

Minutes of the annual general meeting of the European Repo Council held on March 11, 2013 in Paris

Location: Le Grand Hotel Intercontinental, 2 rue Scribe, 75009 Paris, France

Time: 10:00 – 14:30

1. Opening of the meeting by the ICMA Chief Executive, Martin Scheck and the Chairman of the European Repo Committee, Godfried De Vidts

Mr Scheck welcomes everyone to today's AGM of the ICMA's European Repo Council, and thanks Euroclear for kindly hosting the meeting.

Mr Scheck highlights the importance of the ERC as an integral part of ICMA. Repo is the most internationally broad reaching product area within the Association. Repo has become increasingly important to ICMA members and the market in general over the last few years as the move from unsecured to secured financing has taken hold, and given repo a hugely important role in monetary policy.

Mr Scheck recognises that nurturing this market takes an enormous amount of commitment, and that the ERC Committee, Council and associated sub committees are fundamental to that. Mr Scheck notes that the elections to the committee are on today's agenda and thanks the existing members for the time and energy they have put into participating in the committee during the course of the last year.

Mr Scheck highlights that ICMA devotes significant resources to the ERC- commissioning research, writing papers, providing significant financial, technical and logistical support to the council and committees, providing education, responding to members queries through the legal helpdesk and finally, with the long running and authoritative semi-annual repo survey. ICMA also undertakes the extensive GMRA legal opinion update exercise annually.

As the rest of the morning is going to be devoted exclusively to repo Mr Scheck spends a few minutes highlighting some of ICMA's work in other areas of the capital markets.

In the primary debt capital markets space, ICMA runs the main industry groups and is extremely active, looking at new issue processes to see if they can be improved. ICMA is focused on the implementation of the Prospectus Directive amendments, and is undertaking a major update of the ICMA primary market handbook. ICMA's two existing issuer committees – one for financial institutions and the other for public sector issuers are well attended - and Mr De Vidts recently presented the work of the ERC to ICMA's Public Sector Issuer Forum (PSIF), discussing in particular, financial transaction tax proposals with many of Europe's debt management offices.

On the secondary market side, the focus is on the swathe of regulatory initiatives - MiFID, CSDR etc. which are changing the way the secondary markets operate. An enormous amount

of work is needed over the next couple of years to ensure at least a reasonable outcome for the market.

On the buy side, ICMA continues to build out services to members through the Asset Management and Investors council chaired by Bob Parker of Credit Suisse. This is also a critical component of the Association and contributes extensively to papers and submissions – work on encumbrance is a recent example.

Mr Scheck advises that more details of all of ICMA's work, along with its executive education activities and the events it runs all over the world, are on the ICMA website and in the ICMA Quarterly Report.

Mr Scheck reports that membership of the Association remains robust - despite the cost pressures on the industry, the overall membership numbers were maintained last year. Mr Scheck suggests that ERC members may be able to identify potential new member leads through their GMRA counterparties. Any appropriate contacts that members could provide to ICMA would be greatly appreciated.

Mr Scheck wishes everyone an interesting and successful AGM and thanks all of those who contribute to the important work of the ERC.

Mr De Vidts thanks Mr Scheck for his kind words and also thanks Euroclear for hosting today's meeting.

After his introductory remarks, Mr De Vidts highlights a number of recent developments in the repo market, noting in particular, the following;

- The regulatory focus on repo has highlighted the importance of positive and proactive engagement with the regulators. This is essential in order to avoid overregulation and any unintended consequences.
- The repo market has been instrumental in transferring short term financing to a secured environment. Whilst the regulatory focus is on the nature of the secured element, it is important to understand that the primary risk remains at counterparty level, rather than collateral level. Mr De Vidts notes the increasing use of CCPs but highlights that discussions concerning overcollateralisation, concentration of risk and fail policies are essential.
- Eurepo is no longer a suitable benchmark for secured money market transactions in the euro area. The ERC welcomes market initiatives to produce alternatives, such as the RepoFunds Rate.
- The cost of clearing and settlement remains too high. The EPTG group have not seen any real progress and there is a need for more concrete initiatives to break down national barriers.
- Mr De Vidts reports that he recently attended a meeting of ICMA's Public Sector Industry Forum (PSIF) where the proposed financial transaction tax (FTT) was the subject of a lively debate. The increased costs that the FTT will impose on the market are not sustainable and endanger the wholesale market distribution of liquidity to the real economy. The ERC committee needs to agree how best to approach this issue with DMOs and regulators.

- Mr De Vidts refers to a speech given by Mr Benoit Coeure at the ECB in which Mr Coeure warned that T2S will not address all issues of collateral fluidity and interoperability and therefore it is of utmost importance that the industry continues to seek out solutions to ensure that collateral can flow freely, regardless of location.
- Mr De Vidts highlights the importance of the ICMA semi-annual repo survey in providing substantive market data for use in discussions of transparency. There is engagement with the ECB and Bank of England to aggregate numbers to provide a view of the European markets. It is essential that the scope and methodology of any market-wide data collection are carefully considered so that the resulting data set is accurate and useful.
- On the issue of the proposed mandatory minimum haircuts, the ERC urges caution and, in particular, does not feel that they should apply to the interbank repo market. The ERC promotes market initiatives such as the ERC Repo Margining Best Practices, published in 2012.

2. Approval of the minutes of the ERC Meeting held on September 27, 2012 in London

The council unanimously approves the minutes of the ERC general meeting held on September 27, 2012.

3. Keynote Speech

Mr De Vidts welcomes Daniela Russo, Director-General of payments and markets infrastructure, European Central Bank, who discusses “Avoiding collateral damage – on-going Eurosystem developments to underpin the efficiency and effectiveness of secured financing”.

Ms Russo addresses issues relating to the mobilisation of collateral within the existing market infrastructures and explains the importance of such issues to the efficient functioning of the market.

At both the global and European level, regulatory requirements demand increasing levels of collateral. In order to facilitate collateral delivery and mobilisation, increased transparency, liquidity and efficiency of the market are essential. Collateral should be available where required and this is difficult to address if banks are storing quality collateral for “precautional” or liquidity handling reasons. Increased demand on particular types of collateral creates dependencies between systems and issues of pro-cyclicality. Ms Russo comments that the repo market plays a central role in collateral movement particularly to meet short terms needs.

In an effort to strengthen collateralised markets, three main streams of work should be developed. The first is increased transparency. There is a strong appetite for mandatory reporting (required by regulation) for securities transactions. The scope of such requirements should at least be at European level, if not global. This will require adequate infrastructure to be in place – there is a suggestion that this be supported by the public authorities.

The second work stream will be to enhance the liquidity of the market. Ms Russo discusses the idea of a virtual single pool of collateral (SPC). There are currently three initiatives in the

Eurosystem which seek to develop a virtual SPC; the interoperability amongst Eurosystem and (I)CSDs collateral pools project; the abolition of repatriation requirements; and T2S. Each initiative is essential to the mobilisation of collateral which would otherwise remain idle in infrastructure silos. Ms Russo also highlights the importance of projects such as that to improve the bridge between the ICSDs. Ms Russo appreciates the challenges of such projects but emphasises their significance in improving collateral access.

The third work stream focuses on increased efficiency of collateral mobilisation. Ms Russo highlights the removal of infrastructure barriers which prevent the extension of the operating hours of the repo market. Ms Russo notes that T2S considers this with the extension of one hour at the end of the day for operational arrangements, but this does not provide an exhaustive solution. The effectiveness of end of day transactions is dependent on the CSDs and custodians. Ms Russo also highlights the importance of increasing the pool of eligible collateral. The development of a secondary market for credit claims should remain an objective, even if not a priority.

Ms Russo concludes by noting that there is much work to be done, there are a lot of important actions in progress and it is essential that the market supports those actions.

Mr De Vidts thanks Ms Russo for her informative presentation and for her continued support of the ERC's work.

4. Elections to the European Repo Committee

The Chairman invites members of the European Repo Council to hand in their completed ballot forms. The results of the election are set out below (see minute of Agenda item 13).

5. Update on triparty settlement interoperability between the ICSDs and Collateral Management Systems

Mr De Vidts outlines the progress that has been made in developing interoperability between Collateral Management Systems for cleared "basket" repos and the proposed interaction with the ICSDs' model for triparty settlement interoperability.

Mr De Vidts notes that the difficulties regarding interoperability have been discussed for over 15 years but with little positive result. It is essential to overcome the challenges of this initiative and to remove the barriers to collateral movement. Commitments to implementation have been made and should be followed through with action. Some progress has been made and the aim continues to be to deliver improved links by the end of 2014.

6. The European credit claims project – an update

6.1 Philippe Mongars, deputy Director for Market Operations Directorate, Banque de France

Mr Mongars outlines the progress of the Banque de France's project regarding the collateralisation of credit claims.

Mr Mongars highlights that with increased demand for quality collateral, there is a need to widen the pool of eligible collateral. Credit claims may be used for central bank financing but not function for private bilateral transactions. Such potentially high quality collateral is then removed from the system.

A working group has been set up in Paris, along with several specialist sub groups, to discuss the legal, fiscal and operational aspects of mobilising credit claims within the secondary market. Mr Mongars comments that credit claims have proven a resilient asset class and mobilising them in the secondary market would reduce reliance on central bank financing and increase finance to the real economy.

The proposed system would create a new credit claims mobilization vehicle that is capable of being traded as an OTC security. Mr Mongars explains that such a vehicle would be replicable in all euro area jurisdictions, with a view to overcoming some of the operational and legal impediments currently limiting credit claims mobilization.

Mr Mongars highlights that the project is endorsed by the French Ministry of Finance and has also been presented to the ECB Market Operations Committee and the ECB Money Market Contact Group. Mr Mongars reports that market feedback on the proposed system has been limited so far but that there have not been any 'show stoppers'.

6.2 Lisa Cleary, Director, Associate Counsel, ICMA Limited, London

Ms Cleary provides an update on the ERC's loan repo project.

Ms Cleary notes that as reported at the last meeting, the aim of the credit claims project is to add to the range of available collateral by establishing a system for repo-ing credit claims under the GMRA for day-to-day use by banks seeking to fund their business short-term in the interbank markets.

Some time ago, ICMA completed a legal feasibility study to support the development of this product under English and German law and is also closely following developments in French law in this context.

Ms Cleary explains that legally, the basic proposal is as follows:

Once a loan is immobilised in the central clearing system, legal title to a loan will be transferred exclusively by means of matching 'buy' and 'sell' orders entered into the clearing system. Payments under the loan will be made through the clearing system which will hold the definitive evidence of legal title. The aim is to allow for the more efficient transfer of loans as repo collateral and the creation of a liquid interbank loan repo market.

The legal foundations have been laid (so far as they can be at this stage) so this project now focuses on commercial and technical considerations. The ERC has involved various market bodies, including the Loan Market Association, inviting input on the proposed model, to get a sense of, in particular, the borrower community response. This has helped to further refine the model.

Ms Cleary highlights that an important element of this work is proactive market engagement; a comprehensive 'joined up' analysis within firms in order to assess, on a cross-department basis, the market appetite for the loan repo product.

The challenges of today's market mean that it is difficult to prioritise such discussions but it is exactly because of the challenges of today's market with increasing demands for quality collateral, that this project exists.

Ms Cleary reports that ICMA are actively liaising with interested parties on the commercial considerations and would be pleased to visit firms to discuss this project with them individually.

6.3 Panel discussion:

Following, Mr Godfried De Vidts, Director of European Affairs, ICAP and Chairman of the European Repo Council, opens the panel discussion.

Panellists are: Jean-Michel Meyer, Managing Director, Global Head of Repo, HSBC Bank plc
Olly Benkert, Managing Director, Goldman Sachs International
Grigorios Markouizos, Global Finance Desk Head, Citigroup Global Markets Limited

Mr De Vidts asks are we on track? Is the Banque de France project too localised? Can we leverage on their analysis for a product with wider scope?

The panellists comment that it is easy to be sceptical about progress here but there is a viable structure being proposed. Its success largely depends on the full engagement of loan market participants. It is important to identify and highlight the incentives. The benefits must outweigh the risks.

The panellists further comment that it is a question of how we define 'on track'. Progress has been made but has been slow as the priority has been dealing with the tsunami of regulation which the industry is facing. Only when the collateral squeeze is such that people want to mobilize this asset class will the market engage fully.

7. Repo and liquidity management

Andreas Biewald, Managing Director, Head of Secured and Unsecured Funding, Treasury Department, Commerzbank, reports on the challenge and on-going work to create baskets of liquid assets for the purposes of the Liquidity Coverage Ratio (LCR).

Mr Biewald provides an update on the roadmap to CRD IV, noting the importance for the repo market as it marks a baseline for the transposition into national law. Mr Biewald highlights the graduated phase in of liquidity coverage requirements and suggests that these will be fulfilled prior to the 2018 deadline.

On the issue of triparty interoperability, Mr Biewald observes that national regulation may influence the definition of liquid securities which will undermine the aims of interoperability and T2S and the composition of cross-border baskets.

8. Repo FAQs

Mr Richard Comotto reports that ICMA has published a set of FAQs, now available on the ICMA website. The FAQs will not only be helpful to repo market participants but also to policy makers, regulators and journalists. The FAQs consider documentation issues as well as market issues. Mr Comotto invites feedback from the ERC as to the content.

9. ERC Operations Group update

Mr Nicholas Hamilton (Co-Chairman of the ERC Operations Group) reports that within the Operations Group, sub-groups have been set up to focus on particular topics, including: affirmations, lifecycle processing and Target 2 Securities, Monte Titoli clearing and settlement enhancements and fails penalties. Additionally there have also been commitments in a number of other areas, including, the impact assessment and brainstorming of triparty interoperability, tentative discussions on repo trade repositories and market requests to clarify repo product positioning and views into TFAX, COGESI and shadow banking consultations.

On affirmation, Mr Hamilton reports that work has moved into its second year with a refresh of the annual survey on repo affirmation and matching for repo in order to progress the underlying objectives of increasing awareness of the need for effective lifecycle and bilateral matching, especially in the low automation end of the market.

In particular the following has been observed:

- Higher number of term trades which has had increased trade level affirmation and post trade lifecycle efforts supported in the empirical evidence in the recent repo surveys of term volume growth and increased number of lifecycle events to manage.
- All ERC working group firms have explored automated solutions - 70% of firms with automated solutions have increased client on-boarding.
- Of the existing vendor solutions, all have anchored core functionality in ERC best practice statement and interestingly new solutions are coming to market – targeting buy side and linking across asset classes. The supported solutions to date look at either linear trade level activity or fuller portfolio reconciliation and the ERC Operations Group expects the new entrants to follow suit.

Mr Hamilton notes that the views here indicate encouraging signs in management and control of population and growth of automated solutions. The full results will be published at the next ERC Operations Group meeting in April.

Mr Hamilton notes that T2S has been a key topic in the ERC Operations working group in 2012, as the industry moves to the testing and implementation windows in 2014 and 2015. A T2S working group has been created comprising of subject matter experts from six member firms chaired by Rob Mason at RBS. The group's aim is to share its knowledge and research with the broader repo community, help promote more debate and contribute ideas to the future of T2S, in particular the operating practices required for repo. Mr Hamilton comments that initial discussions highlighted the need to understand how T2S meets the aims of reducing cost of settlement, increasing collateral liquidity and reducing "commercial bank money" risk. The group also agreed to review how repo events will function in three areas.

Firstly, in direct versus indirect access to T2S. Secondly, how triparty will work in T2S. Thirdly, blocking/earmarking securities work in T2S.

In relation to direct versus indirect participation, Mr Hamilton reports that the impact of T2S on firms that who currently act as agent banks/sub custodians is more pronounced. These firms will need to understand the connectivity implications so that they can continue (if they choose) to offer agent bank/sub custodian services. It is not known how many participants wish to participate directly, but the number is expected to be low. Direct and indirect participation options may drive a reduction in “service providers” due to a CSD’s size offering economy of scale pricing opportunities.

Mr Hamilton comments that T2S will not in itself deliver a triparty product. However, service providers will be able to offer their own triparty products within the markets they support. ICSDs will continue to operate their current services, offering access to collateral takers through “as is” triparty models. Those accessing T2S as direct participants will have the ability to transfer assets to ICSDs for use in ICSD triparty trades. Harmonisation of settlement deadlines through T2S, interoperability and “Open Inventory Sourcing” should result in greater optimization of collateral and therefore positively impact triparty.

Mr Hamilton notes that blocking and earmarking are features of T2S. There are concerns that blocking could lead to supply issues- this then negatively impacts the liquidity of collateral in T2S. It is understood that blocking and earmarking can be used for a variety of different purposes:

- in an omnibus account to make sure that clients’ A positions are not used to satisfy clients’ B deliveries which may be an issue for active turnaround clients where inventory is sensitive and prioritised to the detriment of others;
- to make sure positions on which corporate actions have been submitted (eg conversions) are not accidentally transferred out; and
- to optimise collateral transfers, by allowing borrowers to keep the (blocked) collateral in their account instead of transferring to the lender (triggering settlement movements, income repatriation etc).

Looking into the next period, Mr Hamilton emphasises the importance of engagement with other industry forums active in T2S, particularly the BBA national user group & AFME working groups. Mr Hamilton notes that ERC Ops is undertaking a feasibility study to identify the practicalities of having an ICMA-hosted “open day” for the industry with keynote speakers, presentations on T2S, expansion on the three target areas and a panel Q&A session.

Mr Hamilton introduces Co-Chair of the ERC Operations Group, Tony Platt, to pick up on the group’s work with Monte Titoli and around fails penalties.

Mr Platt notes that a lot has been said about scarcity of collateral and the role of the settlement infrastructures to ensure the efficient movement and settlement of collateral. The repo white paper published in December 2010 highlighted three markets with notable deficiencies in their settlement infrastructure. Of those, Italy (via Monti Titoli) has responded with a work programme of improvements. With regard to DVP/RGTS optimiser, Mr Platt talks through some examples of the new optimisation rule set designed to increase the value of settlement from available resources and feed results into RGTS.

Mr Platt then speaks about the MT fail penalty process and some of the problems resulting from the calculation based on a 16:00 CET fail population less matched instructions, while instruction matching can continue through to 18:00 CET. Mr Platt notes that MT had invited

members to discuss opportunities to modify the penalty process. Finally, with respect to Italy, Mr Platt comments on the proposed hold and release functionality, due in July 2013, and intended to eliminate the need for telephone pre matching in the market, which has been a practice encouraged by having unmatched instructions rejected. Mr Platt commends Monti Titoli for their response to the repo white paper and noted that there is still much to do before T2S delivery.

Mr Platt then reports on the ERC Ops work on fails. Mr Platt notes that the GMRA was drafted for a positive interest rate environment. In the USA, the Treasury Market Practices Group (TMPG) has addressed the negative rate environment, using fails penalties. Mr Platt highlights that in Europe there is no correlation between the number of fails and interest rates dropping to negative levels but cautions that regulators are keen to see best practice in management of negative rate fails which incentivises settlement. Mr Platt notes the need to demonstrate self-regulation in this regard. Given the lack of a systemic fail problem in EMEA, the ERC Operations sub-group has proposed a best practice based on the compensation of the failed party, as opposed to a penal rate, which the relevant Ops sub group did not feel was appropriate in the current market. Previous guidance on fail treatment for negative rate repo is based upon the setting of the repo rate to zero. It is felt that a policy that applies consistently to negative and positive rates would be more appropriate. The proposal in the US was supported by the single market regulator. There is no such single market or single regulator across EMEA markets to impose or champion a common practice. The ERC draft proposal is based on a similar concept to the TMPG, except that within the ERC proposal the TMPG reference rate becomes the rate of the failed transaction, and the TMPG threshold rate becomes the prevailing GC rate, for which a market standard index would need to be selected. With the CCPs proposing their own trigger-based penalty programs there remains scope for further discussion and agreement on how the CCP penalties and can be married to a bilateral best practice and be passed down the fail chain as required. So, there is more to come on this topic, but Mr Platt hopes that his remarks have provided an overview of the direction and the need for compromise to avoid a variety of individual penalty regimes across all settlement locations as the CSD Regulation and principles for market infrastructures are implemented.

Mr Platt thanks the ERC Operations group for their time and effort over the last year and thanks Mr De Vidts and the ERC committee for its support.

10. Legal Update

Ms Cleary first addresses a housekeeping matter. Under s.1000 of the ICMA rulebook the IRC committee shall consist of two representatives of the ERC council. The ERC council shall determine a candidate for the IRC committee, for appointment by ICMA's board.

Ms Cleary notes that the IRC is currently comprised of Mr De Vidts and Edward McAleer. Subject to appointment by ICMA's board, the ERC are asked to confirm the following:

- (i) the appointment of Mr De Vidts as Chairman of the IRC committee for a term of office to expire at the European repo council's annual general meeting in 2015; and
- (ii) the re-appointment of Mr McAleer, Morgan Stanley & Co., London, to the IRC committee for a term of office to expire at the European repo council's annual general meeting in 2016.

The ERC confirms the above.

Turning to the legal update, Ms Cleary informs the committee that the 2013 ICMA GMRA legal opinion update exercise will shortly conclude, with opinions being obtained in over 60 jurisdictions. While all 2013 opinions cover, as a minimum, companies, banks and securities dealers, the opinions for 37 jurisdictions additionally cover insurance companies, hedge funds and mutual funds as parties to the GMRA.

In particular, Ms Cleary highlights the recent publication of the ICMA GMRA legal opinion for Russia. ICMA has closely followed developments in the Russian repo market for many years, eagerly monitoring those which facilitate close out netting. Working closely with Freshfields Moscow, ICMA has tracked enhancements which now recognise netting arrangements in the context of repo transactions documented under the GMRA. Ms Cleary reports that ICMA is delighted to have published the following suite of documents:

- Russian legal opinion on the GMRA 1995, 2000 & 2011 version;
- Russian annex to the GMRA, encompassing changes required to bring the GMRA in line with specific requirements of Russian legislation; and
- Russian translation of the GMRA 2011.

Ms Cleary invites members to participate in a webinar that will take place on 28 March to discuss the publication of the Russian opinion. Presenters include the opinion authors and the Russian trade repository, the NSD, as well as other interested industry groups and market participants.

Looking forward, Ms Cleary notes that the priorities for 2013 in terms of legal work will be to encourage take up of the ICMA GMRA 2011 Protocol, allowing parties to update certain aspects of their existing documentation on a multilateral basis. Another priority will be to add to the suite of associated annexes to the GMRA 2011, including jurisdiction specific annexes. Ms Cleary further reports that work has begun on producing FATCA related language for use with the GMRA. The ERC will be kept informed of progress in this regard.

11. ERC repo survey

Mr Richard Comotto highlights the main findings of the 24th semi-annual Repo Survey, highlighting the following:

In December 2012, the ERC conducted the 24th in its series of semi-annual surveys of the repo market in Europe. Replies were received from 71 offices of 67 financial groups, mainly banks. Returns were also made directly by the principal automatic repo trading systems (ATS) and tri-party repo agents in Europe, and by the London-based Wholesale Market Brokers' Association (WMBA).

Mr Comotto reports that the total value of the repo contracts outstanding on the books of the 71 institutions who participated in the latest survey was EUR 5,611 billion, compared with EUR 5,647 billion in June 2012, a decline of just 0.9%. However, using constant samples, it is estimated that the market contracted over the last six months by 6.6% and by 11.9% year-on-year. Mr Comotto notes that the weakness of the market likely reflects the ECB's 3-year LTROs and continues despite improved market sentiment following the announcement of the OMT programme in September 2012.

Mr Comotto highlights that the share of electronic trading in the main survey was broadly unchanged at 32.8%, but the share of voice-brokers continued to follow what appears to be a downward trend. It is noted that the general shift from domestic business into crossborder transactions continued, although both ATS and voicebrokers moved in the opposite direction. The share of anonymous (ie CCP-cleared) electronic trading set another new record, notwithstanding reduced risk aversion in the market.

Mr Comotto notes that the share of all CCP-cleared repos (which includes those transacted on an ATS and automatically cleared across a CCP, but also those transacted directly with a counterparty or via a voicebroker, and then registered with a CCP post trade) rebounded sharply. The reason, given improved market sentiment, is unclear. Tri-party repo lost further ground, touching a low of 9.5%, possibly reflecting competition from the 3-year LTROs. Tri-party repo also fell back in absolute terms.

Mr Comotto reports that the share of the euro recovered, perhaps reflecting the release of German bonds by investors who had previously hoarded them, as well as greater interest in other core Eurozone securities. Reflecting greater interest and availability in core Eurozone government bonds, the share of government bonds within the pool of EU-originated collateral reached a high of 81.3%. This was also seen in tri-party business, although the share of all government bonds (as opposed to just EU government bonds) fell back, consistent with an overall reduction in risk aversion.

It is noted that the share of short-dated repo continued to expand, albeit modestly, to 50.5%. Transactions with more than a year remaining to maturity plunged to 5.9% from 13.3%, suggesting they were not originally for much longer than one year and that may have been substituted to some extent by the 3-year LTROs.

Mr Comotto observes that securities lending conducted on repo desks dropped sharply to a record low of 12.8% but it is not clear why. With regard to haircuts, implied average haircuts in triparty repos seemed to have increased for lower quality collateral.

Mr Comotto notes that next survey will take place on 12 June 2013 and encourages participation from all ERC member firms.

Mr De Vidts thanks Mr Comotto for all his hard work in relation to the survey and other ERC related initiatives.

12. Regulatory Update

David Hiscock provides a brief update, including an update on shadow banking and the ERC's formal responses to the Financial Stability Board (FSB) and the European Commission.

Mr Hiscock notes that the direct regulation of repo and securities lending is being debated in the work of the FSB, in particular the shadow banking workstream. The ERC have responded to the November 2012 FSB consultation which contained a number of policy recommendations calling for improved transparency, regulation and structure in the securities lending and repo markets.

On the issue of transparency, Mr Hiscock highlights the ERC's support of improved transparency, noting that in addition to the information provided by the ICMA repo survey,

the ERC is working with the ECB and Bank of England to provide aggregate market figures for Europe. Mr Hiscock reports that the ERC disputes much of the case for mandatory minimum haircuts, explaining that firms must be allowed to manage counterparty and collateral risk without prescriptive limitations. With regard to the issue of rehypothecation, Mr Hiscock highlights that the ERC strongly consider that the use of collateral owned under full title transfer should not be restricted.

Mr Hiscock reports that final FSB recommendations are expected in September 2013, likely to be reflected in parallel European Commission initiatives. Active and on-going ERC engagement both at international and EU levels is essential.

Mr Hiscock draws attention to the EU framework for bank recovery and resolution and the Commission proposal published in June 2012. Points of concern are the operation of temporary stays on close out rights, as well as the certainty of ex-ante exclusions for secured liabilities to the bail in of creditors.

Focusing on collateral requirement issues, Mr Hiscock highlights the Basel Liquidity Coverage Ratio package and the timing for its implementation. The expansion of the definition of high quality liquid assets has alleviated some pressure but the minimum requirement will begin at 60% in January 2015. The near final international standard covering margin for non-centrally-cleared derivatives, announced mid-February, also alleviates some pressure, as the proposed changes do mean that significantly lower aggregate amounts of margin will be required.

On the issue of collateral liquidity, Mr Hiscock reports that ICMA's Collateral Initiatives Coordination Forum published a White Paper on 7 November 2012, to explore the proposition that demands for high quality collateral will significantly outstrip supply. The paper seeks to articulate a vision regarding what is necessary to achieve desirable improvements in collateral fluidity.

Mr Hiscock briefly flags the on-going work in respect of MiFID; and on the topic of CSD Regulation, notes that the ECB have called for progress in this area under the Irish Presidency of the Council. The ECB and some market participants are concerned about the impact on T2S. There is also a potentially significant impact on the treatment of fails.

Mr Hiscock notes that further information outlining the range of regulatory and market practice issues that ICMA is currently involved in can be found in the latest edition of the [ICMA Quarterly Report](#).^[2]

13. Results of the elections to the European Repo Committee

The Chairman announces that the following people have been elected to European Repo Committee:

Ulf Bacher

Newedge Group SA

^[2] http://www.icmagroup.org/assets/documents/Regulatory/Quarterly_Reports/ICMA-Quarterly-Report-1st-quarter-2013.pdf

Tony Baldwin

Daiwa Capital Markets Europe Limited

Stefano Bellani

J. P. Morgan Securities Ltd.

Olly Benkert

Goldman Sachs International

Andreas Biewald

Commerzbank Aktiengesellschaft

Sylvain Bojic

Société Générale

Eduard Cia

Vice-Chairman

UniCredit Bank AG

Godfried De Vidts

Chairman

ICAP Securities Limited

Romain Dumas

Credit Suisse Securities (Europe) Limited

Simon Kipping

Bank of America Merrill Lynch

Stephen Malekian

Barclays Capital Securities Limited

Grigorios Markouizos

Citigroup Global Markets Limited

Andrea Masciovecchio

Intesa Sanpaolo S.p.A.

Edward McAleer

Vice-Chairman

Morgan Stanley & Co. International PLC

Eugene McGroary

BNP Paribas

Jean-Michel Meyer

HSBC Bank plc

Ronan Rowley

Deutsche Bank AG

Michel Semaan

Nomura International plc

Guido Stroemer

UBS AG

The Chairman congratulates the new Committee members.

14. Any other business and next meetings

- *The Future of the European Repo Market: a conference of experts from regulators, academia and the market* – will be held on June 11, 2013 in London, hosted by Thomson Reuters.
- The next ERC General Meeting will be held on October 16, 2013 in London, hosted by JP Morgan.

Annex 1

List of presenters and represented firms in attendance

Presenting:

Godfried De Vidts (*Chairman*), *ICAP Securities plc*
Martin Scheck (*Chief Executive*), *ICMA*
Daniela Russo, *European Central Bank*
Philippe Mongars, *Banque de France*
Lisa Cleary, *ICMA Limited*
Olly Benkert, *Goldman Sachs International*
Grigorios Markouizos, *Citigroup Global Markets Ltd.*
Jean-Michel Meyer, *HSBC Bank plc*
David Hiscock, *ICMA Limited*
Richard Comotto, *ICMA Centre*

The following member firms were represented at the meeting:

ABN AMRO N.V., Amsterdam
Aurel BGC, Paris
Banca IMI S.p.A., Milan
Banco Bilbao Vizcaya Argentaria, S.A., Madrid
Banco de Sabadell SA
Banco Santander, S.A., Madrid
Bank Julius Bär & Co. AG, Zurich
Bank of Scotland plc, London
BANKIA, S.A., Valencia
Banque et Caisse d'Epargne de l'Etat, Luxembourg
Barclays Capital Securities Limited, London
Bayerische Landesbank, Munich
Belfius Bank & Insurance, Brussels
BNP Paribas, Paris
BNP Paribas Fortis, Brussels
CAIXABANK, S.A., Barcelona
Cecabank, S.A., Madrid
Citigroup Global Markets Limited, London
Commerzbank Aktiengesellschaft, Frankfurt
Commonwealth Bank of Australia, Sydney
*Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (trading as Rabobank International),
London branch*
Crédit Agricole Corporate and Investment Bank, Paris
Credit Suisse Securities (Europe) Limited, London
Daiwa Capital Markets Europe Limited, London
Danske Bank A/S, Copenhagen
Deutsche Bank AG, Frankfurt
DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt
EquiLend LLC, New York
Eurex Repo GmbH, Frankfurt
EuroMTS Limited, London

GESMOSA-GBI, Agencia de Valores, S.A., Madrid
Goldman Sachs International, London
HSBC Bank plc, London
HSBC France, Paris
ICAP Securities Limited, London
ING Bank N.V., Amsterdam
ING Belgium SA/NV, Brussels
IntesaSanpaolo S.p.A, Milan
J.P. Morgan Securities plc, London
Jefferies International Limited, London
KBC Bank N.V., Brussels
KBL European Private Bankers S.A., Luxembourg
Landesbank Baden-Württemberg, Stuttgart
LCH.Clearnet Limited, London
Lloyds TSB Bank plc, London
Macquarie Bank Limited, London
Merrill Lynch International (trading as Bank of America Merrill Lynch), London
Mitsubishi UFJ Securities International plc, London
Mizuho International plc, London
Morgan Stanley & Co. International PLC, London
National Australia Bank, London
National Bank of Greece S.A., Athens
NATIXIS, Paris
Newedge Group SA, Paris
NIBC Bank N.V., The Hague
Nomura International plc, London
Norddeutsche Landesbank Luxembourg SA, Luxembourg
Nordea Bank Danmark A/S, Copenhagen
Otkritie Securities Limited, London
Raiffeisen Zentralbank Österreich AG, Vienna
RBC Europe Limited, London
Société Générale S.A., Paris
Swiss Reinsurance Company Ltd, Zurich
The Royal Bank of Scotland plc, London
UBS AG, Zurich
UniCredit Bank AG, Munich
UniCredit Bank Austria AG, Vienna
Westpac Banking Corporation, London