International
Capital
Market
Association

ICMA

Minutes of the European repo council's general meeting held on September 21, 2005 in Luxembourg

Location: **Centre de Conférence Européen**
1, rue Fort Thüngen
L-1449 Luxembourg

Time: 16.00 - 18.30

The following members of the European repo committee were present:

Mr. Ulf Bacher, Dresdner Bank AG, Frankfurt
Mr. Jean-Marie Begonin, Credit Suisse First Boston (Europe) Limited, London
Mr. Stefano Bellani, J. P. Morgan Securities Ltd., London
Mr. Michael Chadwick, HBOS Treasury Services plc, London
Mr. Jaime Comunión Artieda, Caja de Madrid, Madrid
Mr. Edward Donald, ABN AMRO Bank N.V., London branch
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
Mr. Dominick Emmanuelli, Barclays Capital Securities Ltd., London
Mr. Andrea Masciovecchio, Banca Intesa S.p.A., Milan
Mr. Edward McAleer, Morgan Stanley & Co. International Ltd., London
Mr. Simon Parkins, BNP Paribas, London branch

Apologies:

Mr. Francesco Cafagna, Goldman Sachs International, London
Mr. Johan Evenepoel, Dexia Bank Belgium NV/AS, Brussels
Mr. Grigorios Markouizos, Citigroup Global Markets Ltd., London
Mr. Michael Murray, Confederación Española de Cajas de Ahorros (CECA), Madrid
Mr. David Nicholls, Deutsche Bank AG, London branch
Mr. Ashraf Rizvi, UBS AG, London branch

Also present:

Mr. Kieren Wright, Bank of England, London
Mr. Richard Commotto, University of Reading, Reading

International Capital Market Association
Rigistrasse 60
P.O. Box
CH-8033 Zurich
Phone: +41 44 363 4222
Fax: +41 44 363 7772
www.icma-group.org

Mr. Phil Davies, Goldman Sachs, London
Mr. Achim Krämer, Deutsche Bank AG, Frankfurt
Mr. Horacio Mastroeni, European Central Bank, Frankfurt
Mr. Mario Nava, European Commission, Brussels

Mr. John Langton, Chief Executive and Secretary General, ICMA, Zurich[1]
Ms. Barbara Pung, Associate Counsel, ICMA, Zurich

The following member firms were represented at the meeting:

ABN AMRO Bank N.V., Amsterdam
Banca Intesa S.p.A., Milan
Banca d'Intermediazione Mobiliare IMI 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
Barclays Capital Securities Limited, London
Bayerische Hypo- und Vereinsbank AG, Munich
Bear, Stearns International Limited, London
BNP Paribas, Paris
Caja de Madrid, Madrid
CALYON, Paris
Confederación Española de Cajas de Ahorros (CECA), Madrid
Citigroup Global Markets Limited, London
Commerzbank AG, Frankfurt
Credit Suisse First Boston (Europe) Limited, London
Daiwa Securities SMBC Europe Limited, London
Danske Bank AG, Copenhagen
Deutsche Bank AG, Frankfurt
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
HSBC Bank plc, London
ING Bank N.V., Amsterdam
IXIS Corporate & Investment Bank, Paris
J.P. Morgan Securities Ltd., London
Kredietbank S.A. Luxembourgeoise, Luxembourg
Landesbank Baden-Württemberg, Stuttgart
Lehman Brothers International (Europe), London
Merrill Lynch International, London
Mizuho International PLC, London
Morgan Stanley & Co. International Ltd., London

[1] present only during the discussion of agenda items 1, 2 and 3.

Nomura International plc, London
Société Générale S.A., Paris
The Royal Bank of Scotland plc, London
UBS AG, Zurich
UniCredit Banca Mobiliare S.p.A., Milan
WestLB AG, Dusseldorf

The following member firms were not represented at the meeting:

Aurel Leven Securities, Paris
Banca Caboto 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
Bayerische Landesbank Girozentrale, Munich
Canadian Imperial Bank of Commerce (CIBC), London branch
CCF, Paris
ING Belgium SA/NV, Brussels
KBC Bank N.V., Brussels
Lloyds TSB Bank plc, London
Man Financial Limited, London
Mitsubishi Securities 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

1. <u>Opening of the meeting by the chairman of the European repo committee (ERC committee)</u>

In his introductory remarks the chairman first welcomes the council member delegates, observers and guests and thanks Clearstream for hosting today's meeting.

He then reports that following the elections to the ERC committee at the March 17, 2005 annual general meeting of the ERC council, the ERC committee, at its April 15, 2005 meeting, appointed him as chairman and Mr. Bacher as vice-chairman of the ERC committee for the term of office of another year to expire at the annual general meeting of the ERC council to be held on March 21, 2006.

Thereafter, the chairman gives a slide presentation on recent important market events and the issues discussed by the ERC committee in the past six months (a copy of the slide presentation prepared by the chairman is attached to these minutes as attachment 1).

With reference to the issue of the treatment of failed transactions in France, the chairman adds that in a recent conversation he had with a representative of Euroclear France, Euroclear France informed him that with a view to discouraging firms from unilaterally cancelling the second leg of repo transactions to be settled through RGV (French irrevocable receipt/delivery system) in the event of delivery fails because of technical reasons only (and not because of an "event of default", e.g. bankruptcy of a participant), Euroclear France established a new market practice and introduced a "recycling" facility at the beginning of this year which automatically re-enters second leg repos that failed to settle into the system for another 7 calendar days.

For technical reasons the "recycling" facility is, however, not available for "TomNext" and other trades that are to be settled in less than one week. Euroclear France recommends that in case such a transaction fails to settle or in case the RGV "recycling" period expires without the second leg of the repo having settled the parties should mutually agree to terminate the transaction and manually calculate the payments incl. interest to be made by the defaulting party to the non-defaulting party and confirm such agreement by telefax.

2. Approval of the minutes of the ERC council's annual general meeting held on March 17, 2005 and dated April 5, 2005

The minutes of the ERC council's annual general meeting held on March 17, 2005 and dated April 5, 2005 are unanimously approved.

3. ISMA/IPMA merger

The chief executive reports that the merger between ISMA and IPMA became effective July 1, 2005 through the transfer of IPMA's assets, liabilities and activities to ICMA. On the same date, the Association changed its name to "International Capital Market Association" (ICMA).

On a separate but related note, the chief executive informs the council that at its meeting on September 16, 2005 ICMA's board in essence decided that ICMA should continue discussions with TBMA on a closer co-operation of the two associations in areas of mutual interest.

4. Update on GMRA related matters

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

4.1 Legal Opinions

4.1.1 *2004 and 2005 update/seeking exercise*

On April 6, 2005, ICMA notified the entire membership that it had completed this year's annual exercise of obtaining update legal opinions on the GMRA by publishing update legal opinions for 36 jurisdictions on ICMA's website. In 18 of these jurisdictions the exercise was conducted jointly with TBMA (see attachment 2: slide presentation / slide 1: listing all update legal opinions obtained jointly by ICMA and TBMA and slide 2: listing all update legal opinions obtained by ICMA alone).

ICMA also published new opinions jointly with TBMA for Cyprus, Hungary and Norway and on its own for Estonia, Latvia, Lithuania and Malta (see attachment 2: slide presentation / slide 1: listing all new legal opinions obtained jointly by ICMA and TBMA and slide 2: listing all new legal opinions obtained by ICMA alone).

The scope of the 2005 update and new opinions has been expanded to incorporate core provision opinions that are required by the German Financial Supervisory Authority (BaFin) and confirm 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 the Netherlands, the EU Directive on the Reorganisation and Winding-up of Credit Institutions was implemented on May 15, 2005. Dutch counsel was requested to confirm that the implementation of the Directive does not have an adverse effect on the 2005 opinion. The EU Financial Collateral Directive is expected to be implemented in the Netherlands early next year. The implementation of both Directives in the Netherlands will be addressed in the 2006 Dutch update opinion.

In Spain and France, the Financial Collateral Directive was recently implemented. In Spain, the Directive on the Reorganisation and Winding-up of Credit Institutions was furthermore implemented in mid April 2005. Spanish and French counsel both confirmed that the implementation of these Directives in Spain and France does not have an adverse effect on the 2005 opinions. The implementation of the Directives in Spain and France will be addressed in the 2006 Spanish and French update opinions.

4.1.2 *New opinion currently being sought jointly by ICMA and TBMA*

A working group of the ICMA/TBMA Joint Opinion Committee (JOC) is close to signing off on the final draft of a new opinion for the People's Republic of China.

4.1.3 *New opinions currently being sought by ICMA alone*

The opinions for Brazil, Scotland, South Korea and Taiwan are close to finalisation. Once finalised, ICMA will make these opinions available to members (see attachment 2: slide presentation / slide 3).

For Mexico, Slovenia and the Philippines revised drafts are currently being reviewed by ICMA (see attachment 2: slide presentation / slide 3).

Since it should be possible to obtain a clean opinion for Guernsey and Jersey, ICMA recently instructed local counsel for these jurisdictions to prepare a draft opinion for ICMA's review (see attachment 2: slide presentation / slide 3).

4.1.4 *New opinions being considered for Croatia, the Czech Republic, Malaysia, Romania and Slovakia*

In relation to Croatia, Malaysia and Romania, ICMA is currently clarifying whether a clean opinion can be obtained. In the affirmative, and subject to acceptable costs, ICMA will consider seeking an opinion for each of these jurisdictions (see attachment 2: slide presentation /slide 3).

In relation to the Czech Republic and Slovakia, ICMA continues to monitor legal developments with a view to ascertaining at what stage a clean opinion can reasonably be expected for each of these jurisdictions.

4.2 <u>Guidance notes on the 2005 update and new opinions</u>

Following the completion of the 2005 opinion updating and seeking exercise, ICMA published updated guidance notes on the 2005 update and new opinions for access by members on ICMA's website on September 1, 2005.

4.3 <u>Types of parties to the GMRA covered by the opinions</u>

In accordance with the ERC committee's strong respective recommendation and notwithstanding the substantial additional costs, ICMA recently decided to extend the scope of all opinions to also cover insurance companies, hedge funds and mutual funds (in addition to companies, banks and securities dealers already covered by the current opinions) as parties to the GMRA covered by the opinions as and when the opinions will be updated by ICMA in 2006.

TBMA has not yet decided whether it will share the cost for the extension of the opinions in the 23 jurisdictions where opinions are currently obtained jointly by ICMA and TBMA on an equal basis with ICMA.

4.4 Annexes to the GMRA

On May 20, 2005, ICMA notified the membership on the publication on its website of a new AFMA annex I for use in Australian domestic transactions with both the 1995 as well as the 2000 versions of the GMRA, which the Australian Financial Markets Association (AFMA) had produced and incorporated in August 2004 into its "Guide to OTC Documents". Together with the annex, ICMA also published, for information purposes, the supplementary legal opinion obtained by AFMA from Australian counsel supporting the updated annex.

5. EONIA Swap Index Project

Mr. Krämer, Deutsche Bank AG, gives a slide presentation on the EONIA swap index project.

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

6. Repo trade matching

Mr. Davies, Goldman Sachs, gives a slide presentation on repo trade matching.

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

7. Greek issues

In the absence of Mr. Markouizos, the chairman informs the council that in April of this year he and Mr. Markouizos wrote to the Bank of Greece regarding the issue of settlement in the Greek government bond market. It had been a matter of gradually mounting concern for the ERC council that the Greek regime causes certain inefficiencies to arise. In the letter, the chairman and Mr. Markouizos pointed out that these inefficiencies stem from the issue of the inability of a transaction to "fail" and the implied heavy "penalty" rates that arise from the forced auction process at the end of the daily settlement cycle. They expressed their belief that this situation, although perhaps not often arising, is of some concern to market

participants and is causing a reduction in liquidity in the Greek government bond market. Against this background, they invited two representatives of the Bank of Greece to attend the May 12, 2005 ERC committee meeting to discuss this issue.

At that meeting, a representative of the Bank of Greece explained that the forced auction process was introduced by the Bank of Greece at the request of the Greek primary dealers association. In addition, he confirmed the Bank of Greece's willingness to support the settlement of all transactions in due time, which is why it already grants a grace period of one hour after the expiration of the settlement deadline.

In light of this, Mr. Markouizos approached the Greek primary dealers association with a number of suggestions on how the current situation can be improved. The respective discussions are still ongoing.

The ERC council will be updated in this respect at its next meeting.

8. Tax treatment of long-term repos

Mr. Begonin gives a slide presentation on the tax treatment of long- term repos.

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

9. "Recommendations for a 'Best Practice Guide to Repo Margining'"

Mr. Cia reports that on the basis of the ERC committee's respective proposal the international repo committee recently approved a number of amendments to the wording of the "Recommendations for a 'Best Practice Guide to Repo Margining'" issued by the ERC committee in 2001. The amended recommendations became effective on September 15, 2005. On September 6, 2005, the chairman had provided the entire council membership with a copy of the amended recommendations and briefly explained the amendments made to the previous wording.

Mr. Cia then gives a slide presentation on the amendments made to the "Recommendations for a 'Best Practice Guide to Repo Margining'".

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

The current version of the "Recommendations for a 'Best Practice Guide to Repo Margining'" can be accessed at http://www.icma-group.org/international1/repo0.html.

10. Settlement between the ICSDs and the German CSD

Mr. Cia gives a slide presentation on the issues relating to the settlement of German securities between the ICSDs and the German CSD.
A copy of Mr. Cia's presentation is attached hereto as attachment 7.

Subsequent to his presentation, Mr. Cia adds that at a meeting of an ERC committee delegation, representatives from the ECB, the German Bundesbank, the National Bank of Belgium and the Central Bank of Luxembourg, LCH Clearnet, Clearstream Frankfurt as CSD and Euroclear and Clearstream Luxembourg as the two ICSDs on September 20, 2005, Clearstream Luxembourg announced that from the end of 2005 the settlement of transactions in intra-day borrowing and lending will be exempt from charges. He mentions that Euroclear is expected to make a similar decision by the end of the year. The two ICSDs will inform their participants in due course.

11. Update on the reforms of the Bank of England's operations in the sterling money market

Mr. Wright, Bank of England (BoE), gives a brief update on the reforms of the BoE's operations in the sterling money market as follows:

The main objectives of the reforms are to have a flat money market curve, consistent with the BoE's official policy rate, as well as to provide an efficient and safe framework for the banking system's liquidity management in routine and stressed conditions. The BoE aims to meet these objectives through reserve averaging, where banks hold voluntary reserves, which are remunerated at the BoE's repo rate, as well as standing facilities where banks can borrow from or lend to the central bank in unlimited size at penal rates. As part of the reforms, the size and frequency of the BoE's open market operations will change.

On August 23, 2005 the BoE issued a consultation paper on transitional arrangements for the reformed system. In the reformed world, the BoE will be conducting weekly repo operations with a maturity of one week so that the entire stock of short-term repo lending will rollover each week. In addition, the introduction of reserve accounts will significantly increase the amount of funds that the BoE needs to provide via its open market operations.

The BoE issued a draft paper on the operational and legal framework that the new reformed system will work within. The BoE has asked that front office, back office and legal staff from potential participants review these documents and pass on comments to the BoE as soon as possible. The final version of the documentation will be published later in the year, together with a timetable for submitting applications to participate in the new system.

The BoE expects to launch the new system between March and June 2006, and will narrow that window further as it becomes clear how long various parts of the project will take to complete.

12. Changes to the collateral framework of the European Central Bank

Mr. Mastroeni, Directorate Market Operations, European Central Bank, gives a slide presentation entitled: "Bank loans as eligible collateral in Eurosystem credit operations: a short outline".

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

13. Presentation on the activities of the European Commission's Clearing and Settlement Advisory and Monitoring Expert Group (Cesame)

Mr. Nava, European Commission, Head of unit 2, Financial Markets Infrastructure, DG Internal Market and Services, gives a slide presentation on the activities of the European Commission's Clearing and Settlement Advisory and Monitoring Expert Group.

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

14. Results of ICMA's 9th semi-annual European repo market survey

Mr. Commotto, ICMA Centre, University of Reading, gives a slide presentation on the results of ICMA's 9th semi-annual European repo market survey of June 2005.

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

15. Any other business

The chairman informs the council that the next ICMA/ACI professional repo market course will be held on November 15/16, 2005 in Milan and is sponsored by Banca Intesa. The course is aimed at providing a comprehensive and practical understanding of the repo product and its issues, the European markets and their conventions, operational and legal issues, as well as the regulatory and accounting framework. The brochure for the course can be downloaded at http://www.icma-group.org/content/international1/ICMA_ACI_professional_repo_market_course/milan.html.

16. Next meeting

The next general meeting of the ERC council will be held on March 21, 2006 in Paris and will be hosted by Euroclear.

The exact venue and commencement time will be confirmed in due course.

October 14, 2005
BP/ys

The Chairman:	The Secretary:
Godfried De Vidts	Barbara Pung

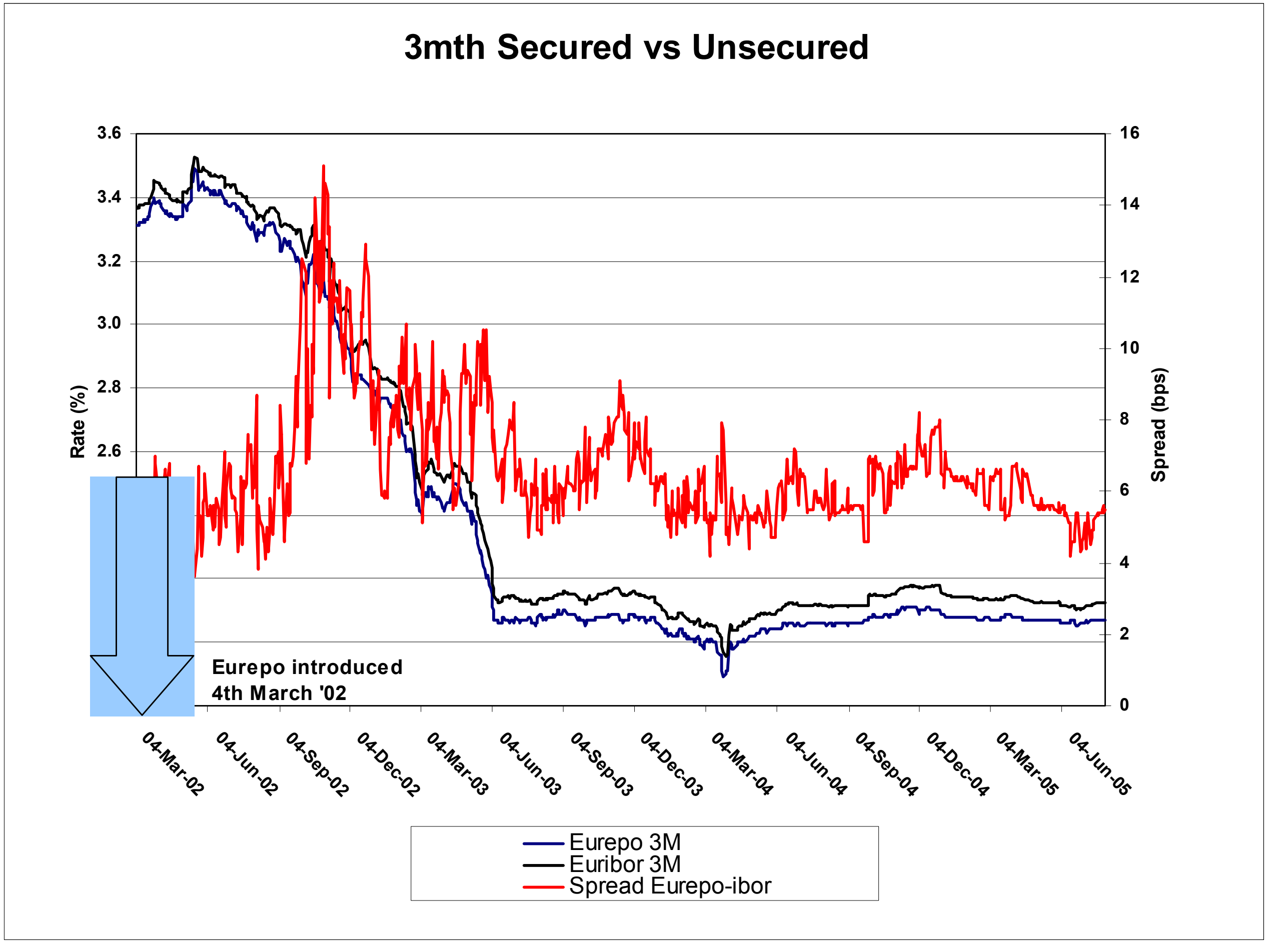
Attachments

European Repo Council
A.G.M.
September 21 , 2005
Luxembourg

Eurepo

"The growing repo market is still somewhat less integrated than the unsecured segment which is fully integrated, but integration progresses. The creation of the EUREPO index - the benchmark for secured money market transactions in the euro area - three years ago was an important market initiative for promoting the repo market's integration. Anecdotal evidence collected via market survey from counterparties active in the repo market suggests that the share of euro area cross-border transactions increased further to around 30% in December 2004."
(ECB's President Trichet, New York, 19 April 2005).

Euribor / Eurepo



Recent market events/issues

- ERC elections
- CCP discussions in Europe – ERC focus on new product developments
- Conference "Issues related to Central Counterparty Clearing" FFT April 3-4 2006 : ERC contribution
- Hedge repo – study around use of CDS as collateral
- Exemption from Tax for Cross-Border repo in Japan – request for renewal by J. Banking Association
- Markit : discussed price discovery for ABS/MBS
- Monte Titoli : continuous discussions
- SIS SegaInterSettle : discussions re DVD
- ERC/ACI/ECSDA meeting re bank loans

Recent market events/issues

- SLRC : discuss ESCB/CESR Standards Cl&Settl
- Standard Market Documentation – 2nd meeting in FFT
- Meeting with EU Commission regarding Cl & Settl in view of repo settlement.
- Change of Federal Reserve Bank's fund rate: in case of open rate when applicable. Follow market practice T+2 or specify before trading
- Standardisation for triparty repo baskets : no immediate market need
- French fails : trades cannot be cancelled – old issue to be resolved with new regulation 1/1/2006
- Next meeting : March 21 st 2006 – Euroclear France-Paris

Registration : www.icma-group.org

European Repo Council General Meeting, September 21, 2005

Update report on GMRA related matters

European Repo Council General Meeting, September 21, 2005

GMRA

1. Legal opinions obtained / currently being sought jointly by ICMA and TBMA

European Repo Council General Meeting, September 21, 2005

GMRA

1. Legal opinions obtained / currently being sought jointly by ICMA and TBMA

Update legal opinions published on April 6 ,2005

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

European Repo Council General Meeting, September 21, 2005

GMRA

1. Legal opinions obtained / currently being sought jointly by ICMA and TBMA

Update legal opinions published on April 6 ,2005

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 published on April 6, 2005

1. Cyprus
2. Hungary
3. Norway

New legal opinions currently being sought

People's Republic of China

New legal opinions currently being sought

People's Republic of China

2. Legal opinions obtained / currently being sought by ICMA on its own

Update legal opinions published on April 6, 2005

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 currently being sought

People's Republic of China

2. Legal opinions obtained / currently being sought by ICMA on its own

Update legal opinions published on April 6, 2005

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 published on April 6, 2005

1. Estonia	
2. Latvia	
3. Lithuania	
4. Malta	

New opinions currently being sought

1. Brazil	6. Scotland
2. Guernsey	7. Slovenia
3. Jersey	8. South Korea
4. Mexico	9. Taiwan
5. The Philippines	

New opinions currently being sought

1. Brazil 2. Guernsey 3. Jersey 4. Mexico 5. The Philippines	6. Scotland 7. Slovenia 8. South Korea 9. Taiwan

3. Jurisdictions where the enforceability of the GMRA is currently being reviewed

1. Croatia
2. Malaysia
3. Romania

ACI
The Financial Markets Association

Attachment 3

ERC general meeting, 21.9.2005

EONIA SWAP INDEX
Reason & Opportunities

Achim Kraemer, Deutsche Bank AG
Chairman Euribor-ACI Derivatives Group

Luxembourg, 21.Sep.2005

Agenda

1	**Reason for creating a derivative reference rate**
2	**Specification EONIA SWAP INDEX**
3	**Website www.eoniaswap.org**
4	**Opportunities & new products**
5	**Spread observations**
6	**Outlook**

Reason for an EONIA SWAP Index

EONIA SWAP Market

- Rising volumes
- Increasing importance for interest rate risk management and proprietary trading
- Development to a benchmark market

Need for a benchmark

- Completes the range of money market benchmarks Euribor (unsecured) and Eurepo (secured) from a derivative perspective
- Provides a spread definition to those markets

Product development

- Promotes the development of new products

Official reference rate

- Can be used as a valuation tool and for market conformity checks

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

Website „www.eoniaswap.org“

Opportunities & New Products

Reference rate for long term swaps

- May serve ideally as reset rate for certain client segments (esp. EONIA Swap Index1m/3m/6month)
- Simplifies back office maintenance significantly
- Reduces costs trading long term OIS
- Revival of the very active French TAM market likely

Opportunities & New Products

Eonia Index FRA

- Forward Rate Agreement fixing against the EONIA SWAP Index
- Cash settled at the fixing date
- Smart enhancement of Forward EONIA Swaps for propietary traders to avoid daily ON fixing risk
- Shorter expiry of counterparty risk
- Lower backoffice costs

Opportunities & New Products

Creating and adding volume to basis swap markets

- Long term basis swap market already active in 1m / 3m /6 month basis swaps
- Basis swap market Eonia vs 1/3 or 6 month only active up to 2 years currently
- Expansion of basis swap market with rising volumes in long term IRS vs EONIA Swap Index highly likely

Opportunities & New Products

Eonia Index OTC Option

- Development of OTC option market vs EONIA SWAP INDEX thinkable
- Ideal reference to position for potential changes in ECB rates (e.g. 1M EONIA Swap Index at the ECB-meeting date)
- Development of current short term OTC option market versus EONIA lagging because of missing reference rate

Opportunities & New Products

Controlling Tool

Valuation basis for EONIA Swaps

- Creating an official revaluation curve for EONIA Swaps
- requirement for certain client groups to trade a product

Providing accepted official data for market conformity checks

Opportunities & New Products

Benchmarking Tool

Benchmark for derivative markets

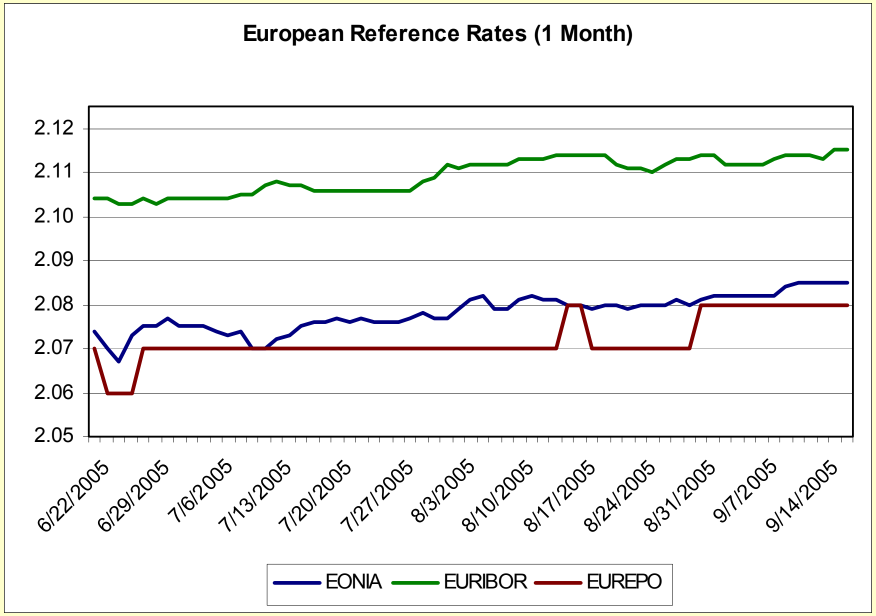
- Fixes a recognized rate for a key product in short term markets
- Sets an official reference to trade a product actively over all client segments
- Supports new product approval processes ideally

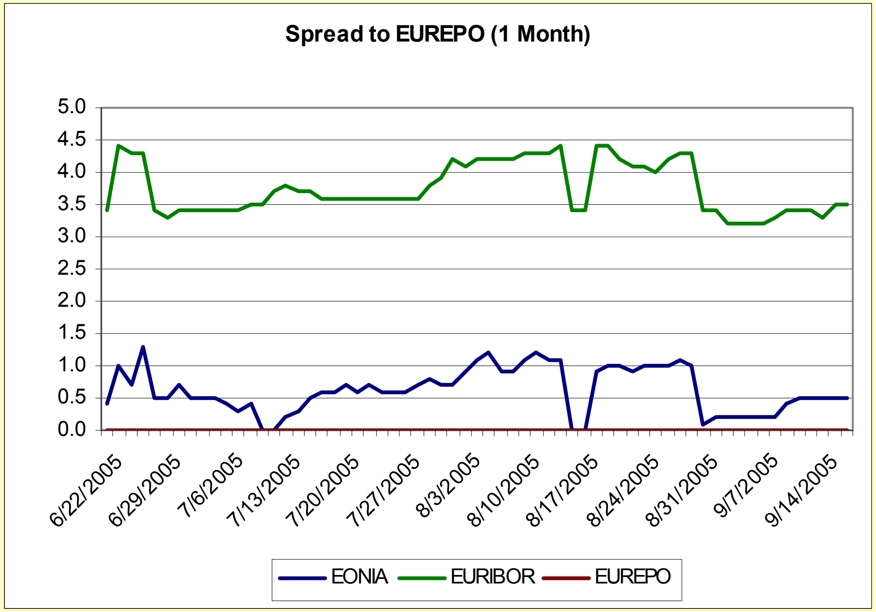
Creating spread definitions vs. EURIBOR and EUREPO indices

- Provides basis for detailed short term market analysis

Spread Chart Reference Rates

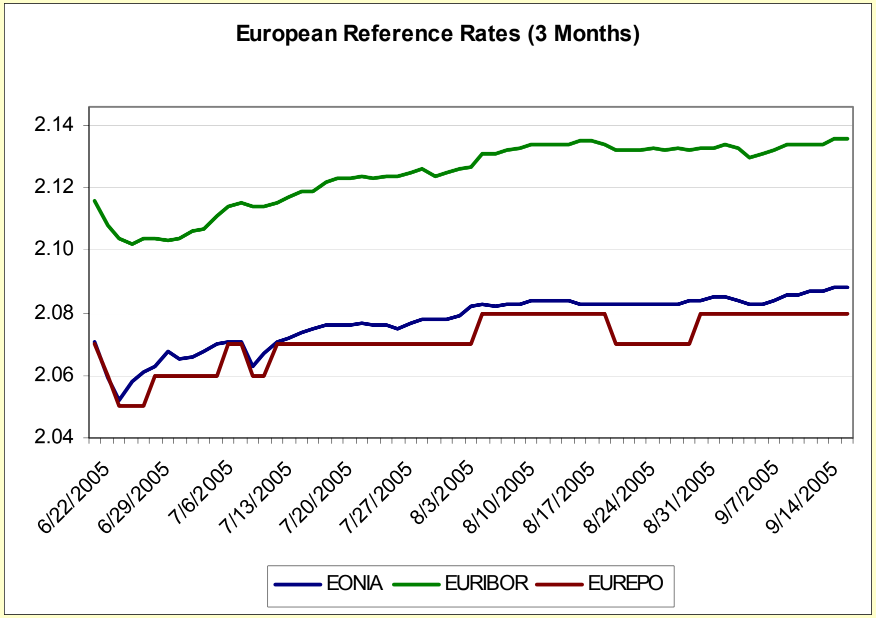
Comparison (1 month)

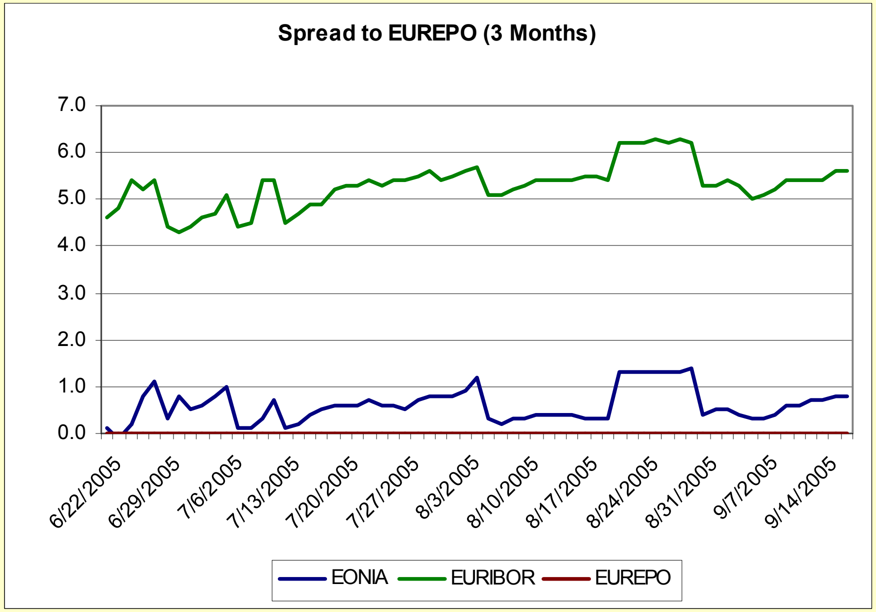




Spread Chart Reference Rates

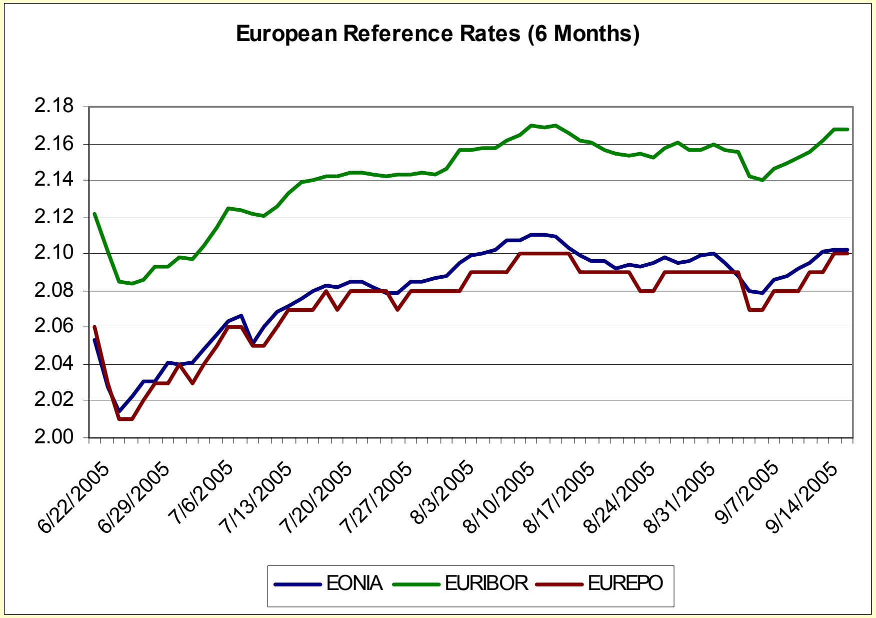
Comparison (3 month)

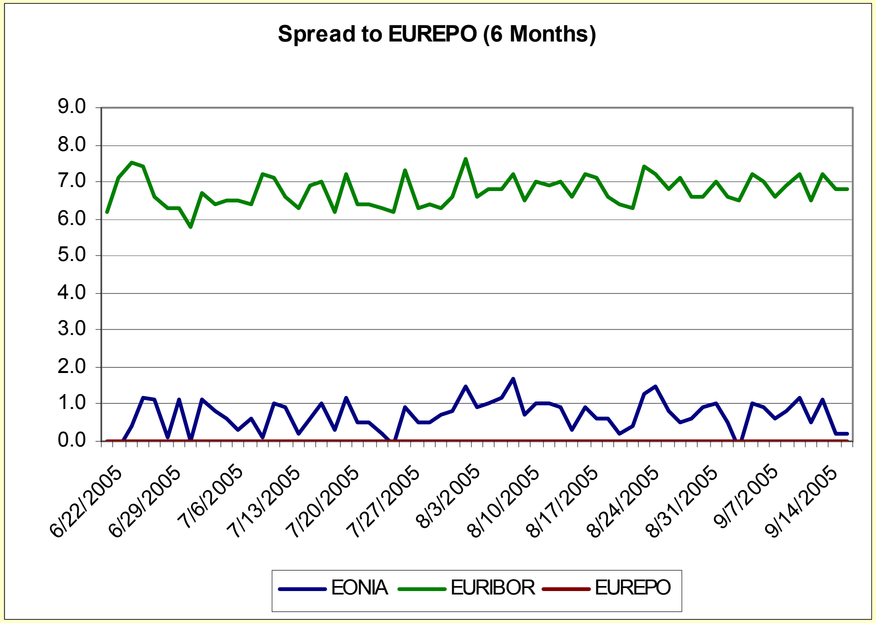




Spread Chart Reference Rates

Comparison (6 months)





Outlook EONIA SWAP INDEX

- Expansion of maturities up to 2 years possible
- Appendix to the ISDA Documentation framework
- New product development after index has proven to be reliable
- Index opens the door for new client groups for EONIA Swap trading

Attachment 4

ERC general meeting 21.9.2005

Implementing Repo Trade Matching

Association of Foreign Banks

Presentation to European Repo Council

Phil Davies

Wednesday 21st September, Luxembourg

Reasons for selecting ICMA TRAX

Most complete of the solutions we considered:

- **Complete re-engineering of current system (matching at trade level, not as two separate legs)**
- **ICMA working with industry Operations managers to help design the workflow dealer firms want**
- **50% fee reduction**
  - £0.50 per trade from £1.00 today for largest users
  - £0.75 per trade from £1.50 today for users matching/reporting < 2,000 per month
- **Implementation of STP instruction feed in 2006**
- **Will facilitate automation of peripheral processes (e.g. coupon compensation; pair off processing)**

For firms outside the ICMA world today the basic TRAX infrastructure becomes more accessible at the same time - there are 4 significant changes which reduce barriers to entry:

- we will send fairly standards messages (like SWIFT messages) rather than bespoke today – 15022 formats (or can use 20022 XML)
- messages will be sent over IP links (even over the internet if firms choose) whereas today you have to have a dedicated leased line
- browser GUI (no local IT 'installation' required) whereas today you have to have an application installed internally
- lower up-front fee for new users connecting over internet - £2,000 p.a. up front cost (as opposed to £4,000 usually)

How the process will work

OTC trade executed between two firms (ICMA members, or non-member using TRAX)

- Each firm sends trade details to TRAX
- Each firm manages unmatched trades in TRAX GUI
- Matched details retrieved from TRAX – electronic record of ‘trade’ match including forward leg details (with complete settlement instruction details)
- Both firms can suppress confirm because trade is matched electronically
- Firms send instruction to depositories/agent banks (phase 1). Phase 2 – ICMA send instructions
- ‘Post trade actions’ (e.g. rate rolls) confirmed and matched in TRAX

Advantages of new process

Phase 1

- Reduced operational and financial risk as all trade details electronically matched on trade date
- Elimination of fax and hard copy confirmations
- Reduced work to match close outs of open trades (as rate history will be matched during life of trade)

Phase 2

- Reduced manual work in settlements chasing unmatched instructions (both sides can be sent by ICMA)
- Leverage 'automatic coupon compensation' where available at CSD level
- Systematically pair off instructions where possible to reduce settlement volume

Goldman Sachs

Next Steps

- Obtain broad support from ERC members
- Continue working with ICMA through to implementation of phase 1 in November 2005 for pilot dealers
- Work with ICMA to develop phase 2 (STP instruction feed) to be implemented during 2006
- Build critical mass of firms utilising TRAX for trade matching

- Continue to work with SWIFT to standardise client affirmation/ allocation message formats for FIX automation

If interested in understanding more please contact:

Phil Davies

Goldman Sachs International

+44 (0)20 7774 2921

philip.davies@gs.com

Goldman Sachs

Appendix - Current Process

Dealer to Dealer:

- Some firms match trades in ISMA TRAX (trade date)
- Start leg is matched in depositories for settlement purposes (start date - 1)
- End leg is matched in depositories for settlement purposes (end date - 1)
- Booking errors often identified 1 day prior to end date

Dealer to Client:

- Trade is confirmed verbally and by fax on trade date
- Start leg is matched in depositories for settlement purposes (start date - 1)
- End leg is matched in depositories for settlement purposes (end date - 1)
- Booking errors sometimes identified on trade date, or prior to end date

Appendix - Future Process – Goals

Dealer to Dealer:

- Match all trade details on trade date (no need for subsequent corrections)
- Match most post-trade actions (e.g. rate rolls) on date agreed
- Instructions at depository level submitted as ‘matched’ by matching utility to reduce manual effort
- Make use of automatic coupon compensation at depositories where this is available
- Booking errors identified on trade date

Dealer to Client:

- Trade is confirmed and matched electronically on trade date
- Both legs will still have to be matched at depository
- Discuss with wider community whether coupon compensation functionality can be used
- Booking errors identified on trade date

Attachment 5

ERC general meeting, 21.9.2005

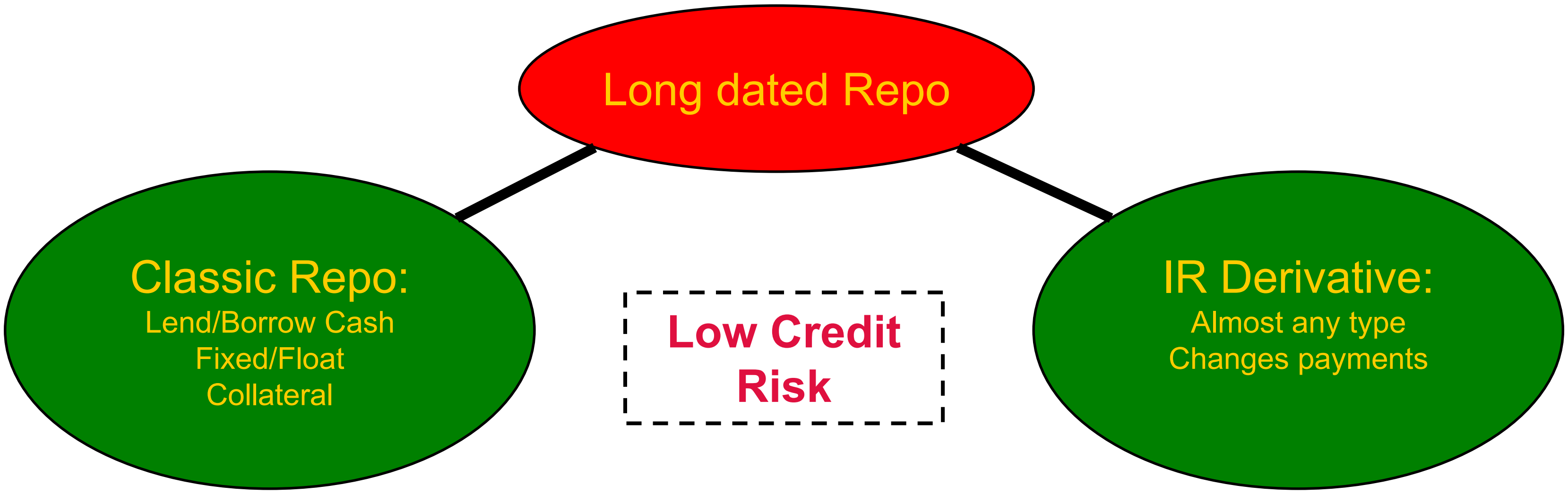
Long dated Repos – Tax issues ?

Luxembourg | Sep 2005

ICMA European Repo Council General Meeting

CREDIT SUISSE | FIRST BOSTON

Why use Longer Dated Repos ?

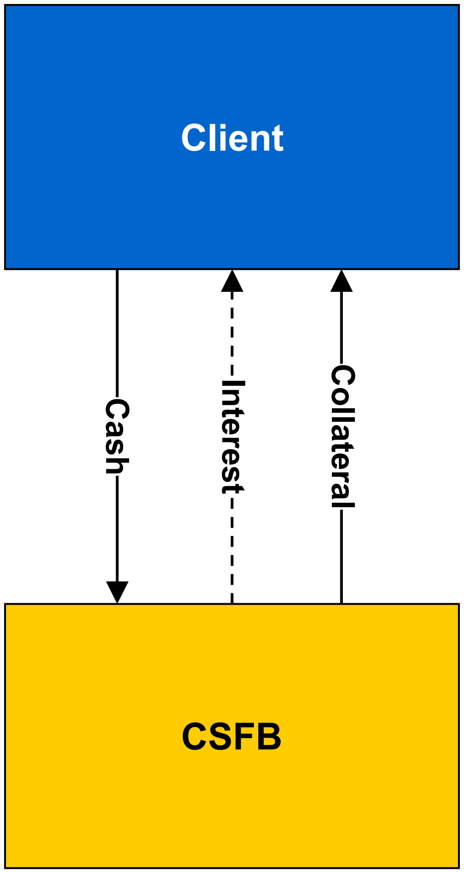


Use mechanics of Repo to Create :

Asset	Liability
▸ Synthetic asset with enhanced yield (low credit risk) ▸ Structured yield-expression of market view. ▸ Alternative to structured notes (MTN's, etc.) ▸ Accounting friendly instrument	▸ Raise funding cheaply on existing assets ▸ Active management of portfolio/alternative to securities lending ▸ Accounting friendly instrument

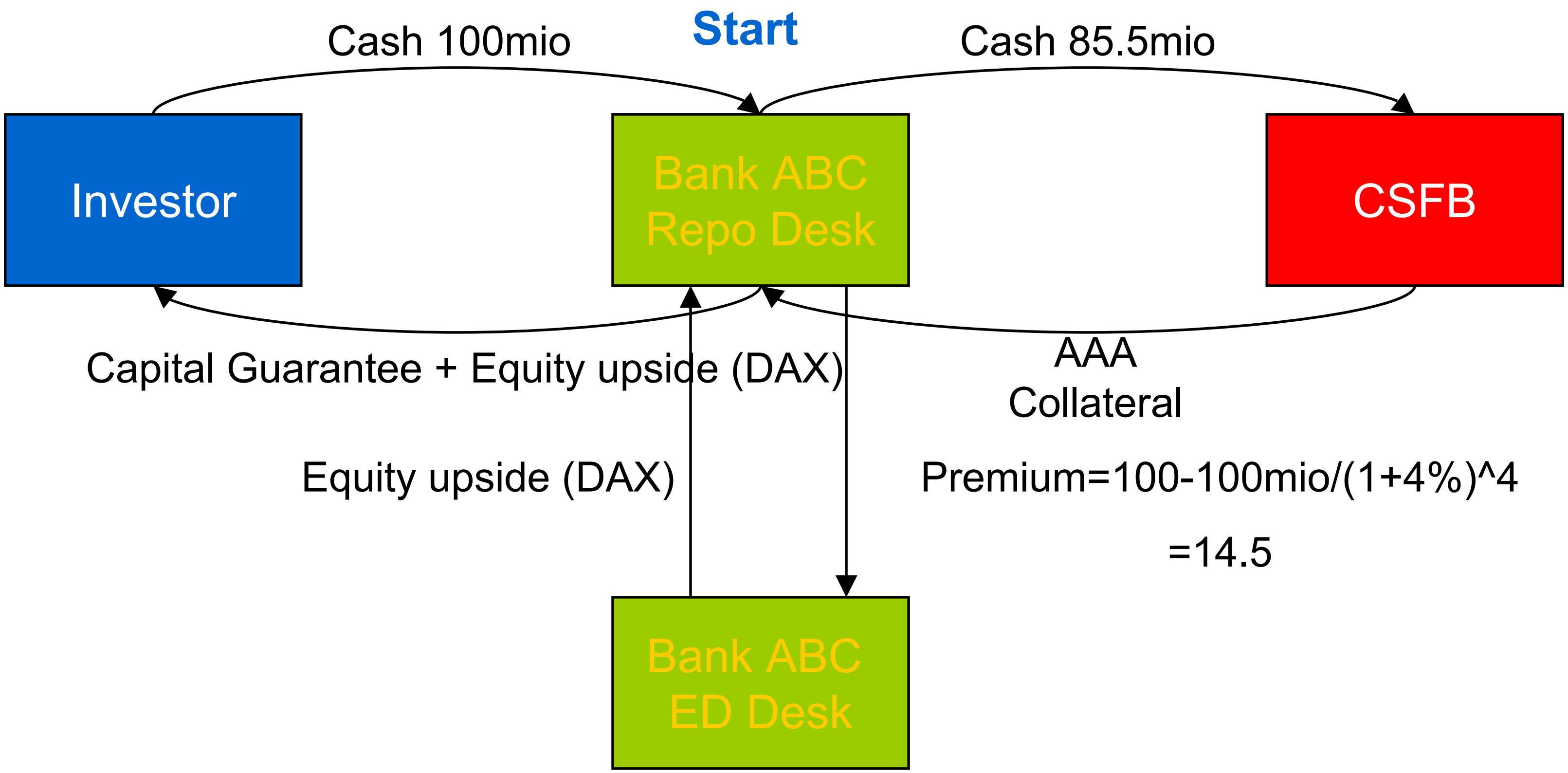
Classic Repo – an alternative asset

- One counterpart provides cash against collateral and receives interest
- Interest can be fixed for the term or floating
- Interest paid at maturity
- Maturity normally less than 1yr
- Covered by standard agreements (ISMA,GMRA,PSA)
- Liquid market, very efficient
- Longer dated Repos can be used by a cash investor as an alternative to a traditional cash security
- Holders of bonds can raise cash for alternative investments



The Classic Repo can be viewed as a purchase of securities

Capital guaranteed products.



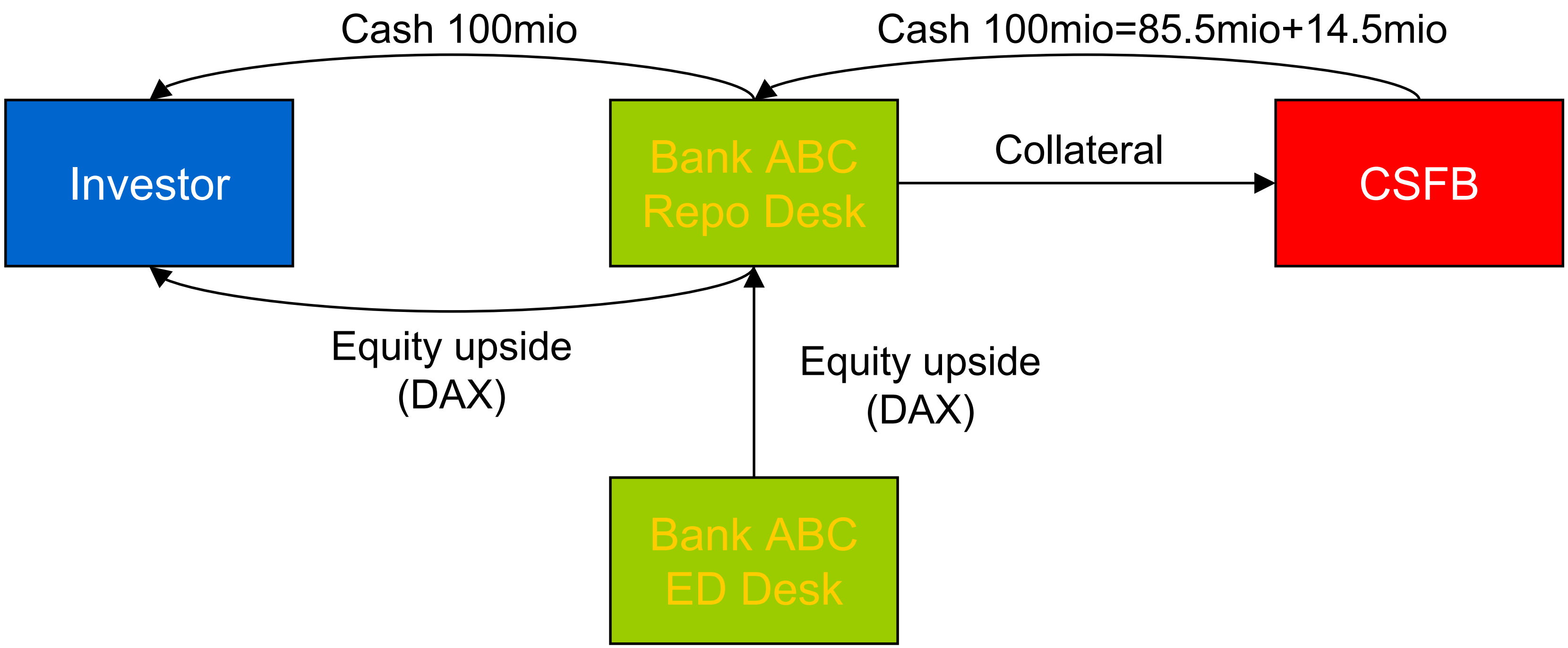
Repo desk ABC invest 85.5 of the cash in a Repo on AAA rated government bonds (Zero coupon, so will return 100 with coupon of 4% p.a)

Difference of 14.5 used for buying Call option on DAX.

Capital guaranteed products.

Maturity/year 4

Investor receives the invested capital and Bank ABC pays upside on Equities. The Equity Derivative is paid for by the interest from the Repo. The Capital guarantee is possible as ABC invests in the Repo market and is holding collateral against the cash.



Bank ABC receives 100mio cash from CSFB consisting 85.5mio cash return and 14.5 mio repo interest

The ED Desk will pay upside on DAX index to the Repo desk if the option pays out.

The Repo Desk will pay the Investor the invested capital 100mio and the payout from the equity option

Example – Repo an alternative Zero Coupon

CREDIT SUISSE | FIRST BOSTON

Developed Market Rates

Telephone +44 (0) 20 7888 6583
Fax +44 (0) 20 7905 6439

Fixed Rate Repo

Indicative Terms and Conditions

Buyer:	Bank ABC
Seller:	CSFB Europe Limited
Trade date:	27 September 2005.
Purchase price:	GBP 100,000,000
Purchase Date:	1 October 2005
Repurchase Date:	1 October 2009
Repo Rate:	4.00% p.a equivalent
Basis:	Act/ 365.
Business Days:	London, Target.
Collateral:	[EUR denominated Government bond issued by members of the EU]
Documentation:	Signed [GMRA] and sideletter pertaining to this Repo transaction.
Settlement:	Euroclear or Clearstream
Replacement value:	Cost of replacing this transactions as calculated in good faith by CSFB Europe Ltd in accordance with the signed GMRA and annex between the client and CSFB Europe Ltd.
Margining:	CSFB Europe Ltd will in good faith calculate margin to cover replacement value on a daily basis. All variation margin is done under the signed GMRA

Capital Guaranteed products requires a Zero Coupon Instrument and Repos of longer dates have been used to supply this part of the package. The invested capital is collateralised and one interest payment is paid.

Investor has the a secure form of investment as the credit exposure is only on the the embedded Equity Derivative.

Investor pays banks ABC EUR10mio, and receives upside on DAX in years. The cash is invested in a 4 year Repo by bank ABC.

Benefits and potential issues

Benefits	Potential Issues
•Accounting – Accrual in IAS39 framework •Long term funding or Asset with simple exposure •Credit effective transaction. •Easily managed when given substitution right	•Mark to market of exposure – But Interest component of forward starting Transactions can be Margined under GMRA “Forward Exposure” •**Tax Implications** •Eurepo fix only to 1year •Balance sheet Intensive

Repos and Tax, general considerations

Manufactured payments

• Issue not related to the duration of the repo transaction (a 1 week repo over a coupon payment has potential tax implications)

• **Paragraph 5 of the GMRA agreement clearly states that where a transaction spans over a coupon date, the "Buyer" shall transfer to the account of the "Seller" an amount equal to the amount paid by the Issuer. Para 5 goes on to say that for the avoidance of doubt references in this paragraph to the amount of any income paid by the issuer of any Securities shall be to an amount paid without any withholding tax (i.e. gross amount) notwithstanding that a payment may be subject to such a withholding.**

•*Tax Risk is on the “buyer” of securities in the repo*

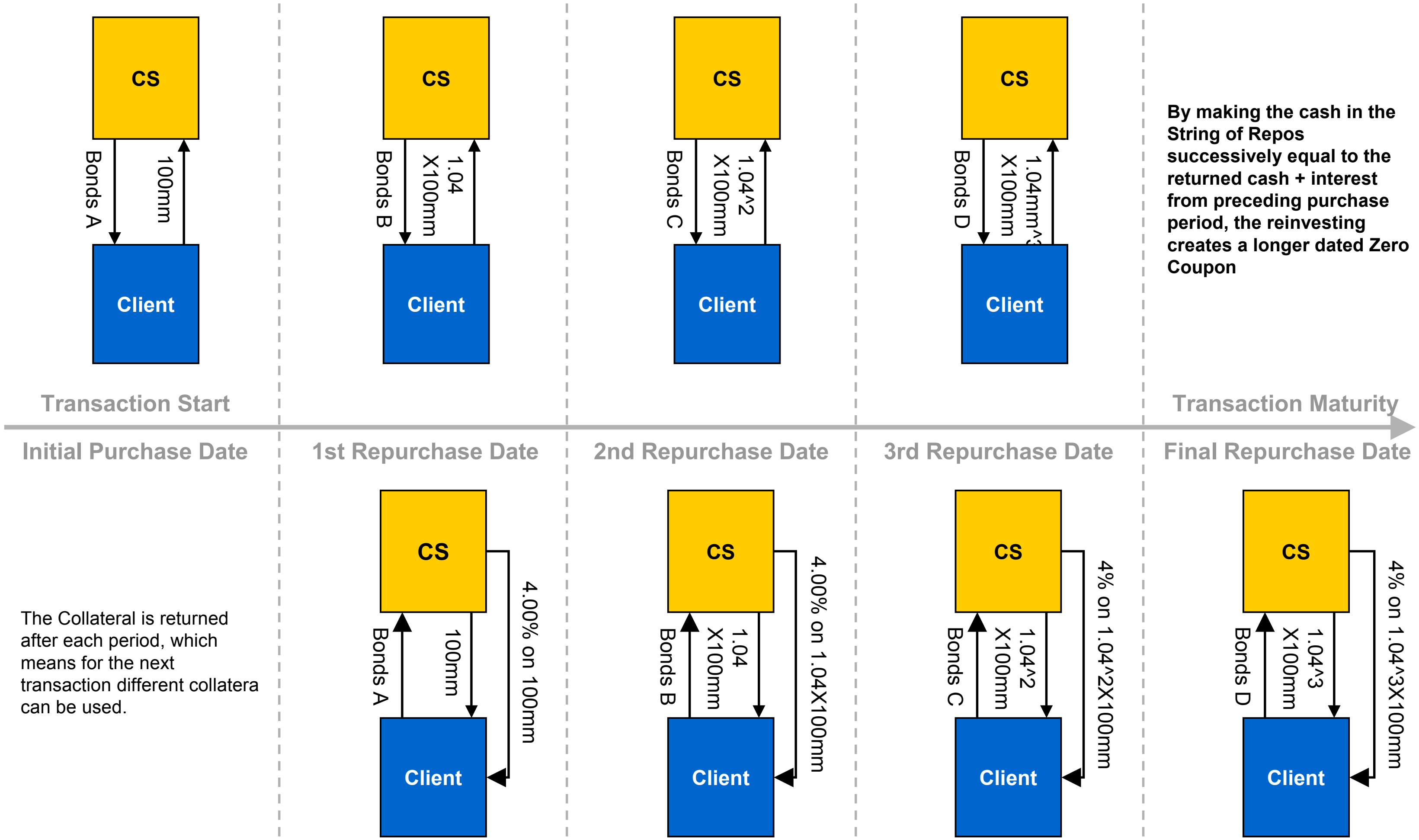
Interests or price differentials

•In certain jurisdictions, the interest paid on a loan/repo transactions between certain counterparties could be liable to withholding tax payment if for a transaction of more than 365 days.

•For that reason many transactions for more than 365 days get booked as a string of forward starting zero coupon trades.

•*Tax Risk is on the seller of “securities” in the repo*

4year Zero Coupon Synthetically



Cash Amount A returned at every period

CREDIT SUISSE | FIRST BOSTON

UK overview, CSFB opinon

UK tax treatment of long dated repos

Manufactured payments

•On 6 Nov 1996 (Statutory Instrument 1996\2643) the UK legislation was changed such that "manufactured payments" in respec of "overseas securities" could be paid gross. Accordingly, from this date any manufactured payments in respect of "overseas securities", "gilts", and most "listed" UK securities could be paid **gross** and were no longer subject to UK withholding tax.

Price differential

•The price differential on repos may be deemed to be "interest" for UK tax purposes. Accordingly, where a repo has a term of more than a year, the "deemed" interest is potentially "annual" interest and subject to UK withholding tax.

•There are certain exemptions not to withhold UK income on annual interest. In 2002 the "exemptions" were extended. Accordingly, the following "annual" interest can now be paid gross:

- –Deemed interest paid by any Bank (as defined in Section 840A) in the ordinary course of its business (Section 349(3)(b)
- –Deemed interest paid by a "FSMA 2000" entity in the ordinary course of their business (Section 349(3)(i)). A FSMA 200 entity is an entity who is authorised for the purposes of the Financial Services and Markets Act 2000 and whose busines consists wholly or mainly of dealing in financial instruments as principal (e.g. most broker\dealers);
- –Deemed interest paid by a recognised clearing house or exchange on contracts made by that person as provider of central counterparty clearing service (Section 349(3)(k)); and
- –Deemed interest paid between UK corporate counter parties (Section 349A).

•In addition, deemed interest repo paid by UK corporates (which are not Banks or FSMA 2000 entities) to overseas counterparts may be paid gross in accordance with the terms of the relevant Double Tax treaty. (However, obtaining such treaty clearance ca be administratively burdensome).

Europe overview (1)

	Opinion by	General Rule
France	BNP Paribas	– treatment of the interest on the repo paid: there is a risk of an application of a 15% withholding tax provided by section 125 A III of the French Tax Code when interest is paid by a French debtor to a non resident. -treatment of the Manufactured Overseas Dividend received: if a withholding tax is applicable on the MOD, a corresponding tax credit will be available if provided by a Double tax treaty.
Belgium	Fortis	1. WHT on the coupon of the underlying collateral. This depends on the fiscal regime in the country in which the collateral is issued. For Belgian bonds in the X/N clearing system of the National Bank of Belgium there is no problem. For Belgian bonds outside the X/N clearing system of the National Bank of Belgium and which are with the repo buyer on the payment date of the coupon, the situation is more complex. The repo buyer needs to prove the "permanent nominativity" during the entire interest period to be free of WHT.
		2. WHT on the manufactured coupon. In the event of payment by a Belgian bank, in most cases no WHT on the condition of a tax certification , i.e. no WHT for foreign securities in Belgian custody, foreign counterparts established in a country with whom Belgium has a tax treaty, a Belgian corporate counterpart and Belgian branch of a foreign corporate.
		3. WHT on the price differential. In most cases no WHT when the price differential is to be paid by a bank. There is no limitation to 1 year. "

Europe Overview (2)

	Opinion by	General Rule
Spain	Caja Madrid	In the Spanish tax law, There is not any difference in the tax treatment for corporates and financial institutions between the classic repo, the buy sell back, in the term. It doesn't matter if is a 3 month or a 3 year repo. Both are without withholding tax if the corporate or financial institution is European, in the case of EEUU and Canada, could be with withholding tax.
Italy	Banca Intesa	In Italy there is no difference , under the fiscal point of view, whether the repo lasts less or more than 365 days. Tax treatment, similar to the Belgium case, depends on the quality of the counterparty, country of location, and type of collateral, but, again, no distinction about the length of the trade.

General conclusion

- Tax considerations should not prevent the growth of a long dated repo market among European banks.
- Tax considerations are more complex for some European corporate clients or non EU financial institutions.
- Some Brokers/intermediaries are very keen to promote the growth of this market, more details available from Danny Corrigan at ICAP.
- Some market participants might be reluctant to get involved in longer dated transactions when the framework of Basel II for repos is still opaque to many.
- Absence of a CCP makes the management of the Credit exposure difficult.
- A more liquid, efficient market would compress margins…..

Update on the Recommondations to a ‘Best Practice Guide to Repo Margining’ of the ERC

Eduard Cia
Head of Short Term Interest Rate Desk
HVB Corporates & Markets

CORPORATES & MARKETS

What is the Goal of the Recommendations and what are the Key Points

- The recommendations are based on a working paper from the German ACI repo committee which was drawn in 1999/2000.
- The goal was to give a guide to the repo market how margining should be done as there have been a lot of misunderstandings between repo participants of how the margining should be done.
- The ERC reworked and adopted the document in 2001.
- The goal of these recommendations is to give a **best** practice guide to repo margining. This means that we are aware of the fact that market participants may not be able to scope with some of the recommendations but as the headline is stating it is a best practice guide.
- ***We, the ERC, have the opinion that however margining is done it is always better to do repo margining than not to do it or to exclude it even if some points of the recommendations can not be met due to internal or even external restrictions***.
- The most important issues of these recommendations are:
  - Value date of margin call
  - Which trades are part of margining
  - How is the calculation method

What has been Amended ?

- The ERC amended the document in August 2005.
- Main changes:
  - value date of margining in securities from a two day period to same day period where possible
  - Inclusion of repricing
- The recommendations are a living document which means whenever the ERC sees the necessity to amend it we will do so. So feel free to contact the ERC whenever you think that this document should be amended but remember always the headline of the document - it is a best practice guide -.

Discussion Relating to the Settlement of German Securities Between Euroclear and Clearstream

Eduard Cia
Head of Short Term Interest Rate Desk
HVB Corporates & Markets

What is the Problem About? - Past and Present - What is the Goal of the ERC

- Ongoing settlement problems since the early nineties of German securities between the two ICSD's (Euroclear and Clearstream Lux) and the German CSD (Clearstream Frankfurt) as the settlement of German securities can be done in three different locations.
- The problems of the interoperability culminated in 2001 when Clearstream Frankfurt and Clearstream Luxembourg made same day settlement mandatory and there was no same day bridge between Clearstream Luxembourg and Euroclear. Therefore same day settlement was not mandatory within Euroclear. The ERC started the first meetings with the ICSD's, the CSD, the responsible central banks and the ECB. It was agreed and common sense that once the same day bridge between the ICSD's is implemented and same day settlement within Euroclear is mandatory the problems should disappear.
- Since November 2003 this goal was achieved and we saw several changes within the involved security depositaries which all should help to avoid any greater settlement problems. Still the repo market faced the problem of intraday borrowing charges, especially for the ICSD participants. The outcome was that some counterparties which are settling within an ICSD were still refusing to trade with counterparties settling within the CSD.

What is the Problem About? - Past and Present - What is the Goal of the ERC

- As ERC we wanted to recommend all repo participants to step out of the automatic intraday borrowing programs at the depositaries as there was no logical reason to do intraday borrowing in a mandatory same day settlement environment.
- The reaction was that the infrastructure providers stressed not to do so as then the settlement efficiency would deteriorate even further. So the ERC called for a meeting with the ICSDs, the CSD, the relevant central banks and the ECB on the 7th of July 2005 in Frankfurt hosted by the ECB.
- Just to mention and keep in mind is that we as ERC want that there is a level playing field for all repo participants regardless where they are settling German securities. For us it is not acceptable that repo participants are forced to change their settlement locations due to interoperability problems between the ICSDs and the CSD.

First Meeting with ICSD's, CSD, Central Banks and ECB on 7th of July - Outcome

- It was recognized that there might be an issue related to the level of activities of LCH.Clearnet as the biggest central counterparty within the repo market. It was agreed that Euroclear and Clearstream will analyse together with LCH.Clearnet these problems.
- Euroclear was asked to investigate with CBF (Clearstream Frankfurt) whether they could be set up as sub-account within CBF so they could benefit from a kind of netting within CBF as it was recognized at the meeting that a lot of transactions are traded within a chain which means that if there is no netting facility overnight or intraday borrowing will be needed as somebody has to start the settlement process.
- We as ERC recommend to all participants in the repo market to put in the settlement instructions as soon as possible whether on bilateral transactions or transactions through a CCP and do not wait until you received the securities as this behavior causes major problems within the interoperability within the ICSDs and the CSD.

First Meeting with ICSD's, CSD, Central Banks and ECB on 7th of July - Outcome

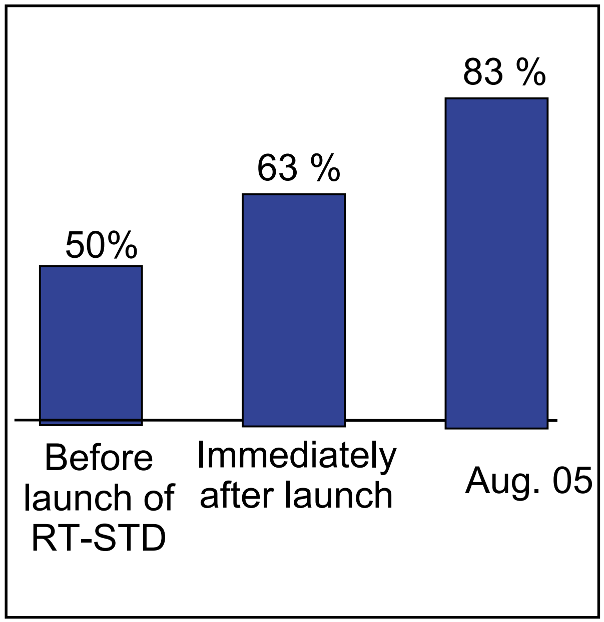
- The ERC recommends also to its members to continue to support the borrowing programs at least until the end of 2005. We also stress to all participants in the repo market to accept day-time deliveries irrespective of the location of the (I)CSD.
- Both ICSDs were asked to investigate the possibility to extend free intraday borrowing.
- We all agreed on a follow up meeting on September 20th.

Second Meeting with ICSD's, CSD, LCH.Clearnet, Central Banks and ECB on the 20th of September - Outcome

- There were several meetings between the different stakeholders resulting in:
  - Increased settlement efficiency in the night time
  - Decrease in intraday borrowing fees
  - Various follow up actions

Share of ICSD volume settled during CBF night time settlement

Share of ICSD volume settled during CBF night time settlement



Second Meeting with ICSD's, CSD, LCH.Clearnet, Central Banks and ECB on the 20th of September - Outcome

- Looking at overall activity in German debt securities (CBF & EB), the added value of sub-account is remote. Therefore, we recommend not to pursue this solution today. This position will however be regularly reviewed

- Additional transmission during the extended SDS1 is preferable (and technically possible), but issues linked to lack of finality need to be solved first. Request for central banks for possible solution.

- Encouraging the most effective customer behavior which is not under the control of the involved infrastructure providers

  Early input & matching

  Quick turnaround capability

  Prompt realignments, etc.…

Recommendation of Euroclear, Clearstream and LCH.Clearnet to European Repo Council

1. LCH.Clearnet have implemented the new arrangement tested with its agent bank and will monitor it to ensure that the current settlement efficiency at night-time stays in place. On the current basis, no supplementary costs will be recovered from RepoClear members
2. (I)CSD to continue to enhance settlement efficiency during the night
3. Market Committee (e.g. European Repo Council, Advisory Board, German Banking Association) to enforce best practises in terms of customer behaviour
4. ICSDs to further investigate free intra-day borrowing
5. ERC Members to remain in ICSDs lending program to support interoperability

EUROPEAN CENTRAL BANK

Attachment 8

ERC General meeting, 21.9.2005

Bank loans as eligible collateral in Eurosystem credit operations: a short outline

Euro Repo Council
Luxembourg, 21 September 2005

The purpose of this presentation

- Preliminary information on the framework currently being devised
- To assist preparations of counterparties
- Caveat: general framework approved by ECB decision-making bodies but further details to be communicated in due course

Implementation dates

European Central Bank approved the framework for accepting non-marketable assets as collateral:

- Bank loans eligible from 1 January 2007
- Between 1 January 2007 and 31 December 2011 an "intermediate" regime
  - During this period each Eurosystem national central bank defines its minimum bank loan size
- From 1 January 2012, a "unified" regime
  - Minimum size: €500,000 across the euro area

Bank loans as a Special Assets Category

Bank loans framework a bit different from securities:

- "bilateral" type of legal regime
- public rating rarely available
- depositaries, registries rarely available

- specific eligibility criteria;
- specific credit risk assessment
- specific handling solutions

Eligibility criteria and conditions

Legal instrument	Debt obligations
Eligible debtors	Non-financial firms + government
Minimum size of loans	Euro 500,000 after 2012
Creditworthiness of the debtor	“Financially sound”
Currency of denomination	Euro
Maturity	No minimum or maximum
Governing law of agreement	Law of a Euro Area Member State
Location of the debtor/guarantor	Euro Area Member State
Additional legal requirements	Existence/Notification/Other aspects

ECAF and other credit risk assessment issues (1)

•Common Eurosystem Credit Assessment Framework (ECAF) from 1 January 2007
•Required for assessing the credit standards of eligible collateral

•Four credit quality assessment sources:
a) ECAI: External credit assessment institutions
b) ICAS: National Central Bank internal credit assessment systems
c) Counterparty internal ratings based (IRB) systems
d) Rating tools (RT) operated by third-party providers

•Credit sources must ensure <u>accuracy</u>, <u>consistency</u>, <u>comparability</u>
•Eurosystem monitors performance of different credit

ECAF and other credit risk assessment issues (II)

The Eurosystem will make public:
• the credit quality threshold used
• the performance benchmark
• the list of ECAI/ RTs and their operators

Each counterparty will:
• specify the credit quality assessment source used for an asset/debtor
• will stick to this source for a pre-determined period of time (e.g. one year)

ECAF and other credit risk assessment issues (III)

- Each counterparty using ICAS (where available) or RT will submit list of debtors in their portfolios

- Counterparties using IRB systems will submit debtors passing the minimum credit quality threshold

- Counterparties using ECAI will submit debtors higher than the minimum credit quality threshold

Handling solutions and costs/fees

- Decentralised approach to the handling of bank loans
- Minimum harmonised level of service ensured
- Solutions available for cross border use of bank loans (the CCBM arrangement)
- Any costs for credit assessments to be borne by counterparties
- Under investigation: applying a fee ? (to recover external/internal costs of handling of bank loans)

Reasons for not favouring the portfolio approach (I)

- Fact finding exercise conducted by the Eurosystem on the possibility of using “portfolios” of bank loans
- Believed advantages:
  - wider set of eligible bank loans
  - increased efficiency of credit assessment and handling of bank loans (both for the counterparties and the Eurosystem)

Reasons for not favouring the portfolio approach (II)

- In fact: few advantages vis-à-vis individual bank loans and some additional problems
- "Portfolio" is not a legal but only a financial concept
- Delivery, notification and realisation for each and every individual loan continue to be necessary
- Portfolios could include types of bank loans that Eurosystem does not wish to make eligible

Questions & More Information

Thank you for your attention -Questions ?

Further information:

ECB Press Releases:

- *May 2004 (http://www.ecb.int/press/pr/date/2004/html/pr040510.en.html)*
- *Aug 2004 (http://www.ecb.int/press/pr/date/2004/html/pr040805_1.en.html)*
- *May 2005 (http://www.ecb.int/press/pr/date/2005/html/pr050530.en.html)*

ECB Governing Council Public Statements:

- *Feb 2005 (http://www.ecb.int/press/govcdec/otherdec/2005/html/gc050218.en.html)*
- *July 2005 (http://www.ecb.int/press/govcdec/otherdec/2005/html/gc050218.en.html)*

ECB publications:

- *The single monetary policy in Stage Three: General documentation on Eurosystem monetary policy instruments and procedures", April 2004 (http://www.ecb.int/pub/pdf/other/gendoc2004en.pdf)*
- *"The collateral framework of the Eurosystem" ECB Monthly Bulletin, April 2001 (http://www.ecb.int/pub/pdf/mobu/mb200104en.pdf)*

European Commission: Update on recent developments on Clearing and Settlement

ICMA's European Repo Council
21 September 2005

Mario Nava,

EU Commission, DG MARKT

A few recent e-mails, articles and letters...?

An e-mail from Sweden (15/2/2005)

”Dear Sir/Madam,

I have a question regarding financial integration. As I understand, banks are no longer allowed to charge more for transferring money between EU countries, compared to within countries. That is all fine and I can testify that it works in Scandinavia. I and my wife moved recently from Finland to Sweden and therefore we had to make quite a lot of transactions. The problem arose when I tried to transfer my shares (listed on the Helsinki exchange) to Sweden. After consulting my former bank in Finland (Nordea), I was informed that they can indeed transfer the shares to SEB in Sweden for an exorbitant fee of €66 per type of share. As I don’t have so many shares it will be considerably cheaper to sell everything and buy it back in Sweden, which will also be lucrative for the banks as they charge surprisingly high fees for trading shares. My question is therefore: is this practice in line with European laws and regulations? Is it supposed to change in the near future, i.e. is it worthwhile for me to wait?

Thank you very much for reading my inquiry and I hope I sent it to the right address.

Best regards,
Robin von Haartmann”

A few recent e-mails, articles and letters...?

A second e-mail from Sweden, 18/4/2005

Subject: good work!

Hi, Mario

I am pleased to inform you that your work on lowering fees for trading stocks has been successful, at least in Finland! They (Nordea) have just lowered the fee to €10 or 0.25% (from about 1%, but at least €16), so now its definitely worthwhile for me to sell my shares in Finland and transfer the money and buy them back in Sweden. Thanks, keep up the good work!

Best regards,

Robin von Haartman

A few recent e-mails, articles and letters...

25 juillet 2005,

Monsieur Le President,

Ayant reçu dernièrement un compte rendu d'opération de mon compte titres suite à une opération d'achat d'actions canadiennes je me suis rendu compte que, en bref, il faut compter 4% de frais concernant l'achat + vente d'actions étrangères.

Toutefois, par erreur, j'ai reçu celui d'un autre client qui avait effectué une vente d'actions à la Bourse d'Helsinki (Finlande) et j'ai été très étonné de constater le même taux de courtage et commissions c'est-à-dire qu'une banque européenne, malgré la monnaie unique, facture à son client des commissions identiques comme si ce pays (Finlande) était hors d'Europe.

Une telle pratique ne favorise guère l'achat d'actions de sociétés européennes.

Aussi, ne faut il pas supprimer ces frais supplémentaires inexistant lors de l'achat d'actions françaises?

Bertrand Bach
Metz, France

Mc Creevy on FT

- In C&S the industry has been good in highlighting the problems...but it has been less good in making progress in solving them!

- People debate the multiples. No-one defends the current levels of cross-border costs. We are talking about big money (much more than the amounts which Heads of State and Government are wrangling over in the EU budget negotiations), especially when one calculates the <u>impact</u> of these potential cost reductions on the economy.

- The Commission is taking a close look at the economic case for action. We will decide on that basis and in the light of developments in the market. The next 6 months are crucial. As far as I am concerned, the clock is ticking.

An e-mail from a liquidity provider

Dear Mario,

I hope you are doing fine.

We noticed in yesterday's press the comments Mr. McCreevy is making. Some very promising comments to push for lower cost and more efficiency in cross border transactions and settlements.

First the cross border process is definitely more expensive that the local process. We have been fighting the clearing and settlement per individual country because this is already 10 times more expensive than the price of this process in the US. We recommend that local clearing and settlement is also reviewed before cross border is attacked.

Second we need more competition. X-CCP and Y-CCP are two CCPs most members need to go through. There have been no fee discounts of late, because of a lack in competition. X-CCP charges 3 pence for a FTSE future to clear and 21 eurocents for a CAC-40 future. There is no explanation for this difference other than a lack of competition.

Kind regards,

The current strands of work (....while the clock is ticking!)

- Regulatory Impact Assessment
- CESAME group
- Legal Certainty Group (LCG)
- Fiscal Compliance Group (FISCO)

Regulatory Impact Assessment

- How big are the costs for Europe of non-integration of the C&S infrastructure? How are these costs impinging on the EU economic growth?
- Which action, legislative or otherwise, is more likely to deliver part or all of these missing benefits? How would the costs and benefits of these possible actions be distributed?

Which options?

1. Leave integration to the market and national authorities coupled with an active competition policy enforcement
2. Introduction of a framework Directive and active competition policy enforcement
3. Structural Intervention (“target model”) and active competition policy enforcement

Option 1: Leave it to the Market

- Lots of action is going on
- It has probably intensified since G1, G2 and the two Commission communications, the CESAME, the LCG etc.
- There is momentum
- Followed with attention in the Council and EP

Option 2: A Framework Directive

- Only after an RIA
- Only after extensive stakeholders' consultation
- Possible content:
  - rights of access
  - supervisory and regulatory arrangements
  - governance issues

Option 3: Structural intervention

- Needs the identification of a “target model”
- Not advocated by the Commission

How to assess one versus the other?

Three strands

- To what extent and with what probability each option will help achieve the economic benefits of financial integration?
- Timeframe? How stable will the result be?
- At what cost? How are the costs to be distributed?

The CESAME Group

- An Advisory and Monitoring Group
- To tackle all Giovannini barriers for which the private sector has sole or joint responsibility
- To promote the overall integration and liberalisation project.
- To coordinate actions between the private and the public sector.
- To advise the Commisson, on request, on specific technical issues

The CESAME group

- 21 private sector participants, 4 public sector observers.
- 4 meetings so far. The next on 24 October 2005.
- Agenda, synthesis reports, operative conclusions and relevant documents on Commission web-site at: http://europa.eu.int/comm/internal_market/financial-markets/clearing/cesame_en.htm

The CESAME group

- **Barrier 1** *(differences in information technology and interfaces*): SWIFT is working to refine its draft standard in cooperation with a user group to which a number of CESAME group members participate.

The CESAME group

- **Barrier 3** (*corporate actions*): A number of industry associations (ECSDA, EALIC, EBF, ECSA and ESF) are currently preparing standards .
- Work is more advanced in relation to the mandatory corporate actions. Work in relation to the more diverse area of voluntary corporate actions is starting.

The CESAME group

- **Barrier 4** *(intra-day settlement)* and **barrier 7** *(settlement deadlines and operation hours/days):* ECSDA issued a second report on standards which is under discussion with the industry for their implementation.

The CESAME group

- **Barrier 8** *(securities issuance practice):* This barrier is reportedly dismantled.

- A problem with the use of US ISIN’s has surfaced and is being discussed.

The CESAME group

- The Commission acts as a catalyst
- The Commission looks very closely at how the industry progresses in dismantling these barriers
- Moral persuasion

The Legal Certainty Group

- **Aim:** To advise the Commission on

  - the creation of a harmonised EU-wide framework for the treatment of interests in securities held with an intermediary
  - addressing differences in national legal provisions concerning corporate action processing
  - addressing restrictions to the issuer's ability to choose the location of securities

The Legal Certainty Group

- **Membership:** 35 high-level legal experts
- All EU national jurisdictions represented
- **Meetings:** Three meetings so far. The last was held on 13 September 2005

The Legal Certainty Group

- **Expected outcome:** An extensive report and, if considered necessary, proposed solutions for consideration by the Commission.

- **Web-site**:

  http://europa.eu.int/comm/internal_market/financial-markets/clearing/certainty_en.htm

The FISCO group

- **Aim:** To advise on the removal of Fiscal Compliance barriers to the C&S of EU cross-border securities transactions.

- **Key Issues**: Giovannini Barriers 11 and 12 on Withholding and Transaction Tax Procedures respectively.

The FISCO group

- **15 High-level Experts,** mainly from private bodies.
- **4 FISCO Meetings 2005 + 4 Meetings 2006**
- Next FISCO Meeting 22 September 2005.

The FISCO group

- **Fact Finding Study Report, End 2005:** Could the many different procedures, which raise the cost of cross-border settlement, be eliminated or substantially reduced?

- **Final FISCO Report, proposing Solutions, End 2006.**

The FISCO group

- **The Commission** will use the FISCO findings as a basis for discussion with the MS in accordance with the established policy of prior consultation on tax issues.
- **Web-site:**
- http://europa.eu.int/comm/internal_market/financial-markets/clearing/compliance_en.htm

The Commission's next steps

- **Finalise** the regulatory impact assessment analysis (1Q 2006)
- **Possible proposal of** a framework (Lamfalussy) Directive (S1/2006), if fully justified by RIA and after proper consultation
- **Continue work** and consultation in CESAME, LCG, FISCO group (throughout 2005 and 2006)

Attachment 10

ERC general meeting, 21.9.2005

ERC
Ninth European repo market survey

June 2005

ERC General Meeting

Clearstream Summit, Luxembourg

21st September 2005

ICMA

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Survey overview

- Outstanding value of contracts at close on 8th June 2005
- 81 responses from 74 institutions
- Respondents headquartered in 16 European countries, US, Japan

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Headline numbers

June 2005	EUR 5,319 billion
December 2004	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
June 2002	EUR 3,305 billion

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Organic growth

- 31 respondents in all 9 surveys
  - June 2004-June 2005 = 18.7%
  - H1 = 5.9%
  - H2 = 12.1%
- 72 respondents in June 2004 & 2005 surveys
  - June 2004-June 2005 = 16.1%

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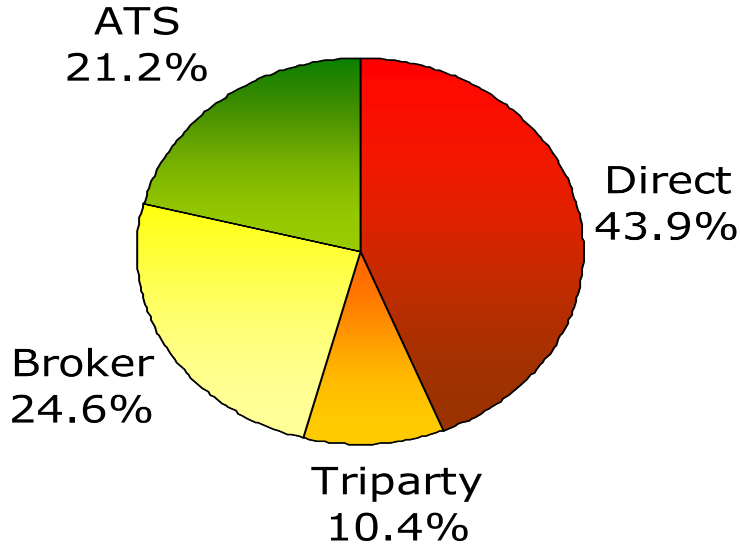
Counterparty analysis



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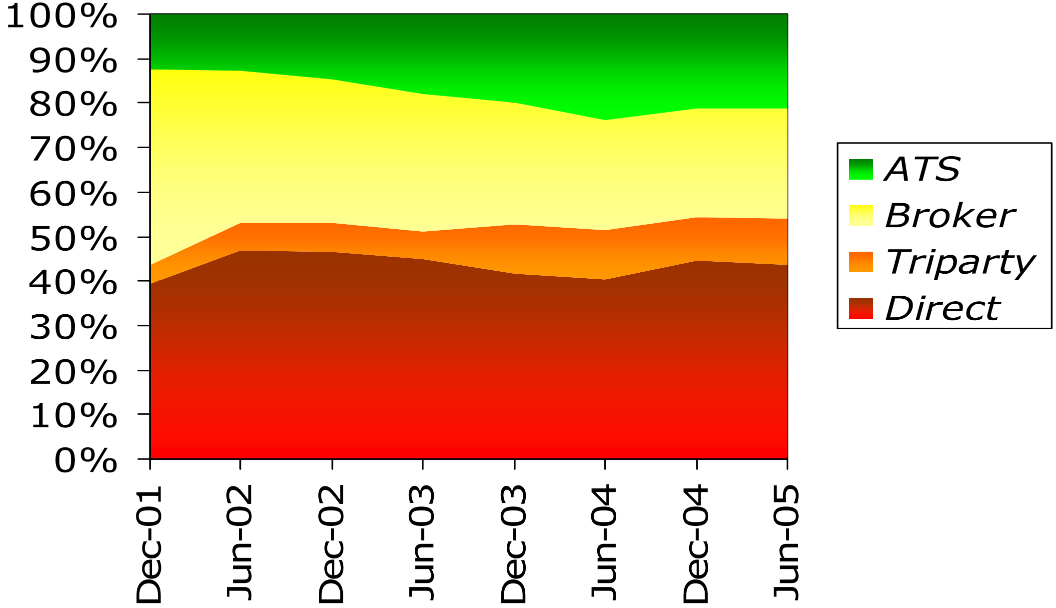
Counterparty analysis



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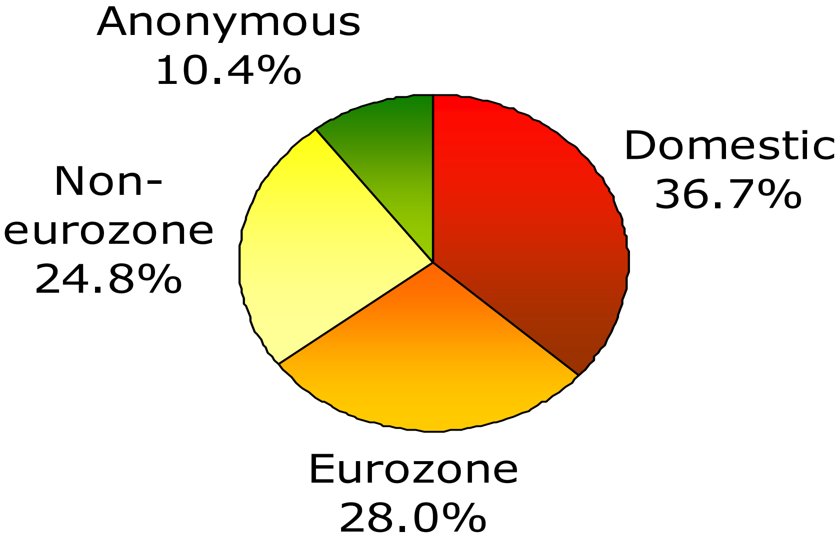
Geographical analysis



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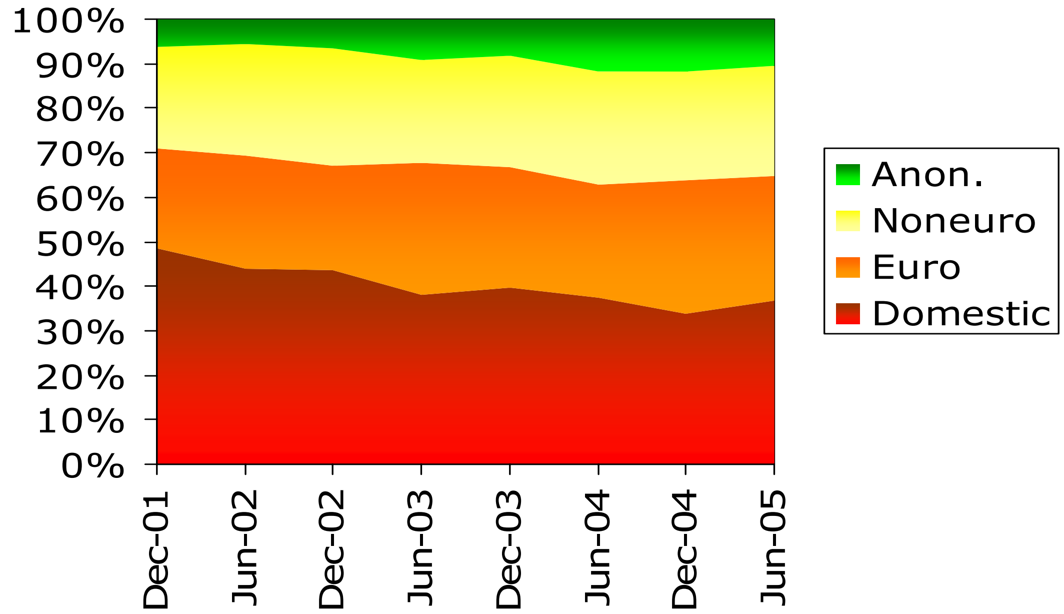
Geographical analysis



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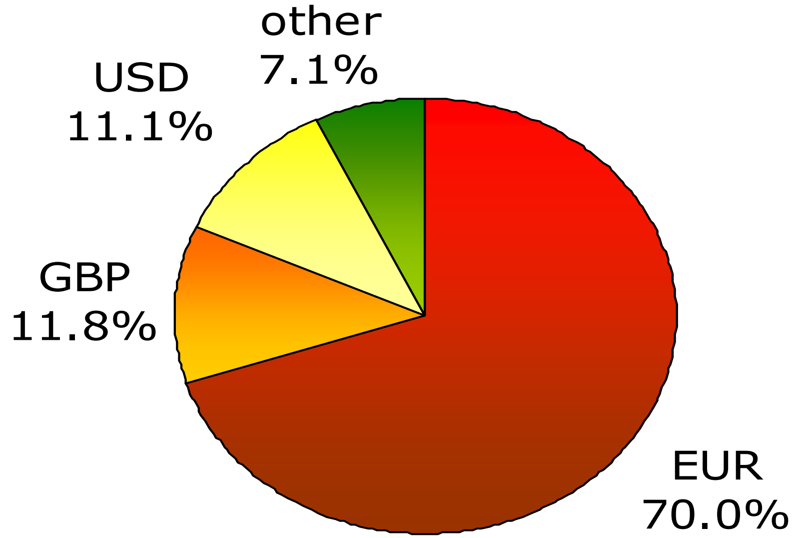
Currency analysis



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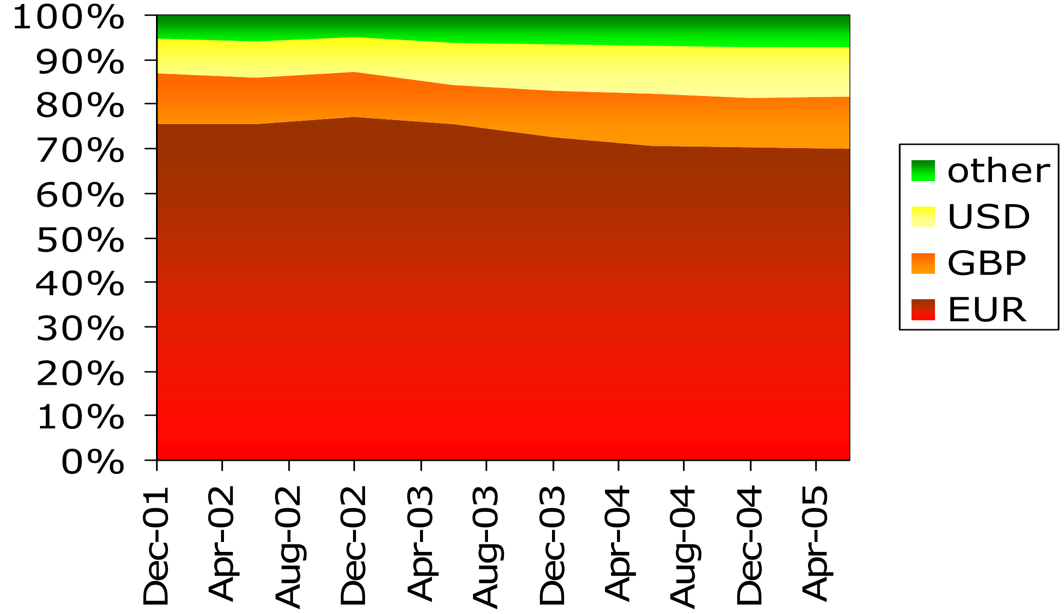
Currency analysis



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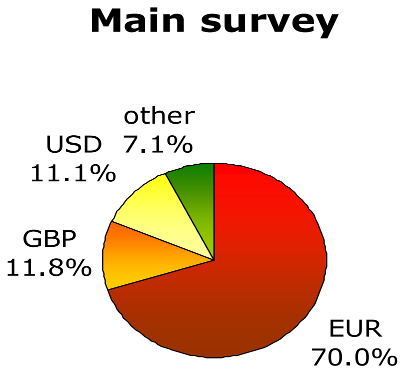
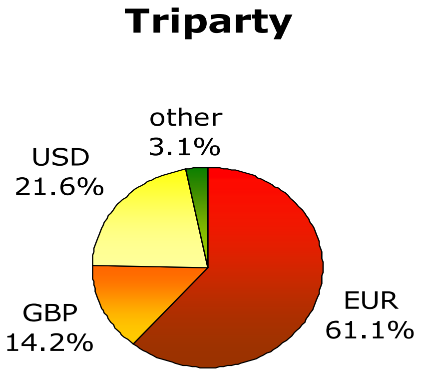
Currency analysis





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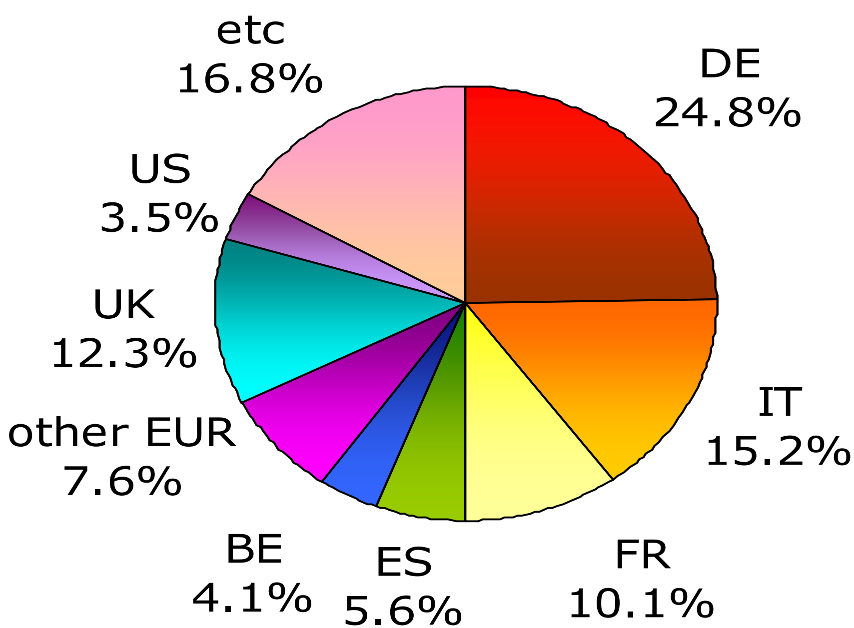
Collateral analysis



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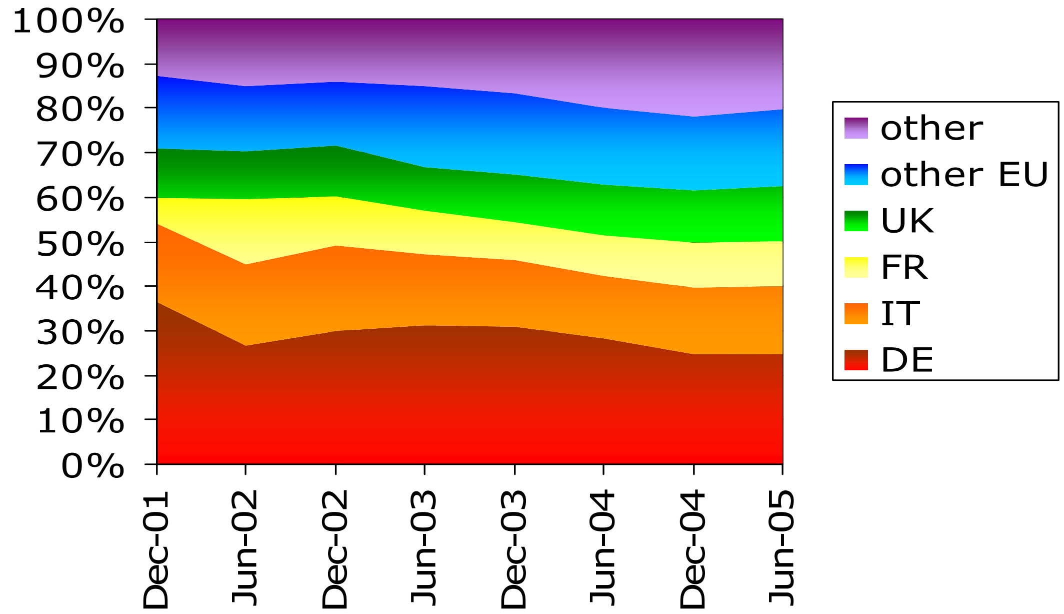
Collateral analysis



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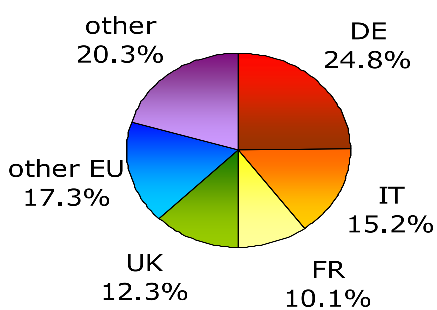
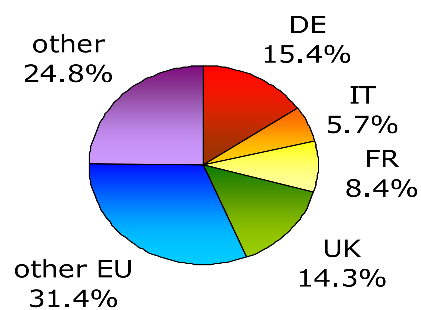
Collateral analysis

Main survey



Triparty



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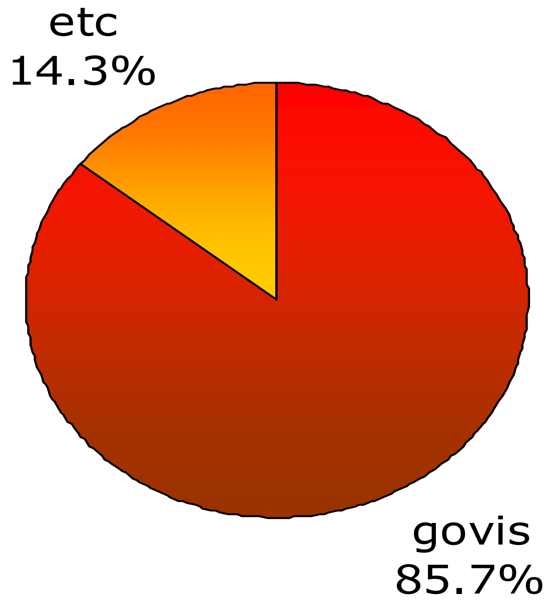
Collateral analysis



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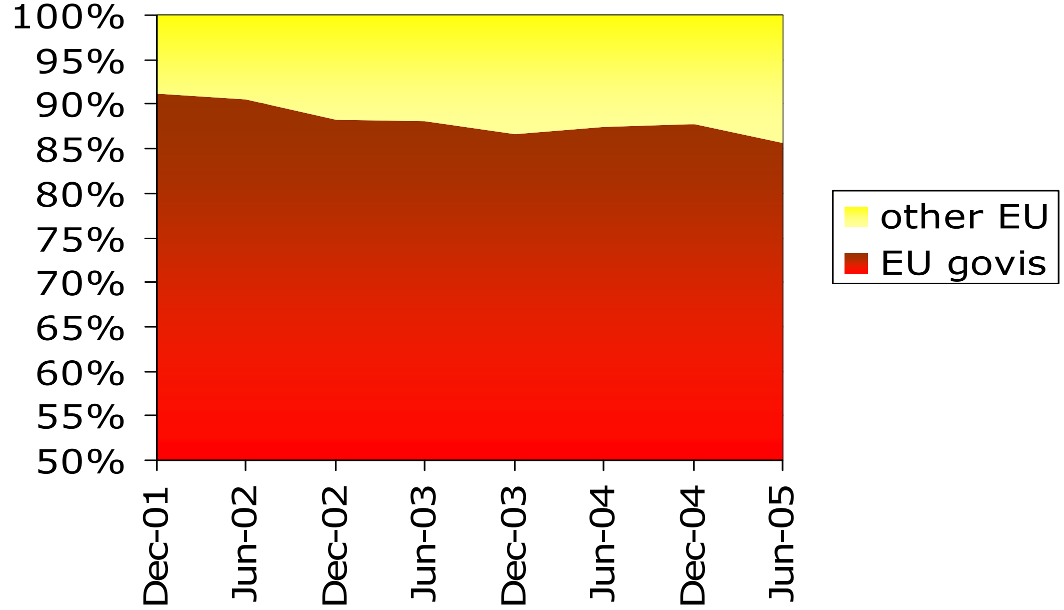
Collateral analysis



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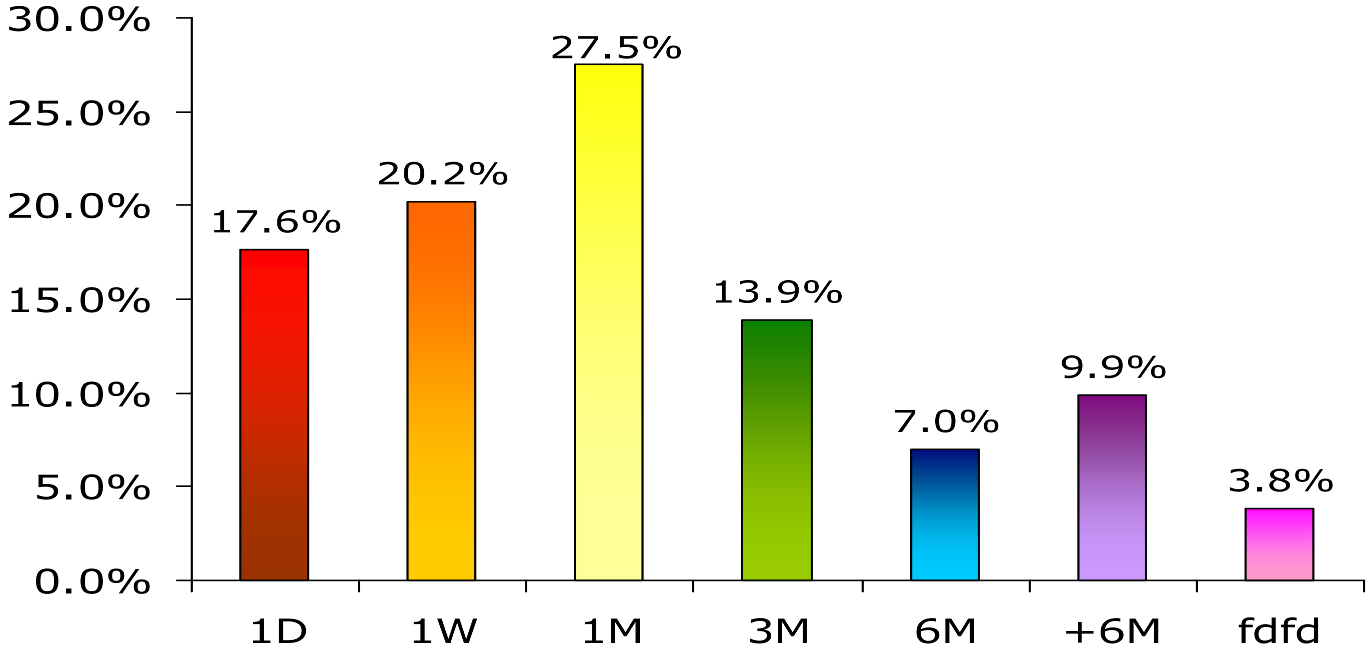
Maturity analysis



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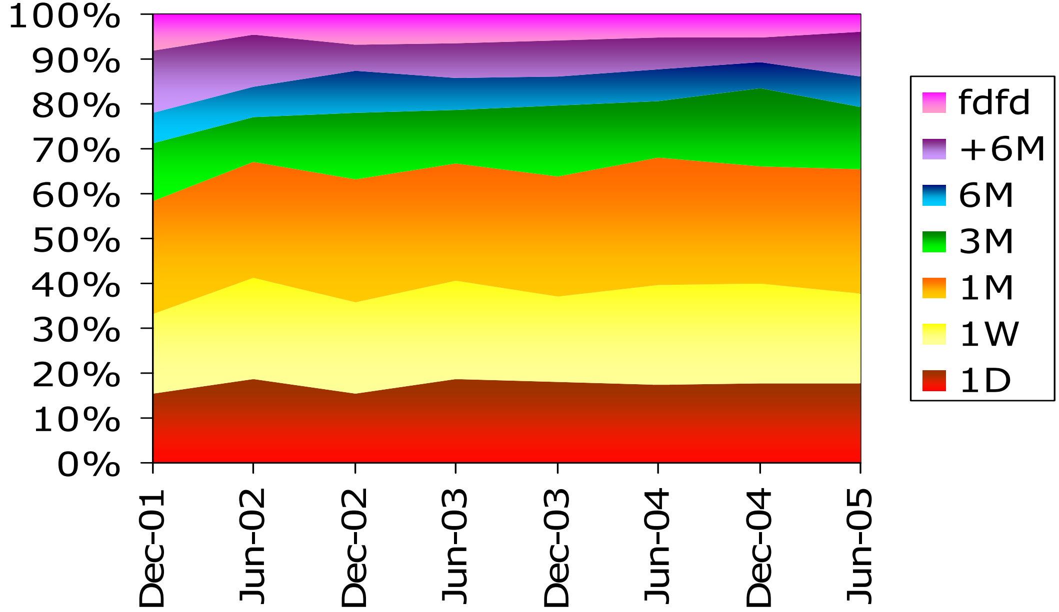
Maturity analysis



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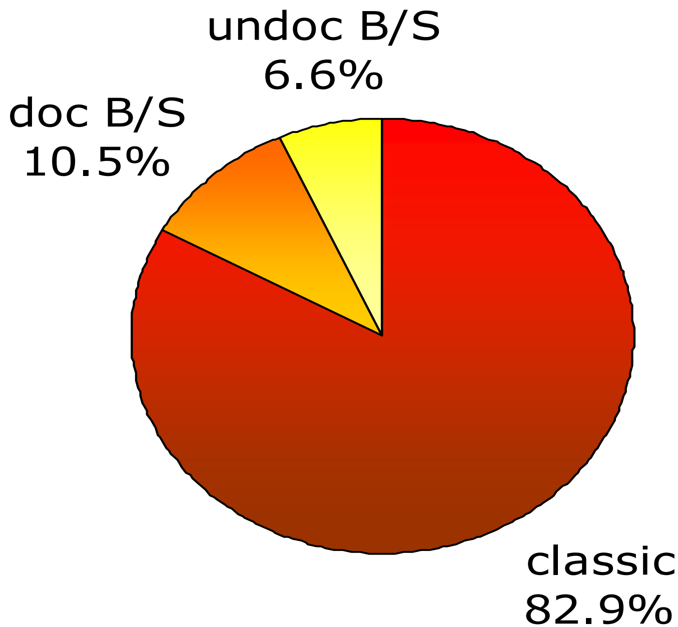
Contract analysis



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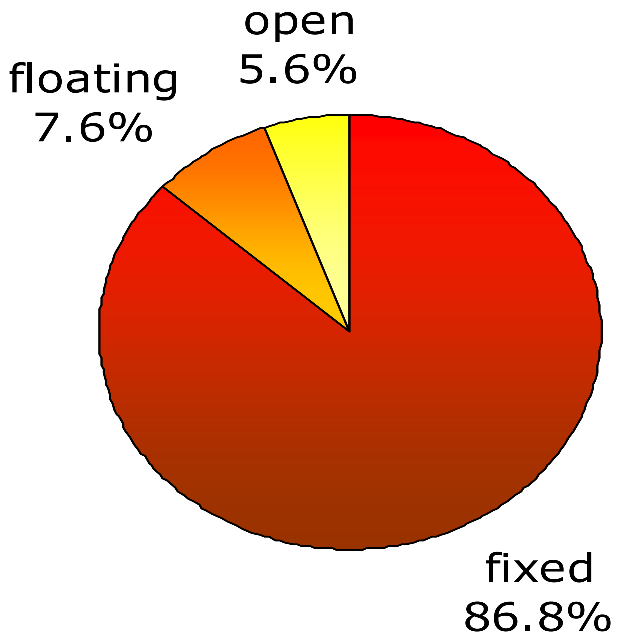
Rate analysis



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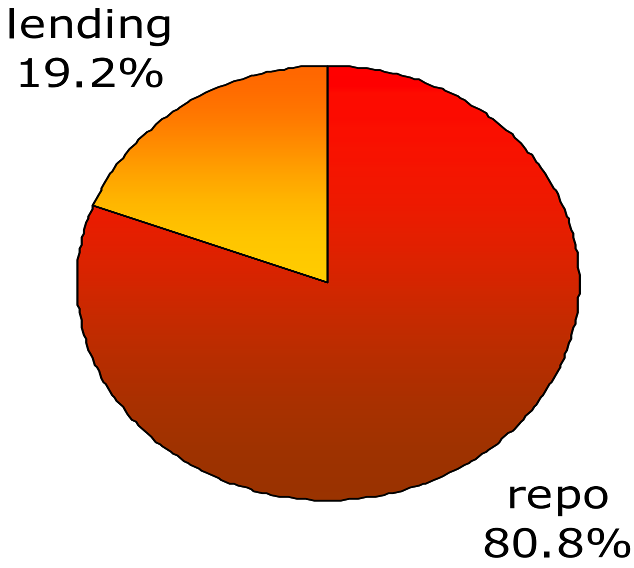
Product analysis



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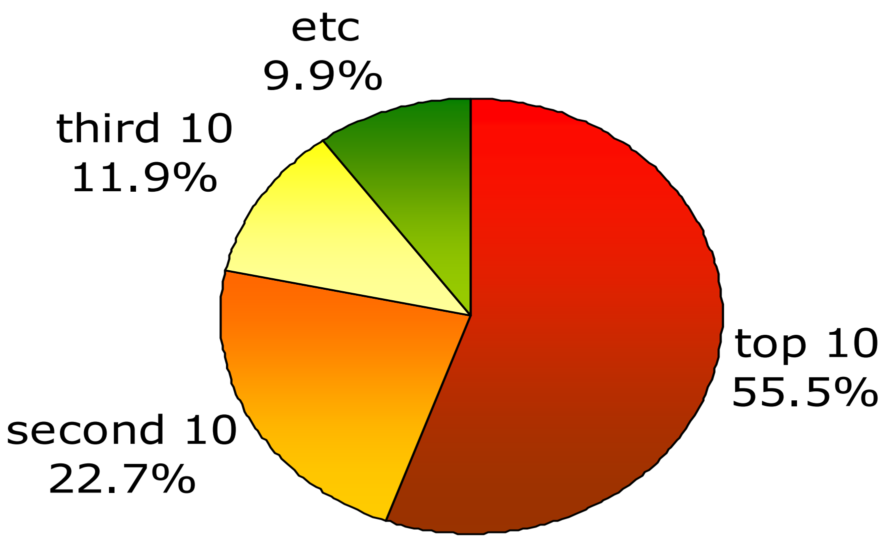
Concentration analysis



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Date of next survey

7th December 2005