

Minutes of the European Repo Committee meeting held on 10 November, 2015 in London

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| Present: | Mr. Godfried De Vidts Mr. Daniel Bremer Mr. Eugene McGrory Mr. Grigorios Markouizos Mr. Ronan Rowley Mr. Andrea Masciovecchio Mr. Nicola Danese Mr. Andy Wise Mr. Sylvain Bojic Mr. Richard Hochreutiner Mr. Gareth Allen Mr. Eduard Cia Mr. Michel Semaan | ICAP (Chairman) Bank of America Merrill Lynch BNP Paribas Citigroup (Vice Chair) Deutsche Bank Intesa SanPaolo J.P. Morgan Morgan Stanley Société Générale Swiss Re UBS Limited UniCredit Bank (Vice Chair) |
| On the phone: | Mr. Tony Baldwin Mr. Romain Dumas Mr. Francois-Xavier Bouillet Mr. Nicholas Hamilton Mr. Matthew Cattee Ms. Claire Davis Mr. Andy Dyson | Daiwa Capital Markets Credit Suisse Goldman Sachs J.P. Morgan (ERC Ops Group Chair) Credit Suisse ISLA ISLA |
| Also Present: | Mr. Peter Schmidt Mr. John Edwards Mr. Oliver Clarke Mr. Pierre Khemdoudi Mr. Lee Bernini Mr. Richard Comotto Mr. David Hiscock Mr. Leland Goss Mr. Paul Richards Ms. Lisa Cleary Ms. Lalitha Colaco Henry | Commerzbank BrokerTec (for item 1 only) MTS (for item 1 only) Markit (for item 2 only) Markit (for item 2 only) ICMA Centre ICMA ICMA ICMA ICMA ICMA (Secretary) |
| Apologies: | Mr. Michael Manna Mr. Andreas Biewald Mr. Jean-Michel Meyer Mr. Andy Hill | Barclays Commerzbank HSBC ICMA |

Welcome by the Chairman

The Chairman warmly welcomed the Committee to ICMA in London.

1. Update on RFR

Mr. Edwards said that the RepoFunds Rate (RFR) comprises a series of daily euro repo indices comprising RFR Germany, RFR France and RFR Italy. The indices are based on robust volumes of trades calculated from trades executed on either the BrokerTec or the MTS electronic platforms and which are centrally cleared. Each index is calculated with repo trades that use as collateral sovereign government bonds issued by the relevant country only. All indices are denominated in euros. All three indices are published on Bloomberg and Reuters and they are registered with ISDA and use ISDA definitions.

Pan-Euro RFR, which is a single secured one-day fixing for euro sovereign repo was launched in July 2014. It is made up of all applicable euro sovereign markets. The total average daily volume is approximately €225bln (based on May 2014, pre-filter and single counted). Average daily trades are in excess of 10,000. It is planned that the Pan-Euro RFR be registered with ISDA and use ISDA definitions. Currently, three banks have sponsored the Pan-Euro RFR, so a further two sponsoring banks are needed in order to complete the registration. For any banks that are interested, registration consists of a basic, one-page document. There is significant political importance to ensuring that the Pan-Euro RFR becomes fully operational.

There is also strong interest in developing an OIS market based on RFR. A significant amount of work has already been done on this initiative. This initiative seeks to give the market comfort about pricing. However, the CCPs need to demonstrate that there is some underlying liquidity before they will clear the product. Swapclear has been involved in the development of the OIS. There have also been discussions with EMMI as a Benchmark Administrator. In this regard, the University of St. Gallen has carried out a significant amount of analysis. It is recognised that there needs to be scope to include other data providers that meet the same quality standards. It is anticipated that the clearing of RFR OIS will be ready sometime next year, the trading of these contracts bilaterally is possible today.

Mr. Edwards also said that their RFR Sterling Index has been presented to the Bank of England's working group. They are currently back-calculating the Sterling Index to January 2006 and accordingly, it is seen as being more useful than RONIA.

2. Presentation by Markit

Mr. Khemdoudi said that the Markit securities finance (MSF) dataset covers more than \$15 trillion of global securities lending. It includes more than ten years of history with over three million intraday transactions. MSF's data is sourced directly from market practitioners. Currently, data on securities lending is in the region of US\$400 billion of funding notional (approximately 80% of the market) and Markit expect that by the end of the year this will have increased to US\$ 600 billion.

MSF is now developing a new offering which seeks to create a holistic secured funding dataset focusing on repo so that they can produce an offering similar to what already exists for securities lending. MSF is currently gathering information on repo which will include repo trade data such as underlying collateral, size, term structure, maturity and margin/haircut. The key benefits of developing such a dataset include the ability to (i) quantify the size and durability of the secured funding market; (ii) monitor and benchmark funding book structure against the market; (iii) satisfy the demands of risk managers and regulators; and (iv) obtain data on market-related characteristics for defining HQLA.

Markit is also a leader in the field of regulatory reporting. If firms provide their data to Markit, Markit can ensure that it is appropriately reported for regulatory reporting purposes. Doing so means that firms are able to benefit from the aggregated data. The quality of the data will depend on how many firms sign up to the service.

2(a). FEMR and CMU

Mr. Richards said that one of the conclusions of the UK's Fair and Effective Markets Review (FEMR) was to set up a Fixed Income, Currency and Commodity Market Standards Board (FICC MSB) to raise standards. Mr. Scheck and Mr. Richards had recently made a presentation to the Standards Convergence Sub-Committee of the FICC MSB about the work done by ICMA to codify best practice in fixed income markets, including the ERC Guide to Best Practice in the European repo market (ERC Guide).

On the Commission's Capital Markets Union (CMU) initiative, Mr. Richards said that there are a range of different work streams including a call for evidence on regulatory burdens which impact the real economy and market liquidity. Mr. Hiscock and Mr. Hill will be working on the ICMA response and will need input from the Committee.

3. ERC Secured Benchmark Working Group update

The Committee discussed this topic but given (i) the inconclusive discussion which took place at the meeting, (ii) the further exchanges that took place after the meeting and (iii) the documents subsequently received from EMMI, the Chairman has suggested that this agenda item be tabled for further discussion at the next Committee meeting on 2 December 2015.

4. Minutes of the last meeting

The draft minutes of the last ERC Committee meeting, held on 2 October in Munich, were unanimously approved. The minutes will be published on the ICMA website.

5. European Repo Council General Meetings

The Chairman said that there had been a lot of positive comments about the regulatory updates that had been provided at the last General Meeting, held on 14 October. However, there had also been some comment that the regulatory updates were too lengthy. There was also a feeling that the general meetings in the last few years had all followed a similar format and that perhaps the Committee should consider changing the format for the next Annual General Meeting taking place

on 27 January in Luxembourg. The Chairman proposed that the next AGM should be made up of three panel sessions. The first panel, moderated by Ms. Natasha de Teran of SWIFT, will focus on the future of SFTs. The second panel, moderated by Mr. David Field of The Field Effect, will look at collateral management while the third panel, moderated by Mr. Donald Ricketts of Fleishman Hillard, will consider CMU and what it means for repo markets. Speakers for the third panel include Ms. Maria-Teresa Fabregas-Fernandez of the European Commission and Mr. Marc Bayle of the ECB. The Commission has made clear that the CMU initiative is looking at long-term structural changes to markets. It is hoped that the Panel will be able to discuss issues such as improvements to the settlement bridge between the ICSDs, those Giovannani barriers that have still to come down and the flow of money to the ECB instead of to the real economy as a result of QE. The January 2016 AGM will not include a regulatory update, save for any important new items.

6. ICMA Competition Law Guidelines

Mr. Goss reminded the Committee that UK and EU competition law prohibits anti-competitive practices and that ICMA members, committees and working groups should be alive and sensitive to compliance with relevant competition law. Examples of types of behaviour include, but are not limited to (i) the fixing of prices, costs, fees, rates, etc. (ii) agreements to limit or restrict business or access to markets and (iii) allocating markets or customers. ICMA has recently updated its guidelines on competition law and the guidelines can be found on the ICMA website.

6(a). GMRA tri-party annex

Ms. Cleary said that some time ago interest had been expressed in developing a buy-side annex to the GMRA. To this end, ICMA had set up a working group to develop an annex for corporates and buy-side participants but the project had lost momentum as a variety of regulatory issues had taken precedence. She sought views from the Committee about whether there was still interest in taking this project forward. The Committee felt that there was considerable merit in developing a standardised buy-side annex and urged Ms. Cleary to proceed accordingly.

7. Corporate Actions

Mr. Cattie said that there had been a number of incidents in the past few months arising from the way corporate actions are dealt with. There have been disputes with counterparties about who has the right to exercise a right arising from a corporate action. It was queried whether the GMRA should be amended to clarify this point but the Committee cautioned that such an amendment might undermine the characterisation of the GMRA as a title transfer collateral agreement (TTCA) notwithstanding certain provisions in the Equity Annex of the GMRA. The rights in the underlying collateral belong to the buyer as the legal owner of the collateral during the terms of the repo. It was agreed that the seller should carefully consider lending securities for which they want to be able to exercise a right arising from a corporate action.

8. Treatment of claims on failed repos

Mr. Comotto referred to item 3 in the *Summary of proposed changes to the ERC Guide* circulated to the Committee prior to the meeting. In respect of late payments, Mr. Comotto said that as he

understood the problem some parties are seeking to reduce the size of the late payment on the grounds that the interest rates that should apply to the late payment are negative. However, it appeared that there is another problem in the desire that when one side has been charged an overdraft rate by an ICSD arising from a late payment, that such a charge should be passed on to the counterparty. The former problem is already addressed in the Guide but it was agreed that the ERC Guide is not sufficiently clear because it refers to special repos or to the buy/sell back reinvestment rate on interim coupons and some counterparties refuse to apply negative rates on cash collateral on the basis that the GMRA is not covered by the ISDA negative interest rate protocol. Accordingly, the ERC Guide will be amended to provide that if an index such as Libor or Eonia has been included in Annex 1 and rates become negative that the counterparties should be prepared to pay/receive negative interest payments. Mr. Comotto will produce a draft Recommendation in advance of the next Committee meeting.

9. Implementation of standard dates for term GC trading

The Chairman said that a Council member had queried whether standardised dates (IMM style) could be set for term GC trading. Doing so would facilitate repo netting and thus optimise balance sheets. While it was felt that setting standardised dates for term GC trading was a good idea, it was felt that it should not be for the Committee to set the dates; rather this should be something decided through evolving market practice, driven by firms acting to bilaterally optimise their netting. Moreover, setting standardised dates might also concentrate risk on those dates, which was to be avoided.

10. OFR Working Paper

Mr. Wise said that there had been a recent article in the Financial Times about foreign banks operating in the US short-term debt markets which are allegedly “window-dressing” their accounts, according to an [OFR Working Paper](#). According to the OFR, such banks are routinely cutting about \$170bn of balances at the end of each quarter to appear safer and more profitable. It was agreed that the article was unhelpful. The Committee took notice of the issue and the lack of convergence on accounting standards at a global level. It was noted that acting in accordance with regulations should not be criticised as “window-dressing”, which should rather be considered a matter of deliberately seeking to conceal something which regulation would not allow.

11. CCP interoperability

The Chairman said that Mr. Benoît Cœuré had given a [speech on the interconnectivity between CCPs](#) at the 2 November 2015 ESRB Workshop on CCPs Interoperability Arrangements. In the speech, Mr. Cœuré recognised that interconnectivity between CCPs may improve market efficiency but at the same time may amplify systemic risks. The Chairman had been unable to attend the workshop but had subsequently been asked by the ESRB to provide the ERC’s view on this issue.

The Committee felt that, particularly given the possibility to enhance netting, some instances of increased interoperability between CCPs could work well, whereas others risked proving to be sub-optimal. It was also noted that generally in normal market conditions increased interoperability would be beneficial and could increase liquidity, but in a stress scenario risks might be increased. Robust fire walls would need to be in place in order to prevent contagion,

across both CCPs and products, and control risks. Mr. Hiscock agreed to draft a letter to the ESRB setting out the Committee's views.

11(a). Changes to ICMA membership

The Chairman said that the ICMA Board is considering associate member involvement. Consideration is being given to amending ICMA's statutes to allow exchanges, trading platforms and clearing and settlement institutions to become full members, given their increasing importance in the international capital market. The ICMA Board is seeking feedback before deciding whether to take the proposal forward at the ICMA AGM in May. Should this proposal go ahead, the types of firm that could stand for election to the ERC Committee would be broadened. The Committee noted that there are a wide variety of different participants in the markets and without some of these participants the markets would not be able to function. It was generally agreed that, as markets continue to evolve, it should prove advantageous to widen the potential membership of the ERC Committee; recognising that the election of any individual to the ERC Committee would continue to be determined by the preferences of the ERC's members.

12. ICMA ERC Guide to Best Practice in the European Repo Market

The Chairman said that many in the market had found the ERC Guide to be very helpful and ASIFMA has incorporated large parts of it in the *ASIFMA-ICMA Guide on Repo in Asia*. The ERC Guide needs to be kept up-to-date and accordingly it is anticipated that it be revised twice a year. The Secretary has been tasked with taking the review process forward, with Mr. Comotto providing technical expertise.

Mr. Comotto said that a paper on repo partialling had been circulated to the Committee. The ERC Operations Group is in favour of encouraging the partialling of failed repo purchases and to strengthen the current wording in the ERC Guide to make it best practice for receiving counterparties to accept partial deliveries in case of repo transactions that fail to settle on Intended Settlement Date. The Committee agreed that the ERC Guide should be amended as suggested.

Item 2 in the *Summary of proposed changes to the ERC Guide* concerns whether the ERC Guide should recommend margining the replacement cost of forward repos and non-forward repos between transaction date and purchase date. Amending the ERC Guide in this way would bring it into line with US market practice and the approach taken by the CCPs. The Committee recognised that this would involve an extensive systems change for a lot of firms. However, best practice should be to margin the replacement cost. It was also noted that the ERC Guide should include, as best practice, the margining of failed trades.

On item 4, the Committee also agreed that, in relation to the notice period for the termination of open repos, the ERC Guide should recommend that market practice should be to notify one day sooner than the conventional settlement period. Notably, this differs from paragraph 3(d) of the 2000 GMRA which provides that demand for termination shall be made "not less than the minimum period as is customarily required for the settlement or delivery of money or Equivalent Securities". Regarding the management of exposure thresholds (item 5), the Committee agreed that the repo market should adopt the approach taken in the Australian best practice guide (which largely follows the ERC Guide) which is to recommend that where parties have agreed exposure thresholds and minimum transfer amounts, they eliminate exposures every quarter.

On item 6, regarding adopting the approach apparently taken in ISDA's Credit Support Annex to allow the disapplication of an exposure threshold where the in-the-money party is holding gross margin from the out-of-the money party, it was agreed that Mr. Comotto should seek further clarification about the underlying issue. Regarding item 7 (agreeing details about pre-agreeing the method for calculating cash compensation) the Committee took the view that this should be postponed until there is further clarity on the CSDR Level 1 and 2 texts. Finally, the Committee agreed that the ERC Guide should make clear that the exposure threshold and minimum transfer amount are two different concepts (item 8) in line with the draft circulated prior to the Committee meeting. It was accepted that the next iteration of the ERC Guide will not be published till early next year.

13. ERC Operations Update

Mr. Hamilton said that the ERC Operations Group had focused on several areas, including providing input to relevant discussions about updates to the ERC Guide. On trade matching and affirmation (TMA), the final template of matching fields and an associated Glossary of terms has now been agreed between the working group and several post-trade vendors; and the Group would continue to publicise the template and associated definitions with the industry and the vendor community. The agreed TMA template seeks to capture all the fields required for regulatory compliance purposes, including regulatory initiatives on SFT reporting and CSDR settlement discipline. The aim is to turn use of the template into market best practice by both sell-side and buy-side. The TMA template is seen as an important first step towards developing an efficient post-trade operating model for the repo product – the aim of the “Join the dots” initiative. This work was progressing well. Flow diagrams are being developed to illustrate the processing flows and actors involved and also identify the relevant requirements for each flow. Work will also be needed to develop and establish standardised messaging formats including work on Legal Entity Identifiers (LEIs), Unique Trade Identifiers (UTIs) and Unique Product Identifiers (UPIs). Work is also taking place, led by Mr. David Laredo, to review market conventions relating to repo confirmations in order to identify redundancies and improve the efficiency of the process.

14. NSFR

This item was postponed to the next meeting.

15. CSDR

The Chairman said that AFME and ICMA had met with ESMA on 9 November. The meeting had been very encouraging and discussions with ESMA regarding the Level 2 measures were on-going.

16. Other agenda items

A number of other agenda items, mostly regarding regulatory developments, were postponed to the next meeting.

17. AOB and upcoming dates

Mr. Semaan thanked the Committee for their support and hoped that he would return to the Committee in due course. On behalf of the Committee, the Chairman thanked Mr. Semaan for all his efforts and wished him well for the future.

Future **European Repo Committee meetings** have been scheduled as follows:

- (1) **2 December** – 15:00 – 18:00 GMT, hosted by ICAP in London (2 Broadgate, London, EC2M 7UR) followed by Christmas drinks.

Other Repo dates:

- **European Repo Council Annual General Meeting - 27 January 2016, 4:30 – 7:30 CET**, hosted by Clearstream in the margins of their annual Global Securities Financing Conference in Luxembourg.

The Chairman:

The Secretary:

Godfried De Vidts
2 December 2015

Lalitha Colaco-Henry