International
Capital
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Association

ICMA

Minutes of the European Repo Committee meeting held on 4 December, 2012 in London

Present:	Mr. Godfried De Vidts	ICAP (Chairman)
	Mr. Herminio Crespo Urena	BANKIA
	Mr. Grigorios Markouizos	Citigroup
	Mr. Andreas Biewald	Commerzbank
	Mr. Romain Dumas	Credit Suisse
	Mr. Tony Baldwin	Daiwa Capital Markets
	Mr. Ronan Rowley	Deutsche Bank
	Mr. Olly Benkert	Goldman Sachs
	Mr. Jean-Michel Meyer	HSBC
	Mr. Stefano Bellani	JP Morgan
	Mr. Edward McAleer	Morgan Stanley
	Mr. Ulf Bacher	Newedge Group
	Mr. Michel Semaan	Nomura
	Mr. Sylvain Bojic	Société Générale
	Mr. Guido Stroemer	UBS
	Mr. Eduard Cia	UniCredit Bank AG
On the phone:		
	Mr. Eugene McGrory	BNP Paribas
	Ms. Heike Eckert	Eurex Clearing
	Mr. Stefan Knoblauch	Eurex Clearing
	Mr. John Serocold	ICMA
Also Present:	Mr. Antonio Gioffredi	CC&G (for item 1)
	Mr. Francois Cadario	LCH.Clearnet (for item 1)
	Mr. Jean-Robert Wilkin	Clearstream (for item 1)
	Mr. Saheed Awan	Euroclear (for item 1)
	Mr. Cedric Gillerot	Euroclear (for item 1)
	Mr. Benjamin Hanssens	European Central Bank (for item 1)
	Mr. John Edwards	BrokerTec (for item 2)
	Mr. Robert Walton	BrokerTec (for item 2)
	Mr. Oliver Clark	MTS (for item 2)
	Mr. David Laredo	Danske Bank (for item 2)
	Mr. Oscar Huettner	Equilend (for item 4)
	Mr. Jonathan Hodder	Equilend (for item 4)
	Ms. Nimisha Patel	Equilend (for item 4)
	Mr. Tony Platt	Morgan Stanley (Chairman ERC Ops)
	Mr. Richard Comotto	ICMA Centre
	Ms. Lalitha Colaco-Henry	ICMA (Secretary)
	Mr. David Hiscock	ICMA

	Ms. Lisa Cleary	ICMA
Apologies:	Mr. Simon Kipping	Bank of America Merrill Lynch
	Mr. Stephen Malekian	Barclays Capital

Welcome by the Chairman

The Chairman welcomed the Committee and guests to the meeting, with a particular welcome to Mr. Benjamin Hanssens of the European Central Bank (ECB).

1. Update on Interoperability between the ICSDs and their Collateral Management Systems

The Chairman noted that the ERC had advocated for a long time the need to make certain that the market is fluid (as evidenced by the recent Collateral Initiatives Coordination Forum (CICF) White paper on collateral fluidity). The ERC sees collateral fluidity as a significant priority for market participants. At the June meeting of the ERC, the ICSDs had presented the triparty settlement interoperability model that had been discussed with the five fixed income CCPs and it had been understood by all at that meeting that the CCPs were ready to sign-up to developing the model in conjunction with the ICSDs. Subsequently, Mr. Rory Cunningham had said, on behalf of the European Association of CCP Clearing Houses (EACH) at the November COGESI meeting, that none of the fixed income CCPs could see a business case to endorse the project. The Chairman reiterated his disappointment with this outcome, especially given the amount of time, effort and money that had been spent by the ICSDs to develop and build the model. Accordingly, he was at a loss to understand why the CCPS were not interested, given their earlier commitment made in June. The Chairman went on to say that the ECB had strongly rejected the CCPs argument. Regulatory developments may likely mean that repo may be required to be centrally cleared and reported to a trade repository.

Mr. Antonio Gioffredi of CC&G said that at the March meeting between the CCPs and the ICSDs, it had been decided that each CCP would need to verify the model internally as well as consult with market participants about whether there was a business case for proceeding. Having completed such internal and external consultation, CC&G had verified that there is currently no immediate business case on which to proceed. However, CC&G is in contact with market participants with the scope to define a feasible "road map" to go ahead with the project.

Ms. Heike Eckert of Eurex Clearing said that it had been understood at the June meeting that the triparty settlement interoperability project was dependent on bridge improvements. However, Mr. Saheed Awan said that he had made clear at the June meeting that further improvements to the Bridge were not something that he could commit to at the present time and that the CCPs had nevertheless agreed to proceed on the basis of the current limitations to the Bridge. The Chairman also noted that the ICSDs had committed to improve the Bridge over time and re-iterated that, in the mean-time, the Bridge has interoperability till 2pm CET. Mr. Jean-Robert Wilkin added that Bridge enhancement should also depend on the CCPs' GC products requirements, so that Triparty Agents can service the existing GC Baskets products of CCPs in a similar way either internally within their own settlement systems or in an interoperable manner across ICSDs.

Ms. Eckert stressed her different understanding of the earlier discussions on bridge improvements as there are strong dependencies on how potential CCP interoperability would be implemented at Eurex Clearing and subsequently the perceived business potential. She indicated that therefore Eurex Clearing also required commitment from the industry that the product will be used, in order to support the business case.

Mr. Francois Cadario said that LCH.Clearnet had undertaken a major project with Euroclear regarding the intraoperability of CMS, which may be one way forward. The interoperability of CMS is needed in order to make it possible for CCPs to take the triparty settlement interoperability model forward. The Chairman asked why it was so difficult to connect the CCPs to the ICSDS. Arguably, the “difficulties” are solely due to the CCPs seeking to maintain domestic barriers. However, by doing so, the CCPs effectively stop the ECB from effectively carrying out its monetary policies in the way it wants.

Mr. Stefan Knoblauch said that the problem partly lies with the model chosen by the ICSDs and the ERC, which would require the CCPs to migrate from the current communications environment to another. They would also have to manage the balances into the CCP and would have to perform position management as well as talk to the ICSDs in order to properly carry out adequate collateral management and risk management protocols. This would amount to the building of a brand-new infrastructure. However, the Chairman noted that it was strange that this could be done for securities lending but not for repo. Mr. Knoblauch stated that the current securities lending model was also not an interoperable model between the ICSDs. The Chairman invited Eurex to the next meeting of the ERC in January.

Committee members indicated that all market participants have the same desire to see that triparty settlement interoperability is taken forward. There were also calls for the ECB to take a more active role and require organisations to brand themselves as CCPs only if they are able to offer mutli-jurisdictional settlement. It was noted that T2S will help further settlement interoperability, but will not solve the underlying problems. T2S will also mean that market participants can request that regulators work to ensure free choice of settlement venue.

Mr. Tony Platt said that, from an operations perspective, the requirements of the ERC have not changed and that the level of complexity being discussed by the CCPs had not been raised previously. Additionally, all the firms around the table are required to make business cases for the projects they want to undertake. However, from an industry perspective, the shortage of collateral means that all market participants need to work together. Mr. Knoblauch indicated that they were prepared to do this, but that it would cost a lot of money and therefore it was important to sit with a number of major banks to ensure an adequate business case. The Committee asked why the CCPs are so reluctant to accept that there is a business case, when the ERC is telling them that not only does such a business case exist, but that the business case is very strong for all the banks in the ERC, which represents the largest players in the repo market. The current model presents significant difficulties and accordingly, the banks would like to see the triparty settlement interoperability model developed.

2. RepoFunds Rate presentation by BrokerTec and MTS

2(a) The new BrokerTec/MTS RepoFunds Rate index initiative

Mr. John Edwards, Mr. Robert Walton and Mr. Oliver Clark gave a presentation on the new BrokerTec/MTS RepoFunds Rate index initiative.

The RepoFunds Rate comprises a series of daily indices calculated from trades executed on BrokerTec and/or MTS. These are based on a common settlement date and will include all Overnight, Tom-Next and Spot-Next trades in both General Collateral (GC) and filtered specifics in order to more accurately reflect the effective cost of Repo funding. Mr. Walton said that the intention with the RepoFunds Rate was to provide coverage of three repo markets - Germany, France and Italy. There were a number of things they had set out to do when designing the indices. First, they wanted to ensure that they were trade-backed. Second, they needed to be transparent i.e. centrally cleared and electronically traded on BrokerTec and MTS. Third, the indices needed to be replicable so that traders could trade against them. Fourth, the indices needed to be independent. This last point was strongly emphasised by the traders they had talked to.

They had also begun by looking solely at GC but found that GC volumes alone were too low. For example, GC amounts to approximately 6% of trades in Germany while specifics account for the rest of the market. In Italy, GC amounts to 25%. However, specifics can raise a problem. They tried a number of approaches to address these problems and eventually solved for them by deleting approximately 25% of trades using a simple algorithm in order to remove asymmetric outliers, leaving a standard deviation for the included specific trades of typically 2bps or less (although this will vary according to market conditions). RepoFunds Rate will also publish volumes. The data is being published for free on an unrestricted page on Bloomberg. There will also be an unrestricted page on Reuters shortly.

The Chairman noted that the feedback from Frankfurt had indicated that the RepoFunds Rate product may be a solution to replacing Eonia, where volumes are going down.

2(b) the easy to borrow issue re: short selling

On the easy to borrow issue, Mr. Edwards mentioned that both BrokerTec and MTS had been approached by a number of people about the short selling regulation and whether they would come up with a standardised template regarding easy to borrow securities. BrokerTec have an “easy to borrow” solution but were looking to develop something that would work for everyone. They were seeking views from the ERC. While there was some support for the idea amongst the Committee, it was also felt that obtaining regulatory sign-off for a specific template may mean that firms could be forced to use the template and that non-use of the template could be regarded by regulators as not satisfying the regulatory requirements. For this reason, it was decided that each firm should develop their own template, which was what many firms are already doing. For those looking at a vendor solution the cost of developments will need to be borne individually

3. French Collateralisation of credit claims project

This item was postponed.

4. Presentation on DataLend

Mr. Oscar Huettner, Mr. Jonathan Hodder and Ms. Nimisha Patel gave a presentation on DataLend.

Mr. Huettner gave a short presentation on EquiLend's capabilities and went on to note that both EquiLend and its fixed income service BondLend operate as automated securities finance platforms. The data obtained through these platforms is used by DataLend - a market data service which provides global securities lending and repo statistics on a market-wide, sector-wide and individual security level. DataLend operates independently of EquiLend and BondLend and relies on participants to provide trade level data which DataLend then aggregates. Currently 14 firms submit daily files that detail their securities lending (borrowing) activity. There is no requirement for a client to use either the EquiLend or BondLend trading platform in order to contribute data to DataLend. The system operates exclusively on a "give to get" model – such that a firm has to contribute data in order to receive market statistics. There is a total aggregate inventory worth $7.8 trillion, which represents both securities currently on loan and securities which are available for loan. DataLend publishes prices on a T+1 basis and the data can be sorted in a variety of ways.

Hr. Huettner said that EquiLend is seeking to capture more wholesale flow. Currently eight ERC members contribute data to the service. He urged more ERC Committee members to consider contributing complimentary data on their repo trades in the European market. There would be no requirement that trade flow be shifted to BondLend in order for a firm to participate in the DataLend service.

Hr. Huettner went on to suggest that the DataLend service could also be used to help Mr. Comotto with the semi-annual repo survey. The current repo survey deals with aggregate statistics rather than individual securities. However, raw data could be given to EquiLend which would allow the data to be analysed in a variety of ways on an extremely timely basis. While the ERC survey is designed to provide market-wide data, DataLend does have the ability to publish statistics on individual securities if required. However, the "give to get" model would mean that such data could only be provided to clients of DataLend. The Committee also recognised that there would be a fee associated with moving the survey to DataLend.

5. Minutes of the previous meeting

The draft minutes of the last meeting, held on October 11th 2012 in Frankfurt were unanimously approved by the committee without comment. These minutes will now be published on the ICMA website with unrestricted access.

6. Libor and related indices

This item was postponed.

7. Report re ad hoc COGESI meeting

The Chairman noted that the COGESI meeting had discussed collateral harmonisation and the need to move away from domestic markets in collateral. The ECB was unhappy with the CCP view that they do not want to take forward the triparty settlement interoperability project. It was agreed that a gap analysis on collateral would be completed by January. There was also discussion about cut-off times. In the framework of T2S and T+2 the market needs to consider whether it really wants a cut-off time of 5:00pm CET with same-day settlement. Accordingly, there are three workstreams being taken forward. It was also noted that the removal of the repatriation requirement will happen in 2014 for central bank transactions. Finally, the need for central banks to be more involved in regulatory initiatives such as MiFID was highlighted as MiFID will impact on the ECB significantly.

8. Repo fails, including under negative interest rate scenarios

Mr. Richard Comotto said that a draft paper had been drawn up regarding negative rate conditions. One of the possibilities is that if a party fails to deliver then some sort of cost should be passed onto the failing party. It may be possible to use the TMPG rate, the GC rate or some proxy based on the specials rate as a penalty. Mr. Comotto has received data from Euroclear and will continue to refine the paper. There may be scope for an ICMA recommendation.

9. ERC Operations Group Update

Mr. Tony Platt said that many of the issues the group had been looking at, such as triparty settlement interoperability and repo fails, had already been covered in the meeting.

10. Monte Titoli

This item was postponed.

11. ECB repo facility

The Chairman said that the ECBs Outright Money Transactions (OMT) could squeeze markets more than is optimal and affect both cash and repo markets in specific government securities. AFME's EPDA and the ERC have jointly produced a document for the ECB outlining the issues to be taken into account if such an ECB repo facility were to be considered by the central bank. Given the short time available for this project a limited number of the ERC Committee have been involved in this project and further updates will be provided to the group in due course.

12. Repo database / repository

The Chairman noted that the ECB had held a workshop "Repo market and securities lending: towards an EU database" on December 3rd, chaired by the Vice-President of the ECB, Mr. Vítor Constâncio. Discussions at the workshop revealed that the Commission is looking to prepare a paper by spring next year, while ESMA's Mr. Fabrizio Planta, who is responsible for looking at post-trade issues, is seeking a public utility trade repository. Mr. Planta's current thinking is that all data would need to be reported to such a repository with no exemptions. Notably, Mr. David Rule and the ECB have made clear that they only need a selected amount of data. Additionally, Mr. Andrew Hauser of the Bank of England had indicated that regulators and central banks should be clear about what data they actually want and need. Ms. Daniela Russo also noted the importance of consensus about the need for a trade repository but also stressed the need to use what already exists today. For example, significant amounts of data of interest to regulators and central banks is already channelled from the trading layer to payment and settlement systems. She also said that it is important to be sensitive to costs. Mr. Constâncio has said that he wants a trade repository for repo in the Eurozone by the end of 2013. Participation in this work will be widened beyond the ERC to other trade associations in the coming weeks, but the ERC will continue to play a significant role. It is anticipated that there will be further workshops in due course.

13. Regulatory update

Mr. David Hiscock said that the FSB had issued its consultation paper on shadow banking and there was a deadline of January 14th by which to provide comments. The FSB have put forward a series of recommendations. Mr. David Rule admits that the FSB is bringing together a diverse group of people from across the globe and not all accept the balanced view that is set out in the paper. Notably, the report makes clear that re-hypothecation is a securities lending issue that should not be read across to repo. Mr. Hiscock will produce a draft response and circulate it to the Committee for comment.

The European Commission has also indicated that in 2013 it will produce a further paper on Shadow Banking which will set out a European framework for shadow banking. The recommendations in the Commission paper may go beyond the FSB recommendations.

14. Securities Law Directive (Re-use versus re-hypothecation)

The Chairman noted that there is increasing interest in the long-running review of the Securities Law Directive. Ms. Lisa Cleary and Mr. Hiscock will be monitoring developments.

15. Composition of LCR Baskets

This item was postponed.

16. CCPs use of full/dirty price when crediting collateral posted to margin

This item was postponed.

17. Autoborrow rates

This item was postponed.

18. CNH Repo

Mr. Jean-Michel Meyer said that ASIFMA are developing an Annex concerning possible disruption in Asian markets. Clifford Chance has been commissioned to produce a draft Annex, which will be circulated in the next few days.

19. Repo Code of Conduct and Repo FAQs

It was agreed that Mr. Ronan Rowley and Mr. Ulf Bacher would provide comments on the draft Repo FAQ's paper. It was further agreed that Mr. Michel Semaan and Mr. Guido Stroemer would provide comments on the draft Repo Code of Conduct.

20. Criteria for membership of the European Repo Council

This item was postponed.

21. AOB and upcoming dates

There was some discussion about banks ceasing to contribute data to the EBF for the Euribor and Eurepo fixings. Banks are uncertain about who uses the Eurepo fixing and for what purposes. There is also a fear that if sufficient numbers of banks cease contributing data the continuation of the Eurepo fixing will be in doubt. This leads to concerns about the potential liabilities for those banks that continue to submit data. It was decided that a representative of the EBF should be invited to the next ERC Committee meeting.

It was noted that the next ERC Committee meeting will be held on January 16th in Luxembourg. There will be an ERC Council meeting, at which the annual elections will take place, on March 11th in Paris.

The Committee would like to express its thanks and appreciation for the dinner hosted by ICMA's Chief Executive, Mr. Martin Scheck, held after the Committee meeting.

The Chairman:	The Secretary:
Godfried De Vidts	Lalitha Colaco-Henry
Luxembourg, 16 January, 2013	