

EUROPEAN REPO COUNCIL

October 31, 2008

**Minutes of the General meeting of the
European Repo Council
held on September 09, 2008, in London**

Location: BBA, hosted by ICAP
London, United Kingdom
Time: 10.30-13.00

Presenting:

Mr. Tony Baldwin, Daiwa Securities SMBC Europe Ltd., London
Mr. Jonathan Bury, Goldman Sachs
Ms. Lisa Cleary, ICMA, Zurich
Mr. Richard Comotto, ICMA Centre, University of Reading
Mr. Godfried De Vidts (ERC Chairman), ICAP Securities plc, London
Mr. Jurgen De Werghe, Euroclear
Mr. John Ewan, BBA
Mr. Olivier Grimonpont, Euroclear
Mr. Bertrand Huet-Delaherse, SIFMA
Mr. Paul Mercier, ECB
Mr. John Rippon, Bank of England
Mr. David Rule, ISLA, London
Ms. Gillian Walmsley, Liffe

The following member firms were represented at the meeting:

Banco Bilbao Vizcaya Argentaria, SA, Madrid
Banco Santander Central Hispano, S.A., Madrid
Caja de Ahorros y Pensiones de Barcelona (La Caixa), Barcelona
Caja de Madrid, Madrid
Citigroup Global Markets Limited, London
Confederación Española de Cajas de Ahorros (CECA), Madrid
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank), London Branch
Credit Suisse Securities (Europe) Limited, London
Daiwa Securities SMBC Europe Limited, London
Danske Bank A/S, Copenhagen
Deutsche Bank AG, Frankfurt
GESMOSA-GBI VSA, Madrid
Goldman Sachs International, London
ICAP Securities Limited, London
IntesaSanpaolo S.p.A., Torino/Milan
JP Morgan Securities Ltd, London
Landesbank Baden-Württemberg, Stuttgart
Merrill Lynch International, London
Morgan Stanley & Co International Ltd, London
Nomura International Plc, London

The Royal Bank of Scotland Plc, London

The following member firms were not represented at the meeting:

ABN AMRO Bank NV, Amsterdam
Aurel Leven Securities, Paris
Banca Nazionale del Lavoro S.p.A., Rome
Bank Austria Creditanstalt AG, Vienna
Bank Julius Bär & Co. AG, Zurich
Bank of Scotland Plc, London
Barclays Capital Securities Ltd, London
Bayerische Hypo-und Vereinsbank AG, UniCredit Markets & Investment Banking, Munich
Bayerische Landesbank, Munich
BNP Paribas, Paris
CALYON, Paris
Canadian Imperial Bank of Commerce (CIBC), London branch
Commerzbank AG, Frankfurt
Dexia Bank Belgium NV/SA, Brussels
Dresdner Bank AG, Frankfurt (Dresdner Kleinwort)
DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt
Fortis Bank, Brussels
HSBC Bank Plc, London
HSBC France, Paris
ING Bank N.V., Amsterdam
ING Belgium SA/NV, Brussels
KBC Bank NV, Brussels
Kredietbank S.A. Luxembourgeoise, Luxembourg
Lloyds TSB Bank plc, London
MF Global UK Ltd, London
Mitsubishi UFJ Securities International plc, London
Mizuho International PLC, London
MPS Finance Banca Mobiliare S.p.A., Siena
National Bank of Greece SA, Athens
NIB Capital Bank N.V., The Hague
Raiffeisen Zentralbank Oesterreich AG, Vienna
Royal Bank of Canada Europe Limited, London
Société Générale S.A., Paris
UBS AG, Zurich
UniCredit Banca Mobiliare S.p.A., Milan
WestLB AG, Dusseldorf

1. Overview of recent developments in the repo market and approval of the minutes of the ERC general meeting held on Thursday, March 13 2008 in Paris

The Chairman, Godfried De Vidts, first welcomed the Council members, observers and guests and thanked ICAP for kindly hosting the meeting and the wine tasting evening that would follow suit.

The Chairman updated the ERC Council members of recent repo market developments. Firstly, he referred to the changes in the composition of the ERC Committee. Mr. Tim Keenan and Mr. Ed Donald were replaced in August by Mr. Michel Semaan and Mr. Luis Soutullo.

The Chairman explained that developments in the clearing and settlement were closely monitored by the ERC Committee. The Chairman felt that this will be high on the Commission's agenda in 2009. To further explain the European clearing and settlement environment, the Chairman used a BNP Paribas slide distinguishing between a short-term (the current model) and long-term (expected changes) perspective. He referred to Commissioner McCreevy's speech where he said he would 'not accept any foot dragging' over the implementation of the Code. In addition the Chairman also referred to the potential intention of the Code to be extended to fixed income and derivative products, if any market failure was identified.

The last CESAME meeting was held on June 16, 2008. The Chairman reported that the project was to be continued and that a CESAME II Group had been established. The task of CESAME II had been expanded compared to that of CESAME. Attention would be given to the Giovannini Barriers including possible new barriers. The Chairman also reported that the ERC Committee and the ERC Operations working group had, since the last ERC Council meeting, positively contributed to the T2S and CCBM2 public consultations.

The Chairman explained that the Commission was looking at the ISIN code issue – which is related to the licensing of ISINs in Europe. The latter issue was in fact discussed at the last CESAME meeting. The aim was to find a European solution allowing an identification tool that would be based on a cost recovery basis only.

As regards Eurepo and LIBOR, the Chairman reported that the ERC Committee had been involved in the current discussions as regards these benchmarks. Contact was established between himself and the CEO of the BBA on LIBOR. The ERC Committee was also looking at Eurepo and the EuroGC basket, to ensure that the index reflected market conditions.

As regards education, the Chairman indicated that a repo seminar was to be held in November in Brussels¹, an IMF repo workshop was scheduled later this year in

¹ The repo seminar has since been postponed.

Malaysia and an ICMA sponsored workshop in South America. Education remained important and will benefit the market as a whole.

2. Approval of the minutes of the ERC General Meeting held on March 13, 2008 in Paris and dated October 12, 2007

The minutes of the ERC General Meeting held on March 13, 2008 and dated April 10, 2008 were unanimously approved. They are available from the ICMA website at

<http://www.icmagroup.org/about1/international1/minutes.html>

3. Update on GMRA issues

a. Progress report on legal opinion updates

The Chairman asked Ms. Lisa Cleary, who had just joined the ICMA's legal department in Zurich, to provide the Council members with the regular update on GMRA-related matters.

The presentation looked at the past, the present and the future legal opinion exercise for the GMRA. She reminded the ERC Council that 68 GMRA opinions were now available and that the counterparty coverage had been expanded, slides 7 and 8 of the presentation identified the coverage of those opinions. (Presentation in Annex 2)

She told the ERC Council that the 2009 legal opinion exercise was about to commence. The combined opinions were to be updated by March 31, 2009, and the process would be administrated by ICMA.

She also referred to the current discussion as regards the future funding of legal opinions. ICMA and SIFMA were preparing a proposal for a new model for the funding of legal opinions. Both trade associations had received initial feedback and guidelines from the ERC Committee to prepare this proposal².

The text of the GMRA and all accompanying documentation are publicly available free of charge on ICMA's website (http://www.icmagroup.org/market_practice/legal1/global.html) and GMRA opinions are available to ICMA members, also free of charge, in the members' area of the website

(http://www.icmagroup.org/market_practice/legal1/GMRA_Legal_opinions.html).

b. ISLA Agent Lender Disclosure Project - Update

² Since the ERC Council meeting held on September 9, 2008, SIFMA has communicated to ICMA its intention to cease its involvement in the ERC and in the funding of GMRA opinions.

The Chairman invited Mr. David Rule, Chief Executive of ISLA, to give his presentation on Agent Lender Disclosure.

In his presentation – attached at Annex 3 –, Mr. Rule explained the project originated from the EU work on the implementation of Basel II as by January 2010 borrowers must receive underlying principal exposures from agent lenders at latest business date following settlement date. Mr. Eric Lepore of Deutsche Bank, London, had been nominated as the link between the ERC Committee and the ISLA project and Ms. Nathalie Aubry of ICMA participated to ISLA EU ALD Working Group.

The final model was published in July 2008 and was available at www.isla.co.uk. It is intended to be implemented by January 2010. The model replicated the US model. As far as triparty and DBV collateral reporting were concerned, two models were available and it was decided that both were allowed to be agreed on a bilateral basis. As far as agency repo/reverse repo was concerned, Mr. David Rule explained that the reporting remained optional. Repo dealers should take the initiative with agent lenders/asset managers in US and Europe in order to go further. The Chairman encouraged ERC Council members to do so.

4. ERC Operations Group Update

Mr. Jonathan Bury passed on Mr. Roger Moran's apologies to the ERC Council members and presented the update. The presentation is attached as Annex 4.

On Target 2 Securities the ERC favoured a solution whereby a repo was instructed to the (I)CSDs as two separate messages (one with the opening leg and the other the closing leg of the repo). Currently T2S will accept repos instructed in both a single instruction or as two separate instructions.

As far as the Euroclear Business Model Implementation of securities financing was concerned, the ERC recommendation was based on an approach of reduced complexity and cross-border standardisation.

Jonathan Bury also referred to other topics covered by the ERC Operations group such as the EONIA calculation convention within the Italian market, the use of trade date as matching field within Clearstream Frankfurt, ICSD triparty interoperability and the Euroclear consultation paper on domestic collateral management. The discussions were still ongoing.

5. CCBM2 –Credit Claims

The Chairman presented this item (attached in Annex 5). He started by a definition of collateral and liquidity management, and the place of credit claims in the CCBM2 system. Credit claims have been as from January 1, 2007 included in the single list of eligible collateral accepted by the ECB. Following this addition, the use of credit claims as collateral went from 4% in 2006 to 12% in 2007 according to ECB statistical data. The Chairman stated that the legal framework

for credit claims still needed further harmonisation. The proposed revision of Directive 2002/47/EC on financial collateral arrangements was welcomed by the market, but failed to reflect properly the use of credit claims in today's markets. The Chairman added that credit claims should be eligible for both central banks and interbank transactions. These market issues were conveyed by a letter to Commissioner McCreevy. A response was received that the concerns had been noted and that discussions were taking their course at Commission level. The industry was also discussing practical steps as regards this issue, notably with SWIFT – to ensure standardised electronic messages, and ANNA – to ensure identification. ICMA's legal department has been asked to look at the GMRA allowing credit claims to be accepted as a source of collateral in this legal framework.

6. SLRC activities Update.

The Chairman invited Mr. Tony Baldwin, the ERC representative on the Securities Lending and Repo Committee (SLRC), to present. Mr. Tony Baldwin presented background information to the SLRC, and the types of documents covered under the SLRC (the Securities Borrowing and Lending Code of Guidance, the Gilt repo Code of Guidance, and the Gilt Annex to the GMRA). He also reviewed the recent discussions and developments on the agenda of the SLRC, as presented in his slide 5. Further information is available on www.bankofengland.co.uk/markets/gilts/slrc.htm - (the presentation is attached as Annex 6).

7. UK Gilt Repo Code: Update and benefits to the UK market

The Chairman thanked John Rippon of the Bank of England for his participation to the Council meeting, and invited him to present the UK Gilt Repo Code. The presentation is attached as Annex 7.

John Rippon explained the Code to the ERC Council members. The Code is a market code, not a regulatory or a Bank of England Code. It is a summary of the market's view of good practices and goes beyond regulatory requirements. It applies to the gilt repo market but its principles can be seen as also applicable to other repo markets.

The Code is produced under the auspices of the SLRC and the Money Markets Liaison Group (MMLG). At the time of its introduction, the development of a Gilt repo Code was seen a central means of educating players about good practice and underpinning confidence in the market. The first version of the Code was issued in November 1995, just before the start of the repo market in January 1996. The Code was updated a first time in 1998. There was no further updating until 2008.

The 2008 update of the Code included main changes as regards the removing of out of date material, shortening, and updates on regulation and infrastructure changes (e.g. central counterparties). The Code will be kept under review by the SLRC and MMLG and updated as and when needed.

8. BBA LIBOR

The Chairman invited John Ewan of the BBA to present the fixing for unsecured lending, LIBOR.

John Ewan explained that the BBA has identified misconceptions as regards LIBOR, as highlighted by recent consultations. He started by clarifying how LIBOR was calculated. The panels of contributing banks send quotations to the distributor – Thomson Reuters. LIBOR is based on a trimmed mean. The contributor panels are selected by the BBA's FX&MM Advisory Panel; it is composed of at least 8 banks – depending on the currency, and broadly reflects the balance of activity in the inter-banks deposit market. The selection process follows a three-stage process, which does not seem to be well-understood. John Ewan explained the different elements of the definition of LIBOR which served as a base for selection contributing banks. He also compared LIBOR with other market benchmarks in the market.

John Ewan discussed the LIBOR consultation process. 31 detailed written responses were received. Five main questions were asked in the consultation paper: 1) should the BBA create an additional and expanded second US Dollar fixing, 2) should we expand the current LIBOR panels, 3) should the BBA tighten the definition of 'reasonable market size?', 4) should the BBA increase anonymity of contributions and/or contributors?, 5) market views on enhancements to governance and scrutiny procedures. As regards the first question, the BBA was looking at market demand at the moment, and a consultation will be issued. As regards question 2, the current models capture broadly the market. The BBA will investigate further into expanding panels, and discuss with potential banks this possibility. As regards the definition of 'reasonable market size', John Ewan admitted it was vague but explained that this was intended. The respondents' sentiment was that it was not to be tinkered with. On the question of anonymity the respondents felt that it was not the way forward. The governance and scrutiny procedures will also be strengthened in light of the responses to the consultation. (John Ewan's presentation is attached as Annex 8).

9. Securitisation Markets Update

The Chairman invited Bertrand Huet-Delahaerse to present to the ERC Council. The presentation is attached in Annex 9. The presentation gave an outlook on the current trends of the securitization market, the key public sector initiatives in this area, and a summary of the EU industry initiatives to improve transparency in the securitization market (10 initiatives). He also presented a summary of US industry initiatives to improve transparency in the securitization market. Finally he offered some preliminary conclusions from the SIFMA/ASF/ESF joint working group on restoring confidence in securitization markets. Accordingly respondents

saw better disclosure, restored confidence in CRAs, and increased transparency as key to restoring confidence, and stakeholders viewed disclosure and valuation as most critical to restarting the market.

10. ECB Liquidity Management in times of market turmoil

The Chairman thanked Paul Mercier of the ECB for participating to the ERC Council meeting and invited him to present. (His presentation is attached as Annex 10).

Paul Mercier presented the features of the ECB monetary policy and its mechanisms through the 'balance sheet' of the Eurosystem as seen on slide 2 and 3 of his presentation. He explained that the ECB had at its disposal different tools to provide liquidity, as discussed in the consolidated balance sheet of the Eurosystem. In slide 3, Paul Mercier indicated that the marginal lending facility should read 75 million (of EUR), instead of 75 (in billion of EUR) as indicated on the slide.

Paul Mercier indicated that the ECB would not provide more than was necessary. Moreover he explained that the ECB did not add any liquidity in the market as reflected in the composition of the ECB balance sheet. The first measure taken as regards the drying up of liquidity was front loading – give more at the beginning and less over time. The ECB had two targets in mind: maintaining interest rates (for policy reasons), and help the market (by providing liquidity). One issue with front loading is that there was less lending later on. The aim of the ECB was to maintain account holding levels, as there was no overdraft possibility.

Paul Mercier also discussed the fact that banks had problems to get USD on money markets. Central banks were currently lending USD in the eurozone. The Fed was effectively lending to the ECB – and the ECB was acting as agent of the Fed. Paul Mercier reported that this was an international issue.

11. 15th European repo market survey – June 2008

Richard Comotto gave an overview of the main conclusions of the survey. The full survey is available at <http://www.icmagroup.org/getdoc/b2efdc0a-bbad-4d53-a021-6f9e9ab86e61/latest-Par-0024.aspx>.

The main conclusion of the latest survey showed a consistent figure for repo market size, despite market turbulence. While the market as a whole had been resilient the survey indicated that individual participants had been affected by adverse conditions. Whilst 19 institutions expanded their repo book since the last survey, 41 had contracted their repo activity. This was the first time the survey had noted such a big negative imbalance in the expansion and contraction of institutions' repo books.

The surge in the market share of business conducted through voice-brokers evident in the December 2007 survey, attributed to the value of brokers in searching out liquidity in difficult market conditions, had been reversed. Levels of cross-border trading had recovered from the December 2007 survey, possibly indicating willingness to trade with a wider circle of counterparties. The growth in credit repo had continued despite difficult conditions. The share of EU collateral issued by central governments reached a new low of 81%. The share of government bonds used in triparty repo also fell back, as did the share of equity collateral. Market participants remained overall cautious and were looking for ways to control risk.

12. 15th European repo market survey – June 2008

The Chairman announced the following forthcoming meetings and events:

- November, 13-14 2008 , Professional Repo Seminar, Brussels hosted by Dexia Bank (*postponed*)
- February, 25 2008 from 9.30am, ERC AGM Hosted by Caja de Madrid and JP Morgan In the Hotel Don Carlos, Marbella, Spain (*Further details will be made available shortly*)

The Chairman closed the meeting and extended his thanks to all attendants, to the speakers, and to ICAP for hosting the event. He regretted that the two scheduled additional presentations could not proceed, but invited both Euroclear and LIFFE to present at the next ERC Council meeting to be held in February.

The Chairman:



Godfried De Vidts

The Secretary:



Nathalie Aubry

Attachments (see also <http://www.icmagroup.org/about1/international1/minutes.html>)