



ICMA

International Capital Market Association

Opening & Update on recent developments

Godfried De Vidts, Chairman of the ERC

**European Repo Council
General Meeting**

**London
9 September 2008**



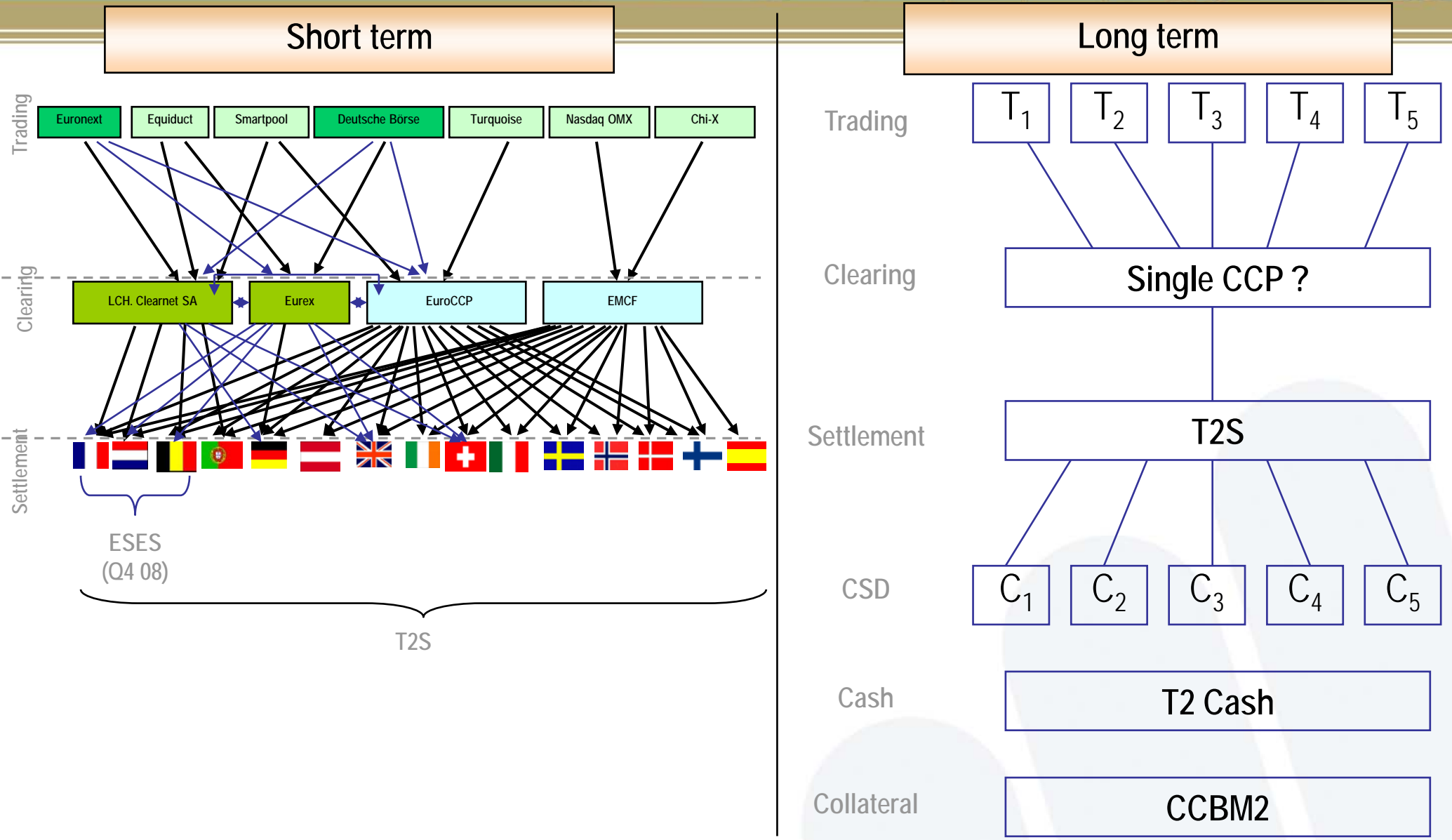
ICMA

International Capital Market Association

Recent market events/issues

- **Changes in the composition of the committee**
- **CESR MiFID Markets Sub-Group re non-equities markets transparency**
- **Collateralisation – need to expand**
- **ECB / ERC consultations**
- **Optimalisation of liquidity**
- **Regulatory impact versus selfregulation**

A new market organisation





ICMA

International Capital Market Association

Recent market events/issues

- **ISIN code issue – EU Commission call for evidence**
- **Repo product development**
- **Eurepo**
- **Educational efforts**



ICMA

International Capital Market Association

Contacts

Thank you, Ladies and Gentlemen

Contacts and information:

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



Professional repo and collateral management course

13-14 November 2008

Dexia - Congress center, Boulevard Pacheco 44,
1000 Brussels (Passage 44).

Sponsored by:



In association with:



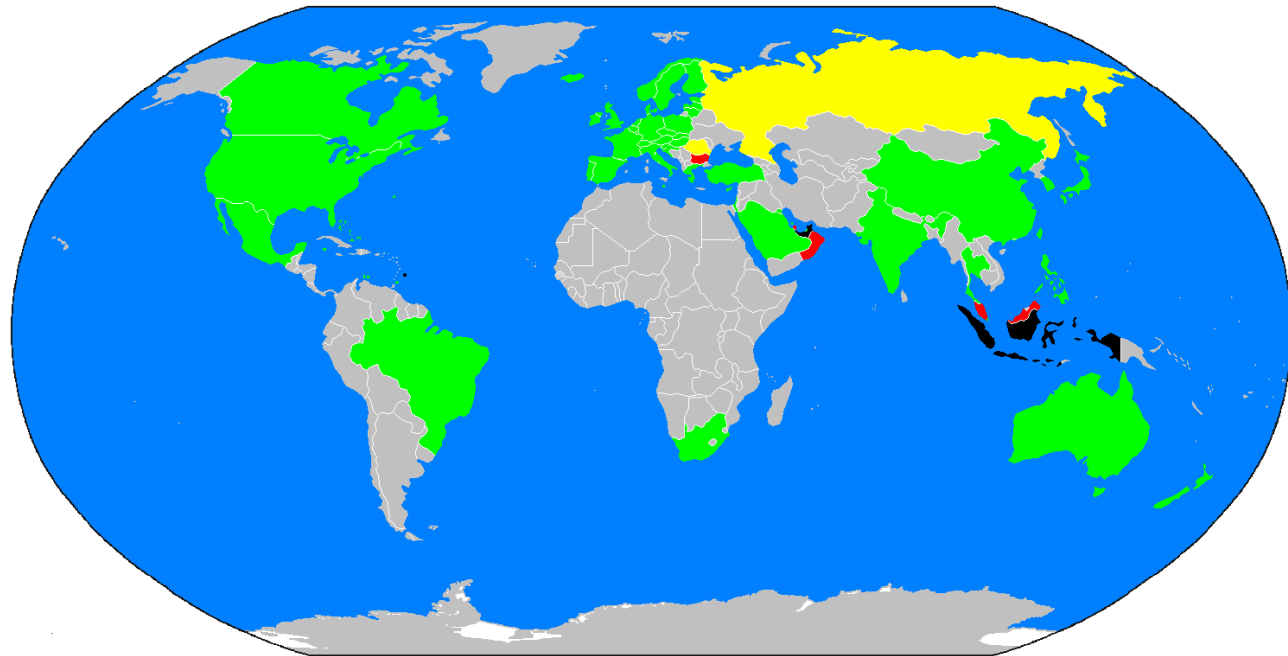
To pre-register for this event, please email TAeventsteam@icmagroup.org





GMRA Issues—
The past, the present
& the future.



The past..

GMRA opinions - worldwide



-  Available opinions
-  Opinions ordered
-  Request from ERC committee to establish whether clean legal opinions can be obtained
-  Monitoring of legal developments

Combined legal opinion seeking/updating exercise 2008

- Format of the combined opinion

Core opinion
relating to
GMRA/GMSLA/
GESLA/OSLA

Appendix 1
relating to GMRA

Appendix 2
relating to GMSLA/
GESLA/OSLA

Core opinion
relating to
GMRA/GMSLA/
GESLA/OSLA

+

Appendix 1
relating to GMRA

=

GMRA opinion
Available free of charge to
ICMA/SIFMA members

Core opinion
relating to
GMRA/GMSLA/
GESLA/OSLA

+

Appendix 2
relating to GMSLA/
GESLA/OSLA

=

GMSLA/GESLA/OSLA
opinion
Available on subscription

The present..

Result of the combined legal opinion seeking/updating exercise 2008



- Funding & availability of combined opinions
 - **68 GMRA opinions**
 - 39 opinions funded by ICMA alone
 - 29 joint opinions funded by ICMA and SIFMA such opinions provided free of charge to members.
 - **GMSLA/GESLA/OSLA opinions**
 - funded by the SLRC subscriber group with access via subscription.

Result of the combined legal opinion seeking/updating exercise 2008



No.	Jurisdiction	Combined (GMRA/GMSLA/GESLA/OSLA) opinions obtained by		GMRA only opinions obtained by	
		ICMA/SIFMA/SLRC	ICMA/SLRC	ICMA/SIFMA	ICMA
1	Abu Dhabi		✓		
2	Ajman		✓		
3	Anguilla			✓	
4	Australia		✓		
5	Austria*	✓			
6	Bahamas		✓		
7	Bahrain*		✓		
8	Barbados	✓			
9	Belgium*	✓			
10	Bermuda		✓		
11	Brazil		✓		
12	British Virgin Islands*		✓		
13	Canada*	✓			
14	Caymans Islands*		✓		
15	Croatia*				✓
16	Cyprus	✓			
17	Czech Republic		✓		
18	Denmark*		✓		
19	Dubai		✓		
20	England*	✓			
21	Estonia		✓		
22	Finland*	✓			
23	France*	✓			
24	Fujairah		✓		
25	Germany*	✓			
26	Greece*			✓	
27	Guernsey	✓			
28	Hong Kong		✓		
29	Hungary	✓			
30	Iceland*	✓			
31	India*			✓	
32	Indonesia	✓			
33	Ireland*	✓	✓		
34	Israel*				
35	Italy	✓			
36	Japan	✓			
37	Jersey	✓			

Result of the combined legal opinion seeking/updating exercise 2008



No.	Jurisdiction	Combined (GMRA/GMSLA/GESLA/OSLA) opinions obtained by		GMRA only opinions obtained by	
		ICMA/SIFMA/SLRC	ICMA/SLRC	ICMA/SIFMA	ICMA
38	Kuwait		√		
39	Latvia		√		
40	Lithuania		√		
41	Luxembourg*	√			
42	Malta		√		
43	Mexico				√
44	Netherlands*	√			
45	Netherlands Antilles		√		
46	New Zealand		√		
47	Norway	√			
48	Philippines		√		
49	Poland	√			
50	Portugal*	√			
51	People's Republic of China	√			
52	Ras Al Khaimah		√		
53	Saudia Arabia		√		
54	Scotland*		√		
55	Sharjah		√		
56	Singapore		√		
57	Slovakia		√		
58	Slovenia				√
59	South Africa		√		
60	South Korea		√		
61	Spain*	√			
62	Sweden*		√		
63	Switzerland*	√			
64	Taiwan		√		
65	Thailand*				√
66	Turkey		√		
67	Umm Al Quwain		√		
68	USA*	√			

Result of the combined legal opinion seeking/updating exercise 2008



- Extended counterparty coverage
 - * Opinions extended to cover insurance companies, hedge funds and mutual funds as parties to the GMRA (USA opinion does not cover insurance companies)

Feedback on the GMRA

- Liaison with lawyers of ERC member banks regarding the way the GMRA had worked over the past 18 months – taking into account recent market turmoil.
- Had the GMRA been robust enough or was an urgent update of the agreement was needed?
- Based on the lawyers' feedback, the conclusions were that the GMRA was indeed very robust and had not shown deficiencies.
- The lawyers consulted felt that a positive point was the slimness of the GMRA and the product-specificity of the agreement.
- There was still room for improvement, notably in the case of events of default. However the consensus that emerged was that there was no need for urgent changes to the GMRA.

The future..

Combined legal opinion seeking/updating exercise 2009

- 2009 opinions exercise is about to commence.
- Review of combined opinions – Freshfields
- Timing – Combined opinions to be updated by March 31, 2009.
- Management of combined opinion updating exercise – ICMA.

The proposed hybrid funding model



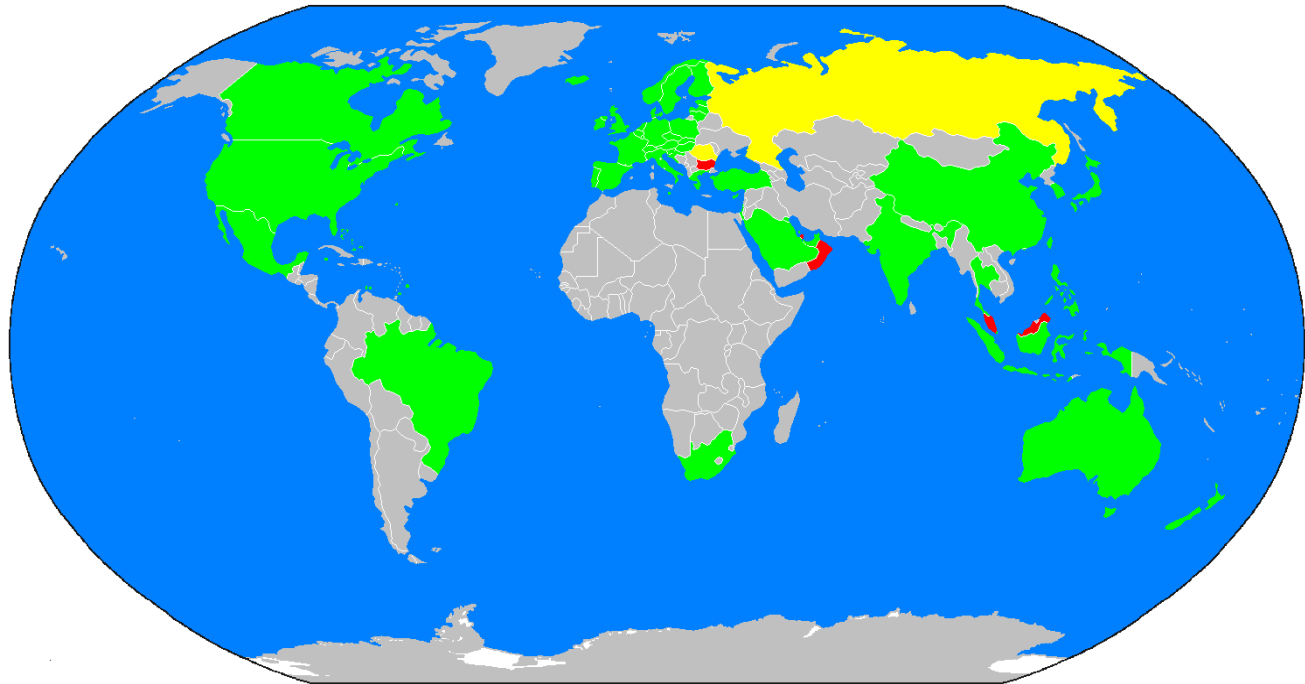
- ICMA and SIFMA to prepare a proposal for a new model (a hybrid model) for the funding of the legal opinions.
- The proposed hybrid model would consist of the following two distinct elements:
 - the current model administered by ICMA where joint opinions on the GMRA would continue to be obtained, annually updated and made available free of charge to ICMA and SIFMA members; and
 - the subscription part where tailored opinions (either opinions for new jurisdictions or extensions of existing opinions to cater for particular types of counterparty) would be obtained at the request of member firms on a cost-share basis.

The proposed hybrid funding model



- ICMA and SIFMA will prepare a joint proposal for review by the ERC committee on the basis of guidance provided by the committee, the key elements of which are:
 - no cap on existing body of industry-wide opinions;
 - subscription opinions available to subscribers only;
 - ERC would determine which subscription opinions are added to the body of industry opinions annually, subject to ability of the Associations to finance that expansion from membership dues; and
 - subscription opinions that are included within the body of industry opinions to be funded by those associations who wish to fund them.

GMRA opinions



(Key the same as for slide 3).

- GMRA opinions available on ICMA's website at:
https://www.icmagroup.org/market_practice/legal1/GMRA_Legal_opinions.html



Agent Lender Disclosure update

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ALD

FSA paper: December 2007

- Background of Basel 2 implementation
- By Jan 2010, borrowers must receive underlying principal exposures from agent lenders at latest business day following settlement date
- ISLA model welcomed by FSA

ALD

European ALD model: process and timetable

- ALD working group; borrowers (Cater Allen, Credit Suisse, Deutsche, Fortis, Goldman, Lehman, Merrill, Morgan Stanley, Nomura, RBS, UBS); lenders (AIG, BGI, BNP Paribas, Citibank, Dresdner, HSBC, JP Morgan, M&G/Prudential, Northern and State Street).
- Eric Lepore (Deutsche) from European Repo Committee
- ICMA also represented (Nathalie Aubry) and financial contribution
- Public consultation: May-June 2008
- Final model published: July 2008 (available at www.isla.co.uk)
- Implementation by Jan 2010

ALD

Recommended ALD model

- Replicates US model
 - Standardised file formats for adding/deleting new underlying principals (credit process)
 - Standardised file formats for reporting loan and collateral allocation between underlying principals
 - Use of DTCC codes to identify underlying principals
 - Use of DTCC hub for sending files
 - Same timing for dispatch of daily files (9am CET on settlement day plus one)

ALD

Recommended ALD model

- Triparty and DBV collateral reporting
 - Not an issue in US because predominantly cash collateral
 - 2 models
 - Model 1: Agent lenders report collateral breakdown (by ISIN) to borrowers by underlying principal using input from triparty agents/Crest
 - Model 2: Agent lenders report exposure values collateralised by triparty/DBV type to borrowers by underlying principal; borrowers obtain collateral breakdown (by ISIN) from triparty agent/Crest
 - Decision: allow either based on bilateral agreement

ALD

Recommended ALD model

- Agency repo/reverse repo
 - Not included in US
 - Borrowers need to calculate Basel 2 capital
 - Recommend that repo reporting included (ie bond borrow under GMRA)
 - Reverse repo (eg cash reinvestment vs triparty collateral) reporting optional by bilateral agreement
 - Need repo dealers to take the initiative with agent lenders/asset managers in US and Europe in order to go further

CONFIDENTIAL

European Repo Council Meeting

ERC Operations Group update

9 September 2008
Roger Moran

The materials may not be used or relied upon in any way.

Agenda

- Latest updates
- Current focus
- Contacts

Latest updates

Target 2 Securities: Fixed Income financing processing

- Recommendation - ERC favours a solution whereby a repo is instructed to the I(CSD) as two separate messages (one with the opening leg and the other the closing leg of the repo)
- Key considerations for approach - messaging / system complexity, take-up within breadth of user community / service providers, implementation costs
- Current status - T2S will accept repos instructed in both a single instruction or as two separate instructions; see T2S user requirements annexe 19

Latest updates

Euroclear Business Model Implementation: Securities Financing

- The subject - does the Euroclear single platform develop two bilateral securities financing mechanisms?
- Recommendation - ERC favours an approach of reduced complexity and cross border standardisation
- Current status - ERC supports Euroclear's decision to limit scope to only one bilateral repo mechanism; see Euroclear service description edition2 dd. 30th June '08

Latest updates

Other reviews include....

- Eonia calculation convention within Italian market
- Use of Trade Date as matching field within Clearstream Frankfurt
- ICSD Triparty interoperability

Current focus

Euroclear Business Model Implementation: consultation paper on domestic collateral management

- The subject - the review of Euroclear's harmonisation proposals
- Current status - ongoing: consideration needs to be given with regard to the development of a single 'domestic +' CSD offering or dual CSD offering (domestic / domestic+) solution

Further information

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CCBM2 – Credit Claims”

ERC Meeting

London 9th September 2008

Godfried De Vidts

Director of European Affairs



Definition of Collateral & Liquidity Management

Collateral & Liquidity Management is defined as the optimal management of credit, collateral, capital and all related execution, pricing, operational, documentation and risk management of a portfolio **across all products, all business units and all locations.**

or

Different types of collateral to be used by all counterparties covered by the Eurosystem – credit claims in CCBM2

- CCBM – what is it?
- Credit claims into the single list
- Start Jan 2007
- T2S and CCMB2 – upgrading the Eurosystem backoffice will benefit the markets
- Harmonisation of national procedures/conditions
- Abolishment of repatriation of securities
- Creation of a secondary market for credit claims

Guiding principles for the central bank initiative

- Centralised IT platform
- Compatibility with Target 2 and T2S
- Domestic & x-border use of collateral
- Handling of all eligible collateral
- Real time STP
- Use of all eligible SSSs and links

Additional issues from market consultations are

- Wider scope, not exclusively Eurosystem
- Pooling of collateral intra-group
- Integration of existing market solutions (3 party)
- Non-euro collateral
- Removal of repatriation requirement

The shared NBB/DNB collateral management system will serve as a base for the development of CCBM2

- Revision of Directive 2002/47/EC on financial collateral arrangements
- Need to reflect properly the use of credit claims in today's markets
- Eligibility of credit claims for both central bank and interbank transactions
- French presidency will submit to EP before end 08
- Response to my letter to Mc Creevy: we take note of your concerns, let continue our discussions

- Creation of a data base by the industry
- Identification of central bank database – one official agent irrespective of issuer's country of residence or place of deposit and at costs only – let us NOT repeat mistakes of the past
- Standardised electronic messages
- Standardised legal documentation – GMRA
- Quality check
- Automated trade matching & reconciliation

Contact details

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European Repo Council update on Securities Lending and Repo Committee (SLRC) activities

Tony Baldwin
September 2008





Background

Bank of England chairs a number of market committees

- Sterling Money Markets Liaison Group (MMLG)
- Foreign Exchange Joint Standing Committee
- **Securities Lending and Repo Committee (SLRC)**

SLRC

Formed in 1990 under name of Stock Borrowing and Lending Committee (SBLC). 2 name changes since lead to current title of the Securities Lending and Repo Committee.

Meeting quarterly

Participants of SLRC

International repo and securities lending practitioners
Representatives of trade organizations
London Stock Exchange
UK Debt Management Office
Financial Services Authority

Purpose

- Provide a forum in which structural developments in the securities lending and repo markets can be discussed, and recommendations made, by practitioners, infrastructure providers and the authorities.
- Co-ordinate the development of
 - Securities Borrowing and Lending Code of Guidance
 - Gilt Repo Code of Guidance
- Review the need for other market guidance relevant to the repo or securities lending markets
- Update the Gilts Annex to the Global Master Repurchase Agreement (GMRA)
- Liaise with similar market bodies and trade organizations covering the repo and securities markets and other financial markets, both in London and other financial centers
- Keep under review the arrangements for obtaining legal opinions on netting in the repo and sec lending agreements



Guidance

SLRC has been responsible for a number of codes of guidance

- Securities Borrowing and Lending Code of Guidance
- Gilt Repo Code of Guidance
- Gilt Annex to the GMRA

Endorsed in June 2005

Securities Lending and Corporate Governance

Together with ACT, BBA, LIBA, LSE the SLRC sponsored an Introduction to Securities Lending

Recent discussions/developments

End of day closure in a contingency situation (non-standard CREST closure)

Australian Beconwood vs ANZ case

Review of GMSLA

Publication of the Gilt Repo code of Guidance

Regulatory developments

Term DBV

LCH.Cleernet sterling GC and €GC service

Legal opinions for repo and securities lending agreements and potential harmonization

SLRC website

<http://www.bankofengland.co.uk/markets/gilts/slrc.htm>

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

Progress report by John Rippon,
Bank of England.

Introduction

- 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 practice above and beyond regulatory requirements
- It applies to the gilt repo market but its principles can be seen as also applicable to other repo markets
- It is geared to the needs of a professional market

Scope of the Code

- General standards: eg training of staff, fair treatment of clients, confidentiality, avoiding market distortions
- Systems and controls, clear timely records, timely valuations, adequate documentation, tax and manufactured dividends
- Eligible counterparties, agents, name passing brokers , central counterparties / clearing houses.
- Legal agreement
- Margin
- Custody
- Default and close-out
- Confirmations
- The Code also includes some paragraphs on regulation, an extensive Glossary of Terms, an annex on gilt market conventions and examples of gilt market calculations

The FSA

- The Code is not 'recognised' by the FSA , in terms of the FSA's new procedures for recognising industry guidance
- But the FSA was able to contribute to the updating of the Code
- The principles in the Code are consistent with the FSA's requirements but go beyond what a regulator would require, ie go above the FSA's *minimum* standards

SLRC and MMLG

- The Code is produced under the auspices of the Securities Lending and Repo Committee and the Money Markets Liaison Group
- Both are market committees chaired by the Bank of England
- Both committees' roles are recognised in the Tripartite Memorandum of Understanding between HM Treasury , the Bank of England and the FSA
- Both committees are very well placed to offers views and guidance on the repo markets
- Each committee meets quarterly

SLRC

- This committee comprises the main trade associations involved in the UK and international repo and securities borrowing and lending markets , the infrastructure providers and the UK authorities
- It includes representatives of ICMA and the ERC
- It provides a discussion forum on developments affecting these markets
- It co-ordinates the development of the Gilt Repo Code and Securities Borrowing and Lending Code
- It keeps under review other relevant guidance
- It keeps under review the arrangements for getting legal opinions on netting

MMLG

- This group keeps under review issues concerning the UK money markets and the supporting infrastructure
- It is interested in the repo markets as part of the UK money markets : so there are some common interests with the SLRC
- The Committee comprises senior practitioners from the main UK settlement banks (e.g. treasurers), other key UK money market participants, the main infrastructure providers and the UK authorities

Some history : pre-1995

- There was no real gilt repo market in the UK until the late 1990s when the Bank introduced its reforms to its money market operations in which gilt repo was central
- Until then the market relied on the Stock Exchange Money Brokers (SEMBs) and their stock and money lending arrangements
- And LSE and tax rules limited the growth of such a market
- So limited experience of repo in the UK

The introduction of the Code

- The reforms of the Bank's operations meant liberalisation was essential to allow an open gilt repo market
- But the authorities were keen to avoid problems that had arisen in other repo markets; eg Drysdale and Lombard Wall in the 1980s
- The development of a Gilt Repo Code was seen a central means of educating players about good practice and underpinning confidence in the market
- This was a key complement to the PSA/ ISMA legal agreement , a vital plank for a sound market
- The first version of the Code was issued in November 1995, just before the start of the repo market in January 1996

The start of the repo market

The launch of the market was a success and the original authors of the Code deserve some credit for this : it was commented :

'The original Code, together with the PSA/ISMA legal agreement and its gilt annex which form the 'Gilt Repo Legal Agreement', has undoubtedly played an important part in the safe and steady growth of the repo market for the first 2 ½ years. '

1998 Updating

The Code was updated by the SLRC in 1998 to reflect:

- Creation of the FSA
- Upgrade of the CGO Service --- (now taken over by Euroclear / CREST)
- Change in daycount conventions
- More widespread use of substitution rights
- Bilateral agreement on partial deliveries (the presumption was against partialling in the original Code)

But the essence of the Code was unchanged

The debate on updating of the Code

- There was no further updating until 2008
- This partly reflected a feeling that the Code was essentially fine and had stood well the test of time
- But some seemed to think that the lessons of the Code were now so well embedded in market practice, and the market so mature, that perhaps the Code was now unnecessary
- And some noted that there was ERC market guidance so possibly the Code was not needed any more
- The Bank encouraged a debate amongst MMLG and SLRC members on the future of the Code
- The result was a consensus in favour of retaining and updating the Code

The 2008 update of the Code

The May 2008 version of the Code was produced under the guidance of the SLRC and MMLG and with the assistance of a working group representing a good cross section of market practitioners and infrastructure providers. The consensus was that the Code should retain its main structure and coverage ; and the main changes were essentially ones of housekeeping :

- Removing out of date material
- Shortening
- Updates on regulation and infrastructure changes (eg central counterparties)

Overall the Code had stood well the test of time

The Gilt Repo Code and the ICMA ERC Repo Guidelines

- The Code and the ERC Repo Guidelines can be seen as complementary
- There is some overlap, but not very much and no contradictions
- Market participants should have regard to both

Keeping the Code under review

- The Code will be kept under review by the SLRC and MMLG and updated as and when needed -- a living document
- We want to avoid long gaps between updating reviews
- The Secretary to the SLRC is happy to receive suggestions from anyone on how the Code might be improved

Summary and Conclusion

- The Code since it was launched in 1995 has helped to underpin the orderly development of the gilt repo market , without major problems or scandals
- It performs a useful educational role for newcomers and the public
- It helps to reinforce general standards
- It helps to get a right balance between regulation and industry guidance
- It helps to maintain the reputation of the market
- Through discussions in MMLG and SLRC the Code can be updated to meet the needs of the market and its participants.



The voice of banking
& financial services

BBA LIBOR

John Ewan
Director, BBA.



The voice of banking
& financial services

About the BBA

BBA LIBOR currencies

Australian Dollar	(AUD)
Canadian Dollar	(CAD)
Danish Krone	(DKK)
Euro	(EUR)
Japanese Yen	(JPY)
New Zealand Dollar	(NZD)
Sterling	(GBP)
Swedish Krona	(SEK)
Swiss Franc	(CHF)
US Dollar	(USD)

How is it calculated?

- **Use a trimmed mean.**
- **Calculated by our “Designated Distributor” under BBA supervision**

Contributor panels

- **Selected by the BBA's FX&MM Advisory Panel**
- **At least 8 banks (in practice, 8 12 or 16)**
- **Broadly reflecting the balance of activity in the inter-bank deposit market**

Selection of panel banks

Selected at an annual review on the basis of:

1. Scale of activity in the London market
2. Credit Rating
3. Perceived expertise in the currency concerned

Basis of contributions

“An individual BBA LIBOR panel bank will contribute the rate at which it could borrow funds, were it to do so by asking for and then accepting inter-bank offers in reasonable market size just prior to 1100.”

Basis of contributions II

An individual BBA LIBOR panel bank will contribute **the rate at which it could borrow funds**, were it to do so by asking for and then accepting inter-bank offers in reasonable market size just prior to 1100.

Basis of contributions III

An individual BBA LIBOR panel bank will contribute the rate at which it could borrow funds, **were it to do so by asking for and then accepting inter-bank offers** in reasonable market size just prior to 1100.

Basis of contributions IV

An individual BBA LIBOR panel bank will contribute the rate at which it could borrow funds, were it to do so by asking for and then accepting inter-bank offers **in reasonable market size just prior to 1100.**

Basis of contributions V

An individual BBA LIBOR panel bank will contribute the rate at which it could borrow funds, were it to do so by asking for and then accepting inter-bank offers in reasonable market size **just prior to 1100.**

The rate at which each bank submits must be formed from that bank's perception of its cost of funds in the interbank market.

Contributions must represent rates formed in London and not elsewhere.

Contributions must be for the currency concerned, not the cost of producing one currency by borrowing in another currency and accessing the required currency via the foreign exchange markets.

The rates must be submitted by members of staff at a bank with primary responsibility for management of a bank's cash, rather than a bank's derivative book.

The definition of "funds" is: unsecured interbank cash or cash raised through primary issuance of interbank Certificates of Deposit.

Definition of contributions

- **Rates shall be for deposits:**

- > made in the London market

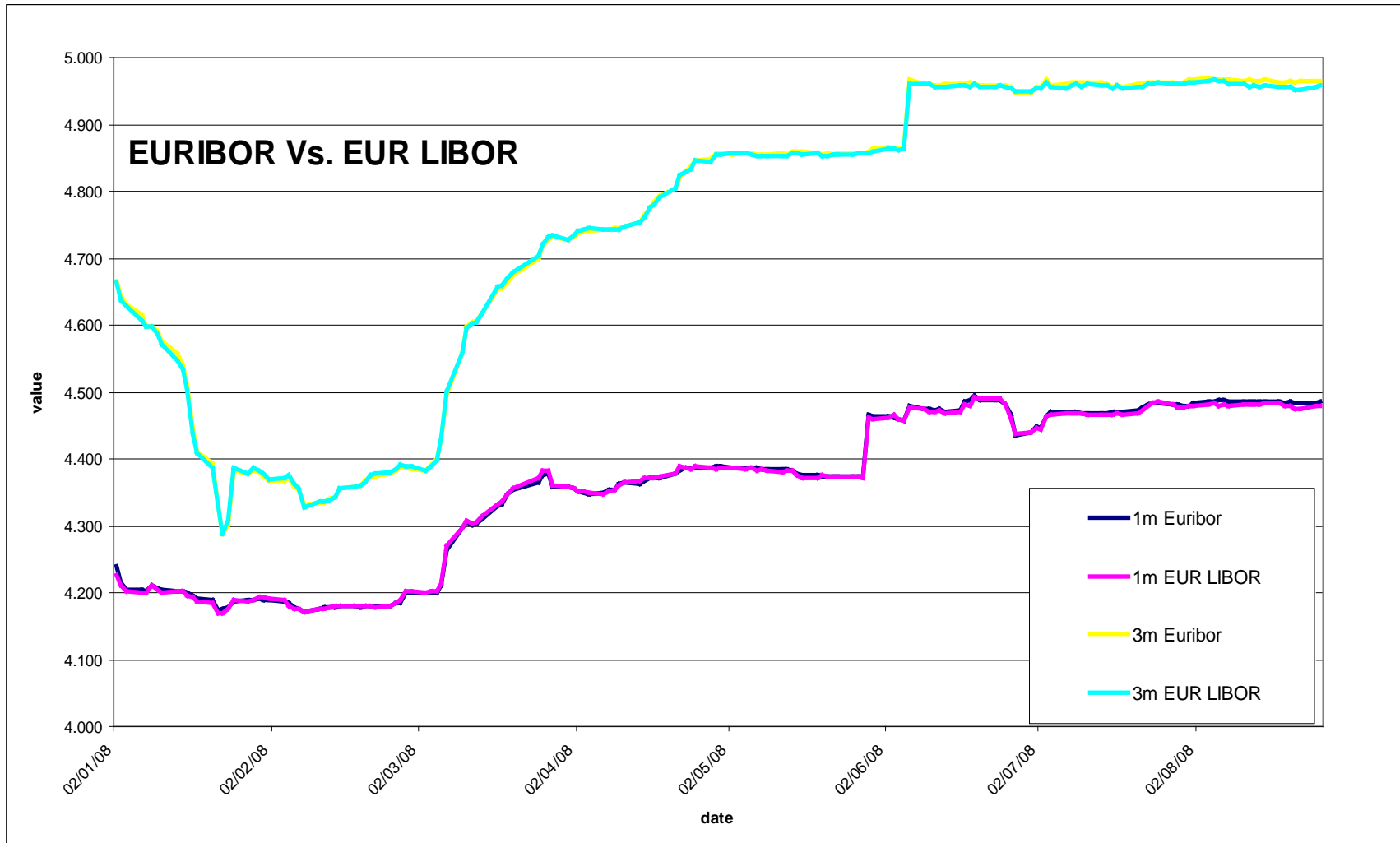
- > that are simple and unsecured

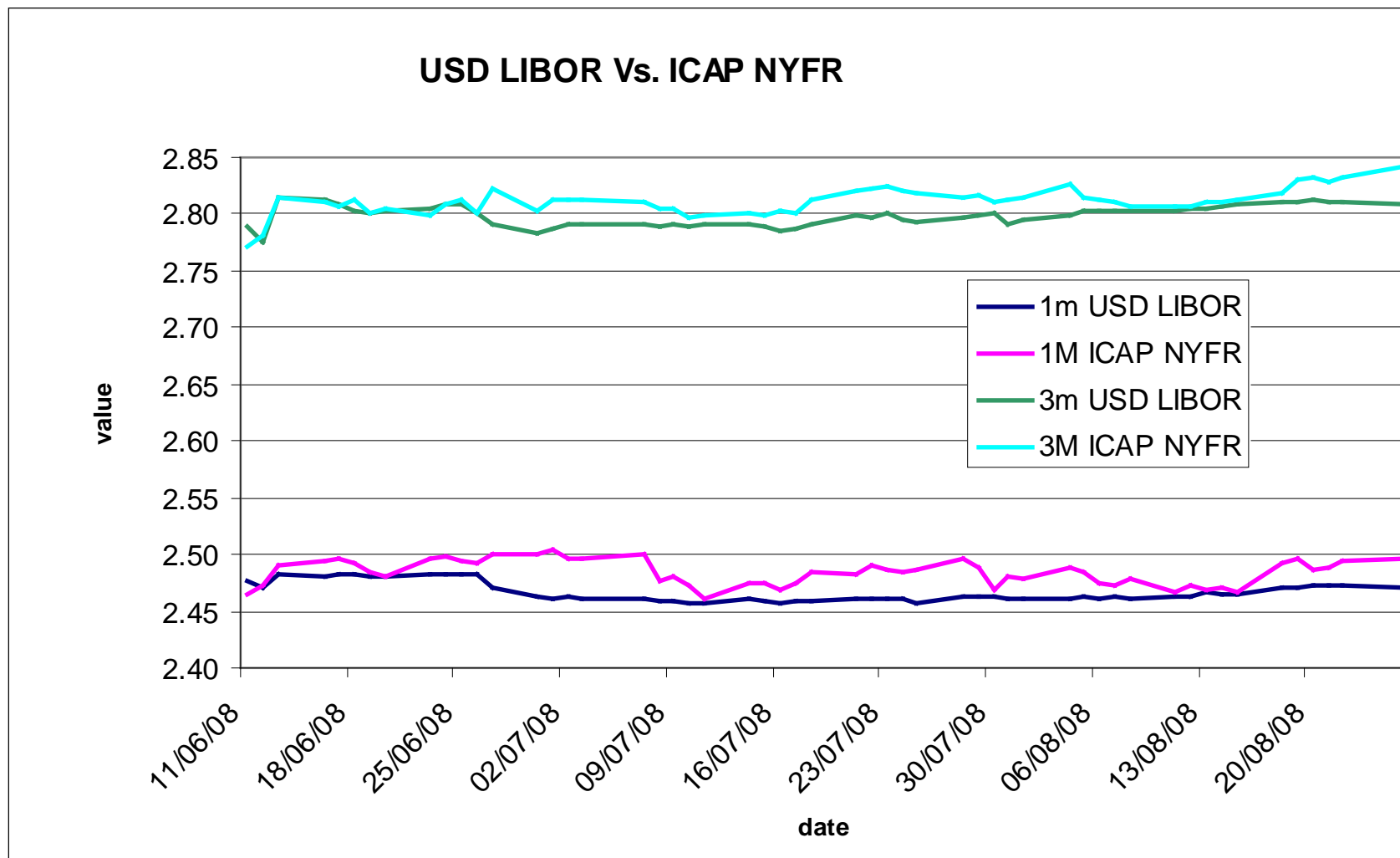
- > governed by the laws of England and Wales

- > where the parties are subject to the jurisdiction of the courts of England and Wales

Usage of BBA LIBOR

- **Reference rate for derivatives**
- **It is a barometer for the money markets and is often used as a gauge of the market's expectation of future central bank interest rates**
- **Commercial loans**
- **Retail mortgage and loans**
- **Islamic Finance**





LIBOR Consultation

- **we received 31 detailed written responses.**
- **Proposals discussed with all stakeholders.**
- **Public bodies and regulators involved at all stages of the consultation.**

Questions asked in the Consultation

- 1. Should we create an additional and expanded second US Dollar fix?**
- 2. Should we expand the current BBA LIBOR panels?**
- 3. Should we tighten the definition of “reasonable market size”**
- 4. Should we increase anonymity of contributions and/or contributors?**
- 5. Market views on enhancements to governance and scrutiny procedures.**



The voice of banking
& financial services

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Presentation to European Repo Council (ERC)

Securitisation Markets Update

Bertrand Huet
Managing Director, European Legal & Regulatory Counsel

9 September 2008



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Part I

State of the Securitisation Markets

▶ EU issuance down 69% for Q1 08 vs Q1 07; up 11% for Q2 08 vs Q2 07 and up 73% vs Q1 08, BUT 91% for funding through central bank liquidity schemes

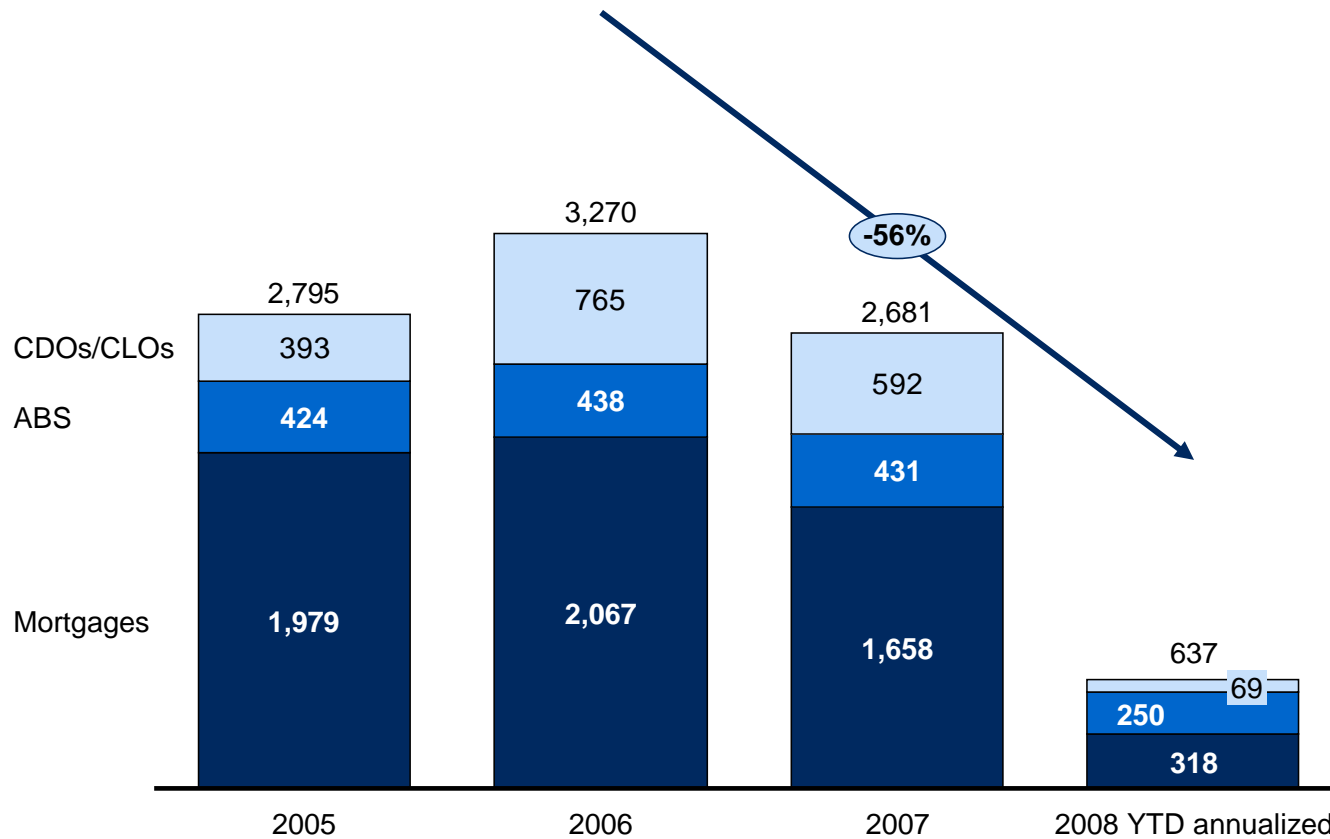
▶ 1H 08 US issuance down 53% on 1H 07.

		<i>European</i>				<i>US</i>	
		Q1	Q2	Q3	Q4	Total	
€Billions	2001	20.5	43.2	22.7	66.2	152.6	2,308.4
	2002	24.3	42.6	35.7	55.1	157.7	2,592.7
	2003	43.3	51.9	39.7	82.4	217.3	2,914.5
	2004	55.8	59.0	53.2	75.5	243.5	1,956.6
	2005	47.8	94.4	41.5	143.3	327.0	2,650.6
	2006	69.0	114.3	112.8	184.9	481.0	2,455.8
	2007	128.7	152.0	98.2	74.7	453.7	2,404.9
	2008	40.0	169.4			209.4	739.9

Securitisation Markets Remain Anemic

— (x%) → Compound annual growth rate

Global structured product issuances
\$ Billions



European Issuance

	2007	2008:Q1	2008:Q2
ABS	57.8	10.1	12.7
CDO	88.7	2.0	10.0
CMBS	47.6	0.7	0.7
RMBS	259.6	27.2	146.0
Total	453.7	40	169.4

▶ RMBS 82% (1H 08) vs 57% (07)

▶ CDO 20% (07) vs 5.7% (1H 08)

US Issuance

	2007	2008:Q1	2008:Q2
ABS	666.9	37.6	66
CDO	252.5	4.6	6.2
Agency MBS	984.5	236	365.8
Non-Agency CMBS	168.1	3	6.6
Non-Agency RMBS	332.9	4	10.1
Total	2404.9	285.2	454.7

▶ GSEs 41% (07) vs 81% (1H 08)

▶ CDOs 10.5% (07) vs 1.5% (1H 08)

€Billions

- ▶ 83% 1H 08 new issues in Europe rated AAA (68% in 07)
- ▶ 96% 1H 08 US deals either AAA or issued by Fannie Mae & Freddie Mac (57% in 07)

	Europe		United States	
	2007	2008 1H	2007	2008 1H
AAA	308.7	173	378.9	102.8
AA	17.2	5.9	34.3	1.9
A	57.9	4.1	170.0	7.1
BBB & Below	22.5	5.2	27.2	3.0
Not Rated	47.3	21.3	810.0	17.2
Agency MBS	n/a	n/a	984.5	601.8
Total	453.7	209.4	2404.9	733.9

2008 Q2 EU & US Securitisation Outstandings by Country and Collateral Type

€Billions	ABS	CDO	CMBS	RMBS	WBS	Total
France	9.5	0.9	3.7	13.7		27.9
Germany	31	14.2	18.1	6.5	0.1	69.9
Ireland	0	3.3	1.8	28.1		33.2
Italy	53.9	4.2	3.9	55	2.4	119.3
Netherlands	2.7	10.4	8.1	137.1		158.3
Spain	19.4	36.6	1.6	136.8		194.4
UK	47.1	3.4	75.4	350.9	36.5	513.3
Other Europe	11.3	9.6	0.4	58.1	0.1	79.5
Multinational	8.9	190	28.5	3	0.7	231.1
Total	183.8	272.6	141.5	789.2	39.8	1426.9

- ▶ 55% RMBS
- ▶ 70% with UK, Netherlands, Italy, Spain and Germany

	NON-AGENCY		AGENCY		Total
	ABS	MBS	MBS		
US Total	1827.4	3853.3	841.3		6,503.90

Other Europe: Belgium, Denmark, Greece, Hungary, Portugal, Russia, Sweden, Switzerland, Turkey, Ukraine

Source: Bloomberg, ESF

2008 Q2 Securitisation Outstanding by Moody's Rating

	EU	US
Aaa/AAA	84.13%	73.69%
Aa/AA	5.75%	7.26%
A/A	4.82%	5.69%
Baa/BBB	3.63%	4.69%
Ba/BB	1.1%	2.13%
B/B	0.20%	2.71%
Caa/CCC	0.13%	1.56%
Ca/CC	0.12%	1.26%
C/C	0.13%	1.00%
Total	100.00%	100.00%

European Term Securitisation Primary Distribution by Investor Type and Investor Location

Investor Type

Bank

Insurance Co.

Money Mkt & Fund Mgr.

Hedge Fund

Other

Total

	RMBS	CMBS	Consumer ABS	Other
Bank	67.8%	63.3%	40.6%	59.5%
Insurance Co.	3.7%	4.0%	2.4%	1.8%
Money Mkt & Fund Mgr.	21.1%	21.9%	37.0%	27.1%
Hedge Fund	1.3%	5.3%	4.3%	7.8%
Other	6.1%	5.5%	15.7%	3.8%
Total	100.0%	100.0%	100.0%	100.0%

Investor Location

Benelux

France

Germany

Ireland

Italy

Spain

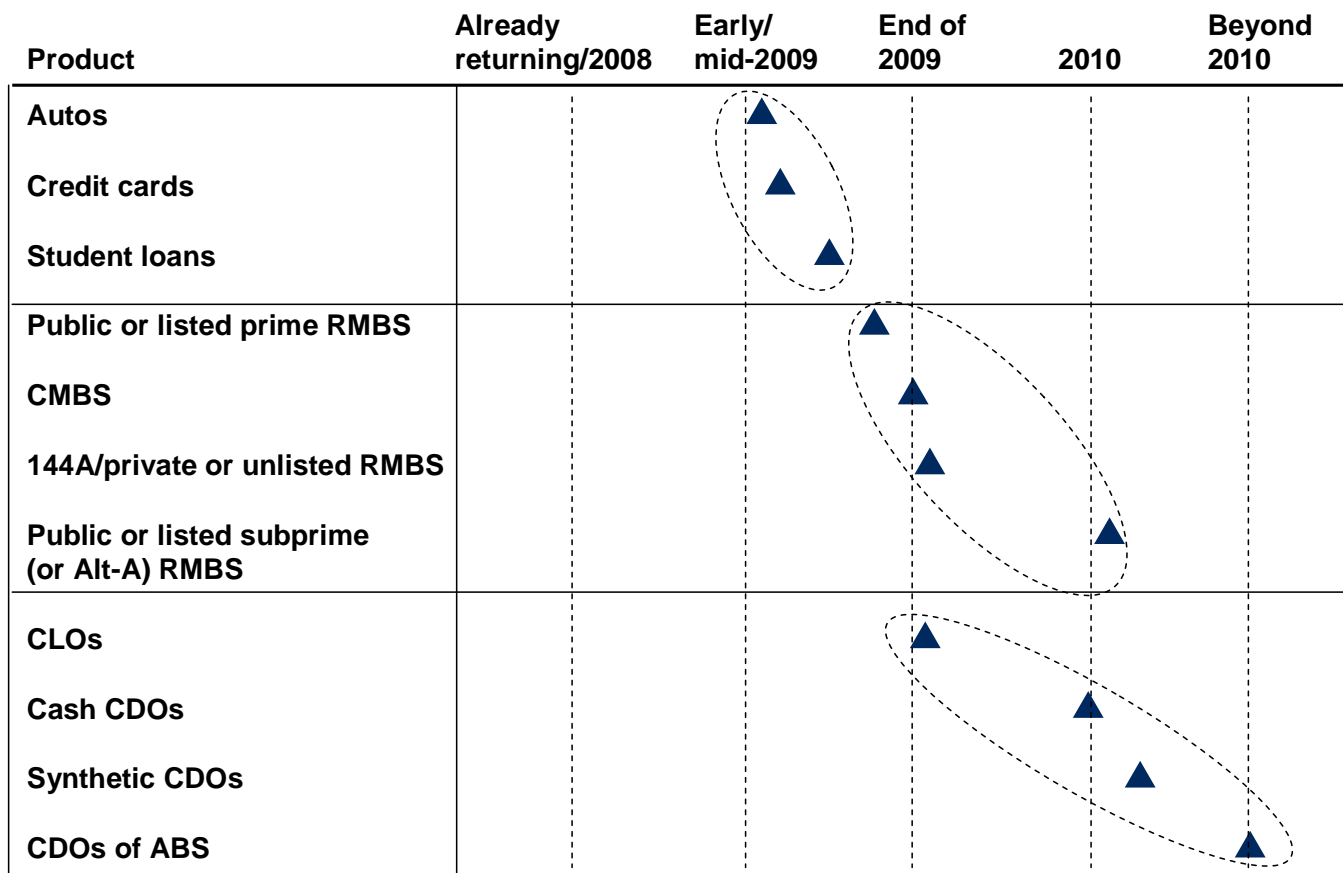
UK

Others

Total

	RMBS	CMBS	Consumer ABS	Other
Benelux	11.8%	7.4%	25.1%	25.1%
France	10.2%	3.2%	10.4%	15.2%
Germany	23.4%	14.5%	24.4%	17.9%
Ireland	5.5%	12.9%	5.8%	2.0%
Italy	5.2%	0.4%	2.4%	6.5%
Spain	1.3%	4.5%	3.6%	3.4%
UK	27.5%	52.9%	23.5%	24.7%
Others	15.1%	4.2%	4.8%	5.2%
Total	100.0%	100.0%	100.0%	100.0%

Market participants expect products to recover at different speeds



Part II

Political Context

	Transparency & Disclosure	Valuation standards & Accounting	Prudential oversight/ Risk Management	Rating agencies /Market functioning	Key Documents/Reports
Global					
G7	✓	✓	✓	✓	Communiqués
FSF	✓	✓	✓	✓	Enhancing Market and Institutional Resilience (Apr08)
IOSCO/BCBS	✓	✓	✓	✓	Report on the Subprime Crisis (May08); Principles for Sound Liquidity Risk Management and Supervision (June 08)
EU					
ECOFIN	✓	✓	✓	✓	Oct.07 "Roadmap"; French Presidency Report on Financial Crisis (Sept.08)
EU Commission	✓	✓	✓	✓	Accountable to ECOFIN; new legislation (CRD; CRA)
Level 3 Committees	✓	✓	✓	✓	CESR steps to strengthen market confidence (Apr08); CEBS advice to EC on Liquidity Risk Management (Jun08)
US					
President's WG on Financial Markets	✓	✓	✓	✓	Policy Statement To Improve Future State of Financial Markets (Mar08)

- ▶ Longer term impact of these initiatives. In the meantime, Fed/ECB/BoE roles key – But for how long?

Part III
**Summary of EU industry initiatives to
improve transparency in the securitisation
market**

- 4 October, 2007: ECOFIN Roadmap calling industry to “enhance transparency for investor, markets and regulators” by “mid-2008”
- 8 February, 2008: Trade associations commit to the EC to deliver a range of initiatives to improve transparency



- June, 2008: “Ten Industry Initiatives to Increase Transparency in the Securitisation Market” delivered to the EC
 - ▶ 2 initiatives directly respond to the ECOFIN Roadmap
 - ▶ Another 8 were industry-developed as proactive measures to help further improve transparency
 - ▶ Initiatives consistent with FSF’s and IOSCO’s recommendations

1: Increasing Transparency in the Reporting of Securitisation Exposures under the Capital Requirements Directive Pillar 3 (Association leads: EBF, LIBA, ESBG, EACB, EAPB)

- ▶ **Objective:** promote sound, consistent and appropriately granular implementation of securitisation related CRD disclosure requirements
- ▶ **Output:** Industry Good Practice Guidelines for Pillar 3 disclosures by banks
- ▶ **Next Steps:** Draft Guidelines issued for stakeholder consultation from 30 June to 15 September 2008. To be finalised by 31 October 2008. Firms will be able to use them in developing their first Pillar 3 disclosures in early 2009.

2: Organise Comprehensive, Frequent and Relevant Statistical Data: New Securitisation Data Report (*Association leads: ESF, SIFMA, CMSA, ICMA*)

- ▶ **Objective:** provide further transparency to market participants and assist policymakers in their monitoring and assessing of trends in the securitisation market
- ▶ **Output:** New Securitisation Data Report created. Provides for the 1st time in one place stats on EU and US term securitisation and ABCP market activity regarding issuance, balances outstanding, ratings changes, spreads and price changes on major European ABS asset classes, indices, as well as investor types and locations
- ▶ **Next Steps** Will be produced each quarter, with monthly supplements on spread and price data and bi-annual surveys on investor distribution

3: **ABCP Issuer Disclosure Code of Conduct/Principles** (*Association Leads: ICMA, ESF*)

- ▶ **Objective:** Encourage consistent, relevant and regular reporting to investors in the ABCP market
- ▶ **Output:** ABCP issuer disclosure code of conduct finalised
- ▶ **Next Steps:** Starting winter 2008, ABCP issuers to periodically confirm through ICMA/ESF that ABCP issuers are complying with code of conduct

4: Term Securitisation Issuer Transparency and Disclosure Principles *(Association leads: ESF, SIFMA, CMSA)*

- ▶ **Objective:** Improve transparency and information flow in RMBS and ABS markets according to the needs of separate RMBS, CMBS, CDO, consumer ABS, insurance securitisation and other asset classes
- ▶ **Output:** Developing 'Issuer Transparency and Disclosure Principles' for RMBS and CMBS first, then other asset classes
- ▶ **Next Steps:** Expect to issue the principles for RMBS and CMBS by end of 2008, with implementation in 2009, pending technical review, other asset classes thereafter

5: Opening Access to Transaction Information (*Association leads: ESF, SIFMA, CMSA*)

- ▶ **Objective:** Promote open access upfront and ongoing on EEA-listed public term transactions, via removal of password protection on issuer websites, or making information available from an unrestricted source (eg data providers)
- ▶ **Output:** To be achieved via Initiative 4, Issuer Transparency and Disclosure Principles
- ▶ **Next Steps:** Expect to issue Principles for RMBS and CMBS by end of 2008, other asset classes thereafter; meanwhile, promoting the removal of password protection among members

6: Development of Industry Data Portals (*Association leads: ESF, SIFMA, CMSA*)

- ▶ **Objective:** Competitive environment for the provision of data should drive data vendors to develop ‘data portals’ whereby information can be centrally accessed through those sites at low or no cost
- ▶ **Output:** In June, 2 data providers launched such portals, providing open access to over 1,000 EEA-listed securitisation prospectuses and investor reports
- ▶ **Next Steps:** We are encouraging additional data providers to consider similar initiatives

7: RMBS and CDO Issuer/Manager Directories on ESF Website (Association lead: ESF)

- ▶ **Objective:** to help make information more broadly available and more easily accessible, centralise access to European originators, issues, and managers of securitised products
- ▶ **Output:** ESF website now provides a centralised directory of known EU RMBS issuer and CDO manager links to various relevant sources of information
- ▶ **Next Steps:** Actively consulting with members and the general public to build and improve the directory

8: Improve Standardisation and Digitisation of Reporting Templates and Granularity of Information (*Associations Lead: ESF, SIFMA, CMSA*)

- ▶ **Objective:** Develop standardised issuance and surveillance formats so that comparable and granular information is provided to each CRA and investors
- ▶ **Output:** ESF updating a standardised reporting format for EU RMBS transactions in concert with ASF in the US. CMSA has also developed and continues to refine a standardised reporting format for CMBS transactions
- ▶ **Next Steps:** RMBS reporting formats expected to be finalised in 2008 and implemented in 2009. European implementation will be coordinated with US implementation

9: Standardising Definitions (*Associations Lead: ESF, SIFMA, CMSA*)

- ▶ **Objective:** Market participants need consistent product definitions. Eg, ‘subprime RMBS’ and ‘non-conforming RMBS’ have different meaning in US, UK and other countries. Challenge for non-conforming and subprime RMBS in Europe is that standardised consumer credit scores are not publicly available, as are FICO scores in the US
- ▶ **Output:** Until a publicly-usable consumer credit scoring framework is developed in Europe, industry drafted a comparative table as to the meanings of ‘non-conforming RMBS’ and ‘subprime RMBS’
- ▶ **Next Steps:** ESF/SIFMA interested in coordinating their efforts with the Expert Group on Credit Histories recently established by the EU Commission. Timing will depend on the progress of this group

10: Developing Investor Credit Assessment and Valuations Principles (Association leads: ESF, SIFMA, CMSA)

- ▶ **Objective:** Ensure investors have well articulated investment processes in place to independently assess the credit of a transaction, since in the past some relied too much on CRAs
- ▶ **Output:** Developing investor credit assessment principles. Also discussing investor valuation principles, in particular for structured credit investors who are subject to mark to market rules
- ▶ **Next Steps:** Draft principles expected summer 2008, implementation targeted year end 2008 or shortly thereafter

A PDF copy of the Transparency Initiatives with all related documents, regulatory updates, and press coverage of this project is available at

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Part IV
**Summary of US industry initiatives to
improve transparency in the securitisation
market**

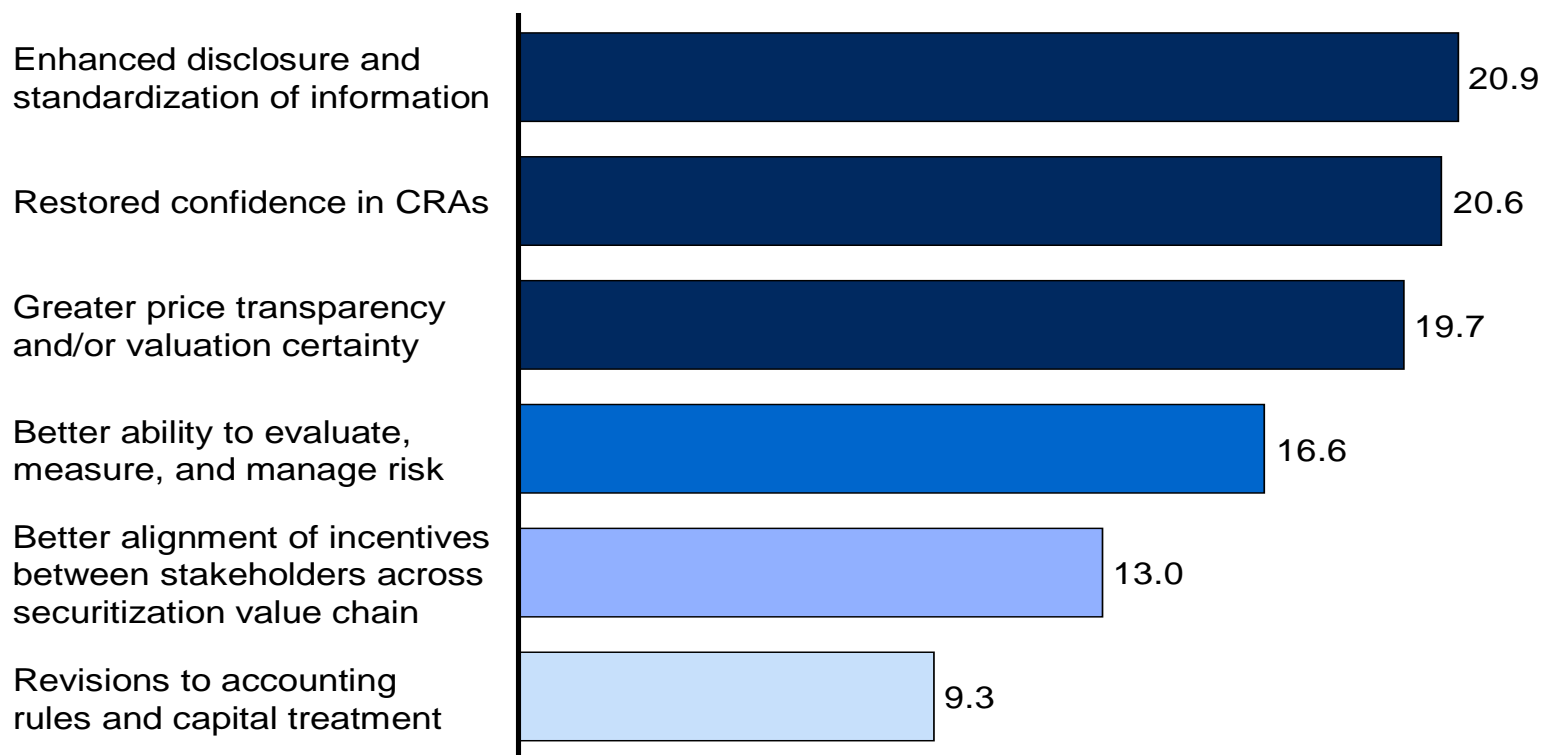
Recommendation		Effort underway	Next steps
1.	Minimum industry-wide market standards of due diligence disclosure and quality assurance practices for RMBS	<ul style="list-style-type: none"> »SIFMA US RMBS Pre-Securitisation Due Diligence Standards Working Group »ASF Project RESTART 	<ul style="list-style-type: none"> »Draft proposal for comment – <i>Fall 2008</i> »Request for comment on due diligence procedures for information in the ASF RMBS Disclosure Package – <i>late Fall 2008</i>
2.	Increase and enhance initial and on-going pool and loan-level data of non-agency RMBS into an easily accessible standard format	<ul style="list-style-type: none"> »ASF Project RESTART (initial draft ASF RMBS Disclosure Package published in July 2008) 	<ul style="list-style-type: none"> »Revised request for comment on the ASF RMBS Disclosure Package – <i>early Fall 2008</i>
3.	Strengthen and standardise the representations & warranties and repurchase procedures for RMBS	<ul style="list-style-type: none"> »ASF Project RESTART Repurchase Working Group 	<ul style="list-style-type: none"> »Initial request for comment on uniform set of repurchase procedures – <i>Fall 2008</i>
4.	Develop industry-standard norms for evaluating servicer performance and mechanisms for the transfer of servicing rights due to underperformance	<ul style="list-style-type: none"> »ASF Project RESTART 	<ul style="list-style-type: none"> »Request for comment on both servicer and performance metrics and a model set of servicing provisions – <i>Winter 2008</i>

Part V
**SIFMA/ASF/ESF Joint WG to restore
confidence in securitisation markets
(Confidential Extract from Draft
Report)**

- ▶ Composition
 - ~ 30 members, joint investor and dealer membership at senior level, global
- ▶ Designated by the PWG
- ▶ Process
 - Identify and prioritise key issues to restart the market, based on over 100 in-depth interviews and over 400 detailed surveys of securitisation market players
 - Issue white paper, including practical, actionable and prioritised recommendations
 - McKinsey support
- ▶ Structure
 1. Most important root causes of the turmoil
 2. Securitisation market outlook: investors, products, OTD model
 3. Priority areas for industry action
 4. Recommendations
- ▶ Timing: October

Respondents see better disclosure, restored confidence in CRAs, and increased transparency as key to restoring confidence

Average weight given by respondents allocating 100 points across 6 factors

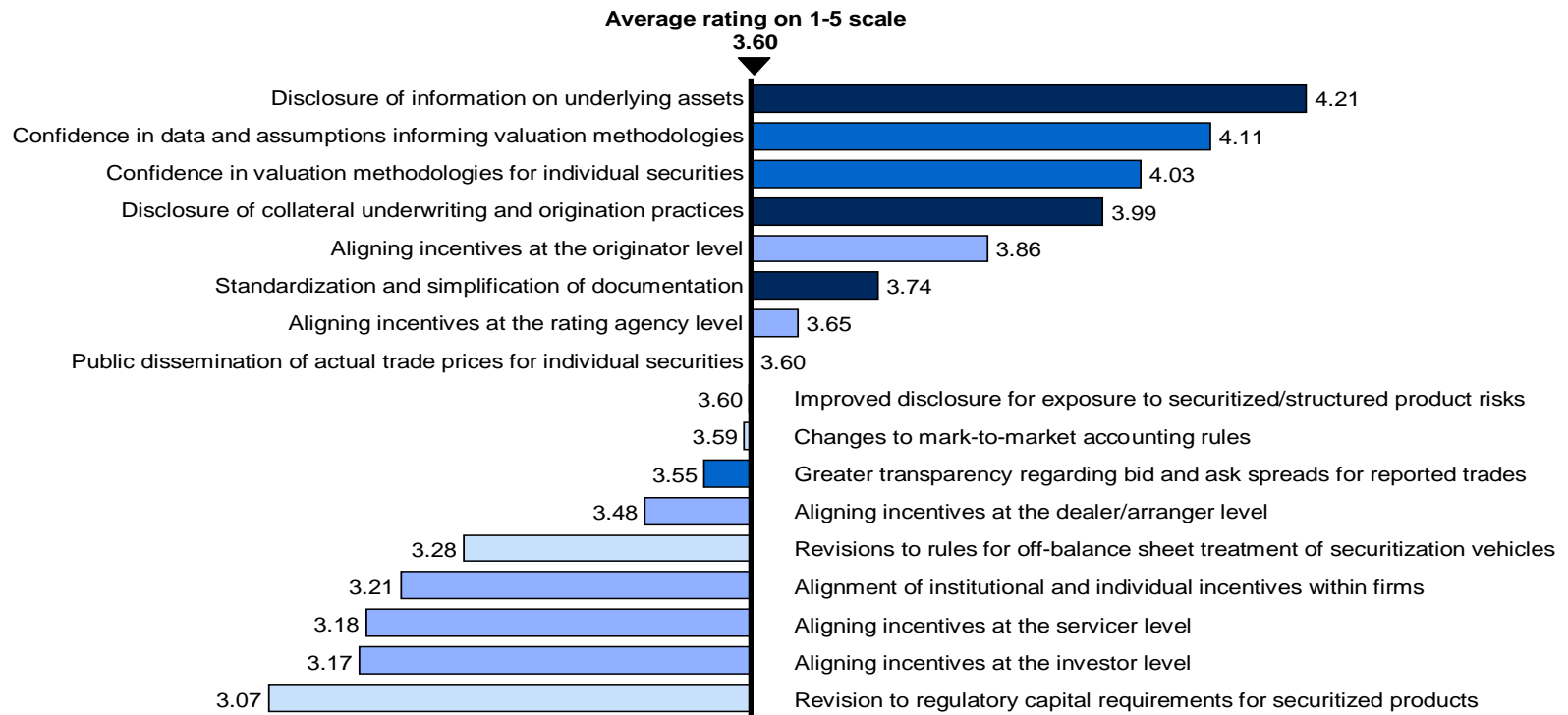
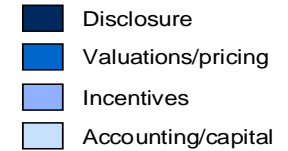


Priority Challenges to Restoring Confidence

Stakeholders view disclosure and valuation as most critical to restarting the market

Relative importance of factor to restoring confidence in the securitization markets in the near-term

Average relative rating received



ECB Liquidity Management in times of market turmoil

Paul Mercier

London, 09 September 2008

Simplified Balance Sheet - Eurosystem

Assets		Liabilities	
Net foreign reserves			Banknotes in circulation
Monetary policy (net credit provided to the banking sector)			Reserves requirements

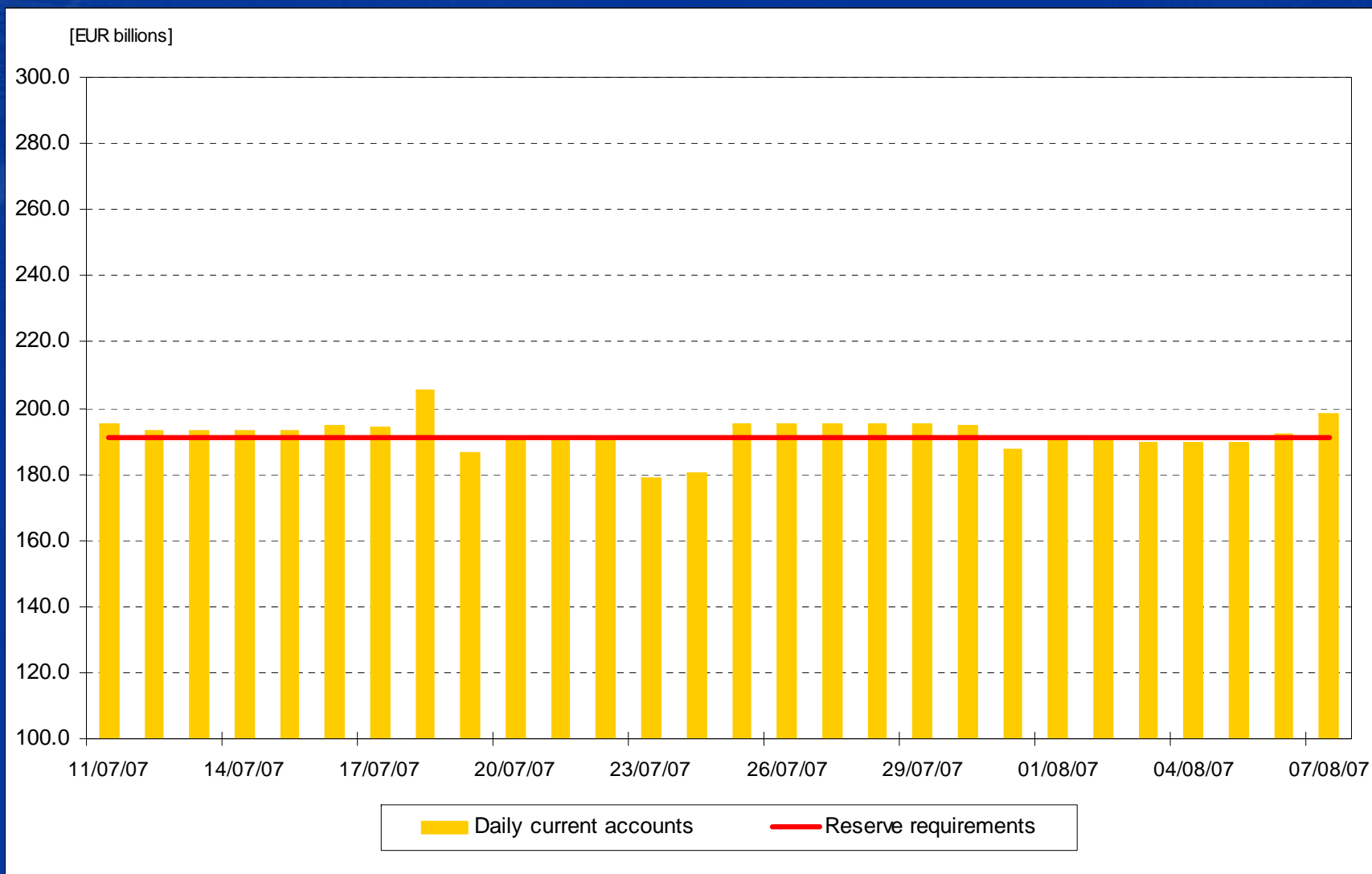
Consolidated balance sheet of the Eurosystem

Consolidated balance sheet of the Eurosystem, 15 August 2008
(in billion of EUR)

Assets		Liabilities	
Autonomous liquidity factors		Autonomous liquidity factors	
Net foreign assets (A.1+A.2+A.3 -L.6-L.7-L.8)	302	Banknotes in circulation (L.1)	690
Domestic assets portfolio (A.7+A.8)	147	Government deposits (L.5.1)	51
		Other autonomous factors (net)	49
			692
Monetary Policy Instruments		Monetary Policy Instruments	
Main refinancing operation (A.5.1)	176	Current accounts - Res. Requ. (L.2.1)	233
Longer term ref. Operation (A.5.2)	300	Absorbing Operations (L.2- L.2.1-L.2.2)	0
Marginal lending facility (A.5.5)	0	Deposit facility (L.2.2)	0
	925		925

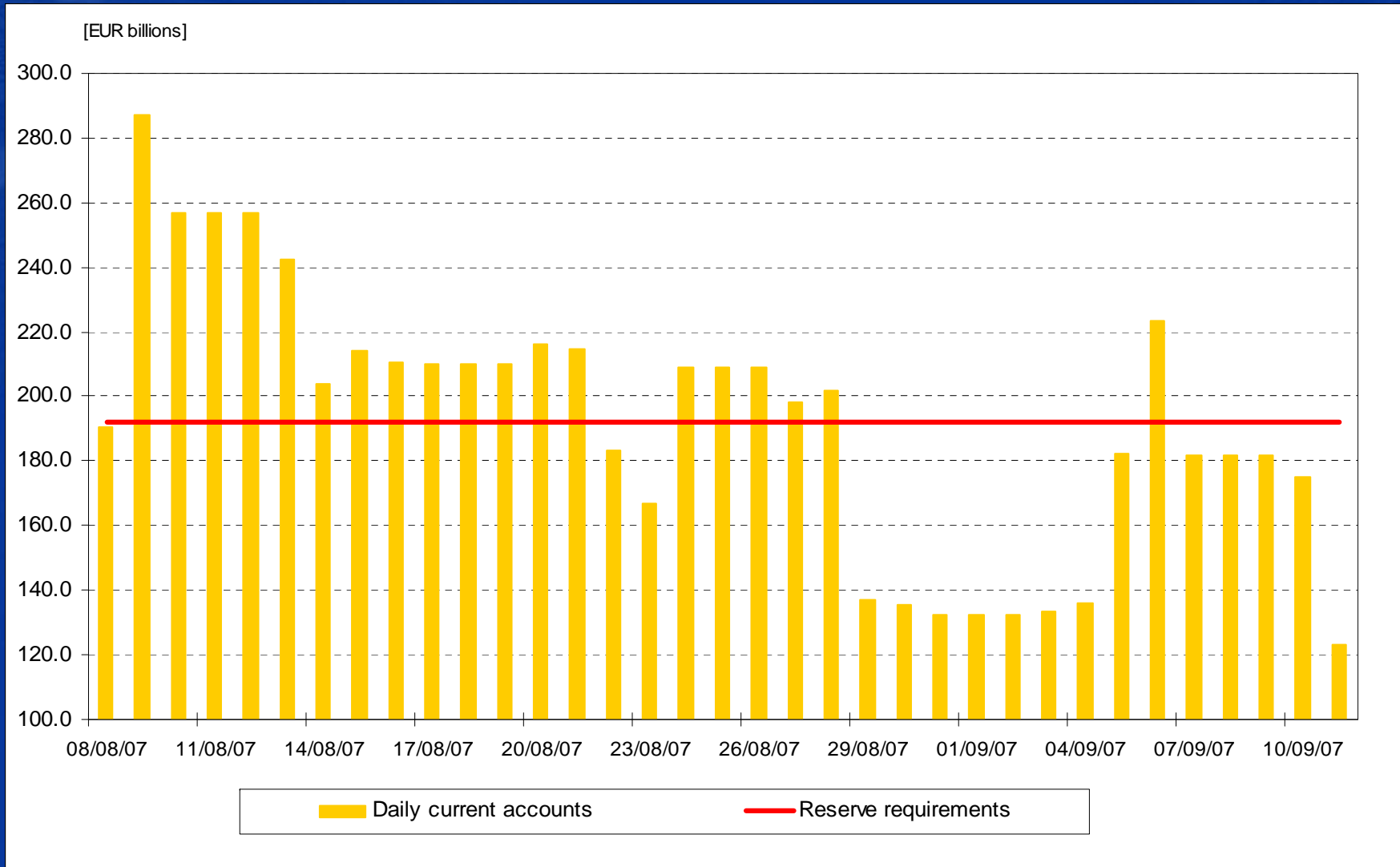
Normal Conditions - Maintenance period

11 July – 7 August 2007

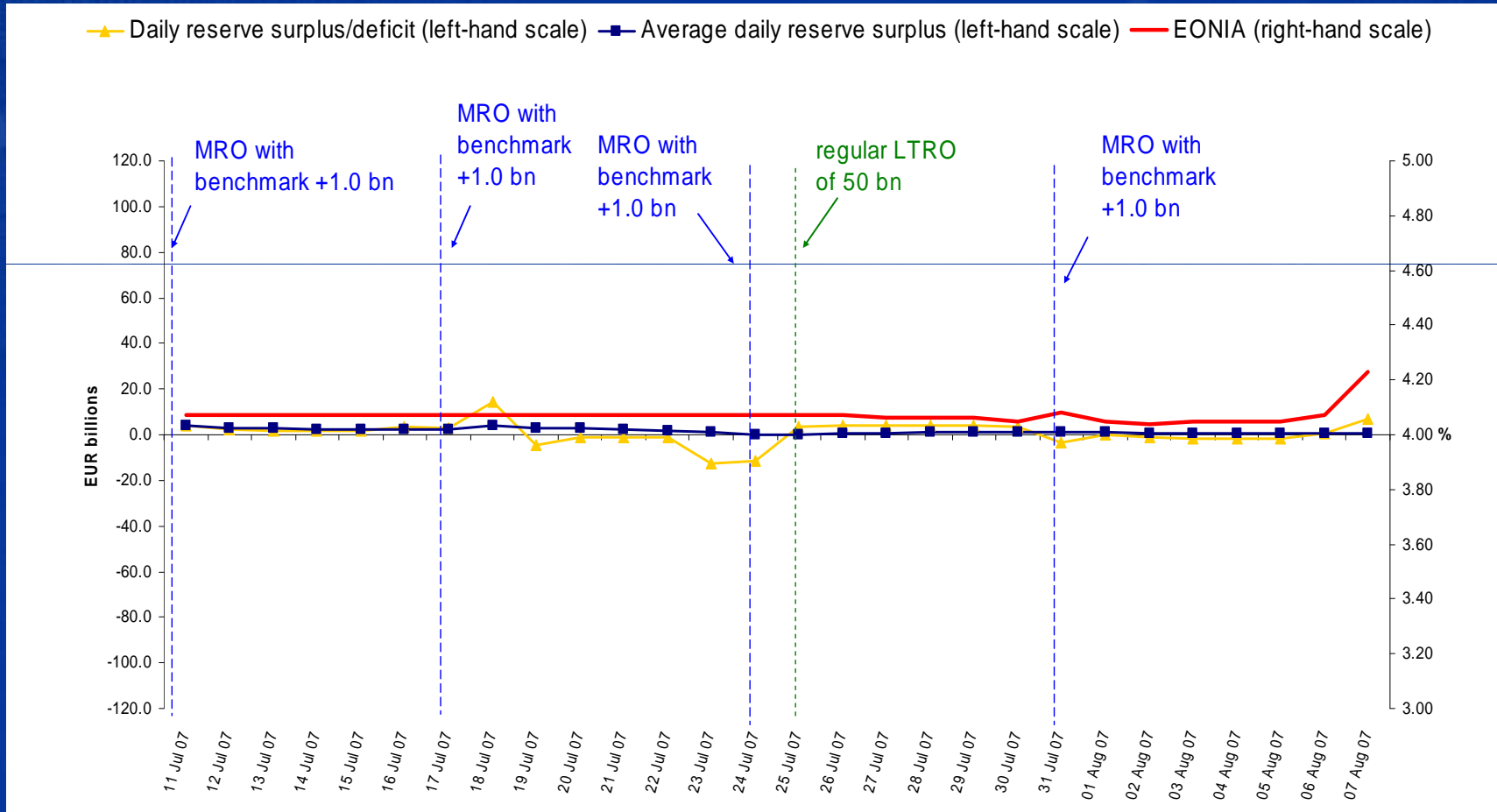


The turmoil - Maintenance period

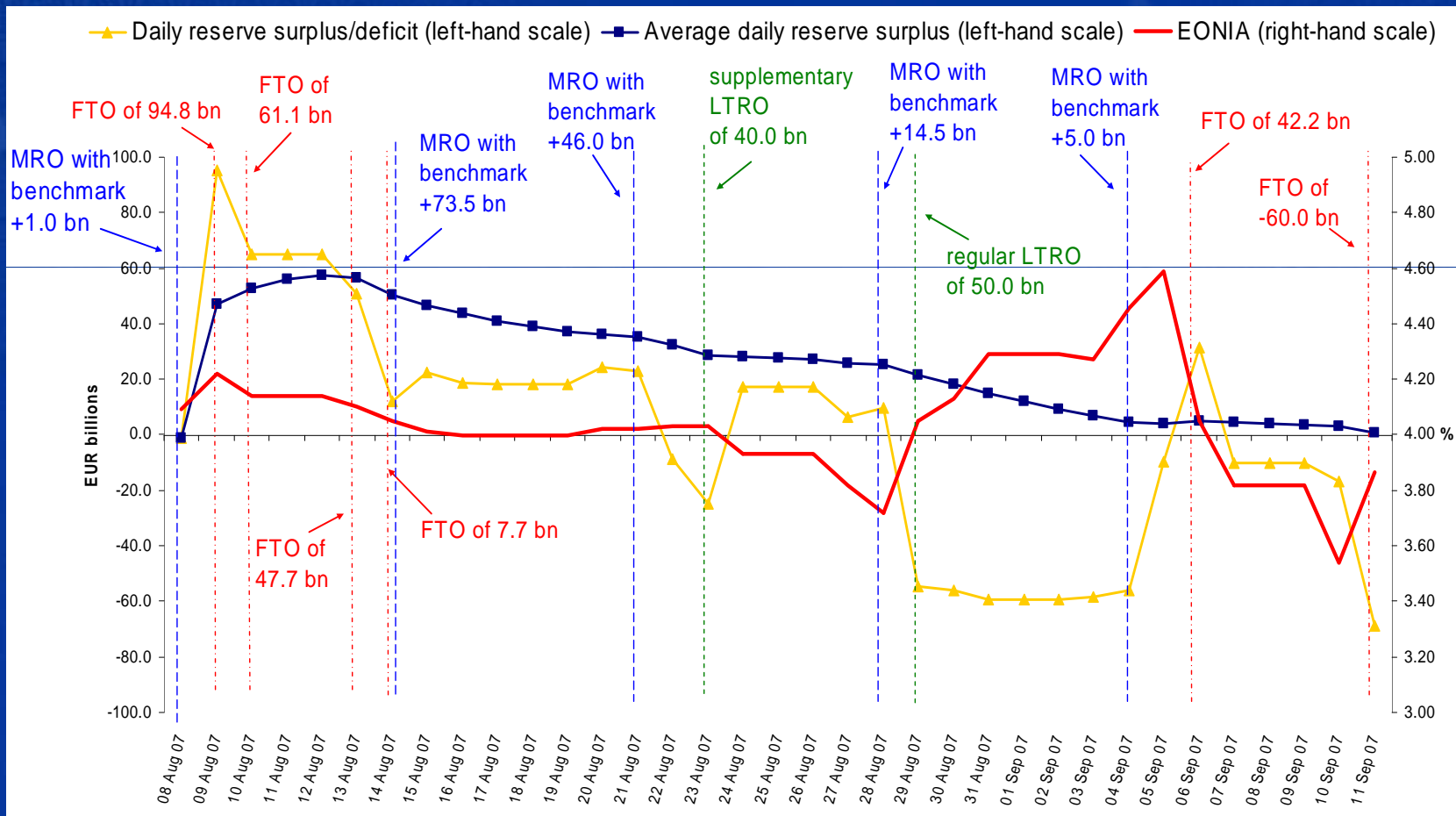
8 August 2 – 11 September 2007



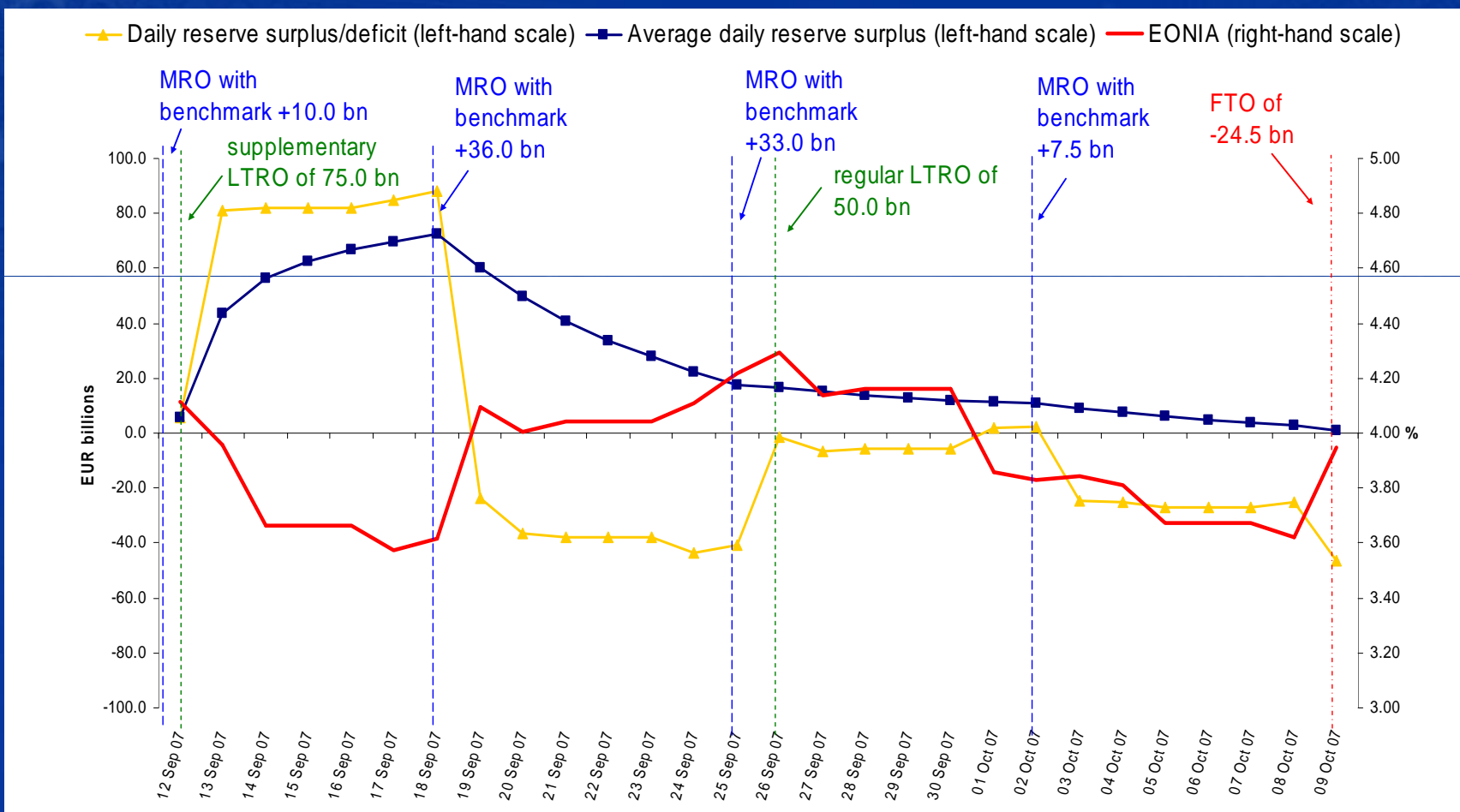
Maintenance period I | July - 7 August 2007



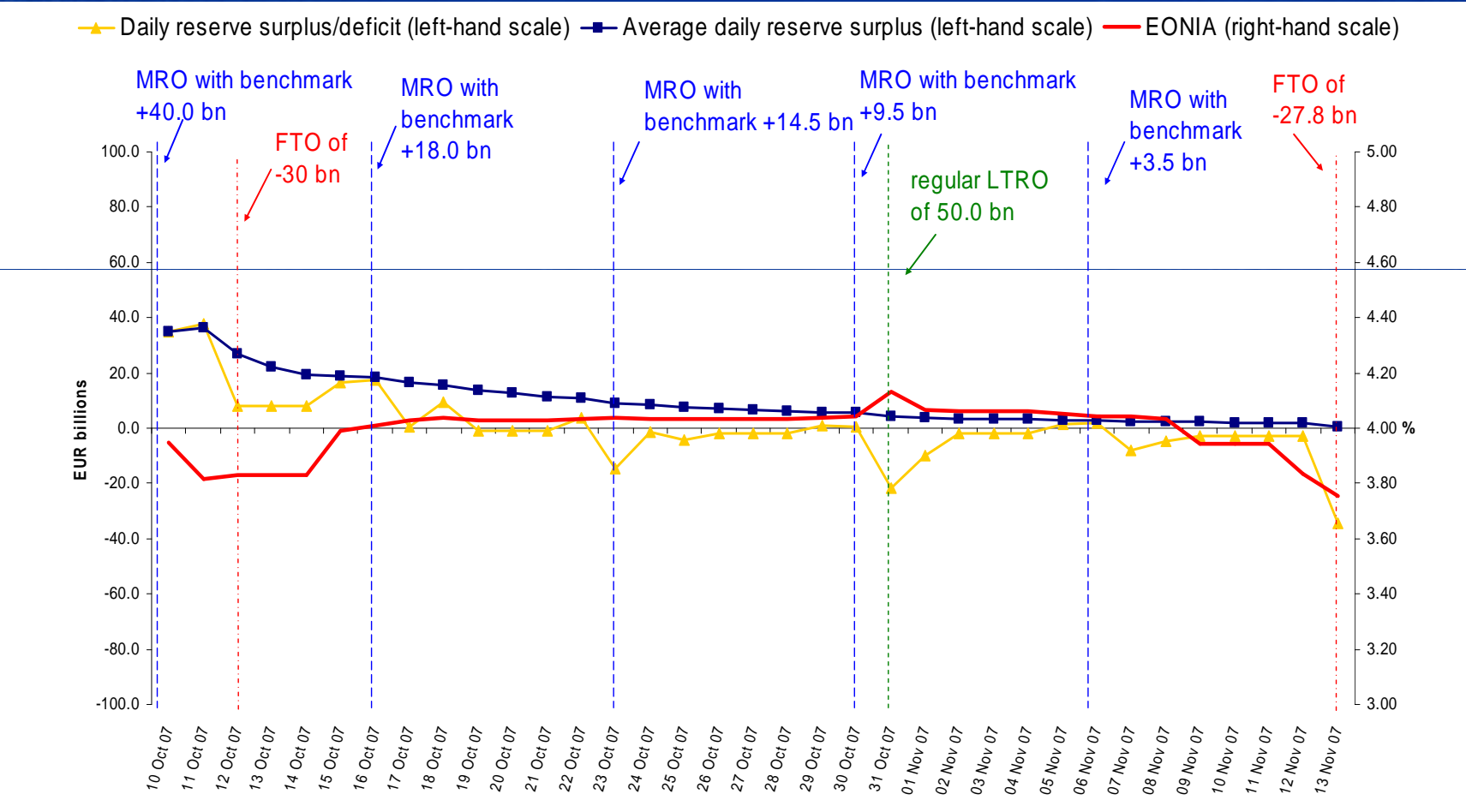
Maintenance period 8 August - 11 September 2007



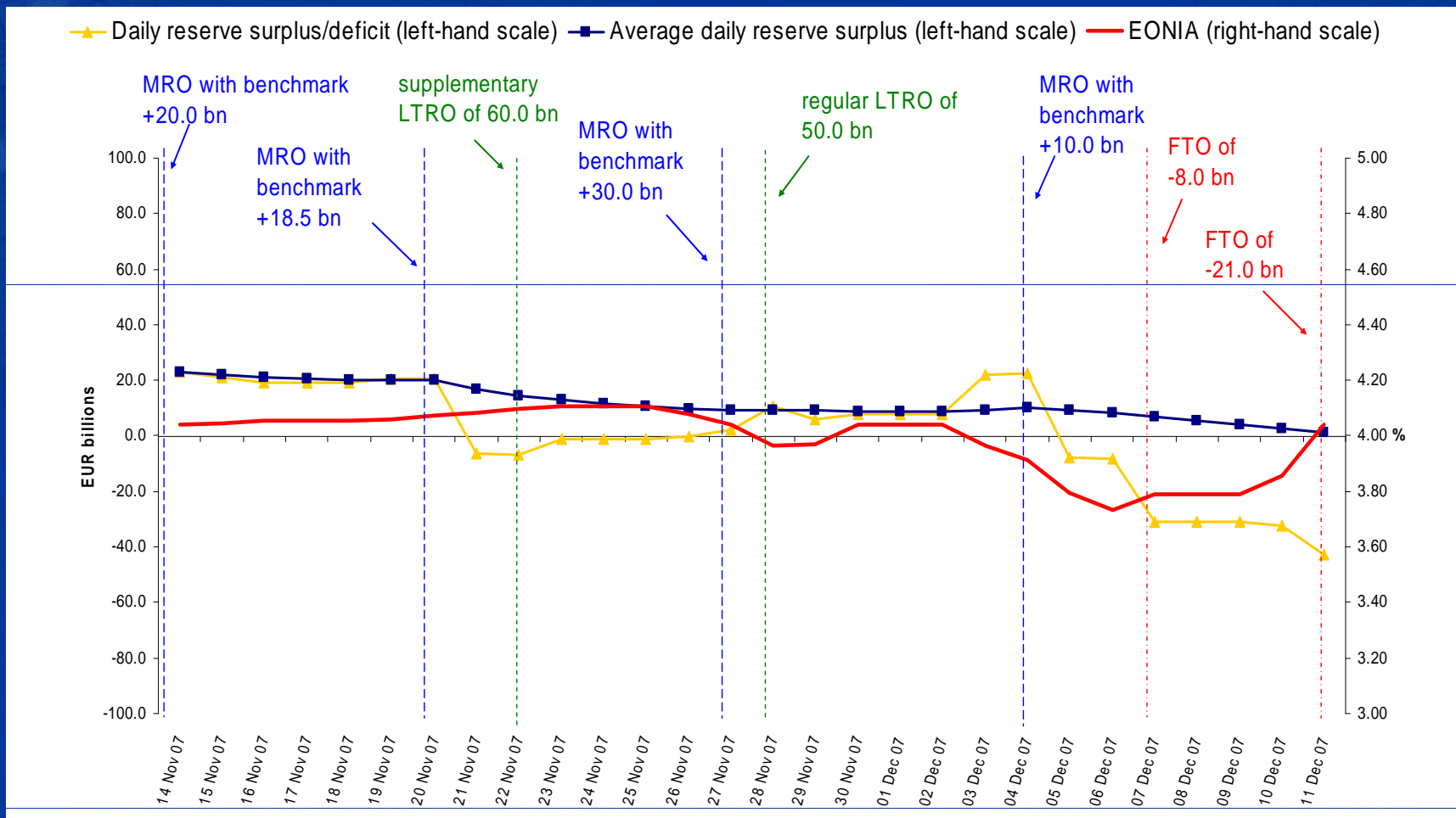
Maintenance period 12 September – 9 October 2007



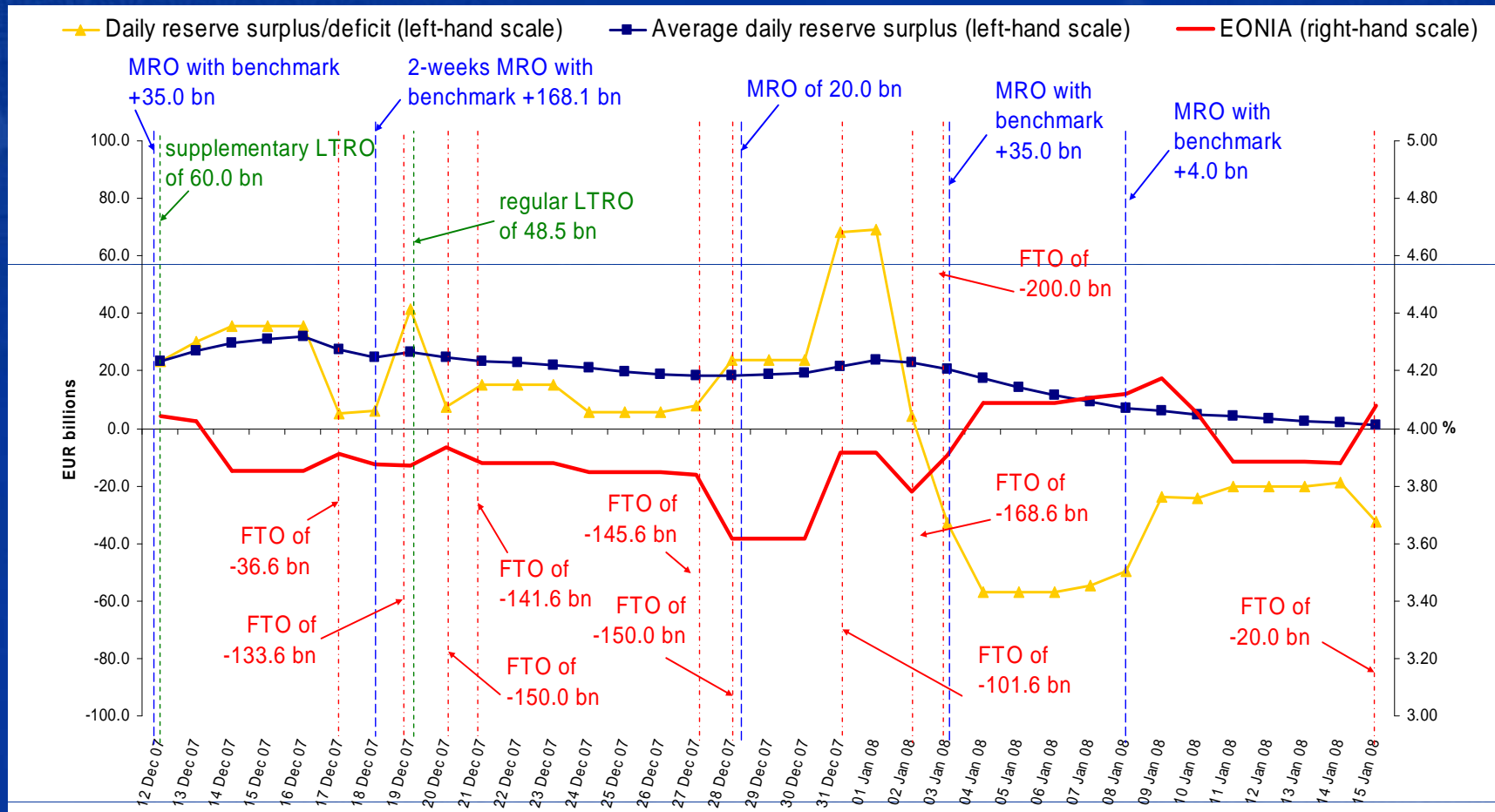
Maintenance period 10 October – 13 November 2007



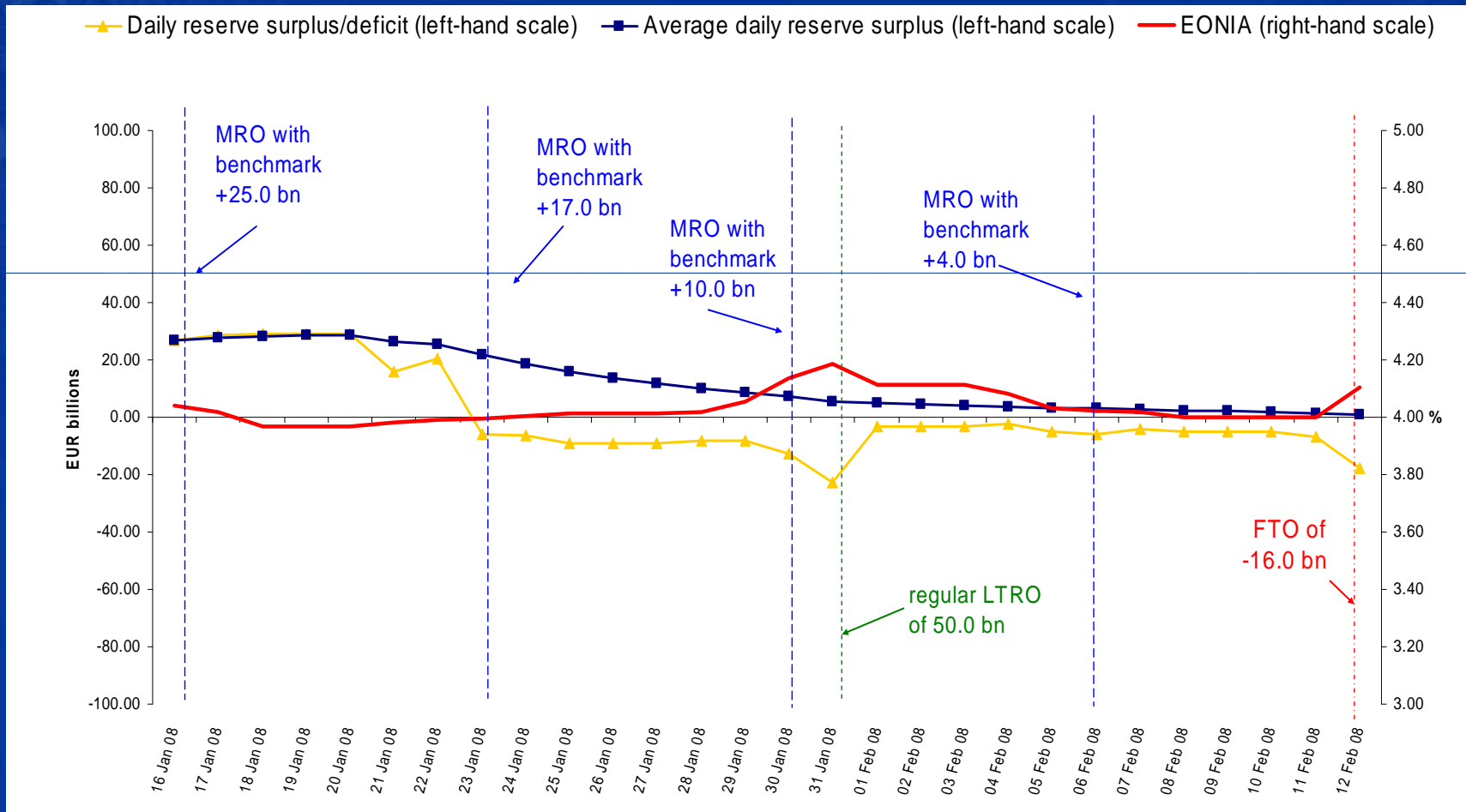
Maintenance period 14 November – 11 December 2007



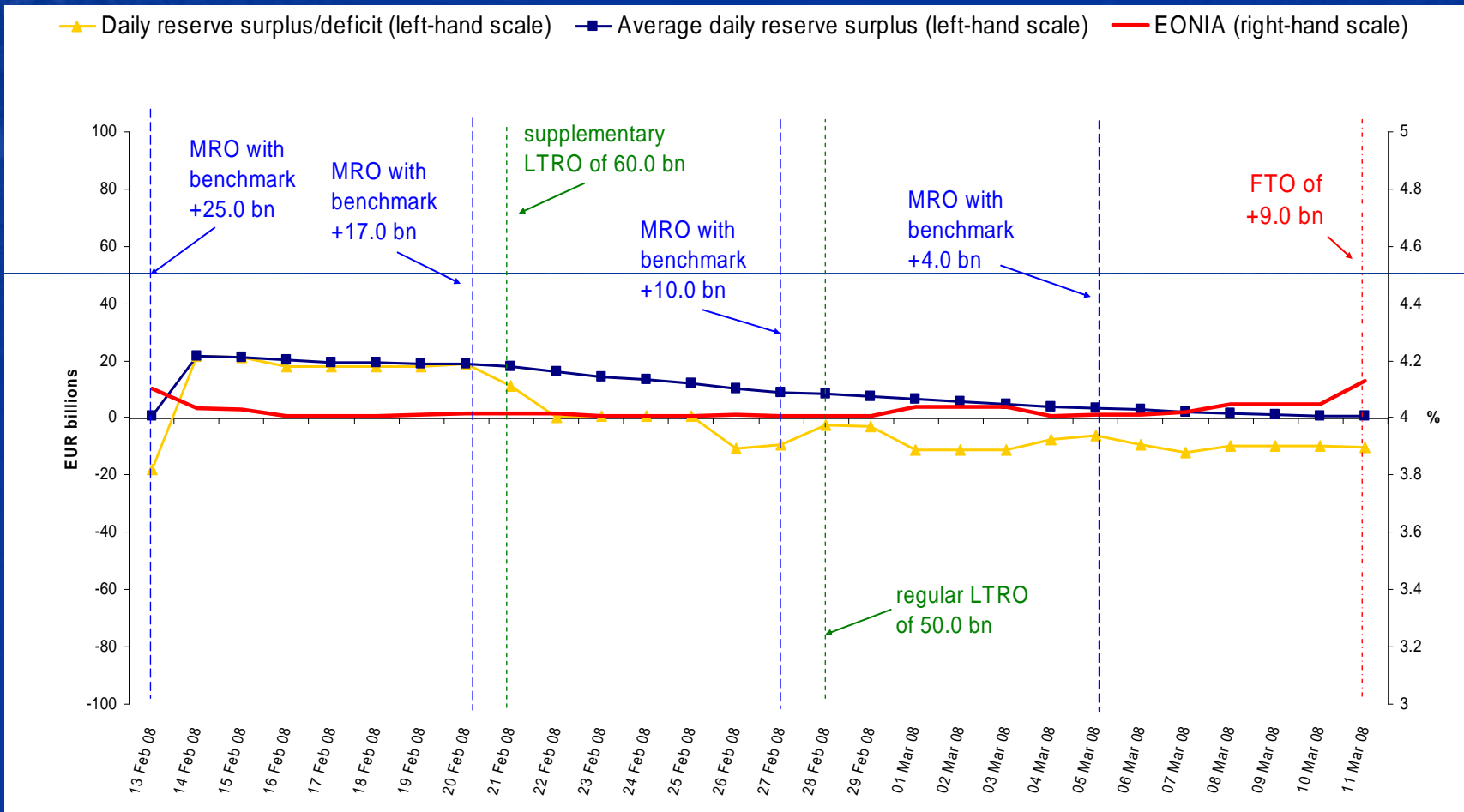
Maintenance period 12 December 2007 – 15 January 2008



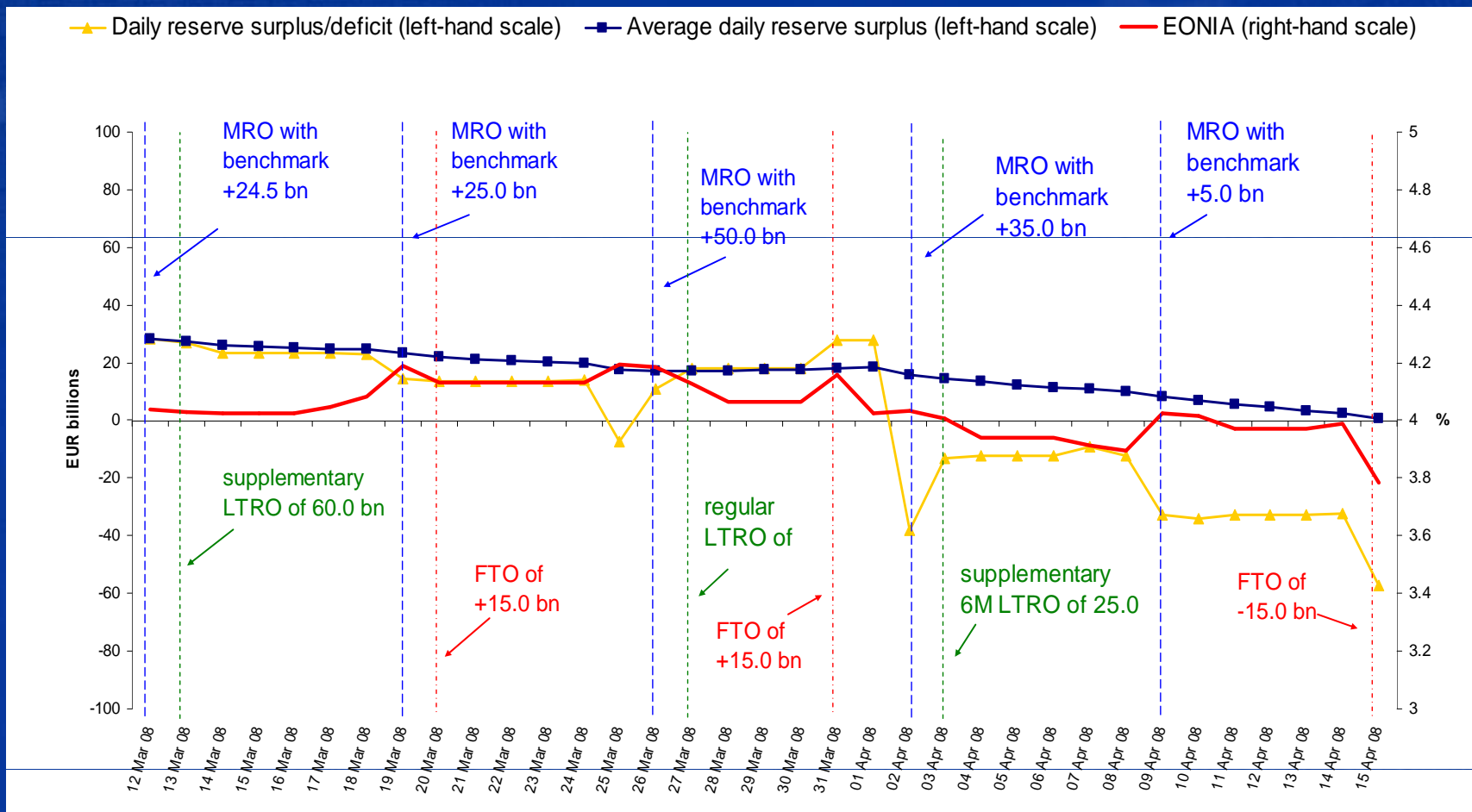
Maintenance period 16 January - 12 February 2008



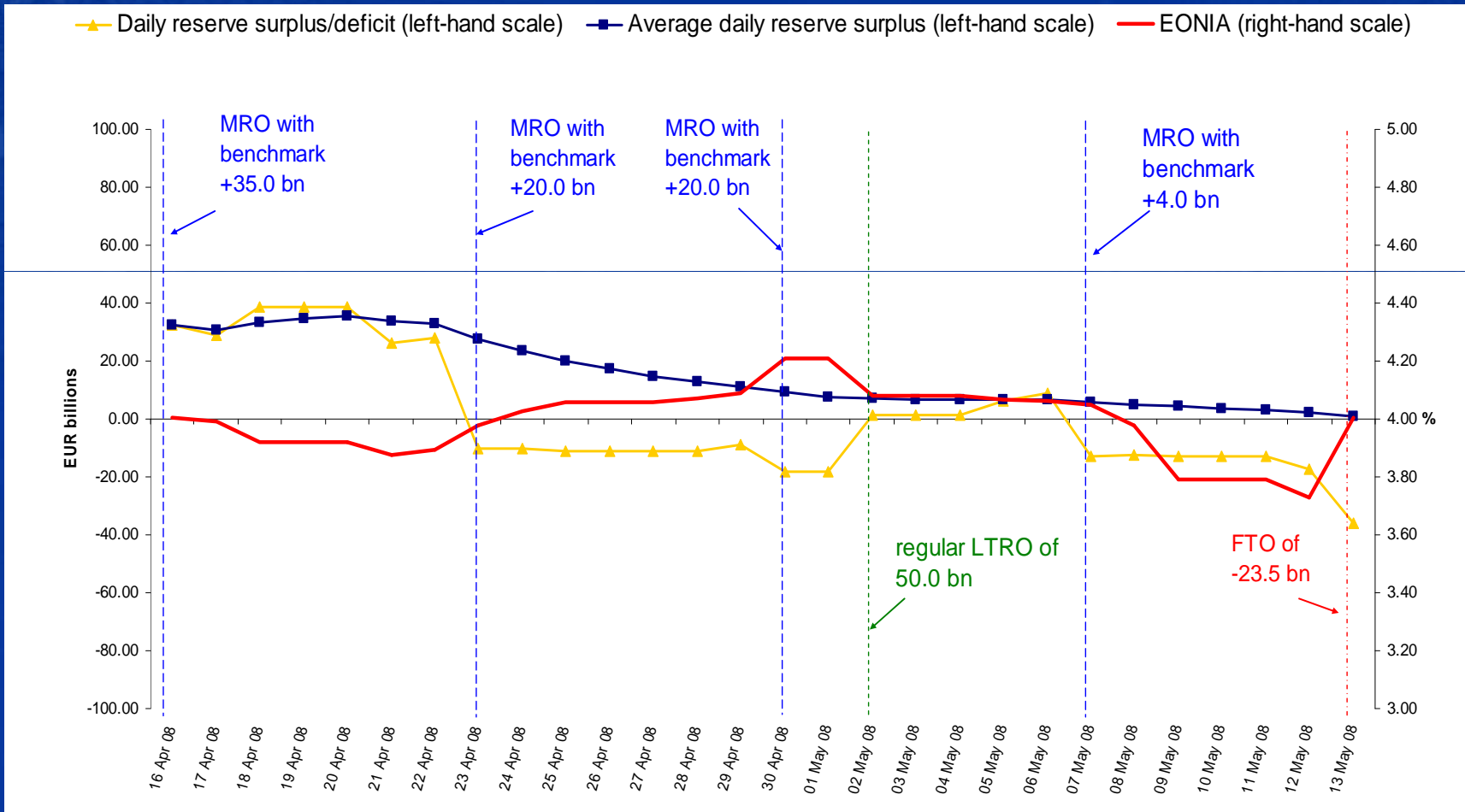
Maintenance period 13 February - 11 March 2008



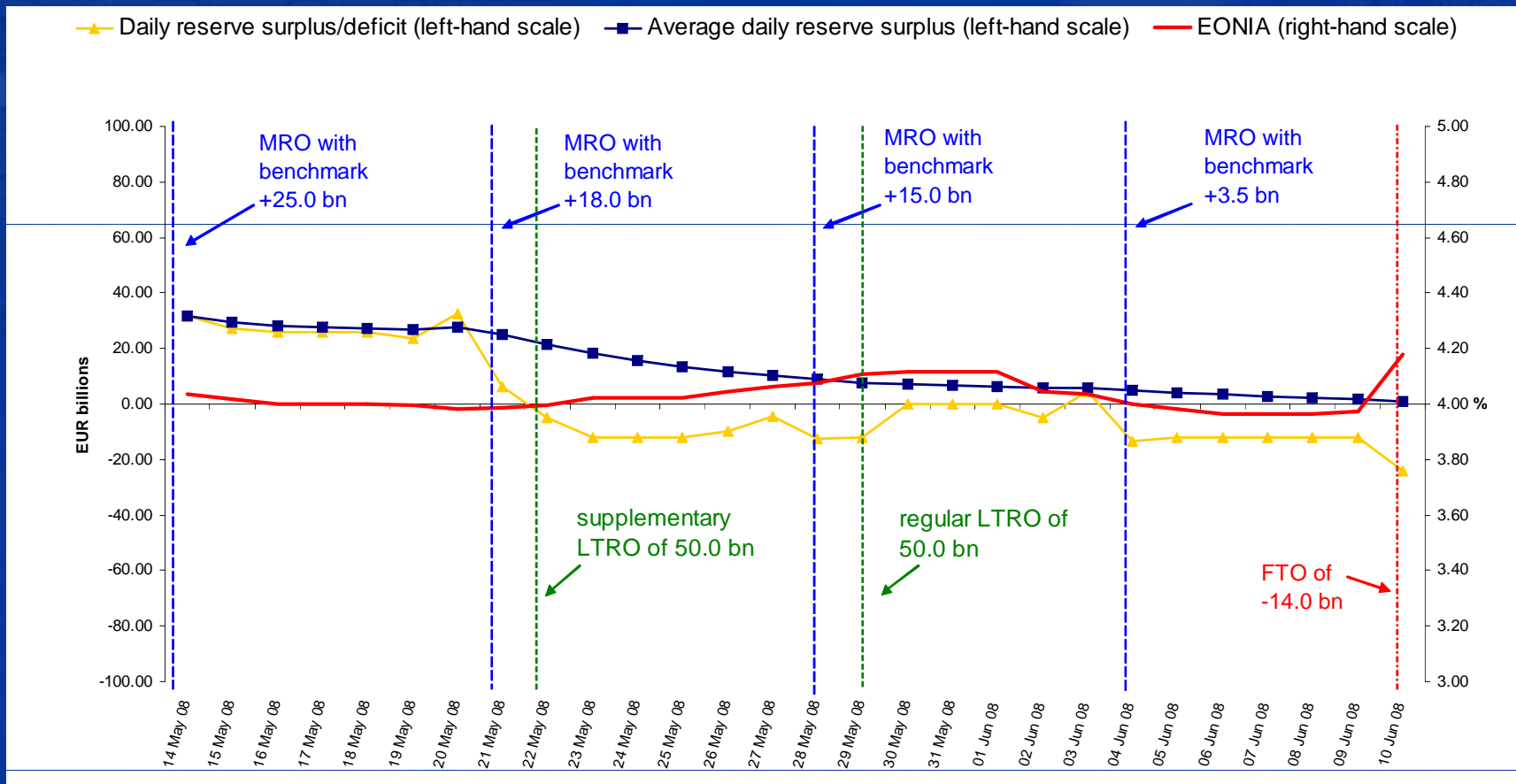
Maintenance period 12 March - 15 April 2008



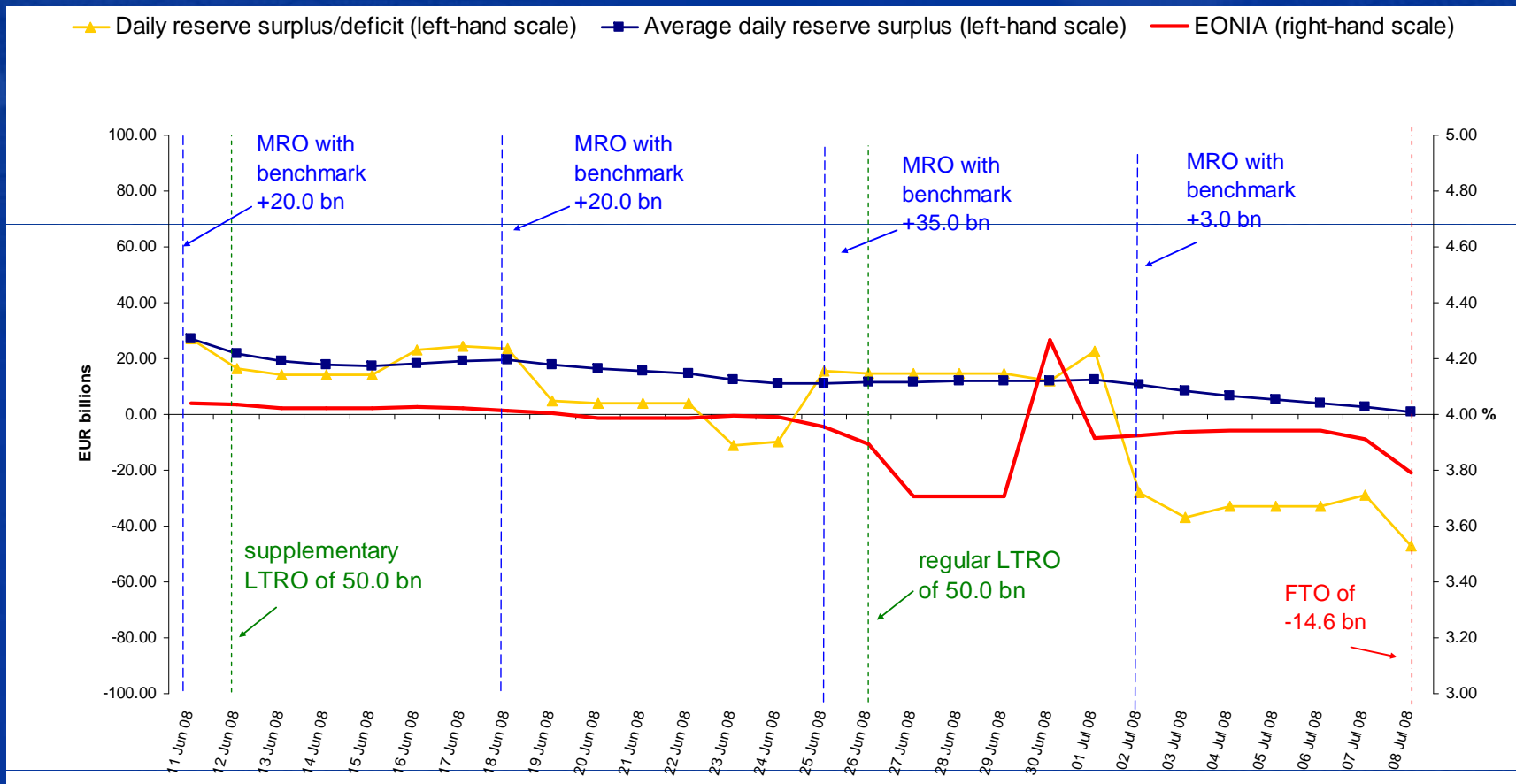
Maintenance period 16 April - 13 May 2008



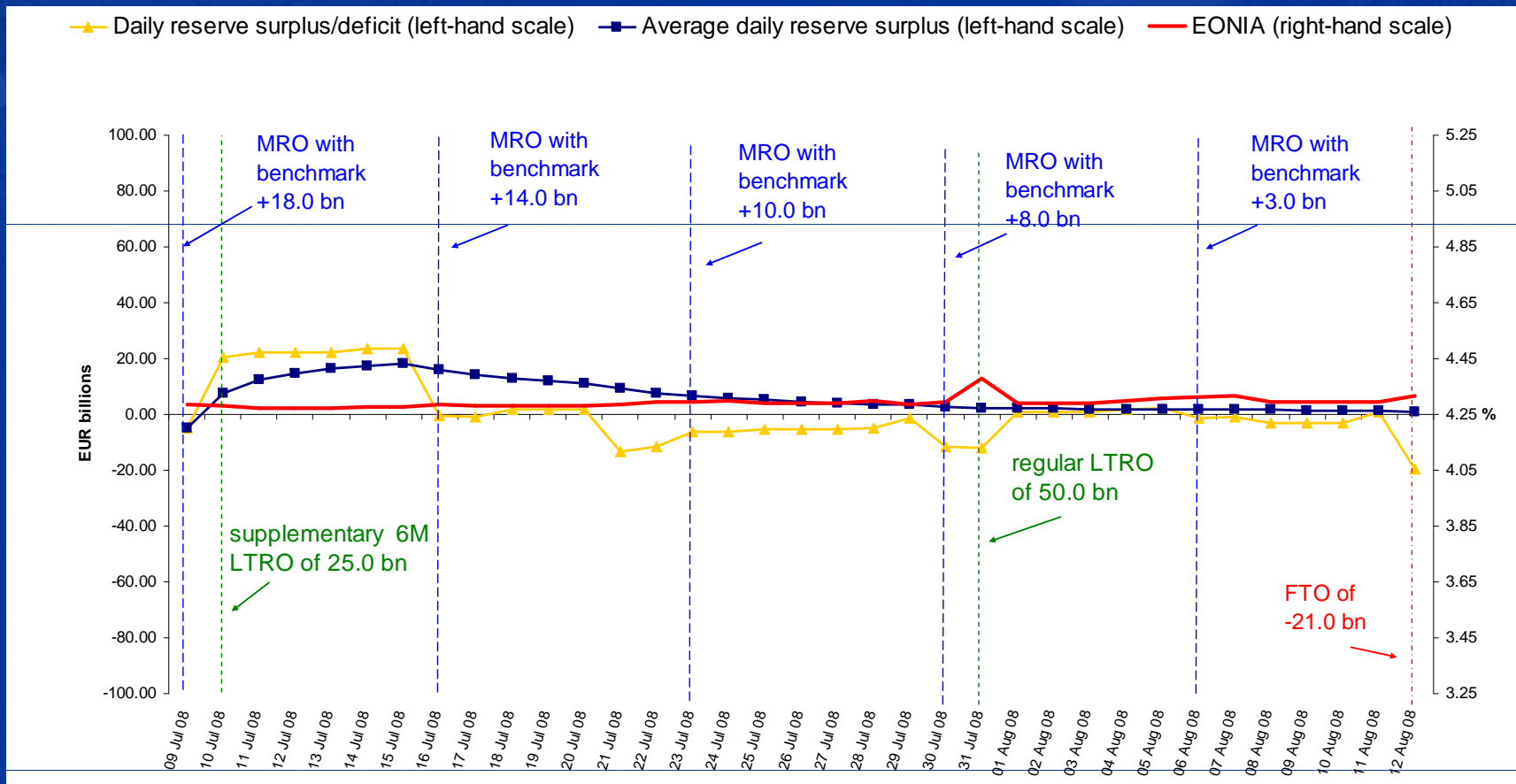
Maintenance period 14 May - 10 June 2008



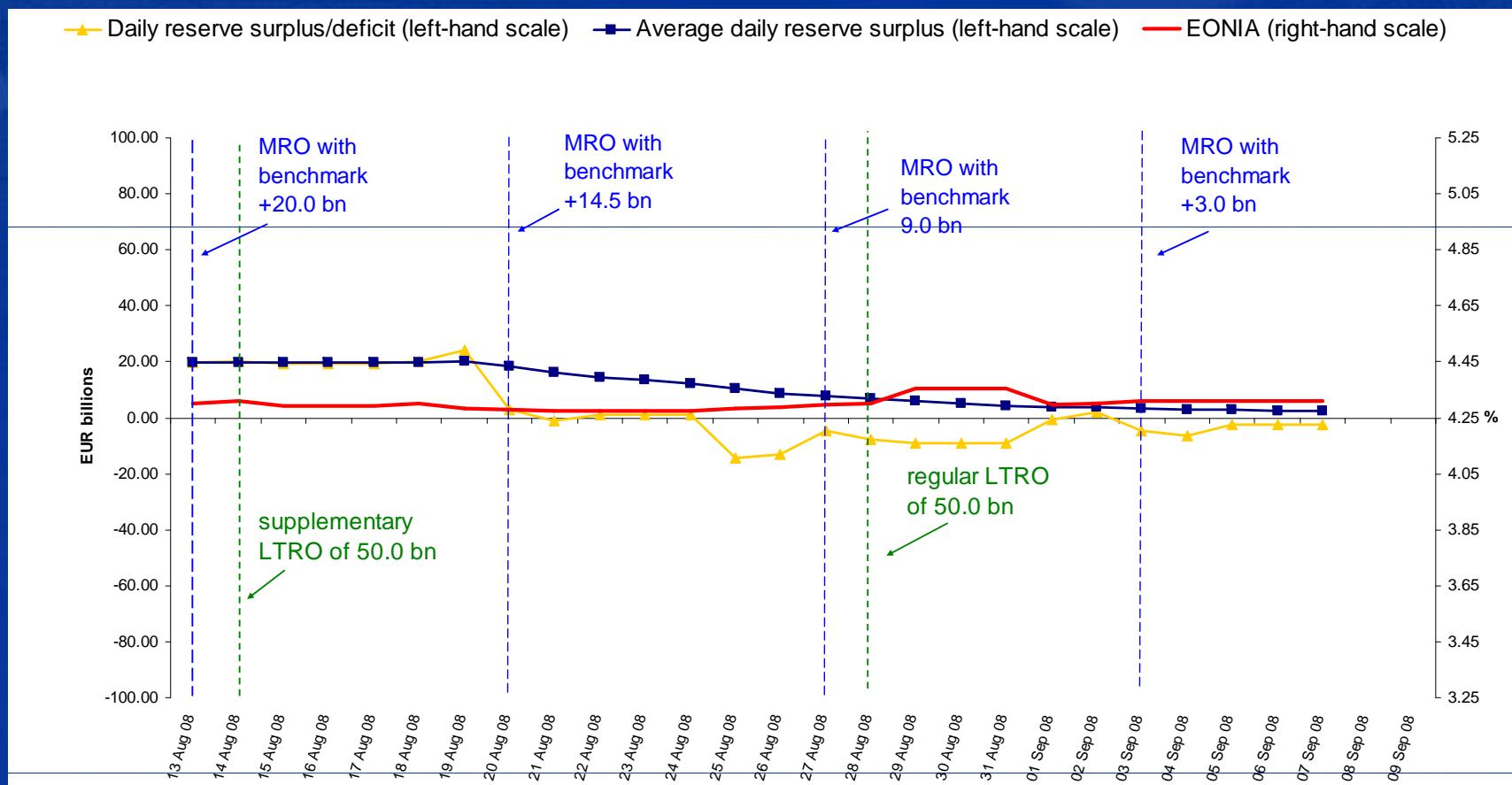
Maintenance period 11 June – 8 July 2008



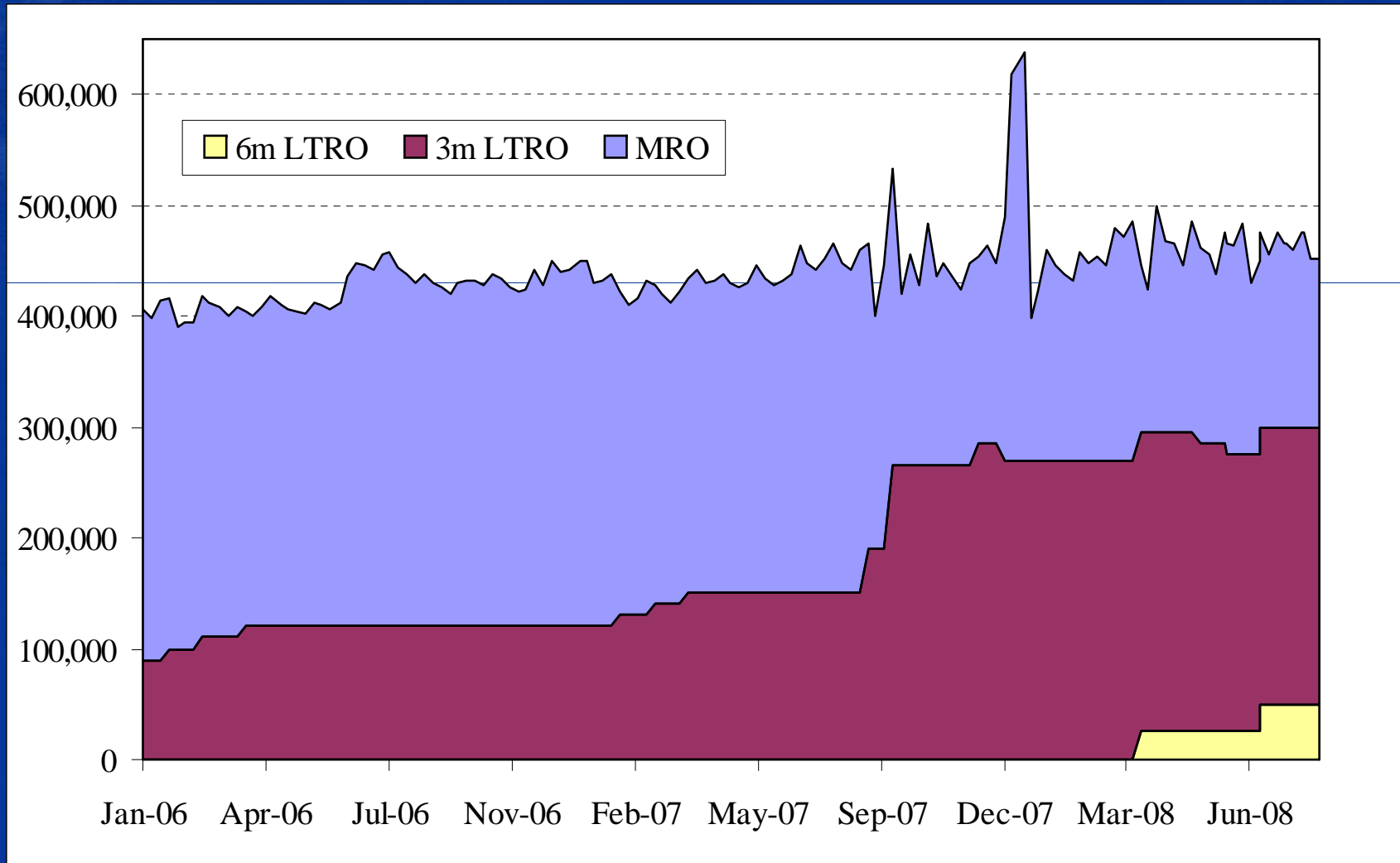
Maintenance period 9 July – 12 August 2008



Maintenance period 13 August - 9 September 2008



The modified maturity pattern



European Repo Council

15th European repo market
survey
June 2008

ERC General Meeting

London, 9th September 2008



European Repo Council

15th European repo market survey

Survey overview

- Outstanding value of contracts at close on 11th June 2008
- 61 responses from 58 groups
- Respondents headquartered in 13 European countries, US, Japan

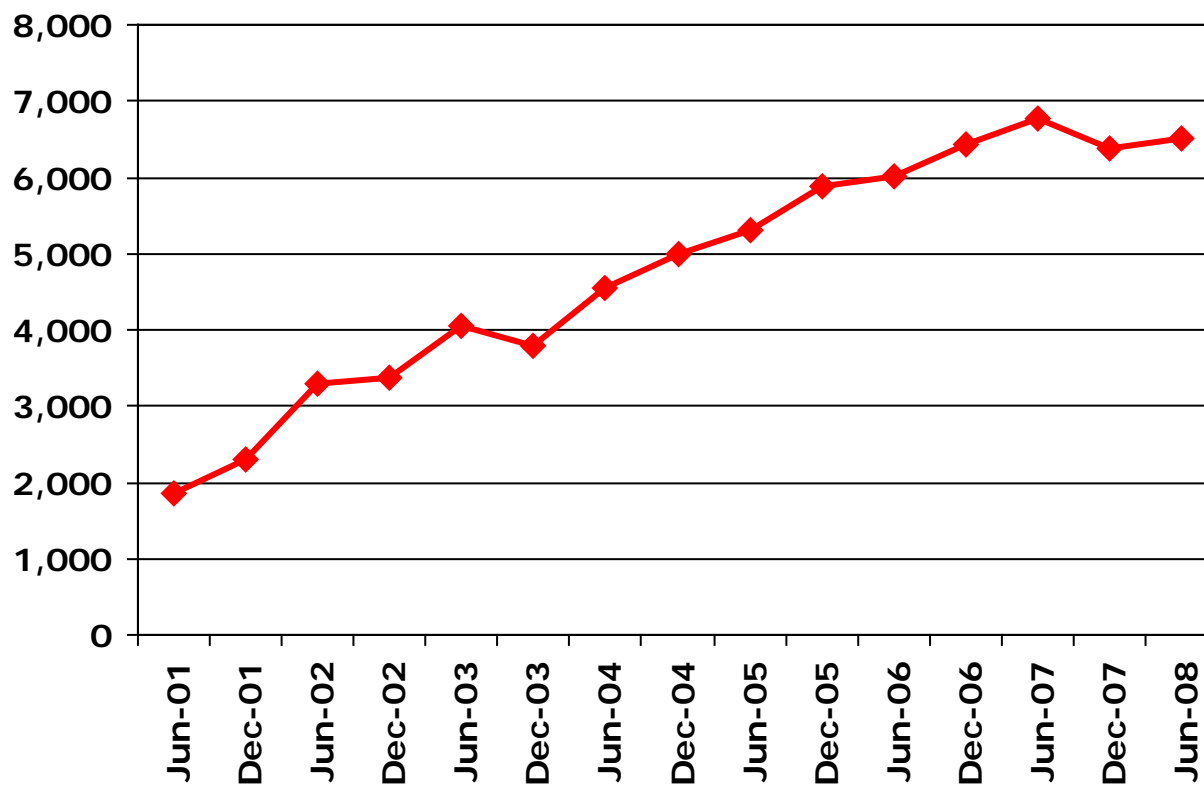
European Repo Council

15th European repo market survey

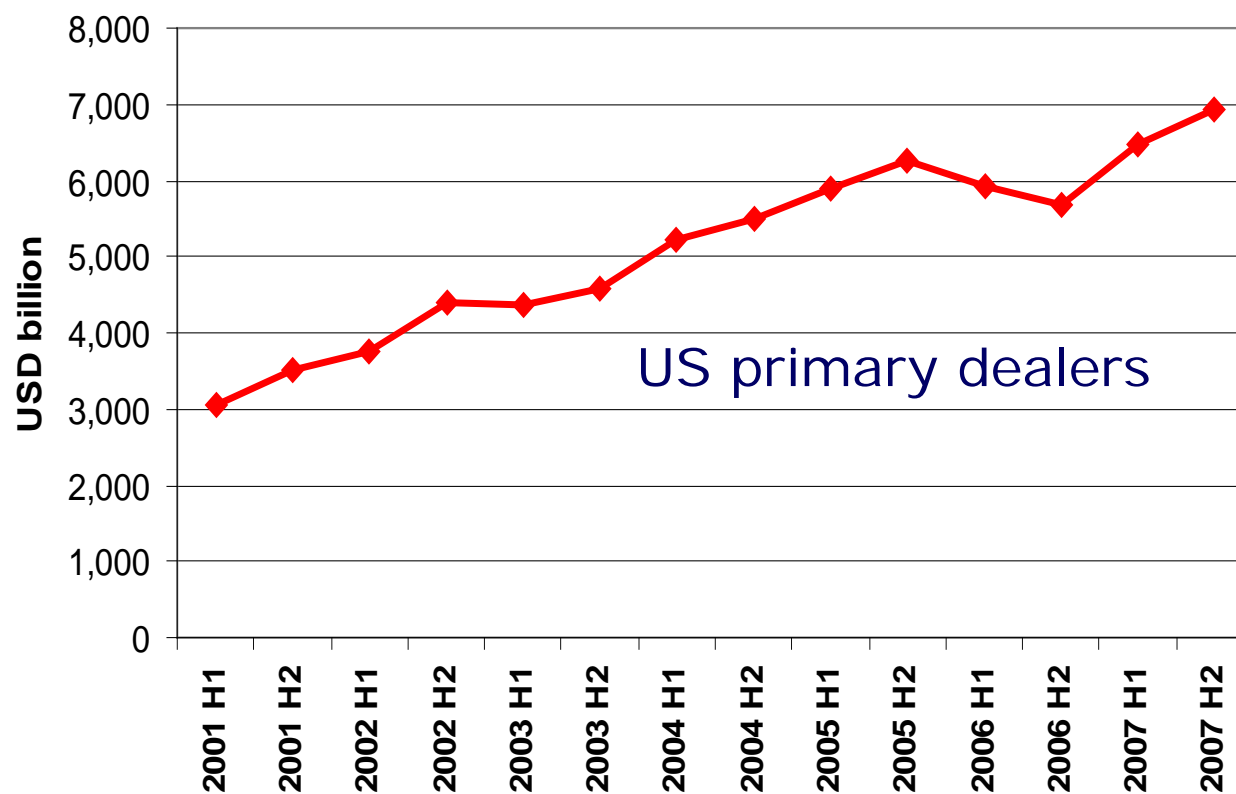
Headline numbers

■ June 2008	EUR 6,504 billion
■ December 2007	EUR 6,382 billion
■ June 2007	EUR 6,775 billion
■ December 2006	EUR 6,430 billion
■ June 2006	EUR 6,019 billion
■ December 2005	EUR 5,883 billion
■ June 2005	EUR 5,319 billion
■ December 2004	EUR 5,000 billion
■ June 2004	EUR 4,561 billion
■ December 2003	EUR 3,788 billion
■ June 2003	EUR 4,050 billion
■ December 2002	EUR 3,377 billion
■ June 2002	EUR 3,305 billion
■ December 2001	EUR 2,298 billion
■ June 2001	EUR 1,863 billion

European Repo Council 15th European repo market survey



European Repo Council 15th European repo market survey



Source: FRBNY

European Repo Council

15th European repo market survey

Organic growth

- 59 respondents in last 3 surveys
 - year-on-year = -0.2%
 - H1 = +2.5%
 - H2 = -2.3%

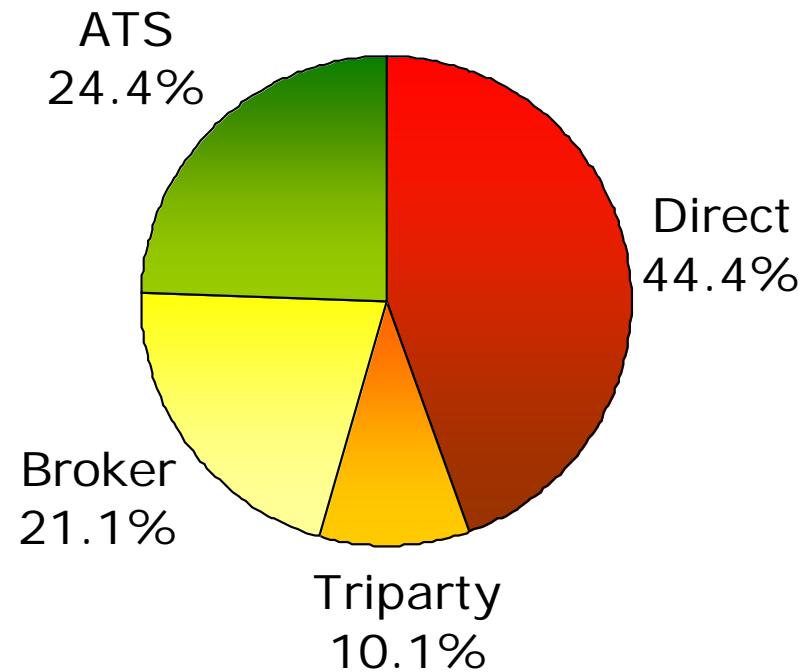
European Repo Council 15th European repo market survey

- repo 48.8%, reverse repo 51.2%
- repo books: 19 expand, 41 contract

European Repo Council

15th European repo market survey

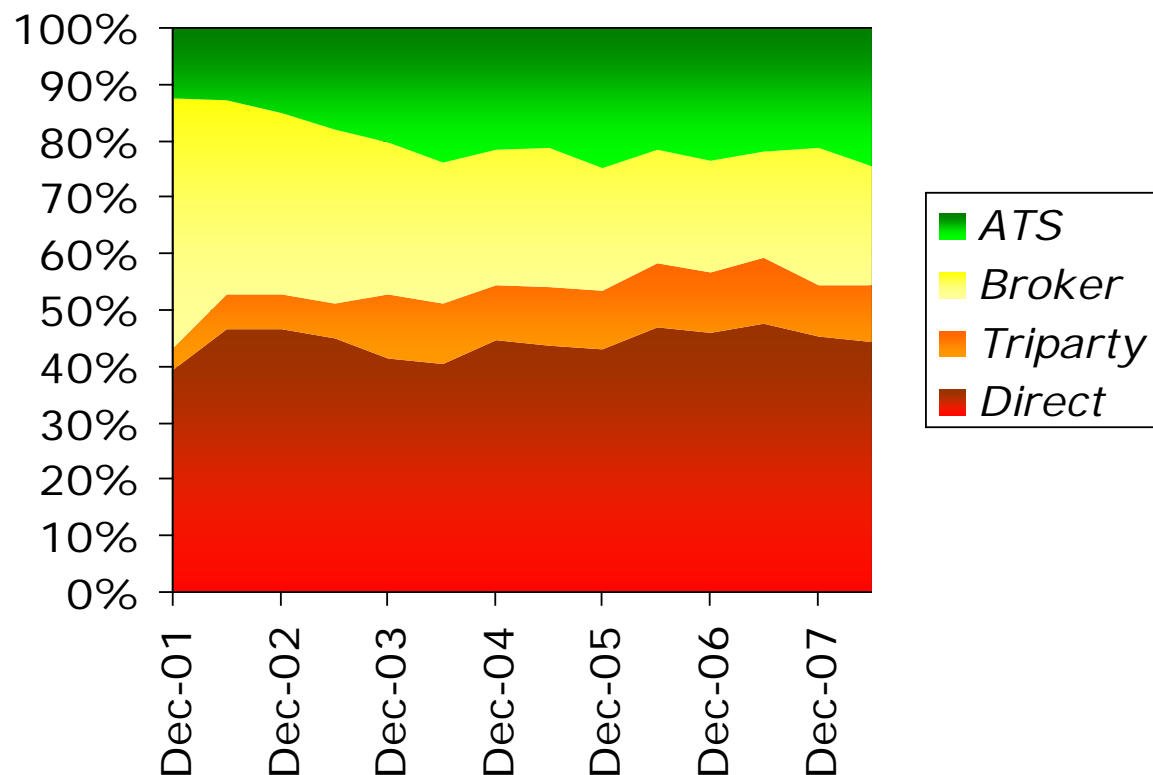
Counterparty analysis



European Repo Council

15th European repo market survey

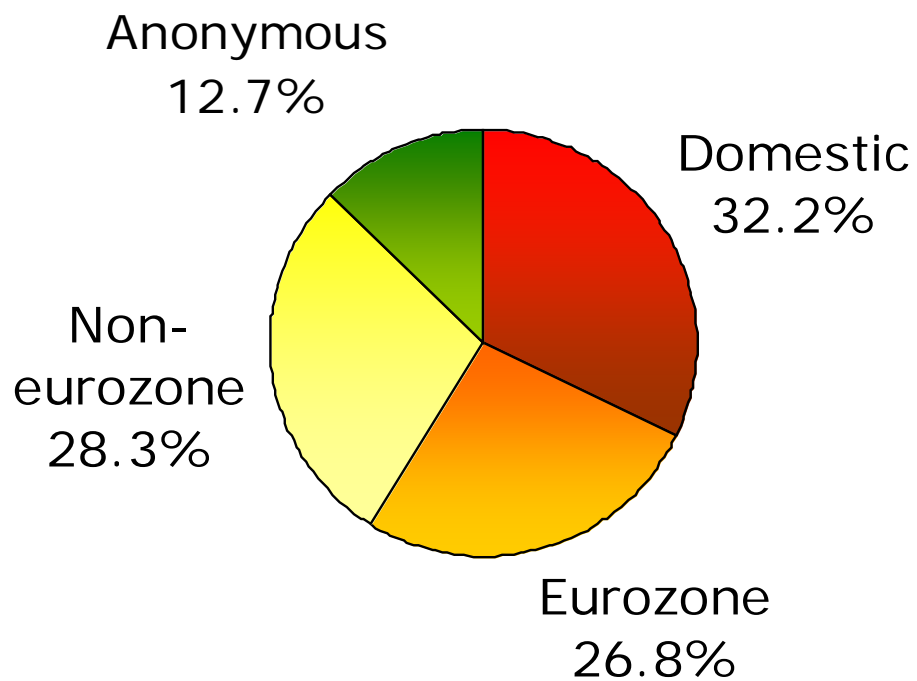
Counterparty analysis



European Repo Council

15th European repo market survey

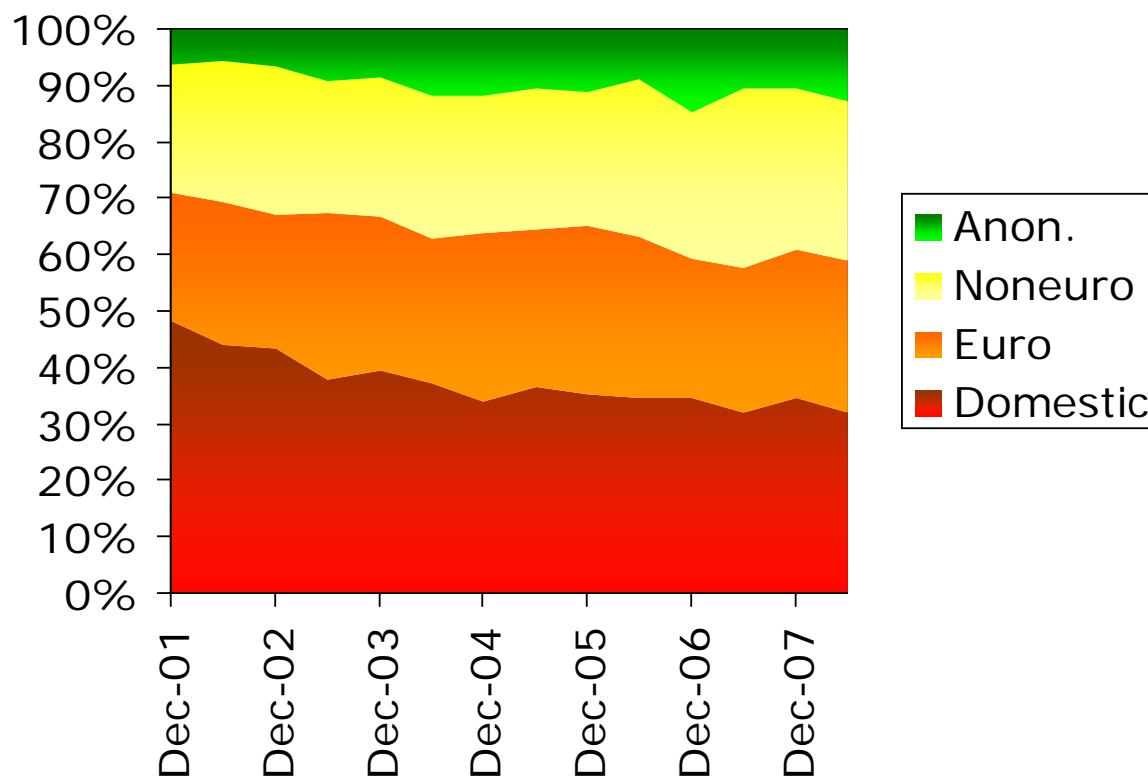
Geographical analysis



European Repo Council

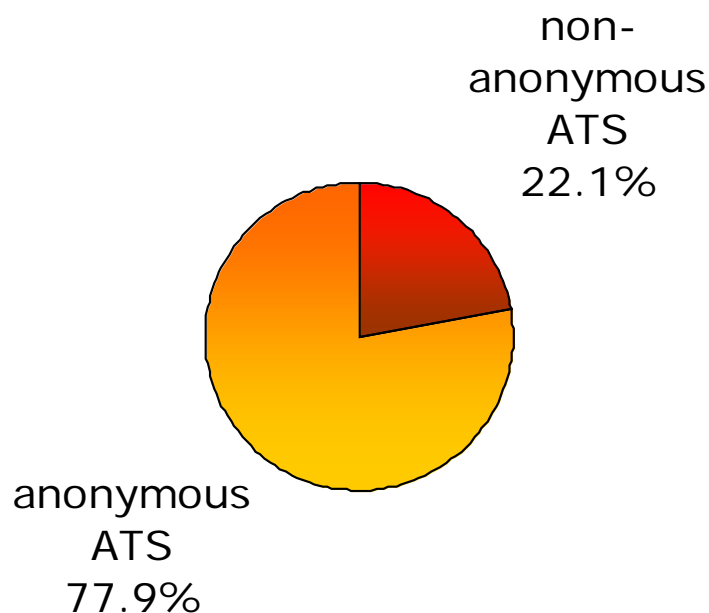
15th European repo market survey

Geographical analysis



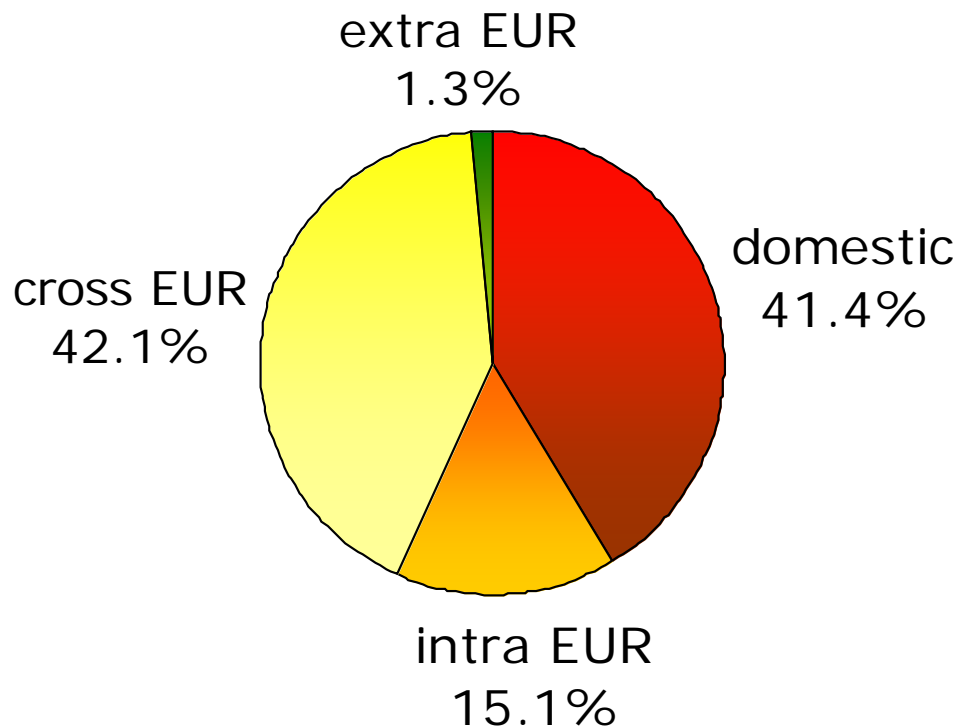
European Repo Council 15th European repo market survey

ATS geographical analysis (1)



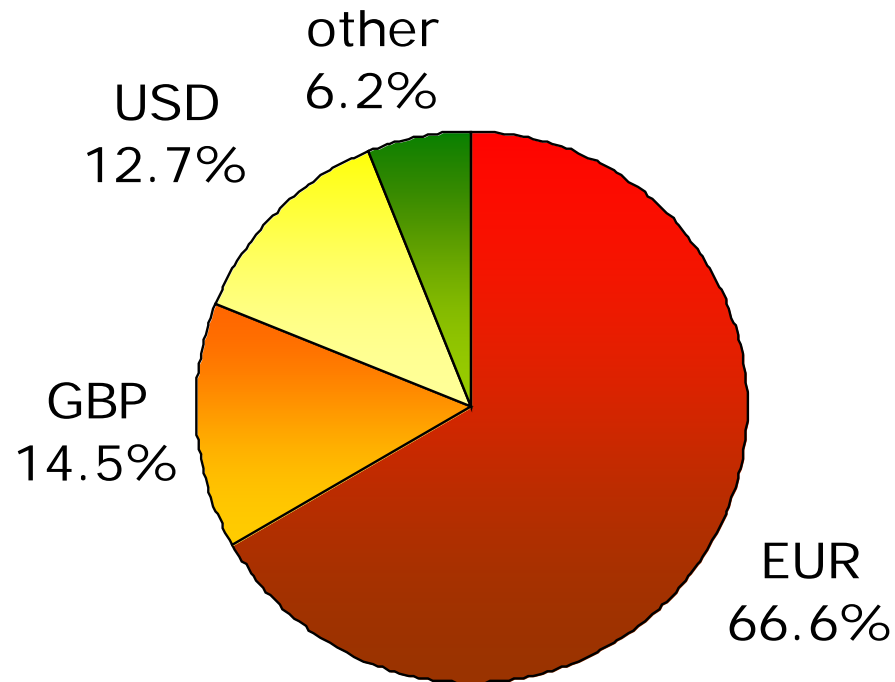
European Repo Council 15th European repo market survey

ATS geographical analysis (2)



European Repo Council 15th European repo market survey

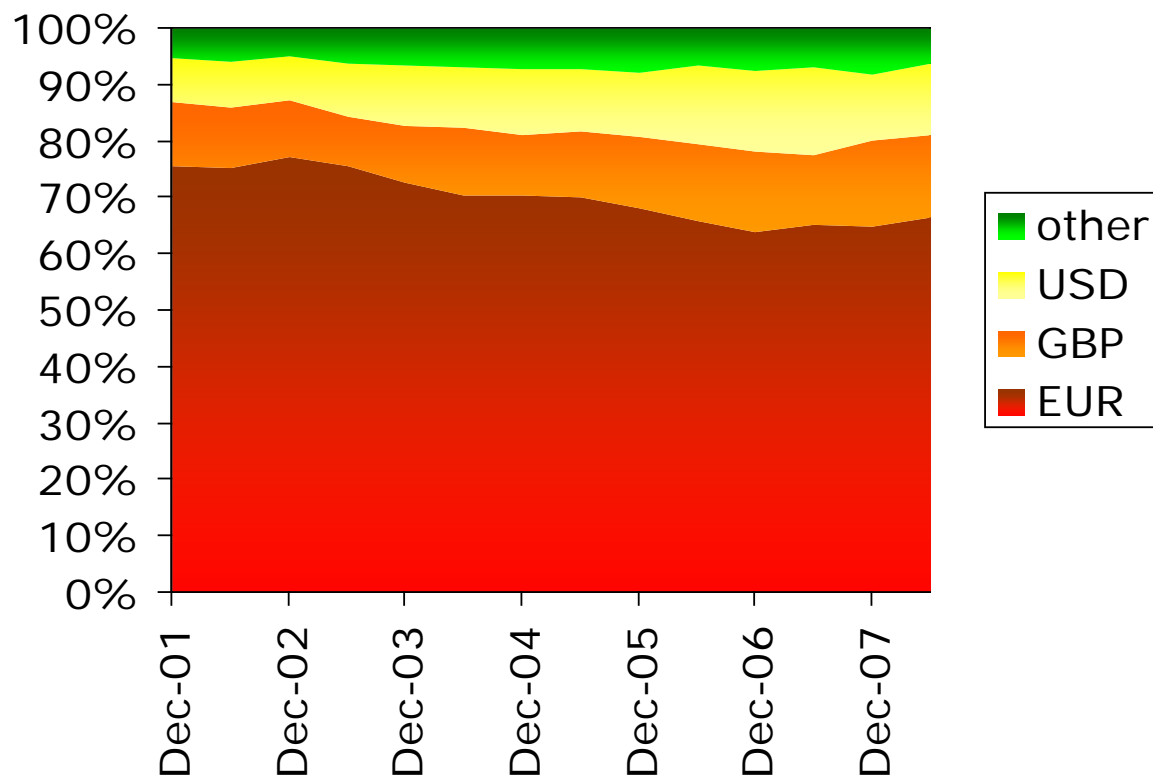
Currency analysis



European Repo Council

15th European repo market survey

Currency analysis

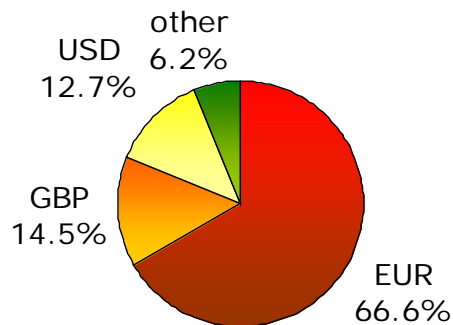


European Repo Council

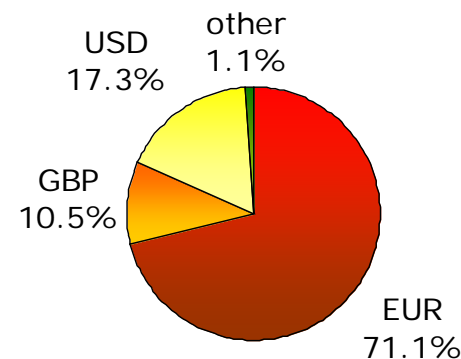
15th European repo market survey

Currency analysis

Main survey



Triparty

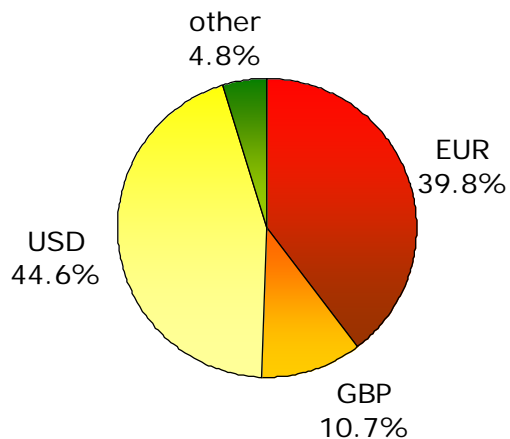


European Repo Council

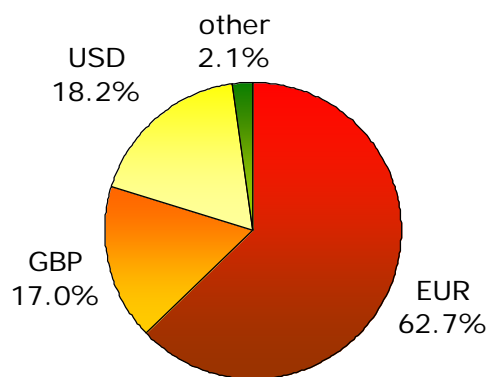
15th European repo market survey

Currency analysis --- triparty repos

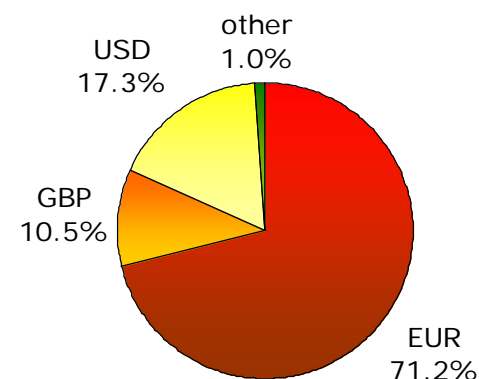
June 2007



December 2007



June 2008

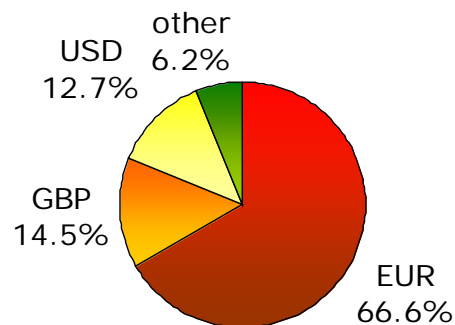


European Repo Council

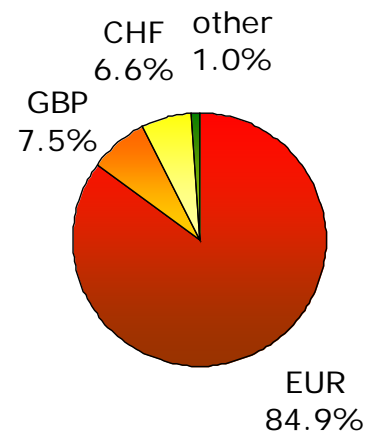
15th European repo market survey

Currency analysis

Main survey



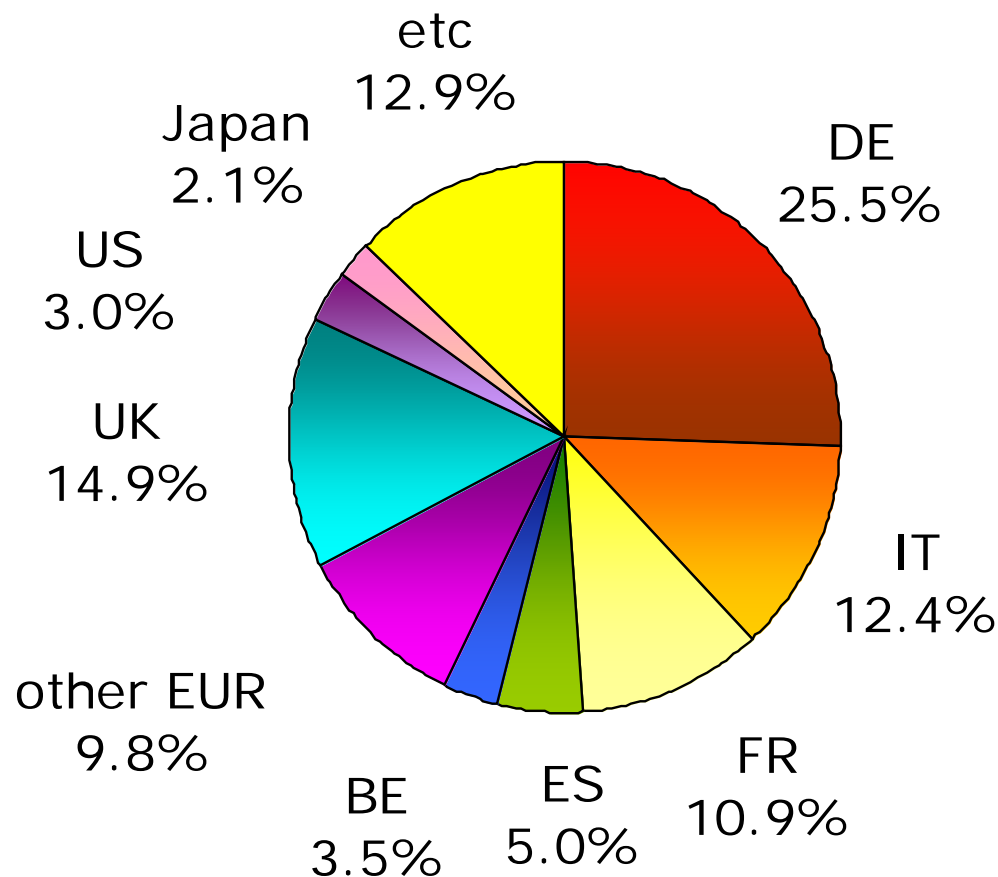
ATS



European Repo Council

15th European repo market survey

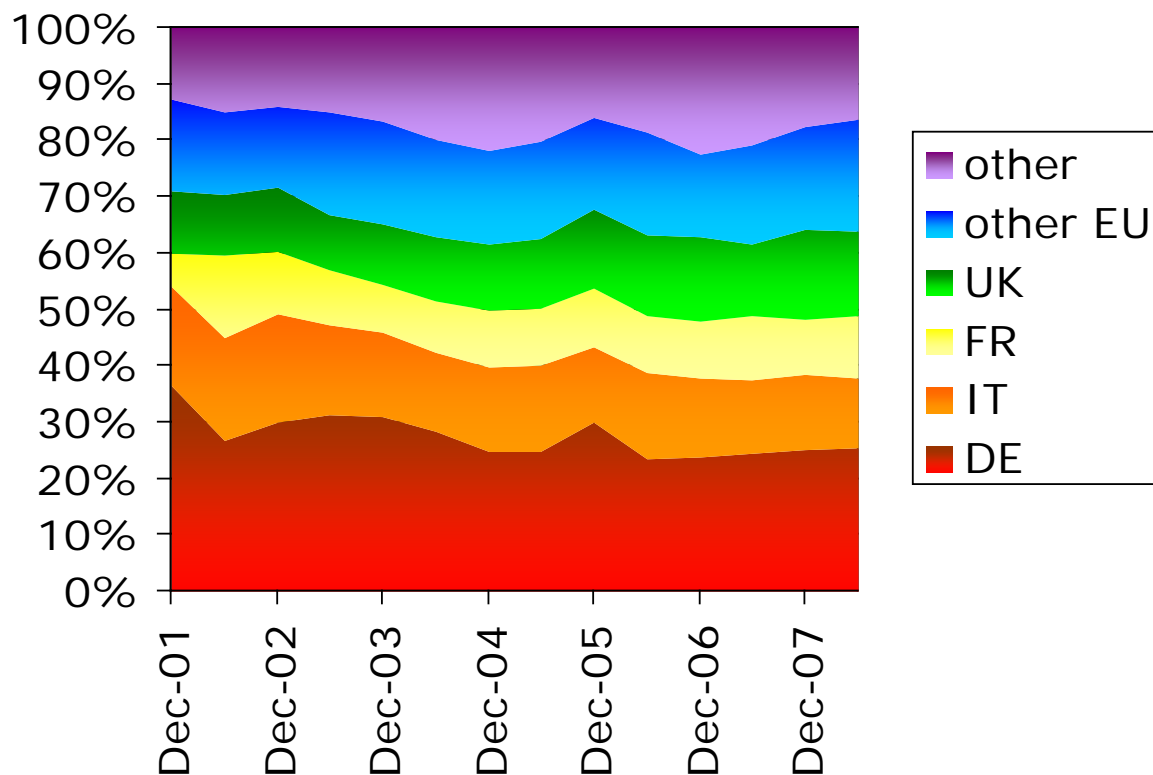
Collateral analysis



European Repo Council

15th European repo market survey

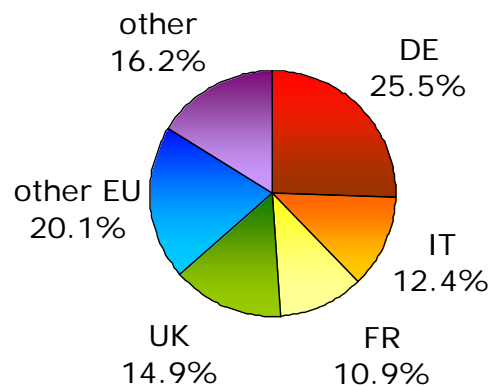
Collateral analysis



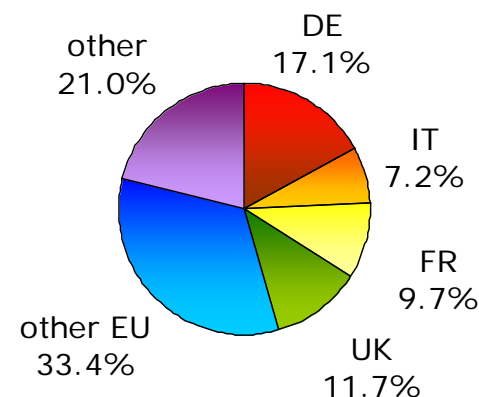
European Repo Council 15th European repo market survey

Collateral analysis

Main survey



Triparty

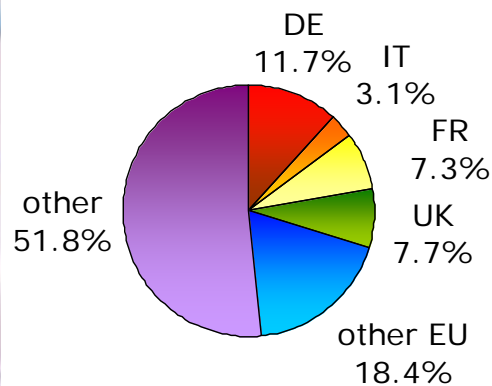


European Repo Council

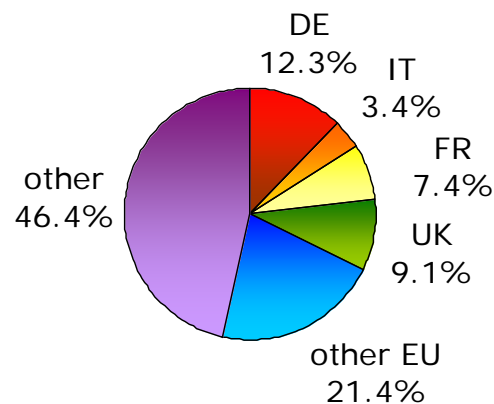
15th European repo market survey

Collateral analysis --- triparty repos

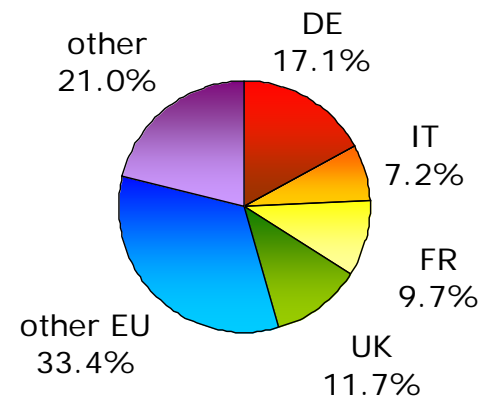
June 2007



December 2007



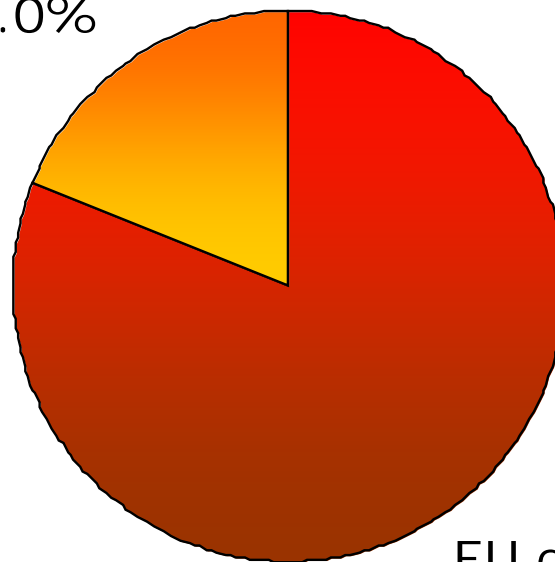
June 2008



European Repo Council 15th European repo market survey

Collateral analysis

other EU
19.0%

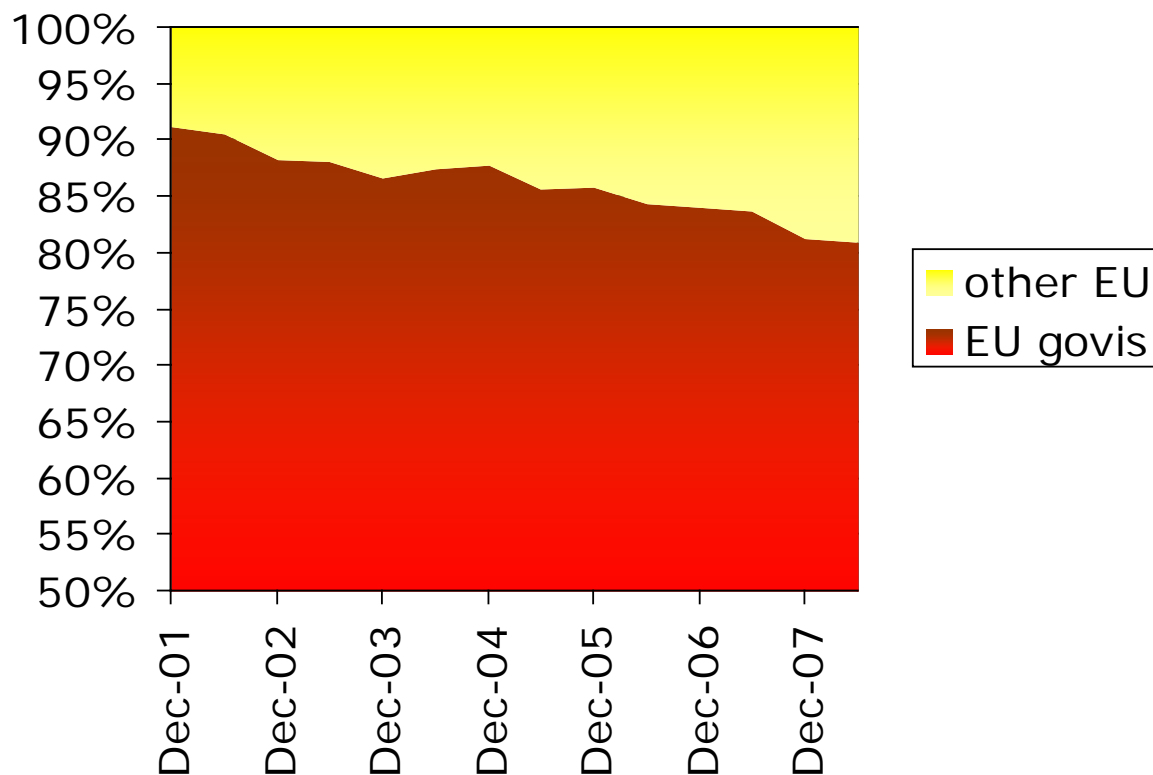


EU govis
81.0%

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Collateral analysis

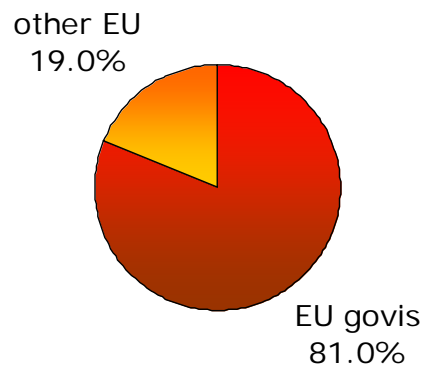


European Repo Council

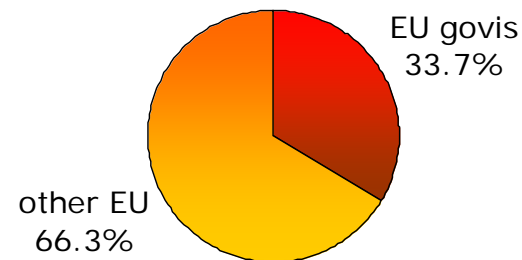
15th European repo market survey

Collateral analysis

Main survey



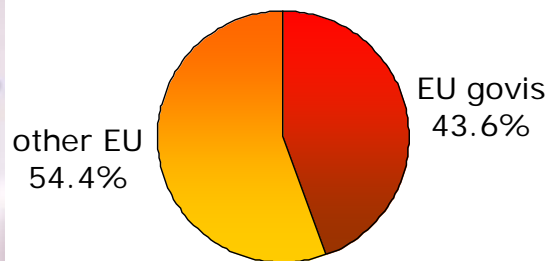
Triparty



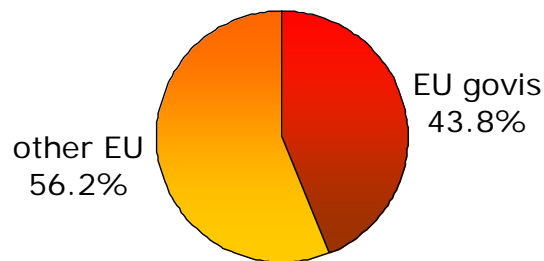
European Repo Council 15th European repo market survey

Collateral analysis --- triparty repo

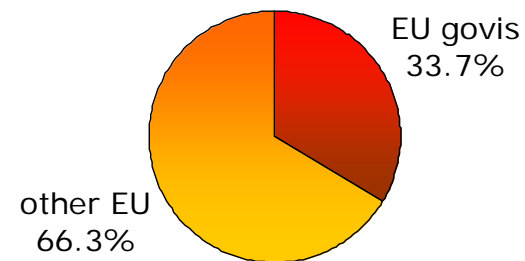
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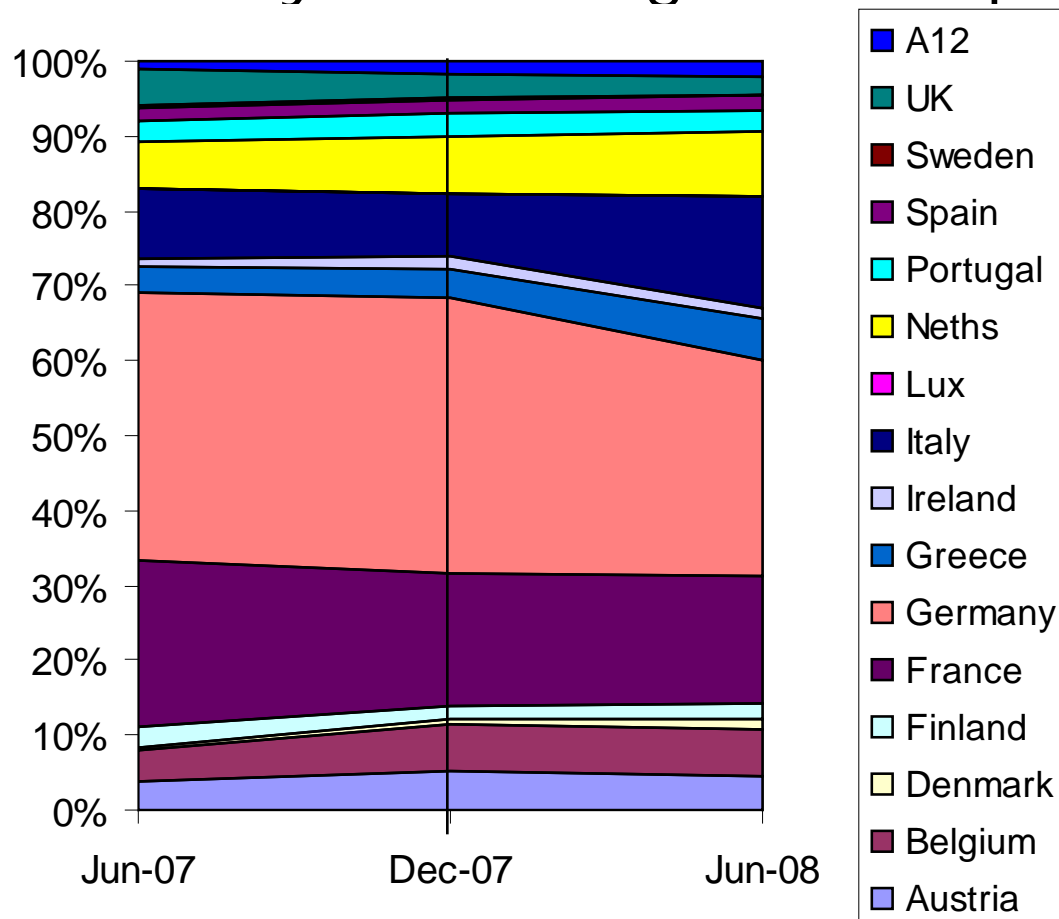
June 2008



European Repo Council 15th European repo market survey



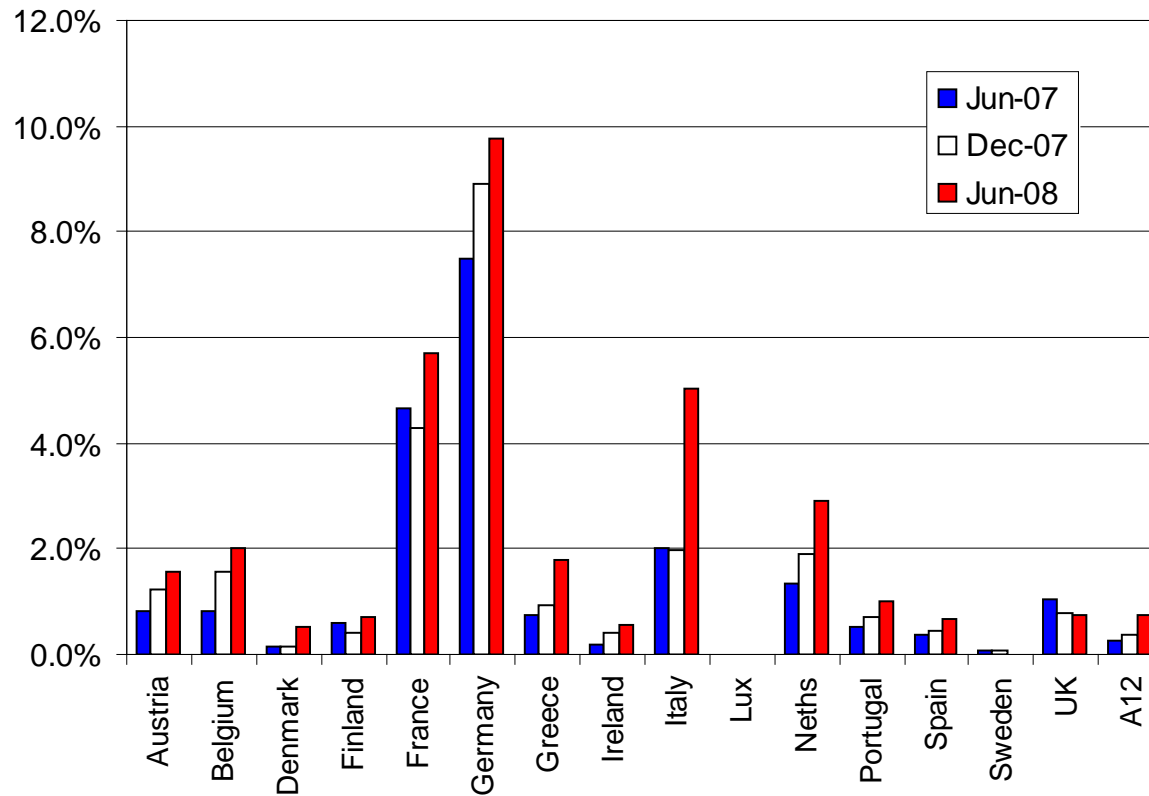
Collateral analysis --- EU govis in triparty repos



European Repo Council 15th European repo market survey



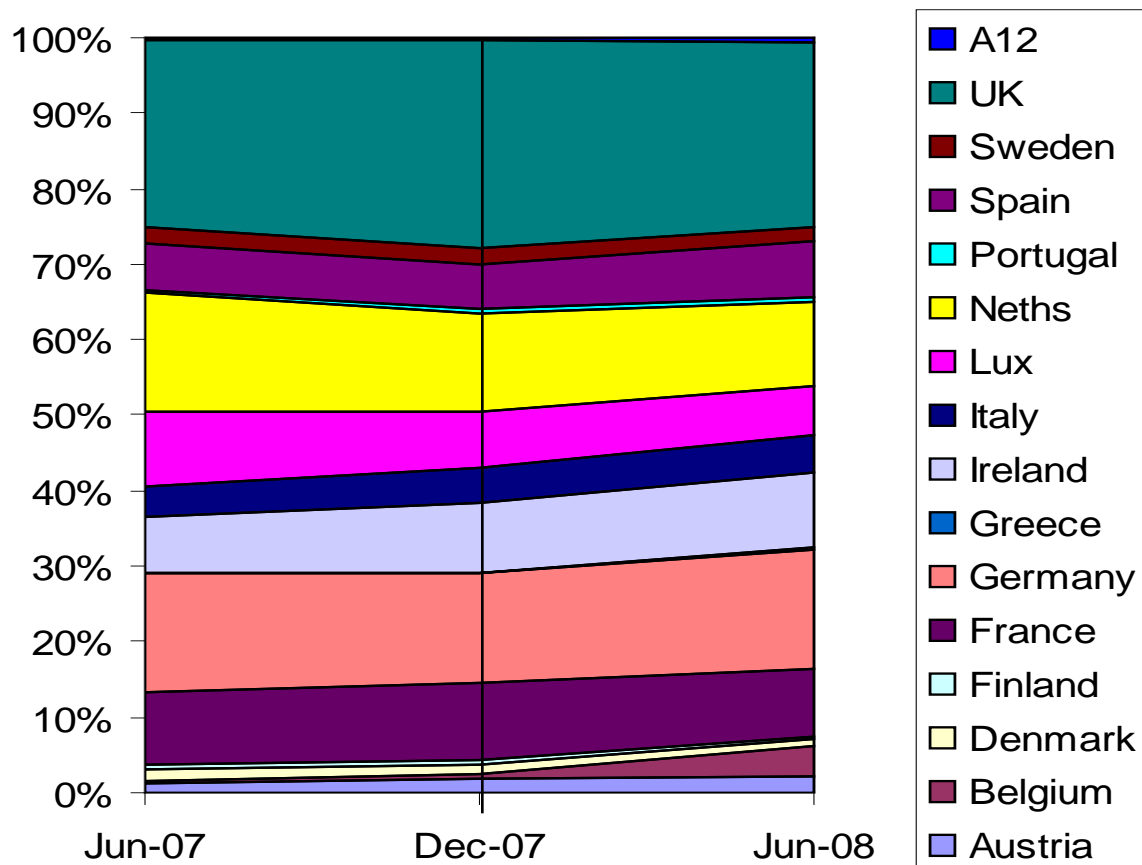
Collateral analysis --- EU govts in triparty repos



European Repo Council 15th European repo market survey



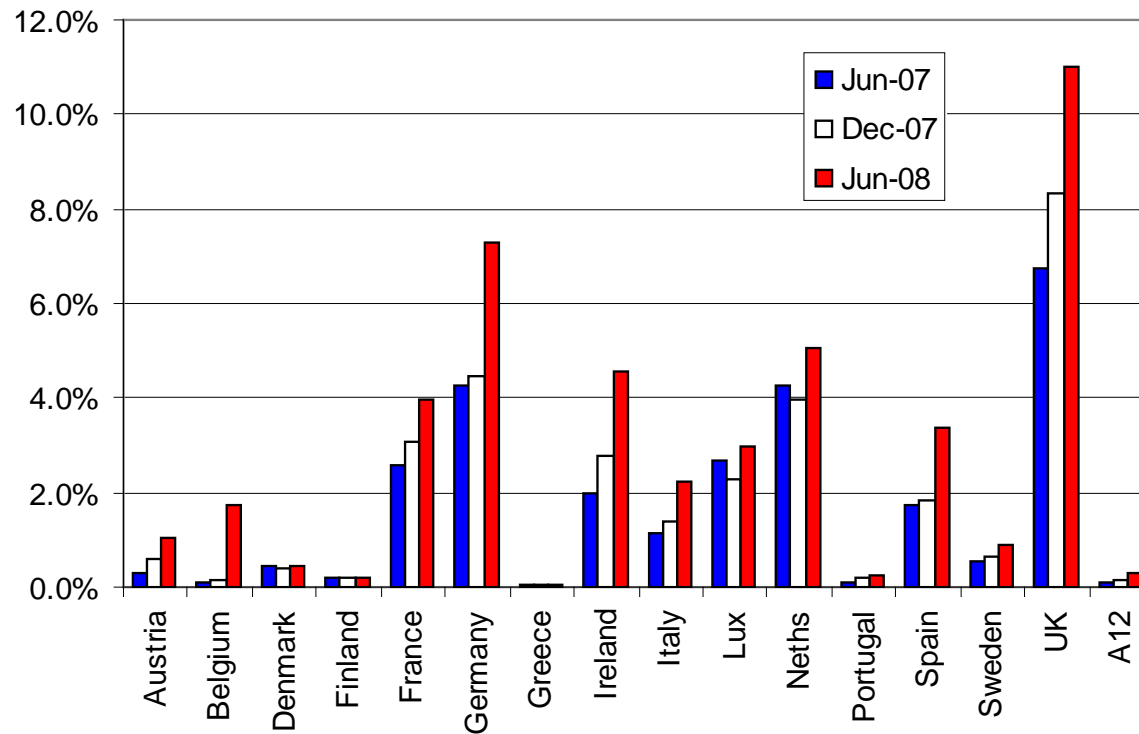
Collateral analysis --- non-govis in triparty repos



European Repo Council 15th European repo market survey



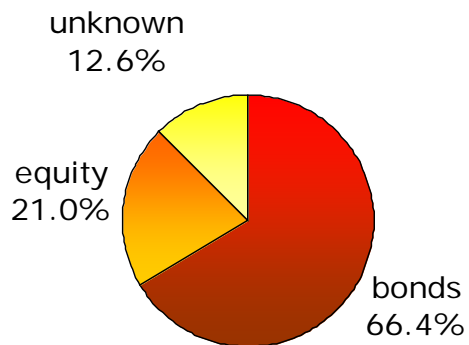
Collateral analysis --- non-govis in triparty repos



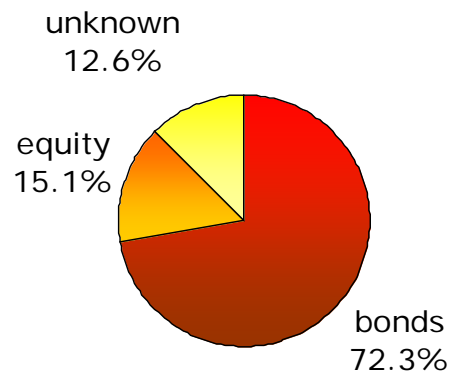
European Repo Council 15th European repo market survey

Collateral analysis --- triparty repo

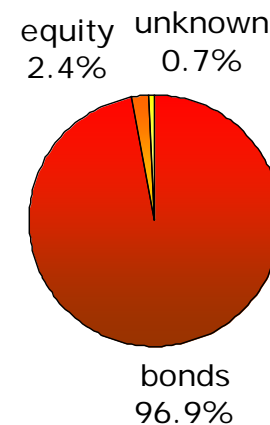
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December 2007



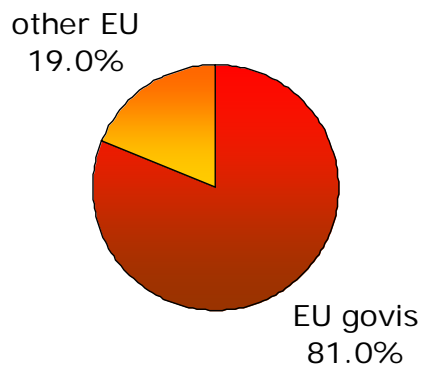
June 2008



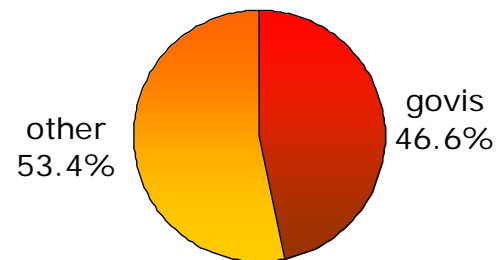
European Repo Council 15th European repo market survey

Collateral analysis

Main survey



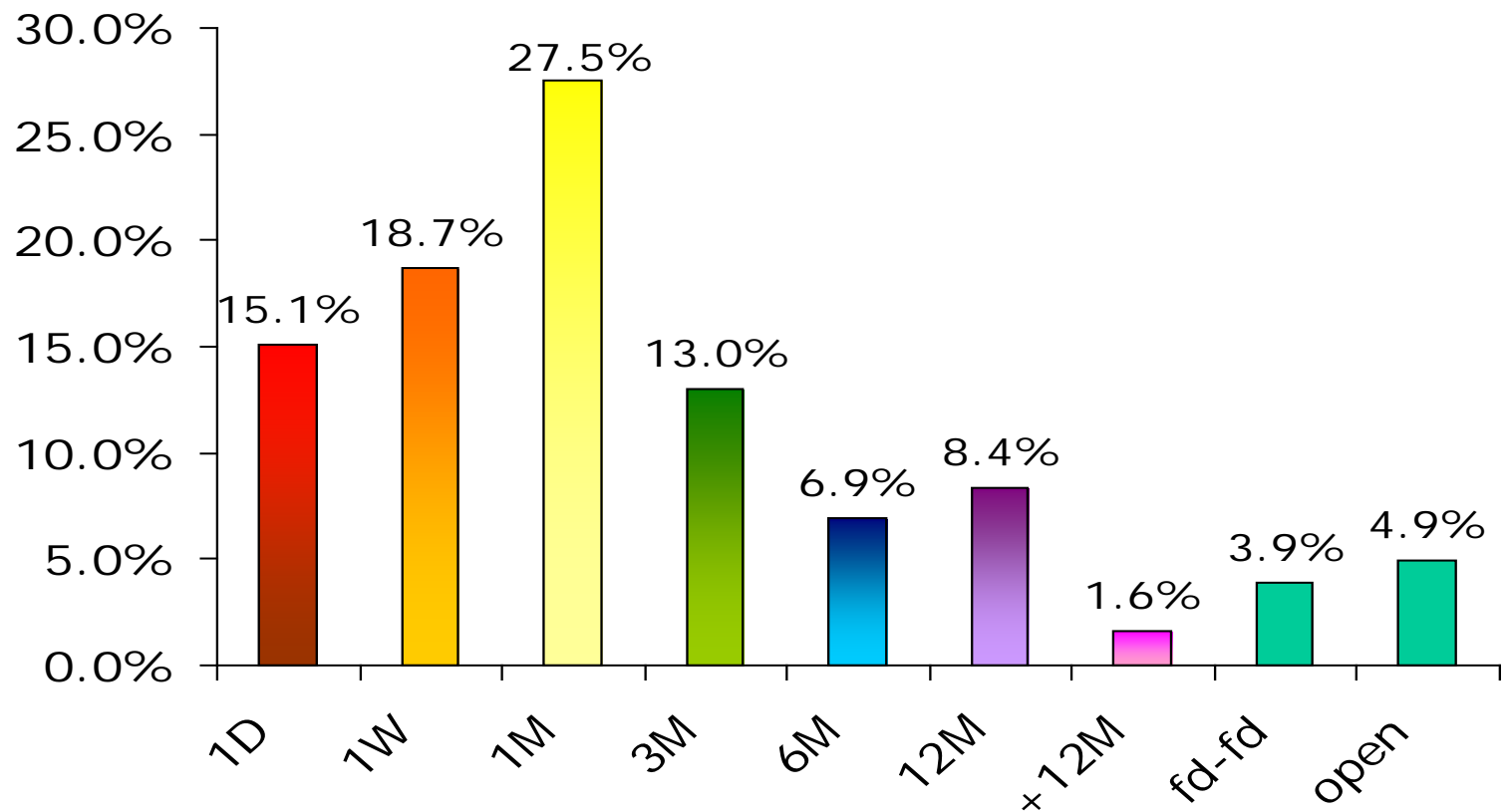
voice-broker



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15th European repo market survey

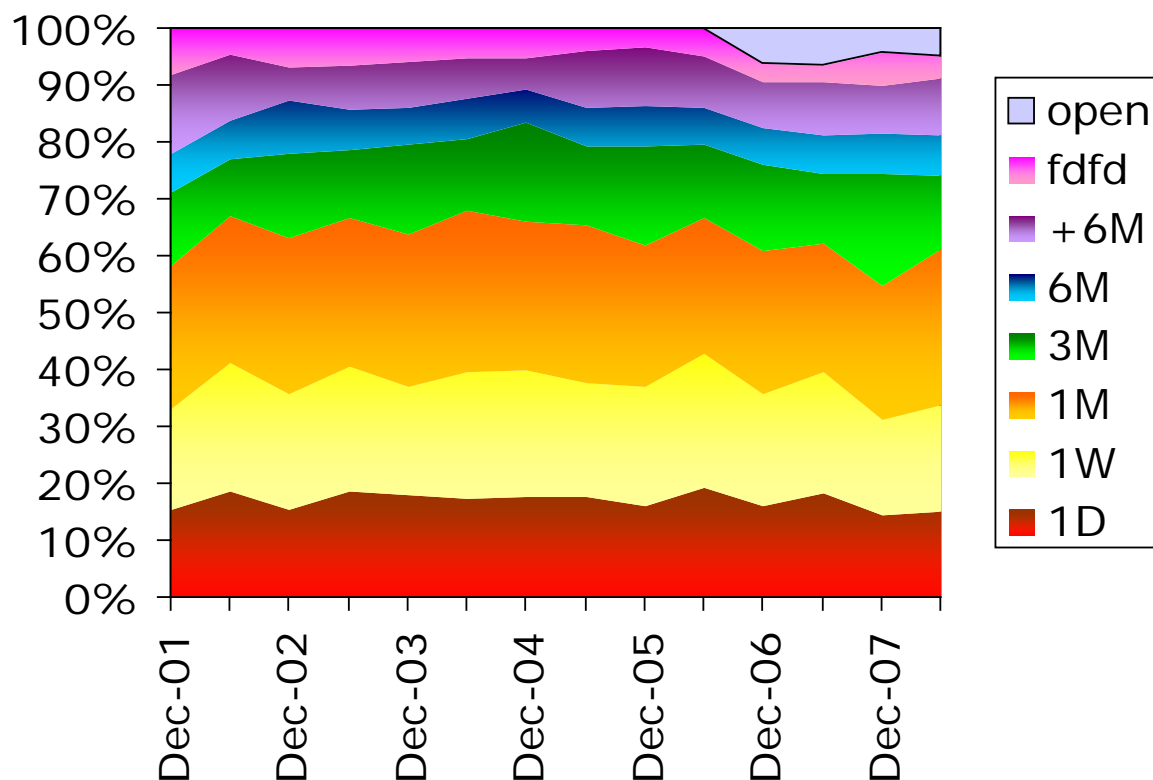
Maturity analysis



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15th European repo market survey

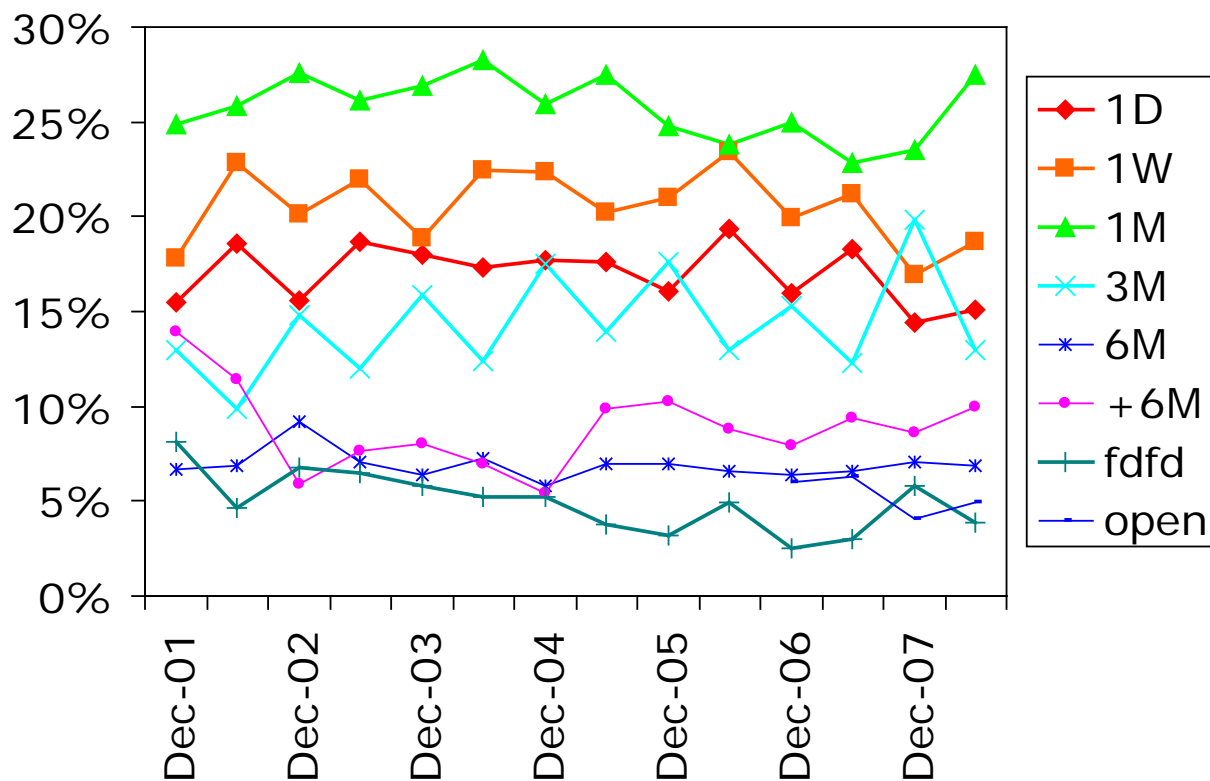
Maturity analysis



European Repo Council

15th European repo market survey

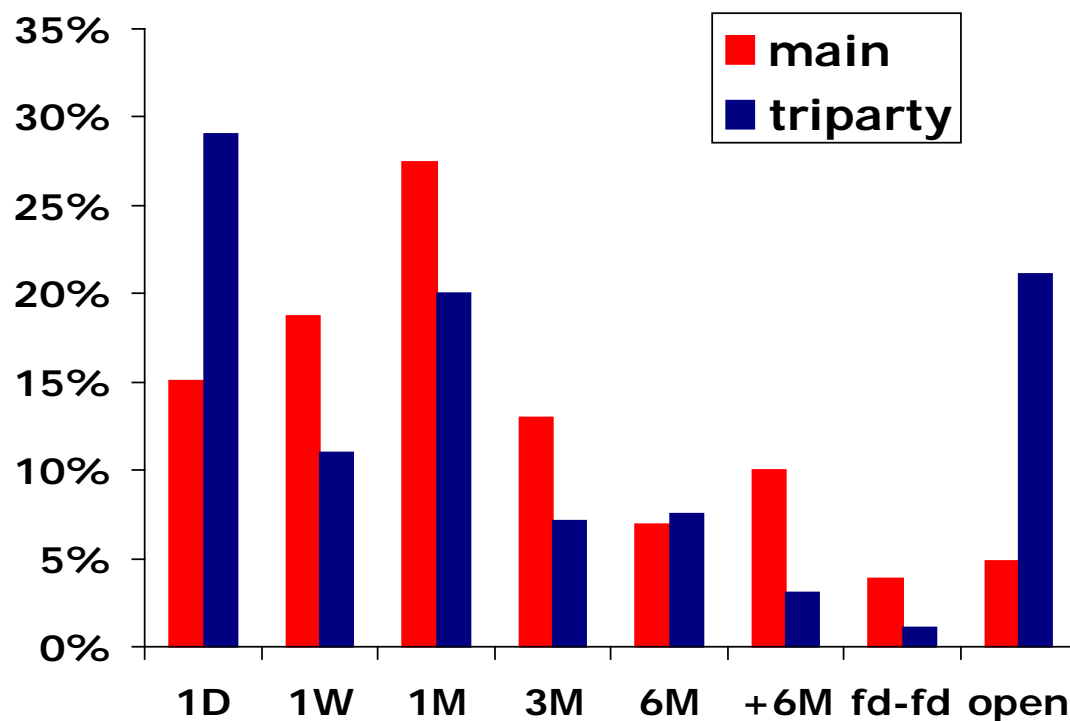
Maturity analysis



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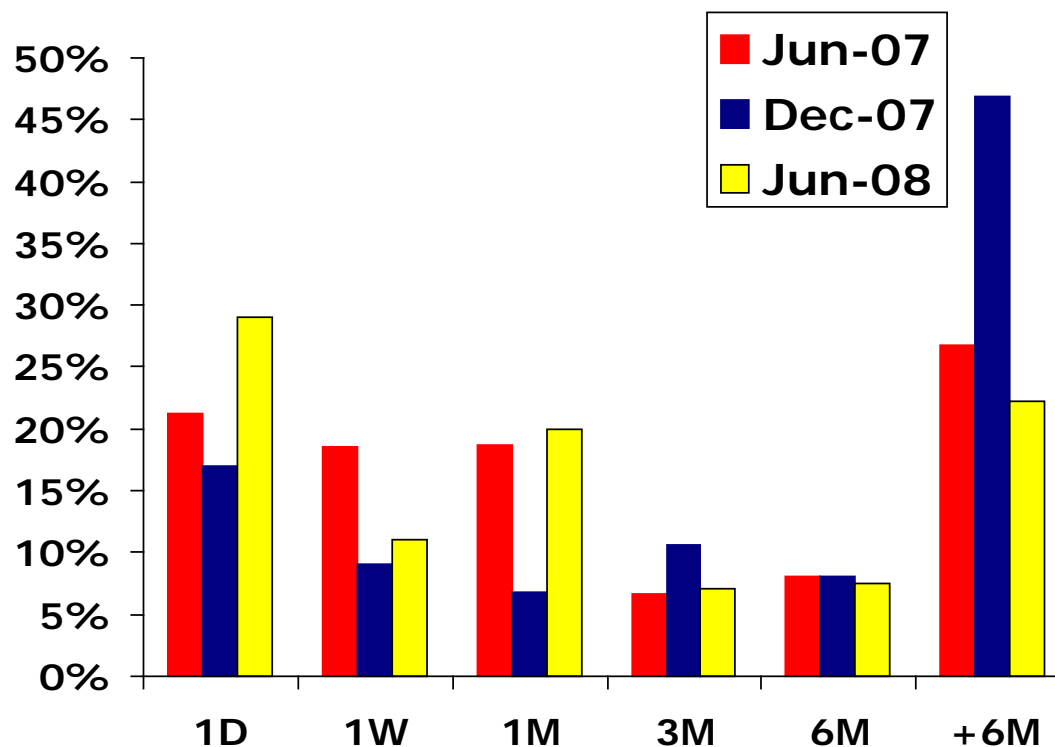
Maturity analysis



European Repo Council

15th European repo market survey

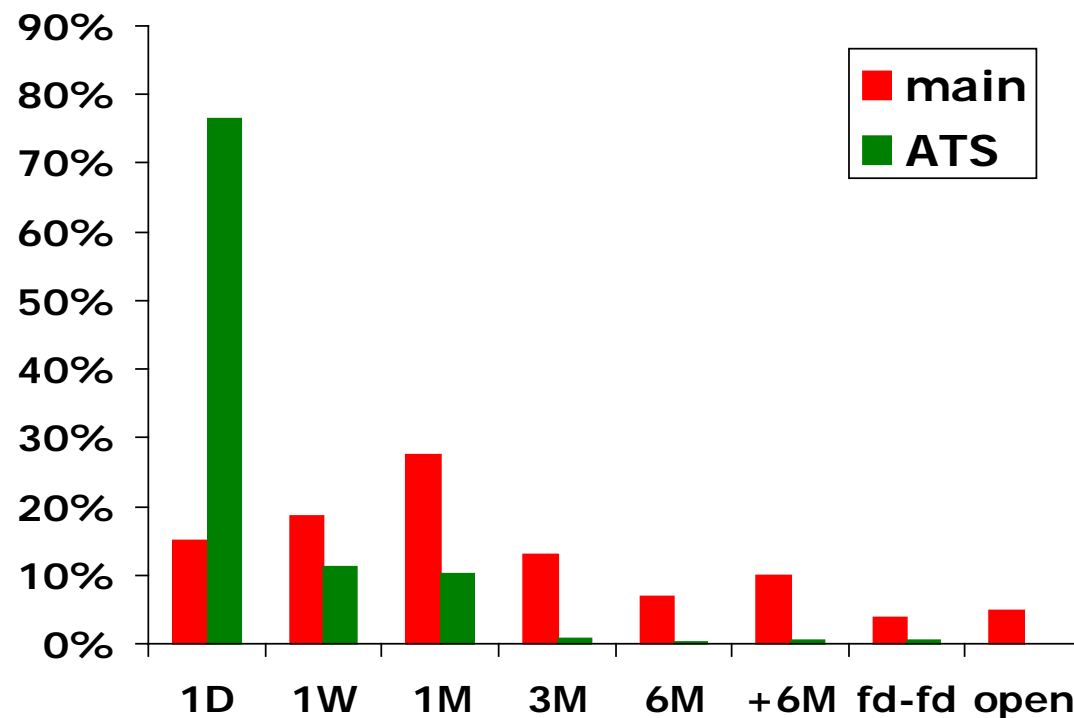
Maturity analysis --- triparty repos



European Repo Council

15th European repo market survey

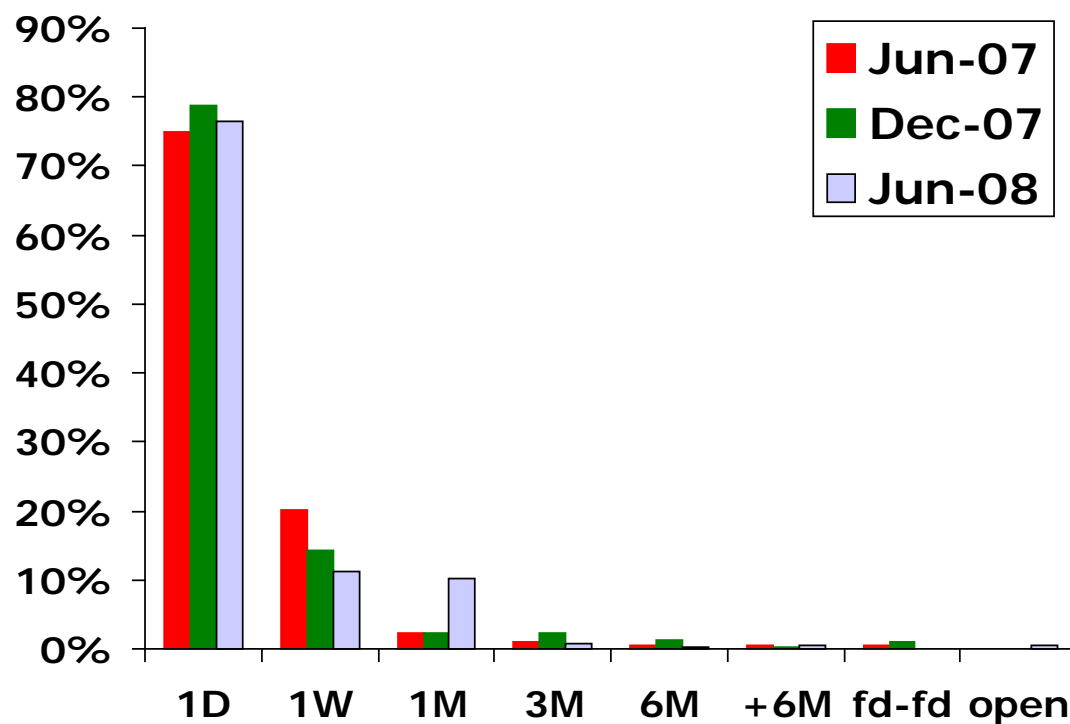
Maturity analysis



European Repo Council

15th European repo market survey

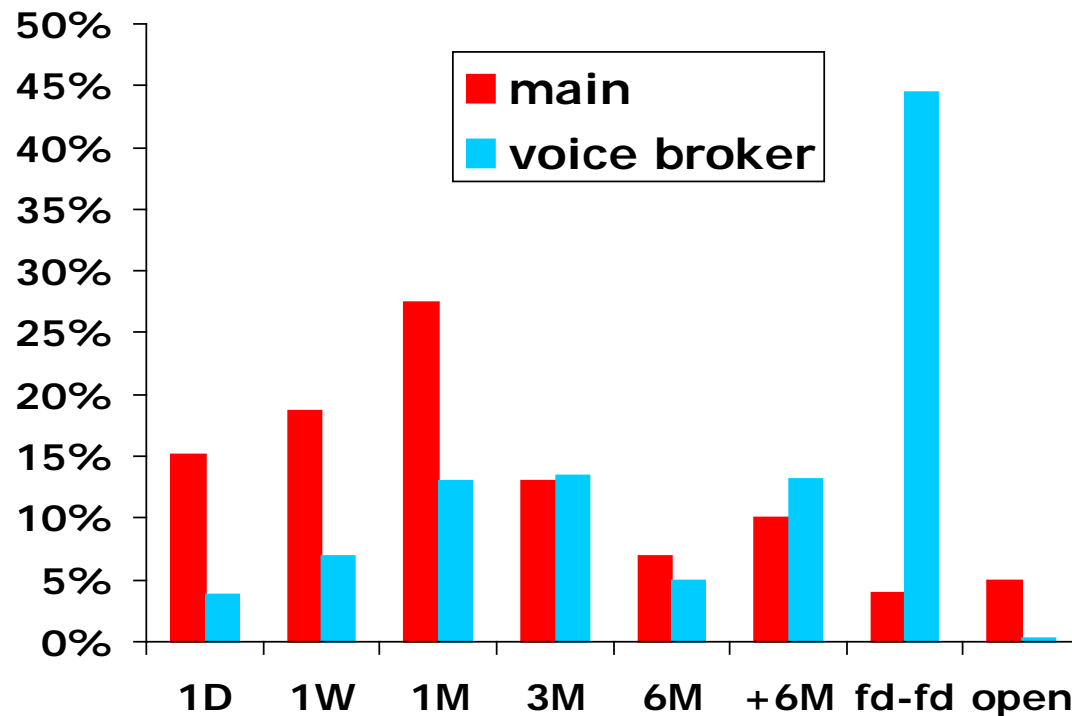
Maturity analysis --- ATS



European Repo Council

15th European repo market survey

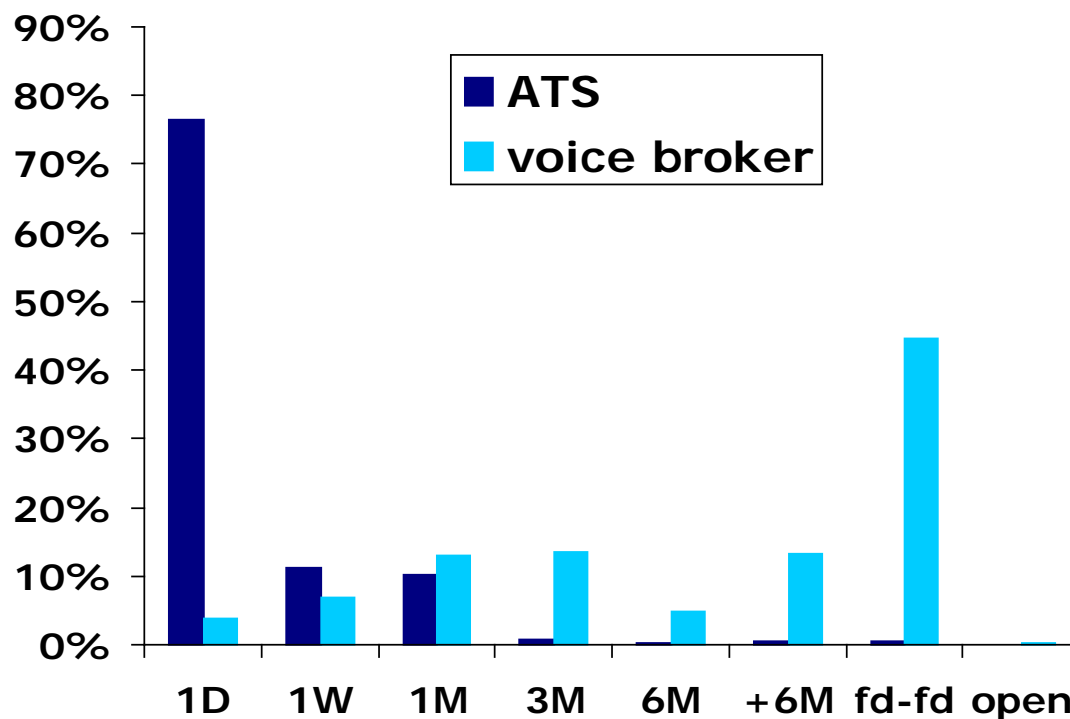
Maturity analysis



European Repo Council

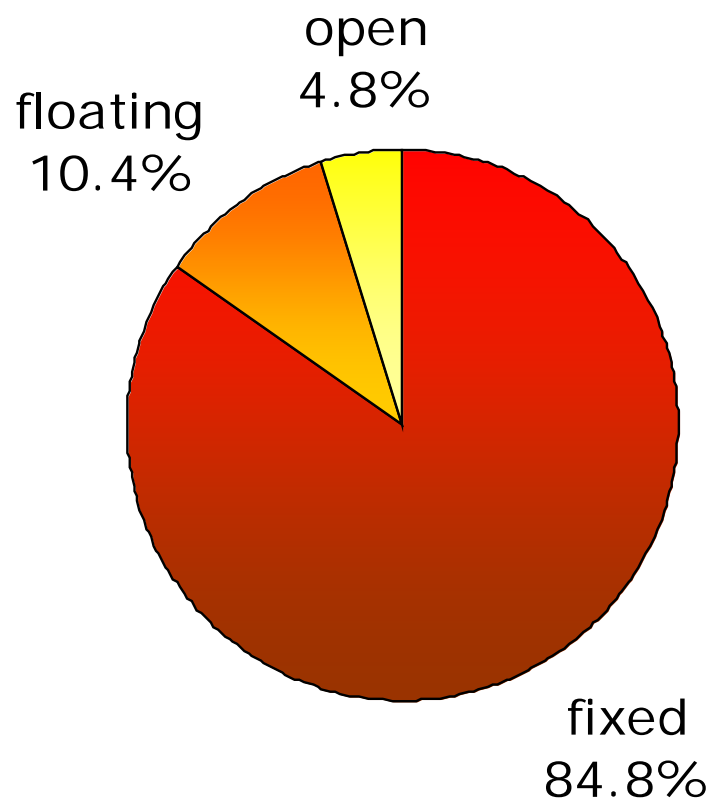
15th European repo market survey

Maturity analysis



European Repo Council 15th European repo market survey

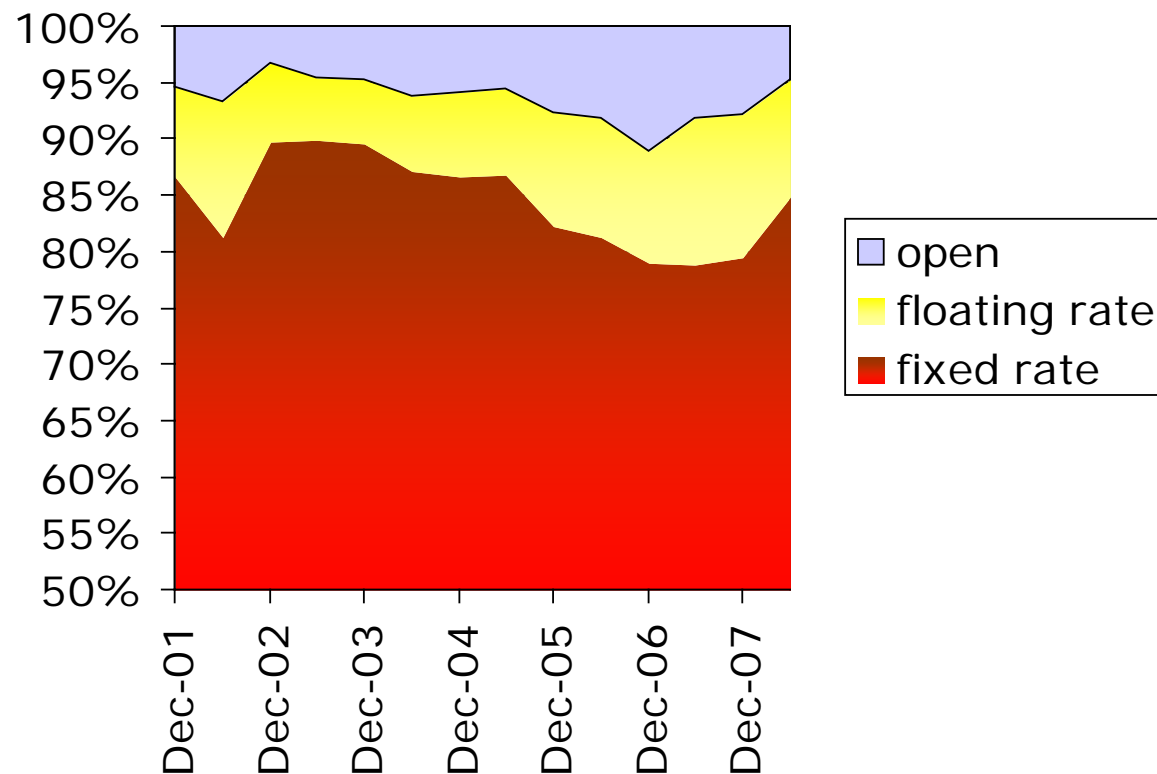
Rate analysis



European Repo Council

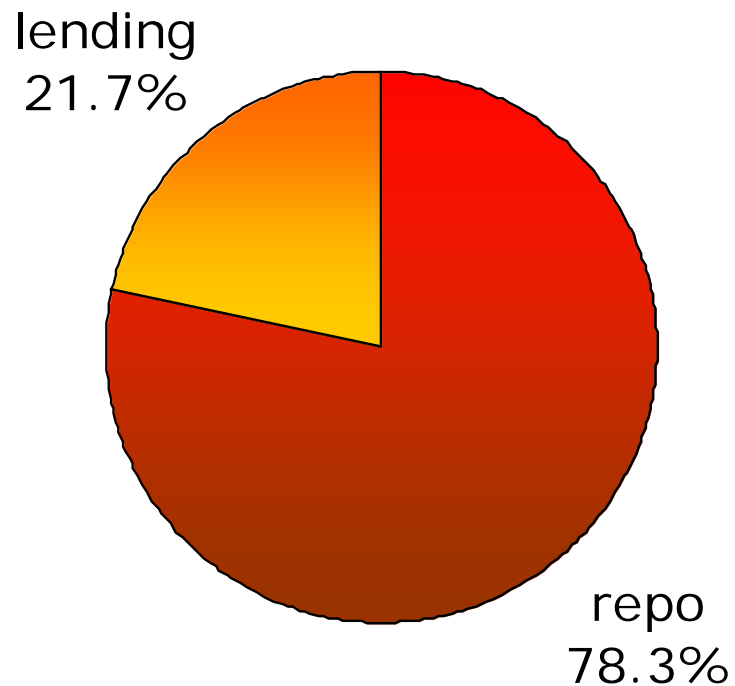
15th European repo market survey

Rate analysis



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Product analysis



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Date of next survey

10th December 2008