

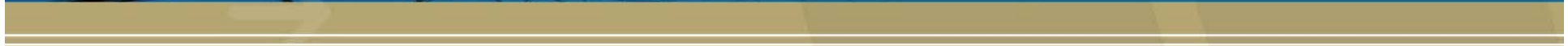


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# ERC General Meeting

March 18, 2010





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# **Opening & Update on recent developments**

**Godfried De Vidts, Chairman of the ERC**

**European Repo Council  
General Meeting**

**Brussels  
18 March 2010**

Guidelines or recommendations are in the overall interest of **improving efficiency** or **liquidity** in the relevant market.

The following guidelines have so far been adopted

[Repo Trading Practice Guidelines of August 20, 2003](#)

[Best Practice Guide to Repo Margining of September 15, 2005](#)



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# Documents for members of the European repo council

[GC Conventions as amended on September 19, 2007](#)

[Preferred and recommended best practice for the determination of rates for Eonia-based repos, February 28, 2007](#)

[Calculation of interest in floating rate repos based on Eonia, November 22, 2006](#)

[Recommendation regarding fails in negative interest rate repos, approved by the International Repo Council on November 16, 2004](#)

[Confirmation of second leg of buy/sell back transactions \(Letter from the ERC committee chairman to firms active in the repo market, dated April 19, 2004\)](#)



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# Credit claims

## Credit claims secondary market initiative

- **ISO 6166 (ISIN) Standard - New asset class coverage**
- **Euroclear/Clearstream building common data base**
- **Swift to co-operate on messaging standards**
- **ICMA board provided funding for extending GMRA for credit claims (Lisa to report)**

**Potential problem: Basle committee re liquidity buffer**



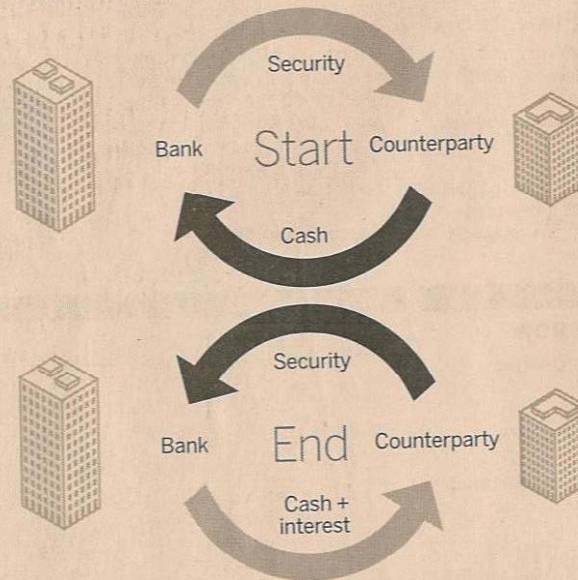
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# From the FT....

## How a normal repo transaction works...

A bank transfers assets to a counterparty as collateral in exchange for cash. At the same time, the bank agrees to repay the cash plus interest and take collateral back after a specified period. The assets which have been transferred as collateral remain on the bank's balance sheet and it incurs a liability for the cash it has agreed to pay back



## ...and how a Repo 105 can be used to reduce leverage

A 'Repo 105' occurs in much the same way as a normal repo but instead the bank pledges assets worth 105 per cent of the cash received from the counterparty. The transaction is then described as a 'sale' rather than a financing arrangement. As such, the assets can then be removed from the balance sheet while the cash received is used to pay off liabilities, reducing apparent leverage at critical moments

Source: Valukas Report



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# Contacts

**Thank you, Ladies and Gentlemen**

**Contacts and information:**

<http://www.icmagroup.org/about1/international1.html>  
[erc@icmagroup.org](mailto:erc@icmagroup.org)



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# ICMA ERC AGM: Legal update

## Lisa Cleary, ICMA







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# Review of the GMRA 2000

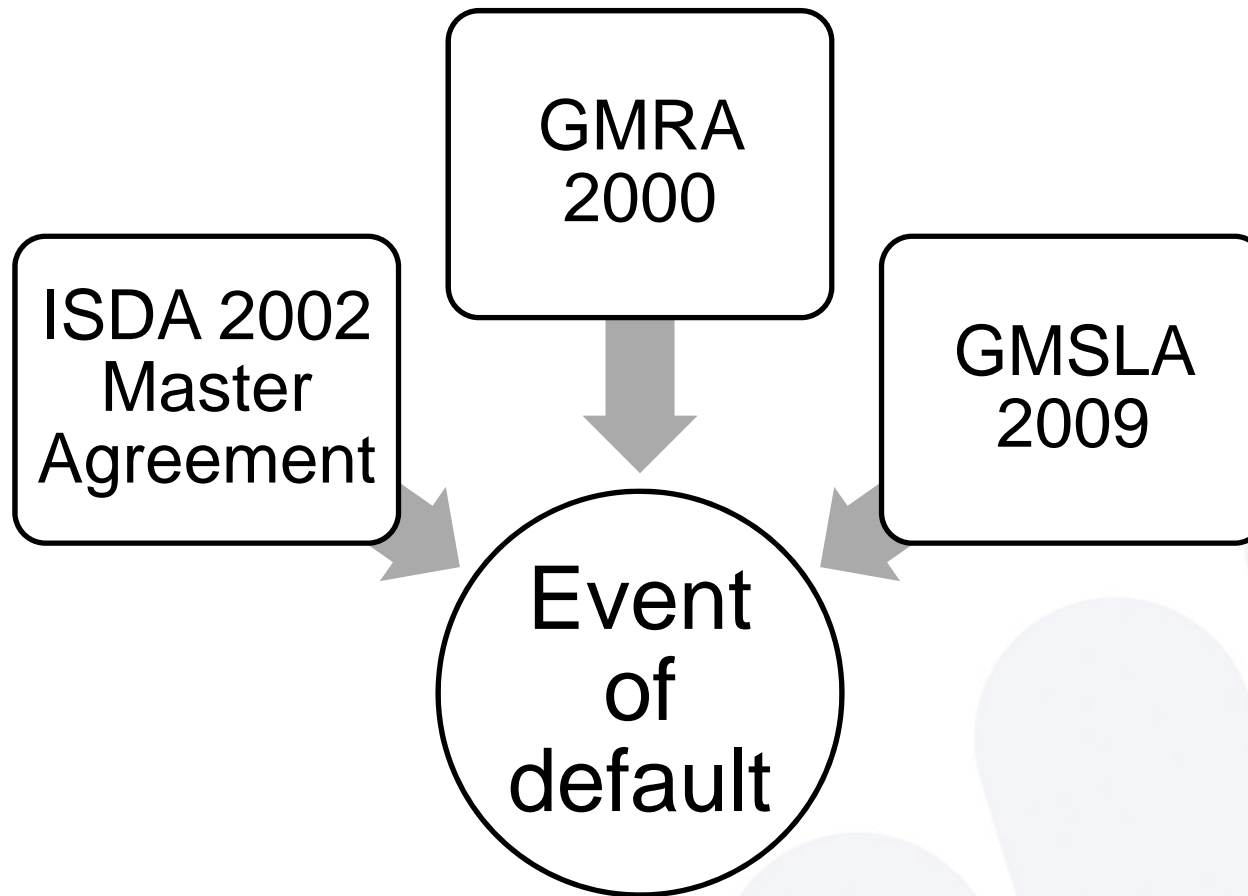
- ❖ Update on review working group progress
- ❖ Case study: notice of default
- ❖ Next steps



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# Case study: notice of default





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# Case study: notice of default



Service of  
notice of  
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required

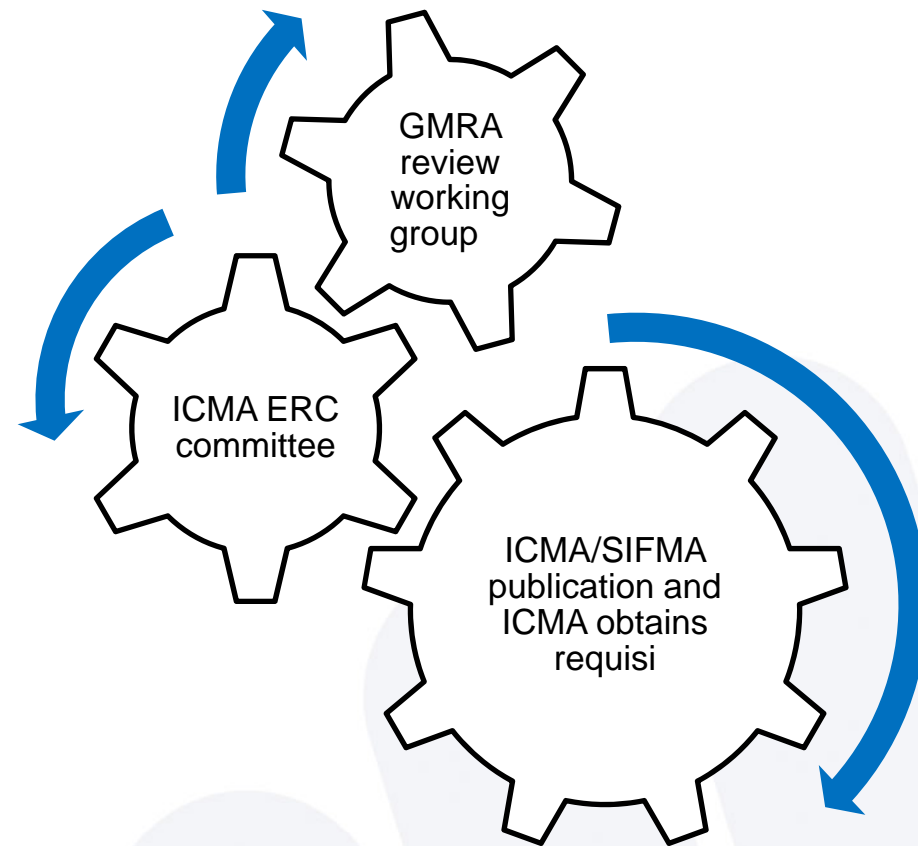


Event of  
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# Review of the GMRA 2000: next steps

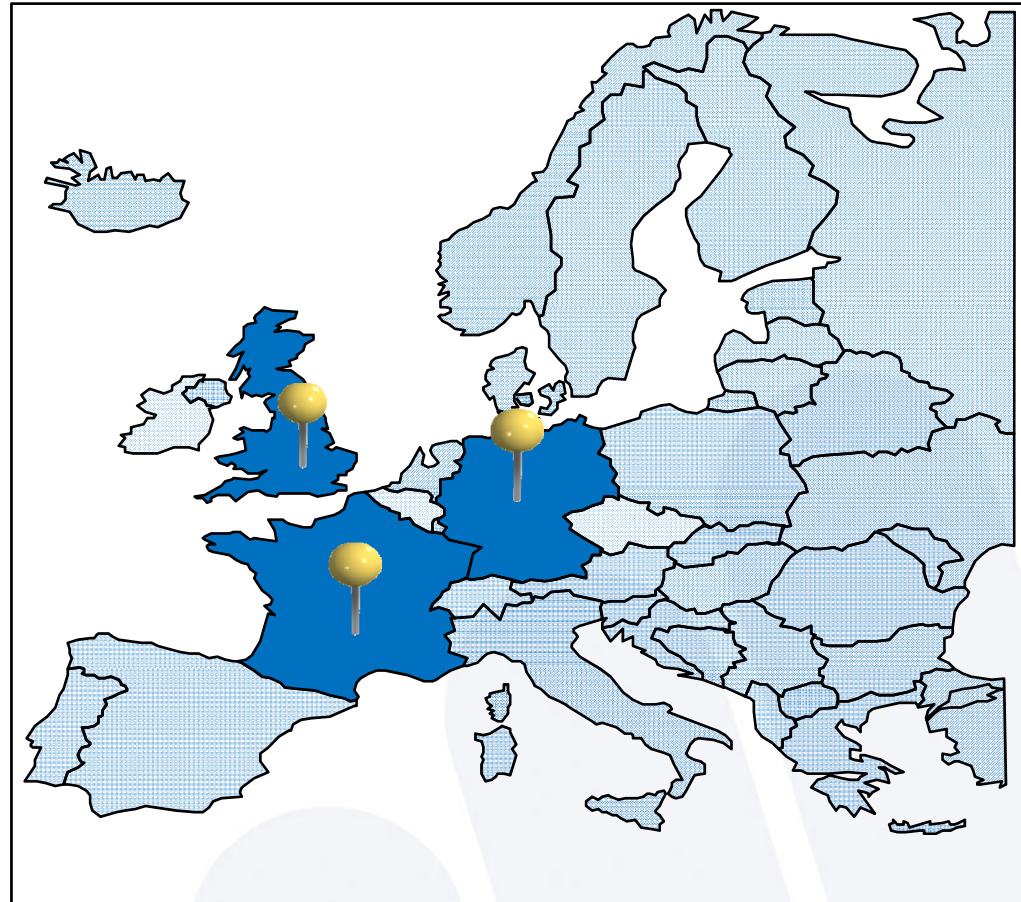
- ❖ GMRA review working group draft proposal
- ❖ ICMA ERC committee consultation
- ❖ ICMA/SIFMA publication
- ❖ ICMA commission 2011 legal opinion exercise, including coverage of GMRA 2010



# Credit Claims Annex to the GMRA 2000

- ❖ The aim of the credit claims project is to **add to the range of available collateral** in the interbank funding market by establishing a system for repo-ing credit claims under the GMRA for day-to-day use by banks seeking to fund their business in the short term.
- ❖ In the context of this project, **'credit claims'** are essentially corporate loans. A loan would only be eligible for repo under the **'GMRA Loan Repo System Annex'** ICMA is seeking to establish, where the parties to the loan agree to the **'clearing system loan rules'** (standard procedures for a centralised electronic register of lenders title to loans and allowing lenders to transfer and settle trades in the loans registered with the clearing systems) .
- ❖ The feasibility of establishing a loan repo system will need to be considered on a **jurisdiction-by-jurisdiction basis** due to differences in registration requirements, standard loan documentation, confidentiality issues, applicable legislation, etc.

- ❖ ICMA are currently investigating the feasibility of establishing a loan repo system in England, France & Germany.
- ❖ Following the outcome of such investigations, model loan and repo documentation will need to be developed for these jurisdictions.
- ❖ Work will then commence with the ICSDs, in preparing a loan system rulebook.



# 2010 combined legal opinion exercise

- ICMA co-ordinates the combined legal opinion update exercise on behalf of ICMA and the SLRC.
- ICMA the sole provider of industry standard opinions on the GMRA.
- Currently 69 legal opinions on the GMRA.
- In 2010, ICMA will obtain 68 opinions (following feedback from ICMA's ERC committee, ICMA will discontinue the update of the GMRA opinion for Iceland).



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# 2010 combined legal opinion exercise

Jurisdiction	Counterparty coverage		
	Basic: companies, banks and securities dealers	Extended: insurance companies, hedge funds and mutual funds	Sovereign wealth funds & supranationals covered
Anguilla	✓	✓ (excluding hedge funds)	
Australia	✓		
Austria	✓	✓	Organisation of the Petroleum Exporting Countries (OPEC)
Bahamas	✓		
Bahrain	✓	✓	
Barbados	✓		
Belgium	✓	✓	
Bermuda	✓		
Brazil	✓		
British Virgin Islands	✓	✓	
Canada	✓	✓	
Caymans Islands	✓	✓	
China	✓		China Investment Company Ltd & Central Hujjin Investment Corp
Croatia	✓	✓	
Cyprus	✓		
Czech Republic	✓		
Denmark	✓	✓	
England	✓	✓	
Estonia	✓		
Finland	✓	✓	Nordic Investment Bank
France	✓	✓	
Germany	✓	✓	
Greece	✓	✓	
Guernsey	✓		
Hong Kong	✓		
Hungary	✓		
Iceland	✓	✓	
India	✓	✓	
Indonesia	✓		
Ireland	✓	✓	





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# 2010 combined legal opinion exercise

Jurisdiction	Counterparty coverage		
	Basic: companies, banks and securities dealers	Extended: insurance companies, hedge funds and mutual funds	Sovereign wealth funds & supranationals covered
Israel	✓	✓	
Italy	✓	✓	
Japan	✓		
Jersey	✓		
Kuwait	✓		
Latvia	✓		
Lithuania	✓		
Luxembourg	✓	✓	
Malta	✓		
Mexico	✓		
Netherlands	✓	✓	
Netherlands Antilles	✓		
New Zealand	✓		
Norway	✓		The Government Pension Fund of
Oman	✓	✓	
Philippines	✓		Asian Development Bank
Poland	✓		
Portugal	✓	✓	
Saudia Arabia	✓		
Scotland	✓	✓	
Singapore	✓		Temasek Holdings & Government of Singapore Investment Corporation
Slovakia	✓		
Slovenia	✓		
South Africa	✓		
South Korea	✓		
Spain	✓	✓	
Sweden	✓	✓	
Switzerland	✓	✓	
Taiwan	✓		National Stabilisation Fund
Thailand	✓	✓	
Turkey	✓		
United Arab Emirates	✓		
USA	✓	✓(excluding insurance companies)	

## s.1000: Opening membership of the ERC to associate members

- ❖ Based on a recommendation from the IRC and ERC committees, the Association's IRC and ERC councils recently concluded that **associate members of ICMA with a dedicated repo activity should indeed be eligible for membership of the IRC/ERC councils** without, however, being eligible to be represented on the IRC/ERC committees.
- ❖ After the ICMA board approved the respective amendments to section 1000 a circular informing the membership of such amendments which became effective on December 31, 2009, was sent out on January 5, 2010.
- ❖ Welcome to all of those associate members who have joined the ERC council.



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**Thank you, Ladies and Gentlemen**

**Contact information:**

Lisa Cleary: Associate Counsel

[cleary.lisa@icmagroup.org](mailto:cleary.lisa@icmagroup.org)

Tel: +41 44 360 5239

ICMA

Talacker 29, Zurich

[www.icmagroup.org](http://www.icmagroup.org)



# Election to the European Repo Committee

1. Godfried De Vidts, ICAP Securities Ltd, London
2. Jean-Michel Meyer, HSBC Bank plc, London
3. Olly Benkert, Goldman Sachs International, London
4. Stefano Bellani, J.P.Morgan Securities Ltd., London
5. Herminio Crespo Urena, Caja de Madrid, Madrid
6. Romain Dumas, Credit Suisse Securities (Europe) Ltd, London
7. Mats Muri, Barclays Capital Securities Ltd., London
8. Simon Parkins, BNP Paribas, London
9. Andreas Biewald, Commerzbank AG, Frankfurt
10. Michael Cyrus, Royal Bank of Scotland plc, London
11. Tony Baldwin, Daiwa Capital Markets Europe Limited, London
12. Jessica McDermott, Bank of America Merrill Lynch, London
13. Stefaan Van de Mosselaer, Fortis Bank, Brussels
14. Simon Tims, UBS AG, London
15. Eduard Cia, UniCredit Markets & Investment Banking
16. Ed McAleer, Morgan Stanley & Co International Ltd., London
17. Luis Soutullo Esperon, Confederación Española de Cajas de Ahorro (CECA), Madrid
18. Grigorios Markouizos, Citigroup Global Markets Limited, London
19. Johan Evenepoel, Dexia Bank Belgium NV/SA, Brussels
20. David Nicholls, Deutsche Bank AG, London
21. Michel Semaan, Nomura International plc, London
22. Andrea Masciovecchio, Intesa Sanpaolo S.p.A Milan
23. Terry Upham, Royal Bank of Canada Europe Limited, London



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# Mattias Levin

Policy Officer, DG Markt



# Ongoing regulatory changes in Europe's market infrastructure

Mattias Levin,  
European Repo Council AGM  
Brussels, 18 March 2010

European Commission   
Internal Market & Services DG

# Background

- Derivatives in the crisis:
  - Leverage
  - Interconnectedness
  - Lack of transparency
- Policy action:
  - Communication, Staff Working Paper and Consultation Paper on 3 July 2009
  - 111 responses to consultation
  - Conference, 25/9/2009
  - Communication on future policy actions, 20 October 2009
  - President Barroso: “ambitious legislation on the regulation of derivatives in 2010”.

# General considerations

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- Paradigm shift
- Comprehensive policy
- International cooperation
- Non-financial users of derivatives



# Reduce counterparty risk

- (i) Propose legislation to ensure CCPs safe and sound
- (ii) Improve collateralisation of bilaterally-cleared contracts,
- (iii) Raise capital charges for bilaterally-cleared as compared with CCP-cleared transactions, and
- (iv) Mandate CCP-clearing for standardised contracts.

# Reduce operational risk

- Encourage further collective action by building on Derivatives Working Group
- Assess need to reshape operational risk approach in CRD

# Increase transparency

- (i) Mandate reporting of positions and transactions to trade repositories,
- (ii) Propose legislation on trade repositories,
- (iii) Mandate trading of standardised derivatives on organised trading venues, and
- (iv) Increase pre- and post-trade transparency as part of the upcoming review of MiFID.

# Strengthen market integrity & oversight

- Curb insider dealing and market manipulation (MAD)
- Give regulators possibility to set position limits to counter disproportionate price movements & concentrations of speculative positions (MiFID)

# Next steps

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- Impact assessment
- Further stakeholder consultation spring 2010
- CCP and trade repository proposal by mid-2010
- CRD and MiFID amendments by end-2010.

More information:

[http://ec.europa.eu/internal\\_market/financial-markets/index\\_en.htm](http://ec.europa.eu/internal_market/financial-markets/index_en.htm)

Mattias Levin  
European Commission  
Internal Market and Services DG  
Unit G.2 Financial Markets Infrastructure

Tel: +32 2 29 51811

Email: [mattias.levin@ec.europa.eu](mailto:mattias.levin@ec.europa.eu)

European Commission   
Internal Market & Services DG



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# Andy Sturm

Chairman of the CPSS Working Group on Repo  
Infrastructure





COMMITTEE ON PAYMENT AND SETTLEMENT SYSTEMS

BANK FOR INTERNATIONAL SETTLEMENTS

# **CPSS Working Group on Repo Market Infrastructure**

## **Progress Report**

Andy Sturm

Head of Oversight, Swiss National Bank  
Chairman of the CPSS Working Group

European Repo Council  
Brussels, 18 March 2010





## Background

- During the financial crisis, some repo markets have proven to be a less reliable source of financing than anticipated.
- CPSS established a Working Group to investigate whether repo market clearing and settlement arrangements have added to uncertainty in the crisis and whether there is room for improvement.



## Mandate

1. **Stocktaking** of existing arrangements for clearing and settlement of repos in CPSS countries.
2. Identification and **analysis of strengths and weaknesses** of these arrangements, including extent to which weak or faulty infrastructure might have contributed to observed loss of confidence.
3. Where possible, provide **guidance** for the repo market infrastructure that can enhance resilience of repo markets.



## Scope

All infrastructure arrangements used by repo market participants for clearing and settling repos (including centralized collateral management services), irrespective of whether these services are provided by **market utilities** (e.g. (I)CSDs, LVPS, SSS, CCP) or **commercial banks**.



## Progress

- Stocktaking
  - Analysis underway
  - Guidance underway
- 
- Report expected to be submitted to CPSS in June 2010



## Relationship between this CPSS Workstream and the International Standards

- Standards established by CPSS and CPSS/IOSCO are internationally agreed standards for financial market infrastructures.
  - Adherence to standards is regularly assessed by competent authorities.
- This report expands on those features of infrastructure arrangements that are particularly relevant for or specific to clearing and settling repo transactions.
  - Complementary to international standards
  - Providing non-binding guidance
  - Might be used as input to ongoing general review of standards by CPSS/IOSCO



## **Relationship between this CPSS Workstream and the PRC Task Force on Tri-Party Repo Infrastructure**

- PRC Task Force develops a set of recommendations for improving and mitigating risks related to tri-party repo transactions in the US.
- The CPSS workstream is
  - more general (as it covers not only the US market);
  - more focused (as it deals only with repo market infrastructures).



## Findings from the Stocktaking

Striking variety in terms of the arrangements for clearing and settling repos in CPSS countries:

- Organizational structure, ownership and business model of repo market infrastructure providers
- Direct/indirect access of repo market participants to market infrastructures
- Degree of automation
- Existence and significance of CCP services
- Existence and significance of tri-party services
- Sophistication of collateral management services
- Settlement procedures



## Outlook on the Guidance

- Likely that there will be two types of guidance
  - Directly relevant for repo market infrastructures (what infrastructures should do)
  - Indirectly relevant for repo market infrastructures (what infrastructures could do to support market-wide initiatives)



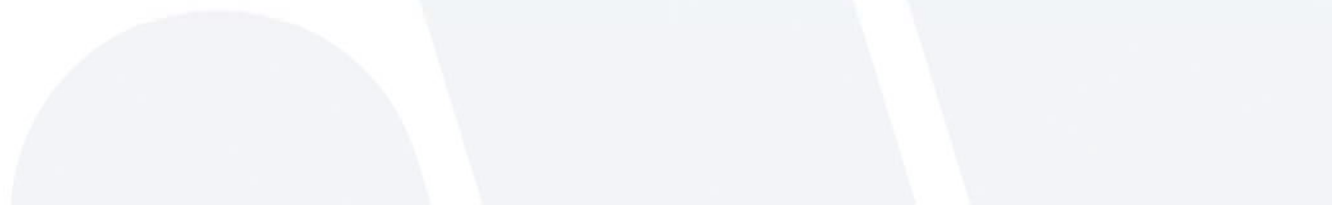


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# Eduard Cia

UniCredit Group





## Interoperability

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ERC's main focus

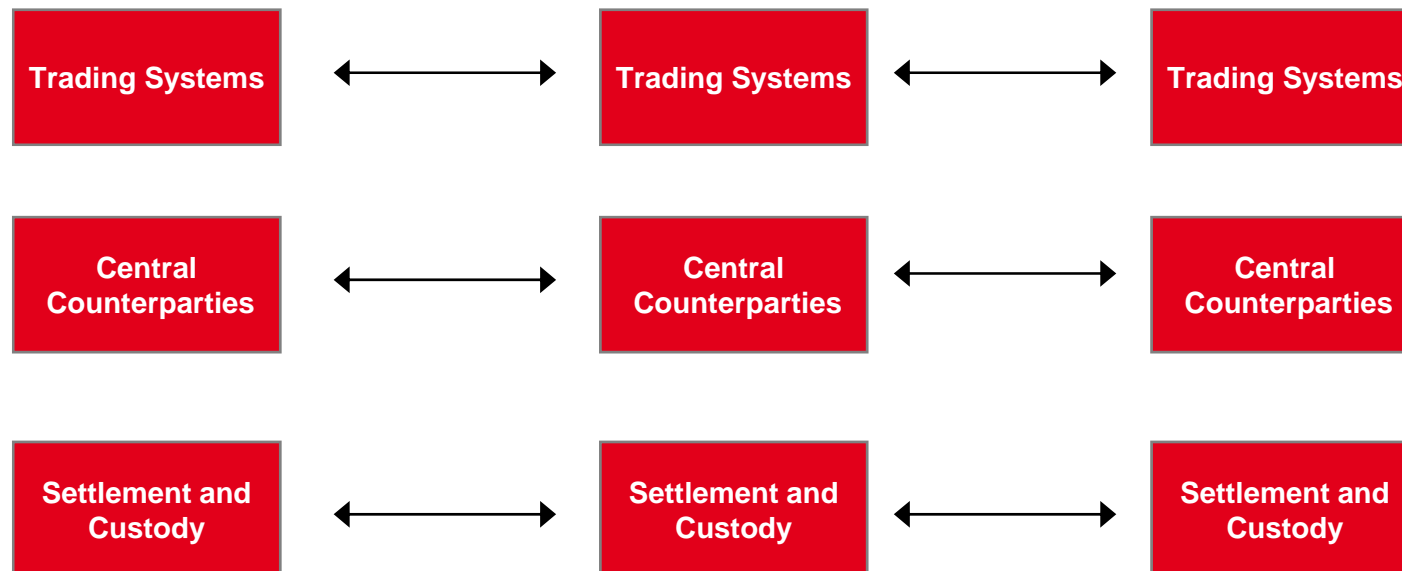
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Brussels, March 18th 2010

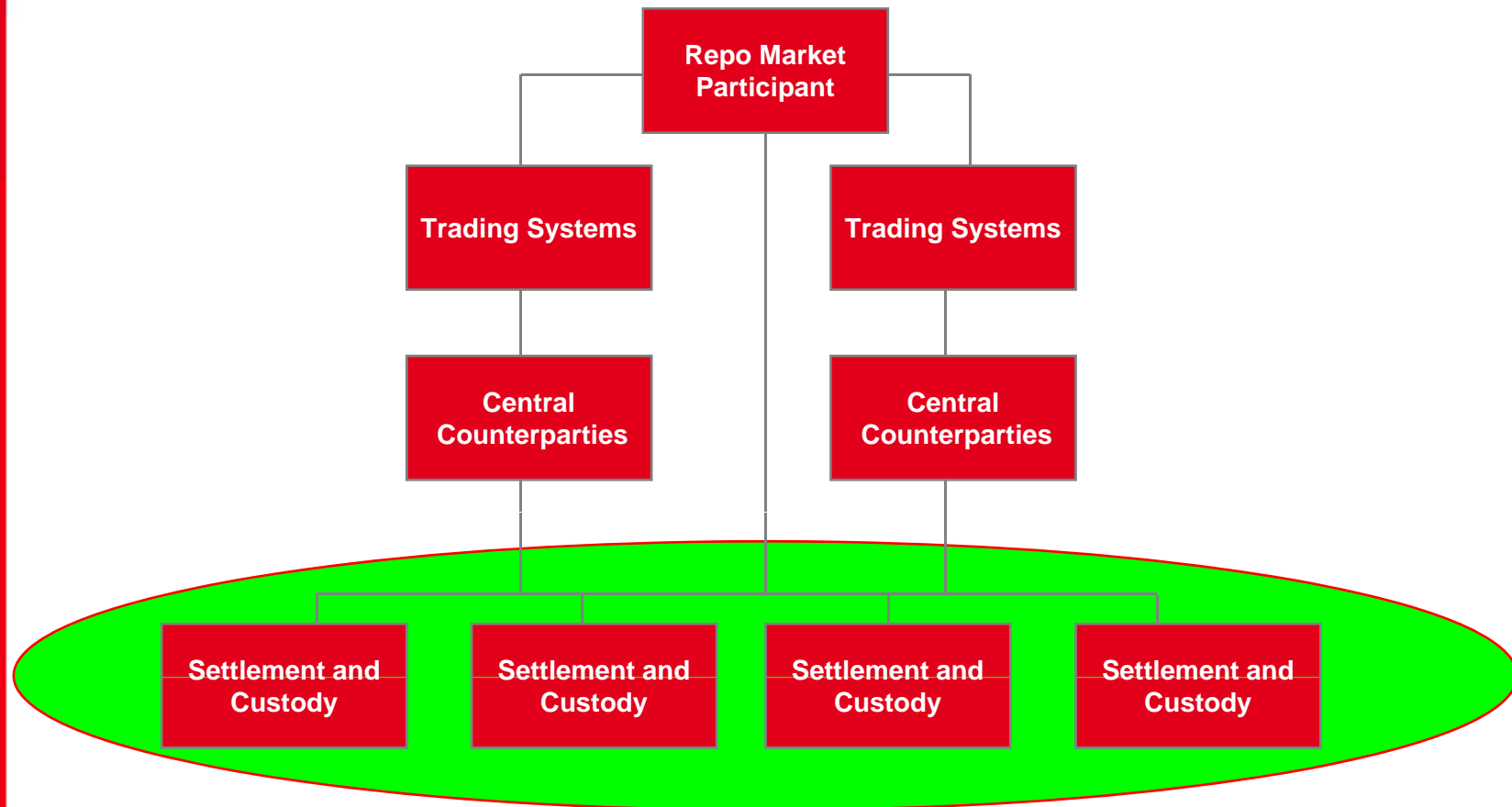
## The Value Chain of a Repo Transaction

- We distinguish between three different parts of the 'repo value chain'.
  - Trading systems
  - Central Counterparties (central clearing)
  - Settlement and custody
- So far the ERC focused on the interoperability within the settlement and custody area – security depository.



## The ERC's Proposal

- 'Market participants should have free choice over which security depository they want to use for their repo transactions.'
- 'Specific repo transactions should not be linked to a specific security depository.'
- 'All market participants should have the same market access regardless which security depositories they use within Europe in order to create a 'level-playing-field' for all.'



## Interoperability among different security depositaries within Europe is key to having a 'level-playing-field' within the European repo market

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- The ERC started the discussion about interoperability in 2001 as the market faced problems concerning the settlement of German securities between domestic settlement (Clearstream Frankfurt) and international settlement (Euroclear).
- Since then the ERC has been pushing for more interoperability between the two ICSDs (Euroclear and Clearstream) regarding repo products such as tri party (with re-use of collateral possibilities)
- In December a delegation from the ERC and EBF was invited to an ad hoc Cogesi meeting to discuss interoperability issues.
- Three main open issues could be identified:
  - Euro GC Trading of LCH.Clearnet between Euroclear and Clearstream participants
  - Eurex GC pooling access for Euroclear participants
  - Central bank access within Europe (possibility of Bundesbank through XEMAC)
- So far no solution could be reached (official letters have been sent to both ICSDs)
- ERC will continue to tackle these issues as long as they have not been resolved.

**The European Repo Committee will not accept a fragmented European repo market caused by different service providers within the 'repo value chain '!!!**



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# **Update on regulatory issues**

**David Hiscock, ICMA**



**European Repo Council  
General Meeting**

**Brussels  
18 March 2010**

## Bilateral repo netting under IAS

- International Accounting Standard 32, paragraph 42, states:
  - “A financial asset and a financial liability shall be offset and the net amount presented in the balance sheet when, and only when, an entity:**
  - (a) currently has a legally enforceable right to set off the recognised amounts; and**
  - (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.”**
- IAS 32 then goes on to elaborate on these requirements in paragraphs 43 – 50 and the related accounting guidance notes AG38 and AG39.

## Can practical evidence help demonstrate intent

- Accountants are increasingly challenging if netting is appropriate
- What constitutes “intent” may be open to interpretation
- In an attempt to help support the practical demonstration of “intent”, ERC has sought clarification from the ICSDs regarding their processing
  - Euroclear and Clearstream processes are not identical
  - Their detailed comments are available for members review if helpful

**Agreement of the accounting treatment for an individual firm remains a matter of bilateral agreement between the firm and its public accountants**



## Changing Large Exposure (LE) requirements

- On 11 December the Committee of European Banking Supervisors (CEBS)
  - published its newly developed guidelines on common reporting LEs; and
  - published its newly developed guidelines on the revised LE regime
- These relate to certain of the changes (effective at the end of this year) already introduced to the EU capital requirements directives (CRD)
  - responsive to which any necessary Member State transposition should trigger applicable national level changes (by 31 October).

## Coincident international standards developments

- On 17 December consultative proposals to strengthen the resilience of the banking sector were released by the Basel Committee
  - includes in its "Overview of Recommendations" (para 116):

"Increase the incentives to use CCPs for OTC derivatives and recognise that **collateral and mark-to-market exposures to CCPs could have a zero percent risk weight if they comply with the stricter CPSS/IOSCO recommendations for CCPs**"
  - Whilst risk weights are not generally relevant for LE purposes, the official international recognition of the significance of compliance with CPSS/IOSCO recommendations (or, in the EU, with the ESCB/CESR equivalent) may also prove to be influential in LE treatment

## EU CRD LE treatment of CCP exposure

- CCPs exposures have markedly increased significance as reforms are promoted to incentivise and/or require their greater usage
- Questions arise concerning their LE treatment in the EU CRD
  - Possible exemption from the definition of “exposure” for LE purposes
- ERC is discussing this topic with Eurex Clearing and LCH.Clearnet
  - This includes exploring certainty and consistency of treatment
- Ongoing evolution of requirements will be tracked and further feedback provided as clarity of current and prospective treatments is obtained

## Strengthening the resilience of the banking sector

- The consultation announced 17 December covers the following key areas:
  - Raising the quality, consistency and transparency of the capital base;
  - Strengthening the risk coverage of the capital framework;
  - Introducing a leverage ratio as a supplementary measure to the Basel II risk-based framework;
  - Introducing a series of measures to promote the build-up of capital buffers in good times that can be drawn upon in periods of stress; and
  - Introducing a global minimum liquidity standard for internationally active banks
- The Basel Committee is also reviewing the need for additional capital, liquidity or other supervisory measures to reduce the externalities created by systemically important institutions.

## Raise counterparty credit risk (CCR) requirements

- Strengthen requirements for CCR exposures arising from banks' derivatives, repo and securities financing activities
  - Current supervisory haircuts method applies the same haircuts to repo-style transactions of securitisations and corporate debt of the same rating: proposed new haircuts for securitisations would be double the supervisory haircuts applied to corporate debt – furthermore, re-securitisations as recently defined in the securitisation framework would no longer be eligible collateral;
  - Extend the margin period of risk to 20 days for OTC derivatives and securities financing transactions (SFTs) netting sets that are large (ie over 5,000 trades), have illiquid collateral, or represent hard-to-replace derivatives;
  - Increase the incentives to use CCPs for OTC derivatives; and
  - Establish a high specific level of initial margin and on-going collateral posting requirements

## Proposed new leverage limit

- The design of a leverage ratio requires a definition of capital and a definition of total exposure:
  - **Netting is not allowed** (this applies to both regulatory and accounting netting for derivatives, repo style transactions and the netting of loans and deposits);
- **Repo style transactions are a form of secured funding and therefore an important source of balance sheet leverage** that should be included
  - Propose to include repo style transactions following the accounting measure of exposure but to disallow netting (thereby both capturing leverage and dealing with issues associated with international consistency in accounting standards)
  - Also assess the impact of applying regulatory netting rules (based on the Basel II framework), as an alternative to the no-netting approach

## Changing liquidity requirements

- Two separate but complementary liquidity risk standards are proposed:
  - Liquidity Coverage Ratio
    - ...identifies **the amount of unencumbered, high quality liquid assets an institution holds that can be used to offset the net cash outflows it would encounter under an acute short-term stress scenario** specified by supervisors
  - Net Stable Funding Ratio
    - ...measures **the amount of longer-term, stable sources of funding** employed by an institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations

## Liquidity coverage

- The scenario proposed for this standard entails a combined idiosyncratic and market-wide shock which would result in (inter alia)
  - Loss of unsecured wholesale funding capacity and **reductions of potential sources of secured funding on a term basis; and**
  - **Loss of secured, short-term financing transactions for all but high quality liquid assets** (active and sizable market: the asset should have active outright sale and repo markets at all times; market breadth and depth should be good)
- Conversely in considering inflows
  - Banks should assume that **maturing reverse repurchase or securities lending agreements secured by liquid assets will be rolled-over** and will not give rise to any cash inflows (0%); and
  - Banks are **expected NOT to roll-over maturing reverse repurchase or securities lending agreements secured by illiquid assets**, so can assume to receive back 100% of the cash related to those agreements



## ERC plans to submit a response (deadline 16 April)

- These new capital requirements are significant – especially if “no netting”
- These new liquidity risk standards will significantly impact funding
  - Much more emphasis on deposits & long-term funding – seen as “stable”
  - Far greater demand to hold high quality liquid assets as a buffer
    - Government securities will form the basis of bank liquidity buffers
    - These holdings will tie-up significant volumes of such securities
    - Repo markets will be significantly impacted

ERC’s response will be developed and agreed over the next few weeks – focussed on those repo market specific points that may get underemphasised in broader market feedback.

**Feel free to raise your voice if there are particular points that you wish to see included** (this may also be used to form a response in respect of the European Commission’s broadly parallel consultation “CRD IV”, launched on 26 February)

## Potential new UK resolution rules for failing entities

- HM Treasury published proposals on 16 December to strengthen the UK's ability to deal with any future failure of an investment bank
  - This follows from a consultation exercise conducted earlier in 2009; and
  - Builds on the steps the Government took in the 2009 Banking Act to resolve failing retail banks
- Questions raised included the following:
  - Do you have views on the difficulties that repo market transactions could pose for the insolvency of an investment firm, affecting value recovered for creditors? If this is a concern, what kind of policy action could the Government consider to address it?**

## **ERC has submitted its response (deadline 16 March)**

- Secured lending is becoming increasingly important
- GMRA provides a sound legal basis for transactions
- The rights of secured creditors need to be respected
- Unsecured creditors are already adequately protected

Improvement of resolution mechanisms will be an action step in many countries' response to the financial crisis

- It is important to ensure that this does not weaken the repo market

## Cross-Border Bank Resolution CP (September 2009)

- **Recognition of systemic importance of netting**
  - Much progress has been made over the last two decades in achieving legal certainty for close-out netting of financial contracts and collateral arrangements
  - Legal reform efforts have successfully been adopted in most major jurisdictions, especially for the termination, liquidation, and close-out netting of OTC bilateral financial contracts upon an event of default, including an insolvency event
  - Less progress has been made in some emerging market jurisdictions - further convergence and strengthening of national frameworks are strongly desirable
- **Proposal for temporary suspension of right to close out**, provided that
  - Contracts are transferred to a new sound counterparty;
  - Early termination rights are preserved as against the transferee in relation to any subsequent default by the transferee; and
  - Early termination rights and netting rights are preserved for contracts that are not transferred to a new counterparty prior to expiration of the brief delay period

## Cross-Border Bank Crisis Management (October 2009)

- **Recognises systemic importance of credit risk mitigation techniques**
  - Undermining of legal certainty that financial contracts will be subject to set-off and netting could increase capital requirements for banks' counterparties, as they might be required to account gross for their credit exposure to an EU bank
  - Counterparties that have lent to banks on a secured basis will not have legal certainty that they can enforce against the collateral on which the loan is secured: increasing funding costs and the risk of restricted access to funding
  - Could also have very serious effects on the operation of clearing and settlement systems (which are of systemic importance) and put strains on the conduct of monetary policy operations by Central Banks
- Recognises need to protect such techniques and infrastructure from effect of early intervention or resolution powers
  - but notes that **market stability concerns arise from the exercise of close out rights immediately insolvency is triggered**

## Summary of actions and deadlines

1	Letter to Euroclear re: link to central bank of Eurosystem	Letter sent 26/02 – Response received 12/03
2	Letter to Euroclear and Clearstream requesting immediate implementation of triparty interoperability	Letters sent 26/02 – Responses received: Clearstream 09/03 / Euroclear 12/03
3	Letter to both ICSDs informing them of the desire of a common project for a credit claims data base	Included in letters at #2 above
4	Letter to the ICSDs seeking clarification of their repo processing cycles – to determine if they support arguments that the netting conditions in para. 42 of IAS 32 are met	Letter sent 4 February – Responses received: Clearstream 17/02 / Euroclear 08/03
5	Response to the Basel consultations re capital and liquidity measures (also consider parallel Commission consultation)	Preliminary draft circulated by Secretariat – <b>Final submission deadline(s) 16 April</b>
6	Letters to Eurex Clearing and LCH.Clearnet to clarify the position of large exposures within the CCP framework, including a legal opinion to create certainty for the industry	Letters sent 22 February – <b>Awaiting responses</b>
7	Response to HMT Consultation on excess collateral and unsecured lenders in investment bank resolutions	Response submitted to HMT 05/03



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# Contacts

**Thank you, Ladies and Gentlemen**

## **Contacts and information:**

David Hiscock: Senior Advisor - Regulatory Policy

[David.Hiscock@icmagroup.org](mailto:David.Hiscock@icmagroup.org)

Tel: +44 (0)20 7517 3244 (Direct Line) / +44 (0)7827 891909 (Mobile)

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7 Limeharbour, London E14 9NQ

[www.icmagroup.org](http://www.icmagroup.org)



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# Corporate bond markets: post-trade transparency

**Lalitha Colaco-Henry, ICMA**

**European Repo Council  
Annual General Meeting**

**Brussels  
18 March 2010**





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# Price Transparency

- 2 types of price transparency
  - Pre-trade transparency
  - Post-trade transparency



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# MiFID: a brief history

- MiFID – implemented November 2007
- Article 65(1) review:
  - Commission Call for Evidence
  - CESR’s fact-finding exercise
  - Commission mandate to CESR and ESME
  - CESR’s Call for Evidence & feedback statement
  - ESME report
  - Commission public hearing
  - Commission report



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# Art. 65(1): Commission report

- Wholesale bond markets
  - Commission accepted that there was no convincing case of market failure in European wholesale bond markets
  
- Retail bond markets
  - Commission accepted CESR's and ESME's advice that there was a degree of sub-optimality regarding access to bond prices by retail investors
  - Commission warmly welcomed industry initiatives to make post-trade information available to retail participants



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# CESR Developments

- December 2008 CESR consultation
  - Focus on liquidity and valuation
  - No discussion of pre-trade transparency
  - Should a regulatory approach distinguish between retail and wholesale?
- July 2009 CESR feedback statement

*“recommend the adoption of a mandatory trade transparency regime for corporate bond, structured finance product and credit derivatives markets as soon as practicable.”*



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# MiFID Review

- Timetable
- TRACE?
- Xtrakter / bondmarketprices.com model?
- What is the scope of the transparency framework?
- What would the information be used for?
- **Would a framework help or hinder the market?**



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# ICMA bond market survey

- Why?
- Who should complete the survey?
- What kinds of questions are we asking?
- Timing



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## Thank you, Ladies and Gentlemen

### Contacts and information:

Lalitha Colaco-Henry: Legal Advisor - Regulatory Policy

[Lalitha.Colaco-Henry@icmagroup.org](mailto:Lalitha.Colaco-Henry@icmagroup.org)

Tel: +44 (0)20 7517 3227 (Direct Line) / +44 (0)7738 696 449 (Mobile)

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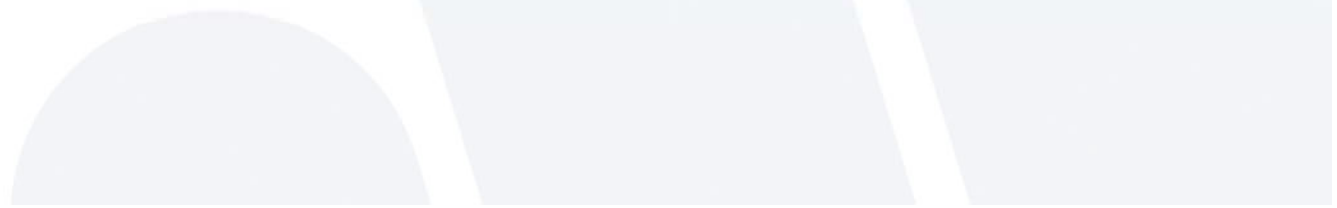
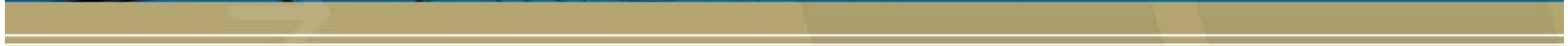


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# Antony Baldwin

Head of Short Term Interest Rate Trading & Funding ,  
Daiwa Capital Markets Europe Ltd







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# Meeting of ICMA's European Repo Council

## Education in the Repo market





- Education - Why ?
- Continuing process but heightened focus given the stresses on the market since the onset of the crisis
  
- Education - Who for?
  - For those directly involved in the Repo market
    - Legalities in default under GMRA
  
  - Those not directly involved in market
    - Regulators
    - Press
    - Politicians



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## **ICMA - Resources available**

### **Minutes of ERC meetings**

Available on the ICMA website:

<http://www.icmagroup.org/>

Details topics under discussion in the Repo market.

Details developments in the infrastructure of the Repo market.

### **ICMA FAQ sheet – general guidance updated Jan 09**

<http://www.icmagroup.org/legal1/FAQs.aspx>

- Queries on the GMRAs and ICMA's Rules and Recommendations in relation to market turbulence
- Relating to both 1995 GMRA and 2000 GMRA
- Items such as:
  - Event of default
  - Valuation prices
  - Market price



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## ICMA - Resources available (cont)

### ICMA Courses

- **Professional Repo Market course** – the last course took place in Brussels 24-26 March 2009. ICMA has in the past co-operated with ASIFMA to deliver the Professional Repo Market Course in Asia.
- **ICMA GMRA workshop**  
3-4 times per year, Next: May 6-7, Zurich  
Content: Operational context, underlying legal issues, contractual architecture, clause by clause review and practical use of the Global Master Repurchase Agreement (GMRA).

### ICMA Repo Market Survey

- Conducted by Richard Comotto at the ICMA Centre at the University of Reading.
- Detailed analysis on the Repo Market by
  - Total volume, Counterparty, Settlement, Currency, Collateral, Contract, Maturity, Product and Concentration
- Available at: <http://www.icmagroup.org>



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## External courses available from a number of providers

- Repo markets
- Documentation
- Collateral management
- Liquidity Management
- Regulation



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# Additional initiatives



**Daiwa**  
Capital Markets



## **Proposal being worked within ICMA:**

Delivery of a course on Repo - Middle Office and Regulation.

## **SLRC Education and Documentation sub-committee**

At the request of Lord Myners, FSA conducted an informal review of the securities lending and borrowing market in 2009, focusing in particular on risk management, governance and investor engagement.

FSA's conclusions were that some beneficial owners' knowledge and understanding, particularly in the area of risk, would benefit from the availability of more comprehensive guidance material.



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## SLRC sub committee information

As a consequence, the SLRC has set up a sub committee (The SLRC Education and Documentation sub committee) with the objective of publishing suitable material by Autumn 2010.

The sub-committee is chaired by NAPF and has as its members ISLA, ABI, IMA, ERC, BBA, LAPFF and Thomas Murray (consultants).

The Bank of England, HM Treasury, FSA and the Pensions Regulator also participate in an observer capacity.

Work is already under way in drafting three documents, Securities Lending Made Simple (following the example of similar 'Made Simple' guides published by FSA), together with two more detailed guides setting out a checklist for lenders and their relationship with their agents.

Initial target for distribution of materials Q3 2010





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## Summary

ICMA undertakes a key role in education within the repo market.

A number of sources for the continuing education within the market.

Important as the Repo market develops post-crisis.

Repo market participants also undertake a key role in assisting in the education of those not directly in the market.

Specifically by informed, educated representation to parties such as regulators, press and politicians.

# Election to the European Repo Committee

1. Godfried De Vidts, ICAP Securities Ltd, London
2. Jean-Michel Meyer, HSBC Bank plc, London
3. Olly Benkert, Goldman Sachs International, London
4. Stefano Bellani, J.P.Morgan Securities Ltd., London
5. Herminio Crespo Urena, Caja de Madrid, Madrid
6. Romain Dumas, Credit Suisse Securities (Europe) Ltd, London
7. Mats Muri, Barclays Capital Securities Ltd., London
8. Simon Parkins, BNP Paribas, London
9. Andreas Biewald, Commerzbank AG, Frankfurt
10. Michael Cyrus, Royal Bank of Scotland plc, London
11. Tony Baldwin, Daiwa Capital Markets Europe Limited, London
12. Jessica McDermott, Bank of America Merrill Lynch, London
13. Simon Tims, UBS AG, London
14. Eduard Cia, UniCredit Markets & Investment Banking
15. Ed McAleer, Morgan Stanley & Co International Ltd., London
16. Grigorios Markouizos, Citigroup Global Markets Limited, London
17. Johan Evenepoel, Dexia Bank Belgium NV/SA, Brussels
18. David Nicholls, Deutsche Bank AG, London
19. Andrea Masciovecchio, Intesa Sanpaolo S.p.A Milan



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# Richard Comotto

Teaching Fellow, ICMA Centre





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# European Repo Council

18<sup>th</sup> European repo market survey  
conducted in December 2009





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## 18<sup>th</sup> European repo market survey conducted in December 2009

### Survey overview

- Outstanding value of contracts at close of business on Wednesday, 9<sup>th</sup> December 2009
- 58 responses from 53 groups



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## 18<sup>th</sup> European repo market survey conducted in December 2009

### Headline numbers

- **December 2009 EUR 5,582 billion**
- June 2009 EUR 4,868 billion
- December 2008 EUR 4,633 billion
- 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

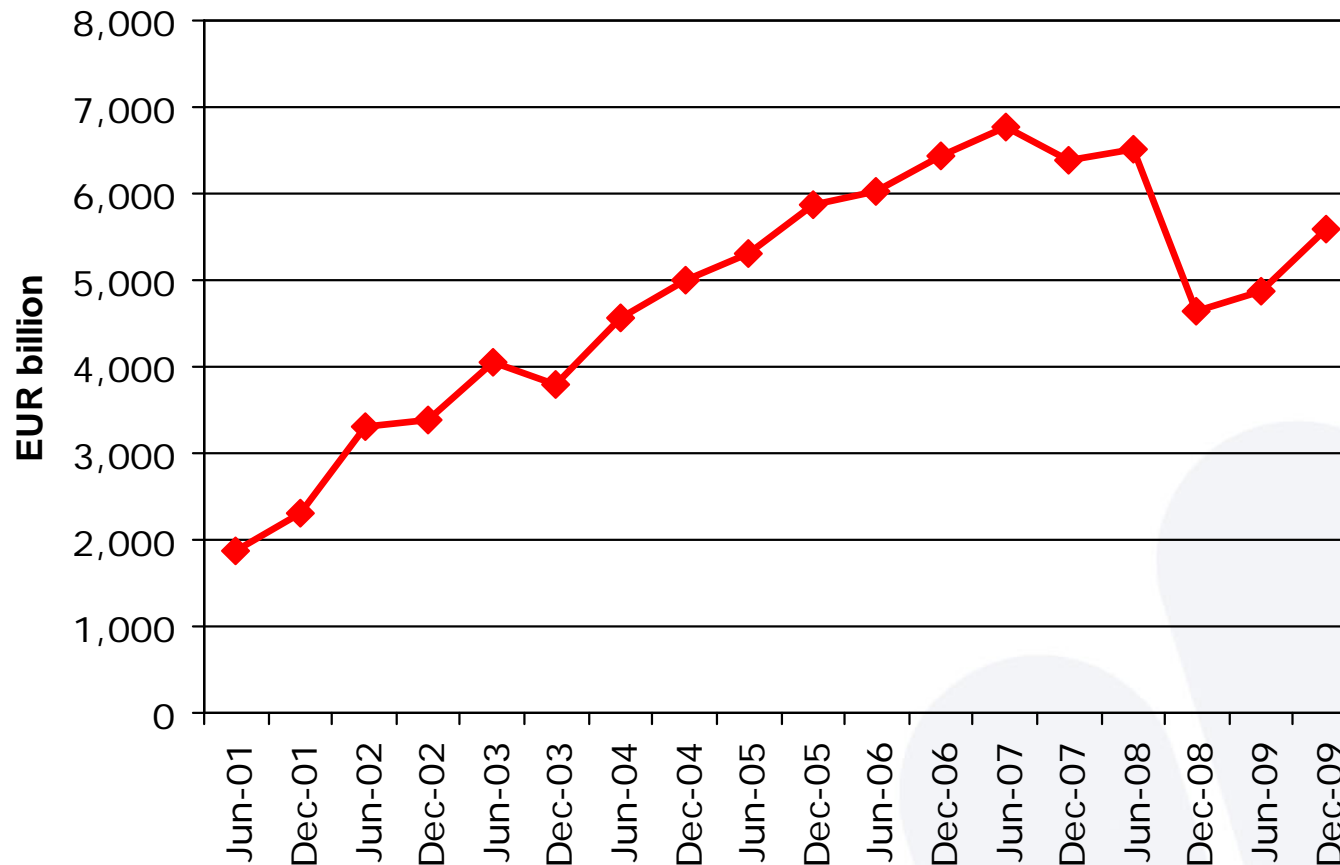


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## Headline numbers



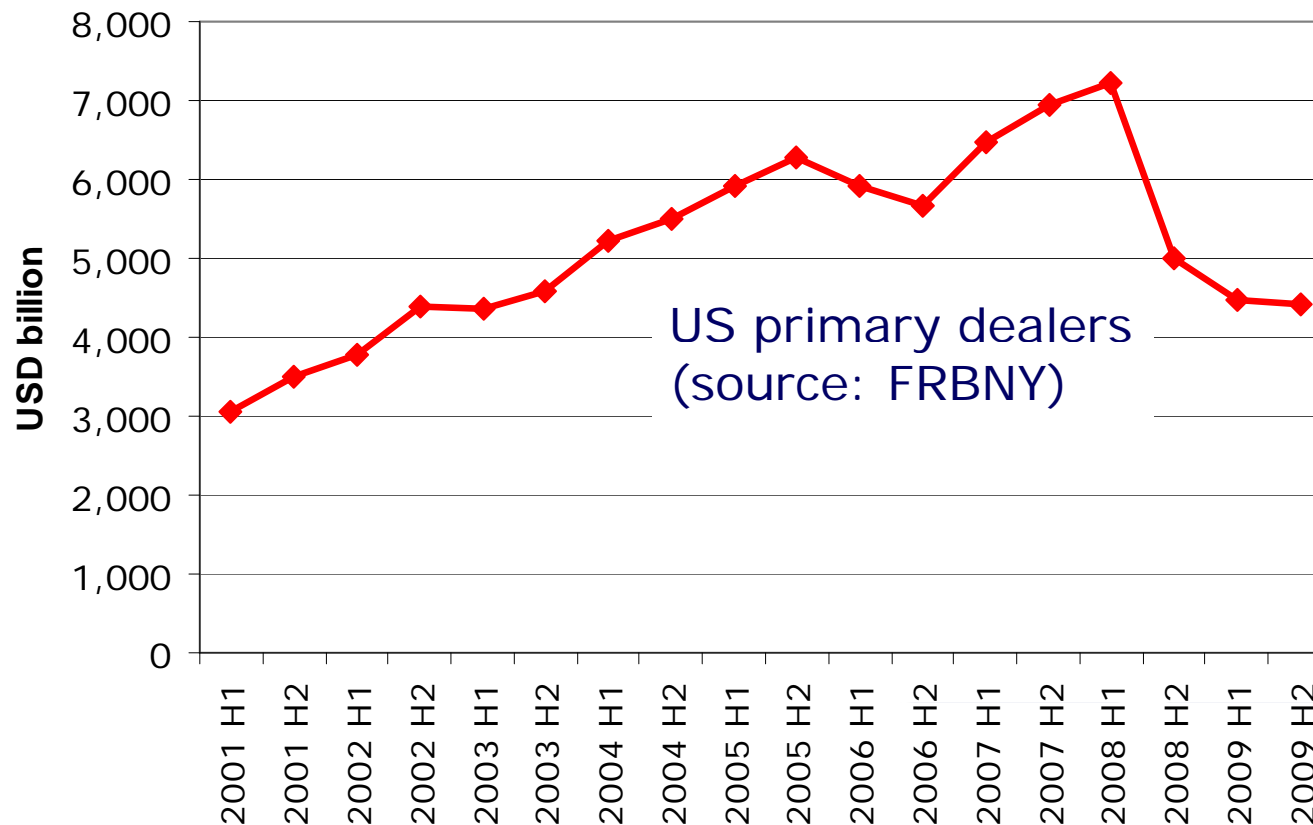


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## US market







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### Comparable market growth

- 51 respondents in last 3 surveys
  - +18.0% year-on-year
  - +20.2% since June 2009





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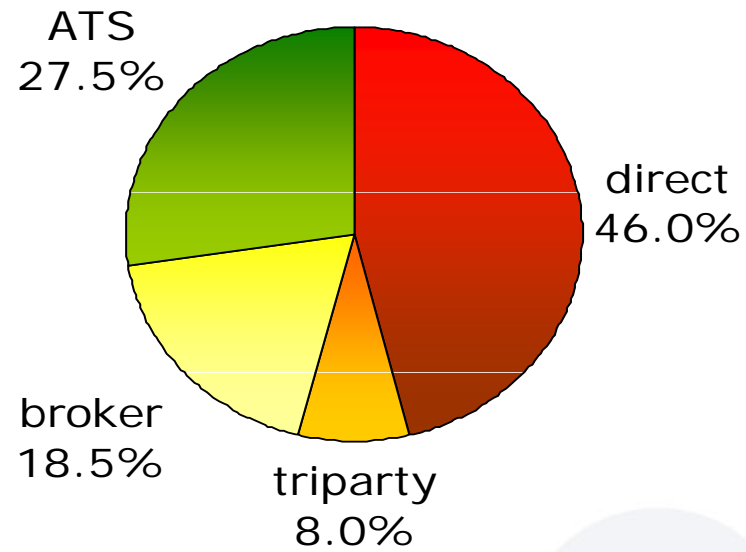
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## Counterparty analysis



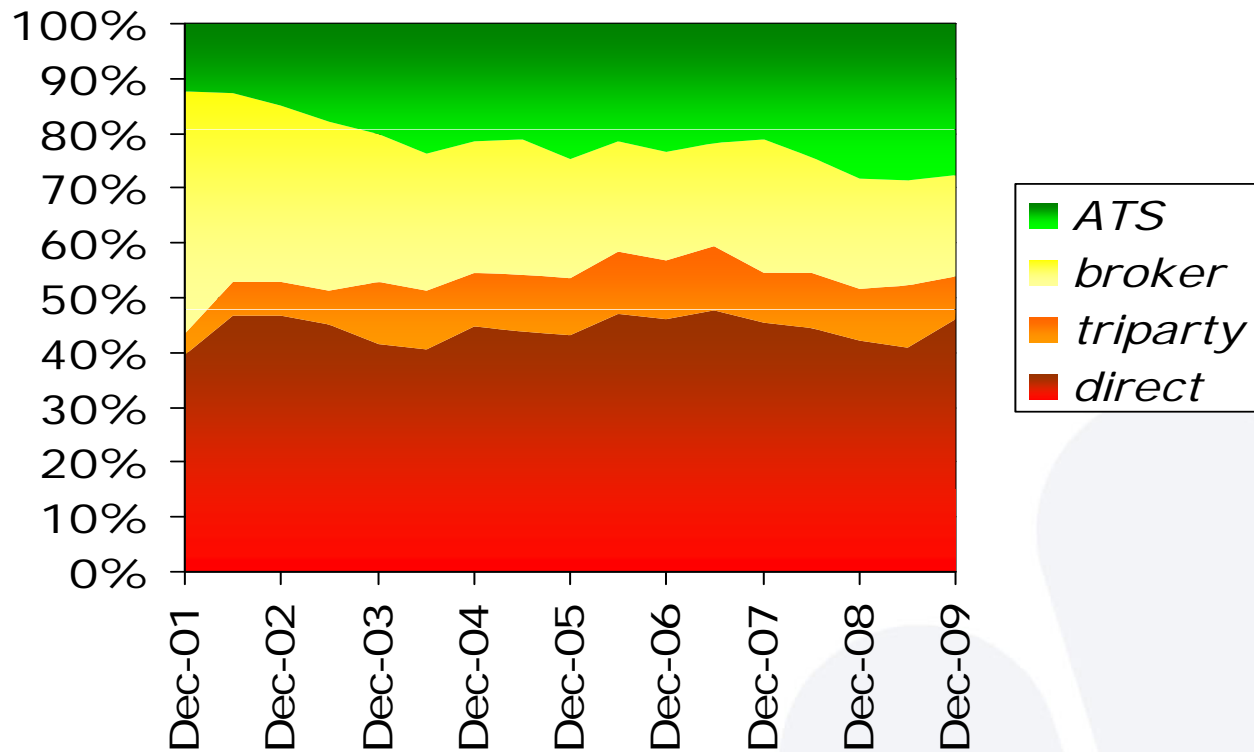


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## Counterparty analysis



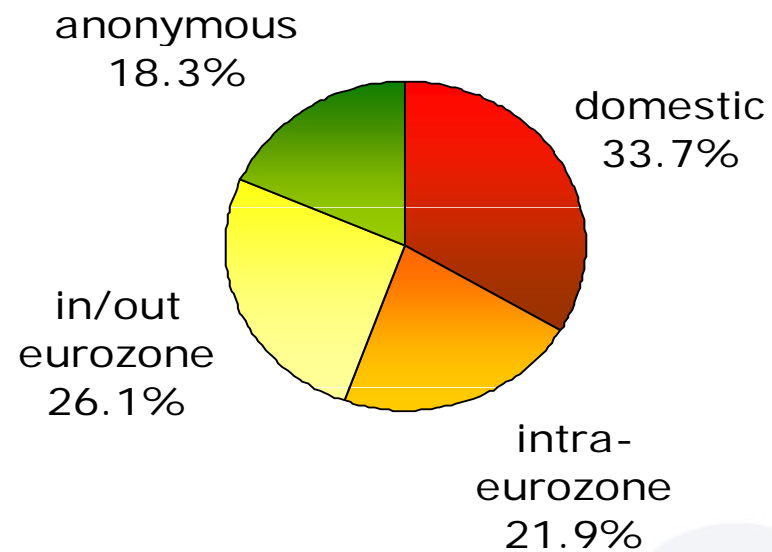


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## Geographical analysis



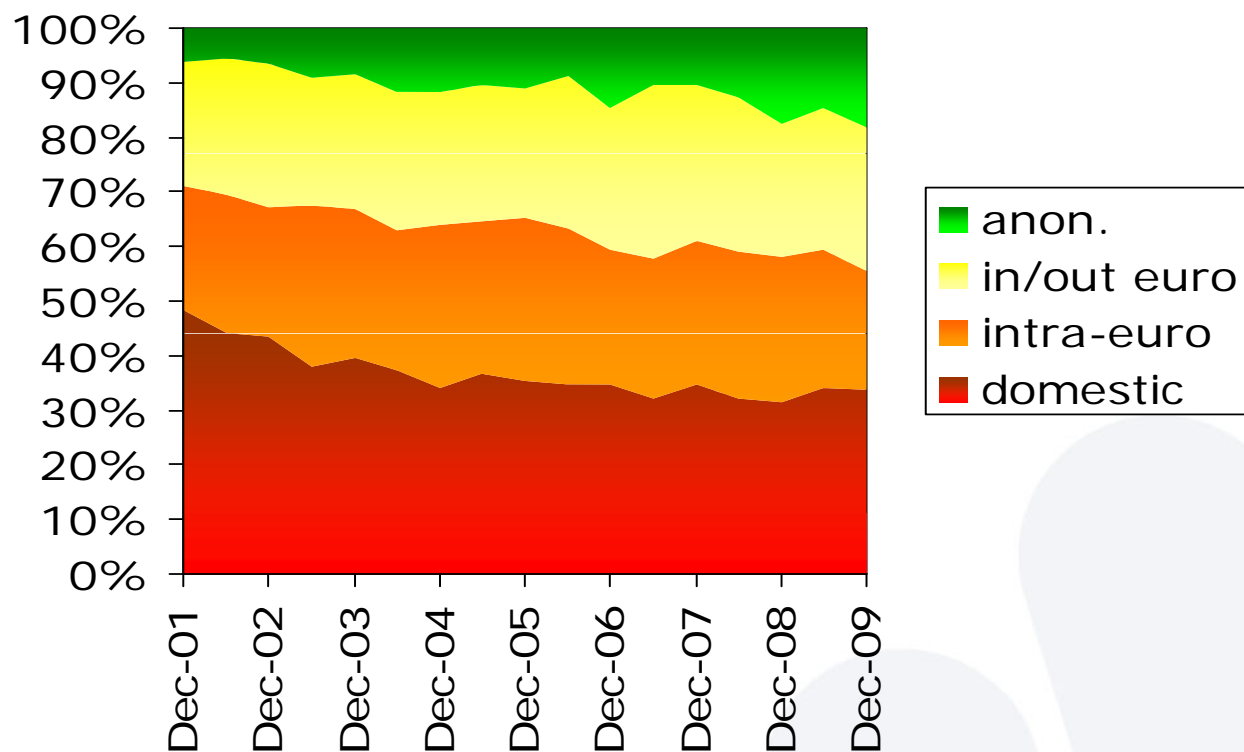


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## Geographical analysis



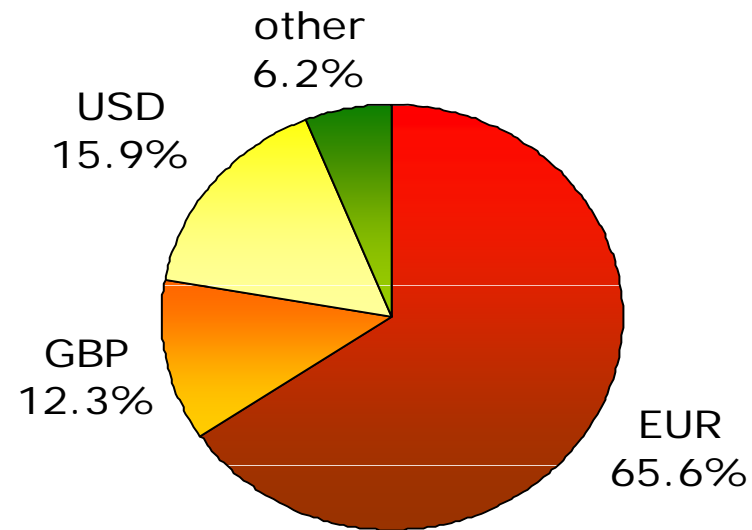


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## Currency analysis



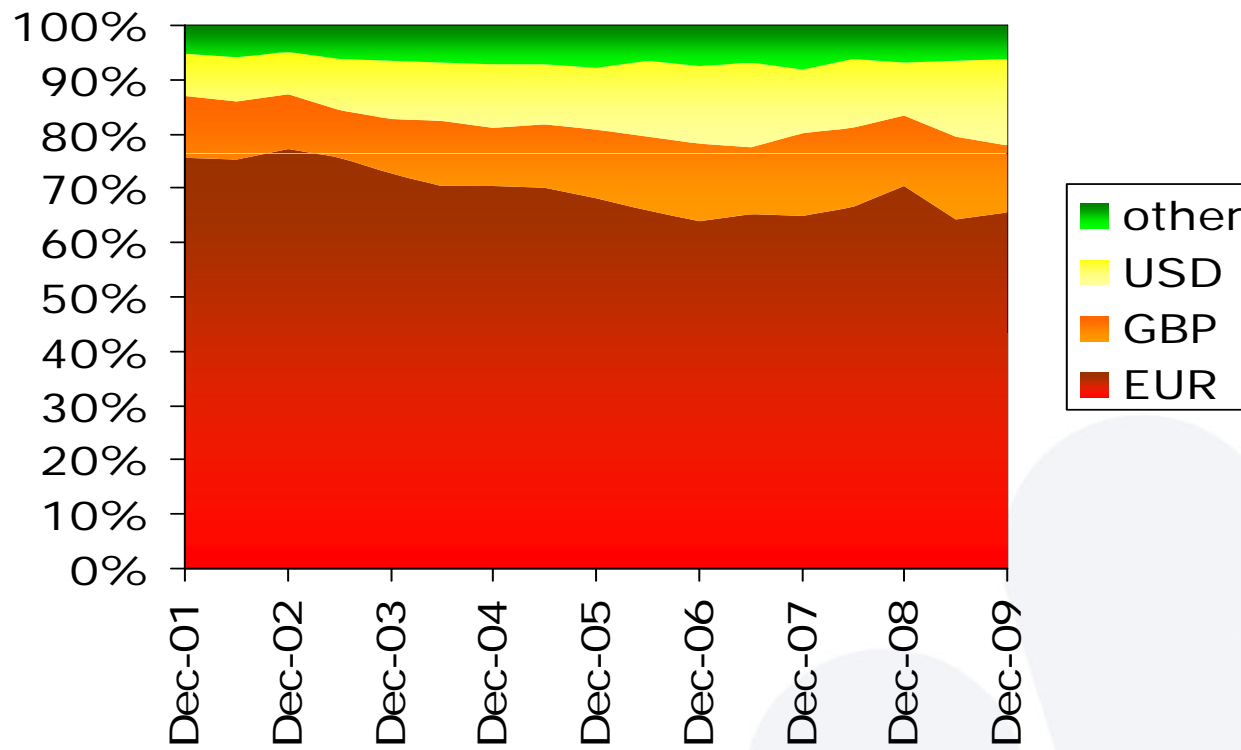


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## Currency analysis



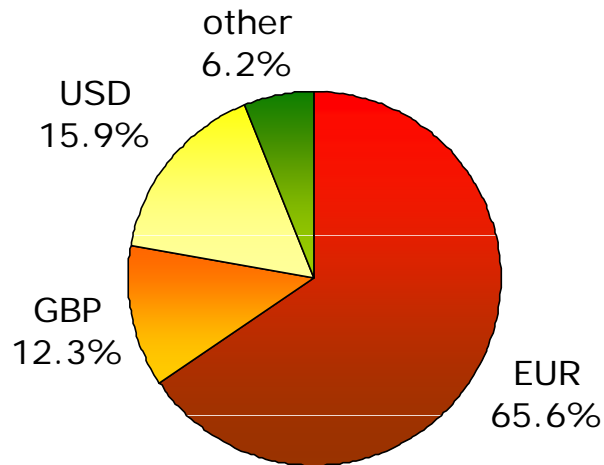


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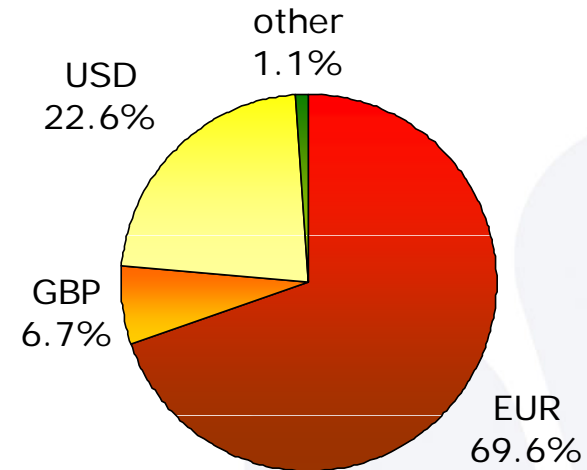
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## Currency comparison



**banks**



**triparty**



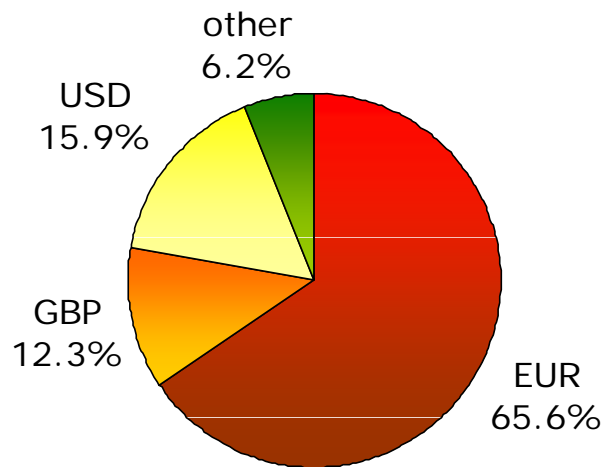


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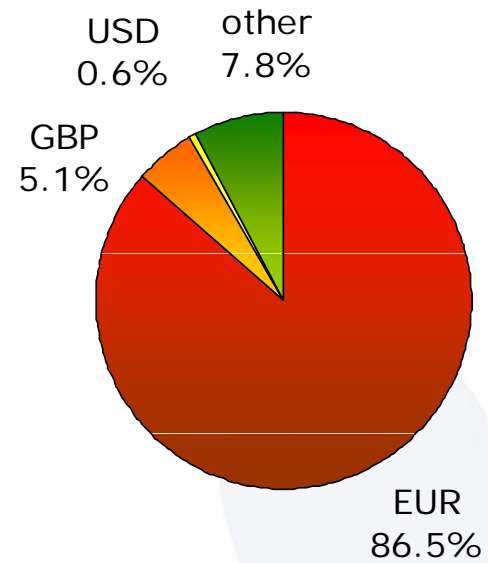
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## Currency comparison



**banks**



**ATS**

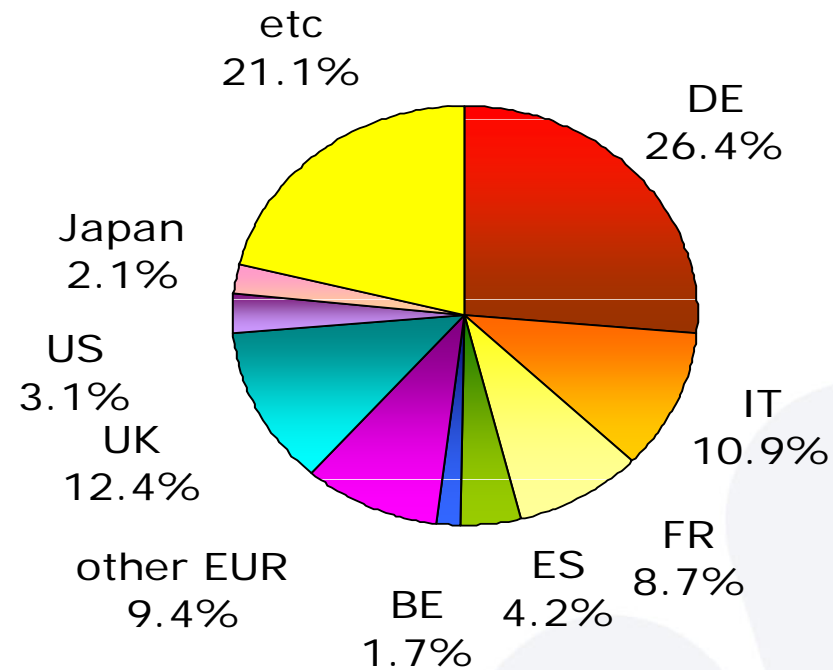


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## Collateral analysis



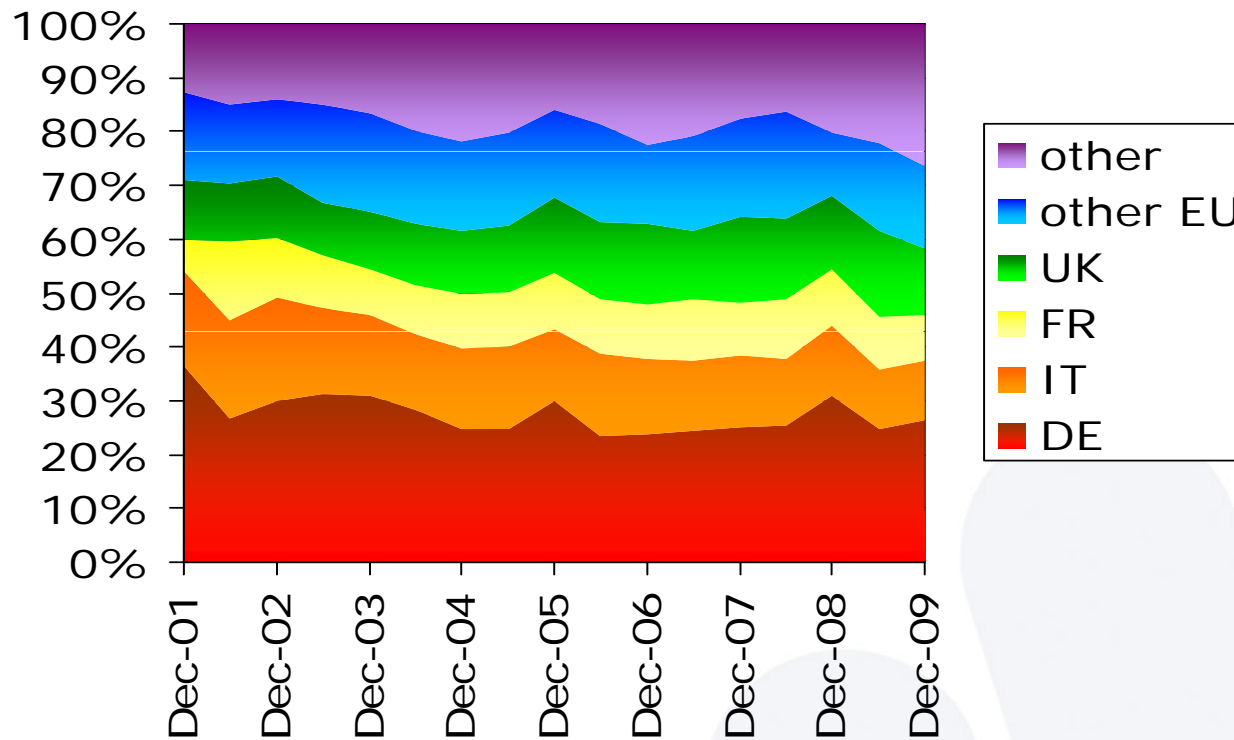


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## Collateral analysis



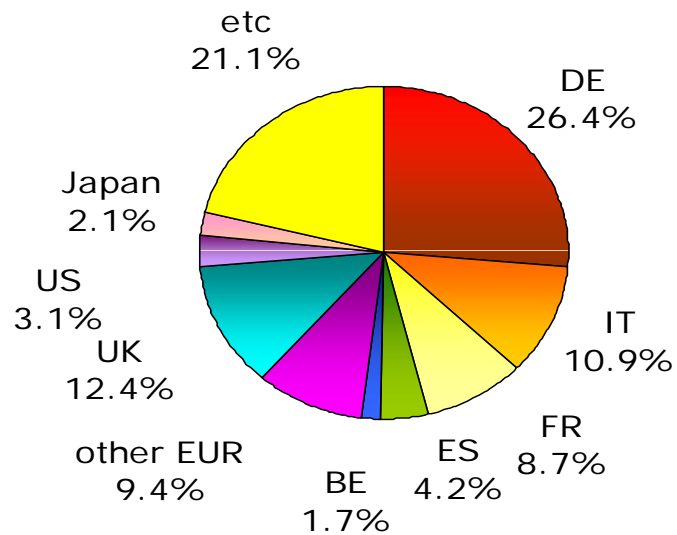


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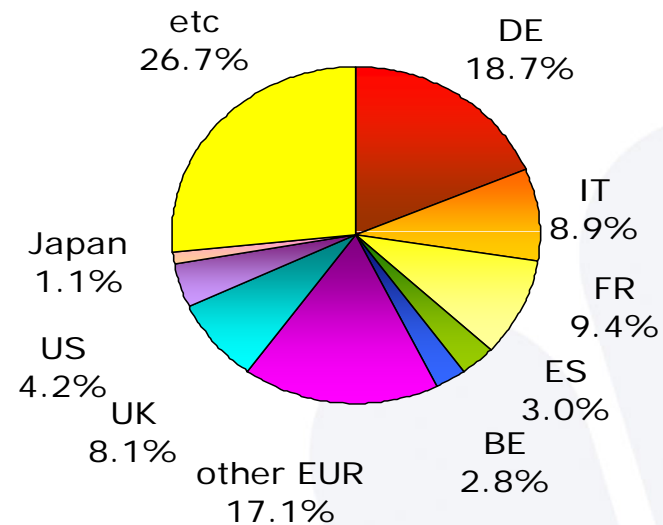
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## Collateral comparison



**banks**



**triparty**



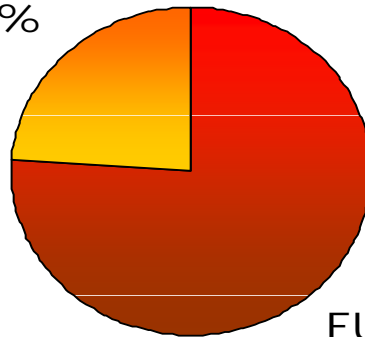
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## Collateral analysis

EU non-  
govis  
24.0%



EU gov is  
76.0%

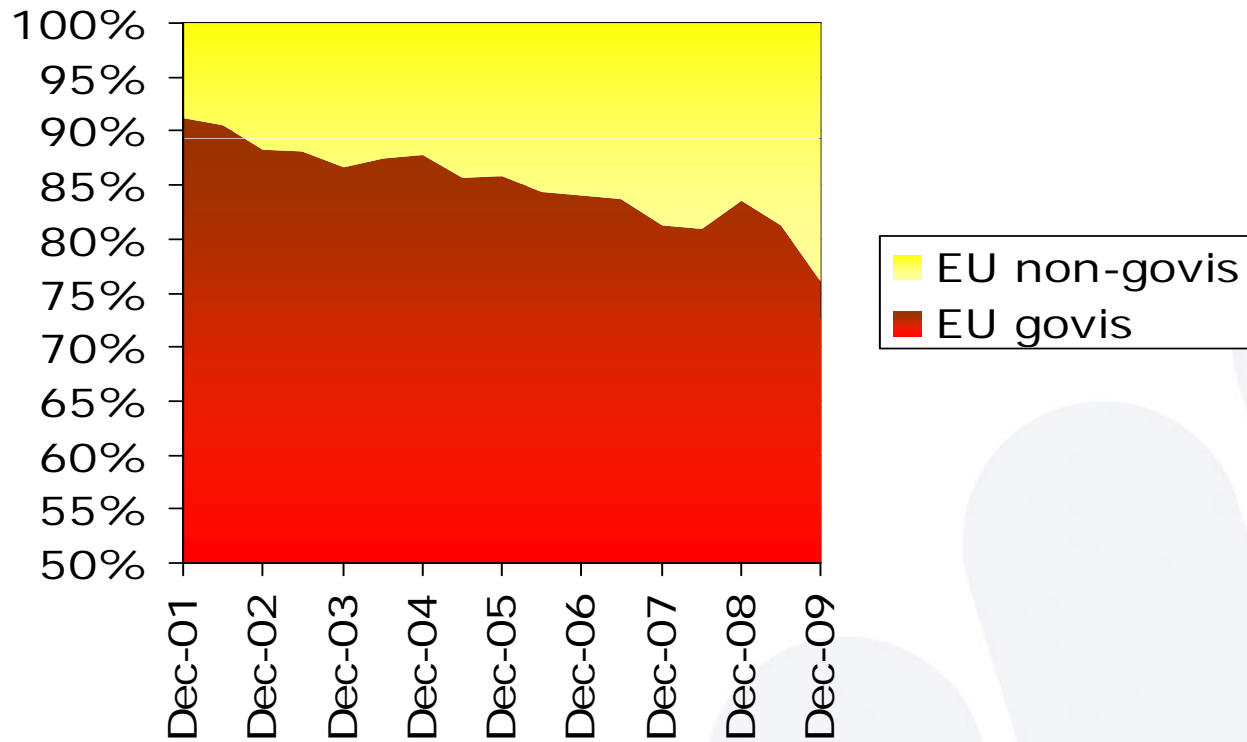


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## Collateral analysis





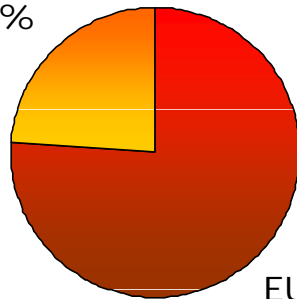
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## Collateral comparison

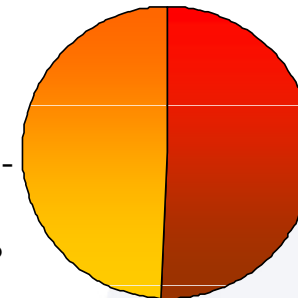
EU non-  
govis  
24.0%



EU govis  
76.0%

**banks**

EU non-  
govis  
49.3%



EU govis  
50.7%

**triparty**

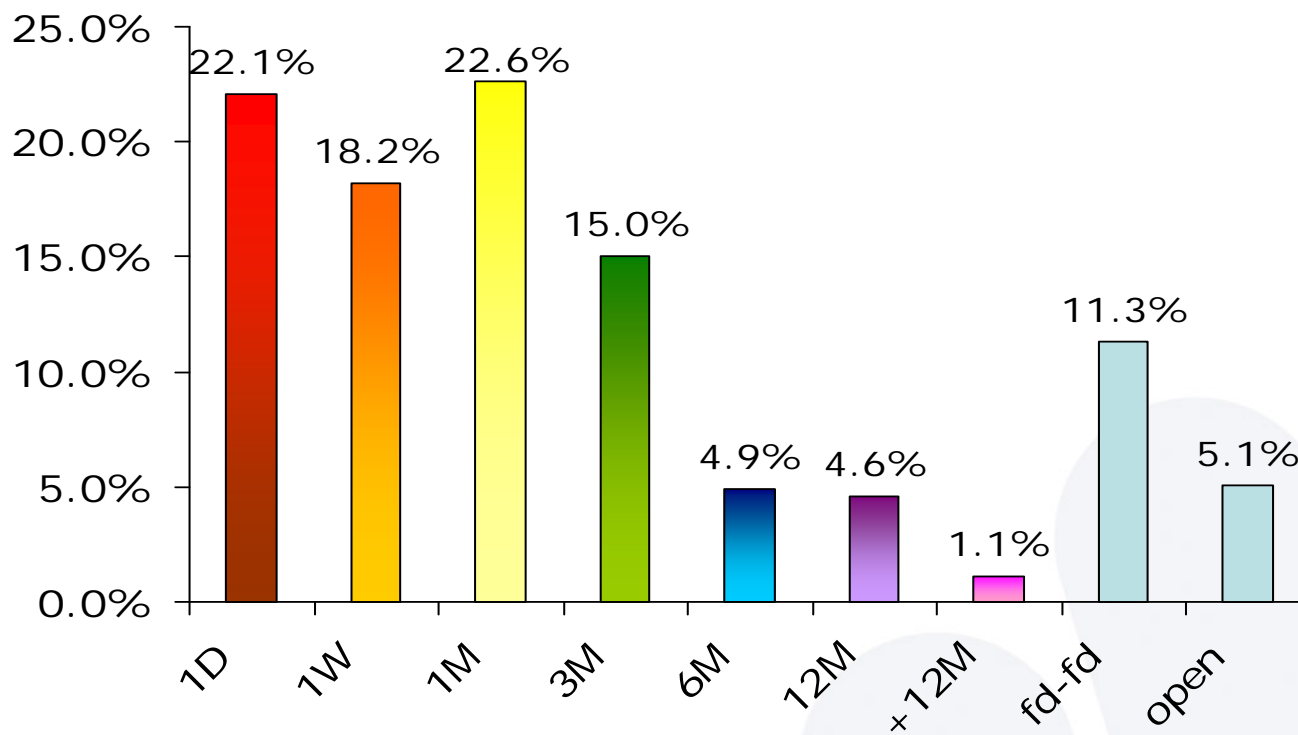


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## Maturity analysis





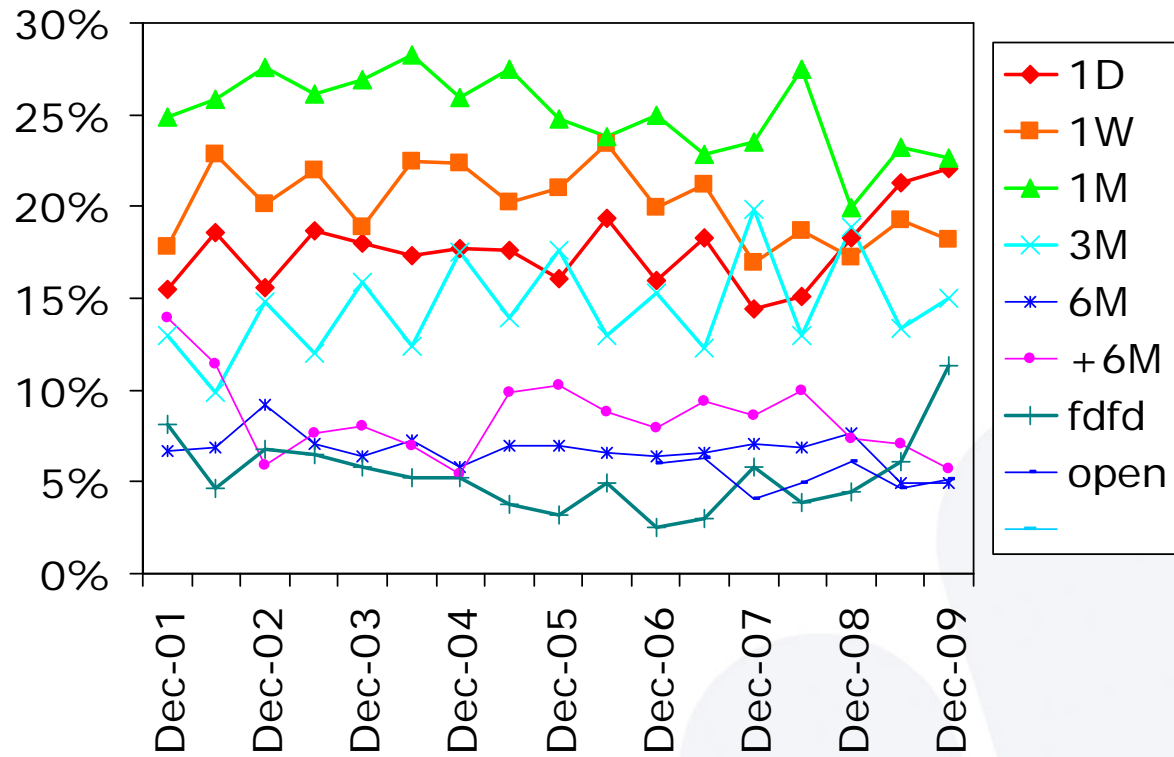


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## Maturity analysis



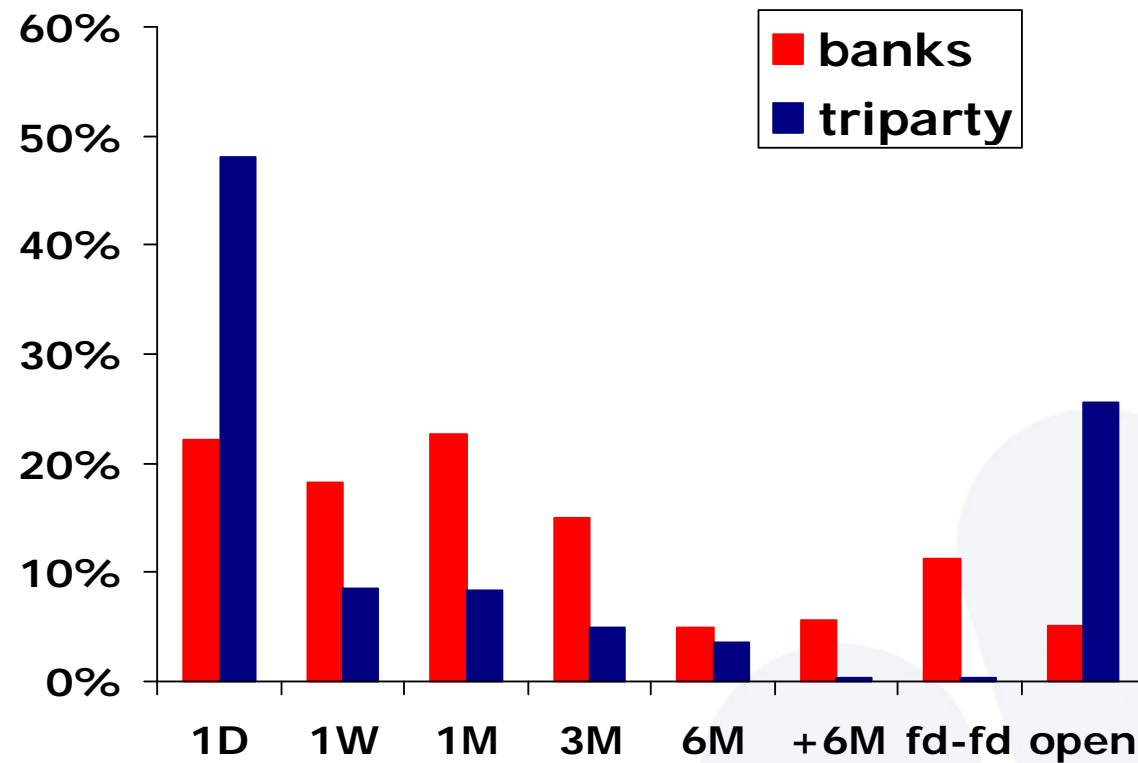


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## Maturity comparison



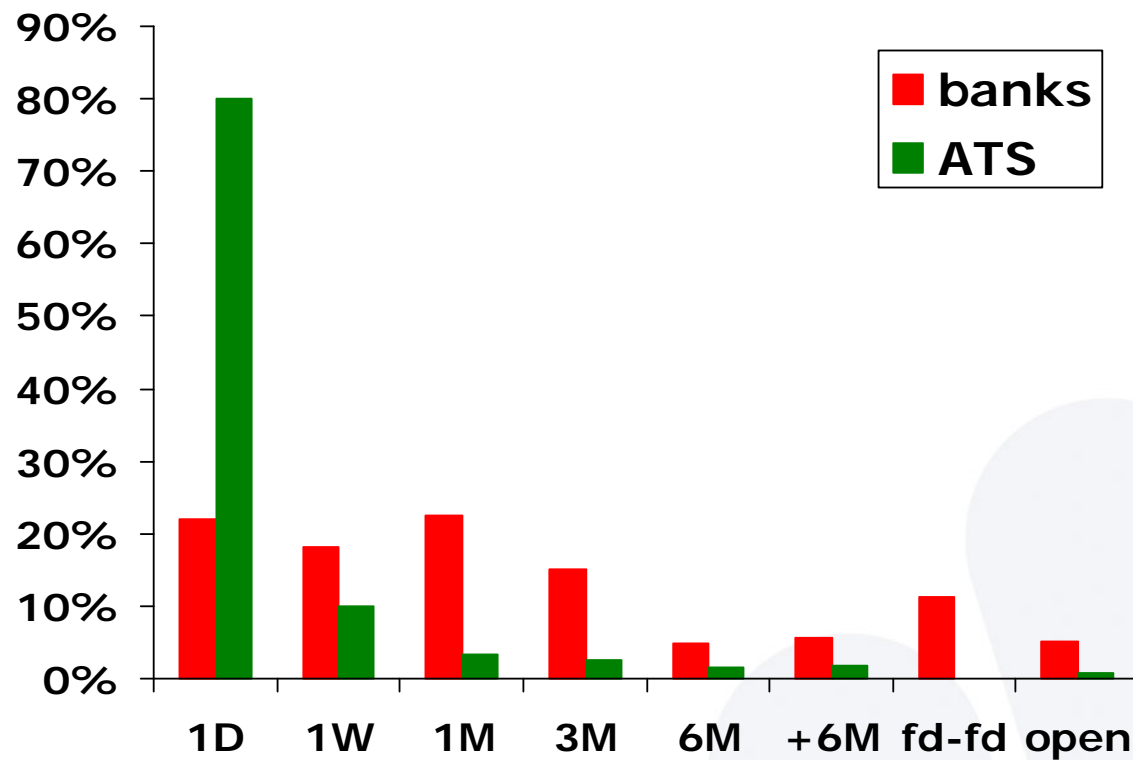


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## Maturity comparison



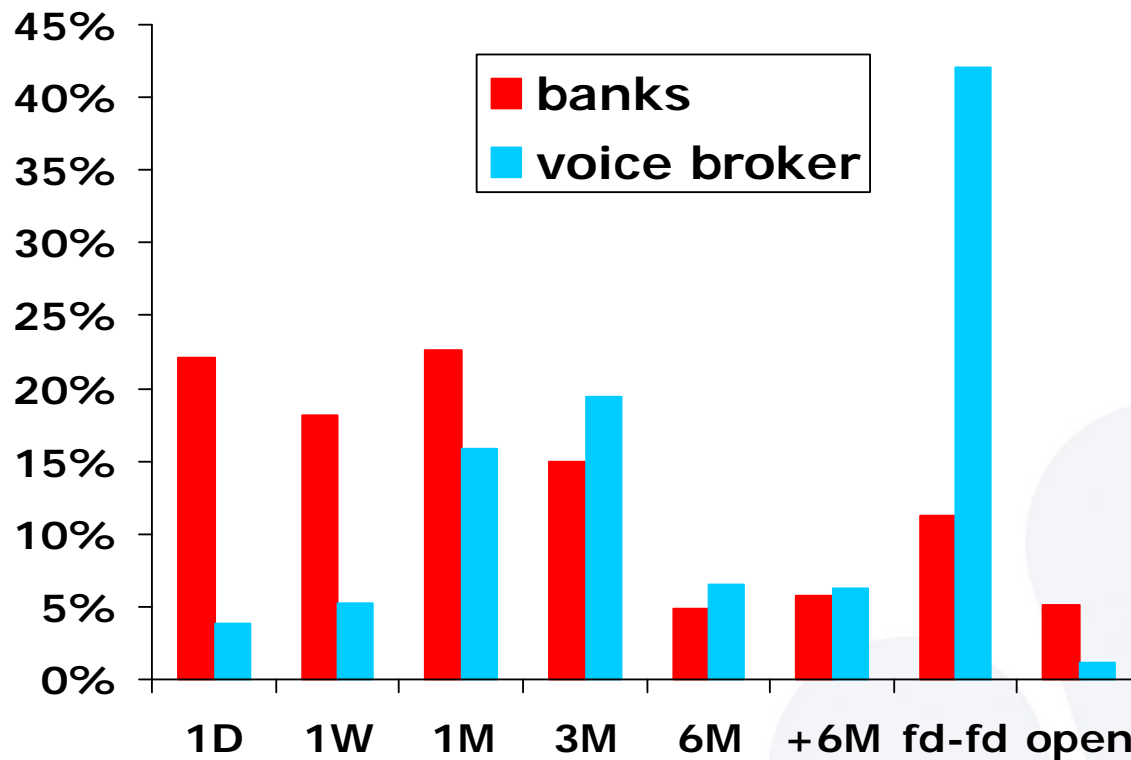


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## Maturity comparison



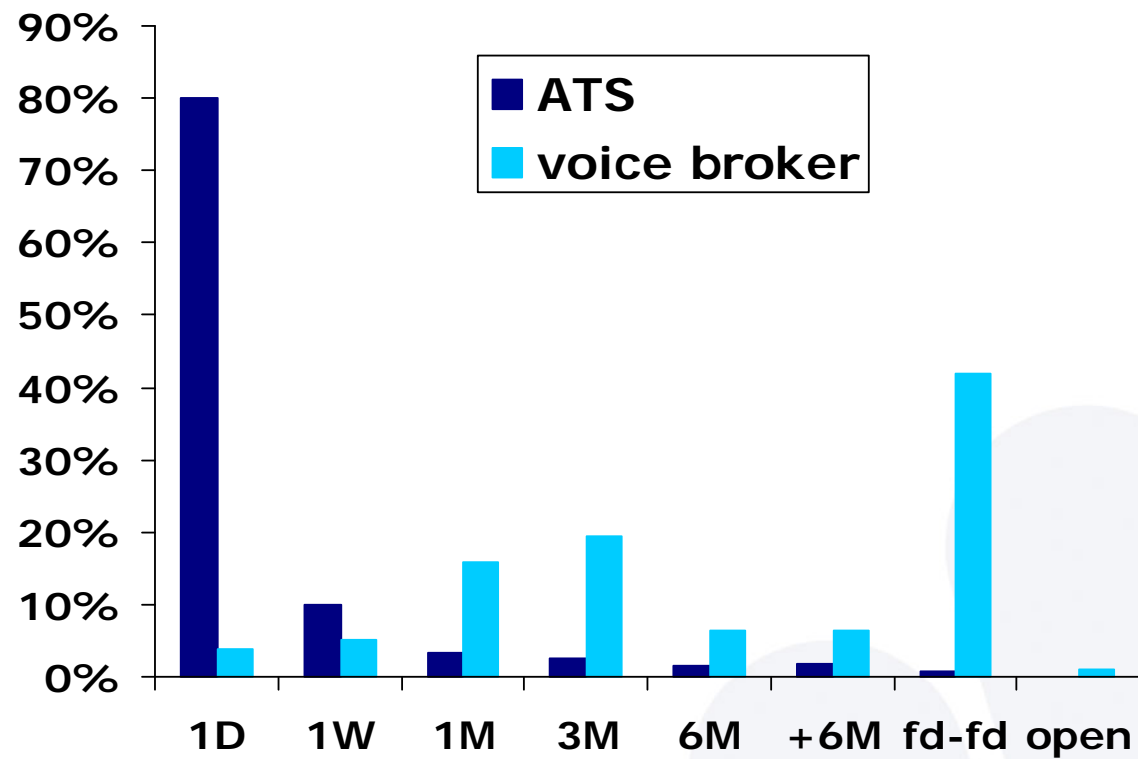


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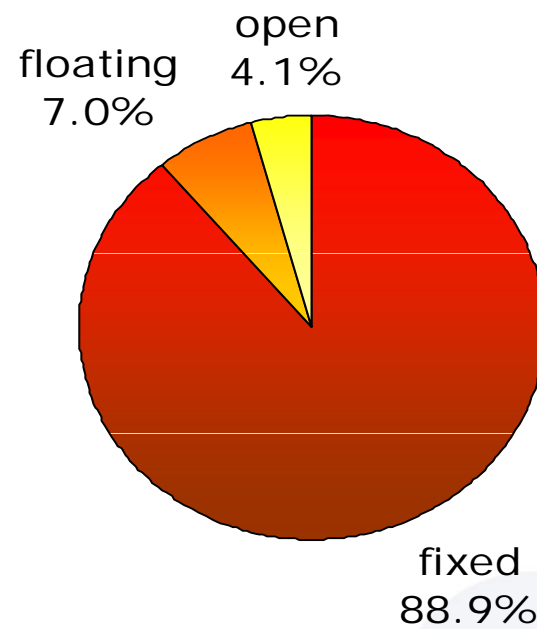
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## Maturity comparison



## Rate analysis



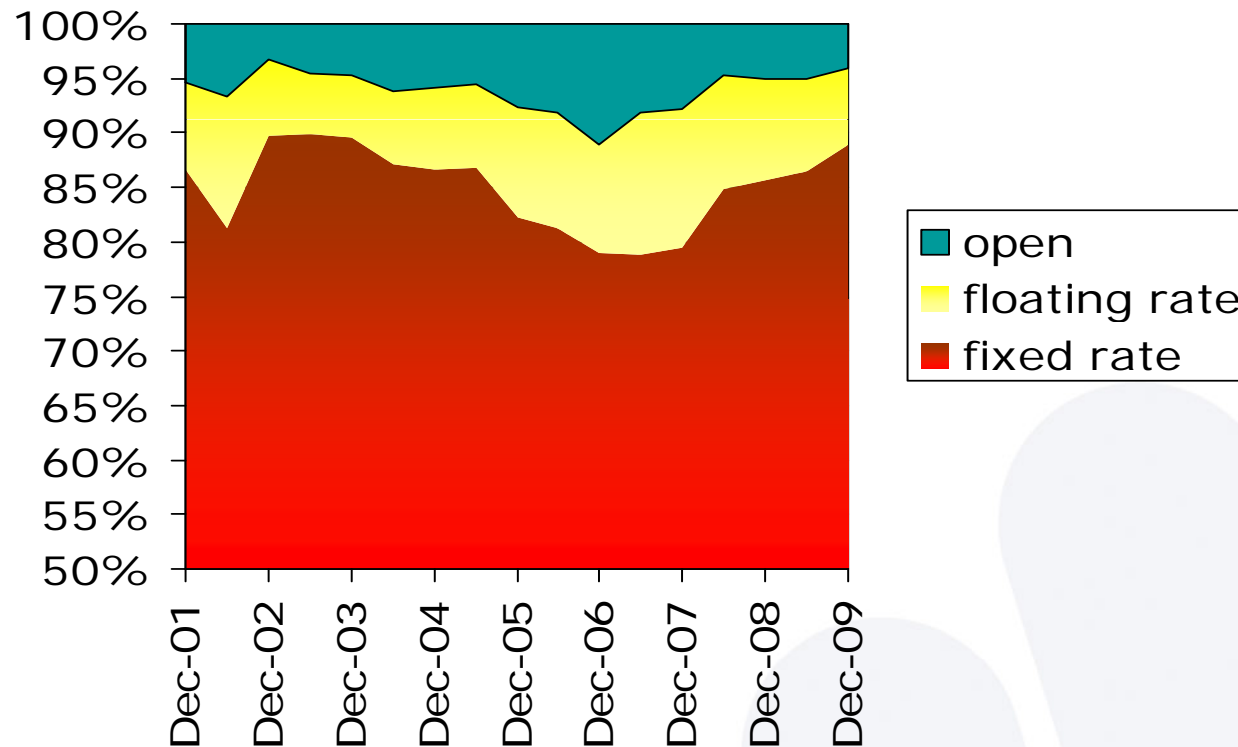


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## Rate analysis





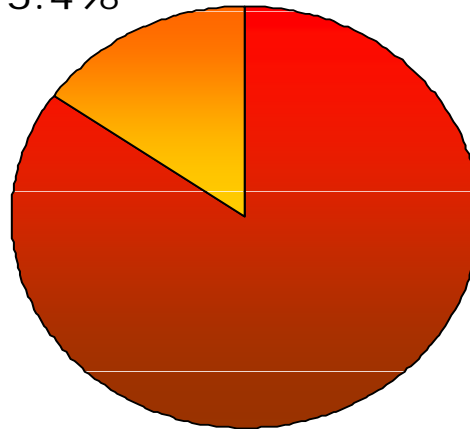
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## Product analysis

lending  
15.4%



repo  
84.6%





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**18<sup>th</sup> European repo market survey  
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## **Next survey**

Wednesday, 9<sup>th</sup> June 2010





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# European Repo Council

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# Any Other Business





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# Next Meetings

