

STOCK LENDING AND REPO COMMITTEE

TUESDAY 12 JUNE 2001

MINUTES OF MEETING HELD

AT THE BANK OF ENGLAND

Present:	Neal Hatch	Chairman
	Dagmar Banton	LSE
	Richard Breslin	Intermediaries
	Toby Davies	CRESTCo
	Simon Hills	BBA
	Sarah Hobbs	LIBA
	Ed McAleer	ERC
	Scott Rankin	Bond Market Association
	Philip Reichardt	Euroclear
	John Serocold	LIBA
	Alan Storey	Intermediaries
	Tim Westover	MMSG
	Jo Whelan	DMO
	Barry Harrison	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 apologies for absence from Jon Carr (Barry Harrison attended in his place), Malcom Ewen (Richard Breslin attended in his place), Hugh Gibson, Tony Hibbitt, Graham Jones, James Tomkinson (Ed McAleer attended in his place) and John Whitmore.

2. The Chairman welcomed Richard Breslin, Ed McAleer and Scott Rankin to their first SLRC meeting. He also formally introduced John Serocold of LIBA who has taken over from Deborah Chesworth (who has moved to the FSA).

MINUTES OF 8 MAY MEETING

3. These were agreed as final and have been posted on the Bank of England's Markets website as agreed at: <http://www.bankofengland.co.uk/markets/slrc.htm>

4. Relating to the May meeting, the response by the BBA/ISDA/LIBA group regarding BASEL and the Capital Adequacy Directive has now been sent under their own auspice.

EQUILEND

5. Mrs Pitt talked the committee through what was known about EquiLend following the press notice.

6. It is a global platform designed to meet industry calls for efficient, standards-based processes in equity securities lending. EquiLend plans to begin initial operations in 2002.

7. It is supported by 10 major financial institutions who have contributed, in equal amounts, an aggregate capital investment of \$40 million.

8. Borrowers and lenders will be able to initiate orders to one or many counterparties. Once a security is located and terms agreed, EquiLend will then send matched settlement instructions to the parties' proprietary trading and settlement systems through a standardised automated process.

9. EquiLend will also create a repository of data from members' transactions that can be used to produce a set of statistically significant and objective benchmarks for the industry.

10. Mrs Pitt outlined some possible future issues for the SLRC to consider regarding EquiLend:

- Does the SLRC think there is a market for a standardised system?
- Do they think it will reduce costs and risks?
- Are organisations likely to use it?
- Will it increase liquidity, especially in hard-to-borrow stocks?

11. Ms Hobbs and Mr Westover both felt that the initiative appeared to be aimed at the US market given the make-up of the contributors. The Chairman added that until EquiLend began operating, it would be a case of "wait and watch".

STOCK BORROWING AND LENDING CODE OF GUIDANCE

12. Mr Rippon reminded the committee of the state of play on producing the UK Annex. A working group had been set up last year to draft the annex, and made good general progress except on the key issue - on notification deadlines for handling equity stock events, in particular as they relate to dividends with scrip/cash alternatives. The problem related to the interaction between the legal position and the LSE rules. There was some tension between lenders and borrowers on what constituted 'reasonable notice' for the purposes of lender instructions on corporate actions. Under the LSE rules a borrower is entitled to six days notice from the lender for the passing of election instructions; but some lenders (usually a fund manager or custodian on behalf of a client) would want a shorter period to meet the commercial needs of their clients.

13. In order to help resolve the matter the Bank had convened a meeting including CRESTCo, ISLA, LIBA and the LSE. This identified the possibility of at least a partial solution.

14. There were two strands in the solution. First, CRESTCo will be introducing new functionality in Q1 2002 that will allow options on scrip dividends to be taken up where the trade involves the Central Counterparty (relevant to SETS stocks). This new (electronic) functionality could then allow the deadlines to be reduced to two days, which would allow for a less complicated negotiation about the meaning of 'reasonable notice' in the context of lending transactions.

15. The second strand is the potential for helpful changes to the LSE rules. The LSE would be consulting about the rules for the Central Counterparty in the autumn. The LSE rules for SETS trades will also have to change, as will rules relating to corporate actions, in order to reflect the CREST changes. This appears to provide the basis for a solution to the concerns about deadlines, albeit only a partial one as it will not cover all share transactions.

16. In the meantime the LSE was undertaking some informal soundings on the rationale for the deadline under the current rules and the scope for change.

17. Mr Rippon said he informed members of the Working Group about these discussions, and the possible solution; and had sought their views. The timetable suggested that the UK Annex could not be finalised until early in 2002.

18. Mr Reichardt suggested the procedures should be wrapped up around CREST rather than the LSE. He also said that Hugh Gibson (of APACS) should be kept fully involved with this debate.

DvP and CENTRAL BANK MONEY

19. Mr Davies provided the committee with a further update following David Wyatt's contribution back in March.

20. The project is on schedule with implementation set for 26 November 2001.

21. The Bank have defined the range of securities to be used to provide the additional sterling liquidity required to keep settlement performance high – gilts and a small number of bulldogs. A threshold of £500,000 has been set to avoid churning repo.

22. Repo legal agreements will be signed with the Bank (as the Bank provides intra-day liquidity) and between the settlement banks and the contracting members (providers of stock). Drafts of the Master Self-Collateralising Repurchase Agreements are being considered by the settlement banks.

23. Fact sheets are available from Toby.Davies@Crestco.co.uk

NETTING SUB-GROUP

24. Mr Talbot talked the committee through the developments with the netting sub-group.

25. A number of the GMSLA opinions had been finalised and would be sent out to subscribers later this month (confirmed sent June 28th). The majority of others were now just waiting for the final sign off from local counsel. On the English opinion, it only covers closeout in netting and not the enforceability of the agreement as a whole. The group has asked Freshfields to obtain a quote for the remainder and has instructed Freshfields to proceed if the quote is reasonable.

26. Freshfields will produce a one-page summary of each opinion for each jurisdiction. In addition, an annex will be produced for each jurisdiction detailing what amendments would be required to ensure efficacy of netting under local law.

27. Mr Rankin asked whether the Cross Product Master Agreement had been taken account of in this netting exercise. Mr Talbot confirmed that it had been decided that lawyers should be asked for their view on whether the CPMA would affect, by its amendments and operation, the netting provisions of the standard form OSLA, GESLA and GMSLA respectively as part of the netting exercises. However they would not be asked to opine on the CPMA generally.

ISSUES RELATING TO THE EURO

28. Mr Harrison detailed this subject. The Bank's latest Practical Issues was published on 8 June. In addition to the 36,000-circulation list, the publication is available at: www.bankofengland.co.uk/euro/euroiss0106.htm. The next edition, planned for November, will be the last before the introduction of notes and coin in January 2002.

29. Mr Harrison noted that Chapter 1 dealt with the Eurosystem monetary policy operations and raised a number of issues relating to the ECB's collateral framework.

30. In addition, Mr Harrison said that data the Bank had collected suggested that euro money, bond and derivatives markets continued to grow and that London remained a significant centre of activity for many of these markets. Further details should be available once the triennial BIS survey is published in the autumn. The results of the ERC's repo survey will also be of interest.

31. Mr Harrison noted that while the euro markets were maturing, becoming deeper and more efficient, there was still some way to go to achieve a fully integrated single market. The publication also covered the various infrastructure issues, where progress had been painfully slow but where there were now some significant changes taking root.

32. Chapter 4 looked at the latest position of the first wave, as final preparations were made for the introduction of notes and coin on 1 January, while the final chapter considered some practical issues for the market and the Bank in relation to possible UK entry which may or may not be on the horizon. This included a paper on a possible phased approach to the changeover of sterling to euro in wholesale and retail markets.

33. Mr Harrison also said that the City Euro Group met on 21 May, the minutes of which were sent to members last Friday. The next meeting is scheduled for 1 October.

EUROPEAN REPO COUNCIL

34. Mr McAleer said that firms were providing individual responses to the new BASEL Capital Accord. As such, the ERC has sent a response along with the Bond Market Association asking for there to be further consultation with the market.

35. The ERC is initiating a European benchmark fixing for GC repo (euro denominated euro-inzone bonds and bills). Following discussions with the BBA and the European Banking Federation, the ERC has selected 37 firms as contributors. The rates will be published at 10am London time and will range from tom-next out to 1-year maturity. It will be a bid rate and firms have been asked to provide rates for where the market is trading and not just their individual position.

36. The Federal Reserve Bank of New York has opened discussions with a number of European based players, including the ERC, regarding the collateral it takes in its Open Market Operations. Sandy Kreiger of the FRBNY will be attending an ERC meeting next week in order to discuss this topic further.

37. Mr McAleer also noted that the ERC's survey on repo has been sent out to individual firms. The ERC will brief the SLRC in due course once the results have been returned and processed.

DATE OF NEXT MEETING

38. The next meeting is provisionally scheduled to take place on Tuesday 10 July. Jon Carr, Hugh Gibson, Caroline Pitt, Philip Reichardt and Alan Storey apologised in advance for not being able to make this meeting.