International
Capital
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Association

ICMA

Minutes of the ERCC Committee meeting held on 18 June in Madrid
Hosted by ICMA

Present:	Mr. Michel Semaan	Crédit Agricole (ERCC Chair)
	Mr. Richard Hochreutiner	Swiss Reinsurance (ERCC Vice Chair)
	Mr. Charlie Badran	AXA IM
	Mr. Dan Bremer	BAML
	Mr. Nick Dent	Barclays
	Ms. Emma Cooper	Blackrock
	Mr. Eugene McGrory	BNP Paribas
	Mr. Jean-Robert Wilkin	Clearstream
	Mr. Andreas Biewald	Commerzbank
	Mr. Romain Dumas	Credit Suisse
	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. Godfried De Vidts	ICMA ERCC Special Advisor
	Mr. Andy Hill	ICMA
	Mr. Richard Comotto	ICMA Centre
	Mr. Alexander Westphal	ICMA (ERCC Secretary)
On the phone:	Mr. David Joughin	Deutsche Bank
	Mr. Jean-Michel Meyer	HSBC
	Mr. Nicholas Hamilton	J.P. Morgan (ERCC Ops Chair)
	Ms. Lisa Cleary	ICMA
Apology:	Mr. Grigorios Markouizos	Citi (ERCC Vice Chair)
	Mr. Sylvain Bojic	Société Générale

Welcome

Michel Semaan, ERCC Chairman, opened the meeting and handed over to Godfried De Vidts (ICMA) to introduce the agenda.

1) Minutes from previous meetings

Members approved the minutes of the previous ERCC Committee meeting, held on 7 March 2019 in Frankfurt without further comments.

2) Transition from EONIA to €STR

Godfried De Vidts introduced a discussion on the upcoming transition from EONIA to €STR and the related operational challenges for repo markets. Based on prior discussions in the ERCC Committee and ERCC Ops, and bilateral discussions with the French Committee members, ICMA prepared a discussion paper on the topic. The note highlights the key challenges around the upcoming transition and puts forward possible solutions. The French Committee members commented on the issue given the relevance for the French market. While French banks seem to generally support a proposed move away from floating-rate repo and see the transition as a good opportunity to achieve this, feedback from clients has been more mixed, with many buy-sides very reluctant to move to a fixed-rate market. AXA confirmed that many buy-side firms in France want to be able to continue using floating rate repo. The ERCC note acknowledges these differences in views and includes a recommendation for the interbank market only to move away from floating rate repo. Members agreed with the proposed approach and expressed some hope that this move might create momentum for a more general shift away from floating-rate repo in the longer term.

Members commented that the recommendation to move to a fixed-rate market should logically also apply to CCP-cleared repo. However, it was also acknowledged that this might create a challenge for plans to offer sponsored clearing and that CCPs will probably continue to support floating-rate repo, at least temporarily.

Members also discussed the operational implications from a transition to €STR, resulting from the fact that the €STR rate will only be available on T+1. The ERCC note sets out several options to address this challenge. Members reviewed the options and agreed that the most sensible solution would be a crystallisation of the rate on T, complemented by a possibility to claim the resulting difference arising from the actual fixing for the final date of the trade, published on T+1. In order to limit the operational burden of this approach, the related claim should be subject to a suitable threshold. Members discussed the form of the threshold and suggested that a threshold of 500 EUR per ticket would seem reasonable (although some suggested a lower threshold of 100 EUR). ICMA will update the memo to reflect the views of the Committee. The Guide Working Group will then pick up the discussion and prepare related amendments to the Best Practice Guide to reflect the agreed recommendations.

3) BCBS framework on minimum haircut floors

On 5 April 2019, an ICMA ERCC/GFMA delegation met with the BCBS/BIS to discuss the findings of the recent joint repo study. As a follow-up to this meeting, ICMA drafted a letter to the BCBS specifically addressing concerns related to the impact of the FSB minimum haircut framework on securities lending and borrowing. The draft letter was sent to the ERCC Committee for review and has also been shared with ISLA. Gareth Allen explained the key issues addressed by the letter and introduced a discussion with members. The main concern raised in the letter is the proposed treatment of non-cash collateralized securities lending transactions. The key objective of the rules seems to be to target transactions that are aim primarily at providing financing leverage, rather than to borrow or lend specific securities. However, while there is a carve-out for cash collateral provided that reuse is excluded, a similar provision does not exist for non-cash collateral, which does not seem logical. A second issue addressed in the letter is in relation to pledge structures. The letter explains the concept and asks whether these can be considered exempt from the requirements (given that the pledge structure restricts reuse). Members discussed the issue and generally agreed with the content of the letter. A question was raised on the treatment of different asset classes. Mr. Hill explained that the FSB proposal explicitly exempted government bonds from the requirements, but that but he would confirm with the Committee if there was any change to this in the Basel III revisions.

In terms of approach, given the need to provide feedback to the FSB as soon as possible, members agreed that the letter should be submitted on behalf of the ERCC, and suggested to share it at the same time with other stakeholders, in particular ISLA and AFME. The letter should make clear the reasons for the ERCC to respond on this securities lending specific issue, namely our concerns in relation to collateral markets more broadly and the implications for market efficiency and stability.

4) <u>Common Domain Model (CDM)</u>

Andy Hill updated members on the latest developments in relation to ISDA's Common Domain Model (CDM) project and the ongoing discussions between ICMA and ISDA in order to extend this project to incorporate SFTs. Mr. Hill noted that this work is progressing well at a trade association level, but that more involvement from members would be important. From a technical perspective, extending the existing model to SFTs should not be too difficult, given that a lot of the groundwork has already been done. However, as a next step it will be important to test the model based on real trade data from firms' in-house systems. A small working group has been established to support the work. We are hoping that further member firms will volunteer to contribute. It would be important to cover different perspectives, including front-office, back-office as well as the relevant technology experts.

Members discussed the basic rationale for the CDM project. It was explained that the CDM is a way to standardise and digitise the key attributes of a repo. The CDM thereby goes beyond the mere standardisation of data elements/fields (as messaging standards do), also extending to process and lifecycle events. Members compared the CDM proposal to an ISO standard for repo. Such a standard model will help to streamline repo processing across the industry and will facilitate connectivity, between the different systems internally, but also across the market more broadly, including trading platforms and other infrastructures. In this context, members recalled that there is no standard concept of a repo today in T2S, for example. Members also pointed to the relevance of the CDM concept in the context of reporting, commenting that the SFTR implementation challenge would have been incomparably smaller had a CDM standard been in place for SFTs. Regulators start to appreciate this potential too. For instance, Mr. Hill noted that the FCA and Bank of England have launched a project to assess the use of a digital reporting model based on the CDM concept.

In terms of next steps, Mr. Hill suggested to invite ISDA to the next meeting of the ERCC Committee to discuss the topic in more detail. In the meantime, members interested to get involved in our CDM working group, are encouraged to get in touch with the Secretariat.

5) European Distribution of Debt Instruments (EDDI)

On 28 May, the ECB issued a public consultation on a potential project to create a European mechanism for the issuance and initial distribution of debt securities in the EU, also referred to as EDDI. The initiative had already been briefly presented by the ECB during the ERCC Committee visit on 7 May in Frankfurt. An initial ICMA draft response to the consultation was circulated ahead of the meeting. So far, the response is mainly based on feedback from ICMA's public issuer group. Initial feedback from ICMA's primary market groups, which has been more sceptical, has yet to be incorporated. Committee members exchanged views on the proposal, noting the challenge to agree a common ICMA response to the consultation given the various perspectives and interests involved. Given the early stage of the process and the political nature of the initiative, it was agreed that any ERCC contribution to the response should not go into too much detail. It should express though the general support of the Committee for any initiative that is aimed at increasing the efficiency of the market and reducing existing fragmentation. [Post-meeting note: The final ICMA response was submitted to the ECB on 9 July and published on the ICMA website.]

6) Legal updates

Lisa Cleary updated members on recent legal developments discussed by the ERCC's Legal Working Group.

As regards the GMRA legal opinions, Ms. Cleary noted that updated opinions for non-EU jurisdictions were published in April. As agreed previously, the publication of updated opinions for the EU jurisdictions had been postponed due to Brexit but is expected before the end of the year.

Discussions with ESMA are ongoing in relation to the implementation of CSDR mandatory buy-ins, touching on various documentation questions. It is expected that changes to the actual legal documentation will be required for certain transaction types as a result of CSDR, but that at a practical level, most issues can be addressed through best practices.

Another legal work stream has been launched in the context of SFTR implementation. Further to various requests from members, ICMA has been assessing the need for a standardised legal agreement for delegated reporting, similar to the one developed by ISDA under EMIR. As the latter needs updating in light of EMIR Refit, it has been suggested that the associations involved in SFTR and EMIR should join forces and look to create a joint agreement across products, covering both

SFTR and EMIR. Given the ambitious timelines involved, it will be important to reach a decision soon, so that the final agreement can be in place before the end of the year, ahead of the reporting go-live in April 2020.

On 25 June, the ERCC Legal Working group will be coming together for a legal tech afternoon, hosted by ICMA. Several providers of legal technology have been invited to present their solutions, mainly focused on the electronification of master agreement negotiations.

In response to a question, Ms. Cleary briefly explained recent ISDA publications in relation to their resolution stay protocols. As deadlines for national resolution regimes are approaching, ISDA is publishing jurisdictional modules, most recently for Switzerland and France. Members asked whether there are any concerns regarding the consistency between the approaches taken in different jurisdictions. Ms. Cleary explained that the global FSB standards seek to ensure a level of consistency, but that some divergence is obvious as regards the detailed implementation. It was agreed to monitor this as the implementation proceeds.

7) <u>Update from the ERCC Operations Group</u>

Alex Westphal provided a brief update on the latest discussions of the ERCC Operations Group. The latest meeting of the group was held on 13 June 2019. The agenda covered the usual breadth of topics, some of them reflected on the Committee agenda, e.g. EDDI. In particular, Mr. Westphal noted that ERCC Ops members continue to be actively involved in the industry work in relation to collateral management harmonisation that is being undertaken with the ECB's CMH-TF. Extensive harmonisation standards have already been developed by the group in relation to (i) corporate actions, (ii) triparty collateral management and (iii) CSD billing. All three sets of standards are important pre-requisites for the Eurosystem Collateral Management System (ECMS), which is being developed by the ECB and expected to go live in 2022. In the context of the CMH-TF work, the ERCC Ops has been requested to look at settlement cut-off times and to update a previous ERCC survey on the topic as a basis to assess any frictions and the need for further harmonisation. The survey is currently being developed and will be launched in the coming weeks.

8) <u>Regulation</u>

a) <u>Basel IV – implications for European repo market</u>

Andy Hill introduced a discussion on Basel IV and the implications for the European Repo market. He noted that the so-called 'Basel IV' agreement revises both the credit and operational risk frameworks for banks globally. Importantly, it reduces risk sensitivity in standardised models, and, due to the introduction of an output floor, limits the effective use of internal models, with the result being a significant increase in Risk Weighted Assets (RWAs). Since many SFT counterparties lack external ratings, the revised framework will apply a 100% RW to these transactions for the standardised approach (SA). Furthermore, the SA will not have any maturity sensitivity for transactions with non-banks, and so will be disproportionately punitive for short-dated SFTs.

Members discussed the issue and concluded that it would be important for the ERCC to get involved in the related discussions and advocacy, in close collaboration with ISDA who have been leading the discussion so far.

b) CSDR

Andy Hill updated members on the latest discussions in relation to CSDR mandatory buy-in provisions. ICMA is engaging with ESMA on a number of open questions. The latest call with ESMA was held on 12 June. Progress is generally positive but rather slow. A key open issue is the CSDR asymmetry and possible ways to address it. Another important issue is ICMA's work to develop a workable pass-on mechanism for buy-ins, given that the CSDR itself does not contain any provisions on this important aspect. There are also a number of open issues specifically in relation to in-scope SFTs. One aim is to make sure that firms can rely on existing GMRA contractual provisions instead of resorting to CSDR mandatory buy-ins. Questions have also been raised in relation to the treatment of open SFTs and basket trades. On all these topics, the discussions with ESMA are ongoing, but it is hoped that ESMA will provide formal guidance in the next months and in any case well ahead of the implementation date in November 2020.

On a related issue, members briefly discussed the differences between GMRA and GMSLA provisions in relation to passing on buy-in costs, as this is covered more explicitly in the GMSLA. Given the difficulties to change GMRA provisions and the sensitivity of the issue, members felt that this could be picked up by the Guide Working Group as a potential matter of best practice.

c) SFTR

Alex Westphal and Richard Comotto provided a brief update on the latest discussions in relation to the implementation of SFTR. Following the publication of the technical standards in March which determined the final reporting go-live date in April 2020, the focus has now shifted to the so-called Level 3 process, during which ESMA is working on additional implementation guidance, consisting of additional Reporting Guidelines and Q&As. On 27 May ESMA published a first draft of the detailed Guidelines on SFTR reporting for public consultation. Responses are due by 29 July. The ERCC SFTR Task Force is currently reviewing the draft Guidelines and will be responding to the consultation. Members had a brief discussion in relation to Unique Trade Identifiers and whether there is any push to standardise the format of UTIs. Alex Westphal explained that the current rules do not prescribe a format for UTIs, which is in line with the approach taken at a global level by CPMI-IOSCO's Technical Guidance on UTIs.

9) AOB and further dates:

Further to previous discussions, ICMA offered to host a meeting between ECB experts and accountants from the main accounting firms to discuss balance sheet netting in T2S. Gareth Allen explained the background to the meeting. The main objective will be to offer a forum for the accountants to learn about the key technical details of T2S in order to give them a basis for assessing from an accounting perspective how cross-CSD settlement in T2S qualifies for balance sheet netting in accordance with the relevant criteria set out in the international accounting standards. ICMA is currently trying to find a suitable date for the meeting. Once confirmed, the invitation will be extended to any ERCC Committee members interested to attend.

Richard Comotto informed members that the ERCC's Annual Professional Repo and Collateral Management Workshop will be held on 11-12 September, hosted by Deutsche Börse in Frankfurt. In addition, ICMA has also started holding technical workshops specifically on SFTR. The pilot course on 2 July is already fully booked. A second course has been scheduled for 14 July and further editions will be announced in due course.

Members approved the application of BGC Brokers to become an ERCC member.

Upcoming ERCC meetings:

- **25 September, 13:00 – 17:00 UK time:** ERCC Committee meeting in London, hosted by BAML
- **14 November, 11:00 – 14:00 CET:** ERCC Committee meeting in Brussels (ahead of the Collateral Conference), hosted by Euroclear
- **15 November, 13:00 – 16:00 CET:** ERCC General Meeting in Brussels, hosted by Euroclear (as part of their Collateral Conference)