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28. November 2003

Europäische Zentralbank
Abteilung Sekretariat
Kaiserstraße 29
D-60311 Frankfurt am Main
DEUTSCHLAND

Re: Measures to Improve the Collateral Framework of the Eurosystem

Dear Sirs,

The Bond Market Association ("BMA")¹ and the European Securitisation Forum ("ESF" or "Forum")² welcome the opportunity to respond to the European Central Bank's Public Consultation Paper of 11. June 2003 on the Measures to Improve the Collateral Framework of the Eurosystem. We particularly appreciate your willingness to allow us to comment after the initial specified timetable for comments. Please note that at this stage we have responded in more general terms and have not explicitly answered each question.

General Comment

By way of general comment, the increasing market focus on collateralisation - a focus encouraged by central banks, by supervisors in encouraging the use of collateral in risk management, by payment and settlement systems in their own endeavours to ensure the integrity of their systems and by market participants' own risk management efforts - means that the demands for collateral within the financial markets are rapidly increasing and can be expected to increase very significantly in the future.

¹ The Bond Market Association is an international trade association representing approximately 200 securities firms and banks that underwrite, distribute and trade in fixed income securities, in Europe and the United States, as well as internationally. More information about the BMA are available on its website, www.bondmarkets.com.

² The European Securitisation Forum is an adjunct forum of the Bond Market Association. The purpose of the Forum is to promote the efficient growth and continued development of securitisation throughout Europe, and to advocate the positions and represent the interests of its members - European securitisation market participants. The Forum also attempts to identify, recommend and implement market standardisation policies, practices, guidelines and related documentation to promote liquidity, transparency and efficiency in the primary and secondary European securitisation markets. Among various activities, the Forum promulgates recommendations for market participants, which have been assembled in the ESF Securitisation Market Practice Guidelines ("Guidelines"). The Forum recently published a fully updated and reorganised version of the Guidelines to reflect developments in the securitisation area. More information about the Forum, including its purpose and mission, its full membership and its current projects, can be obtained from its website at www.europeansecuritisation.com.



With this in mind, BMA and ESF welcome and support exploration of opportunities to widen the asset pool that will be eligible as collateral. Such a widening will make an important contribution to enabling market participants to make efficient and optimal use of their collateral assets in a cost effective manner.

Questions 1 & 2

Do counterparties feel that it would be useful to move from the present two-tier situation to a single list of collateral?

Should the single list encompass more collateral than the current tier one?

Is the availability of collateral expected to increase or decrease in the future?

What is the counterparties' view on the possibility of additional categories of eligible assets being available?

As moving to a single list of collateral will permit a greater number of market participants to make use of a wider collateral asset pool, BMA and ESF believe it would be useful to move to such a single list.

It also follows that the single list should encompass more collateral than the current tier one. As indicated in the general comments above, there is already and will continue to be increasing demand for collateral in the financial markets. Improvements in the ability to take, use and enforce collateral that can be foreseen upon the implementation of the EU Collateral Directive will provide further impetus to the demand for collateral.

In light of these developments it is important to ensure that the pool of assets eligible for use as collateral is appropriately widened. In the absence of such a widening, the greater demand for collateral will drive up the costs of collateralisation and, in particular, will create an artificial demand for eligible assets. BMA and ESF strongly believe that market participants' asset allocations should not be dictated by the need to have available eligible collateral which a market participant requires as an "entry ticket" to participate in the financial markets' payment, settlement and other systems. Where assets satisfy the strict criteria that can be anticipated to apply to them for eligibility purposes, there seems no reason to exclude them.

However, in order to ensure a level playing field, all counterparties should be enabled to access the relevant collateral; in other words, access should not be limited to those with access to particular central banks or central depositories. For example, where Spanish mortgage loans are acceptable collateral they should be available to those counterparties accessing the Euro-system through another central bank than the Spanish Central Bank.

We recognise that the expansion of the eligible collateral pool may result in the need for additional criteria to determine eligibility. We would be happy to discuss this further with the staff of the European Central Bank.

Question 3

Would counterparties have a general interest in using bank loans as collateral, in particular in those countries where they are not currently eligible?

Given that bank loans to a given borrower have the same fundamental credit risk profile as securities issued by the same borrower, the use of bank loans as collateral is both logical and appropriate. Again we would be happy to discuss further criteria for eligibility of bank loans,



bearing in mind the different legal structures for loans that can be involved and the different parameters that might apply to them.

Clearly were bank loans to be removed from the list of eligible assets, that would be prejudicial to market participants.

Many market participants will, in the context of Basel II, establish IRB credit assessment systems which will apply to bank loans. Whether these credit assessments can be shared raises internal policy issues for the market participants which they will need to consider further.

Question 5

Would counterparties be ready to offset, at least in part, the costs to the Eurosystem by paying a fee for the bank loans to be eligible within the Eurosystem as a whole? What would you consider a reasonable basis to be for such a fee?

The question of fees is a fairly high level policy matter that market participants will need to further consider before providing a meaningful response.

Question 8

Would counterparties have a general interest in the use of equities as collateral, in particular in those countries where they are not currently eligible?

The use of equities as eligible collateral is supported by BMA and ESF and removal of equities from eligibility is expected to prejudice market participants.

Question 10

Would counterparties have a general interest in the use of other tier two marketable assets as collateral?

For similar reasons other instruments currently categorised as tier two should remain eligible and be included in the single tier of eligible assets going forward.

Question 11

Would counterparties have a general interest in the use, as collateral, of debt instruments issued in Euro by issuers established in the non-EEA G10 countries and located in the euro area?

BMA and ESF believe there are strong reasons for including Euro issuances by non-EEA G10 issuers as eligible assets. There are many substantial issuers in the euromarkets whose issuances are both liquid and widely held. Again the holding of such paper is often a logical and prudent asset allocation by market participants. In such circumstances it seems entirely appropriate that such issues should also qualify as eligible. From the Eurosystem's own point of view too, their inclusion can be regarded as a prudent risk diversification tool.



Certain assets currently eligible for inclusion in tier one are asset backed securities (ABS) issued through special purpose vehicles located in the EEA, as such issues are themselves highly collateralised and usually highly rated, their inclusion in tier one is appropriate.

It is important for the creditworthiness of bonds issued by securitisation vehicles that there is the maximum certainty of tax treatment of the results of the securitisation vehicle, since uncertainty on this point detracts from the rating quality of the bonds. Many EEA countries have recognised this by introducing statutory tax transparent or broadly tax neutral regimes for such vehicles established in their jurisdictions. (Others apply normal rules but as a matter of policy seek to ensure these rules do not operate to the detriment of ensuring neutral tax treatment.) Typically however, these regimes cater for single jurisdiction securitisations. In the case of multijurisdictional securitisations (at least where the underlying cashflows are not subject to withholding tax) the usual mechanism for ensuring relative certainty of tax treatment is to locate the securitisation vehicle in a tax favoured jurisdiction such as Jersey or Cayman. (It should be understood that this is not to reduce tax liabilities on the transaction - since securitisation vehicles do not earn substantial profits - but simply to achieve relative certainty of treatment.) It is recognised that in principle a better solution may be for the EEA Governments to negotiate a basis for a pan-EEA securitisation vehicle that can enjoy tax transparency. However, this is likely to take some years to achieve. It is therefore submitted that there should be an extension of favourable regulatory treatment to bonds issued by non-EEA/non G10 securitisation vehicles for a period of 10 years.

Question 14

Are the existing procedures for disseminating information on the eligible assets considered satisfactory?

Market participants would encourage the Eurosystem to review the procedures currently adopted by it in the context of eligibility.

In particular it would be of significant assistance to market participants if it were possible to obtain an expeditious advance confirmation, even if on a provisional or conditional basis (e.g., subject to issuance and documentation) that a proposed issuance will qualify as eligible as tier one. Alternatively if the eligibility criteria are such that their application can readily be ascertained, this would enable market participants to know from the outset that particular assets (e.g., a proposed ABS issuance) will be eligible.

Currently, the time taken to establish that a particular issuance will be eligible and indeed the mechanisms available (including timely inclusion of new issuances on accessible lists of eligible assets) are not considered optimal. Therefore, the market participants believe that addressing these matters would facilitate an increase in the pool of eligible assets, particularly in the context of securitisation or asset backed issuances.

Finally, we encourage the Eurosystem to review its eligibility criteria as applied to securitisation issues more generally. In particular, we suggest that the Eurosystem reconsiders the distinctions currently made between ABS which are cash securitisations and ABS which are synthetic securitisations as we do not believe that such distinctions are appropriate.

We want to close by thanking the European Central Bank once again for the opportunity to set out the views of the European and global repo and securitisation industries. We would welcome continuing substantive dialogue between the European Central Bank and the BMA/ESF regarding collateral related issues raised in the Public Consultation Paper on Measures to Improve the Collateral Framework of the Eurosystem of 11. June 2003. Should you wish to

communicate with either the BMA or the Forum, please feel free to contact Mr. Markus Sgouridis at the following telephone number +44.20.77 43 93 34.

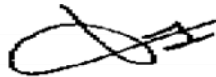
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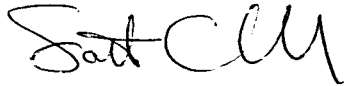
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