

EUROPEAN REPO COUNCIL

Mrs. Angela Knight
Chief Executive
British Bankers' Association
Pinnars Hall
105-108 Old Broad Street
London EC2N 1EX
United Kingdom

By email

London, 9th July 2008

Dear Angela,

Ref.: LIBOR

1. The ERC welcomes the opportunity to respond constructively and openly to the BBA consultation paper entitled 'understanding the construction and operation of BBA LIBOR – strengthening for the future'. This present response supplements our initial contribution sent on May 29, 2008.

2. In our previous letter, in relation to the reference panel for LIBOR USD, the ERC suggested that one possible solution was to open up the USD panel to European banks – different from the 16 banks that currently compose the panel. The ERC believes that LIBOR USD credibility would be enhanced by the broadening of the panel of reference banks, and thus including major continental European ones. These banks should not be excluded by a market place definition, which the ERC feels, is inappropriate today. The ERC understands that there has been no new application from banks in London over the last year to join the panels. As such, in line with the ERC proposal explained in our letter sent in May, the panel should be broadened to banks which are actively present in the USD market, but for which this activity is based outside London. Such a panel will reflect the strong European use of this index.

3. Moreover the ERC is of the view that stronger regulations or supervision should be put in place as regards the participating banks in the panel. The ERC understands that

currently the LIBOR fixing process is overseen by an independent committee of market participants, the Foreign Exchange and Money Market Committee (FEMMC). The ERC is of the view that the scrutiny process should be tightened. Additional independent supervisors from continental Europe should be invited to join the FEMMC group, which should also carry out periodical controls on the fixing process.

4. The definition of LIBOR proposed by point 3.3 of the consultation paper says that LIBOR is 'the rate at which an individual contributor panel bank could borrow funds, should it wish to do so, by asking for and then accepting inter-bank offers in reasonable market size just prior to the fix time, which is 11am London time'. A review of the definition by the FEMMC seems justified keeping in mind current market practices.

5. The ERC is in favour of the continuation of the service provided by the indexes for various currencies in particular USD LIBOR. In response to the three questions of the consultation paper, the ERC does not believe that there should be another London fix later in the day after the US market opened or that an additional European Dollar index that seeks to capture US dollar trading in Europe should be created. The ERC is of the view that this will be more confusing, and not solve the issues highlighted in this response. In addition, as mentioned in point 4 of this letter, the review of the definition should not focus on reasonable market size as suggested by the consultation paper, but should reflect market practices.

The ERC remains at your disposal to discuss any of the issues highlighted in this letter further.

With kind regards.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'De Vidts', with a long horizontal line extending to the right from the end of the signature.

Godfried de Vidts
Chairman
European Repo Council

cc: John Ewan