

INTERNATIONAL SECURITIES MARKET ASSOCIATION

**Minutes of the European repo council's general meeting held on March 17, 2005 in Zurich**

Location:       Marriott Zürich Hotel  
                  Neumühlequai 42  
                  CH-8035 Zurich

Time:            14.30 - 17.00

**The following members of the European repo committee were present:**

Mr. Ulf Bacher, Dresdner Bank AG, Frankfurt  
Mr. Jean Begonin, Credit Suisse First Boston (Europe) Limited, London  
Mr. Stefano Bellani, J. P. Morgan Securities Ltd., London  
Mr. Francesco Cafagna, Goldman Sachs International, London  
Mr. Eduard Cia, Bayerische Hypo- und Vereinsbank AG, Munich  
Mr. Cameron Dunn, Merrill Lynch International (MLI), London  
Mr. Godfried De Vidts (Chairman), Fortis Bank, Brussels  
Ms. Bassma El-Amir, Deutsche Bank AG, London branch  
Mr. Johan Evenepoel, Dexia Bank Belgium NV/AS, Brussels  
Mr. Grigorios Markouizos, Citigroup Global Markets Ltd., London  
Mr. Andrea Masciovecchio, Banca Intesa S.p.A., Milan  
Mr. Edward McAleer, Morgan Stanley & Co. International Ltd., London  
Mr. David McClean, Nomura International plc, London  
Mr. Michael Murray, Confederación Española de Cajas de Ahorros (CECA), Madrid  
Mr. Simon Parkins, BNP Paribas, London  
Mr. Ashraf Rizvi, UBS AG, London branch  
Mr. Nicolas Truong, Société Générale S.A., Paris

**Apologies:**

Ms. Clarice Calderoni, UniCredit Banca Mobiliare S.p.A., Milan  
Mr. Oscar Huettner, Barclays Capital Securities Limited, London

**Also present:**

Mr. Stuart Berry, Bank of England, London  
Mr. Richard Comotto, University of Reading, Reading  
Mr. John Edwards, ICAP, London  
Mr. Olivier Grimonpont, Euroclear, Brussels  
Mr. Thomas Jordan, Swiss National Bank, Zurich<sup>1</sup>  
Mr. Klaus Löber, European Central Bank, Frankfurt  
Mr. Andreas Wolf, Clearstream, Frankfurt

Mr. John Langton, Chief Executive and Secretary General, ISMA, Zurich <sup>2</sup>  
Ms. Barbara Pung, Associate Counsel, ISMA, Zurich

**The following member firms were represented at the meeting:**

ABN AMRO Bank N.V., Amsterdam  
Banca Intesa S.p.A., Milan  
Banco Bilbao Vizcaya Argentaria, S.A., Madrid  
Banco Santander Central Hispano S.A., Madrid  
Bank Austria Creditanstalt AG, Vienna  
Banque et Caisse d'Epargne de l'Etat, Luxembourg  
Bayerische Hypo- und Vereinsbank AG, Munich  
BNP Paribas, Paris  
Caja de Madrid, Madrid  
Citigroup Global Markets Limited, London  
Commerzbank AG, Frankfurt  
Confederación Española de Cajas de Ahorros (CECA), Madrid  
Credit Suisse First Boston (Europe) Limited, London  
Daiwa Securities SMBC Europe Limited, London  
Deutsche Bank AG, London branch  
Dexia Bank Belgium NV/SA, Brussels  
Dresdner Bank AG, Frankfurt  
DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt  
Fortis Bank, Brussels  
GESMOSA-GBI, Agencia de Valores, S.A., Madrid  
Goldman Sachs International, London  
HBOS Treasury Services plc, London  
J.P. Morgan Securities Ltd., London  
KBC Bank N.V., Brussels  
Landesbank Baden-Württemberg, Stuttgart  
Lehman Brothers International (Europe), London  
Merrill Lynch International, London  
Morgan Stanley & Co. International Ltd., London  
Nomura International plc, London  
Société Générale S.A., Paris  
The Royal Bank of Scotland plc, London

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<sup>1</sup> present only for the presentation under agenda item 17

<sup>2</sup> present only for agenda item 1

UBS AG, London branch, London  
WestLB AG, Dusseldorf

**The following member firms were not represented at the meeting:**

Aurel Leven Securities, Paris  
Banca Caboto S.p.A., Milan  
Banca d'Intermediazione Mobiliare IMI S.p.A., Milan  
Banca Monte dei Paschi di Siena S.p.A., Milan  
Banca Nazionale del Lavoro S.p.A., Rome  
Bank Julius Bär & Co. AG, Zurich  
Barclays Capital Securities Limited, London  
Bayerische Landesbank Girozentrale, Munich  
Bear, Stearns International Limited, London  
CALYON, Paris  
Canadian Imperial Bank of Commerce (CIBC), London branch  
CCF, Paris  
Danske Bank A/S, Copenhagen  
HSBC Bank plc, London  
ING Bank N.V., Amsterdam  
ING Belgium SA/NV, Brussels  
IXIS Corporate & Investment Bank, Paris  
Kredietbank S.A. Luxembourgeoise, Luxembourg  
Lloyds TSB Bank plc, London  
Man Financial Limited, London  
Mitsubishi Securities International plc, London  
Mizuho International PLC, London  
MPS Finance Banca Mobiliare S.p.A., Siena  
NIB Capital Bank N.V., The Hague  
Raiffeisen Zentralbank Oesterreich AG, Vienna  
Royal Bank of Canada Europe Limited, London  
UniCredit Banca Mobiliare S.p.A., Milan

**1. Opening of the meeting by the chairman of the European repo committee (ERC committee)**

The chairman and ISMA's chief executive first welcome the council members, observers and guests and thank the Swiss National Bank for hosting today's meeting.

Subsequently, the chairman updates the council on the issues the ERC committee discussed during the recent months and which include:

- proposed changes to the collateral framework of the European Central Bank, the Bank of England and the Swiss National Bank;
- discussions within the Committee on Payment and Settlement Systems (CPSS) concerning crossborder collateralisation;

- the effects of the changes in the Greek settlement system;
- the classification of Central Counterparties (CCPs);
- the new recommendations for CCPs by the International Organisation of Securities Commissions (IOSCO) and the CPSS;
- the Securities Operations Committee's project aimed at reducing operational risk;
- the promotion of the use of the GMRA in Russia;
- discussions with Monte Titoli concerning improvements to be made to the new settlement system Express II;
- the 4<sup>th</sup> professional ISMA/ACI repo seminar, which will in part focus on the use of triparty repos and which will be held on November 15/16, 2005 in Milan.

**2. Approval of the minutes of the ERC general meeting held on October 21, 2004 and dated November 10, 2004**

The minutes of the ERC general meeting held in London on October 21, 2004 and dated November 10, 2004 are unanimously approved.

**3. Euribor/Eurepo fixing - Eonia Swap Index Project**

The chairman gives a slide presentation on Euribor/Eurepo fixing – Eonia Swap Index Project.

A copy of the chairman's presentation is attached hereto as attachment 1.

**4. Update on GMRA related and other matters**

Ms. Pung provides the council with an update report in relation to the following matters:

**4.1 Legal opinions**

**4.1.1 Update legal opinions being obtained jointly by ISMA and TBMA**

ISMA is currently obtaining update legal opinions on the GMRA in 36 jurisdictions. In 18 jurisdictions, i.e. Austria, Belgium, Canada, England, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, Poland, Portugal, Spain, Switzerland and the United States ISMA is conducting this exercise jointly with TBMA (attachment 2: slide presentation /



slide 1: list showing all legal opinions obtained jointly by ISMA and TBMA; slide 2: list showing all legal opinions obtained by ISMA alone).

As in previous years, ISMA intends to publish the update opinions again by the end of March 2005.

#### 4.1.2 Update legal opinions being obtained by ISMA alone

For Abu Dhabi, Australia, Bahamas, Bahrain, Bermuda, British Virgin Islands, Cayman Islands, Denmark, Hong Kong, Kuwait, the Netherlands Antilles, New Zealand, Saudi Arabia, Singapore, South Africa, Sweden, Thailand and Turkey legal opinions are being updated by ISMA alone.

Update opinions for these countries are intended to be published by the end of March 2005 as well.

#### 4.1.3 New legal opinions being sought jointly by ISMA and TBMA

Jointly with TBMA, ISMA intends to publish new legal opinions for Hungary and Norway together with the update legal opinions by the end of March 2005.

Initial drafts of a new opinion for both Cyprus as well as the People's Republic of China were recently submitted to the relevant working group of the ISMA/TBMA Joint Opinion Committee (JOC) for review (attachment 2: slide presentation / slide 1).

#### 4.1.4 New legal opinions sought by ISMA alone

ISMA recently received initial draft opinions for Estonia, Latvia, Lithuania, Malta, and Scotland, which are currently being reviewed. For Brazil, the Philippines, South Korea and Taiwan ISMA instructed local counsel to prepare a draft opinion for ISMA's review (attachment 2: slide presentation / slide 2).

TBMA have yet to confirm whether they will join ISMA in seeking opinions for each of these jurisdictions.

#### 4.1.5 Scope of the update and new opinions: Integration of core provision opinions (CPOs)

Similar to the Financial Services Authority (FSA) in the UK, the BaFin (the German Financial Supervisory Authority) requires the provision of netting opinions for the GMRA. Together with each netting opinion it also requires the provision of a CPO confirming that the conclusions reached in the netting opinion for the relevant jurisdiction would not be affected by the inclusion of alterations to certain provisions of the GMRA.

In December 2004 ISMA agreed with the Association of German Banks that the CPOs obtained by the Association for its members in 2004 in Belgium, Canada, Cayman Islands, France, Germany, England, Ireland, Japan,

Luxembourg, the Netherlands, Singapore, Switzerland and the United States will be integrated into ISMA's 2005 update opinions.

In the context of this agreement, ISMA and the Association of German Banks also agreed that the Association shall bear the fees billed by local counsel in the 13 jurisdictions listed above for updating the CPO sections in 2005 and thereafter one quarter of the fees billed for the subsequent annual updates.

For the sake of uniformity and consistency, ISMA decided to incorporate CPOs at its own cost into all the other opinions on the GMRA currently being updated or sought for the first time.

#### 4.1.6 New opinions for Croatia, the Czech Republic, Slovakia, Slovenia and Mexico?

In relation to Croatia, the Czech Republic, Slovakia and Slovenia, ISMA is monitoring legal developments with a view to ascertaining at what stage a clean opinion can reasonably be expected for each of these jurisdictions.

In relation to Mexico, ISMA is currently clarifying whether a clean opinion for this jurisdiction can be obtained. In the affirmative, and subject to an acceptable cost cap, ISMA will consider seeking an opinion for Mexico (attachment 2: slide presentation / slide 3 list of the jurisdictions where the enforceability of the GMRA is being monitored).

#### 4.1.7 Types of parties to the GMRA covered by the legal opinions

At the request of the European repo committee ISMA instructed Freshfields to clarify which types of parties are currently covered by the legal opinions for each of the 48 jurisdictions where ISMA already has obtained legal opinions to date or is currently obtaining new opinions and to provide a cost estimate for the addition of additional types of parties (such as insurance companies) to the opinions in the context of the 2006 updating exercise. Freshfields is about to finalise its review shortly.

Ms. Pung will discuss Freshfields' findings internally and with the ERC committee.

Ms. Pung notes that the extension of the opinions to cover additional parties (such as insurance companies, hedge funds and mutual funds) will result in substantial additional costs.

#### 4.2 Annexes to the GMRA

In August 2004 the Australian Financial Markets Association (AFMA) incorporated into its "Guide to OTC Documents" an AFMA annex in relation to the 2000 version of the GMRA. ISMA will make the AFMA annex available to its members shortly.

From AFMA, ISMA understands that the Reserve Bank of Australia plans to publish an updated RITS annex for use with the GMRA 2000 in the near future.

#### 4.3 Promotion of the GMRA

ISMA recently made a Russian translation available to the Russian National Securities Market Association (NSMA) in order to assist local market participants and regulators to familiarise themselves with the GMRA.

In response to a delegate's question, Ms. Pung confirms that, for the time being, ISMA continues to seek opinions covering both the GMRA 1995 as well as the GMRA 2000.

#### 5. Elections

The chairman introduces the following 22 candidates standing for election at today's meeting to fill the 19 vacancies on the ERC committee:

Ulf Bacher	Dresdner Bank AG, Frankfurt
Anthony Baldwin	Daiwa Securities SMBC Europe Limited, London
Jean Marie Begonin	Credit Suisse First Boston (Europe) Limited, London
Stefano Bellani	J. P. Morgan Securities Ltd., London
Sylvain Bojic	Société Générale S.A., Paris
Francesco Cafagna	Goldman Sachs International, London
Michael Chadwick	HBOS Treasury Services plc, London
Eduard Cia	Bayerische Hypo- und Vereinsbank AG, Munich
Jaime Comunión Artieda	Caja de Madrid, Madrid
Godfried De Vidts	Fortis Bank, Brussels
Edward Donald	ABN AMRO Bank N.V., London branch
Cameron Dunn	Merrill Lynch International (MLI), London

Dominick Emmanuelli	Barclays Capital Securities Ltd., London
Johan Evenepoel	Dexia Bank Belgium NV/SA, Brussels
Andrea Masciovecchio	Banca Intesa S.p.A., Milan
Grigorios Markouizos	Citigroup Global Markets Limited, London
Edward McAleer	Morgan Stanley & Co. International Ltd., London
Michael Murray	Confederación Española de Cajas de Ahorros (CECA), Madrid
David McClean	Nomura International plc, London
David Nicholls	Deutsche Bank AG, London branch
Simon Parkins	BNP Paribas, London branch
Ashraf Rizvi	UBS AG, London branch

Subsequently, Ms. Pung explains the election procedure pursuant to ISMA rule 1014, and refers the council to the detailed instructions on the ballot form, which was sent to each council member on February 18, 2005.

Thereafter, the ERC council member representatives attending the meeting cast their votes by using the ballot form, which is again distributed at the meeting.

**6. International repo committee recommendation regarding fails in negative interest rate repos**

With reference to the new recommendation regarding fails in negative interest rate repos incorporated in subsection G of section 1000 of the January 2005 edition of ISMA's rule book, which was sent to all ISMA members with a respective circular on December 10, 2004 and became effective on January 1, 2005, Mr. Ulf Bacher, Dresdner Bank AG gives a slide presentation entitled: "Management of fails in negative interest rate repos".

A copy of Mr. Bacher's presentation is attached hereto as attachment 3.

7. **Recommendation for the fixing of rates for Eonia based repos**

Mr. Parkins, BNP Paribas gives a slide presentation on the fixing of rates for Eonia based repos.

A copy of Mr. Parkins' presentation is attached hereto as attachment 4.

8. **Overnight and intra-day borrowing: Evolution of securities lending and borrowing infrastructure**

Mr. Grimonpont, Euroclear gives a slide presentation on overnight and intra-day borrowing entitled: "Improved Settlement and Securities Lending and Borrowing infrastructure".

A copy of Mr. Grimonpont's presentation is attached hereto as attachment 5.

In addition to the items scheduled for discussion at today's meeting, and upon the chairman's request, Mr. Wolf of Clearstream gives a slide presentation entitled: "Settlement Initiatives in Europe".

A copy of Mr. Wolf's presentation is attached hereto as attachment 6.

9. **Reform of the Bank of England's operations in the sterling money markets**

Mr. Berry, Bank of England gives a slide presentation entitled: "Reform of the Bank of England's Operations in the Sterling Money Markets".

A copy of Mr. Berry's presentation is attached hereto as attachment 7.

10. **Progress in the clearing and settlement project**

Mr. Löber, European Central Bank, Directorate General Legal Services gives a slide presentation entitled: "Progress of the EU clearing and settlement project (CESAME, legal, tax)".

A copy of Mr. Löber's presentation is attached hereto as attachment 8.

11. **Results of ISMA's 8<sup>th</sup> semi-annual European repo market survey of December 2004**

Mr. Comotto, ISMA Centre, University of Reading gives a slide presentation on the results of ISMA's 8<sup>th</sup> semi-annual European repo market survey of December 2004.

A copy of Mr. Comotto's presentation is attached hereto as attachment 9.

**12. Comparative analysis of the ISMA European repo survey and the ECB money market data.**

Mr. Evenepoel, Dexia Bank Belgium NV/AS gives a slide presentation entitled: "Comparative analysis of the ISMA European repo survey and the ECB money market data".

A copy of Mr. Evenepoel's presentation is attached hereto as attachment 10.

**13. Results of the elections to the European repo committee**

Based on the ballot held, the chairman announces the results of the elections to and the new composition of the ERC committee as follows:

Ulf Bacher	Dresdner Bank AG, Frankfurt
Jean Marie Begonin	Credit Suisse First Boston (Europe) Limited, London
Stefano Bellani	J. P. Morgan Securities Ltd., London
Francesco Cafagna	Goldman Sachs International, London
Eduard Cia	Bayerische Hypo- und Vereinsbank AG, Munich
Jaime Comuni3n Artieda	Caja de Madrid, Madrid
Godfried De Vidts	Fortis Bank, Brussels
Edward Donald	ABN AMRO Bank N.V., London branch
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Johan Evenepoel	Dexia Bank Belgium NV/SA, Brussels
Andrea Masciovecchio	Banca Intesa S.p.A., Milan
Grigorios Markouizos	Citigroup Global Markets Limited, London
Edward McAleer	Morgan Stanley & Co. International Ltd., London
Michael Murray	Confederaci3n Espa3ola de Cajas de Ahorros (CECA), Madrid
David McClean	Nomura International plc, London

David Nicholls	Deutsche Bank AG, London branch
Simon Parkins	BNP Paribas, London branch
Ashraf Rizvi	UBS AG, London branch

The term of office of each of the above ERC committee members will expire at the annual general meeting of the ERC council to be held in spring 2006.

**14. Access to Central Bank liquidity**

Mr. Jordan, Swiss National Bank gives a slide presentation on access to Central Bank liquidity.

A copy of Mr. Jordan's presentation is attached hereto as attachment 11.

**15. ICAP Electronic Brokering - "Brokertec Repo"**

Mr. Edwards, ICAP gives a slide presentation on ICAP Electronic Brokering – "Brokertec Repo".

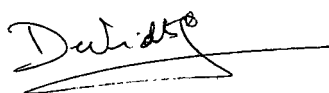
A copy of Mr. Edward's presentation is attached hereto as attachment 12.

**16. Next meeting**

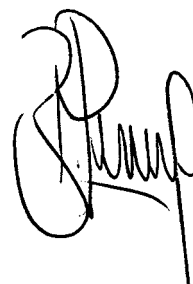
The next general meeting of the European repo council will be held on September 21, 2005 in Luxembourg. The meeting will be hosted by Clearstream.

The exact venue will be confirmed in due course.

April 5, 2005  
BP/ys



The Chairman:  
Godfried De Vidts



The Secretary:  
Barbara Pung

Attachments



I S M A

**European Repo Council**  
**March 17, 2005**  
**Zurich**



# Recent market events/issues

- **ECB-BOE-SNB collateral framework**
- **Cross border collateral : CPSS discussions**
- **Greek issue of fines for fails**
- **CCP discussions re classification**
- **Securities Operations Committee: reducing operational risk**
- **Repo developments in Russia : contact established**
- **Italy Express II : ERC involved**
- **4th professional repo market course : Milan with focus on use of triparty**
- **Next meeting : September 21 st - Luxembourg**

# EURIBOR - ACI Derivatives Group

## EONIA SWAP INDEX

Official  
Reference  
Rate

Basis for New  
Products

Spread  
Definition vs.  
Cash and Repo  
Markets

Benchmark for  
Derivatives in  
Europe



# Specification EONIA SWAP INDEX

- **Mid Market Rate of EONIA SWAP quotations from prime banks**
- **Fixed daily at 16.30 CET (clear time gap to EURIBOR + EUREPO)**
- **Index will be quoted for spot value (T+2) on an act/360 day count convention and is displayed on three decimal places**
- **Planned maturities are 1, 2 and 3 weeks as well as 1 to 12 months**
- **Named “INDEX” rather than “fixing”**
- **Procedures will be in line with the existing fixings for EURIBOR + EUREPO**

# Advantages of an EONIA SWAP INDEX

## Development of new markets and products

- Reference rate for long term swaps
- Creating a forward starting OIS market (FRA like)
- Creating and adding volume to basis swap markets

## Benchmarking Tool

- Benchmark for derivative markets
- Creating spread definitions vs. EURIBOR and EUREPO indices

## Controlling Tool

- Valuation basis for EONIA Swaps
- Providing accepted official data for market conformity checks

# Calculation of EONIA SWAP INDEX 1

- At 16:30 (CET) the EONIA SWAP INDEX will be fixed by 'MONEYLINE TELERATE'

## Contribution of data

- Between 16:10 and 16:20 on each Target Day every panel bank will be required to input their data to MONEYLINE TELERATE
- From 16:20 to 16:30 at the latest panel banks can correct their quotations
- The index will be calculated eliminating the highest and lowest 15% of all the quotes collected

# Calculation of EONIA SWAP INDEX 2

## Fallback rules

- If one or more panel bank does not provide its data until 16:30 after a reminder, the calculation will be done without the missing data
- If more than 50% of panel banks fail to provide their data,
  - the calculation is delayed at latest to 16:40 or until 50% have quoted
  - at 16:40 the calculation will start if 10 or more panel banks have provided their data

# **The panel of the EONIA SWAP INDEX**

**The number of panel banks will be both**

- **High enough to reflect faithfully the diversity of the EONIA Swap market**
- **Low enough to ensure an efficient manageable panel**

**Criteria to qualify**

- **Active player in the Euro derivatives markets**
- **Be able to handle good volumes in EONIA Swaps**
- **Panel banks must be first class credit standing, high ethical standards and enjoying an excellent reputation**
- **Applying banks must disclose all relevant information**

**Panel banks will be periodically reviewed by the Steering Committee to ensure that the selected panel always reflects EONIA Swap market activities.**

# Obligations of panel banks

## **Panel banks must quote EONIA SWAP INDEX**

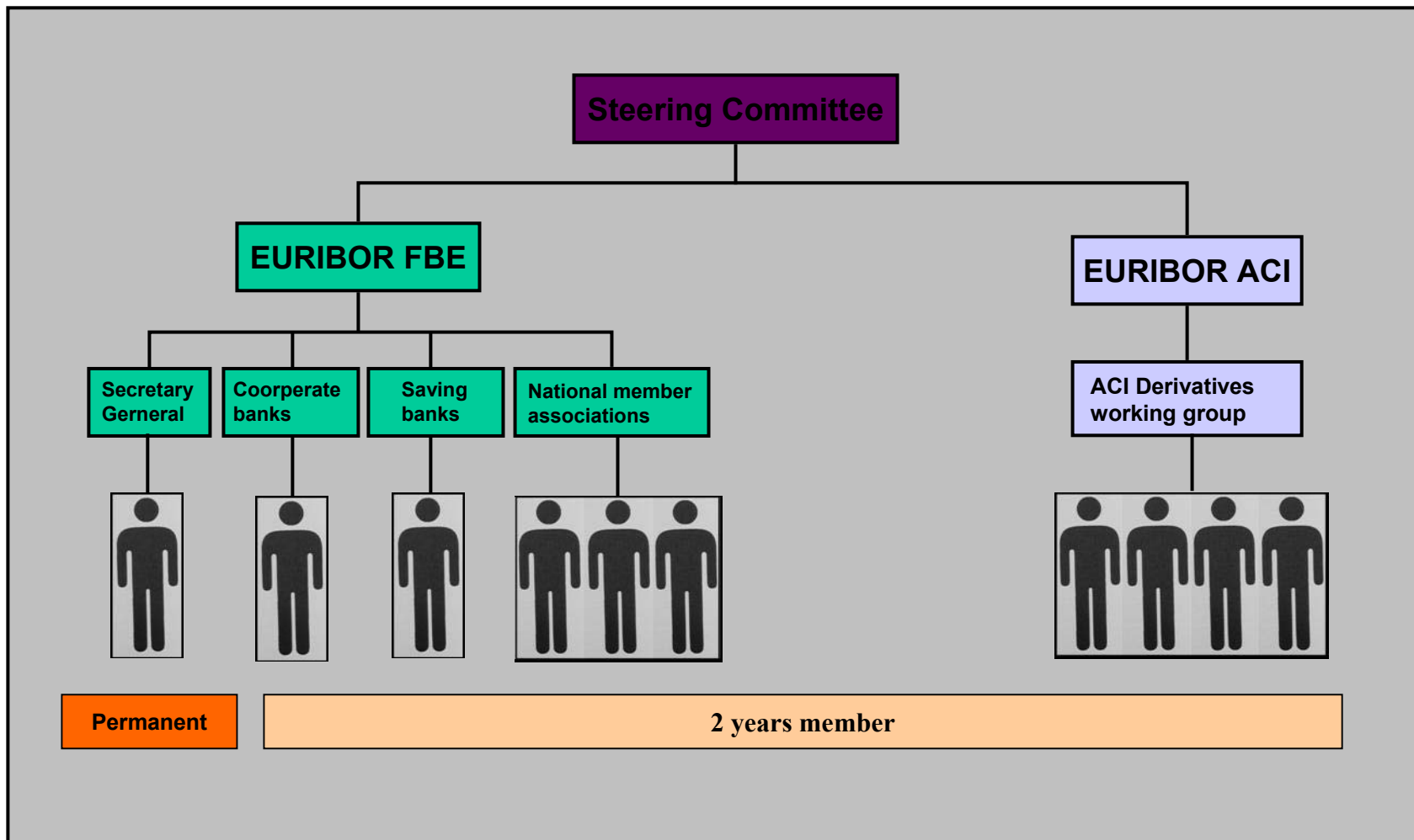
- **For the complete range of maturities as indicated by the Steering Committee**
- **On time as indicated by the screen service provider**
- **Daily except on Saturdays, Sundays and Target holidays**
- **Accurately with three decimal places**

## **Additional Obligations**

- **Take all other measures that may be required by Steering Committee or the screen service provider in the future**
- **Subject themselves unconditionally to the 'Code of Conduct'**
- **Promote the index as much as possible and refrain from any activity damaging EONIA SWAP INDEX**



# Steering Committee



# Tasks and rights of the Steering Committee

## Tasks

- Handle new applications for a seat on the panel
- Review periodically whether the number of panel banks is still appropriate with the market developments
- Control whether the panel banks fulfill their obligations
- Indicating the maturities for which EONIA SWAP INDEX must be quoted

## Rights

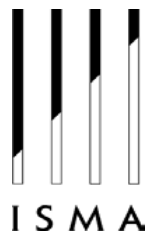
- Request panel banks to demonstrate and prove that their market activities still qualified them for a seat on the panel
- Penalize panel banks if they ignore warnings of the committee
- May remove panel banks from the panel if the criteria are not longer met

Before the Steering Committee takes a decision, it gives the parties concerned the opportunity to expose their opinion.

# Current status of the project

- FBE decision on Sep17, 2004 accepting the proposal of Euribor-ACI to implement an Eonia Swap Index
- Business plan was developed
- Website 'www.eoniaswap.org' is currently constructed
- Euribor-ACI Derivatives group has submitted their Panel suggestion to the FBE

Conference June 30<sup>th</sup>, 2005 in Frankfurt



European Repo Council General Meeting, March 17, 2005

GMRA

1. List of legal opinions being obtained / sought jointly by ISMA and TBMA

Update legal opinions

1. Austria	10. Italy
2. Belgium	11. Japan
3. Canada	12. Luxembourg
4. England	13. Netherlands
5. Finland	14. Poland
6. France	15. Portugal
7. Germany	16. Spain
8. Greece	17. Switzerland
9. Ireland	18. USA

**New legal opinions**

1. Greece
2. Cyprus
3. Hungary
4. Norway



I S M A

Slide 2

European Repo Council General Meeting, March 17, 2005

GMRA

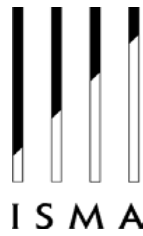
2. List of legal opinions being obtained by ISMA on its own

Update legal opinions

1. Abu Dhabi	10. Kuwait
2. Australia	11. Netherlands Antilles
3. Bahamas	12. New Zealand
4. Bahrain	13. Saudi Arabia
5. Bermuda	14. Singapore
6. British Virgin Islands	15. South Africa
7. Cayman Islands	16. Sweden
8. Denmark	17. Thailand
9. Hong Kong	18. Turkey

**New legal opinions**

1. Brazil	6. The Philippines
2. Estonia	7. Scotland
3. Latvia	8. South Korea
4. Lithuania	9. Taiwan
5. Malta	



Slide 3

**European Repo Council General Meeting, March 17, 2005**

**GMRA**

**3. List of jurisdictions where the enforceability of the GMRA is being reviewed**

- 1. Croatia**
- 2. Czech Republic**
- 3. Israel**
- 4. Mexico**
- 5. Romania**
- 6. Russia**
- 7. Slovakia**
- 8. Slovenia**



# Management of fails in negative interest rate repos

Ulf Bacher

Global Head of STP/T Principal Trading

ERC General meeting

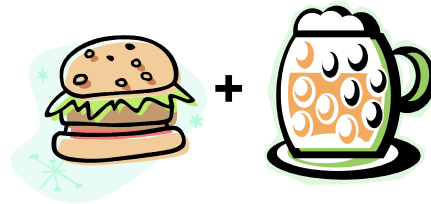
17<sup>th</sup> March 2005

# Free Lunches in Repo Markets?

A Repo with a negative Interest Rate ...



... can be a free lunch and a beer...



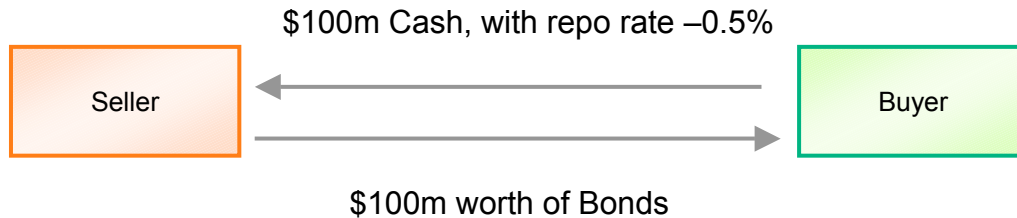
... for an opportunistic market player



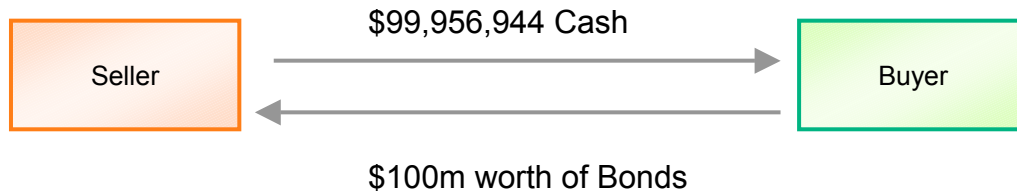


# An Example - Why do negative interest rates differ?

## Trade inception – August 25th



## Trade maturity – September 25th



At termination, under negative interest rate repo, less cash will be paid back by the 'seller' than the 'buyer' originally paid at trade inception

### ➤ Positive Repo Rate:

- As cash and repo leg are paired-off at the end-leg of the repo, *the seller will have to pay the positive interest rate – even if he fails to deliver.*
- This poses an *in-build incentive* to deliver into the repo and *behave accordingly.*

### ➤ Negative Repo Rate:

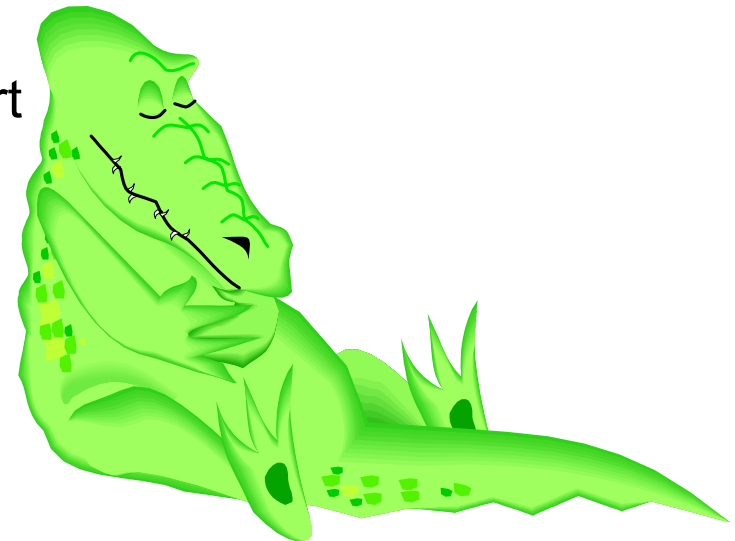
- **However, if the repo rate is negative, *the seller will receive interest rate – even without the intention to deliver the bonds.***

### ➤ Consequences:

- *Adverse market behaviour* and wrong incentivization for market participants.
- Opportunistic market participants *arbitrage the regulatory/contractual gap.*
- Creation of *market uncertainty* in negative repo rates environments. *Adverse selection. Liquidity drain.*

# The Party is over - We need to act

- The ERC cannot support a market standard that actually encourages a fail-friendly or even fail-supportive market environment.
- Incentives of the market participants have to be aligned with a proper market behaviour.
- The ERC has to define a rule-set that will support a “regular market” and discourage actively the opportunistic market participant



# Possible solutions

- 1) Penalties: The imposition of a financial penalty against the seller of the bonds in the case that the trade fails because the seller is short or has made an operational error.

## Advantages:

- Enforces good delivery
- Creates market discipline
- Aligned to the wishes of some market authorities
- Leverages the precedent observed in other markets such as the Futures market

## Disadvantages:

- Has the potential to massively increase market illiquidity
- Will result in increased costs of financing transactions
- Will interfere in the orderly running of the repo market

- 2) Early termination: Trade will be automatically terminated at the first fail date, where the seller is at fault.

## Advantages:

- Allows the counterparty which requires use of the bonds to source from elsewhere without continuing to pay a negative interest rate
- Prevents abuse of the system and aids the operation of an orderly market

## Disadvantages:

- Settlement can only be confirmed on the next business day after contractual settlement – as a minimum this will leave a negative interest cost to the buyer for 1 day
- May generate a decrease in market liquidity as a result of the fail being part of a 'chain'

# Possible solutions

- 3) Revert to zero rate from negative rate: If the seller is at fault the repo rate is zero for the period of the failure. Once the opening leg is settled the negative rate becomes effective for the remaining period of the trade.

## Advantages:

- Negates economic impact of failure to non defaulting counterparty.
- Actually encourages liquidity, those with liquidity are encouraged to trade.

## Disadvantages:

- May not be a strong enough penalty to enforce market discipline on its own.
- Requires amendment of closing leg cash (although floating rate repo requires amendment already).

# Recommendation

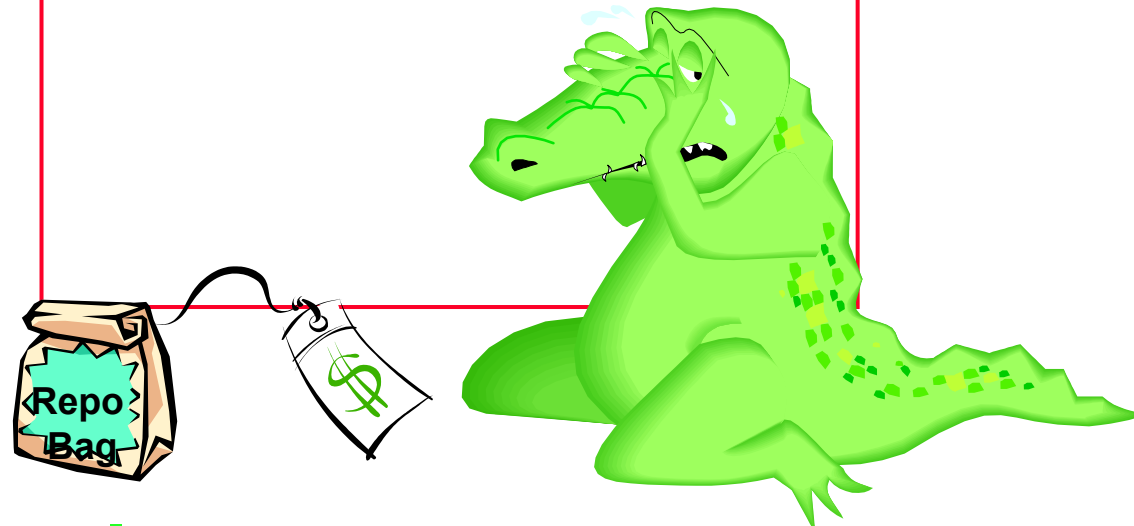
If the seller fails to deliver then the buyer has the option to early terminate the transaction and this option continues for every day that the trade fails and the seller is at fault. In addition, for every day that the trade fails the repo rate is zero.

## Advantages:

- Negates economic impact of failure to non defaulting counterparty
- Actually encourages liquidity, those with liquidity are encouraged to trade
- Allows the negative interest rate repo market to continue
- Allows the counterparty which requires use of the bonds to source from elsewhere without continuing to pay a negative interest rate
- Prevents abuse of the system and aids the operation of an orderly market
- Avoids cancelling transaction

## Disadvantages:

- May generate a decrease in market liquidity as a result of the fail being part of a 'chain'
- Requires amendment of the closing leg of the repo trade (although floating rate repo trades require same amendment)



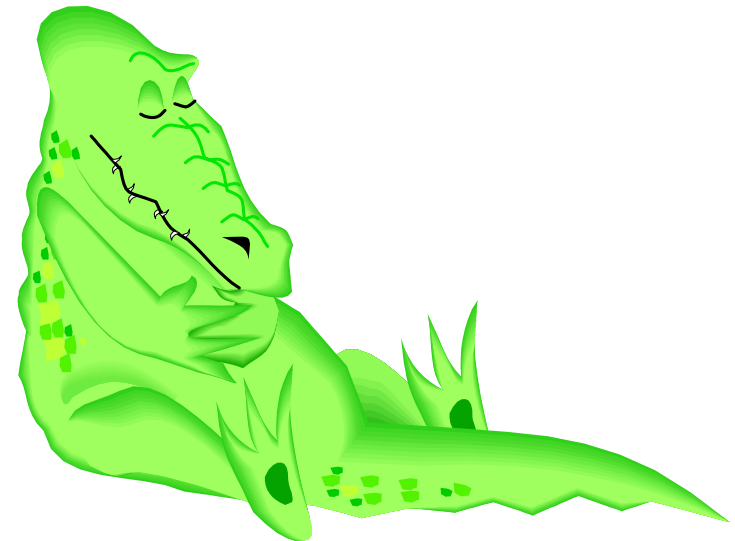
# The approved solution

At its meeting on December 10, 2004 the board approved the following recommendation:

Market participants who wish to enter into a repo transaction in which the rate of interest payable by the seller on the purchase price will be negative, should agree that if the repo seller fails to deliver the purchased securities on the purchase date then

- the buyer may terminate the transaction (and this right should continue for every day that the seller fails to deliver) and
- for every day that the seller fails to deliver the purchased securities the repo rate should be zero.

This is effective as of January 1, 2005 and is incorporated in subsection G of section 1000 in ISMA's rules and recommendations.



# The wording of the new recommendation

The international committee recommends that market participants who wish to enter into a repo transaction (whether a repurchase transaction or a buy/sell back transaction) in which the rate of interest payable by the seller on the purchase price will be negative agree that if the repo seller fails to deliver the purchased securities on the purchase date then –

- (i) the buyer may terminate the transaction (and this right should continue for every day that the seller fails to deliver); and
- (ii) for every day that the seller fails to deliver the purchased securities the repo rate should be zero

(the “International Repo Committee recommendation for negative interest rates”).

Where market participants have entered into the PSA/ISMA Global Master Repurchase Agreement (1995 version) or the TBMA/ISMA Global Master Repurchase Agreement (2000 version) (each the GMRA) the GMRA should be amended to incorporate the provisions set below. Users of the GMRA may incorporate the provisions into the GMRA itself as a supplemental term in part 2 of Annex I or, alternatively, on a transaction-by-transaction basis by incorporating the provisions into the confirmation of relevant transactions.

# The wording of the new recommendation

Where the provisions are incorporated into a confirmation, they can be included in full or be incorporated by reference by the use of a phrase such as “negative interest rates: International Repo Committee recommendation shall apply”.

“The parties agree that the following provisions shall apply in relation to any transaction in respect of which the Pricing Rate is negative.

- (a) The definition of “Pricing Rate” in paragraph 2 [(ee)]\* [(jj)]\*\* is amended by adding the phrase “(which may be a negative number)” after “percentage rate”.
- (b) Paragraph 10 [(e)]\* [(g)]\*\* is amended by adding the following at the end of that paragraph –

“If the Pricing Rate agreed for the Transaction in question is negative, the Pricing Rate for that Transaction shall be deemed to be zero for as long as such failure continues.””

\* GMRA 1995

\*\* GMRA 2000

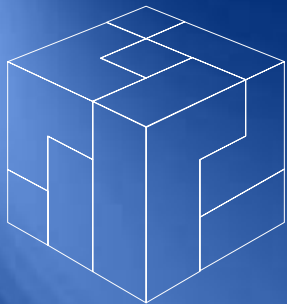


# EONIA Based Repo

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*Simon Parkins*  
*Head of Repo Trading, BNP Paribas*



Corporate  
and Investment  
Banking

14 February 2005

# Contents

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<b>Background</b>	<b>03</b>
<b>Example</b>	<b>04</b>
<b>Proposal</b>	<b>05</b>
<b>Recommendations</b>	<b>06</b>



# Background

## ■ Historical Market Practice on EONIA based repo

- Settlement at the 'ICSD's' has evolved into utilising the "settlement date minus 2" EONIA issued rate as the last reference rate
  - i.e 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.

## ■ Settlement Issues

- Currently settlement amounts are being calculated using potentially materially different EONIA rates



# Example

- Dealer X buys EUR100m bonds vs EUR100m cash from customer A at Eonia plus 10 in a ICSD
- Dealer X sells EUR100m bonds vs EUR100m cash from customer B at Eonia less 0 in Euroclear France
- Expected P&L is EUR1,944

Day	7-Feb-05	8-Feb-05	9-Feb-05	10-Feb-05	11-Feb-05	14-Feb-05
Daycount	1	1	1	1	3	
Eonia Fix	2.07	2.07	2.07	2.07	2.36	Settle Cash
Repo Interest on Sale at Eonia Flat (in Euroclear France)	5,750	5,750	5,750	5,750	19,694	100,042,694
Repo Interest on Buy at Eonia + 10 (ICSD)	6,028	6,028	6,028	6,028	18,083	100,042,194
					P&L	- 500



# Proposal

## ■ To incorporate the SD-1 issued Eonia rate into the closing leg of repos settling via ICSD's

- Achieved via two potential routes dependent on individual firm's ability and approach to settlement messaging to the ICSD

### Option 1

- Following EONIA fixings on SD-1, re-calculate settlement proceeds and send instructions to ICSD for pre-matching in order to meet overnight settlement batch (OSB)
- Utilising OSB will maintain consistency with current process

### Option 2

- Should settlement instruction transmission to the ICSD for pre-matching fail to occur on the evening of SD-1
- Settlement will take place in the various 'automatic' daytime settlement windows at the ICSD's.



# Recommendations

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- **It is not desirable to continue with the present situation as settlement amounts are currently being calculated using potentially materially different EONIA rates**
- **A correction will bring EONIA based trades settling in the ICSDs 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**



# Improved Settlement and Securities Lending and Borrowing Infrastructure



Olivier Grimonpont  
17 March 2005

# Settlement infrastructure

Continues to evolve towards

- **more efficiency**
- **less risk**
- **lower costs**



Improve interoperability between settlement systems

- synchronisation of settlement timings
- multiple turnaround capability



Encourage earlier settlement

- reduction of gridlock risk
- earlier confirmation of funding needs
- more time repairs and adjustments
- additional same-day trading opportunities



Use securities borrowing to expedite settlement

- to facilitate fails and chains
- to further improve interoperability between settlement systems

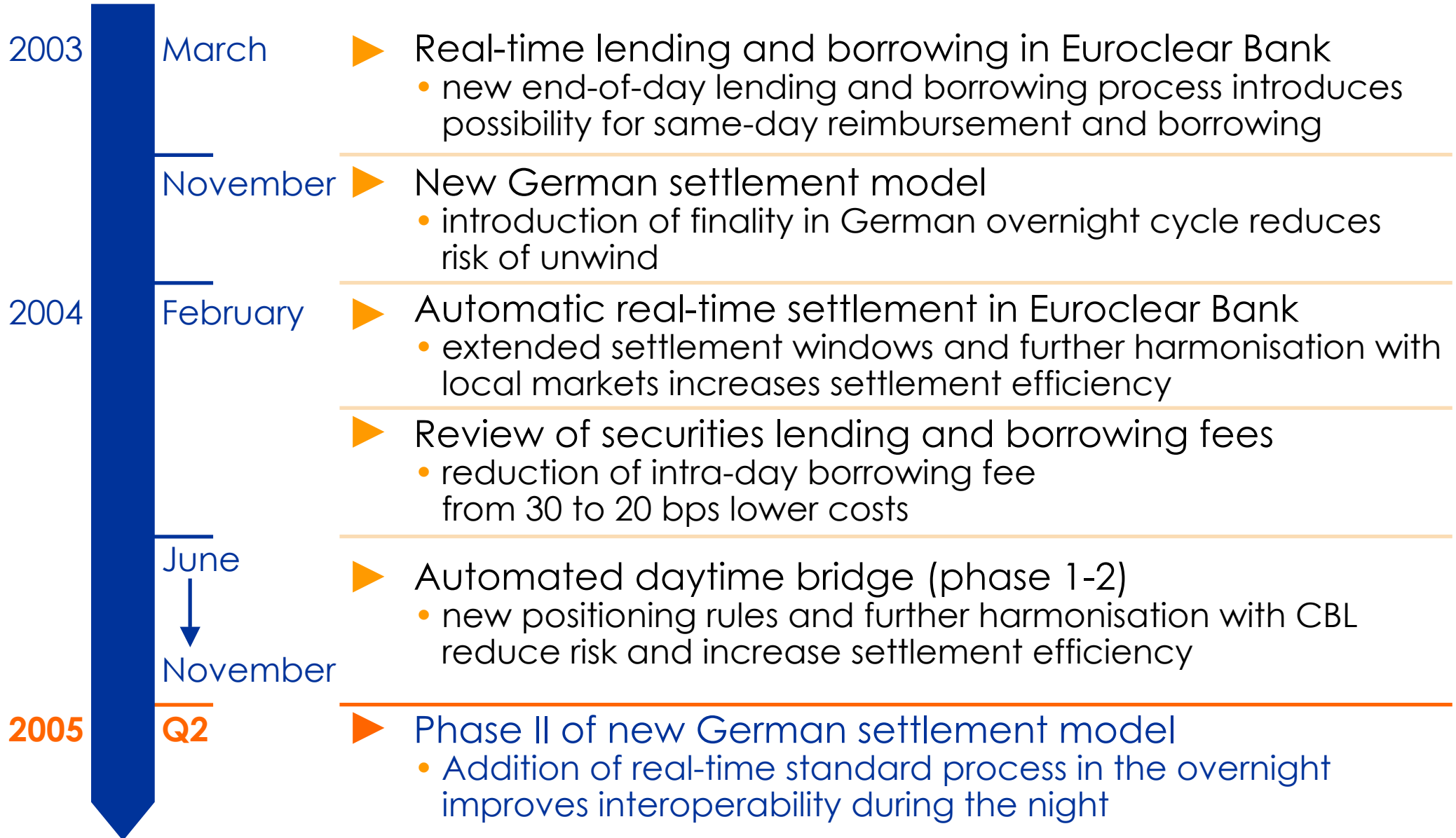


## Securities lending and borrowing is key to increase settlement efficiency\*

- Securities lending reduces risk of failed settlement
- Securities lending increases efficiency and cost effectiveness of cross-border transactions
- Securities lending arrangements should meet the requirement of the particular market
- Right economic incentives encourage broad participation to automatic lending and borrowing facility

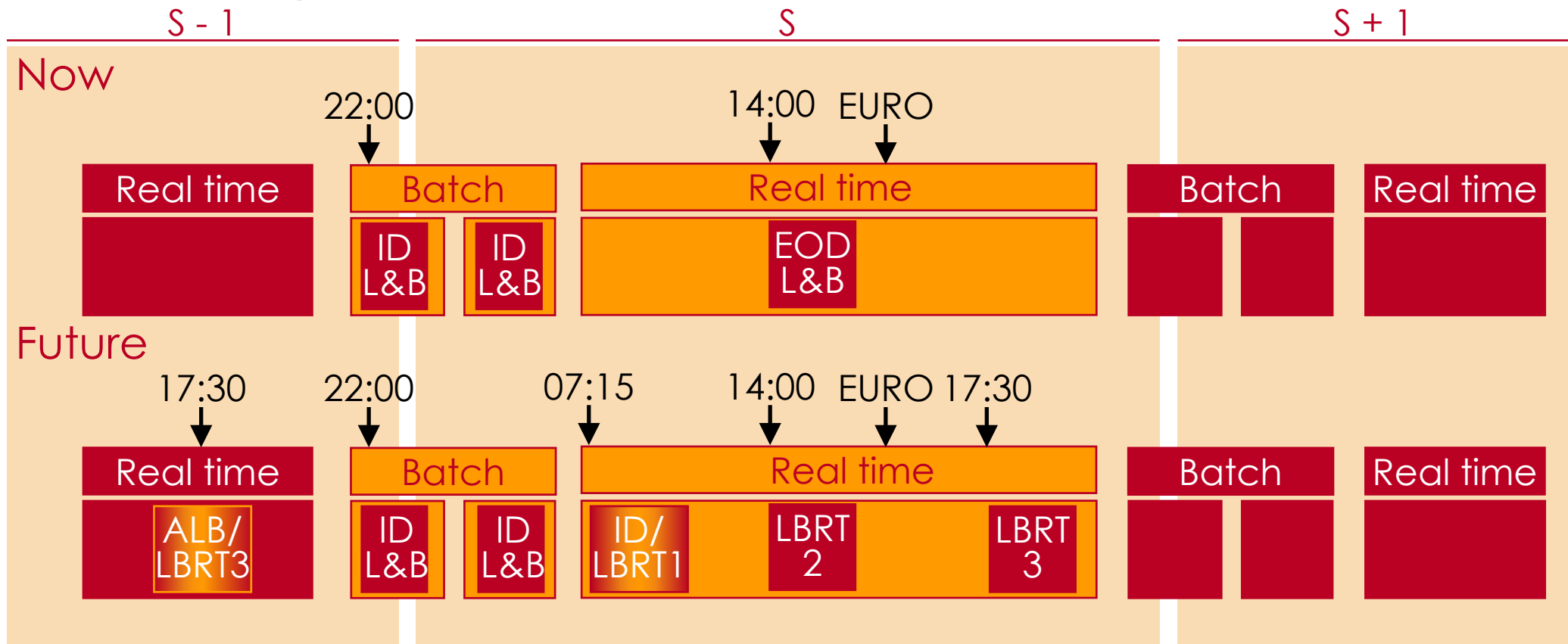
\* Excerpt from Standard 5 on securities lending, ECB-CESR

# Settlement infrastructure: Few recent and ongoing changes



# Securities lending and borrowing programme

## Processing platform



- Flexibility in terms of markets
- Flexibility in terms of processing mode: ALB or EOD
- Improved pricing for borrowers and lenders

# Lending and borrowing infrastructure

## Changes

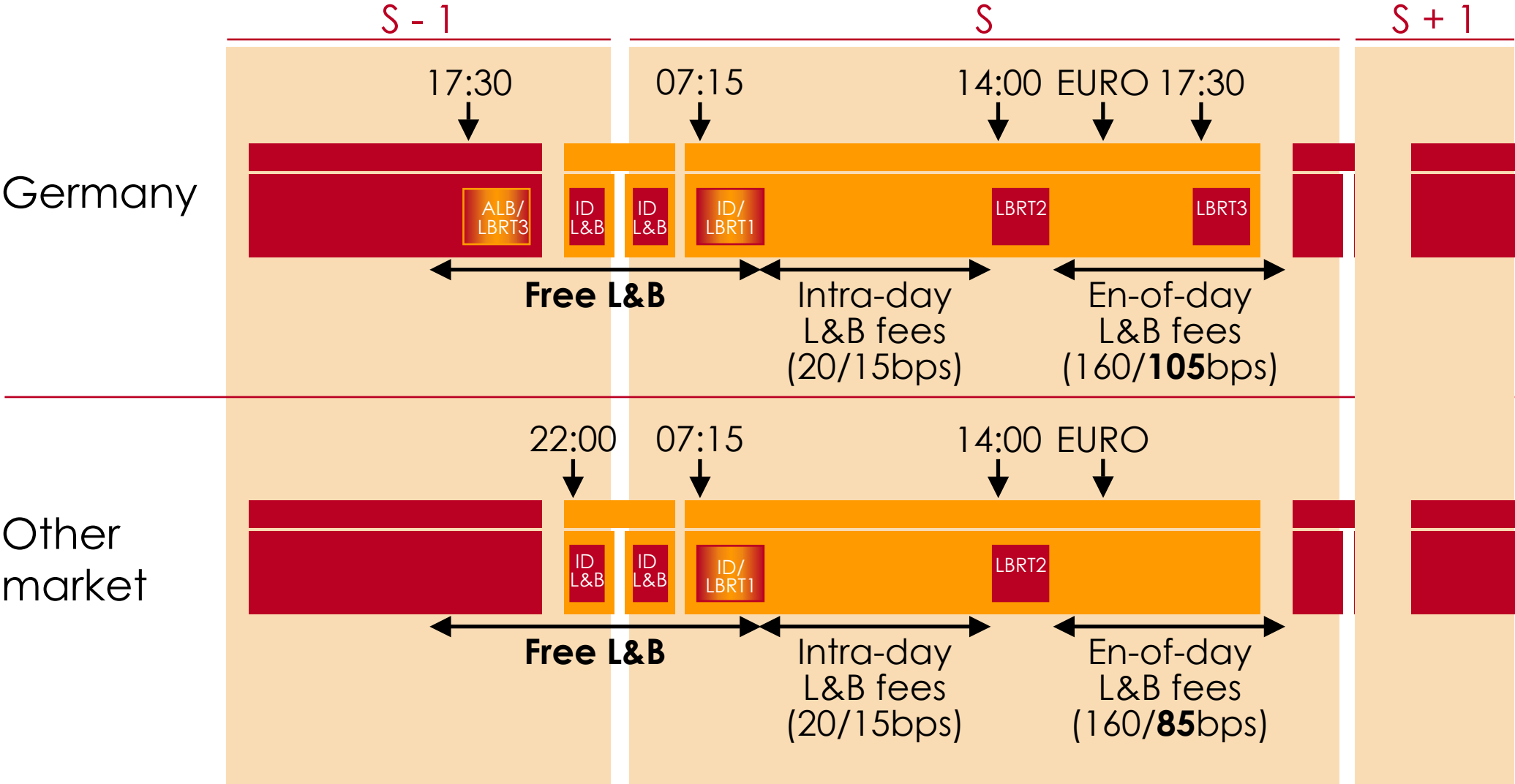
### Anticipated lending and borrowing process

- Generates new borrowings on S-1 at 17:30 for A/P cross-border deliveries
- Initially for Germany only
- Will be used for other markets as an ALB or end-of-day reimbursement capability

### Early morning intra-day lending and borrowing process

- Generates new borrowings and reimbursements on S at 7:15 for all markets
- Allows to reimburse borrowings covered by receipts of securities from all markets including the feedback from new real-time-standard process

# Pricing illustration



# Lending and borrowing pricing

## Changes

### Anticipated lending and borrowing process

- Limited value for borrowers
- Limited impact on lenders
- No borrowing charge, but higher lending rate of 20bps for lenders in end-of-day process (and end-of-day borrowing rate unchanged vav today) to remunerate for the availability of the pool

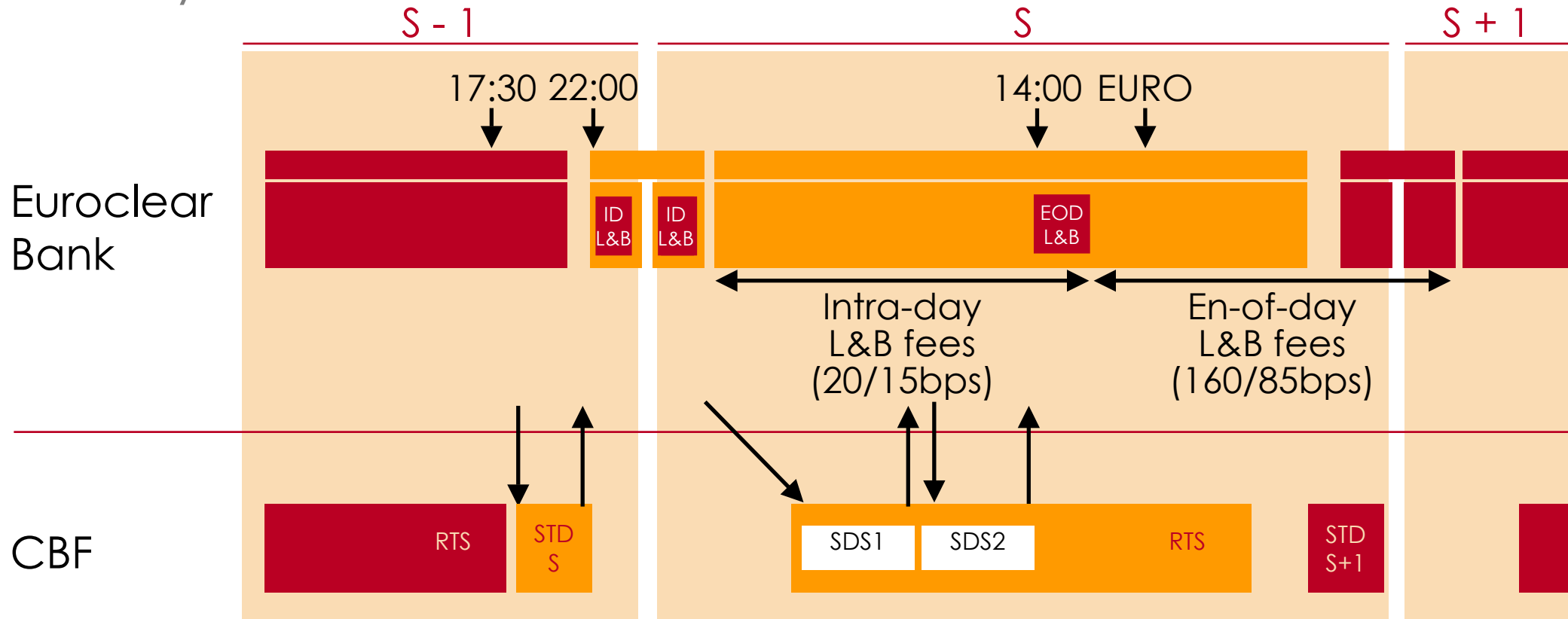
### Current intra-day fees

- Will be charged as of the early morning intra-day lending and borrowing process (07:15)

Creation of an extended overnight process from ALB to early morning intra-day lending and borrowing process

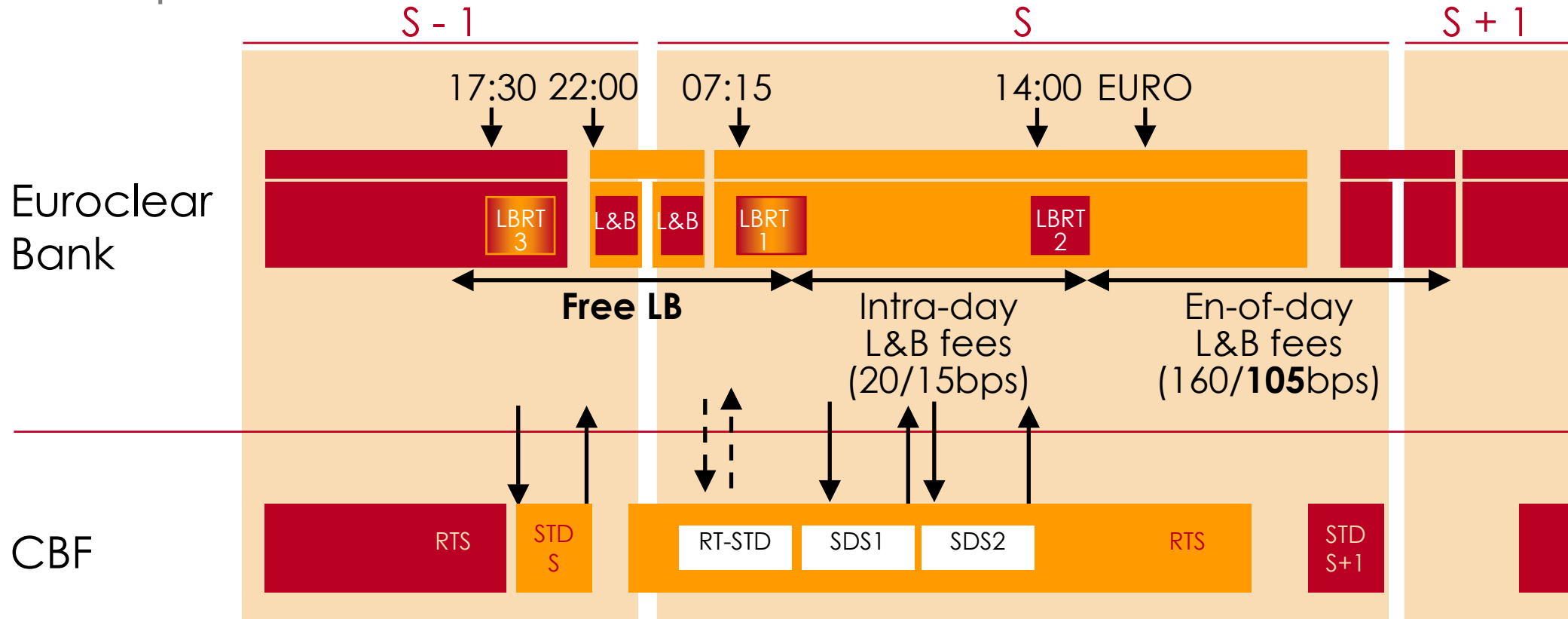
# Applied to German securities

Today



# Applied to German securities

11 April 2005

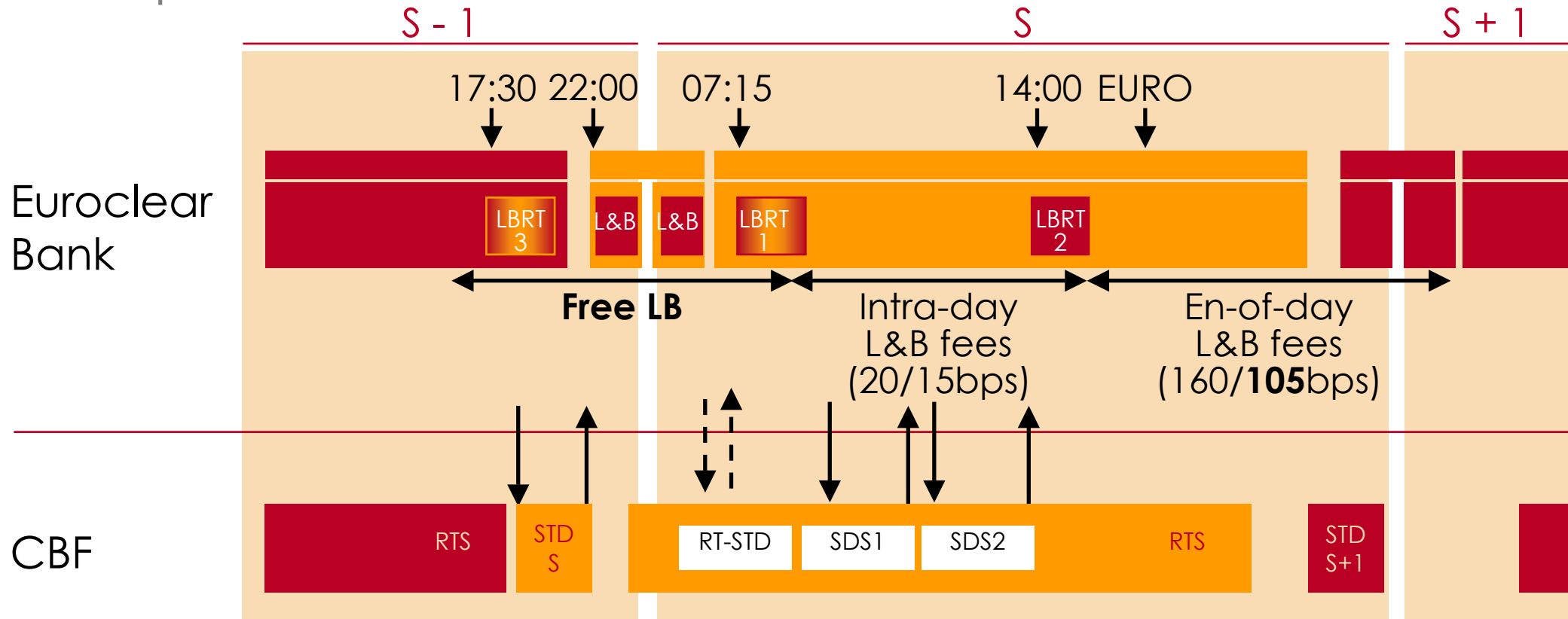


- Based on existing flows, 70% of 'old RABL' are reimbursed prior to 07:00
- With NGSM II we should expect even more reimbursement
- Daily turnover = EUR 365 billion, 90% internal, 6% CBF, 4% CBL



# Applied to German securities

11 April 2005



We adapted our infrastructure to best leverage developments in the local market with 2 main objectives:

- Increase settlement efficiency
- Decrease costs for borrowers

# Benefits of changes to lending and borrowing

## Pricing and infrastructure



### Benefits for borrowers

- Flexible infrastructure and pricing adapted to specificity of each market
- Improved settlement efficiency and interoperability with local markets
- Lower borrowing (and reporting) costs
- Ability to improve P/L with same-day financing
- No borrowing anymore in overnight S-1 for top priority external deliveries to Germany

### Benefits for lenders



- New infrastructure and pricing preserves demand
- Preserved lending returns
- Increased lending opportunities
- Ability to improve returns through better synchronization with street lending activity
- Reduce communication costs

# More information

- Newsletters
  - ▶ 2004-N-076 dated 20 September 2004  
'Reporting impact'
  - ▶ 2004-N-008 dated 17 January 2005  
'New infrastructure'



euroclear

Attachment 6

ERC General Meeting

March 17, 2005

## Settlement Initiatives in Europe

February 2005

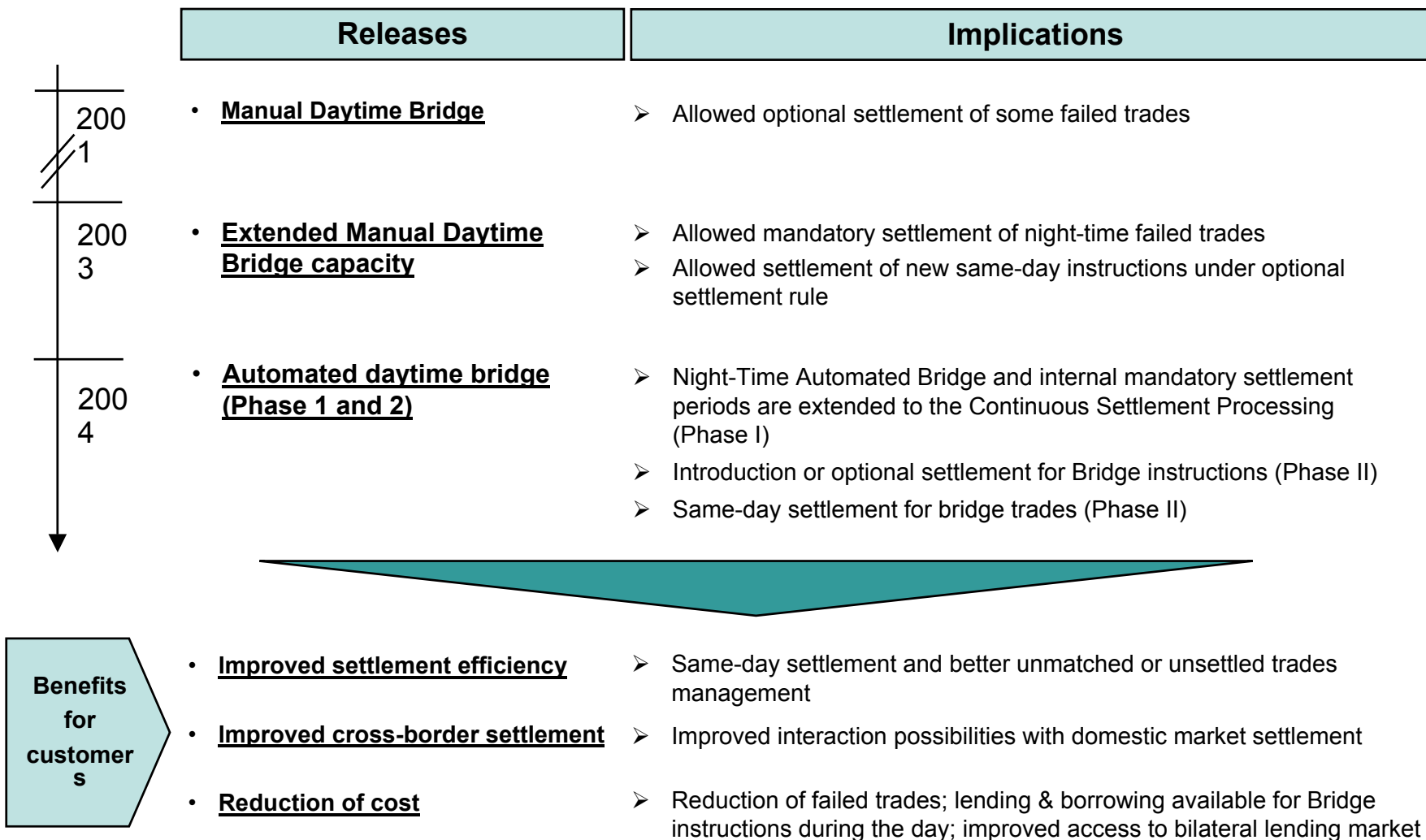
- (1) Review of major changes in the European settlement landscape in last years
- (2) Recent history of Bridge settlement
- (3) The new Real-Time Standard cycle in Clearstream
  - a) Illustration of the process
  - b) Benefits for the customers and their counterparts
- (4) Implications of Clearstream Settlement Initiative
- (5) A view into the future

# Review of major changes in the European settlement landscape in last years

	Releases	Implications
2002	<ul style="list-style-type: none"> <li>• <u>Spain: completion of the incorporation of debt securities into the CADE system</u></li> </ul>	<ul style="list-style-type: none"> <li>➤ Single platform for the registration, clearing and settlement of Spanish domestic fixed income, both public and private</li> </ul>
2003	<ul style="list-style-type: none"> <li>• <u>New German Settlement Model (NGSM) Phase 1</u></li> <li>• <u>Merger between LCH and Clearnet</u></li> </ul>	<ul style="list-style-type: none"> <li>➤ Reduction of unwinding risk and improving of liquidity tools</li> <li>➤ Decreased counterparty risk for customers operating simultaneously across different European (cash) markets</li> </ul>
2004	<ul style="list-style-type: none"> <li>• <u>Italy: launch of the new settlement platform Express II</u></li> <li>• <u>Automated daytime bridge (Phase 1 and 2)</u></li> </ul>	<ul style="list-style-type: none"> <li>➤ Extended settlement possibilities as well as immediate availability of purchased securities and cash proceeds early in the morning</li> <li>➤ Improved interaction and settlement efficiency between CBL and Euroclear Bank through extended settlement periods and greater exception management possibilities</li> </ul>
2005	<ul style="list-style-type: none"> <li>• <u>CBF/CBL: Real-time Standard Processing (March 2005)</u></li> <li>• <u>CBL: Extension of processing day to 18:00 + Improved cash &amp; settl. deadlines (July 2005)</u></li> </ul>	<ul style="list-style-type: none"> <li>➤ Improving data exchange overnight in cross-border settlement</li> <li>➤ Improved settlement and cash deadlines allow customers to be much more flexible with instructing towards market deadlines. CBL deadline for CBF settlements improves to 18.00 on SD -1.</li> </ul>

# Recent history of Bridge Settlement

## Focus: DAYTIME efficiency



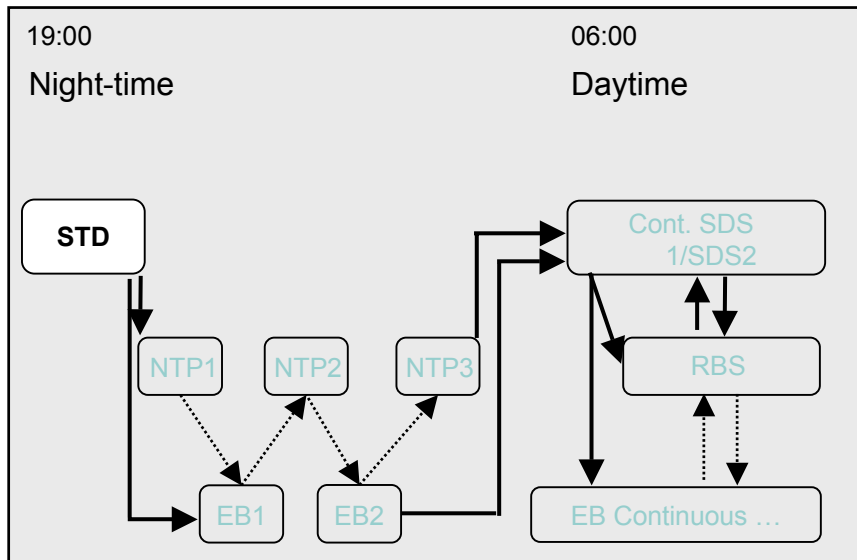


# In 2005: Focus NIGHTTIME efficiency - “CBF Real-Time Standard”

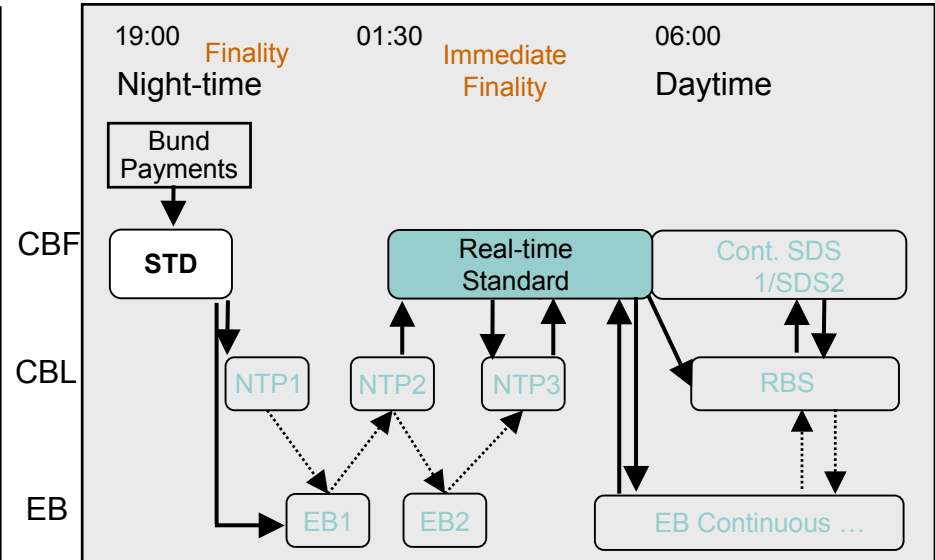
## Incorporation of night-time settlement results of ICSDs

clearstream

Current Release of New German Settlement Model  
(since November 2003)



Next Release of New German Settlement Model  
(Launch March 2005)



### Benefits of Real-Time Standard ('RTS') cycle:

- Additional night-time settlement run (including settlement reporting) and further CBL/ EB-CBF file transfer exchange will be introduced
- Earlier finality on settlement leads to higher settlement turnover and therefore higher efficiency
- Less financing costs as lending transactions can be closed earlier and settlement proceeds are provided

# In 2005: CBF Real-Time Standard cycle increases settlement efficiency

## Goals and Scope

- A real-time settlement process with immediate finality for instructions after STD box from 1:30 until 5:30 (enhancement of existing STD) is added.
- This leads to an increase of securities transactions during night-time processing.
- Re-use of received cash and securities is allowed and the counterparty access to ICSD customers is now possible also during the night.
- Real-time Standard is based on the New German Settlement Model ('NGSM') concept.

## Benefits


- Increased settlement efficiency for OTC instructions
- Additional data exchange with CBL / EB's night-time processing

## Implementation

- Production launch is scheduled for **March 14, 2005**

# CBF Real-Time Standard cycle delivers many benefits for customers and their counterparts

- Financing costs significantly reduced for CBL/CBF customers and their counterparts
- Cross-border settlement more efficient for all parties, regardless of settlement location
- Deadline extensions
- Further data exchanges (RT-Std) at night-time between CBF/EOC/CBL
- Multiple Cash Sourcing for German and International parties with bank status
- Cash Optimisation across NCBs

- 
- **Liquidity in Bunds settlement is significantly improved**
  - **The request by market participants and the ERC to improve the settlement liquidity on Bunds has been satisfied by Clearstream**
  - **True competition is in the interest of all market participants**

# Reform of the Bank of England's Operations in the Sterling Money Markets

Stuart Berry  
Bank of England

# The purpose of the Bank's official operations in sterling money markets

- Two purposes:-
  - Implement the MPC's interest rate decision
  - Meet the banking system's liquidity need – its demand for sterling central bank money - in routine and stressed conditions
- In doing so:-
  - influences liquidity conditions in the sterling money markets
  - the incentives for banks to manage their liquidity prudently and actively

# Objectives

- Flat money market yield curve, consistent with official policy rate, out to next decision date
- Efficient, safe and flexible framework for banking system liquidity management – both in competitive money markets and, where appropriate, using central bank money – in routine and stressed/extraordinary conditions
- Simple, straightforward, transparent framework
- Competitive and fair sterling money markets

# Current system

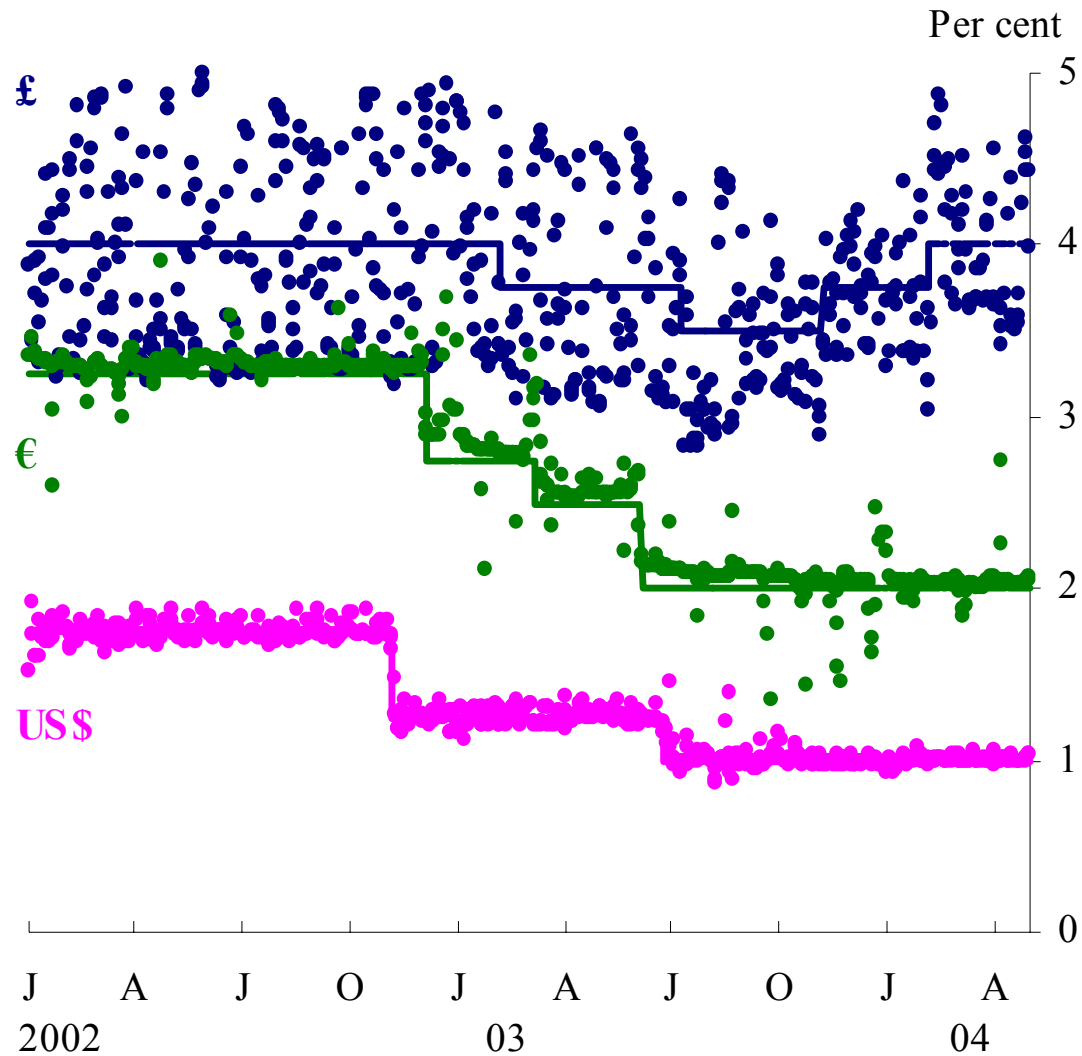
- Banks must balance accounts every evening
- We lend just sufficient money to allow them to do that every day in two week OMOs at repo rate
- Overnight deposit facility at repo less 100bp; overnight lending at repo plus 100bp

# Reasons for change (I)

- Overnight rates more volatile than desirable
  - Wide channel for overnight rates set by the corridor on the Bank's overnight facilities
  - 'Pivoting' ahead of policy decision dates because the Bank lends at the policy rate at two week maturities



# Overnight interest and policy rates



# Reasons for change (II)

- Complexity
  - the terms on which we offer settlement accounts lead to
    - the Bank operating up to four times each day and usually operating on two or three occasions, as the forecast of the system's liquidity need is updated
    - complex end of day arrangements, as banks seek to balance their books

# Reasons for change (III)

- Fewer liquidity management options in sterling given limited access to central bank money (no standing facilities, no reserve accounts) – only deal with 12 settlement banks and 17 OMO counterparties (with some overlap)
- Other banks dependent on their bankers or the money market
- As a crisis management backstop, all banks should have access to central bank – if necessary, we can intermediate flows of funds – standing facilities

# Proposed new system (I)

- Voluntary reserves
  - Monthly averaging (MPC decision dates)
  - Remunerated at repo rate
  - No compulsion – so central bank money on demand but will set ceilings
  - Settlement banks plus other banks and building societies

# Proposed new system (II)

- Standing facilities
  - Unlimited access
  - Plus and minus 100bp on most days; plus or minus 25bp on rate-setting day
- OMOs
  - Weekly one week maturity
  - Plus overnight maturity on final day

# Setting official interest rates

- Market rates set by terms on which Bank will borrow and lend overnight – reserve averaging plus standing facilities
- Market rates should trade near policy rate if
  - Bank always squares its books at policy rate via OMOs and/or remunerated reserves
  - And expected to be successful by market
  - No free ‘options’ at maturities beyond next decision date – so no ‘pivoting’

# Banking system liquidity management

- Narrow corridor on widely available standing facilities
  - Business continuity advantage: enables Bank to intermediate inter-bank flows of funds if money market breaks down
  - Can narrow channel to zero pp around repo rate in those circumstances
  - Provides a penal insurance policy for banks
  - Wide access – all CRD paying institutions

# Banking system liquidity management

- Remunerated reserves
  - A new high quality liquid asset – remunerated central bank balances.
  - Give settlement banks the option to leave cash deposits with the Bank rather than collateral securities in order to finance intra-day borrowing in the RTGS payments system (simpler, especially for timed payments)
  - If the reserves target is a range rather than a point, enables simpler end of day on final day of maintenance period



# Banking system liquidity management

- Propose voluntary, contractual reserves rather than requirements
  - Banks contract to hold a certain level of reserves at start of each maintenance period based on Bank's terms
  - Feedback suggests remunerated reserves would be an attractive liquid asset, hence ceilings

# OMOs

- Aim is to ‘get the quantities right’
- Don’t need to lend every day because reserves adjust during the maintenance period
- No need to address pivoting
- Long-term repos

# Interim Reform

- Bank's preparations unlikely to be complete before end 2005
- Banking system preparations?
- Hence interim reform from 14 March:-
  - Narrower corridor ( $\pm 25\text{bp}$ ) on existing overnight facilities
  - Indexed repos to eliminate pivoting

# Conclusions

- Reviewed objectives
- Introducing:-
  - widely available standing facilities with narrow corridor on rate-setting day
  - contractual, remunerated reserves (with ceilings)
  - fewer OMOs
  - period-average maintenance requirement

# Reform of the Bank of England's Operations in the Sterling Money Markets

Stuart Berry  
Bank of England



EUROPEAN CENTRAL BANK

Attachment 8  
ERC General Meeting  
March 17, 2005

# Progress of the EU clearing and settlement project (CESAME, legal, tax)

**Klaus Löber**  
Principal Legal Counsel  
[klaus.loeber@ecb.int](mailto:klaus.loeber@ecb.int)

# The Commission's second communication

The second communication on clearing and settlement in the EU of the European Commission of 28 April 2004

Considerations:

- “Cross-border Clearing and Settlement is generally considered as potentially less safe, less efficient, and more expensive than the purely domestic one”
- „Inefficiencies are due to a lack of global technical standards, the existence of differing business practices and inconsistent fiscal, legal and regulatory underpinnings“

# The Commission's second communication

The aims of the Commission's clearing and settlement initiative:

- the *liberalisation and integration* of the existing securities clearing and settlement *infrastructure* (comprehensive access rights and the removal of existing barriers)
- the continued application of *competition policy* to address restrictive market practices (access, pricing) and to monitor further industry consolidation
- the adoption of a *common regulatory and supervisory framework* that ensures financial stability and investor protection, leading to the mutual recognition of systems
- the implementation of appropriate *governance arrangements*



# The Commission's second communication

Proposed measures:

- Setting up of an *Advisory and Monitoring group* (CESAME) to tackle all Giovannini Barriers for which the private sector has sole or joint responsibility and to promote the overall integration and liberalisation project
- Proposing a *Directive on Clearing and Settlement* for a secure legal framework to provide securities clearing and settlement services throughout the EU on the basis of common requirements
- Addressing *legal and tax issues* by setting up expert groups to consider the legal and fiscal compliance related barriers to integration
- Ensuring the effective implementation of *competition law*

# Public consultation

81 responses to the public consultation on the consultation:

Country authorities

Central banks

ICSDs

CCPs

Issuers

Securities firms

Law firms/institutes

Governments

Securities regulators

CSDs

Exchanges

Banks

Industry associations

Service providers

Publication of the responses on the CESAME website

# Clearing and Settlement Advisory and Monitoring Expert Group (CESAME)

- Composition:
  - Chair: Commission
  - Principal Adviser: Alberto Giovannini
  - 21 private sector participants (11 banks, including 3 investment banks and 2 global custodians, 1 ICSD, 5 CSDs, 1 exchange, 2 CCPs, 1 issuer)
  - 4 public sector observers (CESR, ECB, BoE and NBP)
- Three meetings so far (July and October 2004, March 2005)
- Two further meetings planned for 2005

# Clearing and Settlement Advisory and Monitoring Expert Group (CESAME)

- Task to coordinate between private and public sector activities
- Provision, on request, of advice on specific technical issues
- Monitoring of progress of private sector initiatives
- Liaising with other groups (legal and tax expert groups, G-30, Unidroit, etc.)

# Clearing and Settlement Advisory and Monitoring Expert Group (CESAME)

- *Barrier 7 (settlement deadlines and operating hours/days) and Barrier 4 (intra-day settlement):*  
ECSDA report on standards, currently under consultation with the industry in view of need for effective implementation
- *Barrier 1 (differences in information technology and interfaces):*  
Consultation SWIFT Paper on a proposal for the removal of Barrier 1
- *Barrier 3 (corporate actions):*  
ECSDA, EBF/ECSAs, ESF and EALIC work to harmonise corporate actions processes (e.g. cash dividends, interest payments, redemptions, etc.)
- *Barrier 8 (securities issuance practice):*  
to be solved, IPMA report on the issuance of ISIN numbers by numbering agencies (ANNA)



# Legal and tax experts groups

The Commission set up two groups of legal and tax experts to consider the legal and fiscal compliance related barriers to integration

- to evaluate the situation, and
  - if needed, to suggest methods of harmonisation of national law and/or procedures
- 
- The legal certainty group was established in January 2005, the fiscal compliance group will have its first meeting in March 2005
  - Members are selected on the basis of personal expertise from private practice, academia and public sector
  - Core secretarial functions will be provided by the Commission

# Legal and tax experts groups

- The legal certainty group will address:
  - the creation of a harmonised EU-wide framework for the treatment of interests in securities held with an intermediary
  - differences in national legal provisions concerning corporate action processing
  - restrictions relating to the issuer's ability to choose the location of its securities
- The fiscal compliance group will address:
  - withholding tax procedures disadvantaging foreign intermediaries
  - tax collection functionalities

# Directive on Clearing and Settlement

## Potential coverage:

- comprehensive rights of access and choice
- common regulatory/supervisory framework
- appropriate governance arrangements (to avoid anti-competitive practices and to safeguard against risk)
- High level principles to be developed in conformity with the Lamfalussy approach
- CESR/ESCB standards might form the basis of level 2 implementing measures to be developed in accordance with the enabling provisions of the Directive



# Directive on Clearing and Settlement

Conduct of an impact assesment by the Commission:

- Assessment of the cost and benefit implications of potential legislation as regards the economic, environmental and social impact
- The economic assessment includes i.a.:
  - the market, trade and investment flows;
  - the direct and indirect costs for businesses;
  - the impact on innovation;
  - the administrative requirements on businesses or
  - the impact on third countries and international relations

In parallel work on common terminolgy („definitions“)

# Further steps

- Preparation of the impact assessment throughout 2005
- Possible proposition of a framework Directive within the first quarter of 2006, to be accompanied by the adoption of the impact assessment
- Proposals by the legal certainty and fiscal compliance group within 2006

# ERC General Meeting

March 17, 2005  
Zurich

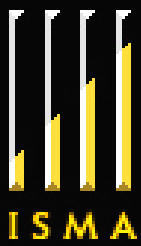
## ISMA 8<sup>th</sup> European Repo Survey

# European Repo Market Survey December 2004

Conducted by the ISMA Centre



Richard Comotto



# Survey overview

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- Outstanding value of contracts at close on December 8, 2004
- 76 responses (from 69 groups)
- respondents headquartered in:
  - 16 European countries
  - North America
  - Japan

# Headline figure

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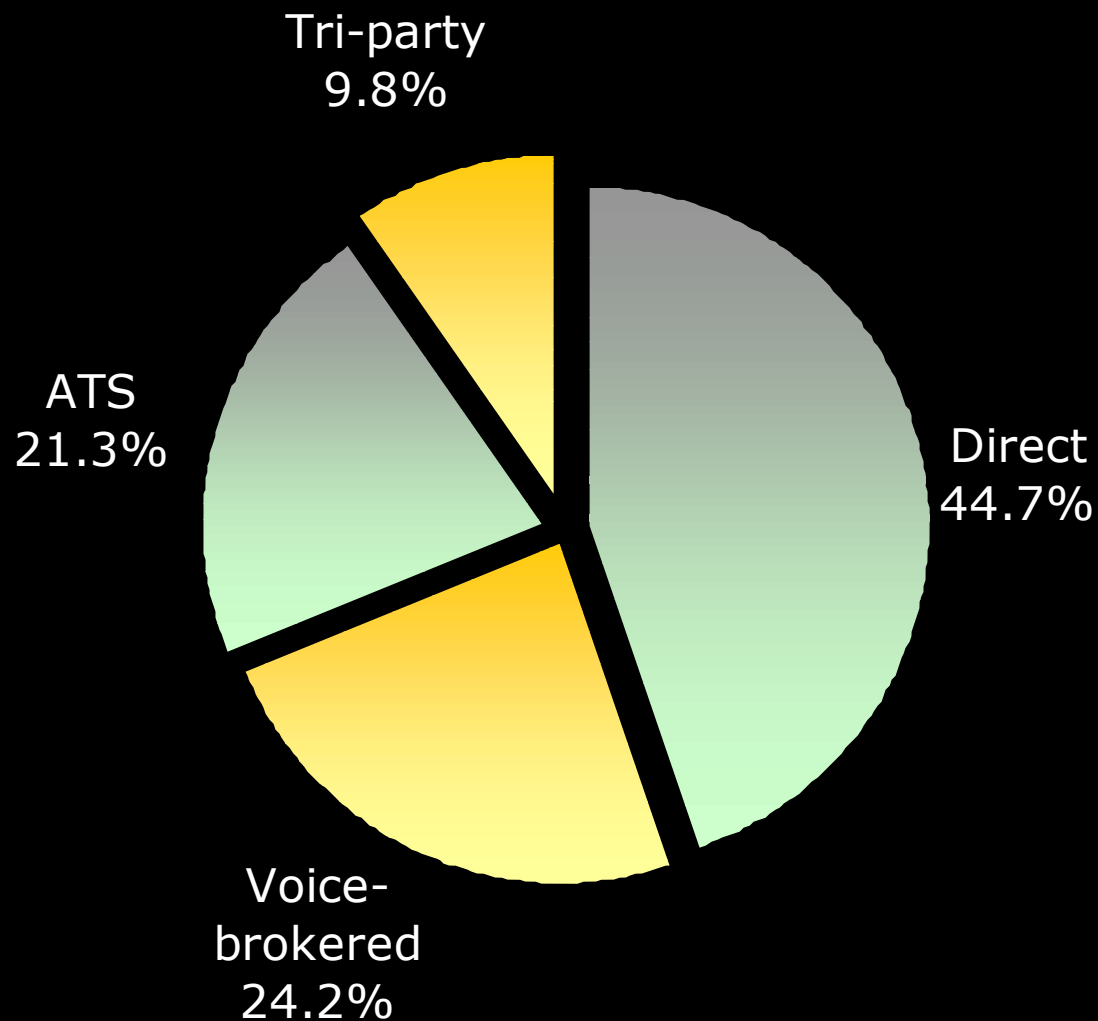
- Estimated gross total = EUR 5,000 billion
- June 2004 = EUR 4,561 billion
- December 2003 = EUR 3,788 billion
- June 2003 = EUR 4,050 billion
- December 2002 = EUR 3,377 billion

## Participants in successive surveys

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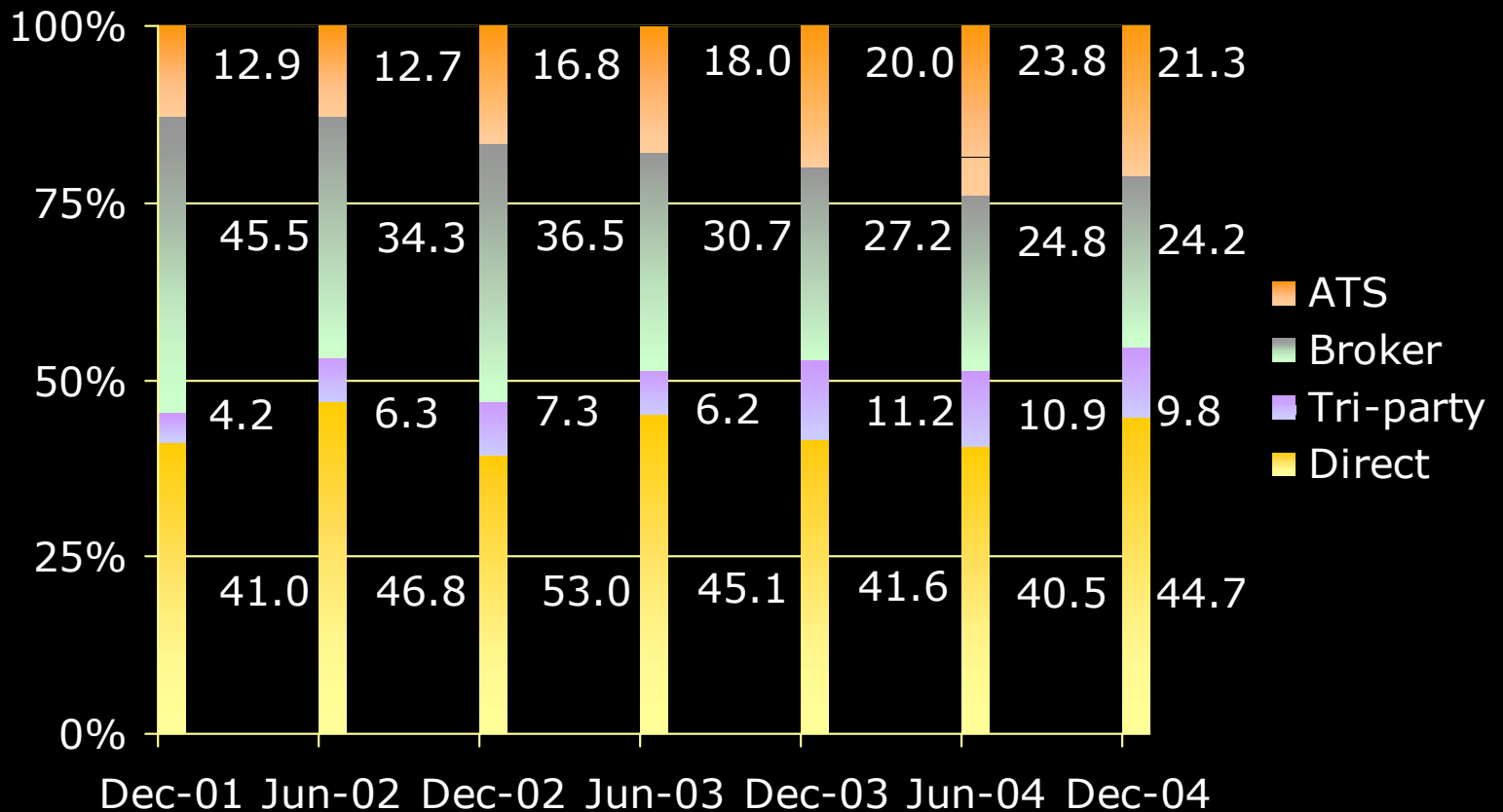
- 30 respondents in all surveys  
December 2003-December 2004=22.3%
  - December 2003-June 2004 (H1)=15.5%
  - June 2004-December 2004 (H2)=5.9%
- 65 respondents in December 2003 & 2004  
December 2003-December 2004=31.6%
- 71 respondents in June & December 2004  
June 2004-December 2004 (H2) = 10.9%

# Counterparty analysis

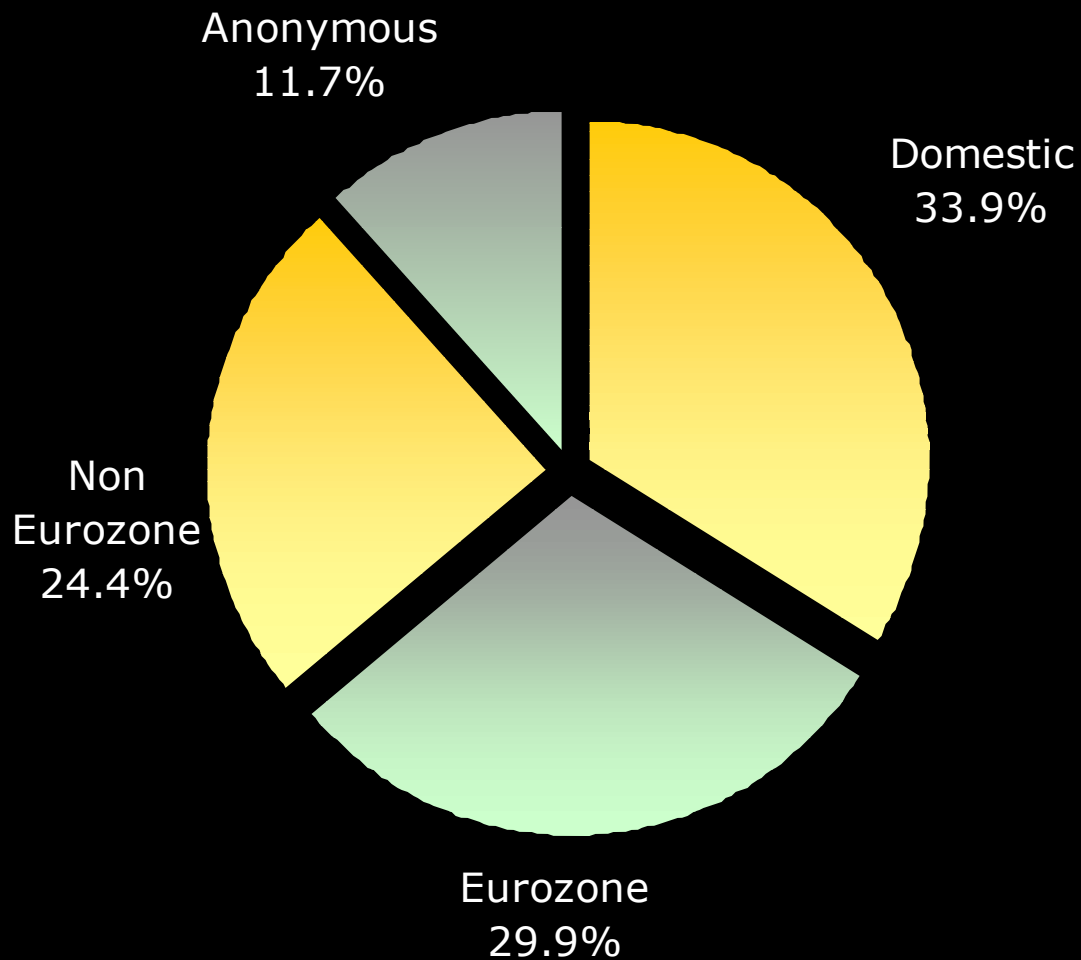




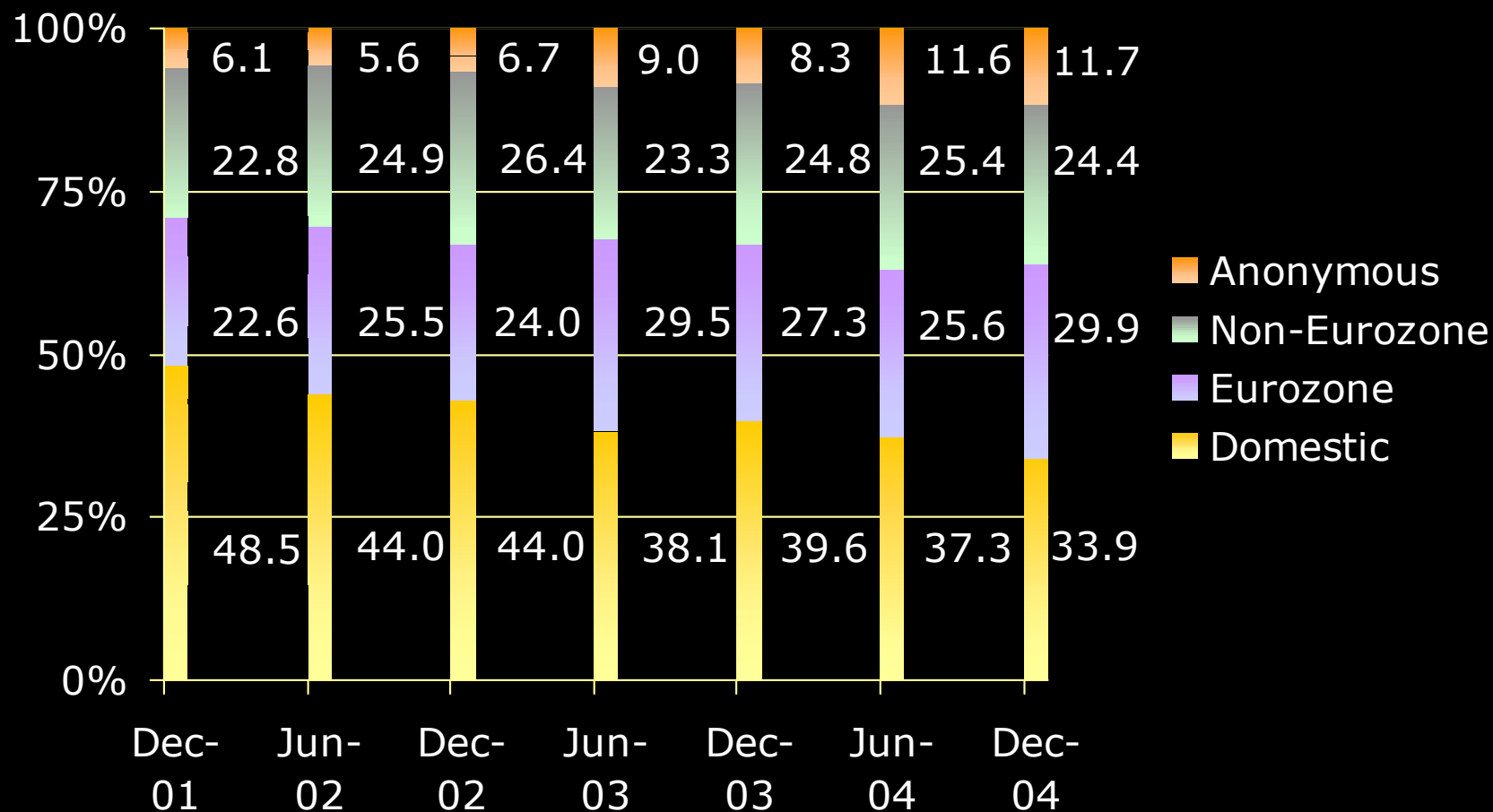
# Counterparty analysis



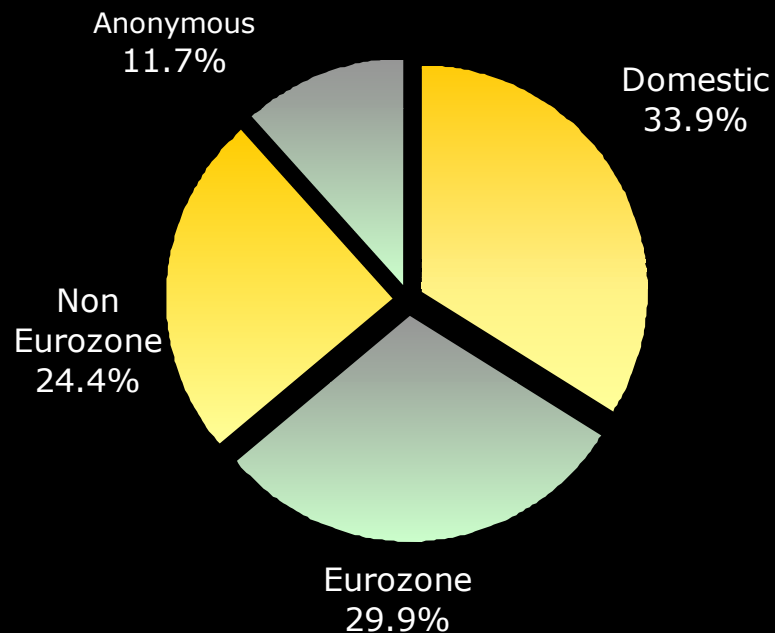
# Geographical analysis



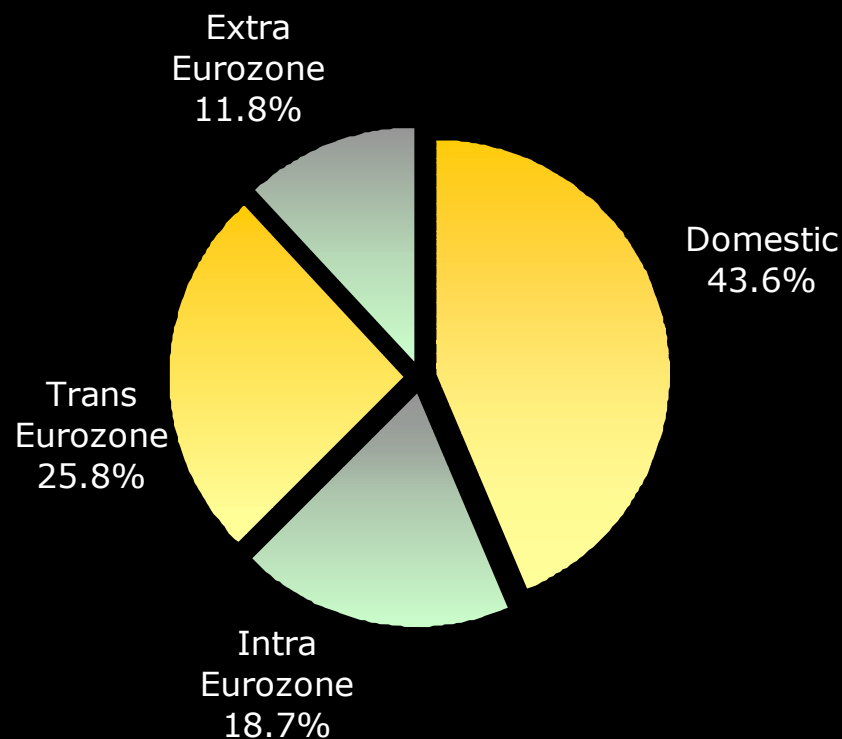
# Geographical analysis



# Geographical analysis v brokers

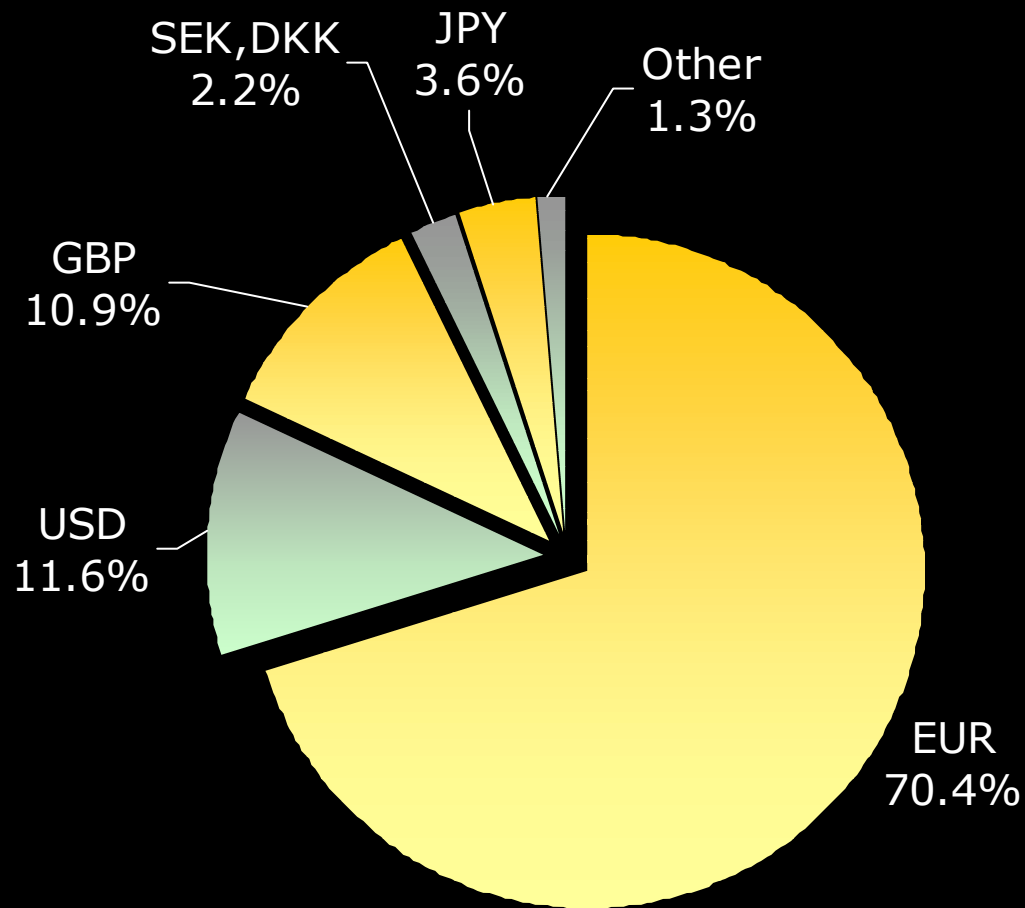


ISMA

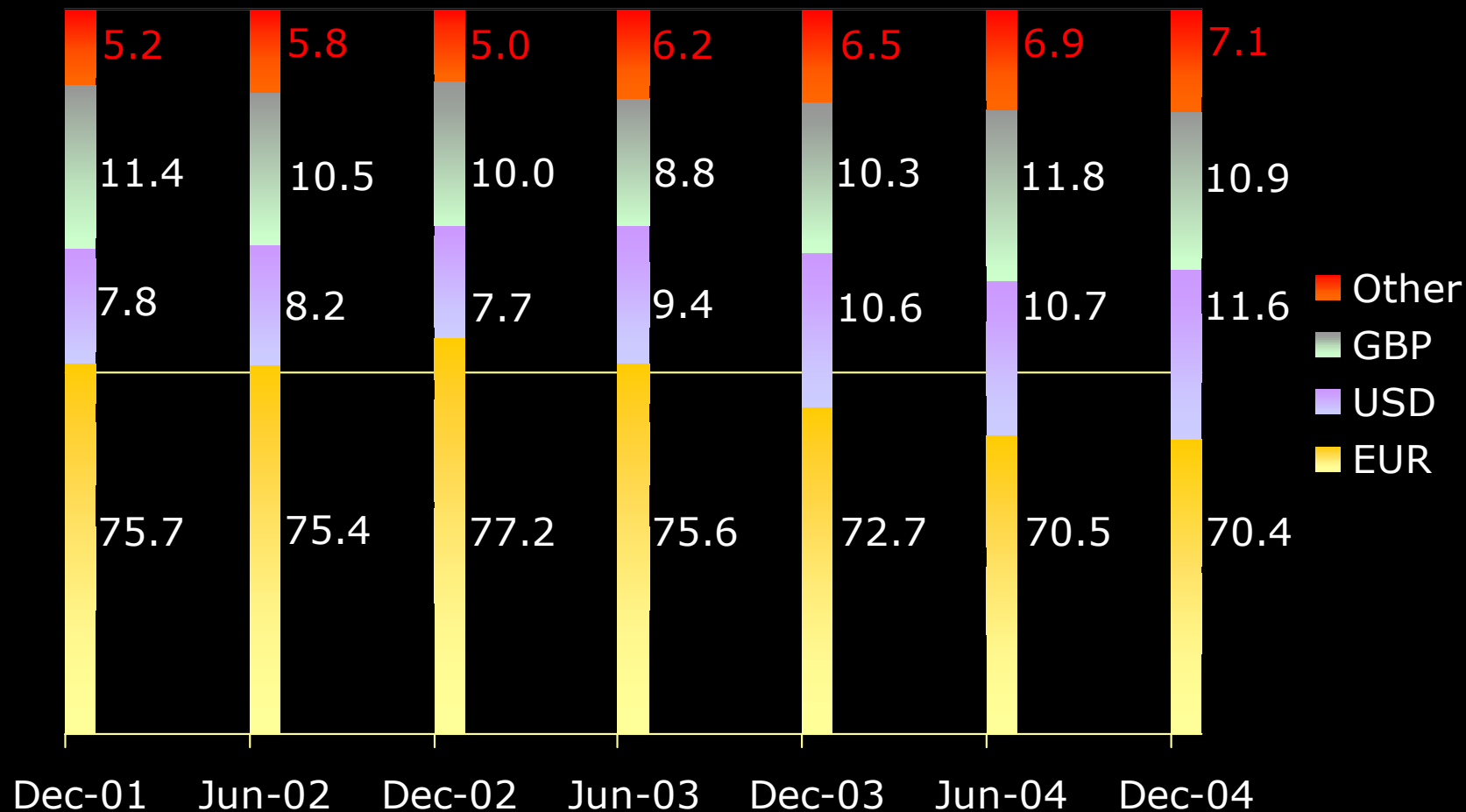


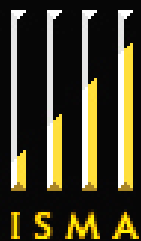
WMBA

# Currency analysis

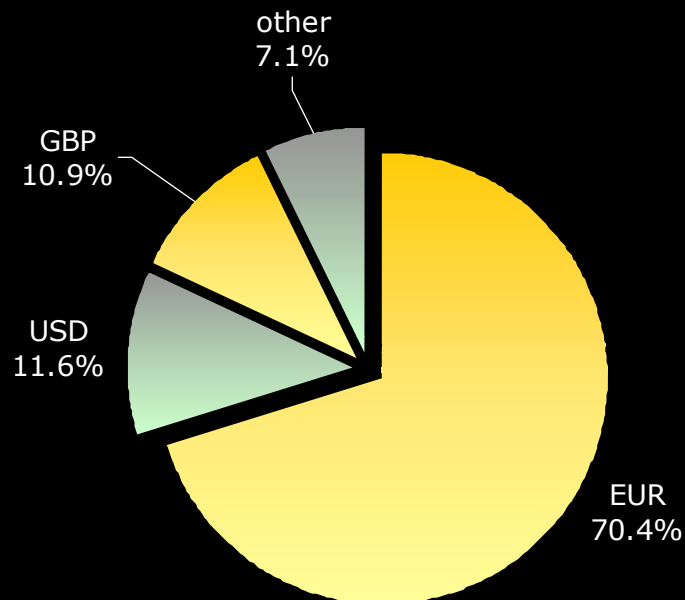


# Currency analysis

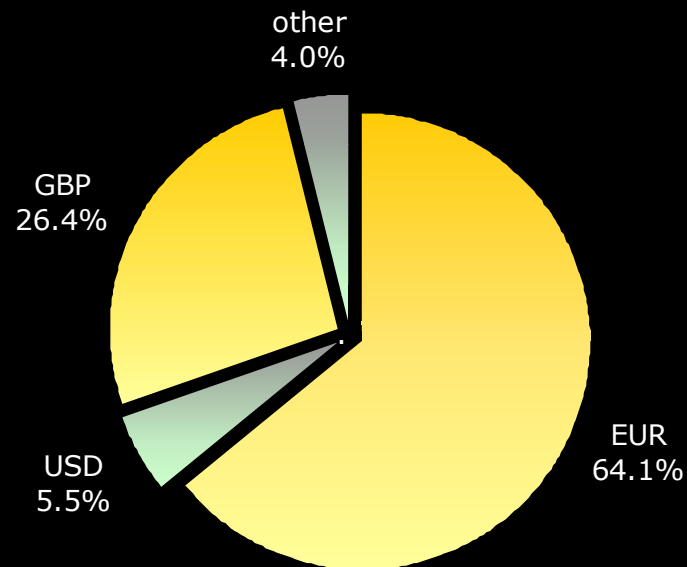




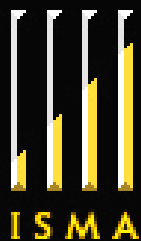
# Currency analysis v brokers



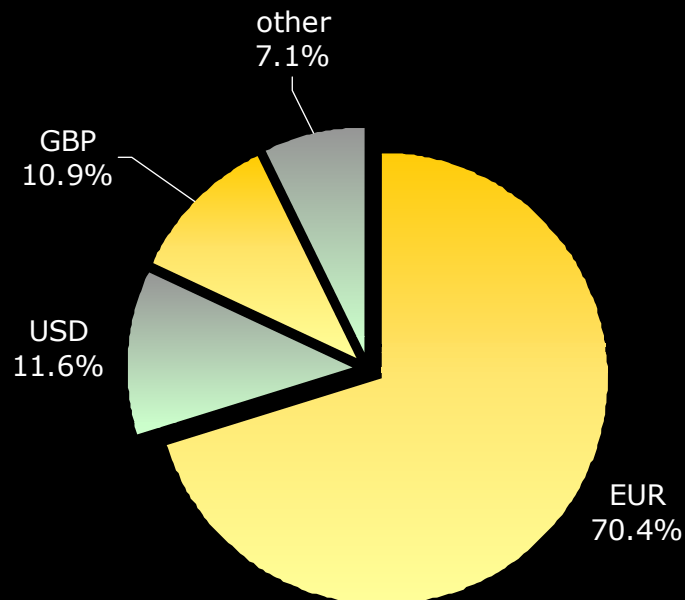
ISMA



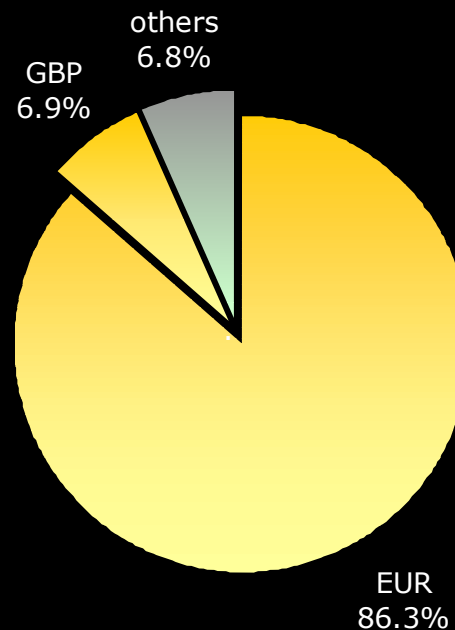
WMBA



# Currency analysis v ATS

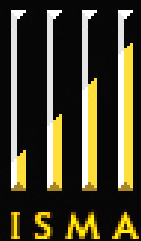


ISMA

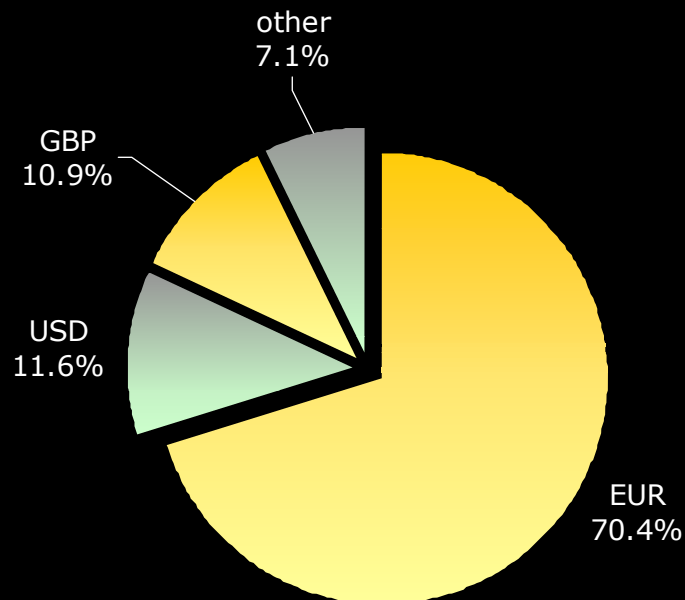


ATS

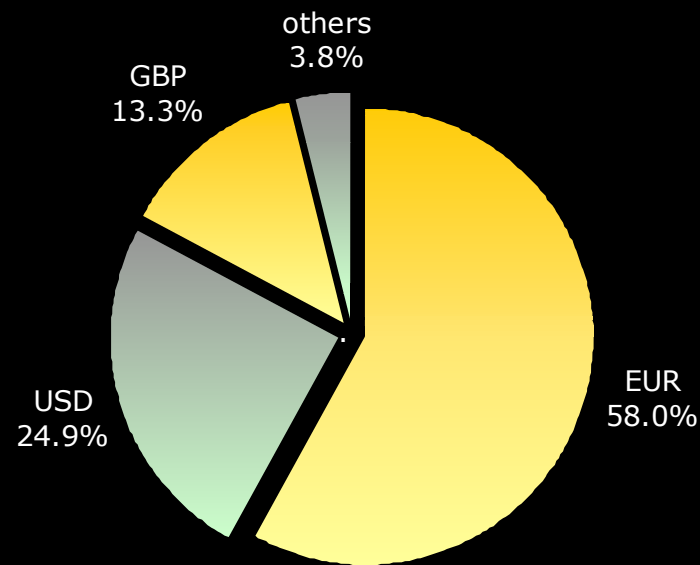




# Currency analysis v tri-party repo

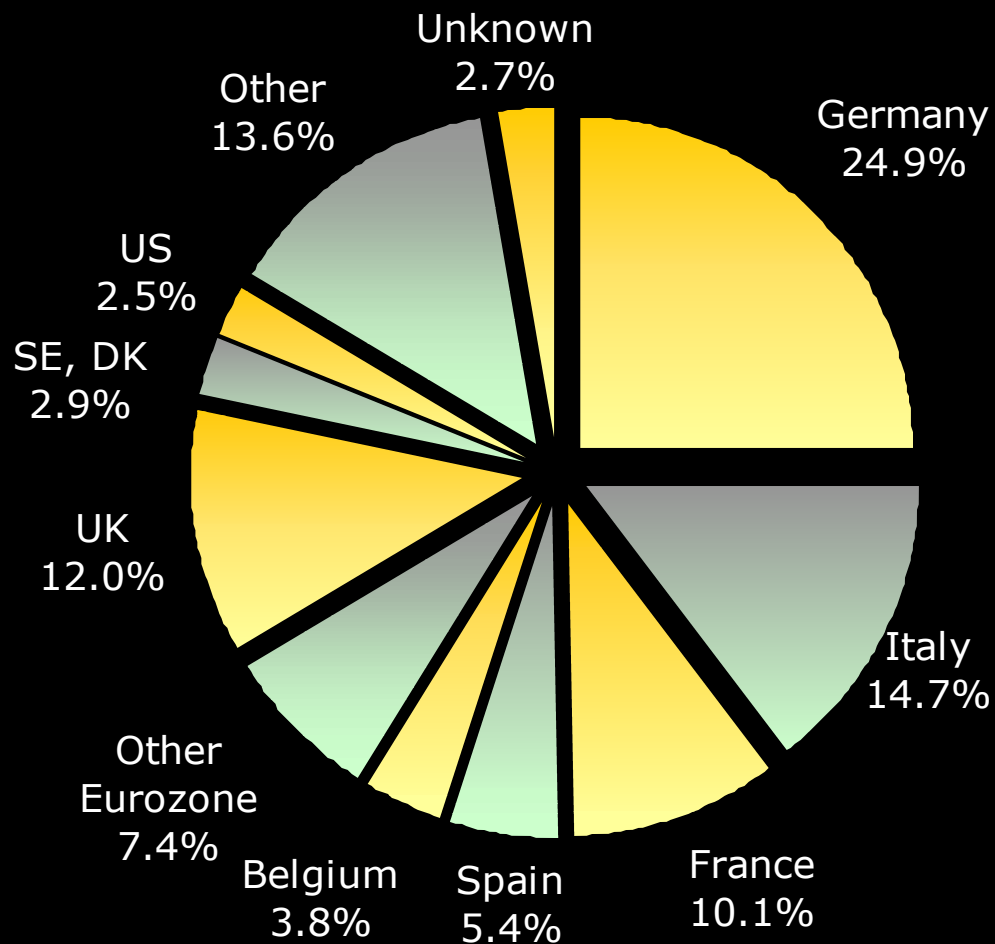


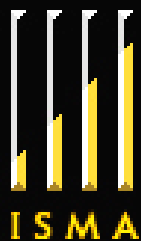
ISMA



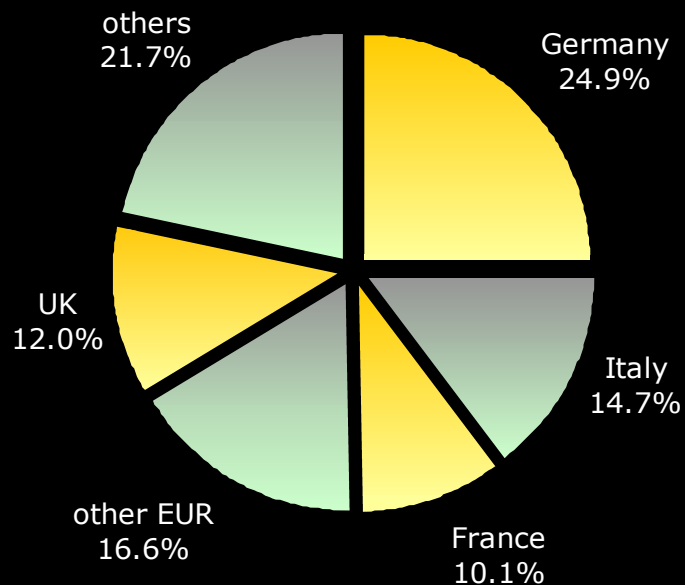
tri-party repo

# Collateral analysis

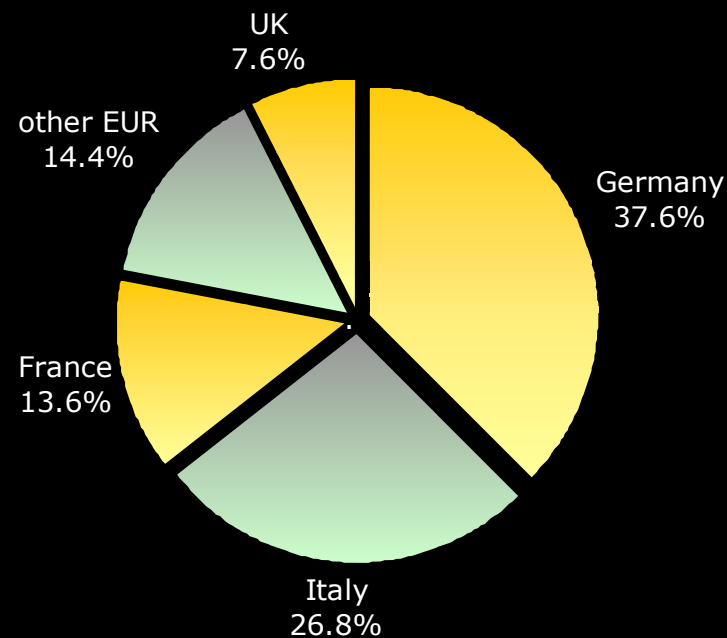




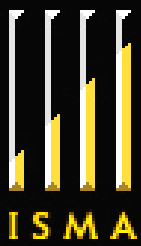
# Collateral analysis v ATS



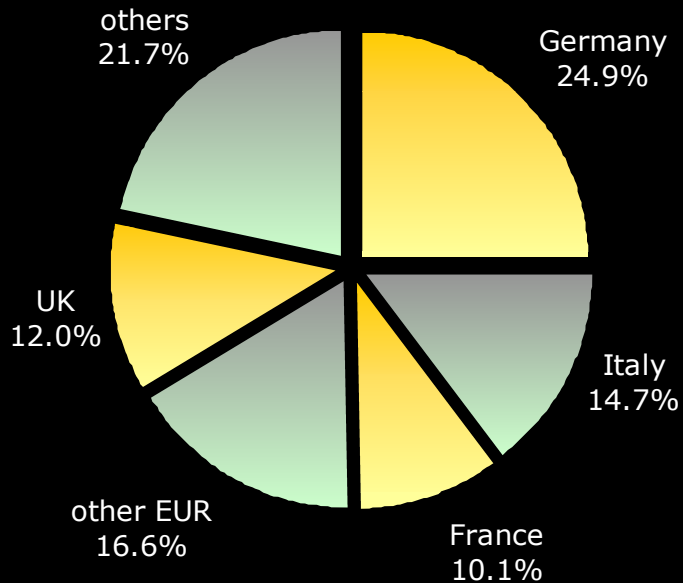
ISMA



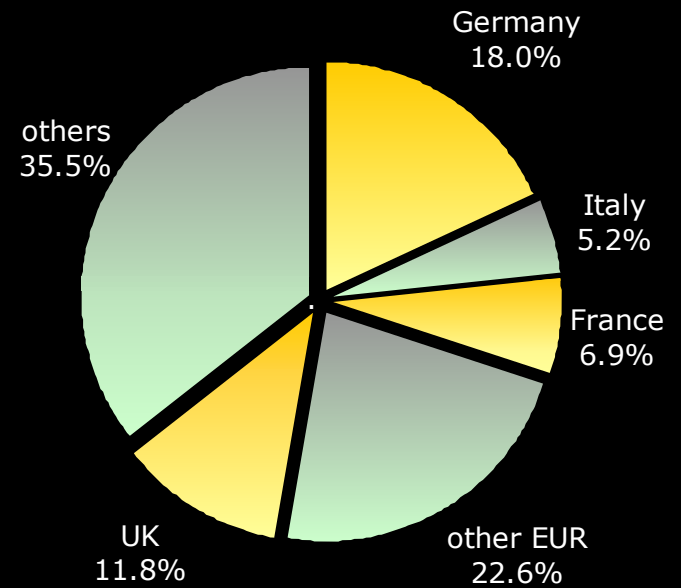
ATS



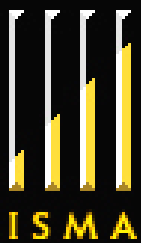
# Collateral analysis v tri-party repo



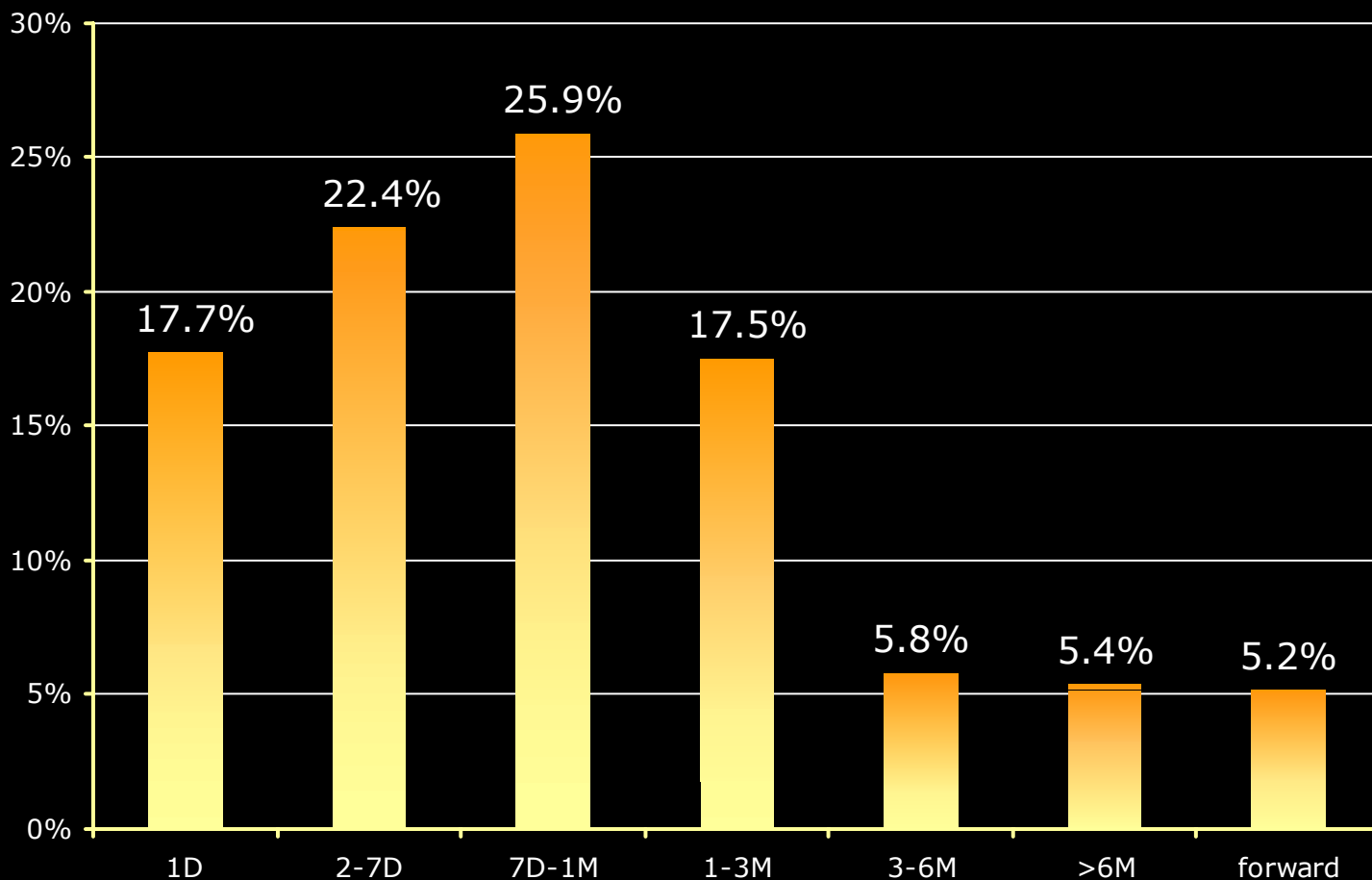
ISMA



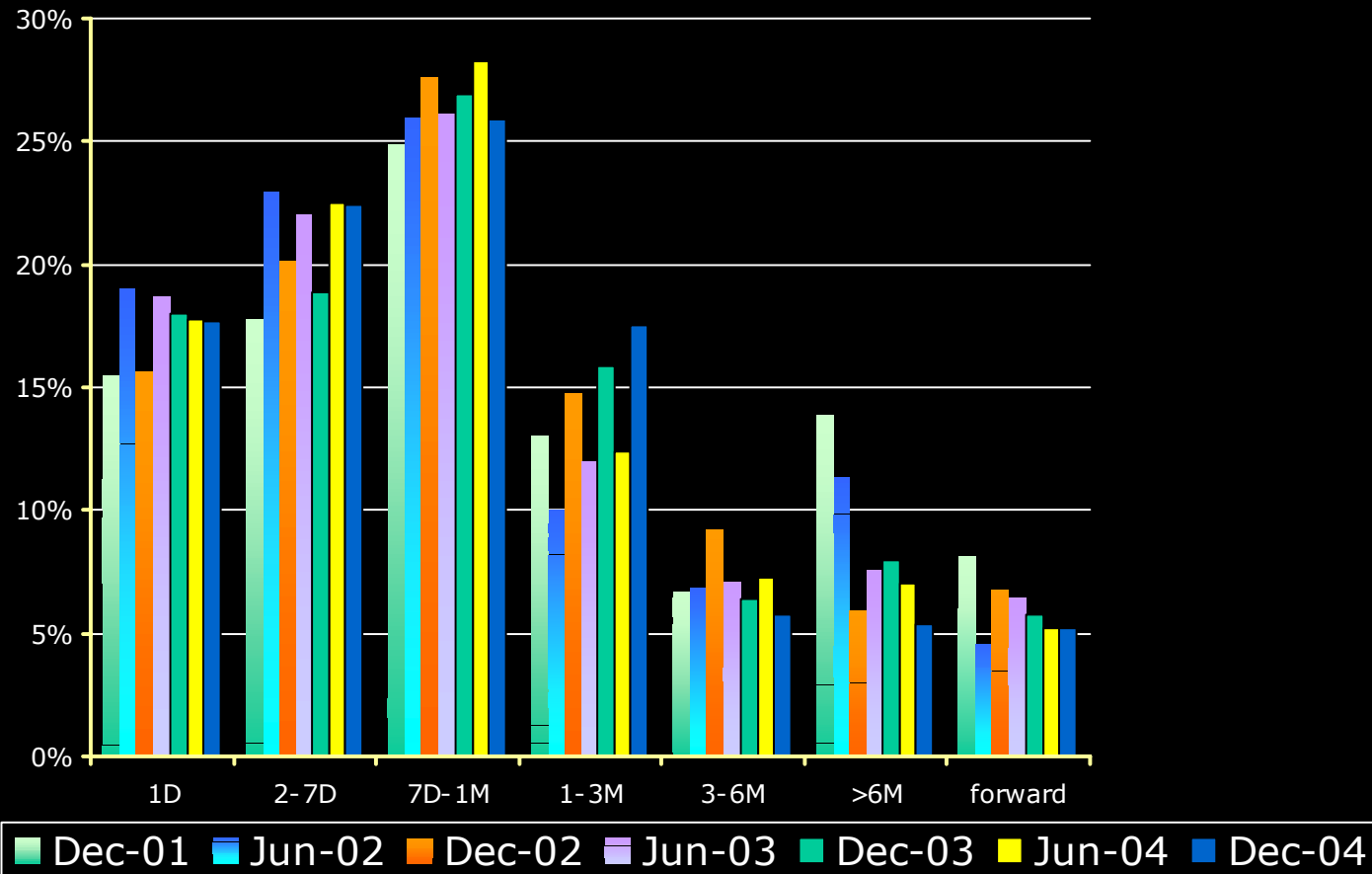
tri-party repo

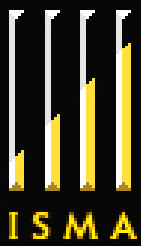


# Maturity analysis

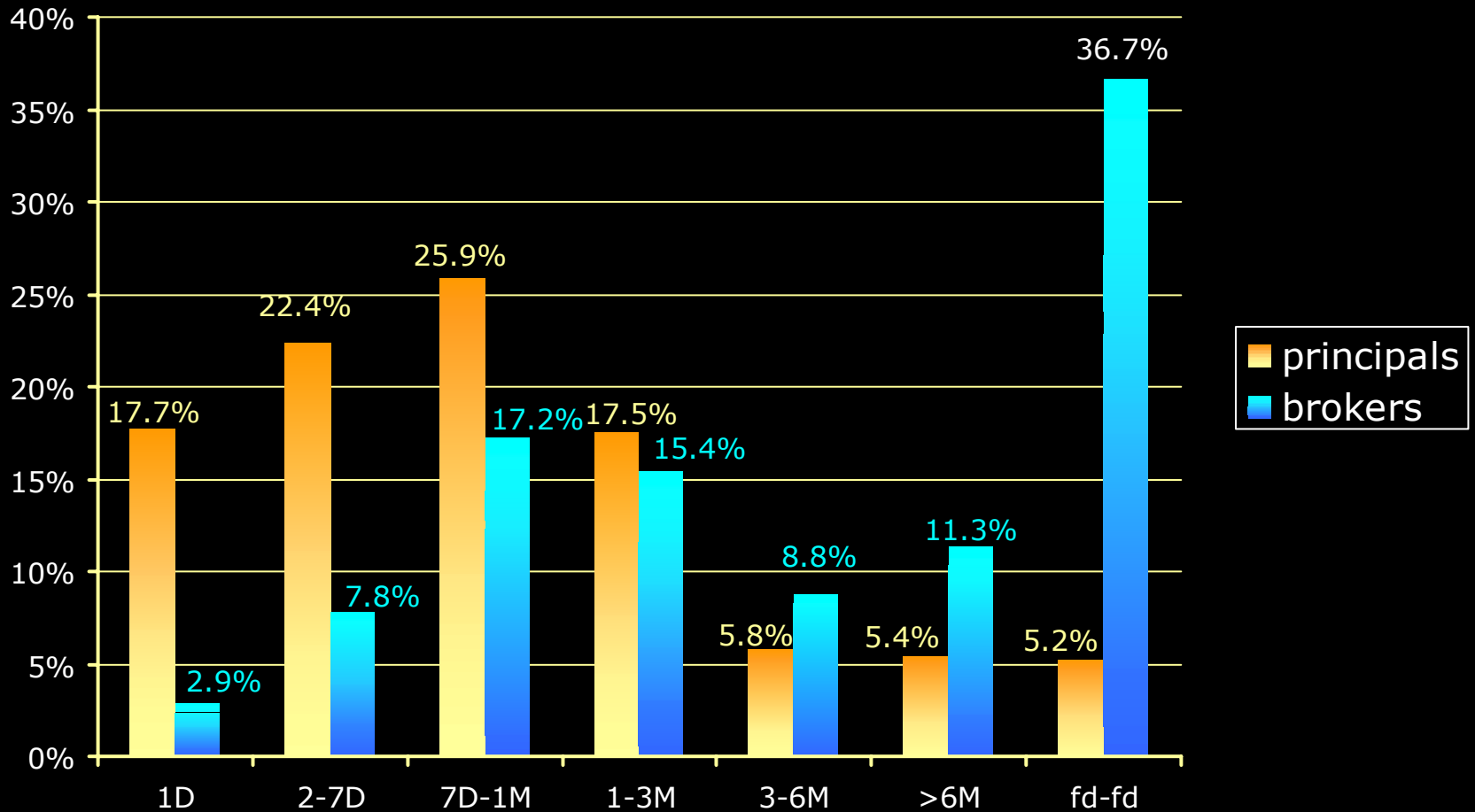


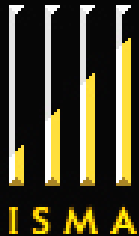
# Maturity analysis



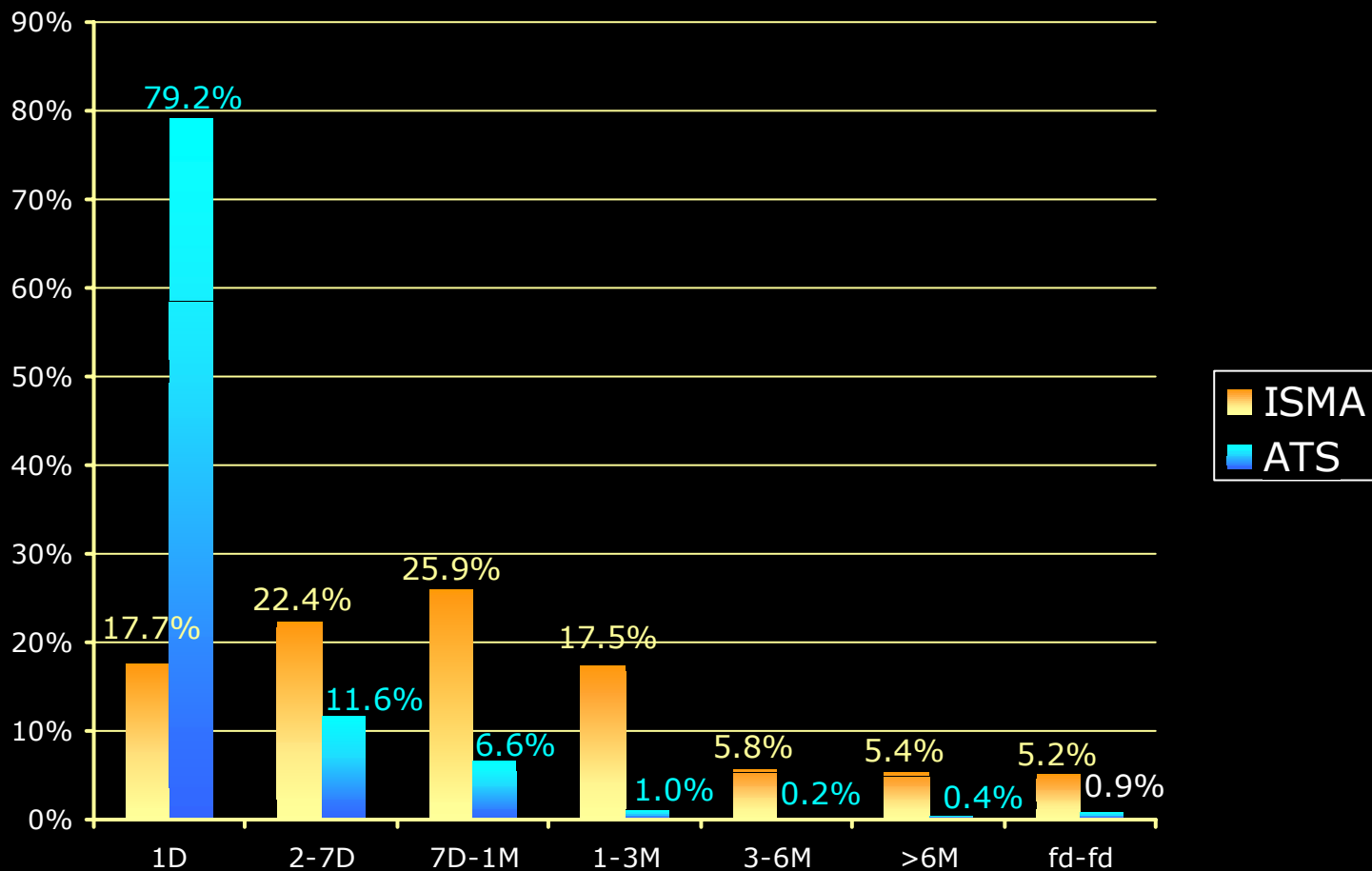


# Maturity analysis v brokers



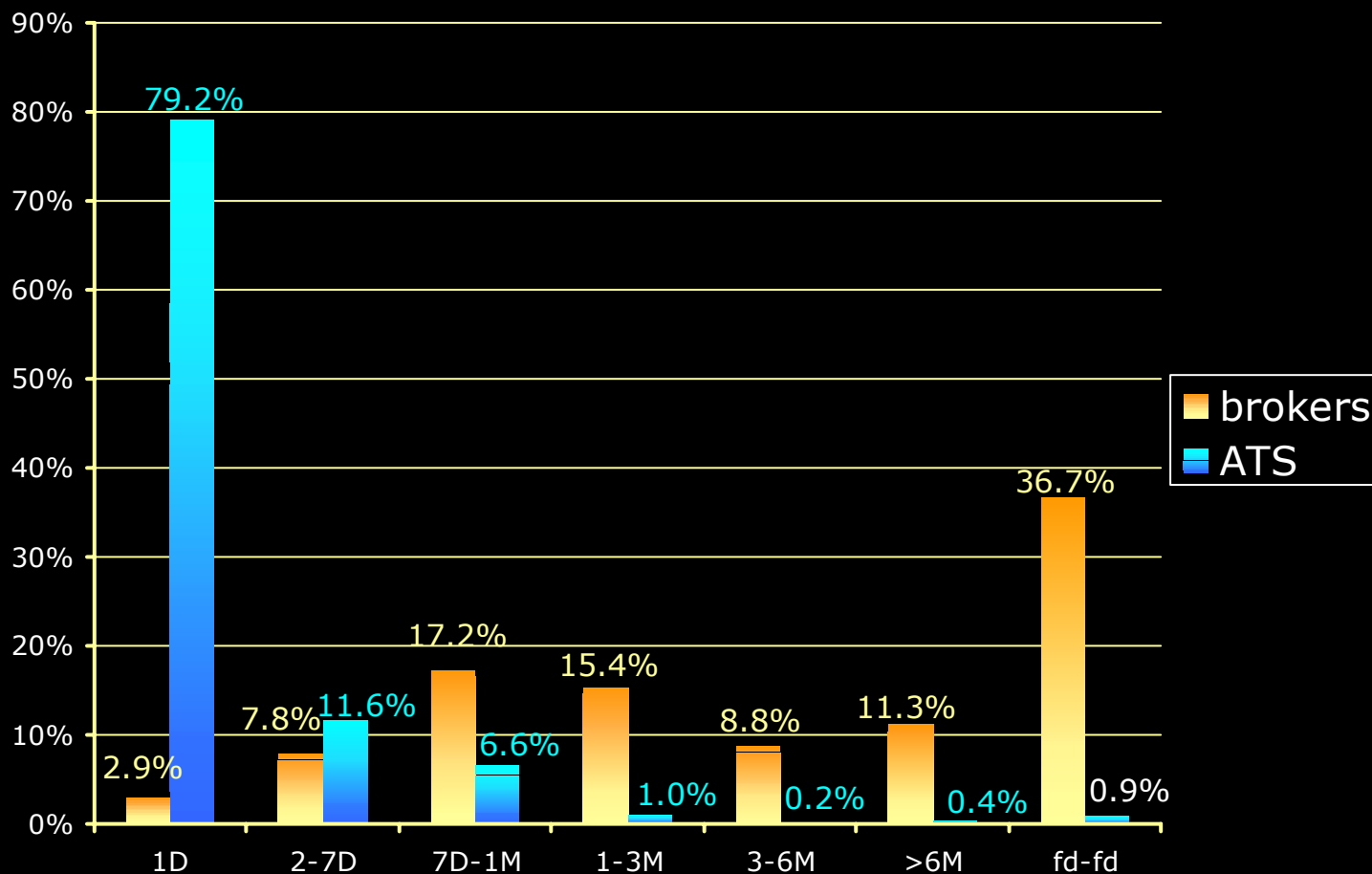


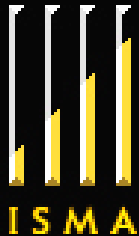
# Maturity analysis v ATS



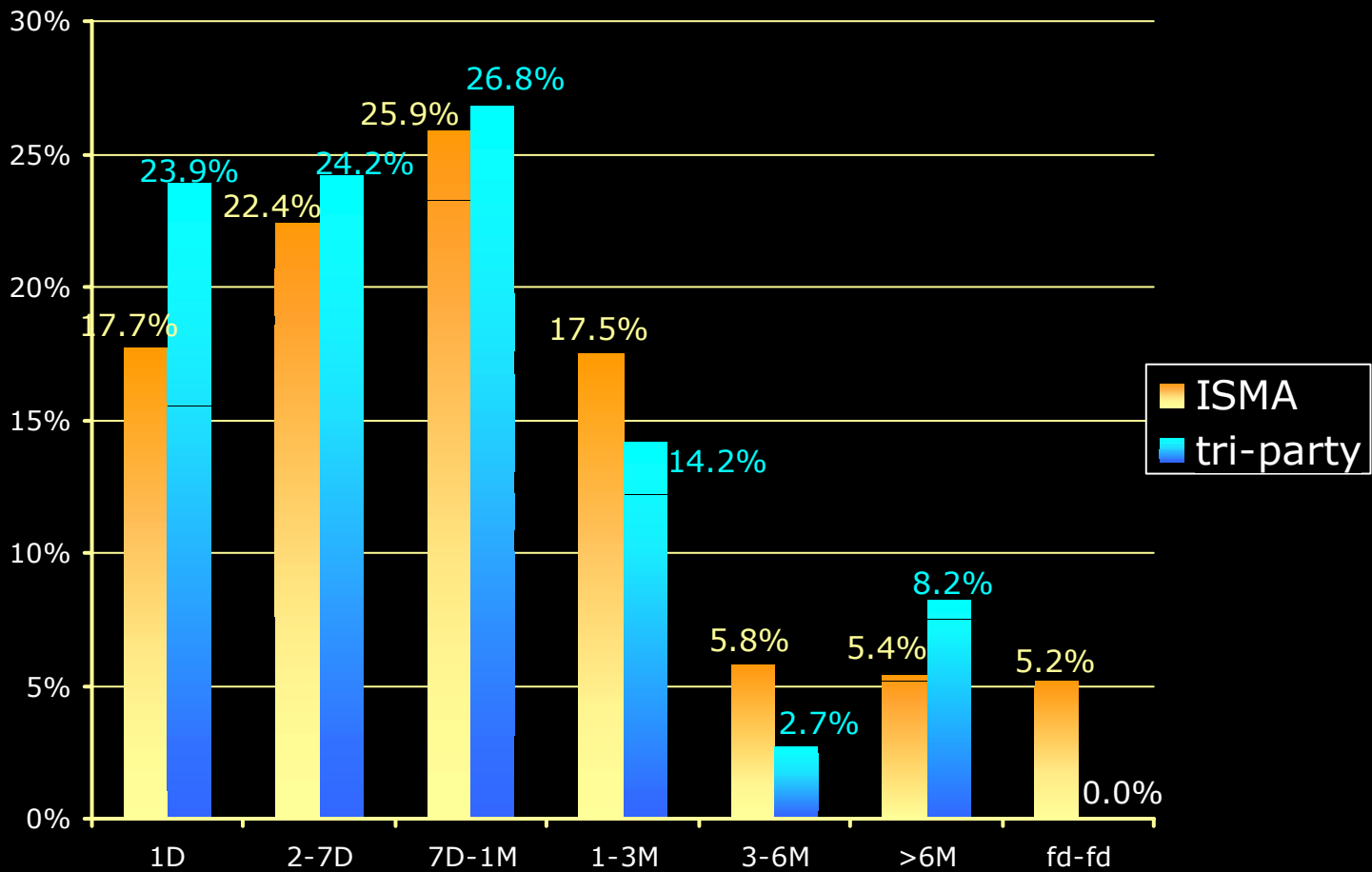


# Maturity analysis: brokers v ATS

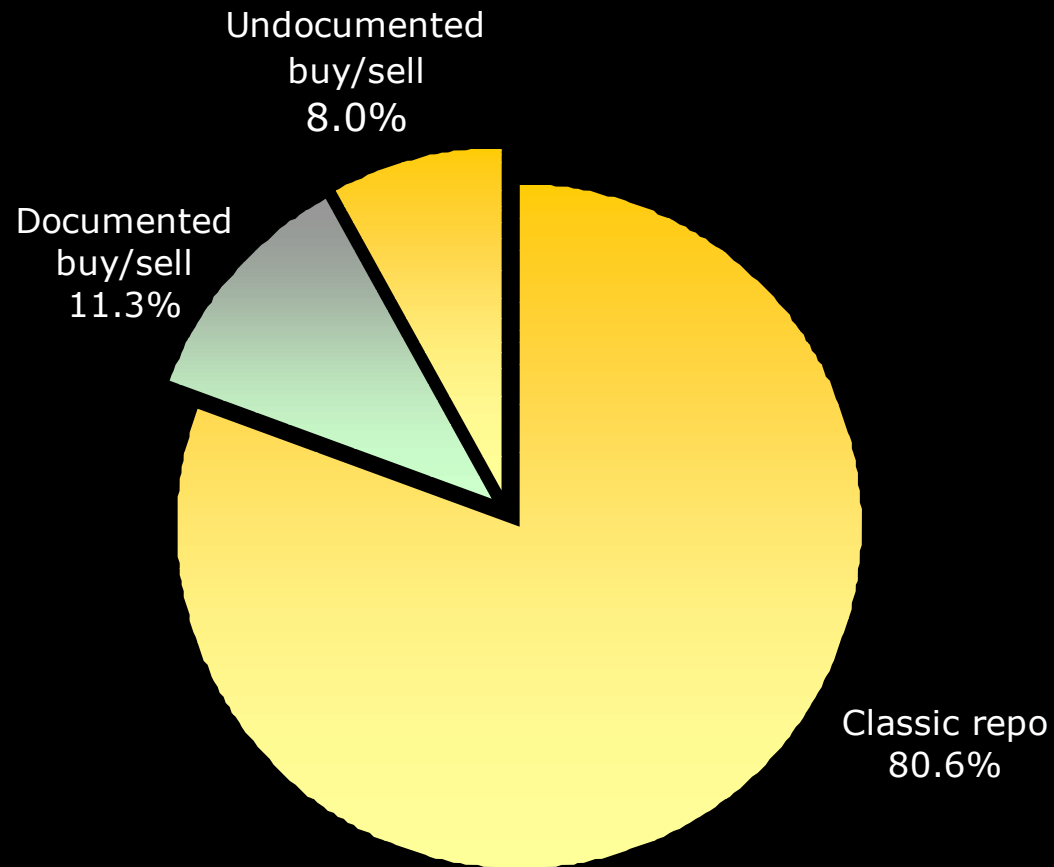




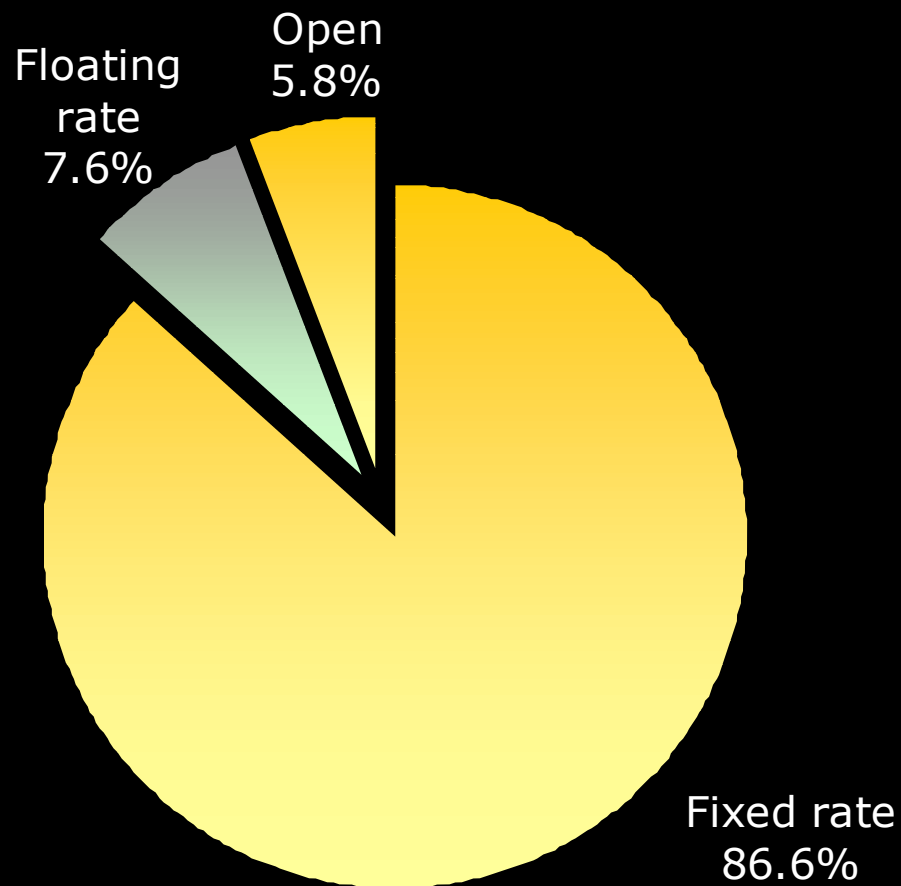
# Maturity analysis v tri-party repo



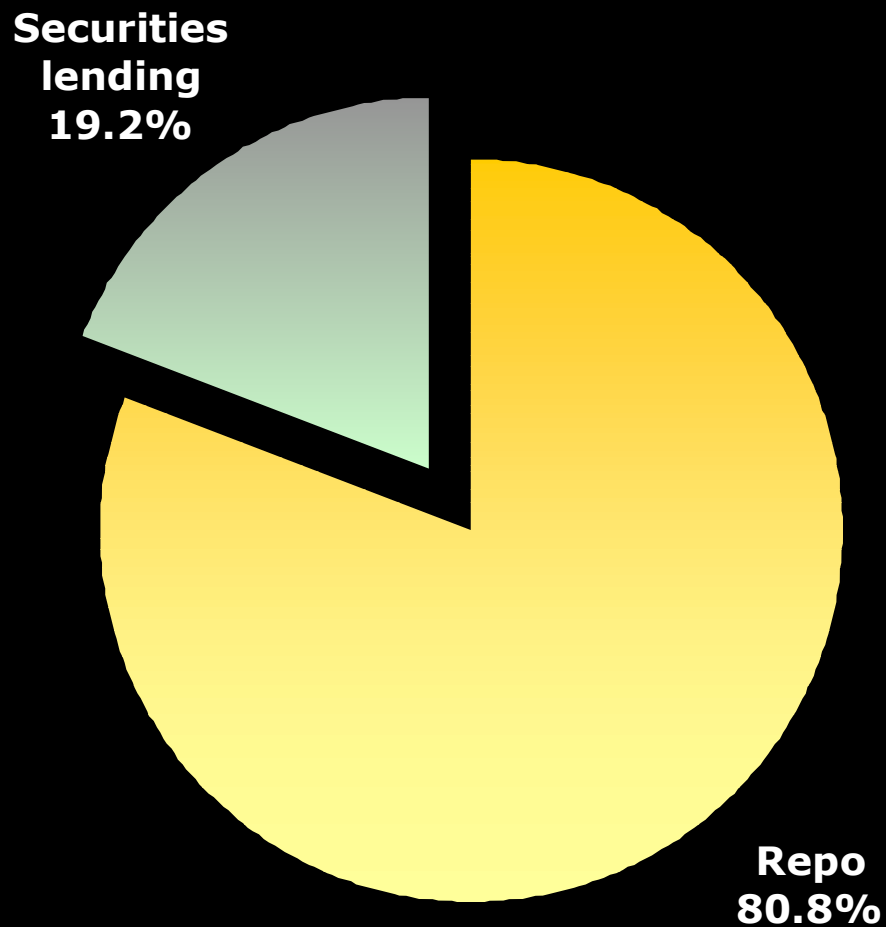
# Contract analysis

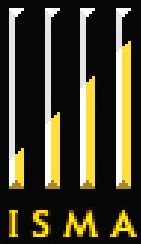


# Repo rate analysis

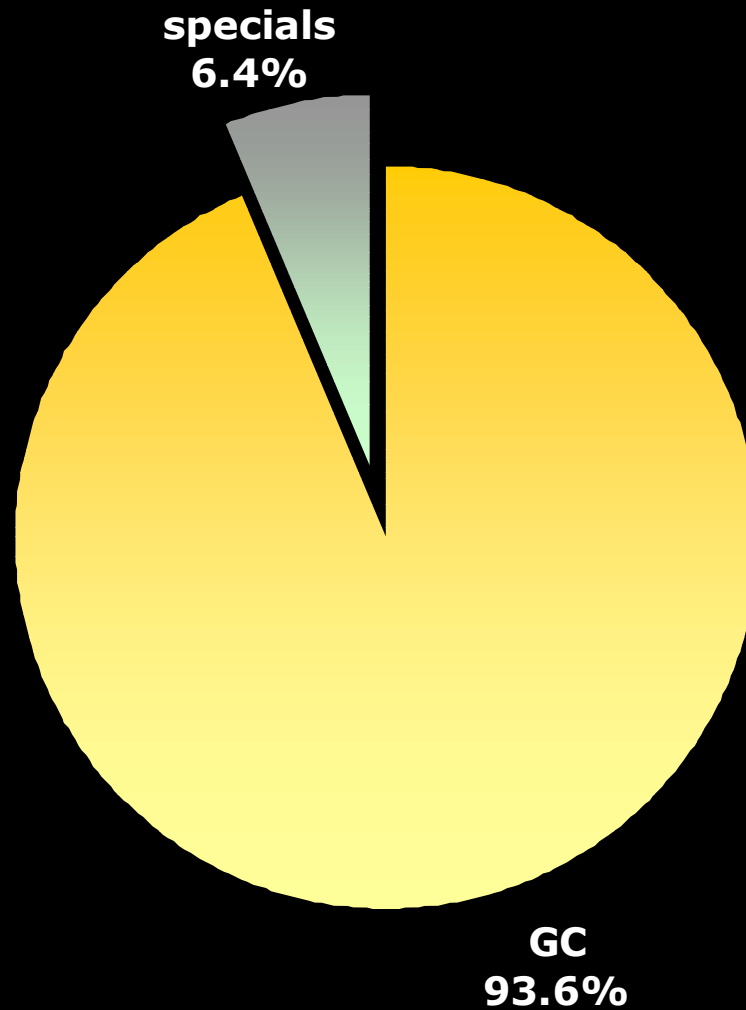


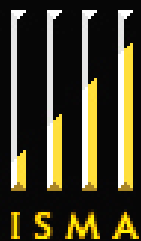
# Product analysis





# Specials (WMBA)





# European repo market survey

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Next Survey  
June 9, 2005

## *ISMA European Repo Council – general meeting*

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### *A comparative analysis of the ISMA European Repo Survey and the ECB Money Market Data*

*Johan Evenepoel, Dexia Bank*

*March 17, 2005*

*Data sources: ECB Surveys, ISMA Surveys  
Clearstream Banking, Euroclear Bank*



# 1. *Survey methodology*

	ISMA survey	ECB survey
<b>Metric</b>	Outstanding (i. e. stock)	Turnover (i.e. flow); specifically, daily average turnover
<b>Periodicity</b>	Semi-annual	Yearly
<b>Location of respondents</b>	All European countries	All 15 EU countries
<b>Type of institution</b>	All financial institutions (e.g. includes national debt and other public agencies) Transactions with all counterparties except central banks	Credit institutions only Interbank transactions only (i.e. excludes transactions with customers)
<b>Currencies</b>	The total figure is broken down into: EUR GBP USD SEK, DKK JPY Other  The total figure is broken down into: cross-currency other (same currency)	EUR only
<b>Maturities</b>	Measures remaining term to maturity Aggregates one-day transactions  Other transactions are broken down into: (1) 2-7 days 1 week to 1 month 1 month to 3 months 3 months to 6 months over 6 months forward-forwards	Measures original term to maturity One-day transactions are broken down into: O/N T/N S/N  Other transactions are broken down into: (1) 2-7 days 1 week to 1 month 1 month to 3 months 3 months to 6 months 6 months to 1 year over 1 year (no forward-forward category)  For each maturity band, a weighted average maturity is calculated
<b>Collateral</b>	The total figure is broken down into: fixed income equities	

# 1. Survey methodology

	Fixed income is broken down into 15 EU countries and the US; in the case of collateral issued in other countries, it is analysed by OECD membership or region. Each EU country is further broken down into: Government Other. "Other" German collateral is sub-analysed into: Pfandbrief other.	The total figure is broken down into: domestic ("national") euro area other
<b>Counterparties</b>	The total figure is broken down into: Direct via voice broker via ATS. Each category is further broken down into: Domestic cross-border eurozone cross-border non-eurozone ATS is also further broken down into: anonymous via a CCP. There are therefore 10 counterparty-type/location sub-categories.	The total figure is broken down into: domestic euro area other
		The total figure is separately broken down into: direct via voice broker via ATS ("electronic broker")
<b>Type of transaction</b>	All types of repo, classic and sell/buybacks. Securities lending against any type of collateral which is conducted from repo desks is measured separately.	All types of repo and securities lending against cash collateral
	The total figure is broken down into: classic repo documented sell/buy-backs undocumented sell/buy-backs	
	Each sub-category is broken down into repo and reverse repo	Each sub-category is broken down into repo and reverse repo, except for analysis as: location of counterparty type of counterparty
	The total figure is broken down into: floating rate open	Each maturity band is further broken down into: floating rate ("indexed") other (fixed rate and open). There are therefore 9 maturity/rate sub-categories.
	Total figure is broken down into: triparty repo other (delivery & HIC). Tri-party is further broken down into: fixed-term open.	

*Clearstream Banking and Euroclear Bank also use the ISMA 'snapshot' methodology and focus on remaining maturity*

## 2. *Respondents*

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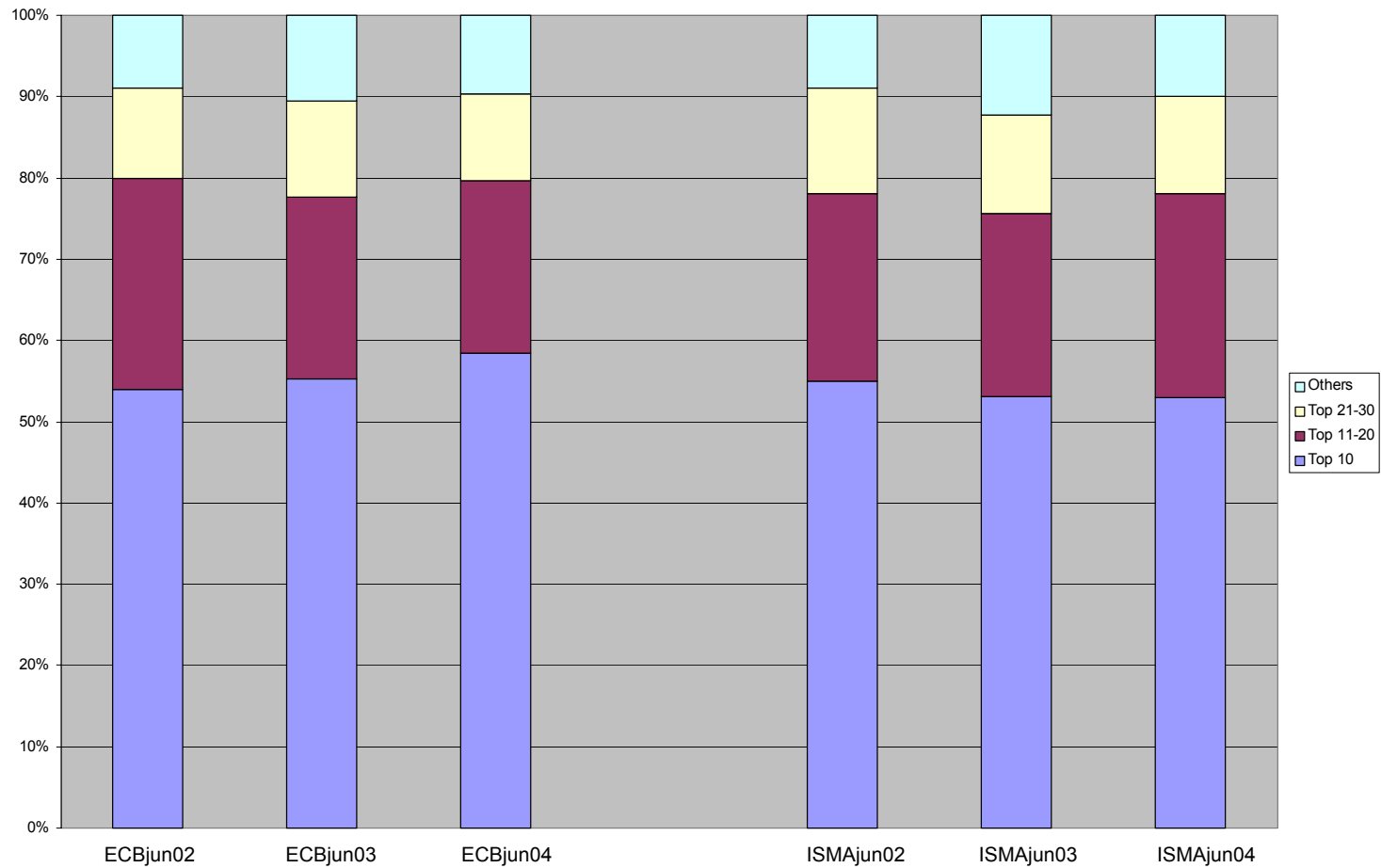
**ECB:**            2003/2004:        94 banks  
                    2001 → 2004 :    78 banks

**ISMA**            Jun 02: 86  
                    Dec 02: 82 (-14 + 7 joined)  
                    Jun 03: 84 (-12 + 1 joined/rejoined previous)  
                    Dec 03: 76 (-18 + 10 joined/rejoined previous)  
                    Jun 04: 81 ( -9 + 14 joined/rejoined previous)

2003:            approx 50% of the ECB panel banks are member of the ISMA panel banks  
2004:            68 % of the ECB panel banks are member of the ISMA panel banks

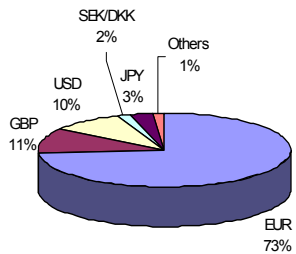
## 2. Respondents

### Concentration analysis

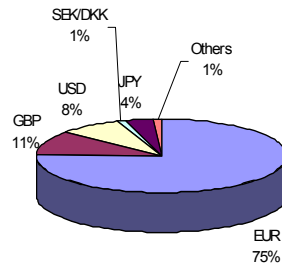


### 3. Currency analysis

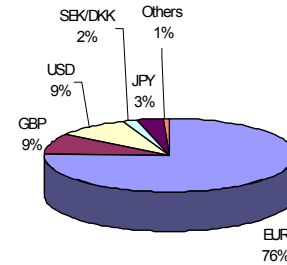
ISMA 2001



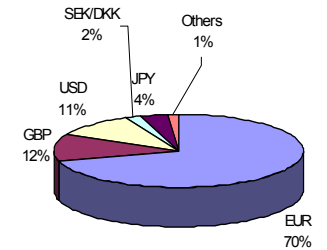
ISMA 2002



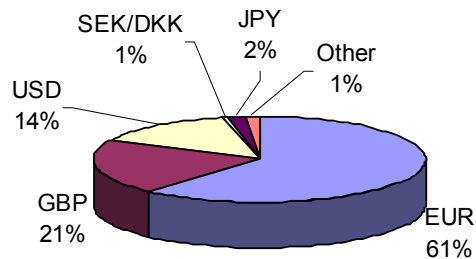
ISMA 2003



ISMA 2004



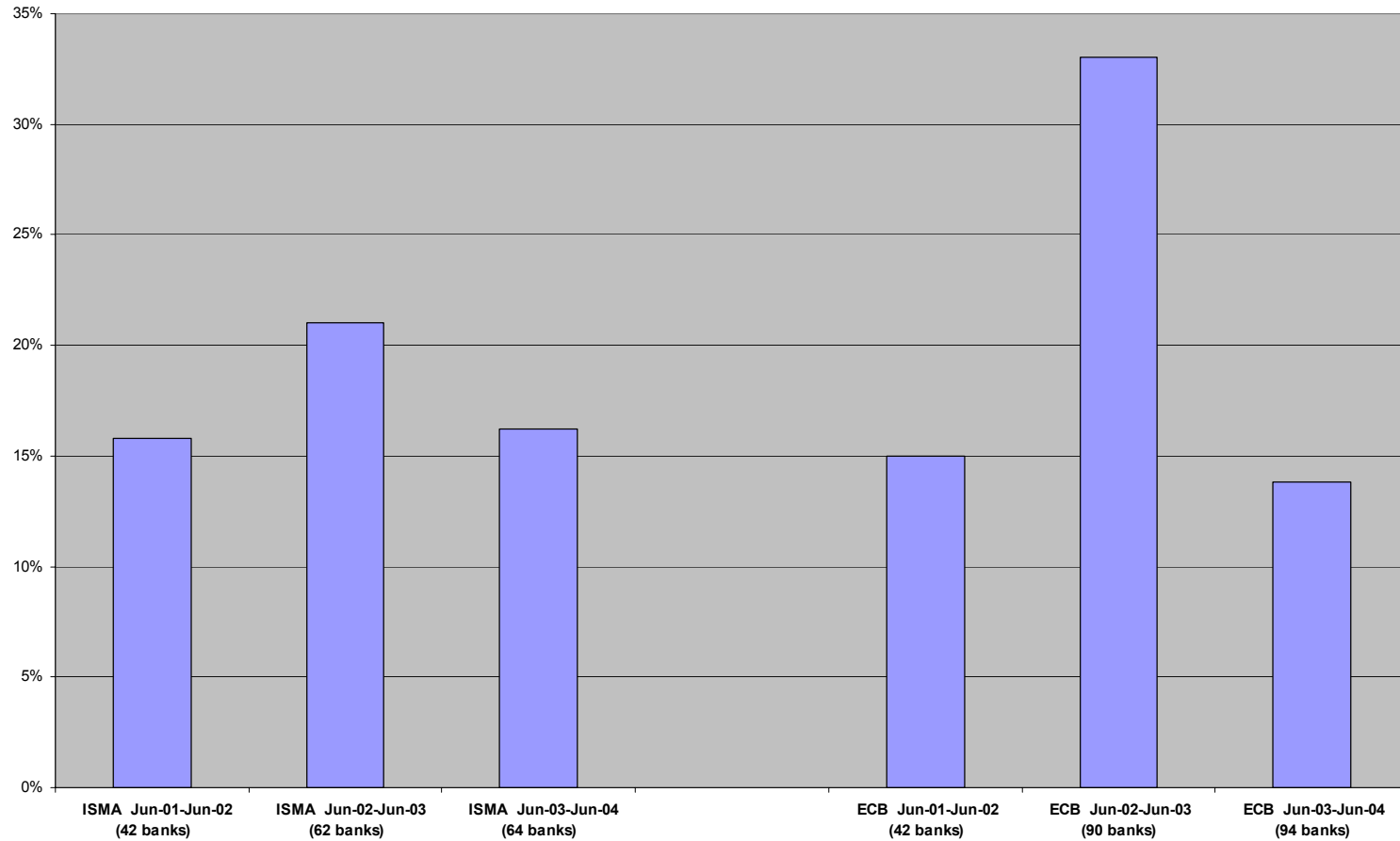
Triparty Clearstream Banking + Euroclear Bank 2004



## 4. Annual growth

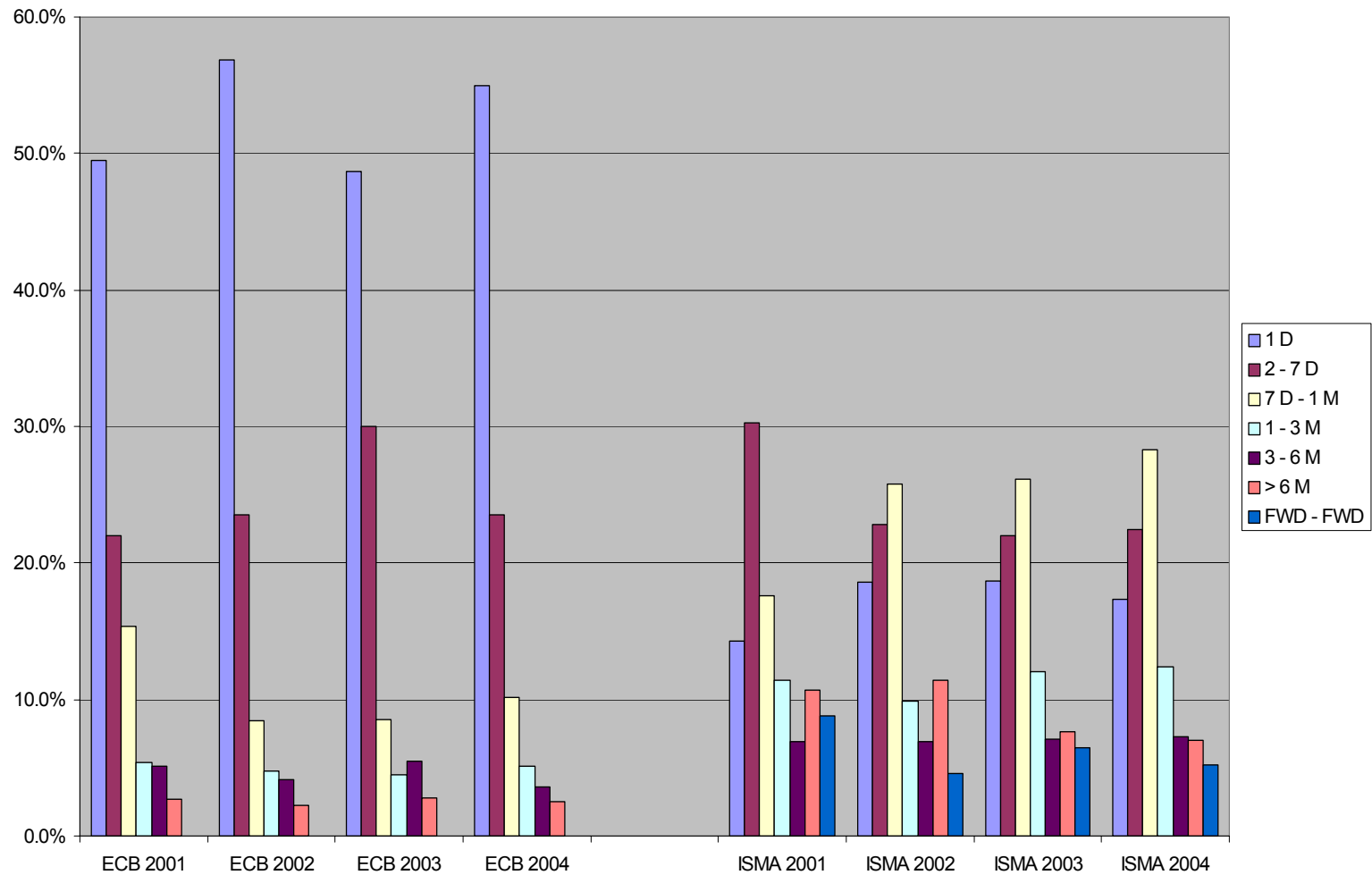
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### Annual growth



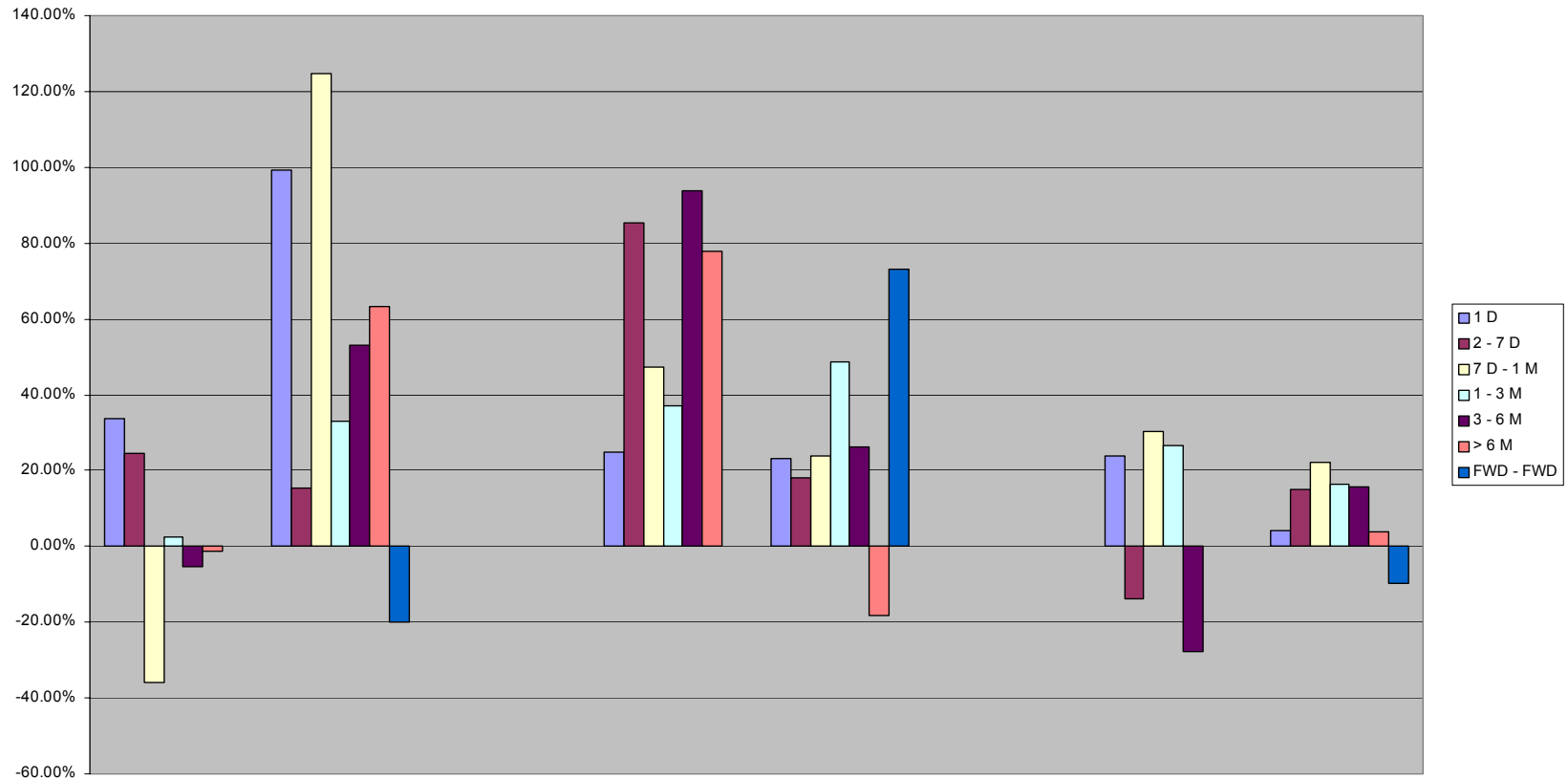
## 5. Maturity analysis

### Overall comparison ECB / ISMA



## 5. Maturity analysis

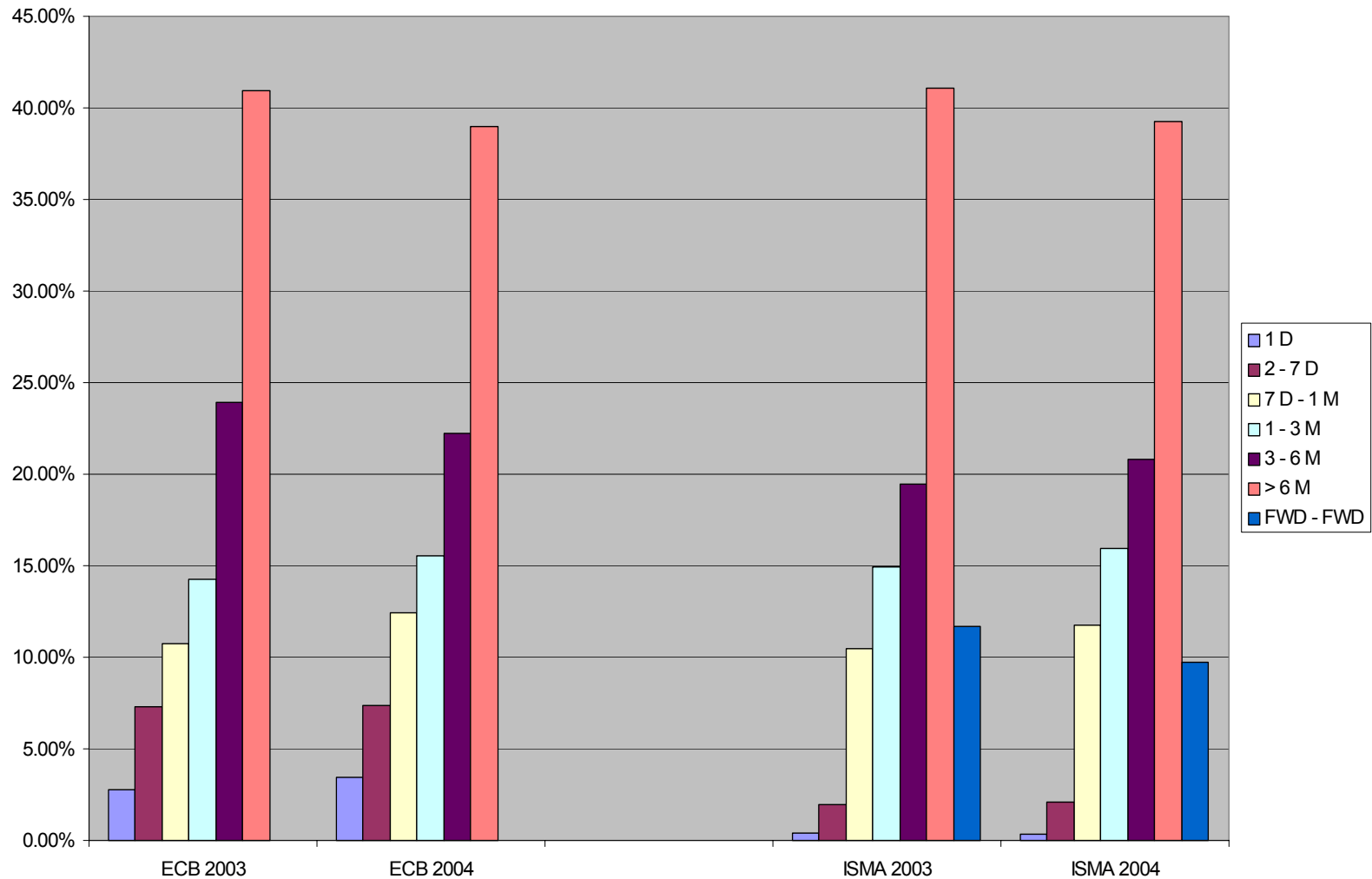
*Annual growth 2001 – 2004 in absolute terms*





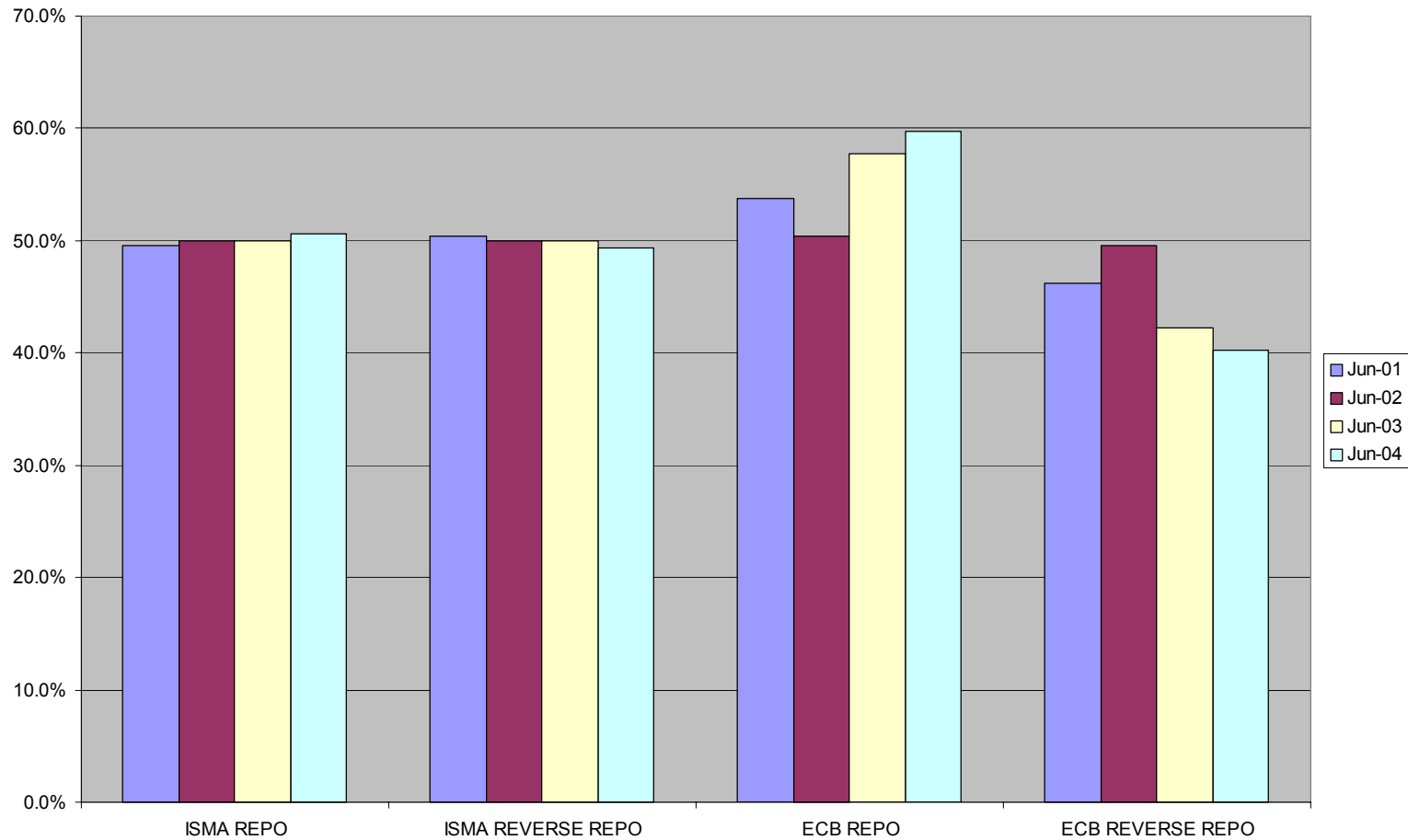
## 5. Maturity analysis

*Maturity analysis – annual, weighted*



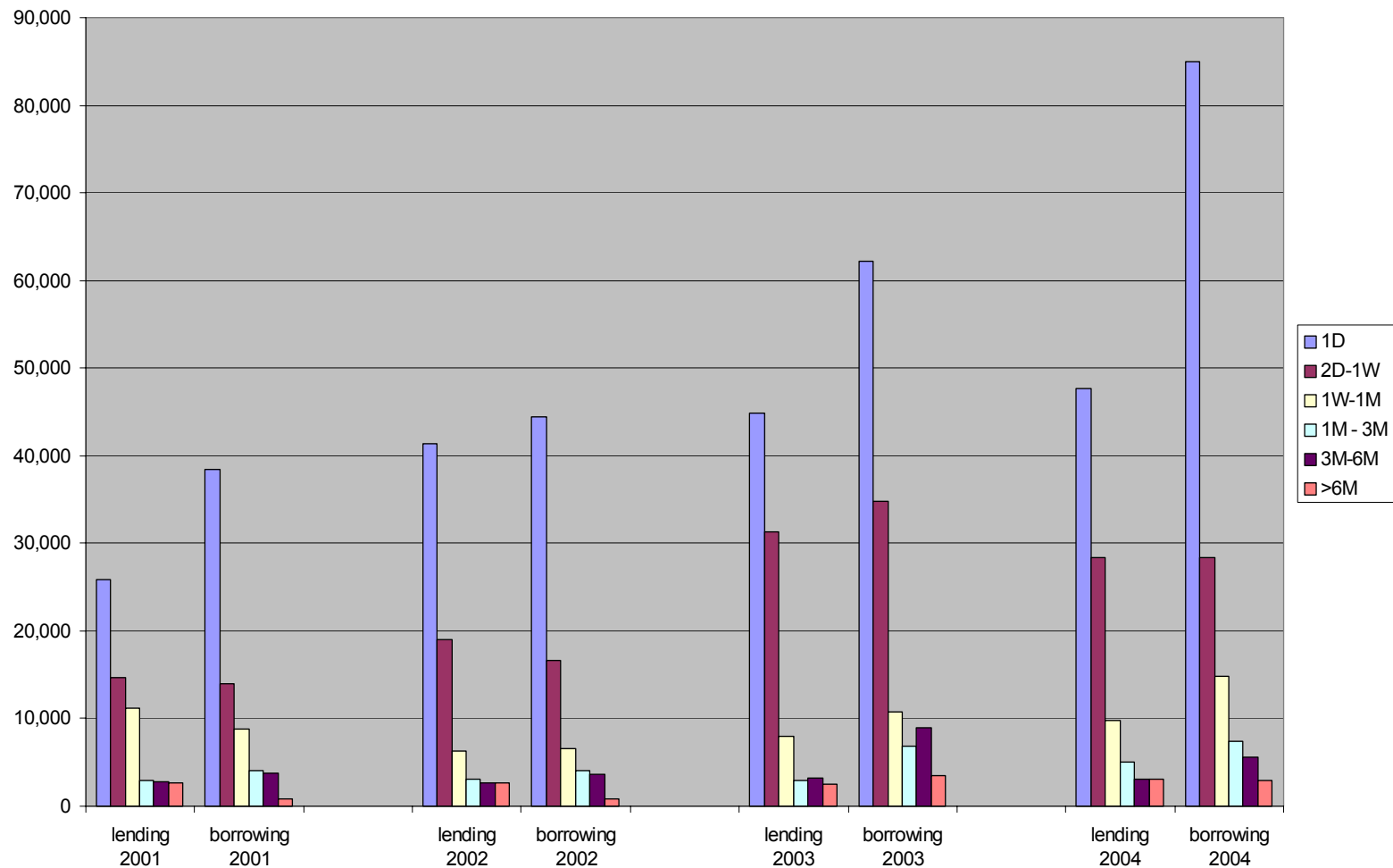
## 6. *Repo versus Reverse repo*

### *ECB - maturity breakdown*



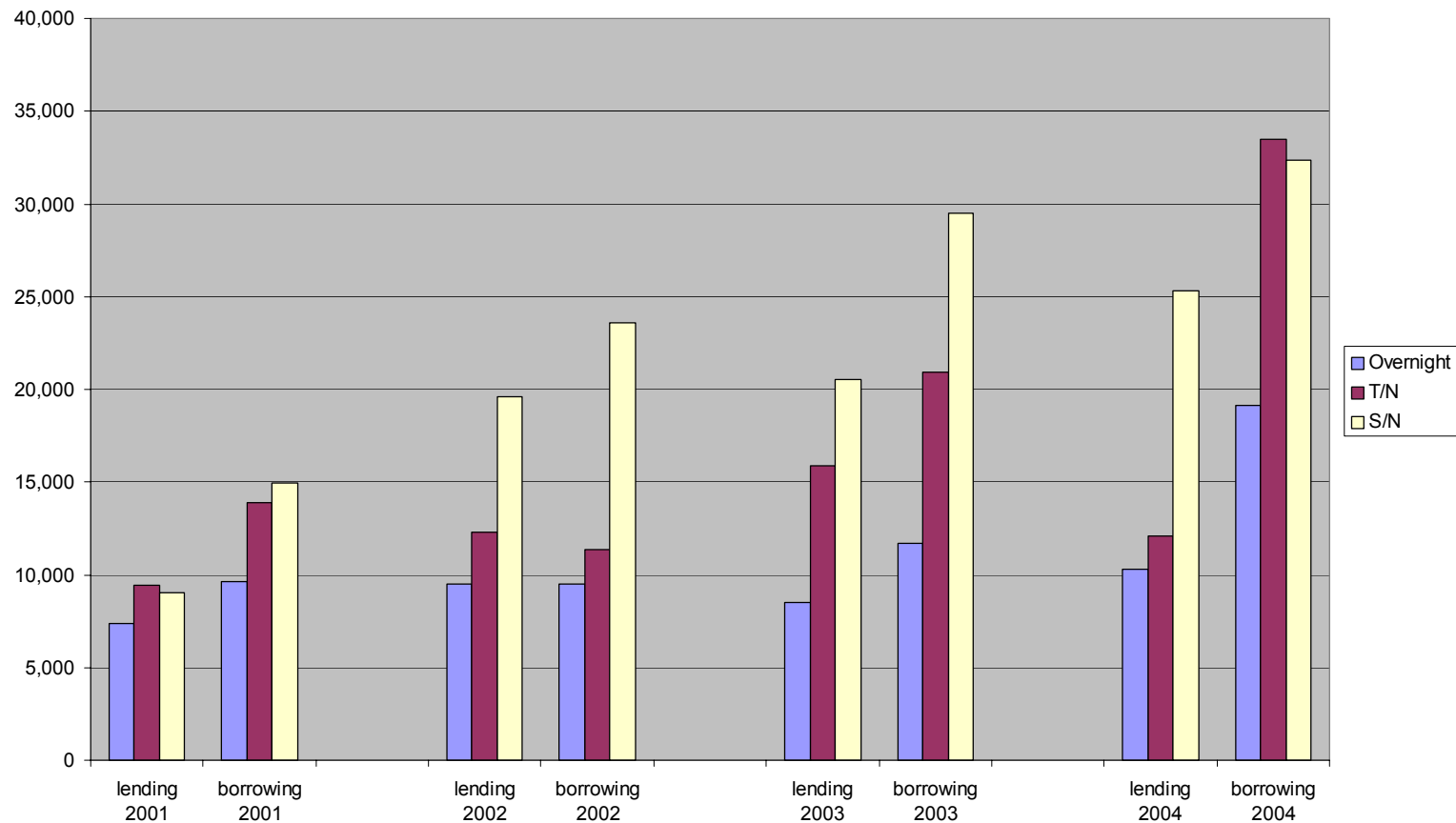
## 6. *Repo versus Reverse repo*

### *ECB - maturity breakdown*



## 6. *Repo versus Reverse repo*

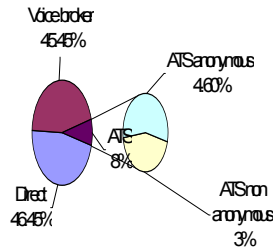
*ECB - maturity breakdown – 1day*



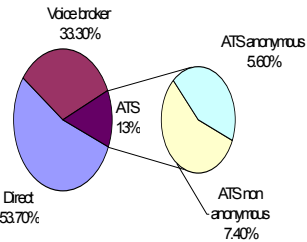
# 7. Counterparty analysis

## Direct versus Voice-Broker versus ATS

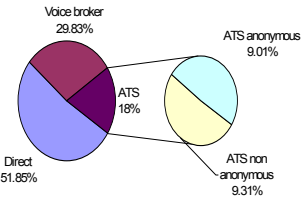
ISMA 2001



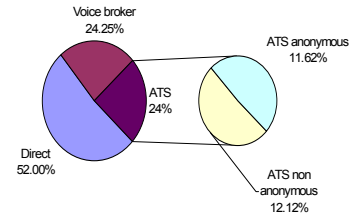
ISMA 2002



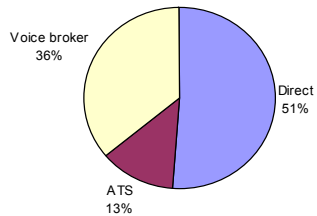
ISMA 2003



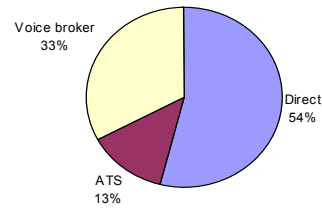
ISMA 2004



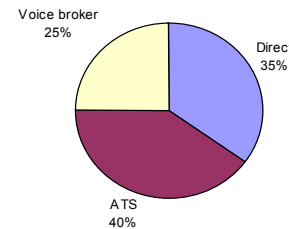
ECB Jun01



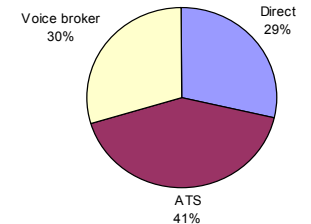
ECB Jun02



ECB Jun03



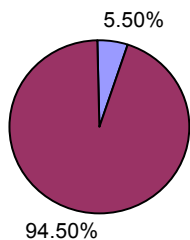
ECB Jun04



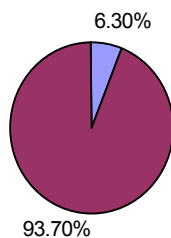
## 7. Counterparty analysis - triparty repo

### ISMA

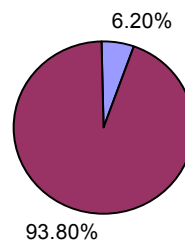
2001 (48 banks)



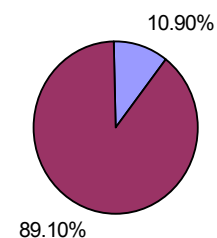
2002 (86 banks)



2003 (84 banks)



2004 (81 banks)

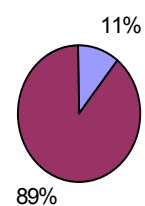


### ECB

ECB TOTAL 2003



ECB TOTAL 2004



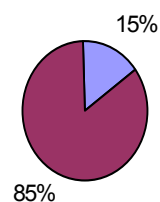
ECB CASH BORROWING 2003



ECB CASH LENDING 2003



ECB CASH BORROWING 2004



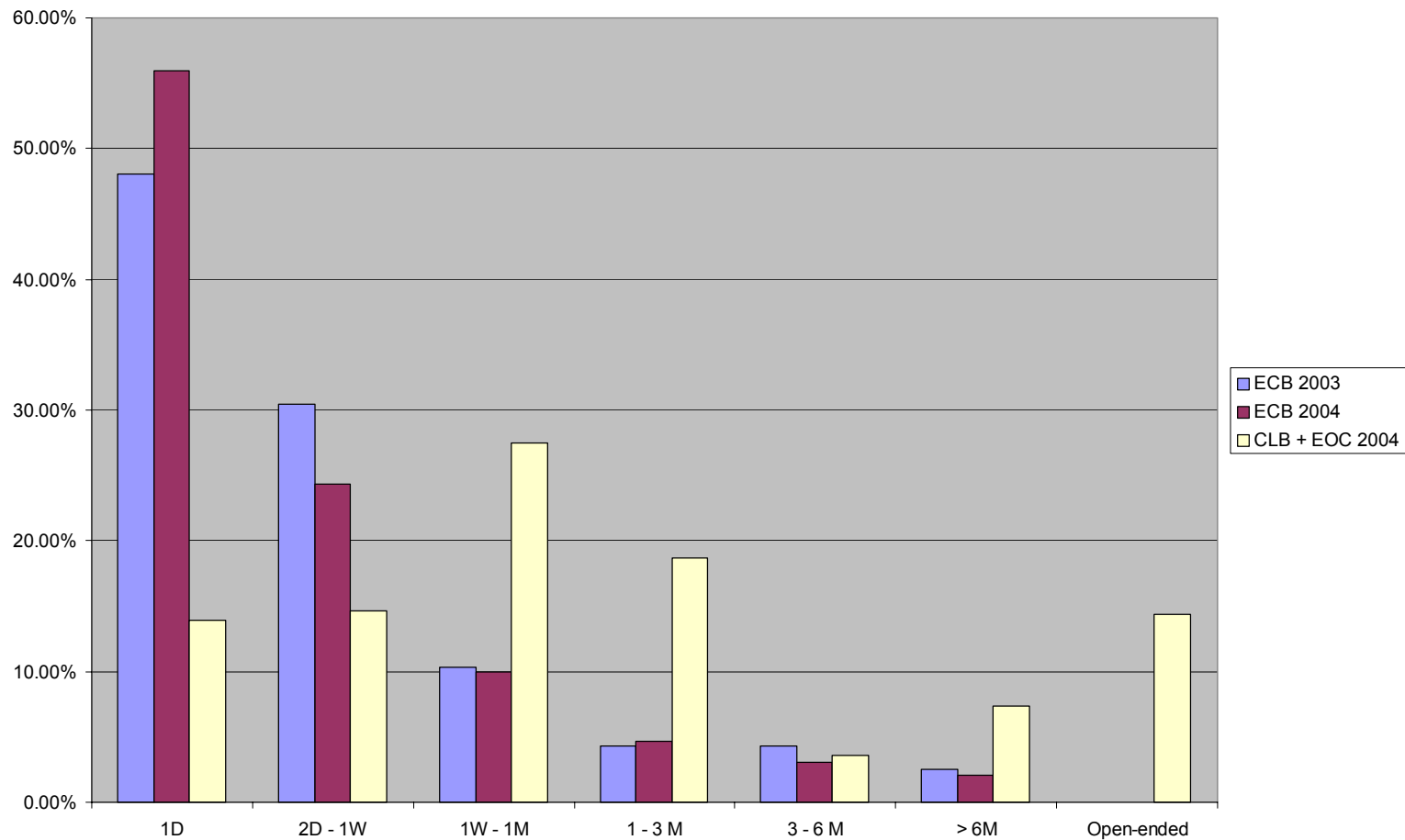
ECB CASH LENDING 2004



## 7. Counterparty analysis – triparty repo

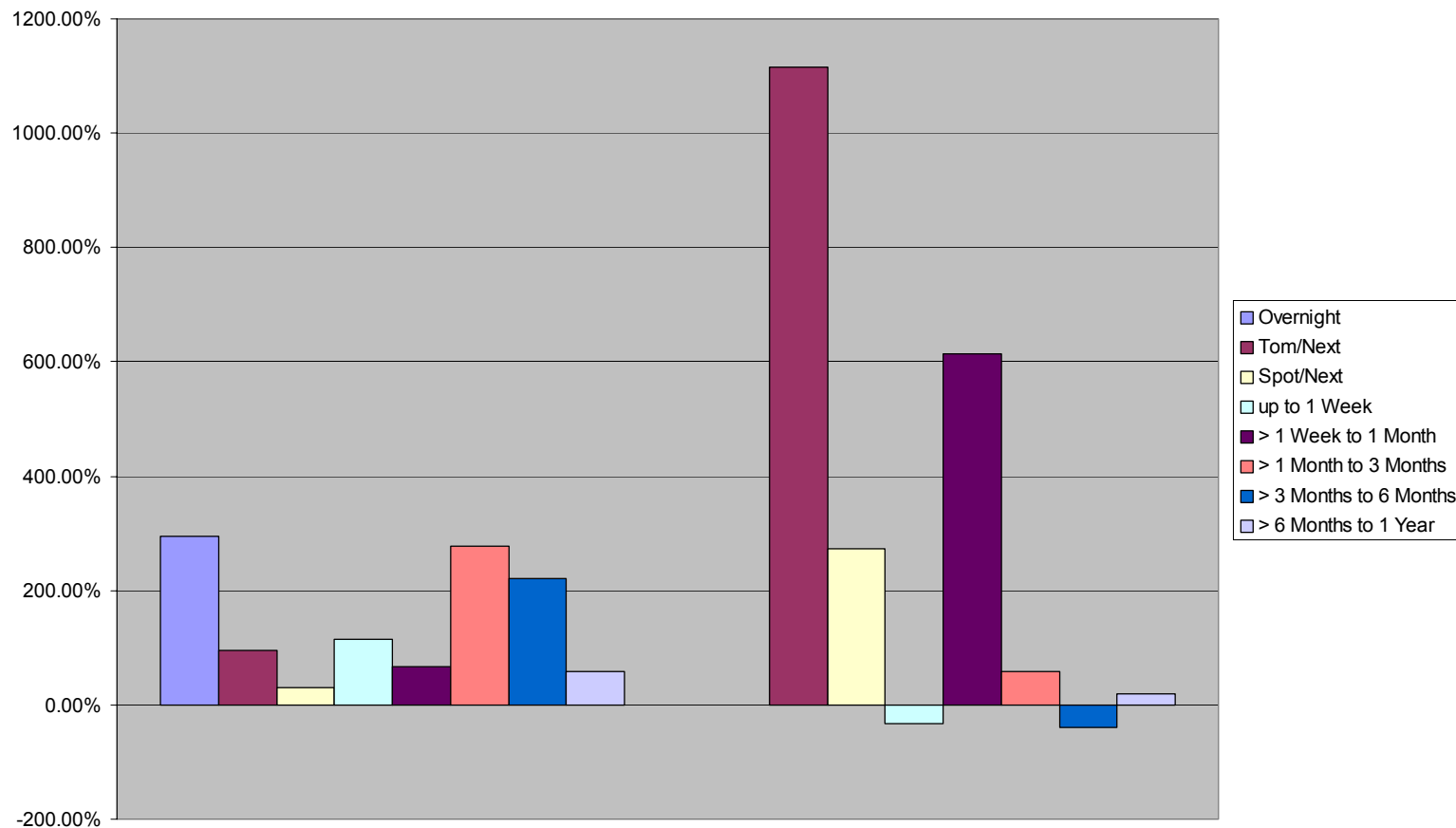
ECB 2003 – 2004

Clearstream Banking and Euroclear Bank, 2004, maturity breakdown



## 7. Counterparty analysis

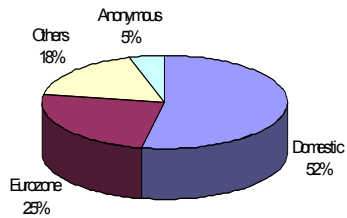
ECB Triparty growth 2003 - 2004



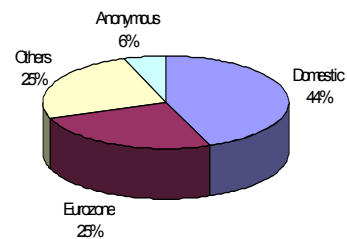


## 7. Counterparty analysis – cross border business

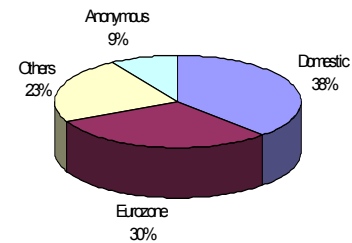
ISVAJUN01



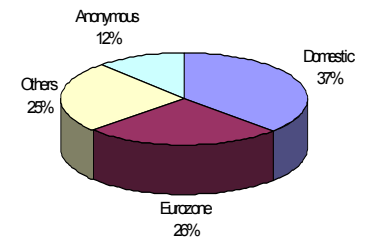
ISVAJUN02



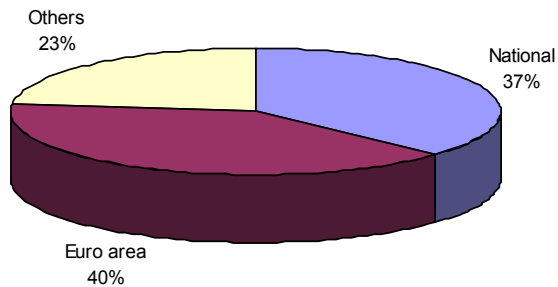
ISVAJUN03



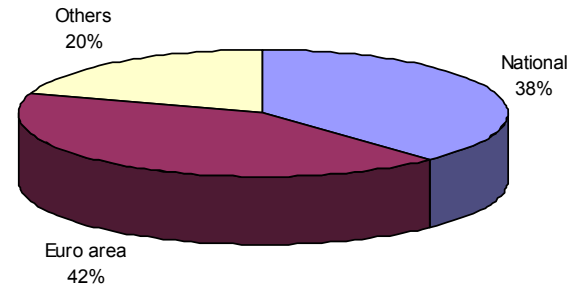
ISVAJUN04



ECB 2003

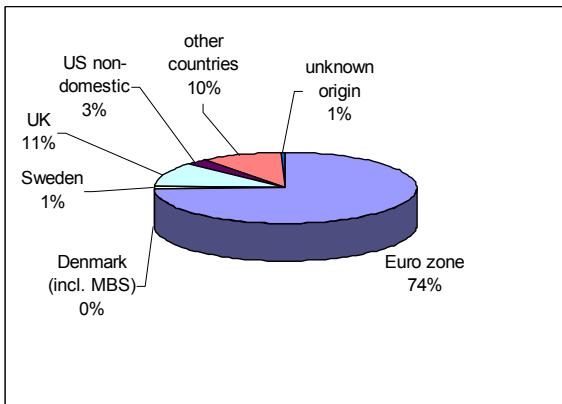


ECB 2004

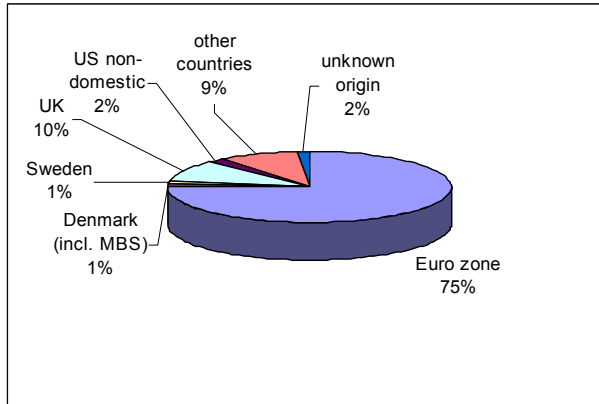


## 8. Collateral analysis

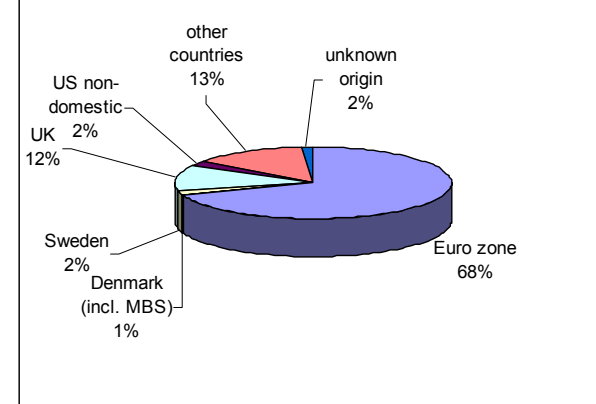
*ISMA bilateral 2002*



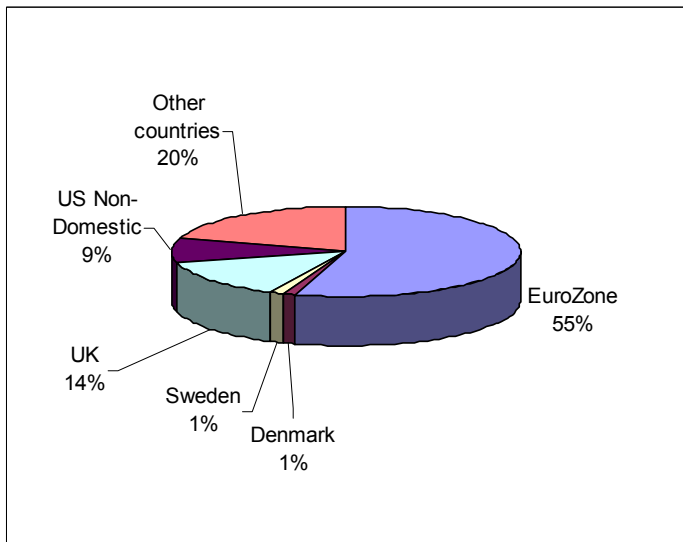
*ISMA bilateral 2003*



*ISMA bilateral 2004*

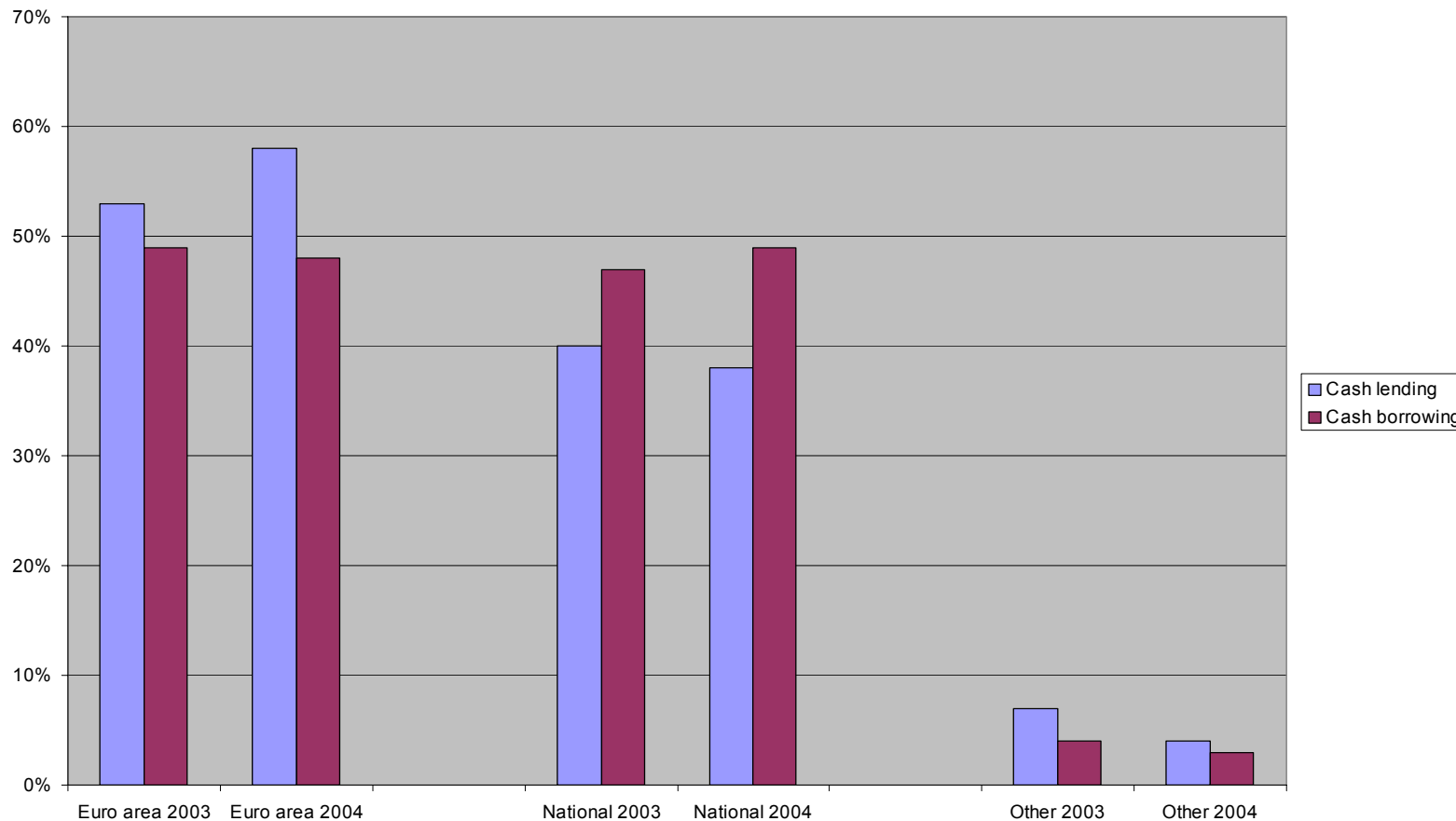


*Triparty Clearstream Banking + Euroclear Bank 2004*



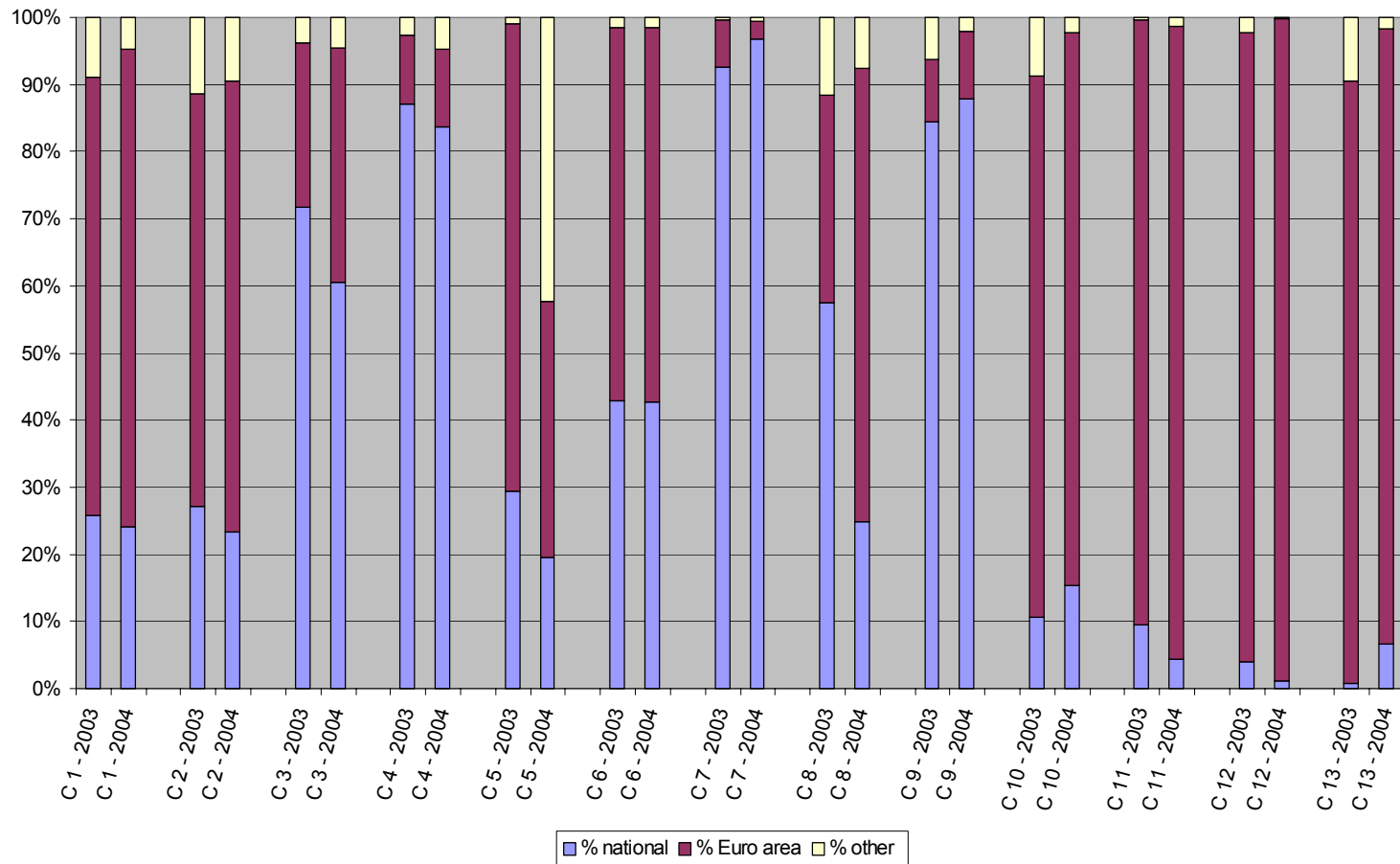
## 8. Collateral analysis

### *ECB bilateral repo*



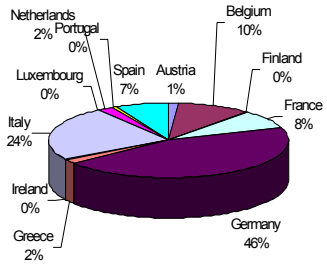
## 8. Collateral analysis

*ECB: collateral per country*

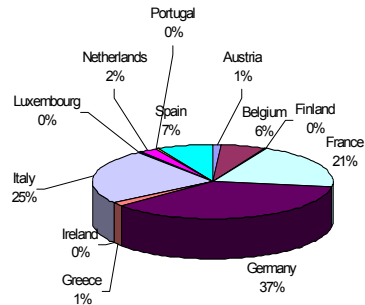


## 8. Collateral analysis

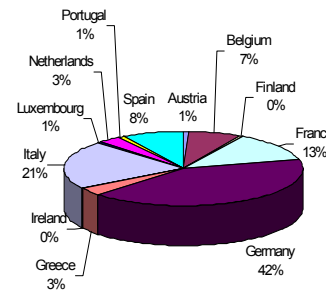
ISMA bilateral 2001



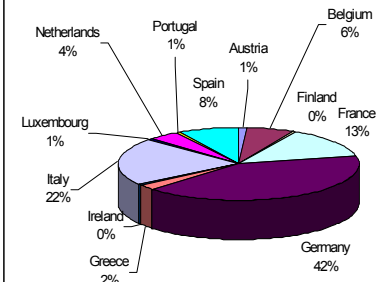
ISMA bilateral 2002



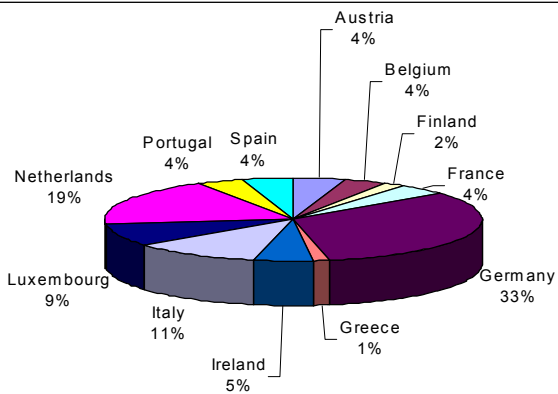
ISMA bilateral 2003



ISMA bilateral 2004



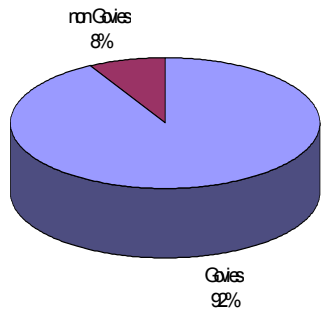
Triparty Clearstream Banking + Euroclear Bank 2004



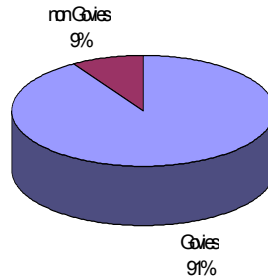
## 8. Collateral analysis

### Government bonds in repo

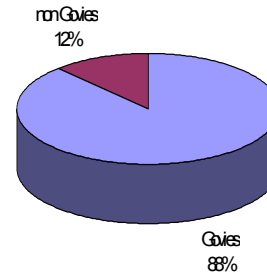
ISMA bilateral 2001



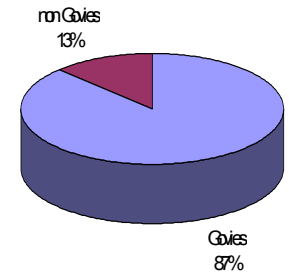
ISMA bilateral 2002



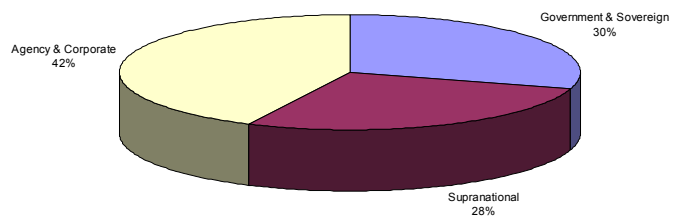
ISMA bilateral 2003



ISMA bilateral 2004



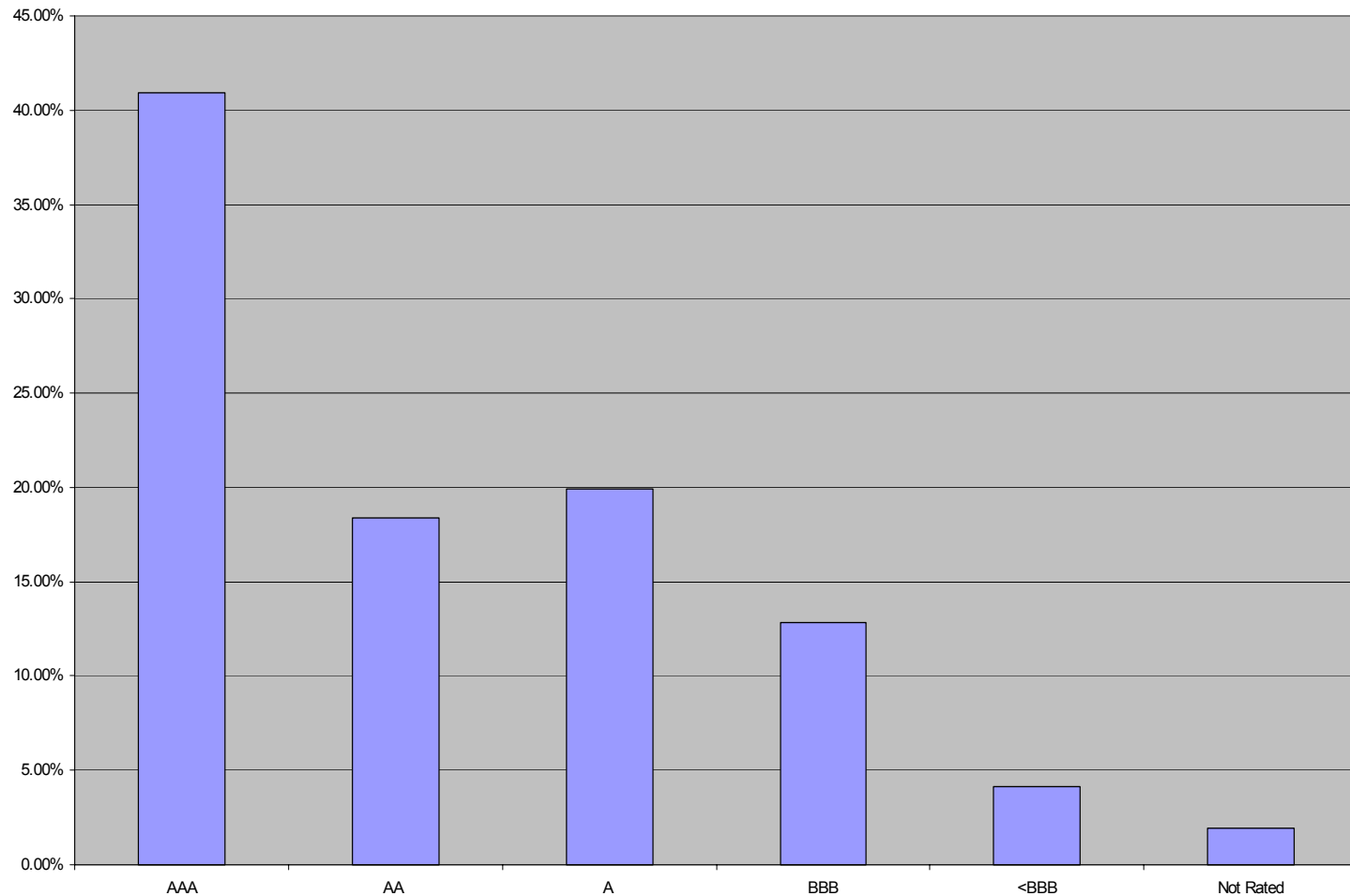
Clearstream Banking + Euroclear Bank 2004



## 8. Collateral analysis

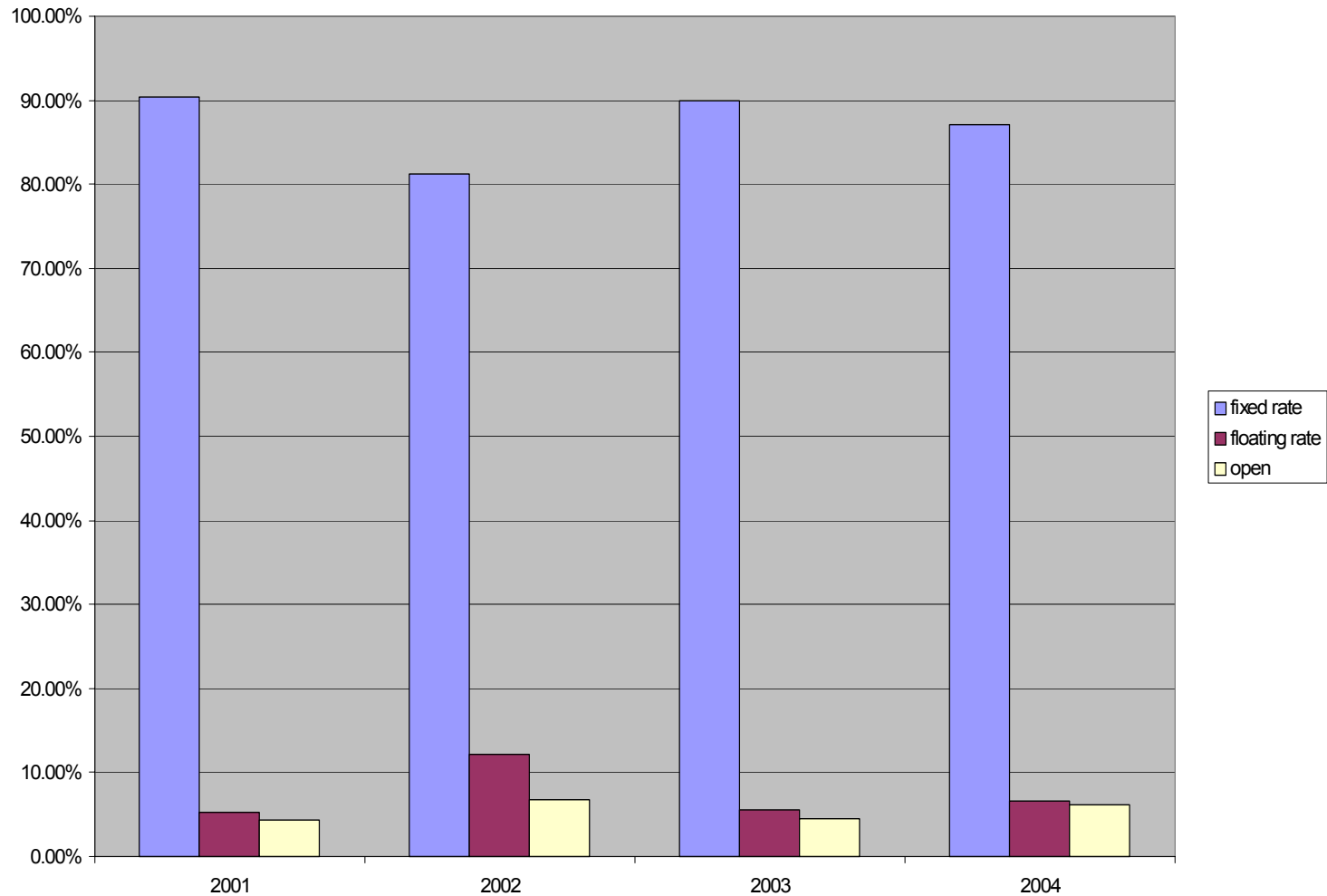
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*Triparty Clearstream Banking + Euroclear Bank 2004: rating underlying securities*



## 9. Repo rate analysis

ISMA





# **Access to Central Bank Liquidity**

Thomas J. Jordan

Alternate Member of the Governing Board

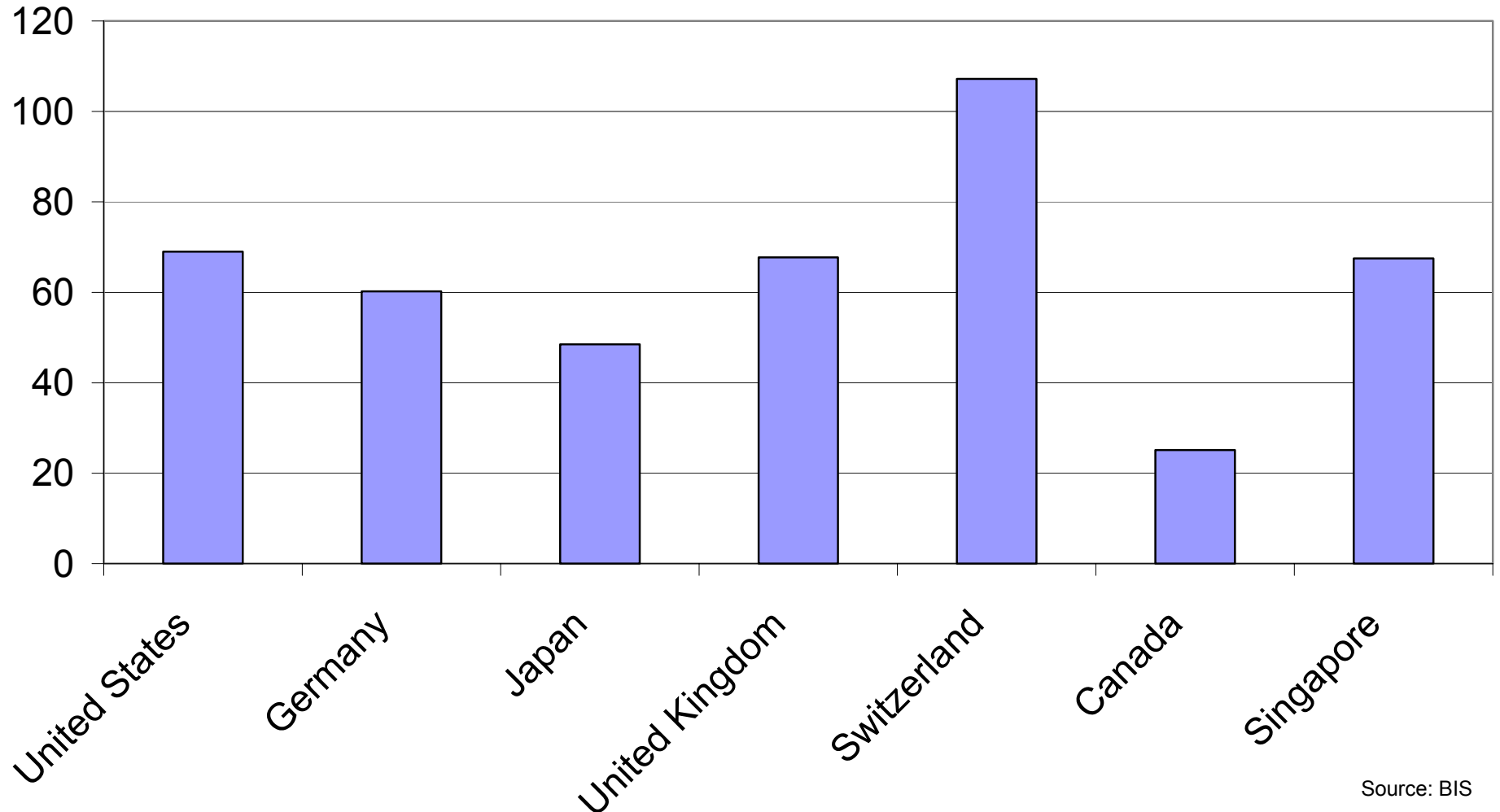
Swiss National Bank

European Repo Council – General Meeting

17 March 2005

# International Importance of the Swiss Franc

Ratio of transactions value to GDP



Source: BIS

# Structure of Swiss Franc Money Market

- **FX swaps USD/CHF** approx. CHF 900 bn  
(SNB estimate)
- **Deposits** approx. CHF 100 bn  
(SNB estimate)
- **Repo transactions** CHF 57 bn  
(February 2005, SIS)

# Repo Strategy of the SNB I

## Aim

Promotion of repo transactions in the Swiss franc money market

## Reasons

- Minimizing credit, liquidity, and settlement risks
- Increased transparency and efficiency
- Increased competition among banks

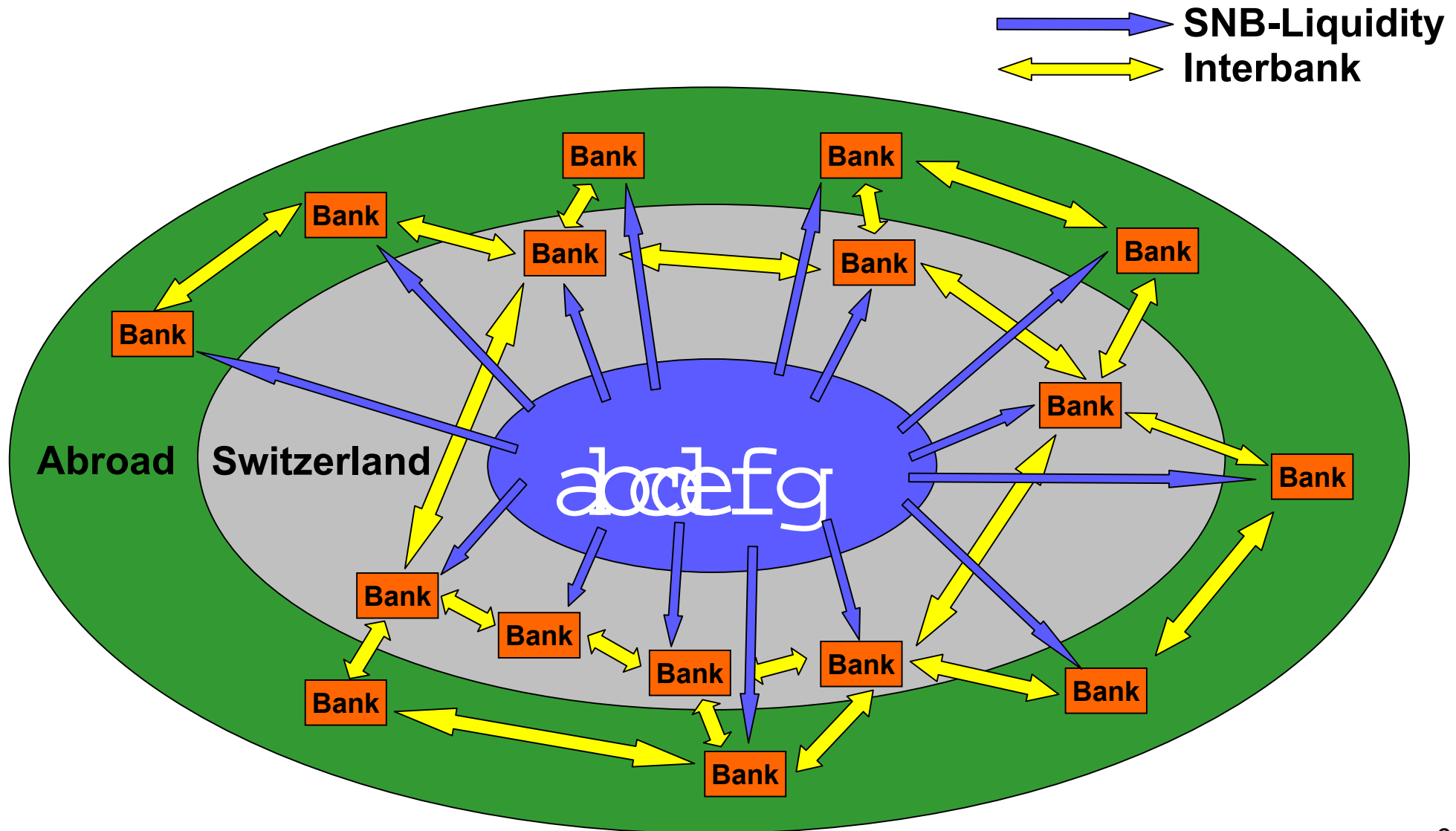
⇒ Enhanced stability of the financial system

# Repo Strategy of the SNB II

## Measures

- Repo should become the standard transaction for the liquidity management in the Swiss franc money market
- Repo will be the only access to SNB liquidity
- SNB provides equal access to banks in Switzerland and abroad
- SNB will enlarge the repo collateral baskets

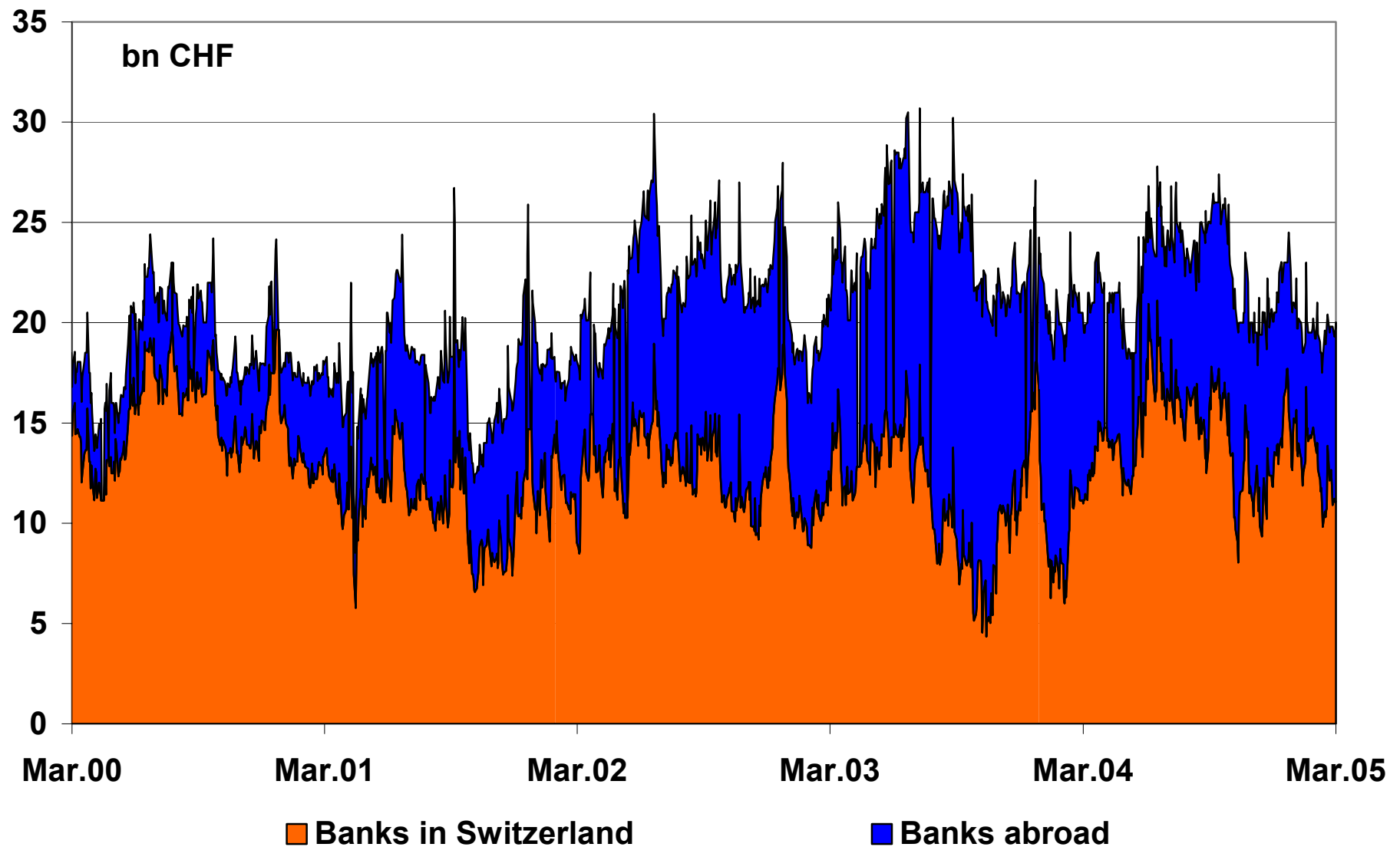
# Swiss Franc Money Market



# SNB Liquidity

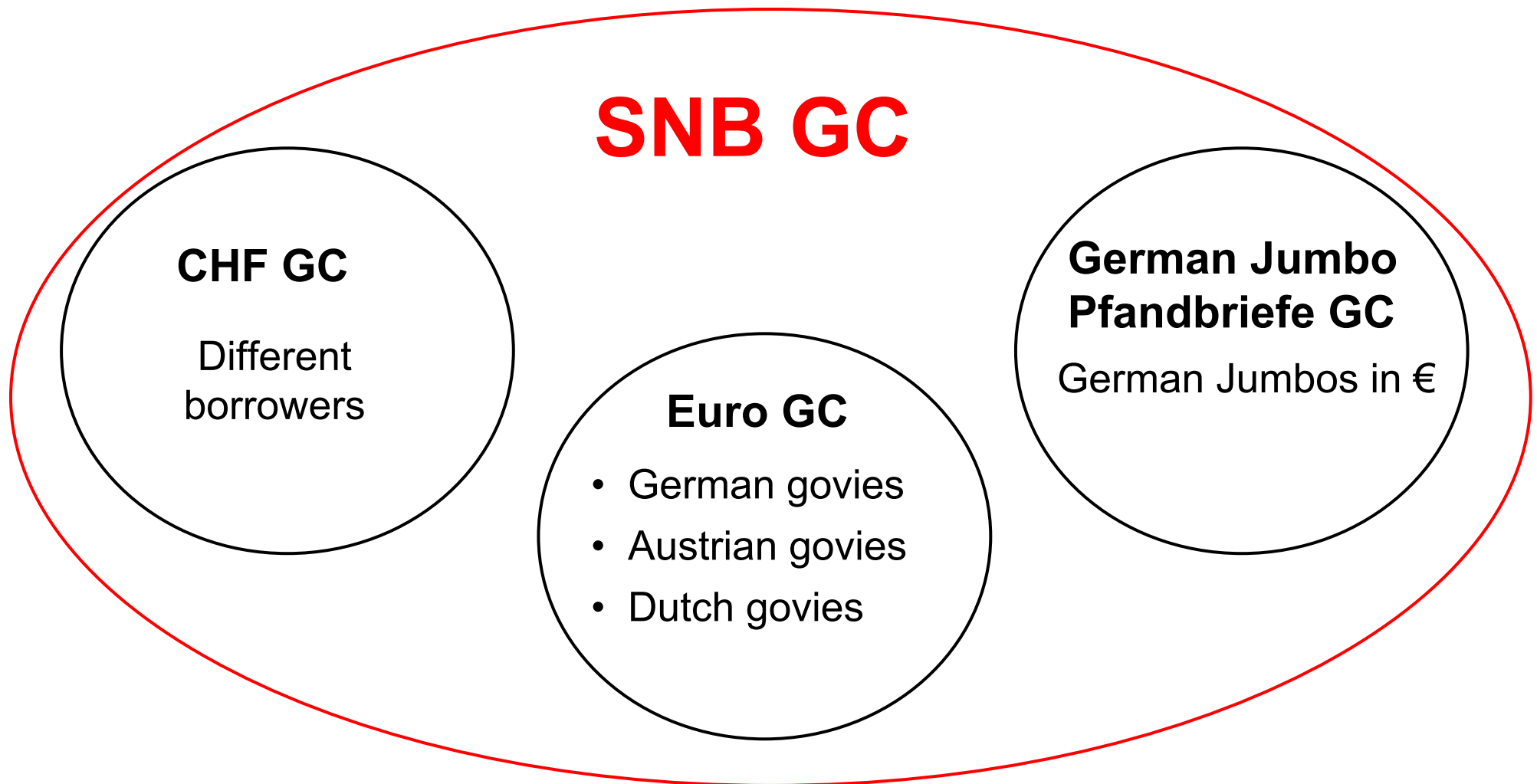
- **Main financing operations (repo-auctions)**
  - Interval: flexible (usually daily at 9 a.m.)
  - Maturity: flexible (usually 1 week)
  - Price: flexible (depends on market price and level of 3M-Libor)
  - Allotment: auction with proportional cut
- **Intraday facility**
  - SNB provides intraday free liquidity through repos
  - Collateral coverage of 110%
- **Special-rate repo**
  - Instrument available for banks in case of liquidity shortage
  - Collateral coverage of 110%
  - Interest rate: Repo-ON-Index (SNB) + 200 BP

# SNB Repos

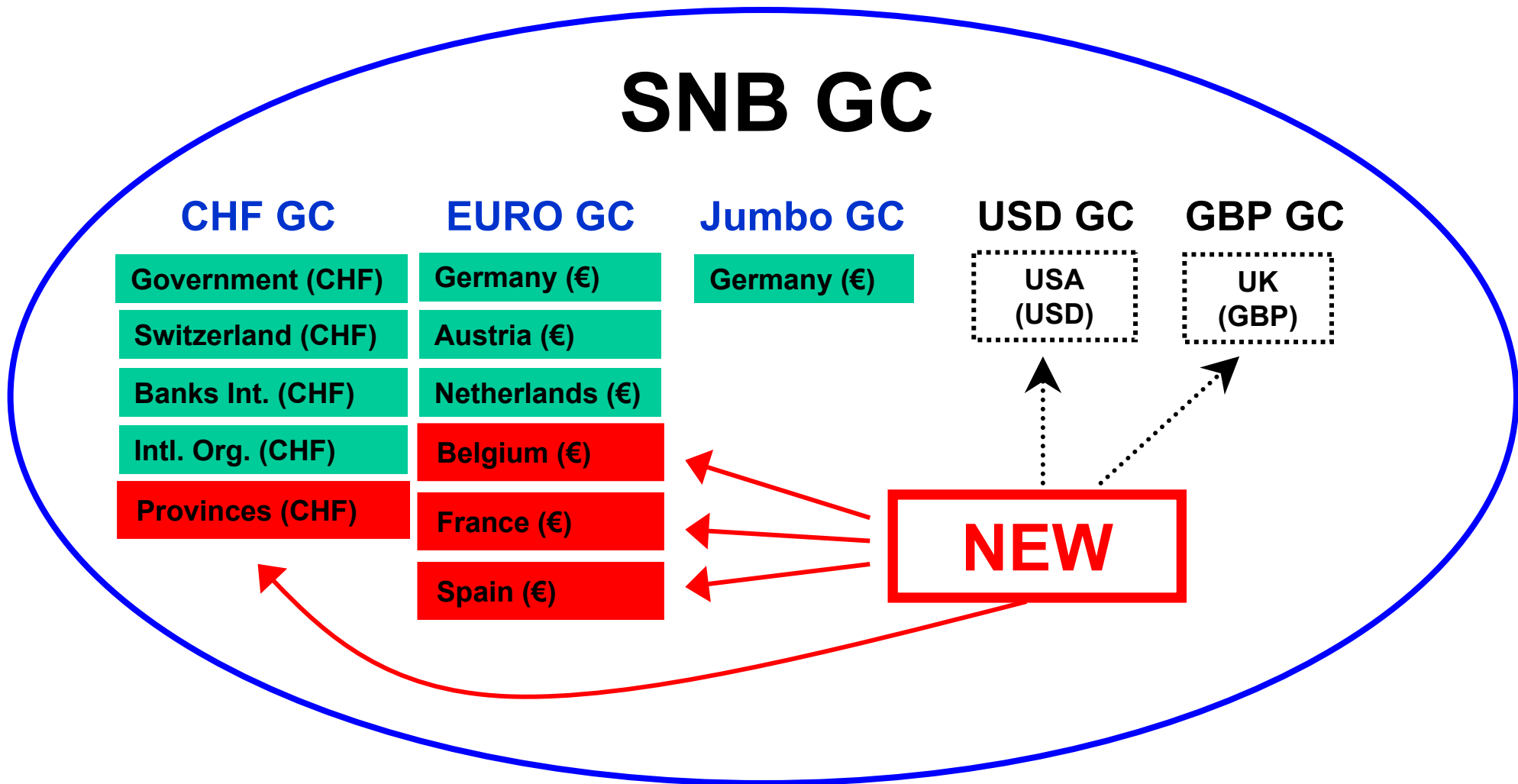




# Swiss Franc Repo Baskets



# Enlargement of the Collateral Baskets 2005

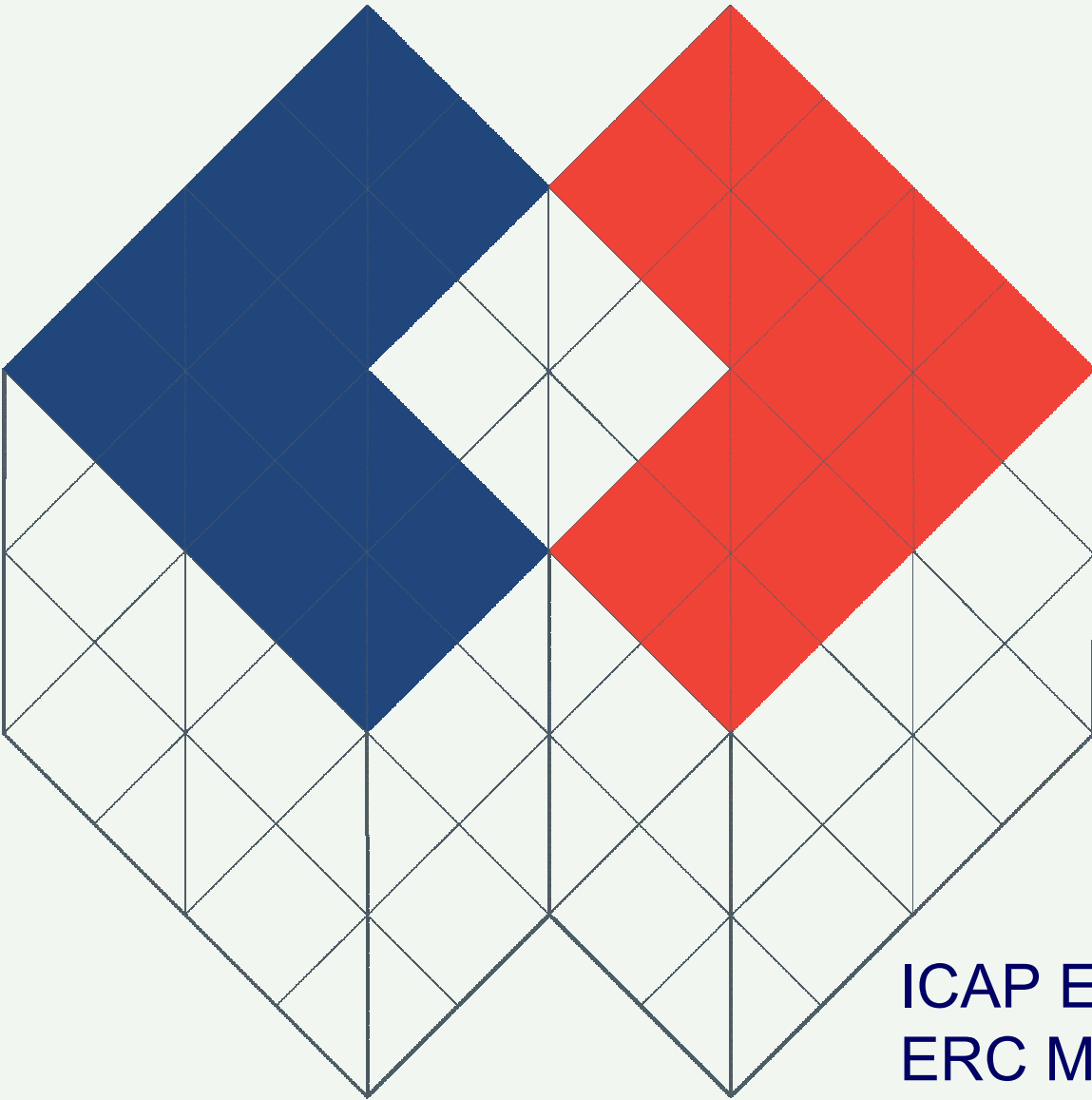


# Advantages of Participating in the Swiss Franc Repo Market for Banks Abroad

- Direct access to SNB liquidity
- Extended access to the Swiss franc money market
- Direct access to the Swiss Interbank Clearing (SIC) system (self-clearer)
- Use of most efficient trading-, settlement- and clearing- system with minimal risks

# Conclusions

- Repo should become the standard transaction for the liquidity management in the Swiss franc money market
- SNB provides equal access to banks in Switzerland and abroad
- The Swiss franc repo system is completely integrated (straight through processing) and efficient



## ICAP ELECTRONIC BROKING ERC Meeting – Zurich

# ICAP Electronic Platforms

## Business Lines

### BrokerTec

- EU Repo
- EU Cash and Basis
- UK Gilts
- US Treasuries
- USD Supras
- US Repo
- Credit Derivatives

### ETC

- US Treasuries
- USD Supras
- Euro Bonds
- i-Forwards
- Brady Bonds
- Rand mkts

### Fracross

- FRA-Matching
- EUR, GBP, USD
- AUD, SEK, CHF, CZK, PLN, HUF

### I-Swap

- Eonia
- Swaps
- Fwd Swaps
- FRAs
- IMM Swaps

# BrokerTec – Electronic Trading

- 5 Year old proven global electronic trading platform
- Over 850 Traders in Europe
- Fixed Income products in the EU, US & Asia
- Over 300 Customers worldwide
- 23 hours trading facility available
- Average IEB daily Global volume is over \$400bn (single count) with a high of \$500bn 10th February
- Average daily European Repo nominal volume is now at €140bn in 2005 with a high of €148bn 10<sup>th</sup> March

# Leverage of Electronic Access – EU Repo

	Electronic Repo Traders	Ave Daily Trades
• Jan 2001:	45	239
• Jan 2002:	186	1,258
• Jan 2003:	277	2,258
• Jan 2004:	368	3,099
• Jan 2005:	395	3,579

- Largest number of tickets by individual bank: 838 (1/3/05)
- Largest number of tickets by individual trader: 534 (25/2/05)



# Repo Counterparties

- Interdealer (B2B)
- 68 counterparties live on Repo
- Counterparties located in every EU country
- 18 counterparties via a 3<sup>rd</sup> Party Clearer
- 5 counterparties in the process of 'going-live'
- 4 firms offering 3<sup>rd</sup> party clearing
- Clearing will extend to offer US Treasury Repo in Europe into GSCC/FICC

# The ICAP 'Hybrid'

- **Anonymity** will be retained for **ALL** electronic client submitted orders & executed trades
- **Voice Brokers** able to **interact passively and aggressively on BTEC** system on 'behalf of customers' in **ALL** Markets:
  - **Anonymous**
  - **Bilateral Markets**
  - **Stipulated** [broker access only]
- **Traders** have full choice between electronic, voice assisted electronic or off-screen trading.

# BTEC - New markets

- UK Treasury Bills
- Portuguese Bills
- CDS market launched on Btec system

## Delivering Efficiencies

- Direct Settlement in Greece – extended trading times
- 3 decimal places for Gilt Repo over 1 month
- Working to improve French Fails situation

# BTEC New Functionality

## New front end release in early Q3 2005

- Messaging
- Improved Screen layout
- Condensed View for Repo
- P&L calculator – cash
- Tailor made Repo enhancements
- Bulk Order Manager improvements

## GC Allocator

- Spanish & Greek Coupon issues – ‘wash period’
- Ability to query GC basket prior to trading

# Strategic Development

## ICAP - Internal

- Corporate Repo on Btec
- Launch of the ICAP Corporate Repo web browser
- Money Market Deposits
- Extending 'Cross Connect' between Btec & ETC

External – depend on external delivery date

- DBV via LCH
- Euro DBV facility
- Eurobonds via a CCP (?)

# Benefits of ICAP Electronic Trading

- Combining voice and electronic liquidity pools
- Providing complete choice to traders
- Full Market support for voice and electronic
- One API for all pre & post order/trade requirements
- Full Anonymity & Firm prices
- Increased 'footprint' and number of participants
- Automated sending of eligible 'voice' trades to LCH markets. Clients will not need to utilise ETCMS processing for trades on BTEC/Garban
- Automated ticket writing for Voice trades via BTEC system using existing Post Trade Feeds

# Electronic Trading Trends

- Broadening of products & markets traded
- More sophisticated aggregators and interfaces
- Continued consolidation (Brokers, CCP's, Settlement)
- Voice markets become hybrid (BTEC & ICAP)