

Minutes of the Joint meeting of the ERCC Committee and the ISLA Board held on 15 May in London, Hosted by J.P. Morgan

Participants (ERCC)

Present:	Mr. Godfried De Vidts	BrokerTec (ERCC Chairman)
	Mr. Richard Hochreutiner	Swiss Reinsurance (ERCC Vice Chair)
	Ms. Jayne Forbes	AXA IM
	Mr. Michael Manna	Barclays
	Mr. Jean-Robert Wilkin	Clearstream
	Mr. Jean-Michel Meyer	HSBC
	Mr. Nicola Danese	J.P. Morgan
	Mr. Antony Baldwin	LCH Limited
	Mr. Nicholas Hamilton	J.P. Morgan (ERCC Ops Co-Chair)
	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)	
On the phone:	Ms. Emma Cooper	Blackrock
	Mr. Eugene McGrory	BNP Paribas
	Mr. Michel Semaan	Crédit Agricole
	Mr. Romain Dumas	Credit Suisse
	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)

Welcome

The ERCC Chairman welcomed ISLA and ERCC members to the traditional annual joint meeting of the two groups and thanked J.P. Morgan for kindly hosting the meeting. He stressed the good level of collaboration already achieved between the associations, which, looking at the large number of common concerns and issues, should probably be even further intensified.

1) SFT Regulation

Mr. Jonathan Lee, chair of the ERCC's SFTR Task Force, updated members on the work undertaken by the ERCC in relation to SFTR from a repo perspective. In terms of implementation timeline, Mr. Lee explained that the industry continues to work against a moving target. The Commission is still reviewing ESMA's final draft RTS submitted in March 2017 and is now expected to publish its

approved version of these by the end of June. This would mean that SFTR reporting for banks would go live by September or October 2019. But further delays remain possible. In particular, if the Commission doesn't manage to publish the final RTS before the summer recess, the go-live date is likely to shift to early 2020. From a repo perspective, the extensive reconciliation requirements imposed by SFTR are probably the key challenge given the limited use of electronic affirmation, matching and contract compare tools in the repo market today (unlike in securities lending). As a result, there is also a lack of visibility on the key problem statements. In order to address these challenges, the ERCC SFTR TF launched a bilateral reconciliation exercise in 2017, which has gained more recently significant momentum as vendors have started to facilitate the testing through their existing platforms. Feedback from the exercise is expected within the next weeks and should help prioritise further industry work. Ultimately, the objective is to agree common definitions and market best practices, where necessary, which can in time be formally integrated into the ERCC's Repo Best Practice Guide, in the form of a dedicated SFTR Annex. In addition, the group created an SFTR "issue tracker", a regularly updated document which provides an overview of the different priority issues that are being discussed. Mr. Lee went through some of the key issues covered in the document in more detail, including questions around the reporting of buy/sell-backs, trade-level vs position level reporting of collateral and reporting of margining, as well as some outstanding questions in relation to the generation and sharing of Unique Trade Identifiers (UTIs), a key requisite for the success of the reporting regime. Finally, on a more general point, there is a discussion on the nature of SFTR best practices. Mr. Lee said that feedback from ESMA indicates that they are reluctant to accept pragmatic reporting solutions but want to see matching breaks wherever these reflect differences in booking practices/ risk management systems. This would require more aspirational booking best practices. However, operationally such an approach is likely to pose challenges for firms due to the resulting need for manual repairs. A good example for the issue is ESMA's insistence for execution timestamps to be as close as possible to the actual execution (and not reflecting any work arounds to ensure consistency).

From an ISLA perspective, Mr. Andy Dyson commented on their latest SFTR work in relation to securities lending. On 14 May an important milestone was achieved as ISLA published their first comprehensive analysis of SFTR data points. The document splits the long list of SFTR reporting fields for securities lending into three categories: (i) green fields that do not pose any issues, (ii) orange fields which are not overly problematic to source but require some form of market practice, and (iii) red fields which pose significant issues in terms of either sourcing or definition, often linked to specific issues with ESMA's draft validation rules. All three categories cover a similar number of fields. The objective of ISLA's work more generally is not to replace commercial discussions between the various players in the market but rather to get all involved parties to the same starting point in terms of looking at the data, which will hopefully be a good basis for any subsequent discussions around concrete reporting solutions and compliance. Separate from the work on the specific data fields, ISLA also recently issued additional guidance in relation to UTIs, a critical element in previous reporting regimes. Based on discussions with ESMA, ISLA have created a variant of the UTI generation waterfall which takes into account the specifics of securities lending. This works on the principle that the lender side should generally drive the generation of UTIs. ISLA will seek to ratify

the guidance with ESMA as soon as their formal Q&A process is opened up. Mr. Dyson also mentioned a further discussion around the staggered SFTR implementation approach, which is likely to result in practical problems as borrowers will require information from lenders in order to submit a complete report, even where the requirements do not yet apply to the latter. Some industry consensus on this question might thus be needed to ensure a consistent approach. In terms of next steps, three sub-groups have been established by ISLA to look at the data fields in more detail (from a lender, borrower and tri-party perspective).

Both ISLA and ERCC representatives mentioned the need to continue to closely collaborate across associations in order to ensure full alignment. On this note, the Chairman mentioned that the ERCC will hold its next General Meeting in October 2018 and is planning to make SFTR one of the key themes. It was agreed to explore how ISLA can be involved in this part of the event.

2) Legal update, including pledge documentation

Ms. Lisa Cleary provided an update on the ERCC's recent legal work, some of which is of relevance for both associations. She explained that the annual legal opinion updates have now been published. Going forward, both ICMA and ISLA have announced that from 2019 onwards no updated opinions will be issued for the respective earliest master agreement version (GMRA 1995 and ISLA legacy agreements). In terms of scope, it is currently being considered whether to add new jurisdictions to the legal opinion exercise, namely Argentina, Peru, Mauritius and Romania. Brexit remains an important issue from a legal perspective in general and for the legal opinions more specifically and is likely to require some specific contractual amendments to the GMRA. For example, recognition language will have to be added to reflect the fact that post-Brexit UK law will become third country law from an EU perspective. The ERCC Legal Working Group is currently putting together a list of FAQs on Brexit-related issues. As regards ongoing work to develop a legal structure for pledge-based repo, Ms. Cleary explained that ICMA will commence work once ISLA finalise the respective documents for securities lending, in order to avoid any overlap, as many of the issues will be shared.

Ms. Tina Baker updated members on the status of ISLA's work in relation to pledge-based securities lending. The work on the full suite of legal documents is now in the final stages, although some complex questions had to be addressed which caused some delay as compared to the initial timeline. In particular, ISLA, in close collaboration with the four triparty agents, is currently finalising the triparty control agreements. Only once these are ready, the final documents can be published which can hopefully be achieved within the next 2 weeks. The documents will subsequently be submitted to the relevant Steering Group for review.

Members asked about indications on expected take-up of the new structure by beneficial owners. Mr. Dyson explained the expected benefits from the new structure particularly for lenders, namely (i) expected benefits in terms of RWA, (ii) access to new markets where restrictions in relation to TTCA are currently an obstacle and (iii) reporting thresholds on ownership which affect some of the larger players. Ms. Baker added that while ISLA is not directly involved in the relevant discussions

between agent lenders and their clients, the initial feedback that they have received was encouraging and suggests that there is significant interest from some beneficial owners, although the structure will clearly not be suitable for all types of market participants. Members also had a longer discussion on the concrete business case for borrowers to use the new agreement. These were however considered to differ significantly between firms. ERCC members also noted that the economic rationale on the repo side would differ considerably given the differences in product and market structure. This is also reflected in the different approach chosen by the ERCC: while the new ISLA pledge structure will cover the whole collateral exchanged in a transaction, the ERCC is anticipating a structure in which the pledge covers only the initial margin/haircut.

3) Ongoing work with the ECB on collateral management

Mr. Nicholas Hamilton, co-chair of the ERCC Operations Group, updated members on the work done in close collaboration with the ECB to foster further harmonisation in the field of collateral management. This work is undertaken by a dedicated Task Force under the umbrella of AMI-SeCo in support of the upcoming development of a Eurosystem Collateral Management System (ECMS). The latter is due to go live in 2021 and aims to establish an efficient triparty product in T2S. Members of both ERCC Ops and ISLA are closely involved in the Task Force. The immediate focus of the work is on the harmonisation of corporate action and triparty related processes, which are both pre-requisites for the ECMS and will require new ISO messages to be developed. Given the lengthy timeline to approve such changes, there is a fixed deadline in June to finalise the work on these two aspects.

Members also discussed the status of T2S more generally. Given a significant shortfall of T2S settlement volumes as compared to initial estimates, the ECB is considering proposals to increase settlement fees in T2S in order to ensure cost recovery. The Chairman commented that such an increase is difficult to justify at this stage given the perceived lack of benefits from T2S so far, in particular from a trading perspective, as discussed for instance at the latest [ERCC AGM in March](#). A cost increase will also not help to encourage further activity to move into T2S. The ERCC has submitted a letter to the ECB raising its concerns with the proposal and urging authorities to increase efforts to remove the various remaining barriers in the European post-trade space which are still a substantial hindrance for a further integration of capital markets and hence increased cross-border activity. Mr. Hamilton complemented these remarks, pointing to a number of technical milestones that need to be achieved in order to maximise the value of T2S. This includes encouraging higher cross-CSD settlement flows, extending the inventory available for settlement in T2S (in particular to eligible Eurobonds), and achieving clarity in relation to balance sheet netting in T2S. In terms of next steps, Mr. Hamilton said that there is a need to develop a better and more granular view on settlement flows in T2S in order to fully understand the current shortfall and identify necessary next steps. In addition, it would also be important to consider the layering of the settlement costs through agents and CSDs. Overall, the AMI-SeCo provides a very good platform to discuss the issue with all relevant players around the table.

4) Any other business

(i) Brexit: Mr. Dyson reported back from an initial ISLA call with members on potential legal implications from Brexit. Many of the issues that are being looked at are similar to the ones mentioned earlier by Ms. Cleary. They also discussed the question of choice of jurisdiction provisions. Similar to ICMA, ISLA also does not currently see a need to develop such alternatives for the GMSLA. Mr. Dyson further commented that there is still no clear understanding of the likely impacts of Brexit on actual business flows, something that will have to be further assessed. In terms of general approach, ISLA will focus on questions of industry-wide importance rather than firm-specific issues and considerations. Going beyond the more detailed legal questions covered by Ms. Cleary and Mr. Dyson, Mr. Hiscock briefly explained ICMA's general approach to Brexit. For ICMA, Brexit is considered as part of its wider focus on avoiding market fragmentation, clearly a key risk of Brexit. In its Quarterly Report, ICMA has published detailed assessments on the capital market implications from Brexit. Questions that are particularly relevant in this broader context are around authorisation/recognition, the need for firms to restructure their businesses as a result of Brexit and questions around contract continuity. On another important political question in this context, CCP-location policy, the Chairman commented that this discussion has been moving in a more reasonable and constructive direction recently.

(ii) Technology: Mr. Hiscock briefly updated members on the ERCC's recent initiatives in the area of FinTech. A FinTech Working Group has been established under the ERCC Operations Group, which looks at technology solutions available for collateral operations. The Group prepared and published an extensive [mapping directory](#) of over 100 FinTech solutions that are relevant in this space. At the same time, at a trading level, ICMA also maintains a similar mapping for electronic trading platforms for cash bonds. This is currently being updated and will be extended to Repo platforms. Beyond solutions already available in the market, ICMA is also looking at emerging new technology, such as DLT-based solutions. As an example, Mr. Hiscock mentioned a recent securities lending trade concluded on a DLT-based platform developed by HQLAx in collaboration with a number of banks.

Mr. Mark Hutchings suggested that it might make sense for both associations to collaborate more closely on FinTech. In discussions with members, it had been suggested for instance to set up a joint working group on this topic. Other members of both ISLA and the ERCC agreed that this idea should be further explored, also given the success of existing joint initiatives such as the coordination group on collateral management harmonisation.