transparency.
- (6) Allowing contributors to use discretion creates a risk that different experts use it differently or that even the same expert uses it differently over time. Discretion also increases the vulnerability of the relevant benchmark to manipulation. It is therefore necessary that the policies established pursuant to Article 16(3) of Regulation (EU) 2016/1011 include a framework to ensure consistency in the use of judgement or the exercise of discretion and to reduce the risk of manipulation. Such a framework should impose an obligation to conduct regular internal reviews of the application of expert judgement. It should also identify types of information to be considered or not to be considered in order to frame the margin for discretion appropriately.
- (7) Administrators should be given sufficient time to ensure compliance with the requirements of this Regulation. This Regulation should therefore start to apply two months after it enters into force.
- (8) This Regulation is based on the draft regulatory technical standards submitted by the European Securities and Markets Authority (ESMA) to the Commission.
- (9) ESMA has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Securities and Markets Stakeholder Group established by Article 37 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council<sup>2</sup>,

HAS ADOPTED THIS REGULATION:

*Article 1*  
*Scope*

This Regulation does not cover or apply to supervised contributors which contribute data only for non-significant benchmarks.

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<sup>2</sup> Regulation (EU) 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

The requirements imposed under this Regulation are without prejudice to those imposed under Articles 11 and 15 of the Regulation (EU) 2016/1011 and the regulatory technical standards adopted under Article 11(5) and Article 15(6) of Regulation (EU) 2016/1011.<sup>3</sup>

## *Article 2* *Control framework*

The control framework that a supervised contributor is required to have in place pursuant to Article 16(1) of Regulation (EU) 2016/1011 shall include the establishment and maintenance of at least the following controls:

- (a) an effective oversight mechanism for overseeing the process for contributing input data that includes a risk management system, the identification of senior personnel who are responsible for the data contribution process and the involvement of any compliance and internal audit functions within the contributor's organisation;
- (b) a policy on whistle-blowing, including appropriate safeguards for whistle-blowers;
- (c) a procedure for detecting and managing breaches of Regulation (EU) 2016/1011 and breaches of the applicable code of conduct developed under Article 15 of that Regulation, including a procedure for investigating any detected breach and recording the actions taken as a consequence;
- (d) periodic reviews of the process for contributing data, to be conducted at least annually and whenever there is a change in the applicable code of conduct.

## *Article 3* *Controls on submitters*

1. The systems and controls that a supervised contributor is required to have in place pursuant to Article 16(2)(a) of Regulation (EU) 2016/1011 shall include a documented and effective process for contributing data, and shall include at least the following:
  - (a) a process for the designation of submitters and procedures for making contributions when a submitter is unexpectedly unavailable, including the designation of alternates;
  - (b) procedures and systems for monitoring the data used for the contributions, and the contributions themselves, that are capable of producing alerts in line with parameters predefined by the contributor.
2. Without prejudice to any requirement imposed under Article 15 of Regulation (EU) 2016/1011, the contributor shall have regard to the following criteria in determining for the purposes of Article 16(2)(a) of that Regulation whether it is proportionate to

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<sup>3</sup> Commission Delegated Regulation (EU) [Publication Office: Please insert the reference number to document C ()]...supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying further how to ensure that input data is appropriate and verifiable, and the internal oversight and verification procedures of a contributor that the administrator of a critical or significant benchmark has to ensure are in place where the input data is contributed from a front office function; and Commission Delegated Regulation (EU) [Publication Office: Please insert the reference number to document C (XXX)] ... supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying further the elements of the code of conduct to be developed by administrators of benchmarks that are based on input data from contributors.

have in place a process for sign-off by a natural person holding a position senior to that of the submitter:

- (a) the level of discretion involved in the process of contribution;
  - (b) the nature, scale and complexity of the supervised contributor's activities;
  - (c) whether conflicts of interest may rise between the contribution of input data to the benchmark and any trading or other activities performed by the contributor.
3. Where the controls put in place by a supervised contributor include a process for sign-off by a natural person holding a position senior to that of the submitter, those controls shall include clear rules about the timing of the sign-off and, if they include the possibility of sign-off after submission of the input data, they shall specify the circumstances in which sign-off after submission is permitted and the maximum time-period within which such sign-off is to occur.

#### *Article 4*

##### *Training for submitters*

1. The systems and controls that a supervised contributor is required to have in place pursuant to Article 16(2)(b) of Regulation (EU) 2016/1011 shall include training programmes to ensure that each submitter has:
  - (a) adequate knowledge and experience of how the benchmark is intended to measure the underlying market or economic reality;
  - (b) adequate knowledge of all the elements of the applicable code of conduct developed under Article 15(1) of that Regulation, if any.
2. The knowledge of submitters referred to in points (a) and (b) of paragraph 1 and of the requirements of Regulation (EU) 2016/1011 as well as Regulation (EU) No 596/2014, to the extent applicable to the tasks of the submitters, shall be re-assessed periodically, and in any event at least annually, to verify that it is still appropriate for each of them to act as submitters.
3. Paragraph 2 shall not apply in the case of supervised contributors of significant benchmarks.

#### *Article 5*

##### *Conflicts of interest*

1. The measures for the management of conflicts of interest that a supervised contributor is required to have in place pursuant to Article 16(2)(c) of Regulation (EU) 2016/1011 shall include at least the following measures:
  - (a) a register of conflicts of interest, that shall be kept up to date and used to record any conflicts of interest identified and any measures taken to manage them. The register shall be accessible to internal or external auditors;
  - (b) physical separation of submitters from other employees of the contributor, where such separation is appropriate taking into account the level of discretion involved in the process of contribution, the nature, scale and complexity of the contributor's activities and whether conflicts of interest may arise between the contribution of input data to the benchmark and any trading or other activities performed by the contributor;



- (c) appropriate internal oversight procedures including, in a case where there is no organisational or physical separation of employees, rules governing the interaction of submitters with front office employees.
2. The measures for the management of conflict of interest shall also include remuneration policies in relation to submitters that ensure that the remuneration of a submitter is not linked to any of the following:
- (a) the value of the benchmark;
  - (b) the specific values of the submissions made; and
  - (c) the performance of any specific activity of the supervised contributor that may give rise to a conflict of interest with the contribution of input data to the benchmark.

*Article 6*  
*Record-keeping*

1. The records to be kept pursuant to Article 16(2)(d) of Regulation (EU) 2016/1011 of communications in relation to provision of input data shall include records of the contributions made and the names of the submitters.
2. The records to be kept pursuant to Article 16(2)(d) of Regulation (EU) 2016/1011 of the contributor's exposure to financial instruments that use the benchmark as a reference shall include records of the type of activity carried on by the supervised contributor that gives rise to the exposure.
3. The records to be kept pursuant to Article 16(2)(e) of Regulation (EU) 2016/1011 of internal and external audits shall include records of the audit brief, the audit report and any actions taken in response to each audit.
4. Paragraph 3 shall not apply in the case of supervised contributors of significant benchmarks.

*Article 7*  
*Expert judgement*

The policies that a supervised contributor is required to establish pursuant to Article 16(3) of Regulation (EU) 2016/1011 where the input data relies on expert judgement shall include at least the following elements:

- (a) a framework for ensuring consistency between different submitters, and consistency over time, in relation to the use of judgement or the exercise of discretion;
- (b) identification of the types of information that can, or cannot, be taken into account in the use of judgement or the exercise of discretion;
- (c) procedures for the review of any use of judgement or exercise of discretion.

*Article 8*  
*Entry into force and application*

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

It shall apply from [OJ: 2 months after the date of entry into force].

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 13.7.2018

*For the Commission*  
*The President*  
*Jean-Claude JUNCKER*