International
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Association

ICMA

EUROPEAN REPO COUNCIL

Minutes of the Annual General Meeting of the ICMA European Repo Council
held on January 18, 2012, in Luxembourg

Location: European Conference Centre, 1 rue du Fort Thüngen, L-1499 Luxembourg, in the context of Clearstream's "16th Global Securities Financing Summit"
Time: 3:30 pm – 6:00 pm

Presenting:
Mr. Godfried De Vidts (ERC Chairman), ICAP Securities Limited
Mr. Martin Scheck, ICMA Chief Executive
Ms. Lisa Cleary, ICMA
Mr. Jean-Robert Wilkin, Clearstream
Mr. Frank Reiss, Euroclear
Mr. Andreas Biewald, Commerzbank
Mr. Richard Comotto, ICMA Centre
Mr. Nicholas Hamilton, JP Morgan Securities Limited
Mr. David Hiscock, ICMA
Ms. Lalitha Colaco-Henry (ERC Secretary), ICMA

Member firms represented at the meeting:
Please see Annex A

1. Welcome by Martin Scheck, ICMA Chief Executive

Mr. Scheck noted that, over the last few years, European Repo Council (ERC) AGMs had been increasingly well attended, which was a good indication that the Council plays a vital role in the development and nurture of the cross border repo market. The repo market continues to grow in importance and the sovereign crisis of the last year in particular has highlighted the critical importance of a well-functioning secured funding market as other funding avenues have become significantly more constrained.

Mr. Scheck outlined the broader remit and work-streams of ICMA so that the work of the ERC could be placed into context. Firstly the ERC and the ERC Committee are important to ICMA as a whole – for many of our members the work done on this committee and the access to the legal opinions underlying the GMRA are the most tangible benefits they receive from belonging to ICMA - and often the first thing that new or potential members focus upon before becoming aware of the range of services provided by the rest of the association. The release of the GMRA 2011 was a milestone for us last year, and to support it we have been holding an increased number of GMRA roundtables highlighting the changes as well as the GMRA and GMSLA workshops.

The ERC and ERC Committee, which are the largest of the councils and committees we run, are active and highly influential and we often hold them up as a role model to the chairmen of our other ICMA committees. It benefits from an extraordinarily dynamic and committed chairman in the person of Godfried De Vidts. The work of the ERC Operations Group, chaired by Tony Platt, is also greatly appreciated. Not only does the ERC deal with the more obvious aspects of the repo market but it is also the area within ICMA where we choose to concentrate much of the work we do on market infrastructure – given the current changes this will remain a critical aspect of our work in improving and maintaining market efficiency. We have been flagging up our concerns regarding a lack of collateral for some considerable time now. Suffice to say that there are now a number of other voices saying the same thing and we are setting up a Collateral Initiatives Coordination Forum with other associations to ensure we are all pulling in the same direction. Setting standards of best market practice and harmonizing documentation has been one of our goals now for many years and the other main bodies of market practice we release are the primary market handbook- which governs the way primary markets operate and our secondary market rules and recommendations. It is important that these are widely used and respected and we are redoubling our efforts to ensure they are up to date with full reviews of both in the light of current market practices. One area of particular focus at the moment is the question of settlement discipline in the secondary markets and of course this reads across to practices in the repo markets.

Aside from the ERC, ICMA runs committees or councils that focus upon all aspects of the debt capital markets. We run three committees which focus on the primary bond markets: the Primary Market Practices Committee, the Legal & Documentation Committee and also a newly formed Issuer Forum for financial issuers of bonds in Europe. Major work-streams on the primary side are further work on the update of the Prospectus Directive as well as a review of the primary processes and an update of the ICMA primary handbook which contains the guidelines which govern the way primary issuance is undertaken.

On the secondary side we continue strengthening our Secondary Market Practices Committee and have appointed a new chairman. MIFID remains a major work-stream and we work constructively with the other major associations to make sure we don’t duplicate work and focus specifically on the areas of interest to our members in our own context. We have continued our work on the sovereign bond market this last year, with a focus on transparency issues and also on the technicalities of the proposed collective action clauses. It is clear that in this respect we have been able to contribute substantially and expect the outcome now to be much more balanced than it was originally. An important new initiative is that we are just creating a new group called the Public Sector Issuer Forum, based in Paris and chaired by Frank Czichowski of KfW for sovereigns, suprantationals and agency issuers. This will run in parallel to our FI Issuers Forum and complete our suite of committees involved with primary issuance.

Almost 40% of our 420 members are more focused on the buy side than the sell side, and our Asset Management and Investors Council (AMIC) continues to thrive under the leadership of Bob Parker of Credit Suisse. Continuing the theme of transparency we are working with market participants to improve the disclosure and comparability of information in the covered bond market - which has achieved excellent momentum and have been contributing to the response on corporate governance as well as using AMIC to spearhead our responses on CRA and very recently on the Commission’s green paper on stability bonds.

The provision of training and development courses is also a speciality and we focused a lot last year on refining the offering, making sure that it was being run and delivered efficiently and where our members wanted. It seems to have worked well and we had over 600 people going through our education course in 2010 compared with fewer than 400 in 2009 – again take a look at the details on our website. Lastly, ICMAs membership continues to grow - with a further 52 financial institutions joining in 2011.

2. Opening remarks by the Chairman of the European Repo Council

The Chairman gave the following speech.[1]

Good afternoon to all, happy 2012 and welcome to the semi-annual ERC meeting and thanks to Clearstream for being a splendid host, as always. Since we met in Paris the tsunami of regulatory initiatives has actually increased in intensity. However, and this is my personal belief, we have now passed the line between what is sensible regulation and overregulation. Having been in the financial markets for almost 40 years, I have seen the two oil crises that brought so many problems to the global economy (although the oil producing countries would say they brought us wealth). Having witnessed the rise of the D Mark against the US$ and the massive intervention of the major central banks in the late seventies; Having been directly impacted in the trouble around LTCM; Having seen the effect of the collapse of the Russian Min Fin bonds, to be topped up by even more Russian Min Fin bonds as collateral; Having looked at the Dot.Com effect on the economy, but in particular at the losses of retail clients who had previously been told by politicians that this is where you should invest your money; And coming closer to today when we passed the collapse of Bear Sterns, the default of Lehman, and now the sovereign debt crisis indirectly forced upon the banking sector due to the "safe haven" status allocated by regulators of such government bonds. I have to conclude that we haven't learned a thing. In the words of Verena Ross, executive director of ESMA at the International Centre for Financial Regulation ICRF conference in Berlin last October:

- We need to anticipate long term risk
- Don't always look back
- Try to genuinely understand how markets function and how regulation should evolve
- Not only change rules but also implementation and daily supervision
- Good regulation is not only a national issue but a global consensus

All very well, but what I have witnessed in the last six months is:

- Short-term actions by politicians
- Banks and rating agencies being blamed for what happened in the past
- If you listen to the political debate about commodities, I don't think politicians really understand the markets. I would go even further: most of what comes out of Brussels smells of equities (as if fixed income and derivatives should be treated be exactly the same way)
- Rules are being changed constantly. Nobody, including the regulators themselves, can comprehend the scope of all the proposals and the potential positive and negative effects on the real economy.
- As we have seen in recent months, whenever there is turmoil in the financial markets, politicians go back to domestic protectionism. The latest example was the short selling rules.

Against this background, the ERC Committee, as representatives of the European repo market, has remained solid and focused. Today's agenda is again full of the major issues we are currently looking

[1] Reproduced in full.

at. However, beside these initiatives, there are a number of other points that are part of our focus and that merit being mentioned:

- ISDA has re-launched an initiative re FpML, an open standard that focuses on clearing and electronic trading, regulatory reporting etc. We have received an update from an ISDA representative but given the extensive existing streamlined processes already in place in the repo market, we feel that the ERC OPS need to balance this new initiative against current offers in the market.
- At the November Cogesi meeting (the contact group on euro securities infrastructure hosted by the ECB) Richard Comotto and I presented the study on the role of central vs commercial bank money. This presentation was followed by a second presentation regarding the ERC interoperability project between the ICSDs on which both ICSDs will provide a briefing a little later.
- At the same meeting the Eurosystem announced a broader initiative to reflect on the harmonization of collateral procedures, work that should involve also the European Commission as well as the COGESI members. ICMA has officially expressed interest in participating to this work in a letter to Daniela Russo dates December 14th where I will represent ICMA in light of the following.
- Ahead of this announcement, ICMA approached me regarding the increasing need for support and advice regarding matters relating to collateral in the European markets. The ERC has devoted a lot of time and effort on the proper development of the various products that can be used as collateral. However, given the continuous and increasing interest in this topic a call for a “collateral initiatives coordination forum” called CICF has now been made to a number of trade association, currently being AFME, EACH, EBF, ECSDA, ISDA, ISLA and LMA. ICMA has asked me to chair this new working group with the support of ICMA secretariat. A first meeting is planned in London on 30th January. This new initiative has the benefit of bringing all parties together (and I hear other groups have already asked to be invited) and decrease somewhat the ERC workload so we can focus more on particular repo issues in the future (without obviously losing sight of the collateral issues as well).
- Linked to this initiative is the ERCs continuous focus on the creation of a secondary market for credit claims (bank loans). The meeting with all stakeholders will, I hope, bring new life and renewed drive into this project. Particularly given the creation of the CICF group, we should be able to bring this to a speedy conclusion.
- Another initiative is the identification of the LCR eligible basket for trading purposes. I m sure David will mention this in his regulatory update but I just wanted to highlight the role we aim to play in this development. At an ERC committee meeting in November we discussed the composition of the liquidity buffer within the CRD IV framework. Mario Nava from DG Market informed me that up to 2015 each national regulator can approve different criteria within the CRD IV framework. After that day, all 27 member states should have the same framework. Mario fully understands the problems this creates and welcomes our suggestions to overcome this issue. Andreas Biewald has taken charge of this issue and had already contact with both the ECB and EBA the European Banking Authority. He will brief the ERC Committee (to be elected later this morning) on the progress and input required when we meet in February.
- The ERC continues to be represented by Tony Baldwin at the SLRC. Again the continuous focus on repo and security lending has seen a call for re-thinking of the scope of this work. Tony actively contributed to this group hosted by the Bank of England on behalf of the ERC. Minutes of these meetings can be found on the website of the Bank of England.
- The ERC has received an invitation to participate at an FSB (Financial Stability Board) working group on the regulation of cash reinvestment for securities lending and repo. A small

delegation of the ERC attended this meeting on December 1st, but those attending this morning's meeting have heard David Rule on the topic so I will not go into details. We will obviously keep an eye on these developments.

- You recall the use of ISIN code and the related charges by the ABA (American Banking Association). There seems to be some positive progress where S&P has offered to change its pricing policy in Europe with regard to the distribution of ISINs. A decision re Article 9 of the EU's Antitrust Regulation 1/2003 is now expected soon and as a consequence there should be no negative impact on the repo markets.
- ICMA's Secondary Market Practices Committee continues its work around settlement fails, something that has become quite urgent due to the negative effect of the European sovereign bond market crisis on the efficiency of delivery. We will report back on this in due course, but if your firm has a specific interest you are welcome to provide input to John Serocold at ICMA who is dealing with this issue.
- Finally, but rather controversially we are faced with the potential negative impact of the introduction of a Financial Transaction Tax on repo transactions. As this political initiative is widely reported in the financial press I will not go into detail, but I can be very clear about its impact: if our elected politicians wants to have some restoration of financial stability in the financial markets and in particular in the sovereign bond markets they should think very careful about the negative effect this tax on repo (and other products) will have on Europe. Secured financing is the way the central bank community provides oxygen to the banking sector who in turn on-lend liquidity to the real economy. Taxing this at the proposed punitive rates can only mean that the already heavy burden of recently introduced new taxes will increase even more. Yet another unintended consequence?

There are many other smaller issues on our agenda that may be of interest to you. As announced in Paris, the minutes of the regular ERC Committee meetings can now be found on the ICMA website. Please use this new information tool so you and your firm may benefit from the ERC work.

3. Approval of the minutes of the ERC Meeting held on Wednesday, 14 September 2011 in Paris

The Chairman asked if there were any comments on the minutes of the last ERC general meeting held on September 14th, 2011 in Paris. No comments were raised and the minutes were unanimously approved.

4. Legal Update

Ms. Lisa Cleary said that the GMRA had, for many years, been the foremost agreement for documenting cross border repo transactions. In order to ensure that it remained as such, in late 2009 ICMA's ERC Committee put together a working group to consider whether any amendments were necessary to the 2000 version of the agreement. The GMRA 2011 version was published in May last year. The revised agreement contains various amendments, most notably changes made to: the definition of Act of Insolvency, the method of calling for an Event of Default, the default valuation time, the definition of Transaction Exposure and the procedure for the return of Equivalent margin securities. The amendments reflect changes in market practice and respond to issues faced by GMRA users during the credit crisis.

The GMRA review working group has continued its work on the agreement and will shortly publish a complimentary suite of documents to the GMRA 2011. The GMRA 2011 guidance notes will assist users in completing the agreement and in arranging transactions under the agreement. The guidance notes will also summarise the key provisions. The GMRA review working group is also preparing the following annexes to the GMRA 2011:

1. The Buy/Sell back Annex;
2. Bills Annex;
3. Agency Annex; and
4. Equities Annex.

The importance of using the most up to date version of standard documentation has consistently been promoted within this forum and elsewhere, for example, within the European Financial Market Lawyers Group (EFMLG). In order to assist users in updating their documentation ICMA introduced the GMRA 2011 protocol so that the default provisions of existing agreements may be updated on a multilateral basis. Following feedback from users on the scope and applicability of the protocol, the GMRA review working group is working on amendments which will accommodate, bespoke grace periods and fall back provisions, and automatic early termination. An amended form protocol will be made available shortly. ICMA will look to ERC members to support and promote its use.

The 2012 legal opinion update has already commenced with updates of the 2011 legal opinions being obtained in over 60 jurisdictions. Significantly, the 2011 legal opinions incorporated coverage of the new standard GMRA 2011. Alongside the guidance notes, annexes and the amended multilateral protocol, it is hoped that such inclusion will encourage uptake of the new standard agreement in the market. ICMA also continues to work on obtaining a legal opinion on the GMRA for Russia. In August 2011 amendments to Russian legislation introduced requirements for the enforceability of close out netting. In October 2011, the FSFM produced a draft regulation listing the associations and eligible cross border master agreements relevant for the purposes of close out netting. ICMA is deemed a self-regulatory international body for these purposes and the GMRA, an eligible cross border master agreement. The FSFM invited comments on the draft regulation by November 2011. ICMA sent a letter to the FSFM requesting that (a) references to the GMRA versions are comprehensive; and (b) amendments to the GMRA be permitted in so far as they do not undermine the statutory requirements for close out netting envisaged by the legislation. On 14 November 2011, the FSFM published further draft regulations relating to the procedure for registering relevant transactions and reporting to trade repositories, as required by the netting legislation. ICMA has sent a letter in response to the latter requesting clarification of the scope and timing of transaction reporting as well as the consequences of a failure to report. ICMA awaits feedback on both letters and will continue to progress work on this important opinion.

Ms. Cleary also noted the GMRA bespoke opinion service which ICMA has been offering for some time. The ERC Committee had previously requested that ICMA develop a service through which they could share the cost of obtaining legal opinions on the GMRA, outside of the annual opinion cycle. Accordingly, ICMA launched the GMRA bespoke opinion service. The services may be utilised by any member of the ERC, who will be able to employ ICMA to coordinate the obtaining of bespoke opinions on a cost sharing basis, with other ERC members. The bespoke opinion service operates as follows: an ERC member may request a new opinion (e.g. for a new jurisdiction) or the expansion of an existing opinion (e.g. to cover an additional counterparty type). ICMA will contact local counsel to assess whether a satisfactory opinion may be obtained and at what cost. On the assumption that a satisfactory opinion can be obtained for a reasonable cost, ICMA will email the members of the ERC, inviting them to share in the cost of obtaining the opinion. If more than one ERC member wishes to participate then ICMA will instruct counsel to produce the opinion on the basis of written arrangements with participating firms. The bespoke opinion service operates on certain conditions, including, in particular: that participating firms are jointly and severally liable for the cost of obtaining the opinions; that the opinion will be addressed to participating firms only and therefore may be relied upon by these firms alone; and each year, at the time of the legal opinion update, ICMA may decide to migrate the bespoke opinions to the body of industry standard opinions which it makes available to its members. The migration process operates as follows: the bespoke opinion service will operate from April to December each year. Once this window is closed ICMA may decide (based on long standing criteria for obtaining opinions) to migrate any opinions obtained through the bespoke opinion service into the main body of industry standard opinions. At this stage and from then on, ICMA will become liable for the cost of updating such migrated opinions.

5. Elections to the European Repo Committee

The Chairman invited members of the ERC to hand in their completed ballot forms. The results of the election are set out below (see minute of Agenda item 13).

6. Update on interoperability between the ICSDs for cleared "GC basket" repos

Mr. Jean-Robert Wilkin said that improving interoperability between the ICSDs for cleared "GC basket" repos was a joint initiative between Clearstream and Euroclear that had been sponsored by the ERC. A working group has been set up that includes the five fixed income CCPs. The group has been looking at developing a model to support GC basket trading, to be cleared by the five CCPs – LCH.Clearnet SA, LCH.Clearnet Limited, Eurex Clearing, Clearnet, CC&G, and MEFFClear. The model is supported by the ERC, the five CCPs, and the ECB.

The proposed model consists of the development of new interoperable baskets with trade input and collateral substitution up till an earlier cut-off time of 14:00CET (until the introduction of the ICSD's Bridge enhancement). There will be no change for the existing non-interoperable baskets operated by Eurex Clearing (GC Pooling) and LCH.Clearnet (€GC). The new interoperable baskets will continue to exist alongside existing triparty baskets. The proposed model will allow tri-party users of different triparty collateral management systems to access and trade a single basket product cleared by any of the five CCPs. This would allow market participants to choose their settlement location and collateral management service. This model would be additional to the existing GC products.

Mr. Wilkin went on to say that there does not appear to be any major obstacles to the project but delivery of the model would need significant development. Investment and input would also be required from trading systems, CCPs, the two ICSDs and possibly national CSDs. The five CCPs also need to make a commitment to participate. Development of the model is expected to take approximately 18 months and work would need to start as soon as possible. Ideally, the ICSDs would like to deliver interoperability of tri-party services before T2S and CCBM2 are rolled-out in 2014. The model would remain operational after the implementation of T2S. Mr. Wilkin then discussed the slide that illustrates the model, showing the linkage between ATS/voice systems, CCPs and CMSs.

Mr. Frank Reiss said that the ICSDs had been holding discussions with the five CCPs since September 2011. Additional requirements of the CCPs had been identified, such as defining GC baskets eligibility by a list of ISINs or in accordance with pre-determined selection criteria. Additionally, consideration had been given to the question of collateral valuation. Each CCP has its own approach to pricing for risk management purposes but it is essential that there is a single agreed price which would be applied to any security being settled on an interoperable basis. Consideration will have to be given to what should be the basis for determining the necessary common prices. There are still a number of pieces of work to be carried out, such as a review of the detailed flows and an assessment of the operational impact. Some thought is also being given as to whether to extend the scope to CSDs, for example, or whether to keep the current scope to just the two ICSDs. Additionally, a walk-through needs to be done to detail the life cycle and possible scenarios. Finally, some thought needs to be given as to who should define the baskets.

Turning to next steps, Mr. Reiss said that from January to March, there are a number of joint workshops being planned between the CCPs and the ICSDs to consider all the remaining questions and requirements posed by the CCPs. Phase Two will then take place at the end of March, when the ICSDs will propose an updated description of the tri-party Interoperability model to all parties which takes on board the concerns and requirements that were identified by the CCPs in Phase One. Third, from April to May, it is anticipated that all stakeholders will assess their ability to implement the model for their own products. Then, at the end of May, the ICSDs and the CCPs will communicate to the ERC Committee their respective decisions on whether to go ahead with the project. If there is sufficient consensus, the model will then require a development period of 18 months, with a target implementation of the model by the end of 2013.

The Chairman noted that an update on interoperability would be presented at the next ERC general meeting on September 27th.

7. Development of an overnight repo fixing

Mr. Andreas Biewald said that there had been a number of developments on the unsecured and secured side of the market. For more than a year, the European Repo Committee had been discussing the need for a secured overnight fixing. It was felt that a significant percentage of the market would welcome the introduction of a secured overnight fixing. The Eurepo® Steering Committee had set up a task-force to consider the design of such a fixing. The creation of an overnight repo index calculated on the basis of the effective trades reported by CCPs and published by the ECB has been approved by both the Eurepo® Steering Committee and the EURIBOR – EBF General Assembly. The task force would like the new index to be issued in the course of 2012. Preliminary meetings with the ECB have already taken place and the Eurepo® task force hopes to obtain official support in the coming months. The members have highlighted the importance of having strong and detailed communications, in particular when explaining the difference between the new fixing and the existing Eurepo® index.

Mr. Biewald turned to the slide on Eonia volumes over the last nine years. Notably, average volumes have shown a steady decline. This indicates the need for some credible alternative to be developed. The slide on GC Pooling volume over the last five years, on the other hand, shows a steady increase. Therefore, it is reasonable to argue that an overnight fixing could be based on reasonable volumes, especially if the volumes from MTS were also included. The Committee is convinced that daily flows in CCPs should be counted and published from a neutral perspective. Views should be sent to the EBF, who have indicated that feedback would be very welcome.

8. Update on the European repo market White Paper on short selling and settlement failures

Mr. Richard Comotto said that in July 2010, the ERC published its White Paper on problems in repo clearing and settlement infrastructure in Europe and specifically on barriers to interconnectivity between CSDs and the ICSDs in Italy, Spain and Greece in particular.

The fundamental barrier to interconnectivity with Italy arose because the various settlement cycles at Monte Titoli are not integrated. Once instructions are passed from the daytime batch-processing cycle into RTGS, any failed instructions remain in RTGS and are not recycled on into the overnight batch-processing cycle, where they could be cancelled against matching instructions. Because RTGS lacks both a technical netting functionality and a bilateral facility for users to fix unsettled instructions by mutually-agreed correction or cancelation, such instructions accumulate within RTGS for up to 10 days, increasing credit exposures and delaying buy-in's, thereby amplifying the cost of failing. The build-up of unsettled instructions in RTGS has also given rise to the requirement by local custodian banks for very early telephone pre-matching of settlement instructions in order to validate instructions before they are submitted to the CSD. Telephone pre-matching delays the start of settlement and compresses the business day. The effective settlement window is compressed at the end of the day by other issues. The result is that users do not have sufficient time to arrange re-use of their securities.

In October 2010, Monte Titoli informed the ERC of plans for a fundamental upgrade of the Italian settlement process in anticipation of the introduction of T2S in 2014. These plans had the potential to solve many of the existing barriers to interconnectivity between the CSD and the ICSDs. The principal proposal was the abolition of the daytime batch-processing cycle, so that only RTGS would operate during the day, and the recycling of unsettled instructions from the RTGS into the overnight batch-processing cycle, where they could be cancelled against matching instructions. However, these proposals were shelved in December 2010. A post-trade technical user group was formed with clients to decide the order of priorities and draw up a strategic "road map" towards T2S.

In December 2011, Monte Titoli updated the ERC on progress on the road map. The main new proposals were for:

- The recycling of fails from RTGS into the overnight batch-processing cycle for bilateral/OTC repos (i.e. those not cleared across the CCP). This would integrate the two cycles in a way that the ERC has been seeking.
- the introduction of a bilateral cancellation facility to allow cancellation of unsettled instructions in both batch-processing and RTGS cycles;
- the introduction of a hold-and-release facility to allow settlement to be tested before instructions are irrevocably released
- the inclusion of a final beneficiary field in the instruction input screen, which would allow custodians to check whether customers had sufficient securities to meet delivery requirements and should allow telephone pre-matching to be avoided.

If these changes come into effect, Monte Titoli will have gone some way to addressing the concerns outlined in the ERC White Paper. However, these proposed changes have not yet been approved by users. In addition, a bilateral cancellation facility would have implications for settlement finality and therefore requires consultation with the Italian authorities. The changes will also take time and resources to implement. And, in order to ensure that a deadline of end-2012 is met, Monte Titoli may narrow the scope of the changes. Monte Titoli will be in a position to provide final details after a meeting with users on 20 January.

9. ERC Operations Group update

Mr. Nick Hamilton noted that the key objectives of the ERC Operations Group (Ops Group) are:

1. the harmonisation of European operations in the market place;
2. provision of technical views and output and opining on efficient execution and processing changes; and
3. the escalation of members concerns in market processing.

The Ops Group has a dozen active members from the ERC membership who are experienced market practitioners. The Group would welcome the input of further committed individuals.

The Ops Group delivered three key projects in the past year: implementation of the ERC Recommendation on repo matching as a driver for risk reduction, revision of the Best Practice Guide to Repo Margining, and consultation on market developments.

The ERC Recommendation on repo matching as a driver for risk reduction was agreed and published last year. The Ops Group has focused on bilateral, OTC, structured, term and size as key parameters. This is an area the Group has been increasingly sensitive to as term returns to the marketplace and is increasingly topical given the current climate where unmatched trades have led to significant institutional loses in recent quarters.

The Ops Group has established a Compliance & Implementation sub-group whose objective is to publish to ERC members a report of existing market practice regarding affirmation and matching commitments. This is designed as a pre-emptive action to demonstrate intent, completeness and efficiency in the market in lieu of formal demands and analysis in regional infrastructure developments. It will also serve to highlight opportunities for future efficiency through automation. The sub-group meets weekly. A report will be circulated to the Group next week.

The Ops Group have also been working on revising the Best Practice Guide to Repo margining. The Group expect to publish the revised operational guidelines in February 2012, with full ERC adoption by the end of June 2012. There are a number of revisions which are still being finalised. First, margin will be based on actual rather than assumed settlement. The portfolio value is based on call date -1 EOD. This will require an agreed and coordinated approach for adoption and this amendment is still under discussion. Second, the GMRA 2011 now embraces two margin calculation methods, which may increase the potential for dispute. Accordingly, participants should ensure that they agree and document which method of margin calculation is to be used and whether it is will be applied at a transaction or portfolio level. Third, the Group are looking to include guidelines on minimum transfer amounts and interest. The Group are also considering recommending that market participants avoid netting of consecutive day margin movements and bad practice of trading out of a margin call. Finally, the operational guidelines will recommend a migration towards a call date +0 settlement of margin.

Focusing on the forthcoming shift that will base margin on actual rather than assumed settlement, Mr. Hamilton said that market participants will need to ensure that margin is retained until the exposure has been removed through settlement. Current convention is to include all pending on side legs while excluding all pending off side legs. However, this has a number of consequences. First, collateral is released prior to settled termination of the repo. . Second, trades are included in margin calculations before the on leg of the deal is settled. Finally, no exposure allowances are made for fails. The ERC Ops Group proposal would exclude all pending on side legs while including all pending off side legs to give us a sensitivity to settlement. This would mean that margin is retained until MTM exposure has been removed via confirmed expiration. Trades would be excluded until they went live. It would allow for fails in the margin calculation and it would enable some over-collateralisation on repurchases in a non T0 margin settlement arrangement.

The Ops Group is also continuing its work on market engagement and representation. In this regard, the objectives of the group are to ensure a good understanding of the underlying intentions of each consultation document in order to support ICMA in establishing appropriate regulation and legislation regarding the Secured Funding Markets. Notably, the volume of consultation documents to be reviewed is significant and members have had to be spread thinly in order to respond appropriately. Additionally, it is important to ensure collaboration and consistency where appropriate across market groups and participants responses. The Ops Group has recently focused on the CPSS-IOSSCO principles for FMI's, the Securities Law Directive amendments, settlement date harmonisation, the FSB review of shadow banking, Interoperability and CSD/ICSD developments. The Group has also provided input and partnered with the ICSDs and CCP's in the development of plans for tri-party settlement interoperability.

Looking forward to 2012, the Group will focus on market operations and market infrastructure developments. In respect of market operations, the Group will seek to finalise the revisions to the Best Practice Guide to Repo Margining. The Group will also look to sponsor trade matching and act as an industry escalation point for non-adherence. Additionally, the group will aim to represent the Repo Market Operations groups in escalation of market infrastructure instability and seek guidance on points of practice. It will also look to partner with ICMA Secondary Market Practices Committee to review the validity of current terminations and the cash buy-in rules and illiquidity. Finally, the Group will review settlement matching standards and CSD/ICSD enablement of unilateral cancellation. Regarding market infrastructure development, the Group will continue to work on interoperability and bridge development. The Group will also seek to support the repo white paper recommendations and become an industry reference point. There will also be continuing work to respond to regulatory consultations. On T2S and CCBMS, the Group will seek to provide operational feedback while operational input will have to be provided regarding credit claims collateral developments.

10. Repo markets and shadow banking

Mr. Comotto said that shadow banking involves non-banks performing bank-like functions. The concern is that these institutions fall outside the regular banking system and are therefore subject to weaker prudential regulatory standards and supervisory oversight, posing the risk of regulatory arbitrage. Bank-like functions have been defined as credit intermediation which poses systemic risks. This is not the only source of risk but the Financial Stability Board (FSB) has decided to focus on this as the most serious source. It includes on and off-balance sheet activities, includes bond trading but not pure equity trading or FX, and includes facilitators such as credit rating agencies.

Specifically, the FSB are concerned about credit intermediation through:

1. maturity transformation (borrow short and lend long); and/or
2. liquidity transformation (financing illiquid assets with liquid liabilities); and/or
3. flawed credit risk transfers (through securitisations); and/or
4. the creation or facilitation of leverage.

The relevant instruments for points 1, 2 and 4 are short-term ABCP, cash collateral from securities lending and repo. The FSB is concerned that these instruments provided inexpensive financing by converting opaque, risky, long-term assets into money-like, seemingly riskless liabilities, feeding asset bubbles. Although these instruments are deposit-like liabilities, they are seen as riskier and inherently fragile because non-banks are more dependent on these instruments than banks are on traditional deposits; these instruments are not supported by deposit insurance or central bank liquidity; and they are less regulated.

The perceived result is that these instruments are unstable, leading to runs and procyclicality. And because of the interconnectedness of the shadow and real banking systems, runs in the shadow banking system feed back into the real banking system, amplifying procyclicality. Runs on repo are ascribed to spiralling haircuts.

I have been asked to look at the role of repo in shadow banking. At this stage, I have a number of observations. First, the focus of discussion by the FSB and others on credit intermediation began with ABCP and securitisation was basic to the definition of credit intermediation (i.e., the priority of claims). Repo and securities lending were included in credit intermediation because of their role in warehousing underlying and securitised assets like ABCP.

However, the focus of debate seems to have shifted from ABCP onto repo and securities lending. Some of the momentum behind this has been inspired by academic work, not least, by Gary Gorton and Andrew Metrick at Yale University (it is notable that David Rule referred to Gorton in the morning session). Their thesis is that the entire crisis and deleveraging of the financial system in 2007-09 was driven by repo. It was due to a "run on repo". This was caused by increases in haircuts on collateral restricting repo funding which forced fire sales of assets and depressed prices, which then fed back into further increases in haircuts, and so on. One possible consequence of Gorton and Metrick's work is the suggestion for a mandated regulatory haircut set at a high enough level to be stable across a business cycle in order to help banks avoid the need to increase haircuts in a future downturn.

However, my concern is that the Gorton and Metrick hypothesis is based on a single set of data on the haircuts applied by a single US broker-dealer on repo against structured securities only (CDOs, CLOs, etc). The dataset excludes US Treasuries and tri-party repo, the largest sectors of the US repo market. Moreover, the dynamics of this narrow dataset have been transposed from one segment of the US repo market onto the entire global repo market, including Europe. But there are fundamental structural and operational differences. In 2007, govis accounted for over 80% of the European repo market. The European repo market used far less structured securities as collateral (perhaps less than 2%), was less skewed to overnight trades than the US and made less use of haircuts. To test these concerns, I took a survey of haircuts by the CGFS in June 2007 and June 2009, and the ICMA repo survey for these months, made conservative assumptions, and calculated that increasing haircuts may have accounted for no more than 3% of the aggregate deleveraging of 25-30%. Evidence from 2007-09 showed that increased haircuts were not the first reaction of banks. The first reaction was to cut credit lines, just as in unsecured finance. And the lesser importance of overnight finance in Europe probably meant that haircuts played a lesser role than in the US, while the more gradual process of margin maintenance played a greater role.

Of concern is that the current regulatory discussion is based on analyses which are of limited practical value and that we do not fully understand the function of haircuts (on which there has been limited theoretical work). It is comforting to note that the CGFS is not entirely convinced by the idea of a through-cycle haircut but care needs to be taken to ensure such ideas do not take root by default.

Our work on the role of repo on shadow banking is also addressing other issues such as that of whether repo encumbers assets to the disadvantage of unsecured creditors. Encumbrance is a concept from pledging, where assets remain in the possession of the borrower. It is inappropriate to extend it to repo. The nonsense is apparent if you ask the question, how by repoing out an asset and receiving cash in a true sale do you disadvantage other creditors? We will be publishing a number of papers on shadow banking over the next few weeks beginning with one on haircuts.

11. Regulatory issues

Ms. Lalitha Colaco-Henry said that the text of the Short Selling Regulation had been agreed by the European Parliament and Council in October. The Regulation was then approved by the European Parliament in November and the Council are due to consider the text with a view to adopting it on February 10th. ESMA has started work developing the Level 2 measures and expect to publish two consultation papers shortly. The first will consult on draft technical standards which is expected to be published in the next few days. The period in which to respond will likely be 2 weeks at the most. The second consultation paper, to be published in the next month or so, will cover the text of the delegated acts to be adopted by the Commission. Both consultation papers will be of interest to participants in the sovereign bond cash market and repo market.

The starting point in the Regulation is the definition of a short sale - when a person (A) sells a security which he doesn't own. The definition also captures those sales where A has borrowed or agreed to borrow a security for delivery at settlement. Notably, repo and securities lending agreements do not fall within this definition. Article 12a restricts when a person may enter into a short sale of sovereign debt; separate provisions govern the restriction on short sales of equity. A short sale of sovereign debt may only be entered into if the person has:

1. borrowed the securities;
2. entered into an agreement or similar arrangement to borrow the securities so settlement can be effected when it is due; or
3. entered into an arrangement with a third party under which that third party has confirmed the securities have been located or there is a reasonable expectation that settlement can be effected when it is due.

Notably, the restriction does not apply to transactions that hedge a long position in the debt securities of an issuer where the pricing of that debt has a high correlation with the pricing of the sovereign debt.

There are important differences between the restriction on short sales of sovereign debt and the restriction on short sales of equity. Paragraph 3 of the debt restriction only requires the third party to confirm that the securities have been located or that there is a reasonable expectation that settlement can be effected when due. The short selling restriction for equities, however, requires both. Additionally, the third party in the equity context must have taken actual measures in order for the short seller to have reasonable expectation. The debt restriction, on the other hand, does not require positive measures to be taken in this regard. Accordingly, the restriction for sovereign debt appears less onerous than that for equities.

ESMA is developing technical standards to codify the types of agreements or arrangements that will adequately ensure that the debt securities will be available for settlement. The ERC Committee is currently considering what feedback can be given to ESMA to assist in their deliberations. We would also welcome comments from the audience.

Turning to cash market considerations, Recital 16b provides that a short sale covered by the purchase of sovereign debt in the same day is an example of a reasonable expectation that settlement can be effected when due. There 5 other situations which could be considered to be examples of when a security has been located or that there is a reasonable expectation. First, in the cash market, securities are routinely "iced" for defined periods of time, i.e. a market participant (A) will contact another market participant (B) such as a large asset manager, a depository etc. and ask whether specified securities can be reserved for a specific period of time at the end of which A may borrow or purchase them. Evidence of the locate/reasonable expectation would be the relevant Bloomberg message or email from B confirming that the securities had been "iced". Securities may also be located in the firm's repo book – i.e. securities that are currently repo'ed out may be returned prior to the settlement date of the short sale. Evidence of the locate/reasonable expectation would be the repurchase agreement. However, difficulties may arise if there is a settlement fail, though presumably this could be countered with the argument that the Regulation only requires that the expectation be reasonable. The other situation that may prove to be problematic is if a bond were to go special. Third, a reasonable expectation may exist where a debt management office has an automatic repo facility or offers "phantom" bonds. A reasonable expectation may also exist where a particular sovereign debt market is highly liquid. Finally, a reasonable expectation may exist where a firm participates in the automatic borrowing programmes operated by the ICSDs. These examples are not exhaustive and we feel that it is important to urge ESMA to be mindful of the need for flexibility should new examples arise in the future. For example, if new sources of securities arise as a result of the work of the Collateral Initiatives Coordination Forum, these should be considered to be another way of satisfying the reasonable expectation test.

Turning to repo market considerations, the Regulation provides that the definition of short sale does not include a sale under a repurchase agreement where one party has agreed to sell a security to another party at a specified price with a commitment from the other party to sell the security back at a later date at another specified price or a transfer of securities under a securities lending agreement. Is this wording sufficiently broad enough to capture all repo trading? What does "specified price" mean? Is it always the case in repo that the forward leg is set at one price while the return leg is another price? This is a further area on which we would welcome feedback.

Turning to MiFID, the European Commission published its proposals for revisions to MiFID on October 20th. There are two complementary pieces of legislation: a Regulation (MiFIR), which will automatically form part of Member States' law once it has been adopted, and a Directive (MiFID II), which will need to be transposed into law in each Member State. To what extent do repo market participants need to concern themselves with MiFID? Under the proposals the definition of "transferable securities" is now contained in the MiFIR and has been amended to:

"those classes of securities which are negotiable on the capital market, such as:

a) Shares in companies and other securities equivalent to shares in companies or other entities, and depositary receipts in respect of shares;
b) Bonds or other forms of securities debt, including depositary receipts in respect of such securities;
c) Any other securities giving the right to acquire or sell any such transferable securities or giving rise to a cash settlement determined by reference to transferable securities, currencies, interest rates or yields, commodities or other indices or measures"

The old definition had excluded money market instruments which meant that repo fell outside of scope. However, the proposed amendment no longer excludes money market instruments. Instead, the definition only excludes "instruments of payment" which are not defined. With the removal of the money market exclusion, repo could potentially fall within the paragraph (c) of the definition. The MiFIR provides that the Commission may adopt measures specifying some technical elements of the definitions. Accordingly, we will monitor how the Commission and ESMA define instruments of payment and transferable securities.

Turning to trading venues, it may be possible for repo to trade on an Organised Trading Facility (OTF) which is defined as "any system or facility which is not a regulated market or an MTF, which is operated by an investment firm or a market operator, in which multiple third-party buying and selling interests in financial instruments are able to interact in the system in a way that results in a contract". Whilst the MiFIR proposal envisages the continuity of OTC business, the legislation is clearly aimed at ensuring that as much trading as possible, in both equity and non-equity, is carried out on RMs, MTFs, or OTFs. Under the proposals, a bank that operates an OTF would not be able to transact business by committing its own capital. ICMA is seeking to reverse this prohibition, so as to minimise disruption for users of existing facilities. We will also aim to keep both the OTF definition and the OTC category broad enough to meet Members' needs.

Another method by which organised trading may take place is through a Systematic Internaliser (SI). SIs may execute client transactions against their own proprietary capital but may not bring together third party buying and selling interests in functionally the same way as a regulated market, MTF or OTF. Notably, an SI will not be classified as a trading venue, so this may impact the appetite of firms to utilise SIs, given the possible linkage of trades taking place outside trading venues with increased capital charges. Moreover, it is not clear from the proposals what the term "proprietary trading" is supposed capture. In particular, the extent to which treasury functions would be captured in the definition is unknown at this time.

The proposed MiFIR limits the transparency provisions to bonds, structured finance instruments and derivatives. The scope of the transaction reporting rules, on the other hand, is considerably broader and applies to "financial instruments" though the following are excluded:

- financial instruments which are not admitted to trading or traded on an MTF or OTF;
- financial instruments whose value does not depend on the value of a financial instrument admitted to trading or traded on an MTF or OTF; and
- financial instruments which do not or are not likely to have an effect on a financial instrument admitted to trading or traded on an MTF or OTF

It remains to be seen whether ESMA will consider repo to fall within the second category – i.e. to what extent does the value of a repo transaction depend on the value of the underlying bond. Additionally, the way the provision is drafted implies that the underlying is a single financial instrument as opposed to a basket of financial instruments, which is often the case in repo.

Regarding pre- and post-trade transparency and transaction reporting, it is unclear to what extent these provisions will apply in the broader repo context. A repo involves the sale and subsequent re-purchase of a bond or a basket of bonds. It remains to be seen whether repo market participants will have to comply with the transparency and transaction reporting obligations in respect of the underlying transactions.

Finally, it is worth noting that MiFID has been amended to prohibit investment firms from concluding title transfer collateral arrangements with retail clients for the purpose of securing or covering clients' present or future, actual or contingent or prospective obligations. We understand that this may prove to be problematic for certain European jurisdictions such as Italy, which may have a sizeable retail repo market.

Turning to next steps, the Council Working Group is expected to start negotiating the text in earnest. Meanwhile, the European Parliament rapporteur, Markus Ferber, has issued a consultation questionnaire, to which ICMA is responding. Mr. Ferber is expected to propose amendments for the Parliament's Economic and Monetary Affairs Committee in February or March. ICMA will continue in its efforts to monitor developments on behalf of the ERC.

Mr. Hiscock said that the ERC had been actively engaged with the FSB in relation to its examination of shadow banking. The FSB's aim is to strengthen oversight and regulation of shadow banking. One of the FSB's five work-streams concerns the regulation of activities related to securities lending and repos, including possible measures on margins and haircuts. This work-stream is being managed by a working group led by David Rule from the UK's FSA. The working group has identified three main areas that may need to be considered: (1) regulating cash collateral reinvestment programmes related to securities lending; (2) macro-prudential measures related to repos and securities lending; and (3) improving market infrastructure for secured funding markets. The ERC is actively engaged with the FSB working group and is also working closely with Kevin McNulty of ISLA, who is providing input to the FSB from the securities lending side. A preliminary FSB report is expected by the end of March, with proposals to be published by the end of the year.

Regarding liquidity regulation, the Basel III rules text, covering capital and liquidity, was issued in late 2010. This was followed, in July 2011, by the publication of the European Commission's related proposals. Notably, the Basel rules are designed for application to the largest banks, those relatively few banks which are internationally active. However, the EU version is applicable to all banks and a whole raft of other non-bank financial institutions. This means that in the EU context there will be thousands of institutions who will be subject to these rules. The Basle III rules text and related Commission proposals seek to strengthen the capital rules and also introduce two new liquidity standards. The short-term Liquidity Coverage Ratio (LCR) is to be introduced by 2015 while the longer term Net Stable Funding Ratio (NSFR) is to be introduced by 2018. There is still a considerable amount of regulatory work to be done on the NSFR. Regarding, the LCR, a key aspect is the definition of "liquid assets". There is continued debate about the allowable assets to be included in the definition. Corporate bonds and equities are being considered for inclusion. The challenge is to devise and design collateral baskets for LCR liquid asset purposes. The EU has indicated that it will only finalise its proposals once Basel has agreed the international standard. In principle this will mean a single set of rules applied across the whole EU from 2015. Until then Member State level differences will persist in the setting of liquidity rules.

On the post-trade side, the CSD Regulation proposed by the Commission has been delayed into 2012. The proposals will establish a new regime for authorised providers of CSD services. The proposals will also include potentially significant provisions relating to market efficiency considerations such as standardisation of settlement at T+2; enhanced market discipline (buy-ins); CSD interoperability and access, and cash settlement in central or commercial bank money. However, the CSD Regulation raises the interesting question of how many licences one would need in order to carry out existing CSD services. If the two plus two proposal is advanced, it would require CSDs to legally separate cash (banking services) from securities (custody service). The European Commission is also expected to focus, in 2012, on close out netting and a securities law directive.

There were two expert working groups that assisted the Commission in its deliberations in 2011. Notably, the discussions held by the Expert Group on Market Infrastructures (EGMI) and the Tax barriers Business Advisory Group (T-BAG) focused heavily on how to create a proper single market. Nevertheless, the Giovanni barriers still largely exist. However, in prospectively trying to achieve a true single market, the regulatory approach is for safety first, which is of paramount importance, followed by market efficiency in a single European market.

Turning to accounting, Mr. Hiscock said that there had been an important announcement regarding the treatment of netting in November in the form of revised common offsetting disclosure requirements. There had been an attempt to harmonise EU and US accounting standards but this has been dropped, hence it will remain the case that the US accounting standards allow for more netting and therefore US balance sheets appear smaller. Accordingly, the aim of the revised common offsetting disclosure requirements is to help investors better assess the effect or potential effect of offsetting arrangements on a company's financial position. Accordingly, the two different off-setting models will continue to exist but the new disclosures should help make the position of netting clearer.

Turning to yet another form of regulation, Mr. Hiscock noted the Commission's September proposals for a Financial Transaction Tax (FTT) to apply in the 27 Member States of the EU. If the Commission's proposals were adopted in their current form, they would be devastating for the repo market. However, there has been no political agreement within the Eurozone though the French have been vocal in their calls for implementation of the FTT. As proposed, the FTT would be a flat rate charge. This means that a short-dated trade would carry a dramatically higher effective rate than a longer-dated trade. Additionally, the tax would be repeatedly charged as a security moved through the hands of the different entities that comprise the markets.

Finally turning to the topic of collateral, ICMA is grateful that Mr. De Vidts has agreed to chair the Collateral Initiatives Coordination Forum (CICF). The importance of collateral was highlighted by the financial crisis and demand for collateral has increased dramatically. The CICF seeks to bring together a large number of industry associations for them to discuss how best to cooperate and channel their efforts into the variety of regulatory projects looking at collateral, in order that the industry is able to present a unified, authoritative voice.

12. Repo Survey

Mr. Comotto said that the 22nd semi-annual repo market survey measured the outstanding value of contracts at the close of business on 7th December 2011. 64 responses from 59 financial groups were received, which was six more responses than had been received for the previous survey. The headline figure (i.e. the total value of the repo contracts outstanding) for the December 2011 survey was EUR 6,205 billion, which represented a small increase over the last survey. However, comparing constant samples (51 respondents who participated in the last three surveys), there was a decline of 3.3% in their business in the last six months, though in the previous twelve months, their business had grown by 2.6%.

Turning to counterparty analysis, the share of electronic trading had increased slightly (from 28.2% to 30.0%), but the value of electronic trading had fallen back sharply to EUR 877 billion from EUR 995 billion. Geographical analysis of the data showed that the share of anonymous electronic trading was virtually unchanged. Turning to all business cleared across CCPs, 32% of transactions had been cleared through a CCP (which included repos transacted on an ATS and automatically cleared across a CCP or transacted directly with a counterparty or via a voice-broker and then registered with a CCP post-trade). The long-term picture for anonymous ATS business showed a jump after Lehman's. On cash currency analysis, there had been a jump in Japanese Yen from 4.2% to 7.0%. This may have reflected an increase in the use of Japanese collateral but there may have been other factors at work as well. Collateral analysis showed a continuation in the decline in the use of German collateral. This may be a result of hoarding of German collateral as it is seen as a safe-haven asset. There had also been a fall in the use of Italian collateral but this was unlikely to be due to safe-haven reasons! There was an increase in Belgian collateral from 2.2% to 4.1% while Spanish collateral had remained stable. Overall, the share of all government bonds within the pool of EU-originated collateral had increased from 71% to 79.1%, probably due to increased risk aversion in December. The use of government bonds had increased at the expense of corporate bonds and equity. There had also been a fall-back in the use of covered bonds. Maturity analysis showed a continued decline of short dates down to 48.1%, while the number of transactions with more than a year remaining to maturity increased dramatically to over 12%, in part, due to some exceptional trades. The maturity comparison of banks against tri-party shows a shift in the use of tri-party, where open transactions dominate. Turning to rate analysis, the data shows that floating rate repo grew at the expense of open repo. Product analysis showed little change in the levels of securities lending conducted on repo desks.

Finally, Mr. Comotto noted that the next survey will be on 13 June 2012.

13. Results of the elections to the European Repo Committee

The Chairman reported that in the first ballot three candidates had received the same number of votes for two corresponding vacancies and therefore a second ballot would be held between the candidates concerned for this place. After the second ballot, the Chairman announced that the following people had been elected to the European Repo Committee.

Simon Kipping	Bank of America Merrill Lynch
Stephen Malekian	Barclays Capital Securities Limited, London
Eugene McGrory	BNP Paribas, London
Herminio Crespo Urena	BANKIA, Valencia
Grigoris Markouizos	Citigroup Global Markets Limited, London
Andreas Biewald	Commerzbank AG, Frankfurt
Romain Dumas	Credit Suisse Securities (Europe) Limited, London
Tony Baldwin	Daiwa Capital Markets Europe Limited, London
Ronan Rowley	Deutsche Bank AG, Frankfurt
Olly Benkert	Goldman Sachs International, London
Jean-Michel Meyer	HSBC Bank plc, London

Godfried De Vidts	ICAP Securities Limited, London
Stefano Bellani	JP Morgan Securities Limited, London
Edward McAleer	Morgan Stanley & Co. International plc, London
Ulf Bacher	Newedge Group SA, Paris
Michel Semaan	Nomura International plc, London
Sylvain Bojic	Société Générale, Paris
Guido Stroemer	UBS Limited, London
Eduard Cia	UniCredit Bank AG, Munich

14. and 15. Any other business and Next meetings

The Chairman thanked all the participants and noted, for the newly elected Committee members, that the next meeting of the ERC Committee would be on February 21st at JP Morgan's offices in London. At that meeting, the Committee would elect the Chairman and Vice Chairmen of the Committee. The Chairman also noted that the next General Meeting of the European Repo Council would be held on September 27th, hosted by Nomura in London.

The Chairman: The Secretary:

Godfried De Vidts Lalitha Colaco-Henry

Annex A

The following member firms were represented at the meeting:

Banco Bilbao Vizcaya Argentaria, S.A., Madrid
Banco Santander, S.A., Madrid
BANKIA, S.A., Valencia
Bayerische Landesbank, Munich
BNP Paribas, Paris
CAIXABANK, S.A., Barcelona
Citigroup Global Markets Limited, London
Commerzbank Aktiengesellschaft, Frankfurt
Commonwealth Bank of Australia, Sydney
Confederación Española de Cajas de Ahorros (CECA), Madrid
Credit Suisse Securities (Europe) Limited, London
Daiwa Capital Markets Europe Limited, London
Danske Bank A/S, Copenhagen
Deutsche Bank AG, Frankfurt
Dexia Bank Belgium NV/SA, Brussels
DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt
Eurex Repo GmbH, Frankfurt
EuroMTS Limited, London
GESMOSA-GBI, Agencia de Valores, S.A., Madrid
Goldman Sachs International, London
HSBC Bank plc, London
HSBC France, Paris
ICAP Securities Limited, London
ING Bank N.V., Amsterdam
IntesaSanpaolo S.p.A, Milan
J.P. Morgan Securities Limited, London
Jefferies International Limited, London
KBC Bank N.V., Brussels
Landesbank Baden-Württemberg, Stuttgart
LCH.Clearnet Limited, London
Lloyds TSB Bank plc, London
Macquarie Bank Limited, London
Merrill Lynch International (trading as Bank of America Merrill Lynch), London
Morgan Stanley & Co. International PLC, London
National Bank of Greece S.A., Athens
Newedge Group S.A., Paris
Nomura International plc, London
Norddeutsche Landesbank Luxembourg SA, Luxembourg
Nordea Bank Danmark A/S, Copenhagen
Société Générale S.A., Paris
Tradeweb Europe Limited, London
UBS Limited, London
UniCredit Bank AG, Munich

The following member firms were not represented at the meeting:
ABN AMRO N.V., Amsterdam

Aurel BGC, Paris
Banco de Sabadell, SA, Madrid
Banca IMI S.p.A., Milan
Bank Julius Bär & Co. AG, Zurich
Bank of Scotland plc, London
Banque et Caisse d'Epargne de l'Etat, Luxembourg
Barclays Capital Securities Limited, London
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (trading as Rabobank International), London branch
Crédit Agricole Corporate and Investment Bank, Paris
Fortis Bank, Brussels
ING Belgium SA/NV, Brussels
KBL European Private Bankers S.A., Luxembourg
Mitsubishi UFJ Securities International plc, London
Mizuho International plc, London
Monte dei Paschi di Siena Capital Services Banca per le Imprese S.p.A., Siena
National Australia Bank, London
NATIXIS, Paris
NIBC Bank N.V., The Hague
Raiffeisen Zentralbank Österreich AG, Vienna
RBC Europe Limited, London
Swiss Reinsurance Company Ltd, Zurich
The Royal Bank of Scotland plc, London
UniCredit Bank Austria AG, Vienna
WestLB AG, Düsseldorf
Westpac Banking Corporation, London