

**Minutes of the ERCC Committee meeting held on 12 September in London
Hosted by ICMA**

Present:	Mr. Godfried De Vidts	BrokerTec (ERCC Chairman)	
	Mr. Dan Bremer	BAML	
	Mr. Michael Manna	Barclays	
	Ms. Emma Cooper	Blackrock	
	Mr. Grigorios Markouizos	Citigroup (ERCC Vice Chair)	
	Mr. Peter Schmid	Commerzbank	
	Mr. Michel Semaan	Crédit Agricole	
	Mr. Romain Dumas	Credit Suisse	
	Mr. Ronan Rowley	Deutsche Bank	
	Mr. Jean-Michel Meyer	HSBC	
	Mr. Nicola Danese	JP Morgan	
	Mr. Gareth Allen	UBS Limited	
	Mr. Eduard Cia	UniCredit Bank (ERCC Vice Chair)	
		Mr. Nicholas Hamilton	JP Morgan (Co-Chair ERCC Ops Group)
		Mr. Richard Comotto	ICMA Centre
		Ms. Lisa Cleary	ICMA
	Mr. David Hiscock	ICMA	
	Mr. Leeland Goss	ICMA	
	Mr. Alexander Westphal	ICMA (ERCC Secretary)	
Guests:	Mr. Michel Bricq	Clearstream	
	Mr. Jean-Robert Wilkin	Clearstream	
	Ms. Rebecca Carey	Euroclear	
	Mr. Edwin De Pauw	Euroclear	
	Mr. Olivier Grimont	Euroclear	
	Mr. Nigel Bradley	LCH Ltd	
	Mr. Paul Elkins	LCH Ltd	
On the phone:	Mr. Tom Wells	Morgan Stanley	
	Mr. Sylvain Bojic	Société Générale	
Apologies:	Mr. Andreas Biewald	Commerzbank	
	Mr. Johan Evenepoel	Euroclear Bank	
	Mr. Eugene McGrory	BNP Paribas	
	Mr. Paul Van De Moosdijk	PGGM Vermogensbeheer B.V.	
	Mr. Richard Hochreutiner	Swiss Reinsurance	

Welcome

The Chairman welcomed members to this fifth Committee meeting of the year and thanked the guests from Euroclear, Clearstream and LCH for joining the meeting to provide their respective updates.

1) Minutes from previous meetings

Members approved the minutes of the last Committee meetings held on 20 June 2017 in Berlin, covering the joint session with the ISLA Board and the subsequent Committee only meeting.

2) Update from the ICSDs

Representatives from the two ICSDs joined the meeting to provide an update on two initiatives that they are currently working on: the ongoing enhancement of the ICSD 'Bridge' and a project undertaken in collaboration with the Eurosystem to make Eurobonds available in T2S.

(i) Bridge enhancements: In May 2015, the ICSDs published a joint action plan which set out a phased approach to improve the Bridge environment. Two of the three proposed phases have been concluded by now: the first one in September 2015 and the second one in June 2017. Key enhancements at the second stage included an upgrade of the matching process to near-real time, a significant increase in the number of settlement cycles per day from 17 to 48, and an extension of the settlement cut-off time to the maximum possible given relevant currency deadlines. According to the initial plan this was supposed to be followed by a third stage of enhancements, to be implemented following the completion of the T2S migration process. However, the ICSDs had to revise the initial plan and delay the Phase 3 enhancements due to significant additional changes to the Bridge required by the EU CSD Regulation (CSDR). These changes are related to two aspects of CSDR: the extensive prudential requirements and the settlement discipline provisions. The former require, among other things, technical changes to the settlement process and to the applicable finality rules, while the latter oblige them to introduce new functionalities, such as partial settlement and hold and release, as well as extensive monitoring and reporting solutions related to matching and settlement fails. Only once these changes have been introduced, the ICSDs will be in a position to initiate the third phase of Bridge enhancements, which will include a feasibility assessment for the planned upgrade of the Bridge to real-time, which in turn would be the pre-requisite to achieve settlement interoperability between the ICSDs. As regards timing, the ICSDs explained that the changes related to the CSDR prudential requirements will have to be implemented by Q4 2018. There is still some uncertainty related to settlement discipline though as the relevant technical standards are yet to be adopted by the Commission. Members were interested to get a sense for the impact of the Bridge enhancements. The ICSDs explained that it is too early to draw any conclusions based on available data since the Phase 2 enhancements in June, although the first figures seem to indicate a positive impact on settlement efficiency. LCH confirmed that their latest settlement fail rates are at a 12-month low, with the Bridge as one possible positive factor. Another question was related to the need to achieve a clearer distinction between cash and repo trades at

settlement level, e.g. as a result of CSDR requirements. While it is not yet fully clear to what degree the CSDR requires this distinction at settlement level, members agreed that it would be desirable to achieve a more consistent treatment of repo trades throughout the transaction chain and expressed the hope that this could also be considered in the context of the ECB's ongoing work on collateral management harmonisation (see item 4 below).

(ii) Eurobonds in T2S: The ECB has proposed to develop a harmonised collateral management solution for Eurosystem credit operations, the Eurosystem Collateral Management System (ECMS) and is expected to take a decision on the implementation of the project by the end of the year. In this context, the ECB is considering further harmonisation in the field of collateral management and has proposed to require collateral used for Eurosystem credit operations to settle in T2S. This would force national central banks to receive and hold their collateral in a T2S CSD, but would not limit the options for counterparties who could still deliver collateral into T2S through any existing channel, including ICSDs and custodians. As part of this proposal, the ECB has requested the ICSDs to present options for EUR-denominated Eurobonds to be made available for settlement in T2S. The ICSDs clarified that this is already possible today through the relevant domestic CSDs (Euroclear France and Clearstream Frankfurt). However, current arrangements do not yet allow for efficient cross-CSD settlement for Eurobonds in T2S. This latter aspect is currently being discussed between the ICSDs and they have put forward a possible solution, which would work on the basis of cross-CSD holdings and realignments. They are also involving other CSDs in the discussions, who could access the additional pool as investor CSDs. In response to a question by members, the ICSDs confirmed that they do see a market need for this solution to be developed and that they expect the implementation costs to be relatively moderate. Participants discussed whether the new solution could introduce new frictions into the system. It was remarked that this could indeed be the case if the project led to a split of liquidity pools between ICSDs and T2S, which was seen as somewhat inevitable given that many instruments/currencies are not available in T2S and due to limited access to the platform for non-banks. Given the non-alignment of settlement windows between ICSDs and T2S there is a risk of collateral being stuck in T2S, causing settlement fails. These risks have to be balanced against the benefits of the model, e.g. access to new markets and liquidity pools. It was also remarked that the ECB has a keen interest in the project as a way to increase T2S volumes and encourage cross-CSD settlement which is not yet utilised at a significant scale. Overall, the success will critically depend on the way the different market participants, including domestic CSDs and custodians, adjust their operating and business models and make use of the opportunities provided by the new settlement infrastructure.

3) CCP clearing and balance sheet netting in T2S

Two representatives from LCH attended the meeting to present their views on balance sheet netting opportunities in T2S, in particular in view of the recent extension of the RepoClear SA service to new euro area markets beyond the three existing ones (France, Italy and Spain). Since January 2017 it is already possible to clear a range of German debt instruments through RepoClear SA. Belgium will follow on 30 November 2017. In both cases, firms will have a choice between using RepoClear SA or

RepoClear Ltd as CCP. By mid-2018, the eight other euro markets currently covered by LCH Ltd will be added to the RepoClear SA offering as well (initially for settlement through the two ICSDs).

Mr. Bradley went on to comment on the possible consequences for balance sheet netting. The conditions under which balance sheet netting (“offsetting”) of financial assets and liabilities is allowed are defined by IFRS and set out in the 2011 IAS 32 offsetting guidance for financial instruments. The rules require an enforceable legal right to offset as well as either net settlement or simultaneous settlement. The key criteria are, inter alia, that assets and liabilities must be for the same settlement date, the same currency and between the same counterparties (satisfied with the use of a single CCP), but the rules also require the same settlement location, which is more ambiguous in the context of T2S. The critical consideration in the context of T2S is that net or simultaneous settlement is defined by the IFRS among other things as settlement “through the same settlement institution (for example, a settlement bank, a central bank or a central securities depository)”. Given that this drafting pre-dates T2S, it is not clear whether the particular new T2S infrastructure setup in Europe satisfies this condition. In fact, the answer to this question is likely to depend on the technical setup of each firm. Mr. Bradley went through three possible settlement scenarios in T2S, ranging from a setup where a given firm settles through securities accounts in two separate national CSDs and using two separate DCAs (as is currently the case for most firms) to a situation with a single T2S CSD account and a single DCA. While the latter case is equivalent for example with the current setup in the ICSDs and would thus presumably qualify for netting, this conclusion is much less clear in the first scenario. Accounting rules in the US (GAAP) are clearer on this point, in that they explicitly require the use of a single cash account.

Members discussed whether there is benefit for the industry to seek clarification through some form of external opinion. Members agreed that reducing current unknowns in this context would be in principle very helpful, including to inform firms’ strategies in relation to T2S and their future custody setup. However, members also commented that if it is decided to seek an external opinion then there is a need to be very clear and precise about the question to be asked, which probably needs to be linked to a very specific scenario in order to allow for an unambiguous response. Members also discussed who such question should most appropriately be addressed to. As a first step, members agreed to set up a small sub-group to discuss the issue more in detail and to prepare a proposal for the way forward.

In relation to LCH’s ongoing work to develop a CCP solution for the buy-side, Mr. Elkins mentioned that they have obtained approval from the Bank of England and plan to release further details in due course. [Post meeting note: LCH’s Sponsored Clearing service was subsequently launched with the first transaction cleared on the 13th September 2017.]

Members briefly discussed the ICSD auto-borrow functionalities which LCH requires clearing members to use where available. Members raised no specific concerns with this requirement.

4) ERCC Operations Group update

Mr. Hamilton, Co-chair of the ERCC Operations Group, provided an update on the latest ERCC Ops initiatives, which are divided into four pillars:

(i) Market infrastructure: The ERCC Ops is closely involved in a new Task Force on collateral management harmonisation (CMH-TF) set up under the umbrella of the AMI-SeCo, the ECB's Advisory Group on Market Infrastructure for Securities and Collateral. The initiative builds up on work initiated by the COGESI, the AMI-SeCo's predecessor group, and also links to the extensive work on post-trade barriers undertaken by the Commission's European Post-Trade Forum (EPTF), both of which the ERCC Ops actively contributed to. The new CMH-TF is divided into 5 sub-streams which each look at a sub-set of proposed collateral management harmonisation activities: (i) triparty; (ii) corporate actions, non-EUR collateral management, taxation forms; (iii) bilateral collateral management and margining; (iv) fee and billing processes, reporting, cut-off times; (v) collateral dynamic and static data. The ECB's main focus is thereby on the tri-party work, as they consider the task force as a steering vehicle to achieve a consistent tri-party product in support of the future Eurosystem Collateral Management System (ESCB), which would replace the currently fragmented collateral framework based on the Correspondent Central Banking Model (CCBM). Mr. Hamilton explained that in the current system there are around 3000 actors involved in Eurosystem credit operations, delivering collateral through around 20 different channels, each with their own technical and legal specifications. There is also an important link to the parallel work undertaken in collaboration with the ICSDs to make Eurobonds available for settlement in T2S, thus extending the available collateral pool for the ECMS. Several members of the ERCC Ops Group are involved in the different sub-streams. We also collaborate closely with ISLA in this regard, having established a joint working group. Mr. Hamilton encouraged those member firms that are not yet directly involved to consider putting forward experts to the relevant sub-groups. The timeline of the CMH-TF work is ambitious, aiming to reach first tangible conclusions by year-end. These will then serve as a basis for the actual harmonisation work in the course of 2018 and 2019.

(ii) Regulation: Although firms are heavily focused on the imminent MiFID II/R delivery, the SFTR implementation work is also moving on. The SFTR reporting regime is currently expected to go live around mid-2019, which still seems quite far away. However, given the extensive and challenging requirements in practice this does not leave a lot of time for the industry to agree and build the required solutions. The ERCC Ops SFTR Task Force is collaborating closely with ISLA on this file. Recent discussions have focused on certain major challenges, especially around UTIs and LEIs. However, the group has also identified a number of specific new issues, including questions on the reportability of T2S auto-collateralisation activity as well as some comments on individual reporting fields, and is seeking clarification from ESMA and the Commission on these questions.

In parallel, amid resource constraints, firms are continuing to work on the bilateral reconciliation exercise which ICMA had launched earlier this year. First discussions between dealers are advancing and some initial results are expected to be shared anonymously with the group over the next couple of months. It is hoped that the exercise will help to better understand the key configuration

differences between firms and thus to define focus areas for further industry work. This will also be a good basis to initiate more detailed discussions with vendors. Mr. Hamilton suggested that his colleague Mr. Jonathan Lee, Chair of the ERCC Ops SFTR TF, could give a more detailed update on SFTR at one of the next Committee meetings.

(iii) Repo Best Practice: The Guide Review Working Group, a blend of Committee and Ops members, continues to review amendment proposals to the Best Practice Guide. Based on the latest discussions, Mr. Comotto has prepared and circulated to the Group a set of proposed amendments, covering a wide range of topics including variation margin, confirmations, indexing or deadlines for the termination of open repo. Once finalised, the list of amendments will be shared with the Committee and Ops for approval.

(iv) FinTech: The ERCC Ops FinTech Working Group continues to work on a catalogue of FinTech solutions in the collateral operations space. The mapping now covers around 80 solutions across an array of post-trade functions. The objective is to create a neutral information point for the market about available tools, which is expected to be particularly helpful for new entrants to the market. The mapping is currently being finalised in collaboration with the respective vendors and is expected to be published within the next two months on the ICMA website.

The Chairman noted the excellent and extensive work that the ERCC Ops Group has done over the past years and thanked Mr. Hamilton and Mr. Bate, as Ops Co-chairs, on behalf of the whole Committee for their continued support.

5) Legal update

Ms. Cleary updated members on the latest legal developments. Following the discussion at the last Committee meeting on repo pledge structures, ICMA reached out to ISLA to assess the scope for collaboration on this project. It was concluded that a joint approach is not desirable given: (i) the advanced stage of the ISLA work, and (ii) the different scope of the two concepts. As a result, a draft proposal to develop a repo specific pledge structure was prepared and circulated to ERCC Committee members ahead of today's meeting. The paper takes into account feedback provided by ERCC members in response to a survey on the topic and will be submitted to the ICMA Board for discussion at the next meeting to be held on 29 September. Ms. Cleary explained the structure of the paper and asked members to carefully review the draft proposal before it is sent to the ICMA Board. Members reiterated their support for the initiative and briefly discussed the expected costs of the project and the most appropriate way to split these across the ICMA membership.

In terms of other legal updates, Ms. Cleary informed members that the 2018 legal opinion exercise is about to commence. Any requests to extend the coverage of legal opinions, either in terms of jurisdictions or counterparties, should thus be submitted within the next days. On a related note, Ms. Cleary also noted that, unlike previously suggested, it had been decided to continue to cover

the GMRA 1995 in this round of updates. However, the question of discontinuation of coverage will have to be reconsidered after April 2018 once the new opinions have been published.

6) Regulation

(a) **BRRD - Proposed revision of moratorium powers**

Ms. Cleary informed members about market concerns related to a proposal by the European Commission to introduce two new moratorium powers under the BRRD (Directive 2014/59/EU). The proposed BRRD amendments were published as part of the November 2016 Banking Reform Package and are currently reviewed by the European Parliament and the Council as part of the usual EU legislative process. Worryingly, the two proposed new moratorium powers (one applicable before and one during the resolution phase) are more far reaching than existing powers under the BRRD in that they are not limited to a suspension of termination rights but would apply more broadly to payment and delivery obligations, thus impeding the margining of the relevant positions. This is likely to have a major negative impact on the market. ICMA has therefore prepared a position paper on the issue and sent it to the different relevant contacts within the EU institutions. As a follow-up to the letter, a call was held with the Commission to further explain the issue. The Commission reiterated that at this stage this was only a proposal and that they are open to receive further industry feedback, including concrete examples and drafting suggestions.

(b) **Other regulations:**

Mr. Hiscock updated members on other regulatory developments with relevance for repo and collateral markets.

In relation to **MiFID II/R**, Mr. Hiscock informed members that a response by ESMA to our request on record-keeping requirements for repo is still pending. More recently a question has been raised by a member on the impact of MiFID II/R client reporting rules under article 25(6) on the repo confirmation process. Based on some further research the Secretariat has prepared a short note with further details on the issue. The draft note was sent initially to the Guide Review Working Group given the potential (although limited) impact on confirmation best practices, and will be shared with the Committee for information. On a related note, Mr. Hiscock informed members that ISLA is doing some work with a law firm to assess more in detail the impacts of MiFID II/R on securities lending.

Mr. Hiscock informed members that the legislative process in relation to the **CCP Recovery and Resolution [proposal](#)** is still ongoing. ICMA continues to advocate previously discussed concerns in relation to variation margin haircutting, which is not considered an appropriate recovery or resolution tool to be used for repo. This point is also being advocated by other associations, including ISDA. Members are encouraged to share any additional concerns in relation to the file with the Secretariat.

Mr. Hiscock mentioned some interesting recent discussions in relation to derivatives margining more broadly, as some firms for certain derivatives trades seem to have shifted from the exchange of variation margin to a daily settlement of the related exposure, which is deemed beneficial from a capital requirements perspective. While the discussion is currently limited to the derivatives space, we keep monitoring the issue given a potential spill over to repo markets. Members added that this practice seems particularly relevant for CCP-cleared business.

7) Upcoming ERCC General Meeting and work on the importance of repo for the real economy

The Chairman informed members about the ongoing preparations for the ERCC General Meeting on 14 November in Brussels, which are progressing well. All keynote speakers and panellists are now confirmed and pre-panel calls will be set up shortly. Registrations are also going well with close to 100 attendees signed up. The updated agenda for the event is available on the [ICMA website](#).

8) AOB and further dates:

Mr. Comotto gave a brief preview of the results of the latest, 33rd European Repo Survey and took note of additional feedback provided by members. [Post meeting note: The survey was published on 17 October and is available [here](#).]

On a related note, Mr. Comotto mentioned that he recently collated some additional figures on initial margin collected by CCPs, which show a substantial increase over the past year across all major CCPs by over EUR 50 billion. The short paper will be circulated to the Committee.

In terms of next ERCC meetings, the following meetings have been scheduled so far:

- **2 November, 14:00 – 17:00 (UK time):** ERCC Committee meeting in London, hosted by Blackrock
- **14 November, 14:00 – 17:00 (local time):** ERCC General Meeting in Brussels, hosted by Euroclear in the margins of their Collateral conference
- **13 December, 14:00 – 17:00 (UK time):** ERCC Committee meeting in London, hosted by Crédit Suisse

The ERCC Chairman:

The ERCC Secretary:

Godfried De Vidts

Alexander Westphal