



ICMA

International Capital Market Association

Opening & Update on recent developments

Godfried De Vidts, Chairman of the ERC

**European Repo Council
General Meeting**

Annex 1

**Euroclear, Paris
13 March 2008**



ICMA

International Capital Market Association

Changes in the ERC Council

- Monte dei Paschi di Siena S.p.A. leaving the ERC Council
- Caja de Ahorros y Pensiones de Barcelona (La Caixa) joining the ERC Council
- The ERC Council composed of 62 members



ICMA

International Capital Market Association

Recent market events/issues

- **Turmoil in the markets**
- **Internal discussion at ERC**
- **Meeting with the ECB**
- **EC Commission reaction**



ICMA

International Capital Market Association

Repo market update

- **Repo representation on the Board of ICMA Ltd.**
- **ERC decision re: Euro GC Baskets for CCP use**
- **Repo recommendations re: legal agreement & negative interest rate transactions – on the web**
- **GMRA opinions available free of charge to members only.**
- **Gilt repo code – revision to be published shortly, BoE to present at the next Council meeting**



ICMA

International Capital Market Association

Contacts

Thank you, Ladies and Gentlemen

Contacts and information:

<http://www.icmagroup.org/about1/international1.html>
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GMRA – Overview of legal opinions

March 13, 2008

Christian Hellmund
Associate Counsel, ICMA, Zurich
Annex 2



Combined legal opinion seeking/ updating exercise 2008

- Agreement between ICMA, ISLA, SIFMA and SLRC subscriber group to combine opinions on the GMRA and securities lending agreements (GMSLA/GESLA/OSLA)
- Agreement in particular:
 - Format of the combined opinions
 - Funding of the combined opinions
 - Counterparty coverage of combined opinions and jurisdictions
 - Review of combined opinions
 - Timing
 - Management of the combined opinion update exercise

Combined legal opinion seeking/ updating exercise 2008

■ Format of the combined opinion

Core opinion
relating to
GMRA/GMSLA/
GESLA/OSLA

Appendix 1
relating to GMRA

Appendix 2
relating to GMSLA/
GESLA/OSLA

Core opinion
relating to
GMRA/GMSLA/
GESLA/OSLA

+

Appendix 1
relating to GMRA

=

GMRA opinion
Available free of charge to
ICMA/SIFMA members

Core opinion
relating to
GMRA/GMSLA/
GESLA/OSLA

+

Appendix 2
relating to GMSLA/
GESLA/OSLA

=

GMSLA/GESLA/OSLA
opinion
Available on subscription

Combined legal opinion seeking/updating exercise 2008

- Funding of combined opinions
 - GMRA opinions
 - 29 joint opinions funded by ICMA and SIFMA
 - 34 opinions funded by ICMA alone
 - GMSLA/GESLA/OSLA opinions
 - funded by the SLRC subscriber group

Combined legal opinion seeking/updating exercise 2008

- Counterparty coverage of combined opinions to the GMRA and the GMSLA/GESLA/OSLA
 - Companies, banks and securities dealers in all jurisdictions
 - Hedge funds, mutual funds and insurance companies in the major European jurisdictions
 - **Central/national bank of the jurisdiction**
 - **European Central Bank (German opinion)**
 - GMSLA/GESLA/OSLA counterparty coverage more extensive in certain jurisdictions

- Jurisdictions
 - 56 combined opinions

Combined legal opinion seeking/updating exercise 2008

- Review of combined opinions – Freshfields
- Timing – Combined opinions to be updated by March 31, 2008
- Management of combined opinion seeking/updating exercise - ICMA

GMRA opinions

Available opinions

- Legal opinions on the GMRA currently available for 61 jurisdictions
- Recently published opinions – Anguilla, Croatia, Dubai, Iceland, India and Israel

New opinions

- United Arab Emirates (except Abu Dhabi and Dubai): opinions ordered
- Oman and Qatar: opinions proposed

Request from ERC committee to establish whether clean legal opinions can be obtained

- Bulgaria

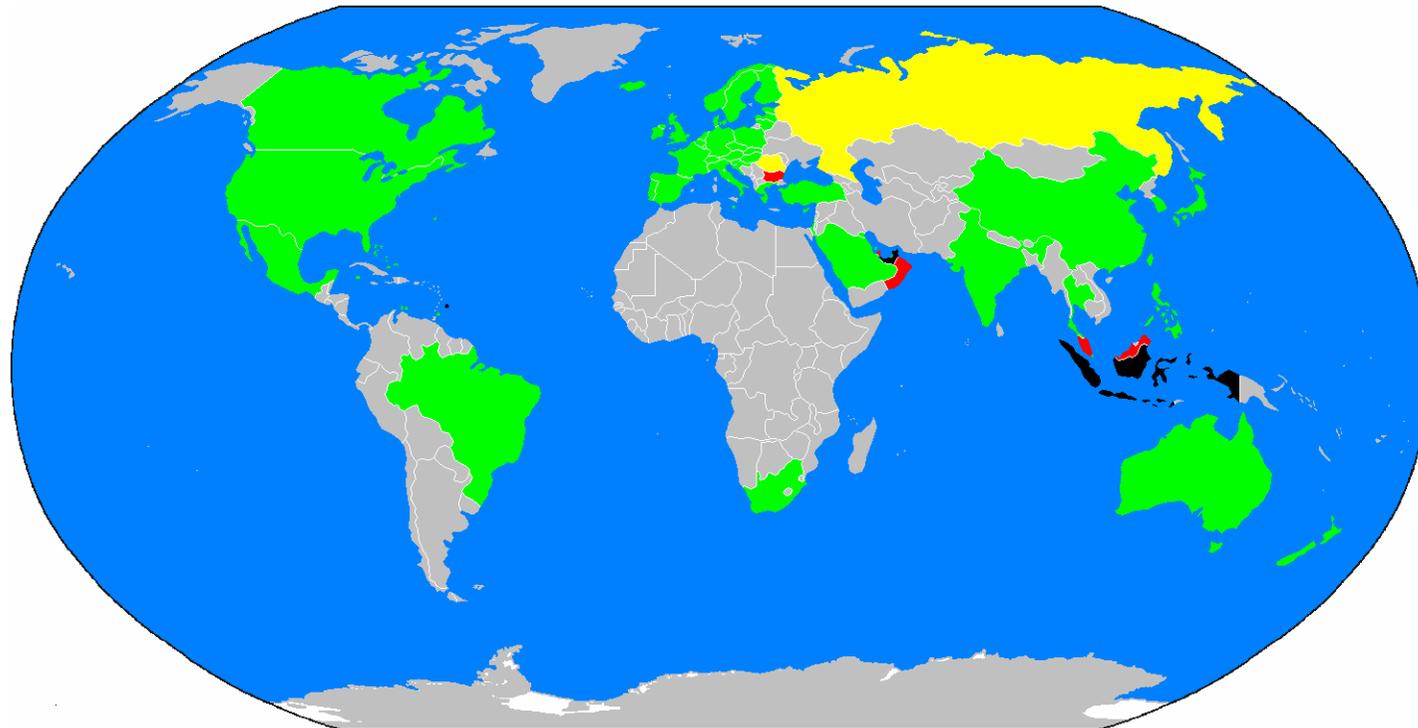
Legal developments monitored

- Russia, Romania, Malaysia

- GMRA opinions available on ICMA's website at:

https://www.icmagroup.org/market_practice/legal1/GMRA_Legal_opinions.html

GMRA opinions - worldwide



-  Available opinions
-  Opinions ordered
-  Request from ERC committee to establish whether clean legal opinions can be obtained
-  Monitoring of legal developments

GMRA opinions (1)

No.	Jurisdiction	Status		
		available	ordered	proposed
1	Abu Dhabi	√		
2	Anguilla	√		
3	Australia	√		
4	Austria	√		
5	Bahamas	√		
6	Bahrain	√		
7	Barbados		√	
8	Belgium	√		
9	Bermuda	√		
10	Brazil	√		
11	British Virgin Islands	√		
12	Bulgaria			√
13	Canada	√		
14	Cayman Islands	√		
15	China	√		
16	Croatia	√		
17	Cyprus	√		
18	Czech Republic	√		
19	Denmark	√		
20	Dubai	√		

No.	Jurisdiction	Status		
		available	ordered	proposed
21	England	√		
22	Estonia	√		
23	Finland	√		
24	France	√		
25	Germany	√		
26	Greece	√		
27	Guernsey	√		
28	Hong Kong	√		
29	Hungary	√		
30	Iceland	√		
31	India	√		
32	Indonesia		√	
33	Ireland	√		
34	Israel	√		
35	Italy	√		
36	Japan	√		
37	Jersey	√		
38	Kuwait	√		
39	Latvia	√		
40	Lithuania	√		

GMRA opinions (2)

No.	Jurisdiction	Status		
		available	ordered	proposed
41	Luxembourg	√		
42	Malaysia			√
43	Malta	√		
42	Mexico	√		
45	Netherlands	√		
46	Netherlands Antilles	√		
47	New Zealand	√		
48	Norway	√		
49	Oman			√
50	Philippines	√		
51	Poland	√		
52	Portugal	√		
53	Qatar			√
54	Romania			√
55	Russia			√
56	Saudi Arabia	√		
57	Scotland	√		
58	Singapore	√		
59	Slovakia	√		
60	Slovenia	√		

No.	Jurisdiction	Status		
		available	ordered	proposed
61	South Africa	√		
62	South Korea	√		
62	Spain	√		
64	Sweden	√		
65	Switzerland	√		
66	Taiwan	√		
67	Thailand	√		
68	Turkey	√		
69	United Arab Emirates (excl. Abu Dhabi and Dubai)		√	
70	USA	√		

GMRA

Moving Forward

A SIFMA view

Mark Austen
Managing Director
SIFMA

General Meeting of ICMA
European Repo Council
March 13, 2008

Annex 3



- ▶ Global Master Repo Agreement (GMRA) was developed to facilitate repo trading globally and is administered by SIFMA and ICMA
- ▶ Global Master Securities Lending Agreement (GMSLA) was developed to facilitate securities lending globally and administered by ISLA and LIBA
- ▶ Legal opinions commissioned on behalf of members by the associations to ensure the provisions of the GMRA and GMSLA are enforceable with foreign counterparties in foreign jurisdictions
- ▶ October 2007: Members of these four associations agreed to combine the separate opinions into a single opinion
- ▶ This will further global integration and save costs for Members which are the primary benefits of the GMRA/GMSLA

- ▶ SIFMA encourages adoption of GMRA internationally as global standard as this facilitates repo trading with counterparties; and the development of domestic repo markets and their opening to international players

- ▶ SIFMA in Asia:
 - INDIA: November 2007 India Repo Forum & Training Course, Mumbai

 - CHINA: July 2006 Repo Forum & Training Course, Shanghai, China; March 2007 Repo and Securities Lending Seminar in Guilin, China (Also GMRA and GMSLA now translated into Mandarin)

 - HONG KONG: 2006 Hong Kong Repo Forum & Training Course conference; 2007 Development of Hong Kong Annex with HKMA for the GMRA

 - KOREA: plans for similar Repo Forum and Training event in 2009; Formation of Korean Working Group and provision of advice to Korean regulator to develop market; Comparative analysis of local Korean repo agreement with GMRA, to encourage wider GMRA adoption

- ▶ Legal opinion process encourages greater international use of GMRA which facilitates a global standard and foreign access to domestic markets

- ▶ 29 February 2008: initial discussion between Members on further expansion of legal opinions:
 - Interest in adding both further jurisdictions (16 new, including in Middle East)...

 - ...and further counterparties (eg, fuller coverage of investment funds, sovereign wealth funds)

 - Plus confirmation that local legal entities are covered by the generic terms for counterparties (eg, 'investment firms' are 'securities dealers')

- ▶ Members want both more jurisdictions and counterparties
- ▶ GMRA opinions paid out of association (ICMA and SIFMA) budgets and therefore Members' generic dues
- ▶ Allows for incremental expansion of the GMRA legal opinions
- ▶ But limits those Members that want to go further, faster
(and which help to promote GMRA as global standard)

Some initial thoughts:

- ▶ Every opinion included in the industry process saves € £ \$ for Members as otherwise need to purchase themselves
- ▶ Potential to offer more and to be more responsive and flexible to Member needs by moving to subscription basis for expansion to other jurisdictions and counterparties
 - Members could obtain opinions in line with business needs when they want them and potentially more quickly than at present
 - Conflict between expansion and association budget constraints would be reduced/eliminated
 - User pays principle is more equitable than current model
 - Flexible approach allows for faster spread of the GMRA into developing markets
- ▶ Sensitivity to other Associations' funding models

- ▶ Finish ‘gaps analysis’ – to show which Member jurisdiction and counterparty requests not already covered by the GMRA opinions
- ▶ Seek Members’ feedback including
 - JOC/SLRC Legal Members
 - ERC
 - SIFMA US funding division
 - SIFMA Asia funding division
- ▶ Finalise paper setting out Member requests and options for funding those requests
- ▶ Seek approval for funding proposals for next round of opinions from ERC, SIFMA US Funding Division; SIFMA Asia Funding Division



Agent Lender Disclosure update

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ALD

FSA paper: December 2007

- Background of Basel 2 implementation
 - By Jan 2010, borrowers must receive underlying principal exposures on trade date where possible and at latest business day following settlement date
 - In interim period
 - At least monthly disclosure
 - Choice of methods for estimating intra-month principal-level exposures on basis of agent-level exposures
-

ALD

European ALD model: process and timetable

- Capco appointed to manage project reporting to ISLA Board
 - Consultative paper by early-April; agreed model, with any service providers selected, by end-May
 - ALD working group to support Capco; borrowers (Cater Allen, Credit Suisse, Deutsche, Fortis, Goldman, Lehman, Merrill, Morgan Stanley, Nomura, RBS, UBS); 8 lenders (AIG, BGI, BNP Paribas, Dresdner, HSBC, JP Morgan, M&G/Prudential, Northern and State Street).
 - Eric Lepore (Deutsche) from European Repo Committee
 - ICMA also represented (Nathalie Aubry) and financial contribution
-

ALD

Permanent ALD model: issues

Shape of model

- Replicate US model as far as possible: file formats, DTCC identification system based on pseudo tax IDs, vendor solutions
 - DTCC prefer to licence to European hub because cannot rely on OFAC self certification by firms without a US presence (parent, branch, subsidiary)
 - Need to select European hub
-

ALD

Permanent ALD model: issues

- Repo/reverse repo

Not included in US; to be included in Europe

Borrowers need to calculate Basel 2 capital

Includes repo (ie bond borrow under GMRA) and, more significantly reverse repo (eg cash reinvestment vs triparty collateral)

Agent lenders concerned about scale of project if extended beyond securities financing business eg manage client cash on pooled basis for cash reinvestment plus money funds etc

Possible phasing of project

ALD

Permanent ALD model: issues

Triparty reporting

- 2 models discussed
 - Model 1: Agent lenders report collateral breakdown (by ISIN) to borrowers by underlying principal using input from triparty agents
 - Model 2: Agent lenders report exposure values collateralised by triparty (provider, account and set) to borrowers by underlying principal; borrowers obtain collateral breakdown (by ISIN) from triparty agent
 - Decision: allow either based on bilateral agreement
-

ALD

Permanent ALD model: issues

Timing of file transfer

New categories for EU entity types

- Mapped into netting opinion categories

Credit approval process

- Same as US ALD

Reconciliation of contract compare to ALD file

Flag for legal agreement used eg GMRA, OSLA

T2S Status and perspective

Marc Bayle
Programme manager - T2S Project
ERC, Paris, 13 March 2008

T2S - part of European landscape

T2S is a key contributor to the Lisbon agenda

**ESCB consolidation of
Infrastructure...**

**Removal of
Giovannini
barriers**

MIFID

**Code of
conduct**



**ESCB-
CESR**



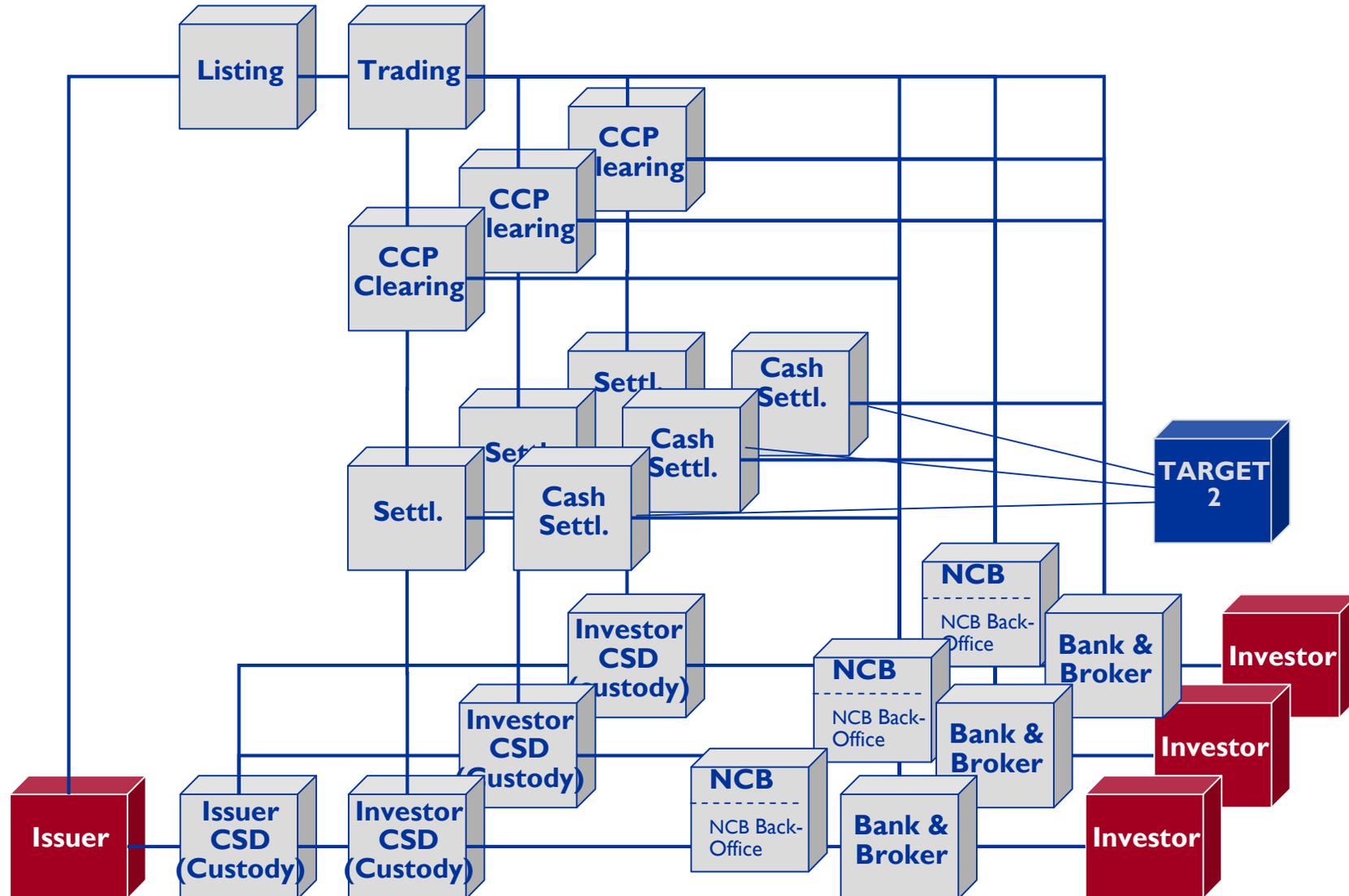
**... on integrated
securities market for
Europe.**

List of content

1. What is T2S ?
2. Where are we ?
3. Next steps

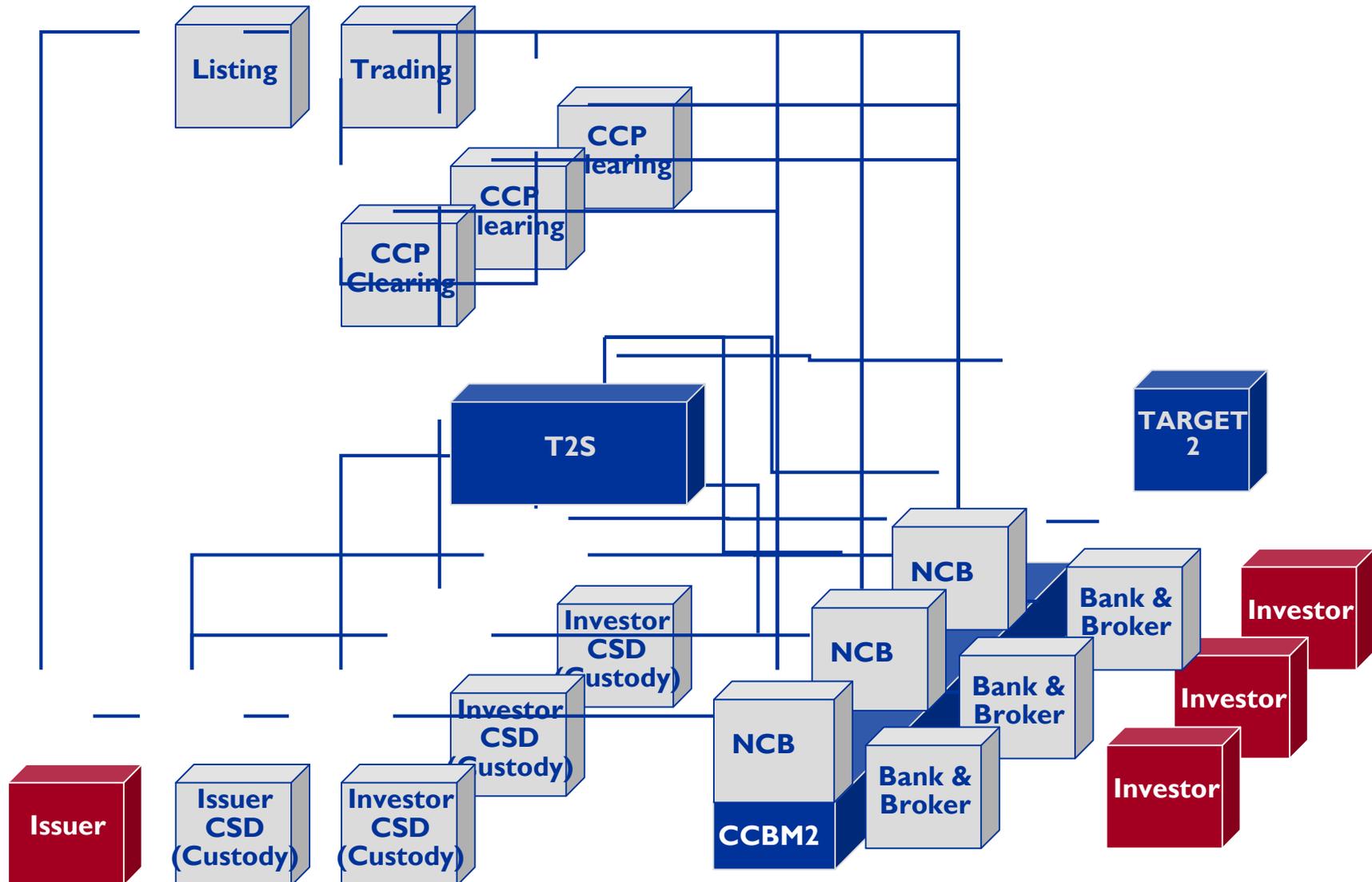
Current situation of the market infrastructure in Europe

Complexity of the interaction for securities settlement in CeBM



Eurosystem vision

Simplification of the cash and securities settlement infrastructure with a single collateral management system



T2S is key in the consolidation of the European market

...

 <p>target² THE EUROSYSTEM'S PAYMENT SYSTEM</p>	 <p>CCBM²</p>	 <p>tas TARGET²-SECURITIES</p>
<p>Cash settlement market infrastructure</p>	<p>Central banks' collateral management system</p>	<p>Securities settlement market infrastructure</p>
<p>Complementarities</p>		

... while preserving the business relationships
of central banks and CSDs with
their counterparts and customers

Interaction of the services provided by the Eurosystem

Complementarities T2S – CCBM2 – TARGET2

- **TARGET2 / T2S**

- Injection of liquidity at the start of the settlement day
- Transfer of liquidity between the two services during the settlement day
- Automatic return of liquidity to TARGET2 at the end of the settlement day

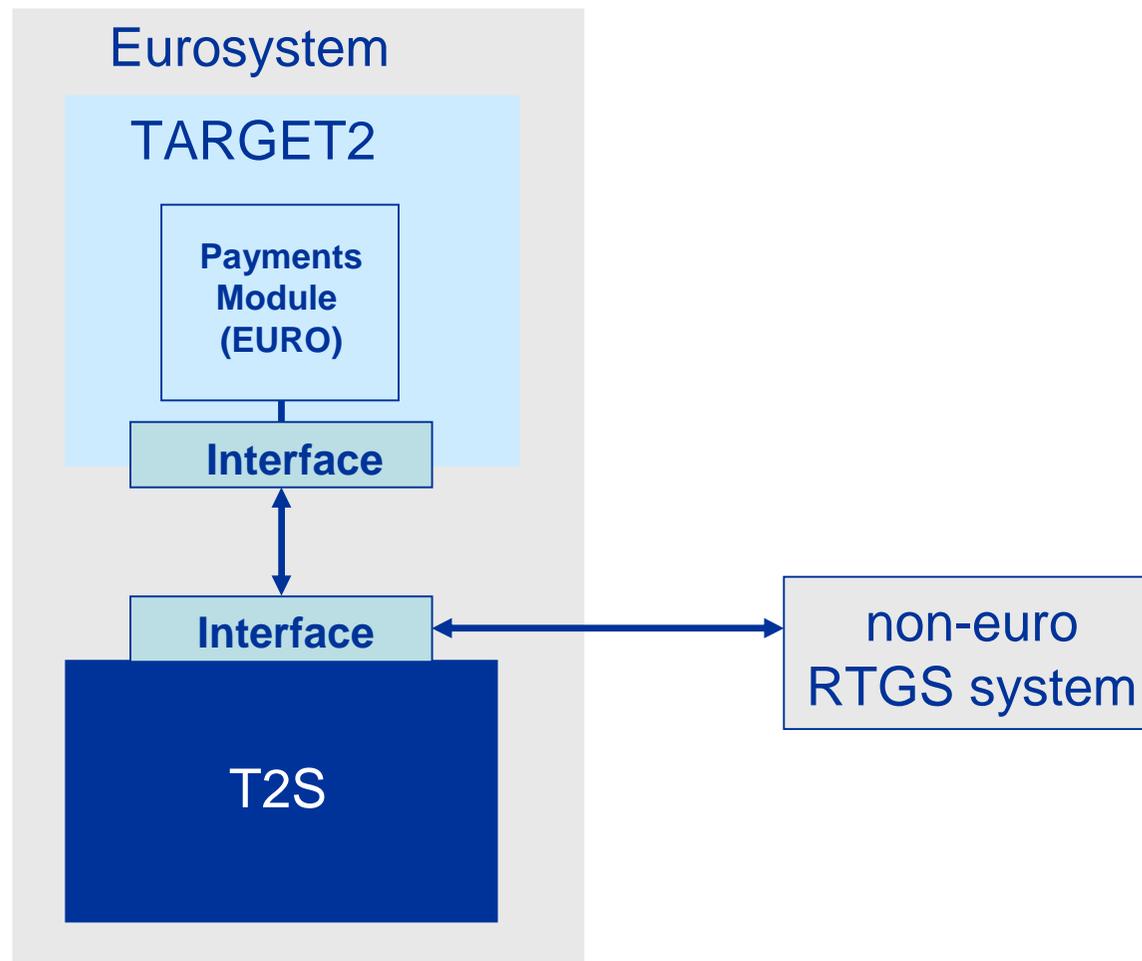
- **CCBM2 – T2S**

- Provision of information on collateral value of eligible securities and close links to support auto-collateralisation in T2S
- Information about making use of auto-collateralisation in T2S

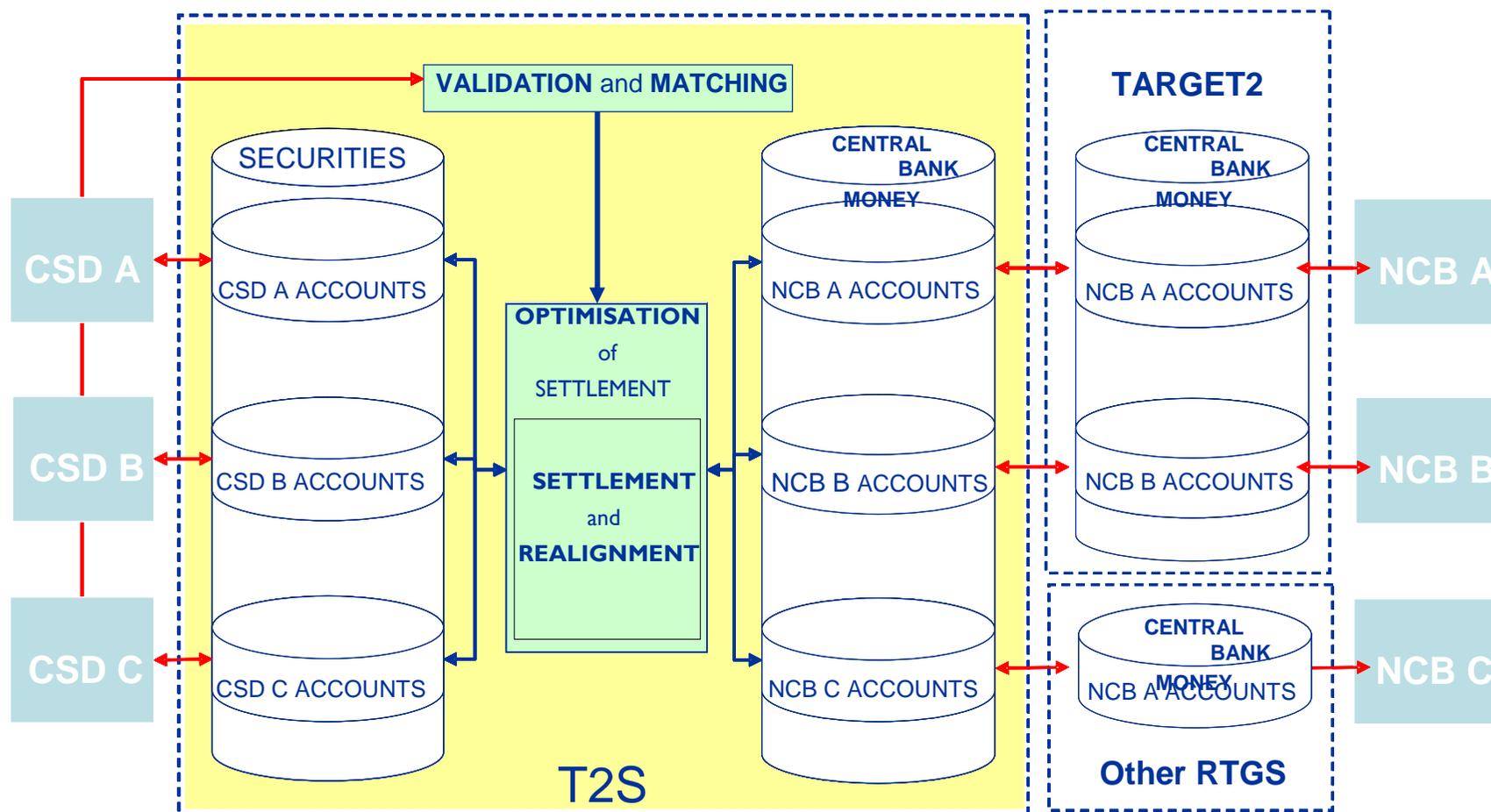
- **TARGET2 / T2S / CCBM2**

- Provision of securities for collateralisation of monetary policy operations and intraday credit
 - Eligibility-check and calculation of collateral value in CCBM2
 - Making available securities to NCBs in T2S
 - Increase of credit line or provision of liquidity in TARGET2
- Return/substitution of securities used for collateralisation purposes

Connecting Central Bank accounts to T2S (euro and non-euro)

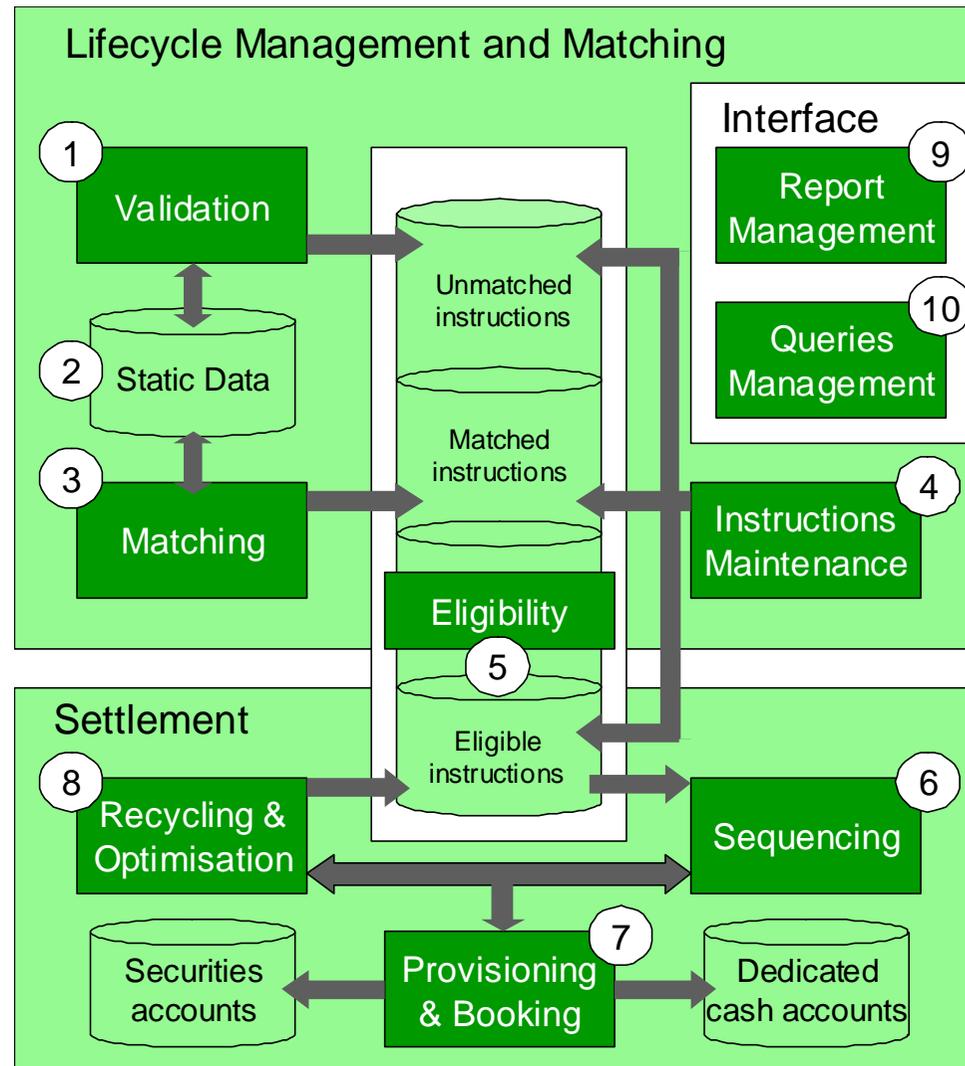


T2S - A cooperation between CSDs and NCBs



The T2S process flow – matching & settlement

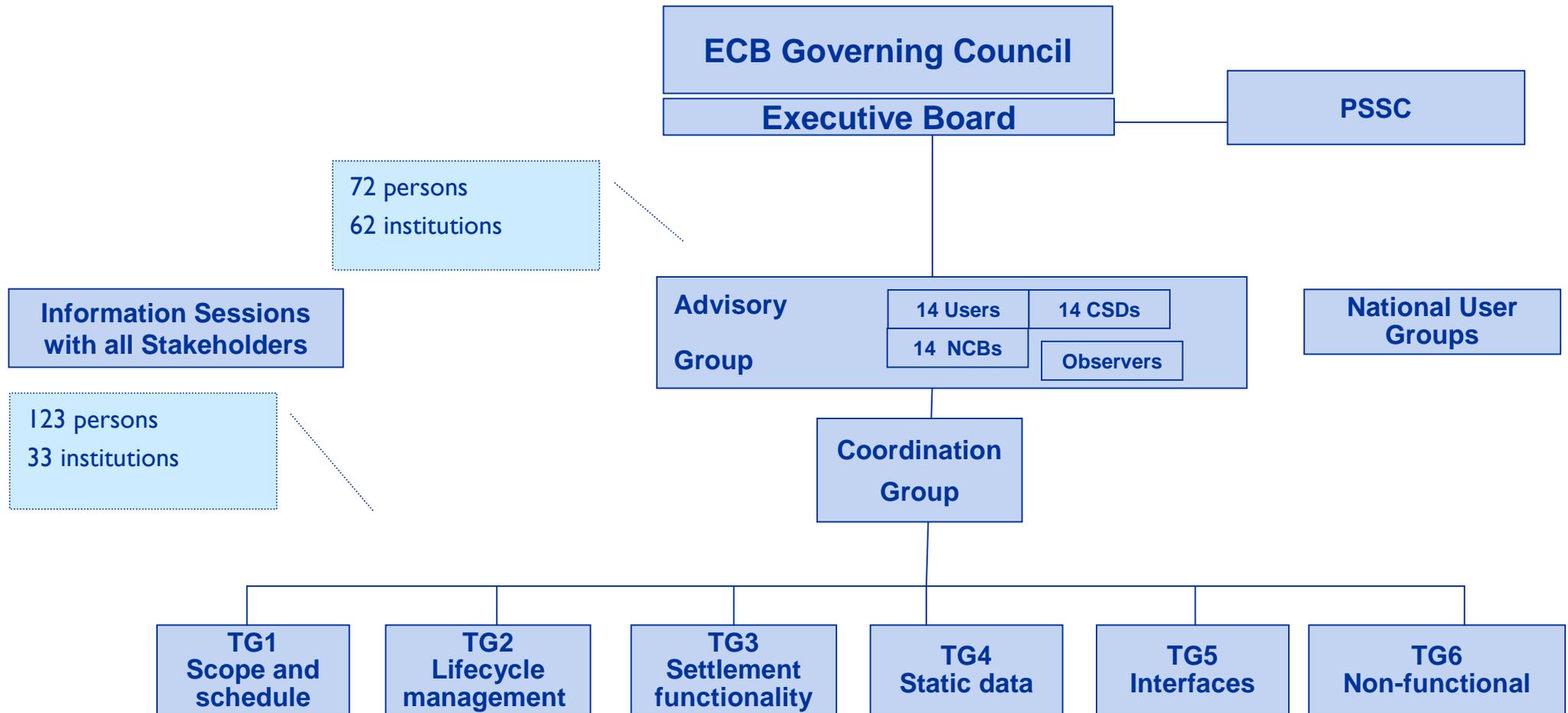
1. Settlement instructions “captured” are processed in the Validation component,
2. according to the rules and restrictions stored in the Static Data
3. Once validated, instructions are matched in the Matching component.
4. Instructions may be maintained.
5. Matched transactions are checked for their settlement eligibility
6. Once eligible, instructions are prioritised in the Sequencing component, and...
7. processed, in RTGS mode, for the final settlement.
8. In the case of failed settlement, transactions are moved to the Recycling and Optimisation components.
9. In some lifecycle stages, reporting to the instructing entities is required.
10. T2S parties may query the system at any time.



List of content

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T2S governance: Current structure



- 188 experts coming from 77 institutions
- All CSDs settling in euro participate
- 33 custodian banks

Future Governance of T2S

- Current T2S governance arrangement remains largely unchanged for the Specification Phase, i.e. until end 2009.
- Continuation of the AG (with its three constituencies) who may establish sub-groups.
- Support of T2S and participation in the future governance go hand in hand.
- Other governance options will be studied during the Specification Phase, including the establishment of a separate legal entity.

How does T2S impact CSDs?

- CSDs are the gateways to T2S.
- Shifts resources away from commoditised settlement to areas that will determine competitiveness in the future.
- May wish to invest on services related to securities issued in other CSDs to remain competitive. May involve alliances with institutions which currently have this expertise.
- A common settlement process and direct connectivity facilitate their ability to serve international customers on the securities they issue.
- Lowers running costs, adaptation costs and income levels are subject to more competition.

**A key for change lies in those
who are most affected by the change.**

How does T2S impact market users?

- Fosters competition among CSDs for better services at a lower settlement price.
- Reduces intermediary costs by providing the possibility for direct technical access to the settlement platform.
- Reduces collateral needs and costs.
- Helps to optimise treasury management through a consolidated access to securities and central bank money.
- Reduces back-office costs thanks to harmonised access to multiple CSDs and harmonised settlement procedures.
- Facilitates cross-border business with easier and cheaper cross-CSD settlement.

Market users and end-investors will benefit from T2S.

How does T2S facilitate competition in custody?

What options do I have to hold my “Nokias” in T2S?

1. With the local custodian (or a European custodian) like today.
2. With my local CSD *if* it processes corporate events in Nokias.
3. With NCSD Finland (multi-direct participation)

In all three cases, I may channel all settlement instructions to T2S using the same procedures

A single settlement process provides more choice on custody by reducing switching costs / scale considerations.

Settlement

T2S

- ✓ Volume-based
- ✓ More commoditised
- ✓ Closer to central bank expertise
- ✓ Benefits from achieving a single pool of liquidity/collateral
- ✓ Settlement fees not the largest chunk of total costs, but cross-border fees can be substantially reduced

Scale

Custody/Corporate events

CSDs

- ✓ Value-based
- ✓ More innovation / calls for harmonisation
- ✓ Less central bank involvement (in particular for equities)
- ✓ Large cost-saving opportunities
- ✓ With T2S more choice on place of custody (home CSD, issuing CSD, custodian)

Competition

Harmonisation issues

T2S acts as a strong catalyst complementing and accelerating harmonisation initiatives (Giovannini barriers)

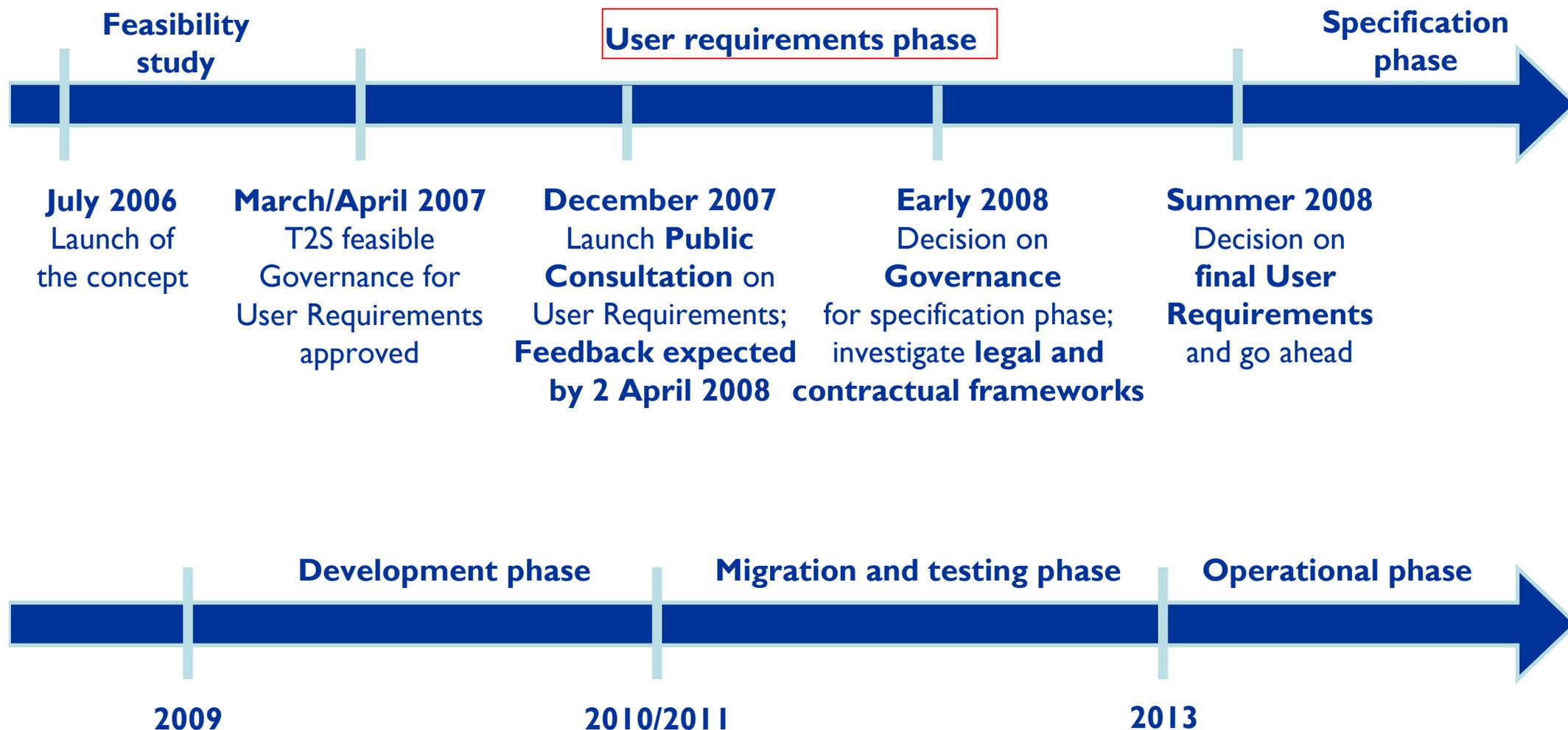
- Single process schedule and settlement deadlines for all markets
- T2S will adopt ISO standards as the communication protocol
- End of day fails management period, handling of repo transactions
- Binding matching with hold and release mechanism
- Single cash settlement model as part of T2S
- Threshold for partial settlement and recycling of failed transaction
- Harmonised procedures for collateral transfer to NCBs (CCBM2)

List of content

1. What is T2S ?
2. Where are we ?
3. **Next steps**

Where are we?

The T2S timeline



T2S – The main challenges

- 1. Consulting the financial market on (deadline: 2nd April)**
 - the T2S User Requirements (the URD)
 - methodology on economic impact analysis
- 2. To design an effective governance structure**
- 3. To present an economic impact analysis**

**All developments and progress are posted on the ECB
T2S Web-page**

Concluding with 5 big wins

- 1. Making cross-border settlement fees as inexpensive as domestic fees**
- 2. Reducing users' collateral/liquidity needs**
- 3. Harmonising settlement to make Europe a true Single Market**
- 4. Create new opportunities for competition**
- 5. In time, market users would only need an account at one CSD to settle any transactions in securities within T2S**

THANK YOU



CCBM2

Project update

Dirk Bullmann
European Central Bank

ERC Annual General Meeting
Paris, 13 March 2008

- I. CCBM2: objectives and principles**
- II. The dialogue with the market**
- III. The CCBM2 User Requirements**
- IV. Triangle for efficient liquidity management: TARGET2, T2S and CCBM2**
- V. CCBM2 project time table**

CCBM2

I. CCBM2: Objectives and principles

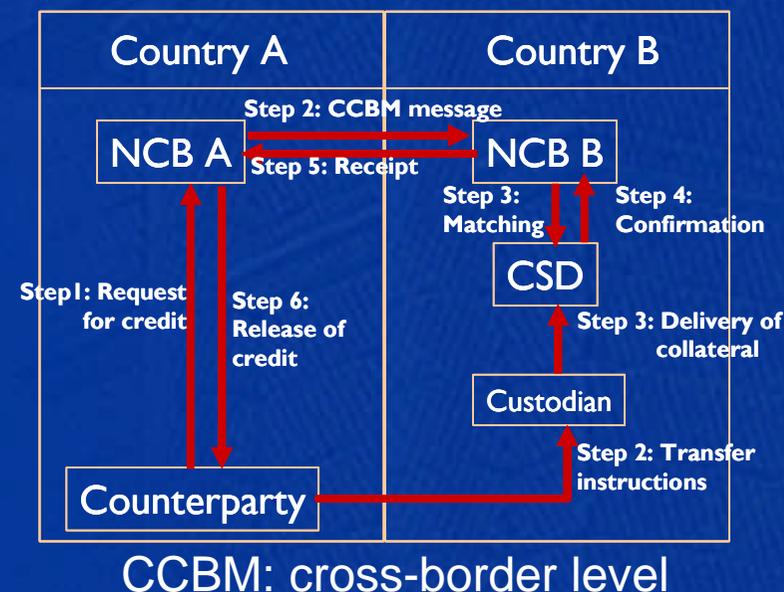
Today's situation in the field of Eurosystem collateral management:

Eurosystem collateral management is technically decentralised with the specific CCBM arrangement at Eurosystem level for cross-border use.

➤ Domestic level: Across the euro area there exist different conditions (procedures, communication interfaces, level of automation)

➤ Cross-border level: In CCBM, there are up to five players (and related procedures) involved

➤ Domestic/cross-border level: Different conditions for cross-border (CCBM) and domestic transfers (in terms of execution time, timing and costs)



- ▶ The current CCBM is the main channel for cross-border use of collateral in Eurosystem credit operations



- ▶ Given the drawbacks in terms of harmonization and efficiency, the Governing Council of the ECB decided in March 2007 to review existing collateral management procedures and to create a new collateral management system for the Eurosystem, called CCBM2
- ▶ CCBM2 will offer a harmonised and efficient solution facilitating the interaction of counterparties acting as collateral providers with the Eurosystem

► Consolidation:

- Single platform for domestic and cross-border use of collateral (while CCBM covers cross-border only); Eurosystem participation is of voluntary nature
- Centralised IT solution while preserving decentralised business relations between NCBs and counterparties (access to credit)

► Harmonisation:

- Harmonised service level for all eligible assets (marketable assets and credit claims), covering existing collateral legal techniques (pledge and repo)
- Harmonised interface with counterparties
- Harmonised fee structure for CCBM2 services

► Efficiency:

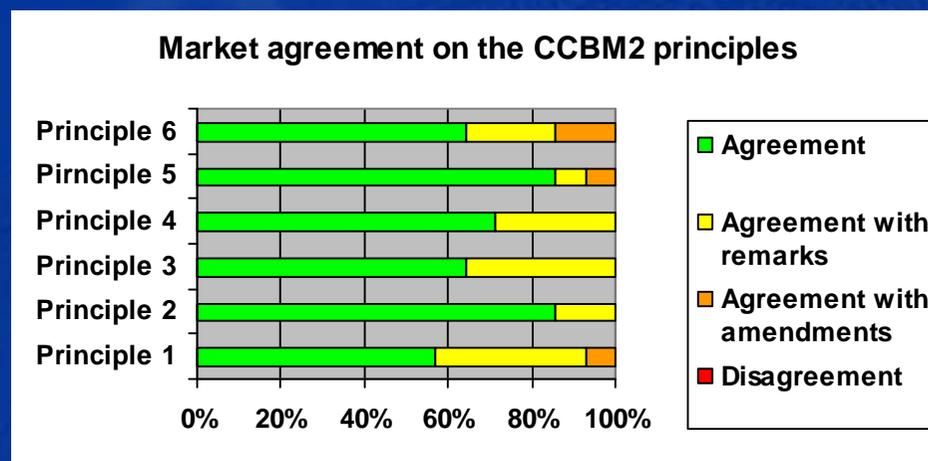
- Lower costs for consolidated solution which will be based on existing central bank systems (such as the one jointly operated by NBB/DNB)
- Adoption of real-time and straight-through-processing
- Interfaced with TARGET2 and TARGET2-Securities (CCBM2 project is being conducted in parallel with the TARGET2-Securities project)

CCBM2

II. The dialogue with the market

- In order to optimally integrate market needs, CCBM2 is developed in close cooperation with market participants
- In April 2007, the Eurosystem launched an initial market consultation on the CCBM2 principles; the feedback received from the market would contribute to the definition of the CCBM2 User Requirements

➤ All respondents welcomed the Eurosystem initiative to develop CCBM2; feedback received was very positive



- Valuable remarks/requests were voiced through the market consultation; see <http://www.ecb.europa.eu/ecb/cons/html/ccbm2.en.html>

- ▶ The CCBM2 User Requirements have been drafted on the basis of:
 - ▶ the guiding principles of CCBM2 (on which the first market consultation took place)
 - ▶ the feedback received from the market
- ▶ On 25 February, the draft CCBM2 User Requirements were submitted for market consultation:
<http://www.ecb.europa.eu/ecb/cons/html/ccbm2-2.en.html>
- ▶ You are invited to comment, make suggestions and raise queries. Closing date for this second consultation phase is 5 May 2008.
- ▶ The User Requirements will then be reviewed where appropriate and finalized by summer 2008

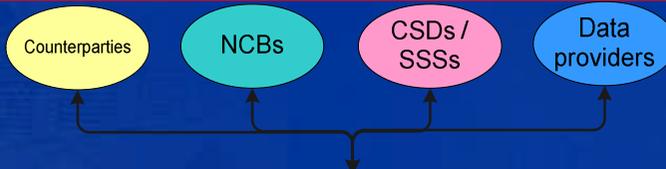
The logo for CCBM2, featuring the letters 'CCBM2' in a bold, sans-serif font. The 'CC' and 'BM' are in blue, while the '2' is in a lighter blue-grey color. The logo is set against a white rectangular background.

CCBM2

III. The CCBM2 User Requirements

Message router (mandatory)

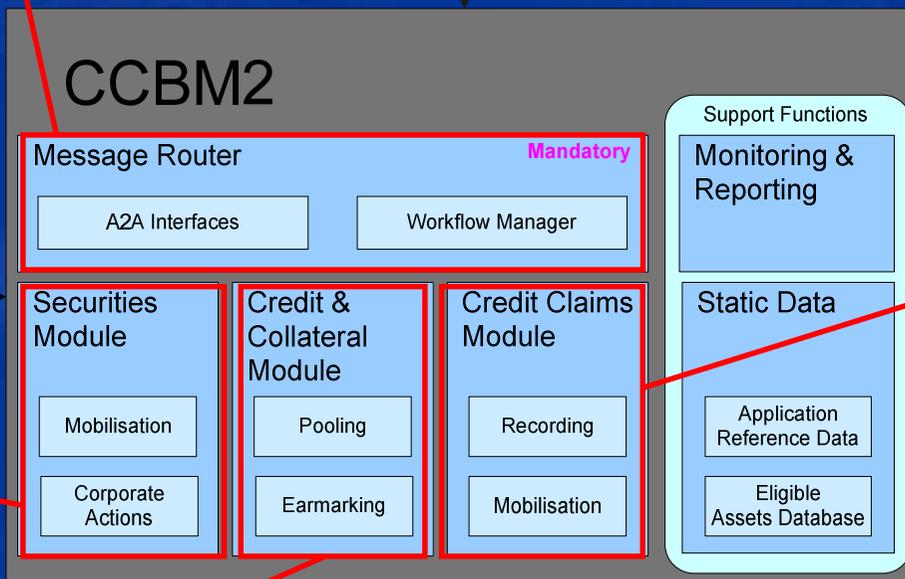
- Handles communication with external parties and other modules
- Supports different communication networks (SWIFTNet, secure internet)



Securities Module

- Mobilisation / demobilisation of marketable assets (domestic / cross-border)
- Related custody services

External CMS



Credit claims module

- Recording and mobilisation of credit claims (domestic and cross-border)

Credit & Collateral Module

- Management of counterparties' collateral positions
- Assigns each counterparty a single global position
- Pooling/earmarking
- Optional functionality (e.g. credit freezing, interaction with external CMS, auto-collateralisation)



$\frac{\text{Collateral position}}{\text{= value of assets mobilised}}$	$\frac{\text{Credit position}}{\text{= outstanding credit operations}}$
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Most of the specific issues raised by the market in the initial consultation have been addressed in the User Requirements:

- Use of collateral for purposes other than Eurosystem credit operations (e.g. guarantees to CCPs)
- Pooling of collateral provided by entities belonging to a group
- Integration with other existing market solutions:
 - ICSDs' collateral management systems in particular
 - Triparty collateral management services in general
(Issue is currently analysed further based on joint letter from ERC, Euroclear and Clearstream: [see http://www.ecb.europa.eu/paym/coll/coll/ccbm2/pdf/CCBM2_Letter_18Dec2007.pdf](http://www.ecb.europa.eu/paym/coll/coll/ccbm2/pdf/CCBM2_Letter_18Dec2007.pdf))
 - Harmonization of collateralisation techniques
(Eurosystem strongly supports work led by the European Commission on the harmonisation of national market practices)
- Inclusion of a contingency module dealing with non-euro collateral
- Removal of the repatriation requirement
(Issue is currently analysed further outside CCBM2 scope)

CCBM2

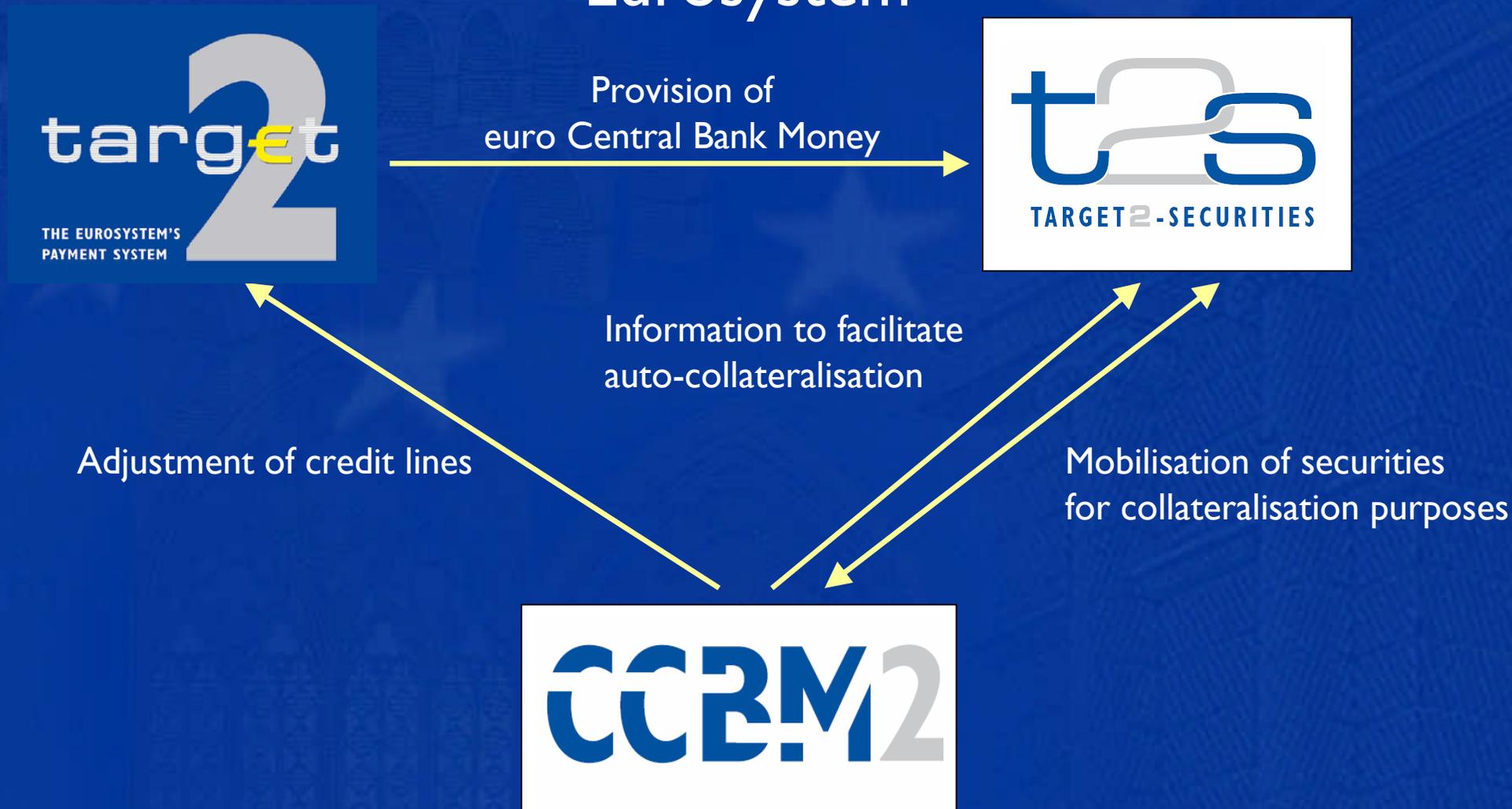
IV. Triangle for efficient liquidity management: TARGET2, T2S and CCBM2

Consolidation of IT infrastructure...

		
RTGS Minimum reserve management, Standing facilities, etc	Central banks' collateral management	Securities settlement

... while preserving the business relationships of central banks and CSDs with their counterparts and customers

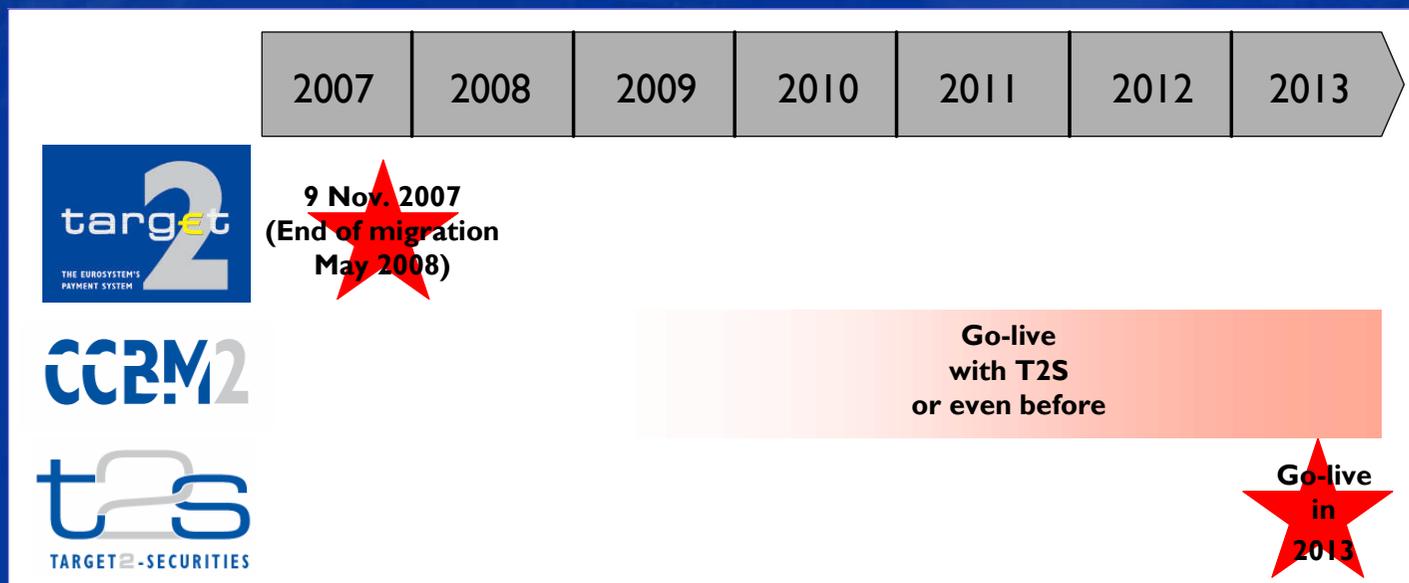
Interaction of the services provided by the Eurosystem



CCBM2

**V. CCBM2
project time table**

- ▶ Work on the User Requirements will be finalized by summer 2008, based on which the User Detailed Functional Specifications will be established.
- ▶ In 2008, also the CCBM2 project time table will have to be finalised



- ▶ The Eurosystem will continue the fruitful dialogue with the market on the CCBM2 project

Please comment on the CCBM2 User Requirements
(deadline 5 May 2008)

The logo for CCBM2 is displayed in a white rectangular box. The text 'CCBM2' is rendered in a bold, sans-serif font. The 'CC' and 'BM' are in blue, while the '2' is in a lighter blue or grey color.

Thank you!

The Commission's policy response to the Financial Turmoil

Fabrizio PLANTA

**ICMA's Repo Council
Paris, 13 March 2008**

Annex 7

Disclaimer: This presentation reflects only the views of its author. It may not be taken to represent any view, express or implied, on the part of the European Commission.

European Commission 
Internal Market & Services DG

Financial Markets Developments

- Uncertainty about global economic situation and outlook
- Real-economy implications
- Status of the European economy and forecasts
- Consequences for European Banks
- Gaps revealed by the international financial system.



The Ecofin Roadmap

- Credit Market Turbulence
 - Transparency
 - Valuation standards
 - Prudential framework, risk management and supervision
 - Market functioning
- Crisis Management
- Lamfalussy Review



Transparency

- Industry commitment:
 - Guidelines on public Disclosures
 - Industry Market Data Report
 - Investor Information Initiatives



Valuation Standards

- Ensure consistent and transparent application of current accounting rules on 2007 financial statements
- GPPC paper on determining Fair Value of Financial Instruments under IFRS
- Necessary accounting adjustments
- No need to over-react

Prudential Framework, risk management and supervision

- Concentration Risk (Large exposures)
- Treatment of hybrid capital instruments,
- Technical changes to the CRD
- Banks' liquidity requirements
- Improvement of risk management standards by non-bank investors

Market Functioning

- Role of credit rating agency
- Incentive structures and implication of the originate and distribute model
- Responsible lending
- Non-organised debt markets

Crisis Management

- Common principles for crisis management and sign an extended EU wide MoU
- Specific voluntary co-operation agreements
- Common framework for assessing a crisis
- Crisis simulation exercises



Review tools for crisis prevention, management and resolution

- Ensure availability of relevant tools
- Streamlining the process of State aid rules
- Possible extensions of Winding-Up Directive
- Revision of the Financial Collateral Arrangements and Settlement Finality Directives
- Ensure efficiency of Deposit Guarantee Schemes
- Early warning mechanisms

Lamfalussy Review

- Strengthen the Level 3 Committees
- Reinforce application of Level 3 measures
- Different reporting requirements
- Convergence of supervisory powers
- Improve cooperation between supervisors
- Operation of colleges of supervisors
- Financial support to Level 3 committees



Thank you for your attention!

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European Commission 
Internal Market & Services DG

European Repo Council

14th

European

ERC General Meeting

Paris, 13th March 2008

Annex 8

repo market

survey

December

2007



European Repo Council 14th European repo market survey

Survey overview

- Outstanding value of contracts at close on 12th December 2007
- 68 responses from 62 groups
- Respondents headquartered in 14 European countries, US, Japan

European Repo Council

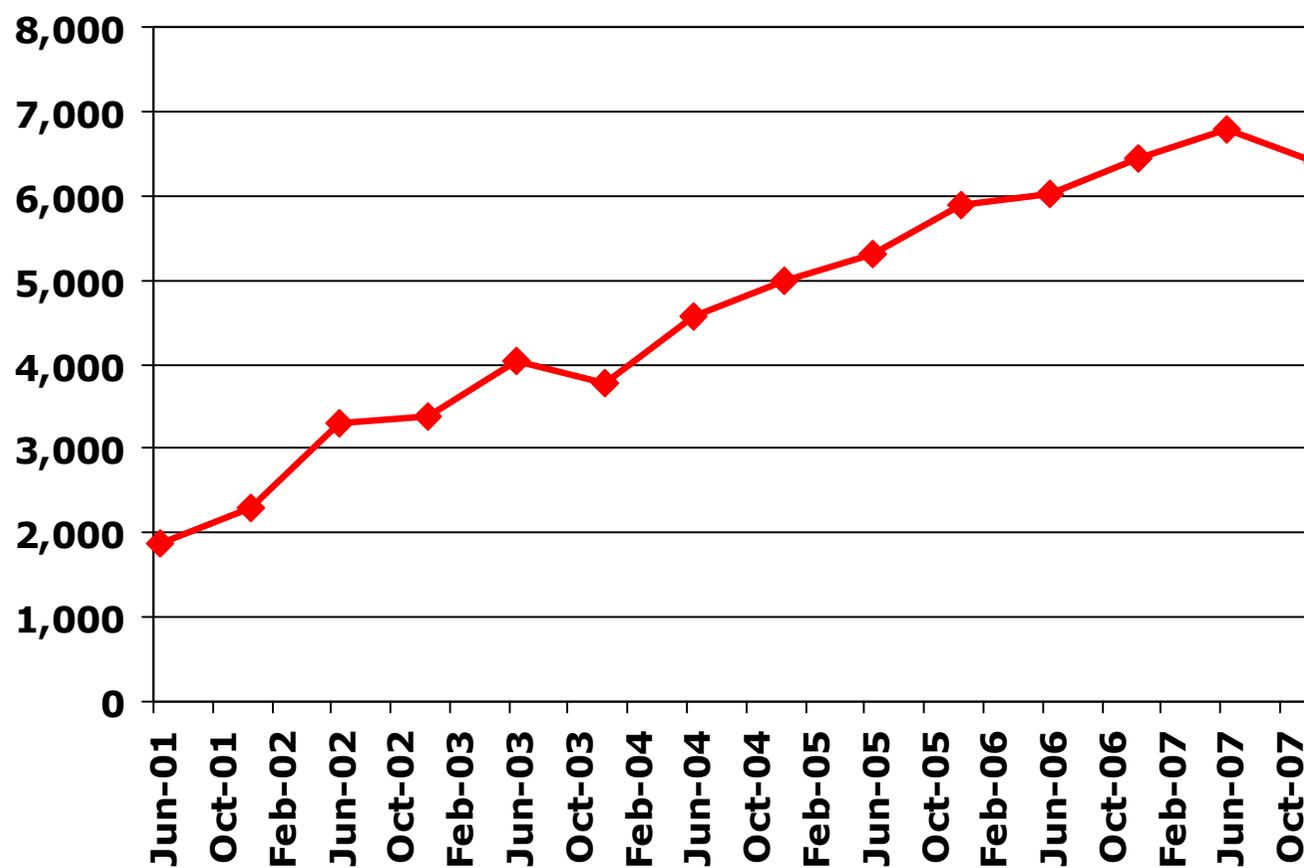
14th European repo market survey

Headline numbers

■ December 2007	EUR 6,382 billion
■ June 2007	EUR 6,775 billion
■ December 2006	EUR 6,430 billion
■ June 2006	EUR 6,019 billion
■ December 2005	EUR 5,883 billion
■ June 2005	EUR 5,319 billion
■ December 2004	EUR 5,000 billion
■ June 2004	EUR 4,561 billion
■ December 2003	EUR 3,788 billion
■ June 2003	EUR 4,050 billion
■ December 2002	EUR 3,377 billion
■ June 2002	EUR 3,305 billion
■ December 2001	EUR 2,298 billion
■ June 2001	EUR 1,863 billion

European Repo Council

14th European repo market survey



European Repo Council 14th European repo market survey

Organic growth

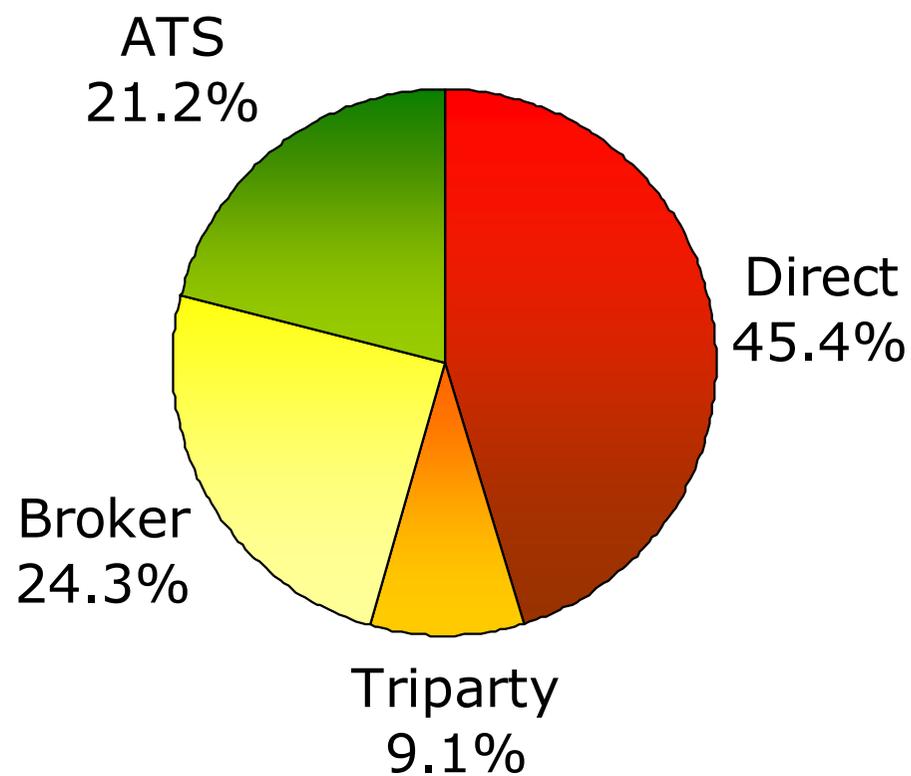
- 59 respondents in last 3 surveys
 - year-on-year = -11.7%
 - H1 = -0.2%
 - H2 = -11.5%



European Repo Council

14th European repo market survey

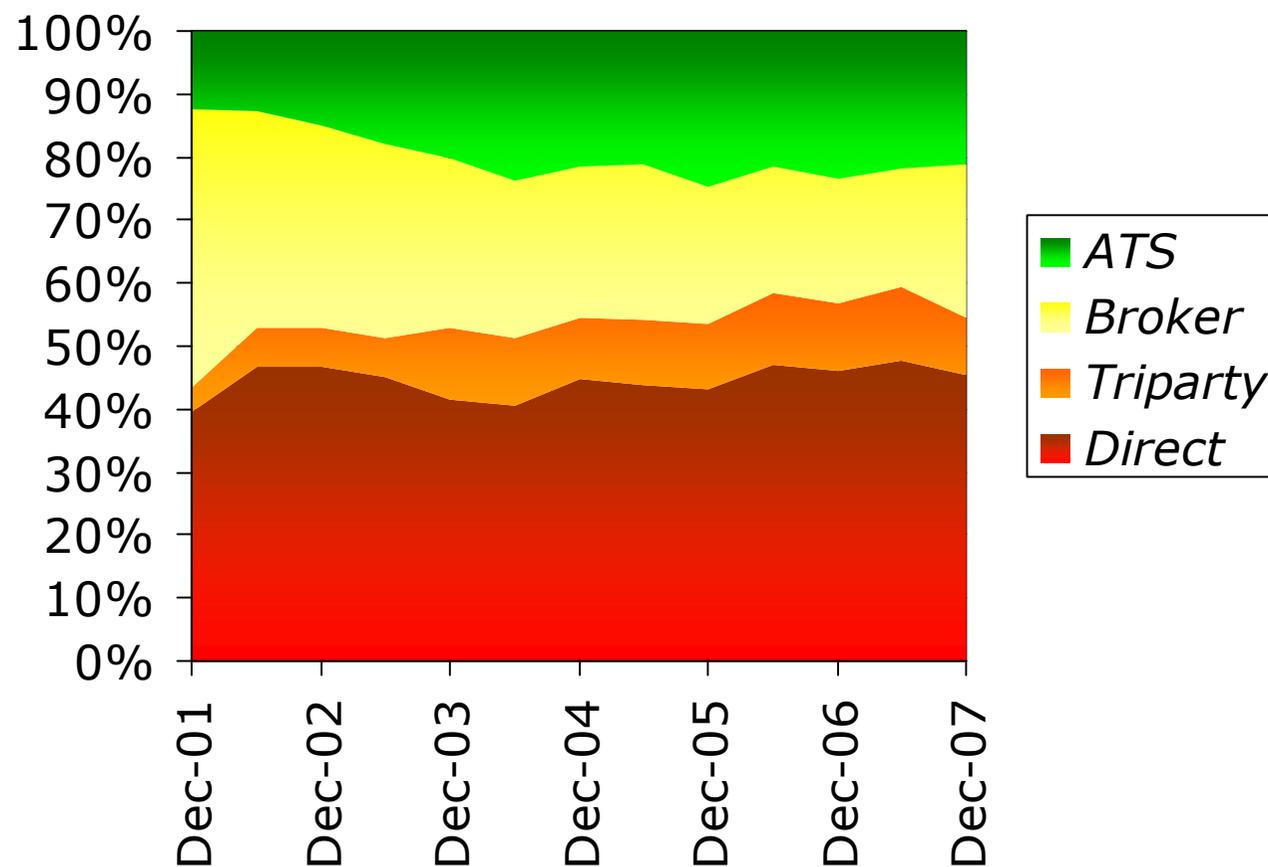
Counterparty analysis



European Repo Council

14th European repo market survey

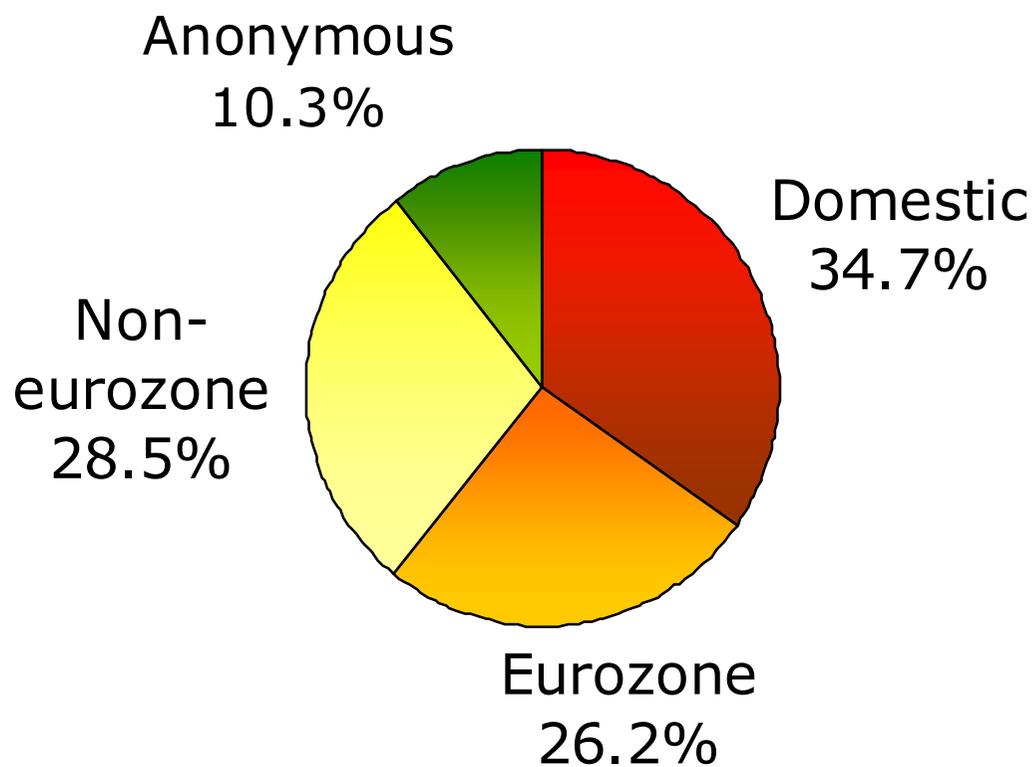
Counterparty analysis



European Repo Council

14th European repo market survey

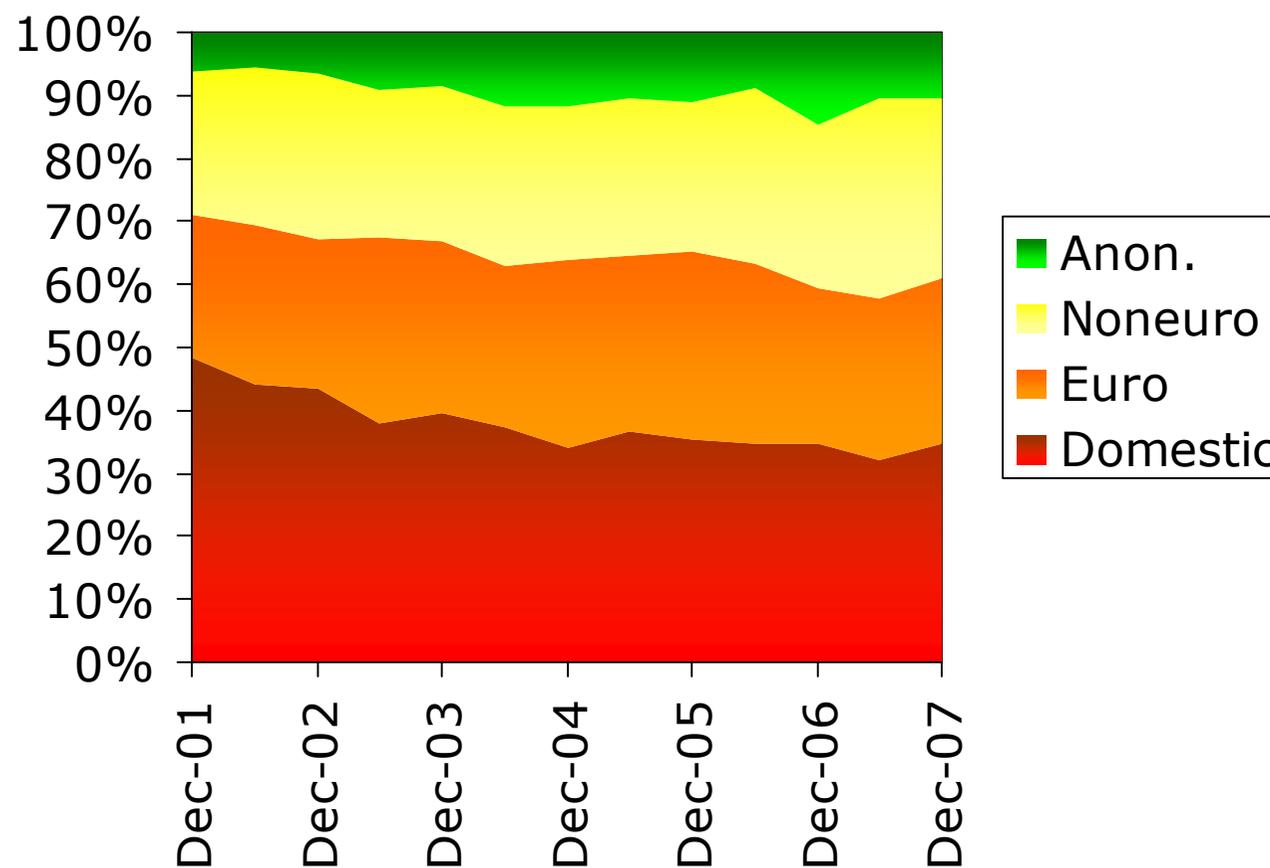
Geographical analysis



European Repo Council

14th European repo market survey

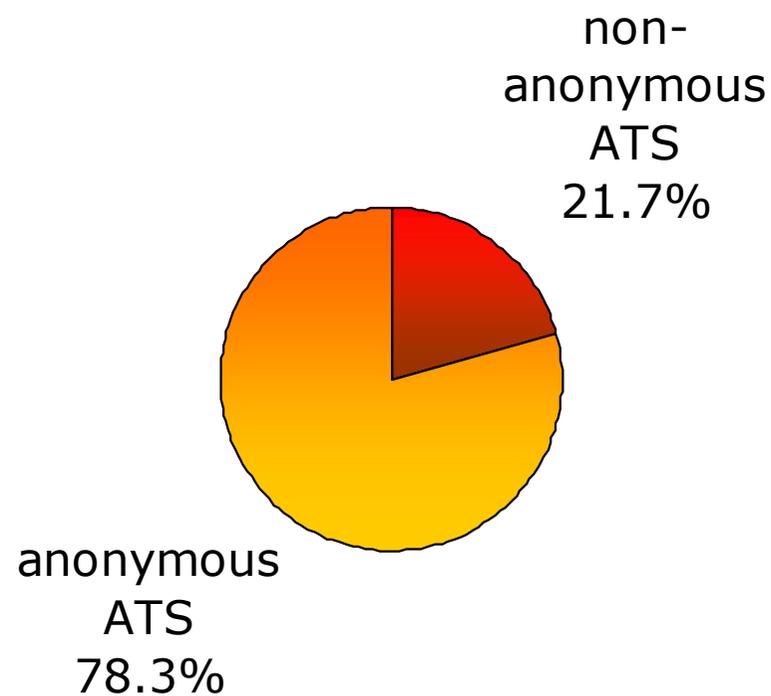
Geographical analysis



European Repo Council

14th European repo market survey

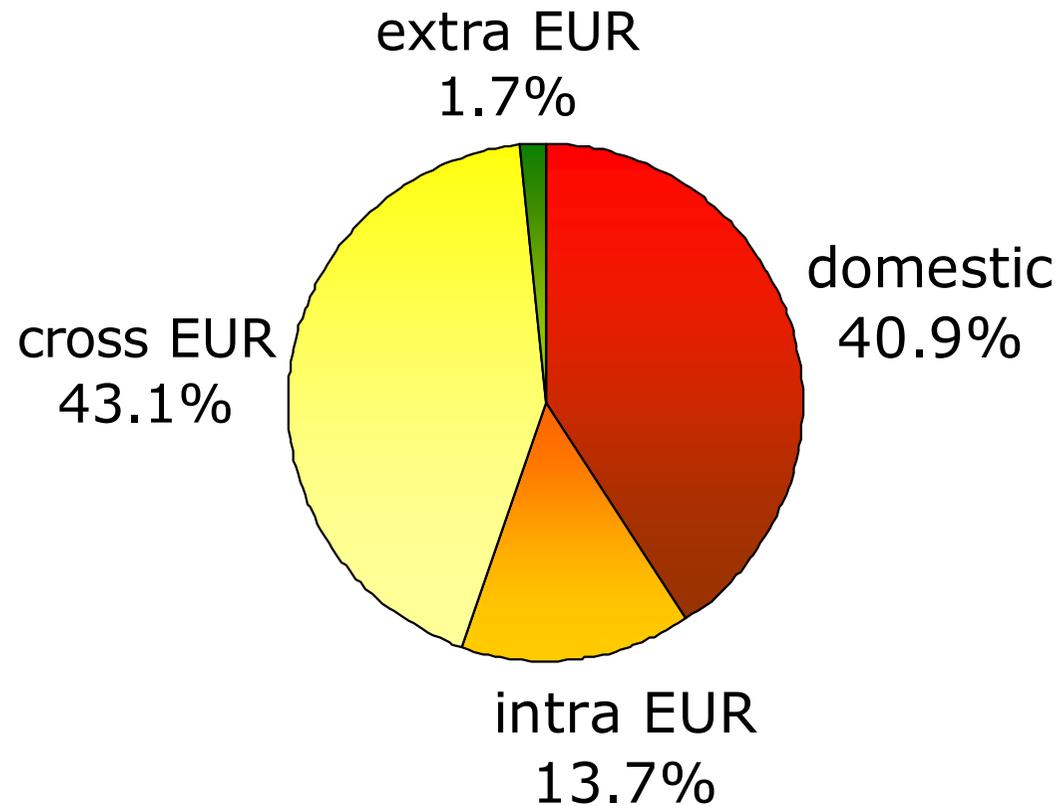
ATS geographical analysis (1)



European Repo Council

14th European repo market survey

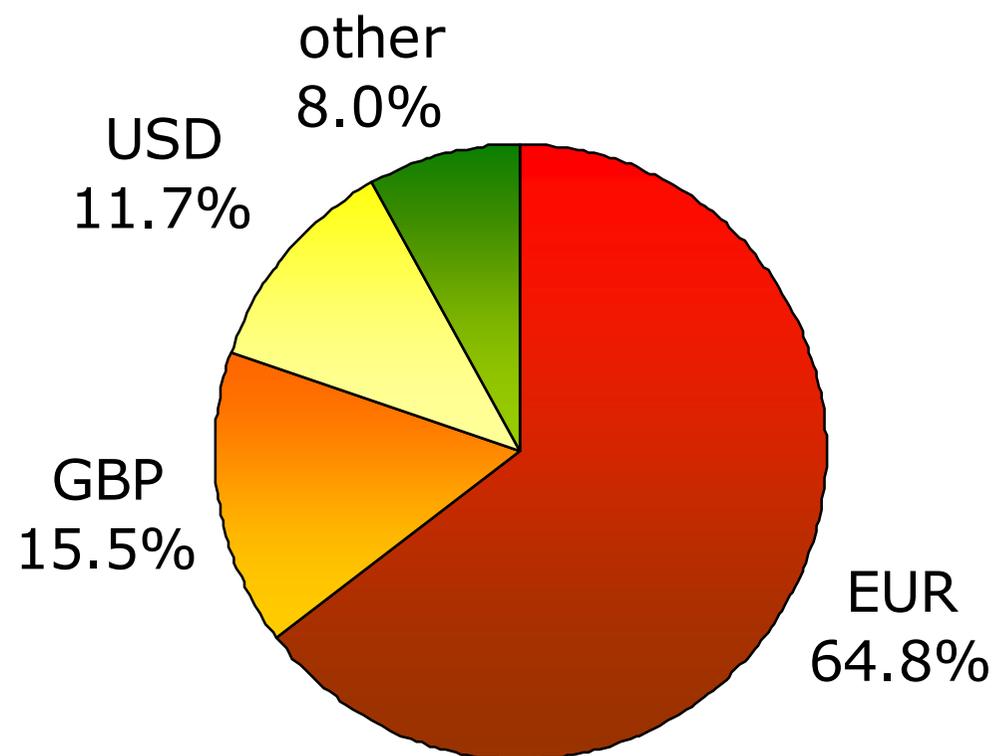
ATS geographical analysis (2)



European Repo Council

14th European repo market survey

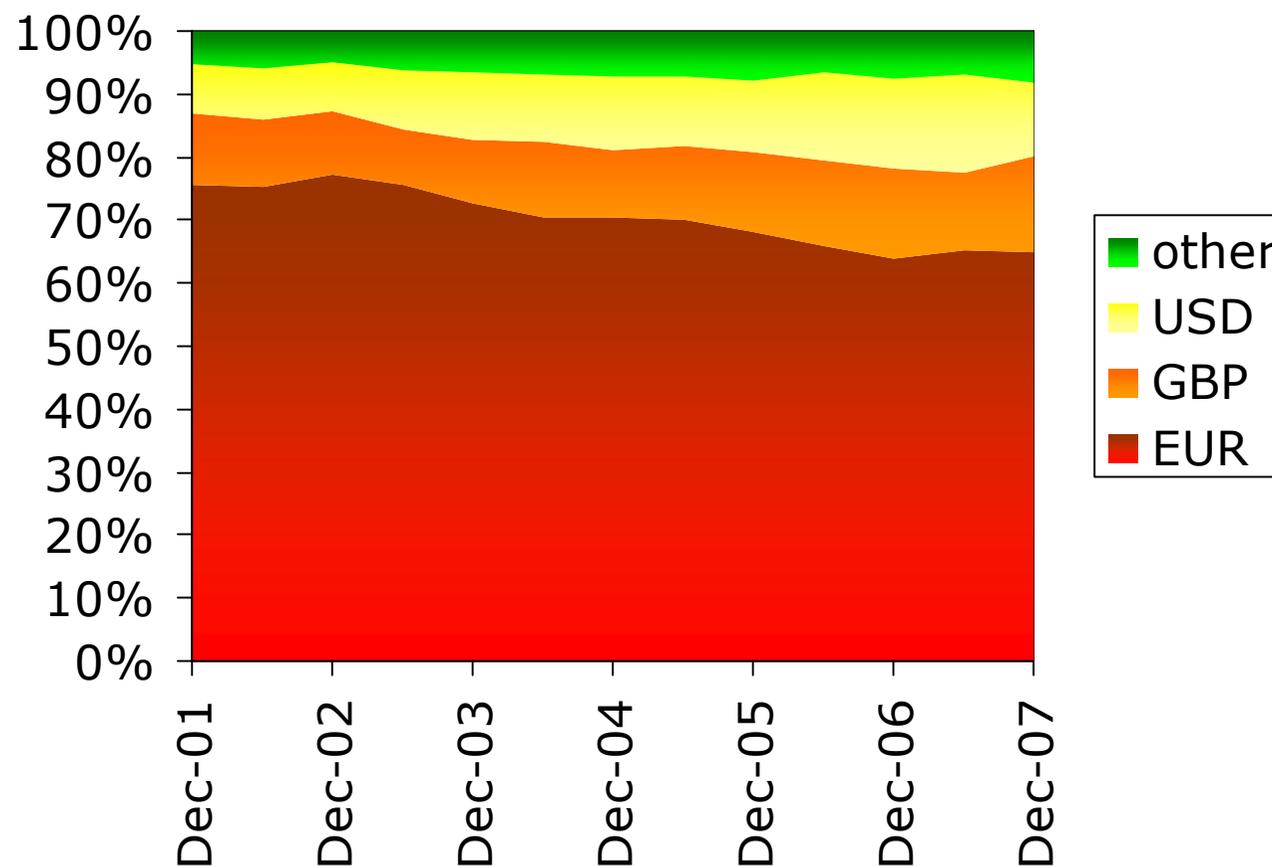
Currency analysis



European Repo Council

14th European repo market survey

Currency analysis

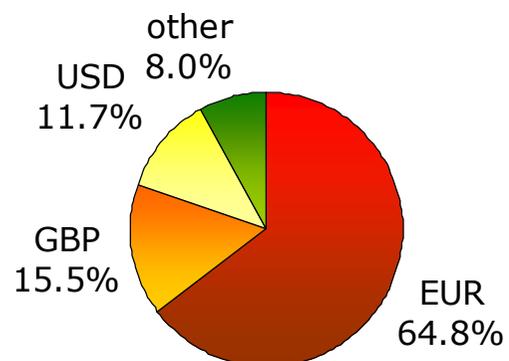


European Repo Council

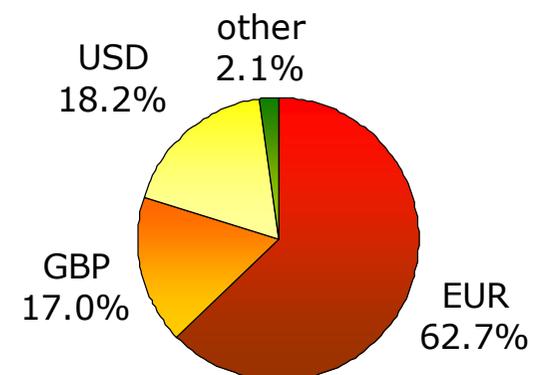
14th European repo market survey

Currency analysis

Main survey



Triparty

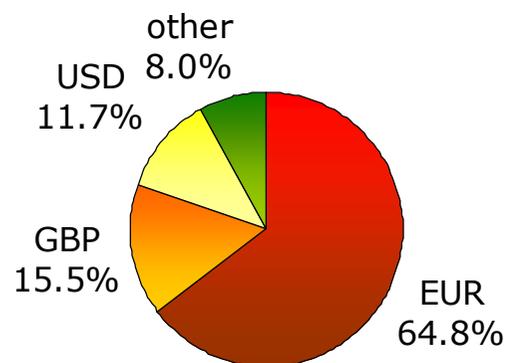


European Repo Council

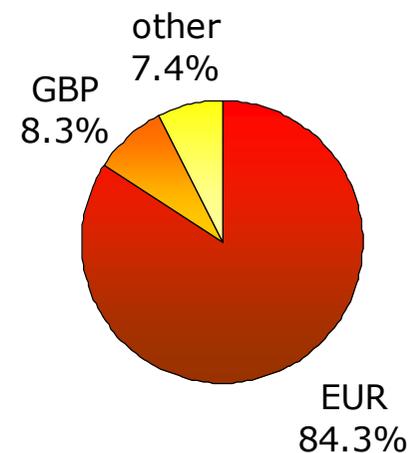
14th European repo market survey

Currency analysis

Main survey



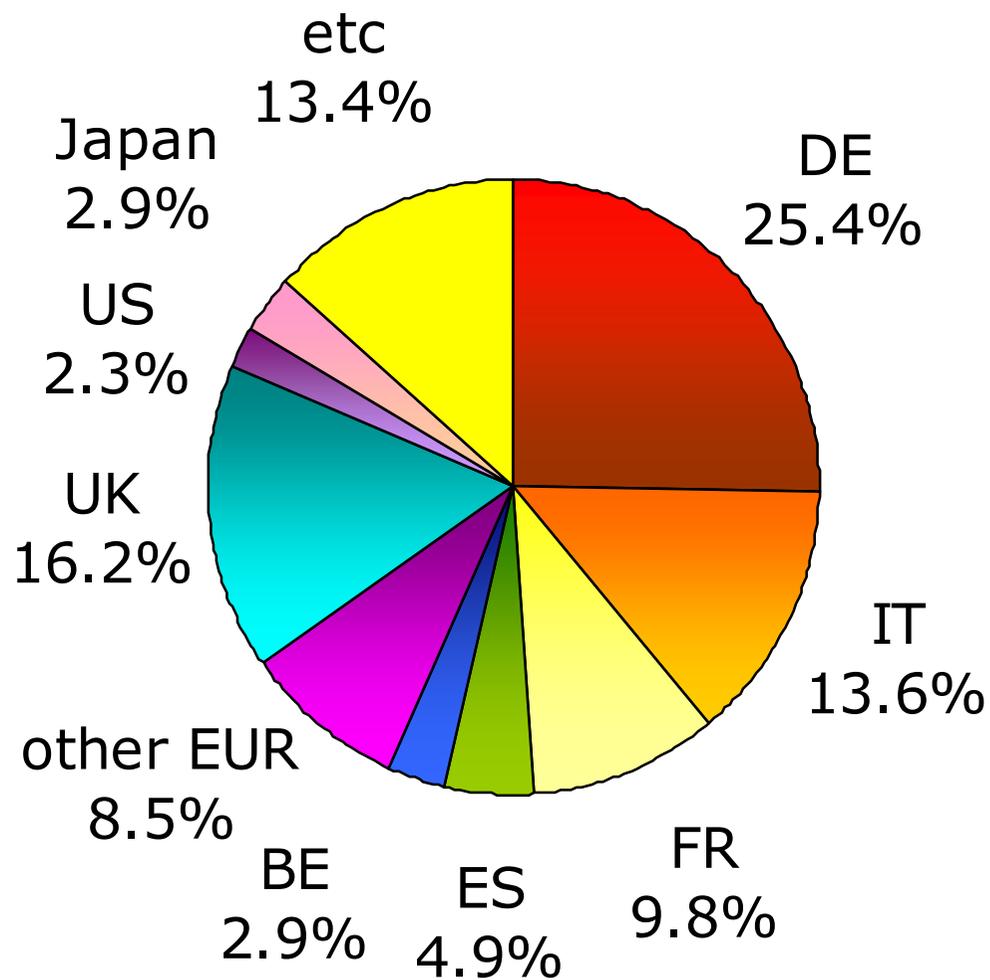
ATS



European Repo Council

14th European repo market survey

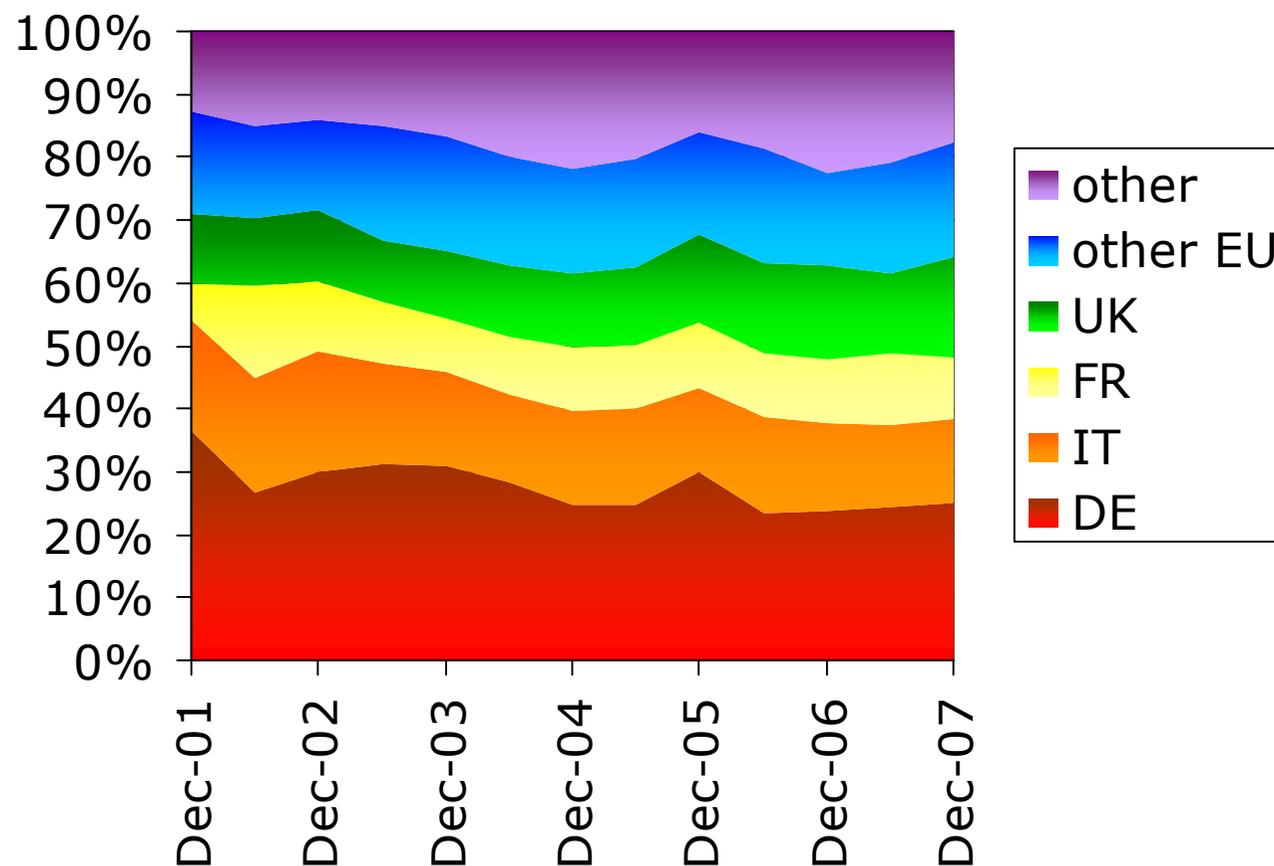
Collateral analysis



European Repo Council

14th European repo market survey

Collateral analysis

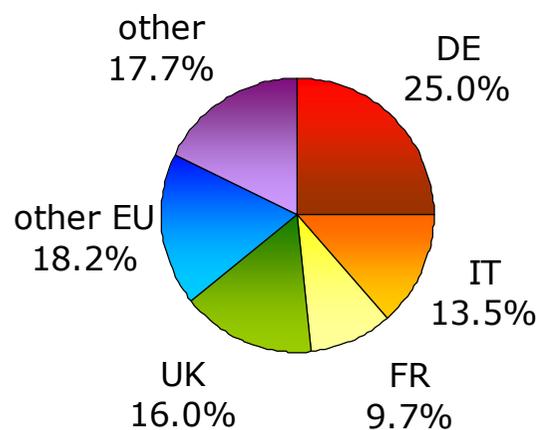


European Repo Council

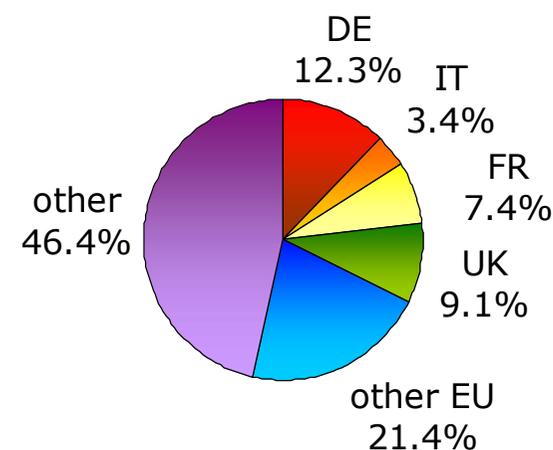
14th European repo market survey

Collateral analysis

Main survey



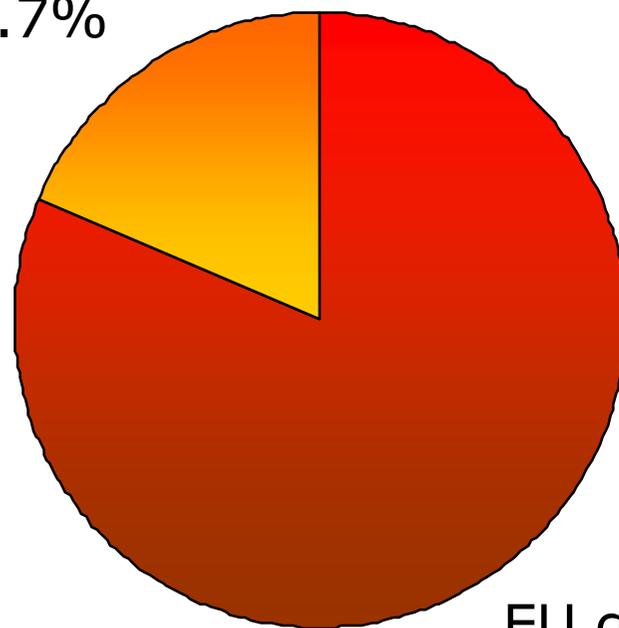
Triparty



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Collateral analysis

other EU
18.7%



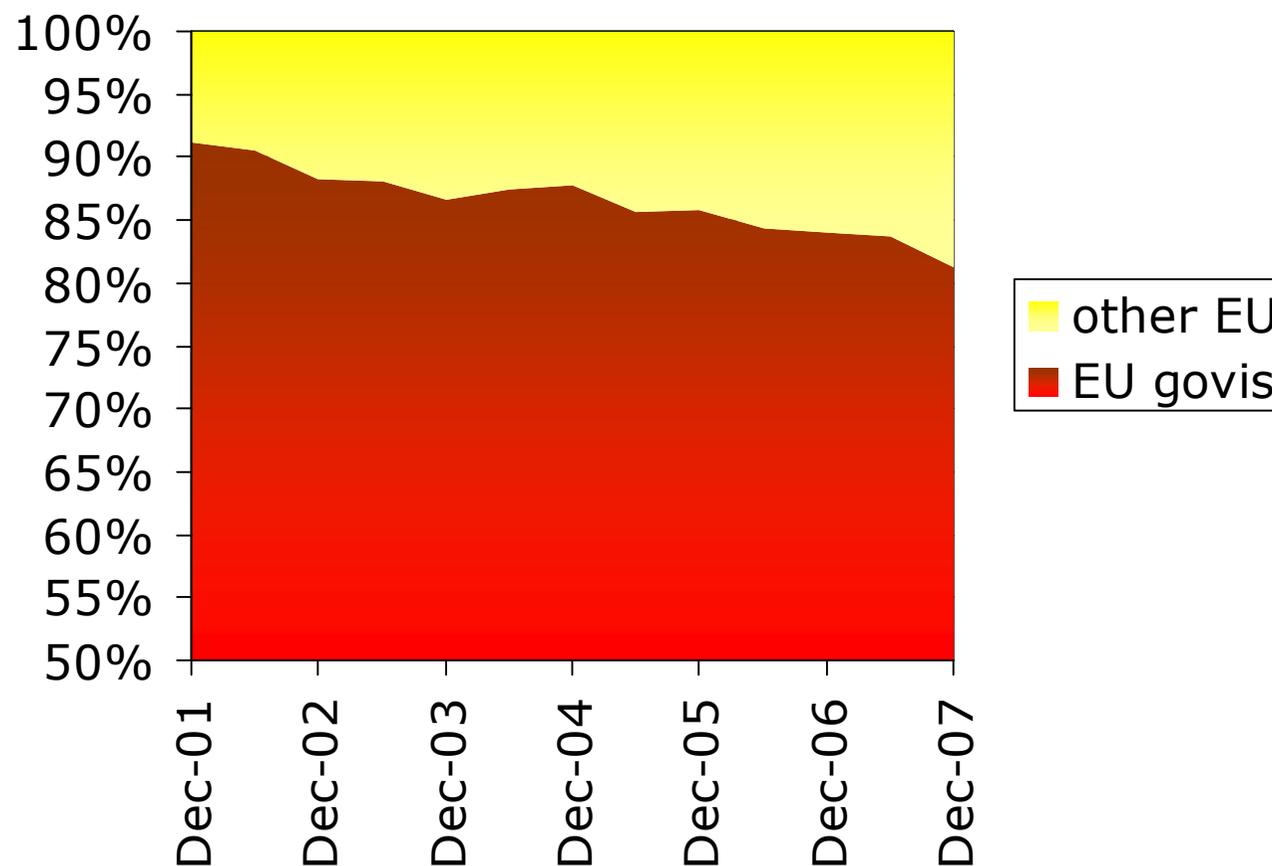
EU gov securities
81.3%



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Collateral analysis

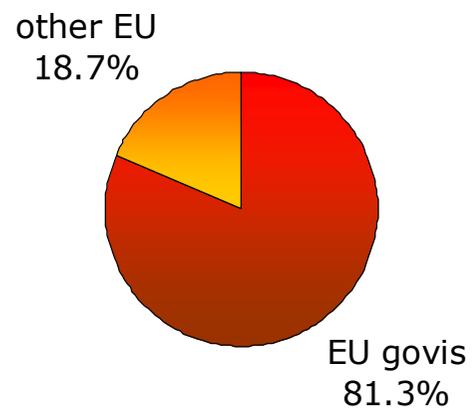


European Repo Council

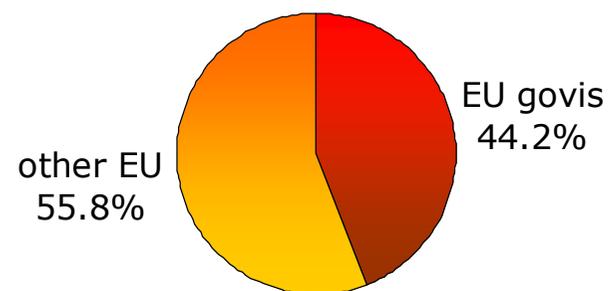
14th European repo market survey

Collateral analysis

Main survey



Triparty

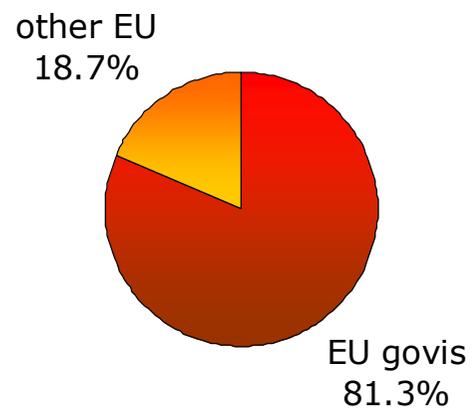


European Repo Council

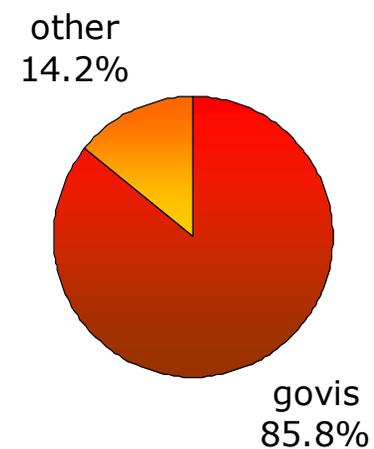
14th European repo market survey

Collateral analysis

Main survey



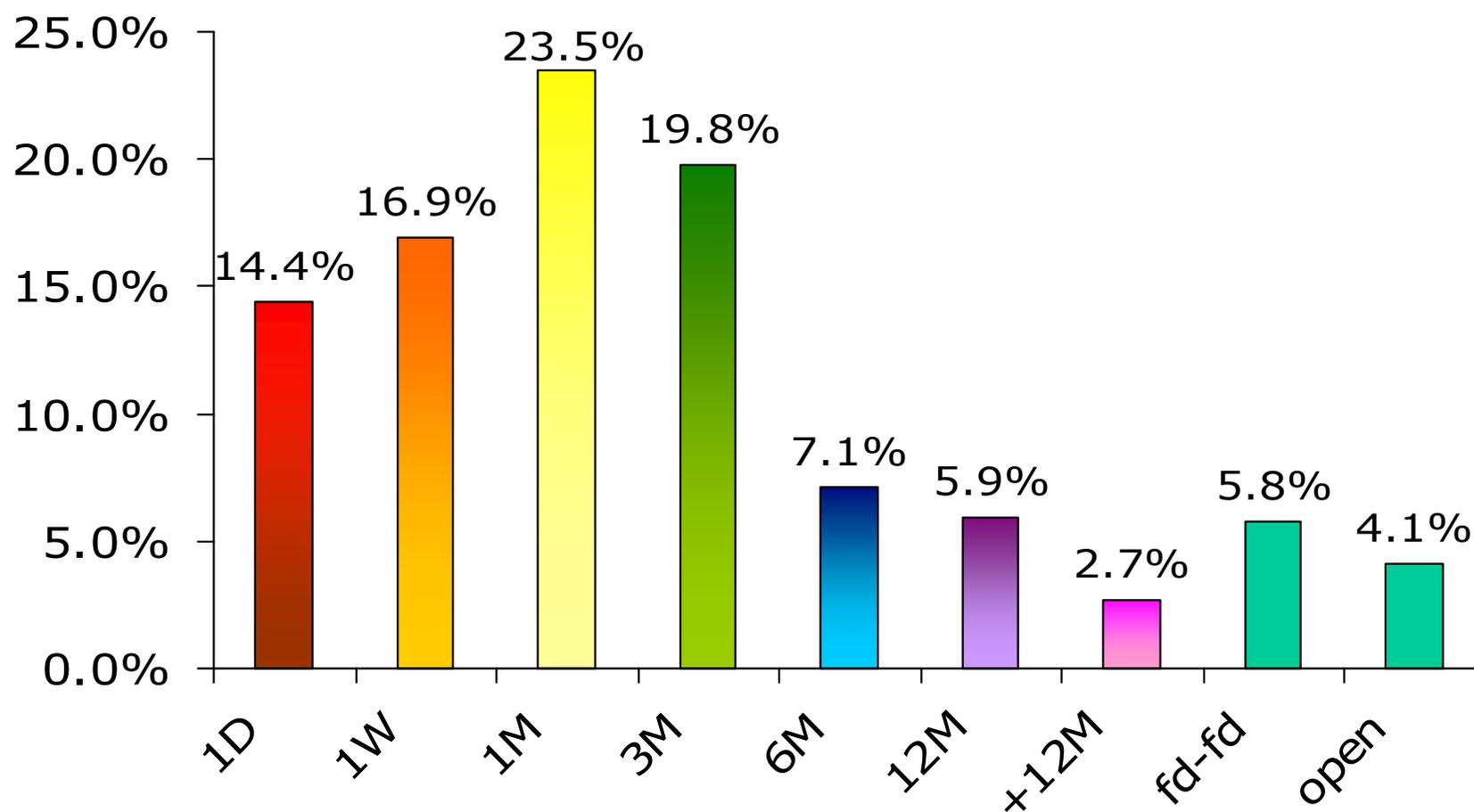
voice-broker



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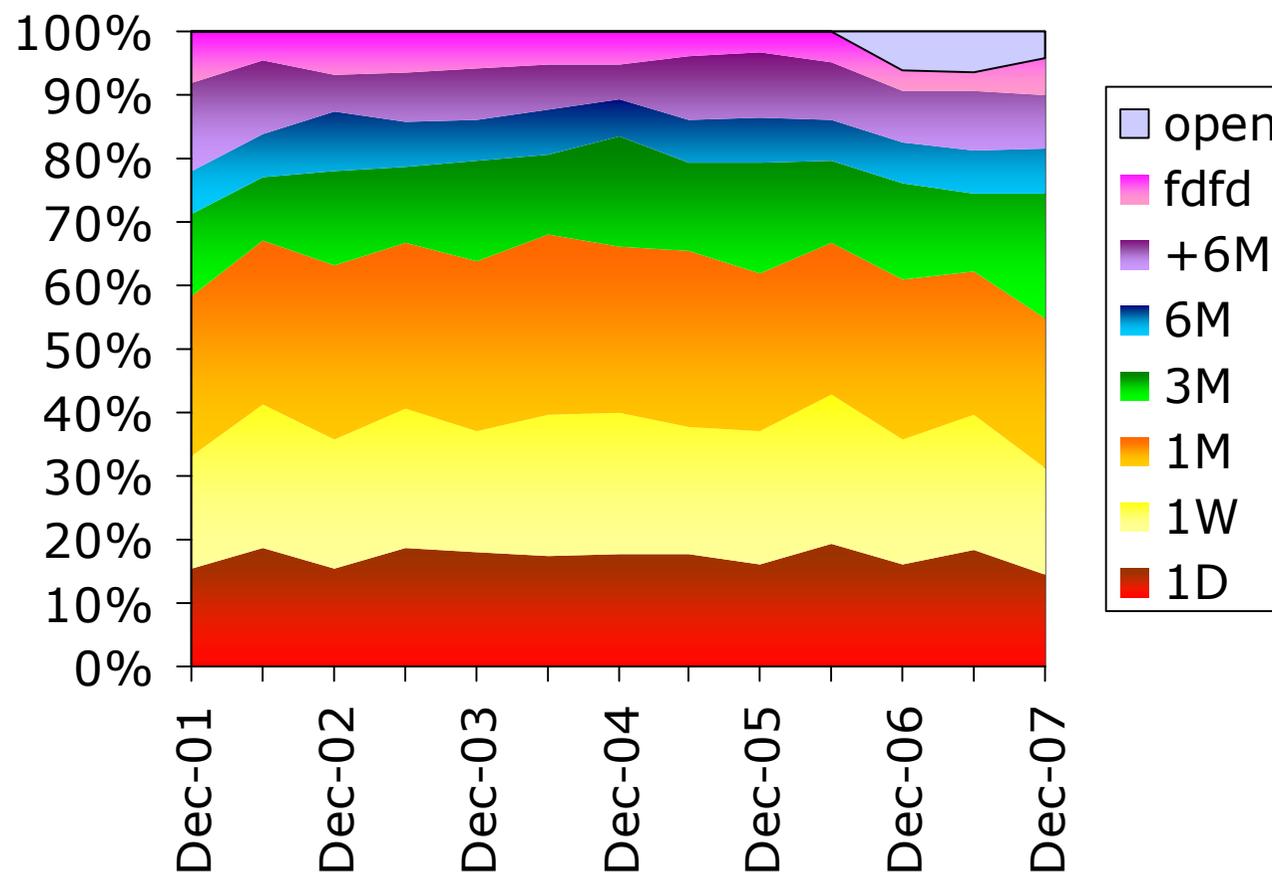
Maturity analysis



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14th European repo market survey

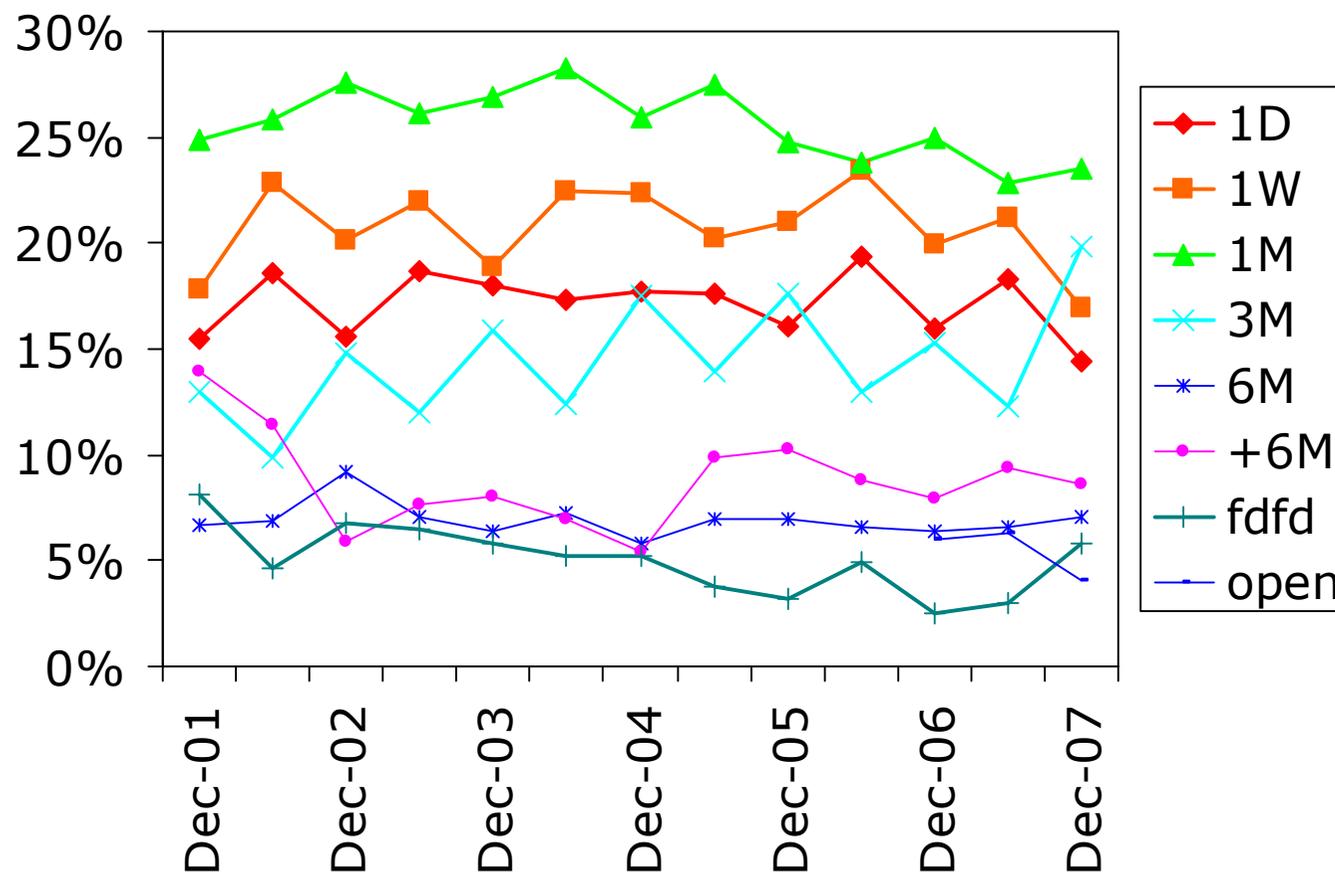
Maturity analysis



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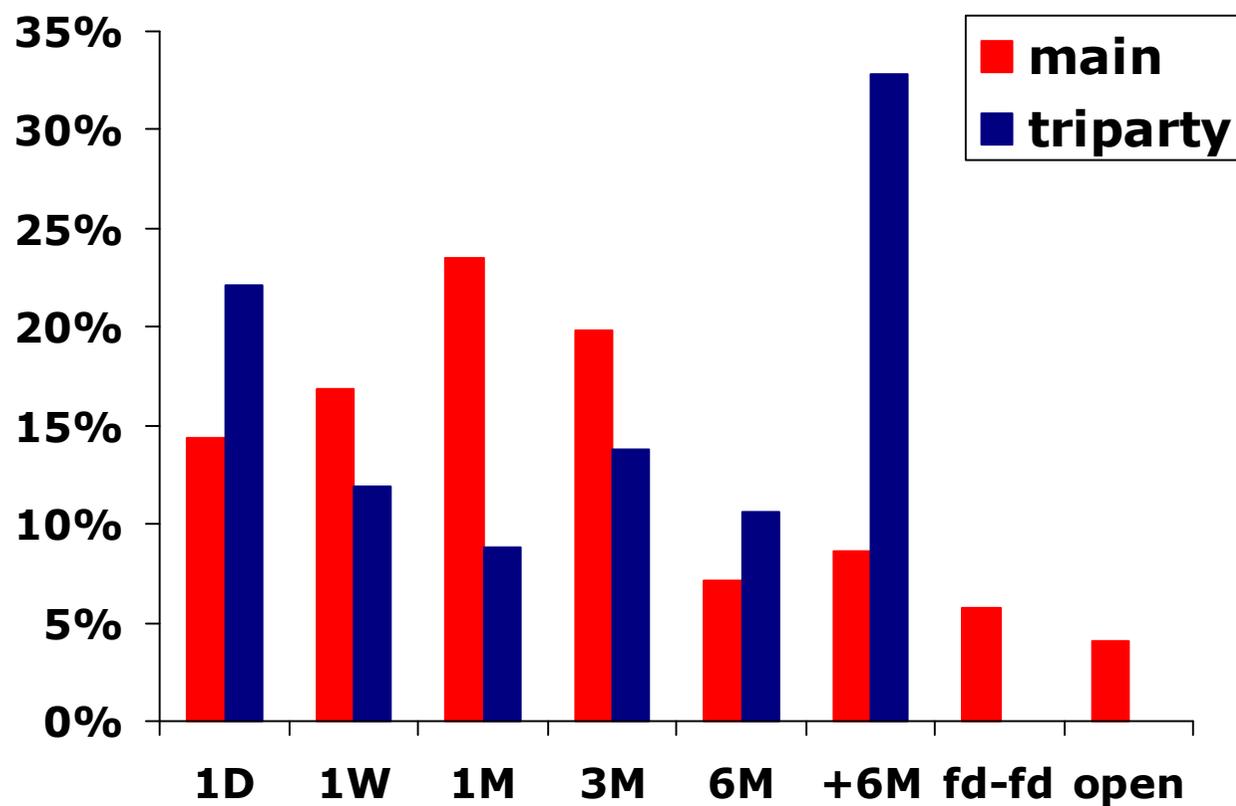
Maturity analysis



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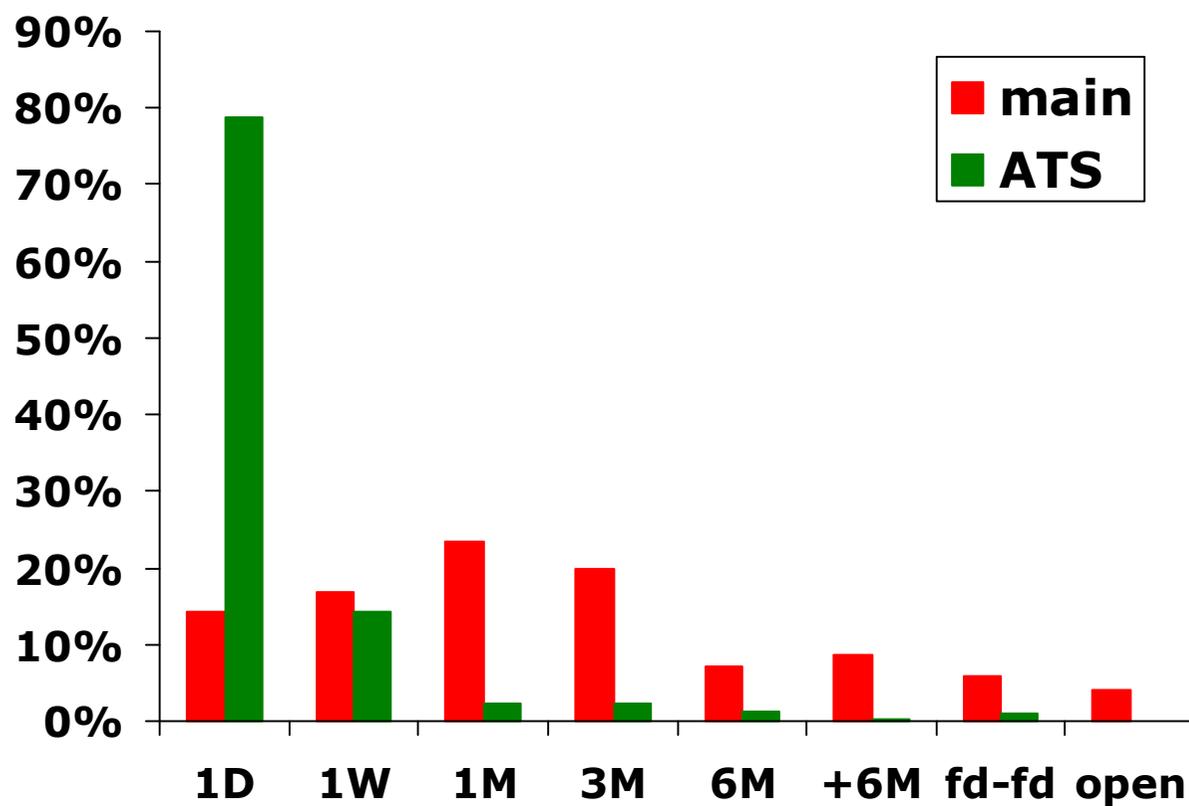
Maturity analysis



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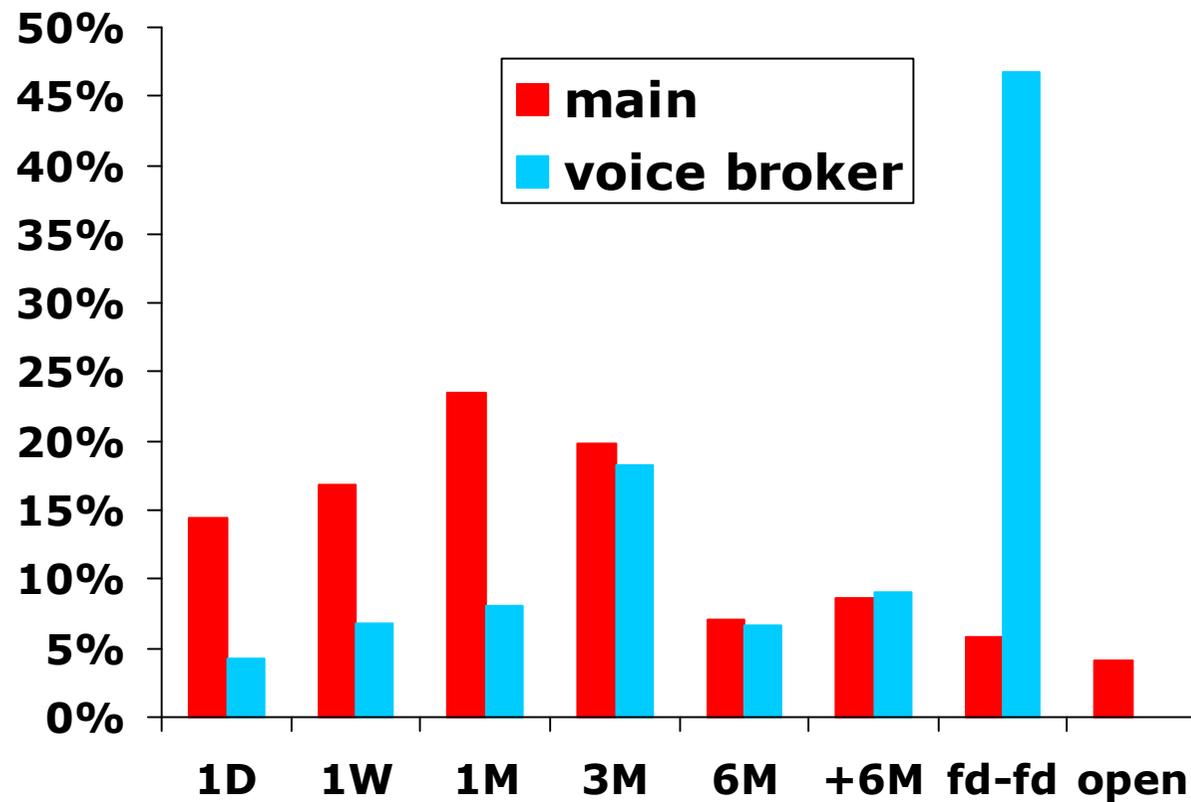
Maturity analysis



European Repo Council

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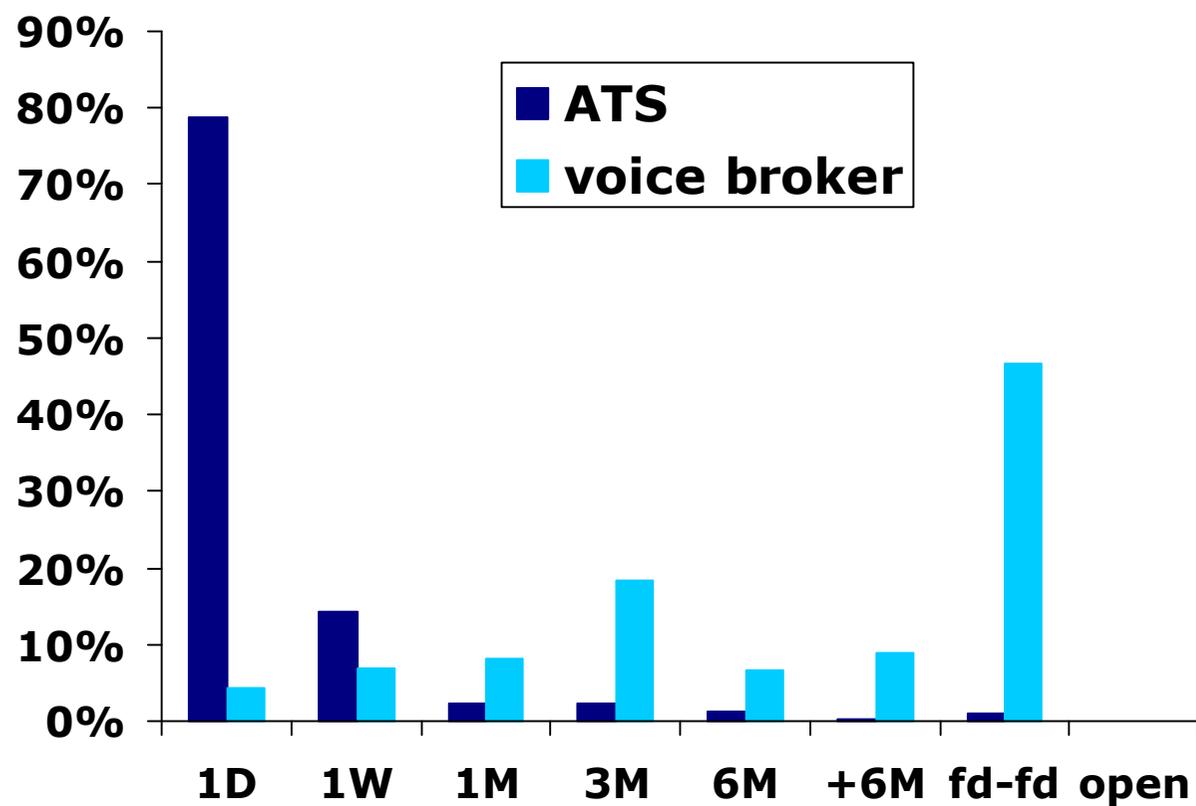
Maturity analysis



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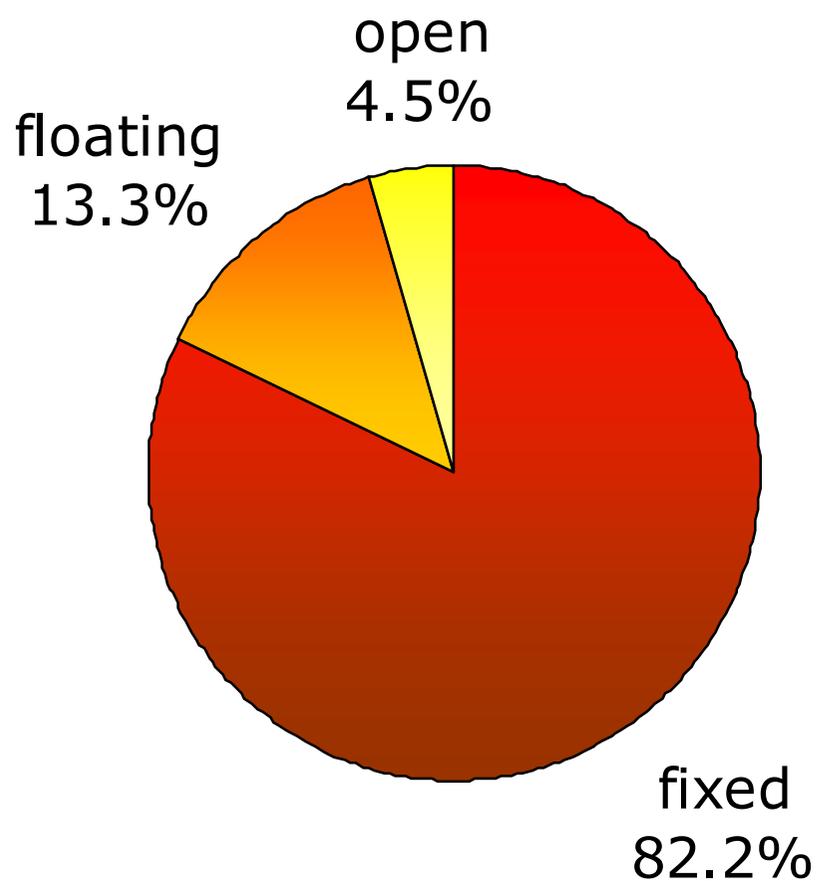
Maturity analysis



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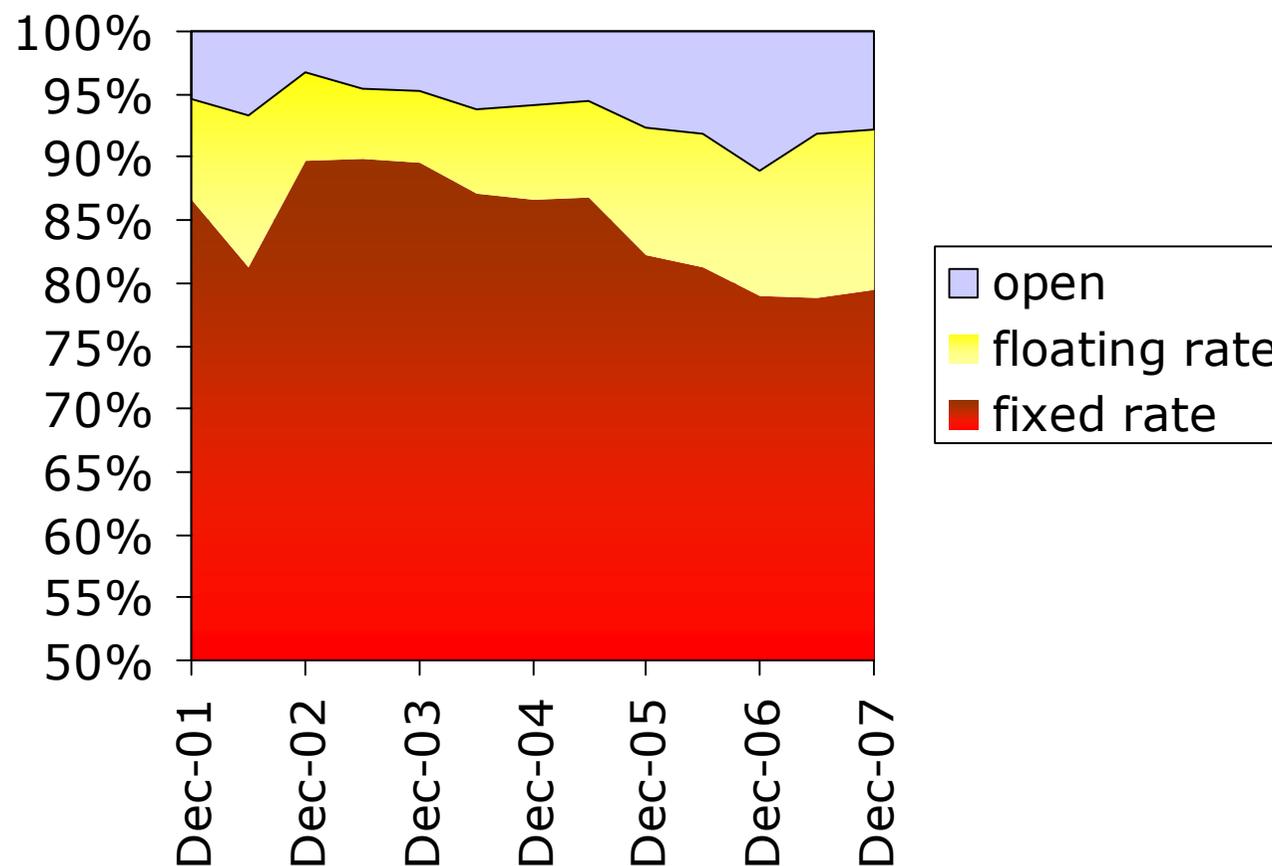
Rate analysis



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Rate analysis

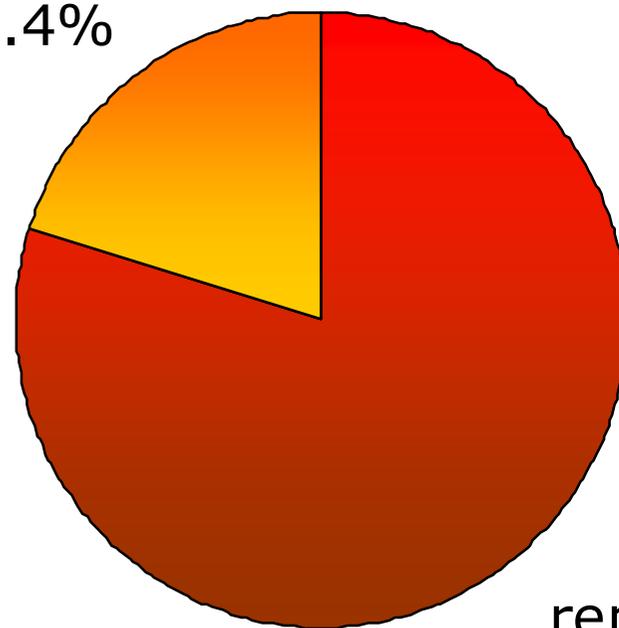


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Product analysis

lending
20.4%



repo
79.6%



European Repo Council 14th European repo market survey

Date of next survey

11th June 2008



Collateral Management Initiatives at SWIFT

Michel Keulemans
B/D and Pre-Settlement Services
March, 2008 – Paris



SWIFT

- 30+ years in secure messaging service
- Leader in security, resilience and interoperability
- Present in 200+ countries, 8100+ customers
- Daily average of 14 million financial msgs
- Providing access to 150+ Market Infrastructures in the payments and securities area
- Cooperative of the financial industry



SWIFT's view: Positioning of SWIFT offering in investment life cycle

Activities Asset class	Trading			Settlement / Assets					Services						
	Pre-Trade	Trade	Post-Trade	Settlement	Payment / Cash Mngt	FX	Reporting	Corporate Actions	Treasury operations	Ref Data	Regulatory	Collateral Mngt	L & B Repos	Proxy Voting	Prime Brokerage
Equities	Dark Blue	Dark Blue	Red	Green	Light Blue	Light Blue	Green	Green	Dark Blue	Green	Green	Red	Green	Green	Green
Fixed Income	Dark Blue	Dark Blue	Red	Green	Light Blue	Light Blue	Green	Green	Dark Blue	Dark Blue	Green	Green	Green	Dark Blue	Green
Commodities	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
FX & Money Market	Dark Blue	Dark Blue	Green	Green	Light Blue	Light Blue	Green	Dark Blue	Green	Dark Blue	Green	Green	Green	Dark Blue	Green
Derivatives	Dark Blue	Dark Blue	Red	Green	Light Blue	Light Blue	Green	Dark Blue	Green	Dark Blue	Green	Red	Green	Dark Blue	Green

This is a weak spot but not a concern for now

There are real opportunities

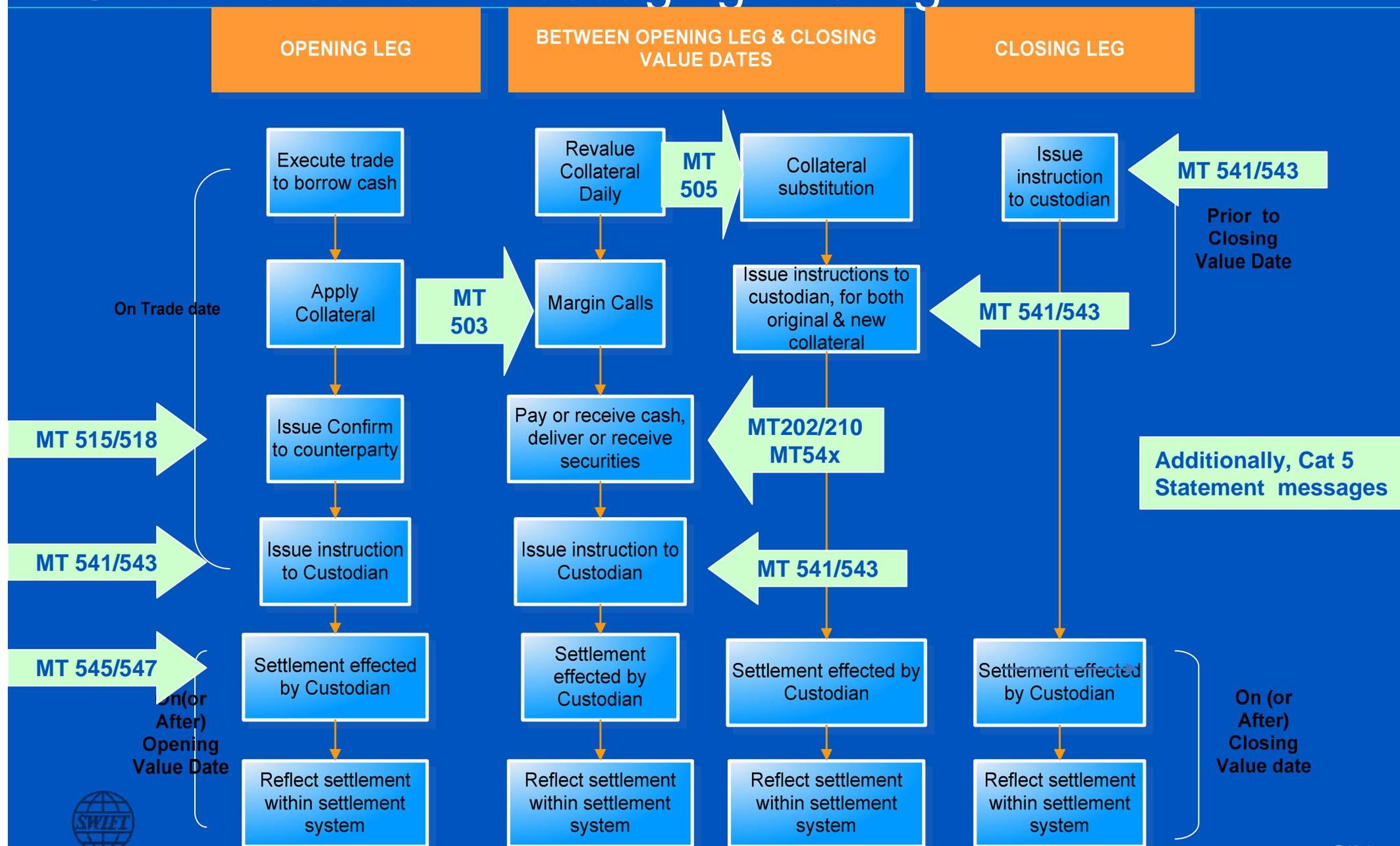
There are real opportunities and time to market is critical

We are strong here with no immediate concerns



Classical Repo Trade

SWIFT's current messaging offering



Collateral Management

How does it add value to your business?

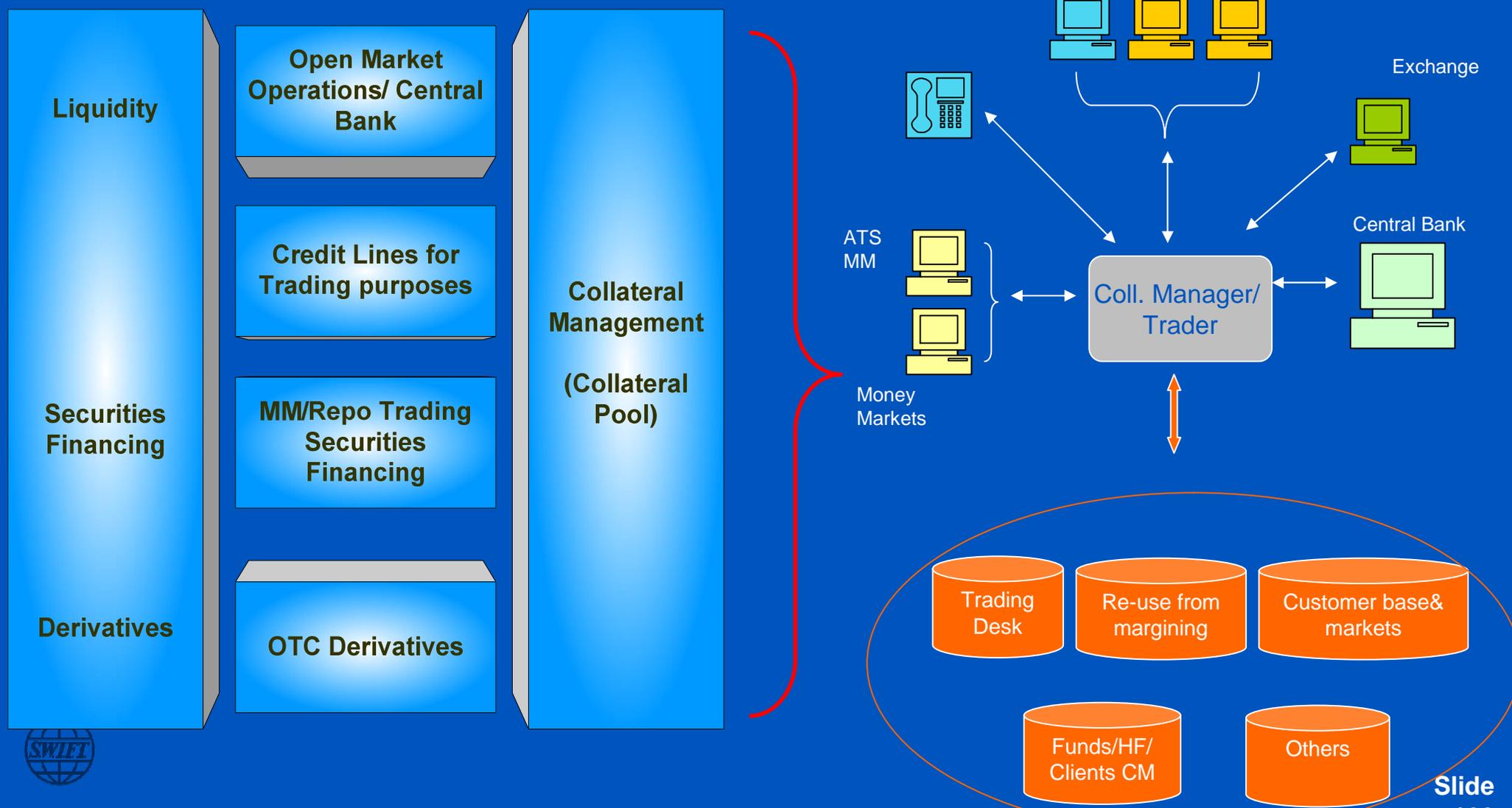
■ Value drivers for Collateral management

- Credit Risk mitigation (to protect against credit default loss)
- Reduction of Operational Risk
- Manage the cost of credit/economic capital
- Increase business opportunities
 - expanding current trading business
 - creating the possibility to enter more exotic products
 - allowing to trade longer term products with diverse counterparties, within entire "rating spectrum"
- Benefit from more competitive prices
- ...



Collateral Management Optimisation of Assets & Liquidity

Advocacy towards cross-product margining & creation of *one, common collateral pool*

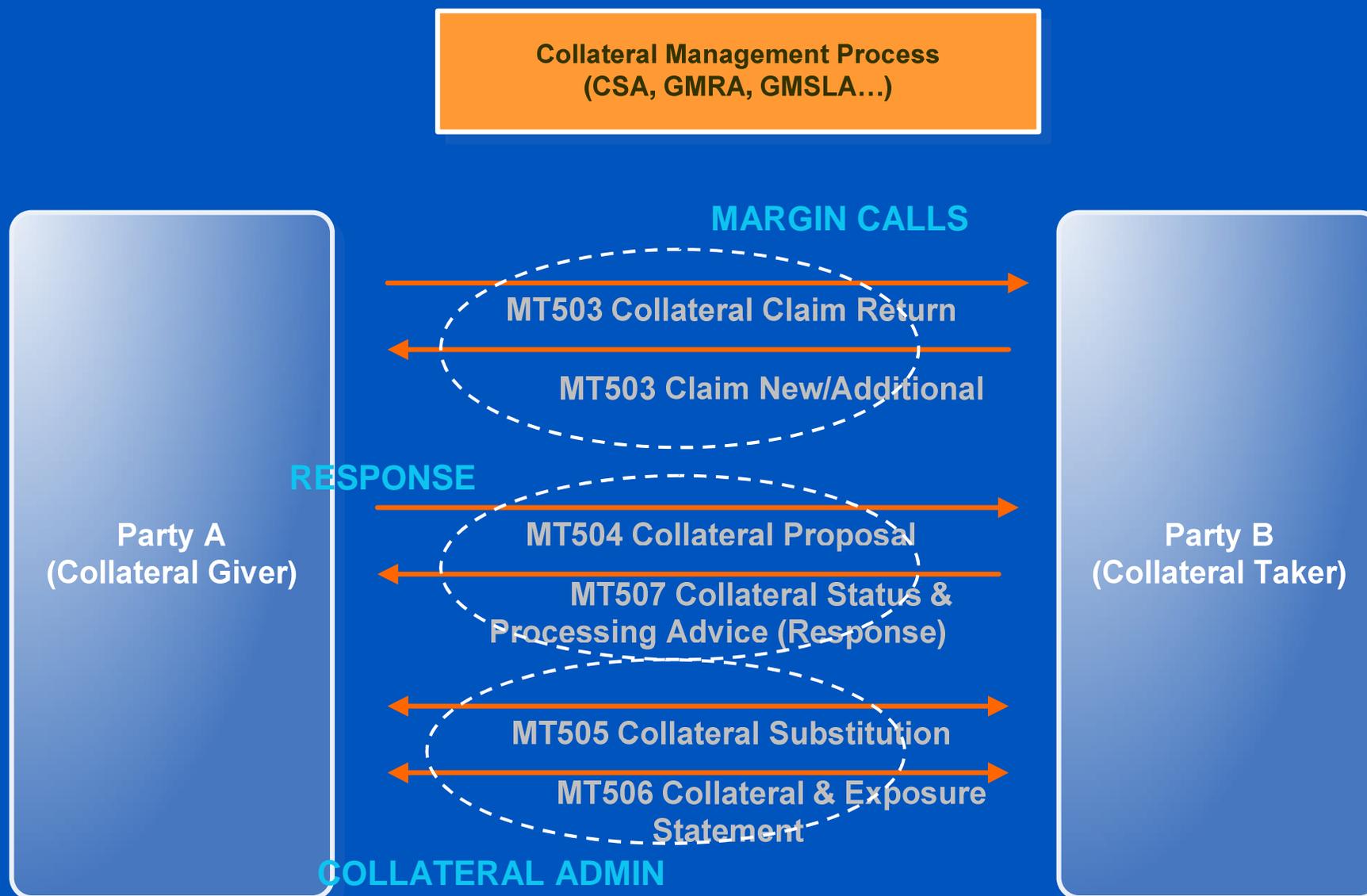


Collateral Management Optimisation of Assets & Liquidity

- Increasing demand of funding & financing multi-asset collateral pools : Optimisation of current & future collateral position for trading purposes & liquidity provision
 - Ongoing discussions for “umbrella agreement”
 - Challenge of increasing the internal & external collateral efficiency → Automation & Standardisation



Bilateral model: Communication needs SWIFT's current messaging offering



Bi-lateral model: Communication needs SWIFT's current messaging offering

■ Margin calls:

- inform the cp of collateral to be posted/to be returned

MT 503 Collateral Claim

- negotiate the collateral

MT 504 Collateral Proposal

MT 507 Collateral Status and Processing advice

- propose collateral
- approve the proposed collateral
- communicate the settlement details

■ Disputes:

- communicate disagreement
- reconcile the positions

MT 507 Collateral Status and Processing Advice

MT 506 Collateral and Exposure Statement

■ Substitution:

- propose or request substitution of collateral

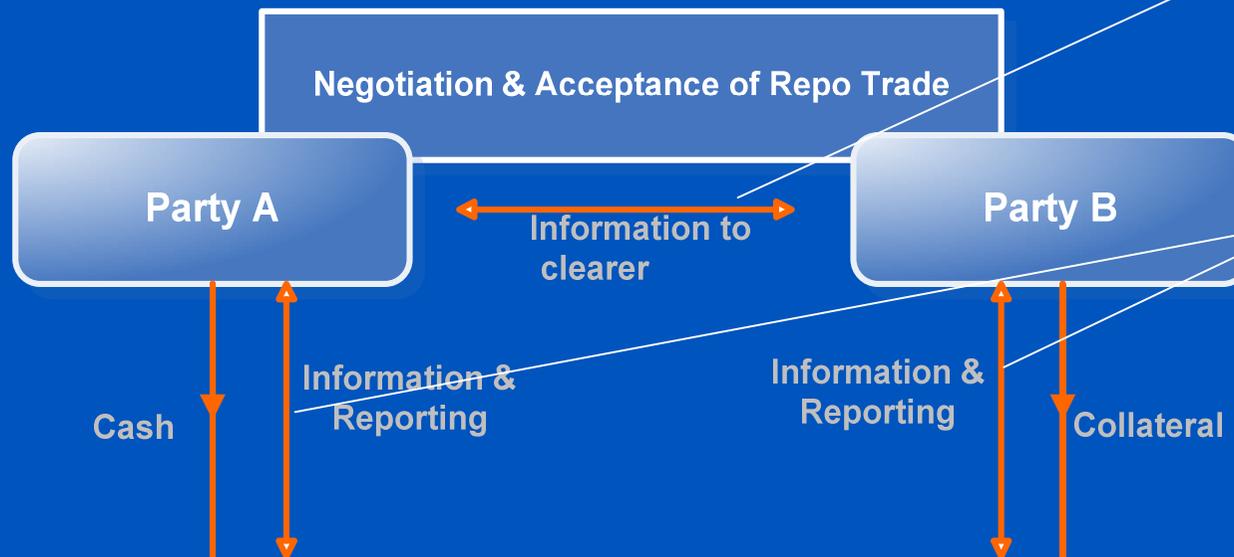
MT 505 Collateral Substitution

■ Settlement:

- instruct agent to deliver/receive the collateral



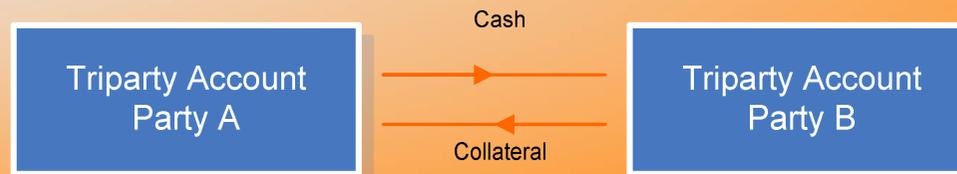
Triparty model: Communication needs SWIFT's current messaging offering



MT527 – Triparty Collateral Instruction

MT558 - Triparty Collateral Status & Processing Advice

MT569 - Collateral & Exposure Statement



Triparty Service Offering incl. Clearing & Settlement



SWIFT Pre-Settlement Projects

Contact details

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- Michel.Keulemans@swift.com





Questions & Answers

