International
Capital
Market
Association

Minutes of the ERCC Committee virtual meeting held on 19 May 2020

Committee members:	Mr. Gareth Allen	UBS Limited (ERCC chair)
	Ms. Emma Cooper	Blackrock (ERCC vice chair)
	Mr. Charlie Badran	AXA IM
	Mr. Dan Bremer	BAML
	Mr. Nick Dent	Barclays
	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
	Mr. Harald Bänsch	UniCredit Bank
Other participants:	Mr. Nicholas Hamilton	J.P. Morgan (ERCC Ops co-chair)
	Mr. James Upton	LCH (ERCC Ops co-chair)
	Ms. Lisa Cleary	ICMA
	Mr. Richard Comotto	ICMA Centre
	Mr. Godfried De Vidts	ICMA ERCC Special Advisor
	Mr. Andy Hill	ICMA
	Mr. Leland Goss	ICMA
	Mr. Alexander Westphal	ICMA (ERCC Secretary)
Apology:	Mr. Eugene McGrory	BNP Paribas

1) Minutes from previous meetings

The Committee approved the minutes of the last ERCC Committee meeting held on 26 February in London without further comments.

2) Repo Market conditions

Members exchanged views on current repo market conditions, following on from the discussion at an interim Committee call held on 7 May. Gareth Allen, ERCC chair, introduced the discussion, noting a considerable recovery since early May. Spreads and haircuts have come down significantly from the peak levels in March/April and have largely normalised, especially in the interbank market, while some more limited dislocations seem to persist for non-CB-eligible collateral. Settlement fail rates have also normalised following the temporary crisis-related spikes but should continue to be closely monitored as this remains an area for improvement going forward. Other members confirmed the normalisation of market conditions, in terms of spreads, haircuts and fails.

Members discussed expectations ahead of upcoming monetary policy operations, especially the ECB's upcoming TLTRO III programme announced on 12 March. Members noted that estimates on banks' demand for TLTRO III liquidity vary widely, ranging between a flat take-up (in addition to liquidity already provided through outstanding TLTRO and LTROs) up to around EUR 1.5 trillion of extra liquidity (which would bring the total to nearly EUR 2 trillion). Members commented that a key factor determining the demand for TLTRO III will be in how far bank treasuries will overbid, i.e. bid beyond their existing loan inventory, replacing existing (longer term) funding by liquidity provided through the TLTRO III programme, but members also expressed doubts as to whether this strategy can be beneficial in the longer term.
In light of the experience with previous rounds of TLTRO, members discussed fears that the TLTRO III might lead to collateral shortages, noting though that in the past the issue has mainly arisen in relation to certain specials, which has become less likely since then given the evolution of central banks' lending facilities. As regards a possible general collateral shortage, members pointed to the large amount of new issuance over the past months which has added to the stock of available collateral and should mitigate this risk.

Members briefly discussed the likely impacts of TLTRO III on benchmark rates, e.g. EONIA, which were generally expected to be limited. Andy Hill quoted a recent study that suggested that the impact on €STR is expected to be around 1bp per EUR 500 billion of TLTRO III liquidity. Other members agreed that the overall impact will probably not exceed 2-3bp.

Finally, members also commented on the impact of the Covid-19 crisis on the ability of some corporates to provide (stable) funding to banks. While this is hugely incentivised by NSFR rules, many corporates currently face funding pressures and have started to withdraw their funding. This is only partly mitigated by the ECB's relaxation of collateral requirements to accept so-called 'fallen angels', given that the rules still set the barrier in terms of credit rating relatively high.

3) Pension funds & CCP-clearing

Godfried De Vidts and Andy Hill updated members on the latest discussions in relation to European Pension Scheme arrangements (PSAs) and the EMIR clearing obligation. Both are members of an Expert group set up by the European Commission on this topic and tasked to assess the feasibility of applying the EMIR clearing obligation to PSAs. Mr. Hill and Mr. De Vidts reported back from the latest call of the group which was held on 29 April. In this context, ESMA also presented their related public consultation on potential clearing solutions for PSAs released on 2 April 2020. Committee members discussed the proposals set out by ESMA in their consultation paper and a possible ICMA response to the consultation, based on a list of initial comments prepared by Andy Hill. Following the discussion, ICMA will finalise the response and submit it to ESMA by the deadline of 15 June 2020.

4) Legal updates

Lisa Cleary updated members on the latest legal developments discussed by the ERCC's legal working group. She mentioned some relevant developments in Russia and China, with possible impacts on the related legal opinions, as well as ongoing discussions in relation to legal technology, in particular the Linklaters/Nakhoda negotiation platform and expanding the scope of the tool to cover GMRA documentation. Before engaging further in this project, it will be important for ICMA to ascertain that there is sufficient demand from members. A note on the issue should follow in due course as a useful basis to collect feedback from members. Lisa Cleary also briefly discussed the impacts of the LIBOR transition for the GMRA (briefly summarized here).

5) Regulation

a) CSDR

Andy Hill provided an update on ICMA's recent work with members to prepare for the implementation of CSDR mandatory buy-in provisions, focusing in particular on the ongoing advocacy efforts with ESMA, the European Commission as well as a recent discussion with the UK's HMT. More specifically, Mr. Hill highlighted ICMA's latest letter to ESMA and the European Commission to reiterate the concerns in relation to CSDR mandatory buy-ins, particularly in light of the recent experience with the ongoing Covid-19 pandemic. The letter is currently being finalised and will be submitted in the next few days. *[Post-meeting update: The letter was submitted on 20 May and published on the ICMA website.]* Separately, ICMA is also working on a briefing note on cash compensation for less liquid bonds which will also be shared with regulators. *[Post-meeting update: The briefing note was published on 21 May.]*

Lisa Cleary explained ICMA's complementary work on the documentation related aspects of CSDR implementation, including necessary changes to the GMRA, but also contractual work in relation to cash bonds. Progress is being made on the various aspects, but remains seriously constrained by the lack of feedback from regulators on a number of important pending questions on scope and mechanics of the buy-in provisions.

b) SFTR

Alex Westphal updated the Committee on ICMA's extensive work with members to prepare for the start of SFTR reporting. He informed members of ESMA's recent announcement granting a 3-month delay to the reporting go-live (now scheduled for 13 July), and covered the ongoing work to develop detailed complementary best practice recommendations. The 250-page *ICMA*

Recommendations for Reporting under SFTR were initially released in February with a first comprehensive update published on 22 April. Further updates will follow as the discussions evolve, including to reflect further guidance from ESMA.

c) Other regulatory updates

Looking at other relevant regulatory developments from a repo perspective, Andy Hill mentioned some recent EBA proposals in relation to the CRR large exposure regime and how to apply issuer concentration limits to tri-party repo transactions (under art 403(3) CRR). The ICSDs explained why the proposals are impractical and would undermine the efficiency of the triparty repo product. The relevant triparty agents have all shared feedback with the EBA on their initial proposals and questions. As a next step, it is expected that the EBA will put together and publish a formal consultation paper on this topic. ICMA will continue to closely monitor the ongoing discussions and will consider responding to any formal follow-up consultation on this topic.

6) Benchmark reform

Andy Hill invited members to provide feedback on any repo-specific impacts and concerns in relation to the ongoing transition from LIBOR to risk-free rates. At the next meeting, this topic will be discussed in more detail, including ICMA's broader work to support the reforms.

7) ERCC Guide to Best Practice

Sylvain Bojic and Richard Comotto briefly introduced the latest set of amendments to the ERCC Guide to Best Practice agreed by the Guide working group at their latest meeting on 17 April and circulated to the Committee ahead of today's meeting. In addition to the proposed updates, there is still an ongoing discussion on compensation for fails in case of negative interest rates. The Guide WG is due to meet to focus specifically on this topic and, if agreed, the related amendments may still be added to the list. The amendment proposals will be recirculated to the Committee for approval. Once endorsed, the amendments will be incorporated into the new version of the Guide which is due to be published before summer.

8) Update from the ERCC Operations Group

ERCC Ops co-chairs Nicholas Hamilton and James Upton briefly updated members on recent discussions in the ERCC Operations Group. James Upton focused his remarks on the ongoing work in relation to intraday liquidity. An ERCC Ops sub-group is working on a slide deck which aims to consolidate all the ERCC discussions on this topic over the past years to reach some concrete recommendations on the way forward. This work is making good progress and can hopefully be presented to the Committee at the next meeting. Ahead of a discussion with the full Committee, it was suggested to hold a smaller meeting first between the ERCC Ops sub-group and a few interested Committee members to get some initial feedback.

Nicholas Hamilton, who represents the ERCC on the ECB's AMI-SeCo group, updated members on the latest discussions at this level. Most recently a key focus of the group has been on the impacts of Covid-19 on the ECB's major infrastructure projects that are under way, in particular the Eurosystem Collateral Management System (ECMS). This is currently being assessed further through a flash survey among AMI-SeCo members. Progress is also being made on the more specific work on collateral management harmonisation, which a number of ERCC Ops members are actively involved in. More specifically, Mr. Hamilton highlighted the ongoing work of the group to encourage consistent use of a repo/SFT identifier at settlement instruction level which would allow for the identification of repo as opposed to cash settlement.

9) Common Domain Model & FinTech update

Andy Hill provided a short update on ICMA's joint work with ISDA to extend the Common Domain Model (CDM) to repo. As part of this work, ICMA has been running a number of workshops with interested members, ISDA and Regnosys to develop specific repo use cases in the CDM. Workshop summaries as well as further background information on the project, are is available on ICMA's CDM webpage. Mr. Hill also reiterated the call on Committee members to make sure that their firm actively contributes to the CDM work and is represented on the related working group as member input will be crucial to progress this important initiative.

10) AOB and further dates

- Members asked for any updates to the previous discussions in relation to balance sheet netting in T2S. It was agreed that ICMA should get back in touch with the accountancy firms that attended the ICMA-ECB workshop on balance sheet netting in T2S to ask for any relevant updates and encourage follow-up.
- Members briefly discussed the future of the European Repo Survey post-SFTR, based on a short note prepared by Richard Comotto and circulated to the Committee ahead of the meeting. As a follow-up, members are asked to review the note and provide feedback, ahead of a more detailed discussion on the topic at one of the next meetings.
- Members approved an application received from Tradeweb Europe Limited to become a full member of the ERCC. Tradeweb will be added to the members register as 108th ERCC member firm.
- With reference to past discussions on this topic, members raised the potential use of credit claims as collateral and briefly discussed why this had been discarded previously. ICMA will re-circulate the conclusions reached at the time to members as a reminder and in case there are any views that there is a case to reconsider the issue.
- The **next (virtual) meeting** of the ERCC Committee will be organised in the first two weeks of July.