The future challenges in repo post-trade processing: Changes, impacts & consequences

Last update: 8 February 2016
Background

- Various regulatory initiatives are under way requiring improved identification and information flow of repo transactions
- The ERCC Operations Group has been actively working towards “joining the dots” of the different initiatives
- The objective of the work includes but goes beyond regulatory compliance, aiming to improve the efficiency of repo post-trade processing more generally
- As an important first step, the ERCC Operations Group in cooperation with post-trade vendors published on 8 December 2015 a template of matching fields for trade matching and affirmation of repos (‘TMA template’)
- The focus will now have to shift to identifying and implementing an efficient operating model to manage the required changes
Towards an efficient operating model

- Harmonised matching fields
  - TMA template to capture all fields required for regulatory compliance purposes, including regulatory initiatives on SFT reporting and CSDR settlement discipline
  - Turn template into best practice and ensure wide implementation and use of the TMA template (both sell-side and buy-side)

- Standardised messaging
  - Develop and establish standardised formats
  - In particular, further work required on LEIs, UTIs, UPIs

- Additional work on repo confirmations
  - Review current conventions and legal requirements
  - Identify redundancies and improve the efficiency of the process
Other actors in the settlement chain

- **Role of matching systems/ TMA vendors:**
  - Need to integrate/support the TMA template
  - Facilitate reporting of repos?
  - Possibility to provide STP from matching to settlement instruction?
  - Interoperability between providers?

- **Role of Central Counterparties (CCPs):**
  - Delegated reporting, in particular of anonymous trading?

- **Role of Tri-party agents:**
  - Regulatory reporting and tracking of reuse?

- **Role of Central Securities Depositories (CSDs):**
  - Reporting on settlement discipline, including buy-ins
  - Need to replicate the information at settlement level, in particular, information required for applying the SFT exemption for buy-ins correctly
The Repo market

- Estimated total size (June 2015): **EUR 5,612 billion** (value of outstanding contracts)*

![Pie Chart: Flow diagram scenarios]

- **Note:** importance of CCP-clearing differs significantly between different scenarios, being by far most prevalent in electronic trading (~95%) and far less so for OTC trades (~5%)

* See latest [ICMA European Repo Market Survey](https://www.icma.net/) (June 2015 data). Please note that the survey is based on stock data. This tends to significantly understate the share of electronic trading and CCP-clearing, as compared to other accounts based on flow data such the [ECB’s money market survey](https://www.ecb.europa.eu/mopo/money-markets/html/index.en.html).
Flow diagrams: Scenarios covered

- Identification and reporting of SFTs (pre-ISD)
  - OTC (direct or voice-brokered), non CCP-cleared
  - ATS, CCP-cleared
  - OTC, CCP-cleared
  - Automated Trading System (ATS), non CCP-cleared
  - Tri-party, non CCP-cleared
  - Tri-party, CCP-cleared

- CSDR settlement discipline and SFTs (post-ISD)
  - Settlement fail, non CCP-cleared

- In each of these scenarios:
  - Diagram to illustrate the processing flows and actors involved; and
  - Identification of the relevant regulatory requirements for each flow
(1) Identification and reporting of SFTs: Pre-ISD
<table>
<thead>
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</table>
| 0  | GMRA documentation in place                             | • GMRA (to be modified to account for buy-ins) [section 1*]  
• ICMA Secondary Markets R&R (to be modified to account for buy-ins)  
• ERC Repo Best Practice Guide (incl. TMA template) [section 1]  
• Collateral re-use risk disclosure to be established (SFTR) [section 2.1]                                                                                     |
| 1  | Trade execution                                          | N/A                                                                                                                                                                                                                                |
| 2  | Confirmation & affirmation process                       | • Trade confirmation rules (CSDR) [2.4]  
• Needs to capture all information required for reporting purposes (see 3)  
• Needs to cover at least all fields required in the settlement instruction (see 4)  
• Based on ERC TMA template                                                                                                                                 |
| 3  | Trade reporting                                          | • Reporting under EU SFTR [2.1]  
• ECB MMSR [2.2]  
• BoE sterling money market reporting [2.3]  
• FSB work on SFT data [2.5]  
• MiFIR transaction reporting (tbc) [3.2]  
• See the Data Items Overview table for more details on the required fields  
• Tight reporting timeline may require reporting prior to trade affirmation/confirmation & subsequent procedures to identify and report adjustments  
• Treatment of confidential data items (e.g. haircuts)                                                                                                           |
| 4  | Settlement instruction                                  | • Mandatory matching fields (CSDR) [2.4]  
• Needs to allow CSD to correctly determine SFT exemption under CSDR [2.4]  
• Needs to fulfil CSD (fails) reporting requirements under CSDR [2.4]                                                                                         |
| 5  | Matching & settlement status                             | • CSD to provide participants real-time access to settlement/matching status and daily information on penalty calculations [2.4]                                                                                            |
| 6  | Lifecycle management                                    | • Tracking of re-use under SFTR [2.1]                                                                                                                                                                                               |

* All references are to the ERCC Ops SFT regulatory overview paper, which is available [here](#).
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• ERC Repo Best Practice Guide (incl. TMA template)  
• Collateral re-use risk disclosure to be established (SFTR) |
| 1  | Bid/Offer                        | N/A                                                                                                                                                                |
| 2  | Trade execution                  | N/A                                                                                                                                                                |
| 3  | Confirmation/ affirmation         | • Trade confirmation rules (CSDR)  
• Needs to capture all information required for reporting purposes (see 3)  
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• Based on ICMA TMA template                                                                                                                                 |
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• Delegated reporting?                                                                                                                                 |
| 5  | Trade feed to CCP                | • Mandatory matching fields (CSDR)  
• Needs to allow CSD to correctly determine SFT exemption under CSDR  
• Needs to fulfil CSD (fails) reporting requirements under CSDR                                                                                                                                 |
| 6  | Settlement instruction (PoA)     | • CSDR: mandatory matching fields  
• CSDR: fields also need to fulfil CSD (fails) reporting requirements                                                                                                                                 |
| 7  | Settlement status                | • CSD to provide participants real-time access to settlement/matching status and info on penalties/ buy-ins                                                                                                                                 |
| 8  | Lifecycle management             | • Tracking of re-use under SFTR                                                                                                                                                                                                                                                                 |
Pre-Trade

Trade execution & matching

Trade reporting

Clearing

Settlement

Purchase leg

Lifetime of trade

Repurchase leg

Buyer

Seller

Documentation (e.g. GMRA)

Broker

Matching system

TR

CCP

Custodian B

Custodian S

CSD

* Where direct feed exists between matching system and CCP.
### Regulatory impact

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| 1  | Trade execution                              | N/A                                                                                                                                                                |
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• Delegated reporting? |
| 4  | CCP give-up                                  | • Mandatory matching fields (CSDR)  
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| 5  | Settlement instruction (PoA)                 | • Mandatory matching fields (CSDR)  
• CSDR: fields also need to fulfil CSD (fails) reporting requirements |
| 6  | Matching & settlement status                 | • CSD to provide participants real-time access to settlement/matching status and info on penalties/ buy-ins |
| 7  | Lifecycle management                         | • Tracking of re-use under SFTR |
Pre-Trade

Trade execution & matching

Trade reporting

Clearing

Purchase leg

Lifetime of trade

Settlement

Repurchase leg

ATS

No CCP

Buyer

Document (e.g. GMRA)

Seller

ATS

Matching system

CSD

TR

Custodian B

Custodian S

Settlement

Buyer report

Buyer documentation

Seller report

Seller documentation

ATS report

ATS documentation

CSD report

CSD documentation

TR report

TR documentation
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• Delegated reporting?                                                                                                                                                     |
| 4  | Settlement instruction           | • Mandatory matching fields (CSDR)  
• Needs to allow CSD to correctly determine SFT exemption under CSDR  
• Needs to fulfil CSD (fails) reporting requirements under CSDR                                                                                                                                                                      |
| 5  | Matching & settlement status      | • CSD to provide participants real-time access to settlement/matching status and info on penalties/ buy-ins                                                                                                                                |
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• Collateral re-use risk disclosure to be established (SFTR) |
| 0b | Triparty service agreement                   | • Delegated reporting?                                                                                                                                                                                                               |
| 1  | Trade execution                              | N/A                                                                                                                                                                                                                                |
| 2  | Confirmation & affirmation process           | • CSDR: trade confirmation rules  
• Needs to capture all information required for reporting purposes (see 3)  
• Needs to cover at least all fields required for the settlement instruction (see 4)  
• Based on ICMA TMA template                                                                                                                                                                |
| 3  | Trade reporting                              | • Reporting under EU SFTR  
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• Needs to fulfil CSD (fails) reporting requirements under CSDR                                                                                                                                                      |
| 5  | Settlement status                            | • CSD to provide participants real-time access to settlement/matching status and info on penalties/ buy-ins                                                                                                                                 |
| 6  | Lifecycle management                         | • Tracking of re-use under SFTR  
• Role of triparty agent?                                                                                                                                                                                                                   |
Pre-Trade

Trade execution & matching

Trade reporting

Clearing

Settlement

Purchase leg

Lifetime of trade

Repurchase leg

Documentation (e.g. GMRA)

Buyer

1

Broker

1

Matching system

Seller

2

Buyer

2

Seller

2

Tri-party agent

CCP

Tri-party

CCP

* Where direct feed exists between matching system and CCP.
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<td>Trade execution</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>7</td>
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</table>
(2) CSDR settlement discipline and SFTs: Post-ISD
Pre-Trade
Trade execution & processing
Trade reporting
Clearing
Purchase leg
Lifetime of trade
Repurchase leg
Settlement
Post ISD

- No CCP
- Fail (delivery)
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<td>0</td>
<td>Contractual arrangements for buy-ins</td>
<td>• CSDR requires all parties in the chain to have appropriate contractual arrangements in place ensuring that the buy-in obligation is enforceable (including with non-EU counterparties) [art. 25, draft RTS]</td>
</tr>
<tr>
<td>1</td>
<td>Information on fails and penalty calculation</td>
<td>• CSD to provide real-time access to status of instructions and fails, as well as daily information on the calculation of penalties for each failed transaction [art.17, draft RTS]</td>
</tr>
</tbody>
</table>
| 2 | Initiate buy-in process | • As soon as the extension period is over, receiving trading party to appoint the buy-in agent (2a) and send buy-in notification to the failing party (and CSD) (2b) [buy-in process specified in art.30-31, draft RTS]  
• A correct application of the SFT exemption requires the identification of repos at instruction level ("transaction type field") as well as terms (maturity etc) |
| 3 | Buy-in execution and notification | • Buy-in agent to execute (3a)  
• Receiving trading party to notify failing trading party of the result (3b) |
| 4 | Payment of cash compensation or buy-in price difference | • If buy-in is successful: Failing trading party pays difference between buy-in price and original transaction price and buy-in costs to the receiving counterparty  
• Custodian of failing trading party liable for the price difference in case the trading party does not pay  
• If buy-in is not successful: Failing trading party pays cash compensation to receiving party  
• Both payments are asymmetric (ie payment is 0 if the price difference is in favour of the failing party) [art.32-35, draft RTS] |
| 6 | Cancel settlement instruction (and reinstruct) | • Buy-in successful: Instructions to be cancelled and new instruction to be sent  
• Buy-in not successful: Settlement instructions to be cancelled |
| 7 | Charge/ credit penalties (monthly billing) | • CSD to charge/ credit participants cash penalties on a monthly (net) basis (based on gross calculation) [art.16-17, draft RTS] |
Further information

- SFT identification and reporting: [Regulatory overview paper](#)
- ICMA ERCC Operations Group [webpage](#)
- [ICMA ERC Guide to best practice in the European Repo Market](#)
- ICMA ERCC Operations Group [TMA template](#) of repo matching fields and [Glossary of Terms](#)