

**EUROPEAN
REPO
COMMITTEE**

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The following best practice was developed by the European Repo Committee and formally accepted on February 28th, 2007. The European Repo Council took note of this "preferred and recommended best practice" in its meeting on the same day.

Preferred and recommended best practice for the determination of rates for Eonia-based repos

Background

For Eonia-based repo transactions settling at Euroclear Bank and/or Clearstream Luxembourg (the 'ICSDs') as well as some CSD cleared bonds, historical market practice has evolved into utilising the "settlement date minus 2" Eonia issued rate as the last reference rate.

As an example, where a closing leg is settling on the 5th, the Eonia rate issued at 7.00 CET on the 3rd will be used for the 3rd and 4th's repo interest calculation.

Proposal

The requirement to incorporate the SD-1 issued Eonia rate into the closing leg of repos settling via ICSDs and CSDs where appropriate will be achieved via two potential routes dependent on individual firm's ability and approach to settlement messaging to the ICSD and CSD.

Option 1

Following Eonia rate issuance on SD-1 (at approx. 7.00 CET), all firms should endeavour to re-calculate settlement proceeds and look to send settlement instructions to the ICSD for pre-matching prior to the relevant cut-off deadline in order to achieve settlement in the overnight settlement batch of each depository. Utilising the overnight settlement batch will maintain consistency with the current process, which is arguably more important for corporate repo which can leverages lending and borrowing pools that in turn often negate the need for shape trading etc.

Option 2

Should settlement instruction transmission to the ICSD for pre-matching fail to occur on the evening of SD-1, e.g. as a result of internal firm time constraints etc, settlement will / must take place in the various 'automatic' daytime settlement windows at the ICSD's.

Considerations

- It is possible that some firms will struggle to instruct prior to the ICSD overnight process (i.e. SD-1); which recognising the existence, and for some a preference, of the ICSD real time settlement windows this is not necessarily an issue however could influence some settlement and liquidity patterns.
- Should firms fail to instruct pre ICSD overnight process (i.e. SD-1), there is a potential for incurring some element of additional borrowings costs;
- For example, borrowing charges at Euroclear to make onward delivery in the overnight whilst awaiting the c/p to instruct their Eonia-based repo.
- Need to be aware this impacts all bond sector types i.e. for some firms, corporate debt represents a bigger impact than government bonds.
- Potential for extending the 'unmatched process' by delaying the transmission of settlement instructions to the ICSD

Note: Most of the above issues would hold true when discussing moving settlement of any business type from the overnight process of ICSDs to real time settlement.

Recommended Best Practice

It is not desirable to continue with the present situation as settlement amounts are currently being calculated using potentially materially different Eonia rates to the actual rates that should be applied. In addition, a correction will bring Eonia-based trades settling in the ICSDs and some CSDs into line with the correct treatment applied to these trades settling within the French domestic system, thus removing this risk anomaly.

Recognising where and how the bulk of the ICSD settlement currently takes place and endeavouring to achieve minimal market disruption, **option 1 is the preferred and recommended best practice.**

Important notice

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