

**Minutes of the European Repo Committee (ERC)
Meeting held on September 18, 2002 in Luxembourg**

<u>Attendees:</u>	Ulf Bacher	Dresdner Bank AG
	Godfried De Vidts (Chairman)	Fortis Bank
	Jean Begonin	CSFB
	Andrew Lubin (Secretary)	Deutsche Bank
	Mark Dearlove	Barclays Capital
	Mark Painting	Goldman Sachs
	Edward McAleer	Morgan Stanley
	David McClean	Nomura
	Ashraf Rizvi	UBS AG
	Stefano Bellani	JP Morgan
	Andrea Masciovecchio	INTESA BCI
<u>Apologies:</u>	Nicolas Truong	Societe Generale
	Georg Thell	Raiffeisen Zentralbank Oesterreich AG
	Cameron Dunn	Merrill Lynch
	Pierre Renom	BNP Paribas
	Michael Murray	Confederacion Espanola de Cajas de Ahorros

1. Welcome by the chairman of the ERC, approval of the minutes of the last meeting and an update on events/information

The chairman welcomed the members of the ERC in attendance, and the broader audience in attendance from across Europe.

The chairman thanked Ms. Fitzmaurice for her valuable contribution to the ERC and wished her well.

The minutes of the previous ERC meeting held in Vienna on May 14, 2002 were unanimously approved by the committee.

2. Update on legal topics

The chairman discussed the equities annex, as well as the progress made in relation to Japan, Spain, Greece and Switzerland. He also noted that this issue will be discussed by ISMA/TBMA at a meeting scheduled for November. He pointed out that, as from January 2004, no more legal opinions pertaining to the GMRA 1995 will be sought and

firms should therefore assure the transfer to the GMRA 2000 in the near future.

The mini-close out notice was endorsed by the meeting.

The chairman also mentioned that the 30 day grace period could be shortened, but this was to be discussed in the appropriate committees.

The Euribor-ACI Short Term European Paper Task Force (the STEP Task Force) was mentioned. Reference was made to the ongoing discussion in the European markets re the clearing and settlement issues we face. Finally, the chairman mentioned that the ECB October monthly bulletin will have a feature on MMKT/Repo.

3. Uniform trade days in the Euro-zone

The chairman noted that uniform trade days are needed in Europe to avoid intense confusion amongst repo trading desks. The chairman spoke to Brokertec/EuroMTS to coordinate trade days. The chairman also said that ATS's, CCP's, and debt agencies need to unify in order to improve liquidity on these days. A presentation to the Brouhns committee will be made.

4. Repo Seminar

The chairman pointed out that a professional repo market course sponsored by ISMA and the ACI with professional speakers from the ERC and market experts will be held in Brussels on November 18/19, 2002.

5. Euroclear/Clearstream settlement issue: final report

Ulf Bacher discussed the CBL, Eclear, CBL-CBF link. He talked through the complexities of the various settlement systems, specifically mentioning the link between Clearstream and Euroclear, noting that dealers have to move o/n, same-day via a bridge, which greatly limits the volume that can be traded. RABL only works if the securities are available in the lending pool of EOC and if delivery instructions are input from the CBF counterparty before 19:00.

Ulf Bacher offered solutions which would lead to a same-day settlement system.

He asked John Burke (present at the conference) if same day settlement could be readied for Germany.

6. **New developments in the repo market**

Ed McAleer mentioned the following:

LCH/Brokertec introducing LCH as CCP for Gilts, and said that volumes of currently 10 billion per day were quite robust.

Fwd GC would be introduced shortly for Gilts.

MTS have introduced “blind-non-blind”. Can trade bi-laterally or choose counterparty.

Floating rate French repo will now be fungible electronically.

Spain-repo domestically (September 24, 2002) bi-laterally.

CCP in Italy: LCH/MTS would be ideal solution instead of Clearnet and CCG. LCH still pursuing issues in Italy.

Equity finance/Govt's look like they could merge as its “all collateral” at the end of the day.

7. **Use of ABS in repo transactions**

Presentation to be added.

8. **Commission communication on clearing and settlement: importance to the repo market framework**

E. Wrigley of DG Market discussed how to deliver the goal of a single settlement transaction by looking at 15 different barriers, i.e. legal, regulatory, etc. to be removed.

Repo can benefit from a choice of systems. We are currently suffering quite badly from the vast array of settlement systems.

9. **Results of the 3rd repo survey**


Richard Comotto of the ISMA centre spoke about the results of the survey.

10. Next ERC meeting

The next ERC meeting is intended to be held in February or March 2003. The chairman announced that there will now be two general meetings per year instead of three.

October 24, 2002
GDV/ys

The Chairman

A handwritten signature in black ink, appearing to read 'De Vidts', with a long horizontal line extending to the right.

Godfried De Vidts



European Securitisation Forum

Presentation to ERC General Meeting

Luxembourg

18th September 2002

by

Anthony Smith-Meyer

ESF Vice Chairman



ESF Mission

- ❑ **Broad representation of the financial services industry active in the field of securitisation in Europe**
- ❑ **Promote the continued growth and development of securitisation throughout Europe**
- ❑ **Increase awareness and further consensus with European regulators and standards-setters on issues considered crucial to the European securitisation markets such as regulatory, accounting, tax etc.**
- ❑ **Identify, recommend and implement market standardisation policies, practices & guidelines favouring efficiency in the primary and secondary markets.**
- ❑ **Educate and inform external constituencies, including legislative and regulatory officials, the financial media, industry participants and others concerning the operation, importance and policy benefits of the securitisation markets and related activities throughout Europe.**



Recent Developments in the European Securitisation Markets

- ❑ **The European funded securitisation issuance is expected to reach €162 billion in 2002, with a 16 percent increase compared to the previous year.**
- ❑ **An increasing number of European governments have accessed the securitisation markets directly or indirectly**
- ❑ **Synthetic securitisation transactions will continue to growth particularly in Germany due to cost benefits and regulatory capital constraints**



ESF Membership

- ❑ **Membership in the ESF is available to the following categories of professional participants in the European securitisation markets: securities firms and banks (arrangers), issuers and asset originators, investors and asset managers, trustees, servicers, rating agencies, law firms, accounting firms, financial guarantors, stock exchanges and industry utilities, information vendors, suppliers and financial consultants, and other financial and professional service organisations.**
- ❑ **ESF members have a right to be involved in any individual project and initiative of the Forum, through the relevant subcommittee and task force.**

80 ESF Members

(as of 4. September 2002)

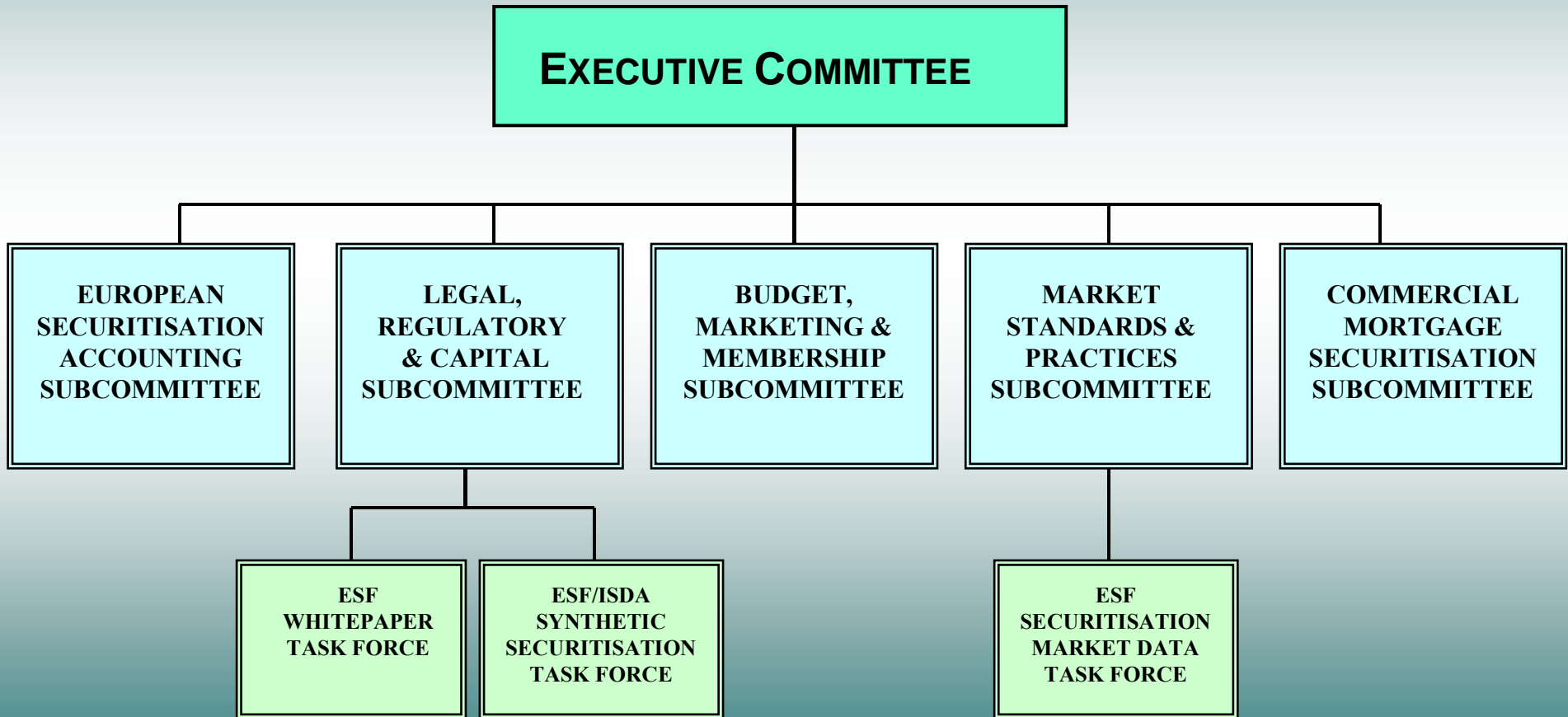
Abbey National Treasury Service
ABN-AMRO
ABS+MBS Consulting Schemann-
Teuber GmbH
ABS Reports Limited
Artesia Banking Corporation
Axa Colonia Asset Management GmbH
Bank of America Securities LLC
Bank One, NA
BankGesellschaft Berlin
Banque Générale du Luxembourg
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Etude Bonn, Schmitt, Steichen
European Bank for Reconstruction & Development
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Financial Security Assurance Limited
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Fortis Bank
GMAC CM Europe
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Goldman Sachs
Halifax plc
HSBC Bank plc
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J.P. Morgan Chase
Law Debenture
Landesbank Baden-Württemberg
Lehman Brothers
Lloyds TSB Bank
Maples

Mayer, Brown, Rowe & Maw
MBNA America Bank
Merrill Lynch International
Moody's Investor Service Limited
Morgan Stanley International
Mourant Group
Norton Rose
Ogier & Le Masurier
PriceWaterhouseCoopers
Reiten & Co ASA (Norge)
R&R Consulting
Royal Bank of Scotland PLC
RFC Mortgage Services Limited
Schroder Salomon Smith Barney
Skandinaviska Enskilda Banken AB
Sidley Austin Brown & Wood
Société Générale
Standard & Poor's
State Street Global Advisors
Structure Finance Management
Titulización de Activos SGFT, S.A.
Tokyo-Mitsubishi International
UBS
UniCredit Banca Mobiliare SpA
Weil, Gotshal & Manges
Westdeutsche Landesbank
Wilmington Trust Global Service



ESF Organisational Chart





Recent ESF Letters

- **11. September 2002**
ESF Basel II Comment Letter on asset securitisation under the supervisory formula approach and the ratings based approach

- **29. August 2002**
ESF Letter to the Registration Group on a proposed text to amend the EU Prospectus Directive

- **6. August 2002**
ESF Letter to the International Accounting Standards Board on the proposed amendments to IAS 39

- **29. July 2002**
ESF Letter to the Commission Bancaire on the revised rules for risk weighting in securitisation transactions

- **17. May 2002**
ESF Letter to the International Accounting Standards Board on consolidation and SIC 12

- **7. March 2002**
ESF Basel II Comment Letter on current proposed treatment of hedged super-senior tranches in synthetic securitisation transactions



ESF Projects and Initiatives

❑ Revision Process to the Basel Capital Accord

- ❑ Representing the European securitisation industry on regulatory capital issues affecting securitisations,
- ❑ direct and continuing interaction with the Basel Committee on Banking Supervision's Securitisation Group.
- ❑ filed four detailed comment letters.
- ❑ hosted several Roundtable discussions with regulators and senior ESF members

❑ Joint ESF/ISDA Efforts on Synthetic Securitisations in Europe

- ❑ Active co-operation with ISDA's European Office regarding synthetic securitisation issues.
- ❑ Establishment of a joint ESF/ISDA Task Force
- ❑ Joint filing of a comment letter with the Basel Committee
- ❑ Joint meetings on synthetics with the Basel regulators.



ESF Projects and Initiatives

❑ Advocacy Initiatives in Respect of International Accounting Issues

- ❑ Formation of an International Accounting Subcommittee
- ❑ Communication with the International Accounting Standards Board (IASB)
- ❑ Particular focus on the application and interpretation of IAS 39 and SIC 12, as these affect the recognition, derecognition and consolidation of assets conveyed to securitisation Special Purpose Entities.

❑ Production of the Whitepaper - a Framework for European Securitisation

- ❑ Production of a document entitled “A Framework for European Securitisation”.
- ❑ Focus on the current lack of a more uniform and harmonised environment for securitisation in Europe
- ❑ A ‘blueprint’ that sets forth visionary and aspirational goals for the evolution and enactment of key legal, regulatory, tax, capital, accounting and market practice provisions, standards and guidelines.
- ❑ In June 2002, the Forum presented the Paper at a roll-out symposium in Brussels



ESF Projects and Initiatives

❑ ESF Securitisation Data Report – ESF Securitisation Market Outlook

- ❑ In November 2001, the Forum published the first ESF Securitisation Data Report
- ❑ Providing ABS and MBS transaction data to ESF members and other European securitisation market participants
- ❑ In January 2002, the Forum published the first ESF Securitisation Market Outlook to provide European securitisation issuance projections for 2002.
- ❑ In March 2002, the Forum published the second ESF Securitisation Data Report including European Pfandbrief issuance for the first time.
- ❑ Summer Issue reports new issuance of European securitised debt totalled €60.7 billion in the first half of 2002, down 6.3 percent compared to the first half of 2001

❑ Post-Issuance Transaction Reporting Recommendations

- ❑ Recommendations on Post-Issuance Transaction Reporting recently consolidated and republished in a publication entitled "Securitisation Market Practice Guidelines"
- ❑ Objective to improve the quality, uniformity and availability of key information to securitisation market participants
- ❑ Guidelines have been translated into German, Italian, French and Spanish.
- ❑ The Forum expects to continuously update and supplement these Guidelines



Use of ABS and MBS as Collateral for Repo Transactions

Current issues affecting the European securitisation markets

While ABS and MBS are widely used in tri-party repo transactions in the US repo market, the European securitisation markets are experiencing a number of issues that are limiting the use of ABS and MBS as collateral for repo transactions, such as:

- ❑ Liquidity – part of the European ABS and MBS are not sufficiently traded
- ❑ Transparency is a major issue due to the fact that it is difficult to gather price information regularly on a large number of European ABS and MBS. Frequent pricing is a key element for the use of ABS and MBS as collateral in tri-parti repo transactions.
- ❑ Lack of standard criteria for the use of ABS/MBS as eligible collateral for primary market operations by the European Central Bank
- ❑ Difficulties in fixing the minimum size of an ABS/MBS tranche to be used as collateral for repo transactions



Use of ABS and MBS as Collateral for Repo Transactions

Current Initiatives of the European Securitisation Forum

The European Securitisation Forum (“Forum” or “ESF”) is currently engaged, through its Market Standards and Practices Subcommittee and the Market Data Task Force, in a number of projects to increase liquidity and transparency in the European securitisation primary and secondary markets.

The Forum is working on a project called “European Securitisation Indicators” which is intended to provide weekly MBS spreads on a selected number of European MBS buckets characterised by specific maturity (from 3 to 4.5 years; from 5 to 7.5 years; and from 8 to 10 years) and rating between AAA and A, and not a specific price per each single MBS tranche as required when it is used as collateral.

The ESF’s Market Standards and Practices Subcommittee recently agreed to draft a letter to the European Central Bank advocating the inclusion of European ABS and MBS as eligible collateral for repurchase transactions in the primary repo market.

The Forum is also scheduling a number of high level meetings with data vendors in order to promote the publication of European ABS and MBS prices on a regular basis.



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