

Minutes of the European Repo Committee meeting held on 12 May, 2014 in Brussels

Present:	Mr. Godfried De Vidts	ICAP (Chairman)
	Mr. Constantino Toribo Garcia	Bankia
	Mr. Stephen Malekian	Barclays Capital
	Ms. Maria Arauzo Arranz	Caixabank
	Mr. Grigorios Markouizos	Citigroup
	Mr. Andreas Biewald	Commerzbank
	Mr. Ronan Rowley	Deutsche Bank
	Mr. Olly Benkert	Goldman Sachs
	Mr. Jean-Michel Meyer	HSBC
	Mr. Stefano Bellani	J.P. Morgan
	Mr. Ulf Bacher	Newedge Group
	Mr. Sylvain Bojic	Société Générale
	Mr. Eduard Cia	UniCredit Bank
On the phone:	Mr. Eugene McGrory	BNP Paribas
	Mr. Romain Dumas	Credit Suisse
	Mr. Tony Baldwin	Daiwa Capital Markets
	Mr. Guido Stroemer	UBS
	Mr. Nicholas Hamilton	JP Morgan (ERC Ops Group Chairman)
	Mr. Martin Scheck	ICMA (for item 3)
	Mr. John Serocold	ICMA
	Mr. Andy Hill	ICMA
	Ms. Lisa Cleary	ICMA
Also Present:	Mr. Michel Semaan	Nomura
	Mr. David Hiscock	ICMA
	Mr. Richard Comotto	ICMA Centre
	Ms. Lalitha Colaco Henry	ICMA (Secretary)
Apologies:	Mr. Ed McAleer	Morgan Stanley (IRC Co-Chairman)
	Mr. Andrea Masciovecchio	Intesa SanPaolo
	Mr. Andrew Dyson	ISLA

Welcome by the Chairman

The Chairman thanked Euroclear for kindly hosting the meeting and welcomed everyone in attendance and on the phone.

1. Triparty Settlement Interoperability (TSI)

The Chairman said that Eurex Clearing had proposed a new option for exposure management and the three TSI parties (Euroclear, Clearstream and Eurex Clearing) agreed to examine the detailed end-to-end business scenarios under this new exposure management model. On 1 April, in Workshop #7, the details of the new exposure management proposal were clarified, as well as its impacts on the TSI and specifically on the Collateral Management System (CMS) layer and the settlement layer. 27 different settlement scenarios for trades in EUR currency were analysed which highlighted a number of areas which would impact both T2S settlement and existing CMSs. On the basis of this workshop, the parties agreed to produce individually an impact assessment for the implementation of the TSI, the definition of (and agreement on) key structural working assumptions would be required. It was decided that this work would be led by Euroclear and Clearstream before being submitted to Eurex Clearing.

On 16 April, a call was held between Euroclear and Clearstream to create an initial overview on the structural working assumptions for the CMS layer. They held a further call on 24 April to continue the review of the booking models and to start creating an initial overview of the structural working assumptions for the settlement layer.

At Workshop #8, on 25 April, a far reaching set of structural working assumptions for the CMS and settlement layers were reviewed with Eurex Clearing, to form the basis for the TSI internal impact assessments. In addition, the TSI parties discussed the impacts of the new framework on the liquidity requirements of Eurex Clearing, the (I)CSDs and their members. The TSI parties also recognised the challenge of being able to deliver against the deadlines suggested in the draft COGESI report and the MoU.

Clearstream, Euroclear and Eurex Clearing will discuss how best to deliver against the COGESI and MoU deadlines at Workshop #9 on 2 June. They will also go through the results of their internal feasibility and impact assessments and discuss possible common implementation timelines and planning for the modifications required by the TSI model, with the objective to then share the outcome with the ECB and the ERC. There will also be a functional presentation of the TSI model and proposed Bridge enhancement to the ERC Operations Group in London on the week of 9 June. There will also be a formal joint update at the next ERC Committee meeting in Berlin on 17 June. It is clear that there has been considerable progress made to date.

2. Minutes of the previous meeting

The draft minutes of the last ERC Committee meeting, held on 4 March, 2014 in London, were unanimously approved without comment and accordingly will be published on the ICMA website.

3. Briefing on China

Mr. Scheck said that the ERC had previously provided a clear message that there was no appetite to duplicate the work of ASIFMA's Funding and Repo Committee and that ICMA and ASIFMA should work together in developing repo markets in Asia. After discussions with ASIFMA, it had been decided that Mr. Mushtaq Kapasi, Head of the ICMA representative office in Hong Kong would join ASIFMA's Funding and Repo Committee as an international adviser and committee member.

ASIFMA is currently considering developing an Asian repo best practices guide. In this regard, they had studied the ERC Guide to Best Practice in the European Repo Market at length. ICMA was discussing with them the extent to which the ERC Guide could be adapted to Asian markets.

ASIFMA is also putting together a collateral efficiency working group, which Mr. Kapasi is attending. At this stage, it is not clear what remit this group will have, but ICMA will keep the ERC informed of developments.

Finally, Mr. Scheck said that NAFMII, ASIFMA and ICMA are working together to run a repo course in Beijing later this year.

4. ERC Secured Benchmark Working Group update

Mr. Biewald said that the last meeting of the ERC/Euribor-EBF Secured Benchmark Working Group was held on 31 March. The group was now considering the feasibility of adopting a 3-day fixing based on the EONIA model. After the meeting, some progress had been made towards developing a new secured fixing based on a 3-day fixing and early analysis had shown that such a model was worth considering further. Additional work will need to be done to compare the two models that the Group have been looking at in order to cross-check the analysis and consider whether a 3-day fixing would address the needs of the banking community. Additionally, the EBF has started to consider the governance structure. The Chairman has also been asked to provide the names and contact details of the various repo trading platforms to the EBF. It is anticipated that a further meeting will be held in June.

5. What's next for repo?

The Chairman said that there are a number of regulatory work streams that mean the landscape for repo is changing. EMIR and Dodd-Frank have had a significant impact on clearing. The FSB shadow banking proposals may also affect the market. It is expected that the decline in the total value of outstanding repo contracts in the December 2013 survey (which showed that the market had shrunk by 8.2% from the June 2013 survey) will continue into the forthcoming June 2014 survey. This decline may be driven by the anticipation of future regulatory constraints on short-term wholesale funding. A significant element of the regulatory agenda has been to reduce the size of the banks. The shrinkage in the repo market may be an indication that these regulatory aims are working. At the same time, US regulatory authorities have said that the historical segregation between the buy-side and the sell-side must end. Accordingly, it is likely that a similar push will be seen in Europe in the coming years. The Chairman also noted that he has been approached by a number of buy-side firms who are interested in becoming members of the European Repo Council.

Section 1000 of the ICMA Rulebook¹ sets out the rules that govern admission to the European Repo Council. In particular, any applicant seeking membership of the European Repo Council, must fulfil certain criteria, including:

Rule 1003.5.2 - the applicant has, or has undertaken to commence, a dedicated repo activity;

¹ Alternatively, see: <http://icmagroup.org/Regulatory-Policy-and-Market-Practice/Secondary-Markets/ICMA-Rule-Book/ICMA-Rule-Book-2/>

Rule 1003.5.5 - the applicant has sufficient professional expertise, financial standing, and technical resources to meet its obligations as a member of the International Repo Council;
Rule 1003.5 - there are no other exceptional reasons why the applicant should not be admitted.

The Secretary said that there are currently two categories of firm admitted to the European Repo Council – full members and associate members. The type of membership that a firm has is dependent on whether they are a full member or an associate member of ICMA. Therefore, an associate member of ICMA would become an associate member of the European Repo Council, assuming that they satisfied the admission criteria set out in Section 1000. All members of the European Repo Council are entitled to vote in the annual ERC Committee elections, irrespective of whether they are full or associate members. The only distinction between full and associate members of the European Repo Council is that employees of associate members are not able to stand for election to the European Repo Committee. At present, the European Repo Council has 73 members of whom three are buy-side members and five are associate members.

The idea of having more buy-side members of the Council was welcomed by the Committee particularly if this reflects the prevailing market profile/makeup. It was felt that one way of encouraging buy-side involvement might be to have a representative from ICMA's Asset Management and Investors Council (AMIC) attend ERC meetings and vice versa. The Chairman said that he would meet with ICMA to discuss how best to take this issue forward.

As it is becoming increasingly clear that liquidity is getting tighter Mr. Hill is carrying out a quantitative study on the impact of regulations on liquidity in the European repo market. The aim of the study is to quantitatively illustrate the potential impacts on liquidity and market distortions in the European repo market around regulatory reporting dates. It is notable that Mr. Jacques de Larosière had recently warned regulators that the tide of regulatory reform was of such significance as to impact the real economy.

6. Migration to T+2

Mr. Serocold said that this issue was raised at the ERC Operations Group meeting on 9 May. A draft communiqué had been prepared to go out to the market. Most of the DMOs will move to T+2 in January, with the possible exception of Spain who will move to T+2 in October. The Chairman undertook to speak to ICMA's Public Sector Issuer Forum about this issue. There was some discussion amongst Committee members about whether the move to T+2 would impact on overnight and tom-next volumes. A query was also raised about whether the GMRA provisions regarding open trades and callable trades, where there is a 2-day notice period, need to be amended. Ms. Cleary said she would review the relevant clauses.

7. ERC Operations Group update

Mr. Hamilton said that in respect of the COGESI/ERC Operations Group work on efficiency of settlement in commercial bank money and end of day cut-off times, the repo collateral paper had been published jointly with the EBF and the ECB. The paper had been well received. It covered six jurisdictions, both at the CCP and bilateral level. A number of key observations were detected that affected the timetable of end of day processing. Mr Comotto is leading the work, which is looking at improving end of day processing for treasury management, as well as times conducive to T2S.

Mr. Hamilton undertook to provide a progress update at the next ERC Committee meeting in June.

Regarding the high-level study on the impact of the roll-out of T2S for repo, Mr. Hamilton thanked ICMA for agreeing to fund the work by Rule Financial. Rule Financial will conduct a survey and will carry out a gap analysis, which will be discussed with Operations Group members. Rule Financial will then organise a workshop and webinar before making their final presentation at the European Repo Council meeting on 19 November.

On trade matching and affirmations, Mr. Hamilton noted that the six vendors had agreed to work with ICMA to help support and facilitate best practice in trade affirmation and matching. All six vendors had indicated their interest in this initiative. There will be a further meeting to take this work forward in June.

Turning to the subject of a repo trade repository, Mr. Hamilton said that there had been two follow-up meetings, one with the FSB and one with HM Treasury. These meetings had largely focused on the preferred methods of data collection and distribution. HM Treasury had said that regulatory initiatives at the European level are unlikely to be developed before 2014 Q3, if not further into 2015. In the meantime, the Operations Group are keen to explore life cycle management in the context of the trade repository workstream. The Chairman also noted that he had spoken to Ms. Daniela Russo who had said that when considering how to develop a trade repository for repo it would be important to learn from the introduction of trade repositories for derivatives. It will also be crucial to ensure that repo trading data is kept confidential.

Mr. Hamilton also noted that the ERC Guide to Best Practice in the European Repo Market, published in March 2014, would have to be reviewed in the light of the move to T+2. The Operations Group will work with Mr. Comotto and will seek the approval of the ERC Committee before publishing any amendments.

Another issue that the Operations Group had been considering concerned FpML (Financial product Markup language) which had been developed under the auspices of ISDA. The Operations Group's aim is to establish a messaging protocol for the Russian market that would be acceptable to the two Russian trade repositories.

8. Banque de France's Securitisation of Credit Claims project

The Chairman said that credit claims worth EUR 1.4 billion would be channelled via the project in the coming weeks after a first initial EUR 2 billion. Buy-side firms are said to be very interested in purchasing securitised credit claims.

9. ESMA Consultation on major shareholding notifications

The Secretary said that the ESMA Consultation on major shareholding notifications that was published at the end of March was largely equity focused. However, ESMA had published an indicative list of financial instruments that may be subject to notification requirements under the amended Transparency Directive. Repurchase agreements had been included on this indicative list. The question for the Committee was whether there was a need to respond to the ESMA consultation and if so, what the response should say.

The Committee felt that the ERC should send a response asking ESMA to clarify that the only repurchase agreements that would be notifiable would be those where the underlying collateral is equity securities to which voting rights attach and where there is an agreement between the repo buyer and the repo seller for the voting rights to be exercised by the buyer in accordance with the instructions of the seller. The Secretary undertook to circulate a draft response to the Committee for comment in advance of the consultation deadline of 30 May.

10. Legal update

Ms. Cleary said that the [draft GMRA FATCA language](#)² was now available on the ICMA website. The GMRA Review working group had developed a draft provision which considers withholding obligations under FATCA. The language remains subject to change and is provided for information only at this stage. It has not yet been adopted formally for use with the GMRA.

Work is continuing on a tri-party repo document. It is hoped that an outline document will be ready to circulate to the Committee in advance of the next meeting in June.

Finally, Ms. Cleary mentioned that if members had any GMRA-related questions regarding the impact of US sanctions on Russia, they should get in touch with her directly.

11. Regulatory Update

Mr. Serocold said that a revised version of ICMA's draft submission to the CSDR Discussion Paper had been circulated to the Committee and the ERC Operations Group the previous week. Members had been requested to provide comments by 21 May. It was noted that ICMA should reach out to AFME to ensure consistency in both associations' responses. The deadline for responding to the ESMA consultation is 22 May. There was some discussion about the issues surrounding the Level 1 text. It was broadly felt that the buy-in provisions for exempting some repo transactions, but not all, could be problematic, and that there was a good argument for delaying the implementation of mandatory buy-ins, at least until the successful implementation of T2S and a number of other initiatives to improve settlement efficiency. It was agreed that the Chairman and Mr. Bellani should meet with Italian regulators in advance of Italy taking over the Presidency of the EU in July.

Mr. Hiscock noted that a small delegation (Mr. Baldwin, Mr. Comotto, Mr. Dumas and Mr. Hiscock) had met with the FSB on 28 April to discuss haircuts for repos collateralised with sovereign bonds. The main messages delivered by the ERC delegation concerned the importance of comparing like with like when looking at practices in Europe versus the US and other markets; and the fact that credit line decisions underlie all repo business – with decisions on collateral and haircuts (zero or otherwise) being subsequent, complementary risk management steps. A short note about the meeting was circulated to the committee on 30 April.

On FTT, a joint statement by ministers from 10 participating countries was published on 6 May. The statement set out their intention to work on a progressive implementation of the FTT, focusing initially on the taxation of shares and certain derivatives. It is anticipated that the first steps

² Alternatively, see: <http://www.icmagroup.org/resources/fatca-information-resources/>

would be implemented by 1 January 2016. It is notable that Slovenia did not sign this latest statement.

Finally, it was noted that there is no further feedback on NSFR or on the leverage ratio.

12. AOB and upcoming dates

Future **European Repo Committee meetings** have been scheduled as follows:

- (1) **17 June 2014**, 3:00 – 6:00 (local time) – hosted by ISLA in the margins of ISLA’s 23rd Annual Securities Finance and Collateral Management Conference in Berlin; Please note that the time has changed (starting one hour later)
- (2) **26 September 2014** (timing to be confirmed) – hosted by UniCredit in Munich.

In addition, Committee members were asked to take note of:

- (3) **European Repo Council General Meeting** – 19 November 2014, 9:00 – 14:00 – hosted by MTS in London.

The Chairman:

The Secretary:

Godfried De Vidts
Berlin, 17 June, 2014

Lalitha Colaco-Henry