Minutes of the Annual General Meeting of the European Repo Council held on 18 May 2015 in Brussels

Location: **The Square**
rue Ravensteinstraat 2,
1000 Brussels,
Belgium

Time: **11:00 – 13:00**

1. Welcome by Mr. Martin Scheck, Chief Executive of ICMA

Mr. Scheck warmly welcomed the audience to the Annual General Meeting of ICMA's European Repo Council (ERC). He said that the agenda for the meeting was very full – which was also the situation for ICMA as a whole. The association has a packed agenda and the range of items that it is addressing in the capital markets just keeps growing, - no sooner has one item been put to bed when two more appear to take its place.

Repo is of course the glue that binds the capital markets together. It facilitates the flow of collateral around the system and allows the markets to function efficiently as they intermediate capital – a key objective of the Commission's capital markets union initiative. ICMA welcomes the EU's Capital Markets Union (CMU) initiative and the growing recognition, arguably long overdue, that capital markets are a good thing, which contribute to jobs and growth in the economy. We have been working on many of the strands which are now brought together under CMU for a number of years, and will of course continue to do so. In that context the work of the European Repo Council and Committee is even more fundamental to our activities at ICMA, and we are pleased to deploy our resources to support all of the ERC's many market practice and regulatory initiatives, its research, its extensive educational programme and of course the authoritative Repo Survey. We also devote, on an ongoing basis, substantial resource to maintaining the Global Master Repurchase Agreement, to keeping the associated legal opinions which support its use, along with the guide to best market practice, up to date. On that topic it has been interesting to see how repo usage continues to evolve. Mr. Scheck noted that he spends a lot of time talking with ICMA's buy side members and many of the major institutional asset managers are now using repo extensively, as well as many of the cash rich corporate issuers we speak with – it is good to see the ERC adapting to accommodate this.

Given the importance of repo and the associated collateral markets it is somewhat strange just how many threats there are to its continued efficiency from new regulation and the implementation of existing legislation. All this at a time when the ultra-low rates are dampening returns from the repo market causing participants to review their business models and resourcing, questioning whether they should run their repo operations as a distinct business line, or as a utility-like tool for treasury management.

We are going to hear more about the regulatory initiatives which impact repo later on, mandatory buy-ins, the uneven impact of the implementation of the BRRD in Europe, the discussion about 48 hour stays etc.

So I will only comment here that it is important that we continue to motivate ourselves and not to succumb to fatigue:

1) we must continue to educate policy and lawmakers on the importance of the market and how it really works
2) we must continue to work with regulators through targeted advocacy, to present systematically the industry viewpoint in a reasoned and practical way, and
3) we need to be alert to market developments and changes so we can always keep our standards of best practice up to date.

Finally, Mr. Scheck thanked Mr. De Vidts and rest of the Committee for their immense efforts and hard work on behalf of the industry.

2. Opening remarks by the Chairman of the European Repo Committee

The Chairman expressed his thanks to Euroclear for hosting the meeting. He went on to say that a recent poll in the UK of the worst jobs in investment banking had placed repo jobs in top spot. He also referred to a slide showing the regulatory alphabet soup and noted that the delegate packs contained a list of abbreviations used by the regulators in the myriad of regulations that had arisen since the start of the financial crisis. So how did all of this happen? It started with Commissioner Frederik Bolkenstein, who looked to tackle the Giovannini barriers, followed by Commissioner Charles McCreevy, who took a hands-off approach and told the industry to sort out the problems by itself. He was followed by Commissioner Michel Barnier, who took a hands-on approach and told the industry that they couldn't be trusted to sort out the problems and that the Commission would sort them out instead. We now have Commissioner Hill who is seeking to develop a CMU. All of this has taken place under the guidance of three ECB Presidents - Willem Frederik Duisenberg, Jean-Claude Trichet and Mario Draghi.

In March, Commissioner Hill called for a review of regulation to re-start growth through better regulation. In his speech, he noted that regulation had been needed to respond to the threat to financial stability caused by the financial crisis. However, today, the threat to financial stability arises from a lack of growth and jobs. Accordingly, it is time to take stock of the overall impact of regulation, through the prism of jobs and growth. Commissioner Hill also queried whether the rules achieve what they set out to do and in a way which poses a minimum of burdens. It was necessary to look not only at the impact of individual regulations, but also at the impact of regulation as a whole, and assess the consequences, sometimes unintended, of the interactions between them. This does not signal the throwing out of hard-fought recent reforms but if the rules are in practice impeding the capacity of the financial industry to lend and invest, then regulators need to be prepared to look at them again.

The Chairman then turned to other topics which the European Repo Committee had focused on since the last ERC general meeting. The Chairman said that on Tri-party Settlement Interoperability (TSI) and improvements to the Bridge, he, together with Mr. Martin Scheck, had written to the ICSDs in March, expressing their significant disappointment regarding the lack of progress with the development of TSI and seeking from them a clear written commitment to deliver an appropriate development plan before the ERC AGM today. The ICSDs have now asked for an extension of this deadline to 29 May in order to further develop their proposal to introduce a phased introduction which will involve:

Phase 1 – an extension of the cut-off times, to be delivered towards the end of this year;

Phase 2 - a reduction in settlement times from 90 minutes to 30 minutes

Phase 3 – real-time settlement to be effected after the implementation of Target2 Securities, in June 2017.

The Chairman hoped that the ICSDs would be able to continue working together to confirm this phased introduction by 29 May.

Turning to collateral, the Committee had met with the FSB to discuss the issues surrounding re-use and re-hypothecation. Discussions had also been held on the development of a trade repository for repo. The Committee had also worked on issuing new best practice guidance on negative interest rates.

Work was also continuing on developing a repo index. Mr. Romain Dumas had provided an update to the ERC at the last general meeting in November. Since then, the ERC secured benchmark working group had continued to work with the European Money Markets Institute (EMMI).

Credit claims had sadly been put on the back burner, which was a shame. However, one European central bank has since indicated that it would potentially be able to accept credit claims through its asset purchase programme. However, more work would need to be done by the industry to develop credit claims as collateral for this to happen.

The results of the 28th semi-annual repo survey were published in February. The ECB also published its Money Markets Statistics Regulation (MMSR) at the start of the year which will require the daily reporting of all trades in repo (including tri-party repo) denominated in euro with a maturity of up to and including one year entered into with other monetary financial institutions (MFIs), other financial intermediaries (OFIs), insurance corporations, pension funds, general government or central banks. Nevertheless, the ECB has asked the ERC to continue publishing the results of the semi-annual repo survey, which we will continue to do.

Finally, the Chairman said that the ICMA ERC Best Practices Guide sets out standards of best practice for repo markets in Europe. However, it is becoming increasing clear that these practices need to be global. There is increasing interest in Asia to develop a best practices guide in that region. The ERC is assisting in this regards.

3. Approval of the minutes of the ERC General Meeting held on November 19, 2014 in London

The minutes of the ERC general meeting held on 19 November, 2014 were unanimously approved without comment.

4. Ms. Cornelia Holthausen: Keynote address

5. Elections to the European Repo Committee

The Chairman invited members of the ERC to hand in their completed ballot papers. The results of the election are set out below (see the minute of agenda item 11).

The Chairman also noted that this year is the last time the ERC will hold physical elections. Starting in January 2016, elections will be conducted electronically. He also noted that this year a buy-side candidate is standing for election. The ERC is keen to welcome buy-side members, especially given how the repo market is changing, with increasing numbers of buy-side firms and corporates entering the market.

6. Legal update

Ms. Cleary noted that her first order of business was an administrative matter - the appointment of the IRC committee chairman. As per section 1000 of the ICMA Rulebook, the ERC should determine candidates for the IRC committee from its membership. The IRC committee currently comprises Mr. Godfried DeVidts of ICAP and Mr. Ed McAleer of Morgan Stanley. As Mr. De Vidts term of office is expiring, subject to appointment by the ICMA board, ICMA proposes that the ERC confirm Mr. De Vidts as chairman of the IRC committee for a term of office to expire at the ERC AGM in 2018. There were no objections and accordingly, Mr. De Vidts was re-elected as chairman of the IRC committee.

Turning to the changes to the ERC election procedure, Ms. Cleary said that from 2016, the annual ERC committee election will take place using an email ballot process. It is hoped this will be a more efficient process for members. In order to facilitate the transition, ICMA will: (i) make the necessary changes to s.1000 of the ICMA rulebook and (ii) will shortly be asking all ERC members to designate a named repo contact to whom the email ballot will be sent.

The Bank Resolution and Recovery Directive (BRRD) aims to provide a harmonised framework for the orderly resolution of banks and investment firms in member states. The Directive requires national implementation and it's transposition is underway throughout the EEA. Amongst other things, the BRRD enables resolution authorities to temporarily suspend termination rights, imposing stays which would override certain provisions of relevant financial contracts, including the GMRA. This allows the resolution authorities a pause to assess the resolved entity and apply relevant resolution tools, including the transfer of contracts to a solvent transferee. As implementation progresses across the 28 member states, it is important that the industry be alert to any unintended consequences arising out of transposition- in particular ensuring that the safeguards afforded to netting arrangements are replicated. Ensuring that the accompanying RTS contains the same is equally important. Issues have already arisen in Germany and Austria. Whilst the BRRD provides for recognition of member states' resolution regimes as a matter of law, at least within the EEA, financial regulators are concerned that this may not be the case where there is an extraterritorial element.

Ms. Cleary then highlighted a project which has, in the past, been focused solely on the swaps market but which has now set its sights on the SFT market. Under the direction of the FSB, ISDA published the ISDA resolution stay protocol in November 2014. The primary aim of the FSB was to have 18 systemically important banks adhere to the protocol in relation to their swap agreements. Adherence is voluntary but regulators have committed to developing new regulations to encourage wider adoption of stay provisions. The protocol is designed to contractually bind mutual adhering parties to resolution stay regimes in named or qualifying jurisdictions. The protocol currently recognises the resolution regimes of six 'Home Authority' jurisdictions- France, Germany, Japan, Switzerland, the UK and the USA. Going forward, it will also recognise additional resolution regimes that satisfy certain FSB criteria relating to creditor protection safeguards.

The regulators of the Home Authority jurisdictions have requested an extension of the ISDA Resolution Stay Protocol to cover repo and securities lending master agreements. This will also be supported by the aforementioned regulations requiring that where a regulated entity enters into a qualifying financial contract, under a governing law other than that of the home authority, they should provide for contractual recognition of the home authority's resolution regime, including its resolution stays. This raises many questions in relation to the scope, structure and application of the

ISDA Resolution Stay Protocol - in particular, practical considerations about adherence in an agency context, as well as the appropriateness of contractual terms for fiduciaries. In the short term, the regulators have requested that the G18 sign an SFT module, to be bolted onto the ISDA Protocol. ICMA are working alongside ISLA and SIFMA to deliver this. In the longer term, the market must monitor and respond to the relevant regulatory consultations over the months and think about the best solution to meet the regulatory requirements therein.

The 2011 GMRA protocol is designed to provide the market with an efficient way to update certain key provisions of older GMRA documentation on a multilateral basis. The review and update of the GMRA in 2011 produced a document reflecting changes in market practice, lessons learned from the challenges of the crisis and updates to reflect feedback from GMRA users. Adhering to the protocol provides mutual adherents with the ability to elect, amongst other things, improved default provisions - giving the non-defaulting party more flexibility in terms of default valuation. The success of the protocol is directly correlated to the number of adhering parties and whilst we are pleased to have seen some recent adherence, we really do hope to see more ERC firms leading the market in updating outdated GMRA documentation. This is particularly so because from 2016 onwards, ICMA will cease coverage of the GMRA 1995 in its annual legal opinion exercise. Coverage will continue for the GMRA 1995 as amended by the protocol.

7. ERC Operations Group update

Mr. Hamilton said that the focus and remit of the ERC Operations Group had expanded significantly in the past 18 months to deal with regulatory change and changing market infrastructure. The structure of the Operations Group had changed so that it was now composed of 20 members who are mostly from the sell-side. However, the Group would like to expand the membership to include more buy-side firms. Mr. Hamilton said that the Operations Group is chaired by himself and Mr. Sanjiv Ingle of Société Générale. There are three working groups - the trade matching and affirmation working group which is chaired by Mr. Adam Bate of Morgan Stanley; the Target 2 Securities (T2S) working group which is chaired by Mr. Rob Mason of RBS and the Repo transaction reporting working group which is chaired by Mr. Jonathan Lee of J.P. Morgan. There are also two focus groups – one concentrating on ICSD/CCP TSI and the other looking at Capital Markets Union. Finally, the ERC Operations Group has also been making on-going contributions to the ERC Guide to Best Practice in the European Repo Market and also to discussions regarding buy-ins and settlement under the CSDR.

The industry is at a cross roads in the post trade processing of securities financing transactions. Historically the industry has often operated in narrow layers of processing without acknowledging the need to link product and messaging from end to end. However, the industry needs to understand how best to improve repo processing in a way that incorporates the new regulatory demands for repo transaction reporting and product exclusion arising from the CSDR's mandatory buy-in regime. The evidence shows that repo liquidity is declining. The December 2014 ICMA repo survey showed that volumes had reduced in a number of markets. However, improving the quality of repo processing may help to mitigate the impact of regulatory capital requirements on balance sheets.

In the repo post trade area, there are five key themes. First, trade matching and affirmation (TMA) is a key process for T-zero trade capture, the creation of the Unique Trade Identifier and trade reporting. There is a clear need to have a comprehensive market standard of mandatory and optional matching fields. To this end, the TMA working group has reviewed the requirements and flows for TMA and has focused on: (i) ensuring that there is appropriate vendor engagement to bring together the market offerings; (ii) creating a standard template that all vendors can support; (iii) using the move to T+1 as a driver for automation; and (iv) encouraging the industry to affirm and match on T0, in collaboration with ISLA and the IMA. The working group has now developed a template that vendors are reviewing. The ERC Operations Group believes that the use of a standardised template will minimise the level of penalties imposed under the CSDR and will also ensure that the correct risk weighted capital is applied.

A second key theme has been T2S - the creation of single market interoperability between the European CSDs. In 2014, the ERC Operations Group collaborated with Rule Financial to produce a survey on Target 2 Securities – which drew out three key observations. The survey data showed that there was a good level of awareness and understanding of the objectives of T2S amongst respondents. Both Sell Side and Buy Side firms felt that T2S would have a positive to very positive impact across most areas. A high number of respondents indicated that they would connect indirectly but many said that they plan to review this decision. Payments and Cash Management departments were doing the most preparation in advance of T2S. Regarding the commercial impact of T2S, respondents felt that the main impacts would be on collateral pooling, increased liquidity, and the opportunity to rationalise agents. Respondents also felt that technology changes would require the highest level of investment. Respondents were unsure whether T2S should be modified for repos.

Mr. Hamilton went on to say that T2S will improve settlement efficiency, timeliness and remove complexity. Complex and inefficient cross-border settlement will no longer be required for assets held in T2S. Batch processing and differing settlement deadlines will be removed. This should result in fewer fails, later settlement times, more opportunity to trade late in the day and more collateral optimisation opportunities. There is an opportunity to reduce the number of agents (even to a single agent) to handle the settlement of assets in T2S. Participants will have the opportunity to manage a single DCA account which will improve liquidity and reduce operational overhead. Product development will be needed to optimise collateral pooling to take advantage of the CSD interconnectivity and inventory distribution.

The third key theme has been the ECB's MMSR, the implementation of which will be a significant task for the ERC Operations Group. The largest 50 Euro area banks will be required to report their securities financing, money market and other financing transactions on a daily basis from April 2016, with more banks to follow in 2017.

The fourth key theme has been the Securities Financing Transactions Regulation (SFTR) which will require pan-European daily trade level reporting of repo, securities lending and prime brokerage securities financing trades from 2017 onwards. The ERC Operations Group has been working on understanding the configuration of the SFTR requirements, especially as the Level I text is developing.

The last key theme is the CSDR which looks to harmonise securities settlement cycles and processes and will introduce greater settlement discipline through measures such as mandatory buy-ins. This is also a significant body of work for the ERC Operations Group.

The timetable for these five key themes stretches out over the next three years and it is important to recognise the inter connectivity between them. A number of external events are due to take place over the next three years, which are set to significantly change the European post-trade securities landscape. These events will force us to drive the internal recalibration of our systems and business processes as we approach 2017, which will have a significant impact on Operations teams.

Can we join the dots? Improved TMA will help improve clearing and settlement which in turn will tie into regulatory reporting. TMA can be used to introduce product differentiation which can drive reporting, transparency and segregation for regulatory demands. Operationally, work has commenced in the top layer of the post trade lifecycle to establish standards and improve consistency in trade level matching and affirmation. This is not an easy journey. Existing standards are incomplete and fragmented. For example, ISDA, ICMA and ISLA and existing infrastructures have developed different treatments and processes for different products. Regulatory proposals, such as CSDR and SFTR, will require a new level of product differentiation and the recognition of new attributes. At the moment, there is no target operating model that will recognise these elements. There is limited usage of specific repo messaging today and will this be further reduced post T2S implementation.

There is clearly a journey ahead of us but there are also opportunities and areas for collaboration. There are opportunities to further develop repo post trade processing to incorporate new attributes such as product type, legal entity and trade identifiers. A number of vendors have expressed interest in both standardising and establishing a level of interoperability in this layer. Work has already started to develop a consistent repo message incorporating these new demands and developing the capabilities already positioned in the ISO20022. In addition, there is an opportunity to validate and link existing work to the development of an efficient operating model incorporating (i) TMA standards; (ii) buy-in and settlement discipline requirements arising from the CSDR; and (iii) attribute and product definitions arising out of the ECB MMSR and the SFTR. Updates will be published on the ICMA website and we will look to run design workshops and develop a target operating model.

The Chairman thanked Mr. Hamilton and the members of the Operations Group. He noted that it would be important for market participants to spend money further developing the market.

8. Paper on the interaction of regulation on repo and collateral markets

Mr. Richard Comotto said that he had been asked to look at evidence of repo rates and whether there was any change in repo rates due to the imposition of new regulatory requirements. Data for 2012 to mid-2014 was obtained from the electronic trading platforms. The study focused on 1-day euro-denominated fixed-rate GC repo rates for transactions executed on automatic trading systems and cleared across CCPs. The bulk of transactions was in Italian and German collateral. By the end of the study period, Italian collateral had become the dominant component, amounting to almost 60% of the total. The number of tom-next and spot-next trades also increased over the period of the study.

It was difficult to observe a regime change, as the sample period was rather short. There was however a change in seasonality in the trends, with heightened volatility coinciding with month-ends rather than the end of reserve periods. The sensitivity to month-end may mean that exceptional volatility is driven by regulatory reporting requirements linked to Leverage Ratio reporting, which started in many countries in 2013. Mr. Comotto noted that these are tentative conclusions only.

Mr. David Hiscock said that this study provides empirical data which can potentially be shown to regulatory authorities who are always keen to receive data. However, a longer period of observation is needed in order to present a more conclusive study. Nevertheless, the work that has been done to date will continue to inform discussions with the authorities.

9. Central Securities Depositories Regulation settlement discipline

Mr. Andy Hill said that in November last year ICMA had published a study on the corporate bond market, based on interviews with corporate bond market participants. The study won a lot of media attention and has played a critical role in focusing attention on liquidity issues. ICMA would like to do a further study in the next few months to focus on the repo market. Mr. Hill noted that he would be in touch with ERC firms in due course.

Turning to mandatory buy-ins, Mr. Hill said that the CSDR had passed into law in 2014 and ESMA is now preparing the regulatory technical standards (RTS) for its implementation. While the CSDR largely focuses on settlement regulation it also contains an important piece of market regulation which will have a profound and dramatic impact on liquidity and pricing for European capital markets. The CSDR proposes to introduce mandatory buy-ins for non-cleared trades. Buy-ins will be initiated and managed at the CSD or ATS level, with CSDs heavily involved in the process, including verifying fail-chains. Buy-ins will be initiated either four or seven days after intended settlement date, as determined by MiFID II or MiFIR calibrations. The start-leg of securities financing transactions are within scope of the mandatory buy-in provisions and it is suggested that the exemption cut-off should be 8 days for liquid securities and 14 days for illiquid securities. There will also be a cash penalty mechanism to be managed by the CSDs. It is proposed that there be an 18-month delay in implementation to allow the market sufficient time to make the necessary changes in order to be compliant.

In February 2014, ICMA responded to ESMA's consultation papers on the RTS for the CSDR. The key recommendations made by ICMA included (i) that buy-ins should take place at the trading level for non-cleared, fixed income transactions, rather than at the CSD or ATS level; (ii) the maximum extension period of seven days should be applied to all fixed income products; (iii) the start-leg of repos termed up to 21 business days should be exempt; and (iv) implementation should be postponed until after the roll-out of T2S, at the very least. At the same time, ICMA published a CSDR Mandatory Buy-in Impact Study, which surveyed bond and repo market-makers to assess and quantify the impact of mandatory buy-ins on market pricing and liquidity. The results were depressing. The survey quantifies the average offer-side premium that market makers will add in order to display offers in securities that they do not hold in inventory. The results show that bid-offer spreads across all asset classes will increase significantly and even for the most liquid sovereign bonds, the bid-offer spread will double. In the case of less liquid securities, some market makers will retrench from providing offer-side liquidity completely. Term repo prices will also widen significantly due to the additional offer-side premia required. The impact on repo pricing and liquidity will be greatest at the exemption threshold. Spreads would treble. As you move down the credit curve the spreads widen even more. The European Central Securities Depositories Association (ECSDA) recently conducted a study to consider the market impact of the CSDR. Based on settlement efficiency data extracted from the ICSDs and CSDs for November 2014, the regulation as drafted would result in over 7,500 new buy-ins being initiated per day, which works out to 1.8 million buy-ins per year with an underlying market value in excess of €2.5 trillion. These numbers are staggering and show how the market would cease to function.

Turning to recent advocacy work, Mr. Hill said that ICMA had worked closely with other associations, such as AFME, attending a number of meetings with regulators with them. Additionally, ICMA had written to the Chair of ESMA, Mr. Steven Maijoor, expressing concerns on attempts to enforce buy-ins at CSD level. Where do we go from here? Ultimately, we have to accept that whatever ESMA does in the RTS, the CSDR Level 1 is unworkable. Nevertheless, it looks like ESMA is pushing ahead, with the RTS expected to become law by the end of the year. We had understood that it was likely that there would be a delayed implementation date of mid-2017. However, we have recently heard that the Commission do not support a delay, in which case implementation may take place as early as January 2016.

The Chairman issued an urgent appeal for action to ERC member firms to speak to their national regulators about the issues identified with mandatory buy-ins. Notably, the Commission never carried out an impact assessment of the mandatory buy-in provisions and the studies that have just been discussed show the staggering cost these provisions will have not only on the market, but to the wider economy as well. In many respects, mandatory buy-ins could be as damaging to market order and efficiency as the FTT. One commentator has described it as "Preventing malaria by clearing the swamp with an atomic bomb". Many DMOs, central banks and other regulatory authorities are only just waking up to this issue. The Chairman said that he is drafting a letter to Commissioner Hill asking that the problems with mandatory buy-in provisions be addressed in his project on Capital Markets Union. The letter will be signed by a number of associations. However, in addition, every member of the ERC is asked to raise the issue with their respective national regulator, central bank and DMO. The message needs to be clearly and loudly communicated that: (i) the introduction of mandatory buy-ins must be delayed until after the implementation of T2S at the earliest; (ii) the Level 2 RTS, as proposed, should be rejected on the grounds that they are un-implementable – in particular buy-ins at CSD or ATS level and using MiFID II/R calibrations to determine when buy-ins should occur, both of which are inherently flawed; (iii) a thorough, transparent, and independent impact assessment should be conducted involving all market stakeholders to assess the likely consequences of introducing mandatory buy-ins; and (iv) the Level 1 Directive should subsequently be reviewed and appropriately revised. As time is of the essence, members of the ERC are to take action before the end of May.

10. <u>Regulatory update</u>

Mr. David Hiscock said that the principal intention of the SFTR is to provide transparency and enhance regulators' and investors' understanding of SFTs activities. The Regulation requires that SFT transactions are reported to trade repositories to facilitate building up a picture of the market. But it also does a number of other things, including requiring disclosure of the use of SFTs to fund investors and making provisions to address collateral re-use. Article 15 of the proposed regulation concerns re-use and re-hypothecation. These terms continue to be confused. It is important to correctly distinguish the re-sale of securities received under a title transfer collateral arrangement (TTCA), such as the GMRA which results in the complete transfer of legal title, from the more limited re-hypothecation of client assets. However, because of the confusion, on the part of regulatory authorities, there is a risk that the SFTR may require market participants to obtain consent to use the transferred asset. This would introduce legal uncertainty regarding the transfer of ownership in a TTCA. We think that we will be successful in getting regulatory authorities to remove the consent provision, but we are doubtful that we will be successful on the associated risk notification provision. How long will it take for the SFTR to come into force? Once Level 1 has been finalised in mid-2015, ESMA will then have one year to develop the associated RTS. Market participants will also need to put the necessary systems in place in advance of implementation, but it is as yet unclear how much extra time SFTR will provide – but this may be a further year.

Turning to the FSB work to address SFTs in the context of shadow banking, Mr. Hiscock said that ICMA had recently participated in a FSB workshop held with the industry on 30 April and had responded to the FSB's November consultation on "Standards and Processes for Global Securities Financing Data Collection and Aggregation". The FSB are now finalising their report. The FSB has been examining re-use from a financial stability perspective to determine whether re-use builds up risk in the system. .

The ECB published its Money Markets Statistics Regulation (MMSR) in the Official Journal of the EU in December last year. As of 1 July 2016, the ECB will require that roughly the largest 50 euro area MFIs report data daily on their money market transactions before 07:00 CET on the first TARGET2 settlement day after the trade date. Repo and reverse repo data for transactions denominated in euro with a term up to and including 1-year are included within the scope of the MMSR.

Commissioner Hill is leading a project to improve capital markets in the EU to finance growth and jobs. The project is exploring ways of reducing fragmentation in financial markets, diversifying financing sources, strengthening cross border capital flows and improving access to finance for business and SMEs in particular. ICMA responded to the Commission's CMU Green Paper. Question 27 of the Green Paper specifically considered measures to improve collateral flows. ICMA's response was based upon work that has been done by the ERC, the key points being; (i) the risk to the overall functioning of capital markets if collateral fluidity is inhibited; (ii) the importance of further market infrastructure enhancement, especially TSI and improvements to the ICSDs settlement bridge; (iii) the difficulty of tracking collateral and whether tracking re-use is really necessary; (iv) the concerns raised regarding CSDR mandatory buy-ins; and (v) concerns regarding the implementation of the BRRD, particularly in relation to the stay of close-out and the efficacy of netting. The ERC also provided input to COGESI to assist in the formulation of its response to this particular question.

Mr. Hiscock said that the Council needs to be aware that the MiFID pre- and post-trade requirements will cover non-equities and will affect the trading of bonds which will affect repos. Another regulatory development that Council members should be monitoring is the OECD project to tackle base erosion and profit shifting (BEPS) – which seeks to develop a coordinated international approach to combat tax avoidance by multinational enterprises shifting their profits. The OECD report is of concern as it says "…the most common transaction used to achieve a mismatch in tax outcomes under a hybrid transfer is a sale and repurchase arrangement…". ICMA has spoken with HM Treasury and the OECD to educate them about repos and the repo market and it does seem that new measures should now prove to be more proportionate, rather than presuming that all SFTs are likely to present BEPS concerns.

11. Results of the elections to the European Repo Committee

The Chairman announced that the following people had been elected to the Committee:

Gareth Allen
UBS AG

Tony Baldwin
Daiwa Capital Markets Europe Limited

Andreas Biewald
Commerzbank Aktiengesellschaft

Sylvain Bojic
Société Générale S.A.

Francois-Xavier Bouillet
Goldman Sachs International

Daniel Bremer
Merrill Lynch International (trading as Bank of America Merrill Lynch)

Eduard Cia
UniCredit Bank AG

Nicola Danese
J. P. Morgan Securities plc

Godfried De Vidts
ICAP Securities Limited

Romain Dumas
Credit Suisse Securities (Europe) Limited

Richard Hochreutiner
Swiss Reinsurance Ltd

Michael Manna
Barclays Capital Securities Limited

Grigorios Markouizos
Citigroup Global Markets Limited

Andrea Masciovecchio
Intesa Sanpaolo S.p.A.

Eugene McGrory
BNP Paribas

Jean-Michel Meyer
HSBC Bank plc

Ronan Rowley
Deutsche Bank AG

Michel Semaan
Nomura International plc

Andrew Wise
Morgan Stanley & Co. International PLC

The Chairman congratulated the new Committee members and thanked Ms. Maria Arauzo Arranz of Caixabank and Mr. Constantino Toribio Garcia of Bankia for their work on the Committee in the past year. He also thanked a number of long-serving members of the Committee, such as Mr. Stefano Bellani, Mr. Olly Benkert, Mr. Ulf Bacher, Mr. Guido Stroemer, and Mr. Simon Kipping who had decided not to stand for re-election. He noted that the coming year would present a lot of challenges for the European Repo Committee and that there would be a lot to do.

12. Any other business and next meetings

The Chairman said that the next ERC General Meeting will be held on October 14 at 2:00pm in London, hosted by Bank of New York Mellon.

<u>Annex 1</u>

<u>List of presenters and represented firms in attendance</u>

Presenting:

Martin Scheck, *ICMA*
Godfried De Vidts (Chairman), *ICAP*
Cornelia Holthausen, *European Central Bank*
Lisa Cleary, *ICMA*
Nicholas Hamilton, *J.P. Morgan*
Richard Comotto, *ICMA Centre*
Andy Hill, *ICMA*
David Hiscock, *ICMA*

The following member firms were represented at the meeting:

ABN AMRO N.V., Amsterdam
Ahorro Corporación Financiera, S.V., S.A., Madrid
Banca IMI S.p.A., Milan
Banco Bilbao Vizcaya Argentaria, S.A., Madrid
Banco de Sabadell SA
Banco Santander, S.A., Madrid
BANKIA, S.A., Valencia
Barclays Capital Securities Limited, London
Bayerische Landesbank, Munich
Belfius Bank & Insurance, Brussels
BNP Paribas, Paris
CAIXABANK, S.A., Barcelona
Cecabank, S.A., Madrid
Citigroup Global Markets Limited, London
Commerzbank Aktiengesellschaft, Frankfurt
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (trading as Rabobank International), London branch
Credit Suisse Securities (Europe) Limited, London
Daiwa Capital Markets Europe Limited, London
Deutsche Bank AG, Frankfurt
EquiLend LLC, New York
EuroMTS Limited, London
Goldman Sachs International, London
HSBC Bank plc, London
HSBC France, Paris
ICAP Securities Limited, London
ING Bank N.V., Amsterdam
IntesaSanpaolo S.p.A, Milan
J.P. Morgan Securities plc, London
KBC Bank N.V., Brussels
Landesbank Baden-Württemberg, Stuttgart
LCH.Clearnet Limited, London
Macquarie Bank Limited, London
Merrill Lynch International (trading as Bank of America Merrill Lynch), London

Mitsubishi UFJ Securities International plc, London
MN Services N.V., The Hague
Morgan Stanley & Co. International PLC, London
Nomura International plc, London
Raiffeisen Zentralbank Österreich AG, Vienna
SIX SIS AG
Société Générale S.A., Paris
Swiss Reinsurance Company Ltd, Zurich
The Bank of New York Mellon
The Royal Bank of Scotland plc, London
Trax
UBS AG, Zurich
UniCredit Bank AG, Munich
UniCredit S.p.A, Milan