

## EUROPEAN REPO COUNCIL

V. 3 FINAL – November 6, 2006

### **Minutes of the General meeting of the European Repo Council held on October 4, 2006 in London**

Location: Museum of Docklands  
West India Quay, Quay Wharf  
London

Time: 16.00 – 18.00 hrs

#### **The following members of the European repo committee were present:**

Mr. Eduard Cia, Bayerische Hypo-und Vereinsbank AG, Munich  
Mr. Simon Parkins, BNP Paribas, London  
Mr. Herminio Crespo, Caja de Madrid, Madrid  
Mr. Greg Markouizos, Citigroup Global Markets Ltd, London  
Mr. Johan Evenepoel, Dexia Bank Belgium NV/SA, Brussels  
Mr. Godfried De Vidts (Chairman), ICAP Securities plc, London  
Mr. Stefano Bellani, JP Morgan Securities Ltd, London  
Mr. Edward McAleer, Morgan Stanley & Co. International Ltd, London  
Mr. Cameron Dunn, Merrill Lynch International (MLI), London  
Mr. David Roberts, Royal Bank of Scotland, London  
Mr. Simon Tims, UBS AG, Zurich  
Mr. Mark Dearlove (substituting for Mr Dominick Emmanuelli), Barclays Capital, London

#### **Apologies:**

Mr. Edward Donald, ABN AMRO Bank N.V., London branch  
Ms. Andrea Masciovecchio, Banca Intesa S.p.A, Milan  
Mr. Dominick Emmanuelli, Barclays Capital, London  
Mr. Jean-Marie Begonin, Credit Suisse Securities (Europe) Limited, London  
Mr. Michael Murray, Confederacion Española de Cajas de Ahorros (CECA), Madrid  
Mr. Ulf Bacher, Dresdner Bank AG, Frankfurt  
Mr. David Nicholls, Deutsche Bank AG, London  
Mr. Olly Benkert, Goldman Sachs International, London

#### **Also present:**

Mr. Mattias Levin, DG Market, Brussels  
Mr. Marc Bayle, ECB, Frankfurt  
Mr. Edwin De Pauw, Euroclear SA/NV, Brussels  
Mr. Mark Gem, Euroclear SA/NV, Brussels  
Mr. Richard Comotto, ICMA Centre, University of Reading, Reading  
Mr. Rene Karsenti, ICMA, Zurich  
Mr. Christian Hellmund, ICMA, Zurich  
Mr. Nick Collier, ICMA Ltd., London  
Mr. Paulo Costa, ICMA Ltd., London  
Mr. Donal Molloy, ICMA Ltd., London  
Ms. Margaret Wilkinson, ICMA Ltd., London  
Mr. Gregor Pozniak, ICMA Ltd., London (Secretary)

**The following member firms were represented at the meeting:**

Banco Santander Central Hispano, S.A., Madrid  
Bank Austria Creditanstalt AG, Vienna  
Bank Bilbao Vizcaya Argentaria, SA, (BBVA), Madrid  
Barclays Capital Securities Ltd, London  
Bayerische Hypo-und Vereinsbank AG, (HBV), Munich  
BNP Paribas, Paris  
Caja de Madrid, Madrid  
Citigroup Global Markets Limited, London  
Confederacion Española de Cajas de Ahorros (CECA), Madrid  
Credit Suisse Securities (Europe) Limited, London  
Daiwa Securities SMBC Europe Limited, London  
Danske Bank A/S, Copenhagen  
Deutsche Bank AG, Frankfurt  
Dexia Bank Belgium NV/SA, Brussels  
Dresdner Bank AG, Frankfurt (Dresdner Kleinwort)  
Fortis Bank, Brussels  
HSBC Bank Plc, London  
ICAP Securities Limited, London  
KBC Bank NV, Brussels  
Landesbank Baden-Wuerttemberg, Stuttgart  
Lehman Brothers International (Europe), London  
Merrill Lynch International, London  
Morgan Stanley & Co International Ltd, London  
Nomura International Plc, London  
The Royal Bank of Scotland Plc, London  
UBS AG, Zurich  
WestLB AG, Dusseldorf

**The following member firms were not represented at the meeting:**

ABN AMRO Bank NV, Amsterdam  
Aurel Leven Securities, Paris  
Banca Caboto S.p.A., Milan  
Banca Intesa S.p.A., Milan  
Banca d'Intermediazione Mobiliare IMI S.p.A., Milan  
Banca Monte dei Paschi di Siena S.p.A., Milan  
Banca Nazionale del Lavoro S.p.A., Rome  
Bank Julius Bär & Co. AG, Zurich  
Banque et Caisse d'Epargne de l'Etat, Luxembourg  
Bayerische Landesbank, Munich  
Bear, Stearns International Limited, London  
CALYON, Paris  
Canadian Imperial Bank of Commerce (CIBC), London branch  
Commerzbank AG, Frankfurt  
DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt  
GESMOSA-GBI VSA, Madrid  
Goldman Sachs International, London  
HBOS Treasury Services plc, London  
HSBC France, Paris  
ING Bank N.V., Amsterdam  
ING Belgium SA/NV, Brussels  
IXIS Corporate & Investment Bank, Paris  
JP Morgan Securities Ltd, London  
Kredietbank S.A. Luxembourgeoise, Luxembourg  
Lloyds TSB Bank plc, London

Man Financial Limited, London  
Mitsubishi Securities International plc, London  
Mizuho International PLC, London  
MPS Finance Banca Mobiliare S.p.A., Siena  
NIB Capital Bank N.V., The Hague  
Raiffeisen Zentralbank Oesterreich AG, Vienna  
Royal Bank of Canada Europe Limited  
Société Générale S.A., Paris  
UniCredit Banca Mobiliare S.p.A., Milan

1. **Opening of the meeting by the chairman of the European Repo Committee (ERC committee)**

The chairman, Godfried De Vidts, first welcomes the council members, observers and guests and thanks Bank of New York for kindly hosting the meeting. He underlines that the half-yearly General Meetings of the Council are designed to provide the repo and wider community with information about developments in the market. He announces an addition to the agenda (see below – agenda item 2a.). On the other hand, he regrets that the two presentations scheduled at the end of the meeting, namely agenda items 13a and 13b (presentations by Mr. Awan and Mr. Burke, respectively) would have to be cancelled.

He updates the meeting on the work of the ERC Committee over the past half year on topics not specifically covered in the agenda. His presentation is attached as Annex 1.

2. **Approval of the minutes of the ERC general meeting held on March 21, 2006 and dated April 11, 2006**

The minutes of the ERC general meeting held in Paris on March 21, 2006 and dated April 11, 2006 are unanimously approved. They had been sent out to ERC members and are available from the ICMA website at <http://www.icma-group.org/international1/minutes.html>.

2a. **Election of a nominee for appointment by the ICMA Board as a member of the IRC Committee**

In relation to the IRC Committee, Mr. Pozniak reports that the term of office of Mr. Godfried De Vidts as member and chairman of the IRC Committee has expired today. Therefore, the ERC Council has to determine a nominee for appointment by ICMA's board as one of the two ERC Council representatives<sup>1</sup> on and chairman of the IRC Committee. The term of office of this appointment would end at the ERC Council's annual general meeting in 2009.

The ERC Council notes that the ERC Committee in its meetings held on April 27, 2006, has re-elected Mr. De Vidts as its chairman. In its meeting of September 13, 2006, the ERC Committee has unanimously resolved to propose to the ERC Council to re-elect Mr. De Vidts as nominee for appointment by the ICMA Board as one of the two ERC Council representatives on and chairman of the IRC Committee. Furthermore, the ERC Council notes that Mr. De Vidts has accepted to stand for re-election.

Mr. Pozniak asks whether there are any further qualifying individuals<sup>2</sup> who would wish to stand for the election to fill the vacancy on the IRC Committee. This not being the case, Mr. Pozniak proposes to conduct the election by show of hands. This procedural proposal is not being objected.

By sign of hands, the ERC Council (with Mr. De Vidts abstaining on behalf of his employer) then determines Mr. De Vidts without opposition as nominee for

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<sup>1</sup> see ICMA Rule 1012.2

<sup>2</sup> meeting the criteria set forth in ICMA Rule 1013.3, i.e. persons who are presently employed by a member of the ERC Council

appointment by the ICMA Board as one of the two ERC Council representatives on and chairman of the IRC Committee.

Mr. Pozniak undertakes to inform the ICMA Board accordingly.

Finally, the ERC Council notes that – subject to Mr. De Vidts respective appointment by the ICMA Board, the IRC Committee will be composed of the following two individuals:

- Mr. Godfried de Vidts (Chairman), ICAP Securities plc, London, with a term of office to expire at the ERC Council's annual general meeting in 2009;
- Mr. Ulf Bacher (Vice Chairman), Dresdner Bank AG, Frankfurt/M, with a term of office to expire at the ERC Council's annual general meeting in 2009.

### **3. Update on GMRA issues**

The chairman introduces Mr. Christian Hellmund, the new Associate Counsel at ICMA's legal department in Zurich and asks him to provide the meeting with the regular update on GMRA-related matters.

Mr. Hellmund's presentation is attached as Annex 2 to these minutes.

Mr. Hellmund reports that ICMA will start with the preparation of the 2006/2007 opinions updating exercise in October 2006. As in previous years, ICMA intends to publish the updated opinions at the end of March 2007. Following requests from several member firms, ICMA will in future also publish mark-up versions of the updated opinions when publishing the annual update opinions.

He further reports that the new opinion for the Czech Republic has been published on ICMA's website recently. Revised drafts of new opinions for Slovakia and Slovenia are currently being reviewed by ICMA. The opinions for these jurisdictions are expected to be finalised shortly. Based on a respective recommendation of the ERC committee, ICMA recently instructed local counsel to produce a new opinion for Israel. TBMA have yet to confirm whether they will join ICMA in obtaining these new opinions and share the costs with ICMA on an equal basis.

In relation to Croatia, Malaysia, Romania and Russia, ICMA is continuing to monitor legal developments with a view to ascertaining at what stage a clean opinion can reasonably be expected for each of these jurisdictions.

In accordance with the ERC Committee's respective request, ICMA is currently establishing with local counsels whether clean opinions for Qatar and Oman can indeed be obtained. Subject to respective confirmations from local counsel and acceptable costs, ICMA will commission legal opinions on the GMRA for these jurisdictions.

With regard to a possible coordination of the opinion updating exercise between ICMA, the TBMA, ISLA, and the members of the netting sub-group of the SLRC, Mr. Hellmund reports that these four organisations are currently in discussions whether it would be feasible to obtain a single opinion covering the GMRA as well as the Global Master Securities Lending Agreement (GMSLA), Overseas Securities Lender's Agreement (OSLA) and Master Gilt Edged Stock Lending Agreement (GESLA).

This single opinion would cover the GMRA, GMSLA, OSLA and GESLA based on the existing form of opinion for the GMRA and its annexes; it would contain one or more appendices which would confirm the application of the base opinion to the GMSLA, OSLA and GESLA and, where appropriate, their annexes with such modifications as may be appropriate.

The details of the structure for a coordinated exercise (in particular the funding) need to be further considered and discussed between the associations. Currently, the GMRA opinions are made available to members of ICMA and TBMA free of charge while stock lending opinions are made available by the respective organisations on a subscription basis.

Mr. Hellmund recalls that – when considering whether it would support ICMA making opinions available to its members on a subscription basis in the future – the ERC committee recommended at its meeting on July 8, 2006 that ICMA retain the current principle providing members free access to the opinions. The ICMA Board has acknowledged at its meeting on September 8, 2006 that it would not be feasible for ICMA to consider making opinions available to members on a subscription basis. ICMA has confirmed this point when discussing the details of the proposed coordination of the opinions updating exercise with the other Associations at a meeting with the Bank of England on September 22, 2006.

**4. Basel II – triparty**

The presentation by Mr. Simon Tims (UBS) is attached as Annex 3 to the minutes.

**5. Update on implementation of TRAX2**

The chairman welcomes Mr. Paulo Costa of ICMA Ltd. and emphasises that TRAX2 is a fine example of a market-driven initiative to provide and improve technical solutions in response to demands from market participants. He recalls that the ERC has strongly supported and assisted the extension of TRAX into TRAX2, in particular with regard to the inclusion of repo transactions in the scope of the system.

Mr. Costa gives his presentation which is attached as Annex 4 to the minutes.

In response to a question from Mr. Awan (Clearstream) about the inclusion of Euro GC baskets in the system, he invites market participants to come forward with any proposal for a further improvement of TRAX2. The project is member-driven and therefore inherently responsive to market needs.

In response to a question by Mr. McAleer (Morgan Stanley), he informs that the cost for using TRAX2 is currently GBP 4,000 flat per year plus GBP 0.50-0.75 per transaction. The chairman recalls that 18 months ago the system had still been considerably more expensive but that pressure from participants had brought fees down considerably. Mr. Costa adds that under the old TRAX system, repo transactions had been counted as two transactions and therefore priced double while now both legs are regarded as one joint transaction and are accordingly charged.

In response to a question from Mr Baldwin of Daiwa Securities about enforceability, Mr. Costa says that participation in TRAX2 for repo is voluntary and that the success of the system depends on achieving and maintaining critical mass. He adds that the buy side has taken an interest into the matching of repo and this interest is being presently discussed and qualified with a view to ensuring that the current offering could fulfil their business requirements. ICMA are being approached concerning Straight Through Processing and the ability to send instructions directly from TRAX2 to CSDs, ICSDs and custodians. Preliminary discussions will be scheduled with such firms to explore these links further.

Finally, Mr. Costa explains that currently the TRAX2 surface is exclusively in English, but that masks and menus are designed in a flexible way and could be translated if the market requests it.

## **6. ERC recommendations**

The presentation by Mr. Cia (HVB) – in the absence of Mr. Bacher – is attached as Annex 5 to the minutes. He explains that the recommendations by the ERC Committee are opinions formed by the committee for the markets from the viewpoint of practitioners. They could of course occasionally turn out to be in conflict with opinions prevailing within ERC member firms.

The Council notes in particular that the European Repo Committee has resolved to abstain from any judgment as to the suitability of bonds and bills from EU Member States outside the euro zone with respect to their issue size or liquidity, as long as they are judged suitable collateral for monetary policy transactions by the ECB. This means that as per January 1, 2007, when Slovenia will join the euro zone, Slovenian government-guaranteed bills and bonds will be added to the list of Eurepo GC Collateral.

In response to the misleading headline of an article published earlier on the day, he emphasises that repo markets are working well and are safe. However, the call for and discussion of improvements in its operations is legitimate and necessary. The overall aim of such discussions is to make the market better and cheaper. This is also the driver for the ERC work when issuing recommendations.

## **7. Joint presentation of Euroclear and Clearstream: Enhanced Interoperability – The Daytime Bridge Improvement Programme**

The presentation by Messrs. De Pauw (Euroclear) and Gem (Clearstream) is attached as Annex 6 to the minutes. The gentlemen underline that the improvements to the daytime bridge planned for January 2007 are part of a broader discussion to improve the interoperability between the two ICSDs in line with market demand. This clearly shows that their institutions constantly listen to the markets and cooperate to react to users' needs.

After the presentation, the chairman thanks the presentators and concludes that the improvements constitute a step forward and fulfil some of the expectations of market participants, but that he is looking forward to further good cooperation.

**8. Results of 11th repo survey**

The presentation by Mr. Comotto (ICMA Centre at the University of Reading) is attached as Annex 7 to the minutes.

In his introduction, the chairman reminds delegates that the quality of the survey and its representative character depend crucially on the level of participation by participants in the market. He calls those ERC members that are not participating yet to join the exercise.

Mr. Comotto adds that participants in the survey have the additional benefit of getting access to the ranking results which are otherwise not available to the public. He particularly regrets the low participation of firms from the Nordic region.

The press release that accompanied the publication of the repo survey is attached as Annex 8 to the minutes.

**9. ECB TARGET2-Securities project**

The chairman welcomes Mr. Marc Bayle of the ECB who conveys apologies from Mrs. Daniela Russo who had been scheduled to address the ERC, but had been summoned to accompany ECB Board Member Mrs. Tumpel-Gugerell to a hearing at the European Parliament.

The presentation by Mr. Bayle is attached as Annex 9 to the minutes. At the end of his presentation, Mr. Bayle informs delegates that the timeline for the ECB Governing Council to finally decide on the project is now "the first half of 2007". He emphasises that the ECB is in constant need of additional information and feedback from industry, beyond the comments received already in response to the consultation held.<sup>3</sup>

The chairman thanks Mr. Bayle for his presentation and informs the meeting that the ERC Committee has sent a response to the ECB's consultation. The committee basically welcomes the discussion about improvements in securities settlement in Europe as, for many years, the European repo markets have been suffering from an inadequate euro zone settlement infrastructure. In the letter, the committee emphasises that any future design should properly reflect current successful practices in the respective markets, both cash and repo. It underlines the importance of the participation of market actors in user committees and recommends the inclusion of a member of the ERC committee. Further, the committee argues in its response that the project should cover all assets in Euro and reminds the ECB that central bank money is currently not available for certain products like tri-party repos. The full text of the ERC committee response is attached as Annex 10 to the minutes.

In response to a question from the floor why the ECB regards it appropriate and legitimate to propose TARGET2-Securities and where he sees any market failure that justifies this intervention, Mr. Bayle comments that the geographical diversity of settlement itself has to be seen as a failure of the market to arrive at more efficient structures. This is not a new observation; what is new, he says, is the successful delivery of TARGET2 for payments which creates the

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<sup>3</sup> The consultation responses are collected on webpage  
<http://www.ecb.int/paym/market/secmar/integr/html/preliminary.en.html>



opportunity of exploiting that level of efficiency reached for payments also for securities settlement. He adds that in the view of the ECB and its legal experts, Art. 22 of the Statute of the ESCB and the ECB<sup>4</sup>, for instance, provides the legal basis for the proposals made.

Asked whether TARGET2-Securities would be mandatory for national CSDs to join, Mr. Bayle says that it is too early to give a response to this question and that the most important task would be to deliver a good product – then it would become convincing and successful.

**10. Clearing & settlement discussion: a solution for the EU repo market?**

The presentation by Mr. Levin (European Commission) is attached as Annex 11 to the minutes.

**11. Next meeting**

The chairman announces the following forthcoming meetings and events:

22-23 November 2006, professional repo seminar, Madrid, Spain

(The programm and syllabus are attached as Annex 12.<sup>5</sup>)

28 February 2007, **European Repo Council AGM**, Frankfurt,  
hosted by JP Morgan Chase

21-25 May 2007, professional repo seminar, Moscow, Russia (exact dates to be confirmed)

**12. Any other business**

The chairman expresses his regrets again that due to the belated start of the meeting and the time constraints, the scheduled presentations by Clearstream and LCH.Clearnet have to be cancelled.

He extends his thanks to all attendants, to the speakers, and to Bank of New York for hosting the event. He closes the meeting and invites everyone to the reception on a lower floor of the venue.

The Chairman:

The Secretary:

Godfried De Vidts

Gregor Pozniak

Attachments (see also <http://www.icma-group.org/content/international1/minutes.html>)

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<sup>4</sup> **Article 22 - Clearing and payment systems**

The ECB and national central banks may provide facilities, and the ECB may make regulations, to ensure efficient and sound clearing and payment systems within the Community and with other countries.

<sup>5</sup> See also ICMA webpage [http://www.icma-group.org/international1/repo\\_market\\_course.html](http://www.icma-group.org/international1/repo_market_course.html).