

**Minutes of the ERCC Committee meeting held on 18 April in London
Hosted by Swiss Re**

Present:	Mr. Godfried De Vidts	BrokerTec (ERCC Chairman)
	Mr. Grigorios Markouizos	Citigroup (ERCC Vice Chair)
	Mr. Richard Hochreutiner	Swiss Reinsurance (ERCC Vice Chair)
	Mr. Dan Bremer	BAML
	Mr. Michael Manna	Barclays
	Ms. Emma Cooper	Blackrock
	Mr. Jean-Robert Wilkin	Clearstream
	Mr. Andreas Biewald	Commerzbank
	Mr. Michel Semaan	Crédit Agricole
	Mr. Jean-Michel Meyer	HSBC
	Mr. Nicola Danese	J.P. Morgan
	Mr. Antony Baldwin	LCH Limited
	Mr. Paul Van De Moosdijk	PGGM
	Mr. Sylvain Bojic	Société Générale
	Mr. Gareth Allen	UBS Limited
	Mr. Harald Bänsch	UniCredit Bank
	Mr. Jonathan Lee	J.P. Morgan (Chair ERCC SFTR Task Force)
	Ms. Lisa Cleary	ICMA
	Mr. Richard Comotto	ICMA Centre
	Mr. David Hiscock	ICMA
	Mr. Alexander Westphal	ICMA (ERCC Secretary)
On the phone:	Ms. Jayne Forbes	AXA IM
	Mr. Eugene McGrory	BNP Paribas
	Mr. Romain Dumas	Credit Suisse
	Mr. Sanjiv Ingle	Société Générale (Chair ERCC FinTech WG)

Welcome

The Chairman welcomed members to the second meeting of the ERCC Committee this year and thanked Swiss Re for kindly hosting the meeting.

1) Minutes from previous meetings

The Committee approved the draft minutes of the last Committee meeting, held on 21 February 2018 in London, without changes.

2) Practical implications from Brexit

Mr. David Hiscock explained ICMA's general approach to Brexit, which focuses on market-wide issues rather than firm specific problems. As a pan-European association, ICMA is not advocating any particular financial centre. One key objective of the association is to inform members about the

topic and potential implications for capital markets, including through regular detailed articles in ICMA's Quarterly Report and through a dedicated [resource page](#) on the ICMA website. The ICMA Board recently discussed Brexit and identified a need for more granular analysis on the practical implications. ICMA is therefore turning to its various Committees and working groups to identify key issues and open questions in relation to Brexit. Mr. Hiscock pointed to a Brexit checklist produced by the Bank of England's Financial Policy Committee as a useful starting point for this analysis. Further feedback from ERCC Committee members would be extremely useful, in particular as regards any repo-specific issues related to Brexit.

Ms. Lisa Cleary turned to the specific legal implications from Brexit which are being discussed by the ERCC Legal Working Group, reiterating some of the key points that she had covered in a more detailed update at the latest [ERCC AGM in March](#). Some of the issues identified will require contractual amendments to the GMRA, others may need to be addressed through a dedicated Brexit-protocol. A first draft FAQ document with Brexit-related questions is being prepared for discussion at the next Legal Working Group meeting. Ms. Cleary explained that developing alternative governing law provisions, as considered by certain other industry groups, is currently not deemed necessary and appropriate for the GMRA. Members mentioned that some European banks seem to face pressure from their central banks to sign with them the alternative European Master Agreement (EMA), generally under the law of the respective central bank. Members explained that EMAs are currently not used between banks but solely for transactions concluded with certain central banks. The Legal Working Group will continue its discussions on the various Brexit-related issues and Committee members are encouraged to coordinate with their colleagues represented in that group. The Chairman suggested that the ERCC Operations Group might also want to have a closer look at potential operational implications from Brexit.

3) Other legal updates

Ms. Cleary briefly updated members on other recent legal developments. In particular, she informed members that the legal opinion updates were published on 11 April. Three opinions are still pending (FR, JP, MT), but will be added shortly. The decision to discontinue coverage of the 1995 GMRA in the opinion updates from 2019 onwards has now been communicated broadly through various channels and should be well understood by the market. The Legal Working Group will have its next meeting on 26 April.

4) Balance sheet netting in T2S

Mr. Gareth Allen updated members on the latest developments in relation to balance sheet netting in T2S. Following the discussion at the previous Committee meeting, a sub group of interested members was established and had a first call on 12 April. In terms of next steps, it was concluded at the call that the question should be considered first with the relevant accountancy teams internally who should then raise it within existing cross-industry groups focused specifically on accounting questions, such as ISDA's InfiTAG. In the meantime, a separate but related question has arisen in

the context of the ongoing review of CRD IV/R and the provisions therein on netting for regulatory purposes. One of the conditions for netting required by CRR is the use of a single settlement *mechanism*. However, in the latest iteration of the text this has been amended to single settlement *system*. The new wording is considered to introduce additional ambiguity in the context of T2S, given that the EU's Settlement Finality Directive sets out a specific legal framework for Securities Settlement *Systems* (SSS) which applies to domestic CSDs but not T2S itself. It was mentioned that this issue has been highlighted by national central banks, who have argued against the proposed new wording. Members briefly discussed the underlying issue and commented that ultimately both questions, the interpretation of the IFRS rules as well as the CRR wording, should boil down to the question whether T2S provides the necessary physical mechanism for participants to settle on a net basis. Members agreed that this should indeed be the case as long as firms use a single DCA for all their securities related activity within T2S. It is hoped that accountants will ultimately get to the same conclusion, which would be in the interest of firms but also of the official sector, given that this is closely linked to the success of T2S.

5) Regulation

a) SFTR update

Mr. Jonathan Lee, chair of the ERCC SFTR Task Force (SFTR TF), provided an update on the ongoing SFTR implementation work. In terms of timeline, he explained that the relevant technical standards prepared by ESMA that define the extensive SFTR reporting requirements are still being reviewed by the European Commission. It is now expected that these will be approved just before the summer break. Subsequently, European Parliament and Council will have an opportunity to review the standards before they will be adopted and published. Overall, it is expected that the reporting will go live in Q4 2019 for banks and a few months later for CCPs, buy-sides and other market participants. In terms of engagement with the SFTR TF, Mr. Lee reported that the interest in the group has increased significantly over the past months. Over 200 members are now involved in the group from a broad range of firms, including representatives from the relevant vendors and trade repositories which were admitted in late 2017 and have since then played an active role in the discussions.

The key focus of the SFTR TF is on reconciliation, which is expected to present a major challenge for repo, given that the market today has only low levels of automatic affirmation and matching. As a first step to address this challenge, the SFTR TF launched a bilateral reconciliation exercise in 2017, encouraging firms to engage with their major counterparties to attempt reconciling trades. The aim is to develop a better understanding of the key pain points and hence help to prioritise the work going forward. Progress was initially rather slow but has picked up significantly over the last months as vendors got involved and started to support the exercise through their respective platforms or complementary analysis. Examples of particularly challenging fields for the industry include UTIs, LEIs (including for issuers), and the very granular collateral-related information that is required by ESMA. Besides the discussions on specific fields, there are also broader issues that are being discussed in the Task Force. The regularly updated SFTR "issue tracker" provides an overview of the

discussions on the various issues. The SFTR TF has also started working on concrete best practices for SFTR reporting. It is anticipated that in time these will be added to the ERCC Guide to Best Practice in the form of a dedicated SFTR Annex.

A further important aspect is the collaboration with ESMA who have indicated that they are keen to maintain an active dialogue and to receive questions also ahead of the opening of the formal Q&A process. Looking ahead, it is clear that the implementation will be an iterative process. It seems that ESMA understands and is willing to accept this as long as the industry clearly demonstrates that the necessary efforts are being made to address the problems and improve over time.

Members asked whether there was still any scope for reducing the number of reporting/reconciliation fields. Mr. Lee explained that this was unlikely. The ERCC has pushed this issue from the start but the key obstacle has been ESMA's reluctance to allow TRs any flexibility in terms of deriving data or enriching reports. The industry will therefore have to think of alternative solutions, in particular ways to maximise the use of central infrastructures (trading venues, CCPs) to effectively achieve one-sided reporting. Tri-party agents will also play an important role in providing consistent data to both counterparties for the relevant part of the market. Members also discussed the prospects for delegated reporting, although it is not clear how much this will be used and what form it will take. Mr. Lee explained that certain elements are particularly unlikely to be delegated such as the reporting of reuse which would require highly sensitive data points to be disclosed. An outcome similar to MiFIR might be more likely, where most firms opted for assisted reporting, i.e. a delegation of parts of the report. Members also discussed the evolving vendor ecosystem, reiterating the need for interoperability, something that seems to be increasingly acknowledged by vendors themselves.

The Chairman thanked the SFTR TF and in particular Mr. Lee, Mr. Westphal and Mr. Comotto for their extensive efforts in relation to SFTR and suggested to make this one of the key topics at the upcoming ERCC AGM in October. This would be a good opportunity to have a broader discussion on the current state of preparations and to possibly also involve ESMA in this discussion.

b) Other regulatory updates

Mr. Hiscock updated members on a number of other recent regulatory developments impacting the repo market.

(i) PTRRS

On 10 April, the joint industry [White Paper on post-trade risk reduction services](#) (PTRRS) was published. The paper was drafted by ISDA and co-signed by the EBF, ISLA and ICMA (following review by the ERCC Committee). It describes the benefits of post-trade risk reduction services, such as compression and counterparty rebalancing, and puts forward amendment proposals in the context of the ongoing discussion on EMIR Refit to accommodate these.

(ii) Anti-procyclicality margin measures for CCPs

On 28 February 2018, the ICMA ERCC submitted its formal [response](#) to ESMA's Consultation on Draft Guidelines on Anti-Procyclicality Margin Measures for CCPs.

(iii) Basel III consultation

On 12 April 2018, the ICMA ERCC submitted its formal [response](#) to the Commission's Targeted Exploratory Consultation on the Finalisation of Basel III.

(iv) AFME study on post-crisis regulation

On 12 April, AFME published a study prepared in collaboration with PwC entitled [Impact of Regulations on Banks' Capital Markets Activities - an ex-post assessment](#). Mr. Hiscock commented that from a repo perspective it was interesting to note that the study identifies repo as the market most impacted by post-crisis regulation, highlighting once again concerns raised by the ERCC.

(v) CSDR

The long-anticipated publication of the final RTS on settlement discipline, including mandatory buy-ins, is imminent. The Commission is expected to publish the revised standards this month. It is unlikely that these will differ significantly from ESMA's proposals. Assuming that the proposed transition period is accepted, the rules will be implemented 24 months after adoption, i.e. by mid-2020, and are expected to be highly disruptive, as highlighted repeatedly by ICMA (most recently in the latest edition of the [Quarterly Report](#) – see p.40).

In this context, members briefly discussed the state of settlement efficiency in Europe. It was confirmed that the number of fails remains low and has decreased further with the introduction of T2S. However, given that a certain number of (technical) fails will be inevitable, especially in certain asset classes, mandatory buy-ins remain highly problematic.

(vi) NSFR

The key concern in relation to ongoing legislative discussions on NSFR continues to be around the asymmetry for short-term SFTs with financial counterparties. On this particular point, Member States in the Council seem to be supportive of the Commission proposal, which maintains the asymmetry albeit reduced as compared to the Basel approach. The European Parliament is also looking at this particular point. The long list of amendments submitted by MEPs includes a range of relevant proposals. A number of MEPs have proposed to remove the asymmetry. Others have suggested to address the issue indirectly by relaxing, to different degrees, the conditions for netting. Separately a proposal has been floated to distinguish between the most regulated financial counterparties (i.e. banks) and lesser regulated ones and to remove the asymmetry only for the former (for transactions collateralised with government debt). Members discussed the potential merits of such an approach as well as the underlying rationale. Overall, members agreed that ICMA should not actively oppose the proposal and continue to closely coordinate with AFME on this question.

(vii) Leverage Ratio

Mr. Hiscock asked members for their views on recent proposals by the US Fed in relation to the supplementary LR for G-SIBs, put forward on 11 April. Initial feedback suggested that the impact of the proposals is expected to vary across firms but is unlikely to have a major impact on the overall balance sheet capacity at a system-wide level.

6) Technology

Mr. Hiscock introduced a discussion on FinTech by setting out ICMA's general approach on the topic. The ICMA Board is keen to ensure that FinTech and market electrification are considered as important overarching themes across all ICMA constituencies and has created a Board sub-group to provide further guidance. Different groups across ICMA have already been working on the topic, including in secondary markets where ICMA has published a [mapping](#) of Electronic Trading Platforms for cash bonds (which it plans to update and extend to encompass repo trading platforms) and more recently established a new Committee to specifically focus on electronic trading, ICMA's Electronic Trading Council (ETC).

The ERCC itself has also actively considered FinTech, in particular from an operational perspective and established in September 2016 the ERCC Ops FinTech Working Group. Mr. Sanjiv Ingle who is chairing the group updated Committee members on progress made to date. He explained that the group focuses on technology solutions available in the market to help firms to automate and optimise repo and collateral operations. As an important first step, the group decided to focus on creating transparency in this rapidly evolving space and worked in the course of 2017 on an extensive mapping of relevant FinTech solutions. The [FinTech mapping directory](#) was published in December 2017 covering well over 100 solutions across 10 categories reflecting the whole collateral lifecycle. Building up on the work already achieved, the group is now considering next steps. Members have identified three priority areas that would warrant further focus, namely (i) matching and reconciliation, (ii) workflow and communication and (iii) collateral margining processes.

Committee members commended Mr. Ingle and the Working Group on the FinTech mapping, which is considered a very valuable resource for the market. Members suggested that the ERCC should also consider innovation from a front office perspective and look beyond currently available solutions to consider the implications of emerging new technology such as Distributed Ledger Technology (DLT). Members also mentioned the development of common (messaging) standards as a potentially interesting area for the ERCC to get more involved, with ISDA's extensive work on FpML having set an important reference point. Also reference data more generally is considered an important field for FinTech applications and would benefit from further standardisation and centralisation, including in the context of SFTR.

7) Benchmarks

Mr. Hiscock updated members on recent developments in relation to benchmark reform across Europe. In the euro area, the Euro RFR Working Group, in which ICMA is represented, had its inaugural meeting on 26 February and will meet again on 20 April. As part of the group, three work streams have been created to focus on: (i) the selection of the appropriate RFR, (ii) the construction of term rates on the back of the (overnight) RFR and (iii) contractual robustness. In the meantime, work is under way to develop a new euro unsecured o/n benchmark, with a second ECB consultation on this topic to conclude on 20 April. Finally, also EMMI's work continues to establish a new secured benchmark based on repo transactions, although no recent update has been received in this regard. Similar transition work is also under way in the UK and Switzerland, although at a more advanced stage. In both cases, ICMA is part of the relevant working groups. In relation to developments in the US, Mr. Hiscock mentioned that the Fed has recently started publishing the Secured Overnight Financing Rate (SOFR), which had been selected as the new RFR in the US.

8) Update from the ERCC Operations Group

Mr. Alex Westphal provided a short update on other initiatives that the ERCC Ops Group is currently involved in, besides the work on SFTR and FinTech covered above. Mr. Westphal mentioned that the ERCC Ops Group continues to be closely involved in ongoing work under the umbrella of AMI-SeCo to foster harmonisation of collateral management processes. The main purpose of this work is to support the upcoming development of the Eurosystem Collateral Management System (ECMS), which is due to go live in 2021. This will be covered more in detail at the upcoming joint meeting between the ERCC Committee and the ISLA Board. In addition, intraday liquidity management continues to be on the agenda of the ERCC Ops Group. A sub-group has been created to look at this topic more in detail and develop concrete use cases and will meet soon to take work forward. Committee members suggested that this work should take into account primary market activity, which is an important factor in this context.

9) AOB and further dates:

Mr. Richard Comotto mentioned that the ERCC's annual [Professional Repo and Collateral Management Course](#) will be held this year on 24-25 September, hosted by Euroclear in London. Industry speakers, including among Committee members, are still needed on a wide range of topics covered at the event. More details will be circulated following the meeting.

- **15 May 2018, 12:00 – 14:00 (UK time):** Joint ERCC Committee – ISLA Board meeting in London, hosted by J.P. Morgan
- **21 May, 14:00 – 15:00 (UK time):** ERCC Committee meeting with the IMF in London, hosted by ICMA

- **19 June 2018, 12:00 – 15:00 (local time):** ERCC Committee meeting in Lisbon (in the margins of the ISLA conference)