

Minutes of the European Repo Committee meeting held on June 19, 2012 in Madrid

Present:	Mr. Godfried De Vidts	ICAP (Chairman)
	Mr. Simon Kipping	Bank of America Merrill Lynch
	Mr. Stephen Malekian	Barclays Capital
	Mr. Eugene McGrory	BNP Paribas
	Mr. Grigorios Markouizos	Citigroup
	Mr. Andreas Biewald	Commerzbank
	Mr. Ronan Rowley	Deutsche Bank
	Mr. Olly Benkert	Goldman Sachs
	Mr. Ed Brand	Morgan Stanley (substitute)
	Ms. Angela Osborne	Newedge Group (substitute)
	Mr. Michel Semaan	Nomura
	Mr. Sylvain Bojic	Société Générale
	Mr. Guido Stroemer	UBS
On the phone:	Mr. Romain Dumas	Credit Suisse
	Mr. Jean-Michel Meyer	HSBC
	Mr. Tony Platt	JP Morgan
	Mr. Francois Cadario	LCH.Clearnet
	Mr. Harald Bänsch	UniCredit Bank AG (substitute)
	Ms. Lisa Cleary	ICMA
Also Present:	Mr. Cedric Gillerot	Euroclear
	Mr. Saheed Awan	Euroclear
	Mr. Jean-Robert Wilkin	Clearstream
	Mr. Kevin McNulty	ISLA
	Mr. Richard Davies	Markit
	Mr. Xavier Aguila	MEFF
	Mr. Staffan Ahlner	BNY Mellon
	Mr. Richard Comotto	ICMA Centre
	Ms. Lalitha Colaco-Henry	ICMA (Secretary)
	Mr. David Hiscock	ICMA
Apologies:	Mr. Herminio Crespo Urena	BANKIA
	Mr. Tony Baldwin	Daiwa Capital markets
	Mr. Stefano Bellani	JP Morgan
	Mr. Edward McAleer	Morgan Stanley
	Mr. Ulf Bacher	Newedge Group
	Mr. Eduard Cia	UniCredit Bank AG
	Mr. John Serocold	ICMA

Welcome by the Chairman

The Chairman thanked Mr. McNulty and ISLA for hosting the meeting and those Committee members who were in attendance and on the phone.

1. Presentation on Markit's Totem Service

Mr. Richard Davies said that Totem was founded in 1997 in response to the difficulties encountered by sell-side banks marking their books, given the difficulties in obtaining independent sources of prices for OTC derivatives. While the banks had sophisticated risk management systems, they lacked high-quality inputs and traditional sources of independent prices were sometimes flawed. Accordingly, Totem was developed to provide quality market prices.

The Totem service provides monthly sell-side consensus pricing. The banks that sign up to the service must submit prices for an agreed range of trades each month. Totem then reviews the prices submitted by the banks and subsequently publishes a consensus price, assuming that certain criteria are met. Notably, not all prices submitted by participating banks are used. For example, Totem must receive prices from a minimum of four participating banks in order to produce a consensus price. If a sufficient number of prices are not received then Totem will not publish a price. Totem employs a variety of consistency checks in respect of each bank submitting prices. Additionally, each price that is submitted is compared against consensus data and an assessment of spreads is made. If a price that is submitted appears inconsistent or off-consensus, the individual bank that submitted that price will be asked to re-check and/or re-submit the price. Totem will reject a price that has been submitted by a bank, if warranted. In such cases, Totem will inform the bank that the price has been rejected and will provide an explanation. However, in borderline cases, Totem will publish the data if the bank says that it stands by its price. The names of the banks contributing prices are "published" but only to those who submit data themselves.

Turning to slide 5, Mr. Davies noted that the service included swaptions in 25 currencies, caps in 14 currencies, basis swaps in 7 currencies, inflation swaps and options, CMS Swaps, Spread Options and Caps, Bermudian swaptions and repos. On repo coverage, there are two separate repo services – one for Europe and one for the US. Curves are to a maximum of five years unless stated otherwise. 14 banks participate in the Europe service and 11 in the US service.

Banks whose submissions are accepted receive consensus prices, range, number of accepted prices, standard deviation, kurtosis, skew and the list of other banks submitting prices. Pricing is based on 4:15 London time on the last business day of the month. All prices are mids rather than bid-offer spreads. Participating banks choose which maturities they will submit data for. The information set out on slide 5 does not capture all the data that Totem holds, in part due to the system requirement that Totem receive prices from a minimum of four banks before publishing a price.

It was noted that for very illiquid curves, like the Irish repo curve, the pricing on Totem may be very divergent from market prices. Concerns were raised that the Totem price could be at least 10 basis points away from the market price. Additionally, it was noted that market closing is not 4:15, but is later in the day. It was queried whether there is scope to either

move the end-of-day price into line with market closing or introduce a second pricing period. It was also noted that Totem does not provide any information about the counterparty to the repo trades, as this information could be very relevant to the prices being provided by the submitting banks. Moreover, in the illiquid space, the lack of this information makes it much harder to calculate the accuracy of the pricing. Long term prices need more consistency and this could be remedied through greater use of standard definitions. The Committee felt that there was value in the service if it was possible to refine the parameters by which data is published. Mr. Davies noted that Markit would be happy to consider enhancing the service. It was agreed that Mr. Davies would arrange a further meeting with individual ERC Committee members in order to tighten up the product.

2. Update on Interoperability between the ICSDs

Mr. Jean-Robert Wilkin noted that the ICSDs had met with the ERC Operations Group to discuss the triparty settlement interoperability model that had been developed by the two ICSDs with input from the fixed income CCPs. At that meeting, the ICSDs had explained to the Operations Group how the model would work and its impact. The ICSDs are happy to implement the model, with development taking approximately 18 months to complete. However, before proceeding, the ICSDs would like to have some form of commitment from the ERC that the model, as developed, will be used.

It was noted that the major limitation of the model is the early cut-off time of 14:00 CET instead of 17:00, which is what the industry would prefer. The early cut-off time means that there will be a need to operate parallel non-interoperable baskets, which means that liquidity will be split.

Mr. Tony Platt said that the ERC Operations Group supported the model and it did not pose any insurmountable challenges from an operations perspective, especially in relation to substitutions and recalls of collateral. However, the model as presented by the ICSDs does not represent a panacea as the limitations of the bridge mean it will be necessary to operate different baskets in parallel. Nevertheless, the Operations Group feel that the adoption of the model presents an opportunity to enhance the bridge further in the future, such as increasing the real-time matching and extending Bridge interoperable settlement to end of day at 17:00. An enhanced bridge would also benefit the broader market beyond repo.

Committee members noted that the market wants to see proper interoperability between the two ICSDs. On the regulatory side, the industry is anticipating that a regulatory requirement may be introduced for mandatory clearing for repo through CCPs. If such a requirement is implemented, bilateral repo trades will become increasingly expensive and more repo business will be triparty. Additionally, the ECB is also looking to use triparty in the future. These are all factors that will require the ICSDs to consider improvements.

Mr. Francois Cadario (speaking on behalf of all the CCPs) said that the CCPs supported the model. Mr. Awan noted that the proposed IT development plans for the triparty settlement interoperability model will cost over €2 million and would require a strong commitment from the ERC to use the baskets. Mr. Awan emphasised that the development of the triparty settlement interoperability model is distinct from enhancements to the bridge. Further enhancement of the bridge would have to be raised with senior management at Euroclear. The Chairman said that the ERC would send a letter to the two ICSDs setting out

its support for development of the model but also emphasising that the ERC would like Euroclear and Clearstream to consider what more can be done to enhance the bridge.

3. Credit Claims

The Chairman said that he had met with Martin Scheck, Lee Goss, Lisa Cleary and David Hiscock to discuss the project. ICMA are of the view that a high-level steering committee, including the ICSDs, the lenders and ERC members, should be set up to look at how best to take forward the project. Committee members were asked to put forward names of those who might be interested in sitting on the steering group to Ms. Cleary. Ms. Cleary noted that she would circulate a high-level paper about the project to Committee members to facilitate discussions within their firms.

Mr. Wilkin noted that whilst the ICSDs are continuing to develop practices, such as the numbering of loans, which help provide the foundations for this project, their work on the envisaged combined credit claims database is not particularly advanced. A model has been developed that could be satisfactory from the ECB perspective, but this is a model on paper only. Mr. Awan noted that development of the database would cost in the region of €4 million. This significant cost dictates that there be significant commitment from the industry before any product development can proceed.

Committee members noted that it was important that the model include the UK, even though it is not part of the Eurozone. The Bank of England also accepts non-sterling collateral. It would be important to look at all asset classes. It was also recognised that more needs to be done to bring the loan market on board as loan officers will need to adjust to considerable changes in order for the market to develop (e.g., amendments to documentation standardisation, dematerialisation, improvements in settlement (which is currently T+30 for some loans) etc.) whereas, the adjustments on the repo side would be minimal. The Committee accepted that the project needs buy-in from the market. There is a continuing disconnect between the ERC Committee (which is seeking to continue with the project) and the loan side of member firms. The high-level steering group, suggested by ICMA should be a step in the right direction.

4. Minutes of the previous meeting

The draft minutes of the last meeting, held on April 25th 2012 in London were unanimously approved by the committee without comment. The minutes will now be published on the ICMA website with unrestricted access.

5. Haircut data

Mr. Richard Comotto said that he had carried out a selective survey on haircuts. The survey showed that a minimum haircut of 0% (i.e., no haircut) was fairly common. Many other minimum haircuts start at 1% - 2%. The highest minimum haircut was 12%. The highest maximum haircut was 50%. Haircuts were bigger for hedge funds. Haircuts on collateral from some countries were typically greater than collateral from other countries. Haircuts were more sensitive to collateral and counterparty for less risky securities. Haircuts for risky collateral seemed more broadbrush. It should be emphasised that the data is very

impressionistic and there are some areas where there are anomalies. Some categories of collateral and counterparty will need to be clarified. Mr. Comotto will circulate a paper for comment. The intention is to incorporate the haircut survey into the main repo survey.

The tri-party agents are also attempting to provide average haircut data and it is hoped that this data will arrive shortly as part of the June 2012 semi-annual survey.

The Committee felt that the ideal scenario is to obtain data about the haircut levels of actual trades rather than indicative trades. On the bilateral side, it would be helpful to have trade data, but the logical extension of this would be a trade repository. It was agreed that before publishing the haircut data from the survey Mr. Comotto will hold a conference call with interested Committee members.

6. Development of a trade repository for repo

The Chairman said that he had had discussions with some central bankers. Central Banks are looking to create a global trade repository through the Committee on Payment and Settlement Systems (CPSS), currently chaired by Paul Tucker of the Bank of England. Their aim is to ensure that any global repository will not duplicate national efforts. The Chairman is seeking to contribute to a meeting prior to the summer holidays that will include members of the Committee, ERC Operations Group, ISDA, and the FSB's David Rule. It would be advantageous for collateral swaps practitioners to participate as well. The meeting will focus on the data the FSB and the Central Banks would want and how it can be delivered.

7. Composition of LCR Baskets

Mr. Andreas Biewald said that he had attended the last meeting of the EBA sub-group on liquidity. The group has not yet developed a common view on asset classes. It is also becoming increasingly likely that the sub-group will not design a database of eligible ISINs, which would make it easy for market practitioners. Instead, the group is taking the view that it is not the EBA's role to define what is and what is not liquid but rather this is a role for the market. Nevertheless, the EBA now understands that the market needs more guidance than just the brief definition set out in the Basle III text "[International framework for liquidity risk measurement, standards and monitoring](#)".¹

It was noted that the UK's Bank of England had announced that in relation to certain foreign currency OTC derivatives transactions undertaken by the Bank, it would expand the range of collateral provided to include foreign currency securities.

8. LCH.Clearnet Limited and LCH.Clearnet SA

Mr. Sylvain Bojic said that he had met with Mr. John Burke. Mr. Burke will now oversee both LCH.Clearnet SA and LCH.Clearnet Limited's business and act as a single point of contact with market participants. The issues regarding the buy-in rules and fail penalties had been raised with Mr. Burke who indicated that he was happy to look at unresolved issues such the default fund for Repoclear. He will set up a workshop to look at the various operational issues.

¹ Alternatively, see <http://www.bis.org/publ/bcbs188.pdf>,

Mr. Stephen Malekian noted that on the issue of the use of the full versus flat price of collateral, progress is being made. LCH's IT systems need to be programmed to accept the change. However, LCH wants a "critical mass" of members to have signed the new documentation before switching to dirty valuation. LCH has indicated that they are waiting for the various legal departments of member firms to get back to them with their agreements. However, the legal teams of some member firms have concerns about the robustness of the new documentation. In particular there are concerns with the language in the dirty pricing section not being water tight and there is a lack of certainty about the circumstances in which firms would get their collateral back. Mr. Malekian requested Committee members to chase not only LCH but also their in-house legal teams to get back to LCH as soon as possible.

Mr. Bojic noted that the fails penalty paper he had drafted had been considered by the ERC Operations Group in terms of whether its implementation would be feasible. However, Mr. Tony Platt noted that the Operations Group had started discussing the issue, but the discussions had not yet been concluded and this issue would be discussed further at the next Operations Group meeting. Once ERC Operations Group has formed a view, the paper will be discussed again by the Committee.

9. ERC Operations Group update

Mr. Platt noted that, with Nicholas Hamilton, he had been involved in the discussions about a trade repository for repo. Should a trade repository be created the Operations Group would look for opportunities to create greater efficiencies, e.g., matching and affirmation of transactions.

The new repo margin practices guidelines had been published at the end of May. Mr. Platt reminded the Committee that ERC Committee firms were expected to be able to adopt the guidelines by the end of June 2012. However, a recent poll of ERC Operations Group firms indicated mixed stages of readiness to adopt the guidelines, with few firms having the systemic capability to take account of the settlement status of trades. In the wider repo market, the vast majority of firms have no such systems. Accordingly, most of the market will apply the new guidelines on a case-by-case basis. The Operations Group will continue to sponsor the guidelines.

Turning to the topic of credit claims, Mr. Platt noted that very few Operations Group members were receiving any form of enthusiastic feedback from within their firms to take the project forward.

Regarding matching and affirmations, the Group had set out a request for information to various third-party vendors. Work was progressing in this regard.

At the Operations Group meeting in May, the Group had considered the enhancements being proposed to the Monte Titoli platform. A suite of enhancements are planned and the Operations Group continue to monitor progress.

The next meeting of the Operations Group is scheduled for 11 July. The ECB has been invited to attend the meeting to discuss the ERC Operations Group response to the Task

Force on adaptation to cross-CSD settlement in T2S (TFAX) mini-consultation. The meeting will focus on TFAX issues relating to repo transactions.

10. CSD Regulation

The proposed CSD Regulation was published by the Commission in May and has now passed to the European Parliament and Council for negotiation. The Chairman said that he, with Mr. John Serocold, had met Commission officials in Brussels to discuss concerns with the proposed Regulation. Mr. Serocold was putting together a paper to be sent to Ms. Kay Swinburne in advance of 12 July when Ms. Swinburne is believed to publish her draft report.

The paper being drafted by Mr. Serocold will outline that the use of mandatory buy-in by no later than intended settlement date+4 in the CSD Regulation is far from ideal, also considering that the markets will be shifting to T+2 by the end of 2013. Moreover, the introduction of T2S in 2015/16 will change the whole landscape such that buy-in rules should not be necessary. Accordingly, it would be better for the European Commission to consider the sequencing of forthcoming legislation and existing project milestones before introducing an elaborate scheme of fails and penalties. In this regard, it would be better to monitor the introduction of a T+2 settlement period, followed by the introduction of T2S. If a significant number of fails continue to exist after this time, the Commission should then investigate further and consider the extent to which a proportionate buy-in regime would resolve the issues. This investigation should include all interest parties, including the ERC.

11. Regulatory update

Mr. David Hiscock said that a [response](#) had been sent to the FSB's consultation on shadow banking and [a similar response](#) sent to the Commission's Green Paper. Both responses pointed heavily to [Mr. Comotto's two papers](#) addressing shadow banking; one on haircuts and the other on the role of repo in the capital markets and transparency. The ERC is continuing to actively engage with regulators, especially in relation to discussions on a trade repository for repo.

After an extended delay, the Commission has published a legislative proposal for bank recovery and resolution. Of particular note are the proposals regarding bail-in and temporary stays. It is proposed that the resolution authorities should have the power to bail-in all the liabilities of the failing institution. However, there are some liabilities that would be excluded ex ante (such as secured liabilities, covered deposits and liabilities with a residual maturity of less than one month). Secured liabilities are defined to include liabilities arising from repurchase transactions and other title transfer collateral arrangements. It is proposed that bail-in powers will apply to any part of a secured liability or a liability for which collateral has been pledged that exceeds the value of the assets, pledge, lien or collateral against which it is secured. A power is also proposed to allow resolution authorities to impose a temporary stay on the exercise by creditors and counterparties of rights to enforce claims and close out, accelerate or otherwise terminate contracts against a failing institution. Such a temporary suspension would last no longer than 5pm on the next business day. This is intended to give authorities a period of time to identify and value those contracts that need to be transferred to a solvent third party, under the safeguard that linked arrangements must either all be transferred, or not at all. Mr. Hiscock added that the Secretariat would also continue to monitor the proposals from the legal side to consider if

any drafting changes need to be made to the GMRA once the legislative proposals have been finalised.

Finally, Mr. Hiscock noted that the draft securities law directive and the close-out netting directive are expected to be published by the end of the year.

12. Legal Update

Ms. Lisa Cleary said that the 2012 legal opinion update had been completed successfully. In order to provide counsel with additional drafting time, she is now trying to move the timetable forward for the legal opinion exercise. She requested Committee members provide any comments on the legal opinion proforma and the jurisdiction and counterparty coverage of the opinions before September.

The SLRC had has a request from the German Banking Association to insert a call provision into Appendix 2.

13. Calculation of interest in floating rate repos

Mr. Comotto noted that there had been no further comments on the paper. It was agreed that the paper should be placed on the ICMA website. Mr. Comotto will also give a presentation on the calculation of interest in floating rate repos at the next European Repo Council General Meeting, to be held in September.

14. Repo Code of Conduct

It was noted that no progress had been made on the draft Code. This will be tabled for the next Committee meeting.

15. AOB and upcoming dates

The Chairman had circulated a letter from the EBF regarding the trademark registration of a new repo effective fixing. There were no comments on the letter.

Mr. David Hiscock noted that there has been a call for a renewed cooperation between ICMA and SIFMA in the US, with the sharing of minutes on repo related issues between the two trade associations and potential secretariat dial-in participation in each other's repo meetings.

Upcoming dates: As discussed in the meeting, there will be an ERC conference call mid-summer to discuss the haircut survey. Additionally, the following dates are relevant:

- The next **European Repo Council** general meeting will be held in the afternoon on Thursday, September 27th in London, hosted by Nomura at 1 Angel Lane, London, EC4R 3AB.

- The next **ERC Committee** Meeting will be held on Tuesday, October 9th 2012 at 2:00pm, hosted by HSBC in London.
- The next **Professional Repo and Collateral Management Course** will be held on November 20 – 21 in London, hosted by Fitch.