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EURIBOR Money Market & Liquidity Working Group

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SUMMARY MINUTES

1. EONIA Fixing

We had a very lively discussion on the EONIA fixing and the contributions of the panel banks. PROs and CONs about the volatility and the wide range of the contributions were addressed and controversially discussed. Increased transparency about the EONIA fixing was another important topic of the discussion. In the end, the group decided to write, in cooperation with the ACI Derivatives working group, a letter of recommendation to the ACI Euribor steering committee whose content should be addressed and discussed at the next meeting of the steering committee on June 05, 2009. An electronic copy of the letter of the recommendation is attached to these minutes.

2. ECB's decisions from its May 7 Governing Council Meeting

The group discussed the different new tools presented by the ECB governing council with respect to the effectiveness for the market. The group welcomed all of the new tools as steps in the right direction to further stabilize the interbank market. For the 'covered-bonds-purchase-program, members await more details on how the program will work before being able to assess the effectiveness of this particular program.

3. ECB Collateral Framework

The group welcomed the extension of the additional collateral until the end of 2010. It was noted that some securities can only be traded in the market because of their ECB eligibility. Otherwise, market liquidity for such securities could disappear. Moreover, the evaluation of particular securities provided by the ECB is often the only price level that exists in the market for these securities.

4 ECB Survey 2008 and Outlook for the ECB Survey 2009

Holger Neuhaus provided us an overview of key issues extracted from the ECB survey 2008. In addition, Holger informed us about a few changes for the 2009 version of the ECB survey. Banks are supposed to respond by July 13, 2009. Moreover, the ECB intends to release its data and key findings of the survey in mid-October 2009 instead of some time in 2010. The group welcomed the improvements in the turnaround of the ECB survey and the prospects of new aspects of and insights in the EUR market and its different products.

5. Update on Credit Claims

An update on credit claims was provided by the Chairman of Euribor of the ERC. The joint working group ECB/ERC has continued to look at the creation of a secondary market for this new asset class. The use of credit claims as collateral in ECB operations has increased steadily, and current outstandings with the Eurosystem amounts to Euro 180 Billion. A document was prepared by the ECB to make a summary of where the discussions are at the moment. The following groups are involved: Eurosystem/European Repo Council/ICSDs/Swift/Loan Market Association/EBF. The MMLWG will receive regular updates from me and can be invited to attend the working meetings if requested.

6. Update on EBF proposal on remedying dysfunctionalities in the Interbank Money Markets

It was provided an update on the topic. The key messages were as follows:

One of banks' main funding market sources - the interbank money market (IMM) - has been particularly affected by the credit crisis. The EBF has requested its Global Banking Issues Committee to prepare a document focusing, principally, on the (mal) functioning of the euro unsecured segment of the IMM .

7. Update on lessons learnt from recent market turbulences with regards to the securities infrastructure

At the November meeting of the Cogesi, the ECB contact group on euro securities infrastructures, a decision was made to further investigate the various consequences of the Lehman case. A questionnaire was mailed to banks as well as to infrastructure providers and interviews were arranged by the National Central Banks in their own jurisdictions. Additional interviews were also conducted by senior staff of the ECB with international organisations and in the UK together with the Bank of England. At the Cogesi meeting on May 11th, Cogesi Chairwoman from the ECB provided an update on this initiative.

8. Liquidity Risk Models

While a few banks in Germany have applied for getting their internal liquidity risk models approved by the German regulators (approval process is still pending for all banks that have applied), no other country represented by the members present does currently intend to allow internal models. In contrast, standard reporting applies and often expanded by additional reporting requirements that have been put in place by local regulators since the crisis started in 2007.

For the MMLWG, it is important to be proactive in the current discussions about implementing new additional regulations on liquidity risk across all European countries. It is crucial to avoid any regulations that might endanger the functioning of the various EUR and other currency markets (e.g. cash, repo, derivatives, etc.).
