Annex 1

European Repo Council

General Meeting
London
October 4, 2006

Opening of the meeting
ERC Chairman Godfried De Vidts

ICMA

ICMA

Recent Market Events and Issues

- Election of ERC Chair and Vice Chairs
- Creation of ERC operations working group
- ERC and EPDA continue to provide feedback to the Commission on challenges with same-day repo transactions.
- Meeting with ECSDA to prepare next CESAME
- Interoperability – bilateral and tri-party

Recent Market Events and Issues

- Credit claims (bank loans)
- CCP conference hosted by ECB/Fed of Chicago
- www.eurepo.org
- Harmonisation of legal opinion exercise (BoE's SLRC meeting)

Forthcoming events

- Repo Seminar Madrid
  - November 22-23, 2006
  - Registrations via www.icma-group.org
- Repo Seminar Moscow
  - week of May 22, 2007
- **Next ERC Annual General Meeting February 28, 2007**
  hosted by JPMorgan Chase

Annex 2

GMRA – Overview of legal opinions

Status October 3, 2006

Christian Hellmund
Associate Counsel, ICMA, Zurich

Legal opinions update

- 53 legal opinions on the GMRA, thereof 24 joint opinions with TBMA
- Update process 2006/2007 to start

- NEW! Czech Republic: opinion published
- NEW! Slovakia, Slovenia: expected shortly
- NEW! Israel: opinion ordered

- Monitored: Romania, Croatia, Russia, Malaysia
- NEW! Oman, Qatar: proposed by ERC

EU-15 (I)

Country	Status	Additional counterparties*	Core provision opinion included**
Austria	available	✓	
Belgium	available	✓	✓
Denmark	available	✓	
Finland	available	✓	
France	available	✓	✓
Germany	available	✓	✓
Greece	available	✓	
Ireland	available	✓	✓

more ...

* In addition to the already existing counterparties, these opinions now also cover insurance companies, hedge funds and mutual funds.

** To comply with the requirements of the German financial supervisory authority (BaFin).

EU-15 (II)

Country	Status	Additional counterparties*	Core provision opinion included**
Italy	available	✓	✓
Luxembourg	available	✓	✓
Netherlands	available	✓	✓
Portugal	available	✓	
Spain	available	✓	✓
Sweden	available	✓	
United Kingdom:			
England	available	✓	✓
Scotland	available	✓	

"New" EU member states and candidate countries

Country	Status	Additional counterparties*	Core provision opinion included**
Bulgaria	-	-	-
Croatia	monitored		
Cyprus	available		
Czech Republic	available		
Estonia	available		
Hungary	available		
Latvia	available		
Lithuania	available		
Malta	available		
Poland	available		
Romania	monitored		
Slovakia	ordered		
Slovenia	ordered		
Turkey	available		

Other European jurisdictions

Country	Status	Additional counterparties*	Core provision opinion included**
Guernsey	available		
Jersey	available		
Norway	available		
Switzerland	available	✓	✓
Russia	monitored		

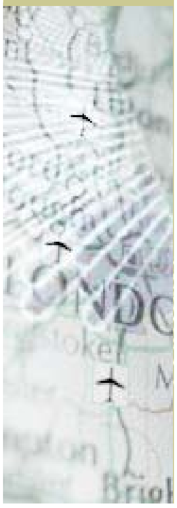
Americas

Country	Status	Additional counterparties*	Core provision opinion included**
Canada	available	✓	✓
USA	available	✓ (excl. insurance companies)	✓
Bahamas	available		✓
Bermuda	available		
Brit. Virgin Isl.	available	✓	
Cayman Islands	available	✓	✓
Netherl. Antilles	available		
Brazil	available		
Mexico	available		

Middle East

Country	Status	Additional counterparties*	Core provision opinion included**
Israel	ordered		
Abu Dhabi	available		
Bahrain	available		
Kuwait	available		
Saudi Arabia	available		
Oman	proposed		
Qatar	proposed		

Africa, Asia, Pacific



Country	Status	Additional counterparties*	Core provision opinion included**
South Africa	available		
China	available		
Hong Kong	available		✓
Japan	available		✓
Malaysia	monitored		
Philippines	available		
Singapore	available		✓
South Korea	available		
Taiwan	available		
Thailand	available		
Australia	available		
New Zealand	available		

Annex 3

Basel II - Impact on Triparty update

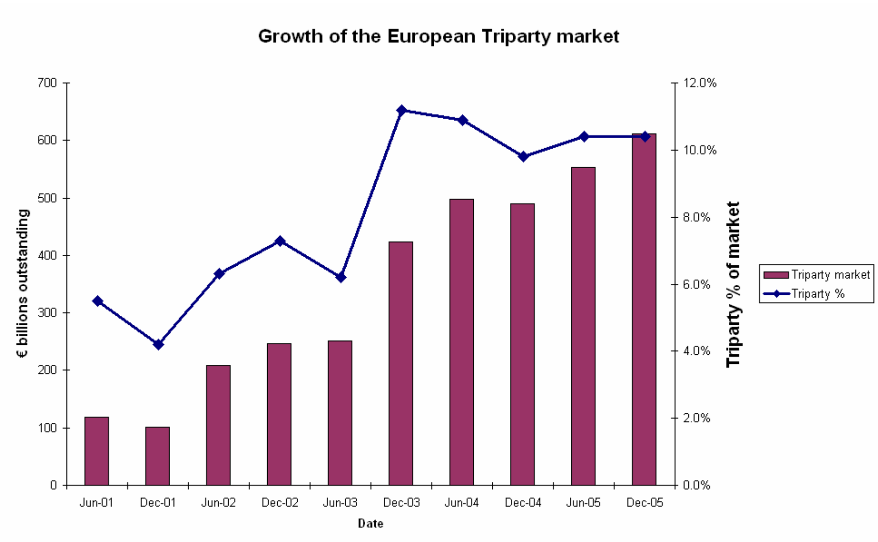
Simon Tims – ICMA European Repo Council
General Meeting London, October 2006

Table of contents

1. Market size and composition
2. Exceptions
   - ❖ Zero haircut rules
   - ❖ Repo and Securities lending standardised trading facilities
3. Next steps

Market size and composition

- Market size 500bn in Dec 2005
- Accounts for 10% total repo outstanding
- 43% cross currency
- Equities account for 20% of the balance



What did we discover?

- “The Zero Haircut rule”
  - A subset of Triparty trades will not receive punitive Regulatory Capital treatment under Basle II provided that a number of conditions are met:

<u>Main conditions</u>

- Counterparties are a <u>core market participants</u> (excludes corporates).
- Transactions must be <u>sovereign bonds</u> with ratings of AAA to AA-
  (i.e. they must qualify for 0% risk weighting under the standardised approach).
- Exposure and collateral must be denominated in the <u>same currency</u>.
- Exposure and collateral are <u>MTM daily</u> and subject to daily re-margining or trade maturity is <u>no longer than 1 day</u>.
- <u>Standard documentation</u> is in place.
- Trade is settled through an <u>established settlement system</u>.

What did we discover (cont.)

- Capital charge for repos and securities lending transactions in respect to counterparty risk is 0 % if the trade is dealt **“through a recognised Central Counterparty”**.
  - To date there is no guidance on which clearing houses qualify; there is a general view that this rule can only apply to those central counterparties where you are a member.
  - Netting rules are also less clear and still under discussion.

Conclusion and Next steps

Conclusion

- Actual affect is quite inconclusive.
- Many firms will be using advanced models.
- The Zero Haircut rule and Central Clearer exceptions will help.

Next Steps:

- Clarification on cross-currency and equity transactions
- Who takes this forward?

Appendix : “Core Market Participants”

- Central banks, for which risk weight is 0% in the standardised approach.
- MDBs / international organisations with risk = 0% in the standardised approach (e.g. World Bank, IMF, EU etc).
- Companies, that belong to the asset class “banks“ according to the standardised approach, i. e. banks and financial institutions; central counterparties; securities and futures exchanges.
- Other finance companies / insurance companies, if external rating or corresponding internal rating is better A+.
- Regulated UCITS and foreign asset managers.
- Regulated pension funds.

Annex 4

European Repo Council Meeting

4th October 2006

TRAX2 Repo

Paulo Costa (ICMA) - Associate Director - Business Development

TRAX2 Repo Agenda

1. Introduction
2. TRAX2 Repo matching
3. Screenshots
4. Future Enhancements
5. Benefits

TRAX2 Repo - Introduction

- Repo enhancements have been developed in co-operation with the European Repo Council (ERC) and the Operations Committee of the Association of Foreign Banks (AFB).
- TRAX2 Repo went live on 4 August with four major investment banks (JP Morgan, Goldman Sachs, Nomura and Credit Suisse Securities). Additional firms will be coming on-stream in due course.
- Interest from both buy side and sell side institutions for Repo matching.

TRAX2 Repo - Introduction

TRAX2 Repo is the first confirmation system to be specifically developed for firms trading in the OTC Repo space. The key risks identified were the lack of :

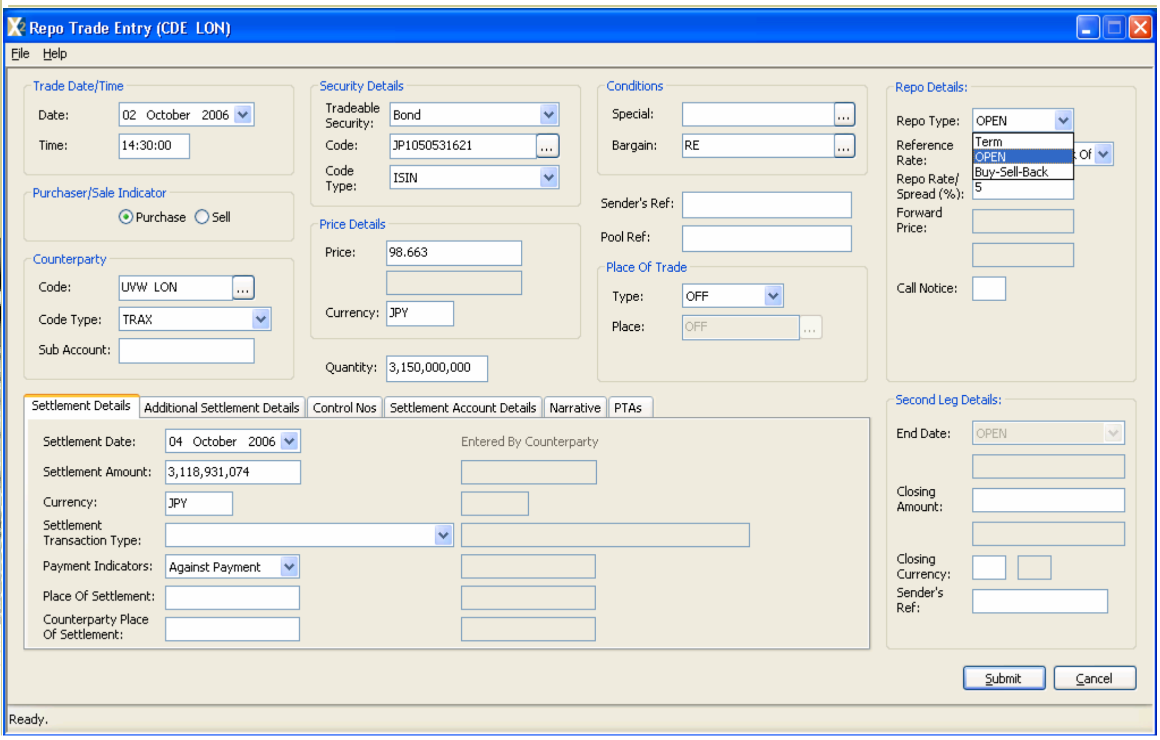
- Real time identification of matching errors within the terms of a transaction; presently achieved on Settlement day -1 in most markets.
- Management of rate changes within the life of a transaction.
- The ability to match start and end legs prior to the start of the settlement cycle.

TRAX2 Matching - Features

- Fixed or variable rate terms, BSBs or open terms to be entered as a single transaction.
- Provision to add Post Trade Actions (PTAs) for open term Repos.
- Provision of roll-back or roll-forward facility for amending end leg details for BSBs or Term Repos.
- Support for overnight repos or any other duration; repo transactions will remain 'active' on the system until 30 days after close-out.

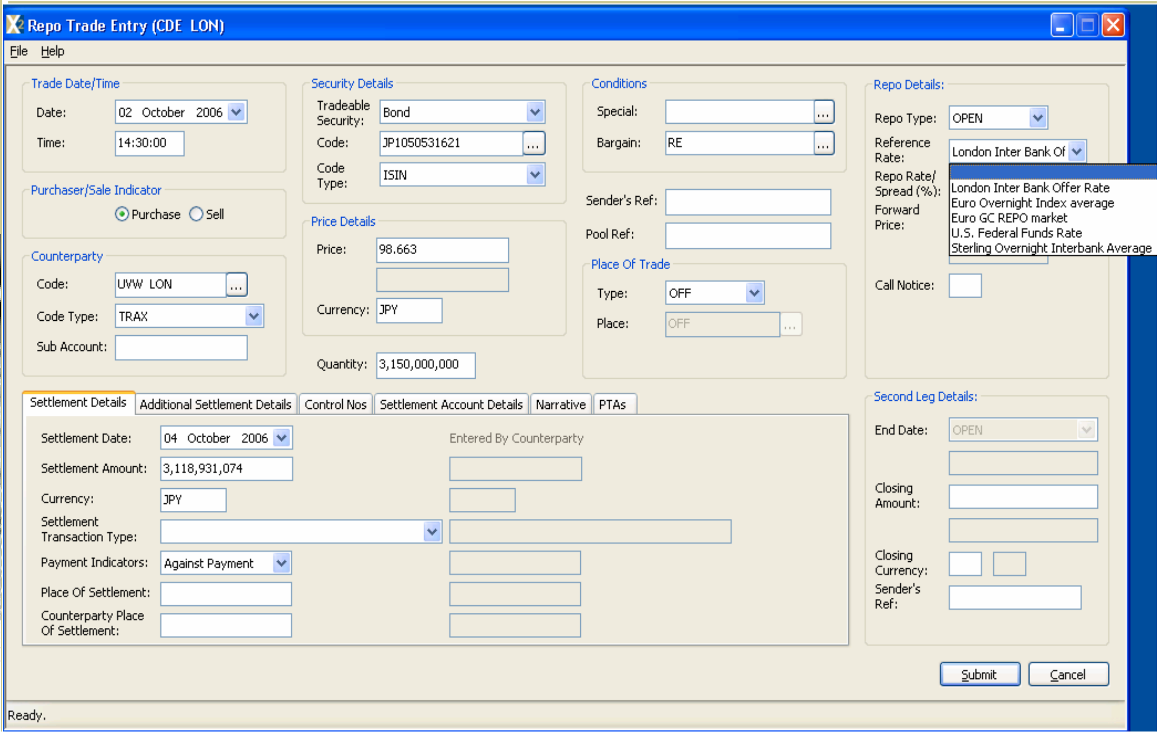
TRAX2 – Open Dated Repo

CDE Bank enters into an open dated repo with UVW Bank on a Japan 1% 12/10.



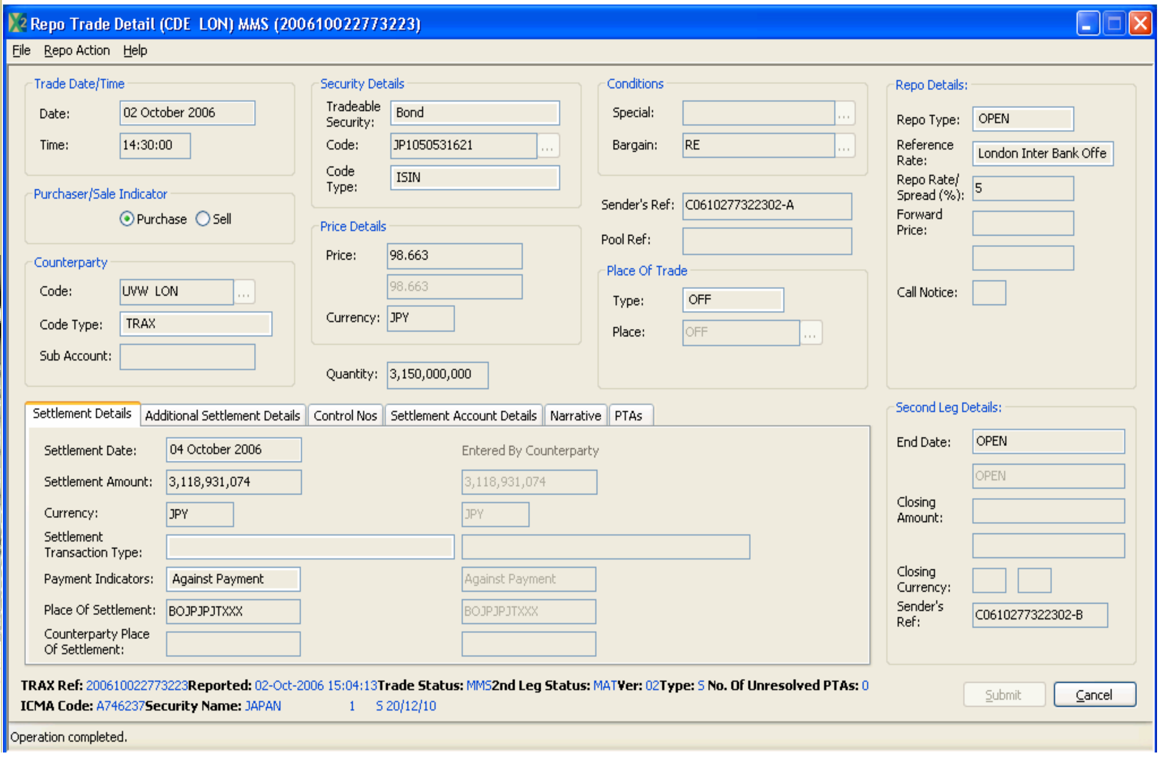
TRAX2 – Open Dated Repo

CDE Bank, enters their side of the repo into TRAX with a spread of 5bps over the London Interbank Offer Rate.



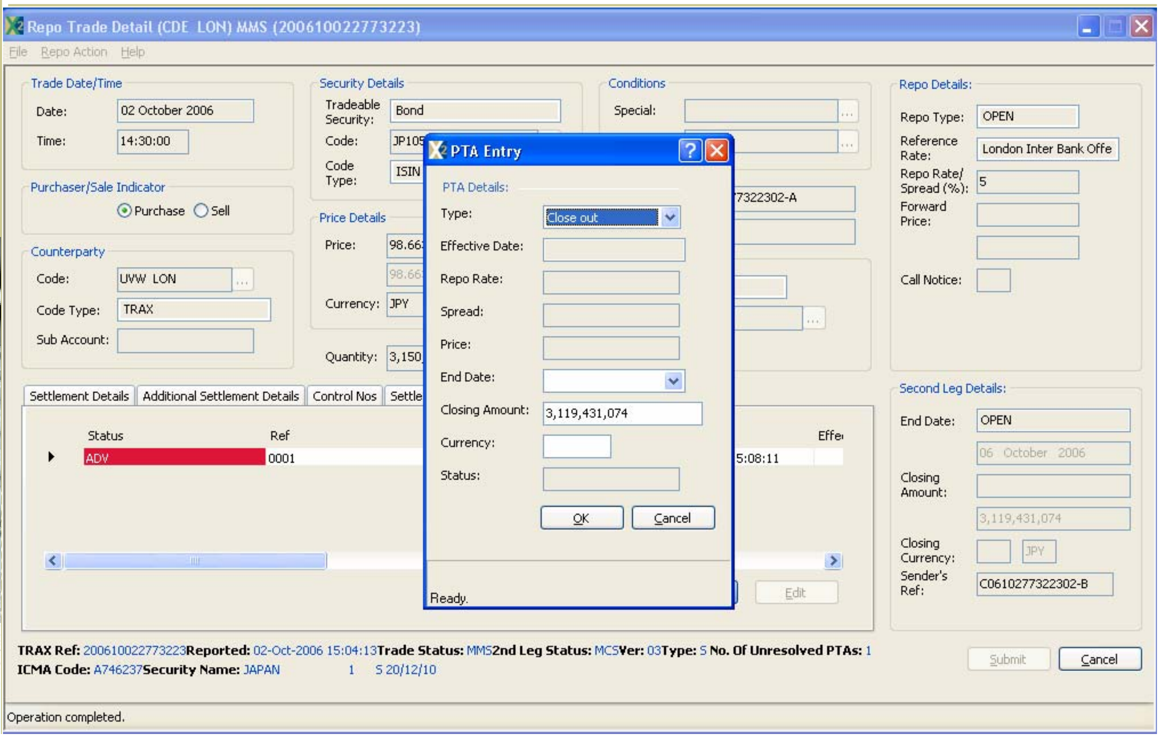
TRAX2 – Open Dated Repo

They submit the trade for confirmation.



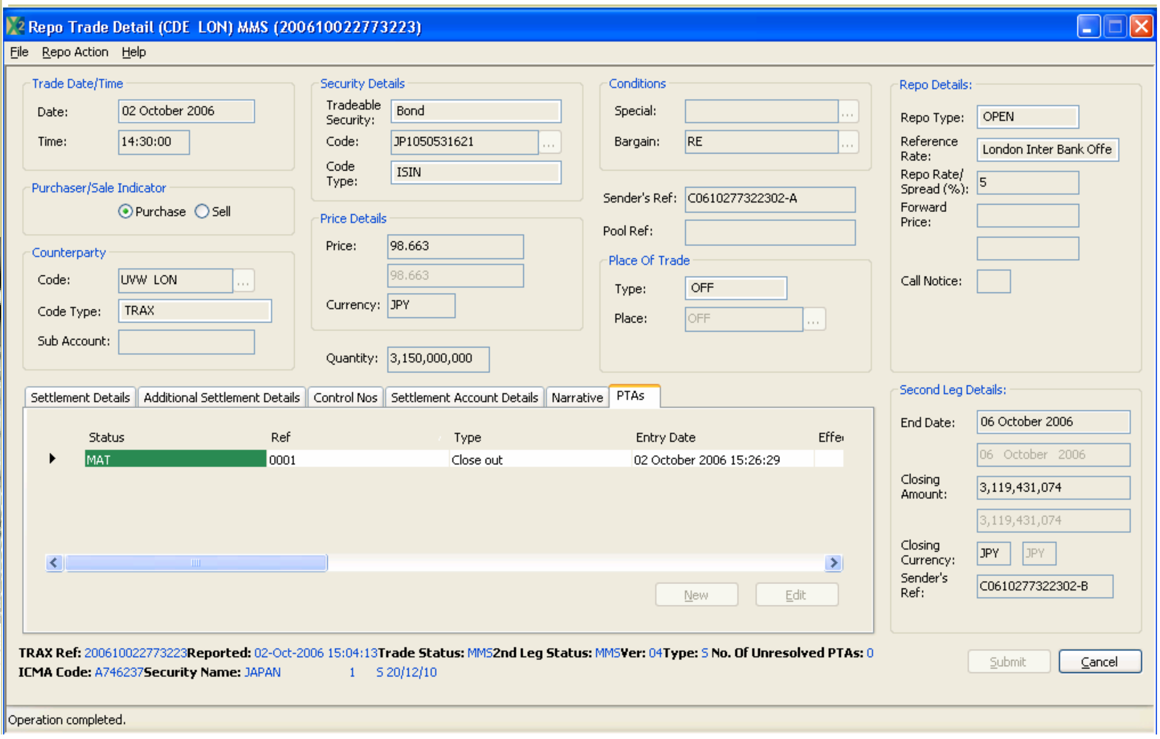
TRAX2 – Open Dated Repo

The parties agree to close-out the repo for value date 6th October. CDE enter their close-out PTA.



TRAX2 – Open Dated Repo

The close-out PTA results in the 2nd leg being fully matched.



TRAX2 – Open Dated Repo

The query screen shows the status of all our recent Repo transactions.

TRAX2 Query Results (CDE LON)

File Trade Action View Help

Trade Date	Security Code	Security	P/S	Status	2nd Le	Ccy	Counterparty	Quantity	Price	TRAX Ref
02 October 2006 14:30:00	JP1050531621	JAPAN 1 S 20/12/10	Purchase	MMS	MMS	JPY	UVW LON	3,150,000,00	98.663	20061002273223
29 September 2006 09:00:00	US105756AP5	BRAZIL,REPUBLIC OF 11 S 17/08/40	Sell	MMS	MMS	USD	UVW LON	61,100,000	129.4	200609290273195
29 September 2006 09:00:00	DE000113528	BUNDESANLEIHE 3.25 04/07/15	Sell	MMS	MMS	EUR	UVW LON	81,000,000	98.405	200609297673195
29 September 2006 10:10:00	IT0003805998	ITALY,REPUBLIC OF FRN S 15/09/10	Sell	ADV	ADV	EUR	ICMA1LON	150,000,000	100.7699997	200609293773199
29 September 2006 10:10:00	US912828ES5	US TREASURY 4.25 S 15/01/11	Sell	ADV	ADV	USD	ICMA1LON	50,000,000	98.875	200609296273199
28 September 2006 11:33:00	A007425	INTER-AMERICAN DEV BANK 12.25 S 15/12/08	Purchase	MMS	MAT	USD	UVW LON	1,000	1000	200609285073196
21 August 2006 11:10:00	GR012401852	GREECE,REPUBLIC OF 5.25 18/05/12	Purchase	MMS	MCS	EUR	UVW LON	38,000,000	113.13	200608215373004
21 August 2006 11:00:00	IT0003805998	ITALY,REPUBLIC OF FRN S 15/09/10	Purchase	MMS	MAT	EUR	UVW LON	150,000,000	100.7699997	200608217573004
29 June 2006 07:00:00	IT0003805998	ITALY,REPUBLIC OF FRN S 15/09/10	Sell	ADV	ADV	EUR	UVW LON	150,000,000	100.7699972	200606292872589
21 August 2006 11:10:00	IT0003805998	ITALY,REPUBLIC OF FRN S 15/09/10	Purchase	MMS	MAT	EUR	UVW LON	150,000,000	100.7699997	200608210173004
13 June 2006 18:47:02	A230081	BUNDESANLEIHE 0 04/07/07	Sell	ADV	ADV	EUR	UVW LON	20,000	0.98	200606132572521
29 June 2006 07:00:00	IT0003805998	ITALY,REPUBLIC OF FRN S 15/09/10	Sell	ADV	ADV	EUR	UVW LON	150,000,000	100.7699972	200606297772589
13 June 2006 16:41:00	A230091	BUNDESANLEIHE 0 04/07/07	Sell	ADV	ADV	EUR	UVW LON	20,000	0.98	200606133472447
13 June 2006 16:25:00	A230053	BUNDESANLEIHE 0 04/01/07	Purchase	ADV	ADV	EUR	UVW LON	20,000	0.98	200606138372447
07 June 2006 08:41:00	US105756AP5	BRAZIL,REPUBLIC OF 11 S 17/08/40	Sell	MMS	MAT	USD	UVW LON	61,000,000	129.4	200606077572493
13 June 2006 15:00:00	A367479	BRAZIL FINANCING (II) 0 31/12/07	Sell	ADV	ADV	USD	UVW LON	10,000,000	100	200606135872447
23 May 2006 15:01:00	US105756AP5	BRAZIL,REPUBLIC OF 11 S 17/08/40	Sell	ADV	ADV	USD	UVW LON	61,100,000	1	200605235172421
24 May 2006 09:00:00	US105756AP5	BRAZIL,REPUBLIC OF 11 S 17/08/40	Purchase	MMS	MAT	USD	UVW LON	61,000,000	129.45	200605242672420
23 May 2006 14:14:00	US105756AP5	BRAZIL,REPUBLIC OF 11 S 17/08/40	Sell	MMS	MAT	USD	UVW LON	61,000,000	129.4	200605235072421
23 May 2006 15:01:00	US105756AP5	BRAZIL,REPUBLIC OF 11 S 17/08/40	Sell	ADV	ADV	USD	UVW LON	61,100,000	129.4	200605237572420

<Purchases> <Sales> Repo Type Indicator <REPO>

More Close

Operation completed.

TRAX2 Future Enhancements

Future enhancements will potentially include:

- Partial Repayment Post Trade Action (PTAs).
- Queries/Reports for netting opportunities and report of due coupon payments.
- STP links to CSDs, ICSDs and Custodians.

The Benefits of using TRAX2 for Repo

- 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).
- Real-time identification of potential settlement problems.
- Internet connectivity using SSL encryption.
- ISO 15022/20022 (XML) messaging allowing for easy systems integration.

Contacts

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CH-8033 Zurich

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Annex 5

Current ERC Recommendations

General Meeting of ICMA's European Repo Council
London, October 4, 2006

Eduard Cia
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Current ERC Recommendations

- Euro GC
- Euro GC Basket Design
- Interoperability
- Rehypothecation
- ECB TARGET2-Securities Project

Euro General Collateral

- The enlargement of the Euro zone raised the discussion within the ERC whether the basket of Euro GC should also be adjusted.
- The ERC took the decision that all Government bond debt <u>from within the Euro in-zone</u> will be part of the Euro GC basket.
- We made this decision while knowing from experience that if the local debt market is not working in a professional way, these debts will be excluded in the interbank market. This fact will give us enough power to discuss with local debt agencies to adopt European standards (e.g. no fail costs).

Euro General Collateral Basket Design

- The ERC was asked to provide guidance for the design of standard Euro GC baskets which could be traded bilaterally via electronic trading platforms or even through central counterparties.
- The ERC decided to recommend only to take <u>Euro in-zone</u> government papers.
- The ERC recommended the following baskets without any haircuts:
  - AAA government debt of Euro in-zone
  - AA government debt of Euro in-zone or better
  - A government debt of Euro in-zone or better

Interoperability between ICSDs and CSDs

- The ERC has been involved for many years in discussions regarding the fragmented settlement infrastructure in Europe.

  We try to convince the responsible ICSDs and CSDs to move forward and improve interoperability in Europe.

- The ERC wants to have better interoperability for bilateral repo trades but also for tri-party repos. At some stage it should be possible to trade tri-party repos between the two ICSDs.

- The so-called 'bridge' (the link between Euroclear and Clearstream Luxembourg) will be improved.

Rehypothecation – Re-Use of Collateral within Tri-party Repo and Tri-party Repo Style Transactions

- The possibility to re-use the collateral within tri-party repos reduces the liquidity risk and therefore would make tri-party repos even more important for the money market.

- The ERC is pushing forward (especially with the tri-party agents and the central counterparties) to make rehypothecation possible …

  … not only within one ICSD or one central counterparty but also across ICSDs and maybe across central counterparties.

- All parties involved could gain from more volume.

ECB TARGET2-Securities Project

- The ERC welcomes this project from the ECB.
- We view this initiative as big step forward to overcome all the before-mentioned problems regarding securities settlement within Europe.
- We hope that this project will add even more pressure to all ICSDs and CSDs to increase interoperability to a maximum possible level.

Annex 6

The Daytime Bridge Improvement Programme

Presentation to the European Repo Council

4 October 2006

The Daytime Bridge Improvement Programme

- Building on the joint initiatives Euroclear and Clearstream have already successfully delivered to the market in the past, the ICSDs have recently established a forum to define and deliver further enhancements to the Daytime Bridge in line with existing and evolving market needs
- This programme aims to
  - Support the international capital market with fast, efficient and reliable settlement between the ICSDs
  - Respond to market requirements for seamless interoperability
  - Maximise same-day financing and transaction management possibilities for the global market place across the Bridge

The delivery of this first enhancement, scheduled for 26 January 2007, will improve overall settlement efficiency and increase the capacity for same-day transaction settlement and securities financing across the Bridge

The First Enhancement in January 2007 will provide the market with…

- Extended input deadlines for key settlement cycles during the day
  - Mandatory instruction deadline moves from 11h00 CET to 12h30 CET
  - Optional instruction deadline moves from 13h30 CET to 14h40 CET

- More timely and frequent transaction-repair and fail-management information thanks to three additional matching file exchanges from 17 to 20 times per day

- Increased settlement opportunities, particularly for trades settling on T+0, with the addition of three additional settlement file exchanges from 7 to 10 times per day

Next steps - More to come

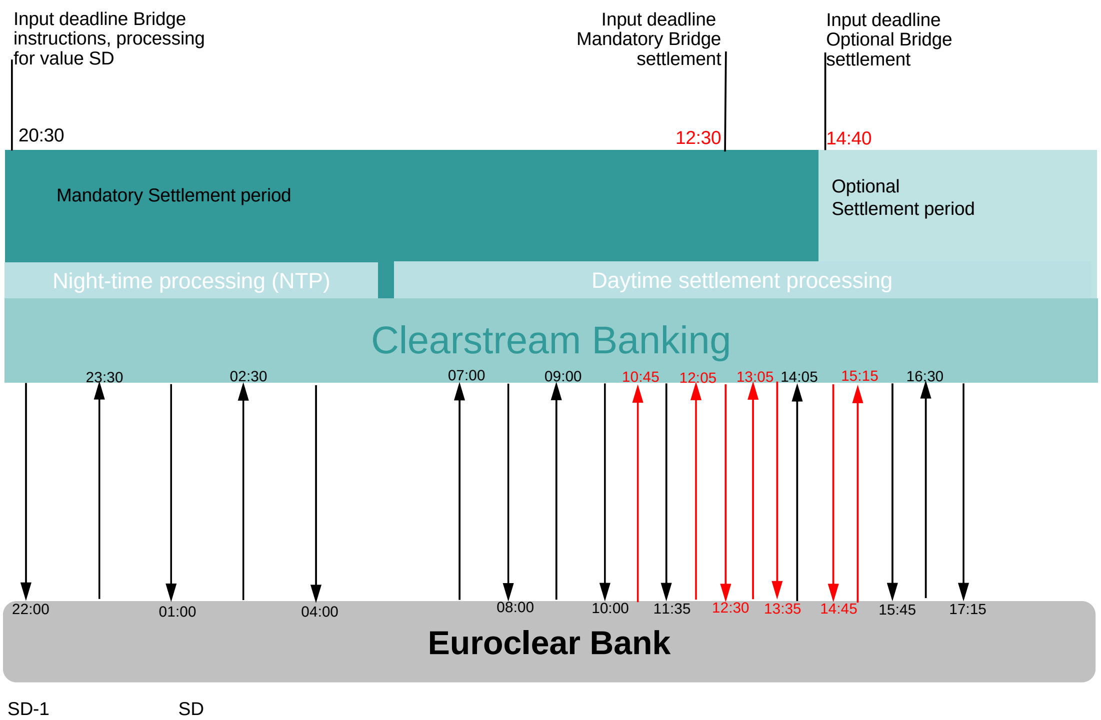
- The ICSDs are committed to making further improvements to the Bridge so as to
  - Provide market participants with a reliable infrastructure which efficiently supports their settlement activities
  - Increase opportunities for same-day transaction management and securities financing for the global market
  - Meet the market’s demand for seamless interoperability between the ICSDs
- Dedicated joint working groups are currently developing a further round of enhancements

The ICSDs will continue to keep the ERC informed of our progress

Back-up Slides

The Bridge Continuous Improvement Programme

Summary of first deliverables available from January 2007



* Input deadline times expressed in CET

Enhanced Bridge interoperability

New timings

CURRENT

	Matching	Settlement: EB to CBL	Settlement: CBL to EB
			22:00 M
		23:30 M	
			1:00 M
		2:30 M	
			4:00 M
	4:15		
	6:15		
		7:00 M	
			8:00 M
	8:30		
		9:00 M	
	9:45		
Deadline			10:00 M
Mandatory Input	10:45		
11:00	11:15		
		11:30 M	
	12:15		
			12:30 M
	13:15		
Deadline			
Optional Input			
13:30			
	13:45		
		14:00 M	
	14:30		
			15:00 O
	15:30		
		16:00 O	
	16:30		
			17:30 (Feedback)
	17:30		
	18:30		
	19:15		
	20:15		
	21h00		

AS OF JANUARY 26, 2007

	Matching	Settlement: EB to CBL	Settlement: CBL to EB
			22:00 M
		23:30 M	
			1:00 M
		2:30 M	
			4:00 M
	4:30		
	6:30		
		7:00 M	
			8:00 M
	8:30		
		9:00 M	
	9:30		
			10:00 M
	10:15		
	10:45	10:45 M	
	11:30		
			11:35 M
Deadline	11:50		
Mandatory Input		12:05 M	
12:30			12:30 M
	12:45		
	13:00		
		13:05 M	
			13:35 M
	13:45		
Deadline	14:00		
Optional Input		14:05 M	
14:40			14:45 O
	14:50		
		15:15 O	
	15:30		
			15:45 O
	16:30	16:30 O	
			17:15 (Feedback)
	17:30		
	18:30		
	19:15		
	20:15		
	21h00		

Annex 7

European Repo Council

11th European repo market survey
June 2006

ERC General Meeting

London, 4 October 2006

ICMA

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European Repo Council
11th European repo market survey

Survey overview

- Outstanding value of contracts at close on 14th June 2006
- 79 responses from 71 groups
- Respondents headquartered in 15 European countries, US, Japan

European Repo Council
11th European repo market survey

Headline numbers

June 2006	EUR 6,019 billion
December 2005	EUR 5,883 billion
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
December 2001	EUR 2,298 billion
June 2001	EUR 1,863 billion

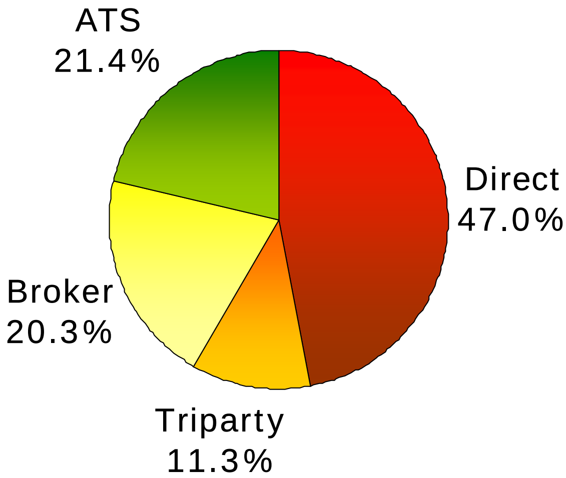
European Repo Council
11th European repo market survey

Organic growth

- 30 respondents in all 11 surveys
  - year-on-year = 15.4%
  - H1 = 8.1%
  - H2 = 6.7%
- 71 respondents in last 3 surveys
  - year-on-year = 11.8%
  - H1 = 9.6%
  - H2 = 2.0%

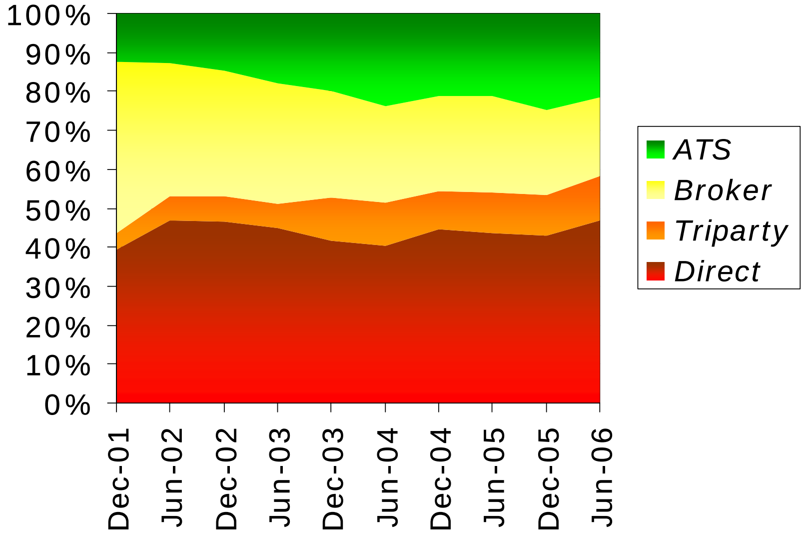
European Repo Council
11th European repo market survey

Counterparty analysis



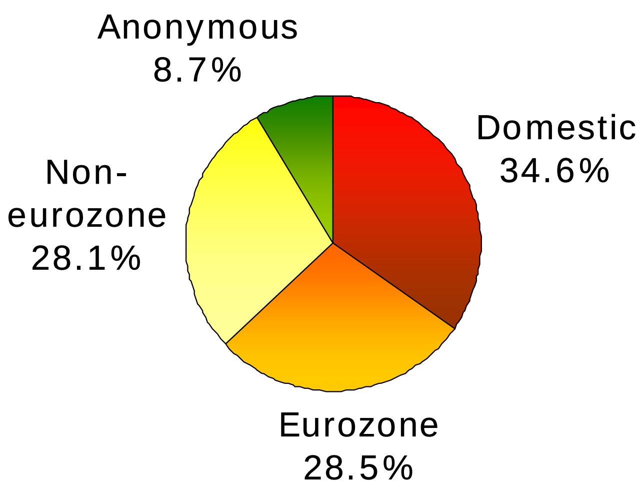
European Repo Council
11th European repo market survey

Counterparty analysis



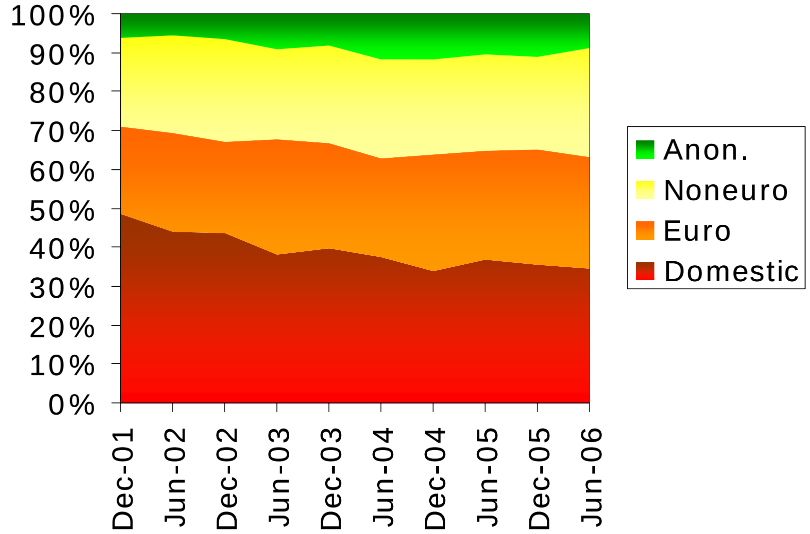
European Repo Council
11th European repo market survey

Geographical analysis



European Repo Council
11th European repo market survey

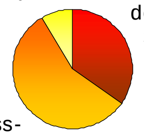
Geographical analysis



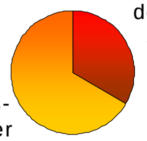
European Repo Council
11th European repo market survey

Geographical analysis

Main survey

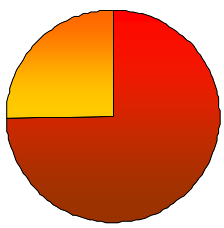


Triparty



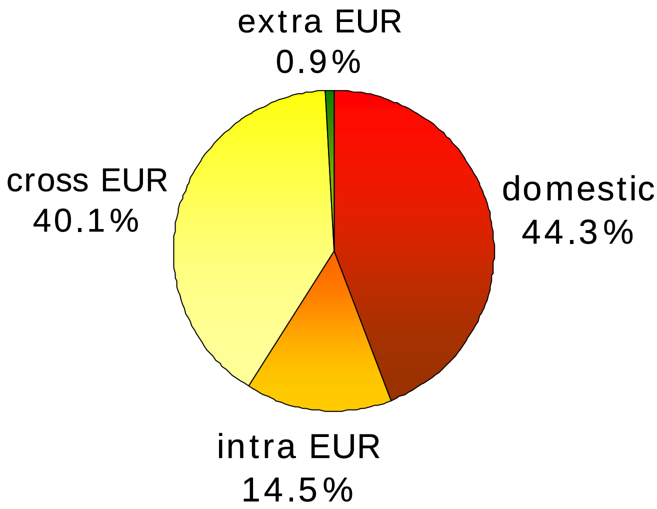
European Repo Council
11th European repo market survey

ATS geographical analysis (1)



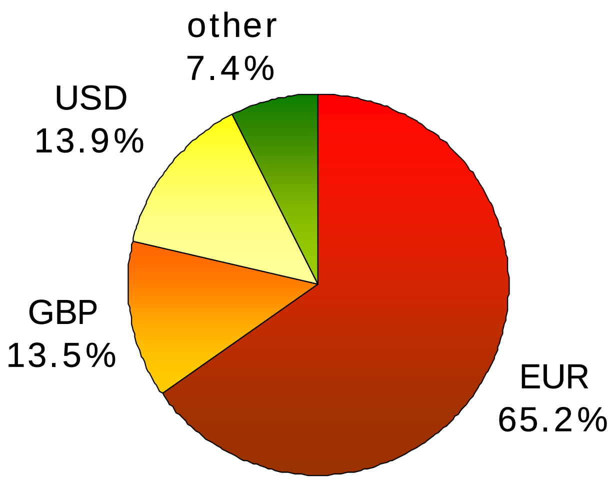
European Repo Council
11th European repo market survey

ATS geographical analysis (2)



European Repo Council
11th European repo market survey

Currency analysis



European Repo Council
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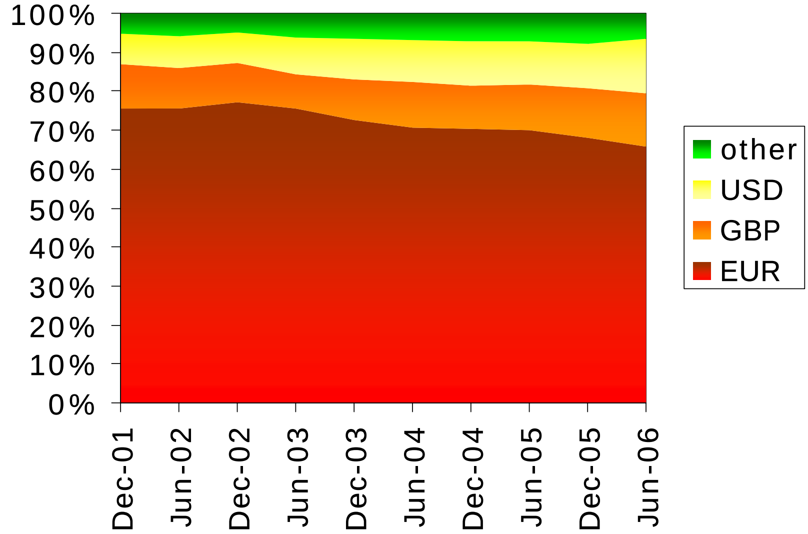
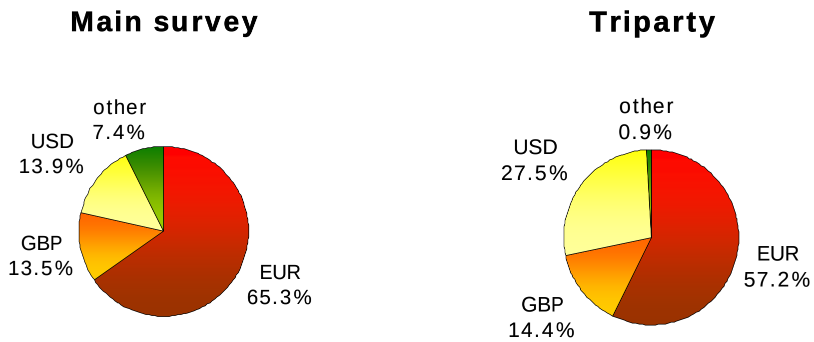
Currency analysis



European Repo Council
11th European repo market survey

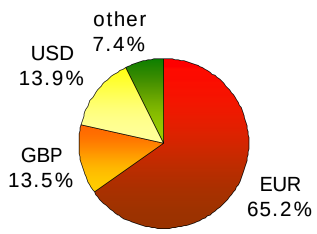
Currency analysis



European Repo Council
11th European repo market survey

Currency analysis

Main survey



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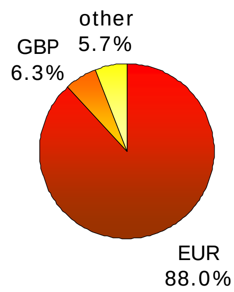
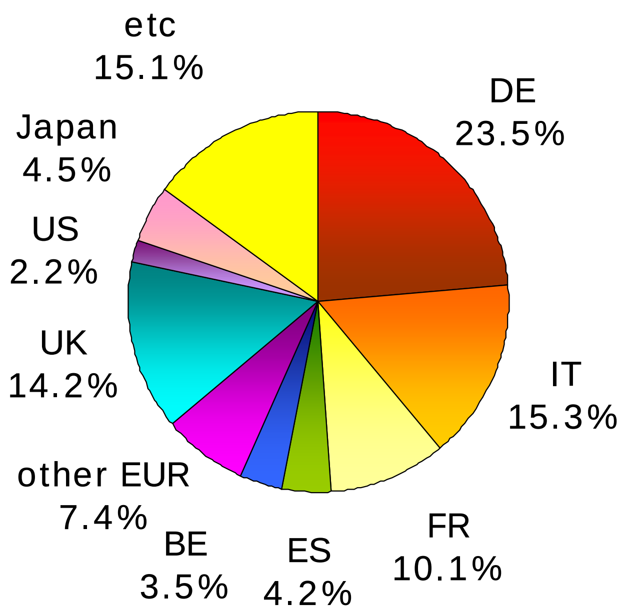


European Repo Council
11th European repo market survey

Collateral analysis



European Repo Council
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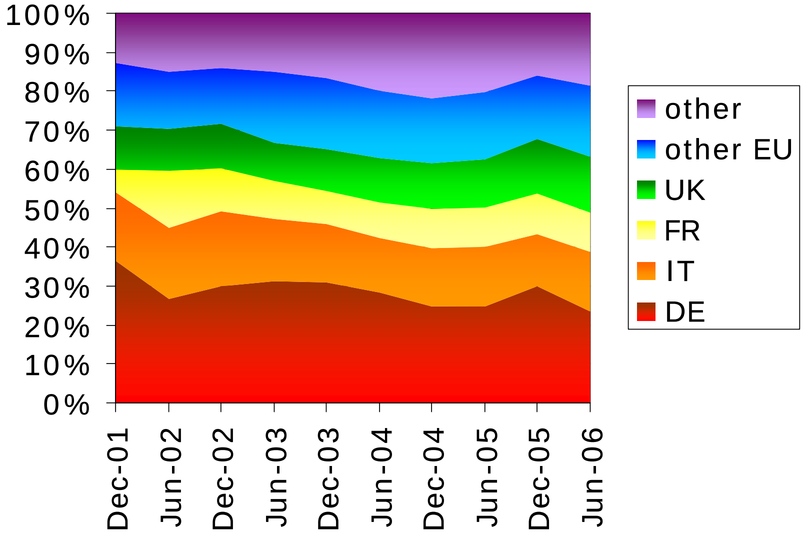
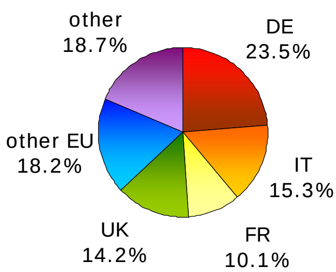
Collateral analysis



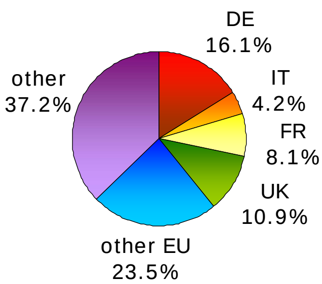
European Repo Council
11th European repo market survey

Collateral analysis

Main survey



Triparty



European Repo Council
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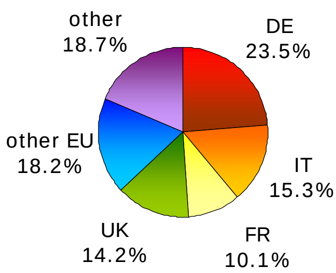
Collateral analysis

Main survey



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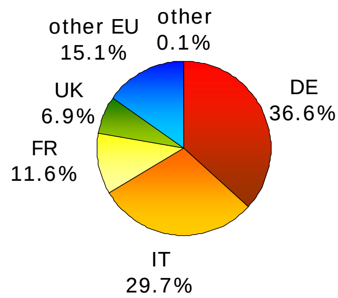

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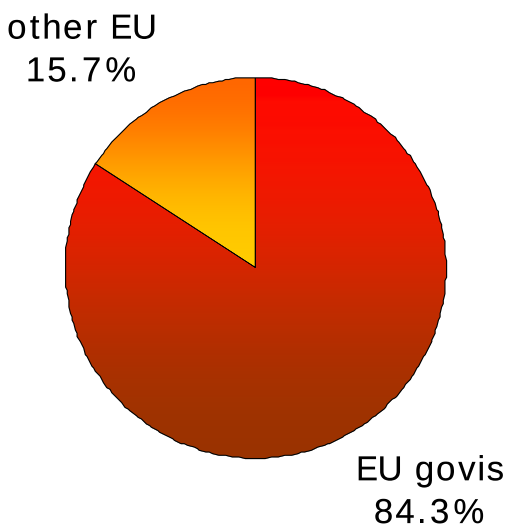
Collateral analysis



European Repo Council
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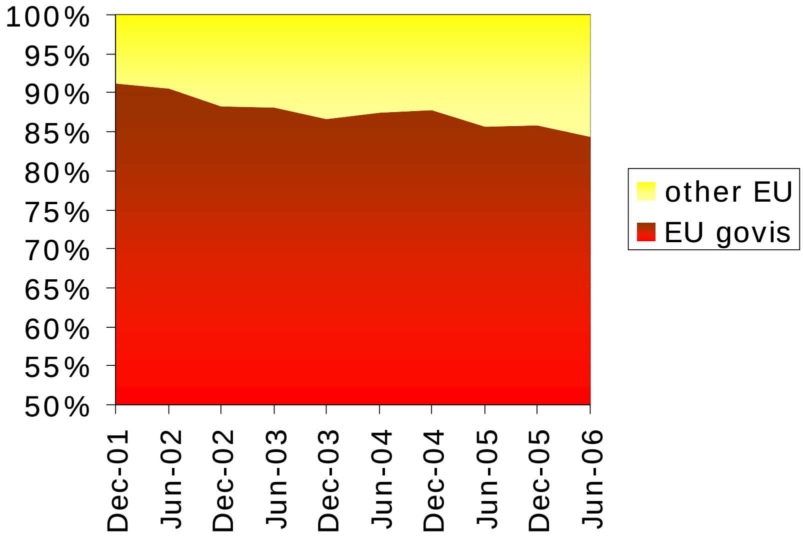
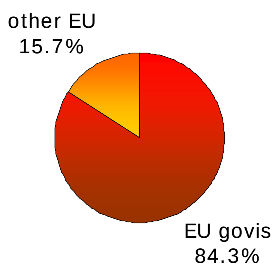
Collateral analysis



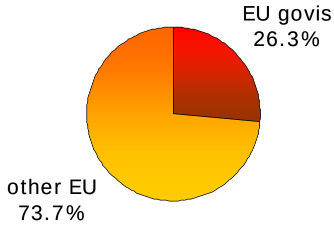
European Repo Council
11th European repo market survey

Collateral analysis

Main survey



Triparty



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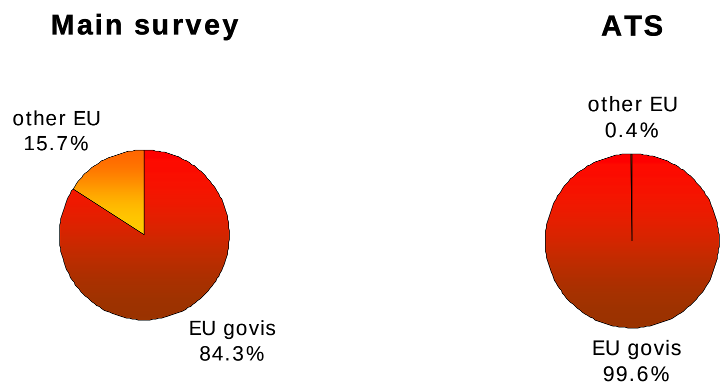
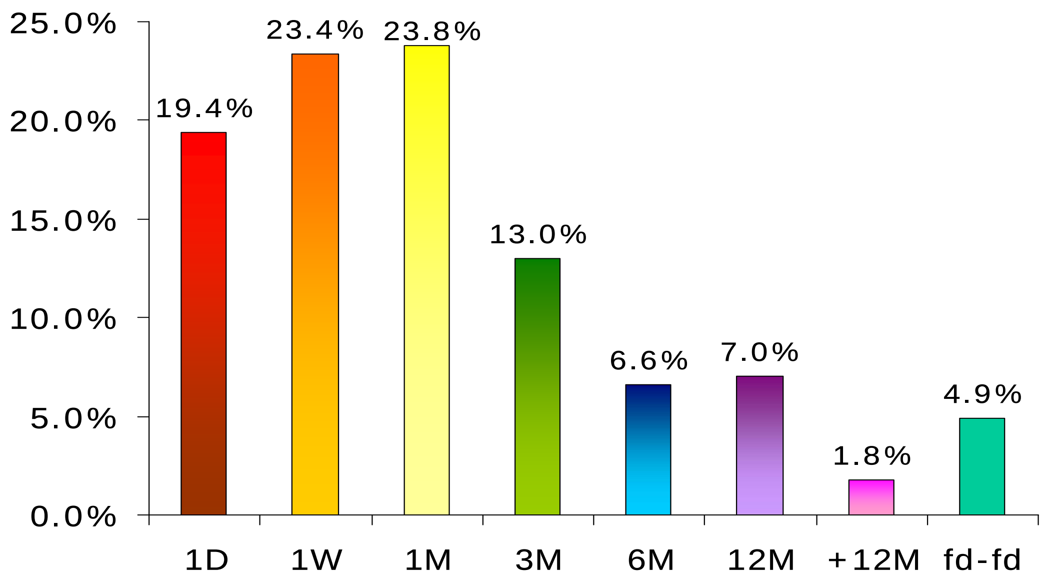
Collateral analysis



European Repo Council
11th European repo market survey

Maturity analysis



European Repo Council
11th European repo market survey

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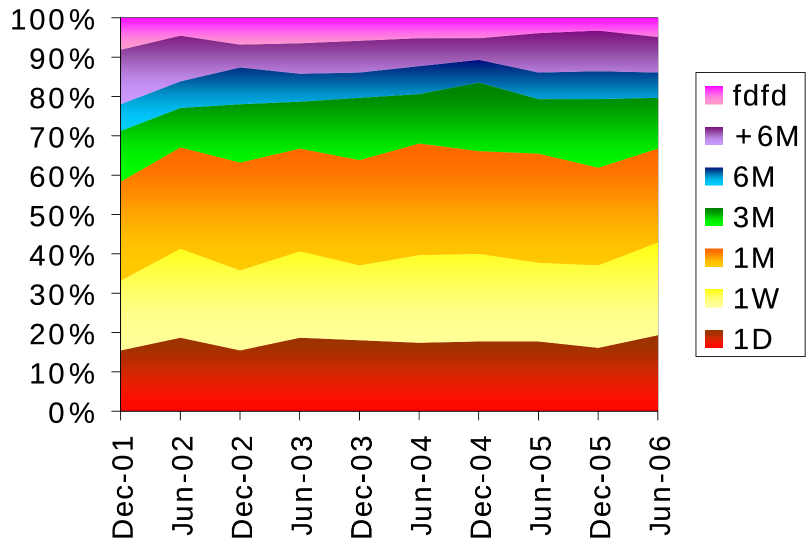
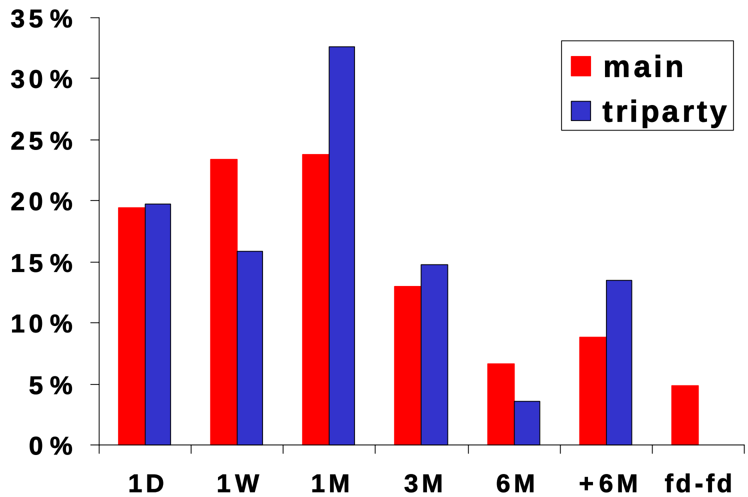


European Repo Council
11th European repo market survey

Maturity analysis



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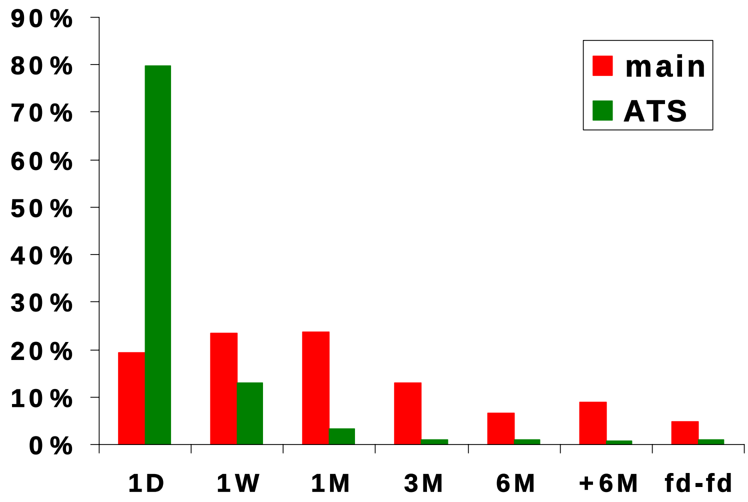
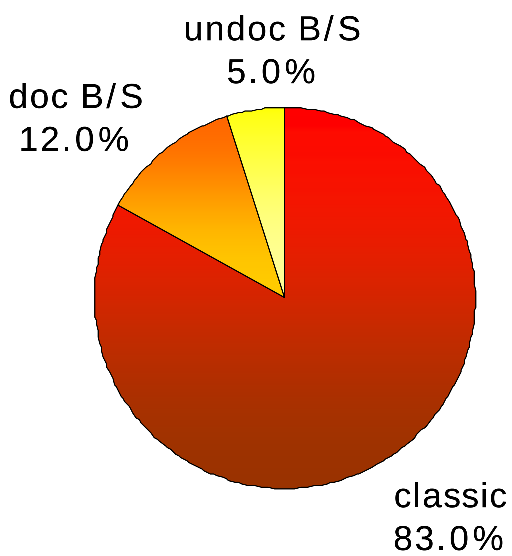
Maturity analysis



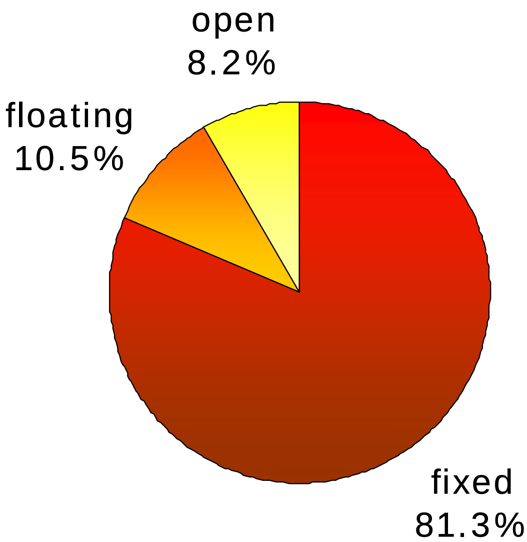
European Repo Council
11th European repo market survey

Contract analysis



European Repo Council
11th European repo market survey

Rate analysis



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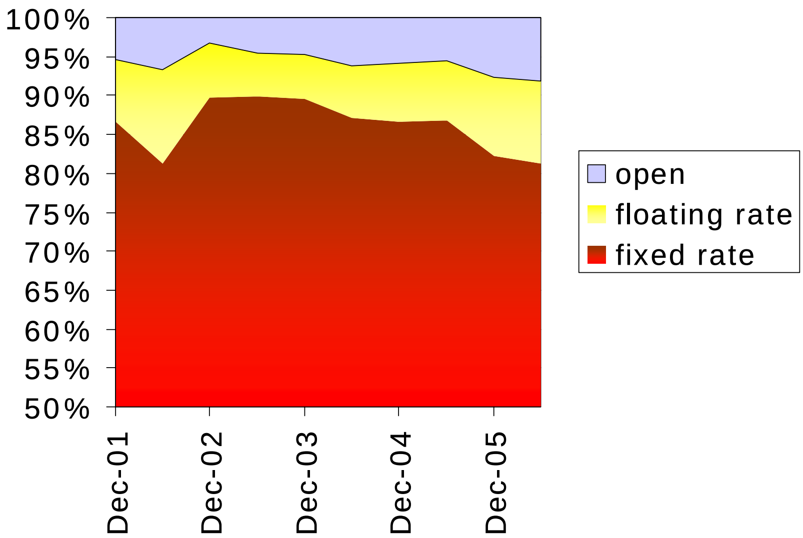
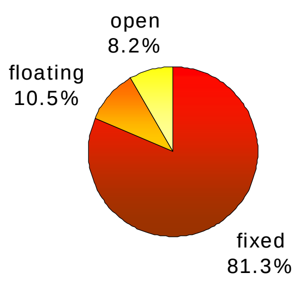
Rate analysis



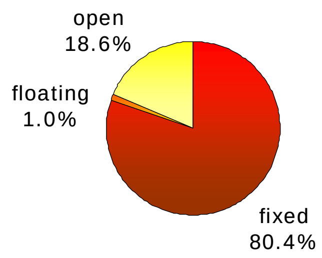
European Repo Council
11th European repo market survey

Rate analysis

Main survey



Triparty



European Repo Council
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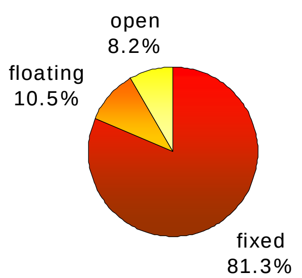
Rate analysis

Main survey



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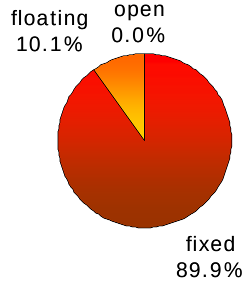
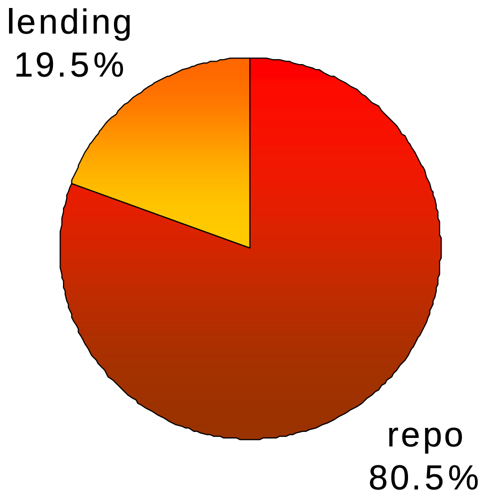


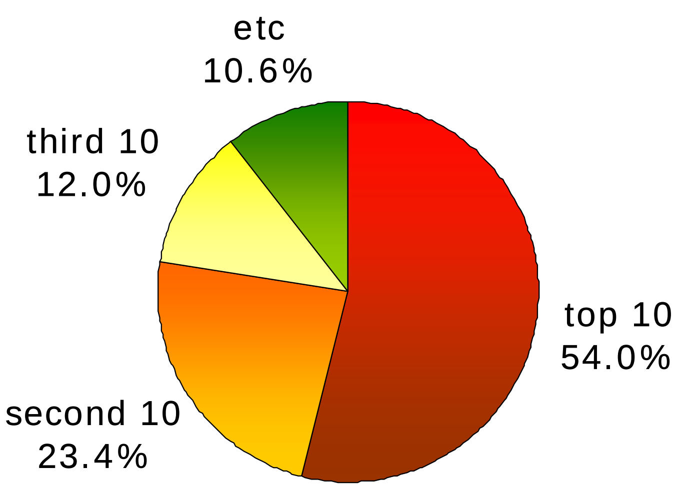
European Repo Council
11th European repo market survey

Product analysis



European Repo Council
11th European repo market survey

Concentration analysis



European Repo Council
11th European repo market survey

Date of next survey

13th December 2006

International
Capital
Market
Association

ICMA

Press release

News from the International Capital Market Association (ICMA)

Rigistrasse 60, P.O. Box, CH-8033, Zurich
www.icma-group.org

Please see foot of release for contact details

ICMA/2006/15

Wednesday, October 4, 2006

Latest ICMA survey shows European repo market size in excess of EUR 6 trillion

(London, UK) The International Capital Market Association (ICMA) today released the results of its 11th semi-annual survey of the European repo market. The survey, which is effectively a snapshot of the volume of repo trades outstanding on a single day in June, shows market size standing at over EUR 6 trillion, a 15 % increase from June last year.

The total value of repo contracts outstanding on the books of the 79 institutions who participated in the latest survey was EUR 6,019 billion, compared to EUR 5,883 billion in December 2005 and EUR 5,319 billion in June 2005.

The survey also provided clear evidence of increased interest in tri-party products, with tri-party repos accounting for a record market share of 11.3%, indicating a period of renewed growth, which will reassure those institutions poised to launch tri-party products in the coming months.

The share of the market transacted on electronic trading systems fell back to 21.4%, corresponding to a decline of 11% in the value of outstanding electronic transactions since December 2005, although this retreat has to be seen in the context of large gains made in the last six months of 2005.

The loss of market share for all intermediated business, both electronic and voice-brokered, was matched by a corresponding large increase in market share of repo business negotiated directly between two counterparties, which has risen to 58%.

More follows/

The growth of directly-transacted business at the expense of electronic and voice-brokered business may be explained by increased position-taking in expectation of interest rate rises.

Commenting on the survey results, Godfried De Vidts, Chairman of ICMA's European Repo Council said: "Growth of repo continues to be unstoppable with the inexorable move to secured financing driven by the capital adequacy requirements of Basel II. We are seeing continuous innovation in this lively market increasing the diversity of currencies and collateral, with the addition of emerging market securities, distressed assets, and structured and even more unusual assets to the repo mix.''

The results of the repo survey were presented today at the General Meeting of the European Repo Council, a forum affiliated to ICMA, where the repo dealer community meets to discuss the practical challenges of this rapidly evolving marketplace. Presentations by the European Central Bank (ECB) and European Commission (EC) on clearing and settlement initiatives in the Euro zone were also on the agenda. The repo market requires the cross-border transfer of collateral, on an intra day basis. This process is generally seen as well managed due to close co-operation within repo community between users and infrastructure providers; it could however be streamlined by the introduction of a truly integrated European security settlement infrastructure.

Referring to developments in repo clearing and settlement Godfried De Vidts said: "Repo practitioners and the ERC welcome discussion with the ECB over its proposal to extend its TARGET2 system to securities. We remain deeply convinced that allowing easier transfer of collateral within the euro market and developing the current systems from legacy domestic markets into a true European settlement infrastructure will benefit the wholesale market. ICMA's TRAX2 pre-matching system designed for managing operational risk in what the latest survey demonstrates remains a predominantly over the counter market is also a very desirable move towards improving the market's infrastructure".

ENDS

more follows/

Notes for editors

1. Copies of the ERC survey

A copy of the 11th ICMA ERC European Repo Survey can be downloaded from ICMA's website at:www.icma-group.org

2. International Capital Market Association (ICMA)

The International Capital Market Association (ICMA) is the self-regulatory organisation representing the financial institutions active in the international capital market worldwide. ICMA's members are located in some 50 countries across the globe, including all the world's main financial centres, and currently number over 400 firms.

3. European Repo Council

The ERC was established in December 1999 by ICMA. Membership is open to any ICMA member who undertakes dedicated repo markets activity. A core responsibility of the ERC and one of the original reasons for its existence is to assist ICMA in maintaining the legal documentation which underpins the safe functioning of the cross-border repo market, specifically, the Global Master Repurchase Agreement (GMRA).

Perhaps one of the most widely known initiatives of the ERC has been its educational programme. With the backing of ICMA and the ACI, the ERC has run the ICMA-ACI Professional Repo Market course since 2002. This year the course will run in Madrid in November and a similar course is planned in Moscow in 2007.

4. Contact details for further information

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+44 7931 100499 mobile
margaret.wilkinson@icma-group.co.uk

Trish de Souza
ICMA Limited, London
+44 20 7538 5656 phone
trish.desouza@icma-group.co.uk

EUROPEAN CENTRAL BANK

TARGET2 – Securities

Marc Bayle
European Central Bank
October 2006

Table of content

I. Why?

Why?

European Integration:

- Cross-border securities settlement in the EU up to 6 times more expensive than domestic settlement.
- Domestic settlement in EU up to 8 times more expensive than in the USA.
- Banks are asking for a single settlement platform for European securities.
- Public authorities committed to act (Lisbon agenda).
  - Lifting the "Giovannini barriers"
  - Code of Conduct
  - TARGET2-Securities

Why?

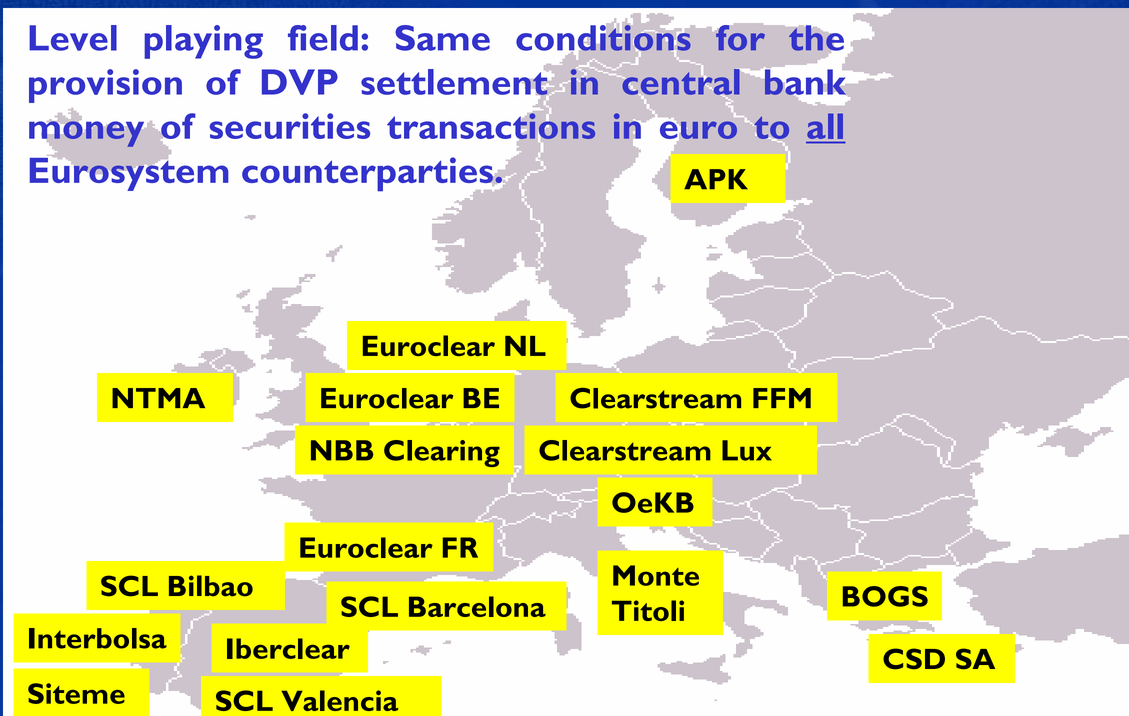
The current initiatives:

How many more years would the market need before they find a solution for the euro area?

Why?

TARGET2-Securities:

Level playing field: Same conditions for the provision of DVP settlement in central bank money of securities transactions in euro to <u>all</u> Eurosystem counterparties.



Why?

Efficiency:

Market preference for securities and cash to be settled through the same technical IT platform.

Financial stability:

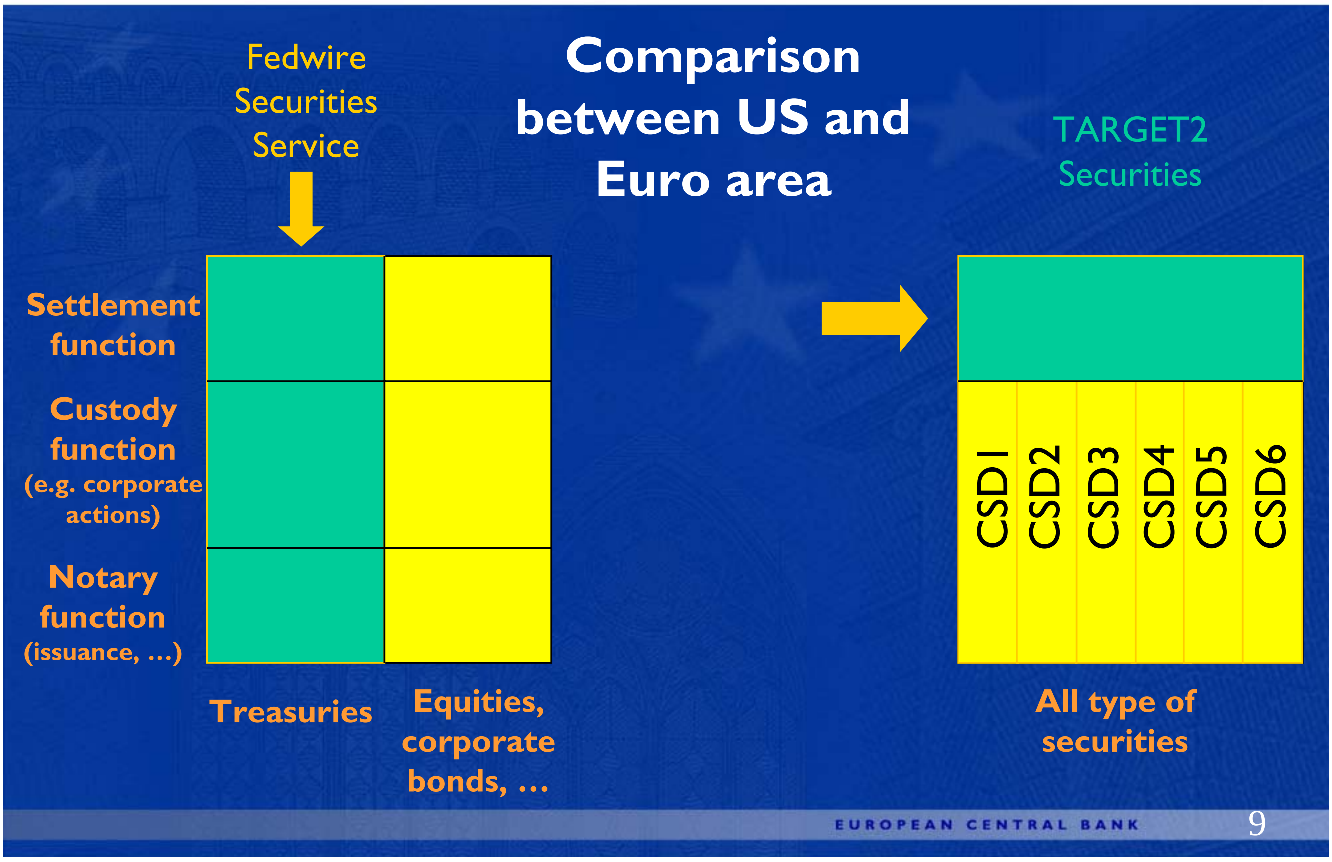
The Eurosystem expresses strong reticence to outsource settlement in central bank money to third parties (as envisaged by Euroclear).
The Eurosystem wants to keep full control of their accounts at all times, in particular in time of crisis.

Why?

A long central bank tradition

	Central Banks involved in Securities Settlement	Central Banks involved in Securities Settlement in the last 20 years	Central Banks not involved in Securities Settlement in the last 20 years
Non €-area	USA	UK	Germany
	Japan	France	Luxembourg
€-area	Belgium	Spain	Austria
	Greece	Italy	
	Portugal	Ireland	
		Netherlands	
		Finland (as a major shareholder)	

Why?


Comparison between US and Euro area
Fedwire Securities Service
Settlement function
Custody function (e.g. corporate actions)
Notary function (issuance, …)
Treasuries
Equities, corporate bonds, …
TARGET2 Securities
CSD1
CSD2
CSD3
CSD4
CSD5
CSD6
All type of securities
EUROPEAN CENTRAL BANK
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II. How?

How?

Looking for synergies with TARGET2

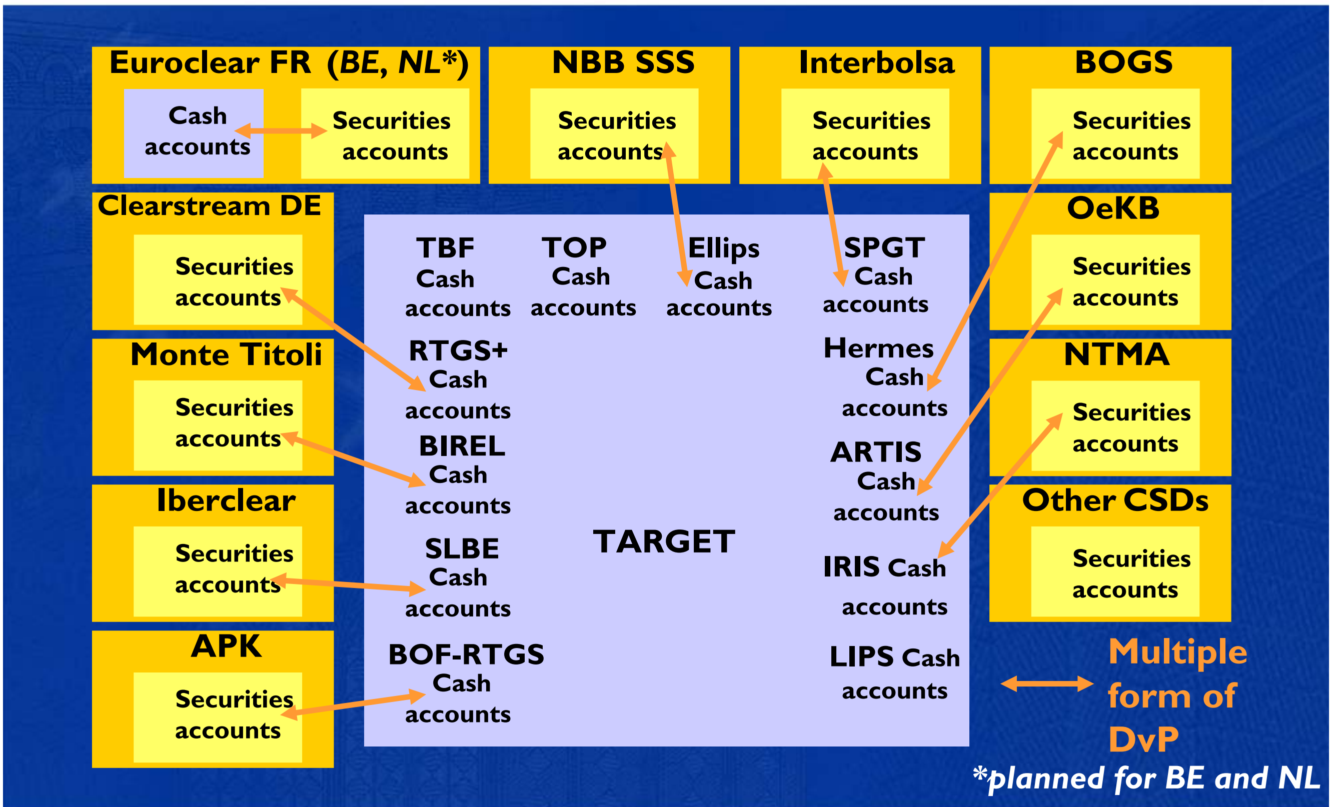
TARGET:

- Now biggest system in the world (EUR 2000 billion per day)
- Equivalent to the US system Fedwire

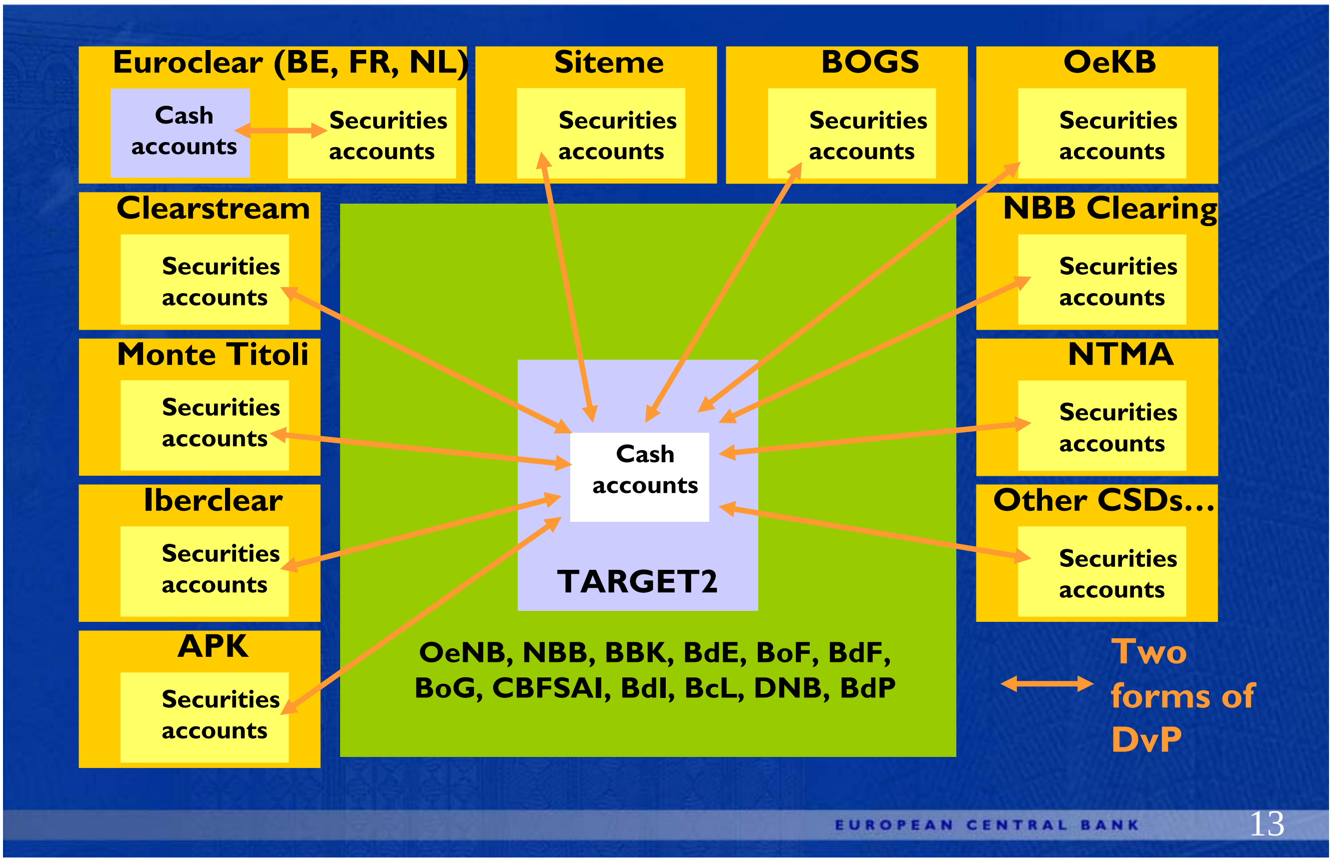
TARGET2:

- New system working on a single IT platform

How?



How?


Euroclear (BE, FR, NL)
Cash accounts
Securities accounts
Siteme
Securities accounts
BOGS
Securities accounts
OeKB
Securities accounts
Clearstream
Securities accounts
NBB Clearing
Securities accounts
Monte Titoli
Securities accounts
NTMA
Securities accounts
Iberclear
Securities accounts
Other CSDs…
Securities accounts
APK
Securities accounts
Cash accounts
TARGET2
OeNB, NBB, BBK, BdE, BoF, BdF, BoG, CBFSAI, BdI, BcL, DNB, BdP
Two forms of DvP
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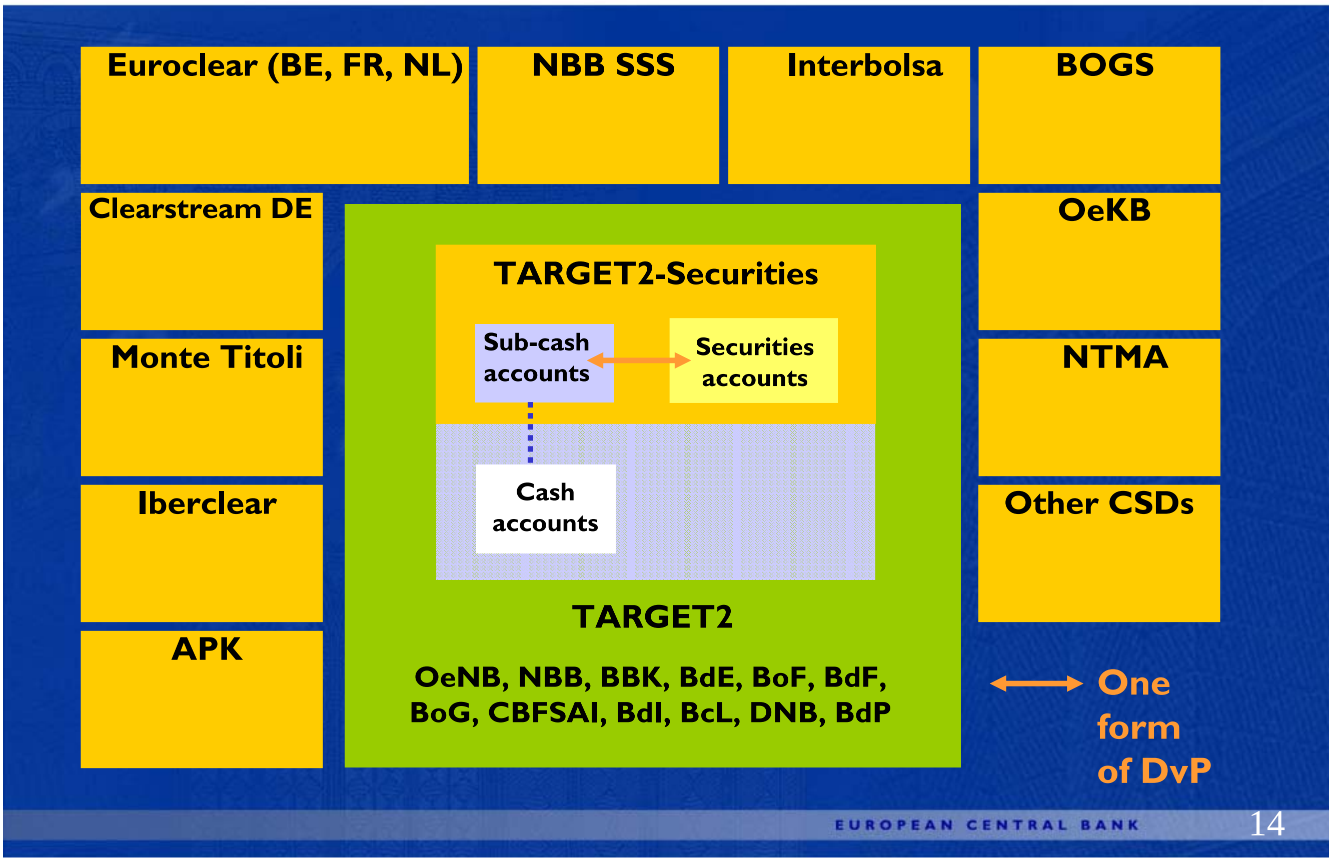
How?


Euroclear (BE, FR, NL)
NBB SSS
Interbolsa
BOGS
Clearstream DE
OeKB
Monte Titoli
NTMA
Iberclear
Other CSDs
APK
TARGET2-Securities
Sub-cash accounts
Securities accounts
Cash accounts
TARGET2
OeNB, NBB, BBK, BdE, BoF, BdF, BoG, CBFSAI, BdI, BcL, DNB, BdP
One form of DvP
EUROPEAN CENTRAL BANK
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How?

Consolidation of the settlement function only

- CSDs keep the custody function:
  - ➢ relation with issuers
  - ➢ corporate events
  - ➢ custody for market participants

- CSDs outsource only their settlement function to TARGET2-Securities

No competition with CSDs

How?

Settlement engine

Real-time settlement (DVP1) with optimisation mechanisms and self collateralisation facilities

Settlement asset: Only € in central bank money. Offer open to CSDs outside the euro area settling in € ?

Interim regime

Until go-live of T2S, interfaced and integrated models will co-exist

How?

Ownership, governance, development

Full ownership by the Eurosystem

User Committees for CSDs and banks

Developed within the NCBs of the Eurosystem (i.e. in principle, no tender can be expected)

III. When?

III When?

No decision has been taken yet:

The Eurosystem is "exploring" the issue

Preliminary answers (see ECB website):

- 13 banking communities
- 15 market infrastructures (CSDs and CCPs)
- 3 European associations of banks

III When?

Preliminary reactions of market to TARGET2-Securities:

Very positive reactions from banks

- almost unanimous support
- preference for <u>all</u> transactions
- need for both real-time and batch settlement seen but some emphasis on real-time
- possibility of direct technical access
- need for TARGET2-Securities to decrease fees for end customers

III When?

Preliminary reactions of market to TARGET2-Securities:

CSD reserved their position as long as more information is provided on:

- Scope of project (assets and services)
- Direct versus indirect connectivity
- Timetable
- Implications on costs and revenues of CSDs

III When?

Preliminary reactions of market to TARGET2-Securities:

- very positive reaction by most banks
- interest in T2S also outside the euro area
- CSDs "wait and see" attitude (with some CSDs more supporting than others)
- clear need for more elaborate proposal for next round of discussions (including timetable and road map)

III When?

Final decision of the Governing Council expected during the first half of 2007

After the result of a feasibility study:

- Banks effectively demand these services and CSDs are ready to accept outsourcing to the Eurosystem.
- No legal or technical obstacles to build T2S
- The Eurosystem can provide the services at a good price

International
Capital
Market
Association Ltd

ICMA

Annex 10

G073-2 (FINAL)

European Central Bank
DG Payment Systems & Market Infrastructure
Postfach 16 03 19

Frankfurt am Main
D-60066 Frankfurt/M
Germany

London, 15th September 2006

Dear Ms. Russo,

TARGET2-Securities (T2S)
Response by the European Repo Committee (ERC) to the first proposals and initial assumptions

The ERC welcomes the ECB Governing Council initiative to study the creation of TARGET2-Securities (T2S). For many years, the European repo markets have been suffering from an inadequate euro zone settlement infrastructure.

As demonstrated in our semi-annual repo survey (http://www.icma-group.org/surveys/repo.html), growth of the repo markets in the euro currency has been spectacular. We remain deeply convinced that allowing easier transfer of collateral within the euro market and developing the current practise from legacy domestic markets into a true European settlement infrastructure will benefit the wholesale markets.

Please find in the annex to this cover letter our comments on various issues related to the project. As a general point, we would like to underline that any future design should properly reflect current successful practices in the respective markets, both cash and repo. We remain, of course, at your disposal for any further questions or clarifications.

Our contribution in this letter focuses exclusively on the practical benefits on the repo financing markets. We assume that most of our member banks will also respond to you separately, probably from a custody point of view. Likewise, ICMA may on behalf of its membership decide to provide comments from a more general point of view.

With kind regards.

Yours sincerely

Godfried de Vidts
Chairman
European Repo Committee

Annex – Detailed comments

User Committees

We welcome the intention to establish user committees, but advocate broad involvement in such committees. We witness today that in many industry infrastructure user committees the trading side is ignored. The ERC has been involved in similar initiatives by contributing to the debate from a market practitioners' point of view.

Similar to our discussions around the creation of the legal framework for the GMRA, the optimisation of CCP functions, the development of triparty financing – only to give a few examples -, we believe that financial market actors should be involved in such a user committee. Only the professionals that use collateral on a day-to-day intense basis realise the difficulties that the European repo markets currently experience from the lack of an adequate European security settlement infrastructure. We would recommend and welcome the inclusion of a member of the European Repo Committee in this user committee.

Cost and Pricing

Repo financing is a high-volume but low-revenue activity. Advanced collateralisation techniques, intense discussions with the Basle committee on capital adequacy, and constant innovation in bilateral and triparty party financing, have made this product valuable for our respective institutions. Any additional cost would be unwelcome, as it would add to the already high charges for the services we need. Thus, the key to success for T2S in the markets would be a <u>substantial decrease</u> of the current charges allowing this new initiative to be incorporated.

Scope of assets and services

We argue that for efficiency reasons the project should cover all assets in euro. Ultimately it is the end user who will decide in which way settlement should be made. Central Bank money is currently unavailable for certain products like triparty. It would require the Eurosystem to allow both ICSDs to have direct access to the settlement system.

As euro bonds are currently only partially eligible for Eurosystem credit operations it would make perfect sense to allow all market participants to use the new service for all assets at their discretion. This means that the decision to use T2S must remain with each participant and participation should not be mandated.

With regard to the scope of the services offered, we think that T2S should only be a settlement tool allowing any type of collateral to move from one clearing area to another without complicated link systems as we currently have in place.

On the processing side, the goal should be to have real-time settlement across all products. Batch systems can block the process of settlement because of possible concentration in one clearing participant. To avoid unnecessary intra-day borrowing and lending, all transactions should be released immediately by the settlement agents as requested by their clients. As the pool could in principle include all euro collateral it would optimise settlement and avoid the current practise by (I)CSDs to charge for intra-day borrowing.

We propose that T2S study and evaluate pre-matching facilities such as ICMA's recently launched TRAX2 system (http://www.icma-group.org/products/trax.html) as this system will instruct both settlement legs on behalf of its clients.

To optimise the use of collateral in a same-day trading environment our clients need to have access to collateral – if possible – on terms equal to cash settlement or at least as close to real-time as possible, in particular for government bonds that are often used for liquidity purposes between market participants. This important principle has also been also reflected in a letter from the ERC to ECSDA in May this year where we requested full interoperability between ECSDA members until 17.30 CET of the same day.

Stock exchanges and CCPs

The repo market has been at the forefront of the development of CCP services for the fixed income area. CCPs are designed to net positions of market participants for balance and credit risk reasons. After netting the remaining balances should be settled through T2S and not the initial gross instructions received. Gross settlement will only increase the cost for the users which is counterproductive to the overall goal of bringing costs down in the EU markets.

With regard to cross-currency trading (where one leg, either currency or collateral, is denominated in euro), we could see major issues arising. In particular in triparty business, large settlement volumes could be excluded. The market is currently developing Euro GC Triparty basket trading - for the time being in the same currency. We regard it quite possible, however, that this activity may in the future involve cross-currency transactions, and we argue strongly against any foreclosure in this area.

For euro-denominated securities settled in non-euro area CSDs, the obvious solution for us would be to allow both ICSDs the same equal access to T2S as the CSDs. The T2S infrastructure could allow cross-currency instructions with one leg (as mentioned in the document FOP) which would have the benefit of concentrating the maximum amount of collateral in the pool. This should alleviate any squeeze of collateral due to technical issues, as all collateral will be in the single T2S system.

The ERC has on numerous occasions called for improved interoperability between (I)CSDs. In the view of its members, the T2S project could significantly contribute to more efficient settlement, thus paving the way for enhanced interoperability.

Account structure

In the interest of the overall purpose of the T2S proposal, namely to reduce costs and increase efficiency, we argue that users have the maximum benefit if they are required to maintain only one account for all collateral settlement purposes (similar to proposal (b)), irrespective of the location of the collateral. This should however not necessarily have to be at their "local" CSD, but rather at a CSD of their choice. CSDs participating in T2S should then open reciprocal accounts/links.

If the T2S proposal is ultimately successful, wholesale customers would clearly start to close down various custody accounts they are forced today to hold across the euro-area domestic markets. Ultimately, each customer would only have one sub-account with the

(I)CSD of his choice. For the repo market, this evolution would drastically decrease the complexity we currently have with collateral management within the same currency.

Corporate actions

There should be little difference between a cash payment and a security payment. Most, if not all, transactions are today based on book-entry. The evolution and development of IT systems has been such that processes in custody and corporate events should run fully automatically.

On the trading desk side, the GMRA and the ERC recommendations for margin calls have successfully streamlined procedures around corporate actions (coupons). We would be happy to provide additional views from the purely administrative viewpoint of our respective back-offices, should such views be required.

Communication

In order to avoid additional costs, we strongly encourage the use of SWIFT as it is the most widely used and proven efficient system for the settlement of wholesale transactions.

The role of the Eurosystem in settlement routing should be restricted to the processing of any incoming instructions from the users, i.e. the CSDs.

(Information for available from T2S)
Repo desks, often in charge of collateral management because of the specific financing tasks given to them, need to be <u>immediately informed</u> by the clearing agents or relevant CCP at the moment of the trade. In order to follow the liquidity and collateral impact of trading, it seems therefore be highly practical – if not indispensable – to provide for real-time communication throughout the day

Timing and priorities

We would see no reason – and given its importance also no justification - why the launch of T2S should be unnecessarily delayed. We believe that Eurosystem has enough experience with TARGET and the settlement of the open market operations in order to ensure speedy and prioritised implementation of this project.

The only fundamental reason why some delay could be accepted is the required robustness of the system to be developed, and respective worries from the banking regulators. A sustained effort for education together with a clear road map should contribute towards eliminating any worries from the regulatory side.

In line with our argumentation for swift implementation, we recommend avoiding to the extent possible any staggered or phased implementation. Any hesitation in implementation could easily serve as an excuse for one or the other (I)CSD delaying any development. If absolutely unavoidable, we would accept a phased implementation approach similar to the implementation of TARGET2-Cash, but with very clear deadlines and as short as possible.

Potential obstacles

Certainly, market practices, IT developments and other elements of the business will have to be adjusted to the system. An early timetable, a clear road map, and tight project management with ongoing implementation oversight should permit market participants to direct their efforts and developments to compatibility with the new system with minimum delay. This would in our view considerably reduce the risk of delays caused by industry calls (some of them justifiable) for longer implementation phases.

Annex 11

Post-trading; challenges and policy initiatives

General Meeting of ICMA's European Repo Council

4 October 2006

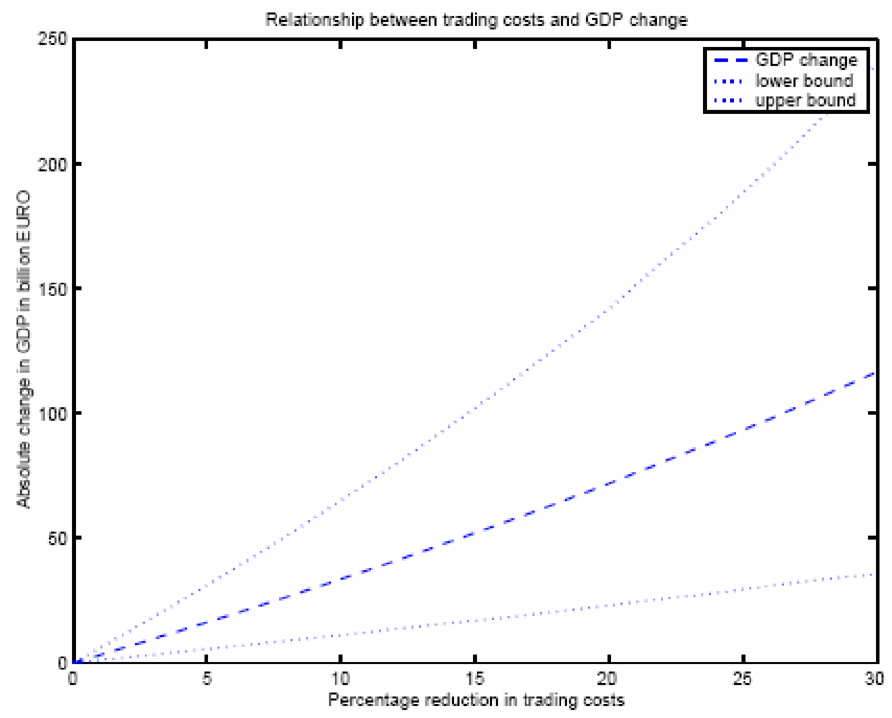
Mattias Levin

European Commission
Internal Market & Services DG

Markets develop…

Source: European Repo Market Survey

…but could prosper further



Source:

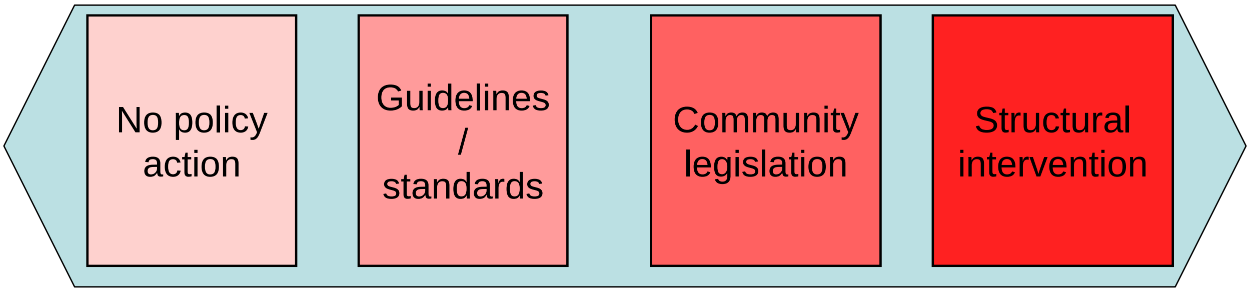
European Commission (2006).

…were it not for barriers

- **Inadequate post-trading landscape:**
  - **Domestic**: efficient and safe
  - **Cross-border**: fragmentation ➔ costly and, potentially, more risky
- **Reasons = barriers to cross-border provision**
  - National differences in technical requirements/market practice
  - National differences in tax procedures
  - Issues of legal certainty that may arise between national jurisdictions

What can the Commission do?

- **Commission roles**
  - Honest broker
  - Enforcer
  - Legislator
- **Wide spectrum of available instruments**



The chosen strategy – a Code

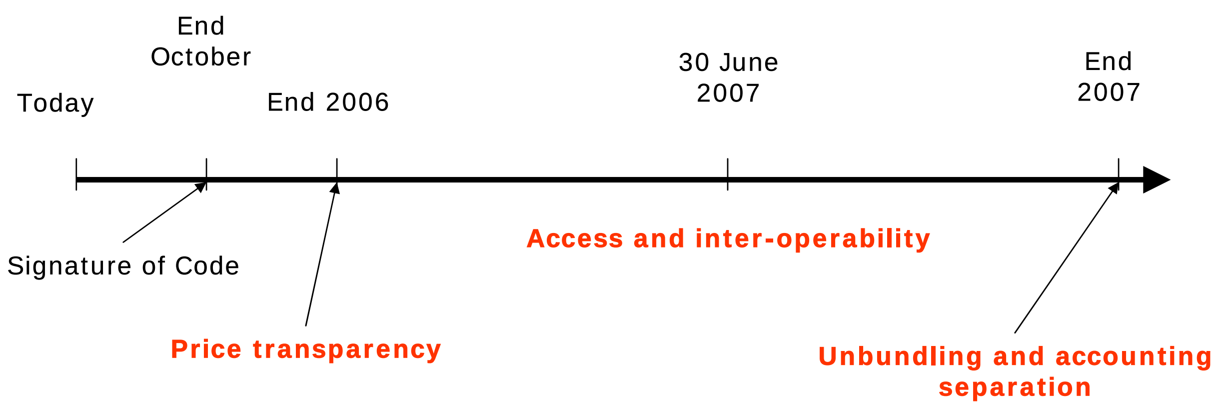
- On **11 July 2006** Commissioner McCreevy announced his decision: a **Code of Conduct** is the best solution.
- The Code is not without risks, but it is the best option at this moment in time:
  - **Results much sooner** than with legislative intervention;
  - It is more **flexible**;
  - It allows for the effects of **recent legislative measures** with an impact in the post-trading area to be fully realised and appraised before further action is considered.

The Code of Conduct (1)

- **Commitments** in four areas:
  - Price transparency;
  - Interoperability and access;
  - Unbundling of services and accounting separation;
  - Monitoring.
- Precise **scope**
  - Initially applicable to **cash equities**
  - Possibility of extension later.

The Code of Conduct (2)

There will be specific **deadlines** for the drafting of the Code and the implementation of its commitments.



Code of Conduct (3)

- The implementation of the Code will be backed up by a **strong monitoring process** to ensure its timely and consistent application.
- The implementation of the Code will be accompanied by **strict enforcement of competition law**.
- If the process is unsuccessful, the Commission has **other measures** at its disposal that it will not hesitate to use.

Giovannini barriers

- **Private sector barriers**
  - CESAME
  - Progress (barrier 1, 8…)
  - Much remains (3, 4, 7, 6…)
  - Deadline mid-2008…
- **Public barriers**
  - Tax procedures: FISCO
  - Legal certainty: LCG

Legal modernisation

- **Hague Securities Convention**
  - New approach to determine applicable law for cross-border securities. Difficult negotiation in Council, potential impact on existing legislation.
- **Settlement Finality Directive (98/26/EC)**
  - Ongoing consultation with Member States, ECB, industry and other stakeholders. Remaining questions: scope; insolvency procedure; conflict of law regime.
- **Financial Collateral Directive (02/47/EC)**
  - Consultation with Member States and industry concluded at the end of March 2006; Report by the end of 2006.

➔ Single set of limited amendments in 2007

- Limited set of amendments and non-legislative measures aimed at modernising, simplifying and making the two texts coherent and consistent

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European Commission
Internal Market & Services DG

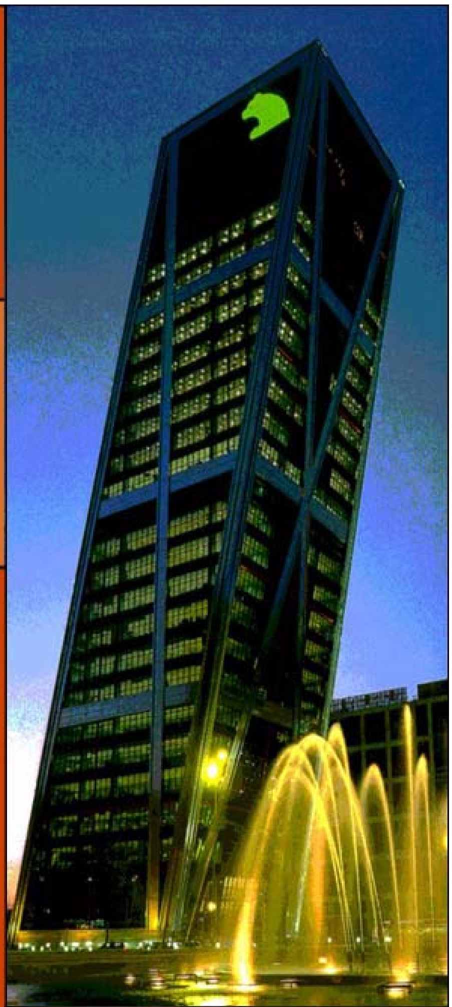
Annex 12

Madrid Repo Course

ICMA International Capital Market Association

ACI THE FINANCIAL MARKETS ASSOCIATION

ICMA - ACI
Professional Repo Market Course



Madrid
November 22-23, 2006

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ICMA-ACI Professional Repo Market Course – Madrid, November 22-23, 2006

Syllabus

(a more detailed syllabus will be available on www.icma-group.org by early October 2006)

Wednesday, November 22			
09:00	**start of registration**		
10:00	tbc	Caja Madrid	**Welcome to delegates from the host(s)**
10:10	Godfried De Vidts	ICAP, Chairman of the ERC	**Welcome to delegates from the ERC**
10:30	Jaime Comunia	Caja Madrid	**The repo market in Spain**
11:00	Richard Comotto	ICMA Centre	**The operational and legal structure of repo**
12:00	Richard Comotto	ICMA Centre	**Repurchase agreements versus sell/buy-backs**
13:00	**lunch**		
14:15	Johan Evenepoel	Dexia	**Triparty repo**
14:45	Claudia Schindler	Bayerische Hypo- und Vereinsbank	**Initial margins, repricing, making to market and margin maintenance**
15:20	Richard Comotto	ICMA Centre	**Repo and bonds**
16:00	**coffee**		
16:20	Richard Comotto	ICMA Centre	**Repo and swaps**
17:00	Jesus Benito	Iberclear	**Clearing & settlement of repo and bonds in Spain**
17:25	J. Alonso	Bank of Spain	**Central bank repo**
17:50	**adjourn**		

Thursday, November 23			
08:30	**coffee**		
09:00	Jean Marie Begonin	Credit Suisse First Boston	**Repo & futures**
09:45	Godfried De Vidts	ICAP, Chairman of the ERC	**The infrastructure of the repo market**
10:20	**coffee**		
10:40	Eduard Cia	Bayerische Hypo- und Vereinsbank	**Fails**
11:15	Simon Parkin	BNP Paribas	**Short selling and specials trading**
12:00			**Credit repo**
12:40	**lunch**		
14:00		JP Morgan	**Equity repo**
14:30	Dominick Emmanuelli	Barclays Capital	**Emerging market repo**
15:00	**coffee**		
15:20		Royal Bank of Scotland	**Accounting for repo**
15:50	Simon Tims	UBS	**Securities financing and Basel II**
16:20	Richard Comotto	ICMA Centre	**Conclusion**
16:30	**finish**		