

Follow-up note to the ERCC Committee call held on 20 October 2020

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| <u>Committee members:</u> | Mr. Gareth Allen | UBS Limited (ERCC chair) |
| | Ms. Emma Cooper | Blackrock (ERCC vice chair) |
| | Mr. Charlie Badran | AXA IM |
| | 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 |
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| <u>Other participants:</u> | 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) |
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| <u>Apology:</u> | Mr. Dan Bremer | BAML |
| | Mr. Harald Bänsch | UniCredit Bank |

1) Minutes from previous meetings

The Committee approved the minutes of the last ERCC Committee virtual meeting held on 20 July without further comments.

2) Repo Market conditions and outlook

Gareth Allen, ERCC chair, kicked off an exchange of views on current repo market conditions. He noted that the current conditions continue to be relatively benign, despite some nervousness ahead of the upcoming US elections and Brexit. Looking ahead to year-end, members expected, based on current pricing and other indicators, a relatively uneventful turn, with less volatility than in previous years.

Emma Cooper, ERCC vice-chair, introduced a short discussion on challenges that firms are facing around Brexit. Members did not expect any major disruptions and saw firms relatively well prepared, also helped by current market conditions and the abundant supply of liquidity. In the short-term, the main challenge is expected to be around technological and operational issues. In the longer term, however, the resulting bifurcation of client flows and inventory could be an important risk. A factor of uncertainty continues to be corporate performance in the face of the combined impact of Covid-19 and Brexit.

Godfried De Vidts commented on the upcoming common EU bond issuance, initially under the SURE scheme (planned for this week), and subsequently at a larger scale as part of the EU recovery fund (in 2021). He briefly commented on the related infrastructure setup and the general importance of the step for the European capital market.

3) Collaboration with ISDA

On 6 October, ISDA published a White Paper on [Collaboration and Standardization Opportunities in Derivatives and SFT Markets](#). Gareth Allen introduced a discussion with members on the proposals, requesting that members consider whether there are further opportunities for collaboration. Most members had not analysed the proposals in detail yet. However, based on an initial assessment, members expressed some caution. While perhaps promising on the surface, members agreed that there are likely some serious legal and practical challenges and complexities which would have to be considered. As a next step, the ISDA paper will be discussed within the ERCC's Legal Working Group. Members are invited to coordinate feedback with their legal colleagues and share any specific feedback with the Secretariat.

4) Future of the European Repo Survey

The latest edition of the European Repo Survey (no 39) is close to final and will be published next week. Looking at the key findings, Godfried De Vidts raised a question around the increasing share of UK collateral, which is now the largest in the sample. Members suggested various possible factors that may have contributed to this increase, including (i) the increase has been driven by the currency basis; and perhaps more importantly (ii) a larger increase in gilt issuance, relative to Germany and other EU issuers, with a smaller proportion of QE purchases of net outstanding gilts compared to ECB purchases of Germany and other major EU sovereign markets.

Andy Hill introduced a short discussion on the future of the European Repo Survey. With the SFTR reporting regime now in place, ICMA is currently reviewing the survey to make sure that we achieve synergies with SFTR reporting and reduce the burden for contributing firms. Richard Comotto added that this is an opportunity to streamline and automate the data collection process, which is currently still very manual, while also enriching the data. Members were generally supportive of the proposal and made a few additional suggestions. Among other

things it was suggested that ICMA should investigate whether and how SFTR data could be collected centrally from the trade repositories (or third-party vendors) which would hugely facilitate the process. ICMA will set up a small Task Force with interested members to work on the upcoming review of the European Repo Survey.

5) Common Domain Model & FinTech update

Gabriel Callsen provided an update on relevant FinTech developments, including ICMA's work to extend the Common Domain Model (CDM) to repo. Good progress is being made on this project and discussions with ISDA and Regnosys, the company responsible for the IT development, are under way to formalise the collaboration. The next step will be for Regnosys to start building the repo model in the CDM. Before starting this work, we need to ensure that we receive sufficient input from members. In particular, it will be crucial that members provide sample trade data from different source systems which will be an important basis for the modelling exercise. ICMA is in the process of setting up a CDM Steering Committee to support the work.

In terms of other developments, Gabriel Callsen reported back from the latest discussions of ICMA's [FinTech Advisory Committee](#) (FinAC) which was established in early 2020 and had its fifth meeting in September and also noted ICMA's continued engagement in the ECB's FinTech TF, as well as in a more recent working group set up by the Bank of England to transform data collection in the UK, following a [consultation](#) earlier this year.

From a legal perspective, Lisa Cleary updated members on the latest discussions on a suggested project to establish a GMRA clause library. ISDA already developed a similar library and ISLA have recently embarked on a pilot project to test feasibility of the proposal for securities lending. The ERCC's Legal Working Group will be asked to assess whether a similar pilot project should be launched for repo.

6) Regulation

a) SFTR

Alexander Westphal updated members on the latest SFTR developments. The positive initial feedback from the reporting go-live on 13 July has been confirmed by the first three months of reporting, which have generally been smooth. Acceptance rates reported by the trade repositories continue to be consistently high (over 95%) and have also not been adversely impacted by the latest go-live on 12 October, which saw the reporting start of buy-side firms. Unsurprisingly, the reconciliation process (including pairing and matching) remains more challenging. Based on feedback from members in the [ERCC's SFTR Task Force](#), ICMA has put together a list of around 50 reporting issues, which has also been shared with ESMA. The group is working through the issues to identify possible best practice solutions. In terms of next steps,

Alexander Westphal mentioned the ongoing discussions with ESMA on level 3 guidance, as well as the challenges related to the end of the Brexit transition period which will see a split of SFTR into an EU and a UK regime.

Richard Comotto explained more in detail ICMA's ongoing work on SFTR best practices, in particular the extensive [ICMA SFTR recommendations](#). The document continues to evolve and grow reflecting the ongoing discussions with the Task Force. A new (fifth) public version is due to be released in the next couple of weeks.

b) CSDR

Andy Hill and Lisa Cleary provided a short update on ICMA's latest work with members to prepare for the implementation of CSDR mandatory buy-in provisions. The key focus at the moment is on the upcoming CSDR review which should be launched in due course by the European Commission. In consultation with members, ICMA is currently preparing its advocacy position for the review, which is also being coordinated with other stakeholders.

c) BRRD 2

Lisa Cleary briefly updated members on the discussions related to the ongoing review of the EU Bank Recovery and Resolution Directive (BRRD). As reported previously, some of the proposals put forward in the context of the review are seen as potentially very problematic from a repo perspective and developments will be reported to the ERCC Legal Working Group.

d) NSFR

Andy Hill mentioned some recent remarks by representatives of the US Federal Reserve which indicate their plans to calibrate NSFR in a way that avoids overly negative impacts on repo (see [video interview](#) with Randal Quarles, Vice Chair for Supervision, at the IIB's Virtual DC Summit – from minute 28:00), noting that any details of the US approach are yet to be confirmed.

e) Other regulatory updates

Godfried De Vidts and Andy Hill updated members on progress made with the Commission's Expert Group on European Pension Scheme Arrangements (PSAs), noting in particular the release of the final Commission [Report](#) on the topic which was adopted on 23 September. The report is based on feedback provided by the Expert Group and concludes that there is no silver bullet, but that a solution to the issue will most likely require effort on a number of fronts, including banking regulation and alternative liquidity sources for PSAs in times of stress. As members of the Expert Group Godfried De Vidts and Andy Hill will continue to engage in the ongoing discussions and report back to the Committee.

Jean-Robert Wilkin and Marije Verhelst commented on an ongoing [EBA consultation](#) on triparty and CRR large exposures (which was discussed previously in the Committee), explaining some background and highlighting the key messages from the ICSDs' near-final consultation responses. The consultation is due to close on 22 October.

7) Legal updates

Lisa Cleary updated members on a few other relevant legal developments, including the 2021 GMRA legal opinion exercise which is about to be launched. If there are any further member requests regarding counterparty and jurisdiction coverage these would need to be submitted as soon as possible. Also of note was a pending interim update to the legal opinion for England following the Corporate Insolvency and Governance Act coming into effect. Publication of the update on the ICMA website expected shortly.

8) Update from the ERCC Operations Group

ERCC Ops co-chairs Nicholas Hamilton and James Upton provided an update on the recent discussions in the ERCC Operations Group.

James Upton explained the next steps in relation to the ongoing work on intraday liquidity. Concretely there are three areas for further action: (i) Follow-up with the ECB and CSDs regarding the pending requests for additional settlement data to support the analysis, (ii) discuss ways to re-emphasise certain existing best practices, (iii) develop suggestions for new best practices, both in collaboration with the Guide Working Group.

Nicholas Hamilton updated the group on other relevant ERCC Ops discussions, in particular in the context of our involvement in a number of ECB work streams on market infrastructure, highlighting the following developments:

- **Delay to ECMS:** Following the recent announcement of a 1-year delay to the T2-T2S integration project, it has been suggested to also delay the implementation of the Eurosystem Collateral Management System (ECMS) (initially planned to go live in November 2022). Given current constraints, a delay by 12 months is considered prudent but still needs to be confirmed by the ECB Governing Board.
- **Product identifier:** As part of the push to ensure consistent usage of the transaction type field at settlement level (which allows a distinction between SFTs and cash trades), the CSDs are currently undertaking a survey to better understand current usage of the field.
- **Settlement efficiency:** The [CSD Steering Group](#) (a sub-group of AMI-SeCo) has launched an ad-hoc work stream on settlement efficiency. Mr. Hamilton is a member of the ad-hoc group and commented on the promising work so far and the close link of the CSDR advocacy discussions as well as the intraday liquidity agenda. The group will continue to meet on a regular basis.

9) AOB

- **ERCC Repo Guide:** The updated [ERCC Guide to Best Practice in the European Repo Market](#) was published on 24 September. One topic that continues to be open is the issue of compensation for fails in a negative rate environment. Members discussed the issue in some detail and agreed to delegate the discussion back to the ERCC Guide Working Group for further consideration and to develop a concrete proposal for a viable (even if limited) best practice.
- **UK Money Market Code:** Andy Hill mentioned that the Bank of England has shared a draft update of the UK Money Market Code and asked for comments by 2 November. ICMA is currently reviewing the latest draft and welcomes feedback from members.
- **New ERCC members:** Members approved one application for ERCC membership received from Eurobank S.A., Athens.
- **Next meeting:** The next Committee meeting will be scheduled in early December.