

Commissioner McCreevy
European Commissioner for Internal Markets and Services
European Commission
markt-crd2008-survey@ec.europa.eu

18 July 2008

Dear Commissioner McCreevy,

SECOND PUBLIC CONSULTATION PAPER ON POSSIBLE CHANGES TO THE CAPITAL REQUIREMENTS DIRECTIVE

ICMA is one of the few trade associations and self-regulatory organisations with both sell-side and buy-side representation and with a European focus. We are writing to you in response to your Second Public Consultation Paper on possible changes to the CRD, for which the deadline is 18 July.

We share the common objective that the “originate-to-distribute” model should work as well as possible, and are currently reviewing our own Rules and Recommendations. But we are concerned about the Commission's proposals that originators and distributors of credit risk transfer products should keep their “skin in the game” by retaining 10% exposure themselves, whether they are EU banks or not, for three main reasons:

First, the proposals would increase the cost of capital for originators and distributors and would damage EU competitiveness, as the proposals would apply only in the EU, even though the industry is global.

Second, it is not clear what the scope of the proposals would be: the Commission says only that the “requirement would be broad in terms of product coverage”. For example, does this mean that corporate bonds would be included or not?

Third, it is not clear how the proposals could be made to work in practice: for example, how long the 10% exposure would have to be retained; how the arrangements would be policed and enforced (eg in relation to hedging); and the circumstances in which they could be temporarily suspended “during periods of general market liquidity stress”.

We have done our best to respond to the Commission within the very tight two-week timetable you have set. ICMA remains at your disposal for further discussion on this issue, which is of such importance for the future of the industry in Europe.

Yours sincerely,



René Karsenti
Executive President



Paul Richards
Head of Regulatory Policy