

European repo council

Minutes of a meeting

Held in Brussels on May 14, 2001

This document serves to provide a record of the above meeting held by the European Repo Council (ERC). Users of this information should note that these minutes are not published under the supervision of the secretariat of the International Securities Market Association (ISMA) and do not, therefore, constitute official ISMA documentation. These minutes have, in fact, been prepared and submitted for publication by officers of the ERC committee, to which any questions relating to their content should be directed.

- 1 Godfried de Vidts opened the meeting by welcoming all attendees to the 'capital of Europe', and highlighting the spirit of co-operation that was developing between members of the various groups involved in the Securities Markets across Europe.

Since the last ERC meeting the following meetings have taken place:

European Savings Banking Group. Positive discussions have taken place with the view to increasing cooperation between the ESBG and the ERC. (The proposed presentation by the ESBG at the end of the ERC meeting has been postponed).

ISMA : Presentations in London , Frankfurt and Paris.

ECB: Meetings re: Consultative report on the CPSS-IOSCO task force on securities settlement systems, as well as establishment of a single pan European Clearing Counterparty

Giovannini Working Groups (Equity, Bonds, Derivatives) at the requests of the EU Commission to study the EU cross-border clearing and settlement.

Bankers Association of Central and Eastern Europe (BACEE): a repo presentation

ACI : Money market & liquidity workgroup meeting in Finland

Future meetings planned:

June: Giovannini committee meeting with CSD and ICSDs.

2 Minutes from previous meeting

The minutes of the meeting held in Milan on January 15 2001 were unanimously approved.

3 Report on joint meeting TBMA-ERC April 24th (Mr J. Tomkinson)

James Tomkinson reported back on the above meeting. (There are two joint ERSC / TBMA meetings scheduled per annum). The meeting on April 24 was constructive with the following issues covered:

CAD Basel II: It was agreed that the ERC would co-sign the letter of response to the BIS CAD proposals. The details would be considered further and the ERC would provide requested additions.

The next joint ERC / TBMA meeting will take place at TBMA premises in London in early December 2001.

4 G.C. List: Contents and use (Mr G. De Vidts)

An updated G.C.list of securities has been agreed and will be posted to the website www.isma.org. The new list includes government debt issued by Portugal, Luxembourg and Finland.

5 Generic ISIN Codes for G.C. trading (Mr D. Lubin)

The forward / forward g.c. repo project is well underway after 3 front office meetings and 2 operational meeting. Currently the key issues relate to costs and expected volume of activity. There is a requirement to establish generic ISIN numbers for these transactions in order that specific securities do not need to be identified until security specific delivery instructions are required, i.e. 2 days prior to settlement date. It was state that this will happen this year.

A question was raised that forward/ forward trades already happen in the market. This was agreed, but on a bilateral basis only, with no standardisation or forward netting opportunity.

6 ACI Exam board (Mr V. Albano)

Vincenzo Albano reported back the co-operation between the ERC and ACI regarding the establishment of an industry related, accredited examination system. He confirmed that there was a review of the extensive exam syllabus, with three levels of competency:

Dealing Certificate

Diploma

Associatorship

It was reported that there were moves to develop links with Universities in order to build the educational competency across the industry and the ERC were working on repo related exam questions to be used in the ACI multiple-choice papers.

Further information relating to the ACI examinations can be found on:
www.aci/forex.com

7 Repo question, detailed description (Mr R. Comotto)

Richard Comotto provided a presentation of the ERC survey (presentation enclosed). It was agreed that this would be provided to ERC members for completion for June 12 and to be returned by June 29th.

8 Feedback on SLRC meetings

James Tomkinson reported the following :

The ERC minutes are now distributed through the SLRC distribution list.

Basle II and the CAD was extensively discussed in the last meeting with reference to representatives from LIBA, who are spearheading a co-ordinated, market wide response to the Basel 2 proposal.

Information provided subsequent to the meeting indicated that calculations carried out generated a ten-fold increase in the use of regulatory capital as a result of Basel 2 (calculations were based on the assumption that all repo counterparties met the definition of a 'Core Market Participant').

Crest has announced the DvP against central bank money will be introduced from Monday November 26 2001.

Practical issues relating to the Euro are to be published in June.

The Bank of England website was referenced as a useful source of information : www.bankofengland.co.uk

9 Legal Update

Godfried DeVidts provided an update on the comparison of EMA and GMRA and summarised the status of the discussions underway in order to remove the basis risk when using both documents. The following key point were highlighted:

The equity annex - voting on corporate actions needs to take place on a best efforts basis.

The ECB has kindly agreed to host the next EBF / ISMA meeting in Frankfurt where the issues are expected to be finalised. It has been agreed that there will be no need to rewrite either document, and that any changes will be incorporated in an addendum.

Legal opinions are posted on the ISMA website. The ERSC has approved the translation of the guidance notes into Spanish and Italian.

Celia Wenban-Smith will step down as head of the legal workgroup, the meeting expressed thanks for an excellent job done. Andrew Lubin has agreed to take over the task.

10 Update on repo fixing project (Mr G. De Vidts & Mr Mark Painting)

The Eurepo fixing has discussed at a recent meeting organised by the European Banking Federation in co-operation with the B.B.A. and the E.R.C.

This would enable:

1. A reference index for derivatives
2. Contract for differences across collateral products
3. Pegging of swap transactions to collateralised reference rates rather than uncollateralised rates

The Eurepo maturities recommended by the E.R.C. are:

T/n.

1,2 & 3 weeks (for spot settlement)

1,2,3,6,9, & 12 months (for spot settlement)

The eligible collateral is Euro denominated and is being drafted by the ERSC. The quote will be bid side of G.C., a description of what G.C. mean will be provided.

The list of contributing banks to the Eurepo and method of calculation has been discussed at the ERC and will be submitted at the 7th of June meeting organised by the E.B.F.

11 Securities fails problems in Europe (Mr U. Bacher)

Ulf Bacher reported back on the Securities Fails meeting in Rome attended by ERC representatives, together with delegations from Euroclear Bank, Clearstream, Clearnet, London Clearing House and ISMA. Eurex was invited but did not attend.

Ulf Bacher stated that there was an increasing incidence of fails in the European markets over the last 18 months, with the futures delivery in March in the Eurex contract increasing the focus on the problem.

It was agreed to generate a press release highlighting the causes of the fails problems in the European markets, this letter will be issued in the name of the ERC by ISMA. (Attached)

It was confirmed that Eurex had not provided any feedback following their meeting.

Ulf Bacher pointed out that the GMRA 2000 enabled counterparties to invoke a mini-close out at the start as well as the closing leg of repo trades. It was claimed that this could alter the climate of fails in the European market.

12 Detailed study on securities substitution (Mr Oscar Huettner)

Oscar Huettner presented the case for establishing a standardised market convention for substituting securities in term repo trades. Three main requirements were highlighted:

All substitutions are on a DVP / DVP basis. No securities movement should be FOP.

The convention should establish a set number of substitutions for any one trade, e.g. 3 substitutions per term trade.

Interest accrued in transaction should not be cleaned up at the event of a substitution.

Next Meeting

The next meeting will be on September 26th in Luxembourg from 11am to 1pm and will be hosted by the Banque Generale Luxembourg including lunch.

May 24, 2001

Minutes prepared by

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ISMA European Repo Council

European Repo Market Survey
June 2001

European Repo Market Survey

- survey
- semi-annual
- data from other sources
- **outstanding amounts**
- close of business on **second Wednesday of June, December**
- first survey on **13 June 2001**

European Repo Market Survey

- e-mail survey form
- covering letter from ISMA, ACI and ERC
- Guidance Notes
- supporting letter from ECB & EC
- contacts speaking English, French, German, Italian, Spanish
- returns by **Friday, 29 June 2001**
- confidentiality
- results in July 2001

European Repo Market Survey

- you
- other banks
- brokers
- ATS
- ICSD
- CCP
- TRAX
- tri-party agents

European Repo Market Survey

All volume data split into repo and reverse repo.

1 Total

1.1 Counterparties

- direct

- through voice-brokers

- on ATS

 - same country

 - cross-border in (other) eurozone countries

 - cross-border in non-eurozone countries

European Repo Market Survey

1.2 Currency

EUR

GBP

USD

SEK, DKK

JPY

others

1.3 Cross-currency

European Repo Market Survey

1.4 Type of repo

- classic

- documented sell/buy-back

- undocumented sell/buy-back

1.5 Repo rate

- fixed rate

- floating rate

- open

European Repo Market Survey

1.6 Term to maturity

1 day

2 to 7 days

8 days to 1 month

over 1 month to 3 months

over 3 months to 6 months

more than 6 months

forward-forward repos

1.7 Tri-party repo

fixed term to maturity

open

European Repo Market Survey

1.8 Collateral

EU-15

issued by central government

other issuers

pfandbrief

issued in US but settled across an ICSD

other countries

2 Bonds loaned and borrowed by repo desk

domestic or cross-border counterparties

fixed or open term to maturity

3 Number of active repo counterparties