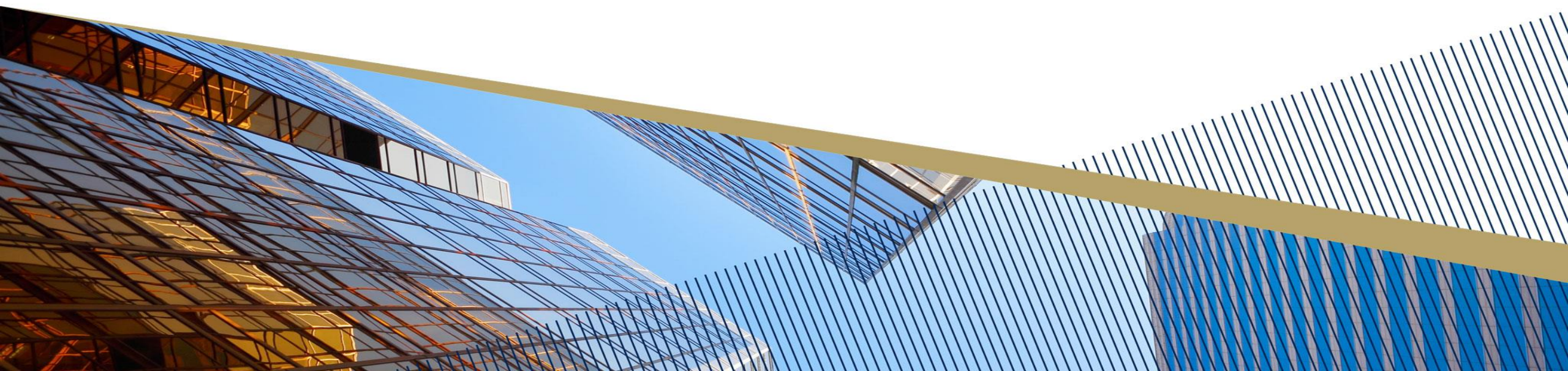


ICMA European Repo and Collateral Council Annual General Meeting

31 January 2019, Luxembourg



Welcome Remarks

Godfried De Vidts, ERCC Senior Advisor and former Chairman

- 26 candidates standing in the 2019 elections to the ERCC Committee – **deadline to vote is 6 February, 1pm!**

1.	Charlie Badran	AXA Investment Managers Ltd
2.	Nick Dent	Barclays Capital Securities Limited
3.	Emma Cooper	BlackRock Investment Management (UK) Limited
4.	Eugene McGrory	BNP Paribas
5.	Staffan Ahlner	BNY Mellon
6.	Grigorios Markouizos	Citigroup Global Markets Limited
7.	Jean-Robert Wilkin	Clearstream Banking
8.	Andreas Biewald	Commerzbank Aktiengesellschaft
9.	Michel Semaan	Crédit Agricole Corporate and Investment Bank
10.	Romain Dumas	Credit Suisse Securities (Europe) Limited
11.	David Joughin	Deutsche Bank AG
12.	Hervé Foyan Djoudom	Euroclear Bank S.A./N.V.
13.	James Whittingham	Goldman Sachs International
14.	Jean-Michel Meyer	HSBC Bank plc
15.	Chris Brown	Insight Investment Management (Global) Limited
16.	Andrea Masciovecchio	Intesa Sanpaolo S.p.A.
17.	Nicola Danese	J. P. Morgan Securities plc
18.	Antony Baldwin	LCH Limited
19.	Paul Fewell	Lloyds Bank plc
20.	Daniel Bremer	Merrill Lynch International (trading as Bank of America Merrill Lynch)
21.	Ed Bracken	Morgan Stanley & Co International PLC
22.	Paul Van De Moosdijk	PGGM Vermogensbeheer B.V.
23.	Sylvain Bojic	Société Générale S.A.
24.	Richard Hochreutiner	Swiss Reinsurance Company Ltd
25.	Gareth Allen	UBS AG
26.	Harald Bänsch	UniCredit Bank AG



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Legal Update

Lisa Cleary, Senior Director, ICMA



- The ERCC committee have taken the decision to discontinue coverage of the GMRA 1995 in the GMRA legal opinions from 2019 onwards.
- The GMRA legal opinions will continue to cover:
 - GMRA 1995 as amended by the Amendment Agreement; and
 - GMRA 1995 as amended by the 2011 GMRA Protocol (subject to certain elections)
- The opinions will not cover annexes to the GMRA 1995 or changes to the core provisions of the GMRA 1995.



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Legal opinion update 2019

- Phased update
- Non EU jurisdictions updated to standard timetable
- Update of EU jurisdiction opinions to be confirmed



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GMRA and Brexit

- Publication of FAQ on Brexit & the GMRA
- Governing law of the GMRA

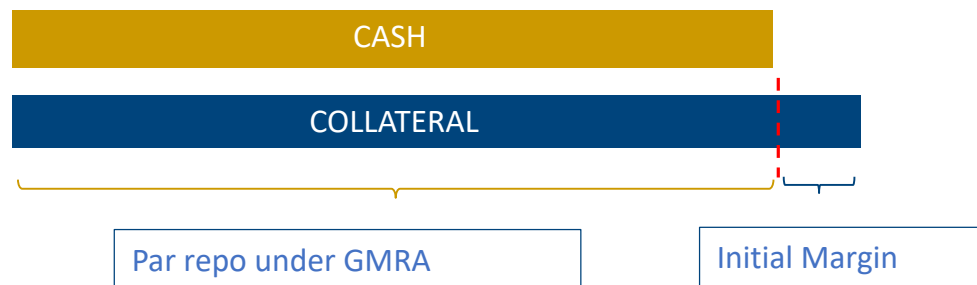


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ERCC Initial Margin pledge project

- ERCC sponsored project:
 - Developing a 'Initial Margin Pledge Structure' whereby the 'haircut' or initial margin (IM) in a repo transaction is secured on a pledge basis. Ideally this would be documented separately from the GMRA so as to protect the title transfer characteristics of the master agreement but there would need to be a robust linkage between the GMRA and the pledge document to ensure they were executed simultaneously and for the purposes of netting.
 - Developing a 'Secured Loan Agreement' which would provide for raising cash against pledged securities.



Glossary	
GMRA	Global Master Repurchase Agreement
RWA	Risk Weighted Asset
E	Exposure
C	Collateral
RA	Risk adjustment
EAD	Exposure at default for regulatory purposes

Current treatment for standard GMRA transaction:	Treatment for IM Pledge Structure:	Saving using IM Pledge Structure:
<p>EAD = 105MM - 100MM + 2.9694MM EAD = 7.969MM RWA (@100%) = 7.969MM Capital (@10%) = 0.797MM</p> <p>Regulatory risk adjustment of 2.828 % of Exposure (105MM).</p>	<p>The IM of 5MM would attract zero exposure on that basis that the IM is segregated in a pledge account.</p> <p>EAD = 100MM – 100MM + 2.828MM EAD = 2.828MM RWA (@100%) = 2.828MM Capital (@10%) = 0.283MM</p> <p>Regulatory risk adjustment of 2.828% of Exposure (100MM).</p>	<p>EAD = 5.141MM RWA = 5.141MM Capital = 0.514MM</p>

The numbers in this example are for illustrative purposes only.



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Work in progress

- ERCC legal working group
 - Impact of Central Securities Depositories Regulation (CSDR) mandatory buy-in regime on GMRA
 - Brexit related amendments
 - Development of pledge documentation
 - BRRD II
 - Audit of counterparty coverage



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International Capital Market Association

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The Guide to Best Practice in the European repo market

Richard Comotto, Senior Fellow, ICMA Centre

ICMA Guide to Best Practice in the European Repo Market

- Recommended best practice & market conventions
- Consolidation of ICMA & ERCC guidance plus new guidance
- Up to 136 pages
- Oversight by ERCC & Working Group
- New Guide published in December 2018: fifth version since 2014
- Available on the [ICMA website](#)
- Markets Market feedback essential

ICMA Guide to Best Practice in the European Repo Market

- Abuse of hold-and-release facilities on (I)CSDs (2.54)
- Notification of counterparty before cancellation of instructions & confirmation of cancellations (2.55)
- Agreement necessary for amendment of instructions & confirmation of amendments (2.56)
- Note that interest on cash margin is included in Net Exposure (3.50)
- More detail on Repricing (3.50)
- Contingency procedures for margin disputes & mutual provision of information (3.61-62)

ICMA Guide to Best Practice in the European Repo Market

- Providing price information in mini close-outs (4.3)
- Claims for manufactured payments (4.7-9)
- Ex-dividend periods leading to margin disputes (4.12-16)
- Accounting consequences of substitution with dissimilar securities & disputes (4.20-21)
- Updating addresses (4.27-28)
- Updated Annex I --- background on repo
- Updated Annex II --- market glossary
- Updated Annex III --- open, evergreens & extendibles

Results of the 36th semi-annual repo survey

Richard Comotto, Senior Fellow, ICMA Centre

The European repo market at 2018 year-end

European Repo and Collateral Council 2019 Annual General Meeting

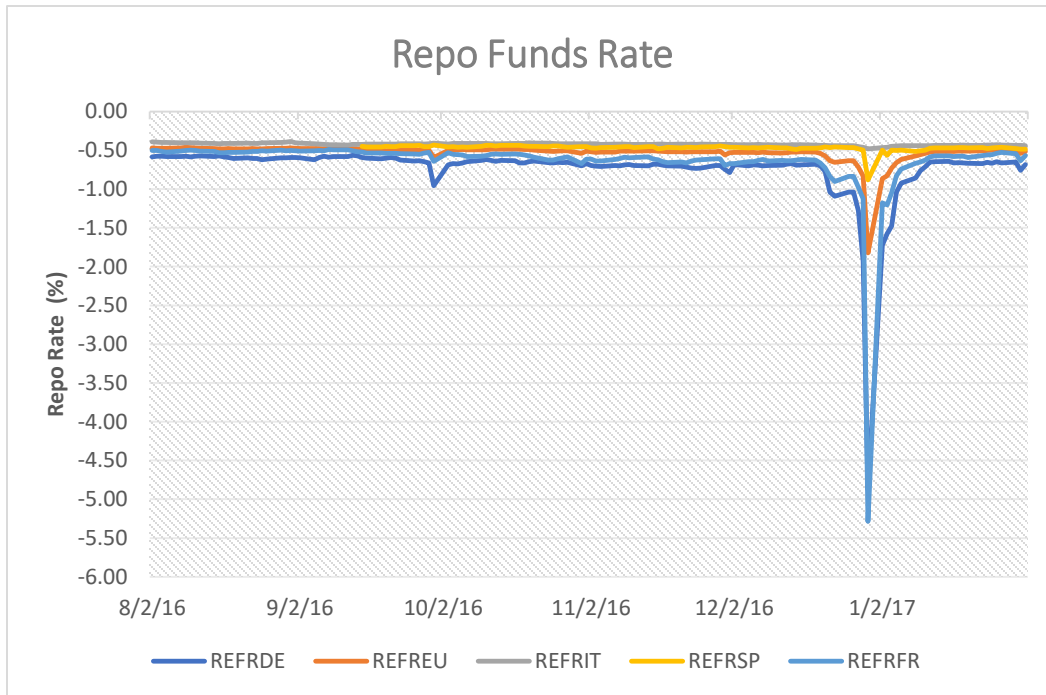
Luxembourg, January 31st 2019

Andy Hill, Senior Director, ICMA

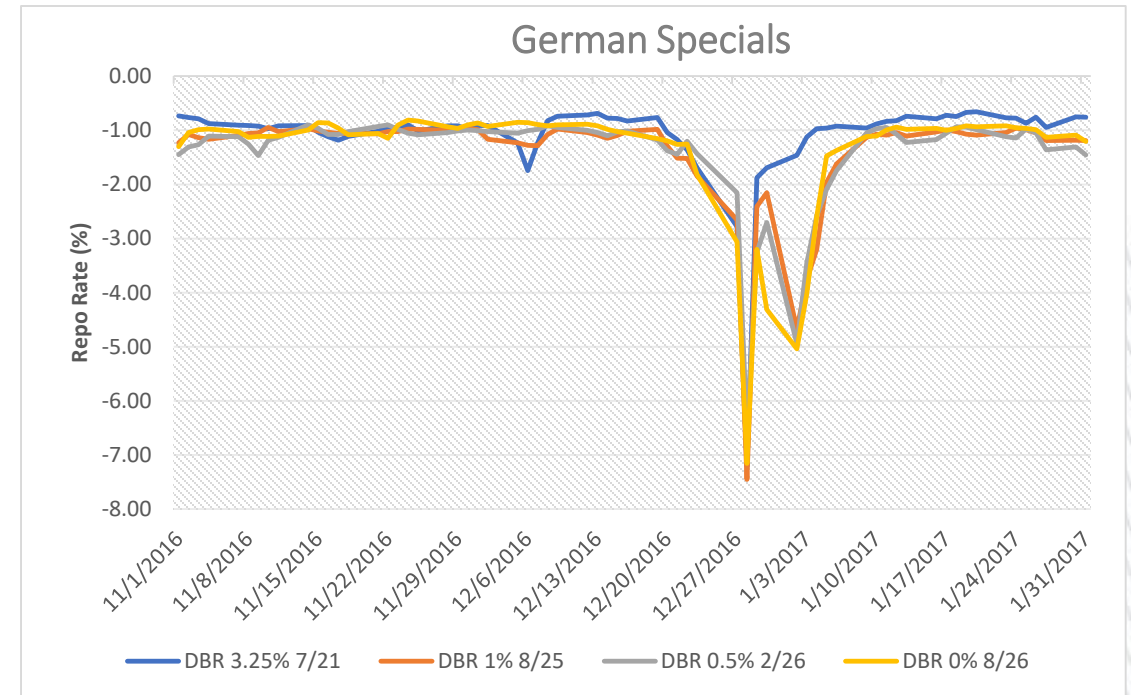
2018 year-end in the European repo market

- Compared with the previous two year-ends, 2018 was relatively uneventful.
- As with going into the 2017 turn, firms began managing their financing and collateral requirements early.
- Focus on drivers of year-end illiquidity and volatility remain: regulatory reporting requirements (Leverage Ratio, national bank levies, G-SIB capital surcharge); market positioning; leverage; FX basis; access to PSPP lending programmes.
- Core Euro GC and specials did come at a premium leading up to the turn (-3.50%/-4.50%) but then cheapened significantly into year-end itself.
- Meanwhile, non-core GC saw scarcely an impact, with only some specials becoming difficult to find.
- The short-date Gilt repo market tightened slightly, however term spreads widened notably, seemingly caused by the introduction of UK bank ring-fencing.
- The US treasury repo market was the real surprise, with an unexpected scramble for cash sending rates notably higher.
- While the markets, for the most part, were fairly orderly, it is clear that a number of year-end pressures and risks persist.

2016 sets the baseline for measuring year-ends

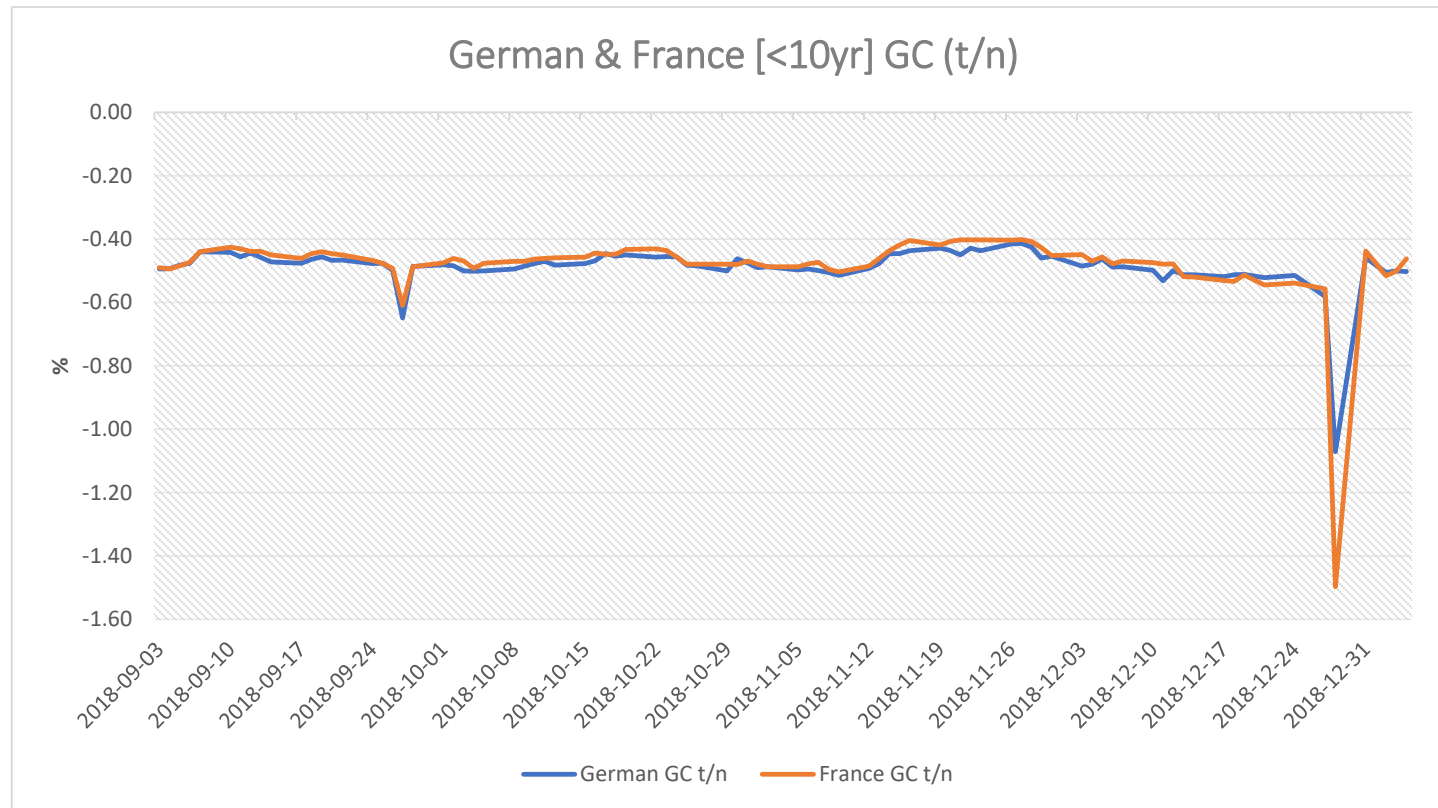


Source: Bloomberg



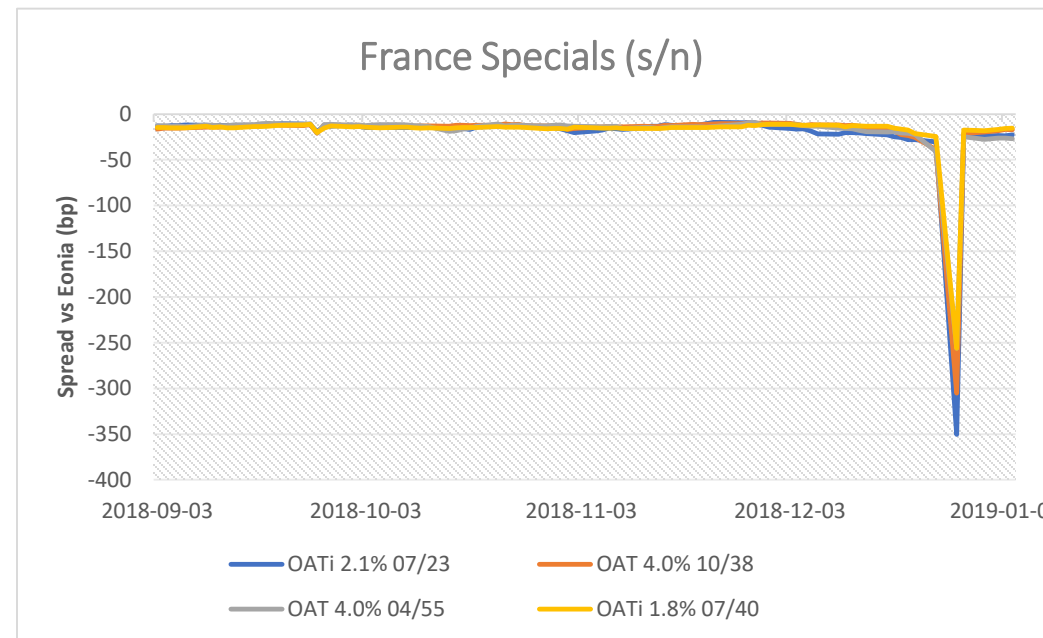
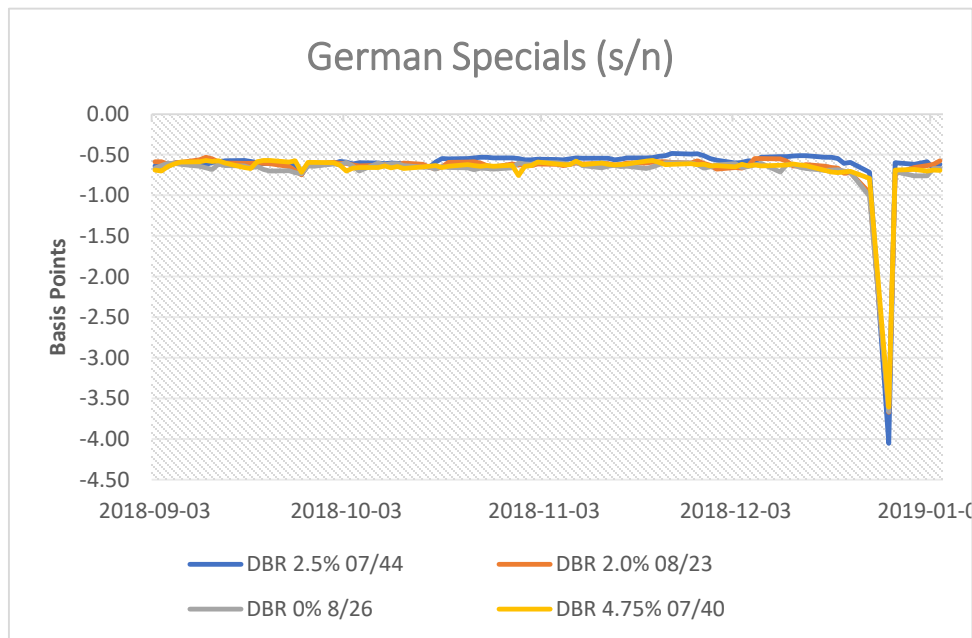
Source: Nex Data Services Limited (Brokertec)

Germany & France GC



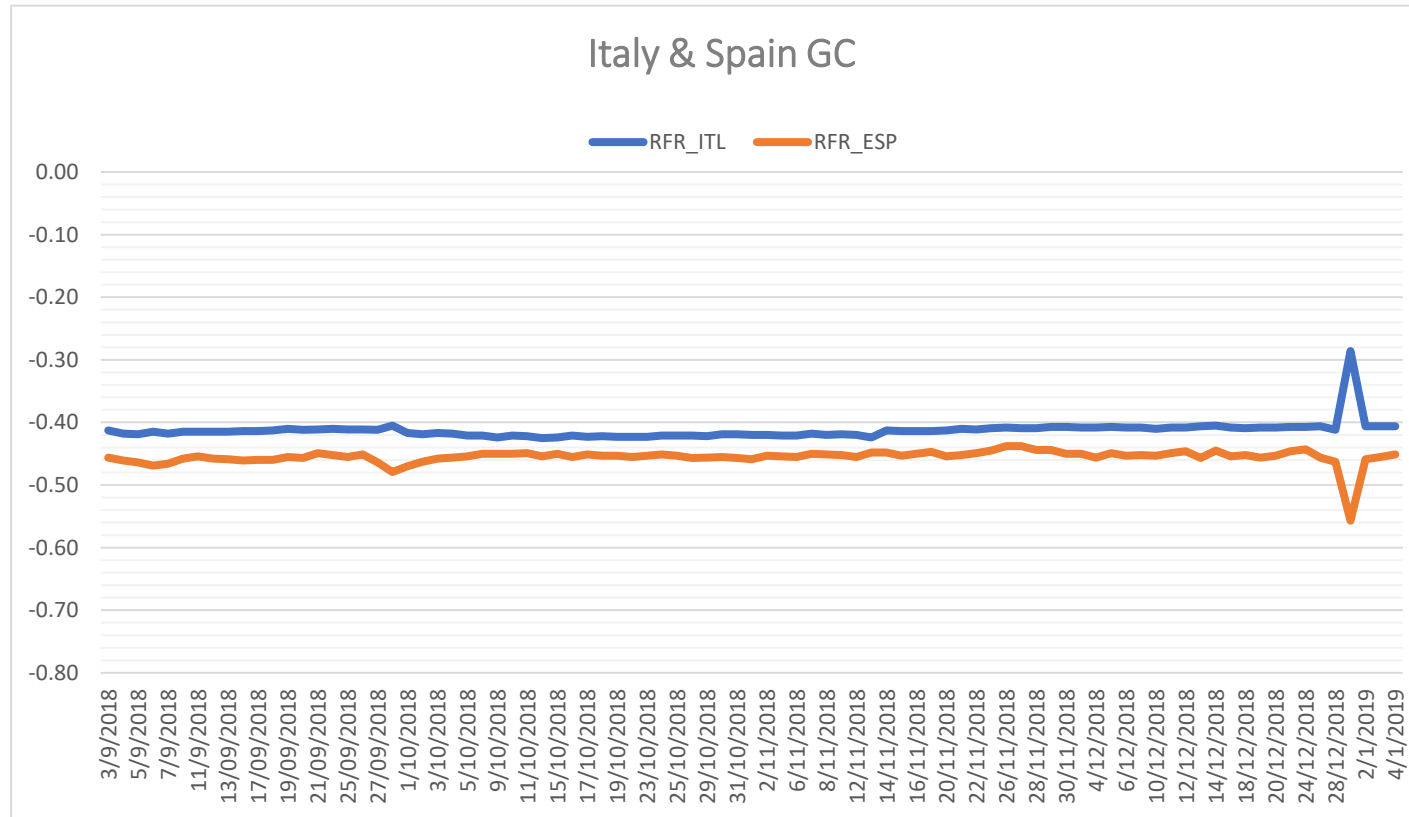
Source: Source: Nex Data Services Ltd (BrokerTec Repo)

Germany & France Specials



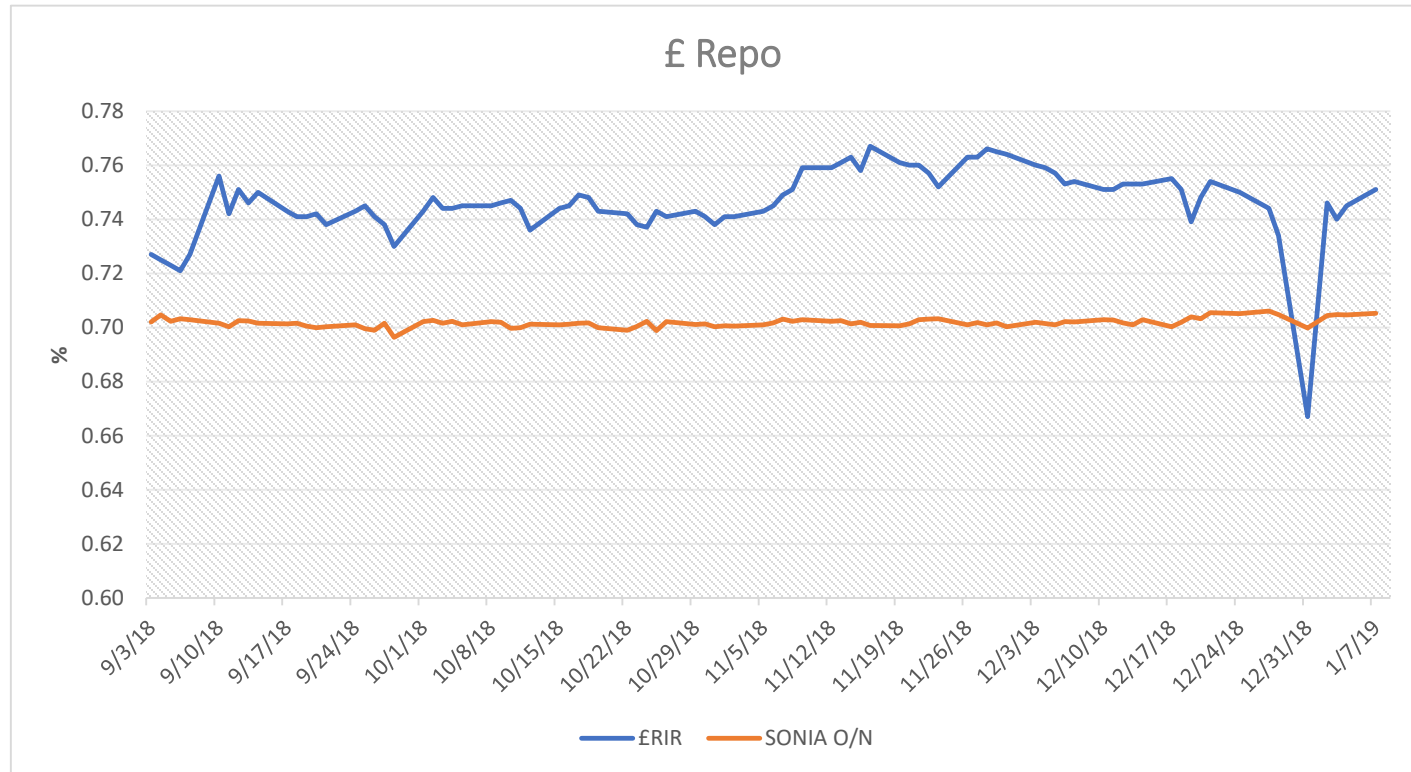
Source: Source: Nex Data Services Ltd (BrokerTec Repo)

Italy & Spain GC



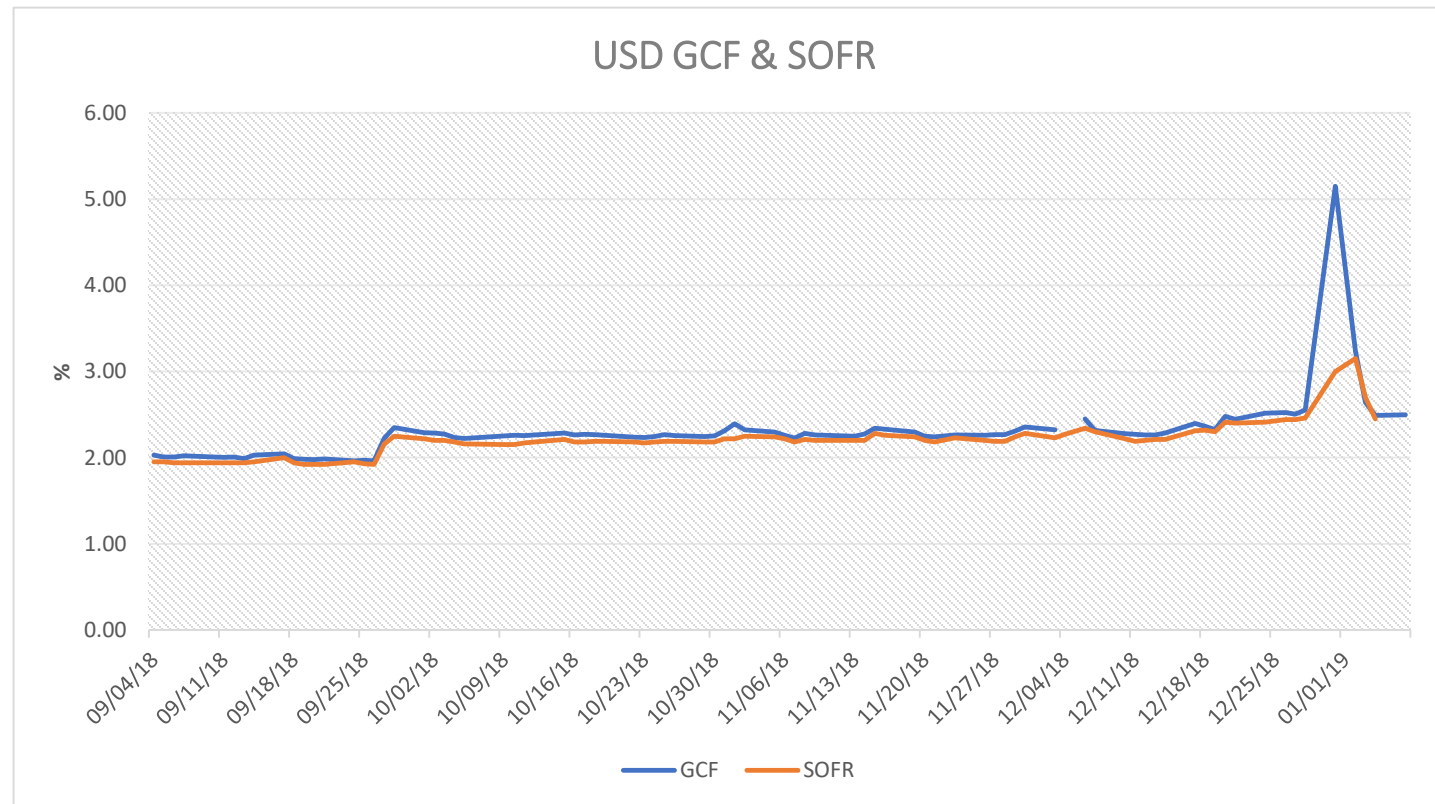
Source: Repo Funds Rate

Sterling repo



Source: Bloomberg

USD repo

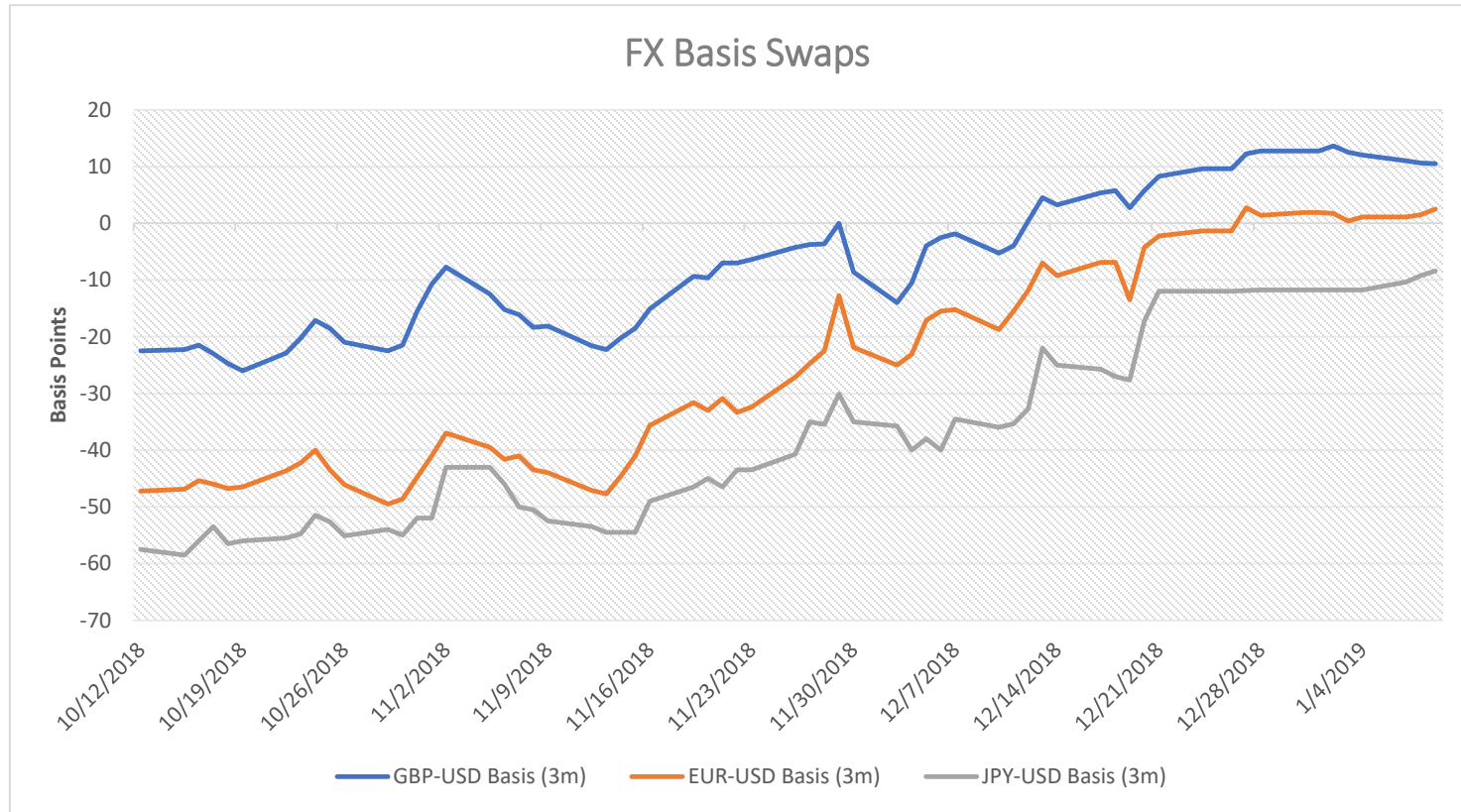


Source: Bloomberg

Drivers of USD repo rates at 2018 year-end

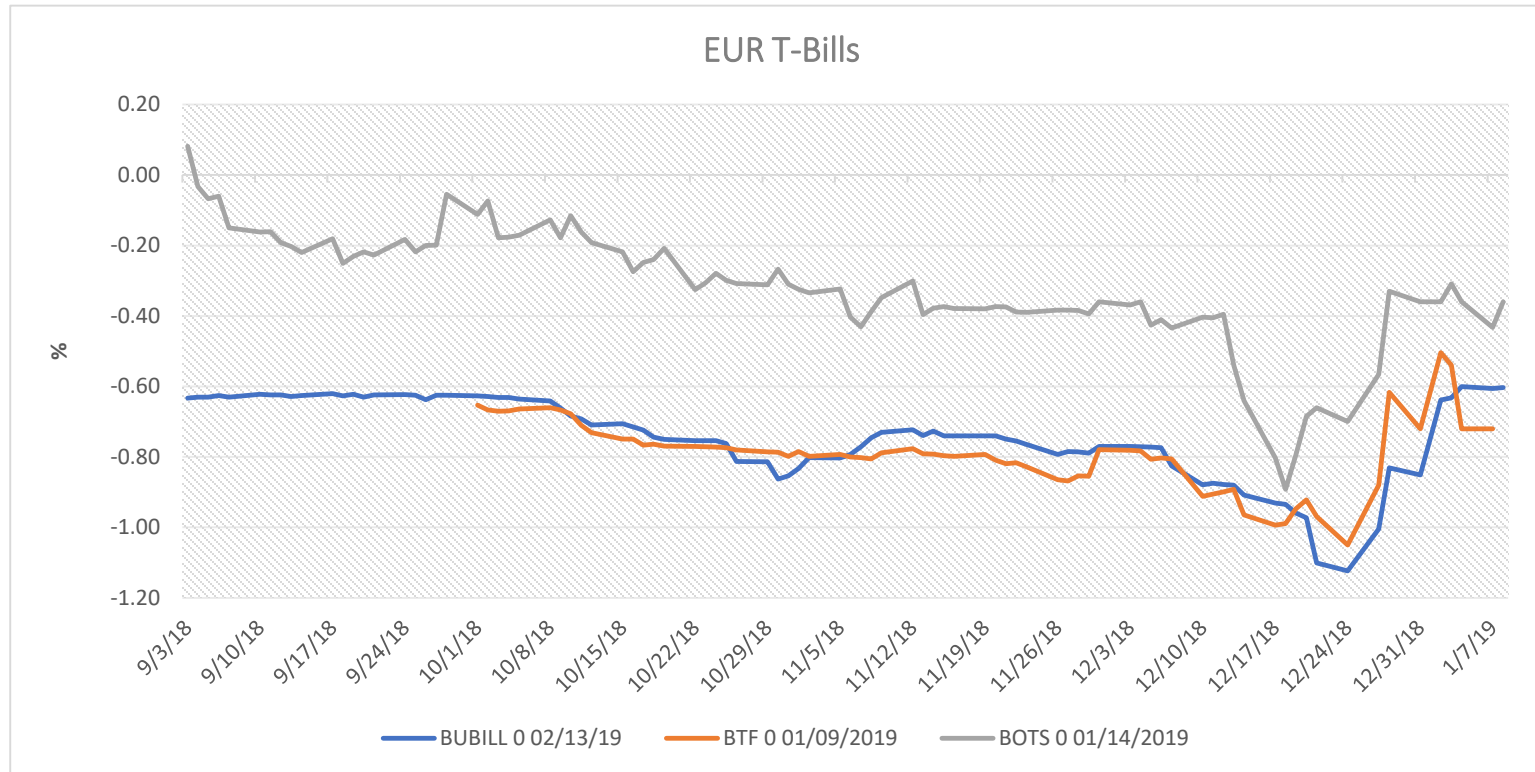
- Market participants cite a general reduction in balance sheet capacity of US banks as they managed their liabilities in light of the G-SIB capital surcharge requirements.
- US banks are reported to have been holding a record amount of US Treasuries following heavy issuance into year-end, putting more pressure on balance sheets. This was further compounded by an increase in relative value trading in the US markets from global leveraged funds.
- It would seem that the market was short dollars, prompting an unexpected scramble for USD funding. This is reflected in the cheapening of the FX basis swap in particular for JPY.

FX basis swaps (3mths vs 3mths)



Source: Bloomberg

Euro T-bill yields



Source: Bloomberg

Conclusion

- Since 2016 it would seem as if the market has become more aware of these risks and better prepared in terms of managing its year-end financing and collateral requirements.
- Locking-in funding early, however, comes at a premium.
- However, while the extreme levels and dislocations of the 2016 turn have not been repeated since, there is still plenty of quantitative and qualitative evidence to suggest that year-end pressures persist, and that access to repo and lending markets for many firms is impaired.
- As the US repo rate spike reminds us, the problems flagged by the 2016 turn have not necessarily gone away, they just manifest themselves in not entirely predictable ways.



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Regulatory update

Andy Hill, Senior Director, ICMA

David Hiscock, Managing Director, ICMA

Alexander Westphal, Director, ICMA

CSDR mandatory buy-ins & SFTs

European Repo and Collateral Council 2019 Annual General Meeting

Luxembourg, January 31st 2019

Andy Hill, Senior Director, ICMA

ICMA's focus on CSDR-SD

- ICMA's focus on CSDR is primarily with respect to Settlement Discipline measures, and in particular the mandatory buy-in framework.
- ICMA's work on CSDR-SD includes:
 - Working with ESMA, members, and the broader industry to develop Level 3 guidance, market solutions, and best practice to ensure relatively smooth implementation and to minimize damage to market functioning and liquidity.
 - Raising awareness of regulatory obligations, scope, and impacts; particularly for buy-side firms and with regard to extraterritorial implications.
 - Continuing to advocate authorities and policy makers to reconsider implementation.
- Work focused through a dedicated CSDR-SD Working Group, with input from the SMPCC and ERCC.
- Also working closely with AFME, ISLA, et al.

Current priorities

General

- Solving for the apparent asymmetry in the buy-in/cash compensation difference payment
- Providing for a pass-on mechanism
- What happens if a buy-in agent cannot be found
- Updating the ICMA Buy-in Rules [led by the SMR&R WG]

SFT specific

- Treatment of open trades (and open-like structures)
 - Including once they reach 30 business days
- How to buy-in an SFT
- Calculating the appropriate difference payment (in the case of a buy-in)
- Implications for existing legal framework (GMRA/GMSLA)

Related ICMA Papers:

[CSDR Settlement Discipline: mandatory buy-ins](#)
July 2018 (Information Brochure)

[How to survive in a Mandatory Buy-in World](#)
June 2018 (Discussion Paper)

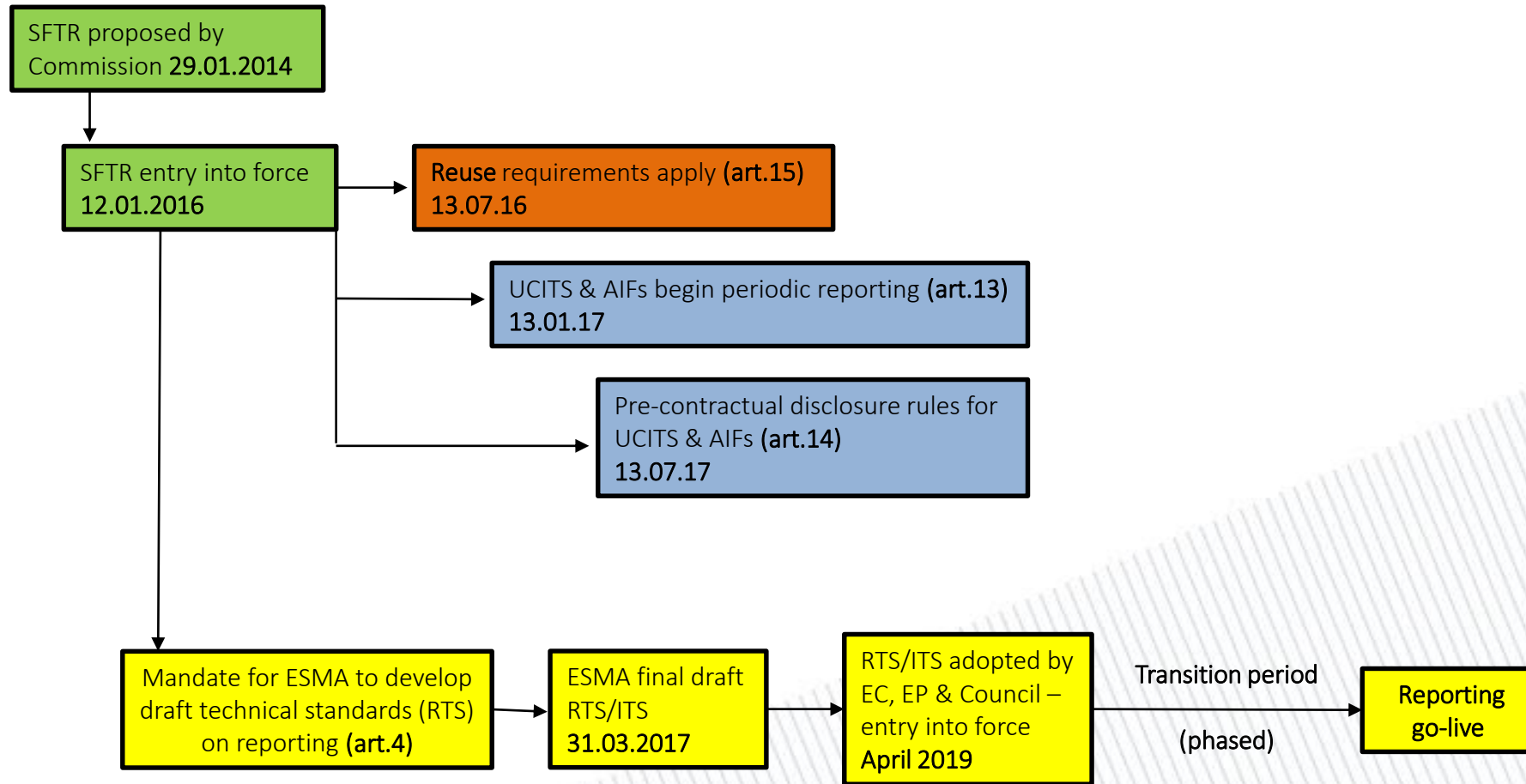
[CSDR Mandatory Buy-ins and Securities Financing Transactions](#)
October 2018 (Discussion Paper)

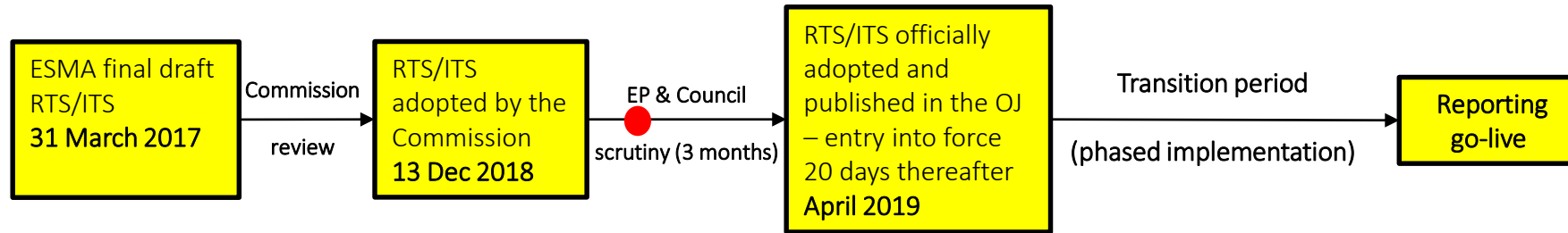


More information and resources can be found on the dedicated CSDR-SD landing page on the ICMA website:

<https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Secondary-Markets/secondary-markets-regulation/csdr-settlement-discipline/>

SFTR: Key elements and timeline





- **Phased transition period until application of the requirements specified by SFTR – expected reporting go-live dates:**
 - **April 2020** (12 months after entry into force): Banks and investment firms
 - **July 2020** (15 months ...): CCPs & CSDs
 - **October 2020** (18 months ...): Buy-side
 - **January 2021** (21 months ...): Non-Financial Counterparties (NFCs)
- **ESMA** has a key role to play in the implementation process:
 - Draft RTS & ITS submitted to the Commission in March 2017 (“Level 2”)
 - Additional “Level 3” implementation guidance forthcoming, including Q&As, detailed Guidelines & validation rules
 - Public consultation on draft Guidelines expected once the RTS/ITS have been finalized

ICMA ERCC approach to SFTR

- SFTR reporting is a **key priority** for the ICMA ERCC
 - Extensive reporting requirements as a major operational challenge for SFT markets
 - Double-sided reporting and reconciliation requirements necessitate cross-industry collaboration & agreement
- **ERCC SFTR Task Force** established in 2015, initially to respond to ESMA's consultations on SFTR technical standards
 - Main objective of the group is to facilitate implementation by providing common interpretations, definitions and market best practices
 - Group is open to a broad range of market participants, including sell-side, buy-side, market infrastructures and service providers (TRs & vendors) – in total nearly 100 firms represented
 - Working closely with other trade associations, in particular ISLA, as well as regulators, in particular ESMA

SFTR Task Force – key deliverables

- **SFTR Annex to the [ERCC Guide to Best Practice in the European Repo Market](#)**
 - ERCC Guide offers a useful and well-established framework
 - Draft Annex being developed with the TF - already over 50 issues covered (Q&A format)
 - Aim is to share/validate any recommendations with ESMA

- **Field-by-field analysis & ESMA validation logic**
 - ERCC commented on a first set of ESMA draft validation rules in Oct 2017
 - Focus sessions with TF members to go through the reporting tables, field-by-field and validate field contents and validation logic (further feedback submitted in Dec 2018)

- **SFTR template reports**
 - Dummy transaction reports for a variety of trade scenarios (25 scenarios covered)
 - Covers new transactions, but also subsequent lifecycle reports (substitution, early termination etc.)
 - Number of required fields ranging between 45 – 60 per trade scenario (new trade)

SFTR Task Force – sample reports: overview table

	type	term	start	repo rate	term.opt.	venue	any special parties	event(s)	collateral	post-trade infrastructure	market name
1.1	SBSC	fixed	immediate	fixed	no	OTC		new	specific	ICSD	
2.1	REPO	fixed	immediate	fixed	No	OTC		new	specific	CSD direct participant	traditional OTC
2.2	REPO	fixed	immediate	fixed	No	OTC	branch	new	specific	custodian	
2.3	REPO	fixed	immediate	fixed	No	RFQ	small NFC	new	specific	custodian	
2.4	REPO	fixed	immediate	fixed	no	voice-broker		new	specific	ICSD	traditional brokered
2.5	REPO	fixed	immediate	fixed	no	OTC	agent	new	specific	custodian	agency
2.6	REPO	fixed	immediate	fixed	no	RFQ	agent	New	specific	custodian	
2.7	REPO	fixed	immediate	floating	no	OTC		New	specific	ICSD	OTC floating-rate
2.8	REPO	fixed	forward	fixed	no	OTC		New	specific	ICSD	forward
2.9	REPO	open	immediate	re-ratable	no	OTC		new+rerating	specific	ICSD	OTC open
2.10	REPO	open	immediate	re-ratable	no	OTC		New	basket ISIN only	triparty agent	traditional tri-party
2.11	REPO	fixed	immediate	fixed	no	OTC	agent	new but collateral unknown on T	basket ISIN only	triparty agent	
2.12	REPO	open	immediate	re-ratable	no	OTC		new	basket ISIN only	DBV	
2.13	REPO	fixed	immediate	fixed	no	ATS		new	specific	ICSD	bilateral electronic
2.14	REPO	fixed	immediate	fixed	no	ATS		new	specific	CCP	anonymous electronic
2.15	REPO	fixed	immediate	fixed	no	ATS	clearing member	new	specific	CCP	anonymous electronic
2.16	REPO	fixed	immediate	fixed	no	OTC		new (from prior repo)	specific	CCP post-trade	
2.17	REPO	fixed	immediate	fixed	no	ATS		new (no prior repo)	basket ISIN only	CCP+triparty agent	GC financing
3.1	REPO	fixed	immediate	fixed	no	OTC		new+substitution	specific	ICSD	
3.2	REPO	fixed	immediate	fixed	no	OTC		new+early termination	specific	ICSD	
3.3	REPO	fixed	immediate	fixed	no	OTC		variation margin	specific	ICSD	
4.1	REPO	open	immediate	re-ratable	evergreen	OTC		new+termination	specific	ICSD	
4.2	REPO	fixed	immediate	re-ratable	evergreen	OTC		new+termination	specific	ICSD	
4.3	REPO	fixed	immediate	re-ratable	evergreen	OTC		new+advance+termination	specific	ICSD	
4.4	REPO	fixed	immediate	re-ratable	extendible	OTC		new+extension (one-off & into new extendible)	specific	ICSD	

Note: highlighted cells indicate addition of new features to sample.

Post-Crisis Reforms and the Evolution of the Repo and Broader SFT Markets

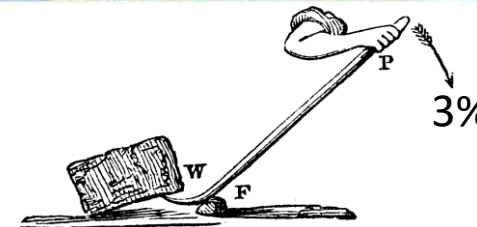
- » GFMA/ICMA joint report published 17 December
 - » prepared with the support of member firms
 - » 33 survey respondents from repo and collateral desks across regions; and
 - » QIS with 14 member firms on SFT minimum haircuts

- » Purpose of the report is to provide an **analysis and evaluation of:**
 - » the post-crisis assessment of vulnerabilities in SFT markets;
 - » subsequent **regulatory reforms; and**
 - » **how these have influenced the way in which SFT markets function**
 - » Also highlights practitioners' views on potential future developments and vulnerabilities

- » Goal is for this report to provide a comprehensive and fact-based analysis to assist policymakers' discussions on ways to **further assess the coherence and calibration of the post-crisis reforms** with regards to their impact on repo and broader SFT markets



Revisions to Leverage Ratio Disclosure Requirements



- » On 18 October, the BCBS published a statement on leverage ratio window-dressing behaviour
 - » Recalls that the Basel III leverage ratio (LR) standard comprises
 - » a 3% minimum level that banks must meet at all times (& a buffer for G-SIBs); and
 - » public disclosure requirements, for which purpose banks must calculate the LR on a quarter-end basis (albeit some jurisdictions require calculate more frequently)
 - » Heightened volatility in various segments of markets around key reference dates (eg quarter-ends) has alerted the BCBS to potential regulatory arbitrage by banks
 - » a particular concern is "**window dressing**", in the form of temporary reductions of transaction volumes in key financial markets around reference dates
 - » **this is unacceptable** – banks should desist from undertaking transactions with the sole purpose of reporting and disclosing higher leverage ratios at reporting days only
- » On 13 December, the BCBS published, for comment by 13 March, a consultative document entitled *Revisions to Leverage Ratio Disclosure Requirements*
 - » Seeks views on revisions to LR disclosure requirements to additionally include:
 - » **disclosures of the LR exposure measure amounts of SFTs, derivatives replacement cost and central bank reserves calculated using daily averages** over the reporting quarter

New near risk-free reference rates (RFRs) – status

Currency	Near Risk-Free Reference Rate	Secured or Unsecured	Available?	Administrator
Euro	ESTER	Unsecured	October 2019	ECB
GBP	Reformed SONIA	Unsecured	Yes	BoE
USD	SOFR	Secured	Yes	FRBNY
CHF	SARON	Secured	Yes	SIX
JPY	TONAR	Unsecured	Yes	BoJ

- » EU Benchmark Regulation (BMR) transition period runs until the end of 2019
 - » Constraints on use of benchmarks apply thereafter
 - » possible extension being debated by legislators
 - » As things stand, EONIA will not be BMR compliant
 - » €RFR WG consulting on transition from EONIA (for comment by 1 February)
 - » propose modified methodology: EONIA = ESTER + spread (fixed)



Thank you, Ladies and Gentlemen

» Contacts and information:

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- **ICMA Legal & Regulatory Helpdesk:**
<https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/icma-legal-and-regulatory-helpdesk/>
- **ICMA quarterly report:** provides detailed updates on these matters and ICMA’s broader work
<http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Regulatory-Policy-Newsletter>

Technology: the ISDA Common Domain Model (CDM)

Clive Ansell, Head of Market Infrastructure and Technology, ISDA

The possible triangle: Frictionless movement of payments, securities and collateral across Europe

Yves Mersch, Executive Board Member, European Central Bank

Panel: “Getting our euro settlement house in order”

Moderator:

Gesa Benda, Global Head of Collateral Management Product, BNY Mellon

Panellists:

- **Nicholas Hamilton**, Executive Director - Digital and Platform services, J.P. Morgan
- **Jean-Robert Wilkin**, Executive Director - Global Funding and Financing - Market Development, Clearstream
- **Gareth Allen**, Global Co-Head Treasury Assets, Global Co-Head Repo Trading, UBS
- **Corentine Poilvet-Clediere**, Head of RepoClear and Collateral and Liquidity Management, LCH SA

Closing remarks

Godfried De Vidts, ERCC Senior Advisor and former Chairman

Next ERCC General Meeting

Friday 15 November 2019, 13:00 – 16:00 (CET)

Hosted by **Euroclear** in Brussels (in the margins of Euroclear's Collateral Conference)

Upcoming ICMA Repo courses & workshops

- **7 February 2019, 9:00 – 18:00 (UK time):** New [ICMA Intensive One-Day Workshop: Repo & the European Repo Market](#), hosted by ICMA in London
- **25 – 27 February 2019:** [ICMA Workshop: Repo and securities lending under the GMRA and GMSLA](#), hosted by ICMA in London
- **3 – 4 June 2019:** [ICMA Workshop: GMRA Masterclass – a clause-by-clause analysis & Annex I negotiation](#), hosted by ICMA in London
- **11 – 12 September 2019:** [ICMA Workshop: Professional Repo and Collateral Management](#) hosted by Deutsche Boerse in Frankfurt, Germany

Please also note **other regular ICMA courses**, including [Securities Operations Foundation Qualification](#) (SOFQ), [Operations Certificate Programme](#) (OCP) or [Collateral Management](#)

Check the [ICMA Executive Education webpage](#) for more information on all available courses!