International
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Association

ICMA

Minutes of the ERCC Committee meeting held on 13 April, 2016 in London

Present:	Mr. Godfried De Vidts	ICAP (Chairman)
	Mr. Daniel Bremer	Bank of America Merrill Lynch
	Mr. Michael Manna	Barclays
	Mr. Andreas Biewald	Commerzbank
	Mr. Michel Semaan	Crédit Agricole
	Mr. Ronan Rowley	Deutsche Bank
	Mr. Johan Evenepoel	Euroclear Bank
	Mr. Francois-Xavier Bouillet	Goldman Sachs
	Mr. Jean-Michel Meyer	HSBC
	Mr. Nicola Danese	J.P. Morgan
	Mr. Sylvain Bojic	Société Générale
	Mr. Richard Hochreutiner	Swiss Re
	Mr. Gareth Allen	UBS Limited
	Mr. Eduard Cia	UniCredit Bank (Vice Chair)
On the phone:	Mr. Romain Dumas	Credit Suisse
	Mr. Andrea Masciovecchio	Intesa San Paolo
	Ms. Amanda Brilliant	Nomura International
	Ms. Lisa Cleary	ICMA
	Mr. Alexander Westphal	ICMA
Also Present:	Mr. Ed Donald	Standard Chartered (ASIFMA)
	Mr. Richard Comotto	ICMA Centre
	Mr. David Hiscock	ICMA
	Ms. Lalitha Colaco Henry	ICMA (Secretary)
Apologies:	Mr. Grigorios Markouizos	Citigroup (Vice Chair)
	Mr. Nicholas Hamilton	J.P. Morgan (ERC Ops Group Chair)
	Mr. Eugene McGrory	BNP Paribas
	Mr. Andy Hill	ICMA

Welcome by the Chairman

Mr. De Vidts welcomed those participating and thanked Mr. Hochreutiner and Swiss Re for kindly hosting the meeting.

The minutes of the last meeting, which took place on 24 February 2016 in London were unanimously approved.

1. Collateral and liquidity

(i) **Collateral management presentation** – Mr. Hiscock said that since the Committee last met, he had not received suggestions for any further refinement of the presentation, but would shortly review it with Mr. Markouizos. The Committee was requested to provide any further feedback.

Mr. Hiscock said that, further to discussion at the last meeting, a paper would be drafted highlighting the different operating models used by the Euro area CCPs for repo. The Chairman elaborated that for example, Eurex clearing does not accept any bilateral trades into their system while in Italy parties to bilateral repo trades are additionally required to enter the trade into MTS or BrokerTec, which is then sent on to Monte Titoli who perform the requisite calculations for CC&G. Because each CCP uses a different model there is a lack of harmonisation across Europe which represents yet another source of inefficiency in the settlement infrastructure. Therefore, a short, factual paper will document the ways in which different CCP operations are conducted in order to facilitate an informed debate about improving harmonisation and standardisation in this area. It was agreed that the Committee would discuss the draft paper at the next Committee meeting in May.

The Chairman said that he had attended a T2S focus session on 8 April, hosted by the Bank of Spain. At the meeting the ECB elaborated on its intention to merge Target cash with T2S so that cash and securities settle on the same platform by 2020. This should provide efficiency benefits as well as allow for better netting. The Committee welcomed this positive development.

(ii) **2nd European IG Corporate Bond Secondary Market Study** – Mr. Hill had published a seminal paper in 2014 examining illiquidity in the European investment grade corporate bond market. A further study, updating the 2014 study, is expected to be published at the end of June. This second study will focus on three questions. First, the study will examine the current state of, and likely course for, European corporate bond market quality and liquidity. If market quality and liquidity are declining, what are the implications of this, is this necessarily a problem, and to what extent should policy makers be concerned? Finally, how is the market evolving, and what can and should market practitioners and stakeholders do, or consider, to help address any potential problems arising from the state of the market? The European investment grade corporate bond market will be the primary focus of the study, covering both non-financial and financial IG corporate bond markets, including euro and non-euro. However, it is impossible to perform any meaningful analysis of the cash bond market without also assessing the related hedging and funding markets. Therefore, the study will also analyse the state and evolution of the CDS and credit repo markets. Mr. Hill will try and obtain data on which to base his conclusions, though it is recognised that this will be a challenge. Committee members were requested to contact Mr. Hill if they would like to contribute to the study.

The Chairman noted that the study would likely be discussed at the next Committee meeting in May, at which Mr. Andy Jobst, of the IMF, will be in attendance. The Chairman also noted that a conference will take place in the fall involving the IMF, BIS and the ECB. The Chairman may be invited to speak at the conference, alongside other Committee members.

(iii) **ECB corporate sector purchase programme** – Mr. Hiscock said that on 10th March the ECB had announced the expansion of its asset purchase programme to include a corporate sector purchase programme (CSPP). Few details about the CSPP have been released to date; further announcements are anticipated in the coming weeks. The CSPP raises a number of issues and questions requiring further clarification, such as whether the purchases will take place in the primary or secondary markets? Will there be minimum issue sizes? Will the purchases take place on trading venues or OTC? Will the ECB trade directly or will they use agents to trade on their behalf? The CSPP could potentially be very disruptive to the market, especially given long-standing concerns regarding illiquidity in the European investment grade corporate bond market. Moreover, the CSPP also needs to be looked at in the context of regulatory initiatives such as MiFID and the Basel liquidity coverage ratio. To what extent would the ECB purchases affect or further distort market liquidity, which market participants would have to take into account under such regulations? The CSPP affects both the cash and financing sides of the market. A number of Committee members will be meeting with ECB officials in the coming weeks and will report back if they become aware of any further details regarding the CSPP.

2. GMRA developments

Ms. Cleary said that the 2016 ICMA GMRA legal opinions were published on 12 April.[1] This year, ICMA has published GMRA legal opinions for 65 jurisdictions though opinions for 5 jurisdictions have been delayed. For example, the legal opinion for France has been delayed because of a change in law resulting from the implementation of the BRRD, but ICMA expects the outstanding legal opinions to be published in due course. ICMA will also be publishing a GMRA legal opinion for Georgia which was commissioned using the ICMA bespoke legal opinion service. Once published, all ICMA members will have access to the legal opinion for Georgia.

The SFTR Information Statement[2] was published jointly by AFME, FIA, ICMA, ISDA and ISLA on 13 April. The Information Statement can be used by market participants to comply with the Article 15 SFTR disclosure requirements which come into force on July 13, 2016, and will affect a variety of financial agreements. Under the SFTR, all parties that accept collateral are obliged to inform their counterparties of the risks involved in entering a title transfer arrangement or granting a right to reuse collateral under a security arrangement.

Work on developing a buy-side and corporate annex to the GMRA is continuing. Ms. Cleary said that she had had a number of positive bilateral discussions with buy-side and corporate ICMA members. The proposed work shop (for interested stakeholders to identify potential users of the product and how it can best be developed) will now take place during Q1, with the date to be agreed shortly. Ms. Cleary requested that Committee members provide her with the names of treasury contacts at their firms in order to better understand access to new users.

Ms. Cleary also noted that ICMA's Secondary Market Practices Committee (SMPC) is considering amendments to ICMA's rules and recommendations for the secondary market. To this end, the SMPC intends to launch a consultation of its members in due course to find ways to improve the existing buy-in rules. Key areas of consideration include: more flexible timing for the buy-in, to manage better contract basis-risk between the ICMA rules and different buy-in mechanisms, including GMRA terminations; the possibility to execute buy-ins without using a buy-in agent; and the facilitation of a buy-in auction mechanism.

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[1] Alternatively, see: http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/short-term-markets/Repo-Markets/GMRA-Legal-opinions/

[2] Alternatively, see: http://www.icmagroup.org/News/news-in-brief/five-industry-associations-publish-sftr-information-statement/

3. Regulatory developments

(i) **NSFR** – on 4 April, an ERCC delegation comprising the Chairman and Messrs. Cia (by phone), Bojic, Kouyoumjian and Hiscock had met with Messrs. Nava, Katz and Ms. Dreval (of the Regulation and Prudential Supervision of Financial Institutions Directorate, European Commission), to discuss the Committee's concerns about the NSFR. The meeting had been both constructive and positive. The ERCC delegation had argued that repo (and other money market activities) for a term of less than 6 months should be exempted from the effective imposition of an element of long-term funding cost (as set out in the ERCC's paper). While the Commission was open to discussing the issue, the Commission indicated its concern that such an exemption could potentially create a loophole that would undermine the effectiveness of the NSFR. However, the ERCC delegation stressed that even with a broad exemption for short-term money market activity the NSFR would still safely cover all longer term activity (whilst LCR already provides control over short-term liquidity). The money market is where banks should play an intermediary role, of significant benefit for corporate and private customers, but the Basel NSFR would incentivise banks to only place money in a way where it does not trigger any RSF – so therefore placing surplus cash just with Central banks and no longer facilitating its circulation. The ERCC delegation was pleased that the Commission was open to further discussion, with the Commission requesting (i) further examples of transactions which set out the potential concerns with NSFR; and (ii) any possible quantitative analysis to help illustrate the impacts on repo and collateral which may arise from NSFR. The delegation agreed to provide such examples and also stressed that they would continue to raise their concerns about the NSFR with appropriate interested parties, such as the central banks. The Committee noted that one member has already done some work to develop examples of transactions that highlight the issues relating to NSFR and was happy for the work to be circulated to the Commission. The Chairman also noted that the NSFR is one of the issues that the IMF would like to discuss at the Committee meeting in May. There was also some discussion about whether the Committee's concerns with the NSFR could be raised with DMOs, the EBA and others.

(ii) **SFTR** – Mr. Hiscock said that ESMA had published its 187 page discussion paper on the SFTR[3] on 11 March. The discussion paper sets out proposals for implementing the SFTR reporting framework, including tables of the fields with the proposed data to be reported, and the registration requirements for those Trade Repositories accepting SFT reports. ESMA has developed its proposals by building on its experience with EMIR and other EU-wide reporting regimes in order to align reporting standards to the extent possible. Once the consultation has closed, ESMA will develop detailed rules which will be the subject of a further consultation in Q2 2016. ESMA is required to send its draft rules to the European Commission by 13 January 2017.

A working group, including members of the ERCC Operations Group, was formed to develop a response to the discussion paper. The working group held an all-day session on 22 March to discuss the 145 questions posed by ESMA. The draft response was being further refined; the latest draft having been circulated on 11 April. Mr. Hiscock urged the Committee members or their teams to review the draft and provide further feedback. The deadline for responding to the discussion paper is 22 April.

The Committee noted that, in line with the FSB recommendations, position reporting data is far more informative and useful than transaction reporting data. However, the SFTR, which requires transaction reporting, has already come into effect so firms will have to transaction report and in the future are likely to have to additionally report some position data. Mr. Hiscock reiterated that

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[3] Alternatively, see: https://www.esma.europa.eu/press-news/esma-news/esma-consults-securities-financing-transaction-regulation

the ESMA discussion paper should be seen as a first step in a lengthy process, as technical standards still have to be drafted and approved by the Commission.

(iii) **FSB Report[4] on possible measures of non-cash collateral re-use** - Mr. Hiscock said that he had circulated a draft response to the Committee for comment. Subject to any last-minute comments from Committee members, the response will be sent to ESMA in advance of the 22 April deadline for responses.

(iv) **MiFID II/MiFIR** - Mr. Hiscock said that ESMA has proposed that MiFID II transaction reporting be dis-applied in the case of SFTs, where these are (or will be) reportable to a trade repository under the SFTR. However, this leaves an issue with those SFTs that are specifically exempted from SFTR trade repository reporting, namely repos where the counterparty is a member of the ESCB which would appear to be inappropriately subject to MiFID reporting. The Chairman has written to the ECB about this issue. Mr. Hiscock also noted that the European Parliament's ECON Committee has proposed an amendment to the MiFID Level 1 text to exempt SFTs completely from the pre- and post-trade transparency requirements. This is still not yet final, but represents a significant step forward.

(v) **CSDR** - Mr. Hiscock noted that on 14 April the Chairman, and Messrs. Chiara and Hill would be meeting with Ms. Maria Teresa Fabregas (European Commission) and others from her team to discuss the problems arising from the asymmetric treatment under CSDR for the payment of the buy-in or cash compensation reference price differential.

(vi) **BCBS Consultation[5] on leverage ratio** - Mr. Hiscock said that he had sent an email to the Committee on 6 April informing them of the new BCBS consultation. The consultation represents an opportunity to put forward views on the leverage ratio as it impacts on SFTs. The deadline for responses is 6 July. It was agreed that the ERCC response should focus on supporting the Bank of England's suggestion (made in its response to the Commission's recent Call for Evidence) that central bank reserves should be removed from the leverage ratio calculation.

4. ESMA request for European repo hair-cut data

Mr. Hiscock said that on 12 April Mr. Hill had sent the Committee a survey template for haircut data as requested by ESMA. Committee members were requested to provide data to Mr. Comotto by Friday 22 April. The data will be collated and aggregated on an anonymized basis before being shared with ESMA. A meeting with ESMA is scheduled for 12 May, at which selected Committee members have volunteered to explain repo market hair-cut policies.

5. ERCC Operations Group update

Mr. Westphal said that the main focus of the Group had been on the SFTR Consultation. However, the next meeting of the Group, scheduled for 18 April, included a busy agenda with SFTR being a single agenda item. One of the topics for discussion was repo messaging standards, including the ISO20022 standard which is expected to become a mandatory messaging standard in due course. The move to ISO20022 will require some investment from firms but is generally seen as an

[4] Alternatively, see: http://www.fsb.org/2016/02/fsb-releases-report-on-possible-measures-of-non-cash-collateral-re-use-2/

[5] Alternatively, see: http://www.bis.org/bcbs/publ/d365.htm

opportunity to achieve more harmonised repo post-trade processing. At the meeting, SWIFT will give a presentation on their ISO20022 work and the implications for repo.

The Group continues to monitor the migration to the T2S platform. Portugal and Belgium went live on 29 March in the second wave, which was relatively seamless. The third wave will take place in September, with the on-boarding of the three ESES CSDs. This third wave, therefore, will be a significant milestone for the T2S project.

The Group has also been looking at the ECB's consultation on the Eurosystem's "Vision 2020" initiative on the future of Europe's financial market infrastructure. The initiative was first announced in October 2015. The project covers three main pillars. First, the project seeks to explore the synergies between T2 for cash and T2S. Second, it looks to support a pan-European instant payments solution and lastly it assesses the possibility of harmonising Eurosystem collateral management arrangements. The ERCC Operations Group submitted a selective response on 4 April and anticipates that there will be further work related to pillar three over time.

The Chairman noted that the European Post-Trade Forum (EPTF) would meet on Friday. It had been agreed that the Chairman should be included in EPTF meetings on a permanent ad hoc basis.

6. ERCC repo survey

Mr. Comotto reported that ASIFMA had requested the Committee to consider whether the existing ERCC survey could be refined to provide data on what European desks are doing with Asian counterparties, in Asian currencies and against Asian collateral. The necessary changes in the European questionnaire had been copied to the ERCC. The second stage would be for ICMA to send a new questionnaire to global firms to ask for data about repo booked in Asia. Many firms recorded their activity in global books, which should make Asian business more easily accessible. The final stage would be to include local banks in a joint ICMA-ASIFMA Asian survey. The Committee agreed that the questions in the European survey should be revised (stage one) and the new ICMA Asian survey (stage two) should be sent out in June 2016.

Mr. Allen asked whether there was any appetite amongst Committee members to expand the repo survey to ask what netting factor (for balance sheet or LRD purposes) firms use in their matchbooks? The Committee agreed that such data would be interesting to have but would be very difficult to obtain because of the different accounting standards used by firms when reporting their accounts.

7. SLRC work to develop a new unified code

Mr. Bouillet said that the Bank of England is looking to replace the NIPs Code, the Gilt Repo Code of Guidance and the Securities Borrowing and Lending Code of Guidance with a new code of conduct. The Bank envisages the new Code as being voluntary in nature but, at the same time, would like firms to attest and adhere to the new Code possibly by linking it to the UK's Senior Managers Regime. These two aspirations may well prove difficult to reconcile. Additionally, the focus of the new code is the London market, covering both Sterling and foreign currency activities. The new Code will include sub-codes for each product. In order to carry out the work, the Bank of England has set up working groups and Mr. Bouillet is a member of the repo sub-group. The Bank is working to a very ambitious timeline with publication of the new Code planned for June 2017. In order to achieve this deadline, the Bank anticipates that working drafts will be drawn-up in the next six months. Mr. Bouillet agreed to forward the minutes of the repo sub-group meetings to the Committee.

8. Administrative issues

The Chairman said that he had been asked by ICMA to consider whether the size and/or composition of the Committee should be changed given the lack of success by the majority of buy-side firms in the 2016 ERCC Committee elections. The Committee agreed that the buy-side's lack of success in the elections was very disappointing. It was noted that 4 buy-side firms had put forward candidates in the elections, but only Mr. Hochreutiner had been successful. Ms. Colaco-Henry said that the Council currently consists of 89 firms of which approximately 11 are buy-side members. One way to have more buy-side members on the Committee would be to have more buy-side firms on the Council. Ms. Colaco-Henry said that she would discuss with the ICMA membership department about how more ICMA buy-side firms active in repo and collateral management could be encouraged to become members of the ERCC.

In addition, the Chairman asked that the ICMA executive develop proposals about (i) how to define buy-side and sell-side firms in a repo context; (ii) if the size of the Committee should be changed what the new size should be; and (iii) at what size might a possible buy-side quota be set? Mr. Hiscock said that the introduction of a quota system would require a change to section 1000 of ICMA's rules and recommendations, which would take time. As an interim measure, the Committee agreed that each buy-side candidate who had not been successful in the election should be invited to attend a Committee meeting.

The Committee recommended that MPS Capital Services S.p.A. should become a member of the International Repo and Collateral Council (IRCC) and the European Repo and Collateral Council. Mr. De Vidts and Mr. Cia of the IRCC Committee approved the recommendation. The Secretary agreed to inform the firms accordingly.

9. AOB and further meetings

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

1. **20 May, from 10:30 – 13:30 BST**, in the margins of the ICMA Annual General Meeting, The Convention Centre, Spencer Dock, North Wall Quay, Dublin 1, Ireland;

2. **21 June (afternoon)** - joint ERCC/ISLA Board meeting in the margins of the ISLA 25th Annual Conference in Vienna; and

3. **23/30 September**, kindly hosted by UniCredit in the margins of the Munich Oktoberfest (tbc)

Other Repo dates:

- **ICMA European Repo and Collateral Council General Meeting – 27 September 2016**, kindly hosted by BondLend in London.

It was noted that the Euroclear Collateral Conference that had been scheduled for the 17 - 18 May had been postponed till October.

The Chairman: The Secretary:

Godfried De Vidts Lalitha Colaco-Henry
20 May, 2016