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)*

■ OTC (direct or voice-brokered) ■ ATS ■ Tri-party   ■ CCP-cleared ■ Non-CCP cleared
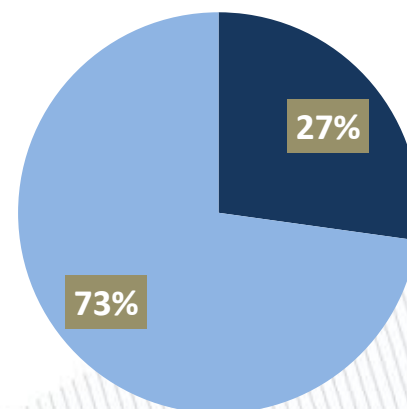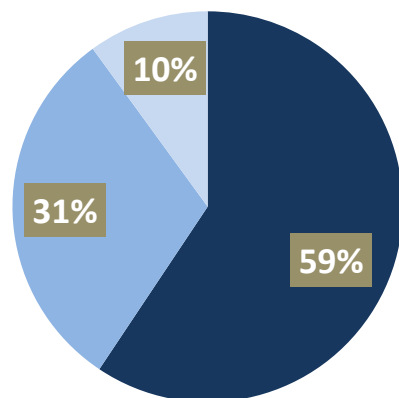
- <u>Note:</u> importance of CCP-clearing differs significantly between different scenarios, being by far most prevalent in electronic trading (~95%) and far less so for OTC trades (~5%)

* See latest ICMA European Repo Market Survey (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.

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
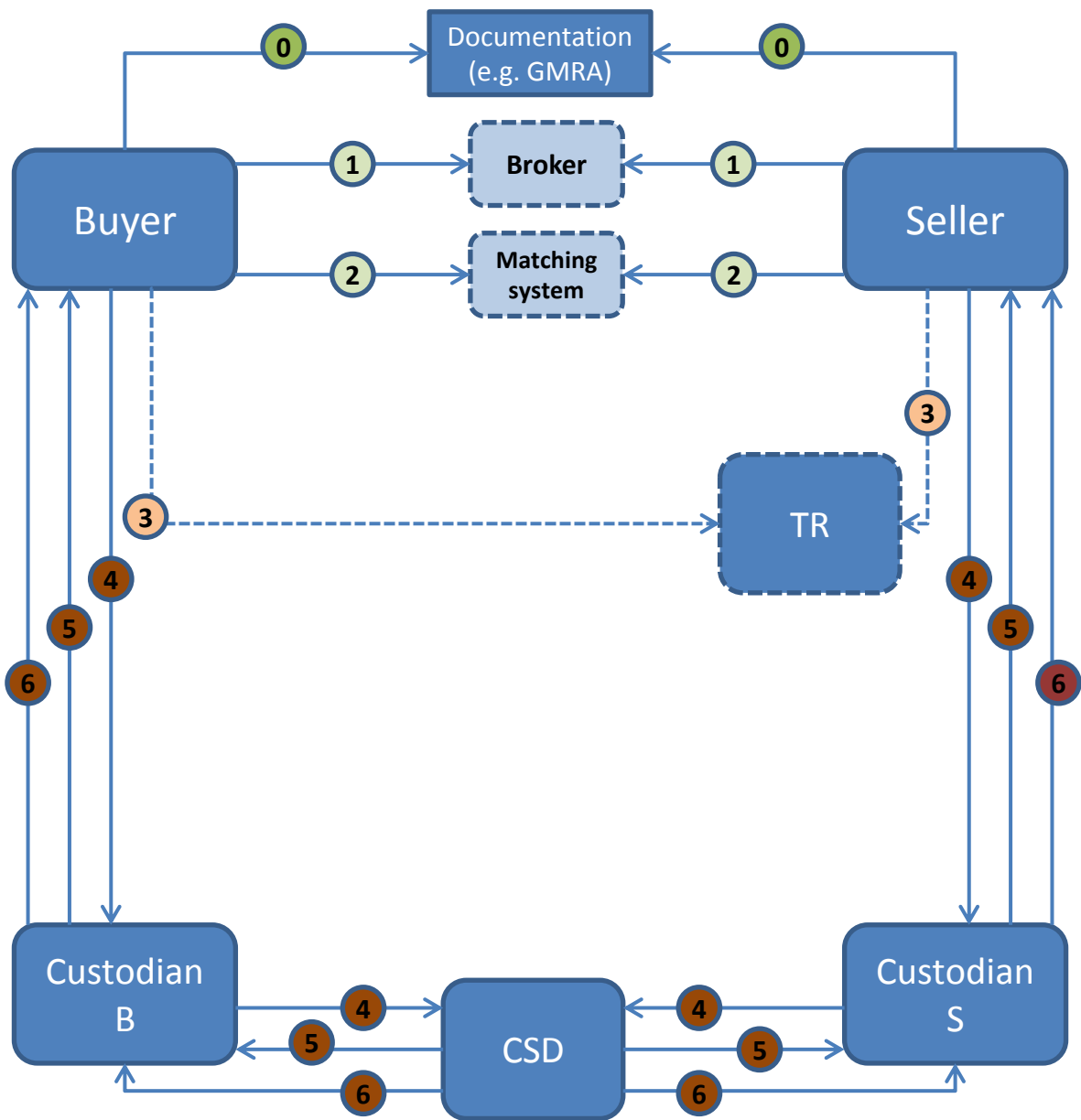 - ❖ Identification of the relevant regulatory requirements for each flow

(1) Identification and reporting of SFTs: Pre-ISD

Pre-Trade

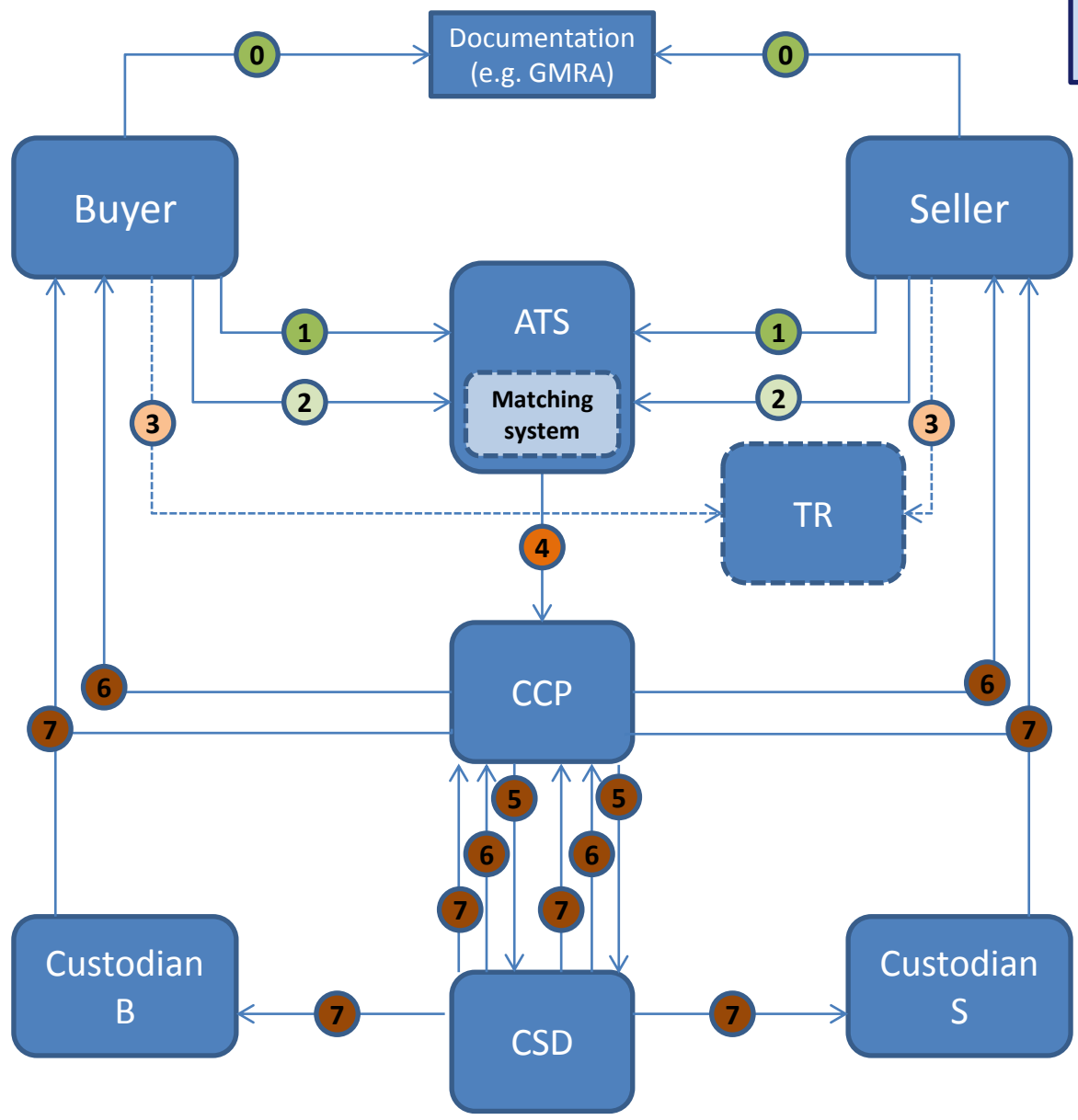Trade execution & matching

Trade reporting

Clearing

Settlement
- Purchase leg
- Lifetime of trade
- Repurchase leg

Documentation (e.g. GMRA)

Broker

Matching system

Buyer

Seller

TR

Custodian B

Custodian S

CSD

✓ OTC
✓ No CCP

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Regulatory impact

✓ OTC
✓ No CCP

#	Process	Relevant requirements and reference
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]**

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* All references are to the ERCC Ops SFT regulatory overview paper, which is available here.

Regulatory impact

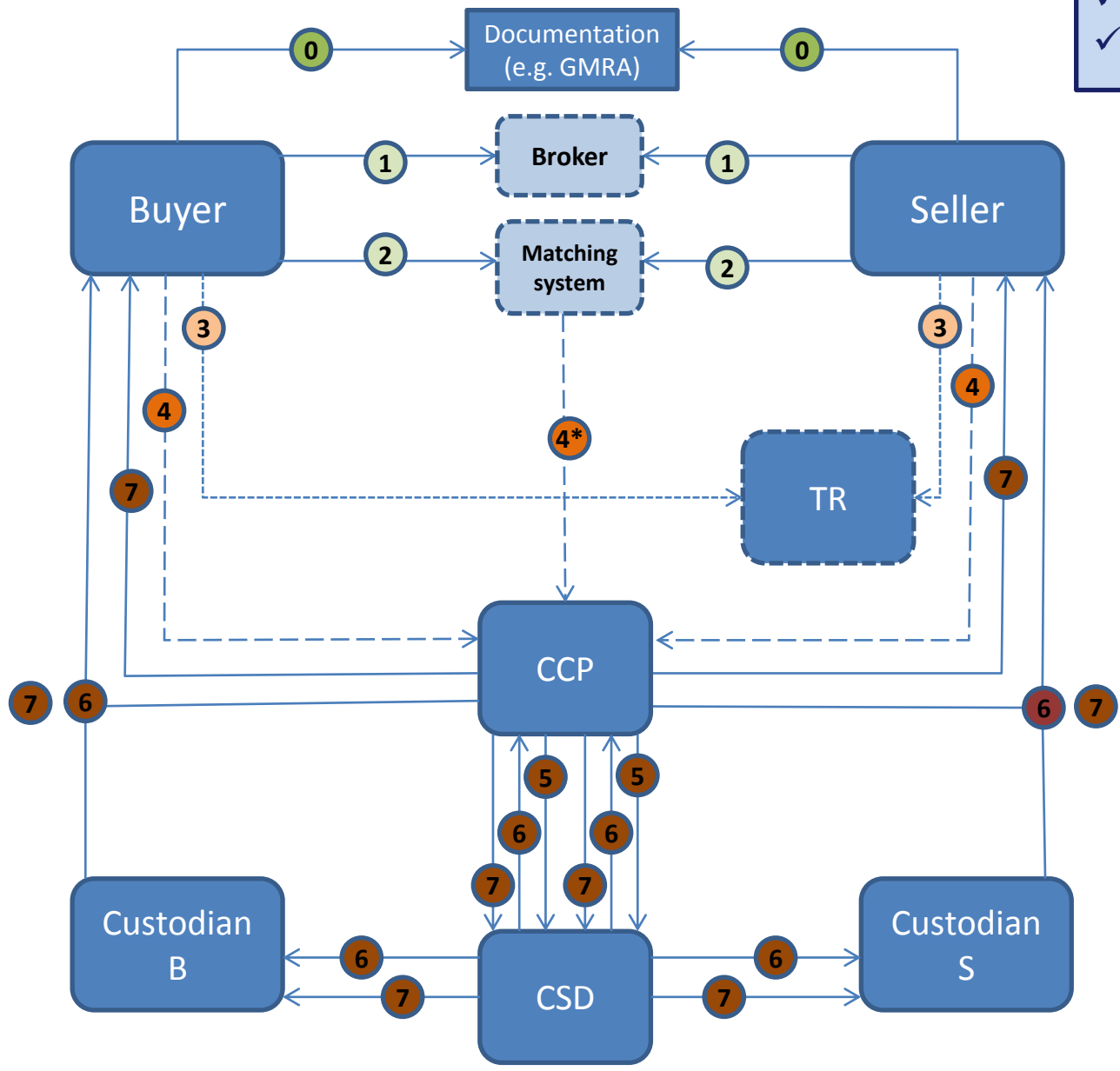| #	Process	Relevant requirements and reference
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2	Trade execution	N/A
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4	Trade reporting	• Reporting under EU SFTR • ECB MMSR • BoE sterling money market • FSB work on SFT data • MiFIR transaction reporting (tbc) • 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) • 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

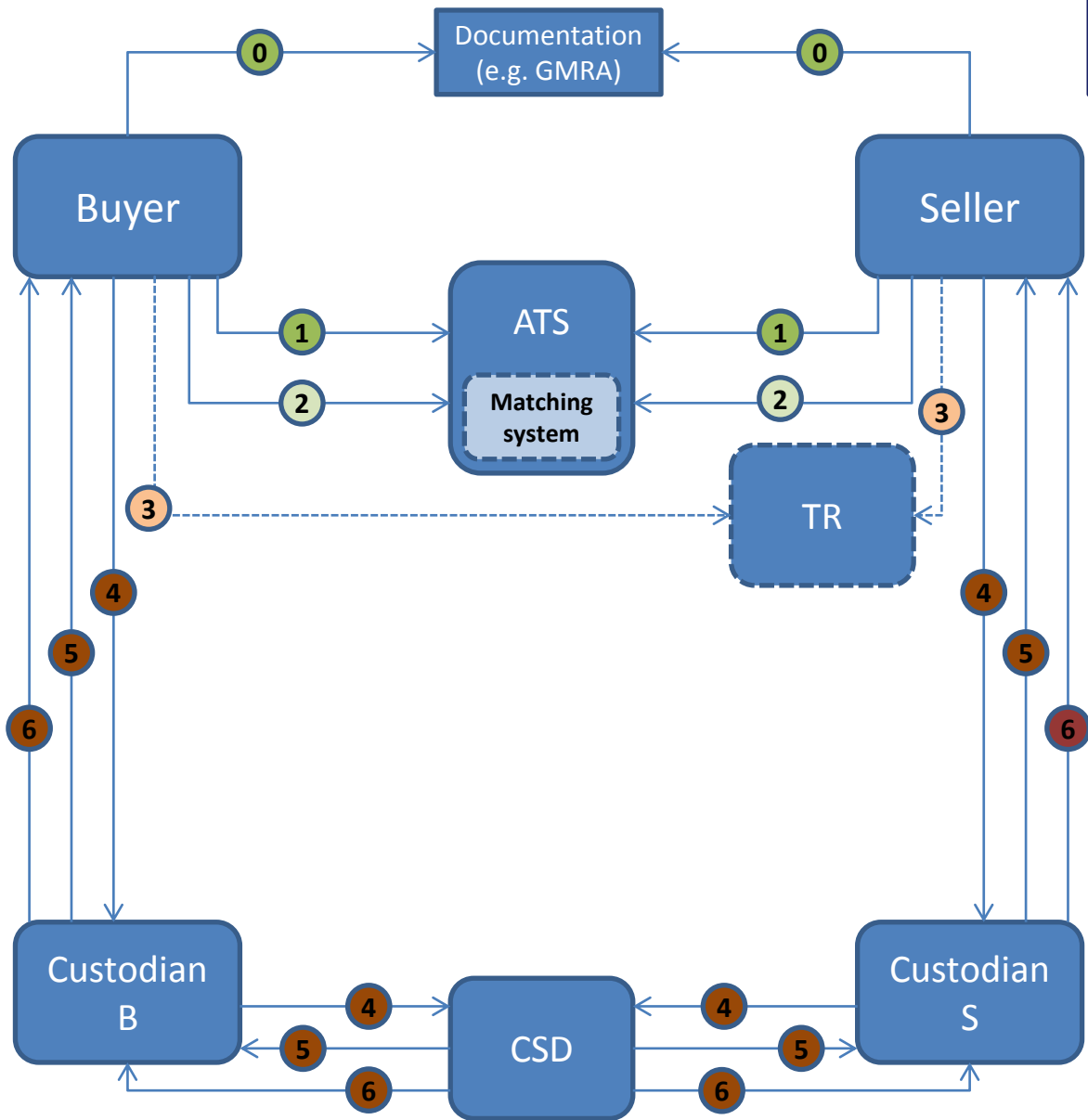* Where direct feed exists between matching system and CCP.

Regulatory impact

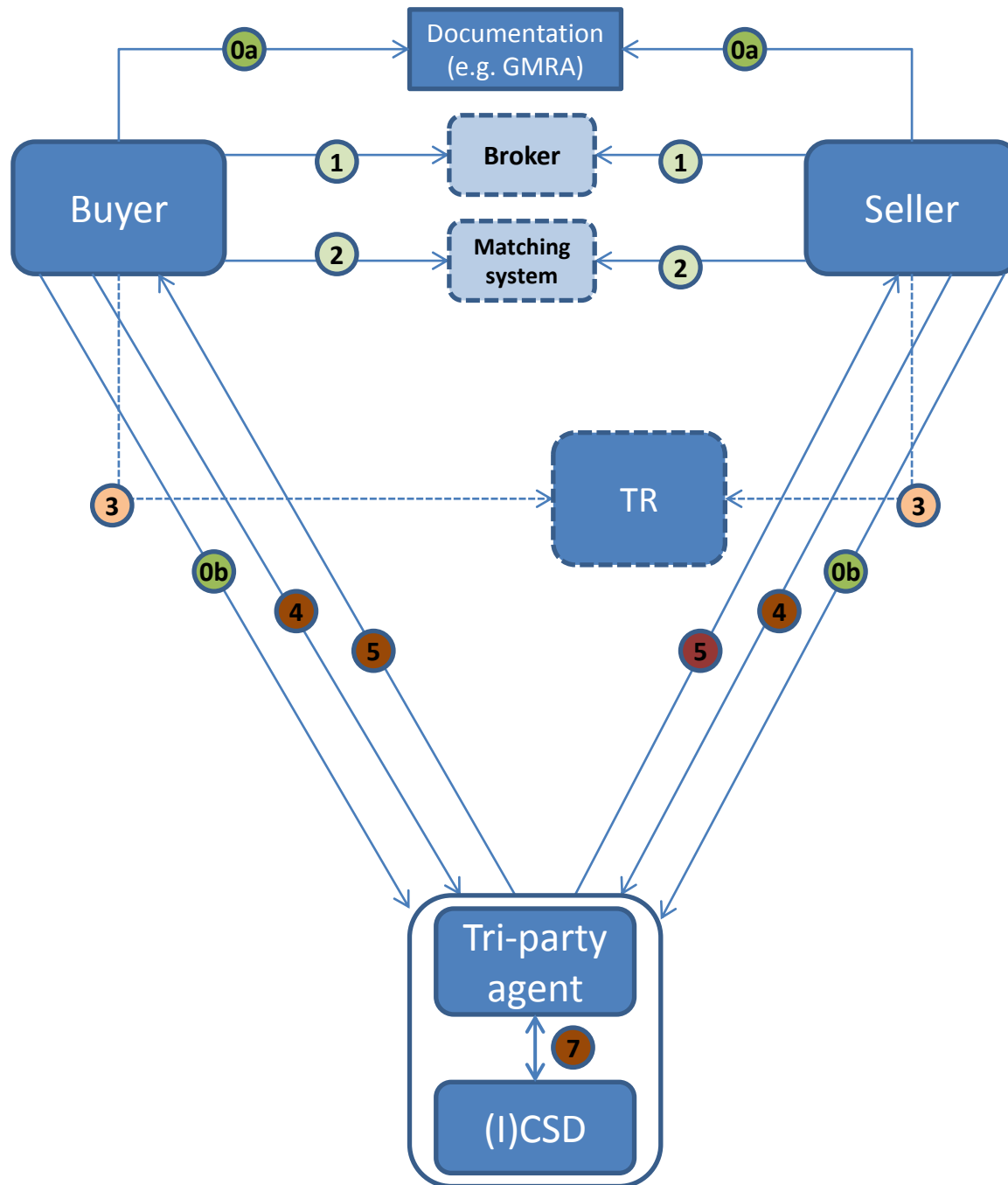| #	Process	Relevant requirements and reference
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4	CCP give-up	• Mandatory matching fields (CSDR) • Needs to allow CSD to correctly determine SFT exemption under CSDR • Needs to fulfil CSD (fails) reporting requirements under CSDR
5	Settlement instruction (PoA)	• Mandatory matching fields (CSDR) • CSDR: fields also need to fulfil CSD (fails) reporting requirements
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Pre-Trade

Trade execution & matching

Trade reporting

Clearing

Settlement
- Purchase leg
- Lifetime of trade
- Repurchase leg

✓ Tri-party
✓ No CCP

Documentation (e.g. GMRA)

0a

Buyer — 1 → Broker ← 1 — Seller

2 → Matching system ← 2

TR

3 — 0b — 4 — 5

Tri-party agent

7

(I)CSD

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Regulatory impact

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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 • ECB MMSR • BoE sterling money market • FSB work on SFT data • MiFIR transaction reporting (tbc) • 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) • Delegated reporting (triparty agent)?
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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?

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Pre-Trade

Trade execution & matching

Trade reporting

Clearing

Settlement
- Purchase leg
- Lifetime of trade
- Repurchase leg

Documentation (e.g. GMRA)

0a

Broker

1

Buyer

2

Matching system

4*

TR

Seller

3

4

0b

6

CCP

5   5

6   6

6

6

Tri-party agent

7

(I)CSD

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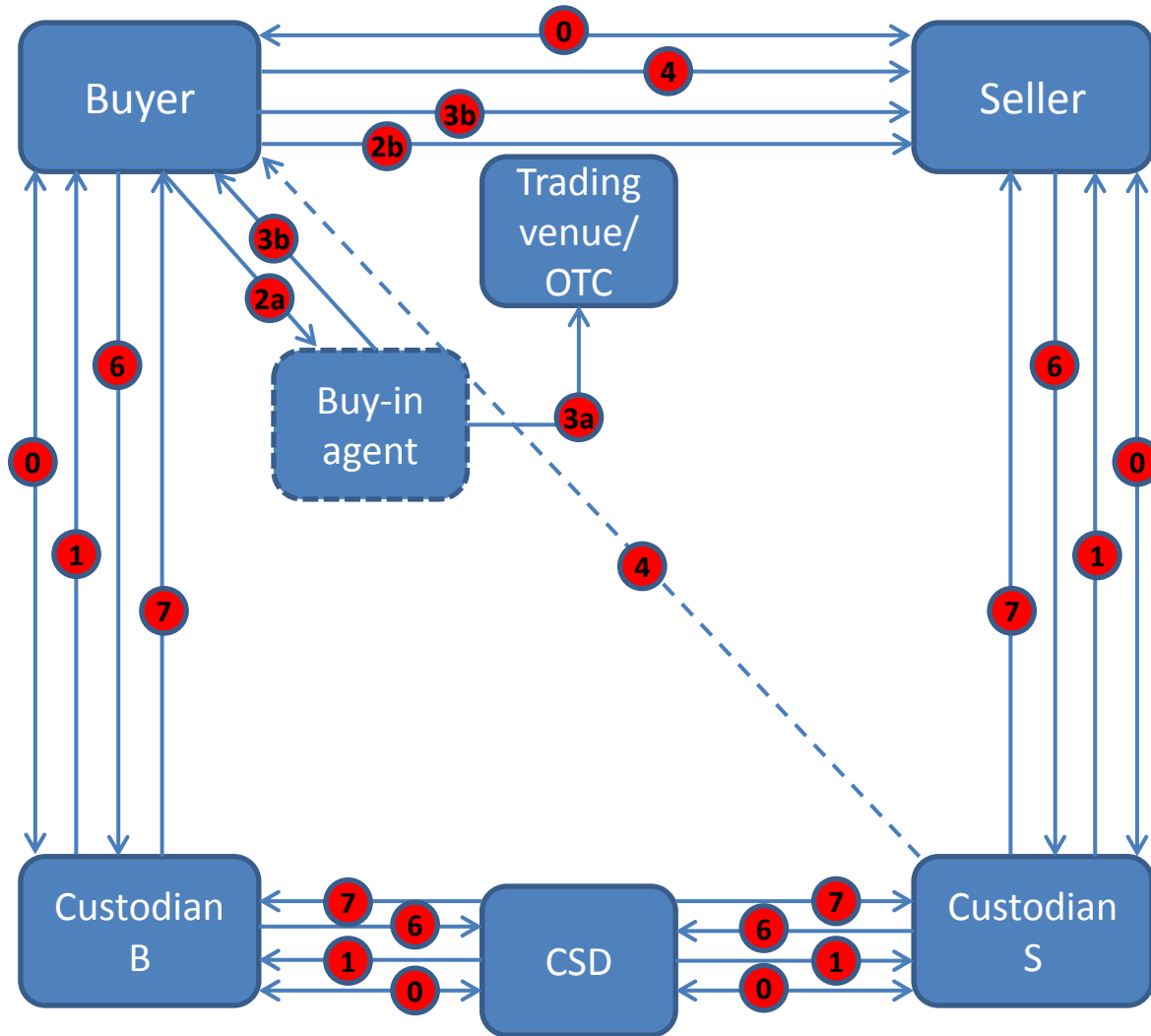
(2) CSDR settlement discipline and SFTs:
Post-ISD

Regulatory impact

#	Process	Relevant requirements and reference
0	Contractual arrangements for buy-ins	• 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]**
1	Information on fails and penalty calculation	• 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]**
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](#)