

**Minutes of the European Repo Council
General Meeting held on January 14, 2002 in Madrid**

Location: Casino de Madrid –
“Gran Circulo de Madrid”
Calle Alcalá, 15
Madrid 28014

Time: 12:00 – 14:30

Date: Monday , January 14 , 2002

1. Welcome by the Chairman of the ERC

1.1 Update on events/information

The chairman welcomed all to the meeting and proposed a special welcome to Mr. John Langton, chief executive of ISMA; Mr. Enrique Prados del Amo, the chairman of ISMA's regional committee for Iberia and Mr. Ohyama from the Bank of Japan. A note was made of the numerous delegates from Spain at this first ERC general meeting in Madrid.

Three changes in the European repo committee (ERSC) were reported since the last ERC general meeting as follows:

1. Ms. Celia Wenban-Smith is on maternity leave and has been replaced by Mr. Stefano Bellani (JP Morgan Chase)
2. Mr. Vincenzo Albani has also left our group and has been replaced by Mr. Pierre Renom (BNP Paribas)
3. Mr. James Tomkinson has now left Nomura and expressed the wish to stop acting as secretary at the end of today's meeting.

A special vote of thanks was proposed to all three leaving the group for all their hard work for and support given to the ERC.

ERC & legal documentation

It was reported that an Asian Repo Council is to be created. The details will be announced on ISMA's website in due course.

Further legal opinions have been obtained on the GMRA for Thailand, Japan and other countries in the area.

All were reminded that there is a specific section related to legal issues on ISMA website. Non-members can access this on a fee paying basis.

Equity Sub-committee

An Equity sub-committee of the European Repo Council has been created. This is to be headed by Barbara Ferri, and will focus on issues relating to equity repo transactions. Anyone interested in joining the sub-committee should contact Barbara or Godfried direct.

ACI

Further co-operation with ACI , The Financial Markets Association, has resulted in corporate membership between ISMA and ACI. Closer co-operation (and voting possibilities) for banks who do not have membership of both organisations is under investigation. In the meantime, all non-ISMA member banks in Europe are welcome to attend the ERC general meetings with observer status.

The ACI CFP have issued a document for the Model Code that reflects the Repo Trading Practise Guidelines.

Central Clearing Counterparty Initiatives

The Central Clearing Counterparty (CCP) debate in Europe continues to cover both bonds and equity transactions. The developments of automatic trading systems (ATS) in both products has increased the need for CCP's which will benefit the market as a whole. The ERC has these topics on its monthly agenda and

keeps an eye on the developments. We have had discussions as a group with some of the CCP providers.

Giovannini Group Meetings

A number of reports are scheduled to be issued by the Giovannini group focusing on identifying the main barriers to efficient cross-border clearing and settlement within the European Union.

The first report has been issued, and contained an initial assessment of differences in cost between domestic and cross-border services. A second report will focus on the future architecture for EU cross-border clearing and settlement. It will be based on the responses to the questionnaires, the contributions from the service providers, contributions from the working groups and possible feed-back to the first report. The ERC has distributed the first report and will actively participate in the second.

ECB

The ECB money market contract group met on June 6, 2001. The ERC was invited to brief the members on two initiatives (i.e. on the fails discussion and the Eurepo project).

The meeting discussed the development of an integrated short-term securities market or T-Bills (covering all government related debt, but primarily ECP).

The lack of development of this segment within the euro-money markets (in comparison, for example, with the US) was discussed. The reasons for this situation were found to lie in the existing differences in legal systems across the euro area, the lack of a single settlement system for such securities, the lack of homogeneity of their features, terms and conditions and a limited end-user demand, which is still segmented on a national basis.

The proposals and initiatives presented during the meeting were divided in a set of pragmatic actions for the short term, and some more ambitious programmes for the longer term. The short term initiatives could be taken by a working group of euro area market participants outside the ECB Money Market Contact Group, which

would develop the initial proposals and ensure a follow up. This group has now been created by ACI involving banks from different countries in Europe.

The ECB organised its 4th meeting of the Eurosystem on June 26 and its fifth meeting on December 5, 2001 respectively.

There were the following topics for discussion at the first meeting: Evolution of business practices in the field of settlement and custody, follow-up on the CPSS-IOSCO report, issues relating to the G 30, C.C.B.M. opening hours, central counterparty clearing. Specifically for the repo markets the following two presentations were made:

1. The use of the EMA and GMRA for different kind of operations
2. Update on the repo markets and fails in repo transactions

Topics for the second meeting included: custody activities by regional and global custodians, the consolidation process in Europe, the implications of the terrorist attacks for security settlement systems, the Eurosystem's policy statement with regard to consolidation in central counterparty clearing, the framework of cooperation with the newly formed Committee of European Securities Regulators and finally, a discussion around legal documentation and the comparison of the EMA and GMRA.

The ERC met with the ECB, upon our request on December 6, 2001. Both parties found this meeting highly constructive. The topics discussed were:

- ECB eligible collateral (tier I and II)
- Systemic risk
- Central counterparty initiatives
- Automatic trading systems (ATS)
- Eurepo
- European Collateral market

Mr. Ulf Bacher will provide a paper on the problems dealing in particular with Tier 2 eligibility and Ms. Catherine Fitzmaurice will produce a document relating to structural market issues.

Mr. Godfried De Vidts will also consider the options in which different trade associations in Europe can establish communications arrangements which can be invoked in times of crisis.

Federal Reserve Bank of New York

The ERSC received Ms. Sandy Krieger from the Federal Reserve Bank of New York at its monthly meeting in June 2001 in London. Some members had received a questionnaire on the use of non-US collateral in Federal Reserve open market operations. The Bond Market Association (TBMA), the North American Repo Committee (NARC) and the ERC organised a co-ordinated response conference to the initiative, which was highly appreciated by the Fed.

BIS

A meeting at the BIS in June organised by the Committee on the Global Financial System looked with market participants at "Collateral in wholesale financial markets: recent trends, risk management and market dynamics". During the meeting it became crystal clear coordination between this committee and the Basle II group could be improved. A few weeks later, the announcement came that the Basle II date will be postponed by one year until 2005.

Japan Center for International Finance

The ERC organised a meeting at the request of the Japan Center for International Finance (an organisation that has been asked by the Bank of Japan to study improvements in the Japanese Repo market in order to open the market to the international community).

In the meantime, we have been confronted with the withholding tax issue in Japan. The contacts we made as a group have proved to be invaluable as we knew immediately where to go to get first hand information.

Repo Margining - A Best Practice Guide

The ERC Best Practice Guide to Repo Margining has now been published on ISMA's website. Members are encouraged to use it. It is evident that some banks, and not always the smallest, do not have the habit of margining. The chair suggested this is becoming somewhat urgent as volumes are continuously growing, and continuously refusing to margin might eventually harm your respective firms as market participants willing to deal with you may eventually move their business elsewhere.

1.2 Approval of previous minutes

The minutes of the previous meeting were agreed and passed without alteration.

2. Repos: the legal environment in the Spanish case

Michael Murray reported that over the last two years discussions relating to the on-going Spanish legal developments had been underway. He highlighted the increased focus on Basle, the increased use of collateral and the expected increase in funding costs amongst the Spanish institutions as illustrations for the need to resolve the legal issues relating to Spanish repo.

Michael Murray offered a vote of thanks to ISMA and SENAF as sponsors of today's meeting.

2.1 Overview from the Spanish Treasury

Mr. Enrique Ezquerro made a presentation giving an overview from the Spanish Public Debt department's (Spanish Treasury) perspective. Stating that whilst the department managed Spanish public debt it also had a market regulatory responsibility. It was stated that the Spanish Treasury recognised that the large international banking institutions were *not* satisfied with the current legal regime covering repo in Spain and there was a need to change the current practices in order to respond to the increasing international focus on credit management and the use of cross-border collateral.

There are three key areas of market efficiency that were specifically highlighted:

1. The current diverse settlement arrangements
2. The creation of a central counterparty in Spain
3. Updating of collateral monitoring and margining arrangements

The requirement for changes in these areas have resulted in the introduction of a draft financial law which additionally provides for consumer protection and recognises the needs of small and medium sized Spanish enterprises. This draft law is currently at the Council of State, with opinions to be provided by early 2002. The law is expected to cover as wide a range of products as possible, enabling netting to central counterparty, legal certainty in the event of default and enhanced flexibility in the use of collateralised products such as repo.

It was reported that the draft was expected to become law by summer 2002.

2.2 The current Spanish legal environment for repo transactions

Presentation by Mr. Ramon Santillan:

It was first reported that equity repo transactions in the Spanish market are regulated by the Spanish Stock Exchange, whilst fixed income transactions are regulated by the Bank of Spain.

Currently, the Central Depositories in Spain, the two largest being SCLU and Bank of Spain (which until recently had the monopoly on clearing Spanish public debt), are undergoing integration.

It was reported that the legal structure of a repo transaction in Spain today is essentially a buy/sell transaction covered by legislation first enacted in 1983 and subsequently amended in 1998. As collateral management arrangements have become increasingly more sophisticated, there has become an increase in post-trade activity (margin calls etc.), a need for clear arrangements for the transfer of title, and both the close out and netting provisions of trades. Although these arrangements are covered by international master agreements, the question of their applicability under Spanish law has nevertheless been questioned.

It was reported that once the current draft financial law will be enacted it will improve the enforceability of the Master Agreements in Spain, provide for margining, certainty of close out and netting provisions for derivative products such as repo.

Following questioning, it was reported that no short comings had been identified in the draft and that it was expected to be enacted, though the precise date had not been set.

It was suggested by the chair that it would be useful for ISMA to keep in touch with the Bank of Spain on these developments.

3. The launch of the new Spanish Repo Trading Platform (SENAF)

Mr. Raymond Sabbah reported that SENAF would provide the electronic trading platform for Spanish government bonds. It is a 'blind' trading system and regulated by the Bank of Spain. Currently there are 37 members - including 17 non-resident banks - with clearing of SENAF trades through CADE. SENAF provides for special and general collateral trading with the intention to extend trading activities to cash at a future date.

It was stated that there is no need for new legal contracts for participants, that the current market infrastructure will be maintained and that for account holders with the Bank of Spain no new procedures are required. For non-Spanish domestic institutions, the Bank of Spain will require a 'passport' from the central banks of the applying institution. Start date for the service is expected to be between March / April 2002.

Two questions after the presentation raised the issue as to whether this development was contrary to the direction of developments in Euroland - and particularly in respect of the developments with central counterparty initiatives.

4. Legal update on the results of the final comparison meeting (GMRA/EMA) at the ECB

The inconsistency between the ability to apply a (single trade) mini close out under the GMRA whilst there is no possibility to apply a buy-in under ISMA rules was highlighted.

Mr. Andrew Lubin reported that following numerous meetings, he could confirm that there was no basis risk between the GMRA 2000 and the EMA. All differences between the two documents were to be covered by a legal annex to be issued.

It was reported that the time of default valuations as covered by the GMRA 1995 is somewhat ambiguous. It was generally accepted that the period of default started at the point at which the notice was issued to the defaulting counterparty.

Mr. Godfried De Vidts stated that no date had yet been agreed from which legal opinions relating to the GMRA 1995 would not be issued anymore, however, it was commented that the GMRA 2000 provided a greater level of legal safety and firms should make an effort to switch to the GMRA 2000 as soon as possible.

5. Results of the second European repo market survey

Mr. Godfried De Vidts thanked ISMA for the funding of this survey, which he considered would benefit not only the members of the ERC but the market as a whole.

Following an ERSC discussion in August 2001, the results of the first repo survey were presented to the ECB on September 4, 2001 and were followed by a press conference on September 10, 2001. On the same day the banks contributing to the survey received the results by email. The Bank of England were briefed in the monthly stock loan and repo committee (SLRC) meeting on September 11, 2001.

Data for the second survey have now been collected. The results of the second survey are to be presented to the ECB in Frankfurt on January 15, 2002. Again, a presentation will be made to the SLRC

meeting at the Bank of England and on January 22, 2002 a press conference has been scheduled to be held in London.

Mr. Godfried De Vidts thanked all those contributing banks and expressed his hope that the number of contributors to this survey, particularly Spanish and Italian institutions could continue to be increased. The next repo survey is to take place on June 12 2002.

Mr. Richard Comotto presented the results of the second repo survey. The results are available on www.isma.org/surveys/repo/latest.

6. Eurepo – final details

Mr. Mark Painting announced that the Eurepo fixings would be launched on March 4, 2002. There is a meeting of panel banks scheduled for January 28, 2002 in order to resolve any outstanding technical issues. Information and publicity relating to the Eurepo fixing can be found on www.eurepo.org.

7. Withholding tax in Japan

Mr. Godfried De Vidts reported that following numerous worrying press comments, there would be *no* changes to the tax arrangements in the Greek market for interbank transactions.

Mr. Stephano Bellani reported on the Japanese withholding tax developments, stating that cross border transactions meeting an agreed set of criteria would be exempt from Japanese withholding tax. The exemption criteria apply between licensed financial institutions involving transactions of maturity 6 months or less, involving JGBs and governments guaranteed bonds issued in OECD countries (excluding corporate bonds).

Mr. Ohyama from the Bank of Japan confirmed that these arrangements will be in place for at “least” the next 2 years.

8. Basle II

Mr. Pierre Renom gave a brief summary of the status of Basle II developments. Following market feedback to the draft proposal it has been necessary to review the proposed changes further since they are not considered to fulfill the original CAD requirements. The current CAD arrangements will therefore remain in place until 2005.

9. G.C. allocation, forward/forward G.C., substitution

Ms. Catherine Fitzmaurice reported that there had been a number of initiatives to provide for increased use of substitution in repo transactions. However, the key issue is the difficulty that traders have in monitoring the number of substitutions on a given trade. Recent developments by automated trading systems, specifically Brokertec, have made the monitoring process significantly easier. It was also reported that RepoClear (LCH) will launch a forward forward general collateral product in March / April 2002. Two baskets have been proposed:

1. German government paper maturing in less than 10 years
2. All Euro-government paper maturing in less than 10 years

The product has a settlement cut off deadline of 2 p.m. on SD-2, with collateral allocation at 9 a.m. on SD-1. Currently this product will only be tradable through ATSS. Transactions will be on a money fill basis, and will gross for all shorts and all longs, i.e without netting of the two.

10. Feedback Stock Loan and Repo Committee (SLRC) meeting

Mr. James Tomkinson reported that much of the discussions of the SLRC meetings had focused on the market responses to the events of September 11, 2001. Reference was made to the latest issue of the Bank of England publication 'Practical Issues arising from the Euro', particularly p. 382, in which the Bank of England reported on the market functioning in the wake of the September 11 terrorist attacks.

Comment was also made of the FSA Markets and Exchange Division newsletter on Market Conduct Issues, called 'Market Watch', in which issues relating to market conduct are reported. The Newsletter is available on www.fsa.gov.uk/marketconduct.

11. Any other business

The next meeting is scheduled to be held in Vienna on May 14, 2002 from 14:00 to 17.00 and will be hosted by Bank Austria.

12. Annual elections to the European Repo Committee (SLRC)

The following 19 names were forwarded as candidates for the elections to the European Repo Committee.

Name	Affiliation
1. Géraldine Glise	Société Générale, Paris
2. Pierre Renom	BNP Paribas, London
3. Edward McAleer	Morgan Stanley, London
4. Ulf Bacher	Dresdner, Frankfurt
5. David McClean	Nomura International, London
6. Michael Murray	CECA, Madrid
7. Eduard Cia	Hypo Vereinsbank, Munchen
8. Andrea Masciovecchio	Banca IntesaBci, Milan
9. Cameron Dunn	Merrill Lynch, London
10. Stefano Bellani	JP Morgan Chase, London
11. Barbara Ferri	Banca IMI, Milan
12. David Wishnow	UBS Warburg, London
13. Mark Painting	Goldman Sachs, London
14. Oscar Huettner	Barclays Capital, London
15. Catherine Fitzmaurice	Salomon Smith Barney, London
16. Andrew Lubin	Deutsche Bank, Frankfurt
17. Raymond Kuramoto	CSFB, London
18. Georg Thell	RZB, Vienna
19. Godfried De Vidts	Fortis Bank, Brussels

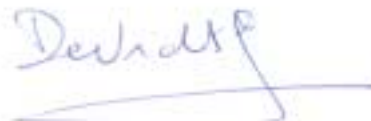
Mr. Godfried De Vidts stated that in the interests of including as many interested parties as possible in the working of the European Repo Committee, he was proposing that all 19 proposed candidates be elected to the European Repo Committee for a term of office of one year. This proposal was confirmed by a show of hands by the electorate present.

The officials (chairman, vice-chairman and secretary) will be selected from within the 19 elected members of the European Repo Committee at the next committee meeting.

Before closing the meeting Mr Godfried De Vidts extended sincere thanks to SENAF for sponsoring the days events on behalf of ISMA's ERC.

January 31, 2002

The Chairman

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

Godfried De Vidts