



ICMA

International Capital Market Association

ERC General Meeting

27 September 2012



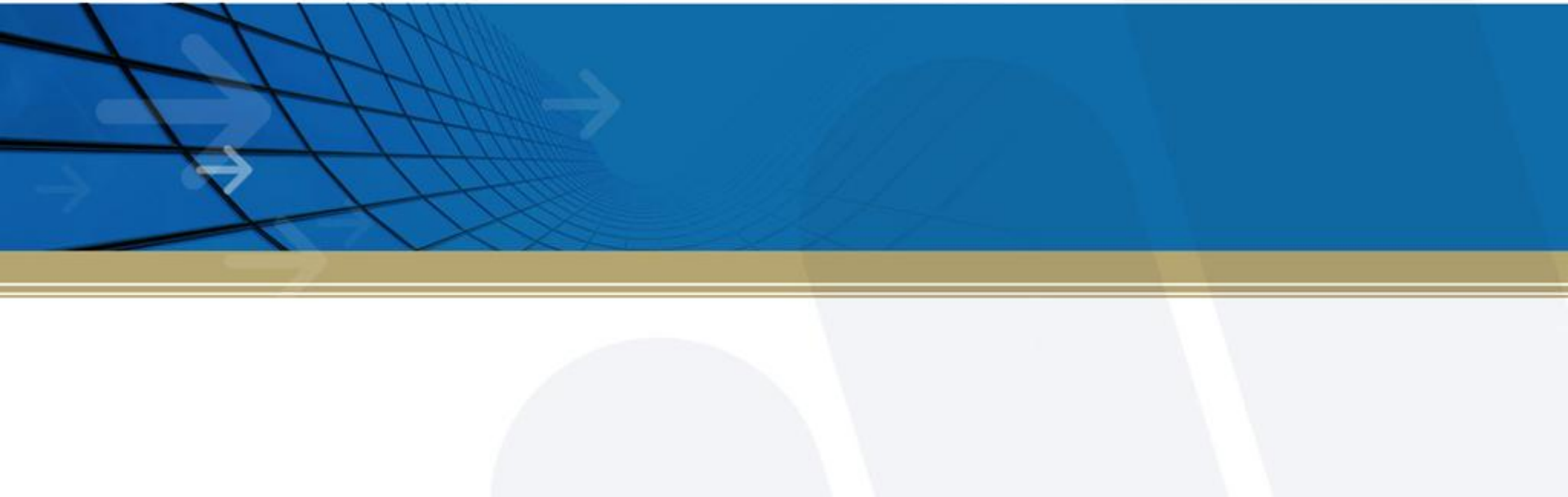


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Welcome

Martin Scheck, Chief Executive, International Capital Market Association (ICMA)



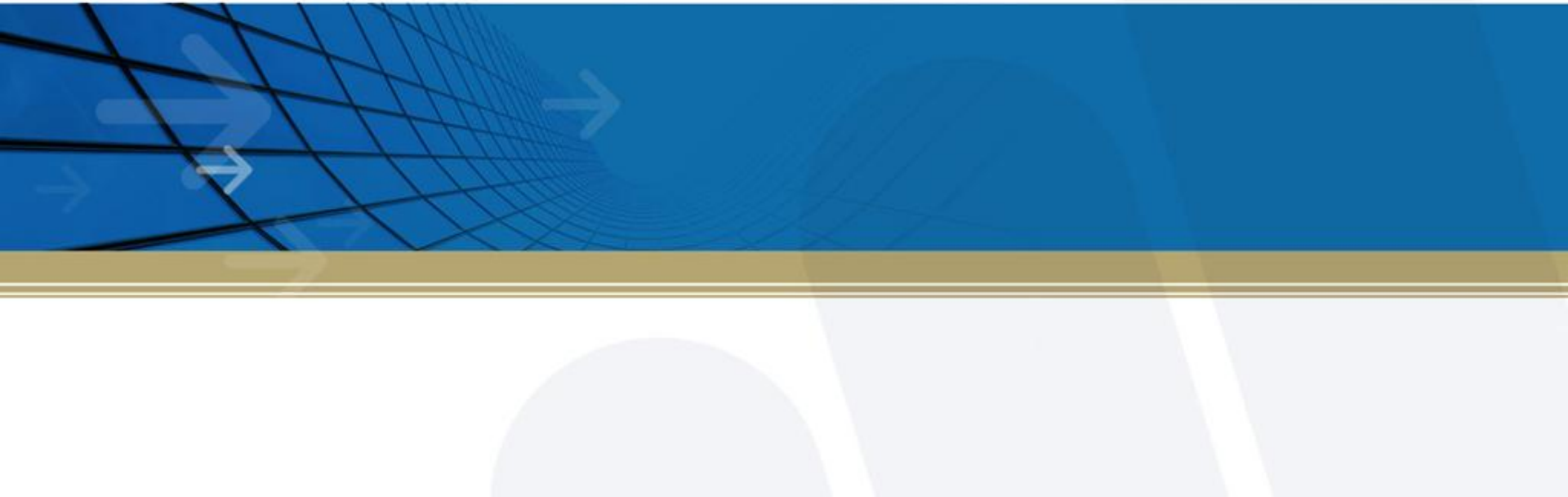


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Opening & Update on recent developments

Godfried De Vidts, Chairman of the ERC





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Approval of the minutes of the ERC Annual General Meeting held on Wednesday, 18 January 2012, in Luxembourg





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European Repo Council

23rd European repo market survey conducted in June 2012



Survey overview

- Outstanding value of contracts at close of business on Wednesday, 13th June 2012
- 62 responses from 58 groups



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23rd European repo market survey conducted in June 2012

Headline numbers

• June 2012	EUR 5,647 billion
• December 2011	EUR 6,204 billion
• June 2011	EUR 6,124 billion
• December 2010	EUR 5,908 billion
• June 2010	EUR 6,979 billion
• 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

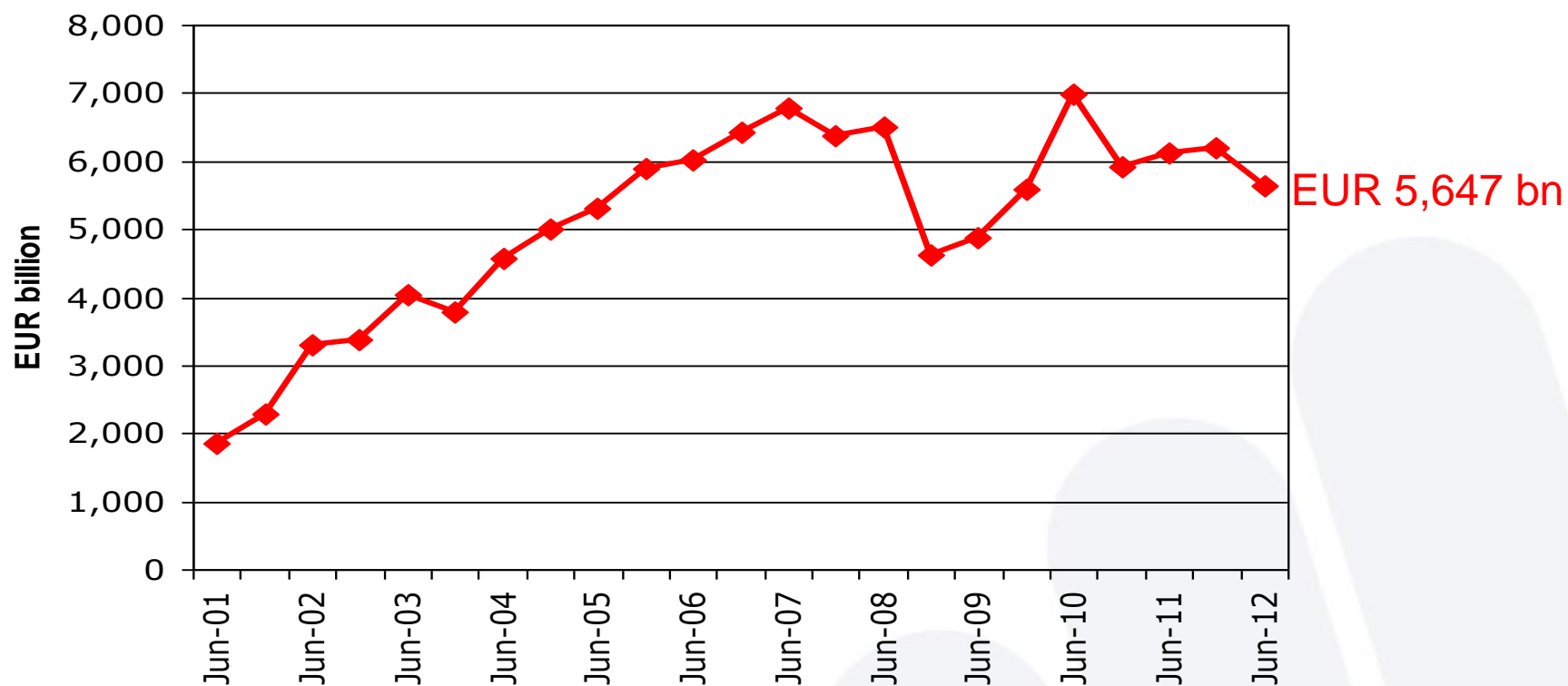


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23rd European repo market survey conducted in June 2012

Headline numbers



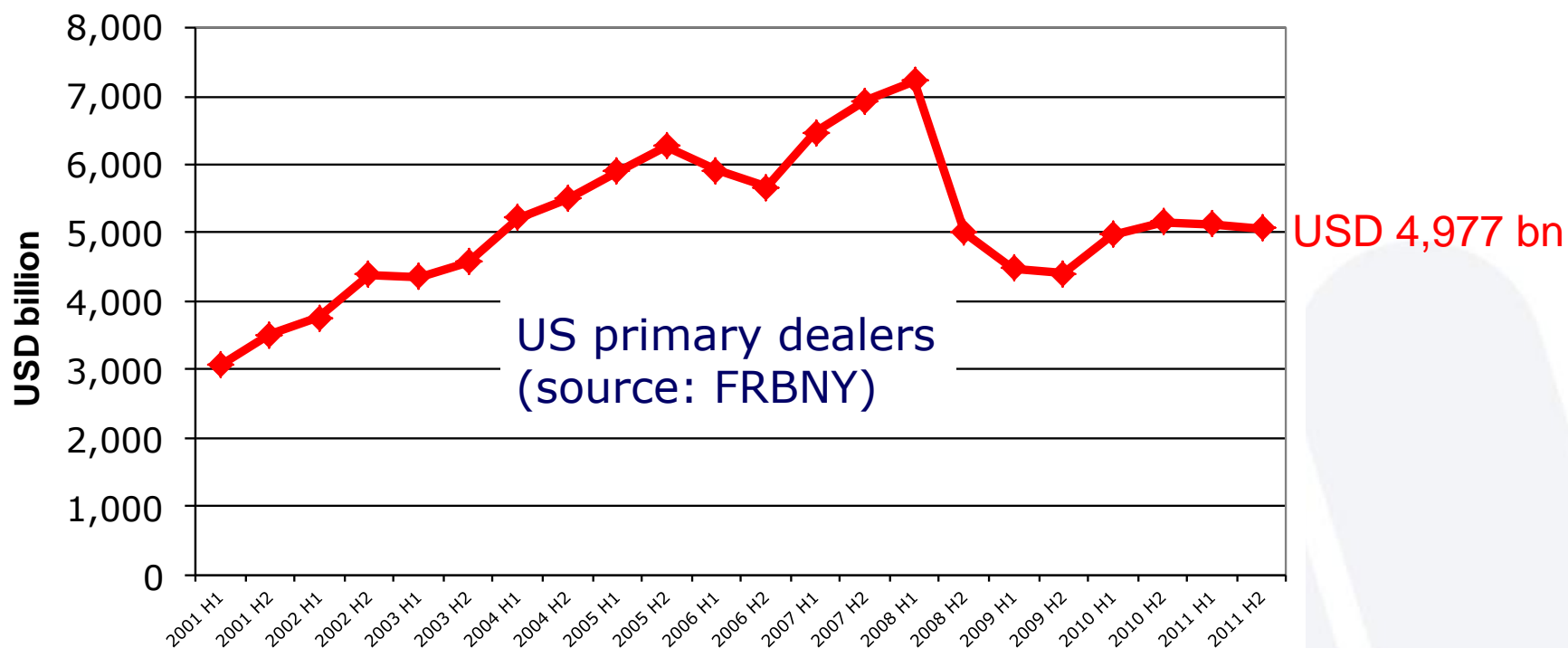


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23rd European repo market survey conducted in June 2012

US market





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23rd European repo market survey conducted in June 2012

Comparable market growth

- 51 respondents in last 3 surveys
 - -9.9% since December 2011
 - -14.2% year-on-year



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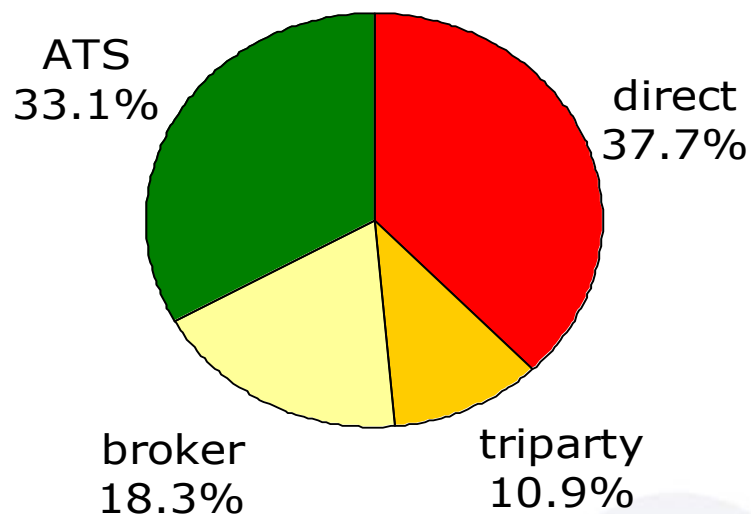
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23rd European repo market survey conducted in June 2012



Counterparty analysis



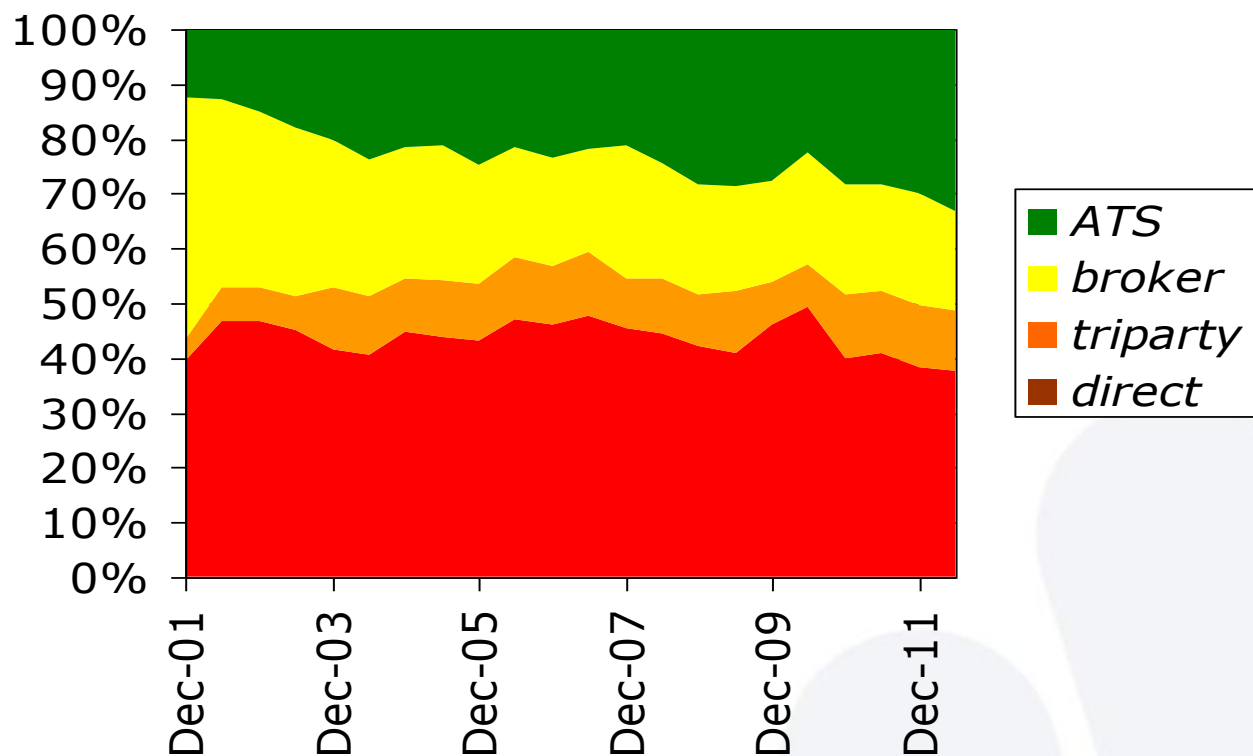


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23rd European repo market survey conducted in June 2012

Counterparty analysis



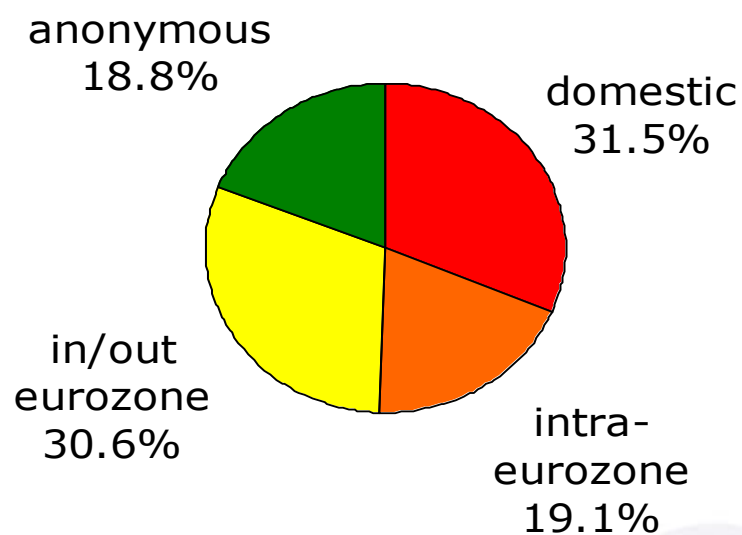


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23rd European repo market survey conducted in June 2012

Geographical analysis



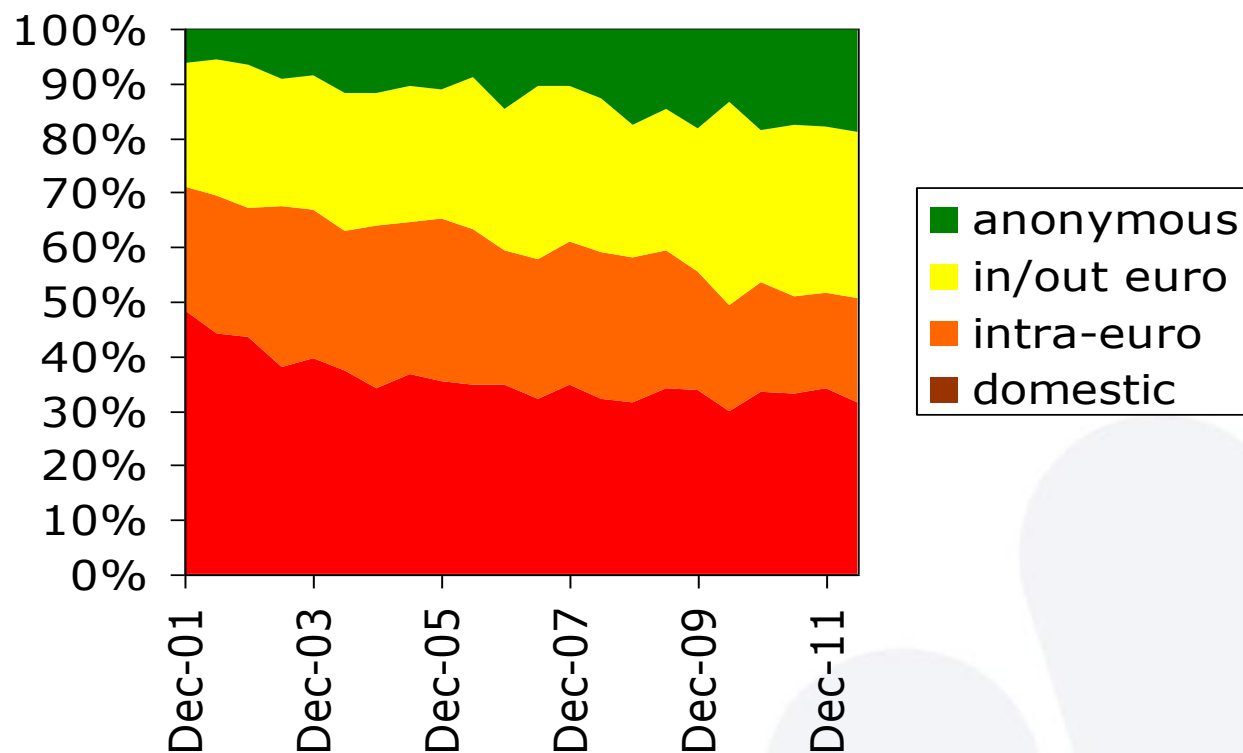


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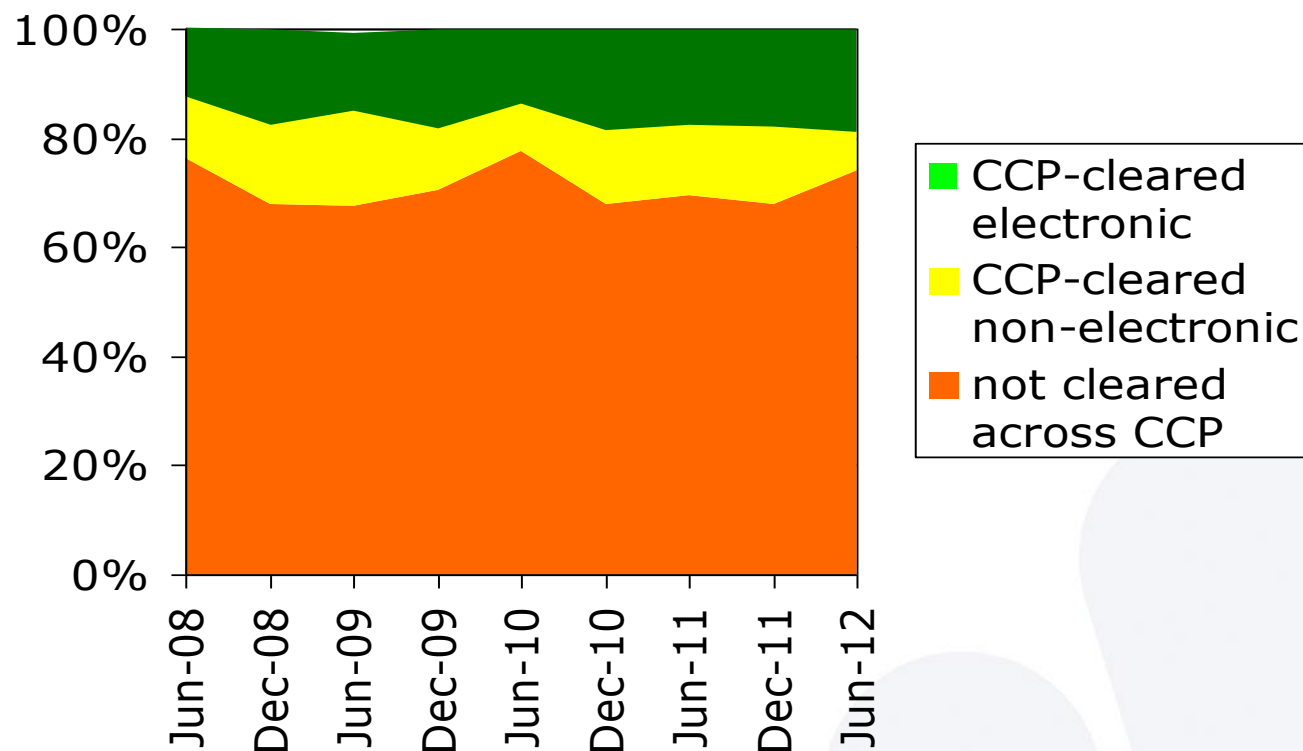
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23rd European repo market survey conducted in June 2012

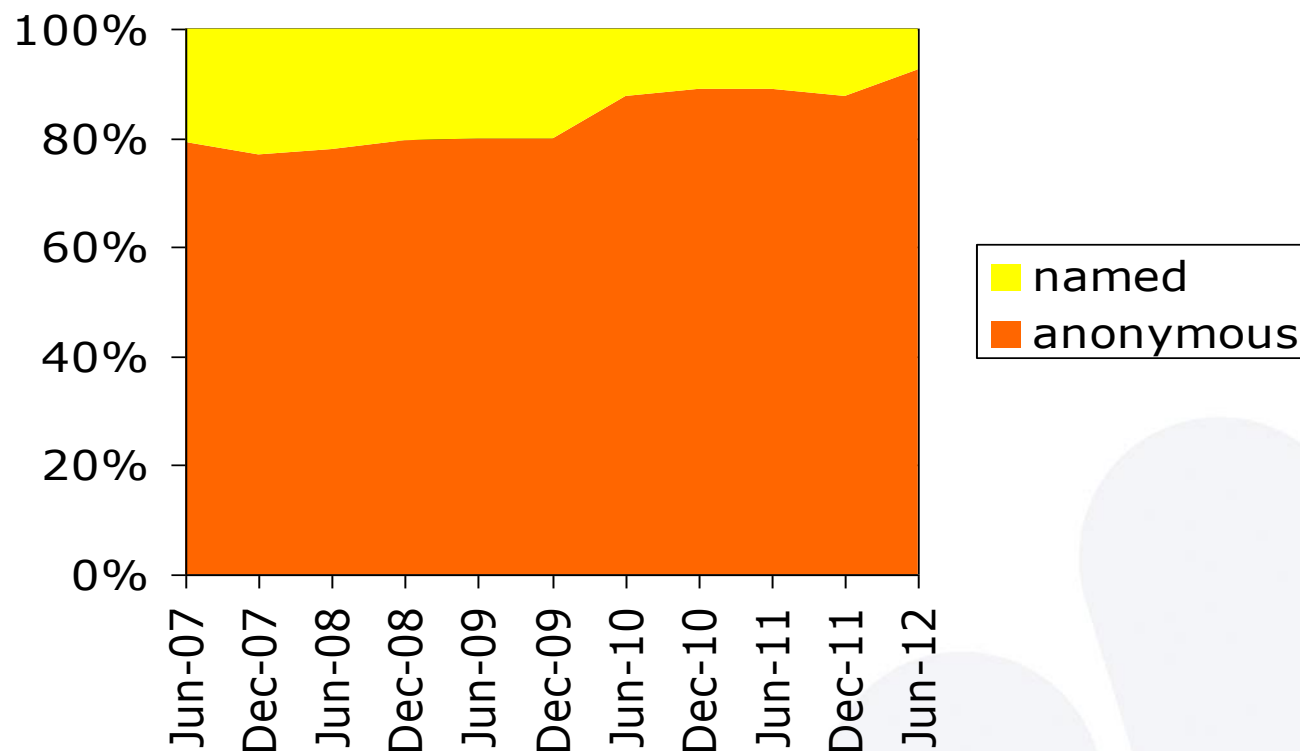
Geographical analysis



Business cleared across CCP



Anonymous ATS business



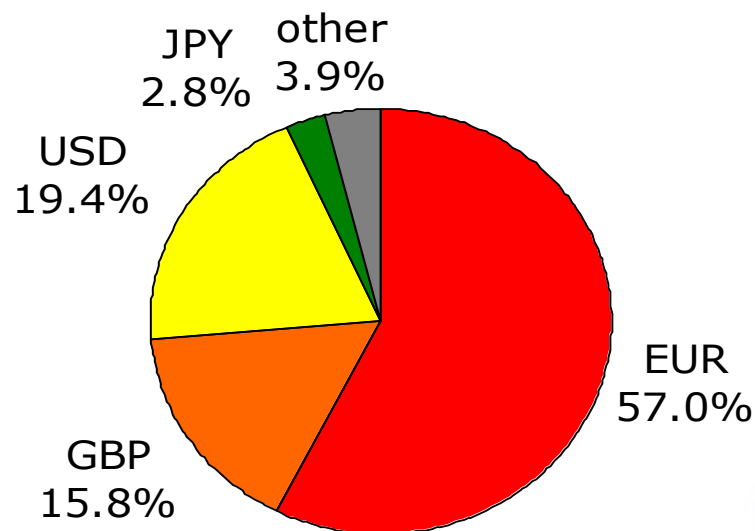


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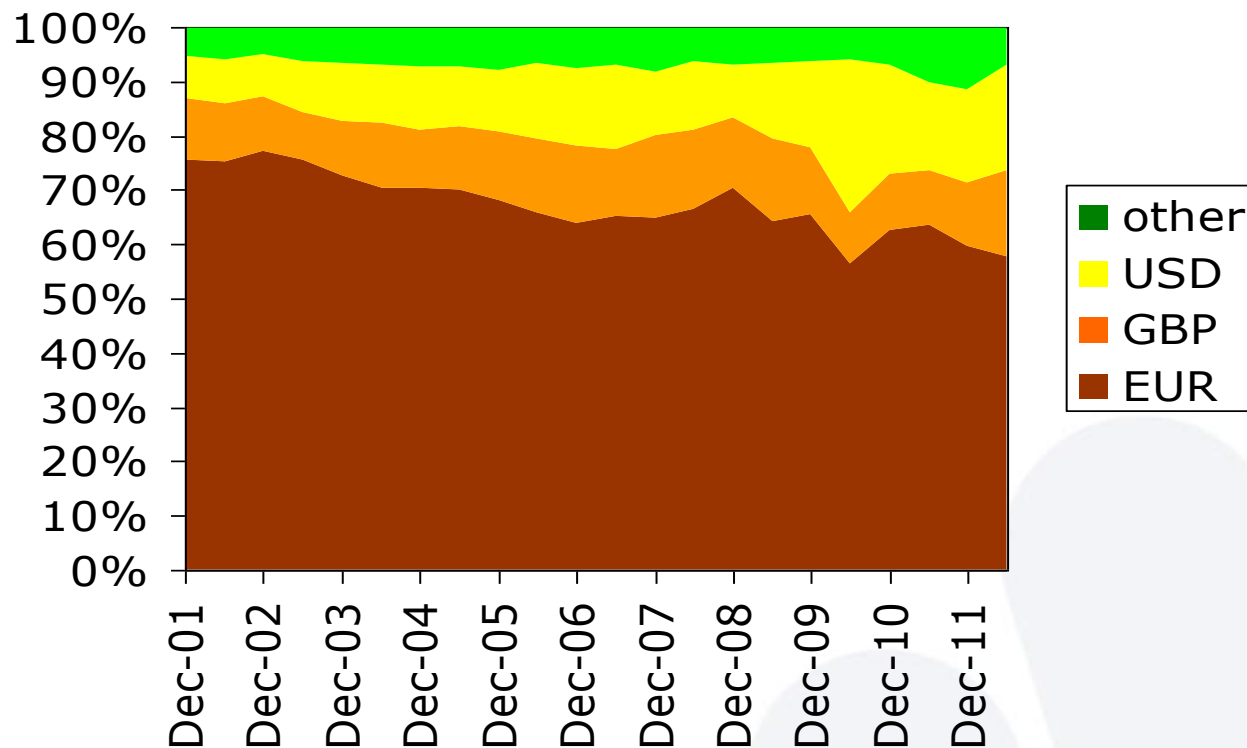
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23rd European repo market survey conducted in June 2012

Currency analysis



Currency analysis



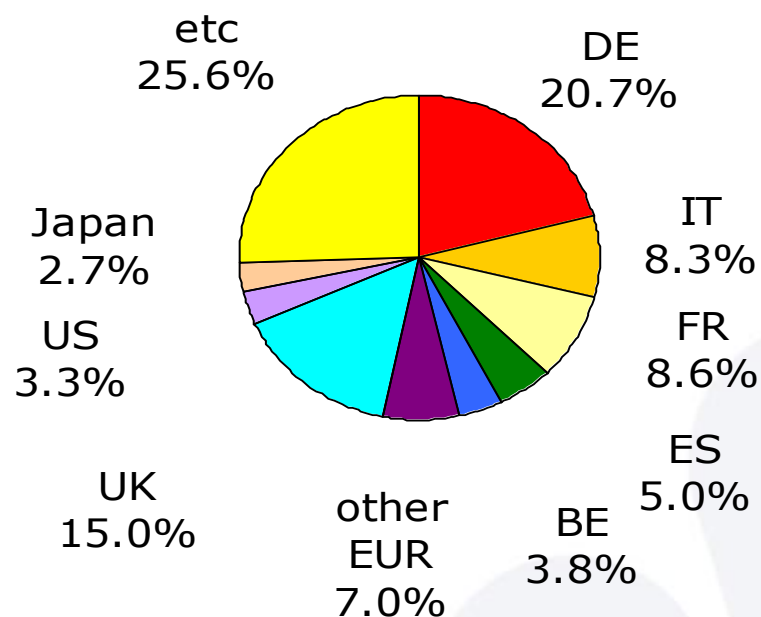


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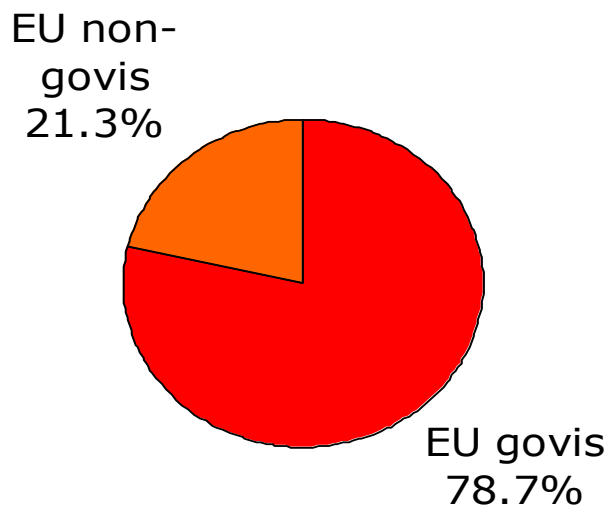
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23rd European repo market survey conducted in June 2012

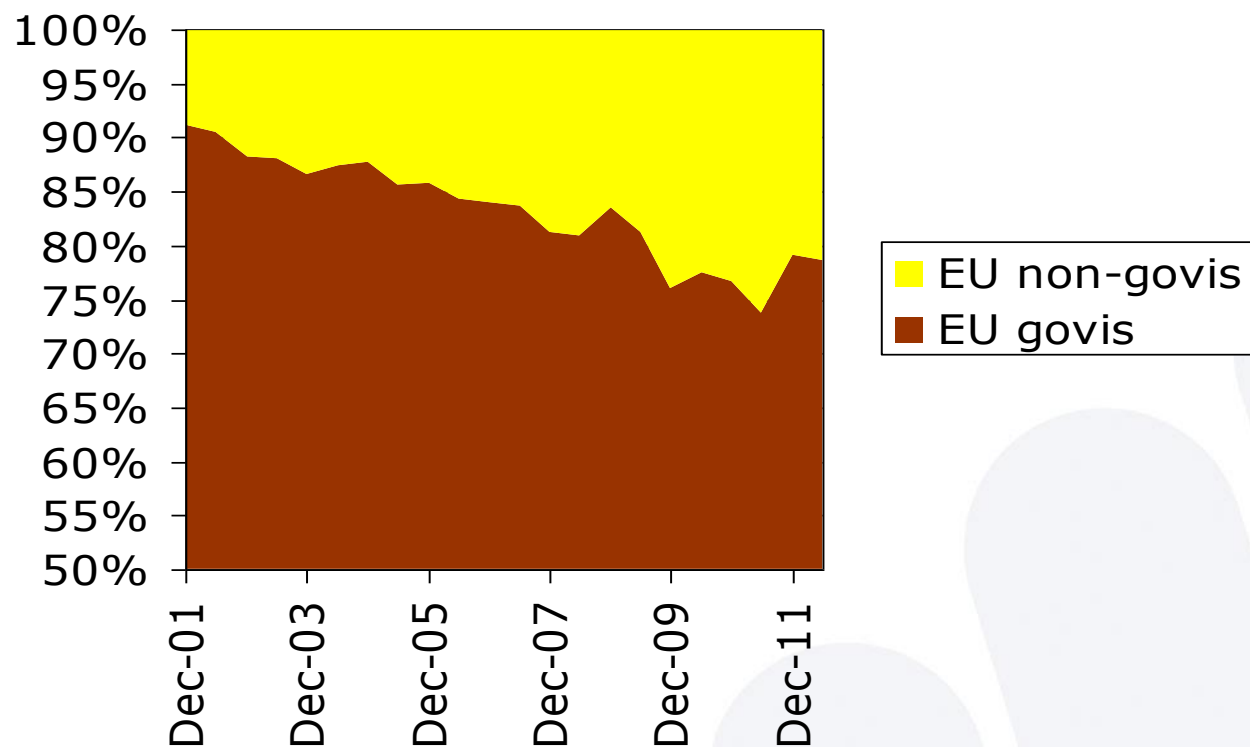
Collateral analysis



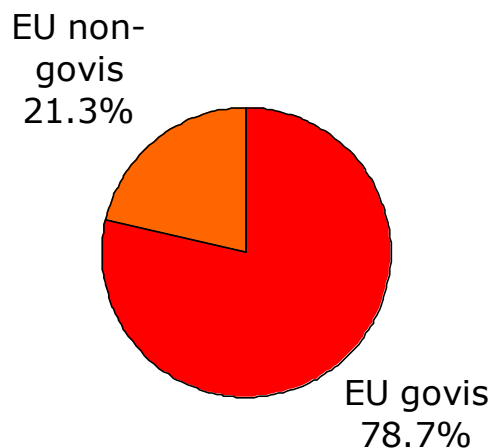
Collateral analysis



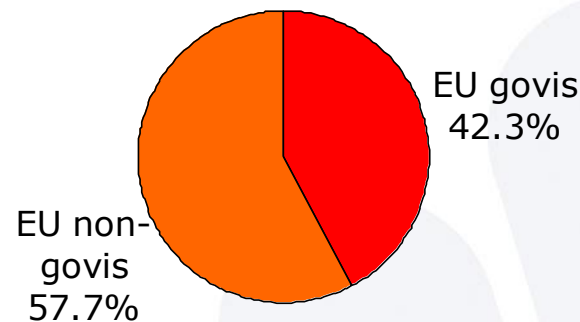
Collateral analysis



Collateral comparison

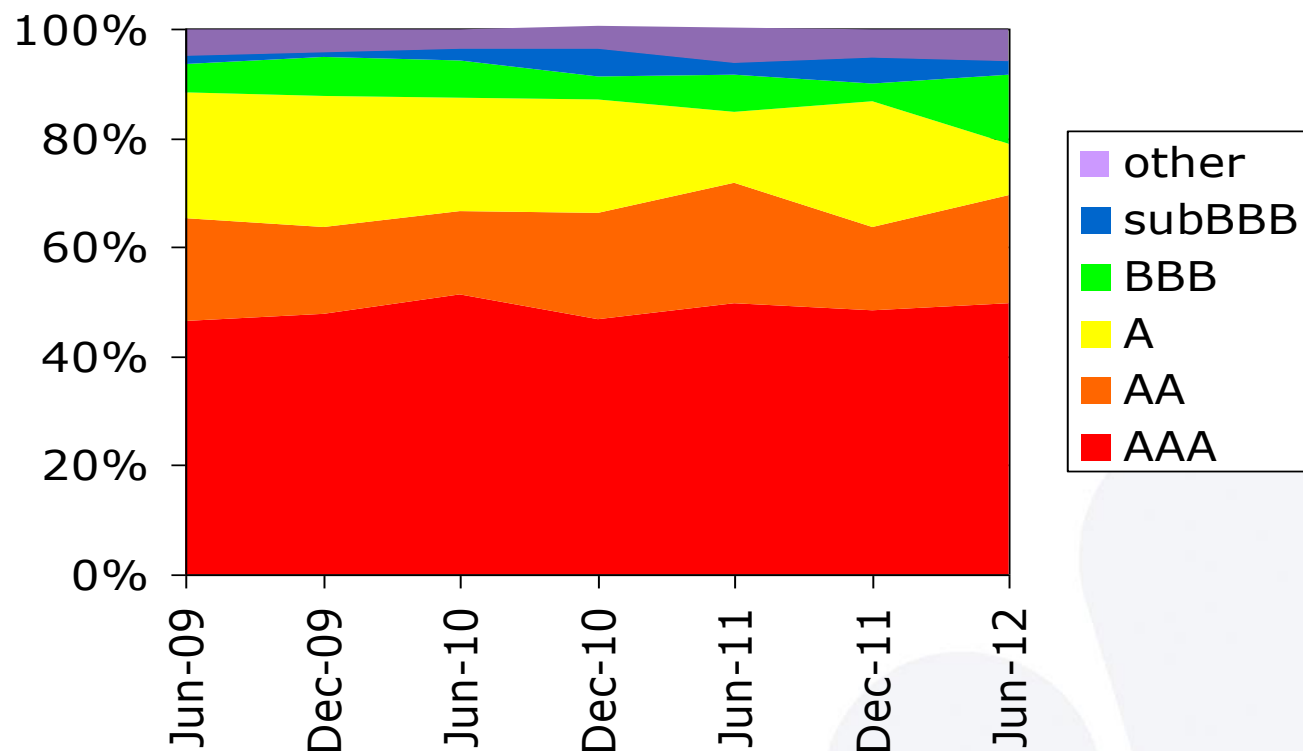


banks

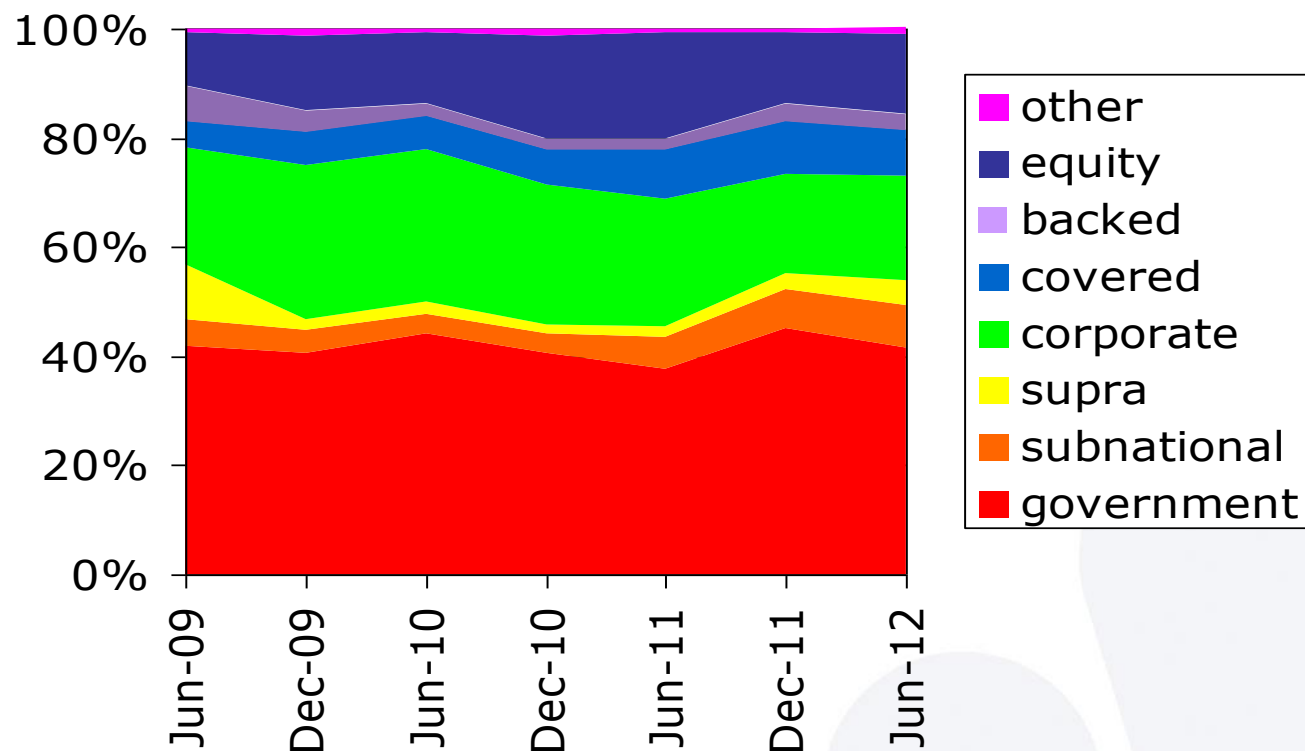


tri-party

Collateral analysis (tri-party)



Collateral analysis (tri-party)



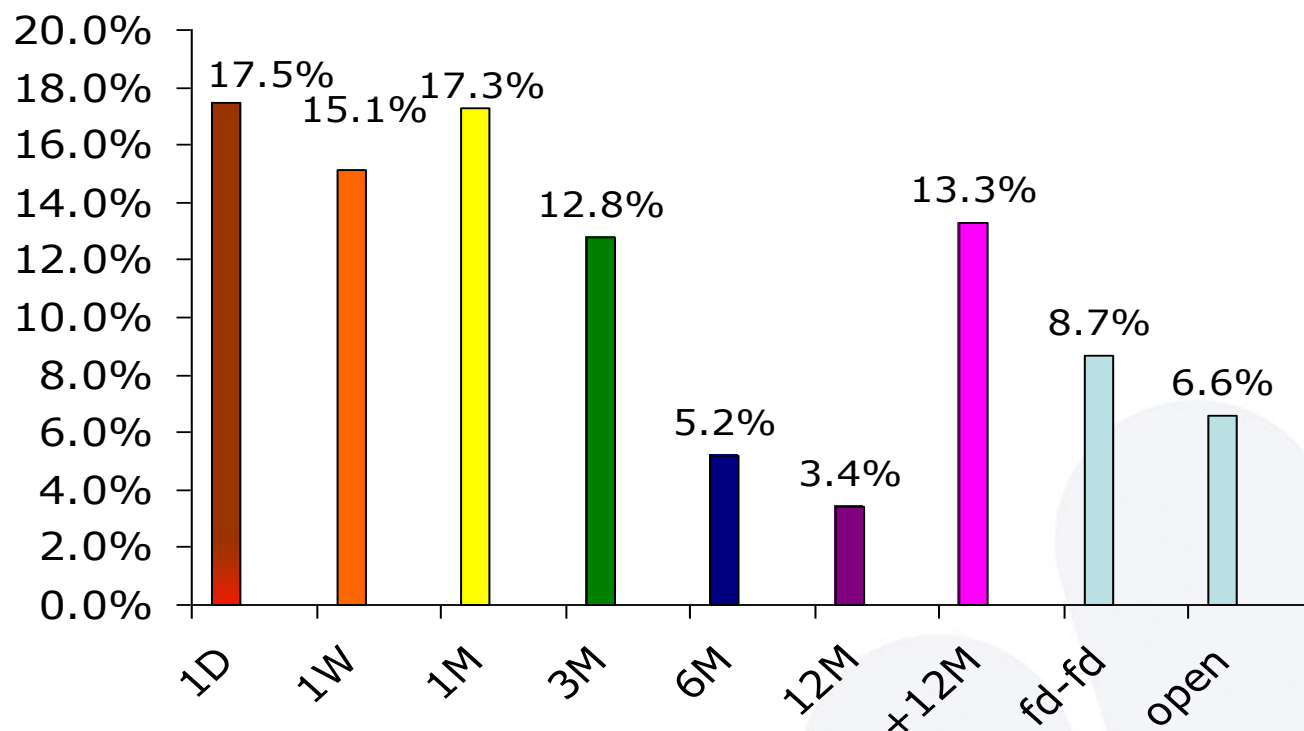


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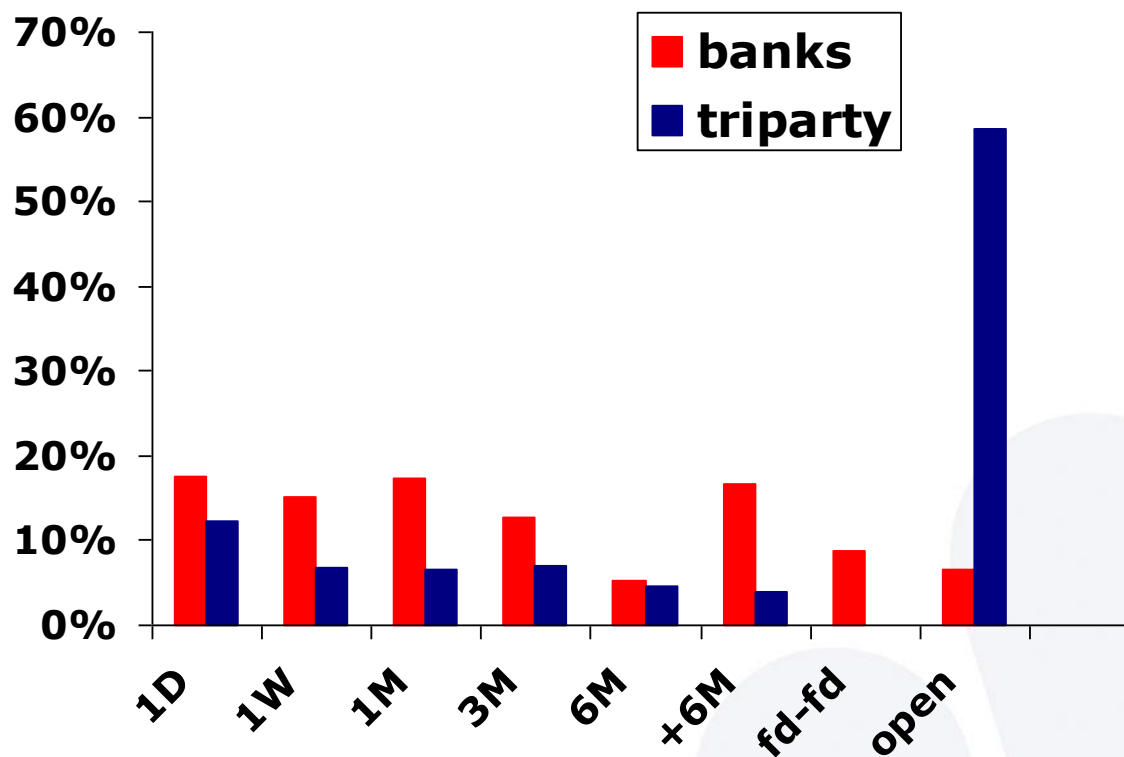
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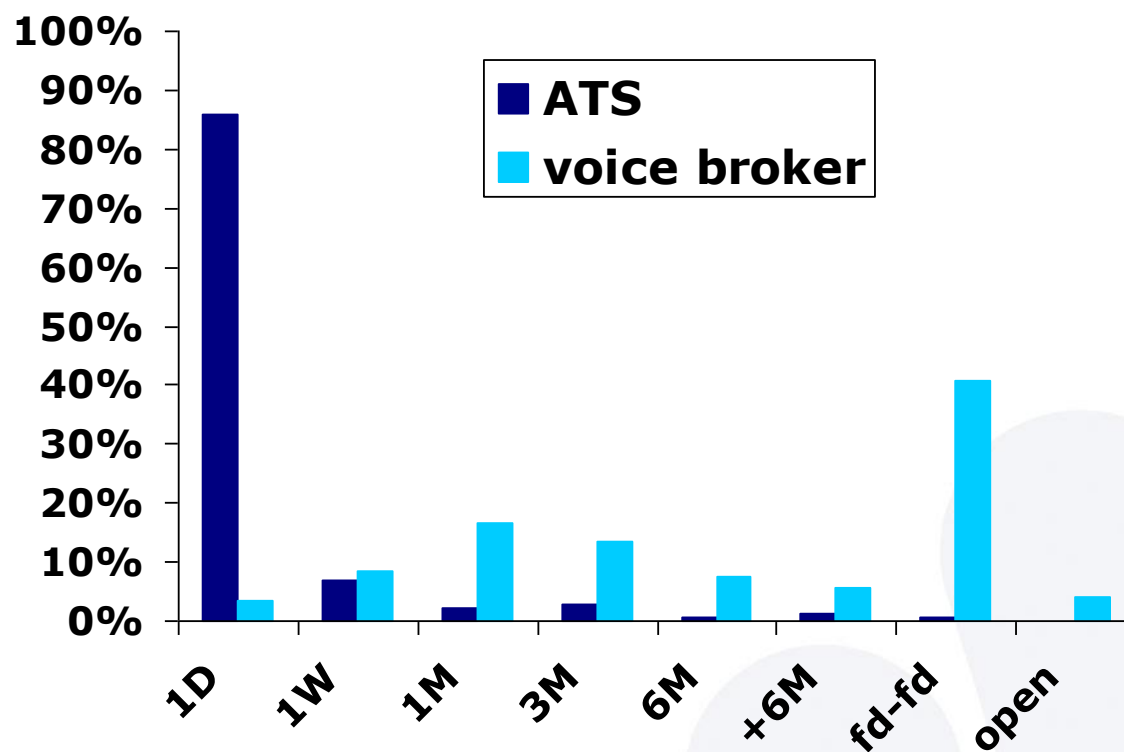
Maturity analysis



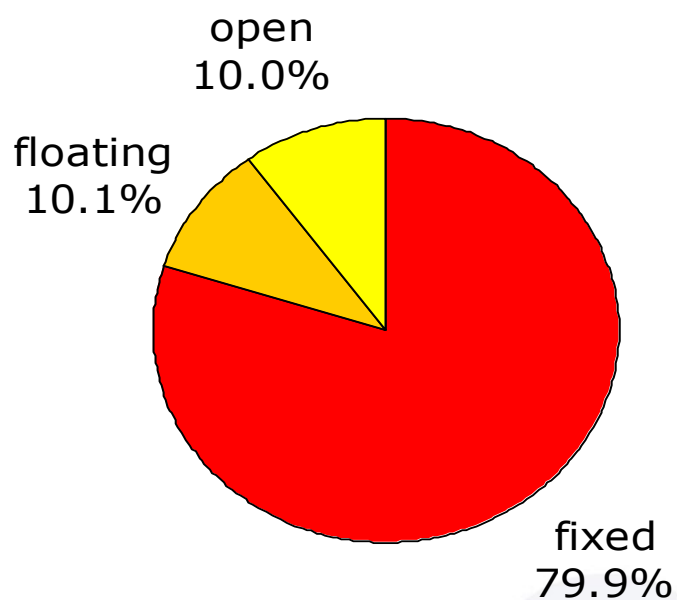
Maturity comparison



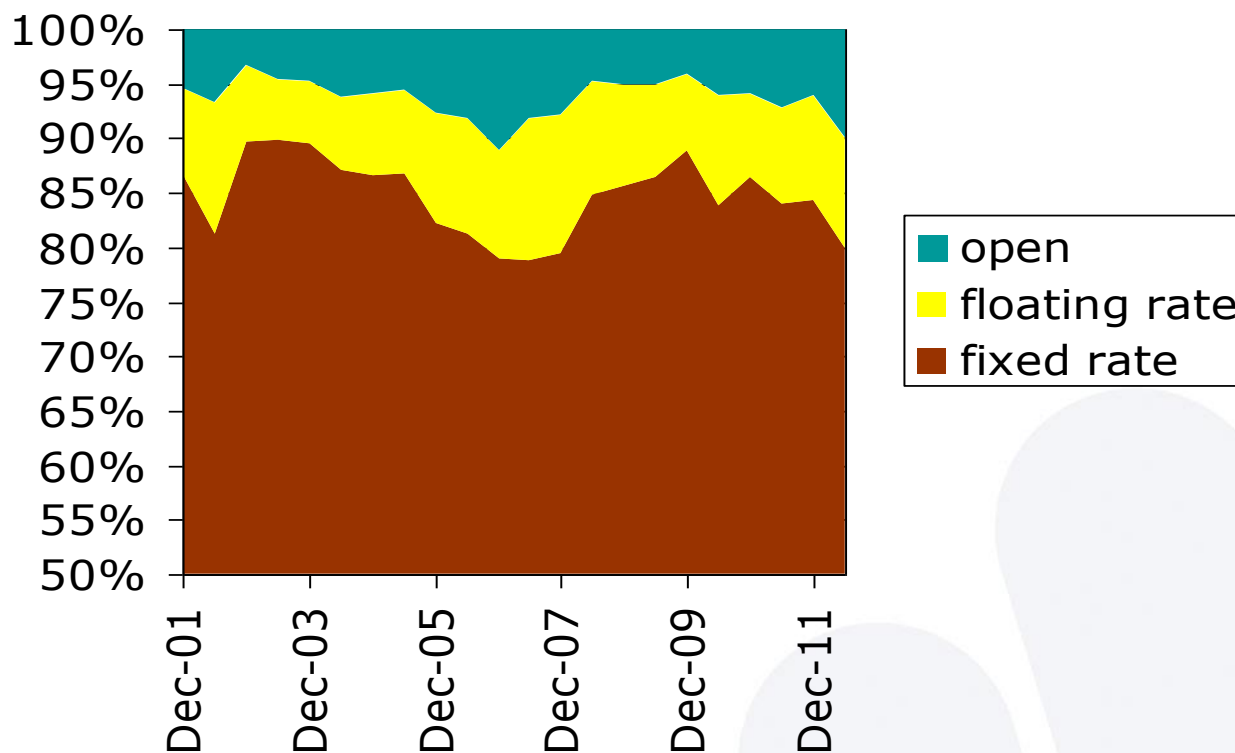
Maturity comparison



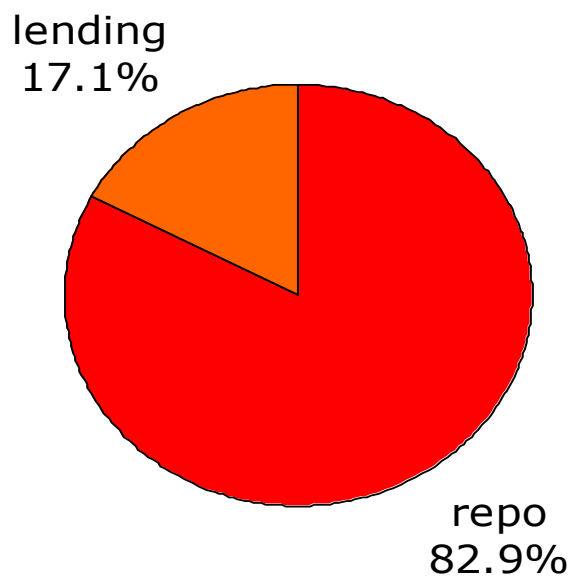
Rate analysis



Rate analysis



Product analysis



Next survey

Wednesday, 12th December 2012

What makes a successful money market index?

Richard Comotto

ICMA Centre

University of Reading

United Kingdom



THE BUSINESS SCHOOL
FOR FINANCIAL MARKETS

What makes a successful money market index?

Money market indexes are usually intended to measure the average cost of borrowing:

- by a specific group of borrowers
- from a specific market segment

What makes a successful money market index?

- credit and liquidity risks need to be homogeneous for an average to be meaningful
- credit and liquidity heterogeneity can be avoided by use of a risk-free rate
- but most borrowers cannot borrow at risk-free rates
- however, credit and liquidity risk --- and therefore spreads --- were generally stable and minimal until 2007
- stable and minimal spreads allowed adoption of -IBORs as proxies by other institutions and markets, permitting convergence of liquidity on one index to enhance market efficiency and reduce cost

What makes a successful money market index?

- in theory, credit risk was also minimised by selecting only prime counterparties as contributors
- in practice, operational convenience and market concentration promoted selection of the most active banks, prime or otherwise
- resultant risk of manipulation (at least by a single contributor) was managed by publishing and trimming inputs

What makes a successful money market index?

- but selection narrows contributor panels and requires the choice of question to ask contributors:
 - provide your own actual/hypothetical borrowing rates
 - provide your judgement of average hypothetical borrowing rates
- would a trade repository of all actual rates be better?

What makes a successful money market index?

markets have changed since –IBORs were created:

- investment banks and non-bank financial institutions have become more important
- asset/liability models have become more complex
- reflected in illiquidity of interbank deposits

What makes a successful money market index?

- because of illiquidity in the interbank deposit market, -IBORs have come to depend on inference/judgement
- do we now need to broaden the range of liabilities in -IBORs?
- where is the liquidity now:
 - -IBOR-linked derivatives?
 - repo?

What makes a successful money market index?

what about a repo index?

- arguments in favour are that repo is:
 - risk-free
 - core funding for banks and non-bank financials
 - liquid (in normal conditions)
- but:
 - repo is counterparty-sensitive
 - how wide is the repo market?
 - conditions are not normal
 - haircuts, settlement, right of substitution
 - collateral credit & liquidity is heterogeneous
 - collateral goes special
- a repo index has to be the price of a GC basket
 - but whose basket --- market-wide or CCP-determined?
 - can CCP-based indexes provide term indexes?



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Keynote speech

David Rule, Financial Stability Board



FSB Shadow Banking Task Force

Regulation of securities lending/repo

27 September 2012 (ICMA European Repo Council)

Workstream on Securities Lending and Repos

- One of the five workstreams under the Financial Stability Board (FSB) Shadow Banking Task Force

The Workstream published its interim report in April 2012, which

- Provided an overview of the securities lending market;
- Described their locations within the shadow banking system; and
- Discussed the financial stability issues arising from practices in these markets

The Workstream will develop policy recommendations by end-2012 to strengthen regulation of securities lending and repos

Financial stability risks in the securities financing markets

Pure shadow banking risks

- Using repo to create short-term, money-like liabilities, facilitating credit growth and maturity/liquidity transformation outside the banking system;
 - The policy goal is to provide sufficient transparency to the authorities and limit risks to financial stability from excessive leverage and maturity transformation
- Securities lending cash collateral reinvestment;
 - The policy goal is to subject cash collateral reinvestment to regulatory limits on liquidity and leverage risks

Financial stability risks in the securities lending/repo market (cont'd)

Risks that span banking and shadow banking

- Tendency of secured financing to increase procyclicality of system leverage;
 - The policy goal is to restrict, or put a floor on the cost of, secured borrowing against assets subject to procyclical variation in valuations/volatility, to reduce the potential for excessive leverage to build and for large swings in system leverage
- Risk of a fire sale of collateral securities;
 - The policy goal is to mitigate the risk that large forced sales of collateral in one market segment arise as a channel of risk transmission beyond that market segment and throughout the broader financial system

Financial stability risks in the securities lending/repo market (cont'd)

Risks that span banking and shadow banking (cont'd)

- Re-hypothecation of unencumbered assets
 - The policy goal is to reduce financial stability risks arising from client uncertainty about the extent to which assets have been rehypothecated and the treatment in case of bankruptcy, and to limit rehypothecation of client assets (without offsetting indebtedness) to financial intermediaries subject to liquidity regulation
- Interconnectedness arising from chains of transactions involving reuse of collateral
 - The policy goal is to reduce the risk of financial contagion and opacity.
- Inadequate collateral valuation practices
 - The policy goal is to improve collateral valuation standards

Transparency

- Improvement in regulatory reporting;
- Improvement in market transparency;
- Improvement in corporate disclosures;
- Improvement in reporting by fund managers to end-investors

Market structure

- Central clearing

Regulation

- Minimum haircuts
 - Standards for methodologies used by market participants to calculate haircuts
 - Numerical floors
- Minimum regulatory standards for cash collateral reinvestment
- Rehypotheccation
- Minimum regulatory standards for collateral valuation and management

Next steps

- FSB Plenary - October
- G20 Finance Ministers and Central Bank Governors - November

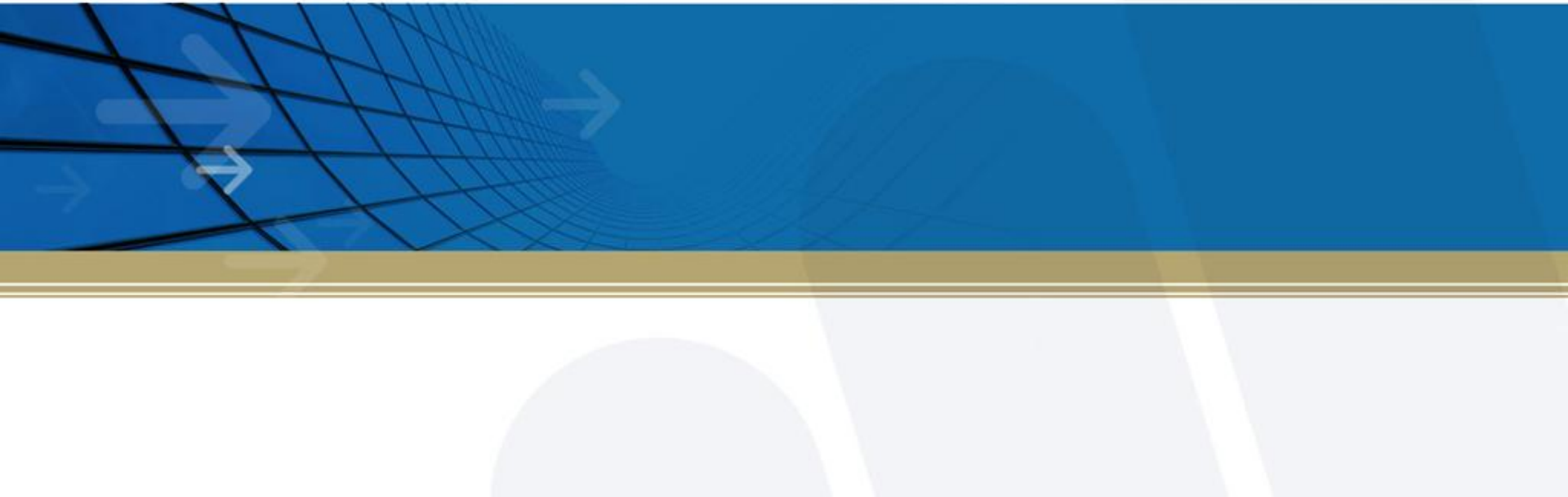


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Europe's clearing & settlement – need for more efficiency

Richard Comotto





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Keynote speech

Patrick Pearson, European Commission's Internal
Market Directorate General





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Update on the work of the Securities Lending and Repo Committee

Tony Baldwin
Daiwa Capital Markets Europe Ltd



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Minutes of previous meetings:

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

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James Purchase, Bank of England

SLRC Secretariat

0207 601 4195

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Credit Claims

Lisa Cleary





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Legal Update

Lisa Cleary





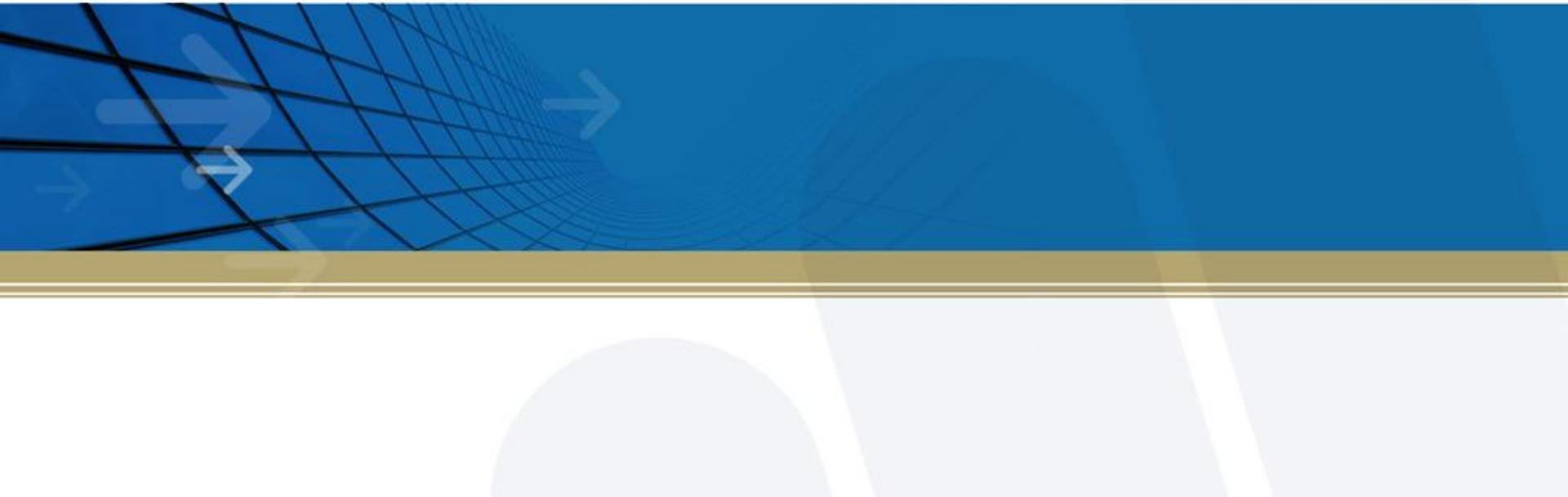
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ERC Operations Group Update

Tony Platt

2012 ERC Operations update





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ERC Operations Agenda

- Update. Publication of the ERC Best practice guidelines on Repo Margin
- Update. Repo trade matching and affirmation
- Repo and T2S
- Future agenda. Consultation and Market Development

ERC Operations Agenda

Repo Margin

Repo margin. Revised Operational guidelines. Implementation

Reminder. Revision Headlines

- Margin to be based on actual rather than assumed settlement. (portfolio value based on call date -1 eod).
- GMRA 2011 now embraces 2 margin calculation methods. Increased scope for dispute. Participants should ensure mutual agreement and documentation of margin calculation to be used and whether it is applied at a transaction or portfolio level.
- Guidelines on minimum transfer amounts and interest.
- Avoid netting of consecutive days margin movements and bad practice of trading out of a margin call.
- Migration towards a call date +0 settlement of margin.

Current Status

- Mixed state of readiness and adoption across the market including ERC Operations.
- Technology/budgetary dependencies.

ERC Operations Agenda

Repo Trade Matching

Repo Trade matching- Best Practice Compliance & Implementation work stream

Objective and Rationale of the sub group

- To publish a view of affirmation and matching commitments and requirements.
- Pre-emptive action to demonstrate intent, completeness and efficiency in market
- Highlight opportunities for future efficiency
- Encourage broadening of service capabilities to cover trade matching and event management.

Status

- Evaluated current market supplier capabilities versus RFI.
- Detailed discussions with 5 Vendors

ERC Operations Agenda

Repo Trade Matching

Market Themes

- Targeted community growth – building on core functionality, through existing client relationships and focus on low automated clients
- Platforms offer extension of life-cycle either
 - matching and settlement instruction reporting bringing affirmation and settlement processing together
 - or
 - Full service portfolio compare, settlement matching, re-pricing, billing
- Funding & investments sensitivities from market participants – reinforcing core & low automation on-boarding needs

ERC Operations Agenda

Trade Matching

Next steps 2012-13

- Firms Leverage existing platforms clients and relationships to prompt new matching opportunities and extend matching take up using client list and vendor contacts
- Targeted bilateral communications to low automation clients with supporting best practice and vendor alternatives
- Refresh of affirmation completeness 2012 view proposed for January to demonstrate progress
- Establish formal repo positioning in post trade affirmation groups
 - AFME post trade lifecycle group - David Grace (UBS)
 - Trax User group - Sanjiv Ingle (Soc Gen) – TUG Chair & John Belam
 - ISLA - Claire Rowney (Morgan Stanley) – ISLA Chair
 - SWIFT Securities Advisory group - Nick Hamilton (JPM)
 - OMGEO buy side post trade forum – Ian O'Connor (DB)
- Sub committee meets 4-6 weeks for lifecycle automation updates from forums, market changes to ensure ERC operational positioning in key decision making

ERC Operations Agenda

Repo/T2S

Repo and T2S

- ERC Ops engagement with ECB Task Force on adaptation to cross-CSD settlement in T2S (TFAX)
- TFAX works alongside Harmonisation Steering Group (HSG)
- Review and response to TFAX consultation regarding Repo processing post T2s.
- Understand T2S functionality/capabilities as it relates to Repo/ Secured Financing.
- Understand choices and considerations for participant T2S access strategy. **Direct versus Indirect.**
- **How will your firm adjust its market access strategy to ensure you enjoy optimal collateral management, settlement efficiency and minimisation of service costs?**

Things to consider, *for example*. Direct or Indirect?

- T2S provides no Tri Party processing nor other collateral management efficiency tools.
- No specialist Repo processing . This will continue to be provided by the CSD's, as required.
- No unique Repo message type, two cash legs essentially.
- But availability of Repo trade type indicators and common trade references.
- T2S capability to "Earmark", "block" or "reserve" securities.

Market Development and Consultation

Objective to Ensure a good understanding of the intentions of each consultation document. Support ICMA in establishing appropriate regulation and legislation regarding the Secured Funding Markets.

Challenges

- Volume of consultation documents for review.
- Ensuring collaboration and consistency where appropriate across market groups and participants responses.

Role of ERC Ops

- Ensure ERC/ICMA is furnished with, and including, an operations specialist view in its responses to the various consultation topics and documents. (e.g. CSDR consultation, Securities Law directive, Settlement harmonisation)

2012 focus areas for consultation responses.

- CPSS-IOSSCO principles for FMI's.
- Securities Law Directive amendments.
- Settlement date harmonisation.
- Output from the FSB review of shadow banking.
- Interoperability.
- CSDR



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ERC Operations Agenda

Current and Future Agenda

- Continue to sponsor adoption of the Repo Margin guidelines
- Sponsor trade matching and continue supplier partnerships. Optimise applicability of the service offerings
- Represent the Repo Market Operations groups in escalation of market infrastructure instability and inefficiency
- Continued engagement regarding interoperability and bridge development
- Ongoing regulatory consultation review and response (CSDR)
- T2S. Ongoing consultation and response. Clarification of repo related capabilities
- Operational input regarding credit claim collateral developments
- Partner with SMPC to review validity of current terminations and cash buy in rules
- Review of settlement and matching standards. (e.g. unilateral instruction cancellation)
- Review negative rate repo operational practices



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Calculation of interest in floating rate repos

Richard Comotto





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Cédric Gillerot & Jean-Robert Wilkin



Triparty Interoperability

A framework for European wide GC basket trading

Briefing on repo related topics

ICMA - European Repo Council General Meeting

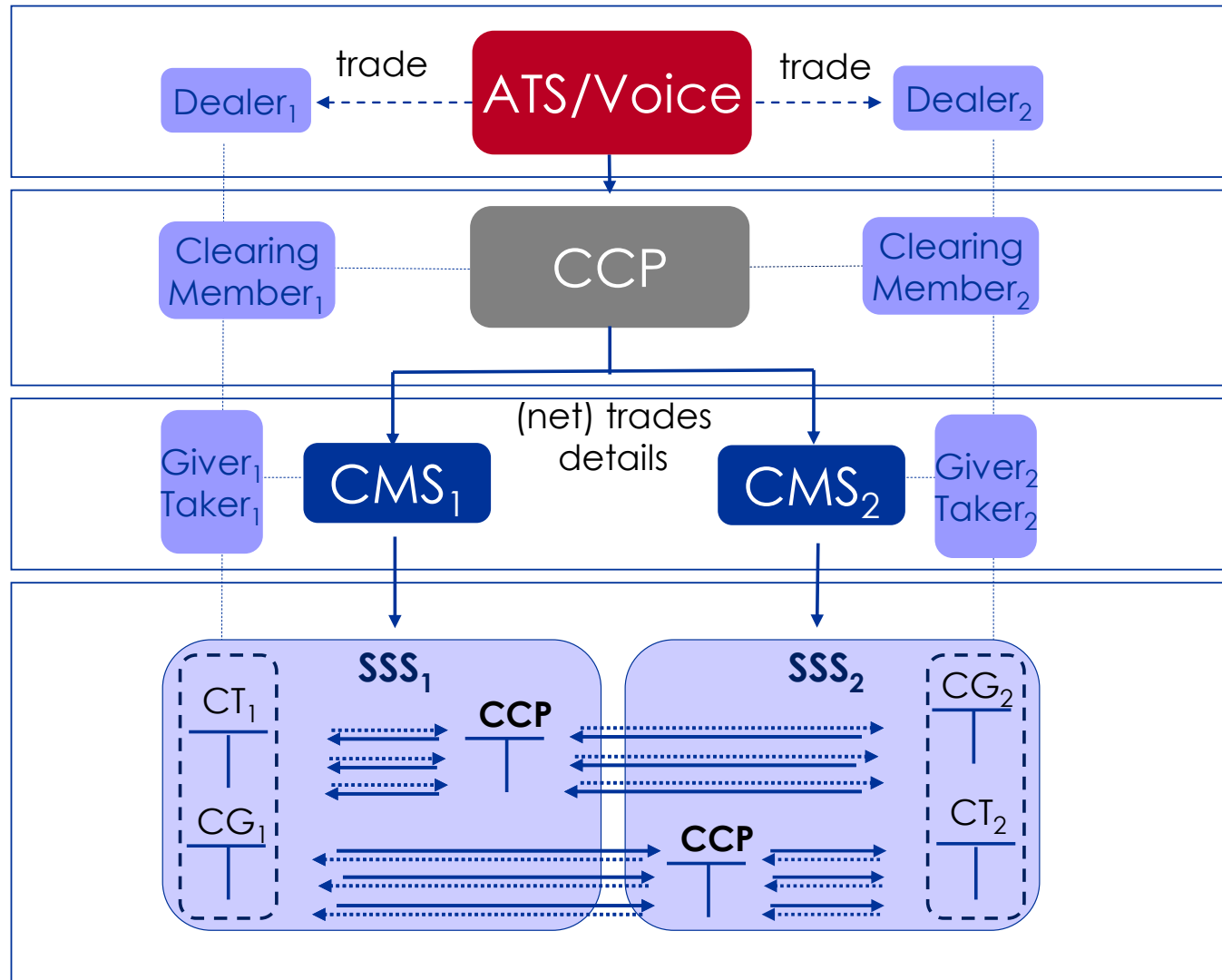
London, 27 September 2012

Triparty Interoperability

Status following ERC AGM 18.01.2012

1. January – May : joint workshops held between CCPs and ICSDs to answer all questions of CCPs and collect their requirements.
2. 03 May 2012: Presentation to 1st. Meeting of ad-hoc COGESI on Collateral Harmonization.
3. 31 May 2012: Presentation to ERC Ops Group, for endorsement of the model.
4. 19 June 2012: ERC meeting at ISLA conference. ERC formally requests ICSDs to proceed with the development of the model.
5. Q4 2012: CCPs to confirm to the ERC, their commitment to use the proposed Triparty Interoperability model and their specific requirements, if any.

Triparty Interoperability – Model



Status – July 2012

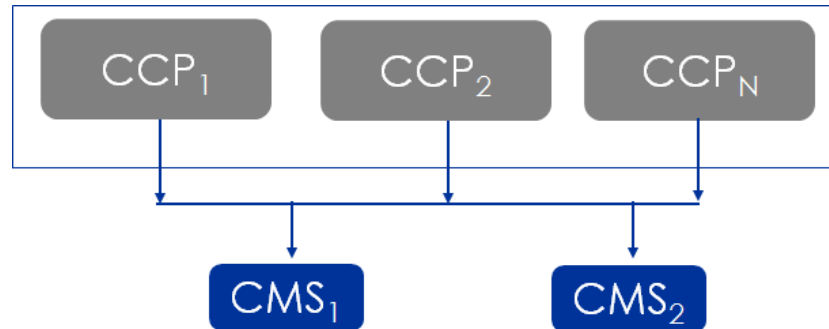
Outcome of workshops CCPs / ICSDs:

- *Points already covered/discussed*
 - Interoperable baskets definition
 - Collateral valuation
 - Settlement process
 - Collateral operations, including substitutions
 - Shaping/partialling
 - Credit needs / Treasury Mgt
 - Fails treatment
 - Collateral re-use (configuration/parameterization/impacts)
 - Bridge settlement
- *To be further investigated in near future*
 - Default management (main principles)
 - Management of concentration limits
- *Other topics to be discussed bilaterally between each CCP and each ICSD*

– Reporting	Standard ICSDs reporting to be presented
– Event of default	CCPs to confirm tools requirements
– Fee structure	To be discussed

Basket definition

Each CCP defines the interoperable basket(s) it will clear:



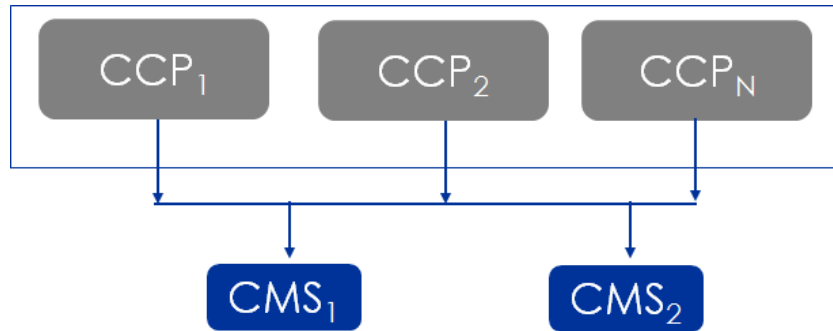
Two alternatives to be supported:

Basket(s) defined as a
list of ISINs

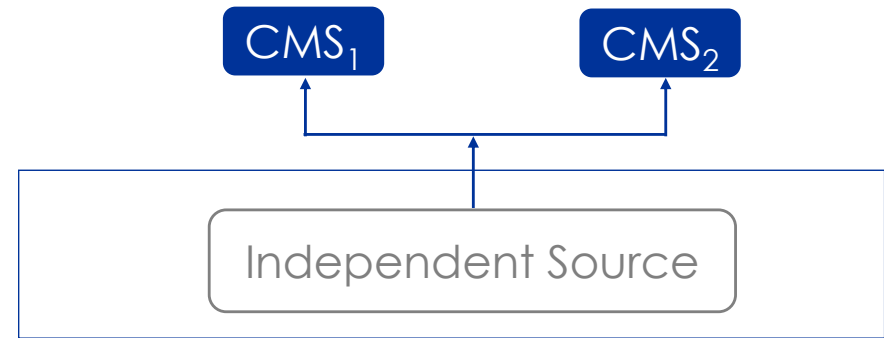
Basket(s) defined as
categories of assets (e.g. DE
government bonds)

Collateral valuation

Two alternatives to be supported:



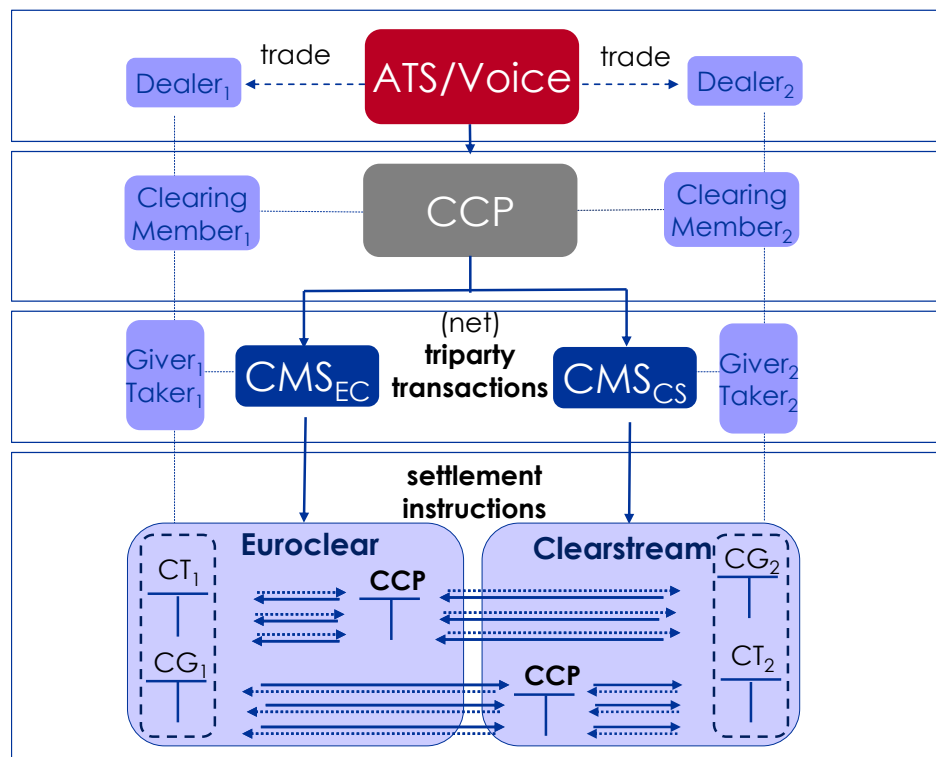
Each CCP sends collateral valuation data (prices, haircut, FX) to be taken into account by the interoperating CMSs for the processing of the interoperable CCP basket(s)



The interoperating CMSs collect from a pre-agreed independent source collateral valuation data to be taken into account for the processing of interoperable CCP basket(s)

Settlement process

GC basket business



-CCP inputs net triparty transactions details

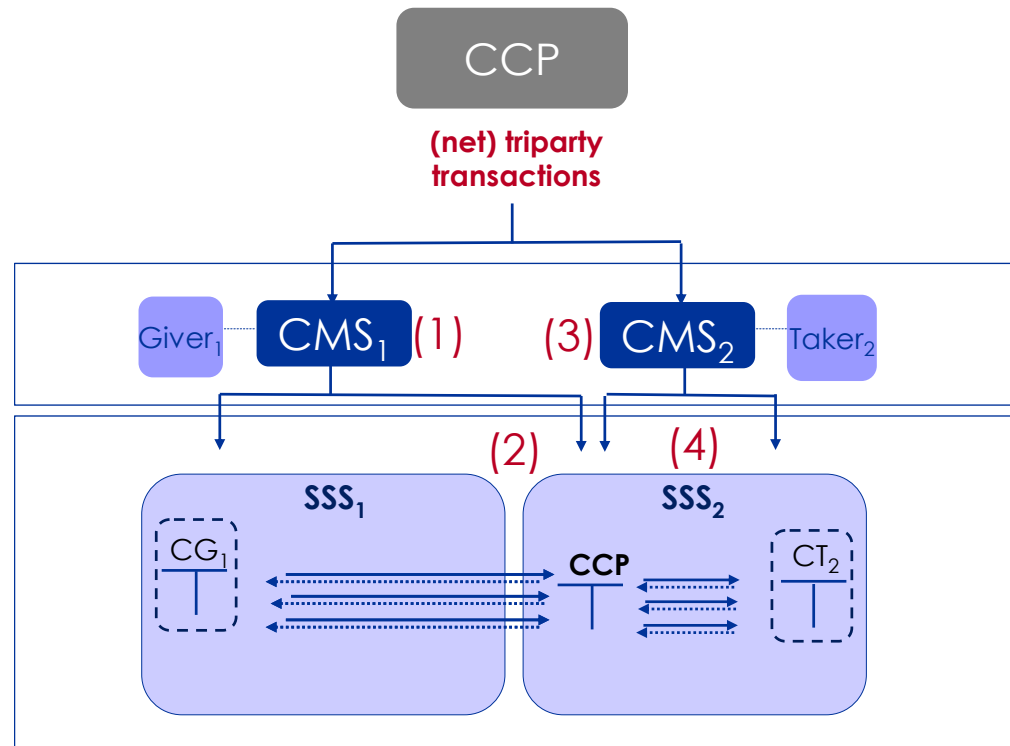
-CMSs manage the allocation and collateralization process (a.o. screening, valuation)
- CMSs manage the settlement process of individual lines within a basket
- CMSs provide transaction & collateralization reporting

- **Standard DvP settlement**
- **Standard settlement reports**

GC basket business - CCP Impacts:

1. CCP instructs CMS with Collateral messages (e.g. MT527, MT558, MT569)
2. CMSs manage the settlement and collateralization processes

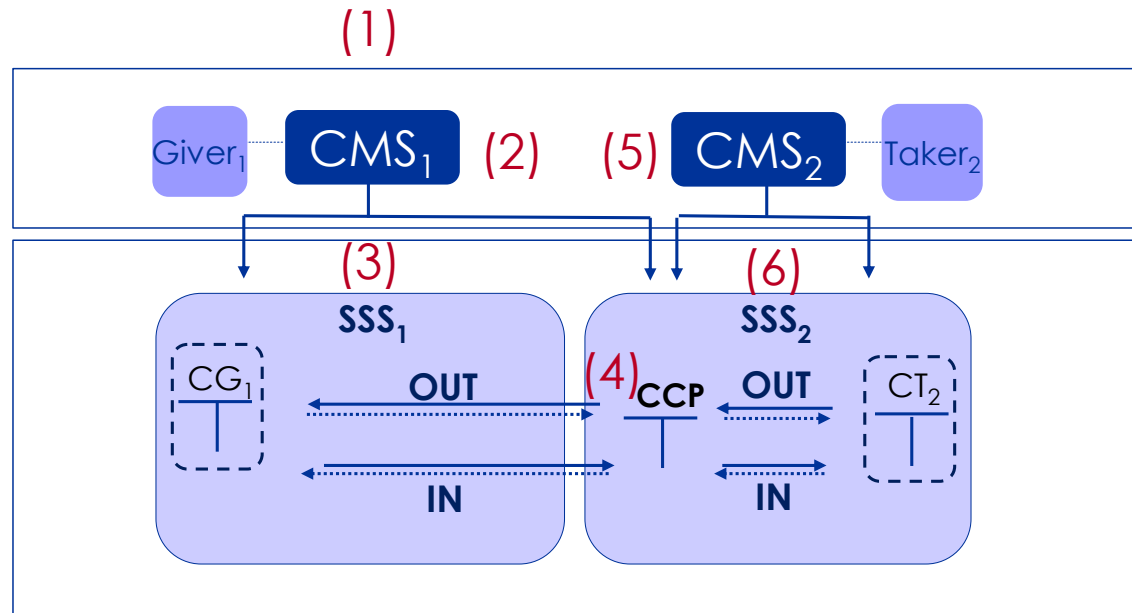
Collateral operations – Initiation of a new transaction



Process description:

- (1) CMS₁ (net Collateral Giver) validates and matches the triparty messages, allocates eligible collateral and injects cross-SSS DvP settlement instructions
- (2) Settlement of the instructions injected by CMS₁
- (3) CMS₂ (net Collateral Taker) validates and matches the triparty messages, allocates eligible collateral and injects internal DvP settlement instructions
- (4) Settlement of the instructions injected by CMS₂

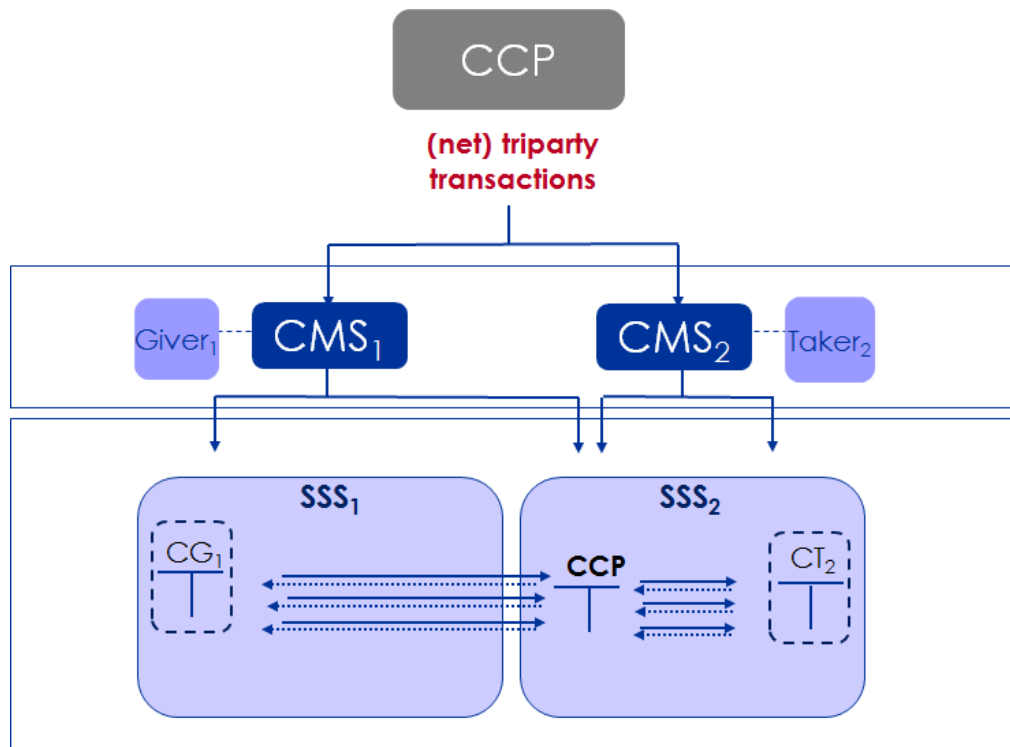
Collateral operations – Substitution



Process description:

- (1) CMS_1 identifies a need for substitution (settlement delivery, corporate event ...)
- (2) CMS_1 automatically triggers substitution processing and injects cross-SSS DvP settlement instructions
- (3) Settlement of the instructions injected by CMS_1
- (4) The (OUT) instruction of CMS_1 is identified as a need for substitution by CMS_2
- (5) CMS_2 automatically triggers substitution processing and injects internal DvP settlement instructions
- (6) Settlement of the instructions injected by CMS_2

Shaping / Partialling



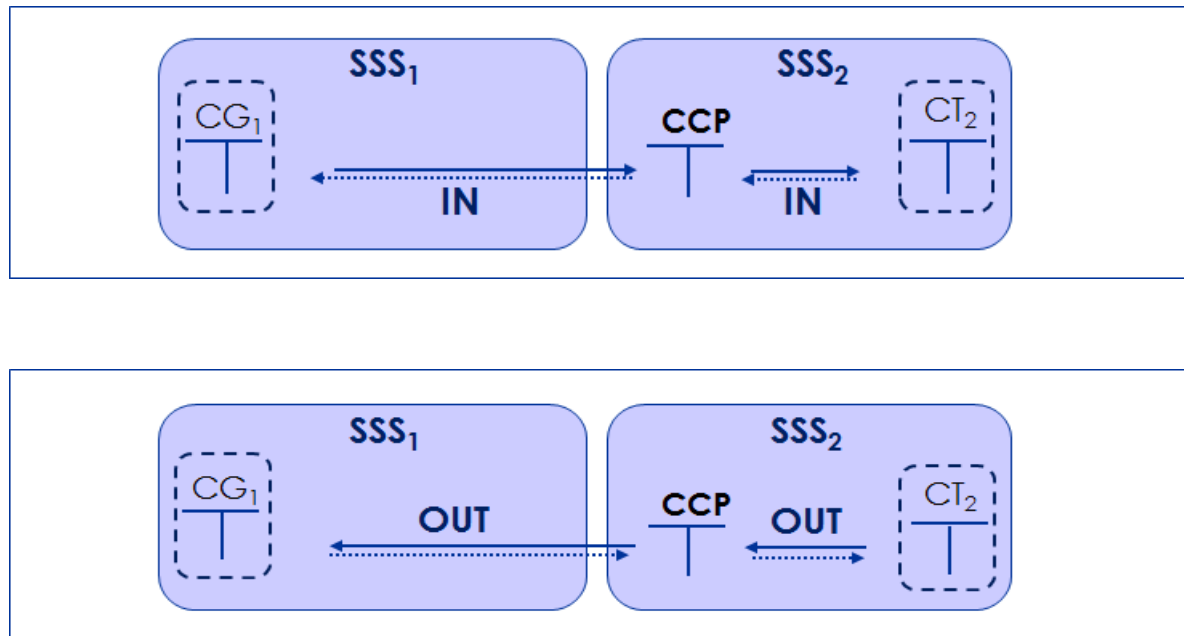
➔ Shaping possible, if needed, by the CCP (net exposures)

➔ Partialling at the level of the CMS (net exposure)

➔ No partialling by ICSDs at the level of the settlement (individual ISINs)

Credit needs / Treasury Mgt

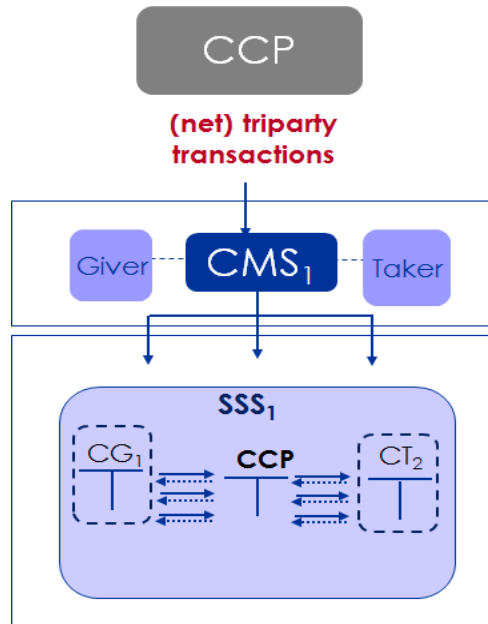
Standard DvP settlement process



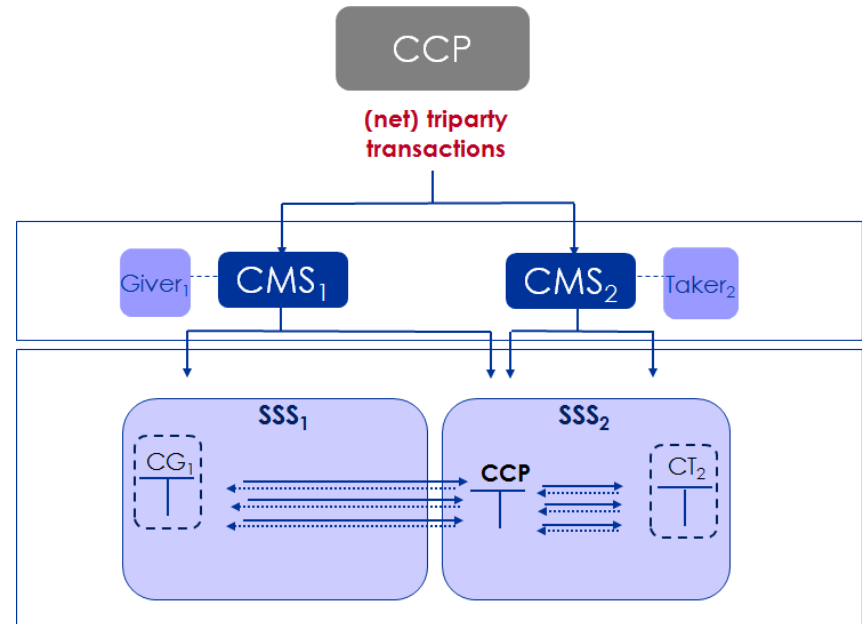
➔ Credit / Purchasing power

Fails treatment

Non-interoperable



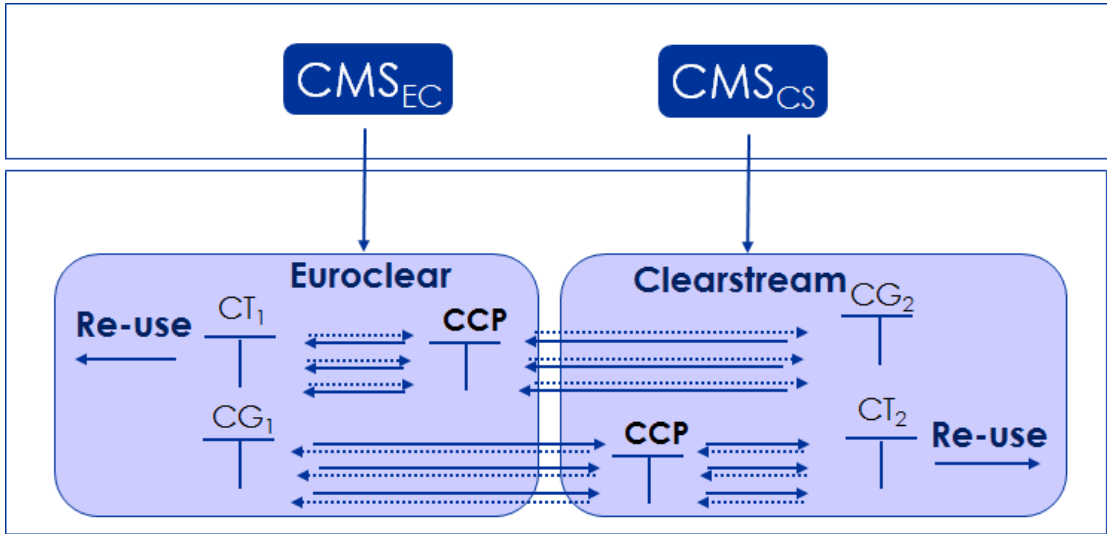
Interoperable



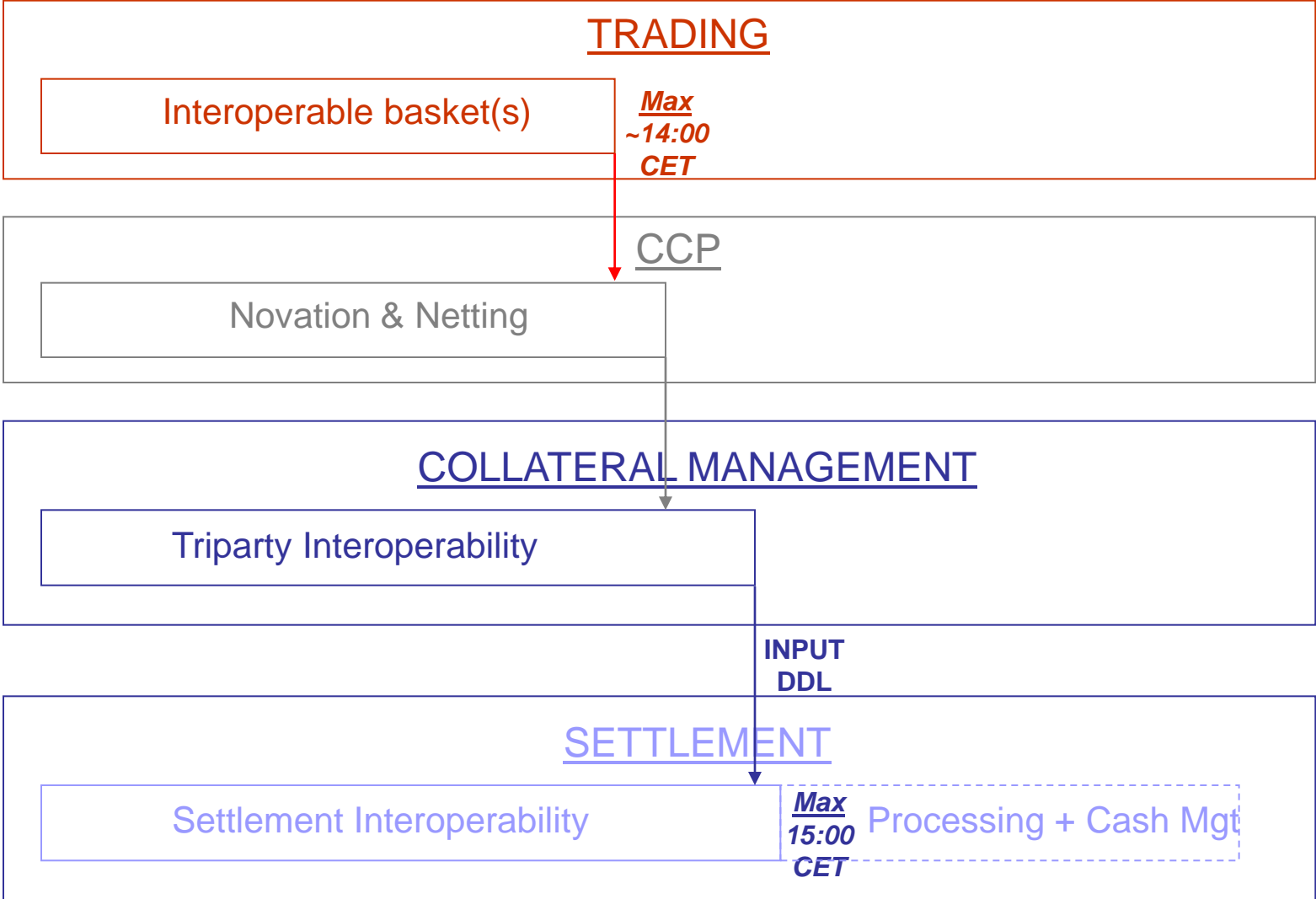
➔ No difference, on the principles, vis-à-vis non-interoperable triparty business.

Collateral re-use

Collateral re-use (rehypothecation) possibilities	Supported by Triparty Interoperability?
No re-use at all by a collateral taker	Yes
Whatever, in bilateral	No
Re-use in triparty, only to central bank	Possibility to be configured according to each CCP requirements (Feasibility to be confirmed by ICSDs)
Re-use in triparty, including in other CCP GC product	
Re-use in triparty, except in other CCP GC product	
+ <i>Other possible configurations to be taken into account...</i>	



Collateral operations timing for same-day repos



Triparty Interoperability operations timing

- Longer processing time of collateral operations (up to 02h30);
- DvP settlement deadline 15:00 CET (« Bridge »);
- Substitution capability ~14:00 CET.

Possible positive impacts linked to:

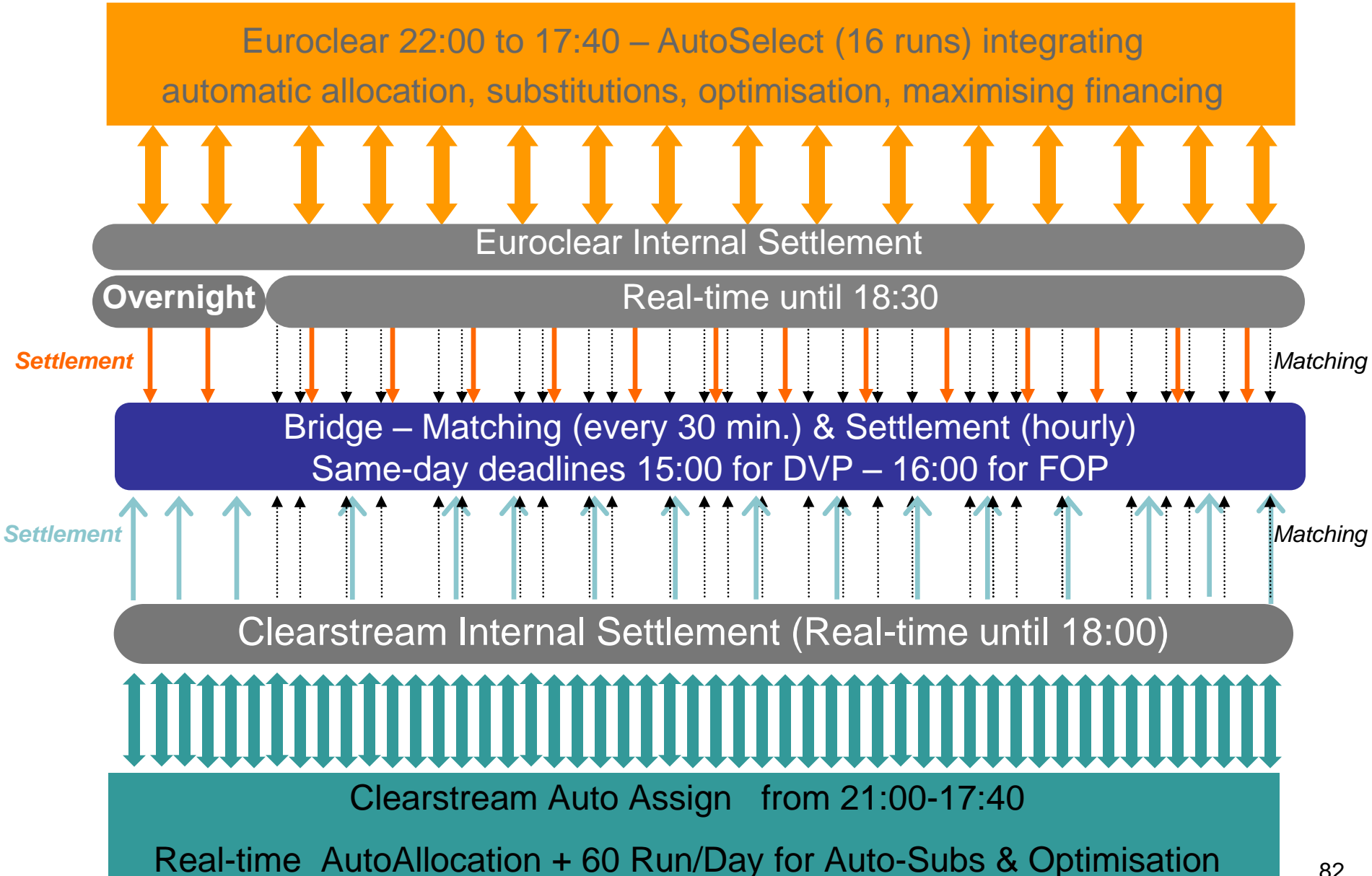
- Evolution of the cash & securities settlement deadlines in the respective SSSs;
- Settlement interoperability between the respective SSSs (i.e. Bridge for ICSDs) and/or consolidation of SSSs / implementation of T2S;
- Evolution of deadlines, allocation modules and processing times of the respective CMSs.

ANNEXES

CCPs GC products

Application of the Triparty Interoperability model to
ICSDs (Euroclear Bank & Clearstream Banking
Luxembourg) in a pre-T2S environment

ANNEX I: Bridge settlement between ICSDs and Triparty Interoperability for CCPs GC products pre-T2S



Update on Regulatory Issues

David Hiscock, ICMA
John Serocold, ICMA

**European Repo Council
General Meeting**

**London
27 September 2012**

Regulation of repos – an aspect of shadow banking

- FSB workstream related to securities lending/repos
 - Led by David Rule from the UK FSA
 - Interim report issued 27 April
 - ERC comments submitted 22 May, drawing on R. Comotto's 2 published papers
 - Latest update delivered at today's ERC General Meeting
- European Commission shadow banking workstream
 - EU level work, in parallel with FSB
 - Consultation paper published 19 March
 - 27 April public conference in Brussels – speakers included D. Rule & R. Comotto
 - ERC response to consultation submitted 30 May

Measures to facilitate orderly recovery & resolution

- On-going developments at international level
 - Effective resolution of Systemically Important Financial Institutions
 - July 2011 consultation issued by the FSB / ERC response submitted August 2011
 - FSB finalised “Key Attributes of Effective Resolution Regimes for Financial Institutions”
 - published October 2011
 - July 2012 CPSS/IOSCO consultation re FMIs / ERC response September 2012
 - Parallel ERC response to HM Treasury re resolution of non-bank financial entities
- European level legislation
 - EU framework for bank recovery and resolution
 - Commission proposal published June 2012 – being debated by Parliament & Council
 - Bail-in of creditors – subject to ex-ante exclusion of secured liabilities (repos)
 - Temporary stay of close out rights (until no later than 5pm on next business day)

Evolving collateral requirements: margin standards

- Draft technical standards for EMIR
 - Technical standards for OTC Derivatives, CCPs and Trade Repositories
 - ESMA consultation February 2012 / ERC response submitted March 2012
 - Risk mitigation techniques for OTC derivatives not cleared by a CCP
 - Joint ESA consultation March 2012 / ERC response submitted April 2012
- International standard re margin for non-centrally-cleared derivatives
 - BCBS/IOSCO consultation proposal issued July 2012
 - Includes proposal to require that initial margin be exchanged on a gross basis
 - ERC response submitted September 2012

Markets in Financial Instruments Directive/Regulation

- Big stuff
- Timetable:
 - Expect law to be passed Q1 2013; may slip
 - Up to 3 years for implementation – a lot to do
- Market structure:
 - Need to keep repo out of post-trade transparency
 - Support for allowing capital commitment in OTFs
- Investor protection:
 - Beware consequences of changes to client categorisation

New EU regulation re (I)CSDs

- Commission CSD Regulation proposed March 2012
 - European Parliament and Council now debating
 - Will establish a new EU regime for authorised providers of CSD services
 - Also includes significant provisions relating to market efficiency:
 - Standardisation of settlement at T+2;
 - Market discipline (buy-ins);
 - CSD interoperability and access; and
 - Restriction of CSDs regarding provision of “banking” services

Thank you, Ladies and Gentlemen

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The potential positive & negative impacts of current regulator proposals

Moderator: **Godfried De Vidts**, Director of European Affairs, ICAP and Chairman of the ERC

Panellists: **Eduard Cia**, Managing Director, Head of Treasury, UniCredit Bank AG
 Stefano Bellani, Managing Director, Head of the Finance Desk, EMEA and Asia, J.P. Morgan Securities Ltd
 Michel Semaan, Managing Director , Head of Credit and Emerging Markets, Nomura International plc
 Jean-Michel Meyer, Managing Director, Global Head of Repo, HSBC Bank plc



ICMA

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Any other business





ICMA

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Next meetings

An ERC general meeting will be held on the 11 March 2013 at the Intercontinental Hotel Opera in Paris, hosted by Euroclear