

**Minutes of the European Repo Committee meeting held on 17 June, 2014 in Berlin**

Present:	Mr. Godfried De Vidts	ICAP (Chairman)
	Mr. Constantino Toribo Garcia	Bankia
	Mr. Stephen Malekian	Barclays Capital
	Mr. Eugene McGrory	BNP Paribas
	Mr. Romain Dumas	Credit Suisse
	Mr. Andreas Biewald	Commerzbank
	Mr. Olly Benkert	Goldman Sachs
	Mr. Jean-Michel Meyer	HSBC
	Mr. Andrea Masciovecchio	Intesa SanPaolo
	Mr. Stefano Bellani	J.P. Morgan
	Mr. Ed McAleer	Morgan Stanley (IRC Co-Chairman)
	Mr. Ulf Bacher	Newedge Group
	Mr. Sylvain Bojic	Société Générale
	Mr. Eduard Cia	UniCredit Bank
On the phone:	Mr. Tony Baldwin	Daiwa Capital Markets
	Mr. Ronan Rowley	Deutsche Bank
	Mr. Nicholas Hamilton	JP Morgan (ERC Ops Group Chairman)
	Mr. John Serocold	ICMA
	Ms. Lisa Cleary	ICMA
Also Present:	Mr. David Hiscock	ICMA
	Mr. Andy Hill	ICMA
	Ms. Lalitha Colaco Henry	ICMA (Secretary)
	Mr. Nathan Evans	SIX SIS AG (for item 1)
	Mr. Michael Bühler	SIX SIS AG (for item 1)
	Mr. Saheed Awan	Euroclear (for item 2 and 3)
	Mr. Jean-Robert Wilkin	Clearstream (for item 2)
	Mr. Stefan Knoblauch	Eurex Clearing (for item 2)
Apologies:	Ms. Maria Arauzo Arranz	Caixabank
	Mr. Grigorios Markouizos	Citigroup
	Mr. Michel Semaan	Nomura
	Mr. Guido Stroemer	UBS
	Mr. Richard Comotto	ICMA Centre

## **Welcome by the Chairman**

The Chairman thanked ISLA for kindly hosting the meeting in the margins of their annual conference and welcomed everyone in attendance and on the phone.

### **1. SIX SIS repo trading platform**

Mr. Evans said that in May 2013, SIX Group won the Swiss National Bank's (SNB) tendering process to develop the new Swiss Money Market. The mandate from the SNB was to create not only a trading platform but also to establish the market and act as a triparty agent. SIX SIS is currently renewing its triparty agent to offer sophisticated post-trade collateral management functionality. A new trading platform will also be launched in August 2015 with new contract types and enhanced trading workflow. SIX-Group is user-owned and user-governed. Efficiencies are passed back to users. SIX SIS is AA rated.

SIX Repo AG launched the Swiss money market trading platform for the interbank market and the SNB on 2 May 2014. It operates a classical tri-party repo market for bilateral trading in CHF and 13 non-CHF tradable repo markets. The bilateral market is not centrally cleared. The tri-party agent provides collateral management, risk management, transaction management and other value added services and is seen as an essential element of the Swiss financial market infrastructure. The SNB open market transactions are executed exclusively on the SIX Repo platform and include SNB Intraday Liquidity, SNB Liquidity Short Financing Facility, SNB repo auctions, GMBF auctions, Swiss government bond issuance and SNB Bills.

There are 12 collateral baskets including 6 new Basel III aligned High Quality Liquid Asset (HQLA) baskets. The baskets are owned and maintained by the SNB, and therefore the SNB verifies the basket ISINS satisfy the HQLA Basel III requirements.

This Swiss Money Market is currently around CHF 14 billion. At its peak during the financial crisis the market had an outstanding volume of over CHF 120 billion. There is growing volume in euro, dollar, Swiss franc and sterling currencies. The market is intrinsically interlinked with the SNB. There are approximately 150 participants, many of whom are Swiss private banks, who trade exclusively via the SIX platform. Currently the majority (~90%) of trading is done by 30 big firms. Approximately 70 participants are non-Swiss. SIX Repo AG is currently onboarding new market participants.

(Further information on the CH Repo market is available from [Nathan.evans@six-group.com](mailto:Nathan.evans@six-group.com) or [Michael.buehrer@six-group.com](mailto:Michael.buehrer@six-group.com))

### **2. Triparty Settlement Interoperability (TSI)**

Mr. Wilkin said that bridge enhancements are a pre-requisite for TSI. Accordingly, as part of the MoU, there are two workstreams: bridge enhancements and TSI. Bridge enhancement workshops had been set up and it had been agreed that the objective of bridge enhancement should be to (1) maximise the settlement window between the ICSDs to support increased same-day and intraday settlement activity; (2) move settlement windows and deadlines as close as possible to domestic cut-offs; and (3) support settlement interoperability for triparty repo products, with GC Pooling. Having reviewed the cut-off times, it had been agreed that deadlines could be improved as follows:

	Current Bridge input deadlines	T2S input deadlines	Enhanced Bridge input deadlines (indicative)	
Mandatory input deadline – Free and Against payment	13:00	16:00	Early European & Asian currencies	13:00 TBC
			EUR & GBP	15:30
			USD/CAD/MXN	TBC
Optional input deadline – Free and Against payment	15:00	17:40	All currencies	18:30 TBC
Optional input deadline – Free of Payment	16:00	18:00	All currencies	18:30 TBC

The timings (all in CET) set out on the right-side of the table (shaded) have been agreed by the ICSDs depending on validation by the ERC and other market participants. Settlement in commercial bank money needs to be aligned with T2S. The ICSDs want to introduce minimum mandatory settlement periods so that the deadline for all currencies would be 18:30, with the same deadline for free of payment. It has been decided not to apply real-time settlement between the two ICSDs but instead, they will speed up turnaround times on the bridge as follows:

	Current Bridge turnaround time	Proposed Bridge turnaround time
Mandatory cycle – Free and Against payment	60 mins – 120 mins	10 mins – 40 mins
Optional cycle – Free and Against payment	60 mins – 120 mins	10 mins – 40 mins
Optional cycle – Free of Payment	60 mins – 120 mins	10 mins – 40 mins

The ICSDs feel that the turnaround times can be reduced by faster matching (at least every 2 minutes compared with the current 30 minutes) and faster settlement file exchanges, with the ICSDs exchanging files every 10 minutes as opposed to the current 30 minutes. These faster turnaround times would represent a significant improvement on the current position. However, Eurex Clearing has indicated that the 30 minute turnaround time is unacceptable and wants the turnaround time to be 10 minutes or less to keep close to the current product performance levels. The Chairman noted that the T2S platform will be able to turnaround in seconds, so this raises the question as to why the ICSD processes take so long.

At the moment, there are no timelines for implementing these proposals. Euroclear will migrate to T2S in March 2016 while Clearstream will migrate to T2S in September 2016. The ICSDs have said they will not carry out Bridge enhancements at the same time that they migrate to the T2S platform. Therefore, the ICSDs will either have to implement the Bridge enhancements before the end of 2015 or towards the end of 2016. However, the 2015 deadline is unlikely.

Mr. Knoblauch said that the TSI MoU was signed in July 2013. Since then, the TSI parties (Euroclear Bank, Clearstream Banking Frankfurt, Clearstream Banking Luxembourg and Eurex Clearing) have gained a common understanding of the product and have analysed the impact of it on their technical systems. All aspects of the front to back process of GC Pooling will be heavily impacted by the implementation of TSI.

Eurex Clearing has a high performing product and does not want to or cannot water down any core elements of it:

- It will be important to ensure that Eurex Clearing is satisfactorily protected against commercial bank money exposure.
- Each ISIN must be eligible for settlement in all relevant Securities Settlement Systems (SSSs) or Collateral Management Systems (CMSs).
- Eurex Clearing will require that reference data and custody processes between the participating CMSs /SSSs are aligned.
- For risk management reasons Eurex Clearing will have the authority to unilaterally include or exclude ISINs from the GC Pooling Basket.
- The asset classification for each eligible ISIN and valuation data will be provided by Eurex Clearing on both end of day and intraday basis.
- For settlement reasons, collateral givers, will need to deliver an additional 1% of repo collateral to Eurex Clearing, but this will not be passed on to the clearing member acting as collateral taker.
- Further, any re-use of collateral by the cash lender will have to be approved by Eurex Clearing.
- The transactions are to settle within 10 minutes after the triparty instruction was submitted by Eurex Clearing (assuming cash and securities are provided by the clearing members).

Mr. Wilkin noted that the diagram on page 5 of the slides represented the high-level TSI model. It was explained that Eurex Clearing would maintain an account with each participating SSS. Settlement between Eurex Clearing and their members would be internal within each SSS. If Eurex Clearing members are in different SSSs, then Eurex Clearing would instruct additional triparty transactions to the CMS between the Eurex Clearing hub account and the Eurex Clearing account(s) at the other SSS. The CMS would then generate according cross-SSS settlement instructions.

Mr. Awan said that after 9 workshops, the TSI parties believe that the TSI model is feasible and that it is possible to build and launch the service. However, there will be impacts to Euroclear, particularly in relation to substitutions in the collateral management triparty system. Additionally there will be a need to harmonise reference data and the project will depend on enhancements to the Bridge. Going forward, the TSI parties believe that TSI is best implemented after the Bridge enhancements have been implemented and after the ICSDs have migrated to the T2S platform. This would mean an implementation date for TSI of mid-2017. At the ERC Operations Group meeting, held on 13 June, the ICSDs had understood that the TSI project should be put on hold until the ERC Operations Group members had discussed the project further with their traders. It had also been suggested that TSI might be unnecessary given T2S. Mr. Hamilton responded by saying that the project should continue but that the ERC Operations Group needed more clarity around the proposals.

The Chairman noted that he had recently attended a meeting on improving money markets, hosted by Mr. John Berrigan, DG ECFIN, where it was noted that after years there are still barriers to efficient settlement. The proposed extension of the ICSDs operating hours will be welcomed by the market. While it is acknowledged that the ICSDs have put in a lot of work on this project, the continuation of national and vertical silos is unacceptable to the market and to the regulatory authorities. There is a clear link between TSI and the regulatory proposals for mandatory buy-ins. If TSI could be delivered in a timely fashion then mandatory buy-ins would not be as much of an issue. However, the significant delays in implementing TSI mean that the mandatory buy-in proposals will prove to be problematic for the industry. For many reasons, it is very disappointing

that the TSI project will not be implemented before 2017. The ECB has also expressed its disappointment about the delays in implementing the project.

The Committee emphasised that TSI will still be needed even after T2S is rolled-out, because T2S is limited to euros and central bank money, which will exclude the buy-side from the system. Given the increasing interest in repo from the buy-side, T2S should not be seen as the only way forward. The Committee also felt that the ERC should make a statement to the Commission and politicians expressing its disappointment that no progress has been made after so many years. It was noted that the Bridge largely as it did following its enhancement in 1993 and that issues surrounding the Bridge are a major problem. The ERC Operations Group are still collecting data and once this exercise has been completed the ERC and the ERC Operations Group will consider what actions to take. The Chairman also mentioned that there had been considerable discussion at the COGESI meeting in Frankfurt earlier in the day, on the draft paper that COGESI will shortly be publishing. Mr. Marc Bayle is taking over from Ms. Daniela Russo as Director General for Market Infrastructure and Payments and also as the Chair of COGESI. The Chairman will be meeting with him shortly.

Turning to the issue of mandatory buy-ins, the Chairman said that the ERC Committee and ERC Operations Group had done a lot of work in this area. The ERC response to the CSDR consultation had reserved the right to respond further on repo. There was some discussion about the extent to which the Level 1 text might be amended in the translation phase to remove trading platforms from the mandatory buy-in provisions. The Chairman also suggested that, in the further CSDR response, the ERC should not ask for a delay in implementation but should instead ask for sufficient time to implement the proposals in a proper way. The EBF, EACH, ECSDA, ISLA, AFME and others will meet in the next week to work on an educational piece to give to Commission and ESMA officials. The ECB and ESMA have also been discussing the possibility of arranging a 1-day educational workshop to take place over the summer. The Chairman will also lead industry delegations to meet with national regulators, to brief them about the issues surrounding mandatory buy-ins.

### **3. €GCPlus**

Mr. Awan said that the €GCPlus product was launched with LCH.Clearnet SA and Euroclear France, with support from the Banque de France. Development of the product has been driven largely by French central bank officials. There are two baskets. The first basket is based on ECB High Issuance securities which support the LCR principles while the second basket covers an extended spectrum of ECB eligible securities. 17 June was the inaugural go-live date for the product, with trading by three French banks. Access to the product is via BrokerTec, MTS and Tullett Prebon. Settlement is in either central bank money or commercial bank money.

Mr. Awan went on to say that he was unhappy with Mr. Burke's statement (made at the ERC Committee meeting in March) that the €GCPlus service should be restricted to Euroclear and not opened up to Clearstream. Euroclear has never made any statement to the effect that the €GCPlus service should be a silo built around Euroclear. Moreover, Euroclear has no objection to making €GCPlus an open service for other triparty service agents. However, it is a commercial decision for LCH. Clearnet and not Euroclear on opening up to other triparty agents.

The Chairman noted that the Banque de France's securitisation of credit claims project was working well. However, they would like to see more cross-border trades. The Chairman noted that he would circulate a paper from the Banque together with the draft minutes.

#### **4. Minutes of the previous meeting**

The draft minutes of the last ERC Committee meeting, held on 12 May, 2014 in Brussels, were unanimously approved without comment and accordingly will be published on the ICMA website.

#### **5. Composition of the ERC Committee**

The Committee agreed that that Mr. Michel Semaan (Nomura) should be assigned to the Committee given Mr. Patel's departure. The Committee also agreed to assign Mr. Simon Kipping (BAML) as an observer.

The Chairman said that after the last meeting, he had spoken with ICMA and Mr. Parker, Chair of ICMA's Asset Management and Investors Council (AMIC). It had been agreed that Ms. Aubry-Stacey (Secretary to AMIC) will attend ERC meetings as an AMIC observer while Mr. Hiscock, (who leads ICMA's policy work in support of the ERC), will attend AMIC meetings as an ERC observer. Specific work groups will be formed by the AMIC and the ERC as they see fit and, in case it appears appropriate, opportunities for collaboration will be acted upon. In addition, the Chairman noted that Bank of New York Mellon had expressed interest in becoming a member of the ERC. The Committee was supportive of their application.

#### **6. ERC Secured Benchmark Working Group update and 8. Quantitative study on the impact of regulations on liquidity in the European Repo market**

Mr. Romain Dumas noted that the ERC Secured Benchmark Working Group had met with the Euribor-EBF Eurepo Steering Committee on 31 March. The group focused on developing a 3-day fixing that would be a pan-European index based on electronically transacted, centrally cleared trades. Three types of products were being considered for inclusion in the index– traditional GC products, pure GC basket products and individual bonds that do not have any particularly special value (i.e. the primary motivation for buyers to hold such bonds is to obtain collateral rather than the bond having any special value). It had been proposed that Clearnet SA, LCH, Clearnet, MEFF and Eurex GC Pooling could consolidate such clusters of funding trades. There are strong incentives for private initiative participation. Eurex GC Pooling has said that it is interested, as has RepoFunds Rate. The EBF has also written to five trading platforms. To date, MTS, BTec, and Eurex Repo have responded positively, though MTS and BTec have said that while they are interested in the EBF proposals their main focus would be on the joint RFR product. It was not clear whether Tullett has responded, so the Chairman undertook to confirm Tullett's position. Mr. Dumas also noted that good progress had been made about how an index should be governed at the 31 March meeting with the Euribor-EBF Eurepo Steering Committee.

Concerns have been expressed that a 3-day fixing would not capture month-end volatility. Mr. Hill and Mr. Comotto are carrying out a study based on data from BrokerTec and MTS. Eurex has also agreed in principal to provide data but discussions are still ongoing. The data will span 2012 to June 2014 in respect of daily volumes and reference rates. The analysis of the data will be helpful to assess the extent to which a 3-day fixing will/will not capture daily/month-end volatility. The Committee will consider the results of the study (expected to be completed before the beginning of August) before making a decision on whether to approve the proposals. A further meeting of the ERC Secured Benchmark Working Group with the Euribor-EBF Eurepo Steering Committee (originally scheduled for 7 July) will be re-scheduled for early September.

It should be noted that the study being carried out by Mr. Hill and Mr. Comotto is part of a larger qualitative study aimed at assessing the impact of regulations on liquidity in the European repo market. At the moment, the authors are working out how to determine causality with regulatory reporting.

## **7. Regulatory update**

Mr. Serocold said that in respect of the ESMA MiFID consultation, it would be important to ensure that the MiFID transparency provisions do not capture repo trades. This is because bonds used as collateral for repo trades will trade at a different price from the cash market and publishing repo prices would therefore be confusing to the market. Mr. Serocold suggested that any members with comments on the MiFID consultation should let him know directly. He went on to mention that he had deliberately not taken a leading role in the joint trade association group that are looking to put together a combined response so that he could focus on the ICMA and/or ERC response.

The Chairman said that he had been informed that transparency for repo is not captured by the MiFID proposals but that repo would instead be caught under the proposed Regulation on Securities Financing Transactions (SFTR). The Commission are expecting ICMA to respond to the repo trade repository proposals set out in the SFTR. However, it was noted that the proposed SFTR is not a consultation and that further work will continue in the autumn. Given the continuing press coverage of shadow banking, members of the European Parliament may push for the SFTR to be expanded and for existing provisions to be made more restrictive in order to impose greater regulatory control over shadow banking and reduce the size of the shadow banking sector. Mr. Hiscock noted that ISLA is working on a position paper that advocates that the disclosure that should be adopted for securities lending transactions should be similar to existing Agent Lender disclosure requirements. Thought will have to be given to what the ERC position should be. It was noted that Equilend already has a significant amount of stock lending data and has the resources and expertise to interrogate the data for whatever purposes the regulators want. However, it is appreciated that Equilend's data does not include bilateral and CCP business and regulators would want a complete picture. The derivatives experience has shown that, while the FSB had wanted consistent reporting, national regulators have implemented different reporting requirements which means that the data that is currently being collected is not useful as it is not comparable cross-border. Therefore, the ERC should make clear the need for consistent reporting. Additionally, the Chairman noted that he is in discussions with ICMA and ISLA about providing a two-hour educational session for the European Council, Parliament and regulators in Brussels on what securities lending and repo are and why they are important.

## **9. ERC Operations Group update**

Mr. Hamilton said that a draft survey would shortly be sent to the ERC regarding the impact of T+2, focusing on the compression of repo windows. It is anticipated that there will be an increased demand on liquidity as well as operating pressures and challenges for back office staff. The compression of settlement windows may prove problematic. Anecdotal evidence indicates that a lot of clients will not be ready for the 6 October move to T+2. The ERC Operations Group welcomes any feedback on the working draft of the survey.

On the T2S project with Rule Financial, the first draft of an electronic survey has been developed, that aims to seek input from market participants about their readiness for the migration to T2S. The draft survey will be circulated amongst ERC Operations Group members in the following week and will then be circulated more widely to market participants. The survey will be followed by a seminar to be held later in the year, culminating with a presentation at the European Repo Council general meeting on 19 November.

Mr. Hamilton said that on trade matching and affirmation, a meeting of the ERC Affirmation and Matching Working Group had been set up with various broker/dealers and vendors to discuss opportunities, challenges, best practice, and future strategy relating to trade matching and affirmation in the fixed income markets. Turning to the issue of a repo trade repository, the ERC Operations Group are looking to collaborate with ISLA on their response (mentioned above). On FpML, the ERC Operations Group joined the initial discussions and member firms are continuing to input views to establish consistent treatment of reporting attributes in line with market best practice. The Repo guidelines have provided a useful benchmark in this exercise.

The Chairman commended Mr. Hamilton and the ERC Operations Group members for their excellent work. He also noted that Mr. Comotto had attended a meeting with the FSB in New York. The meeting was the second informal market consultation by the FSB on what data is needed to monitor systemic risks in the repo and securities lending markets. The previous consultation was held in London in March. The FSB group seemed pleased with the feedback from the London meeting, especially the ERC's written response, and were similarly positive about the discussion in New York. Much of the discussion was a re-run, for the benefit of US panellists, of the London discussion. A number of comments made at the London meeting, and in subsequent written responses, have now been accepted by the FSB and a revised Standards and Processes paper was presented to the latest meeting. The FSB will consider further comments made at the latest meeting and any new written responses, before presenting their paper to the G-20 at Brisbane in mid-November. After this, there will be a formal and final consultation. They have indicated that they would welcome a further written response from the ERC. It may be useful to re-iterate the ERC's previous positions and also address the issue of the measurement of re-use and re-hypothecation (ie interconnectedness). Although this latter issue had dropped off the agenda for New York, it is still in the draft FSB report for future consideration.

## **10. Legal update**

Ms. Cleary noted with regard to credit claims a lack of market interest meant that this work was on hold for now. The GMRA working group had been focused on the development of GMRA FACTA language, which would be finalised and published shortly. She also mentioned that she had been working closely with Mr. Hill on mandatory buy-ins and with Mr. Comotto in speaking with Indonesian regulators and industry participants on how to develop the Indonesian repo market.

There was some discussion about whether ERC members should be paying negative rates or EONIA, given the recent decision by the ECB to impose negative interest rates. Ms. Cleary noted that this would depend on the terms of each bilateral GMRA. It may be possible to develop a protocol to the GMRA based on the negative rate recommendation if there was sufficient market interest in doing so.



## **11. Repo FAQs**

The Secretary asked for feedback on whether any additional questions need to be added to the FAQs. It was suggested that the question about negative rates and EONIA could usefully be added.

## **12. AOB and upcoming dates**

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

- (1) **Ad hoc meeting** – to be scheduled once Mr. Comotto has finalised his work on the semi-annual repo survey;
- (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.
- (4) **Repo Courses on the Guide to Best Practice** – 22 September and 17 November in London.