

**Minutes of the ERCC Committee meeting held on 15 November in Brussels
Hosted by Euroclear**

Present:	Mr. Godfried De Vidts	ICMA ERCC Chairman
	Mr. Richard Hochreutiner	Swiss Reinsurance (ERCC Vice Chair)
	Mr. Grigorios Markouizos	Citigroup (ERCC Vice Chair)
	Mr. Dan Bremer	BAML
	Mr. Jean-Robert Wilkin	Clearstream
	Mr. Andreas Biewald	Commerzbank
	Mr. Michel Semaan	Crédit Agricole
	Mr. Jean-Michel Meyer	HSBC
	Mr. Andrea Masciovecchio	Intesa
	Mr. Nicola Danese	J.P. Morgan
	Mr. Antony Baldwin	LCH Limited
	Mr. Paul Van De Moosdijk	PGGM
	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. Richard Comotto	ICMA Centre
	Mr. David Hiscock	ICMA
	Mr. Alexander Westphal	ICMA (ERCC Secretary)
Guest:	Mr. Hervé Foyan Djoudom	Euroclear
On the phone:	Mr. Eugene McGrory	BNP Paribas
	Mr. Romain Dumas	Credit Suisse
	Mr. Sylvain Bojic	Société Générale
	Ms. Lisa Cleary	ICMA
	Mr. Andy Hill	ICMA
Apology:	Mr. Michael Manna	Barclays
	Ms. Emma Cooper	Blackrock
	Mr. James Whittingham	Goldman Sachs

Welcome

The Chairman opened the meeting and thanked Euroclear for hosting. On behalf of Euroclear, Hervé Foyan Djoudom, successor of Johan Evenepoel as the firm's treasurer, welcomed Committee members to Euroclear's office.

1) Minutes from previous meetings

Members approved the minutes of the previous ERCC Committee meeting, held on 11 September 2018 in London without further comments.

2) **EMIR Refit & Pension Funds**

Paul van de Moosdijk (PGGM) introduced a discussion on the treatment of Pension Funds under EMIR, in the context of ongoing discussions on the EMIR Refit exercise. The main concern for Pension Funds in this regard has always been related to the posting of cash variation margin given that they lack the necessary transformation mechanism to ensure prompt access to cash in all circumstances. He explained that the issue is particularly relevant for Dutch Pension Funds who work based on a defined benefit pension scheme and are therefore subject to a very different liability profile than many other funds. As a possible solution to this issue, PGGM and other Pension Funds are engaged in advanced discussions with other stakeholders, including central banks and regulators to consider alternative models and solutions. More specifically, they are working on a model that would allow Pension Funds indirect access to central bank liquidity through a CCP as intermediary. Members acknowledged the concern and welcomed the discussions to address this important risk, even if a tail scenario. In particular, members welcomed the openness of central banks to engage in this discussion, given their past reluctance to consider similar models of buy-side access. Mr. Hochreuthiner noted that in Switzerland a similar model exists that allows buy-sides in certain circumstances access to central bank liquidity, although without involvement of a CCP.

3) **GFMA-ICMA Repo Market Study**

David Hiscock (ICMA) updated members on the status of the joint ICMA ERCC – GFMA Repo Market study which is now nearing completion. A draft of the Study had been circulated to members ahead of the meeting for review. Since then, a few further changes have been made. In particular, the summary has been shortened and streamlined and the key findings and recommendations, an important part of the paper, further developed and moved to the front of the paper. The revised draft of the Study will be circulated to members following the meeting for final review. Mr. Hiscock highlighted one more substantial change compared to the previous version. A member firm had suggested that the previous version of the Study overstated the importance of the Leverage Ratio in recent market distortions observed around quarter and year-ends. As a result, wording has been added to also highlight additional factors that have played a role in these distortions.

[Post-meeting note: [The GFMA and ICMA Repo Market Study: Post-Crisis Reforms and the Evolution of the Repo and Broader SFT Markets](#) was published on 17 December.]

4) **Updates to the Repo Guide to Best Practice**

Richard Comotto (ICMA Centre) presented the latest amendment proposals to the ERCC's Guide to Best Practice as prepared by the Guide Working Group and circulated to Committee members ahead of the meeting. Members discussed the amendments and agreed in principle with the proposed additions. Following the meeting members will be given more time to review and provide further written comments. In the absence of any objections by the deadline, the

proposals will be deemed approved and will be published on the ICMA website. The aim is to publish the updated Guide before the end of the year.

[Post-meeting note: The updated version of the [ICMA ERCC Guide to Best Practice in the European Repo Market](#) was published on 21 December 2018.]

5) **Regulation**

a) **Benchmark reform**

David Hiscock (ICMA) provided an overview of the latest developments in relation to benchmark reform. He noted the latest FSB [Progress Report](#), published on 14 November, which provides an overview of global reforms of major interest rate benchmarks.

In the euro area, where the transition work is coordinated by the Euro RFR Working Group, the ECB hosted a public roundtable event on 9 November to discuss latest progress. Videos of the different interventions on the day are available on the [ECB website](#). Mr. Hiscock highlighted in particular the intervention of the European Commission who have adapted their initial position on the applicable transition deadline in the Benchmark Regulation and now support an extension of the deadline by two years. A related legislative proposal has been tabled but is still being discussed by co-legislators in trilogue negotiations. Mr. Hiscock also mentioned a public consultation which the Euro RFR Working Group will publish in due course specifically on the transition from EONIA to ESTER. The consultation will set out different possible transition approaches, although discussions in the group have already indicated a clear preference for a recalibration of the EONIA methodology during the transition period to become ESTER plus a fixed spread (to be defined). Members discussed the pros and cons of such an approach.

[Post-meeting note: On 20 December, the Euro RFR Working Group published for consultation: (i) a [Report on the transition from EONIA to ESTER](#) and (ii) a [Consultation Paper on ESTER-based term structure methodologies](#).]

b) **CSDR: mandatory buy-ins**

Andy Hill (ICMA) updated members on the latest developments in relation to the upcoming implementation of CSDR mandatory buy-ins. ICMA is still waiting to hear back from ESMA on the discussed proposal to use ICMA Buy-in Rules as a contractual means to solve for the asymmetry in the CSDR buy-in/cash compensation differential payment. Furthermore, in response to an ESMA request, ICMA has worked on a proposal for a possible pass-on mechanism for buy-ins under the CSDR framework. Once finalised, it is planned to submit the proposal to ESMA in the coming weeks as a basis for further discussion. ESMA have also asked for suggestions on what to do if a buy-in agent cannot be found. There is currently no easy solution to this question, but the CSDR-SD WG will be considering different options.

As part of the work, ICMA's CSDR-SD Working Group is also considering a number of issues specifically related to SFTs. One question concerns the treatment of open repos, where the

proposal is that these should remain out-of-scope. Another question is how to buy-in the start-leg of an SFT. ICMA is suggesting that the cash compensation should be based on the cost of replacing the SFT, rather than an outright buy-in of the underlying collateral. Finally, the group is also considering how to adjust the differential payment to account for haircuts. All of these issues will be discussed at the next meeting/call of the CSDR-SD WG which will be held on 20 November. Invitations and supporting papers have been shared with ERCC members.

Members had a follow-up discussion on intraday liquidity management and the use of shaping and auto-partialling, further to the recent cross-industry workshop on this topic hosted by the ERCC on 12 September in London. The Chairman remarked that he had a number of further bilateral discussions on this topic with public officials and DMOs. While there seems to be general willingness on the side of authorities to support the initiative, more effort is still needed in terms of education on this technical topic. In general, this is seen as a good opportunity for the ERCC to take the lead on an initiative that could make a real difference in terms of market efficiency and is particularly important and timely in view of the upcoming implementation of CSDR settlement discipline measures, including mandatory buy-ins. Members discussed possible approaches to encourage a wider adoption of shaping and auto-partialling. It was agreed that reinforcing and elaborating on existing ERCC best practices in relation to both tools would be an important first step. This should be relatively easy to achieve and would already deliver tangible benefits. However, an approach based on best practices is unlikely to lead to a market-wide adoption of shaping and particularly auto-partialling. In the longer term, in order to make a real difference, it would therefore be important to work on more binding solutions which would have to be fully integrated into the (settlement) infrastructure in order to remove any optionality. However, for this to happen, a broad market consensus is needed and some constraints need to be addressed that still prevent certain parties from using these tools. As an example, members mentioned prime brokers (PBs) and their hedge fund clients. Current charging models are based on settlement volume, which means that shaping will likely be commercially unattractive for hedge funds in the absence of any further changes/incentives. It was therefore suggested that the ERCC should reach out specifically to the PB community to involve them in the discussion. Another important constraint that was mentioned in this context is for custodians operating with omnibus accounts as these are currently not able to offer auto-partialling to their clients. Solutions to this problem are currently being considered within T2S/AMI-SeCo, e.g. through an agreed change request for the introduction of a partial release functionality which should help resolve the issue. Overall, members concluded that the ERCC should aim to move the discussion forward relatively quickly and continue its efforts towards building a market consensus. The Chairman noted that the topic should also be covered at the upcoming ERCC AGM on 31 January in Luxembourg, both by Yves Mersch, ECB Board member, who will provide a keynote speech as well as in the subsequent panel discussion of market practitioners.

c) SFTR

The Secretary provided a very brief update on the group's recent progress in relation to SFTR implementation. The topic will be covered more in detail at the next Committee meeting.

d) Other regulatory updates

David Hiscock (ICMA) provided a short update on other regulatory initiatives with an impact on repo markets. In particular, he stressed current political pressures to conclude as many of the different outstanding files as possible ahead of the end of the current Commission's term in 2019. This includes several files that are relevant from a Repo perspective and have been closely followed by the ERCC.

6) Legal update

Lisa Cleary (ICMA) briefly updated members on the latest discussions on Brexit from a legal documentation perspective. In this context, ICMA has been working closely with Clifford Chance over the past weeks to put together a Brexit related FAQ on the GMRA, which should be available in due course on the ICMA website. Members of the ERCC Legal Working Group will hold their next call on 27 November. The discussion will focus specifically on the implications from Brexit on the GMRA legal opinions. Ms. Cleary invited members to connect with their firm's representative on the Legal Working Group in order to feed into the discussions.

[Post-meeting note: ICMA's [Brexit-related Legal FAQs on GMRA](#) are available on the ICMA website (member login required)]

7) Update from the ERCC Operations Group

Nicholas Hamilton (JP Morgan), co-chair of the ERCC Operations Group, provided a short update on the latest ERCC Ops initiatives and discussions. In particular, he highlighted the ongoing extensive work under the ECB's AMI-SeCo group, specifically the important work on collateral management harmonisation undertaken in preparation for the launch of the Eurosystem Collateral Management System (ECMS) due to go live in 2021. This will be further discussed at the next AMI-SeCo meeting on 20 November, in which Mr. Hamilton represents the ERCC.

8) Balance sheet netting in T2S

Gareth Allen (UBS) provided an update on recent discussions in relation to balance sheet netting in T2S. Discussions in the relevant accountancy forums, in particular ISDA's InfiTAG, are ongoing with the aim to achieve confirmation from accountants that T2S fulfils the technical conditions for balance sheet netting according to IAS 32. The technical discussions are making good progress even if broader engagement by firms would still be welcome.

In parallel, legislative discussions in Brussels are ongoing in the context of the CRR review on a related issue, the applicable conditions for regulatory netting. While discussions in the trilogue seem to be moving in the right direction, a conclusion is yet to be reached. Members noted that

once the regulatory treatment has been clarified, this should also help the accounting discussion.

Members mentioned another important aspect in this context, which is the technical settlement setup which needs to allow for cross-CSD settlement in T2S. While the relevant CSD links have been established between all the major markets there are still some restrictions in relation to smaller markets, in particular in relation to asset servicing, which prevent banks (and CCPs) from consolidating inventory on the path towards a full investor CSD model.

9) Technology

The update on technology was postponed to the next Committee meeting.

10) AOB and next meeting(s):

- **30 January 2018, 16:00 – 19:00 (CET):** ERCC Committee meeting in Luxembourg, hosted by Clearstream in the margins of the annual GFF Summit
- **31 January 2018, 10:00 – 13:00 CET:** ERCC Annual General Meeting in Luxembourg, hosted by Clearstream as part of the annual GFF Summit