International
Capital
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Association

ICMA

Minutes of the European Repo Committee meeting held on June 18, 2013 in Prague

Present:	Mr. Godfried De Vidts	ICAP (Chairman)	
	Mr. Simon Kipping	Bank of America Merrill Lynch	
	Mr. Stephen Malekian	Barclays Capital	
	Mr. Eugene McGrory	BNP Paribas	
	Mr. Grigorios Markouizos	Citigroup	
	Mr. Andreas Biewald	Commerzbank	
	Mr. Romain Dumas	Credit Suisse	
	Mr. Ronan Rowley	Deutsche Bank	
	Mr. Olly Benkert	Goldman Sachs	
	Mr. Jean-Michel Meyer	HSBC	
	Mr. Stefano Bellani	JP Morgan	
	Mr. Edward McAleer	Morgan Stanley	
	Mr. Ulf Bacher	Newedge Group	
	Mr. Michel Semaan	Nomura	
	Mr. Sylvain Bojic	Société Générale	
	Mr. Guido Stroemer	UBS	
	Mr. Harald Baensch	Unicredit Bank AG (for Mr. Cia)	
On the phone:	Mr. Tony Baldwin	Daiwa Capital Markets	
	Mr. Andrea Masciovecchio	Intesa SanPaolo	
	Mr. Tony Platt	Morgan Stanley (Co-chair, ERC Ops)	
Also Present:	Mr. Pascal Morosini	Clearstream	- Item 6
	Mr. Jean-Robert Wilkin	Clearstream	- Items 3 - 6
	Mr. Saheed Awan	Euroclear	Items 3 and 4
	Mr.Cedric Gillerot	Euroclear	Items 3 and 4
	Mr. Stefan Knoblauch	Eurex Clearing	Items 3 and 4
	Mr. Richard Comotto	ICMA Centre	
	Mr. David Hiscock	ICMA	
	Mr. John Serocold	ICMA (Dial-in)	
	Ms. Lisa Cleary	ICMA	
	Ms. Charlotte Bellamy	ICMA (Secretary)	
	Ms. Katie Kochmann	ICMA (Dial-in)	
	Mr. Kevin McNulty	ISLA	
Apologies:	Mr. Eduard Cia	UniCredit Bank AG	
	Mr. Nicholas Hamilton	JP Morgan (Co-chair, ERC Ops)	

1. Minutes of the previous meeting

The draft minutes of the previous ERC Committee meeting held on May 7, 2013 are approved, subject to a correction to the attendance list which will be made in the final version.

2. Financial Transaction Tax (FTT)

Mr De Vidts leads the discussion by noting the uncertainty surrounding the FTT proposals and the apparent lack of understanding by some authorities and regulators as to the meaning and importance of liquidity, collateral and the repo market.

A discussion follows. Alternative approaches to the dissemination of the ERC's objections to the FTT are discussed. It is noted that individual market participants are attempting to clearly illustrate the impact of the FTT proposals on liquidity, which seems to be a message to which Central Banks and EU member state Treasuries are listening. However, it remains unclear to what extent the aim of the FTT is (i) to raise revenue, (ii) to reduce market size and/or (iii) to re-construct short term financing, including the repo market. Governments seem sensitive to the impact of FTT on their ability and cost to issue government bonds, but the impact on the corporate bond market should also be considered.

Mr Hiscock re-iterates that there is still great uncertainty around the FTT, but it seems that the message of the repo market is starting to make an impact. Nevertheless, there is still work to be done and, given that this is such an important issue, market participants (including the buy-side) should continue to be vocal on the impact of FTT on the real economy and take every opportunity to continue to educate regulators and other stakeholders on the implications of FTT. This issue will also be discussed at the next meeting of the ICMA Public Sector Issuer Forum, on June 24.

3. Update on interoperability and extension of cut-off times for repo

Mr De Vidts introduces the discussion by updating the committee on the constructive dialogue that has taken place with Euroclear, Clearstream and Eurex Clearing to progress this project, which is particularly important ahead of the launch of T2S. A draft Memorandum of Understanding (MoU) between the ERC, Clearstream Banking S.A., Clearstream Banking AG, Euroclear Bank SA/NV and Eurex Clearing AG relating to triparty settlement interoperability has been drawn up. One of the aims of the project is to establish a comprehensive framework for triparty settlement interoperability, including achieving a trading cut-off time of 16:00 CET; and with trading during a further window after 16:00 CET only in respect of permitted bi-laterally agreed treasury management transactions (BATM). It is envisaged that there will be guidelines relating to BATM transactions, to be developed with the EBF analogous to existing guidance for unsecured treasury management trades, and BATM transactions will need to be flagged as such by the banks in order to benefit from the extended deadline. In order to inform the next stage of the project, Mr Comotto, with assistance from Mr Hamilton, is preparing a study of the flow of commercial bank money to central bank money, which will be finalised and presented to a joint ERC/EBF/ECB working group in September 2013.

The terms of the MoU are reviewed and a discussion follows. Certain queries as to the practical impact of the MoU are addressed. The Committee approves the MoU. Mr De Vidts explains that the MoU is now finalised and a date for signing will be set as soon as possible.

4. Consistent fails approach

It is reported that a letter was sent by the ERC to EACH and ECSDA in May 2013 regarding a consistent fails approach. Mr De Vidts notes that there is concern surrounding the proposed discipline provisions set out in the CSD Regulation (Articles 6 and 7), which make no distinction in respect of the important differences between equity and fixed income markets. There is discussion of the difficulty in obtaining focus on this issue with other market participants, which has made it difficult to successfully have the ERC's message on this proposal be recognised in the European Council's deliberations. It is important that the proposal for a mandatory buy-in procedure is considered in the light of actual data on settlement fails. In this regard, it is decided that the ERC will request data on settlement fails from relevant parties. Supported by this data, a further letter will be prepared to clarify the ERC's views on the need to firstly complete major steps in the development of the European securities markets infrastructure and then apply proportionate discipline measures in case a fails problem exists. Mr De Vidts will reach out to a broad range of fixed income market participants with a view to them becoming co-signatories of the letter.

5. LCH.Clearnet €GCPlus

It is reported that a new General Collateral clearing service, €GCPlus, will introduce trading of Euro cash liquidity supported by baskets of ECB eligible collateral, with the possibility of refinancing at the Banque de France and collateral management supported by Euroclear. This product is due to launch by the end of October 2013 and will be cleared by LCH.Clearnet SA. Mr De Vidts also notes a recent meeting with a French delegation and the Banque de France, at which their project to securitise credit claims via a SPV structure was discussed. As the €GCPlus project was initiated as a domestic initiative, Mr De Vidts expressed his view on the importance of developing this for the wider market and not creating any further liquidity silos. This concern has been acknowledged and the project will be suitably adapted.

A discussion follows relating to the arguments for and against the use of CCP clearing in the European repo market, noting contrasts with the case of the US repo market.

6. Clearstream Repurchase Conditions (CRC)

Mr Morosini describes the CRC, which is a simplified master agreement for triparty repo transactions encompassing Clearstream's terms and conditions in its role as triparty agent. Ms Cleary notes that the CRC is not a substitute for or related to the GMRA. The CRC differs significantly from the GMRA because (i) the GMRA is governed by English law and the CRC is governed by Luxembourg law, (ii) the CRC has not been reviewed or approved by ICMA and (iii) the CRC is a simplified, standardised multilateral agreement which would not be negotiated on a bilateral basis. Mr Morosini agrees that the CRC is not intended to be a substitute for the GMRA and is aimed at a limited user group. Ms Cleary agrees to look at the CRC and report back to the Committee on its form and content.

7. FSB Shadow Banking workstream (including trade repository)

Work in this area continues. Mr De Vidts notes that there is still debate among academics as to repo "run risk". The ECB is moving towards a European repo trade database, drawing upon information from a number of sources. This would differ from a repo trade repository populated by firms with a record of all applicable transactions. The desirability of having one trade repository rather than numerous different trade repositories and databases is noted. Final recommendations from the FSB are still expected in September 2013.

8. Use of different security types as repo collateral

Mr Comotto raises the question of acceptability of (i) FRNs; and (ii) ECP as repo collateral. The Committee notes that there is no problem with accepting FRNs in principle but ECP is not widely accepted in the market, primarily because it is not as easy to liquidate should the need arise.

9. RepoFunds Rate (RFR) and Eurepo

It is reported that Eurepo will continue as long as 12 or more banks input and that currently 16 banks are doing so. RFR is considered to be an encouraging new development. Whilst presently limited in scope and not a pure GC rate because it includes specifics, it is considered to be the best available alternative given the current market. Desirably it is anchored to actual market transactions and hence is an accurate reflection of the market. It is suggested that a working group is formed, to focus on the identification of the best possible benchmarks reflective of the European repo market.

10. ERC Ops Group update

Mr Platt reports that the ICMA ERC Ops T2S Forum will be held on June 20 and will include a discussion forum to probe and advise on the impact of T2S on the repo market. The ERC Ops Trade repository working group will next meet on July 1. There is still much uncertainty in this area in respect to the shape and form of the database or trade repository. The Trade Matching sub-group is now chaired by Ms Camille McKelvey from Citi. There is continued engagement and discussion with interested parties. The number of potential service providers with interest in the repo automated trade matching space continues to grow. The group remains neutral and acts as a guide to the market requirements. The next ERC Ops meeting will be on July 15.

11. Repo Guide to Best Practice

Mr Comotto raises certain queries on the draft Repo Guide to Best Practice, which are answered by the Committee. Mr Comotto will proceed to finalise the Guide, and notes that the ICMA Margining Guidelines and certain other repo recommendations will be appended to the Guide, meaning that there will be one point of reference for the repo market.

12. <u>Legal Update</u>

Ms Cleary reports on recent legal work, including the publication of the 2011 Global Master Repurchase Agreement Protocol (Revised) and developments of the GMRA working group, which is working to produce FATCA language for the GMRA.

13. <u>Asset encumbrance</u>

Mr Comotto introduces the discussion by noting that while the ERC has decided not to respond to the EBA's consultation on asset encumbrance, there are a few points which require consideration, including (i) the concept of asset encumbrance as it applies to the repo market; (ii) the inaccurate statement that re-use and rehypothecation do not have distinct legal interpretations; and (iii) the fact that the consultation seems to have started from a pledge perspective, and appropriate adjustments for the repo market have not been made. It is suggested that a small delegation should meet with the EBA on behalf of the ERC, with a view to establishing a practical, educational and collaborative approach to this issue, and to understand the EBA's aims for the data that will be collected.

14. <u>Regulatory Update</u>

Mr Hiscock and Mr De Vidts briefly commented regarding the latest on various regulatory files not yet discussed in the meeting, including noting that (i) there still remains no appetite for the ERC to become involved in the development of locate agreements for purposes of the short selling regulation; and (ii) the ERC does not intend to take an active stance in the continued development of rules regarding UCITS and money market funds, albeit that these include constraints on the use of repos by such funds.

The meeting is closed at 17:30 CET.