

**Minutes of the European Repo Committee meeting held on May 7, 2013, in London**

Present:	Mr. Godfried De Vidts Mr. Simon Kipping Mr. Stephen Malekian Mr. Grigorios Markouizos Mr. Romain Dumas Mr. Andreas Biewald Mr. Tony Baldwin Mr. Ronan Rowley Mr. Olly Benkert Mr. Andrea Masciovecchio Mr. Rajen Patel Mr. Sylvain Bojic Mr. Eduard Cia Mr. Nicholas Hamilton	ICAP (Chairman) Bank of America Merrill Lynch Barclays Capital Citigroup Credit Suisse Commerzbank Daiwa Capital Markets Deutsche Bank Goldman Sachs Intesa SanPaolo Morgan Stanley Société Générale UniCredit Bank AG JP Morgan (Co-chair, ERC Ops)
On the phone:	Mr. Stefano Bellani Mr. Ulf Bacher Mr. Guido Stroemer	JP Morgan Newedge Group UBS
Also Present:	Mr. Stefan Knoblauch Ms. Heike Eckert Mr. Jean-Robert Wilkin Mr. Saheed Awan Mr. Richard Comotto Mr. David Hiscock Miss. Lisa Cleary Miss. Katie Kochmann	Eurex Clearing Eurex Clearing Clearstream Euroclear ICMA Centre ICMA ICMA ICMA
		} Item 1 only
Apologies:	Mr. Eugene McGrory Mr. Edward McAleer Mr. Michel Semaan Mr. Jean-Michel Meyer Mr. Tony Platt Mr. John Serocold	BNP Paribas Morgan Stanley Nomura HSBC Morgan Stanley (Co-chair, ERC Ops) ICMA

### **1. Update on interoperability and extension of cut-off times for repo**

Mr De Vidts introduces the discussion by presenting a review of the obstacles facing the repo market in terms of collateral demand. Such demand has given rise to a focus on settlement processes (particularly in the COGESI group) and the interoperability of settlement systems is essential for efficient collateral movement- something which the regulatory environment now demands. Mr De Vidts notes that whilst discussions regarding interoperability between the ICSDs are ongoing, substantive progress in this area has been unacceptably slow. The market would like to see improvements made to the 'bridge' between the ICSDs, extending the deadline for settlement and substitution until 17.00 CET with a further 45 minutes for treasury liquidation of positions. Mr De Vidts proposes that the relevant stakeholders<sup>1</sup> sign a Memorandum of Understanding (MOU), attached hereto, evidencing their commitment to delivering such improvements. There follows a discussion of the challenges faced by the stakeholders in meeting the deadlines outlined in the MOU. A commercially viable business case must be established to justify the required investment. The committee highlights that failure to agree to the terms of the MOU would not be viewed favourably by the market or the regulators. The desired interoperability will not be achieved by commercial manoeuvring on the part of the concerned parties but by compromise for a common goal. The ICSDs are essential to the market's funding activities and with the regulatory focus on collateral efficiencies, capital requirements and availability, the consequences of not delivering the improvements requested are serious. Mr De Vidts requested that the relevant parties review the MOU and provide any comments by COB on May 13 with an aim to produce a finalised document shortly thereafter.

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

The draft minutes of the previous ERC committee meeting held on March 11 are unanimously approved.

### **3. Consistent fails approach**

Mr Bojic updates the committee on a 7 May meeting between the ERC and a number of the European fixed income CCPs. Discussion focused on a harmonised approach to transaction fails between CCP and bilateral processes. Mr Bojic highlighted with concern the inconsistencies in current market buy-in processes versus the Commission's proposals for mandatory buy-ins and emphasised the importance of demonstrable progress to establish effective and coherent approaches in order to avoid unduly prescriptive regulation in this area. ERC members will be kept informed on communications with the CCPs which will outline the steps towards harmonisation, particularly in respect of fails within netting sets. Members are reminded that regulators are closely watching this aspect of the market.

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<sup>1</sup> Open to any relevant market participants.

#### 4. **Financial Transaction Tax**

Mr De Vidts leads the discussion by referring to the roundtable that took place earlier in the day, where Mr Comotto presented ICMA members and industry practitioners with his paper titled "Collateral damage: the impact of the Financial Transaction Tax on the European repo market and its consequences for the financial markets and the real economy". In summary, the paper estimated a reduction of European repo market activity by at least 66% if FTT is imposed as currently proposed. A supplementary paper was also prepared by Mr Comotto on the systemic importance of collateral, which was produced as an education piece to raise awareness of collateral and the necessity to exclude collateral from any FTT regime. A meeting is scheduled for the end of May with Committee representatives and DG Tax.

A discussion follows. It is suggested that as the ERC's objections to the FTT would be more powerful if made in context of a third party paper emphasising the negative unintended consequences on the real economy. Mr Hiscock notes that there is a review being done by PWC as to the impact of the proposals. Importantly discussions regarding the impact of the FTT proposals also continue to be held in a wider context - with DMOs, central banks and regulators - encouraging a broader scope of parties to comment on the Commission's proposals. Mr Comotto remarks that it is important to challenge the intellectual foundations of the proposal and is comforted that reservations with the proposal are evident from DMO's and Central Banks. The implications are being felt by all market participants. Mr Scheck notes that opposition is also gaining momentum from the buy side, with asset managers, investment companies and large corporate are also voicing their concerns.

#### 5. **FSB Shadow Banking workstream (including trade repository)**

No recent publications from the FSB, whose final recommendations remain due in September. Moves towards a European repo Trade Repository are progressing and the ECB and BoE are working together on this. Further details may be provided at the next COGESI meeting on the May 14.

#### 6. **Haircuts**

Mr Comotto highlights that much of the debate about mandatory haircuts has been based on analysis of US triparty data. A regular repo haircut survey in Europe would be looked on favourably by Regulators and would improve understanding of the European market.

A discussion follows. There is concern that fictional data sets may start to be referred to in real transactions and this can be misleading. It is suggested that data from real transactions be collected on a confidential basis. Discussion developed on the accessibility of real time trades but with the possibility of a European repository in the pipeline, it is queried whether this additional survey is necessary and concluded that no new haircut reporting will be adopted at this time.

6. **RepoFunds Rate (RFR) and Eurepo**

It is reported that a questionnaire will shortly be distributed by the EBF to the panel banks regarding Eurepo. In relation to the RFR, the EBF are in support of the RFR in principle, particularly because it is a reflection of real data.

7. **ERC Ops Group update**

Mr Hamilton notes that the ERC Ops group is currently considering the impact of the FSB's work from an operational perspective. The group is also considering the impact of the Russian trade repository (TR) reporting requirements and will draw this out into a paper raising questions on the TR topic. Another issue of note is the publication of further technical aspects of T2S, in which the group is taking a keen interest in. For the broader ERC community, a T2S information event is being planned for 20 June.

8. **Repo Guide to Best Practice**

Will be recirculated for approval by the 24 May.

9. **Legal Update**

Ms Cleary reports on recent legal work, including the publication of the 2013 GMRA legal opinions, setting up of a working group to produce FATCA language for the GMRA and the attendance of a meeting to discuss the pending RRD proposals with HMT and the FSA. On the latter, Ms Cleary remarks RRD negotiations continue to progress toward the European Council deadline of June 2013. There are a number of outstanding issues despite the push of the Irish presidency to prioritise this work. At Parliament level, the rapporteur produced a report which is now the subject of a significant number of MEP comments. Ms Cleary notes the importance of clarity in terms of the timing and scope of any suspension of termination rights and confirmation that repo excluded from bail in via secured liabilities definition. ICMA will closely follow progress here.

10. **Regulatory Update**

Mr Hiscock presented the latest on various regulatory files. Regarding CRDIV the problem regarding the leverage ratio seems satisfactorily resolved, thus allowing netting recognition in the way that is expected.

The Irish Presidency is now actively promoting the CSD Regulation file and we are now expecting to see some progress towards a Council position on the Commission's proposal. Work is needed here to try and mirror the success in getting the Parliament to adopt favourable changes in their text.

The draft output from the Commission's continuing work on Shadow Banking was leaked to the Press. One aspect highlighted in this draft communication is a commitment to promoting greater transparency, where it is noted that the ECB and the ESRB are already taking the lead. Prior reports on shadow banking from international organisations have already drawn attention to repo markets, highlighting their implications towards leverage in the financial system and interconnectivity risk. These points are also picked up on by the Commission and it is expected that related action will surface more tangibly in the forthcoming Securities Law Legislation. Clarity and understanding is necessary on title transfers, pledges and rehypothecation and the Commission appears to be making the right distinctions. Attention may be needed towards Money Market Fund rules, which are evolving as non-bank users of repo products and markets are discussed by the Commission.

It was noted that in 2012 ESMA have already announced rules for UCIT funds and their capacity for being able to use repos. It was pointed out that these require short tenor-( 5 days maximum) and mandatory diversification.

A discussion developed within the group on asset encumbrance in response to the consultation by EBA with a deadline of June 24. Regardless of debate about the appropriate way in which to analyse repo in this context, it is clear that repo is being classified as an encumbered asset for these reporting purposes. Members discussed the ways in which repo impacts balance sheets and their impact on the degree of risk faced by unsecured creditors. The proposed reporting also calls for attention to be given to the amount of unencumbered assets which are available to be encumbered, in case necessary to secure extra financing. It was decided, as this is in fact an exercise involving reporting analysis of the whole balance sheet (and some off balance sheet items) and not specific to repo, that the ERC would not itself be responding to the consultation, leaving responses to individual members and their banking associations.

The meeting is closed at 5.25pm.