

ICMA European Repo Council Annual General Meeting

Luxembourg, 22 January 2014



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Welcome and opening remarks

Godfried De Vidts, Chairman of the ICMA European Repo Committee

Approval of the Minutes

- » Approval of the minutes of the ERC General Meeting held on 16 October 2013 in London

Triparty Settlement Interoperability

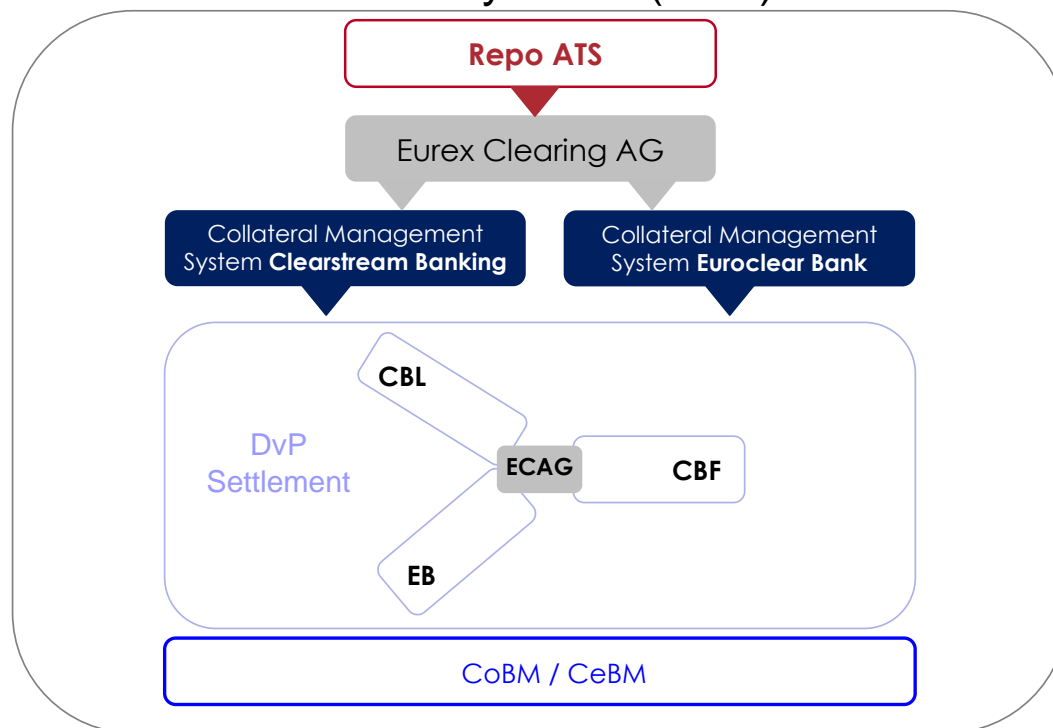
Status update

European Repo Council AGM
Luxembourg, 22 January 2014

Triparty Settlement Interoperability (TSI)

Memorandum of Understanding

- Memorandum of Understanding signed in July 2013
- Parties: Eurex Clearing AG (ECAG), Euroclear Bank (EB), Clearstream Banking Frankfurt (CBF) & Clearstream Banking Luxembourg (CBL), European Repo Council (ERC)
- MoU scope: GC Pooling (the multi-baskets and multi-currencies repo product cleared by ECAG) to be settled across multiple Collateral Management Systems (CMS) and Securities Settlement Systems (SSS)



Triparty Settlement Interoperability (TSI)

Work done so far

- Four workshops held between TSI parties, with the objective to conduct a top-down analysis and get a mutual understanding of the functioning of the GC Pooling product and the general processes involved in the management of trades and the impacts of TSI on the different layers in the post-trade processing chain, taking into account future implementation of T2S;
- Layers primarily impacted:
 - Clearing
 - Exposure & Collateral Management
 - Asset Servicing & Reference data
 - Settlement & Bookings
- Pre-requisites to:
 - Project definition and scoping
 - Detailed feasibility analysis

Triparty Settlement Interoperability (TSI)

Outcome

- Consistently with EBF-ERC-ECB Working Group on CoBM settlement, the two ICSDs already agreed that the « Bridge » (CBL-EB settlement link) mandatory and optional timings must be improved to be aligned with T2S and TSI settlement windows, including the T2S end-of-day window for Bilaterally-Agreed-Treasury-Management (BATM) adjustments;
- TSI will require a high level of harmonization and synchronization of settlement and asset servicing infrastructures of Clearstream Banking Frankfurt, Clearstream Banking Luxembourg and Euroclear Bank, including the links between them, pre- or post- implementation of T2S;
- TSI parties have not yet completed the on-going top-down analysis and the building of end-to-end scenarios under TSI;
- Based on work done so far, two settlement models are being considered to support the cross-ICSDs settlement flows for relevant TSI trades (directly through the « Bridge » or indirectly via the ICSDs-CBF links), but additional work is required to draw conclusions.

Triparty Settlement Interoperability (TSI)

Next steps

- Set-up of a new workstream between the two ICSDs on the «Bridge» mandatory and optional timings improvements;
- On TSI, pursue the work through additional workshops between TSI parties focusing on:
 - Exposure management
 - Links between relevant Securities Settlement Systems and the bookings of settlement flows, pre- and post-T2S
 - Design and agree on end-to-end scenarios;
- With the objective to draw conclusions on the TSI model, finalize project scope and detailed feasibility analysis by May/June 2014.



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ERC semi-annual repo survey

Richard Comotto, Senior Visiting Fellow, ICMA Centre



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European Repo Council

26th European repo market survey
conducted in December 2013





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26th European repo market survey conducted in December 2013

Survey overview

- Outstanding value of contracts at close of business on Wednesday, 11th December 2013
- 68 responses from 64 groups



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26th European repo market survey conducted in December 2013

Headline numbers

- **December 2013 EUR 5,499 billion**
- June 2013 EUR 6,076 billion
- December 2012 EUR 5,611 billion
- June 2012 EUR 5,647 billion
- December 2011 EUR 6,204 billion
- June 2011 EUR 6,124 billion
- December 2010 EUR 5,908 billion
- June 2010 EUR 6,979 billion
- December 2009 EUR 5,582 billion
- June 2009 EUR 4,868 billion
- December 2008 EUR 4,633 billion
- June 2008 EUR 6,504 billion
- December 2007 EUR 6,382 billion

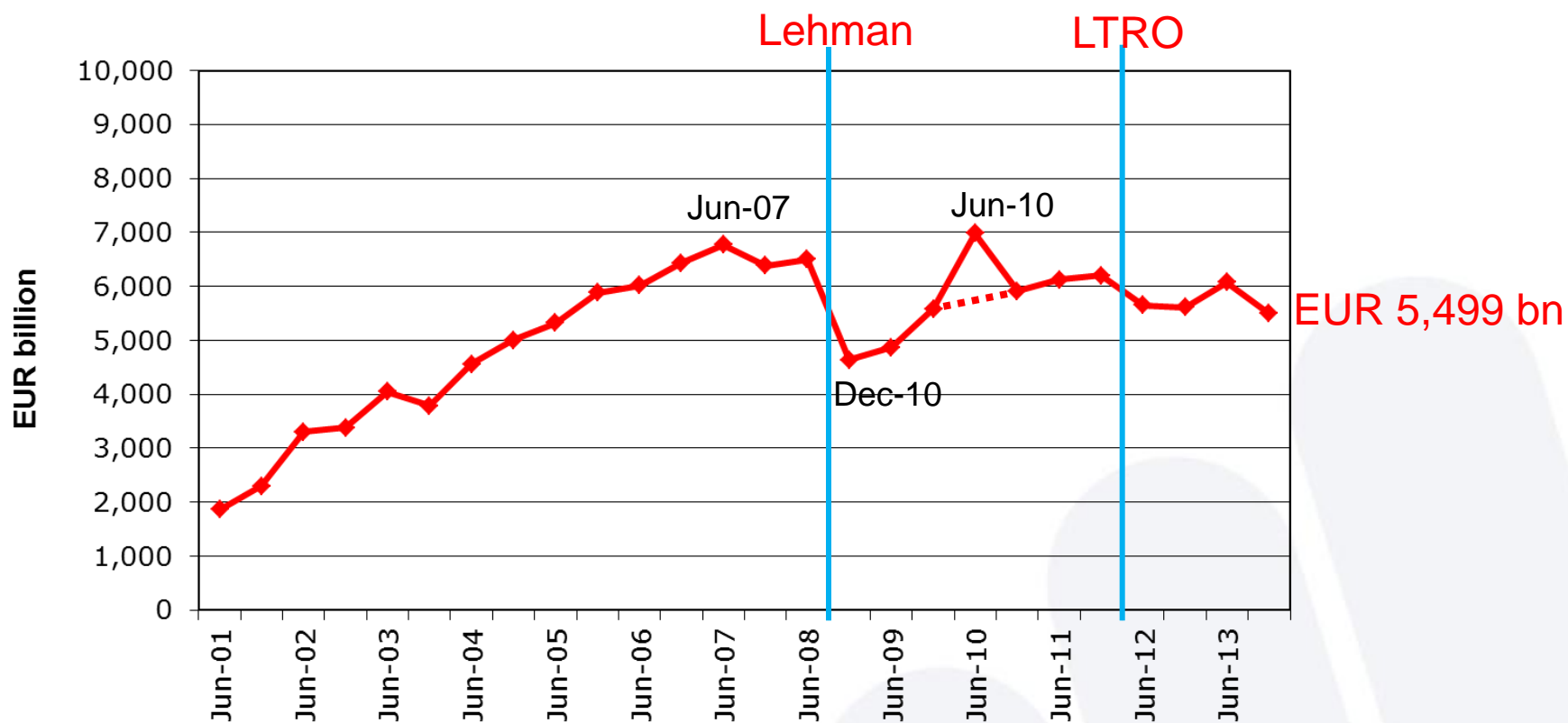


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Headline numbers



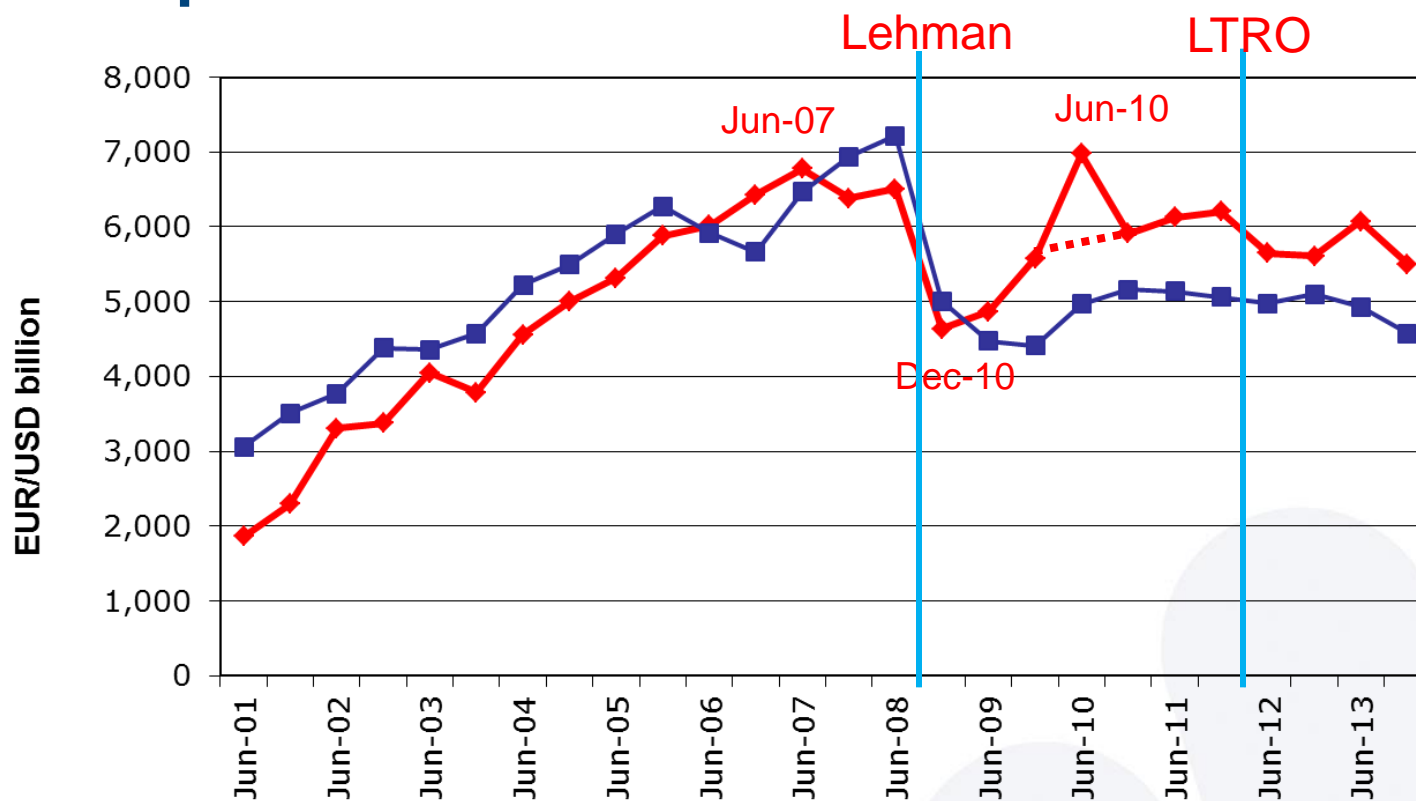


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26th European repo market survey conducted in December 2013

Europe v US





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Comparable market growth

- 61 respondents participating in last 3 surveys
 - -8.2% since June 2013
 - +0.5% year-on-year



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Trading analysis

automatic trading system

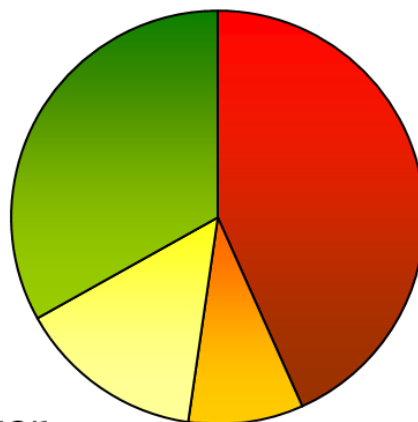
includes GC Pooling

bilaterally/triparty/CCP-settled

ATS
31.7%
(33.1%)

direct
43.3%
(42.7%)

bilaterally-negotiated
by phone or EM
bilaterally-settled



arranged by voice-broker
bilaterally-settled

broker
15.1%
(14.6%)

triparty
9.9%
(9.6%)

bilaterally-negotiated
by phone or EM
triparty-settled

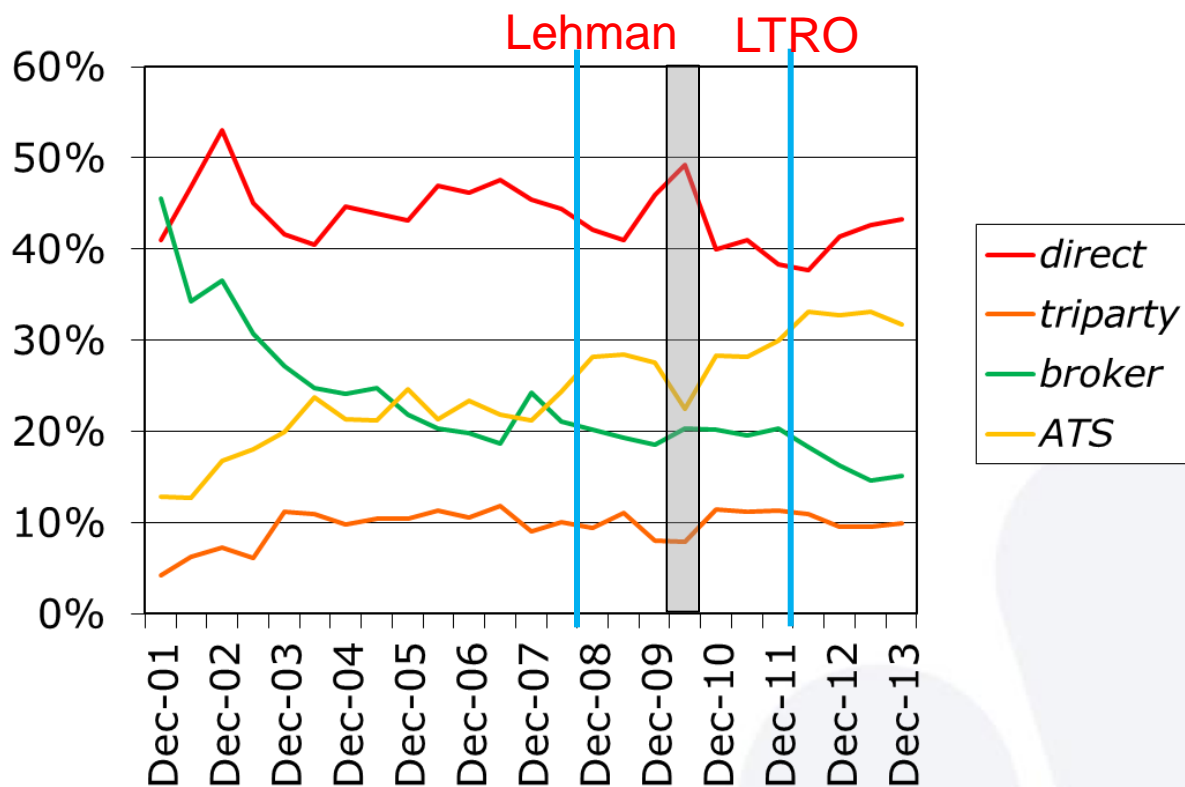


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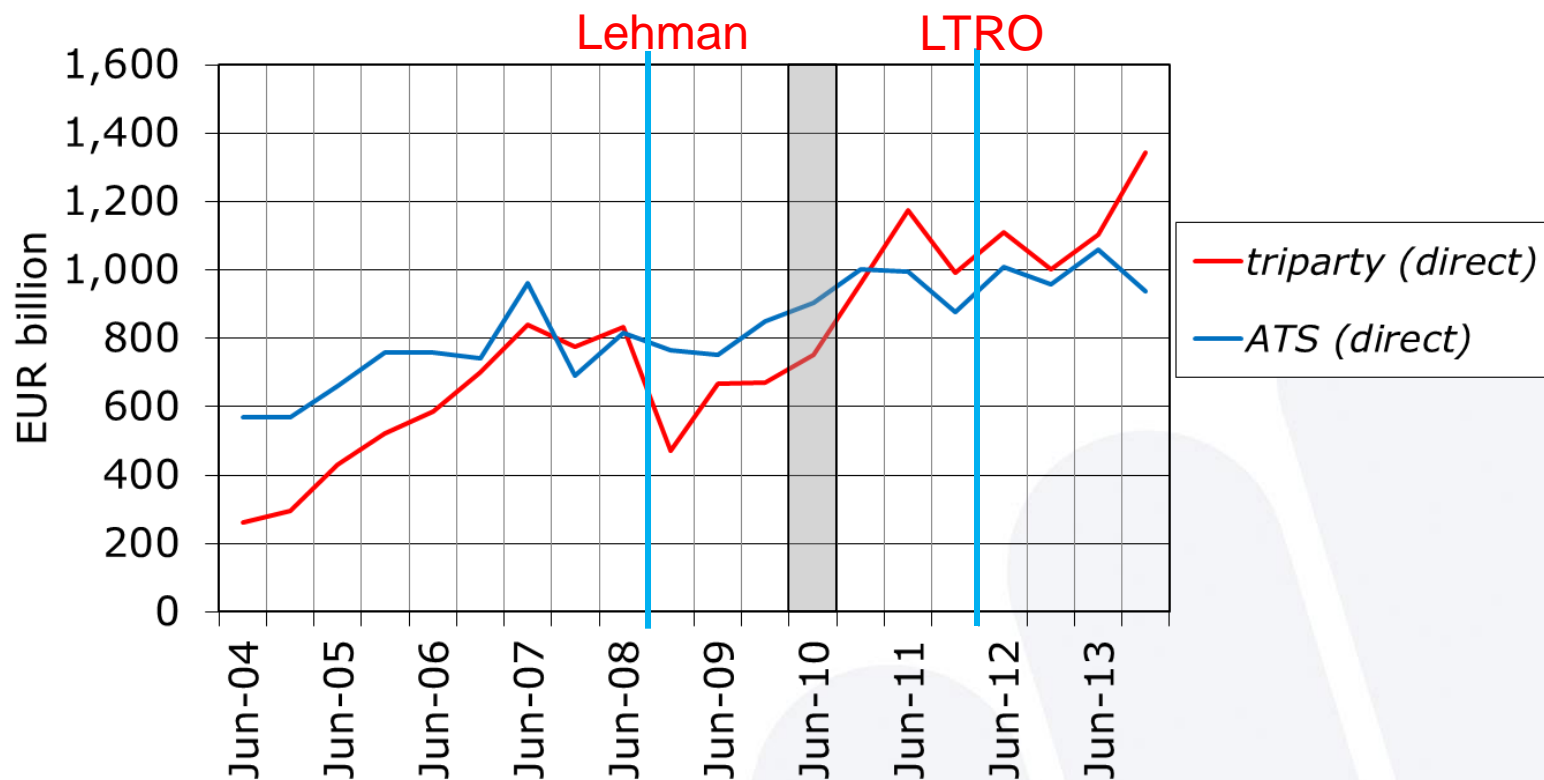
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Trading analysis



Trading analysis (directly-reported by providers)



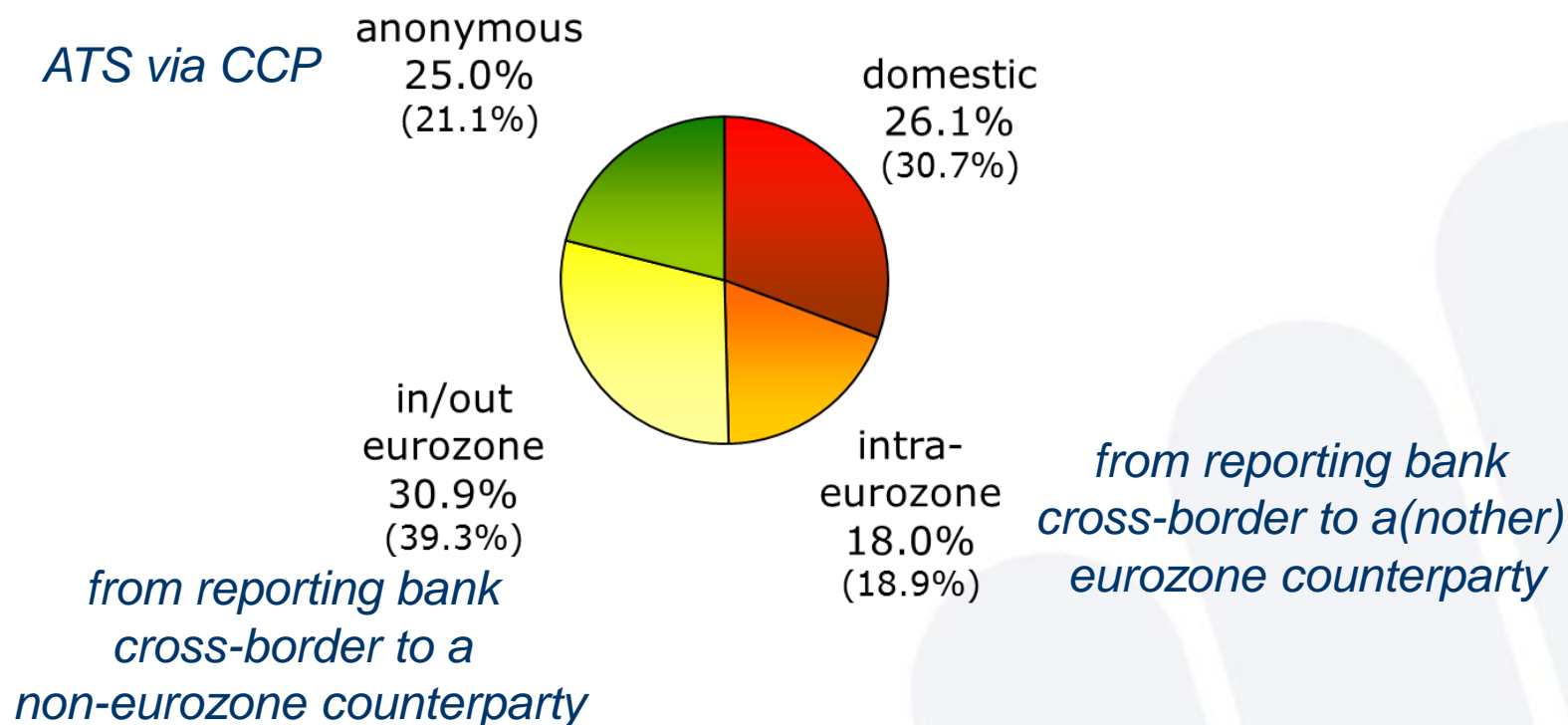


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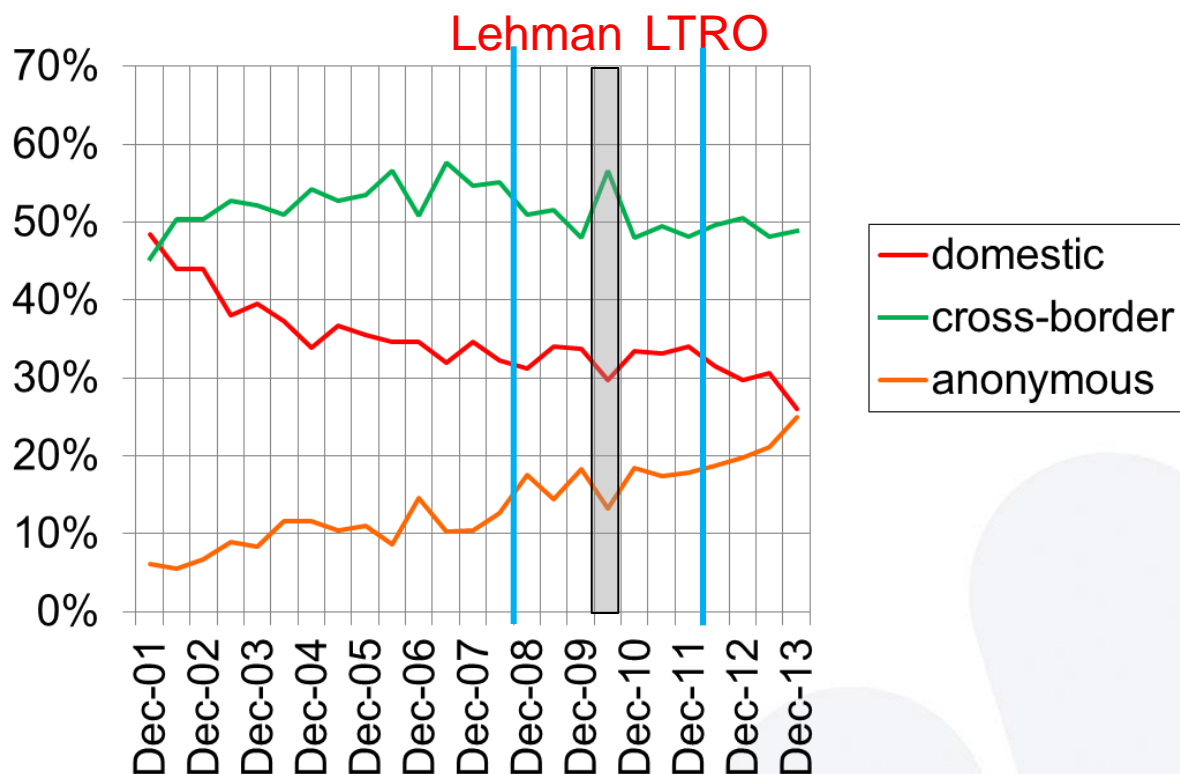
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Geographical analysis



Geographical analysis



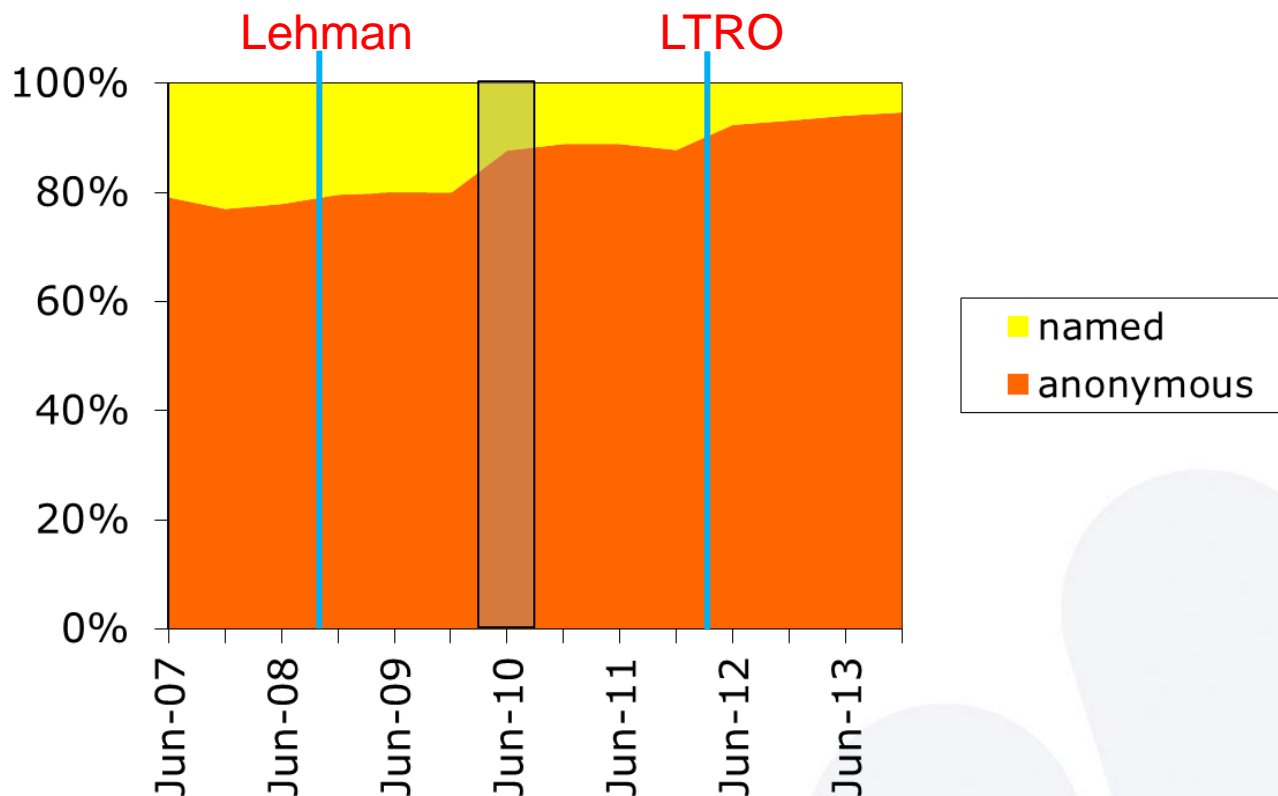


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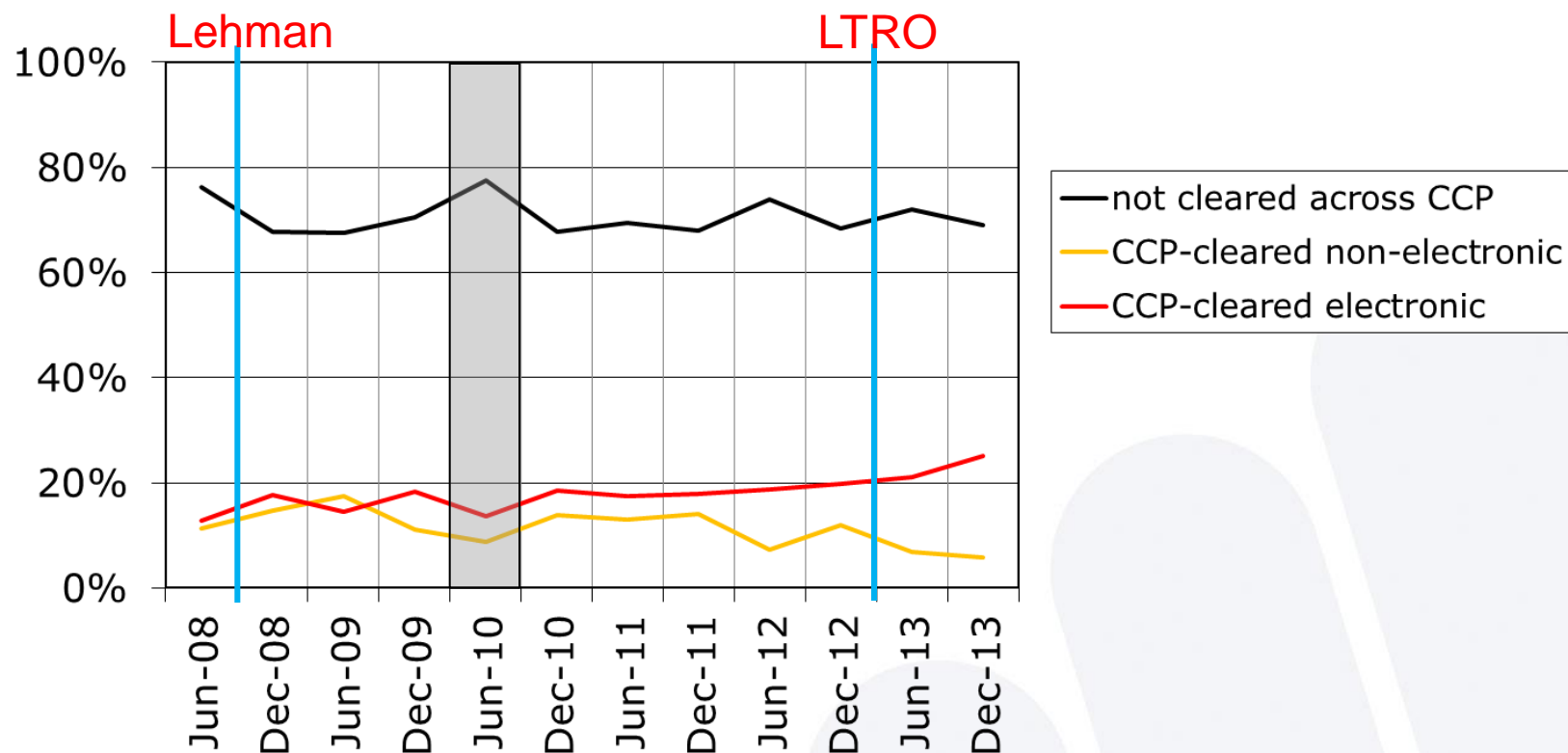
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Anonymous ATS business



Business cleared across CCP



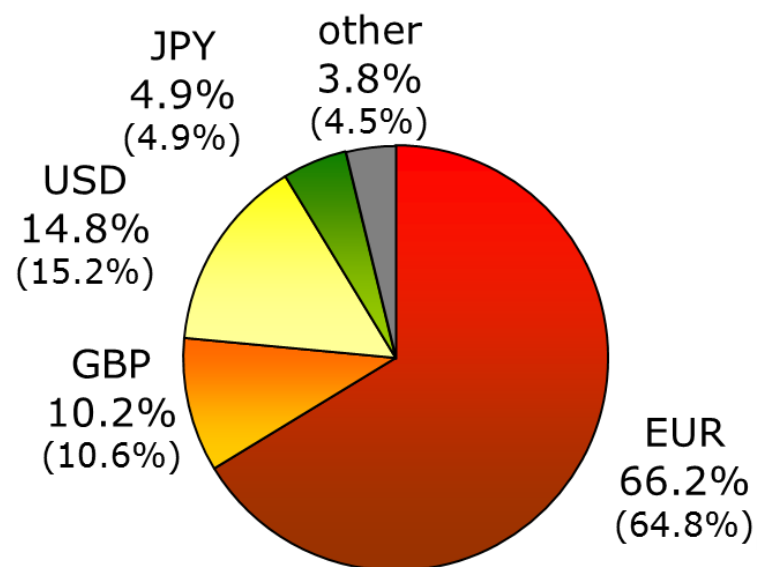


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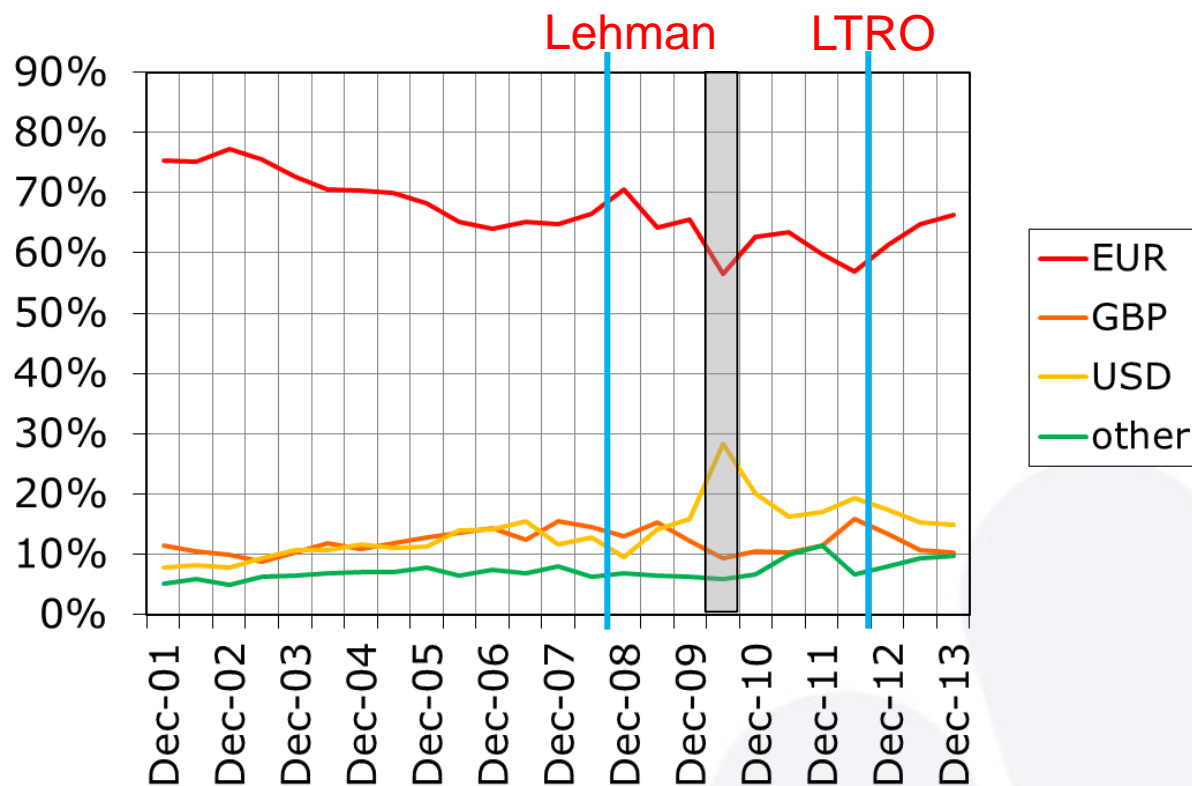
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Currency analysis



Currency analysis



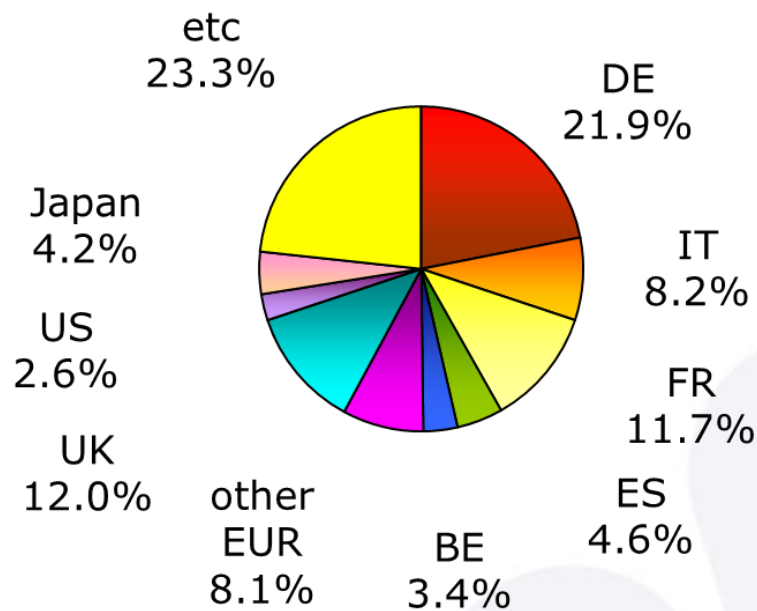


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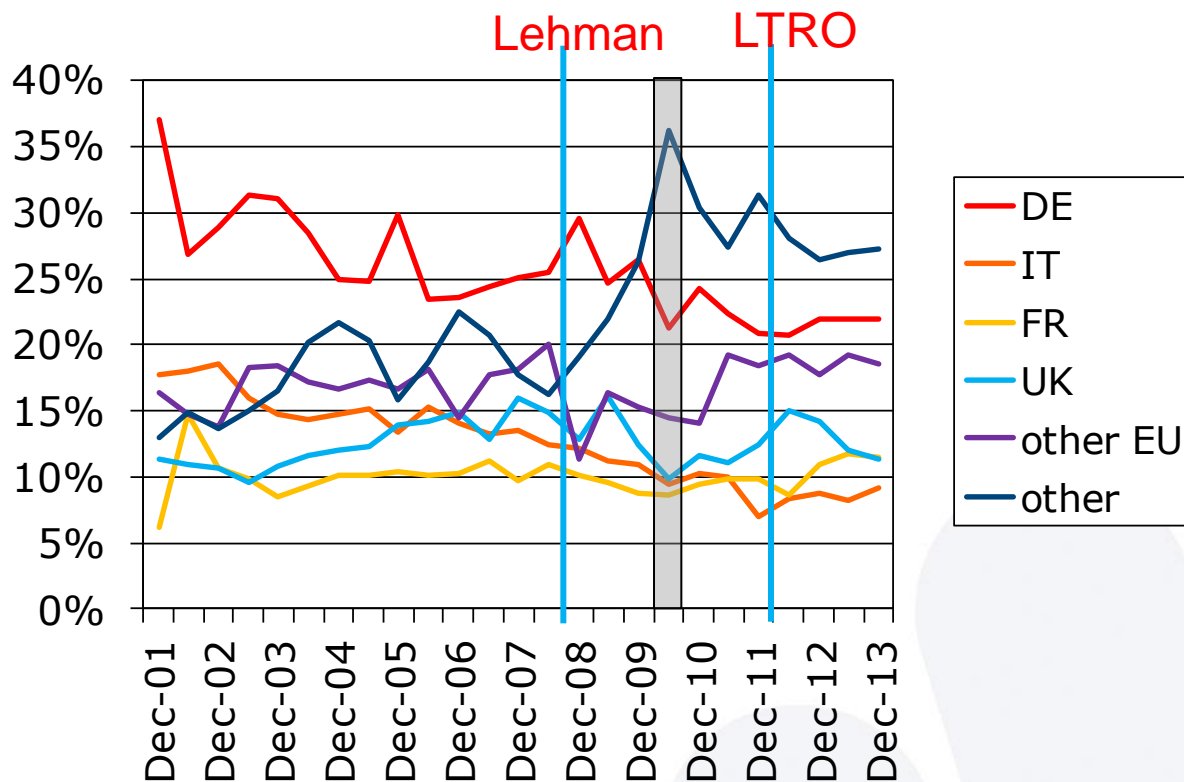
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Collateral analysis



Collateral analysis





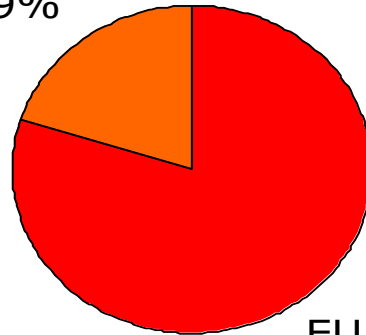
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26th European repo market survey conducted in December 2013

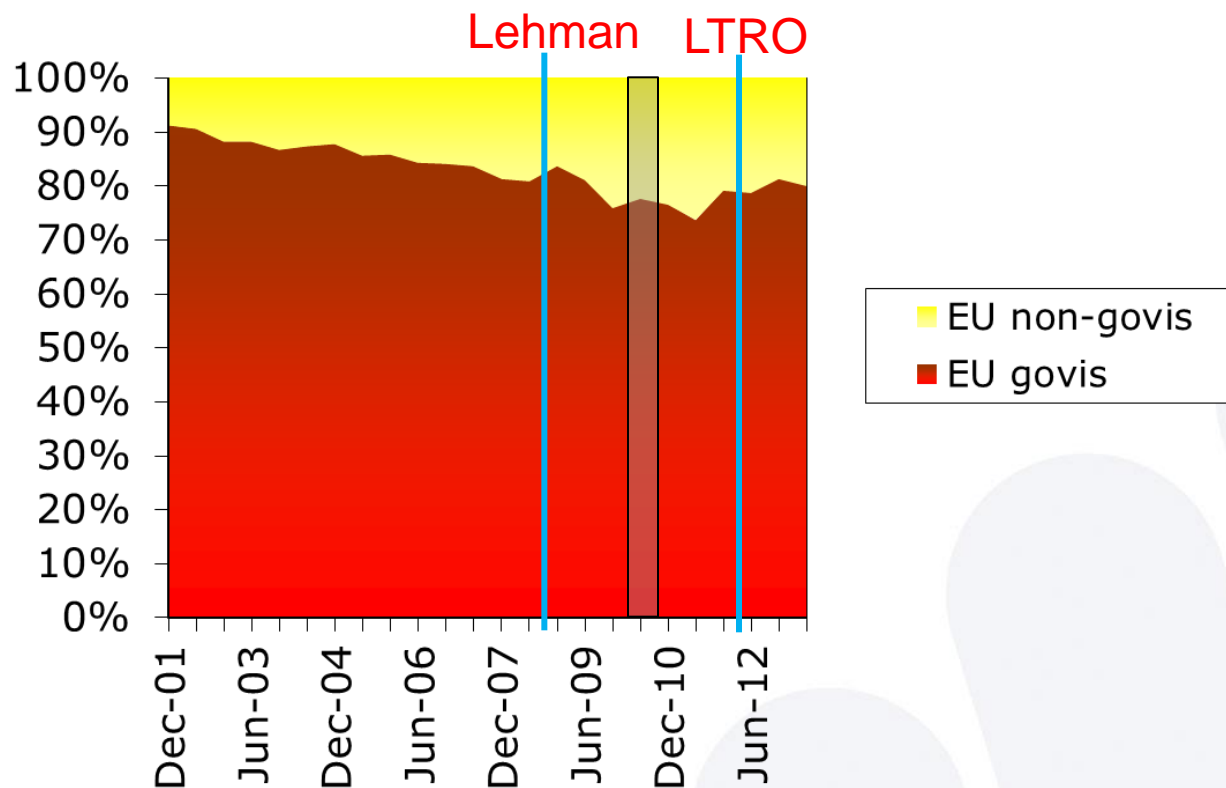
Collateral analysis

EU non-
govis
19.9%



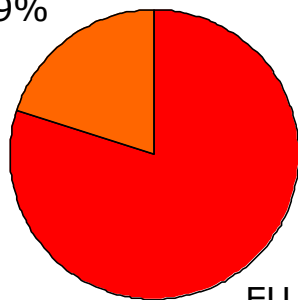
EU gov
80.1%

Collateral analysis



Collateral comparison

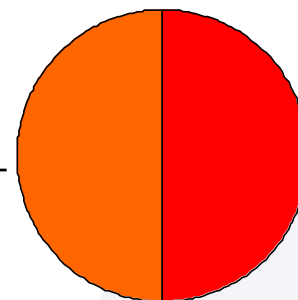
EU non-
govis
19.9%



EU govis
80.1%

banks

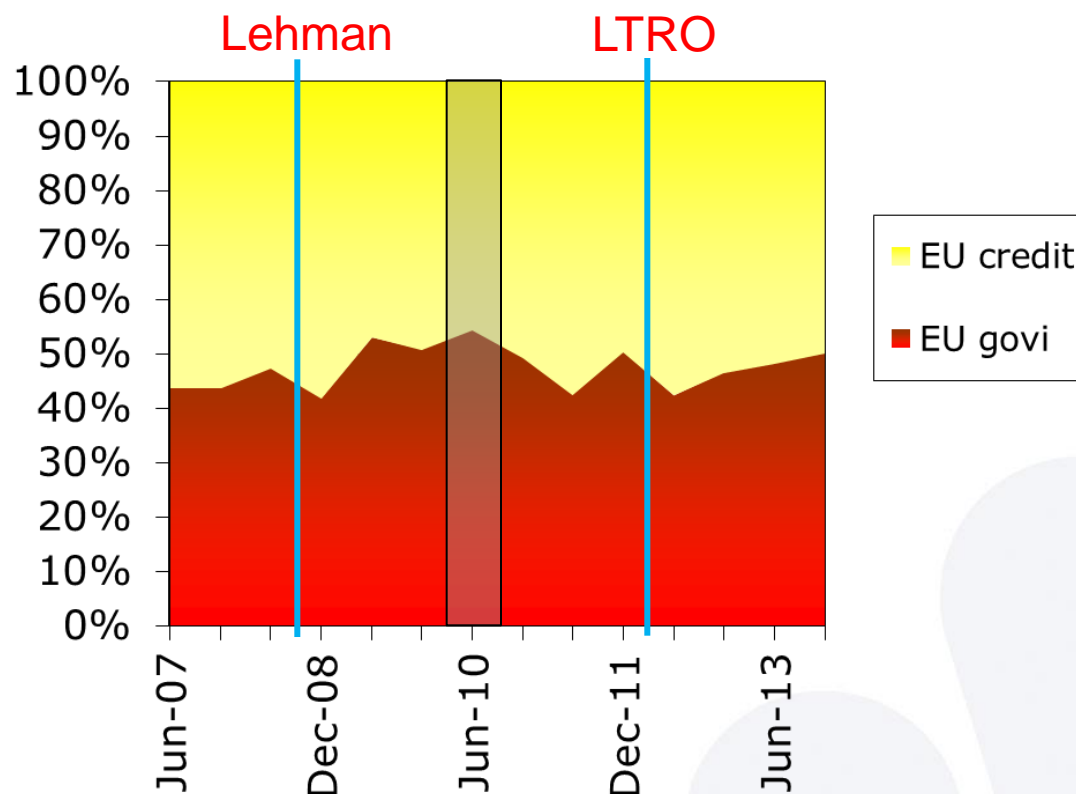
EU non-
govis
49.9%



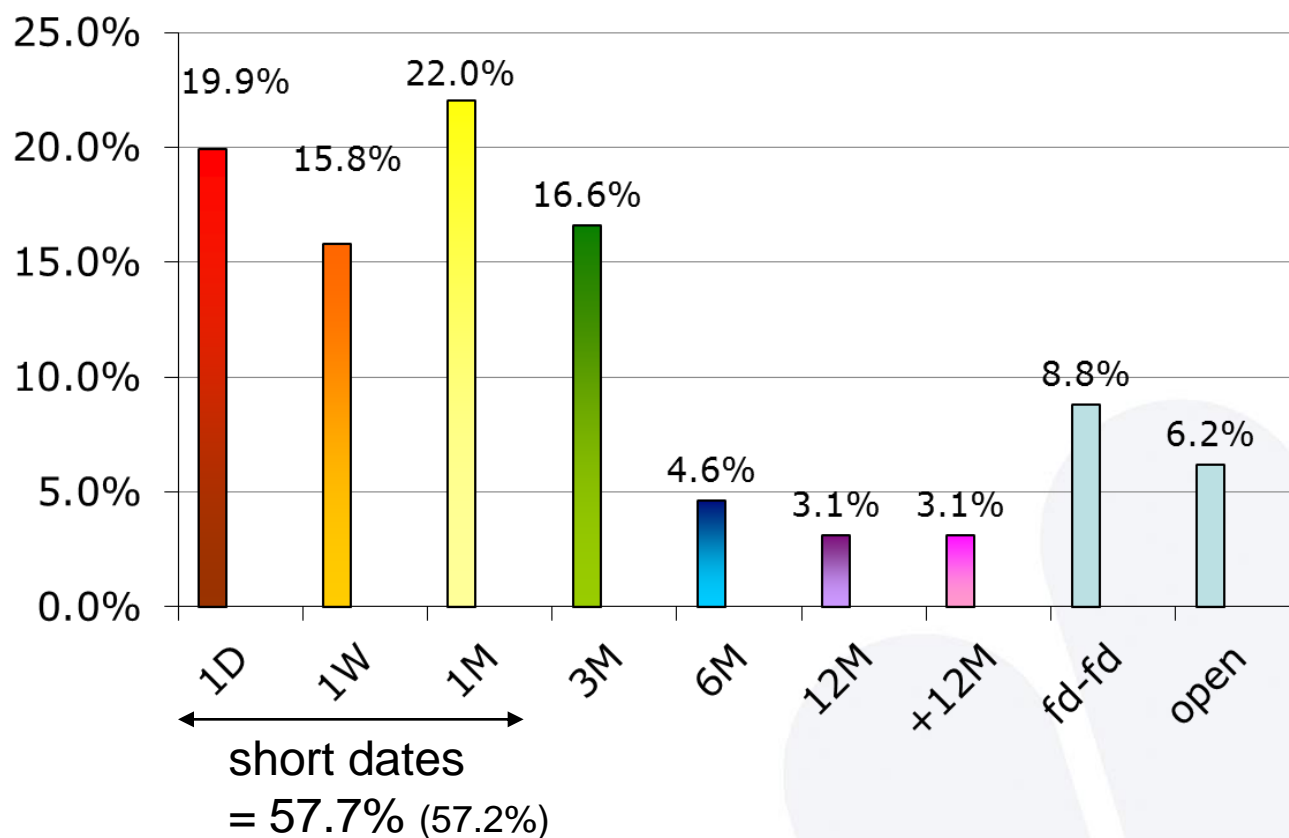
EU govis
50.1%

tri-party

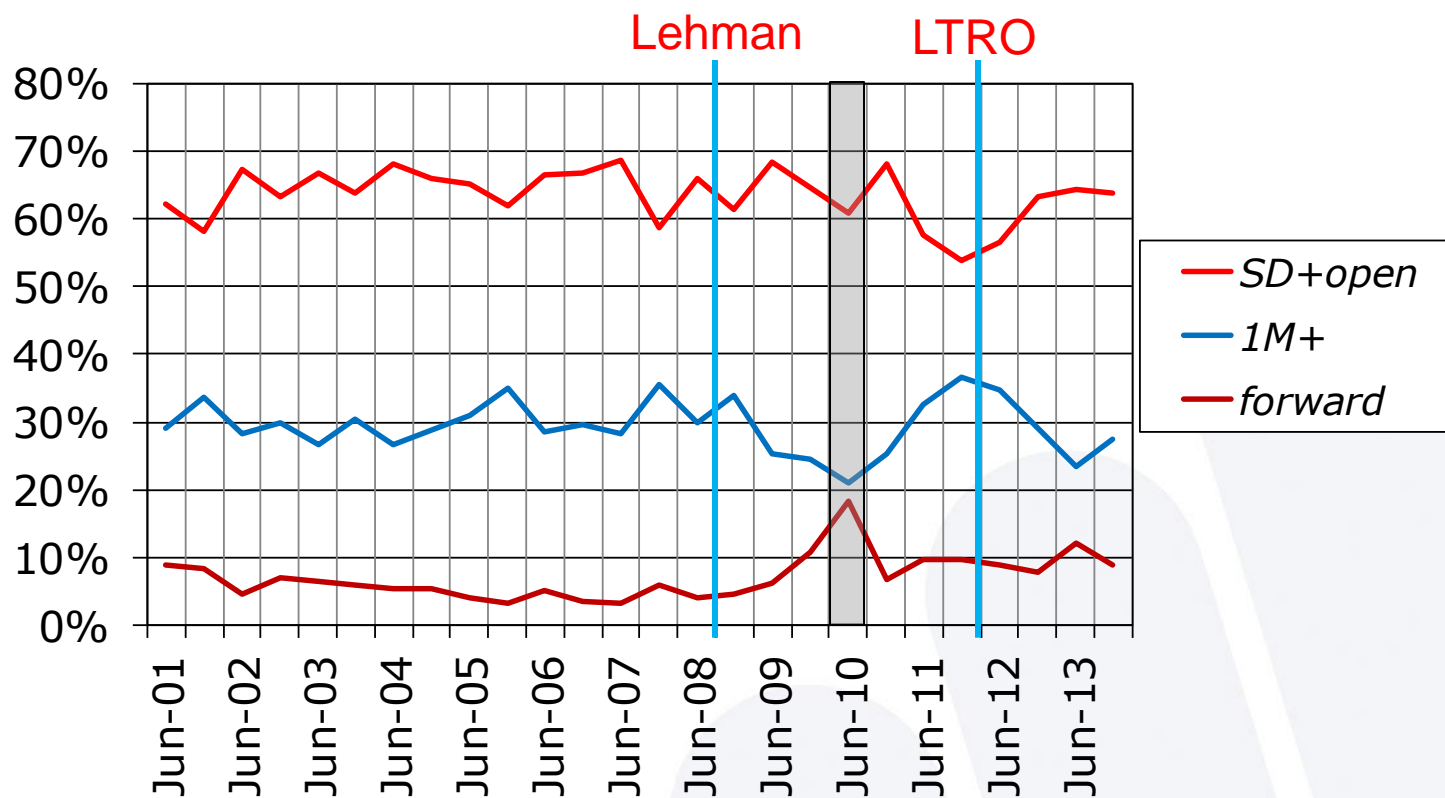
Collateral analysis (triparty)



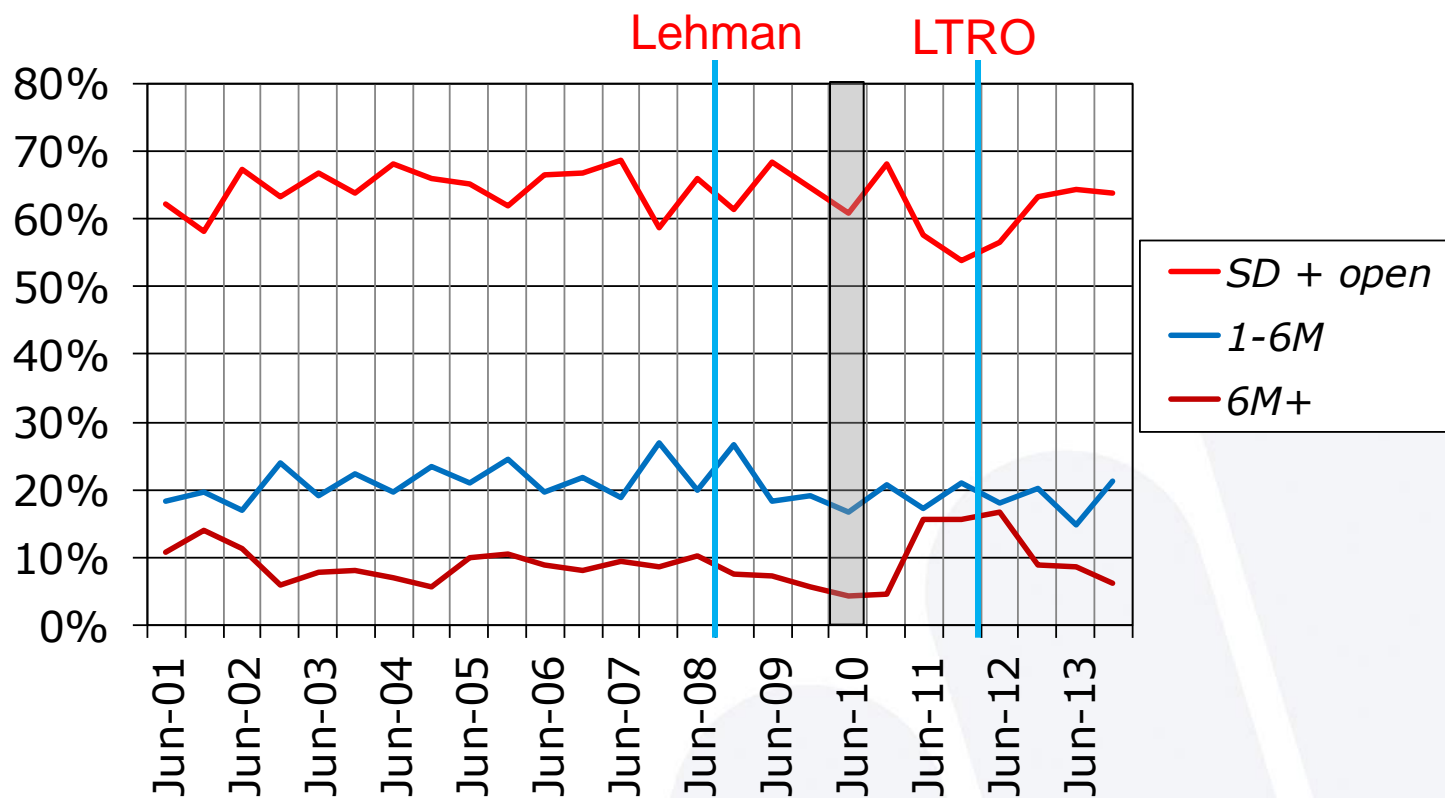
Maturity analysis



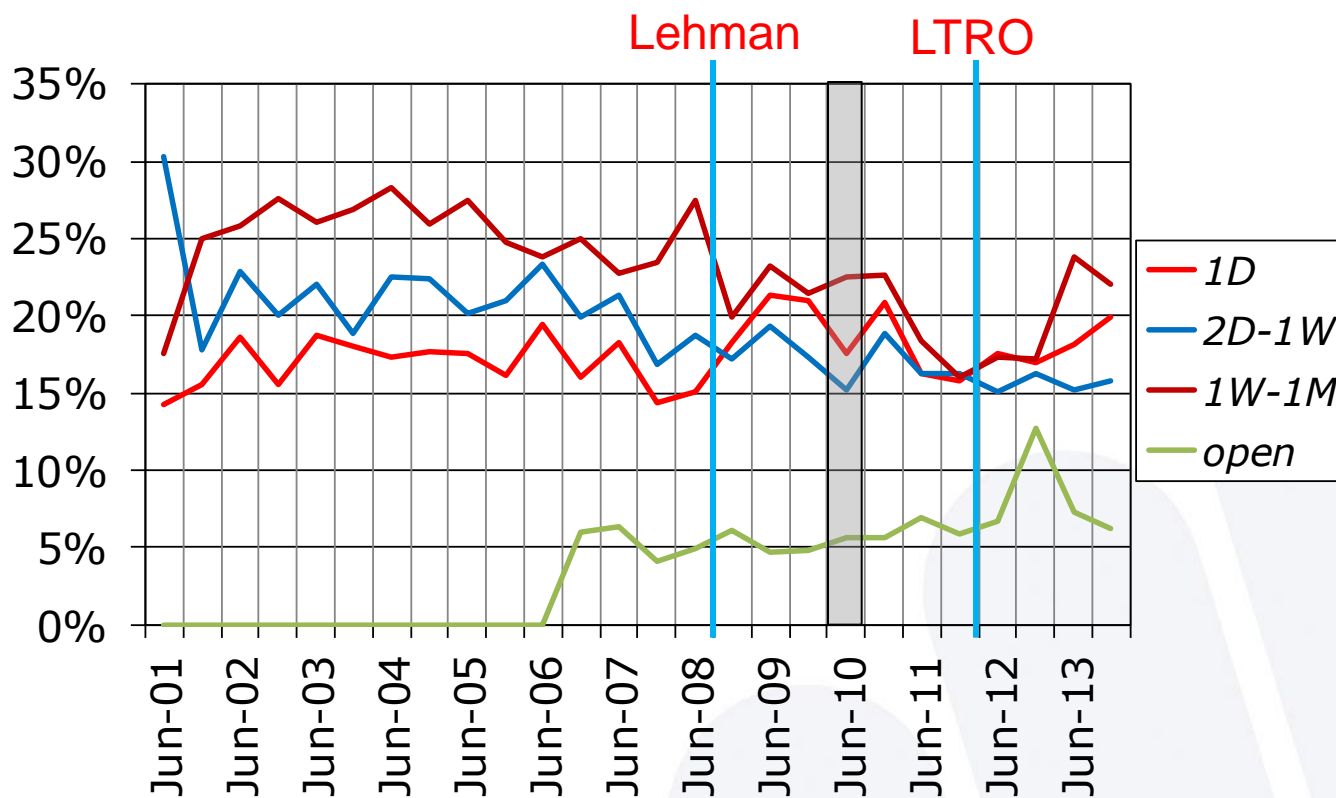
Maturity analysis



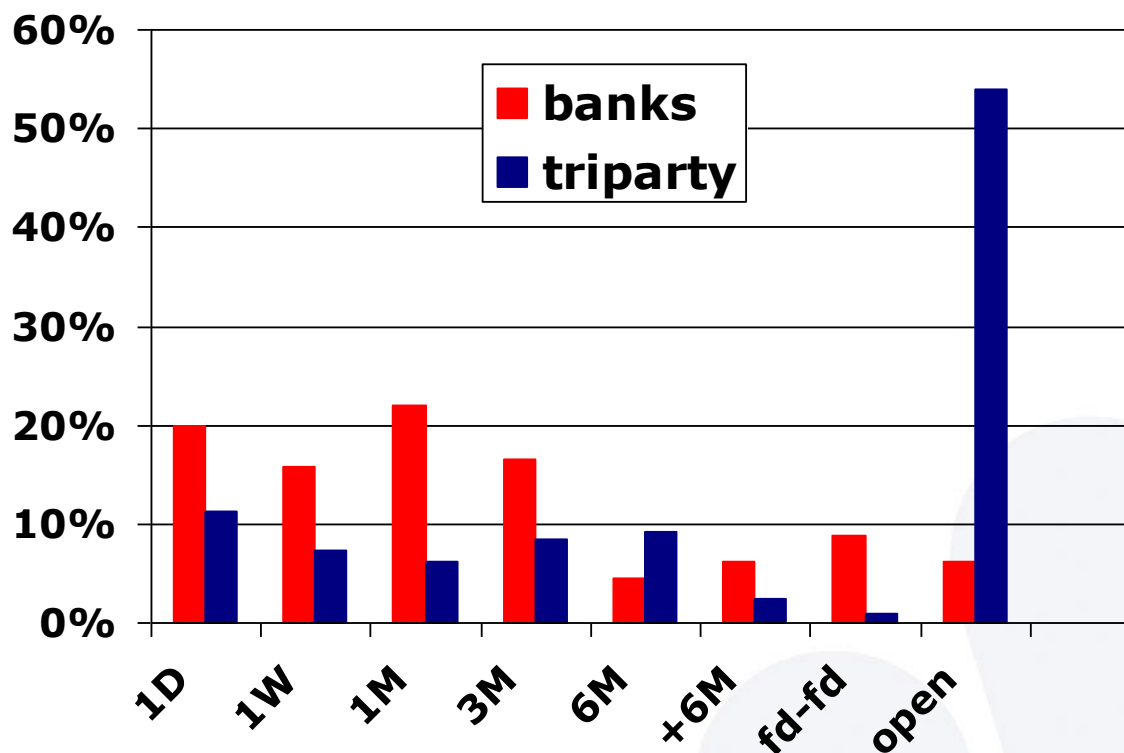
Maturity analysis



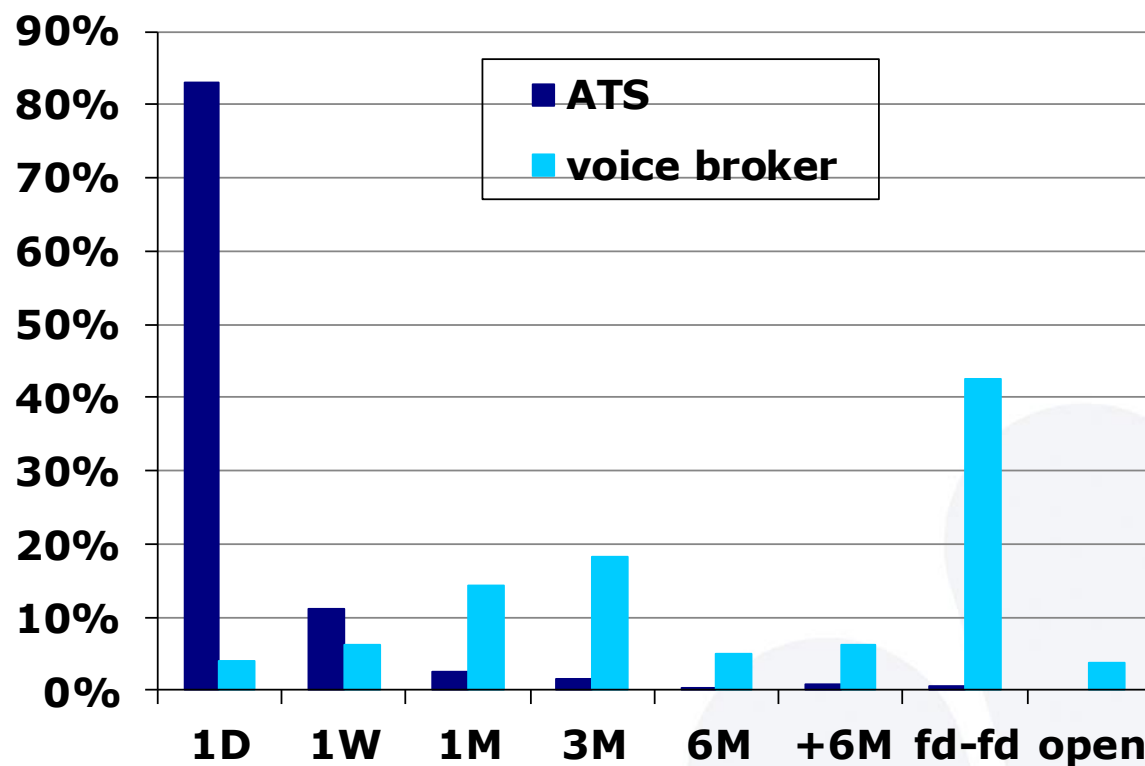
Maturity analysis



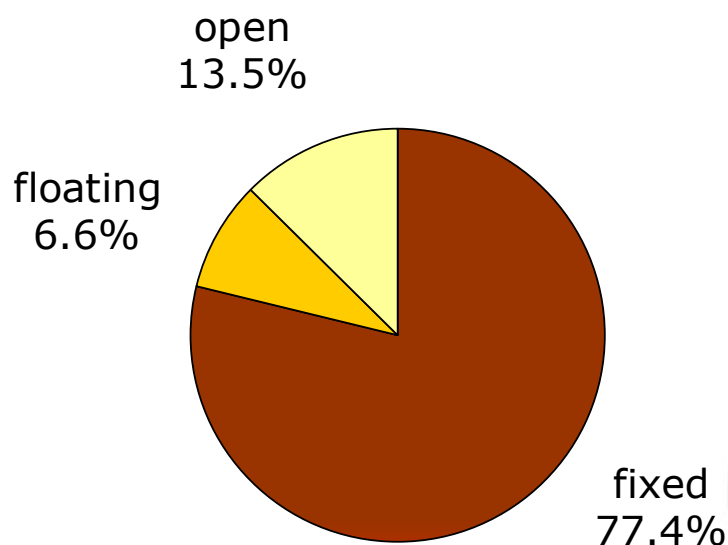
Maturity comparison



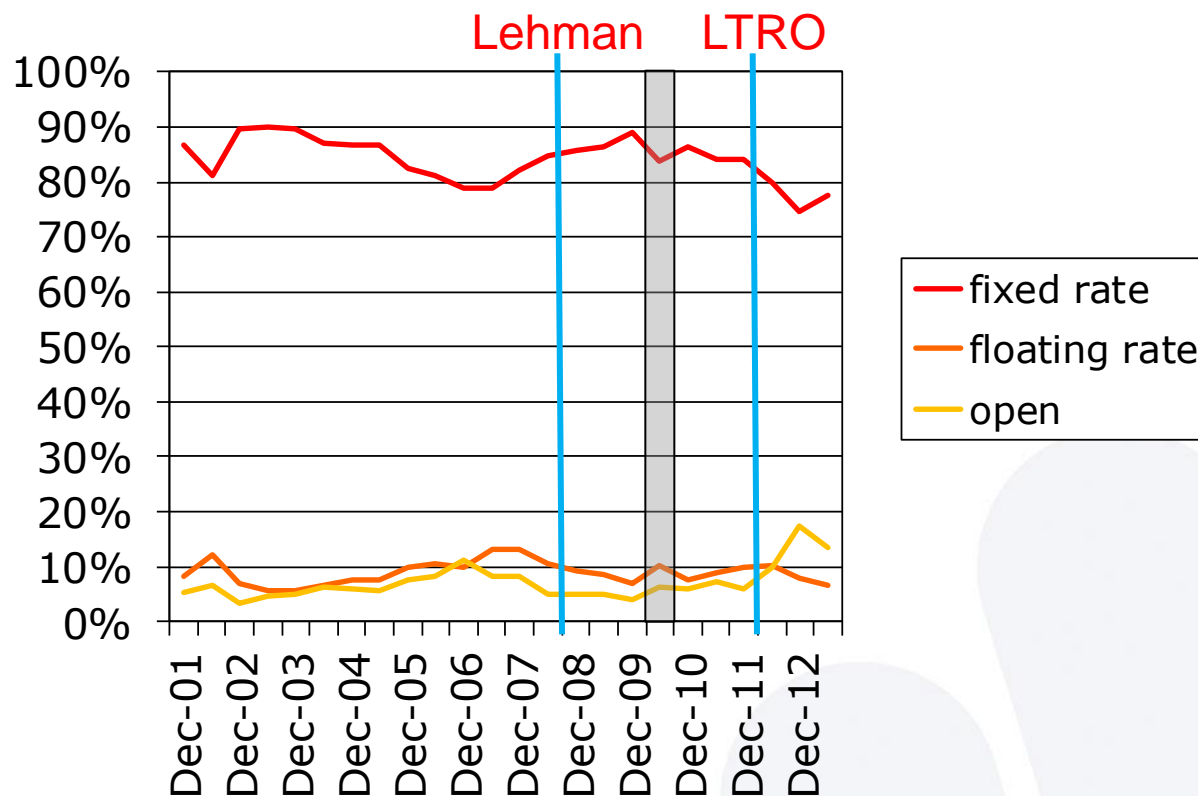
Maturity comparison



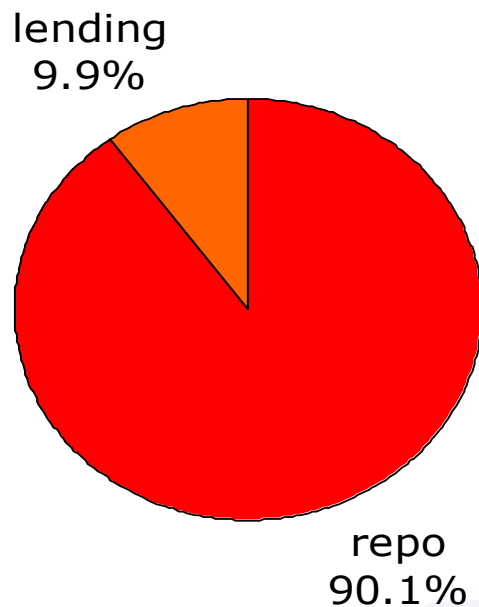
Rate analysis



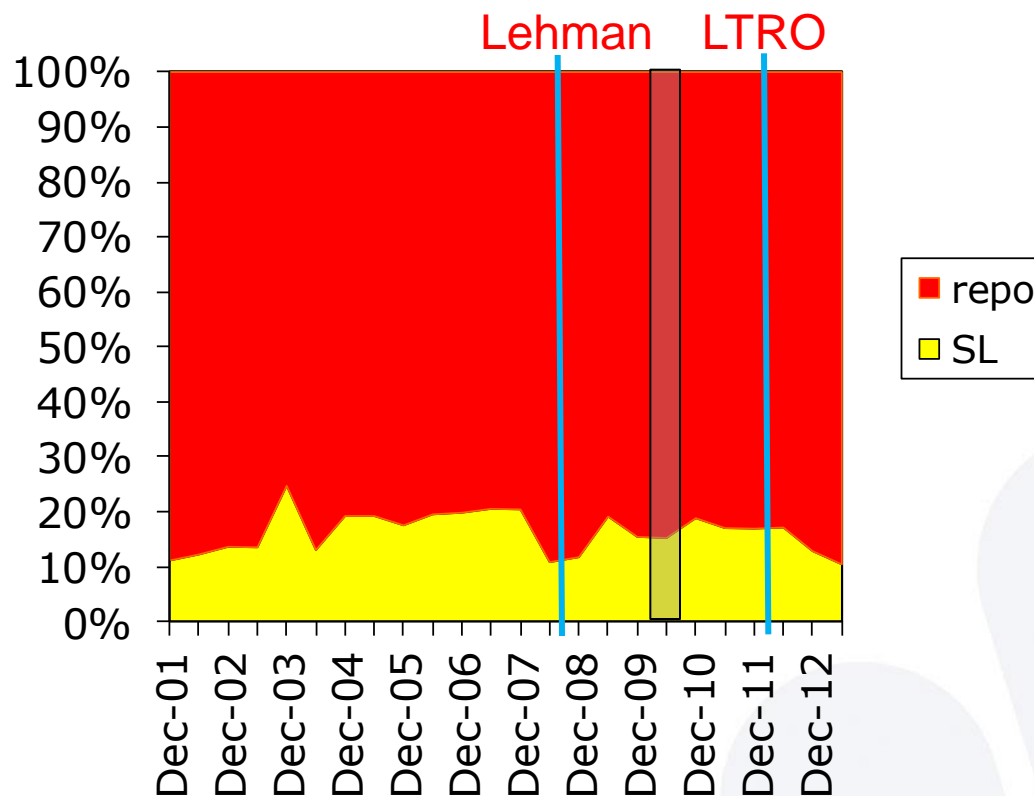
Rate analysis



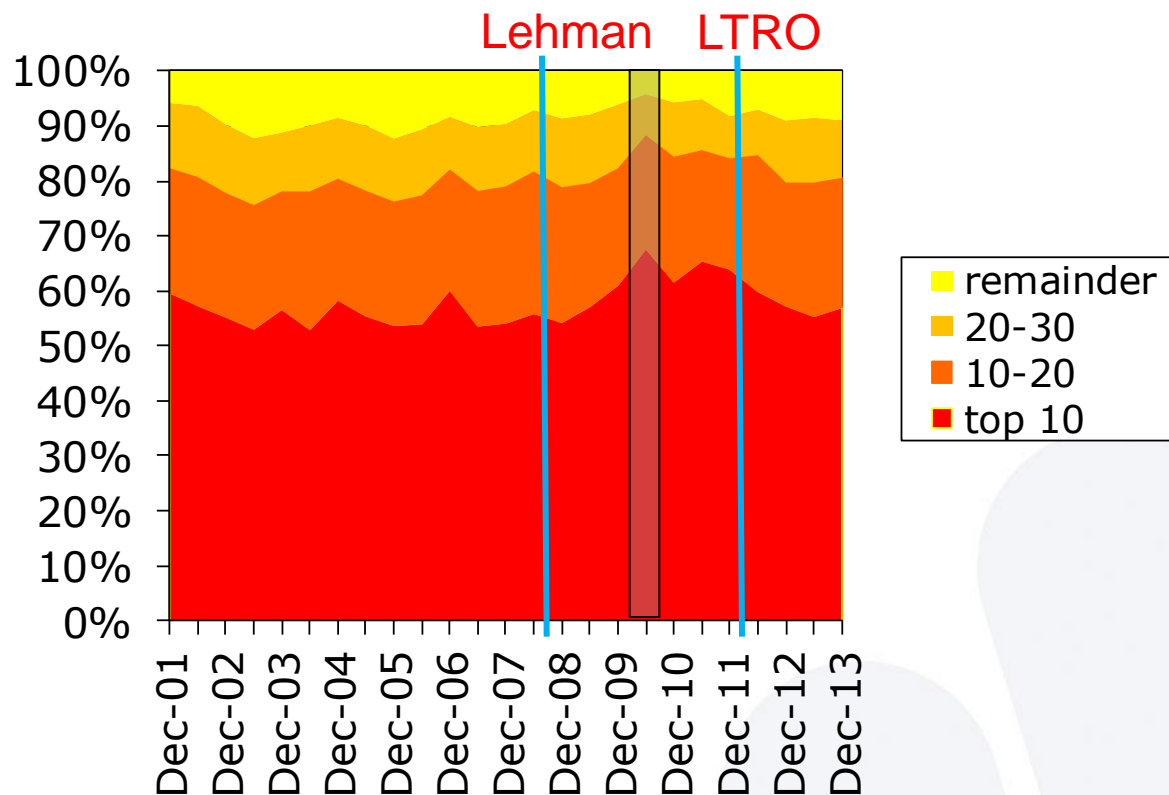
Product analysis



Product analysis



Concentration analysis





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Next survey

Wednesday, 11th June 2014



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Legal update

Lisa Cleary, Director, Associate Counsel, ICMA

Panel Session: The Safety Net

» Moderator: Lisa Cleary, Director, Associate Counsel, ICMA

» Panellists:

- Duncan Wales, General Counsel, ICAP
- Habib Motani, Partner, Clifford Chance
- Jean-Robert Wilkin, Head of Product Management, Clearstream



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Elections to the European Repo Committee



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Leverage Ratio

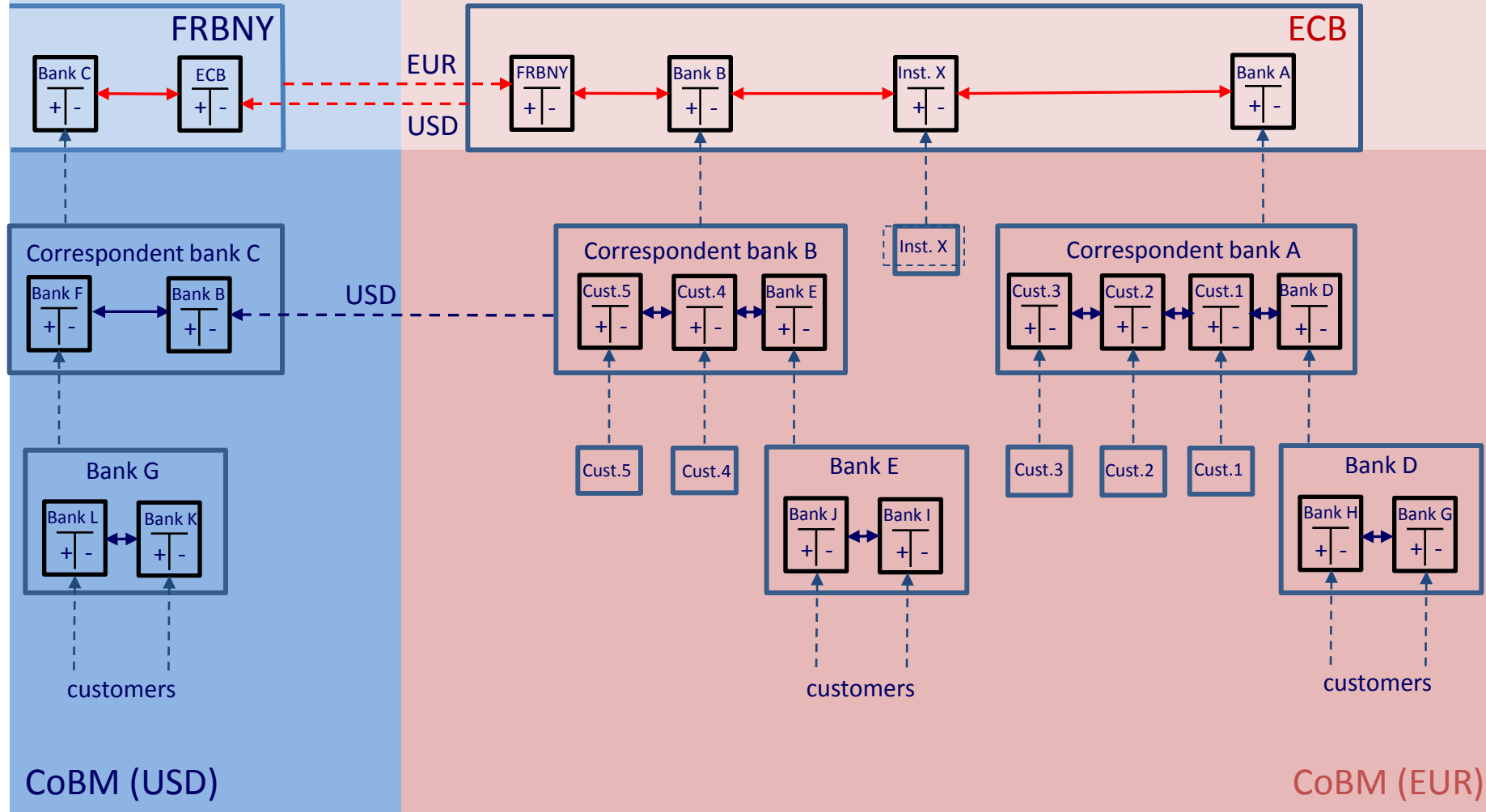
Richard Comotto, Senior Visiting Fellow, ICMA Centre

Settlement under T+2

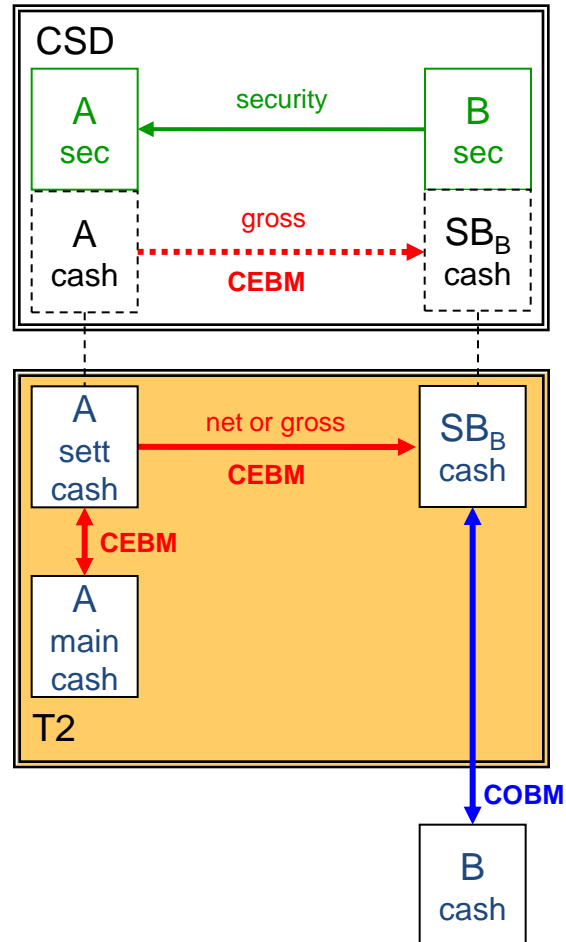
Richard Comotto, Senior Visiting Fellow, ICMA Centre

CeBM (USD)

CeBM (EUR)

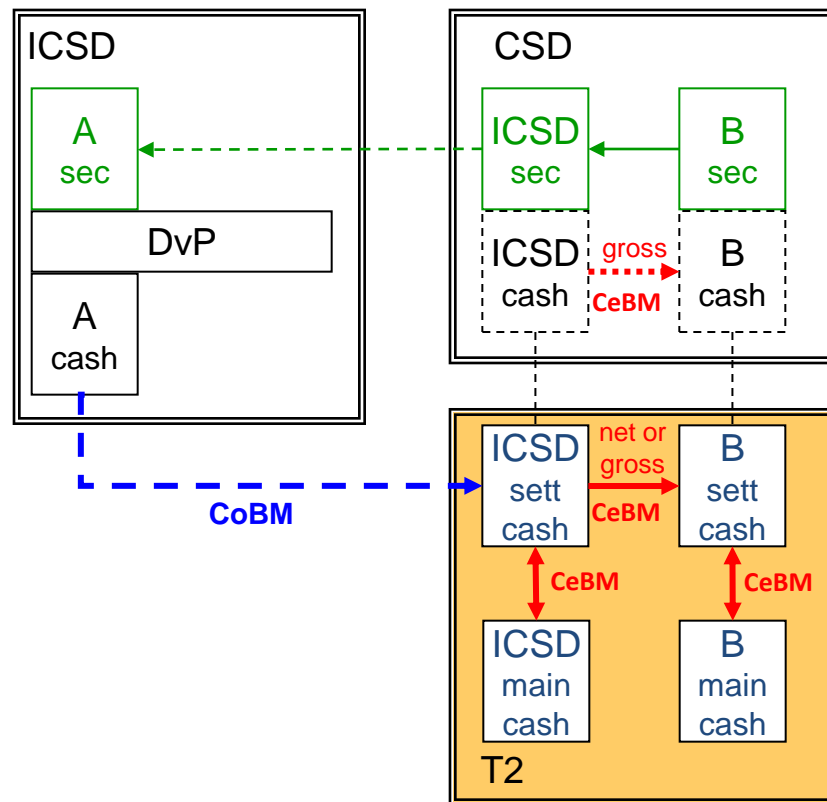


settlement across a CSD

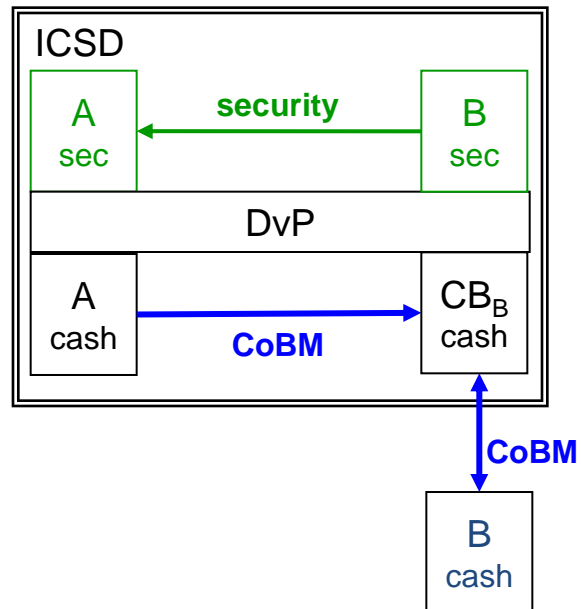


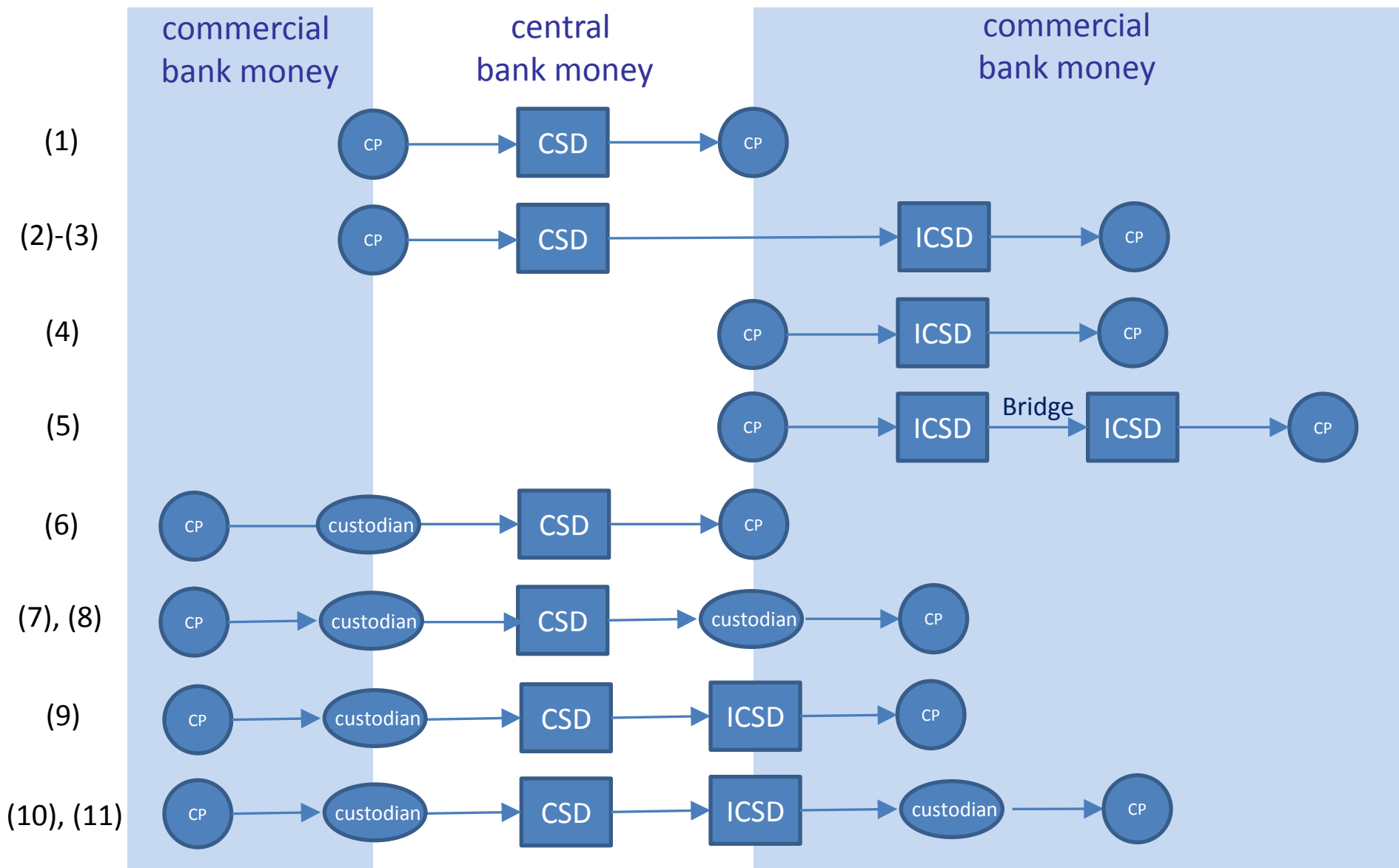
SB = settlement (custodian) bank

settlement across an ICSD and CSD



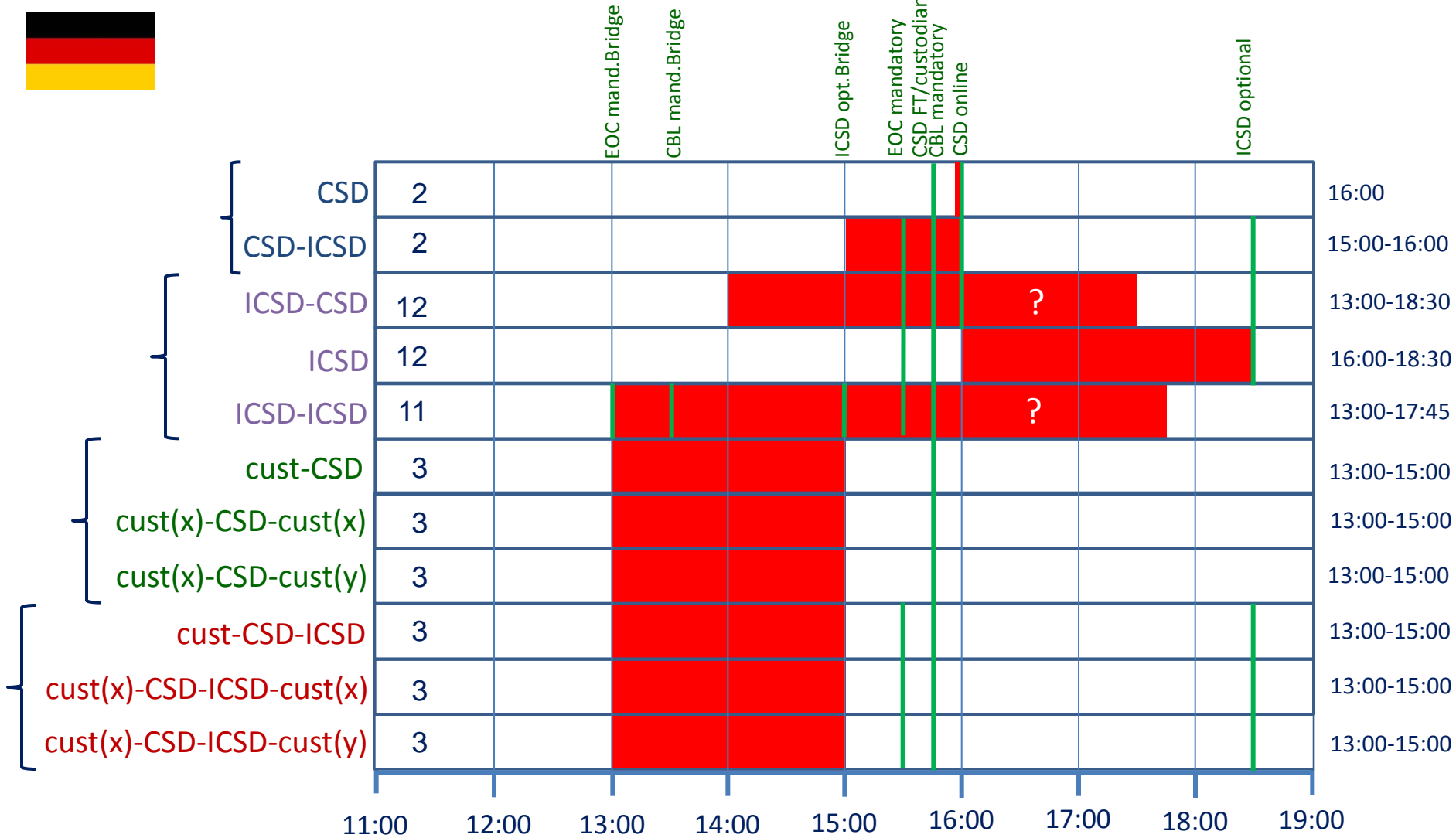
settlement across an ICSD





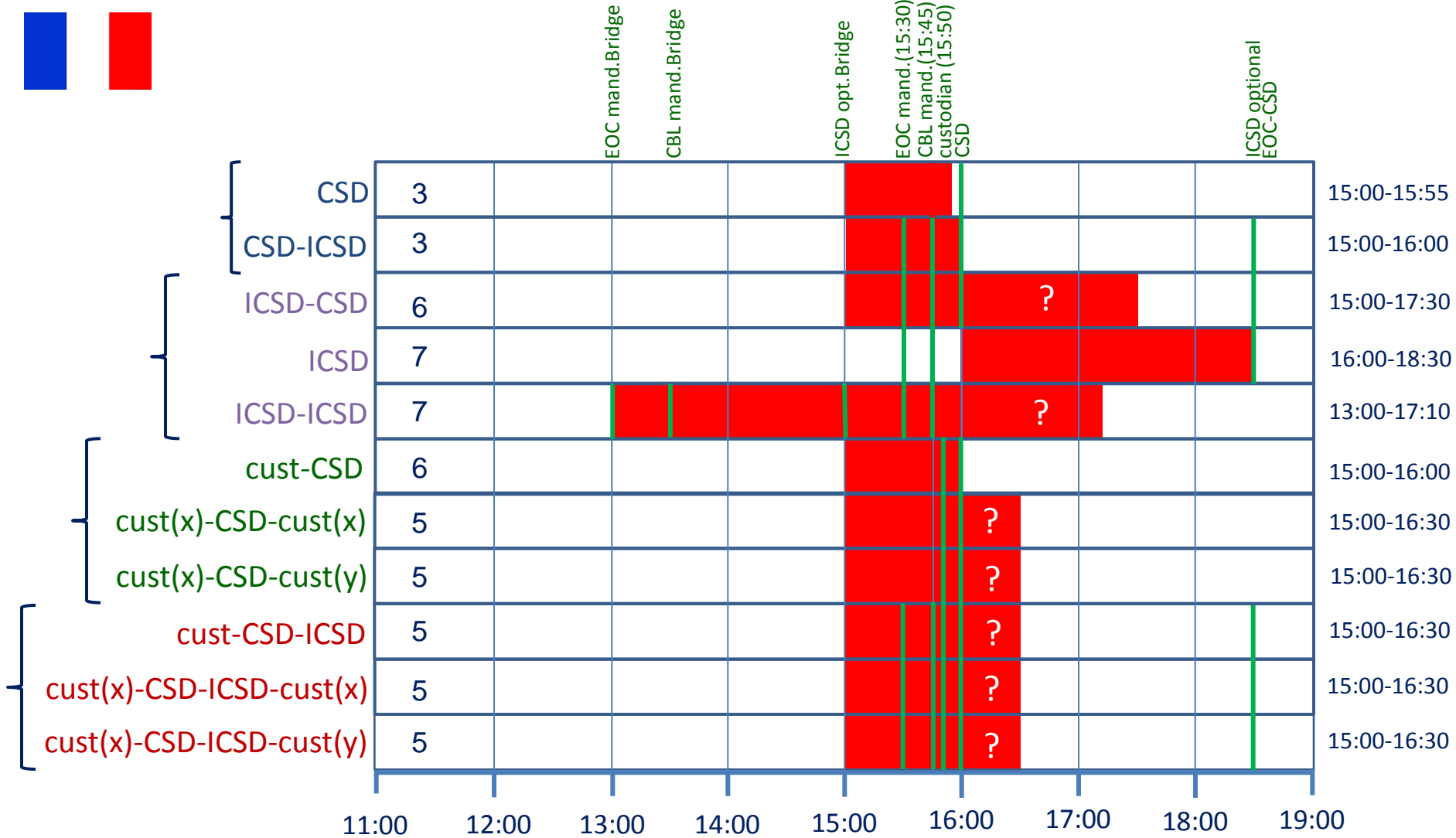
range of internal cut-off times in banks for instructions for same-day settlement

German fixed-income securities --- real-time DvP settlement

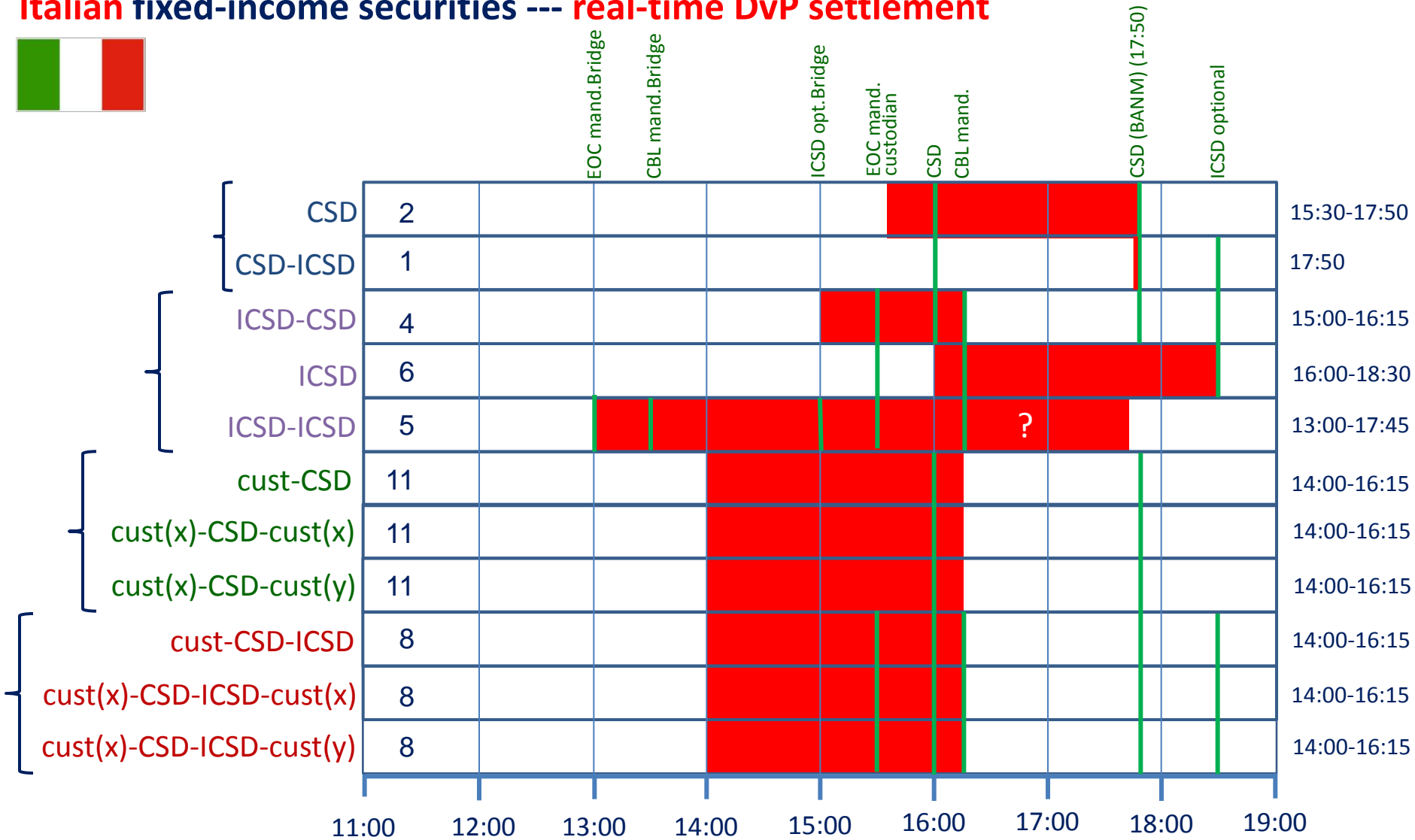


range of internal cut-off times in banks for instructions for same-day settlement

French fixed-income securities --- real-time DvP settlement



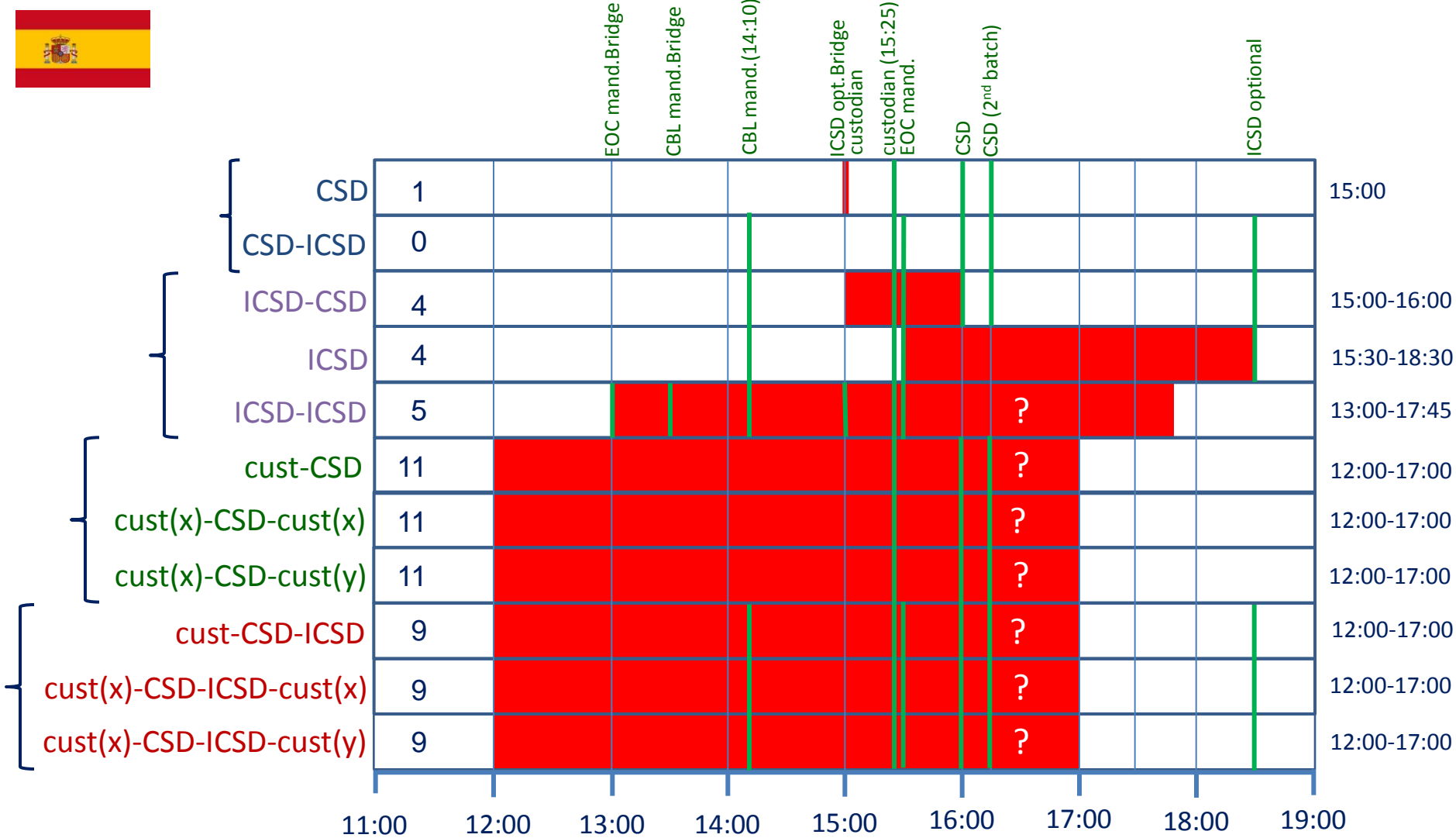
range of internal cut-off times in banks for instructions for same-day settlement
Italian fixed-income securities --- real-time DvP settlement



BANM = bilaterally-agreed non-matching

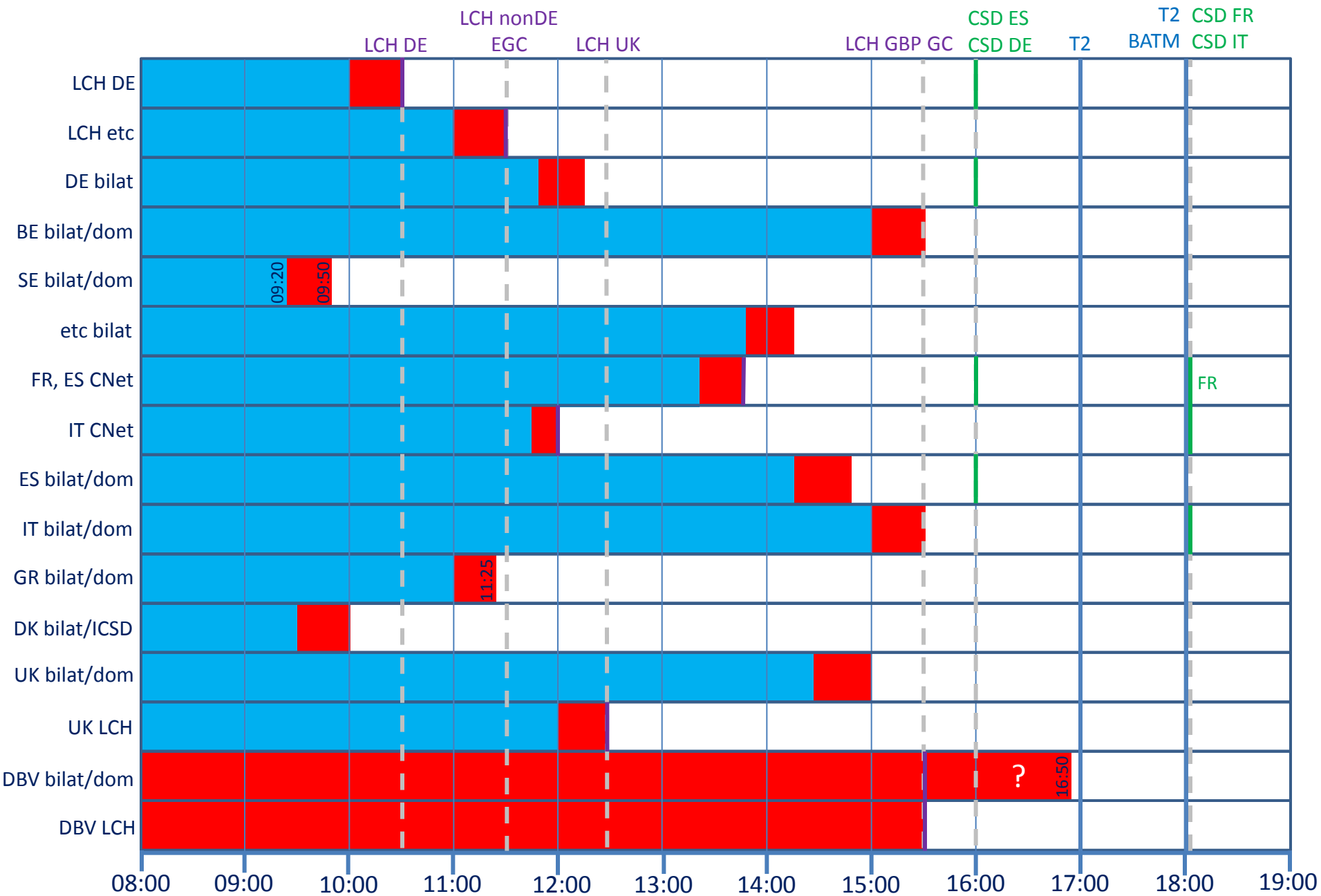
range of internal cut-off times in banks for instructions for same-day settlement

Spanish fixed-income securities --- real-time DvP settlement



Second batch-processing cycle accepts instructions at 16:15

range of BrokerTec ON repo trading deadlines CET (specials = red; GC = blue)





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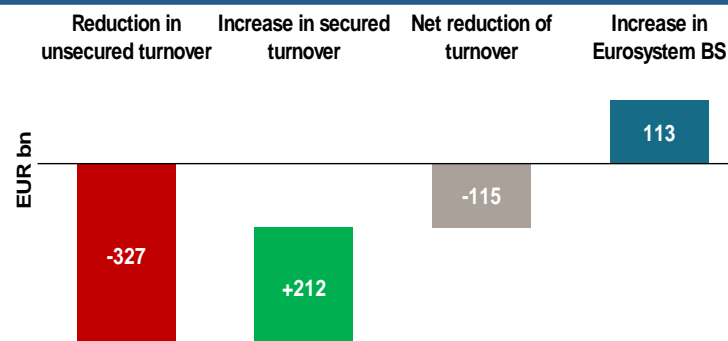
Alternatives for Repo Indices / Establishing a Standard for European Repo Indices

Importance of a widely accepted repo index

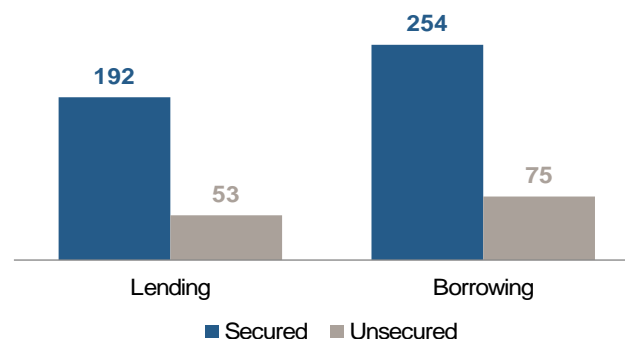
» Significance of the European repo market

- Today, the **secured segment accounts for almost 80%** of lending and borrowing transactions
- Repo markets have been able to **absorb a substantial part** of the reduction of unsecured lending/borrowing following the crisis, therefore limiting the intervention of the ECB to facilitate liquidity

The Repo market has lessened the burden on the ECB*



Secured vs. Unsecured (volumes for 2012)*



» There is a need of a pan-European effort to establish a widely-accepted standard

- **Increased market transparency**
- **Enhanced visibility** for regulators
- Helping market participants **manage risks**
- Monitoring the **monetary policy transmission mechanisms**

*Source: ICMA "The Future of the Repo Market" – June 2013 , Presentation by **Francesco Papadia**, Chairman of the Board of the Prime Collateralised Securities (PCS) and former Director General, Market Operations, European Central Bank

A working example in the US: the DTCC GCF Repo index*

- » The index was developed in response to concerns of the **Treasury Markets Practice Group, sponsored by the Federal Reserve Bank of New York**, regarding the **need for enhanced transparency** in the Treasury, agency debt and mortgage-backed securities markets
- » Based on an average daily **volume of close to USD400bn** of overnight transactions
- » Based only on actual transactions
- » Fully transparent index methodology
- » Suite of 3 DTGCC GCF Repo Indices, each calculated as the **weighted average of the interest paid each day on overnight transactions** involving GCF Repos for:
 - U.S. Treasury (< 30Y maturity) (GCFRTSY Index)
 - Non-mortgage backed US agency securities (GCFRAGY Index)
 - Fannie Mae & Freddie Mac fixed rate MBS (GCFRMBS Index)
- » **Futures and swap market**
 - Bloomberg page: Tullett Prebon → Tullett Prebon → OIS → GC Index Swaps (GDCO 6793 3)
 - Bloomberg tickers: **USTA Cmdty**

*Average daily trading in GCF Repos in 2012.

Adapting best practices to the Euro Zone reality

- » **Key differences** from the US market
 - **Heterogeneous market:** European repo markets liquidity is along national “GC” lines and are certain basket products (e.g. GC Pooling)
 - **CCP:** sovereign risks subject the CCP model to constraints unknown to the US
 - **Data Ownership:** transaction data remains with inter-dealer brokers and not with CCPs
 - **GCF/DBV:** no pure GCF/DBV type of product with high turnover
- » **Several parallel initiatives**
 - Capturing different segments of the European market
 - Varying index methodologies
 - Different levels of industry backing
 - In some cases, filtering algorithm to capture broader GC concept out of specific transactions
- » A working group of the **ICMA European Repo Committee** has discussed the need for, and features of, a suite of secured benchmark indices reflective of the European repo market

Guiding Principles for Euro Repo Indices

Anchored on actual market transactions:

- ☐ Objective
- ☐ Transparent
- ☐ Credible

Overnight and term fixing

- ☐ Useful alternative to unsecured short term indices
- ☐ Current reality of the liquidity is on the overnight

Anchored on existing liquid markets

- ☐ Accurate pan-European picture
- ☐ Displays both trends and tiering

Capturing only centrally cleared transactions

- ☐ Accurate representation of the cost of collateral










































































































Broad-based secured index capturing the concept of “GC”

- ☐ Broader representation of secured transactions

Governed by an industry body

- ☐ Highly representative
- ☐ Sustainability
- ☐ Experience
- ☐ Credibility

Assessing and comparing existing initiatives

	Euro Zone			UK	US
Characteristics	Eurepo	RepoFundsRate	GC Pooling	RONIA	GCF
Anchored on actual market transactions	  	  	  	  	  
Overnight and term fixing	  	  	  	  	  
Anchored on existing liquid markets	  	  	  	  	  
Capturing only centrally cleared transactions	  	  	  	  	  
Broad- based secured index	  	  	  	  	  
Governance by industry body	  	  	  	  	  
Pure GC basket product	  	  	  	  	  

The way forward

- » In September last year, to the invitation of the EBF, The ERC Repo Index task force, the Eurepo steering committee and an observer from the ECB met as a working group to get an update on the various initiatives and devise the way forward
- » For the benefit of the wider public, it comes out as a necessity to build the index as **a unique pan Eurozone daily index** capturing the weighted average of all centrally cleared, electronically transacted 1 day repo transactions
- » This is a challenge given the liquidity structure of the Euro Repo markets but a challenge that can be resolved. Extracting information from the deepest and most liquid funding market with volumes in excess of Euro 250bn transacted daily is a worthwhile goal
- » The next meeting of ERC Repo Index task force & Eurepo steering committee is scheduled for January 23rd
- » The work on repo indices has laid bare some other challenges which we should take upon us as an industry (dealers, CCPs and post-trade providers):
 - The creation and development of liquidity in a Euro GCF like basket
 - The establishment of a true term benchmark



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ERC Operations Group Update

Nicholas Hamilton, Chairman of the ERC Operations Group

European Repo Council Operations groups

Committee Structure:

18 members:

- 3 working groups:
 - Matching & Affirmation – Camille Mckelvey (CITI)
 - Target 2 Securities - Rob Mason (RBS)
 - Repo Data Repository - Jonathan Lee (JPM)
- 2 focus groups:
 - ICSD / CCP Tri-party interoperability
 - COGESI - T2S Treasury deadlines
- Contributions
 - CSDR article 7 – Buy in and settlement
 - Repo Best Practice Guidelines

Matching and Affirmation Working Group – progress 2013

Overview

- 9 ICMA ERC Ops firms form part of the working group
- Working towards best practice as a industry on trade date matching and affirmation

Focus areas

- Industry alignment to best practice documents and terminology
- Review of current vendor service offerings
- Feedback from the ERC community of their vendor usage
- Encouraging the industry to T0 affirm and match

Progress 2013

- Sub group re-established to review current state
- Survey issued to vendor community to review detailed offerings
- New best practice statement developed with ICMA on Matching, Affirmation and Confirmation
- Partnership with ISLA to share best practices

Matching and Affirmation Working Group – Looking forward

- » Production of short report for vendors and ERC members highlighting survey findings
- » Work closely with vendors to define industry requirements
- » Promote Repo matching and affirmation on trade date
- » Be proactive to potential regulatory change in the industry
- » Further partnership & collaboration with AFME, ISLA & industry groups

ERC Ops – Target 2 Securities

- » Firms have now decided on their intention for direct/indirect access to T2S. The deadline for “non binding expression of interest” to be a direct participant passed in October 2013, with a list available on the ECB website.
- » Consultation with Rule Financial has been initiated. Aim is to determine if a joint venture with ICMA to produce more information on T2S is of benefit to the industry and its actors.
- » Topics likely to be in focus for more research in H1 2014 include:
 - Articulating the infrastructure landscape in T2S and what it means for the industry
 - Understanding the impact on settlement mechanics and settlement discipline
 - Identifying potential risks, benefits and opportunities of T2S for the industry
 - Understanding the impact of T2S on Triparty Repo and Triparty Interoperability
- » Further educational materials and seminars likely in 2014, aimed at all market participants.

ERC Repo Market Data Repository Working Group 2013

- » Working group formed of ERC banks with a significant interest in Repo market regulation.
- » Requirements (explicit and implicit) collated based upon published papers from the European Central Bank, European Systemic Risk Board, Committee on Payment & Settlement Systems/Bank for International Settlements and Federal Reserve Bank of New York.
- » Hopes, Fears & Unknowns Identified – Need for a thorough specification including product scope & standardisation of terms.
- » Working group identifying readily available data, potential application to meet majority of micro and macro prudential regulatory requirements without building a full Trade Repository at this time.
- » ERC paper launched on “Enhancing the Transparency of the European Repo Market.” Putting forward proposals to offer a rapid expansion in Repo market transparency leveraging existing data sources.

ERC Repo Market Data Repository Working Group 2014

- » Preparing for the inclusion of Repo Data Repository requirements in forthcoming European legislation on the separation of certain trading activities from credit institutions and their EU parents. Looking to engage / influence Level 2 discussions.
- » Engaged with the FSB on Global Data Collection & Aggregation, formal engagement requested in London in mid-March.
- » Plans to expand the number of ERC working group participants as this agenda approaches fruition.
- » Reviewing the possibility of an ERC Repo Position Data Survey pilot to demonstrate its potential as a micro/macro prudential regulatory tool – front running formal regulatory requirements and helping shape those requirements.



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Update on regulatory issues

John Serocold, Senior Director, ICMA

Regulatory Update

» Other relevant regulatory developments include:

» **Shadow banking:**

- Active and on-going ERC engagement in efforts at both international and EU levels

» **BCBS leverage – treatment of SFTs**

- BCBS published finalised leverage ratio framework on 12 January. The technical modifications to the June 2013 proposals relate to (a.o.):
 - Securities financing transactions (SFTs). SFTs include transactions such as repos and reverse repos. The final standard now allows limited netting with the same counterparty to reduce the leverage ratio's exposure measure, where specific conditions are met.
- “The Committee thanks those who provided feedback and comments as these were instrumental in revising and finalising the leverage ratio standard.”

» **Asset encumbrance**

- EBA published consultation on asset encumbrance in a CRD context on 20 December
 - Open hearing 22 January
 - We expect to respond

Shadow banking - summary

» FSB shadow banking workstream related to securities lending/repos (WS5)

- 29 August 2013: release of 11 final policy recommendations on securities lending/repos
 - Improvements in the areas of transparency; regulation; and structural aspects
 - Consultation re two further recommendations concerning haircuts
 - ERC responded jointly with ISLA by 28 November deadline
 - » We broadly welcomed the proposals for a limited regime of mandatory minimum haircuts
 - » Reservations remain in other areas. In particular, there is concern regarding the call for haircut methodologies to be used in all non-CCP cleared securities financing transactions to set haircuts. This requirement should be limited in scope in the same way as for mandatory minimum haircuts
 - QIS2 prepared by FSB in conjunction with the consultation published 5 November 2013
 - FSB technical data experts group to develop proposed standards and processes by end 2014

» Parallel European Commission project continues:

- 4 September shadow banking roadmap communication published
- Commission proposal for an EU Money Market Funds Regulation

» Active and on-going ERC engagement in efforts at both international and EU levels

Shadow banking – ‘haircuts’ – QIS

- » On the 5 November 2013, the FSB launched its Quantitative Impact Study (QIS2) on Proposed Regulatory Framework for Haircuts on Securities Financing Transactions. This includes:
 - a more comprehensive quantitative assessment of the impact on a broader set of firms of the FSB's detailed haircuts proposals:
 - both the proposed minimum standards for methodologies used by firms in calculating their own haircuts and
 - the numerical haircut floors to be applied to certain securities financing transactions.
 - QIS comprises a quantitative data collection template (template A) and a questionnaire (template B).
- » Although the ERC is not responding itself, the ERC (with ISLA) has offered advice to the FSB on the design of the exercise and encouraged its individual member firms to respond.
- » The deadline for responses is 23 December 2013.

BCBS leverage – treatment of SFTs – 1

- » Leverage = Capital/Exposure
- » The capital measure used for the leverage ratio at any particular point in time is the Tier 1 capital measure applying at that time under the risk-based framework.
- » The exposure measure is the sum of:
 - On balance sheet exposures (excluding SFTs but including collateral);
 - Derivatives exposures;
 - Securities financing transaction (SFT) exposures; and
 - Off balance sheet items.
- » Banks will be required to comply with these requirements from the date of publication of their first set of financial statements relating to a balance sheet on or after **1 January 2015**.

BCBS leverage – treatment of SFTs - 2

Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)
14	CCR exposure for SFT assets
15	Agent transaction exposures
16	Total securities financing transaction exposures (sum of lines 12 to 15)

Results of the elections to the European Repo Committee

Results of the elections to the European Repo Committee

1. **Constantino Toribio Garcia**, BANKIA, S.A., Valencia
2. **Stephen Malekian**, Barclays Capital Securities Limited, London
3. **Eugene McGrory**, BNP Paribas, London
4. **Maria Arauzo Arranz**, CAIXABANK, S.A., Barcelona
5. **Grigorios Markouizos**, Citigroup Global Markets Limited, London
6. **Andreas Biewald**, Commerzbank AG, Frankfurt
7. **Romain Dumas**, Credit Suisse Securities (Europe) Limited, London
8. **Tony Baldwin**, Daiwa Capital Markets Europe Limited, London
9. **Ronan Rowley**, Deutsche Bank AG, Frankfurt
10. **Olly Benkert**, Goldman Sachs International, London
11. **Jean-Michel Meyer**, HSBC Bank plc, London
12. **Godfried De Vidts**, ICAP Securities Ltd, London
13. **Andrea Masciovecchio**, Intesa Sanpaolo S.p.A, Milan
14. **Stefano Bellani**, J.P. Morgan Securities plc, London
15. **Rajen Patel**, Morgan Stanley & Co. International PLC, London
16. **Ulf Bacher**, Newedge Group SA, Paris
17. **Sylvain Bojic**, Société Générale, Paris
18. **Guido Stroemer**, UBS AG, London
19. **Eduard Cia**, UniCredit Bank AG, Munich

Any other business and next meetings

- » The next ERC General Meeting will be held on 7 October 2014 in London, hosted by MTS