

Minutes of the ERCC Committee meeting held on 21 February in London Hosted by ICMA

Present:	Mr. Godfried De Vidts	BrokerTec (ERCC Chairman)
	Mr. Grigorios Markouizos	Citigroup (ERCC Vice Chair)
	Ms. Jayne Forbes	AXA IM
	Mr. Dan Bremer	BAML
	Mr. Michael Manna	Barclays
	Ms. Emma Cooper	Blackrock
	Mr. Eugene McGrory	BNP Paribas
	Mr. Jean-Robert Wilkin	Clearstream
	Mr. Andreas Biewald	Commerzbank
	Mr. Nicola Danese	JP Morgan
	Mr. Antony Baldwin	LCH Limited
	Mr. Harald Bänsch	UniCredit Bank
		Mr. Nicholas Hamilton
	Mr. Adam Bate	Morgan Stanley (ERCC Ops Co-Chair)
	Ms. Lisa Cleary	ICMA
	Mr. Richard Comotto	ICMA Centre
	Mr. David Hiscock	ICMA
	Mr. Alexander Westphal	ICMA (ERCC Secretary)
Guests:	Ms. Rebecca Carey	Euroclear
	Mr. Jan Grauls	Euroclear
On the phone:	Mr. Michel Semaan	Crédit Agricole
	Mr. Sylvain Bojic	Société Générale
	Mr. Richard Hochreutiner	Swiss Reinsurance (ERCC Vice Chair)
	Mr. Gareth Allen	UBS Limited
Apologies:	Mr. Romain Dumas	Credit Suisse
	Mr. Jean-Michel Meyer	HSBC
	Mr. Paul Van De Moosdijk	PGGM

Welcome

Mr. Godfried De Vidts welcomed members to the first meeting of the newly elected ERCC Committee, which he noted is more diverse than ever with now four buy-sides, an ICSD and a CCP represented alongside the bank members.

1) Election of the Chair and Vice-Chairs

Committee members were asked to elect a Chairman as well as two Vice-Chairs for the ERCC Committee. In addition, members were also asked to nominate, pursuant to rule 1012.1 of the

ICMA Rules, two candidates for the International Repo and Collateral Council Committee who are then subject to formal appointment by the ICMA Board.

For the ERCC Committee, members unanimously elected:

- **Mr. Godfried De Vidts** as Chairman of the ERCC Committee;
- **Mr. Grigorios Markouizos** as Vice-Chair of the ERCC Committee; and
- **Mr. Richard Hochreutiner** as Vice-Chair of the ERCC Committee.

For the IRCC Committee, members unanimously nominated:

- **Mr. Godfried De Vidts** as Chairman of the IRCC Committee for a term to expire at the ERCC's AGM in 2021; and
- **Mr. Michel Semaan** as Eduard Cia's successor as Vice-Chair of the IRCC committee for a term to expire at the ERCC's AGM in 2019.

[Post-meeting note: Both candidates for the IRCC Committee were formally appointed by the ICMA Board at its meeting on 23 March 2018.]

2) Minutes from previous meeting

The Committee approved the draft minutes of the previous Committee meeting, held on 13 December 2017 in London, without changes.

3) ICSD update and the future of T2S

Representatives from the two ICSDs, Euroclear and Clearstream, joined the meeting to give an update on their joint project to make Eurobonds available for settlement in T2S. Since the ICSDs' last update to the Committee in September 2017, further progress has been made to define the underlying technical model. In addition, the proposed model has been discussed on various occasions with users, the ECB and other infrastructure providers within the different ECB user groups, including at a dedicated AMI-SeCo workshop in December. Feedback has been generally positive with a wide consensus that the proposed model makes sense. Ms. Carey briefly recapped the main features and objectives of the project. She explained that the intention is not for the ICSDs themselves to join the T2S platform. Instead, the aim is to put in place a model that allows for an efficient cross-CSD settlement in T2S of Eurobonds issued in the ICSDs and eligible for Eurosystem credit operations. A key driver for the project has been the desire by national central banks to limit their exposure to risks related to commercial bank money (CoBM) by restricting collateral receipts for the purpose of Eurosystem credit operations to the T2S environment, i.e. central bank money (CeBM). For users, this means additional choice, as they now have the option to settle the relevant Eurobonds either in CoBM or CeBM. The service level remains otherwise unchanged as users can continue to use their ICSD account to deliver collateral to the central banks in the usual way. In terms of next steps, the ICSDs explained that they are currently working

on the final high-level specifications related to IT, legal and operational frameworks and will announce this summer a concrete target launch date, which will likely be around end 2019 or early 2020.

Members agreed that the project is generally a positive development as it adds choice for users in terms of settlement location. Ultimately this will help firms to optimise their settlement arrangements and is thus a step towards a consolidation of collateral pools into a single T2S account. However, members also cautioned that making eligible Eurobonds available for settlement in CeBM is not a panacea to address remaining settlement frictions in Europe, given that firms will continue to rely on CoBM settlement for client activity and non-euro collateral. Frictions between CoBM and CeBM therefore continue to be an issue. The ICSDs agreed and assured members that they continue to work in parallel on improving the efficiency of links between CoBM and CeBM and to reduce related frictions. Members also mentioned balance sheet netting as another important obstacle, as the inability to net negates much of the potential benefit of the Eurobond project (see agenda item 4 below).

Members discussed the implications of the Eurobond project on previous initiatives to develop tri-party settlement interoperability (TSI). The ICSDs explained that the current project will reduce to some degree the case for TSI, as it provides a way to bypass the Bridge (for settlement in CeBM). However, given the continued importance of CoBM settlement it still makes sense to upgrade the Bridge and to ultimately establish TSI. Ultimately, this will be a decision for users, given cost implications. In this context the ICSDs noted that work to enhance the Bridge is ongoing, although this is currently entirely focused on making adjustments to ensure compliance with the CSD Regulation, which does not bring any benefits in terms of settlement efficiency and speed.

Members discussed the evolution of settlement costs in Europe more generally. It was explained that a discussion on settlement costs cannot be limited to settlement fees (which are not significantly higher than in the US) but needs to take into account other cost components. The problem in Europe has always been market fragmentation and the resulting frictions and costs in terms of intraday liquidity consumption. T2S and complementary projects such as the ICSD project in relation to Eurobonds offer an opportunity to achieve a more harmonised and integrated settlement environment in Europe and thus to decrease the related inefficiencies in the future, although the positive impacts have been limited so far.

As regards the connection between the Eurobond project and the ECB's initiative to develop a Eurosystem Collateral Management System (ECMS), the ICSDs explained that while these are in principle separate projects, there is a close link as the ECB considers the completion of the Eurobond project as a pre-requisite for the establishment of the ECMS. They explained that the primary beneficiaries of the ECMS will be national central banks who will use the system as a back-office tool. However, members also pointed to the opportunities for users from the ECMS, as this provides a more streamlined and harmonised framework for the management of central bank liquidity and will thus be an important tool particularly for corporate treasurers, including by

establishing a consistent tri-party product as a funding tool in this context. Mr. Hamilton and Mr. Bate explained that ERCC Ops is closely tied into the work to develop the ECMS and complementary harmonisation efforts in relation to collateral management processes which are being undertaken under the AMI-SeCo umbrella. The aim is to ultimately to establish a fuller product definition for repo in T2S.

4) **Balance sheet netting in T2S**

The Chairman introduced a brief discussion on the question of balance sheet netting in T2S, following up on previous discussions on this topic in the Committee. In November 2017, the ERCC had sent a letter to the ECB to request guidance on the question whether the T2S setup allows firms to net across CSD accounts within T2S. The ECB responded to this letter on 25 January, stating that they cannot provide any official guidance on this matter. They did acknowledge, however, the importance of the question and encouraged members to further investigate with national competent authorities and/or the IFRS. Members agreed to form a sub-group to continue cross-industry discussion on this important question, with the involvement of the relevant accounting experts.

5) **Other updates by the ERCC Operations Group**

Mr. Nicholas Hamilton and Mr. Adam Bate, Co-Chairs of the ERCC Operations Group updated members on the activities in the operations space. For the benefit of new Committee members, they explained the 4 pillars of the Ops work, as illustrated in a chart that was circulated to members ahead of the meeting:

Best practice and training: This covers work on the Repo Best Practice Guide which has become a reference point in the market and is updated regularly by a dedicated working group. The group is also keen to promote a range of relevant ICMA training courses. These are an important complement to the work on the Guide itself as they serve to increase awareness and understanding of existing best practices in the market.

FinTech Working Group: As a complement to the best practice work, the ERCC Ops Group established in 2016 a dedicated FinTech WG to keep abreast of the increasingly important and rapidly evolving area of technology. The group, which is chaired by Sanjiv Ingle (SocGen), has published an extensive mapping directory of over 100 FinTech solutions available for repo and cash bond operations which is available on the [ICMA website](#).

Market infrastructure: The ERCC Ops is closely involved in the important work undertaken under the ECB's AMI-SeCo and its different sub-groups, particularly in relation to the harmonisation of collateral management processes (see item 2 above). Apart from the official fora, the ERCC Ops is also undertaking more detailed work in relation to intraday liquidity management. This topic has been discussed in the past in the ERCC Committee and ERCC Ops. Following up on these initial

discussions, the aim is now to get a more empirical view on the issue and to develop some concrete use cases which can serve as a basis to assess whether there is a need to develop specific market practices to streamline intraday liquidity management and achieve a better sequencing of settlement.

Regulation: The regulatory work is currently heavily focused on the implementation of the SFT Regulation. A dedicated SFTR Task Force has been established to undertake detailed work to prepare the go-live of the extensive SFTR reporting regime which is currently expected around Q3 2019. A key focus of the group is to tackle the significant SFTR reconciliation challenges, including by encouraging members to take part in a bilateral reconciliation exercise which the group launched in 2017.

Considering the important role for vendors in the context of SFTR, members discussed the evolving highly competitive environment and whether the industry should have pushed more forcefully to establish an industry utility to ensure that the extensive data is managed in a consistent and efficient way. From an efficiency point of view members agreed that the latter would have probably been preferable, in particular as bigger players in the market will not have a real choice but need to connect to all the relevant vendor platforms in order to service clients. However, it was also noted that the competitive nature of the market was to some degree imposed by regulators and thus needs to be taken as a given. That said, members stressed the need to push for interoperability between the different providers in order to minimise resulting inefficiencies and frictions. The ERCC Ops Co-Chairs confirmed that interoperability is indeed an important topic which the SFTR Task Force is actively pushing in discussions with vendors. Given that vendors and TRs are members of the SFTR TF, this will be a good forum to encourage such discussions between providers, although ICMA as an association remains of course strictly neutral. It is also clear that vendors themselves are aware of the need to collaborate, which is illustrated by the different partnerships that have already started to form.

To conclude, the ERCC Ops Co-Chairs encouraged members to make sure that they are appropriately represented in the ERCC Operations Group. Given the extensive and important agenda of the group, further contributors are very welcome.

6) Regulation

Mr. David Hiscock updated members on the latest regulatory developments. As part of the meeting documentation, the Secretariat had circulated a Repo Topics Grid which provides an overview of all regulatory issues that are currently being considered by the Committee. Mr. Hiscock invited members to review the grid and to provide feedback, particularly in terms of prioritisation of the different initiatives covered. As regards recent developments, the following topics were highlighted:

a) Anti-pro-cyclicality margin measures for CCPs

On 8 January ESMA published a public consultation (for comment by 28 February) on draft guidelines which aim to clarify the implementation of anti-procyclicality provisions for CCPs under EMIR. EMIR requires CCPs to monitor and account for procyclical effects of margins and make related disclosures. These requirements are further specified in ESMA's technical standards. The current consultation is seeking to put in place guidelines to promote consistent and uniform application of these EMIR provisions and the relevant RTS. Based on some initial discussion, it is proposed that the ERCC should not attempt to respond in detail to the specific consultation questions, but should nevertheless submit a short response letter highlighting the significant role played by CCPs in the European repo market and cautioning against any overzealous application of anti-procyclicality margin measures for CCPs. A short draft response had been circulated to Committee members ahead of the meeting. Members agreed with the proposed approach and briefly discussed the initial draft response, stressing the need for a nuanced response as ESMA's intentions were deemed reasonable. Based on the discussion, Mr. Hiscock will prepare a revised draft response and circulate it to members for a short round of final comments.

b) Sovereign exposures

The Chairman reminded members of the ongoing BCBS discussion paper on the regulatory treatment of sovereign risk exposures published on 7 December 2017, highlighting particularly Q10 which requests feedback on the use of haircuts in repo transactions. This had already been briefly discussed at the previous Committee meeting where members indicated that they do not see a need for the ERCC to submit a response to the consultation. Members confirmed this decision.

c) Review of CRD IV/ CRR

Discussions on the CRR/CRD IV review are ongoing both in the European Parliament and the Council. ICMA continues to collaborate closely with AFME on this file, particularly to coordinate advocacy efforts related to the NSFR proposals. On the latter, some helpful amendments have been proposed by MEPs in the European Parliament which aim to mitigate or remove the remaining asymmetry in relation to short-term SFTs with financial counterparties, although nothing has been agreed yet. In terms of timeline, it is expected that both Parliament and Council could adopt their respective positions on the proposal by mid-2018. This will be followed by so-called trilogue discussions between the co-legislators to agree on a final compromise text (possibly by year-end). The NSFR requirement itself will apply 12 months after the publication of the final text, i.e. at the earliest around end-2020, although there is scope for further delays in the process.

d) CCP Recovery and Resolution & location policy

Discussions also continue on the proposed EU Regulation on CCP Recovery and Resolution, although at a slightly more advanced stage. The European Parliament has now adopted its position on the file. The ERCC's main concern on this file has been in relation to variation margin gains haircutting, an issue which appears to be addressed in a satisfactory way in the latest texts.

On a related note, legislators continue to review proposals related to CCP location policy put forward in the context of the EMIR review. This continues to be a highly political discussion. Most recently, the responsible ECON Committee in the European Parliament discussed three academic papers which had been prepared on this topic. This includes a study by Francesco Papadia, Bruegel (and former ECB Director General) which clearly comes out in favour of locating critical settlement and clearing infrastructures in the jurisdiction of the relevant central bank. On the other hand, senior officials in the US continue to warn against negative repercussions from the debate for well-established supervisory arrangements currently in place between the EU and the US. The ERCC will continue to follow closely the debate.

e) EMIR REFIT & Post-Trade Risk Reduction Services (PTRRS)

The Chairman updated members on current discussions in the context of the EMIR REFIT proposal to appropriately recognise post-trade risk reduction services, such as portfolio compression or counterparty rebalancing, which aim to reduce the overall risk in the system, including in CCPs. ISDA is currently drafting a White Paper on this issue to help the debate. The draft paper has been shared with other associations, including ICMA, with a request to support the initiative and will be shared with Committee members for review.

f) ICMA CDS Market Study

Mr. Andy Hill briefly presented a recent [ICMA Study into the European single name CDS market](#) which was published on 15 February. The paper is mainly educational and attempts to map the state of the market, its main users and what benefits and risks are associated with the Product, also highlighting the important links to the Repo market. Members are encouraged to read the study and share it widely with interested colleagues.

g) CSDR

Mr. Hiscock informed members that the Commission has indicated that they plan to adopt the RTS related to CSDR settlement discipline by the end of this quarter, after years of delay. Once adopted by the Commission, Parliament and Council will have another opportunity to review the standards before they are finalised and published in the Official Journal, kicking off a two-year transition period before the requirements apply. This gives a further short window of opportunity for the ERCC and other stakeholders to influence the discussion. In terms of next steps for ICMA,

Mr. Hill explained that the strategy contains three key components: (i) Agree an appropriate advocacy approach, (ii) Revise ICMA buy-in rules for cash bonds in light of the CSDR requirements, (iii) Consider potential implications for the GMRA given the impact of buy-ins on repo (direct and as a result of the close link between cash and repo markets).

h) Fundamental Review of the Trading Book (FRTB)

A further initiative that ICMA is closely monitoring is the FRTB, proposed by the BCBS as part of the Basel III framework. As ICMA's focus is currently on the implications for cash bond markets, Mr. Hiscock asked members whether they have identified any repo-specific concerns in relation to FRTB. Members commented that this has not been a particular focus so far and that the impact on repo is not easy to assess. Mr. Manna mentioned that he recently had a closer look at potential FRTB impacts specifically on repo. One aspect that he identified was the required change of close-out periods which is likely to have an impact on RWAs. Members are encouraged to share further repo-specific thoughts or concerns in relation to FRTB as their internal analysis evolves.

7) Benchmarks

Mr. Hiscock provided an update on recent developments in relation to benchmark reform in the UK as well as the euro area. With regards to the euro area, he announced that ICMA's application to be a member of the new working group on Euro Risk-Free Rates (RFR) had been accepted. Mr. Hiscock will thus represent ICMA as a non-voting member in that group going forward, including at the inaugural meeting to be held on 26 February, and report back to the Committee on progress. On a related note, Mr. Hiscock also pointed members to two recent announcements by the European Money Market Institute (EMMI): (i) In relation to EURIBOR, EMMI [announced](#) that they remain committed to ensure compliance with the EU Benchmark Regulation (BMR), whereas (ii) the [State of Play of the EONIA review](#) concluded that EMMI will not further attempt to review EONIA in view of achieving compliance with BMR.

In the UK, discussions on benchmark reform are at a more advanced stage. Following the decision for SONIA as the new (unsecured) RFR, two new sub-groups have been set up to work out the details of the transition from LIBOR to RFRs in the UK, including a group focused on sterling bond markets, which ICMA was asked to chair and which held its first meeting on 16 February.

Finally, Mr. Hiscock informed members that ICMA jointly with ISDA, AFME and SIFMA published on 1 February a [Roadmap on Benchmark Transition](#), providing detailed background to the process.

8) Legal update

Ms. Lisa Cleary provided an update on the latest legal developments, covering three topics that are currently being considered in more detail by the ERCC Legal Working Group:

Brexit implications for GMRA: Firms are still in the early stages of assessing potential implications for repo legal documentation from Brexit, also given the remaining uncertainty around the outcome of the political process. However, some foreseeable changes for the GMRA have been identified which might require contractual amendment:

- (i) BRRD: recognition language required in relation to Article 55 (bail-in) and EU resolution powers;
- (ii) MiFIR: Article 46(6) requires EU based counterparties to have an EU dispute forum in contract;
- (iii) EU insolvency laws: third country law contract may not offer safe harbour from clawback in insolvency in certain limited jurisdictions.

There is a question related to the form contractual amendments might take. For changes that apply consistently across all scenarios, amendments to the existing 2011 GMRA Protocol or a Brexit specific protocol would seem to be the most appropriate approach. In other cases, a more flexible approach is required to allow for a case-by-case application. Point (ii) above, for example, which is not applicable in all cases could be addressed by developing a standalone arbitration clause. Point (iii) above would need to be assessed on a jurisdiction-by-jurisdiction basis and would thus become part of regular legal opinion assessments.

Members briefly discussed the question of governing law, following an announcement by ISDA that they are working to develop alternative governing law clauses for the ISDA master agreement as a result of Brexit. In relation to the GMRA, Ms. Cleary noted that ICMA had not received requests to do the same and explained that ICMA did not consider such a step as necessary at this stage. However, the issue remains on the agenda of the Legal WG which continues to closely follow market developments.

Repo pledge documentation: The ERCC project to develop standard documentation in relation to repo pledge structures continues to progress. The group is currently waiting for ISLA to conclude its final discussions in relation to the securities lending documents in order to avoid duplication as many of the steps will be the same on the repo side. In the meantime, the ERCC Legal WG is trying to identify already key steps and stakeholders in the process in order to prepare the upcoming negotiations.

Discontinuation of coverage of the 1995 GMRA in the legal opinions: Ms. Cleary reminded members of the decision supported by the Committee to discontinue coverage of the GMRA 1995 in the legal opinion exercise as of 2019. An official announcement of the decision has been published on the ICMA website and will also be highlighted at the upcoming ERCC AGM on 14 March.

9) AOB and further dates:

Mr. Richard Comotto briefly presented some preliminary findings from the latest, 34th European Repo Survey, the final version of which will be published in March and presented at the ERCC AGM.

Members approved the application by MarketAxess to become an ERCC member. MarketAxess will replace TRAX, a subsidiary, as ERCC member as a result of a consolidation of their ICMA membership.

- **14 March 2018, 12:00 – 18:30 (UK time):** ERCC Annual General Meeting, hosted by BNY Mellon in London
- **18 April 2018, 13:00 – 16:00 (UK time):** ERCC Committee meeting in London, hosted by Swiss Re
- **15 May 2018, 12:00 – 14:00 (UK time):** Joint ERCC Committee – ISLA Board meeting in London, hosted by JP Morgan
- **19 June 2018, 12:00 – 15:00 (local time):** ERCC Committee meeting in Lisbon (in the margins of the ISLA conference)