

Minutes of the European Repo Committee meeting held on 3 March, 2015 in London

Present:	Mr. Godfried De Vidts	ICAP (Chairman)
	Mr. Constantino Toribo Garcia	Bankia
	Mr. Romain Dumas	Credit Suisse
	Mr. Andreas Biewald	Commerzbank
	Mr. Tony Baldwin	Daiwa Capital Markets
	Mr. Ronan Rowley	Deutsche Bank
	Mr. Michel Semaan	Nomura
	Mr. Sylvain Bojic	Société Générale
	Mr. Eduard Cia	UniCredit Bank
	Mr. Jean-Michel Meyer	HSBC
On the phone:	Mr. Guido Stroemer	UBS
	Mr. Simon Kipping	Bank of America Merrill Lynch
	Mr. Nicholas Hamilton	JP Morgan (ERC Ops Group Chairman)
	Mr. Patrik Karlsson	ICMA
Also Present:	Mr. Ed McAleer	Morgan Stanley (IRC Co-Chairman)
	Mr. Francois-Xavier Bouillet	Goldman Sachs
	Mr. Harald Bänsch	UniCredit
	Mr. Richard Comotto	ICMA Centre
	Mr. David Hiscock	ICMA
	Ms. Lisa Cleary	ICMA
	Mr. Leland Goss	ICMA
	Ms. Lalitha Colaco Henry	ICMA (Secretary)
	Mr. Kevin McNulty	ISLA
	Mr. Jean-Robert Wilkin	Clearstream (for items 1 and 2)
	Mr. Arnaud Delestienne	Clearstream (for items 1 and 2)
	Mr. Cedric Gillerot	Euroclear (for items 1 and 2)
	Mr. Edwin De Pauw	Euroclear (for items 1 and 2)
	Mr. Stefan Knoblauch	Eurex (for item 1)
Apologies:	Mr. Eugene McGrory	BNP Paribas
	Ms. Maria Arauzo Arranz	Caixabank
	Mr. Grigorios Markouizos	Citigroup
	Mr. Olly Benkert	Goldman Sachs
	Mr. Andrea Masciovecchio	Intesa SanPaolo
	Mr. Stefano Bellani	J.P. Morgan
	Mr. Thomas Wissback	Eurex (for item 1)

Welcome by the Chairman

The Chairman warmly welcomed the Committee to London and thanked HSBC for kindly hosting the meeting.

The Chairman noted that Mr. Ulf Bacher had resigned from the Committee as Newedge had been merged into Société Générale, who was already represented on the Committee by Mr. Sylvain Bojic. Additionally, Mr. Olly Benkert had also informed the Chairman that he was stepping down from the Committee. The Chairman thanked both Mr. Bacher and Mr. Benkert for all their efforts as Committee members over the years. It was also noted that Mr. Bellani would not be standing for re-election in the next election and that it was anticipated that there would be a number of new faces on the Committee going forward.

1. Triparty Settlement Interoperability (TSI)

The Chairman opened the discussion and noted that the recent Commission Green Paper on Capital Markets Union included a chapter on collateral. This should be seen as a way of prompting the ICSDs to move forward with greater interoperability.

On the subject of bridge enhancements, Mr. Delestienne said that it had been agreed that the objectives of enhancing the Bridge were to (i) maximise the settlement window between the ICSDs to support increased same-day and intra-day settlement activity; (ii) move settlement windows and deadlines as close as possible to domestic cut-off times; and (iii) support settlement interoperability for triparty repo products with Eurex GC Pooling. In doing so, it was important to keep in mind that settlement results in the mandatory window should be available to customers before the main currency cash cutoffs (EUR and USD) to ensure efficient cash management and in sufficient time to allow securities to be used within the ICSDs and in the relevant local market, including T2S for Europe. It was also important to limit the mandatory adaptation costs for customers. Since the end of February 2014, the ICSDs had agreed terms of reference and the scope of the project. They had held 28 workshops between March 2014 and February 2015 focusing on a top-down analysis of the areas for possible improvements with a particular emphasis on enhancements in the context of T2S, namely improved settlement deadlines and turnaround times. They had also consulted with clients to ensure that possible future enhancements would meet client needs.

The ICSDs entered full project mode for Phase 1 in September 2014, which aims to deliver (i) a significant improvement in input deadlines; (ii) the removal of the concept of optional versus mandatory settlement for Free of Payment instructions; and (iii) a reduction in the turnaround time, after 12:00, from between 60 – 120 minutes to between 35 – 90 minutes. Joint testing is planned for July 2015 with a confirmed launch date of 28 September 2015.

Mr. De Pauw said that for Phase 2, the ICSDs had come to an agreement on the matching model, consisting of matching results within 2 minutes (rather than the current 30 minutes) and the implementation of new matching fields. The ICSDs had examined various settlement models and

had concluded that no settlement model could achieve a turnaround time of 10 minutes or less, though they had identified two alternatives. The Euroclear proposal was based on existing infrastructure and could produce a turnaround time of 26 minutes on average while the Clearstream proposal was based on a rolling settlement model based on new infrastructure with a 21 minute average turnaround time. However, the latter would be more event-driven and would, from a Euroclear perspective, take nine months longer to develop, resulting in a delivery date towards the end of 2017, rather than Q1 2017. Mr. Delestienne confirmed that, from a Clearstream viewpoint, both solutions could be implemented by end of 2016, in line with the commitment made in the summer of 2014. Further bridge enhancements are still under evaluation such as (i) a further interoperability extension (for US day coverage) and changes to the night-time processing timeline; (ii) the introduction of extended deadlines for US zone currencies; (iii) bilateral cancellations and other adaptations arising out of the CSD Regulation (e.g. partial settlement); and (iv) market claims over the Bridge. These further enhancements are still subject to discussions between the two ICSDs and would also potentially impact the delivery timeframe.

Mr. Delestienne said that Clearstream's preferred route would be to invest in the best model, i.e. the one delivering most benefits to the market over the longer term. The Euroclear model is based on current infrastructure, which it will push to its maximum leaving no room for further improvements, and so is not sustainable in the longer term. Therefore, looking to the future, the ICSDs will have to eventually invest in a completely new infrastructure model. Mr. De Pauw explained that this was indeed the trade-off to be made: gaining 5 minutes in average settlement turnaround time versus a 9 month delay in time to market.

The Committee made it clear that both models (whether they have a 21 or 26 minute turnaround time) are unacceptable in the light of T2S which offers real-time settlement and is the new benchmark system. Moreover, both models would slow the GC Pooling mechanism considerably which would be completely unacceptable. The Committee asked why there was such a significant delay in turnaround times, when T2S will deliver real-time settlement. Mr. De Pauw said that each of the ICSDs currently operate a real-time settlement system, both of which have been operational for some years now and that ICSD interoperability with European CSDs is also expected to move towards real-time with T2S. However, the Bridge works differently with settlement happening across the two ICSD platforms.

Mr. Delestienne said that initially Clearstream had mooted the idea of real-time settlement with the ERC but this had been rejected because of the length of time it would have taken to develop and the ERC had insisted that the ICSDs work towards a 2015 deadline. It is unfortunate and regrettable that the agreed timelines for the current project have slipped. Real-time settlement at Clearstream Banking Luxembourg is currently achieved through very small batches throughout the day and, under the rolling settlement model, the ICSDs would aim to run settlement batches every 7-8 minutes to start with. Once this can be achieved reliably, the ICSDs would then try to increase the speed so that the time between batches can be reduced as much as possible and will eventually get as close to real-time as possible.

The Chairman stressed to the ICSDs that they will have to choose between the introduction of legislation forcing them to deliver real-time settlement within two years or voluntarily going forward with the development. There is a need for clear deadlines and a specific plan for delivery. The ICSDs agreed that they would produce a project plan, to be sent to the Chairman by 15 May. If they fail to do so, the Chairman will discuss a legislative solution with the European Commission.

On TSI, Mr. Gillerot said that the TSI parties had agreed a strawman model in June 2014, subsequent to which the TSI parties had conducted a market consultation to validate the model. Meetings had been held with eight ERC firms and GC Pooling users. The consultation had revealed that market participants felt that the model made sense but that it was limited to the Eurex Clearing GC Pooling product. Feedback that had been received regarding the expected increases in volumes for the GC Pooling product were quite conservative. It was noted that repo dealers and treasury departments had a different focus and sometimes there were diverging opinions on some of the assumptions supporting the model.

Mr. Knoblauch said that the next steps are to focus on firming up the detailed business requirements and build more detailed end-to-end scenarios. As in this ERC meeting the high settlement performance of GC Pooling and the long trading hours for same-day-front-leg-settlements has been emphasized as a key requirement, there is no need to review the maximum of 10-minute end-to-end turnaround time as it was suggested in some client meetings. After that, the TSI parties would define the testing strategy and market involvement before planning the migration to the GC Pooling TSI model and defining the legal and operational documentation. The TSI parties aim to deliver a detailed project scope definition, establish budget estimation and enter into a formal and legally binding co-operation agreement by December 2015. The TSI parties are aiming to deliver all the infrastructure upgrades required for clearing, Collateral Management Services, settlement (i.e. Bridge and T2S), asset servicing and reference data to support the proposed TSI model by mid-2017 (i.e. post-implementation of T2S wave 4). However, the date of mid-2017 is subject to realistic project planning, based on detailed requirements, Bridge enhancement delivery dates and IT delivery cycles. Mr. Knoblauch emphasised, that Eurex Clearing remains committed to the delivery of TSI. Mr. Wilkin noted that while both ICSDs are committed to delivering TSI, improvements must first be made to the Bridge.

The Chairman noted that the Commission is starting to debate the issues affecting the supply of collateral. Macroprudential regulation will increase the need for collateral and is impacting the availability of collateral. The Chairman noted that he has been contacted by the Commission to discuss these issues.

2. Credit Claims

The Chairman said that he understood that the Bundesbank will accept credit claims as collateral in the ECB's Quantitative Easing programme. Therefore, it will be possible to borrow bonds in exchange for credit claims. However, the ICSDs's noted that their project on credit claims had died. The Chairman stressed that there is now renewed interest in taking the project forward and so the ICSDs may want to revive the project.

3. Minutes of the previous meeting

The draft minutes of the last ERC Committee meeting, held on 12 January 2015 in Frankfurt, were unanimously approved and accordingly will be published on the ICMA website.

4. The ECB's Quantitative Easing proposals

The Chairman said that he expected that all the Committee members will have had talks with their own National Central Banks about the ECB's Quantitative Easing (QE) programme. Ms. Cornelia Holthausen of the ECB has agreed to provide the keynote address at the European Repo Council's AGM on 18 May.

On 22 January 2015, the ECB had set out in its supporting technical annex that “Holdings of securities issued by central governments, certain agencies established in the euro area and certain international or supranational institutions located in the euro area purchased under the expanded asset purchase programme will be eligible for securities lending.” Since sovereign bonds are the predominant form of collateral used in the European repo market, there are concerns about the way in which an expanded asset purchase programme would impact the market. The establishment of a securities lending facility in respect of these QE assets could significantly mitigate these concerns.

The Committee also stressed that there are many issues regarding the QE proposals that still need to be thought through and clarified. For example, there are worries regarding the lack of a centralised lending pool. Each National Central Bank will manage a securities lending facility (if any) in its own way without any thought to harmonisation. The ECB may also have no say on how the bonds may be re-used except for the small portion it can buy directly. Concerns were also raised regarding the need for documented agreements with all the National Central Banks. There may also be issues regarding wrong way risk - transactions may need to be considered carefully in order to ensure that any wrong way risk is neutralised. Sovereign immunity was also raised as an issue which may impact the Risk Weighted Assets (RWAs) of SFTs. Concerns were also raised regarding the mechanism to be used to transact securities lending. The Committee agreed to have a further discussion on this issue via conference call while a letter has been dispatched to Frankfurt regarding the need for a workable legal framework.

5. ERC Operations Group update

Mr. Hamilton said that the ERC Operations Group had been focusing on a number of areas. On trade matching and affirmation standards, the working group is close to finalising a template which will then be shared with vendors in order to encourage interoperability. The working group has also been looking at Legal Entity Identifiers and also the FpML protocol used in repo messaging in the Russian market. The working group is making good progress and hopes to receive vendor feedback by 18 May.

The ERC Operations Group is also looking at holding an industry event on repo life-cycle messaging. The group feels that it is critical that messaging is used that can distinguish between cash bond and repo trades due to the differing regulatory treatment accorded to the two asset classes under the Central Securities Depository Regulation (CSDR). The industry will need to change to differentiated messaging prior to the CSDR coming into force in 2017. Accordingly, it will be important to engage with all parties on how to take this issue forward. It is anticipated that the industry event will be held in April. The date and venue will be finalised shortly.

Regarding the Term DBV product, Mr. Hamilton said that the Group felt that account segregation should be mandated as problems regarding the return of collateral are arising in relation to omnibus accounts. However, there were different views about how this should be taken forward and there was some discussion about whether the ERC Operations Group should raise the matter with the Bank of England. The Term DBV product shows how important it is for providers to invest properly in product development, otherwise after launch the market will not use the product. It was agreed that the Chairman and Mr. Hamilton would send a letter regarding the Term DBV product to Ms. Sarah John, Head of Sterling Markets Division, Bank of England, in her capacity of the Chair of the Securities Lending and Repo Committee.

Mr. Hamilton went on to say that the ERC Operations Group had had a number of sessions with the ECB regarding the ECB's Money Market Statistics Reporting initiative (MMSR). In particular, the discussions had focused on the scope of reporting, which is currently applicable to the top 50 financial institutions, though it is possible that this scope will be extended to additional firms in the future. The ECB will be contacting the 50 affected firms in April.

6. ERC Secured Benchmark Working Group update

The Chairman said that the European Money Market Institute (EMMI) had only just circulated papers from the last meeting. He wanted to know if the Committee had comments on the draft "Repo rate dislocation study" prepared by Mr. Comotto.

There was some discussion about the extent to which the study could be extended to the Sterling market. It was felt that this might be possible but it was noted that the sterling market is already captured in the Ronia index. There would also be an issue about the extent to which it would be appropriate for EMMI to be compiling data on the Sterling markets.

It was also felt that the study would benefit from cooperation with ICAP Information Services (IIS) as they have all the necessary data and computing power to assess the impact of aggregating GC transactions and individual bond transactions. However, the Chairman noted that the ECB had wanted the study to be carried out by an independent academic, which is why Mr. Comotto has been suggested to be tasked with carrying out the study. It was agreed that Mr. Dumas would provide feedback to Mr. Comotto and it was concluded that the study should continue to be regarded as a work-in-progress.

7. Semi-annual repo survey

Mr. Comotto noted that the ECB had made clear that they would like the semi-annual survey to continue. However, the Committee was asked whether there should be greater granularity to the survey questions, which would bring it closer to what the ECB wants, at least until the Securities Financing Transactions Regulation (SFTR) comes into force in 2 – 3 years time. It was agreed that this issue should be discussed with the ERC Operations Group.

8. Legal update

Ms. Cleary reported on a proposal that the ISDA Resolution Stay Protocol be extended to cover repo and securities lending master agreements. Ms. Cleary noted that the ISDA resolution stay protocol was published in November 2014, in coordination with the FSB. The protocol is designed to contractually bind mutual adhering parties to resolution stay regimes in named or qualifying jurisdictions. Additionally it introduces a stay and overrides certain default rights under US insolvency regimes where none currently exist. The protocol currently recognises the resolution regimes of 6 'Home Authority' jurisdictions- France, Germany, Japan, Switzerland, UK and USA. Going forward, it will also recognise additional resolution regimes that satisfy certain FSB criteria relating to creditor protection safeguards.

Ms. Cleary understood from ISDA that the regulators of the Home Authority jurisdictions, along with the FSB, would like to extend the coverage of the ISDA Resolution Stay Protocol to repo and securities lending master agreements, in particular the GMRA, GMSLA, MRA and MSLA. This could be achieved via agreement specific modules to the ISDA protocol. The proposal was that ICMA coordinate and fund the development of such a module, which would then operate under the ISDA resolution stay protocol framework. Ms. Cleary noted that at this stage, ICMA had not

committed to any particular approach. This matter clearly requires discussion with the ERC committee and wider repo constituency. Ms. Cleary reported that ISDA have invited ICMA and ISLA to attend an ISDA working group meeting on 2 March, which the regulators will attend. Ms. Cleary's understanding is that this meeting will be to discuss new regulations to encourage wider adoption of stay provisions.

Whilst it may be counterintuitive to limit default rights, this is already happening from a legislative perspective- e.g. implementation of BRRD across Europe. In addition, there is now a regulatory appetite to enforce resolution stays on a contractual basis. Ms. Cleary suggested that in view of the timetable that the regulators were pursuing in this case, it was important that the market engage quickly and noted that an ICMA working group would be set up to further consider this matter.

Ms. Cleary asked the ERC committee for an indication of market interest in commissioning ICMA GMRA opinions for Georgia and Romania. The ERC committee discussed the matter but concluded that there was insufficient interest in extending opinion coverage to these jurisdictions.

9. Regulatory update

Regarding the CSDR, Mr. Hiscock said that ICMA had submitted its [response](#)¹ to the ESMA Consultation Papers for Regulatory Technical Standards (RTS) and Technical Advice under the CSDR on 18 February. On 19 February, ICMA published a [CSDR Mandatory Buy-in Impact Study](#)² which illustrates the premium that investors will pay for offer side liquidity based on the current RTS, as well as the retrenchment of market-makers for certain securities. The study received good press coverage and was also shared with regulators including ESMA and the Commission. A joint AFME/ICMA delegation then met with ESMA on 9 February and with CONSOB (the Italian regulator) on 24 February to discuss the AFME and ICMA recommendations related to buy-ins and cash penalties. Both regulators realise that the current RTS, making the CSD the centre of the buy-in process, do not work. They were surprised by the results and costs of the Impact Study and they think it is worth following up with the Commission to push for the 18 month delay in implementation – an idea which the Commission is not overly receptive to. The regulators also seem to accept that MiFID liquidity calibrations are not optimal for determining extension periods and they understand that SFT exemption thresholds need to include the possibility for deferral. The next steps will be continued advocacy at the Commission, Parliament and Council to highlight the negative impacts of the mandatory buy-ins on market efficiency and liquidity (which run counter to the intent of the Capital Markets Union proposals). Meanwhile, AFME and ICMA will determine whether it is still worth organising an industry workshop to agree the details and practicalities of an automated trading-level buy-in mechanism (as proposed in both responses), to help ESMA in the re-write of the RTS around buy-ins. The Chairman mentioned that he would reach out to Ms. Kay Swinburne, who is trying to garner support amongst other MEPs for the idea that the CSDR will not create a stable settlement environment.

Turning to MiFID, Mr. Hiscock said that ICMA's [response](#)³ to the ESMA consultation, submitted on 27 February, had been drafted from a cash bond perspective. However, in response to question

¹ Alternatively, see: <http://www.icmagroup.org/assets/documents/Regulatory/Secondary-markets/CSDR-Settlement-Regulation/ICMA-CSDR-Level-2-Consultation-Final-Response-190215.pdf>

² Alternatively, see: http://www.icmagroup.org/assets/documents/Regulatory/Secondary-markets/CSDR-Settlement-Regulation/ICMA--CSDR-Mandatory-Buy-ins-Impact-Study_Final-240215.pdf

³ Alternatively, see: <http://www.icmagroup.org/assets/documents/Regulatory/Secondary-markets/MIFID-II-CP---ICMA-Response---020315.pdf>

76 (which queries the transaction reporting of SFTs under MiFID) the ICMA response agrees that SFTs should be exempt under MiFID because they are covered by the SFTR. Mr. Hiscock went on to say that there is an ongoing discussion about the extent to which MiFID pre- and post-trade transparency requirements will apply to SFTs. ESMA has said that both MiFID pre- and post-trade transparency requirements will apply to SFTs traded on a trading venue (i.e. a Regulated Market (RM), a Multilateral Trading Facility (MTF) or an Organised Trading Facility (OTF)); but to avoid confusion in post-trade reporting from trading venues, it is proposed that reported SFT trades will be flagged. Where, however, an SFT is traded OTC there will be no pre-trade requirement and post-trade transparency will not be applied, on the grounds that SFTs are “non-price forming trades”. It appears that this is all equally true regardless of whether the collateral is equity or non-equity. However, the application of pre-trade transparency requirements for SFTs traded on a Systematic Internalised (SI) is less clear. The MiFIR text seems to require pre-trade transparency for bonds being traded on an SI. However, ESMA and the FCA seem to be suggesting that pre-trade requirements do not apply to SFTs when traded on an SI. Mr. Hiscock asked the Committee to provide feedback on whether this is an important point on which further clarification should be sought. Mr. Hiscock undertook to send an email to the Committee with further details.

On the SFTR, Mr. Hiscock said that there is continuing debate within the European Parliament and ICMA is working with ISLA to formulate approaches to MEPs to assist them in proposing amendments to the Parliamentary draft. In particular, one of the main points that has been raised concerns potential legal problems for title transfer collateral arrangements (TTCAs) regarding the Article 15 wording on re-use of collateral. This is currently being following up with MEPs as the European Parliament is keen to negotiate a compromise text by the end of March. Once the Parliament has agreed its position it will enter trilogue negotiations with the Council and Commission with a view to finalising the regulation in the second half of the year. This continues to be a very carefully and actively followed file.

10. ASIFMA – ICMA Asian Best Practices Guide for International Repo

The Secretary said that Asifma had circulated a draft of the Asian Best Practices Guide at the end of January and they had received a number of comments which they were in the process of incorporating into the next draft. As soon as Asifma circulates a new draft the Secretary will forward it to Mr. Stroemer and Mr. Comotto for their comments.

11. AOB and upcoming dates

The Chairman mentioned that the ICMA Secondary Market Practices Committee (SMPC) is considering a concept paper which sets out details of a market-driven initiative whereby participating MTFs or trading venues would provide regular ‘aged fails auctions’, on a designated day and time, at which dealers can attempt to cover specific short positions that are failing, or in risk of being bought-in. Dealers would provide the chosen participating MTF or trading venue with details of the security or securities they wish to bid for on the auction by a specific notification date. The MTF or trading venue would then provide the details of the securities to be included in the upcoming auction to the ICSDs, who would utilize their corporate actions notification mechanisms to inform holders of the relevant securities of the upcoming auction. This would provide holders with the opportunity to tender securities to the failing dealer via the MTF’s or trading venue’s auction mechanism. The Secretary undertook to send an email to the Committee with further details.

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

- (1) **18 May** – short meeting over lunch, immediately after the European Repo Council Annual General Meeting, hosted by Euroclear in the margins of the Euroclear Collateral Conference (The Square, rue Ravensteinstraat 2, 1000, Belgium)
- (2) **23 June** – joint ISLA/ERC Committee meeting – Lisbon, Portugal in the margins of the 24th ISLA Annual Conference.

In addition, Committee members were asked to take note of:

- (3) **European Repo Council Annual General Meeting** – 18 May 2015, 11:00 – 13:00 CET, followed by lunch – hosted by Euroclear in the margins of the Euroclear Collateral Conference (The Square, rue Ravensteinstraat 2, 1000 Brussels, Belgium).

The Secretary said that elections to the ERC will take place at the European Repo Council AGM. Committee members were reminded to submit their nominations to the Secretary in advance of the 17 April deadline.

The Chairman:

The Secretary:

Godfried De Vidts
18 May 2015

Lalitha Colaco-Henry