

STOCK LENDING AND REPO COMMITTEE

WEDNESDAY 13 DECEMBER 2000

MINUTES OF MEETING HELD

AT THE BANK OF ENGLAND

Present:	Neal Hatch	Chairman
	Dagmar Banton	LSE
	Krystyna Beck	LIBA
	John Burke	LCH
	Mick Chadwick	Intermediaries
	Deborah Chesworth	LIBA
	Stewart Devine	FSA
	Andrew Dixon-Smith	Intermediaries
	Malcolm Ewen	Intermediaries
	Hugh Gibson	APACS
	Tony Hibbitt	Intermediaries
	Simon Hills	BBA
	Sarah Hobbs	LIBA
	Allison Holland	DMO
	Ian Hovey	ISLA
	Graham Jones	ISLA
	Paul Kelly	IEMRC
	Ray Kuramoto	ERC
	Neil McCann	CRESTCo
	Kevin McNulty	ISLA
	Philip Reichardt	Euroclear
	Ian Valentine	Inland Revenue
	John Whitmore	FSA
	Jon Carr	Bank of England
	Caroline Pitt	Bank of England
	Stephen Priddle	Bank of England
	John Rippon	Bank of England
	Nick Talbot	Bank of England, Secretary

1. The chairman noted the apology for absence from Tim Westover. He also welcomed Dagmar Banton (LSE) to the meeting.

MINUTES OF PREVIOUS MEETING

2. The Chairman noted that paragraph 9 should read: "However he wondered whether the ERC / SLRC should produce some market guidelines such as avoiding

trades over the New Year period”. A revised version is attached. Mr Hills noted that an EMU protocol guide is available on the BBA’s website.

MATTERS ARISING FROM THE PREVIOUS MEETING

3. These were dealt with under the main subject headings of the meeting.

ISSUES RELATING TO THE EURO

4. Mr Carr noted that the practical implications of Greek entry to EMU had been discussed at the previous SLRC meeting. He repeated his invitation to anyone who had any comments on this or indeed european-related subjects more widely to contact him (jon.carr@bankofengland.co.uk). He noted that the Bank’s website included both November Practical Issues (which set out the euro-drachma conversion rate) and, on a separate Greek page, new information on Greek entry. Mr Reichardt advised that it was important to maintain a watching brief over this whole area. Mr Carr added that the next meeting of the City Euro Group would be on 15 January 2001.

FSA AND CODES

5. Mr Whitmore said the FSA will not endorse industry codes when the new regulatory world comes into effect (N2). The one exception to this will be the Takeover Code. From N2 onwards, the FSA would just ‘take account’ of other industry codes and standards, bearing in mind their relevance to the various provisions of the FSA Handbook. However it seemed that this change in the legal background would not make much *practical* difference to the FSA’s approach to such codes and standards.
6. Mr Devine said the IPC consultation was now complete and the code will go to the FSA Board later this month for approval. It is scheduled to be published early next year.
7. He also commented on the COMC. Although the consultation closed on 20 October, responses were still being received. Among others, the “Regular user test”, “RIE rules”, “distortion with respect to price squeezes” and “misuse of

information with respect to commodities” had attracted considerable comment. It is intended to publish the code in March/April of next year along with a market feedback summary.

8. The Chairman said the SLRC will return to this topic later in the New Year for a further progress report.

MONEY MARKET INSTRUMENT REVIEW

9. Mr Rippon said the Bank and CRESTCo will shortly publish information and consultation documents. CRESTCo’s will be a detailed document picking up on the issues identified by the various sub-groups such as the role of IPAs, the allocation of ISINs, valuation, the timetable, tariffs and migration. The Bank’s document will be somewhat shorter and will ask for views on, for example, what behavioural impact there would be if CREST did not fully replicate the pledge functionality of CMO. It will also provide an opportunity to consult about the treatment of trade bills and letters of credit in the dematerialisation work. It is envisaged that views will be sought by the end of January 2001.

REVIEW OF LEGAL AGREEMENTS

10. The Bank-chaired Money Market Liaison Group (MMLG) had suggested it would be useful to have a systematic review of the various legal agreements in use in the sterling money market, with a view to examining the scope for harmonisation and improvement.

11. The Bank took this forward by issuing a questionnaire in the summer to all LMMA members. This sought statistical information on the use of agreements and asked for suggestions for improvements. The Bank also circulated at the same time a summary of the main legal agreements, to help ensure a common understanding.

12. The results were slow in coming in, but most have now been received. There were relatively few suggestions for improvements although given the recent work on updating the GMRA and the production of the GMSLA, this is perhaps to be expected. It is envisaged that the Bank will now produce a written summary of the results of the exercise with a view to discussion with LMMA member representatives.

The results will also be shared with the MMLG, the SLRC and others. We will then discuss possible next steps in the light of reactions.

NETTING SUB-GROUP

13. Mr McNulty summarised the earlier meeting of the SLRC Netting Sub-Group.

14. The updating exercise for the OSLA and GESLA opinions was continuing on track, with Korea and Malaysia noted as outstanding.

15. Freshfields have instructed overseas lawyers to start getting opinions on the new GMSLA for the various jurisdictions. 75% of the opinions for the Original and A list countries have been received. It was expected they would require one set of drafting changes before being ready for publication. The opinions will be published as and when they are ready (rather than as a complete set) and this is likely to be from mid January 2001 onwards.

16. He also said that the US opinion was currently being delayed due to the US Presidential election. However this was not seen as a significant issue as UK market standard agreements tended not to be used that much in the US.

17. Mr Reichardt asked whether the sub-group will examine the impact on the netting opinions of the upcoming LSE central counterparty for equities. Mr McNulty said that he will raise the issue at the next sub-group meeting but thought the central counterparty facility should not affect the netting opinions since they referred to netting between counterparties in various jurisdictions. Ms Chesworth said that stock lending and repo will not go through the central counterparty. Mr Burke said that his colleague Rory Cunningham can talk the committee through the various issues of the central counterparty at the January SLRC meeting; the committee took up his offer.

REPOCLEAR

18. Mr Burke summarised the developments in Repoclear over the last few months. Repoclear is a brand service of the LCH and has been running for 15 months. It has around €30bn per day in volume, dealing with repo and cash bond markets in Austria, Belgium, Germany and Holland.

19. Repoclear have changed their trade capture system from ISMA's TRAX to a choice between either Euroclear's Euclid and SWIFT MT515 format communications. This ties in with the US system and allows statistics to be collected and analysed.
20. Euro MTS, Brokertec and E*speed have all been linked into Repoclear with Liberty and Garban's systems ready to go live.
21. A blind broker system is being developed. This will allow brokers to be active participants but only if they have a square position at the end of the day. A similar facility is available in the US.
22. Repoclear are to change their membership criteria regarding their capital and activity requirements. This is for both dealer and clearing member levels.
23. Repoclear have still not been able to add Italy – the second largest repo market in continental Europe – to the system. Delays remain due to legislative barriers.

SHAREHOLDER VOTING WORKING GROUP

24. Mrs Pitt summarised the progress of the group. It was set up at the start of 1999 to seek improvements in the arrangements for voting at company meetings, including a discussion on stock lending.
25. The group planned to publish a report on 9 January 2001; it was hoped that the proposed legislation permitting electronic voting by proxy would be in force by then.
26. Mrs Pitt said the SLRC had aimed to prevent the report placing onerous requirements on stock lenders, such as having to recall stock in order to vote it. The report suggested that it was simply sufficient for the registered holder to vote the stock, whoever that is.
27. Ms Beck queried the exact wording in the draft document, which she felt went against the grain of stock lending; that it implied that it did not matter how the securities were obtained and for what purpose, simply that the stock should be voted by the registered owner. Ms Chesworth said that stock lending is primarily a stock transfer and that the voting rights are simply associated with this. The purpose of borrowing is not principally to vote the stock. Mr Chadwick asked how material recalling stock to vote is – only 1% net is recalled to vote.

28. The Chairman summed up by stating that there remains some outstanding issues and that perhaps a separate discussion at a later date should take place.

ITEMS FOR INFORMATION

29. The Chairman noted that the GMRA 2000 Gilt Repo Annex had now been finalised and was available on the Bank's website. This was also true for the Stock Borrowing and Lending Code of Guidance.

30. The Chairman apologised that Antony Beaves of the Bank's Legal Unit could not attend this month's SLRC meeting due to a prior engagement. However he will attend the January meeting when he will brief the committee on developments on the proposed EU collateral directive.

ANY OTHER BUSINESS

31. The committee agreed that the minutes of the meeting could be posted on the Bank's website in place of circulating via email and paper. However the minutes would be circulated to attendees of the meeting for comments ahead of them being published.

32. The Chairman asked if committee members had any specific topics that they wanted raised for discussion over the next year. The following suggestions were noted:

- Mr Hills – Impact of Alternative Trading Systems on the Repo Market.
- Miss Holland – The impact of netting on the structure of the market.
- Ms Chesworth – DvP and central bank money (Mr Gibson said he will give an update at the February meeting) and eligibility of collateral in ECB operations. She also noted the term repo facility in CREST (Mr McCann said that CRESTCo had held two meetings of the Repo Working Group with interested market participants, and intends to proceed with the design of the first phase as proposed, but excluding the two issuance options, involving central stock selection).

- Mr Reichardt – changes in the IRS approach regarding the certification of US equities and using them as collateral.

DATE OF NEXT MEETING

33. The next meeting will take place on Tuesday 9 January.

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