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!**

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<tr>
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<td>Charlie Badran</td>
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<td>Nick Dent</td>
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<td>Emma Cooper</td>
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<td>Clearstream Banking</td>
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<td>Michel Semaan</td>
<td>Crédit Agricole Corporate and Investment Bank</td>
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<td>Romain Dumas</td>
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<td>David Joughin</td>
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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.
• Phased update

• Non EU jurisdictions updated to standard timetable

• Update of EU jurisdiction opinions to be confirmed
• Publication of FAQ on Brexit & the GMRA

• Governing law of the GMRA
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.
<table>
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<th>Current treatment for standard GMRA transaction:</th>
<th>Treatment for IM Pledge Structure:</th>
<th>Saving using IM Pledge Structure:</th>
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<tr>
<td>EAD = 105MM - 100MM + 2.9694MM EAD = 7.969MM RWA (@100%) = 7.969MM Capital (@10%) = 0.797MM</td>
<td>The IM of 5MM would attract <strong>zero exposure</strong> on that basis that the IM is segregated in a pledge account. EAD = 100MM - 100MM + 2.828MM EAD = 2.828MM RWA (@100%) = 2.828MM Capital (@10%) = 0.283MM</td>
<td>Regulatory risk adjustment of <strong>2.828%</strong> of Exposure (105MM). EAD = 5.141MM RWA = 5.141MM Capital = 0.514MM</td>
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</table>
• 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
Contact information:
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lisa.cleary@icmagroup.org
Tel: +44 (0)20 7213 0330

ICMA Ltd
www.icmagroup.org
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
- 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 36\textsuperscript{th} 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

European repo market at 2018 year-end

Source: Nex Data Services Ltd (BrokerTec Repo)
Germany & France Specials

Source: Nex Data Services Ltd (BrokerTec Repo)
European repo market at 2018 year-end

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.
European repo market at 2018 year-end

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.
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:
SFTR: Key elements and timeline

- **SFTR proposed by Commission**: 29.01.2014
- **SFTR entry into force**: 12.01.2016
  - **Reuse requirements apply (art.15)**: 13.07.16
  - **UCITS & AIFs begin periodic reporting (art.13)**: 13.01.17
  - **Pre-contractual disclosure rules for UCITS & AIFs (art.14)**: 13.07.17
- **Mandate for ESMA to develop draft technical standards (RTS) on reporting (art.4)**: 31.03.2017
- **ESMA final draft RTS/ITS**: 31.03.2017
  - **Reporting go-live**
  - **Transition period (phased)**
• 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

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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

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<tr>
<th>Currency</th>
<th>Near Risk-Free Reference Rate</th>
<th>Secured or Unsecured</th>
<th>Available?</th>
<th>Administrator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro</td>
<td>ESTER</td>
<td>Unsecured</td>
<td>October 2019</td>
<td>ECB</td>
</tr>
<tr>
<td>GBP</td>
<td>Reformed SONIA</td>
<td>Unsecured</td>
<td>Yes</td>
<td>BoE</td>
</tr>
<tr>
<td>USD</td>
<td>SOFR</td>
<td>Secured</td>
<td>Yes</td>
<td>FRBNY</td>
</tr>
<tr>
<td>CHF</td>
<td>SARON</td>
<td>Secured</td>
<td>Yes</td>
<td>SIX</td>
</tr>
<tr>
<td>JPY</td>
<td>TONAR</td>
<td>Unsecured</td>
<td>Yes</td>
<td>BoJ</td>
</tr>
</tbody>
</table>

- 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

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• **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](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


• 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!