

EUROPEAN REPO COUNCIL

Mr. Greg Tanzer
Secretary General
International Organization of Securities Commissions
C/ Oquendo 12,
28006 Madrid
Spain

London, June 11, 2009

By email

Dear Greg,

Public comment on Consultation Report on Unregulated Financial Markets and Products

The European Repo Council (ERC) was established by the International Capital Market Association (ICMA) in December 1999 to represent the repo community in Europe.

The repo market is one of the largest and most active sectors in today's money markets and, as evidenced in the recent market turmoil, plays a critical role in liquidity provision for the financial system. Repos are attractive as a monetary policy instrument because they carry a low credit risk while serving as a flexible instrument for liquidity management, which benefit the functioning of financial markets. In repo transactions securities are exchanged for cash with an agreement to repurchase the securities at a future date. The securities serve as collateral for what is effectively a cash loan and, conversely, the cash serves as collateral for a securities loan. Collateral is key to the proper functioning of repo markets.

The European Repo Council welcomes the Technical Committee consultation report on unregulated Financial Markets and Products. The consultation paper itemises different steps towards restoring investors' confidence in certain products, namely securitised products and CDS, and therefore focusing on improving the quality of these products. The steps referred to in this consultation paper would effectively widen the range of collateral possibilities for repo trading. In stressed times, quality of collateral and assessing this quality are important. The ERC is of the view that rebuilding investors' confidence would help improve collateral management possibilities and the repo market, and as a result the functioning of financial markets.

The importance of collateral management is encapsulated in its definition 'the optimal management

of credit, collateral, capital and all related execution, pricing, operational, documentation and risk management of a portfolio across all products, all business units and all locations'. The ERC believes that enhancing transparency and quality disclosure of underlying asset pools will help restore market conditions by, amongst other things, improving collateral management functions. Disclosure as regards the quality and risks of the underlying asset pool should be improved. This is why the ERC also believes that the regulatory focus should be strengthened as regards bilateral clearing where bilateral parties manage underlying collateral that is not accepted by CCPS. Indeed market participants, as mentioned in the Technical Committee's consultation paper, should be able to evaluate the risks attached to assets.

Moreover financial crisis highlighted the global scale of markets and their interconnectivity. The collateral analysis provided in the latest ICMA European repo market survey conducted in December 2008¹ shows that collateral is not limited to European countries. Almost 17% of collateral is from outside the European Union. ERC members trade with counterparties on a global scale. Therefore steps, as highlighted in the recommendations of this consultation paper, need to be considered and consistent at an international level.

The European Repo Council remains at your disposal to discuss any of the above points,

Yours sincerely,

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

Godfried De Vidts
Chairman
European Repo Council

¹<http://www.icmagroup.org/ICMAGroup/files/60/60190c7c-8495-4149-a5f6-b5e0af8e9371.pdf>