ICMA European Repo and Collateral Council (ERCC) Annual General Meeting

Hosted by: EQUILEND
The Side-by-Side View allows you to view the shared content next to the videos of participants.
Welcome by the host
Grant Davies, Head of Sales EMEA, EquiLend
Introductory remarks
Godfried De Vidts, Senior Adviser, ICMA ERCC
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<thead>
<tr>
<th>Time (CEST)</th>
<th>Agenda Item</th>
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<td>15.00</td>
<td>Welcome by the host</td>
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<td>15.05</td>
<td>Introductory remarks</td>
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<td>15.10</td>
<td>Repo market data: The 39th European Repo Survey &amp; SFTR public data</td>
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<td>15.25</td>
<td>Panel discussion: The European Repo Market in 2020</td>
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<td>16.00</td>
<td>ERCC Ops initiative on intraday liquidity</td>
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<td>16.15</td>
<td>Legal updates</td>
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<td>16.25</td>
<td>Regulation</td>
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<td>16.45</td>
<td>CDM and repo</td>
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<td>16.55</td>
<td>Closing remarks</td>
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<td>17.00</td>
<td>Event close</td>
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Repo market data: The 39th European Repo Survey & SFTR public data

Richard Comotto, Senior Adviser, ICMA
39th European repo market survey conducted in June 2020

Headline number: ICMA survey

- EUR 7,885 bn (from 8,310)
- ICMA survey
- headline number -5.1% (Jun-Dec)
- headline number +1.6% (Jun-Jun)
- constant sample -4.5% (Jun-Dec)
- constant sample -1.0% (Jun-Jun)

- EUR 7,756 bn
- SFTR public data 24-Jul
39th European repo market survey conducted in June 2020

SFTR public data --- outstanding value of repo

EUR 11,687 bn
25-Sep-2020

EUR billion

0 2,000 4,000 6,000 8,000 10,000 12,000 14,000

17-Jul-20 24-Jul-20 31-Jul-20 07-Aug-20 14-Aug-20 21-Aug-20 28-Aug-20 04-Sep-20 11-Sep-20 18-Sep-20 25-Sep-20
39th European repo market survey conducted in June 2020

SFTR public data --- repo turnover

EUR 17,301 bn per week
EUR 3,469 per day
week ending 25-Sep-2020

EUR 1,947 bn per day
ICMA survey
39th European repo market survey conducted in June 2020

Trading Analysis

EEA MIC 48.9%
all OTC  51.1%
SFTR public data W2-W11

direct = 54.5% (52.5%)

ATS = 27.5% (28.9%)

voice-broker = 8.8% (9.9%)

tri-party = 9.2% (8.7%)
Geographical Analysis

- EEA-EEA 55.1%
- EEA-nonEEA 40.6%
- CCP-cleared 43.7%
- SFTR public data W2-W11

X-border = 53.1% (52.6%)

domestic = 27.4% (26.3%)
anonymous = 19.5% (21.1%)
Geographical Analysis

X-border into EUR = 36.3% (38.2%)

X-border to outside EUR = 16.8% (14.4%)
39th European repo market survey conducted in June 2020

Currency Analysis

- **EUR**: 54.1% (53.6%)
- **USD**: 20.6% (18.9%)
- **GBP**: 15.8% (13.6%)
- **JPY**: 5.7% (5.4%)
- **Other**: 3.8% (8.5%)
Currency Analysis

- EUR (54.1%)
- USD (20.6%)
- GBP (15.8%)
- Other (9.5%)
Collateral Analysis --- Core Eurozone

DE = 13.5% (13.5%)
FR = 11.0% (12.9%)
NL = 1.5% (1.2%)

39th European repo market survey conducted in June 2020
Collateral Analysis --- Peripheral Eurozone

IT = 12.8 % (13.9%)
ES = 5.3% (5.6%)
PT = 0.6%
IE = 0.6%
GR = 0.2%

39th European repo market survey conducted in June 2020
Collateral Analysis --- non-EU collateral

UST = 9.2% (8.8%)

JGB = 4.9% (5.1%)
Collateral Analysis

EU govis = 90.0% (89.6%)
Maturity Analysis

short dates = 55.1% (53.5%)
39th European repo market survey conducted in June 2020

Maturity Analysis

![Maturity Analysis Chart]

- ON + open
- < 30D
- > = 30D
- fd

(repo) vs (reverse repo)
# Maturity Analysis

The 39th European repo market survey conducted in June 2020

<table>
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<td>1D</td>
<td>-68,845</td>
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<td>17,109</td>
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<td>3M-6M</td>
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<td>62,008</td>
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<td>59,454</td>
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<td>-46,873</td>
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<td>6M-12M</td>
<td>46,385</td>
<td>69,259</td>
<td>50,359</td>
<td>72,288</td>
<td>84,720</td>
<td>-81,305</td>
<td>-134,705</td>
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<td>12M+</td>
<td>3,939</td>
<td>-412</td>
<td>14,149</td>
<td>894</td>
<td>27,404</td>
<td>-16,127</td>
<td>11,290</td>
<td>36,260</td>
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<td>forward</td>
<td>53,822</td>
<td>36,772</td>
<td>87,609</td>
<td>51,398</td>
<td>43,821</td>
<td>18,743</td>
<td>9,360</td>
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<td>open</td>
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<td>-19,103</td>
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<td>60,221</td>
<td>-60,414</td>
<td>-40,316</td>
<td>31,335</td>
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39th European repo market survey conducted in June 2020

Maturity Analysis

max. WAM

min. WAM
Rate Analysis

39th European repo market survey conducted in June 2020

- Fixed rate: 82.1% (85.0%)
- Floating rate: 9.3% (9.0%)
- Open rate: 8.7% (6.0%)

No floating rate > EUR 5 bn pw and/or > 6 counterparties
SFTR public data W2-W11
The European Repo Market in 2020

This panel will be held under the Chatham House rule

**Moderator:** Andy Hill, Senior Director, ICMA

**Panellists:**
Gareth Allen, Managing Director, UBS; ERCC Chair
Emma Cooper, Head of EMEA FI Repo, BlackRock; ERCC vice chair
Richard Hochreutiner, Head Global Collateral, Swiss Re
Intraday Liquidity – Analysis and Recommendations

James Upton, Commercial Services Director, LCH Limited
ERCC Ops co-chair

Prepared by ERCC Operations Group
Problem statement

• Intra-day liquidity (IDL) pressures are not new to our market. The ERCC has cited intra-day liquidity challenges for over 3-4 years.

• Challenges also highlighted in May 2017 EPTF Report, which identified “Issues regarding intraday credit to support settlement” as one of the potential post-trade barriers:

“The increasing focus on intraday and overnight liquidity... has created the need to better understand the related drivers and impacts, as a basis to assess whether further action is required to reduce the overall usage of intraday and overnight credit...”

• To address the intraday liquidity challenge, finding ways to optimise settlement has become a major focus for the industry. This will also help prepare the industry for the upcoming implementation of CSDR settlement discipline.

• The ERCC is not alone in focussing on intra-day liquidity usage and settlement best practice. AFME and the LMMA are also working on related agendas.
Background

ERCC response to the challenge

2018
- ERCC hosted IDL workshop
- Sell and buy side, CSDs, ICSDs, CCPs and the ECB attended
- **Follow up actions** – focus on use of shaping and partialling

2019
- ERCC ask ERCC Ops to lead IDL workstream
- **ERCC Ops sub-group formed** with cross industry representation
- Goal to present update to new ERCC committee in early 2020

2020
- Full findings presented to ERCC in July 2020
- **Clear recommendations** to enable reduction in IDL usage and improve settlement rates
- **But questions remain** – why is so little settling in the T2S overnight settlement cycle?
Key enablers to reducing IDL usage

**Reinforce existing best practice**

- **Shaping**
  - Encourage a standard shape size
  - Explore potential for CSDs and ICSDs to automatically shape

- **Partialling and auto-partialling**
  - Emphasize best practice to take partial delivery
  - Understand barriers to further uptake and adoption

- **Settlement netting**
  - Counterparties should co-operate to reduce settlement risk through pair-offs

**Introduce new best practice**

- **T2S Hold and Release**
  - Introduce best practice on use
  - Highlight appropriate and inappropriate uses of H & R

- **Settlement “throttling”**
  - Firms may optimize intraday liquidity by “throttling”, effectively pushing settlement towards end of day
  - Throttling may negatively impact firms that try to settle early and have negative repercussions for overall settlement efficiency

**Optimise settlement behaviour**

- **Timing of settlement**
  - Understand why only a small value of transactions settle in the T2S night cycle and how this cycle can be used more optimally

- **T2S and ICSD ecosystems**
  - Much bank to client flow settles in ICSDs, while a large % of bank to bank flow settles in T2S
  - This can cause timing frictions when realigning securities, leading to delayed settlement
  - Opportunities to improve the connections between these ecosystems
The data in the top chart shows value of settlements settling in the Night Time Cycle (NTS) and Real Time Cycle (RTS)

Many participants purposefully instruct their repo settlements to be included in the NTS, as settlement is cheaper

However, from 2019 data, an average of only ~ 30-35% settled in the NTS. Why?

To better understand this, we need more data
To enable and influence more use of the night time cycle, we need more granular data. This should include:

- An **asset** class (fixed income and equity) and **product** (repo and cash) breakdown of what is instructed into NTS, with **reasons as why a large % of instructions are not settling in NTS**:
  - Counterparty not matching
  - Securities lacking
  - Cash lacking
  - Other

- A **participant breakdown** (sell side, buy side, custodian, CCP, other) of what is *instructed* into NTS, with **reasons as why a large % of instructions are not settling in NTS**
Next steps...

- **Settlement Data Request**
- **Re-emphasize** existing settlement best practice
- **Update** the repo best practice guide with enhanced guidance
- **Broaden** working group participation, to include buy side and custodians
ERCC AGM: Legal Update
Lisa Cleary, Senior Director, ICMA
Since last update…

2020 Legal Opinion Update

• Published ICMA GMRA Legal Opinion for Argentina
• Published 2020 ICMA GMRA legal opinion updates
• 2021 Legal Opinion update process already underway

CSDR

• Continued work via CSDR Legal Working Group
• Development of SFT SD Annex
• Paused to understand scope and impact of CSDR review
• Highlighted two ongoing issues:
  • Passing through third party buy-in costs
  • Contract amendments methodology
Looking forward

ERCC Legal Working Group

- CSDR
- Security Interest Agreement
- BRRD II
- Brexit
- Clause Library project
- Legal tech
ICMA Legal Helpdesk
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SFTR update
Alexander Westphal, Director, ICMA
SFTR reporting – the road to go-live…

Jan 2014: SFTR proposal published by the EC

Jan 2016: SFTR enters into force

March 2017: ESMA’s draft RTS/ITS submitted to EC

April 2019: Final RTS/ITS enter into force

January 2020: Final ESMA Reporting Guidelines

March 2020: ESMA announces 3-month delay to go-live

13 July 2020: Reporting start for firms in phase 1 & 2
Two “go-lives” still to come…

- **Mon 12 October 2020**: Reporting start for UCITs, AIFs & (re-)insurance undertakings
- **Mon 11 January 2021**: Reporting start for NFCs (except in the UK)

Brexit…

- **31 December 2020**: End of the transition period will see a split into EU SFTR & UK SFTR

ESMA Level 3 guidance to be completed…

- Guidelines, validation rules & XML schemas (all published)
- Q&As (still to come)

… and ultimately there will also be an opportunity for a full SFTR review

- Commission report to assess effectiveness, efficiency & proportionality due in **April 2022**
SFTR reporting – ICMA’s implementation work

The ERCC’s SFTR Task Force

• Established in 2016

• Group is open to a broad range of market participants, including sell-side, buy-side, market infrastructures, TRs and service providers – in total over 150 firms represented

• Main objective of the TF has been to facilitate implementation by agreeing and documenting common interpretations and detailed best practice recommendations

ICMA SFTR best practices and other publications

• ICMA Recommendations for Reporting under SFTR (4th version released on 7 Sep)

• SFTR sample reports (covering nearly 50 repo scenarios)

• Overview for the reporting of repo lifecycle events

• SFTR Quick Guide (maps ICMA recommendations vs SFTR reporting fields)

• Master Regulatory Reporting Agreement published in December 2019 (jointly by ICMA, ISLA, ISDA, AFME, FIA)

• Aggregated SFTR public data published on a weekly basis
ICMA log of implementation issues post go-live

- Based on member feedback, ICMA put together a detailed log of reporting issues observed since go-live
- List covers around 50 issues and continues to evolve
- Initial version shared with ESMA & some NCAs
- Issues log feeds back into the ICMA SFTR recommendations

What are the key issues?

- Issues captured include (i) problems causing TR rejections, (ii) pairing issues & (iii) matching breaks
- Most issues are due to incorrect reporting by firms (e.g. static data issues, sequencing of action types)...
- But a significant number result from problems with the underlying ESMA rules (e.g. collateral signage)...
- And some issues haven’t materialized yet but are bound to create problems in the future (e.g. settlement fails reporting, collateral market value, LEI for non-EEA issuers)
Further information

Links:

ICMA SFTR webpage

Internal SFTR Task Force page (ICMA member login required)

SFTR public data

ICMA contacts:

Alexander Westphal
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Zhan Chen
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Richard Comotto
Richard.Comotto@icmagroup.org
CSDR mandatory buy-ins

Andy Hill, Senior Director, ICMA
**CSDR-SD**

Recent developments

- 23 June 2020: UK elects not to implement CSDR-SD measures
- 10 July 2020: Deadline for ESMA Survey on Topics for the CSDR Review (ICMA submitted response)
- 24 August 2020: Postponement to CSDR-SD until February 2021 published in the Official Journal
- 28 August 2020: ESMA publishes amending draft RTS delaying CSDR-SD to February 2022

Implementation

- Update to the ICMA Buy-in Rules (member consultation pending)
- GMRA CSDR Annex

CSDR Review

- Q4 2020
- Expected to include SD
- Public consultation expected
- Viewed as opportunity to drive meaningful change to the MBI provisions
Common Domain Model (CDM) for repos and bonds
In collaboration with ISDA and Regnosys
Gabriel Callsen, Director, ICMA
CDM for repos and bonds – Current and future state

Current state: Each party captures repo trade data and repo lifecycle events in different ways – e.g. repo interest, margining, collateral substitution.

Disadvantages: Reconciliation resulting from duplication and inconsistencies of data and processes.

Future state: Each party uses the CDM trade processing model as ‘common denominator’ or ‘common language’ to process repo transactions.

Benefits: Interoperability, STP, innovation.
Same code implemented by each party, compatible with existing messaging protocols and data standards.
ICMA working group of sell-sides, buy-sides, trading venues and technology providers met in July and August

- Defining draft specifications for repo model in the CDM
  - Fundamental components: securities & cash
  - Repo specific-components, differentiating the structure of a repo and collateral
  - Interest calculation
  - Scenarios (e.g., overnight uncleared, 3-month fixed)

- Initial gap analysis:
  - Between ISDA’s derivatives CDM and components for modelling repos
  - Potential FpML legacy issues (e.g., concept of price and notations)?

Next steps:
- Finalising legal agreement with Regnosys
- Finalising governance and IP arrangements with ISDA
Kick-off planned for 2\textsuperscript{nd} half of October. Weekly meetings to be scheduled.

Expected duration of initial engagement: 8-12 weeks

Requirements:

- Anonymised sample data are key → Model only as good as sample data
- Coordination with internal data modelling functions and IT

CDM for repos and bonds – Next steps

- Modelling of repo product model
- Modelling of transaction model
- ‘Simple’ scenarios

- Translating process and lifecycle events into code
- Validation and integration testing

- CDM repo software
- Covering selected scenarios in initial stage
Thank you for your attention

Any questions?

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Closing remarks
Godfried De Vidts, Senior Adviser, ICMA ERCC
Next ERCC General Meeting
Tuesday 30 March 2021
Hosted by LCH

For further information, please visit the ERCC webpage or contact us by email: ercc@icmagroup.org