



Chair:
Juergen Sklarczyk
Deutsche Bank

Michael Schneider
DZ Bank

EURIBOR Money Market & Liquidity Working Group

32nd Meeting on Sept 24, 2009

11:00h – 16:30h

at
Banca IFIS
Via Terraglio 63
Mestre - Venice

Minutes

Attendees:

Miguel Angel Monzon
Jürgen Sklarczyk (chairperson)
Keyran Ramsay
Jaana Sulin
Jose Manuel Villaverde
Mark Thomasson
Maria Cristina Lege
Michael Santer
Alexandre Seignat
Finbarr Dowling
Stefaan van de Mosselaer
Niki Soulopoulou
Ralph Weidenfeller

BBVA Madrid
Deutsche Bank Frankfurt
UBS Zurich
Nordea Bank Finland Helsinki
CECA Madrid
Royal Bank of Scotland London
Intesa San Paolo SpA Milan
Erste Bank Vienna
Calyon Paris
Allied Irish Bank plc Dublin
Fortis Bank Brussels
National Bank of Greece
ECB Frankfurt (observer)

Apologies:

Hans Sattler
Thierry Cazaux
Mirco Brisighelli
Michael Schneider
Peter Slingerland
Godfried De Vidts (president)

HVB-Unicredit Group
Pollak ETC Paris
UniCredito Italiano SpA Milan
DZ Bank Frankfurt
ABNAMRO
Euribor ACI

Not responded to invitation

Alan Ries
Jose Brito

BGL Luxembourg
Caixa Geral de Depositos Lisbon

1. Welcome group members and approval of the minutes of the Frankfurt meeting on 14/05/2009

Juergen Sklarczyk, chairman of the ACI Euribor MMLWG, welcomed the attendees to Mestre – Venice and thanked very much Banca IFIS for hosting the meeting at its head office during its annual Pan European Banking Meeting.

Initially, the group discussed whether audio recordings of its meetings should be allowed or not. It was agreed by all participants that **NO** MMLWG meetings are to be recorded. The discussions during our meetings are very open, often confidential, and represent the centrepiece of our activities. All our meetings require the attendance of our group members. The attendance cannot be substituted by any recordings. If a group member not being able to attend wants to get an update on our onsite discussions she or he could either directly contact any participant or use the minutes. Therefore, the group declined T. Cazaux's request to record this meeting.

The minutes of the MMLWG Frankfurt meeting were approved by all participants.

2. Update from the ECB MMCG and ECB Survey 2009

The group has been updated about two of the main topics discussed at the ECB MMCG on September 1, 2009 in Frankfurt:

- Upcoming changes to the liquidity regulation in France: A. Seignat has summarised the most important changes for French banks and branches of non French banks that will be effective from the end of June 2010 onwards. The institutions have to implement risk management functions to identify, monitor, measure and analyse the liquidity risk and in particular to comply with a quantitative 1-month liquidity ratio on a daily basis (sent to the central bank on a monthly basis). New coefficients for different asset classes have been introduced, together with a detailed funding analysis for currencies, category of investors, concentration on single names, maturities and countries. Stress tests will take into consideration systemic liquidity crisis, idiosyncratic crisis and a combination of the two previous scenarios.
- Large exposure rules: J. Sulin provided a brief update on the large exposure rules and, thereafter, identified the most important regulatory changes scheduled to become effective at the end of 2010. Her focus was on the potential implications for the interbank money markets and the treatment of intra-group liquidity exposures of cross-border financial institutions. Based on the rules presented and known so far, the group then discussed the potential decline in interbank money market liquidity, the higher costs, the impact on credit lines, and the consequences on the legal structures of banks.

R. Weidenfeller has updated the group on the results of the Euro Money Market Survey 2009, available on the ECB website since September 24, 2009; the main messages for the different market segments (quantitative and qualitative) are:

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- Unsecured: significant decline with a negative record for borrowing, limited efficiency of the market; the overall view is still sceptical despite slight improvements.
 - Secured: significant increase in overnight repo markets, biggest short-term lending volumes in spot next, only a few critical views reported while the overall perception indicates an improvement in the market.
 - Derivatives: trading volumes have been stable during the last four years, even if the OIS segment, due to eonia volatility and the difficulties to predict the very short term rates, has declined; opposite trend for FRA. The increase in CCS trading volume is significant. However, it is still small when compared with the global volume of the entire short term derivatives market.
 - Short Term securities: the volumes declined further and we are now close to the figures reported in 2004

3. EONIA FIXING – Update/Group Discussion

Members of the Euribor Steering Committee that are also participants in the MMLWG have provided an update on their last meeting.

On the issue of reviewing and adding new panel banks, 5 banks have been considered eligible but none of them have already applied. 3 of them are in the process of considering an application. Moreover, UBS Zurich contacted the steering committee about becoming a panel bank instead of its subsidiary in Luxembourg according to K. Ramsay. UBS has not received any feedback by the steering committee yet. The topic of adding banks located outside the euro area has been controversially discussed by addressing different viewpoints. On the one side, substituting an existing panel bank with its head office could probably result in additional volume for the EONIA and an increase in its robustness. On the other side, allowing banks outside the euro area to become Euribor panel banks could very well expose the steering committee to a much broader discussion about what the Euribor and the Eonia are all about and where to draw the line for banks outside the euro area. So far, both the Euribor and the Eonia have been defined as benchmarks originating / fixed within the euro area. To that effect, the group discussed various eligibility criteria that would maintain this basic principle. One of them was the direct access of panel banks to participate in ECB's monetary policy operations and standing facilities.

Nevertheless, the group also reflected on the possibility for a panel bank to consolidate all its trading activities on a group level when it provides its contribution for the Eonia, i.e. a panel bank might be able to report all group-wide overnight lending activities for the Eonia regardless of where the lending took place (in or outside the euro area). Such a consolidating approach if limited to the euro area could help banking groups include overnight lending activities by its branches and subsidiaries located in euro area countries that are not yet represented on the Euribor panel (like Slovenia).

In conclusion, the group's discussion on this topic clearly indicated that it will be extremely difficult to identify precise eligibility criteria for panel banks that would improve the robustness and market standing of the Eonia and while not exposing it to ambiguity, confusion, and lack of confidence.

Concerning the Euribor definition, the group was told that the Committee intends to produce a proposal that would introduce a minimal change to the definition. However, the exact wording of the proposed change was not provided. According to steering committee members, this topic will again be on the agenda of the committee's next meeting. In addition, we were told that the Committee has considered no changes to the framework to be the best approach in the current market environment. It still views the number of panel banks, the definition, and the technical aspects of the Euribor as key factors for the Euribor's robustness.

4. ECB's possible exit strategies

The group had a lively discussion on ECB's possible exit strategies. The key findings were the following:

- It's considered to be very important that the ECB communicates any news about its extraordinary measures to the market as early as possible. Among other possible scenarios, a discontinuation of its 12M and/or 6M tender as well as changes to its current collateral list would have substantial effects on the market. Both scenarios need to be made public in a timely fashion before they are actually implemented.
- In order to reduce the excess liquidity in the market, a few possible scenarios were discussed. One approach could be to move away from fixed-rate tenders back to Dutch-auction based variable rate tenders, possibly starting with the longer-dated term tender (e.g. 12M, 6M) and gradually moving down the curve to 1 week. Another option could be the introduction of reverse repos. However, the ECB would then need to think about what maturities to use for these reverse repos. In addition, the ECB would have to reflect on the effectiveness of any reverse repo operations. How much could the ECB drain to affect the market in the desired direction? Would these reverse repos result in an illiquid interbank market as every bank with long cash positions would exclusively deal with the ECB thereby reversing the improvements in the interbank market that took place over the last few months.

Even though the group has acknowledged considerable improvements in the conditions of the EUR market since last year it was, at the same time, of the opinion that a substantial level of excess liquidity might still be required to make the EUR market work. How much excess liquidity, however, was a matter of discussion. Moreover, unlimited liquidity offered by the ECB is still needed to support banks that continue to face problems in accessing the market for funding. In conclusion, the group's discussions indicated the dilemma the ECB faces in the next few months to develop a strategy that allows the market to embark on a smooth transition by phasing out extraordinary measures where possible.

5. IASB derecognition rules

The slides made by S. Van de Mosselaer have been distributed to the participants but the presentation and discussion have been postponed to the next meeting.

6. Next MMLWG Meeting

The group has agreed on meeting next in Zurich, hosted by UBS on January 28, 2010.

The participants also agreed on scheduling future MMLWG meetings not as close to ECB's MMCG meetings as in the past. As quite a few members of the MMLWG do also participate in ECB's MMCG meetings the group decided that more added value is created if the meetings of the two groups take place at different times. Moreover, the participants decided on continuing to meet in person three times a year, with the option of arranging conference calls in case of extraordinary events or market developments.

For the second meeting in 2010, J. Sulin offered to host it in Helsinki in the first week of June 2010. She will confirm date and exact location over the next few months.

7. Miscellaneous

None
