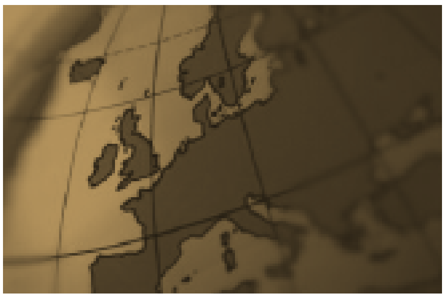
ICMA
International Capital Market Association

ICMA Regulatory Policy Newsletter

Issue No. 5: April 2007

In this issue:



Assessing the Impact of the Prospectus Directive

Almost six years after the initial proposal for the Prospectus Directive was published, a pan-European public offer and admission to trading prospectus regime is a reality. Now is, I believe, a good time to pause to think about what impact it has had so far. Has it created a single pan-European primary market as its proponents argued? Or has it unnecessarily increased regulation of international debt markets, increasing costs and stifling growth and innovation in the market as some feared?

Kate Craven, Barclays Capital, Chairman of the ICMA Legal & Documentation Committee

Some may argue that it is too early to say. After all, the Prospectus Directive was only really implemented across the EU last year while one member state still does not have the implementing statute on its books. I agree that it may be difficult to predict any long-term impact at this stage. Market participants, however, have had over three years since its adoption to analyse the new regime and adjust documentation and market practice. The short-term impact of the new regime on the market should therefore be clearly visible – and it is.

The comparability of prospectuses approved in different EU member states has improved. It is indeed generally possible to use a prospectus outside the EU member state where it was approved without having to include additional country-specific information, translate it into the local language or go through a local review and approval of the prospectus. Harmonisation of the exemptions has simplified parallel private placements. This all involves real savings and is a significant achievement.

We are, however, a long way away from a single pan-European primary market. Having a prospectus approved in one EU member state and using it to make a non-exempt public offer in one other member state is easy; using it to make such an offer in five or ten other states at the same time is difficult and sometimes impossible.

Most importantly, having a passported prospectus compliant with the Prospectus Directive and Regulation is often not enough. Many EU member states still impose additional requirements. Investigating and complying with them while co-ordinating the timing with other EU member states is no easy task. Most of these requirements are more or less clearly against the principles of the Prospectus

Directive and certain of them border on the absurd. In some cases, one cannot help but feel that their purpose is to protect the local market from foreign investment products.

Secondly, numerous provisions of the Prospectus Directive and Regulation lend themselves to different interpretations – which are inevitably what the issuer will be faced with if a non-exempt public offer is being made in more than one EU member state. The current conundrum surrounding "retail cascades" is a good example but there are others. In addition, certain crucial aspects of securities offerings – most notably the liability for misleading or incorrect disclosure – have not been harmonised at all.

To summarise, conducting parallel securities offerings in several EU member states still remains difficult, expensive and legally risky. A cynic might say that, once the dust settles, we will see that we are where we started, as the preferred way still is to make an offer to the public in one state and parallel private placements in several others. The only thing that will have changed, the cynic might argue, is that many more issues will be in denominations of over €50,000, listed outside the EU or on "exchange-regulated" markets and that the range of investment opportunities available to retail investors will be even more limited than before.

An optimist, however, would note that this is an outcome which is now widely recognised – and as a negative one at that – and that the industry is working with the EU institutions and other involved parties in identifying the various problems and addressing them. A truly integrated single primary market may seem a bit too ambitious a goal at the moment, but I believe we are moving towards it – albeit in small steps.

ICMA's response to CESR on the Prospectus Directive and Regulation

We have responded to CESR`s Consultation Paper on the supervisory functioning of the Prospectus Directive and Regulation. In addition to answering the specific questions asked by CESR, we took the opportunity to provide a more comprehensive summary of the market's perception of the impact of the Prospectus Directive and Regulation on international debt markets.

The most important observations we made in our response were the following:

- We fully support the aims of the Prospectus Directive and Regulation. So far, however, they have brought about only limited benefits. A true single EEA primary securities market (in particular for retail investors) has not materialised.
- There are considerable differences in the way the Prospectus Directive and Regulation have been implemented and interpreted across the EEA and some of these differences inhibit the development of a true single market for securities. This is partly due to different interpretations of the less clear provisions of the Prospectus Directive and Regulation and partly to the numerous additional requirements retained by some member states.
- The passporting mechanism has contributed considerably towards creating a single market for securities but a number of direct and indirect obstacles to its efficient functioning retained by some member states prevent it from providing its full benefits. Cross-border public offers and admissions to trading still involve unnecessary additional risks and costs compared to domestic ones.
- The range of investment opportunities available to a pan-EEA investor has not changed substantially since the introduction of the new prospectus regime. Regulatory obstacles and legal risks have in fact reduced the choice of investment opportunities available to retail investors.

We continue to engage with CESR, the Commission and several national regulators on a range of topics related to the Prospectus Directive and Regulation. We are also working on a number of changes to the existing suggested forms of selling restrictions and final terms/pricing supplements which are partly driven by the experience with the implementation and application of the Prospectus Directive and Regulation across the EEA. Any comments, questions or suggestions in this area would be much appreciated.

Contact: Ondrej Petr
ondrej.petr@icmagroup.org

Implementation of the Transparency Directive

The implementation of the Transparency Directive (TD) has created significant challenges for issuers of and investors in securities on EEA regulated markets. To help members deal with these issues, ICMA has set up a TD Working Group.

The deadline for implementation of the TD expired on January 20, 2007 at which point only the UK and a handful of other member states had transposed the TD and the Level 2 Implementing Directive to which it refers.

ICMA was extensively involved in consultations on the draft rules and is largely satisfied with the outcome, though a number of important issues remain. In terms of periodic financial reporting these include: inconsistencies between the liability rules applicable to TD periodic reports and those applicable to other market announcements; the paucity of guidance on the content of TD interim management statements; the scope of the exemption from periodic reporting for public sector guaranteed issuers; and the equivalency of non-EEA periodic reporting regimes.

In terms of major shareholding notifications, outstanding issues include: the disclosure of holdings in asset management entities to reflect client agreement on discretionary or non-discretionary management; how to effect group aggregation or disaggregation of voting rights; how to treat new financial instruments conferring unconditional rights to shares; and the equivalency of non-EEA major shareholding notification regimes.

From a pan-European perspective, the minimum harmonisation status of the TD is likely to lead to non-harmonised implementation and therefore problems for international participants. The extent of this issue is still undetermined as many member states have not yet implemented the TD and Level 2 Implementing Directive. However, this may also present an opportunity to advocate the export of elements of the UK approach to implementation (as adapted where appropriate) across Europe.

In terms of the TD requirements (see the box below) for establishing central storage mechanisms and interlinking them in a pan-European network, the Commission (DGMarkt) recently published a Working Document (ESC/10/2007 rev1) setting out possible minimum standards for entities charged with storing regulated information, and minimum conditions for a pan-European network of national central storage mechanisms.

The Commission invited interested parties to comment on the Working Document which was described as informal and not a draft implementing measure. Having sought the views of members, ICMA responded in support of both the central storage mechanism standards and network conditions as a sensible starting point. However, we also expressed concern that a number of areas critical to the operation of storage mechanisms and the network (including development timescales and underlying legal and governance structures) were not adequately addressed.

Building on the January 2007 seminar on the implementation of the TD in the UK, and depending on discussions in the TD Working Group, we anticipate a series of further TD implementation events looking at other key jurisdictions. We also intend to follow up with the Commission, CESR and individual regulators on the above and other implementation issues.

Contact: Christian Krohn
christian.krohn@icmagroup.org

The Transparency Directive in Brief

The TD (together with the Level 2 Implementing Directive) imposes periodic and ongoing disclosure obligations on issuers admitted to trading on regulated markets in the EEA. While transparency obligations have long been covered by European legislation, the TD introduces significant changes to the details of the existing regime. With certain exemptions, issuers will be required to publish annual reports, half-yearly reports and (in case of issuers of shares) quarterly interim management statements. The content, timing and publication requirements are more demanding than previously the case in most EEA member states. Investors in shares and related financial instruments need to comply with shareholding disclosure rules. The TD has changed the scope of the notifiable instruments and holdings, the principles of aggregation and disaggregation and the timing of disclosure.

All the information required to be published under the TD (together with the information published as insider information under the Market Abuse Directive and the information published under local requirements) must be disseminated throughout the EEA and made available throughout the EEA in electronic storage mechanisms. With a view to allowing easy access to the stored information, the Commission and CESR are currently working towards establishing minimum standards for the entities charged with the storage of regulated information, and minimum conditions for inter-connecting these entities in a pan-European network.

As in the case of the Prospectus Directive, the TD is based on the "home/host" member state concept. Unlike the Prospectus Directive, the TD is a minimum harmonisation measure: ie home member states are free to impose additional rules and requirements.

For details of ICMA's involvement with the implementation of the TD and for our current concerns, please see the ICMA website.

MiFID Implementation

The timetable for firms preparing to implement MiFID is very tight. Only three member states (the UK, Bulgaria and Romania) transposed MiFID into their national laws by the deadline of January 31, 2007, and there is some doubt about whether the others will all do so by the implementation date of November 1. There is a significant range of issues on which CESR is still consulting, or on which CESR guidance and recommendations are still awaited: in particular, passporting, inducements, transaction reporting and best execution.

Together with a wide range of other associations in Europe, ICMA has participated in joint responses to CESR Consultation Papers on passporting and inducements (dated February 9). In the UK, ICMA has participated in a final response to the FSA on CP06/19 on conduct of business regulation (dated February 23). A joint response to CESR on transaction reporting was submitted on March 2 and a joint response on best execution (excluding the scope of the best execution obligation) on March 16. In general, the market has been critical of regulators' propensity to reduce the flexibility available to firms under MiFID (eg on best execution), and to impose additional requirements beyond MiFID, including differing requirements in different member states (eg on transaction reporting). All these responses have been published under MiFID on the Regulatory Policy section of the ICMA website.

Following consultations with the European Securities Committee (ESC) in February and March, the Commission's reply to questions from CESR on the scope of the best execution obligation is expected to be published shortly. We understand that the Commission's interpretation is broadly consistent with a joint buy-side/sell-side paper on scope submitted on February 7.

ICMA also continues to be involved in the work of MiFID Connect on helping firms in the UK to implement MiFID. Drafts of the MiFID Connect industry guidelines on suitability and appropriateness, outsourcing, investment research, conflicts of interest and best execution (excluding scope) have now been published on the MiFID Connect website.

In addition, ICMA – on some occasions in collaboration with the European Financial Markets Federation (see back page) – is continuing to hold seminars on MiFID implementation to help members in countries outside the UK prepare for the implementation of MiFID. Following seminars in Zurich, Lugano and Geneva in November and Luxembourg in December, a seminar was held in Brussels on February 7, in Paris on February 15, in Milan on February 16 and in Vienna on February 28. Over 1,500 people have participated in these events so far.

Contacts:
Richard Britton and Paul Richards
richard.britton@icmagroup.org
paul.richards@icmagroup.org

The timetable for firms preparing to implement MiFID is very tight. There is a significant range of issues on which CESR guidance is still awaited.

Bond Market Transparency

Taking into account the comments we received from ICMA members on the Discussion Paper on bond market transparency, we are now consulting ICMA members as a whole through a Questionnaire.

In our response in September 2006 to the Commission Call for Evidence on bond market transparency (BMT), ICMA opposed the extension of MiFID to non-equities but indicated that we would return to the Commission with our conclusions on proceeding with a self-regulatory initiative on enhanced post-trade data. In February, we published a Discussion Paper with some preliminary ideas about how the industry might deliver benefits through increased post-trade bond market transparency. Taking into account the comments on the Discussion Paper we have received from ICMA members, we are now consulting ICMA members as a whole through a Questionnaire.

ICMA also responded to a CESR Call for Evidence on BMT re-stating our conviction that there is no market failure requiring regulatory intervention but that we want to engage with European institutions to assess where market-led solutions may deliver benefits. Among the other respondents to the Call for Evidence, nearly all argued against regulatory intervention and most were cautiously positive about the potential for an industry led post-trade transparency initiative. CESR will use the evidence collected to inform its BMT Consultation Paper and ultimately its advice to the Commission, which is due to publish a report early next year on whether to extend the transparency provisions of MiFID to bonds.

In March, a cross-market group of associations (ABI, EHYA, IMA, LIBA and ICMA) published an independent study on the transparency, liquidity and efficiency of high yield corporate bond markets in Europe. The research was commissioned to inform the associations' input into the Commission's BMT review. Key findings include: the European high yield market is relatively active; there is more concentration among high yield dealers than in the investment grade sector; high yield spreads are wider than investment grade spreads; mandatory pre-trade transparency would be detrimental to the market; and market views on post-trade transparency are varied within and between the buy and sell side.

Contacts: Christian Krohn
christian.krohn@icmagroup.org

ECP and the UCITS Implementing Measures

After a long period of negotiation, in the course of which ICMA's Euro Commercial Paper (ECP) Committee was consulted by the Commission, on January 17 the ESC approved a new Directive on UCITS implementing measures. The Directive is intended to clarify (at Level 2) which assets are eligible for investment by UCITS, taking account of changes in the market since the original UCITS Directive (at Level 1) was adopted in 1985 (85/611/EEC).

The Directive was published on March 19 in the *Official Journal,* and the Commission also published (on January 17) a background note. In the background note, the Commission argued that the new Directive will reduce the potential for divergent interpretations, improve the functioning of the product passport and improve legal certainty; it explains why the new measures take the form of a Directive (which has to be transposed into the national law of each EU member state) rather than a Regulation (which applies directly in each Member State); and it also gives some guidance on each of the clauses.

The new Directive needs to be read as a whole, ideally in conjunction with the original 1985 Directive and subsequent amendments. But the key passages for the ECP market in the new Directive are Article 5 (which includes provisions about information on the issue or issuance programme) and Article 7 (on asset backed commercial paper). In its background note, the Commission says that "Article 7 aims to reflect the market practices existing in the field of asset backed commercial paper".

Under Article 13 of the Directive, Member States have up to 12 months to transpose the Directive into their national law, plus a further 4 months before it comes into effect. Some Member States are expected to transpose the Directive well within 12 months.

On the same date that the Directive was published in the *Official Journal,* CESR published guidance on how national regulators should apply the new Directive (at Level 3).

Contact: Paul Richards
paul.richards@icmagroup.org

The ECP Market

The Euro Commercial Paper (ECP) market is a well-functioning, competitive, high quality, professional cross-border short-term debt market which offers excellent opportunities for issuers to raise working capital and other short-term funding as well as for institutional investors to make varied and reliable short-term investments. Since 1994, there have been no defaults in the ECP market and, in the 22 year history of the market, there has not been any scandal nor accusations of improper dealing.

The ECP market has grown strongly since the introduction of the euro with €573 billion equivalent of short-term notes now outstanding. The compound annual growth rate since the beginning of 1999 is over 20%. The market now provides a deep and realistic alternative to the US CP market for all types of commercial enterprise seeking to access liquid and well-priced funding. It also provides a wealth of investment opportunities for the wide range of investors who have contributed to the great success of the market in recent years.

In 1999, the ECP market was just 1/9th the size of the US CP market. As a result of its growth since 1999, the ECP market is now over 1/3rd the size of the US CP market. (CDs are not included in the US or European figures.) In other words, it has been growing towards a size which would be more representative of the relative sizes of the EU and US economies.

The dealers and issuing and paying agents in the market are a mixture of European and US investment banks, all of which are regulated by national regulators in the EU. All take their responsibilities towards investors and issuers very seriously.

Within the ECP market, asset-backed ECP (ABECP) is the fastest growing sector. ABECP has grown from virtually nil to a 34% market share over the past 5 years. ABECP is well-structured and actively reviewed by both rating agencies and dealers, and monthly investor reports are produced to keep participants abreast of developments.

ECP and ABECP borrowers are highly rated institutions. Almost 90% of ECP is rated "short term A-1/P-1-or-better", which generally equates to A1/A+ long term. All 100% of ABECP is rated A-1/P-1 (or equivalent) or better and is often A-1+/P-1, which equates to at least Aa3/AA- long term. Corporate and ABECP programmes must have backstop liquidity facilities (or equivalent mechanisms) from highly-rated banks to pay off maturing CP should it not be possible to roll over the CP with investors. Bank issuers are highly regulated and have access to the interbank market and central banks for liquidity.

ABECP conduits (or special purpose vehicles (SPV)) are established usually by highly-rated banks for a limited purpose (ie funding a set of broadly defined assets), so that investors can readily evaluate their investment by reviewing information memoranda, rating agency reports and other available information. Conduits issue regular monthly "pool reports", which broadly describe current assets and verify compliance with programme requirements for the benefit of investors.

Regulation of Audit Firms: Non-EEA Auditors and Auditors` Liability

We continue to engage with the Commission on the regulation and supervision of non-EEA auditors auditing non-EEA issuers admitted to trading in the EEA and the possible limitation of auditors` liability for statutory audits, the two key issues arising from the new Statutory Audit Directive. In March, we submitted our responses on both issues.

In relation to non-EEA auditors, we support the proposals to assess the equivalence of audit frameworks of all non-EEA countries whose issuers are admitted to trading in the EEA and introduce a transitional period beyond June 2008, the implementation date of the Directive (during which non-EEA auditors could continue to operate under their domestic standards), to allow sufficient time for the assessment. Our main goal is to avoid market disruption and maintain the attractiveness of the EEA markets to non-EEA issuers.

In relation to auditors` liability, we suggested that the analysis takes into account a number of previously neglected aspects, in particular the impact of any limitation of auditors` liability on investors and other professional advisers of issuers. We believe that if the case is eventually made for the limitation, the harmonisation should take the form of a high-level recommendation with its scope limited to liability of auditors for statutory audits as normally used. Of the options proposed, we find proportionate liability (rather than any fixed liability caps) the least problematic solution, provided that the same treatment is extended to other professional advisers of the issuers involved in the preparation of the audited financial statements.

Both discussions are of tremendous importance to the EEA capital markets and should be of interest to all market participants. We welcome any comments on our position or other suggestions.

Contact: Ondrej Petr
ondrej.petr@icmagroup.org

The regulation and supervision of non-EEA auditors auditing non-EEA issuers admitted to trading in the EEA and the limitation of auditors' liability for statutory audits are the two key issues arising from the new Statutory Audit Directive.

Clearing and Settlement

TARGET2 Securities (T2S): Following calls for a cautious and step-by-step approach from the industry and Finance Ministers (see page 13 of ECOFIN conclusions), the Governing Council of the ECB has decided to go ahead with the next phase of the project, namely the definition of user requirements on the basis of market contributions. The scope of the project will be determined by taking into account the results of a public consultation. The Governing Council will only then decide on the subsequent development phase. This decision is expected by early 2008 (see ECB Press Release).

The blueprint and feasibility study were published by the ECB (see link) and presented to industry in a tri-party meeting in Frankfurt on March 12. The detailed design of the governance structure for the project is still under discussion and may not be finalised before end-April. In a joint letter with other pan-European securities sector associations, ICMA has underlined the importance of full involvement of the international securities sector associations in the future governance structure, notably in the project steering committee.

In a separate letter, ICMA's European Repo Committee (ERC) has strongly suggested direct representation of the ERC in the T2S steering committee.

Code of Conduct: The first phase of the Code of Conduct for clearing and settlement, requiring transparency in pricing and invoicing came into force on January 1, 2007. While infrastructure providers have widely complied by putting price lists on their websites, industry and the Code Monitoring Group have requested the providers to continue their work in this field towards increased comparability of these lists and better structuring and reconcilability of their invoices.

ICMA agrees with ESF (a member of the European Financial Markets Federation) and other securities sector associations that the next phase of the Code, namely establishing access and interoperability conditions by June 30, 2007, is a much greater challenge for the infrastructure industry. ICMA has expressed its expectations to representatives of three infrastructure associations (FESE, ECSDA and EACH).

Contacts: Gregor Pozniak
gregor.pozniak@icmagroup.org

ICMA's Islamic Finance Initiative

The use of Sukuk, or Islamic bonds, has developed into a key mechanism for raising finance in the international capital markets through acceptable structures. Borrowers in the market range from sovereign states, supranational bodies, corporates and financial institutions to power and infrastructure projects. From a modest US$336 million in 2000, Sukuk issuance has grown to over US$24 billion in 2006 (a cumulative total of over US$50 billion, including US$19 billion of global Sukuk issuance).

On the issuing side, key drivers are the need for economies in both the Gulf and Asia to meet their expanding populations' need for new transport, power and infrastructure projects; a demand likely to exceed the lending capabilities of local banks. On the investor side, the investor base is increasingly concerned to invest its savings in Shari'a compliant instruments. This dynamic has been assisted by the application of international banks' financing expertise and related development of Islamic financial law.

ICMA is well placed to assist in this continuing process, in terms of:

- liaising with the various stakeholders (including Islamic and other national regulators, supranational Islamic institutions and other market participants) to foster certainty and flexibility through appropriate guidance and regulation;
- developing and promoting transparency and other best practices (eg through working groups, recommendations and standard documentation); and
- helping deliver technical (eg matching, reporting and data) and educational services.

In this vein, a memorandum of understanding (MoU) was signed on January 30, 2007, with the International Islamic Financial Market (IIFM). The IIFM is a Bahrain-based institution created in 2002 (by the Islamic Development Bank and the central banks and monetary agencies of Bahrain, Brunei, Indonesia, Malaysia and Sudan) with the aim of developing the Islamic capital markets. Currently, IIFM's 32 members also include several MEA finance houses.

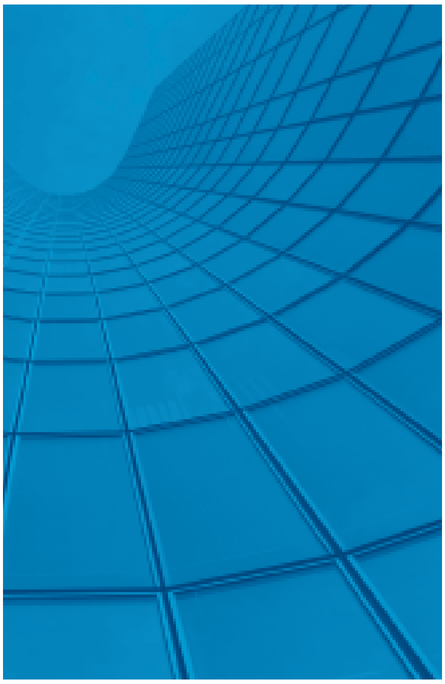
The MoU contemplates an ICMA-IIFM working group (open to all ICMA and IIFM members) to develop market practice, documentation and technical services for Islamic financial products (notably for repos and Sukuks).

A first and wide-ranging post-MoU conference call was held on February 22 with IIFM and a few interested market players. It was agreed to form initially three joint working groups (primary markets; secondary markets/repo; systems). Three initial specific objectives were identified – adaptation of: (i) the IPMA Handbook specifically to address Sukuk issuance; (ii) ICMA's Global Master Repurchase Agreement (GMRA) to enable Shari'a compliant repo trading; and (iii) ICMA's TRAX2 system to enable secondary market transaction matching and reporting. Each working group will itself identify further projects to undertake.

With a view to launching the joint working groups, the following events are planned:

- April 26, 2007, Bahrain: secondary market (GMRA and TRAX2) presentations and floor/panel discussions on possible Islamic adaptations;
- May 18, 2007, London: Islamic primary markets and IPMA Handbook adaptation presentations and floor/panel discussions on possible Islamic adaptations;
- June 18/19, 2007, Bahrain (at the 2nd International Islamic Financial Markets Conference which is sponsored by the IIFM): primary and secondary market presentations and floor/panel discussions on possible Islamic adaptations.

Contacts: Ruari Ewing
ruari.ewing@icmagroup.org



The use of Sukuk, or Islamic bonds, has developed into a key mechanism for raising finance in the international capital markets through acceptable structures. ICMA is well placed to assist, following the signing of a memorandum of understanding with the International Islamic Financial Market.

Other Regulatory Policy News

ICMA Suggested Stabilisation Announcements

We published suggested forms of pre-stabilisation and post-stabilisation announcements, required by Regulation No. 2273/2003 implementing the Market Abuse Directive, in relation to debt instruments admitted to trading in the UK. They are accompanied by suggested language for a notice, to be included in the base prospectus of a debt issuance programme, that stabilisation may be undertaken.

CESR Guidance on Market Abuse Directive

We commented on the draft CESR guidance on the inside information regime under the Market Abuse Directive. The guidance is expected to cover: the concept of inside information; delay in its disclosure; treatment of pending orders and mutual recognition of insider lists. In addition, we raised the topics of the appropriate mode of disclosure of the inside information and the special considerations which arise in case of SPV issuers. The debate will continue and we welcome any comments on our position or other suggestions.

Prospectus Regulation Amended

The regulation implementing the Prospectus Directive was amended to allow the competent authorities to request additional historical financial information in prospectuses in the case of issuers with "complex financial histories". These are issuers who have made (or are about to make) significant acquisitions or disposals. ICMA has been extensively involved in the discussions leading up to the amendment and is in principle supportive of the outcome.

Disclosure of Contracts for Difference (CFD)

As indicated in its Feedback Statement (PS06/11) on the implementation of the Transparency Directive, the FSA is currently exploring whether the current non-disclosure of CFD positions (other than in takeover situations) presents a market failure as well as the cost/benefits and practicalities of differing CFD disclosure regimes. The FSA expects to publish the results of this analysis in summer 2007 in either a Consultation Paper with proposed rule changes (if the evidence points clearly to the need for CFD disclosure) or a Discussion Paper (if the findings are less clear suggesting the need for more market guidance). Mandatory CFD disclosure would significantly affect brokers and holders of CFDs as well as the issuers of and investors in the underlying securities to which the CFDs relate. We intend to monitor developments, inform members of the evolving FSA position and respond to any Consultation or Discussion Papers on this issue.

GMRA: New Legal Opinions

The legal opinions which support the use of the Global Master Repurchase Agreement, the standard documentation for the repo market, have recently been completely revised and updated and are now available for 55 jurisdictions around the world. The opinions all cover both the enforceability of the netting provisions of the GMRA as well as the validity of the GMRA as a whole. They also address the issue of recharacterisation risk (in respect of both the transfer of securities and the transfer of margin). Legal opinions for all 55 countries are available from the ICMA members' area of the website.

European Repo Market

The European Repo Committee has published two clarifications of best practice for the determination of rates for EONIA-based repos and for floating-rate repos based on EONIA, respectively.

The results of ICMA's 12th semi-annual survey of the European repo market estimated market size, based on the volume of repo trades outstanding on December 13, 2006, to be over €6,430 billion, an annual increase of 14%. The survey also indicated a renewed boom in electronic trading of repo which now accounts for 23.3% of trading.

Hedge Funds

Discussion on hedge funds is currently taking place in multiple venues: the G-7 Finance Ministers meeting in Essen issued a request for the Financial Stability Forum to update its 2000 report on Highly Leveraged Institutions. The topic will be on the G-8 agenda in June 2007. The US President's Working Group on Financial Markets issued Principles and Guidelines regarding Private Pools of Capital in February 2007. IOSCO issued a Consultation Report dated March 2007 on "Principles for the Valuation of Hedge Fund Portfolios" which is open for consultation until June 21. ICMA co-chairs the work of the International Council of Securities Associations (ICSA) on Hedge Funds.

IOSCO

ICMA participated in a meeting with members of IOSCO's Technical Committee in Madrid in March 26. This informal meeting was intended to begin the process of establishing a structured dialogue between IOSCO and the industry. ICMA also participated in the IOSCO meeting in Mumbai in April.

Other ICMA News

New members for EFMF

The European Financial Markets Federation (EFMF) has welcomed two new member associations since the beginning of the year, bringing the number of member organisations to six. The Futures and Options Association (FOA) brings expertise in the representation of the derivatives market, while the addition of NSMA, the Russian self-regulatory organisation for securities market participants, will help to forge closer links between the capital market participants of Russia and Europe.

Lamfalussy to speak at Berlin conference

Leading industry figures including Alexandre Lamfalussy will feature at the ICMA AGM and Conference being held at the Intercontinental Hotel in Berlin on May 31 and June 1. The programme includes a number of market briefing sessions on key regulatory developments, notably: MiFID implementation; post implementation progress with the Prospectus Directive; the debate over bond market transparency; and the growth of the ECP market.

The conference is open to all market participants, whether or not they are members of ICMA. For full details of the programme and registration please see the ICMA website: www.icmagroup.org

Forthcoming ICMA events

International Fixed Income and Derivatives (IFID) Certificate
April 22-28, 2007
Barcelona

ICMA Primary Market Certificate
May 21-25, 2007
London

Professional Repo Market Course
May 23-24, 2007
Moscow

39th ICMA Annual General Meeting and Conference
May 30-June 1, 2007
Berlin

Published by:
Corporate Communications

International Capital
Market Association Ltd
7 Limeharbour
GB-London E14 9NQ

Phone: +44 20 7538 5656
Fax: +44 20 7538 4902

info@icmagroup.org