International
Capital
Market
Association

Minutes of the European Repo Committee meeting held on 4th March, 2014 in London

Present:	Mr. Godfried De Vidts	ICAP (Chairman)
	Mr. Constantino Toribo Garcia	Bankia
	Mr. Andy Goss	Barclays (alternate for Mr. Malekian)
	Ms. Maria Arauzo Arranz	Caixabank
	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	J.P. Morgan
	Mr. Ulf Bacher	Newedge Group
	Mr. Sylvain Bojic	Société Générale
	Mr. Guido Stroemer	UBS
	Mr. Eduard Cia	UniCredit Bank
On the phone:	Mr. Grigorios Markouizos	Citigroup
	Mr. Andrea Masciovecchio	Intesa SanPaolo
	Mr. Nicholas Hamilton	JP Morgan (ERC Ops Group Chairman)
	Mr. John Serocold	ICMA
Also Present:	Mr. John Burke	LCH.Clearnet (for item 1 only)
	Mr. Ed McAleer	Morgan Stanley (IRC Co-Chairman)
	Mr. Kevin McNulty	ISLA
	Mr. Richard Comotto	ICMA Centre
	Ms. Lalitha Colaco Henry	ICMA (Secretary)
	Mr. Andy Hill	ICMA
	Ms. Lisa Cleary	ICMA
Apologies:	Mr. Stephen Malekian	Barclays
	Mr. Eugene McGrory	BNP Paribas
	Mr. David Hiscock	ICMA
	Mr. Rajen Patel	formerly of Morgan Stanley

Welcome by the Chairman

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

1. LCH.Clearnet Term DBV service (Term £GC)

Mr. Burke noted that LCH.Clearnet has been going through a period of unprecedented change and investment. A new portal service has just been introduced and a raft of new developments will be going live in the coming weeks and months. The new portal will provide an access point for members to access a range of tools, including smart tools that will help to reduce margin. The RepoIQ service is a VaR model which has now received regulatory approval and is expected to go live in April. Linked to RepoIQ is a RepoCalc tool to review margin. For any trade that you would like to do, the RepoCalc tool will show you the margin before you trade. Mr. Burke also noted that LCH.Clearnet is developing a new collateral management service, Magma, for higher velocity collateral, and is also reviewing the feasibility of developing tools to assess stress test losses.

€GCPlus is interoperable between Euroclear Bank and Euroclear France. The go-live date is still to be considered but an announcement about the completion of the development will be issued shortly in the form of a joint press release with Euroclear. LCH.Clearnet is currently developing a new product called Term £GC that will go live on 20 August 2014. Term £GC trades will settle at Crest and will benefit the market by reducing the need for intra-day liquidity. Term £GC will replace the existing cleared £GC product and LCH.Clearnet expects the entire market to eventually switch over to Term £GC. New trades in the existing £GC will be accepted until December 2014 and then a back-stop date of May 2015 is being reviewed for the final transfer of any open LCH.Clearnet £GC trades to be switched into Term £GC trades

On regulation, EMIR has been a very significant issue for LCH.Clearnet, especially in relation to the amount of time consumed and the costs incurred. LCH.Clearnet undertook a tariff structure review, and the new pricing structure came into effect on 1st January, 2014. Under the old tariff structure, it was felt that too much income was being generated from treasury and that it would be better for LCH.Clearnet to move to a tariff structure that presented a smoother earnings profile. Accordingly, collateral management charges have gone down while an overall fee increase of 5.5% was included in the new tariff structure. The new tariff structure will be reviewed later in the year. The Committee felt that the 5.5% increase was unhelpful as it would push more trading into the bi-lateral space, especially for tom-next trading. This is not the way to move the market forward. There was also considerable scepticism expressed about the assertions being made by a number of CCPs that prices are being increased because of regulators. Mr. Burke said that while prices had risen by 5.5% members were able to access a wide range of new tools without having to pay extra. The Chairman emphasised that it was unacceptable that the market has to pay increased fees to LCH.Clearnet because of regulatory pressures (mandatory clearing).

The Chairman noted that the ERC has been working on interoperability between the two ICSDs for over ten years and that LCH.Clearnet's decision to bring only Euroclear into €GCPlus was unhelpful and created a new blockage in the system. Mr. Burke said that €GCPlus had taken a considerable amount of time and money to build. There was a need to cap further spending until LCH.Clearnet had generated some revenue and it was clear that the market was using the product. Once the service has established itself, it can then be developed further. The Chairman said that the COGESI report will be published in the next month. The ECB has recommended June 2015 for triparty settlement interoperability (TSI) and is putting pressure on the market to improve those parts of the infrastructure where there are inefficiencies which prevent trading or restrict the movement of securities on a day-to-day basis. The Chairman noted that both ICSDs would be invited to the June ERC Committee meeting to provide an update on TSI (this invitation has now been brought forward to the May ERC Committee meeting).

2. <u>Minutes of the previous meeting</u>

The draft minutes of the last ERC Committee meeting, held on 23rd January, 2014 in Berlin, were unanimously approved without comment and accordingly will be published on the ICMA website.

The Chairman noted that since the last Committee meeting, Mr. Patel had left Morgan Stanley. Section 1000 of the Rules provides that a Committee member who leaves his firm without immediately occupying a position with another European Repo Council member may remain on the Committee for three months. It was decided to review the situation at the next Committee meeting in May.

3. BCBS' Basle III Leverage Ratio

Mr. Hill had circulated two short papers on the final text[1] of the BCBS' Basle III Leverage Ratio published on 12th January, 2014 – one outlined the concerns with the text while the other set out a possible draft response to the Basle Committee. It was noted that footnote 22 of the final text is inconsistent with the netting requirement and, as drafted, would create settlement risk in the system. It was also noted that there is a need for clarity about the treatment of forward-starting SFTs under the final text.

The Committee felt that the BCBS FAQ might be the appropriate forum in which to raise the need for further clarity. In addition, Mr. Hill said that he would raise these issues at the European Commission's public hearing on the liquidity coverage requirement and leverage ratio, scheduled for 10th March.

4. Repo and asset encumbrance

a) EBA Consultation Paper on disclosure of encumbered and unencumbered assets

Mr. Hill noted that the ERC had previously refrained from responding to EBA consultations regarding asset encumbrance, but this latest consultation[2] from the EBA was a further opportunity to clarify that the securities that underlie repo transactions should not be regarded as encumbered. The Committee agreed that the ERC should respond to the consultation, in advance of the 20th March deadline. Mr. Hill would coordinate the ERC response and would liaise with ICMA's Asset Management and Investors Council (AMIC) and Financial Institution Issuer Forum (FIIF), both of whom were considering responding to the consultation.

b) Basle's Net Stable Funding Ratio Consultative paper

It was felt that the Basle Committee's Consultative Document on the Net Stable Funding[3] raised a number of issues. The consultation set out that SFTs should generally be excluded from the calculation of the RSF. Concern had been expressed that this exemption could be negated if certain types of SFTs, such as reverse repos, were treated as encumbered assets. Additionally, a more pressing point was raised regarding the treatment of SFTs with non-bank financial institutions. In this instance, reverse-repos would carry a RSF weighting of 50%. Furthermore, the weighting would not take account of the underlying asset, which is inconsistent with the LCR and would create a bias toward high-risk assets. The Committee agreed that the ERC should respond

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[1] Alternatively, see: http://www.bis.org/publ/bcbs270.htm
[2] Alternatively, see: http://www.eba.europa.eu/documents/10180/534767/EBA-CP-2013-48+%28Disclosure+of+asset+encumbrance%29.pdf
[3] Alternatively, see: http://www.bis.org/publ/bcbs271.htm

to the Consultation flagging these asymmetries and potential inconsistencies. Mr. Hill agreed to coordinate a response.

5. CSD Regulation, Article 7

Mr. Hamilton said that Article 7.3(e) applies to cash bonds but not to repo. However, there is the potential, in the Level 2 process, to interpret this provision so that repo is brought back within scope. The ERC Operations Group is maintaining a close watch and will raise concerns during the Level 2 negotiations, if required. The Chairman noted the need to keep a close eye on making sure that the relevant wording is inserted into the Level 2 provisions, to protect the primacy of the GMRA mini close-out provisions.

Mr. Hamilton said that the impact of the CSD Regulation on the provision of commercial bank money by the ICSDs, as set out in Mr. Comotto's study, was no longer an issue. However, there are sensitivities in the cash market with the compression from T+3 to T+2 and accordingly, there is a need to develop efficient processes in this area. The repo market was not included in the original design of T2S and the repo market is under-represented on the T2S Harmonisation Steering Group and the T+2 and Settlement Discipline Task Forces - the ERC is not included as a member of the Settlement Discipline Task Force (SDTF) and there are no repo experts in the group. The ECB has said that it is possible that an informal group may be set up to include additional participants but this has not yet been formalised. It is nevertheless worth trying to provide input to the SDTF through member firms as it is understood that OTC bonds fall within the remit of the T2S Harmonisation Steering Group.

The Chairman said that he is trying to get AFME and ICMA to focus on how the market should migrate to T+2. This is a matter that affects the trading community and it should not be for the ICSDs and CSDs to determine unilaterally. Unless well organised, the trading community will see an even more fragmented framework, not only for cash bond trading in government and corporate bonds in Euro (and other European currencies) but also for repo transactions. A large number of these transactions are executed electronically, so trading systems would also have to change. If trading were to fragment even more than what exists currently, the flow of business will be even more sub-optimal. It is of the utmost importance that the move to T+2 is well thought through and orderly. The ERC Operations Group will need to work with ICMA's Secondary Market Practices Committee to discuss this issue with the CCPs and trading venues to ensure that there is an optimal day for migration to T+2 (or T+1 for the funding market). The Chairman emphasised that ICMA's Secondary Market Rules will also need to be amended.

6. ERC Operations Group update

(a) COGESI/ERC Operations Group work on efficiency of settlement in commercial bank money and end of day cut-off times

Mr. Hamilton said that Mr. Comotto's work on the efficiency of settlement in commercial bank money and end of day cut-off times had been well received by COGESI. It has become increasingly clear that the bridge between the two ICSDs is in need of repair, but efforts are hampered by the poor sentiment that exists between the two organisations. Mr. Comotto's study sufficiently reinforces this view. Ms. Daniela Russo wants to pursue work in a number of areas.

(b) High-level study on the impact of the roll-out of T2S for repo

The Chairman and Mr. Hamilton have been in discussions with Rule Financial and ICMA to consider commissioning a high-level study on the impact of the roll-out of T2S for repo. All parties were now agreed about the need for the study and ICMA's executive committee are considering the funding for the project.

(c) Trade matching and affirmations
Mr. Hamilton said that Mr. Ingle and Ms. McKelvey (both of the ERC Operations Group) had been involved in discussions with the six vendors who had taken part in the Group's recent study, to discuss interoperability between the vendors and also ways of improving matching and affirmation in the repo space.

(d) Repo trade repository
Mr. Hamilton said that the FSB data experts group will meet on 17th March to discuss further a repo trade repository. It is hoped that the meeting will (i) build on the ERC Operations Group White Paper, produced in 2013, looking at data repositories from a repo perspective; and (ii) set out further details about the FSB's requirements for developing a repo trade repository. The timeframe for developing the repo trade repository will allow both regulators and market practitioners to take on board the lessons learnt from the introduction of trade repositories for OTC derivatives. Ms. Daniela Russo is leading work on trade repositories and has made clear that regulators and authorities must avoid a repeat of the problems that arose with the implementation of EMIR.

7. Triparty Settlement Interoperability

The Chairman said that by May the triparty agents, Eurex and the ICSDs, will present their plans. They have been asked to update the ERC at the 17th June Committee meeting (subsequently changed to May). There is also a need to inform the other CSDs and other CCPs. The October European Repo Council General Meeting may be the appropriate forum for this. (In a follow up the chairman is now working closely with the ECB to organise a special event to achieve this goal).

8. Update on the Collateral Fluidity paper

Mr. Hill said that the paper had been discussed at two workshops which had been immensely helpful and had led him to restructure the paper substantially. It is anticipated that a further draft will be ready for circulation on 12th March with a deadline of 17th March for comments. Mr. Hill is also considering whether to organise a further meeting with those who have already provided input, in advance of the Conference on 3rd April in Brussels.

9. FTT

The Chairman said that the position of repo under the current FTT proposals looks positive, but the situation for securities lending is not as clear. Mr. McNulty agreed and said that ISLA will be meeting with the ECB shortly. The ECB are currently drafting an Opinion for the European Council about exempting repo, and potentially securities lending, from the scope of the FTT. There is some concern that the ECB Opinion may not include an exemption for securities lending. It is anticipated that the ECB Opinion will be published in May.

10. Legal Update

Ms. Cleary said that the ERC Guide to Best Practice in the European Repo Market was due to be published imminently (5th March) but there was still an outstanding issue regarding the definition of a forward repo. The Committee agreed that, in practice, a forward repo should be T+4.[4]

There is a suggestion that ICMA develops an industry standard triparty repo document which could operate similarly to the Clearsteam Repurchase Conditions (CRC). Ms. Cleary said that while the CRC broadly follows the structure and mechanics of the GMRA, there are some notable differences. First, the CRC is governed by Luxembourg law and operates within the structure of Clearstream's collateral management system. Another feature of interest is the CRC's substitutions mechanism. Ms. Cleary had discussed the CRC with a number of market participants, particularly in legal and compliance functions. Concerns were raised about using any 'lite' version of a repo master agreement. Whilst the desire to streamline documentation is understood, firms undertake thorough risk analysis from a credit, tax, capital adequacy and securities legislation perspective in order to finesse their repo master agreement documentation. Firms have their own bespoke requirements and variations which are adopted on the basis of jurisdiction or counterparty type. A standardised agreement which cannot be varied is unlikely to be agreeable.

Ms. Cleary said that ICMA would investigate the idea of developing an industry standard triparty repo document further. It is to be understood that this would be an ICMA project based on the industry standard bilateral GMRA but that the resulting document would be required to interact with the relevant triparty service providers systems and services.

Finally, Ms. Cleary reminded the Committee that coverage of the 1995 GMRA would cease in the 2016 legal opinions. It was agreed that this would need to be highlighted at the October European Repo Council General Meeting.

11. Regulatory update

Mr. Richards said that ICMA's Market Practice and Regulatory Policy Department produces a regulatory grid which is updated periodically. The grid is then circulated, in confidence, to ICMA's Board and ICMA's Public Sector Issuer Forum. The Secretary agreed to circulate the latest draft to the Committee, in confidence.

12. AOB and upcoming dates

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

(1) **12th May 2014**, 12:00 pm – 3:00 pm - hosted by Euroclear in the margins of the Euroclear Collateral Conference 2014 in Brussels (note that a buffet lunch will be served);
(2) **17th June 2014**, 2:00 pm – hosted by ISLA in the margins of ISLA's 23rd Annual Securities Finance and Collateral Management Conference in Berlin;
(3) **Mid – end September 2014** (date and timing to be confirmed) – hosted by UniCredit in Munich (the "beerfeste meeting").

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[4] The Guide has now been published and can be accessed from: http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/short-term-markets/Repo-Markets/repo0/

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

(4) "**New Regulation and Collateral Fluidity: The Systemic Risks of Inhibiting Collateral Fluidity" Conference** – 3rd April 2014, 9:30 – 16:00 organised by the ERC and hosted by the EBF in Brussels;
(5) **European Repo Council General Meeting** – 7th October 2014, 9:00 – 14:00 – hosted by MTS in London (further details to be confirmed).

The Chairman:	The Secretary:
Godfried De Vidts	Lalitha Colaco-Henry
Brussels, 12th May, 2014	