ICMA EUROPEAN REPO and COLLATERAL COUNCIL

Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

13 March 2019

Dear Sirs,

Response submission from the ICMA European Repo Council

Re: Basel Committee on Banking Supervision consultation on "*Revisions to Leverage Ratio Disclosure Requirements*"

Introduction:

The purpose of this letter is to provide feedback on behalf of the International Capital Market Association's ("ICMA's") European Repo and Collateral Council ("ERCC"), concerning the Basel Committee on Banking Supervision's (BCBS's) consultative document on "Revisions to Leverage Ratio Disclosure Requirements", as published on 13 December 2018.

The ICMA ERCC notes that this consultation seeks comments on revisions to leverage ratio Pillar 3 disclosure requirements to include, in addition to current requirements, mandatory disclosure of the leverage ratio exposure measure amounts of securities financing transactions, derivatives replacement cost and central bank reserves as calculated using daily averages over the reporting quarter. The overall scope of this is broader than the ICMA ERCC's repo and collateral market focussed remit and accordingly the ICMA ERCC looks to others to comment on the full range of questions which the consultation raises. Nevertheless, one specific and significant aspect of the consultation, namely the treatment of securities financing transactions (SFTs), falls squarely within the ICMA ERCC's remit; and consequently, this response submission focusses on this particular aspect.

Executive Summary:

As leading market participants, the ICMA ERCC think that the excessive volatility that has been seen on or around reporting dates (such as quarter-ends) is very undesirable and could well be introducing risks which may have systemic implications. As such, we believe it would be advisable, and is desirable from a market point of view, to introduce daily average-based leverage reporting, in order to smooth this excessive volatility. Hence, we are firmly supportive of this proposal, as the present state of affairs only serves to disguise risks that the market is running.

Nevertheless, the ICMA ERCC continues to have some concerns about excessive restrictions in the repo market, arising from the cumulative effect of regulations over the past several years. These concerns are best illustrated on the aforementioned reporting dates, where market dislocations are most apparent. Accordingly, alongside the proposed introduction of daily average-based leverage reporting, we consider it important that the BCBS revisits the recommendations presented in the ICMA ERCC's, 6 July 2016, response letter to the BCBS. This is necessary in order to safeguard the provision of sufficient market capacity and repo availability, particularly when considering the future market environment with less accommodative monetary policy, thereby averting the risk that currently witnessed quarter-end dislocations become the norm.

Supporting Commentary:

The ICMA ERCC has published a number of papers to illustrate the importance of repo and collateral markets and in its most recent paper, prepared jointly with the GFMA, has drawn attention to the fact that post-crisis regulation requires further evaluation as it could be detrimental for repo and securities lending markets.

The cumulative impact of the pressures being imposed on the repo market, most particularly by the leverage ratio, have been significant. The market is continuing to adapt to absorb the impact of these pressures and, on a day-to-day basis, is currently performing well. Nevertheless, there have been points in time, in particular on or around reporting dates (such as quarter-ends), where the market has been demonstrably under stress and further impositions may serve to exacerbate this situation.

Given the role of repo and collateral markets at the heart of the financial system, in case the repo market should come to be subjected to excessive stress there will be negative implications for the smooth functioning of broader financial markets – which will, in turn, lead to increased costs and risk for market participants, including those corporates and governments borrowing to finance their economic needs. At the same time there also risks being a detrimental impact on the effectiveness of many of the measures put in place to improve the stability of the financial system, dependent as they are on high quality collateral.

Recognising this, the ICMA ERCC believes that, without stepping back from the worthwhile effort to enhance long term financing stability through the imposition of the leverage ratio, there is a case for further detailed, careful review of the overall coherence and calibration of the post-crisis regulatory framework. Should it be determined to be appropriate to do so, there are a number of ways in which its details could be calibrated, including through changes to the mechanics of the leverage ratio, in order to better smooth its effects on repo and collateral markets.

Adapting the Pillar 3 disclosure requirements as now contemplated, to include, in addition to current requirements, mandatory disclosure of the leverage ratio exposure measure amounts of securities financing transactions as calculated using daily averages over the reporting quarter, makes conceptual sense. Indeed, the ICMA ERCC believes that it would be advisable, and is desirable from a market point of view, to introduce such a requirement. The present state of affairs only serves to disguise risks that the market is running and the highly undesirable excessive volatility that has been seen on or around reporting dates (such as quarter-ends) could well be introducing risks which may have systemic implications.

Nevertheless, consistent with the overall point already made, the ICMA ERCC is firmly of the view that this should be done alongside a further, rigorous impact assessment to appropriately examine the detailed calibration of the leverage ratio as it pertains to repo and collateral markets. This is necessary in order to safeguard the provision of sufficient market capacity and repo availability, particularly when considering the future market environment with less accommodative monetary policy, thereby averting the risk that currently witnessed quarter-end dislocations become the norm. We note that, in order to have the full picture of the market, this analysis needs to carefully consider all types of repo activity (eg CCP cleared, bilateral, etc.).

The ICMA ERCC's, 6 July 2016, response letter to the BCBS's consultation on "*Revisions to the Basel III Leverage Ratio Framework*" already provides more detailed explanation of a number of aspects pertinent to the consideration of the impacts of the leverage ratio on repo and collateral markets, and the ICMA ERCC and the ICMA ERCC respectfully requests that the content of its July 2016 letter be carefully revisited in context of its response to this current consultation.

Suggestions it includes, such as more detailed specific treatments for special asset types (for example, holdings of high-quality liquid assets) or in relation to desirable financing activities such as matched book repo facilitation, may be very relevant to advance in the event that it is found to be appropriate to introduce some specific points of recalibration.

The benefits of making any such market sensitive adaptations would be felt by borrowers, both corporate and governmental, and investors; and would help underpin the effective functioning of other regulations designed to deliver increased financial stability. Putting in place an internationally agreed standard approach to these details is highly desirable in the context of global financial markets, yet there are reasons why the impact of an international standard can vary across regions or countries and may, accordingly, be justifiable reasons why local refinements may sensibly need to persist as the standard is implemented.

Concluding remarks:

The ICMA ERCC appreciates the valuable contribution made by the BCBS through its examination of the issues articulated in this public consultative document and would like to thank the BCBS for its careful consideration of the points made in this response. The ICMA ERCC believes that, in order to avoid any undesirable consequences from the imposition of the leverage ratio, there may yet be a need to introduce some detailed refinements to the leverage exposure measure.

Accordingly, alongside changing the pillar 3 disclosure requirements as proposed in relation to securities financing transactions, which we fully support, there needs to be further detailed assessment of the impact of the leverage ratio on repo and collateral markets. The ICMA ERCC remains at your disposal to discuss any of the above points.

Yours faithfully,

Godfried De Vidts
Special Advisor
ICMA European Repo and Collateral Council

Appendix:

ICMA ERCC Background

Since the early 1990's, the International Capital Market Association (ICMA) has played a significant role in promoting the interests and activities of the international repo market, and of the product itself.

The European Repo Council (ERC) was established by the ICMA in December 1999, to represent the cross-border repo market in Europe and has become the industry representative body that has fashioned consensus solutions to the emerging, practical issues in a rapidly evolving marketplace, consolidating and codifying best market practice.

Consistent with the fact that it is repo desks which can increasingly be equally considered to be collateral desks, it has been the ICMA ERC which has served to guide the ICMA's work on collateral, providing support to its broader efforts and driving many of the ICMA's specific collateral related initiatives. Thus, just as repo and collateral are intimately related in the market, so the ICMA ERC and the ICMA's work on collateral are also intimately related. In recognition of these intimate relationships, with effect from 4 December 2015, the ICMA ERC has been renamed as the ICMA ERCC, the "European Repo and Collateral Council".

The ICMA ERCC also plays a significant role in nurturing the development of the repo market and supporting its wider use in Europe, particularly among banks, by providing education and market information. The ICMA bi-annual survey of the European repo market has become established over more than a decade as the only authoritative indicator of market size and structure and the dominant trends.

ICMA is an active force in the standardisation of repo documentation. The Global Master Repurchase Agreement (GMRA) is the most predominantly used standard master agreement for repo transactions in the cross border repo market.

Membership of the ERCC is open to ICMA members who transact repo and associated collateral business in Europe. The ICMA ERCC currently has around 100 members, comprising the majority of firms actively involved in this market.