

**Minutes of the meeting of the European Repo Council  
held on October 15, 2009, in London**

Location: Four Seasons Hotel, hosted by Clearstream  
London, United-Kingdom  
Time: 15.30-17.300

**Presenting:**

Ms. Lisa Cleary, ICMA, Zurich  
Mr. Ian Chicken, ICAP Securities plc, London  
Mr. Godfried De Vidts (ERC Chairman), ICAP Securities plc, London  
Mr. Christian Hawkesby, Bank of England  
Mr. Christian Krohn, SIFMA  
Mr. Klaus Loeber, European Central Bank

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

*Banco Bilbao Vizcaya Argentaria, SA, Madrid*  
*Banco Santander Central Hispano, S.A., Madrid*  
*Bank of America Merrill Lynch*  
*Barclays Capital Securities Ltd, London*  
*BNP Paribas, Paris*  
*Caja de Madrid, Madrid*  
*CECA*  
*Citigroup Global Markets Limited, London*  
*Commerzbank AG, Frankfurt*  
*Commonwealth Bank of Australia*  
*Credit Suisse Securities (Europe) Limited, London*  
*Danske Bank A/S, Copenhagen*  
*Fortis Bank, Netherlands*  
*GESMOSA-GBI VSA, Madrid*  
*Goldman Sachs International, London*  
*ICAP Securities Limited, London*  
*MF Global UK Ltd, London*  
*Morgan Stanley & Co International Ltd, London*  
*Société Générale S.A., Paris*  
*The Royal Bank of Scotland Plc, London*  
*UniCredit Markets & Investment Banking, Munich*

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

*Aurel Leven Securities, Paris*  
*Banca IMI S.p.A., Milan*  
*Banca Nazionale del Lavoro S.p.A., Rome*  
*Bank Julius Bär & Co. AG, Zurich*  
*Bank of Scotland Plc, London*  
*Banque et Caisse d'Epargne de l'Etat, Luxembourg*  
*Bayerische Landesbank, Munich*  
*Caja de Ahorros y Pensiones de Barcelona (La Caixa), Barcelona*  
*CALYON, Paris*  
*Confederación Española de Cajas de Ahorros (CECA), Madrid*  
*Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank), London Branch*  
*Daiwa Securities SMBC Europe Limited, London*  
*Deutsche Bank AG, Frankfurt*  
*Dexia Bank Belgium NV/SA, Brussels*  
*DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt*  
*HSBC Bank Plc, London*  
*HSBC France, Paris*  
*ING Bank N.V., Amsterdam*  
*ING Belgium SA/NV, Brussels*  
*IntesaSanpaolo S.p.A., Torino/Milan*  
*JP Morgan Securities Ltd, London*  
*KBC Bank NV, Brussels*  
*Kredietbank S.A. Luxembourgeoise, Luxembourg*  
*Landesbank Baden-Württemberg, Stuttgart*  
*Lloyds TSB Bank plc, 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*  
*Nomura International Plc, London*  
*Raiffeisen Zentralbank Oesterreich AG, Vienna*  
*Royal Bank of Canada Europe Limited, London*  
*UBS AG, London*  
*WestLB AG, Dusseldorf*

## **1. Opening of the meeting by the Chairman of the European Repo Committee**

The Chairman, Godfried De Vidts, welcomed Council members, speakers, observers and guests and thanked Clearstream for hosting the ERC Council meeting. He reminded attendees that Council meetings were held twice a year, and were an opportunity to report on developments in the repo market for the benefit of the members.

He invited ERC Council members to contact members of the ERC Committee if they had issues that needed to be raised in the market. He explained that there was a real push to regulate the OTC markets in Europe. The EU Commission conference regarding OTC markets, entitled « ensuring efficient, safe and sound derivatives markets », will indirectly be important for the repo markets. More use of bilateral or CCP clearing was one of the issues raised in the Commission communication. Mitigation of risk could be done through initial and variation margins, « margin calls ». The Chairman reminded the Council that repo desks were often centres of liquidity, as had been highlighted by the crisis. He further explained that there will be much more to expect regarding collateral management. He recommended that Council members consider carefully the Commission communication to be released the following week. This document was expected to highlight the next steps taken in Europe. In order to make sure the repo market remains robust while functioning well and still open to innovation, the repo community as a whole needed to be ready to interact with regulators and the central banking community. The international dimension is also to be carefully considered.

The Chairman covered other regulatory developments: a MiFID review scheduled for next year, the review will cover not only equities, but also the fixed income and derivatives markets; a directive for clearing and settlement was also possible. In this context ICMA considered putting together a joint buy-side/sell-side working group to look at corporate cash bonds. The Chairman thought however that it might be unavoidable that more markets are requested to provide more transparency, particularly post trade transparency. The Chairman finally referred to the adoption by the European Commission of an important package of draft legislation aiming at strengthening the supervision of the financial sector in Europe. The legislation will create a new European Systemic Risk Board (ESRB) to detect risks to the financial system as a whole with a critical function to issue early risk warnings to be rapidly acted on. It will also set up a European System of Financial Supervisors (ESFS), composed of national supervisors and three new European Supervisory Authorities for the banking, securities and insurance and occupational pensions sectors.

The Chairman also noted that he had been contacted by the ECB to help set up a better intelligence gathering system regarding repo markets. He had forwarded the names of all the ERC Committee members so that ECB staff can contact them directly. He urged all Council members to continue their contributions to the ICMA Repo Survey as well.

The Chairman reported that work was ongoing in the view of establishing a secondary market for credit claims. The two ICSDs had presented in the morning of the Council meeting the result of their work regarding a common database for the identification of credit claims.

This work was expected to be the basis for the legal work to establish an annex to the GMRA ensuring that this type of collateral can be used.

The Chairman regretted that he could not report a lot of progress regarding triparty interoperability. Differences in the models of LCH Clearnet and Eurex Clearing have been identified. Both ICSDs are trying to align the respective GC products to simplify the triparty model design. They thus confirmed their interest and support to this project that would allow growth of the GC basket trading activity. The ERC wrote to both CCPs to ensure commitment to the project. LCH Clearnet confirmed its commitment to the project and its support to the efforts of the ERC to accelerate the introduction of this essential European settlement infrastructure. Eurex Clearing also welcomed the ERC commitment to promote triparty interoperability for the European repo market. Yet no practical solution has been found. In light of the responses received, the Chairman said that he may organise meetings with both CCPs and ICSDs and the central banks of their respective countries as observers. The Chairman will report back when a practical solution is found.

The Chairman reported that he had been contacted by the IMF as they were preparing a repo study for the G20 forum. After reading the draft report the Chairman felt that the repo market had been unable to bring positive messages regarding the repo market. He felt that there was not enough understanding of the role of these markets. The repo markets have been an indispensable tool for the central banks during the turmoil. The Chairman recognised that improvements can always be made and that the ERC will continue interacting with policy makers. Also, the Chairman thought that education was the key to eliminate misunderstandings about the repo market. In the crisis, the attached legal documentation to the repo market- the GMRA - has provided a sound basis for the market. The Chairman reminded the Council that the repo market was not at the roots of the credit crisis and was in fact the tool that helped the revival of financial markets.

The Chairman referred to the G20 report in which the use of CCP was strongly encouraged. In Europe the report had been followed by the publication of the recommendations by ESCB/CESR. The Chairman mentioned that a revision was currently underway to ensure global high standards for CCPs.

The Chairman reported that in the US the payment risk committee announced the formation of a triparty repurchase agreement infrastructure task force. The group would primarily consider the triparty infrastructure in the US. The committee will identify and analyse issues of broad industry interest related to risk in payment and settlement systems. The Chairman explained that the European infrastructure was different from the US one.

The Chairman mentioned that he received an invitation to contribute to the development of a Practical Manual of Repo Operations in Russia. The legal framework in Russia seems to be moving ahead. He thanked Mr Shnetsov, the Chairman of the Russian Repo Council for attending this ERC Council meeting.

The Chairman gave an overview of the main conclusions of the survey. The full survey is available at <http://www.icmagroup.org/ICMAGroup/files/3f/3fb33acf-f14c-4469-a3dc-c101c9c74f59.pdf>

The overall figure point to activity in the repo market stabilising in the wake of Lehman's collapse almost a year ago and the subsequent deleveraging by banks. However, underlying the aggregate figures showing a modest recovery in the sector, the survey paints a mixed picture, with individual institutions in very different situations, a number of whom are still deleveraging by substantial amounts, while others are demonstrating a greater appetite for risk. Mergers between institutions continue to be a factor in limiting the capacity of the repo market for growth.

As an indicator of lessons learnt in the crisis, the share of undocumented buy/sell-backs in the survey fell to only 3.9% of the sample, indicating the greater importance that is being placed on documentation such as the GMRA since the Lehman's collapse.

**2. Introduction from Martin Scheck, Chief Executive, ICMA**

Mr. Martin Scheck welcomed the ERC Council participants and explained the role of ICMA and the range of services it provides its members. He mentioned that the ERC played a key role in the ICMA structure. Moreover he felt that repo markets played an important role, and had been robust throughout the crisis. He said that the importance of the ERC within ICMA was also reflected in the resources allocated to the running of the Council. Mr Martin Scheck finally thanked the ERC Chairman and the ERC Committee members for their continued support of the ERC work.

**3. Approval of the minutes of the ERC General Meeting held on February 25, 2009 in Barcelona**

The minutes of the ERC Annual General Meeting held on February 25 were unanimously approved. The minutes and the presentations are available from the ICMA website at <http://www.icmagroup.org/about1/international1/minutes.aspx>.

**4. Update on GMRA issues**

Ms Lisa Cleary presented the bespoke opinion service and the credit claims annex to the GMRA. She updated that Council on the GMRA review and reported on the EFMLG Symposium discussions and symposium. More information about any of these items are available at <http://www.icmagroup.org/ICMAGroup/files/cc/cc481d16-66ec-40ea-8c6b-5e233d2df3bd.pdf>.

Mr Ed Cia mentioned that the EFMLG and its work was important for the repo community as all the products considered by the EFMLG were linked together. However he felt that the legal issues and the practice needed to be looked at together carefully. He mentioned that the national level needed to be considered as well.

The Chairman asked Ms Lisa Cleary whether she could talk about the request made by Clearstream. Ms Lisa Cleary explained that Clearstream recently approached ICMA in relation to incorporating the GMRA into their collateral management system for use on a multilateral basis. ICMA, in consultation with SIFMA, has been in contact with Clearstream to suggest a format which would allow Clearstream to develop their product whilst protecting the integrity of the GMRA. Clearstream was said to be considering the suitability of the format. Ms Lisa Cleary will report back to the ERC Committee on further developments in this regard.

**5. Lessons from the turmoil, update – presentation by the ECB**

Mr. Klaus Loeber, Head of Oversight Division, gave an update on the follow-up to the crisis in the area of market infrastructure. The update was made after COGESI discussions held in May 2009 on this topic. The presentation is available at <http://www.icmagroup.org/ICMAGroup/files/cc/cc481d16-66ec-40ea-8c6b-5e233d2df3bd.pdf>.

**6. ERC Operational issues**

a. Report from the ERC Operations group

Mr. Ian Chicken, Chairman of the ERC Ops Group, presented this item. He mentioned that the Group discussed modalities of event of defaults and worked on interoperability issues. He said that some work was progressing in Spain, Italy and Greece. In Greece the settlement systems had improved and further improvements were expected as regards the recycling of failed transactions. There was more transparency throughout the day. Mr. Ian Chicken explained that the ERC Ops group remained actively involved in the T2S project. He mentioned in this context the issue of harmonisation of fails in a T2S environment. The group will further discuss the LCH Repo Bundle product.

b. SLRC: report on topics covered

Mr. Christian Hawkesby, The Bank of England Head of Market Intelligence and Chief Intelligence, Sterling Markets, presented the SLRC to the ERC Council, its role and the topics considered. He urged ERC Council members to get in touch with the ERC representative, Mr. Tony Baldwin, or directly with the Secretariat of the SLRC if they wanted to discuss other topics than those mentioned.

The full presentation is available at:

<http://www.icmagroup.org/ICMAGroup/files/cc/cc481d16-66ec-40ea-8c6b-5e233d2df3bd.pdf>.

**7. CSDs interconnectivity**

Mr. Christian Krohn referred to the work undertaken within CESAME 2 by the ERC/ESF working group. He mentioned three working streams related to the removal of the Giovannini barriers: market, authorities and mixed barriers. He presented the issues related to three countries, namely Italy, Greece and Spain, and the different solutions and remaining problems to address. He also mentioned that there has been a lot of progress following discussions with intheir jurisdictions.

The presentation is available at <http://www.icmagroup.org/ICMAGroup/files/cc/cc481d16-66ec-40ea-8c6b-5e233d2df3bd.pdf>.

The Chairman indicated that in this context ERC Council members should look at the forthcoming Commission communication mentioned in his introduction.

**8. Any other business**

An ERC Council member asked for further details as regards the bespoke legal opinion service that was discussed under item 3. He mentioned that ICMA should be able to provide the ERC with all the legal opinions requested by ERC Council members. Ms Lisa Cleary explained that all requests will be presented to ERC Committee members. If three members or more wanted the opinion, ICMA would then consider getting an opinion in that jurisdiction. The issue may be on which counterparty should be covered by the opinion. The bespoke system however would help accelerate the opinion gathering procedure for particular requests. Moreover Ms Lisa Cleary explained that these opinions are expected to become part of the ICMA body of legal opinions at a later stage.

**9. Next meeting**

- March 18, ERC Council Annual General Meeting in Brussels  
Hosted by Euroclear

The Chairman closed the meeting and extended his thanks to all attendants, to the speakers, and to Clearstream for hosting the event.

The Chairman:



Godfried De Vidts

The Secretary:



Nathalie Aubry