International
Capital
Market
Association

ICMA

Minutes of the ERCC Committee meeting held on 30 January in Luxembourg
Hosted by Clearstream

Present:	Mr. Richard Hochreutiner	Swiss Reinsurance (ERCC Vice Chair)
	Mr. Dan Bremer	BAML
	Mr. Jean-Robert Wilkin	Clearstream
	Mr. Andreas Biewald	Commerzbank
	Mr. Romain Dumas	Credit Suisse
	Mr. Jean-Michel Meyer	HSBC
	Mr. Paul Van De Moosdijk	PGGM
	Mr. Sylvain Bojic	Société Générale
	Mr. Gareth Allen	UBS Limited
	Mr. Harald Bänsch	UniCredit Bank
	Mr. Godfried De Vidts	ICMA ERCC Special Advisor
	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)
On the phone:	Mr. Eugene McGrory	BNP Paribas
	Mr. Michel Semaan	Crédit Agricole
	Mr. Andrea Masciovecchio	Intesa
	Mr. Nicola Danese	J.P. Morgan
	Mr. Antony Baldwin	LCH Limited
	Mr. Craig Laird	Morgan Stanley (ERCC SFTR TF Chair)
	Mr. Andy Hill	ICMA
Apology:	Mr. Michael Manna	Barclays
	Ms. Emma Cooper	Blackrock
	Mr. Grigorios Markouizos	Citi
	Mr. James Whittingham	Goldman Sachs

<u>Welcome</u>

Richard Hochreutiner (SwissRe), Vice Chair of the Committee, opened the meeting with a special thanks to Godfried De Vidts who had stepped down on 21 January as long-standing Chairman of the Committee, but will continue to be closely involved in the work of the group in his role as Special Advisor to the ERCC.

David Hiscock (ICMA) informed members of a further staff change within ICMA. As of end March, Mr. Hiscock will change roles, taking on the overall responsibility for ICMA's buy-side constituency, the Asset Management and Investors Council (AMIC). Andy Hill will in turn take over his responsibilities in relation to the ERCC. Alex Westphal remains Secretary to the ERCC.

1) Minutes from previous meetings

Members approved the minutes of the previous ERCC Committee meeting, held on 15 November 2018 in Brussels without further comments.

2) GFMA-ICMA Repo Market Study

David Hiscock (ICMA) informed members that 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 and shared with a large number of stakeholders, including from the official sector. A follow-up meeting was held with the European Commission to discuss the issues addressed in the Study. Meetings with other authorities, including the ECB, have already been scheduled. In addition, the GFMA has also had related discussions with the BCBS, focusing specifically on their work in relation to haircuts. The related BCBS guidance remains a concern, in particular the specific wording in relation to securities borrowing which has been explicitly included in the scope of the requirements. Mr. Hiscock also recalled that these concerns are less immediately relevant in Europe, where authorities have been clear that they do not intend to take action in relation to haircuts until further evidence becomes available through SFTR reporting.

3) Brexit – market impacts

Godfried De Vidts (ICMA) introduced a discussion on recent developments in relation to Brexit and the implications for the Repo market and its infrastructure. He commented that there is still a lot of uncertainty and potential for market fragmentation. Brexit thereby further complicates ongoing discussions on market fragmentation in Europe which are already difficult, including in relation to CCP-clearing but also discussions in relation to persisting post-trade barriers and fragmentation (see also item 7 below).

Members generally agreed but also noted a number of recent MoUs signed between UK and EU regulators which are a step in the right direction. Nevertheless, many issues remain unresolved and further clarity would be urgently needed. A key concern is the need for continued certainty regarding the legal basis upon which each firm conducts business with all its counterparties. Overall, the legal framework for trading is highly complex and not easily understood. Brexit further increases these complexities. A key issue is that firms' ability to deal with third country firms partly depends on national legislative provisions, the scope of which differs across countries (even within the EU). Members agreed that it would be desirable to have a consistent approach at EU level which would help avoid excessive complexity and limit frictional trading costs. Members also noted that these general questions around firms' passporting rights, i.e. their ability to provide services in and outside the EU are at the core of the Brexit discussions and should be seen separate from more specific contractual considerations in relation to the GMRA or other legal documentation, which raise a separate set of issues.

On a related note, Mr. De Vidts mentioned the Commission's recent efforts to strengthen the international role of the euro. As part of this initiative the Commission published a targeted consultation on *The euro and market liquidity in foreign exchange markets*. While the consultation questions are very much focused on FX markets and therefore not directly related to Repo, Mr. de Vidts suggested that this might be an opportunity for the ERCC to make some more general points on the need for open markets and the need to strengthen the attractiveness of the euro, not pushing its use by imposing restrictions. While members generally agreed, it was decided that the ERCC should not respond to the specific consultation. Nic Hamilton suggested in turn that it could be useful to pick up the general message with a slightly different angle in an upcoming Report on T2S volumes that is currently being prepared by an ad-hoc working group of AMI-SeCo with a couple of ERCC Ops members involved.

4) Legal update

Lisa Cleary (ICMA) provided an update on the latest legal developments. She reminded members of ICMA's decision to publish this year's legal opinion updates in a phased approach. Opinions for all non-EU jurisdictions will be published in the normal timetable. However, the opinions for all EU jurisdictions are currently on hold. The exact timetable will be confirmed in due course once there is sufficient clarity on how Brexit is going to progress. The delay will ensure that the opinions reflect the most up-to-date position with respect to Brexit when published.

Ms. Cleary also reminded members once again of the amended scope of the 2019 opinion update, which for the first time will not cover the 1995 version of the GMRA anymore. This should now be well understood in the market and Ms. Clearly also noted that Brexit itself provides further rationale for firms to ensure that they use the most up-to date legal documents.

On a related note, Ms. Cleary remarked that ICMA currently does not have a clear view on the use of the different GMRA versions in the market. Upon request by ICMA senior management, it is currently considered whether and how this information could be collected from members to inform ICMA's work. It has initially been suggested to collect the information as part of the European Repo Survey, but this might be difficult in practice as the required contact points are likely not the same. It might therefore be better to run a separate survey specifically on the use of the different GMRA versions. It was agreed that ICMA should prepare an informal request first for a subset of members as a test case for a more formal survey across the wider membership.

Ms. Cleary reminded members that a set of GMRA related Brexit FAQs have been published on the ICMA website (access restricted to ICMA members). The FAQs were prepared with the assistance of Clifford Chance and made available in December. The questions focus on the implications of Brexit for legal documentation and do not cover questions around passporting and market access (as discussed above).

Ms. Cleary informed members that ISLA has recently published finalised legal documentation in relation to Pledge based securities lending, following significant delays in the project. This means that ICMA is now in a position to kick off its own work to develop similar Pledge documentation for Repo (although only covering the IM component). Before formally launching this work and committing the required resources it would be important to re-affirm that there is still sufficient interest among members to pursue the project. Members briefly discussed and agreed that the question would require further investigation. It was therefore agreed that Ms. Cleary should circulate a formal email request to solicit updated feedback from member firms on the Repo pledge project. This will be followed by a further discussion at the next Committee meeting.

5) Shaping and partialling

Godfried De Vidts (ICMA) and Nicholas Hamilton (JP Morgan) briefly updated members on the latest developments in relation to shaping and partialling, following up on the discussion at the ERCC's cross-industry workshop on this topic held on 12 September 2018. In terms of next steps, the ERCC Ops Group is currently planning to hold a follow-up meeting with a small group of interested members, including the relevant FMIs, to work on some concrete proposals/recommendations. Following up on previous discussions, ICMA has also been in touch with AFME on the topic, in particular with the aim to involve their Prime Brokerage group in the debate as these have been identified in previous discussions as a key stakeholder. On a related note, Mr. Hamilton informed members that LCH SA has announced that they are planning to extend the use of shaping. *[Post meeting update: See LCH's official notice on shaping published on 28 February.]*

6) Balance sheet netting in T2S

Gareth Allen (UBS) updated members on the latest discussions in relation to balance sheet netting opportunities in T2S. He noted that firms are making some progress on the question, even if the discussion is difficult and fairly slow in the absence of any official support. It is hoped that a positive conclusion can be reached over the next months.

Members discussed more generally progress towards a more integrated and consolidated settlement environment in Europe and the remaining obstacles on this path. It was noted that progress has been slow so far and that additional connectivity would still need to be developed, between CSDs but also between CCPs and CSDs, for a fully-fledged investor CSD model in T2S to work. This currently prevents firms from centralising inventory within T2S to reap the full potential benefits of the common platform. In the current situation many firms continue to rely on the ICSDs to achieve netting efficiency.

7) Update from the ERCC Operations Group

Nicholas Hamilton (JP Morgan), co-chair of the ERCC Operations Group, provided an update on other ERCC Ops initiatives beyond those already mentioned. In particular, he said that the ERCC Ops

Group is currently working on a response to a Commission questionnaire on post-trade obstacles which follows up on the work of the European Post Trade Forum (EPTF). The aim is to collect further quantitative and qualitative evidence on the different issues identified at the time by the EPTF, as a basis for any follow-up proposals by the Commission. Mr. Hamilton noted that this was also a good opportunity to caution against unnecessary duplication and burden in relation to reporting requirements across the different applicable regimes. *[Post-meeting update: the final ERCC response to the questionnaire was submitted to the European Commission on 15 February.]*

Mr. Hamilton informed members that Adam Bate (Morgan Stanley) has recently stepped down as co-chair of the ERCC Ops Group due to his changing internal responsibilities. On behalf of the Committee, Godfried De Vidts thanked Mr. Bate for his valuable contributions over the past years to the important work of the ERCC Ops Group.

8) <u>Regulation</u>

a) <u>Benchmark reform</u>

David Hiscock (ICMA) updated members on the latest developments in relation to benchmark reform in Europe. In particular, he mentioned two relevant documents that the Euro RFR Working Group issued on 20 December: (i) a report on the transition path from EONIA to ESTER and (ii) a public consultation on ESTER-based term structure methodologies (deadline for feedback to both publications is 1 February).

In view of the upcoming transition away from LIBOR, Sylvain Bojic (Societe Generale) suggested that there might be a case for ICMA to develop standard language on successor rates for LIBOR in the different jurisdictions, given that the GMRA 2000 includes explicit references to LIBOR. Ms. Cleary will raise the question in the ERCC Legal Working Group for further consideration.

b) <u>SFTR</u>

Craig Laird (Morgan Stanley), Chair of the ERCC's SFTR TF, joined the meeting by phone to provide a brief update on the Task Force's recent progress in relation to SFTR implementation.

In terms of process, on 13 December the Commission adopted the final RTS and ITS on SFTR reporting, which finally provides some clarity in relation to the expected reporting go-live date, which is now expected to be around April 2020. Working towards this date, it will be important for ICMA/ the SFTR Task Force to maintain a close dialogue with ESMA who have a key role to play in the implementation process as they are providing detailed additional implementation guidance as part of the so-called level 3 process. This includes Q&As as well as more extensive Reporting Guidelines. A draft of the latter is expected to be published in April for public consultation. In anticipation of the Guidelines, the SFTR TF has established a regular and constructive dialogue with

ESMA to feed into the process at an early stage. A detailed set of comments was shared with ESMA in December. This was followed up more recently by a call to go through the feedback.

In parallel, the SFTR TF is working on common definitions and agreed best practices in relation to SFTR reporting beyond the guidance provided by regulators. This work is progressing well and the value of it seems to be recognised across the market. This is clearly illustrated by the strong interest in the Task Force, which now includes representatives from nearly 100 firms, across both sell-side and buy-side but also including market infrastructures, trade repositories and other service providers/ vendors that are looking to offer technology solutions to facilitate reporting. As part of the discussions, the SFTR Task Force is also considering certain related aspects of other reporting regimes. In particular, the group is looking at the relevant MiFIR reporting requirements given that these will apply to SFTs concluded with EU Central Banks (which are exempted from SFTR).

c) CSDR: mandatory buy-ins

Andy Hill (ICMA) joined the meeting by phone to update members on recent discussions in relation to CSDR settlement discipline provisions, in particular mandatory buy-ins. ICMA's CSDR-SD working group is currently focusing on a number of concrete issues that are being discussed with ESMA. On the cash bond side, there are two questions that are currently in the focus: (i) ICMA is considering possible solutions to avoid the significant problems posed by the buy-in payment/ cash compensation asymmetry inherent in CSDR - it is hoped that this can be achieved through a contractual solution and ESMA seems to be open for such an idea; (ii) ICMA is developing a workable pass-on mechanism for buy-ins, which is not provided for by CSDR itself.
Furthermore, the CSDR-SD WG is also looking at a number of questions specifically related to SFTs. For example, there is a general question around the application of mandatory buy-ins to repo, which is far from straightforward, particularly for the start leg. ICMA's aim is to establish some market practice that would allow market participants to continue to rely on the contractual solutions provided by the GMRA, in a way that ensures compliance with CSDR while at the same time avoiding the pitfalls of the CSDR buy-in provisions. Another important question is in how far CSDR mandatory buy-ins apply to open repos. The logical suggestion is that these should not be in scope for buy-ins but this interpretation needs to be confirmed by ESMA. A number of short Q&A documents have been prepared on all the issues above. These will be shared with the ERCC Committee for review and subsequently submitted to ESMA for consideration. ICMA is also coordinating closely with ISLA on the SFT-specific issues. *[Post-meeting update: the final Q&As have been submitted to ESMA on 28 February.]*

On a separate note, Mr. Hill briefly reported back from a Commission workshop on Safe Assets which he attended just before the Committee meeting.

d) Other regulatory updates

David Hiscock (ICMA) updated members on other relevant regulatory developments. In particular, he mentioned a BCBS consultation on proposed *Revisions to Leverage Ratio Disclosure Requirements* published on 13 December. The consultation seeks to address "window dressing" under the Leverage Ratio (LR) and is open for comments by 13 March 2019. Members discussed the issue and whether the ERCC should submit a response. Members agreed that a short response should be prepared to reiterate the ERCC's support of any measures that aim to address inefficiencies and excessive volatility in the Repo market, but to also stress that there are other factors that need to be considered when looking at year-end conditions for instance. In addition, if it is decided to move to daily averaging for the purpose of LR calculations, it would also be important for authorities to consider a more general recalibration of the relevant regulatory measures for Repo, in order to avoid any negative repercussions for market stability and liquidity.

9) The European Repo Market at year-end 2018

Andy Hill (ICMA) briefly presented the key findings from the ICMA briefing note, *The European Repo market at 2018 year-end* published on 15 January. While the year-end in the European market was less eventful than in previous years, the Report also shows increased volatility in the US Repo market around year-end and discusses the factors behind this.

10) European Repo Survey

Richard Comotto (ICMA Centre) presented some preliminary results from the latest, 36^{th}, European Repo Survey, noting that a number of contributions from large banks are still missing. The preliminary figures indicate a relatively significant increase in the headline number of around 5-6%, further adding to the continued recovery of the market.

Members had a short discussion on the future of the Repo Survey in view of the upcoming implementation of SFTR reporting. Mr. Comotto mentioned that trade repositories are only required to make a very limited set of SFTR data available. As a result, there will likely still be a case for the European Repo Survey in the future. In this context, it would be worth considering how firms' reporting solutions for SFTR can best be leveraged for this purpose. Members also noted that the ECB has started to make available a (limited) set of flow data on secured money market transactions collected through the MMSR reporting regime. It was agreed that Committee members should have a more detailed discussion on the future of the European Repo Survey once SFTR reporting has gone live.

11) Technology

David Hiscock (ICMA) updated members on the latest discussions with ISDA and other associations in relation to the ongoing work on a Common Domain Model (CDM) for derivatives and a potential collaboration with ISDA to extend the project to other asset classes, in particular SFTs. Clive Ansell, Head of Market Infrastructure and Technology at ISDA will join the ERCC AGM on 31 January to provide a general introduction to the CDM project, which will be a good opportunity to raise awareness among the broader ICMA ERCC membership. Members discussed and expressed strong support for the CDM initiative. Developing a consistent digital representation of the repo product within the CDM is seen as an important building block towards a more automated and efficient repo market structure and also as an important facilitator for the broader application of more far reaching FinTech solutions, including DLT. In this context, members also noted the significant work that is being done in relation to SFTR reporting and expressed a hope that this work can be useful as a basis for the CDM analysis. In terms of next steps, Mr. Hiscock stressed the importance of building a body of support for the project and to develop concrete use cases which can then be used to convince the ICMA Board of the benefits of the CDM project and to agree with the related budget implications. It was agreed that a realistic target should be to have a roadmap ready in time for the ICMA Board meeting in September 2019 where the initiative could be discussed.

More generally, members also agreed that going forward the Committee should dedicate more time to the discussions related to the CDM and other relevant technology developments and to treat these topics as a key priority of the Committee.

12) AOB and further dates:

- **13 March 2019, 13:30 – 16:30 (UK time):** First meeting of the new ERCC Committee in London, hosted by ICMA
- **7 May 2019, 11:30 – 16:00 (CET) (TBC):** ERCC Committee meetings in Frankfurt, including sessions with ECB staff