International
Capital
Market
Association

Minutes of the ERCC Committee meeting held on 11 September in London
Hosted by ICMA

Present:	Mr. Godfried De Vidts	BrokerTec (ERCC Chairman)
	Mr. Richard Hochreutiner	Swiss Reinsurance (ERCC Vice Chair)
	Mr. Dan Bremer	BAML
	Mr. Michael Manna	Barclays
	Mr. Andreas Biewald	Commerzbank
	Mr. Romain Dumas	Credit Suisse
	Mr. Jean-Michel Meyer	HSBC
	Mr. Nicola Danese	J.P. Morgan
	Mr. Paul Van De Moosdijk	PGGM
	Mr. Sylvain Bojic	Société Générale
	Mr. Gareth Allen	UBS Limited
	Mr. Harald Bänsch	UniCredit Bank
	Mr. Nicholas Hamilton	J.P. Morgan (ERCC Ops Co-chair)
	Ms. Lisa Cleary	ICMA
	Mr. Leland Goss	ICMA
	Mr. Andy Hill	ICMA
	Mr. David Hiscock	ICMA
	Mr. Alexander Westphal	ICMA (ERCC Secretary)
Guest:	Mr. Jouni Aaltonen	AFME
On the phone:	Mr. Grigorios Markouizos	Citigroup (ERCC Vice Chair)
	Mr. Eugene McGrory	BNP Paribas
	Mr. Michel Semaan	Crédit Agricole
	Mr. Adam Bate	Morgan Stanley (ERCC Ops Co-chair)
	Mr. Craig Laird	Morgan Stanley (ERCC SFTR TF Chair)
Apology:	Ms. Jayne Forbes	AXA IM
	Ms. Emma Cooper	Blackrock
	Mr. Jean-Robert Wilkin	Clearstream
	Mr. Antony Baldwin	LCH Limited

Welcome

The Chairman welcomed members to the meeting and thanked ICMA for hosting. He informed members that Ms. Jayne Forbes has resigned from the Committee. In accordance with the ICMA rules, Ms. Forbes will be replaced for the remainder of the term by the first runner up in the last elections, i.e. the unsuccessful candidate with the highest number of votes. As there was a tie in the last elections between two candidates, the Committee decided to share the seat between the two individuals concerned for the few remaining meetings of the current Committee.

1) Minutes from previous meetings

Members approved the minutes of the previous ERCC Committee meeting, held on 19 June 2018 in Lisbon, subject to one minor amendment to the tabled draft.

2) GFMA-ICMA Repo Market Study

Mr. Jouni Aaltonen (AFME) joined the meeting to help outline a new Repo Market Study being prepared by the GFMA in collaboration with the ICMA ERCC, in anticipation of this being published as a joint paper. The latest draft version of the study was circulated to members ahead of the meeting for review. Mr. Aaltonen explained the background of the study which had first been launched at the initiative of the GFMA Board. The main objective is to complement recent efforts by the regulatory community, including the CGFS, to better understand the functioning of the Repo Market and the implications that post-crisis regulation has had on the market. The Repo Market Study itself will be supported by additional quantitative and qualitative evidence. In particular, a quantitative impact study (QIS) has been launched with a view to assess the impacts from potential minimum haircut requirements (varying their scope). Further qualitative evidence is being collected from member firms through a complementary survey, which covers the general market conditions and behaviours but also some of the more systemic concerns. The intention is for the study to put forward some recommendations for policy makers, a number of whom have already indicated their interest in the study. In terms of timeline, the aim is to finalize the study by mid-October, ideally before the ERCC General Meeting on 17 October which would be a good opportunity to launch the study in front of a broader audience. Members agreed that the ICMA ERCC, as main representative body of the European Repo market, should proceed to co-sign the Study.

3) Legal update

Ms. Lisa Cleary (ICMA) gave an overview of recent legal developments discussed by the ERCC's Legal Working Group. As part of its work on the legal opinions, ICMA has been notified of a recent legislative change in Saudi Arabia which might justify another attempt to get a positive netting opinion. Members confirmed that there is sufficient interest from the market to obtain a legal opinion for Saudi Arabia. ICMA will thus further assess the implications of the recent legal changes and will report back to members.

In view of Brexit, Ms. Cleary informed members that following a discussion with ISLA, ICMA has agreed that for the 2019 legal opinion exercise a phased approach will be adopted in updating the opinions. ICMA starts work on the opinions in December, with publication in April the following year. With Brexit set for March 2019, there is limited value in publishing opinions in April if they do not reflect the most up to date position. In the first phase ICMA will update non-EU jurisdictions, likely following the usual timetable, for publication in April 2019. Once there is clarity on whether or not there will be a Brexit deal, the schedule will be confirmed for the update of the EU member state opinions.

As regards ongoing work on Pledge based legal agreements, Ms. Cleary noted that the ICMA work in relation to Repo is currently on hold as it had been decided to wait for the respective ISLA documents to be finalised. These are expected to be published in the coming weeks.

Members also briefly discussed the implications from Brexit for Repo markets more generally, in particular in response to recent suggestions in the press that some EU corporates might lose access to (repo) funding from UK banks. Members explained that this is a concern though there are strategies to mitigate the impact of this. From a bank perspective, it is rather a question of rerouting of funding through EU subsidiaries. This will create operational frictions, costs and other inefficiencies, but members also noted that this is generally not a new issue for globally active banks who already have to deal with similar issues for other third country jurisdictions and should be able to adjust within a few years to reduce the resulting frictions. The particular problem posed by Brexit is the continued uncertainty which creates significant risks in an environment of highly volatile markets.

4) <u>Benchmarks</u>

Mr. David Hiscock (ICMA) updated members on the latest developments in relation to ongoing benchmark reforms in Europe.

On 10 September, EMMI publicly announced that they have decided to stop their efforts to produce a pan-European secured (Repo) reference index, a project that the ERCC has actively contributed to in the past.

As regards ongoing work in relation to RFR transition in the euro area, Mr. Hiscock reported that the Euro RFR Working Group, in which ICMA is represented as an observer, has its next meeting on 13 October. The main objective of this meeting will be to select the new euro near-RFR from three candidate rates. In doing so, the group will take into account feedback received in response to the recent public consultation on this topic. Committee members commented that ESTER, the new unsecured overnight rate that is being developed by the ECB, will in all likelihood be selected as the new euro RFR. However, some members also pointed out the downsides of an unsecured rate, namely the relatively lower underlying volumes as well as the risk that the currently very low volatility (one of the key arguments in favour of an unsecured rate) might well pick up as non-conventional monetary policy measures are being faded out. Members also briefly discussed concerns related to the timing of the transition. The EU Benchmark Regulation (BMR) currently prescribes that non-compliant benchmarks can only be used until end 2019. This leaves very little time for the market to transition to ESTER, which will only be available from October 2019. There are ongoing discussions around a possible extension of the BMR deadline by two years (requested e.g. by the Euro RFR WG), but the outcome of these discussions is not yet clear.

Following the selection of new near-RFRs in the UK (unsecured, SONIA) and the US (secured, SOFR), several new FRNs have been issued referencing a compounded (backward-looking) version of these overnight rates. ICMA is monitoring these developments and is looking for feedback from members regarding any operational implications or concerns related to the trading and processing of these new instruments, given the very different nature of such compounded rates as compared to current (forward-looking) term IBORs.

5) CSDR: mandatory buy-ins

Mr. Andy Hill (ICMA) updated members on the latest discussions in relation to the upcoming implementation of CSDR settlement discipline provisions. The main focus of ICMA remains on the highly contentious mandatory buy-in provisions, with a view to: (i) raise awareness among market participants and regulators of these rules and their detrimental impacts, (ii) facilitating implementation and (iii) continue advocacy with regulators. As part of the efforts to raise awareness, ICMA has published a series of papers, including an information brochure (published in July). In addition, ICMA is currently working on a discussion paper looking more specifically at the challenges for in-scope SFTs. The latest draft of this paper has been circulated to members ahead of the meeting. It raises a number of interesting questions, including in relation to buy-ins on open repo and buy-ins (or cash compensation) being applied to the start-leg of a repo. *[Post meeting note: The paper was published on 3 October and is available on the ICMA website and the specific challenges around SFTs will be further discussed at the next meeting of ICMA's CSDR-SD WG]*

From an implementation point of view, one of the biggest challenges continues to be the implied asymmetry in relation to cash compensation and payments of buy-in price differentials. ICMA continues to explore ways to address this challenge. In particular, ICMA is assessing whether it is possible to find a contractual solution through ICMA's buy-in rules. This proposal has been discussed informally with ESMA at a meeting in July. While ESMA indicated openness in principle to the idea, a number of questions still need to be clarified and the discussions continue. Members asked about the contractual enforceability of such a solution, which Mr. Hill confirmed was one of the issues that is being looked at in this context.

6) SFTR

Mr. Alex Westphal (ICMA) and Mr. Craig Laird (Morgan Stanley), new Chair of the ERCC SFTR Task Force, provided an overview of ICMA's recent progress in relation to SFTR implementation.

Mr. Westphal briefly updated members on the implementation timeline. ESMA's draft technical standards which contain the detailed reporting rules are still under review by the Commission.

On 24 July the Commission informed ESMA that they are planning to adopt the draft technical standards subject to a few substantial amendments. ESMA subsequently opposed the proposed amendments in a (non-binding) opinion. Mr. Westphal explained that the question at the core of the controversy was mainly of political nature and less relevant from a practical perspective. It is now up to the Commission to decide whether to adopt the amendments or make changes in response to ESMA's opinion. While this will lead to some further delay, the impact on the timeline is expected to be limited. The Commission indicated that they are committed to adopt the full set of RTS by the end of the year. This would mean that they could enter into force towards the end of Q1 2019, followed by a 12-month transition period before reporting go-live (i.e. around end of Q1 2020).

Mr. Laird then focused more specifically on the implementation efforts. He commented that the uncertain implementation timeline continues to be a major challenge for firms given unclear budget implications. Apart from the timing, another major challenge with SFTR reporting is that firms will have to build the related systems largely from scratch given that connectivity between SFT front office systems and existing reporting solutions is still minimal.

In terms of concrete work undertaken by the ERCC's SFTR Task Force, Mr. Laird noted a shift over the past months towards very tangible outcomes and solutions. In particular, the group is looking field-by-field at the challenges, developing agreed definitions and best practices. Any agreed practices are documented in a growing SFTR best practice guide. The plan is to develop this document as an Annex to the ERCC's Repo Guide to Best Practice which focuses specifically on SFTR reporting. While some of the challenges are relatively easy to overcome through agreed industry best practices, many are due to more fundamental booking model differences and therefore much harder to resolve. Addressing these will require a significant effort in terms of training and education beyond reporting teams.

Members asked whether the authorities are fully aware of the substantial challenges involved and whether there was any scope to achieve more significant changes to the rules to reduce the burden and facilitate implementation. Mr. Laird and Mr. Westphal explained that a very active dialogue has been established with ESMA and that the ERCC is planning to share all the best practice proposals covered in the draft SFTR Annex with them for validation. ESMA should therefore be aware of the scale of the challenge and warned about potential problems. However, both also clarified that the scope for more significant changes at this stage is very limited as there does not appear to be any willingness on the side of the Commission, Parliament or Council to interfere in the technical work undertaken by ESMA. Mr. Westphal explained that ESMA will continue to play a key role in the implementation process as they will provide further guidance even beyond the technical standards as part of the so-called Level 3 process, including through Q&As or guidelines.

The Chairman thanked Mr. Laird as SFTR TF Chair and Mr. Westphal and Mr. Comotto on the side of ICMA for their valuable work on SFTR, the importance of which is also clearly reflected in the impressive number of members involved in the work of the Task Force.

7) Other regulatory updates

Mr. Hiscock updated members on other relevant regulatory developments impacting the repo market. As a general remark, he reminded members that 2019 will be an interesting year in Brussels with the upcoming elections to the European Parliament which also coincide with the end of the term of the current Commission. While this means that no significant new legislative proposals are expected, it also puts significant pressure on the co-legislators to conclude the long list of proposals that are already in the legislative process. Importantly this includes the CRR proposal (including NSFR and Leverage Ratio), but also other proposals with relevant aspects for repo such as BRRD, CCP Recovery and Resolution, and EMIR Refit (with the associated questions in relation to CCP location policy).

A specific question has recently arisen in relation to proposed new EU rules on STS securitisation (EU 2017/2402). The proposal includes relatively complex and cumbersome due diligence obligations for investors in the relevant securitisations and it is not clear whether these would apply when such assets are acquired as collateral in a (title transfer) Repo. One member commented that their preliminary legal analysis has indicated that in the case of Repo the related requirements would likely not apply, given that this should be driven by the actual economic exposure to the asset and not merely legal ownership. Others agreed that from a conceptual point of view this approach would seem more appropriate, but further feedback is needed including from a legal perspective to confirm this view.

8) Update from the ERCC Operations Group

Mr. Nicholas Hamilton (JP Morgan), co-chair of the ERCC Operations Group, updated members on the latest ERCC Ops discussions on the four pillars:

- **Market practice and education:** In terms of market practice, the Guide Working Group, chaired by Mr. Sylvain Bojic (SocGen) continues to review the Repo Guide in order to make sure that this accurately reflects current practices and needs. A set of amendment proposals is currently being discussed and will be shared with the Committee for approval once finalised. In relation to education, ICMA continues to offer a suit of Repo related courses, mainly run by Mr. Comotto. A new 1-day introductory course to Repo has been developed and will be piloted early next year.

- **Regulation:** The key focus in terms of regulation remains of course SFTR, as covered earlier in the meeting. The ERCC Ops Group receives regular updates from the dedicated SFTR TF and provides steer and direction in this regard.

- **FinTech:** The FinTech WG, chaired by Mr. Sanjiv Ingle (SocGen), has concluded a first comprehensive review of the FinTech mapping directory which is available on the website. It is also engaged in active discussion with other industry forums, including a FinTech Task Force set up by the ECB under the AMI-SeCo umbrella. An introductory call was held with the chair of the ECB's Task Force and ICMA has been invited to join one of their next meetings to give an overview of our work.

- **Financial Market Infrastructure:** Several ERCC Ops members are actively involved in the work on collateral management harmonisation (CMH) undertaken by the CMH-TF, a sub-group of the AMI-SeCo. Five workstreams have been established under the CMH-TF. The work is currently focused on two areas: corporate actions and tri-party collateral management, both of which are of particular importance in preparation for the future Eurosystem Collateral Management System (ECMS), which is due to go live in 2022. Good progress has been made by both of these workstreams and detailed harmonisation proposals have been submitted. This includes a specific business request to SWIFT to develop necessary collateral-related messages as part of the ISO20022 messaging standard. Mr. Hamilton commented that the work by the CMH-TF was a good opportunity to achieve further industry standardisation. For the ERCC, this is a good opportunity to shape the future market infrastructure in Europe and to raise some more specific Repo-related issues, such as the need for a more consistent Repo product identification in T2S, which will be important in the light of upcoming CSDR requirements. Complementing the work of the CMH-TF, the ERCC Ops is also leading a separate AMI-SeCo workstream which is looking at T2S volumes. This has been established further to the recent discussions on T2S pricing with a view to better understand the different factors and drivers that impact T2S volumes and is a good opportunity to reiterate some issues that have been discussed at ERCC Committee level, including balance sheet netting or intraday liquidity and shaping.

9) Intraday liquidity

Mr. Hamilton introduced a discussion on intraday liquidity (IDL) management and shaping ahead of the wider cross-industry workshop on this topic to be held on the following day. He explained that the ERCC Ops Group had met three times over summer to follow up on previous ERCC discussions on this topic and to look more specifically at concrete IDL use cases. As an outcome, the group has put together a set of slides which will be presented at the wider workshop. Mr. Hamilton briefly introduced the slides which had been circulated to members ahead of the meeting. The scenarios presented in the slides illustrate possible frictions and timing delays across the settlement lifecycle which may result in extended intraday liquidity consumption. It is hoped that the analysis can be a useful basis to discuss ways to reduce these frictions, including the role of technical tools such as auto-partialling and shaping.

Members reiterated concerns that IDL pressures may lead to pressures to delay settlement to the end of day which might have negative repercussions for settlement efficiency. While there was a clear push over the past years towards real-time settlement, members suggested that the growing importance of IDL might actually lead to a rethink of this development, given the benefits of batch processing in terms of IDL. Members mentioned tri-party repo as an example where the introduction of a standard batch cycle could be particularly beneficial. Real-time settlement outside such standard cycle would continue to be an option but would need to be priced accordingly. Members also discussed shaping more specifically, which was generally considered as an extremely useful tool in terms of IDL management (and also settlement efficiency). The problem is that in order to be effective shaping would have to be adopted on a market-wide level, either through best practice or regulatory imposition. Members agreed that the ERCC should push towards a more extensive use of shaping and welcomed the workshop as a good opportunity to initiate a broader discussion on this topic.

10) <u>Balance sheet netting in T2S</u>

Mr. Gareth Allen (UBS) updated members on the latest discussions in relation to balance sheet netting in T2S. The question has been discussed extensively over the last months by accounting experts within ISDA's InfiTAG group. As a result, the group has prepared a memo setting out the issue and a suggested approach. The interpretation suggested by the group is that balance sheet netting should be possible within T2S as long as it involves a single Dedicated Cash Account (DCA). Following agreement within InfiTAG, the next step will be to take the memo to the Big 4 accounting firms for validation.

11) <u>Technology</u>

Mr. Hiscock updated members on the latest discussions in relation to ISDA's project to develop a Common Domain Model (CDM) for derivatives. ICMA continues to be very interested in the project and had further staff level discussions with ISDA since the last update in order to explore the opportunities for Repo. Given that the logic of the model and its rationale would apply in large parts to Repo as well, it would seem logical to extend the existing work to Repo (and possibly other asset classes, including cash bonds). Beyond the benefits in terms of operational efficiency and consistency, the CDM project is also considered to be an important pre-requisite for the broader adoption of new technology, including Distributed Ledger Technology and Smart Contracts. Members asked about possible immediate benefits in terms of SFTR implementation. Mr. Hiscock explained that while a CDM would certainly be an important facilitator for reporting in the longer term, the timeline of a CDM project would extend beyond the anticipated SFTR go-live date and would therefore not help firms with the initial implementation effort.

In terms of next steps, ICMA will continue to explore the opportunities arising from the CDM project for Repo specifically. In the meantime, ERCC Committee members are asked to connect with the relevant colleagues who are already involved in the ISDA project in order to better understand the benefits and implications and to build support to pursue the project from a Repo perspective. The project will also be discussed at the ICMA Board in due course.

12) AOB and further dates:

A set of slides was circulated to members ahead of the meeting with preliminary results from the latest, 35th, European Repo Survey. The Chairman briefly presented the headline figures and asked members to provide feedback directly to Mr. Comotto, the author of the survey, on a set of questions included in the slides. The survey will be finalised and published within the next couple of weeks. *[Post-meeting note: The 35th European Repo Survey was published on 17 October and is available on the ICMA website.]*

Next meetings:

- **17 October, 14:00 – 17:00 (UK time):** ERCC General Meeting in London, hosted by Bloomberg
- **15 November, 10:45 – 12:45 (CET):** ERCC Committee meeting in Brussels, hosted by Euroclear in the margins of their Annual Collateral Conference
- **30 January 2019, afternoon (tbc):** ERCC Committee meeting in Luxembourg, hosted by Clearstream in Luxembourg in the margins of the Annual GFF Summit
- **31 January 2019, 10:00 – 13:00 (CET):** ERCC Annual General Meeting, hosted by Clearstream in Luxembourg in the margins of the Annual GFF Summit