Minutes of the ERCC Committee meeting held on 9 December 2020

**Committee members:**
- Mr. Gareth Allen, UBS Limited (ERCC chair)
- Ms. Emma Cooper, Blackrock (ERCC vice chair)
- Mr. Charlie Badran, AXA IM
- Mr. Dan Bremer, BAML
- Mr. Nick Dent, Barclays
- Mr. Eugene McGrory, BNP Paribas
- Mr. Peter Fejfer Nielsen, Citi
- Mr. Jean-Robert Wilkin, Clearstream
- Mr. Andreas Biewald, Commerzbank
- Mr. Romain Dumas, Credit Suisse
- Ms. Marije Verhelst, Euroclear
- Mr. Jean-Michel Meyer, HSBC
- Mr. Lav Lukic, J.P. Morgan
- Mr. Antony Baldwin, LCH Limited
- Ms. Amandine Triadu, Mizuho
- Mr. Paul van de Moosdijk, PGGM
- Mr. Sylvain Bojic, Société Générale
- Mr. Richard Hochreutiner, Swiss Reinsurance
- Mr. Harald Bänsch, UniCredit Bank

**Other participants:**
- Mr. Nicholas Hamilton, J.P. Morgan (ERCC Ops co-chair)
- Mr. James Upton, LCH (ERCC Ops co-chair)
- Mr. Arne Theia, UniCredit Bank
- Mr. Godfried De Vidts, ICMA
- Ms. Zhan Chen, ICMA
- Ms. Lisa Cleary, ICMA
- Mr. Richard Comotto, ICMA
- Mr. Andy Hill, ICMA
- Mr. Alexander Westphal, ICMA (ERCC Secretary)

**Guest:**
- Mr. Carsten Hiller, Eurex

1) **Minutes from previous meeting**

The Committee approved the minutes of the previous virtual meeting of the ERCC Committee held on 20 October without further comments. [The minutes have been published on the ICMA website.]

2) **Repo market conditions and outlook**

Harald Bänsch introduced a discussion with members on current repo market conditions and the immediate outlook, in particular in view of the approaching year-end. He noted that conditions in the run-up to year-end have become more challenging than initially anticipated, although not significantly worse than in previous years. One driver is pronounced balance sheet management...
by some banks which has led some to retreat from the market. This has driven up pricing, although conditions remain fairly fluid. USD liquidity has also become more and more expensive around the turn indicating a more eventful year-end than anticipated. Another key factor is monetary policy as the market is anticipating the ECB to announce another set of new expansionary monetary policy measures, including a further expansion of the PEPP, a recalibration of the TLTRO with possibly even more favourable terms, as well as some potential changes to the tiering rules for banks’ excess reserves. All of these measures could have implications for the repo market, although concerns related to possible collateral shortages are likely mitigated by the more effective central bank lending programmes which are now in place. Other members agreed with the general assessment and discussed some of the underlying drivers. In particular, members discussed factors that have contributed to the worsening in market conditions relative to previous expectations. A number of factors were mentioned that may not have been fully anticipated, in particular members noted the impact of the recent stock market rally which has driven up banks’ equity (and therefore GSIB requirements), but also the continued uncertainty around Brexit and the US elections. Andy Hill mentioned that ICMA will be looking to produce another repo year-end report which will be published in January.

Gareth Allen, ERCC chair, introduced a short discussion about remaining Brexit-related challenges, in view of the imminent end of the transition period on 31 December.

3) **Repo and sustainability**

Members discussed the growing importance of the ESG agenda and its implications for the repo and collateral market as well as possible next steps for the ERCC. As an introduction to the discussion, Carsten Hiller, Eurex, was invited to present a new [Green Bond GC Basket](#) which Eurex launched in November. Mr. Hiller explained that the decision to launch the new basket was mainly driven by client demand (buy-side but also sell-side) and is also hoped to stir a broader discussion. As regards the composition of the basket, the focus on Green bonds (as opposed to ESG more broadly) is mainly due to better data availability, which is still a major challenge. As a next step, Eurex is looking to extend the offering to the full range of ESG assets and is consulting with clients on other possible refinements.

Members had a number of questions to Eurex on the product. This was followed by a broader discussion on the implications and opportunities of ESG for repo and collateral markets. Members stressed the importance of the topic and the need for the ERCC to follow closely the developments and to drive a cross-industry discussion. Demand is currently mainly driven by asset managers in line with their ESG mandates but may increasingly come from sell-side. It was noted that the further evolution also depends on the approach taken by regulators and central banks and on how actively they decide to encourage the use of green assets as collateral, either through regulatory treatment or monetary policy. Members also discussed the potential use of ESG collateral in the context of triparty repo. Both Euroclear and Clearstream confirmed that they are seeing demand from clients and are actively looking at the opportunities in this domain. Despite all the
opportunities, from a treasury perspective, members also acknowledged remaining challenges and limits in terms of standardisation and liquidity of the underlying assets.

Members agreed that more work is needed to better understand the key drivers and to agree common definitions and standards across the market to facilitate and encourage the use ESG assets as collateral. It was suggested that the ERCC should aim to play a leading role in driving these discussions in relation to repo and collateral. Andy Hill mentioned that ICMA is already working on a white paper on the ESG and repo, coordinated by Zhan Chen who is also closely collaborating with ICMA’s Paris office which is in charge of the association’s extensive work on sustainable finance.

4) **Common Domain Model & FinTech**

Gabriel Callsen updated members on recent progress with the work to incorporate repos and cash bonds into the CDM. Further to the previous Committee meeting, ICMA reached out to members to set up a new CDM Steering Committee. The response has been positive, both in terms of representation and in terms of commitment to share sample data with ICMA, which will be an important pre-requisite for modelling the repo product in the CDM. The related programming work done by REGnosys is due to kick off in January and is expected to last around 3 months.

[Additional update not covered at the meeting:

**ECB FinTech Task Force**, a joint subgroup of the ECB Advisory Groups on Market Infrastructure for Payments (AMI-PAY) and Securities and Collateral (AMI-SeCo) of which ICMA is a member.

- The last meeting was held on 20 November, focusing on finalising the *Report on the use of DLT in issuance and post-trade processes*, as well as the modus operandi of the FinTech-TF going forward.
- The report explores the use of DLT for recording securities and implications for the securities lifecycle, including issuance, corporate actions, custody, clearing and settlement. It outlines regulatory, governance and interoperability considerations, as well as four fundamental models of using DLT, amongst other points. The report is due to be published in early 2021.
- Going forward, the ECB will no longer be able to host the secretariat for this group. Alternative options are being considered, which may involve national central banks of the Eurosystem.
- For a more detailed overview of the latest FinTech developments, please also have a look at ICMA’s latest FinTech newsletter.

5) **Update from the ERCC Operations Group**

ERCC Ops co-chairs Nicholas Hamilton and James Upton provided an update on recent discussions in the ERCC Operations Group. James Upton covered the ongoing work on intraday liquidity, which
is making good progress. On 25 November, the ERCC Ops Group held a joint meeting with the ERCC’s Best Practice Working Group to review a set of best practice recommendations which have been developed on the back of the intraday liquidity discussions. The proposals relate to different intraday liquidity drivers and tools that have been identified, including shaping, partial settlement and hold and release functionality. The proposals have been agreed and will be incorporated into the next version of the ERCC Best Practice Guide. Separately, the intraday liquidity analysis continues. In order to gather more data to support the analysis the sub-group has been in discussions with the ECB and has requested more granular settlement data. The ECB has been very supportive and a response is expected in early 2021.

Nic Hamilton updated members on recent discussions in the ECB’s AMI-SeCo and related sub-groups, covering in particular the latest semi-annual AMI-SeCo meeting which was held on 2-3 December. Mr. Hamilton noted the important overlap between the AMI-SeCo agenda and the ERCC’s work and the good opportunities for collaboration, in particular in terms of data. A good example is an ad-hoc working group set up by AMI-SeCo to look into settlement efficiency which is closely related to CSDR implementation but also many aspects of the intraday liquidity work. In other news, the go-live of the Eurosystem Collateral Management System (ECMS) has been delayed by 1 year to November 2023. The timeline of the related collateral management harmonisation work has been adjusted accordingly by 12 months. Mr. Hamilton also noted two important recent outages that the T2S system experienced in the past months. The ECB has pro-actively followed up on these incidents and has undertaken in-depth analysis on causes and possible remedial actions.

6) **Repo best practices**

Sylvain Bojic updated members on the latest discussions within the ERCC’s Best Practice Working Group. Apart from the joint meeting with the ERCC Ops Group to review recommendations related to intraday liquidity management (see above), the Best Practice Working Group held another meeting on 2 December to focus specifically on possible best practices in relation to the compensation for settlement fails with negative interest rates. This remains a contentious issue and, for the time being, it has not been possible to agree a solution that is supported by a sufficient majority. Previous recommendations had been circulated to the wider membership for consultation, but the result have shown a divergence of views that seems difficult to bridge. In terms of next steps, members suggested that ICMA should prepare a note to clearly set out the options in terms of best practice as a basis for deciding the appropriate way forward.

7) **Legal update**

Lisa Cleary updated members on the latest legal developments discussed by the ERCC’s Legal Working Group. The 2021 legal opinion updates are under way and should be available within the usual timeline. Separately, a more detailed audit is planned to assess whether the current coverage of GMRA counterparty types is appropriate.
Members had a short discussion on the usage of protocols in the repo space, as adherence to the existing GMRA 2011 protocol remains limited. In this context, Gareth Allen raised a question about the transition to risk-free rates and more specifically the need for firms to update references in their GMRA Annexes to benchmark rates applicable to bilateral cash margins. It was agreed that ICMA should produce a short note to set out the issue and the related options in more detail, as a basis for further discussion.

8) Regulation

a) CRR

- **LCR**: Romain Dumas introduced a short slide deck explaining a potential issue that CS has identified in relation to the implementation of the Liquidity Coverage Ratio. More specifically, there is a concern with the reading of related BIS FAQ 27 (implemented as LCR40.79) which seems to suggest that substitution rights in the context of tri-party repo should not be taken into account when measuring liquidity inflows arising from collateral downgrade transactions where the posting leg is in the form of triparty. Mr. Dumas explained the issue based on a concrete example, setting out three possible approaches. Members briefly discussed the issue and requested more time to review this internally. The issue will be reconsidered at the next Committee meeting.

- **Large exposures**: Andy Hill introduced a concern that a few German ERCC members have flagged to us and which has already been raised with the Commission in a letter initially submitted in January. The letter raises two questions in relation to the revised Large Exposure regime under CRR 2, specifically the mandatory substitution approach which is due to apply as of June 2021. Members took note and will discuss internally. The issue will be reconsidered at the next meeting in January.

b) CSDR

Andy Hill updated members on the latest developments in relation to CSDR mandatory buy-ins, in particular the [targeted review consultation](#) launched by the Commission on 8 December. As anticipated, the consultation covers all the key CSDR provisions, including settlement discipline. This is therefore a key opportunity to reiterate the industry’s major concerns with the mandatory buy-in provisions and a chance to hopefully achieve some fundamental changes. The Commission has been very clear that they expect any comments to be supported by quantitative evidence. Data will therefore be a crucial for the ICMA response, in particular more granular settlement fail data would be extremely helpful. ICMA will reach out separately to the ICSDs to discuss how we can collaborate on the ask. The deadline to respond to the consultation is 2 February.
c) **SFTR**

Alex Westphal provided a brief update on the latest SFTR developments. On 12 October, the buy-side successfully started reporting under SFTR. While most firms are now actively reporting, members continue to be very actively engaged in the ERCC’s SFTR TF. The group continues to monitor closely any reporting issues and has drawn up an issues log which has been shared with regulators and feeds into the ongoing discussions in relation to best practices. Mr. Westphal highlighted three issues that have dominated recent discussions in the Task Force. The reporting of settlement fails continues to be a contentious issue, as ESMA has insisted that firms report fails despite the numerous practical problems that have been pointed out to ESMA. The implications are still being considered. Another key issue has been the preparation for the end of the Brexit transition period, which will see a split of SFTR into an EU and a UK version. The group has been reviewing what this means for reporting firms and included detailed guidance in the ICMA SFTR recommendations. Finally, a related topic that has re-emerged recently is MiFIR transaction reporting, in particular the obligation to report repos with EU central banks under MiFIR rather than SFTR. On 24 September, ESMA launched a consultation on MiFIR transaction reporting and reference data in the context of the broader MiFID II/R review. This was an opportunity to reiterate our concerns with the current approach and to urge ESMA in our consultation response to remove all SFTs from the scope of MiFIR reporting (see Q29).

d) **BRRD 2**

Lisa Cleary updated members on the latest discussions in relation to the review of the Bank Recovery and Resolution Directive (BRRD), which continues to be a concern, in particular given the extremely short implementation timeline attached to the proposals. The issue continues to be considered within the Legal Working Group and a request for clarification on the matter has been sent to the EBA, who have not responded yet.

e) **Other regulatory updates**

No further regulatory issues were raised.

9) **AOB**

- **ERCC elections 2021**: The procedure for the annual elections to the ERCC Committee is about to be launched. As a first step, the call for nominations will be circulated this afternoon to the Named Repo Contacts of each ERCC member firm. The deadline for nominations will be 12 January 2021. Subsequently, the electronic elections will open on 26 January for two weeks, so that the new Committee can hopefully be announced by mid-February.
• **ERCC applications:** Members approved three new applications to join the ERCC received from the following ICMA member firms:
  o DekaBank Deutsche Girozentrale, Frankfurt
  o Standard Chartered Bank, London
  o TransFICC Limited, London (as an associate member)

• **Next meeting:** The next meeting will be held on 27 January.