

Minutes of the ERCC Committee meeting held on 13 March in London Hosted by ICMA

Present:	Mr. Michel Semaan	Crédit Agricole (ERCC Chair)
	Mr. Grigorios Markouizos	Citi (ERCC Vice Chair)
	Mr. Nick Dent	Barclays
	Mr. Eugene McGrory	BNP Paribas
	Mr. Jean-Robert Wilkin	Clearstream
	Mr. Andreas Biewald	Commerzbank
	Mr. Romain Dumas	Credit Suisse
	Mr. David Joughin	Deutsche Bank
	Mr. Jean-Michel Meyer	HSBC
	Mr. Antony Baldwin	LCH Limited
	Mr. Sylvain Bojic	Société Générale
	Mr. Gareth Allen	UBS Limited
	Mr. Harald Bänsch	UniCredit Bank
	Mr. Godfried De Vidts	ICMA ERCC Special Advisor
	Ms. Leland Goss	ICMA
	Mr. Andy Hill	ICMA
	Mr. David Hiscock	ICMA
	Mr. Alexander Westphal	ICMA (ERCC Secretary)
On the phone:	Mr. Richard Hochreutiner	Swiss Reinsurance (ERCC Vice Chair)
	Mr. Charlie Badran	AXA IM
	Mr. Dan Bremer	BAML
	Mr. Nicola Danese	J.P. Morgan
	Mr. Paul Van De Moosdijk	PGGM
	Mr. Nicholas Hamilton	J.P. Morgan (ERCC Ops Chair)
Apology:	Ms. Emma Cooper	Blackrock

Welcome

Godfried De Vidts, former chairman of the Committee, opened the meeting and congratulated members of the new Committee for their (re-)election.

1) Election of the Chair and Vice-Chairs

Committee members unanimously elected Michel Semaan, Credit Agricole, as new Chairman of the Committee. Grigorios Markouizos, Citi, and Richard Hochreutiner, SwissRe, were re-elected as vice-chairs of the Committee. In addition, Mr. Semaan and Mr. Hochreutiner were nominated as candidates of the IRCC Committee to be confirmed by the ICMA Board at its next meeting. Mr. De Vidts will continue to support the Committee chairs in his role as ERCC Special Advisor.

2) Minutes from previous meetings

Members approved the minutes of the previous ERCC Committee meeting, held on 30 January 2019 in Luxembourg without further comments.

3) Brexit update

Members briefly exchanged views in relation to firms' Brexit preparedness. Since the longer discussion at the previous meeting, there have not been any significant new developments, which is also partly due to the ongoing political uncertainty on this topic. In this context, members also briefly considered the successful move of euro repo activity from LCH Ltd to LCH SA and discussed possible reasons behind an apparent recent uptick in fail rates for Bunds.

4) Technology

Members discussed the Committee's approach in relation to the rising importance of technology in SFT markets, focussing more specifically on the potential collaboration with ISDA on their Common Domain Model (CDM) for derivatives. Mr. David Hiscock introduced the discussion by providing some background on the CDM project, which has been discussed previously in the Committee. Following the previous Committee meeting, ISDA also presented the project to the wider membership at the ERCC AGM in Luxembourg. Mr. Hiscock explained that ICMA has been engaged in discussions with ISDA for some months already to assess the potential for extending the CDM to other asset classes, in particular SFTs. ISDA has indicated that they are already fairly confident that they can represent a basic cash securities trade in the current CDM framework. The next step will be to assess how much incremental work is needed to represent a simple repo in the CDM. ICMA continues to believe that this is a very interesting opportunity which would help to develop and establish a common standard for the repo market allowing for a more consistent and efficient operational process and facilitating STP. Furthermore, such a common standard would also serve as the groundwork for implementing more far reaching technology solutions in the future. Other associations become involved in the discussions as well, including ISLA. Mr. Hiscock and Mr. De Vidts stressed that further support and engagement from ERCC member firms would be critical in order to drive the project forward and to ensure that this effectively addresses market needs.

Members expressed general support for the idea of a common standard that could help digitising the market thereby helping to overcome the currently still often inefficient operational process for repo and ensuring consistency across the full lifecycle from trading through to settlement. In order to assess the CDM project itself, members suggested that further technical expertise would be helpful. One possibility could be to set up a separate working group to discuss the technical aspects of the CDM and help to better understand how far this would address the issues in the Repo market. It was also suggested that as a basis for further discussion a 'key requirements' document might be helpful which would identify the shortcomings of the current repo operational process and assess the opportunities that the CDM project may offer in this context. Members also discussed the link

between the CDM project and SFTR reporting requirements, suggesting that the extensive work undertaken in relation to the implementation of SFTR should be a helpful basis for any incremental CDM work. It was less clear whether the two projects, SFTR and CDM, are fully complementary and to which extent the CDM project would need to be built around the SFTR requirements which, while offering a level of standardisation, do not offer an ideal framework. Members also noted the various promising tech initiatives that are already being developed by vendors. Connecting all these initiatives and platforms through a common standard would make sense, but requires close collaboration with the relevant providers to make sure that they are on board.

Wrapping up the discussion, it was suggested that a necessary first step would be for ERCC Committee members to connect to the relevant colleagues in their firms that are already actively involved in the CDM project on the derivatives side. ISDA will have gone through the same issues and questions on their side, including the link to EMIR reporting. A closer interaction would therefore likely clarify some of the related questions. ICMA will ask ISDA for a list of member firm contacts that are actively involved on their side in the CDM work and that can be shared with ERCC Committee members as a basis to encourage internal discussion in relation to the CDM, its rationale and specific use cases. At the same time, ICMA will continue discussions with ISDA to frame the potential collaboration on the CDM project. *[Post-meeting note: On 20 March, ISDA published [CDM version 2.0](#) and opened access to it to the wider market.]*

5) 36th European Repo Market Survey

Mr. De Vidts presented some highlights from the latest, 36th, edition of the European Repo Survey which is due to be published in due course. Of particular note, the headline number for December 2018 stood at more than €7.7 trillion, an increase of almost 5% since the previous survey and more than 6% year-on-year. Mr. De Vidts further noted that this reflected the growing importance of repo in a financial system increasingly underpinned by collateral. *[Post-meeting update: The 36th European Repo Market Survey was [published on 4 April.](#)]*

6) **Repo Pledge documentation**

Leland Goss (ICMA) introduced a discussion with members on the planned project to develop Repo Pledge documentation. Following up on a request for written feedback sent out by ICMA prior to the meeting, the purpose of the discussion was to affirm that there is still sufficient interest to pursue the project and that it is still considered desirable from a cost-benefit perspective, considering that this requires a significant investment from ICMA. In response to the survey some members have expressed strong support for the project; primarily the same firms that had previously driven the initiative. In the discussion, members stressed that bespoke Pledge documentation for Repo IM is already in place today. The question for ICMA is whether it is desirable to take control of this development and ensure consistency by developing standard documentation. Members expected that firms will continue to use Pledge IM agreements irrespective of any ICMA documentation given the beneficial capital treatment, unless regulators express any concerns.

However, the latter is not considered a big risk given that the exchange of IM based on Pledge results in a real reduction of risk. Members also mentioned that the large US banks have requested a formal meeting with the US regulator in the coming weeks to discuss the use of the new ISLA pledge documentation. Before officially launching the work on the ICMA side, it was therefore agreed to await feedback from this meeting.

7) Other legal updates

Leland Goss (ICMA) updated members on a few other relevant legal developments recently discussed by the ERCC's Legal Working Group. This included discussions on some interesting technology solutions which are aiming to automate the management of legal documentation, with a current focus on derivatives margining.

8) Update from the ERCC Operations Group

Nicholas Hamilton (JP Morgan), chair of the ERCC Operations Group, provided an overview of the most important ERCC Ops initiatives and discussions, covering four pillars of the work:

- **Regulation:** with a strong focus on SFTR implementation and the work undertaken by the SFTR Task Force in this regard (see item 10e below).
- **Market infrastructure:** The ERCC, through Mr. Hamilton, is represented in the ECB's AMI-SeCo group which coordinates the various Eurosystem initiatives in relation to market infrastructure. Several ERCC Ops members are also actively contributing to the more specific work in relation to collateral management harmonisation which has been launched by AMI-SeCo in preparation for the Eurosystem Collateral Management System (ECMS) due to go live November 2022. A dedicated Task Force, the CMH-TF, is making good progress and has already presented a set of harmonisation proposals, in particular related to tri-party collateral management and corporate actions.
- **FinTech:** The ERCC Ops FinTech working group was established in 2017 and has since developed a comprehensive mapping directory with available FinTech solutions in the area of repo and cash bond operations. The ERCC is also represented in an ECB FinTech Task Force established under AMI-SeCo. Going forward the evolving discussions with ISDA on the CDM project will likely become another focus area.
- **Market practice and education:** The Guide working group continues its work to make sure the ERCC Guide to Best Practice remains up to date and relevant to members. In the area of education, ICMA is running a number of relevant repo courses, promoted by ERCC Ops. This includes a new 1-day Repo intensive course as well as a dedicated course on SFTR reporting which is due to be launched soon.

Mr. Hamilton and Mr. De Vidts noted that attendance at the ERCC Ops Committee over the past months has decreased, despite the very extensive agenda covered by the forum. Committee members are therefore strongly encouraged to ensure that their firm actively contributes to the

important work undertaken by ERCC Ops. As a follow-up to the meeting, an attendance tracker will be circulated to show attendance over the past months and as a prompt for Committee members to encourage their Ops colleagues to ensure wider attendance.

Mr. De Vidts briefly mentioned a recent initiative by the ECB, the European Distribution of Debt Instruments (EDDI) project, which is still at a very early stage but would aim to establish a common issuance platform within T2S. It is understood that the project is still at a conceptual phase and no further information has been published as yet.

9) Balance sheet netting in T2S

Gareth Allen (UBS) provided a short update on recent progress in relation to the ongoing work on balance sheet netting in T2S. Further to the discussions in the group, firms are currently working on their internal memos for discussion with external auditors. These discussions are moving in a good direction, even if no positive conclusions have yet been reached.

10) Regulation

a) Banking package

On 15 February, the Council [announced](#) the finalisation of the banking package, a series of different measures, including the review of CRR/CRD IV as well as revisions to BRRD and the SRM Regulation. David Hiscock explained the key provisions in the package from a Repo perspective, in particular the final rules on NSFR and the Leverage Ratio, which include a helpful clarification in relation to regulatory netting which specifically recognises arrangements such as T2S. In addition, Mr. Hiscock also noted that the final texts now include an explicit reference to daily averaging in the context of calculating and reporting leverage, anticipating the global work undertaken by the FSB. The final texts should be formally adopted before the end of the current term of the EU Parliament and will then become EU law.

On a related note, Mr. Hiscock mentioned recent Committee work in relation to the BCBS consultation on leverage ratio disclosure [*Post-meeting note: the final ICMA ERCC response was submitted on 13 March, following the Committee meeting, and [published](#) on the ICMA website.*]

b) EMIR Refit

In the context of EMIR Refit, there continues to be a discussion around the clearing exemption for Pension Funds. David Hiscock informed members that the Commission is undertaking work in collaboration with the relevant stakeholders to better understand the related concerns. They are particularly keen to understand how far Repo market capacity might be impacted in stressed conditions and whether alternative safeguards or solutions need to be considered, to assure Pension Funds' ability to raise cash at all times in case needed to satisfy margin calls. In this context,

the Commission recently reached out to the ERCC as one of the key stakeholders for a very initial exchange of views. This discussion is expected to continue over the coming two years.

On a related note, Mr. Hiscock noted the approaching next waves of uncleared margining rules under EMIR which are due to bring a very large population of additional firms into scope of these requirements. ISDA continues to be very vocal on this issue. While the ERCC has not expressed any public views, we continue to closely monitor the issue and are interested to receive feedback from members on any concerns from a repo perspective.

c) Benchmark reform

David Hiscock (ICMA) updated members on the latest developments in relation to ongoing benchmark reform in Europe, mentioning among other things the recent decision by the European Commission to formally extend the applicable deadline for critical and third country benchmarks to be BMR compliant by 2 years to 31 December 2021. Mr. Hiscock also noted a recent announcement by EMMI to move ahead with the reformed methodology for EURIBOR, which is expected to lead to EMMI/EURIBOR being formally approved under BMR. EU authorities are currently keen to continue to support the use of EURIBOR and would like to see more banks join the panel, to further its robustness. EMMI is also pressing ahead with a proposed reform to the methodology for EONIA, as proposed by the €RFR working group. This is expected to see the current panel bank process cease at the point that [€STR](#) comes into being, at the start of October, with EONIA then being set each day as €STR plus a, yet to be determined, fixed spread. This will form a basis for continued use of EONIA until the end of 2021, when it is expected to be terminated. So, by that point markets need to have migrated away from use of EONIA to alternatives, such as €STR. Some discussion took place regarding the French market, where EONIA is currently commonly used in repos and it was suggested that rather than move to €STR there might be a move to fixed rate, consistent with practice in other European repo markets.

d) CSDR: mandatory buy-ins

Andy Hill (ICMA) updated members on recent discussions in relation to the upcoming implementation of mandatory buy-ins under CSDR, in particular a constructive recent call with ESMA to discuss a number of ICMA proposals to address some of the most problematic aspects of the buy-in provisions. At a more general level, ICMA and the CSDR-SD Working Group was focused on addressing the asymmetry in the buy-in and cash compensation payment mechanisms by means of contractual agreements – in particular by use of the ICMA Buy-in Rules – as well as designing a pass-on mechanism that could work under the regulatory framework. With specific reference to SFTs in scope of the buy-in regime, the focus has been on establishing best practice to apply the relevant contractual remedies – namely those outlined in the GMRA and GMSLA – before the mandatory buy-in requirement is triggered, as well as ensuring that open- SFTs, and ‘open-like’ structures, are considered out of scope. In the case of the latter, this would require more work with respect to identifying out-of-scope SFTs.

e) **SFTR**

Alex Westphal (ICMA) provided a brief update on the latest discussions in relation to SFTR implementation and the work of the ERCC SFTR Task Force. The group is now working towards a fairly clear timeline. The final technical standards are now formally adopted and should be published in the next days. This will determine the SFTR implementation dates. The initial go-live for banks and investment firms is expected in April 2020. [Post-meeting update: The final technical standards were published and entered into force on 11 April – this means that the initial go-live date will be 11 April 2020.] In terms of next steps, the group is now waiting for ESMA to start publishing further implementation guidance, the so-called level 3 measures. This will include Q&As and detailed Reporting Guidelines. A draft of the latter is expected to be published in May for public consultation. The SFTR TF is in regular discussions with ESMA to feed into this process and will obviously also submit detailed comments on the draft Guidelines once published. The work of the SFTR TF is progressing well, in particular on the best practice Annex which now covers well over 60 questions and recommendations, as well as further complementary analysis. Further information on the ERCC's SFTR work is also available on a revamped [SFTR webpage](#).

f) **Other regulatory updates**

David Hiscock (ICMA) updated members on other relevant recent regulatory developments impacting the repo market. In this context, he mentioned that ICMA and the GFMA continue to meet with authorities to discuss the recent [GFMA and ICMA Repo Market Study: Post-Crisis Reforms and the Evolution of the Repo and Broader SFT Markets](#) which was published on 17 December 2018.

11) AOB and further dates:

In view of the upcoming meetings with the ECB in May (see below), members suggested to work on a more detailed agenda for the two meetings with the ECB, in order to help structure the discussion and make good use of the limited time available to discuss.

- **7 May, 11:30 – 16:00 CET:** ERCC Committee meeting in Frankfurt, followed by two separate sessions with ECB staff on (i) market infrastructure related issues and (ii) repo market issues more broadly
- **18 June, 12:00 – 15:00 CET:** ERCC Committee meeting in Madrid, in the margins of ISLA's Annual conference