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ICMA

EUROPEAN REPO AND COLLATERAL COUNCIL

Minutes of the Annual General Meeting of the ICMA European Repo and Collateral Council (ERCC) held on 14 March 2018, in London

Host: BNY Mellon

Location: Fishmongers' Hall
London Bridge
London EC4R 9EL

Time: 14:30 - 17:00 (London time)

Member firms represented at the meeting: Please see Annex A.

1. Welcome remarks by the ICMA ERCC Chairman

Mr. Godfried De Vidts, Chairman of the ICMA ERCC, welcomed delegates in the room and thanked BNY Mellon for hosting the event. With regards to the recent elections to the ERCC Committee which were concluded in February, Mr. De Vidts noted the increasing diversity of the Committee with now four buy-side members, an ICSD and a CCP represented. He also thanked all members that were not re-elected for their valuable contributions over the past year(s). In particular, Mr. De Vidts thanked Mr. Eduard Cia who stepped down from the Committee this year as one of the early supporters of the Committee members after 19 years on the Committee and showed a slide with a list of the 12 longest standing members on the Committee. Mr. De Vidts also informed members of the recent nominations to the IRCC Committee: Mr. De Vidts was re-nominated as Chairman of the IRCC Committee and Mr. Michel Semaan was newly nominated as IRCC Committee Vice-chair (replacing Mr. Cia).
[For details, see presentation, slides 2 - 8]

Mr. De Vidts gave the word to **Mr. Andy Wise**, CIBC, who delivered an obituary for Mr. Karl Rolewicz, a longstanding and active participant in the repo community who had passed away in January 2018. This was followed by a minute of silence.

2. Results of the 34th semi-annual repo survey

Mr. Godfried De Vidts presented the results of the 34th European Repo Survey, which had been published the same day, on behalf of Mr. Richard Comotto, the author of the Survey, who was not able to attend this year's AGM.
[For details, see presentation, slides 9 - 26]

3. Legal update

Ms. Lisa Cleary, Senior Director, ICMA, provided an update on recent legal developments in the European Repo market, covering the following three issues:

- The decision taken by the ERCC Committee to **discontinue coverage of the GMRA 1995 in the GMRA legal opinions from 2019 onwards**
- Progress in relation to the ERCC sponsored project to develop Repo Pledge documentation and next steps; and
- Potential implications of Brexit for the GMRA and work undertaken by the ERCC Legal WG in this context

[For details, see presentation, slides 27 - 34]

4. Repo market update: Conditions at year-end 2017

Mr. Andy Hill, Senior Director, ICMA, presented the key findings from a short ERCC study on the conditions in the European Repo market around year-end 2017 which had been published on 15 January 2018.
[For details, see presentation, slides 35 – 45]

5. The Guide to Best Practice in the European repo market

Mr. David Hiscock, Senior Director, ICMA, updated members about the ongoing work on the Guide to Best Practice in the European repo market, introducing the latest set of amendments to the Guide prepared by the Guide Working Group and published on 18 December 2017.
[For details, see presentation, slides 46 - 51]

6. Regulatory update

Mr. David Hiscock, Senior Director, ICMA, provided an update on recent regulatory developments impacting the Repo Market. His update covered the following regulatory initiatives: MiFID II/R, SFTR, Bank Prudential Requirements (including LR and NSFR), CSDR, Recovery and Resolution for banks and CCPs, Haircuts, and Benchmark Reform.
[For details, see presentation, slides 52 - 63]

7. ERCC Operations Group Update

Mr. Nicholas Hamilton, Co-Chair of the ERCC Operations Group, provided an update on the work of the ERCC Operations Group over the past months to help streamline repo operations and tackle upcoming regulatory challenges. The work is structured around four pillars: (i) Regulation, (ii) Market infrastructures, (iii) Best practice and training, and (iv) FinTech.
[For details see presentation, slides 64 - 76]

8. Panel: Unlocking the value of T2S

Moderator:
Ms. Gesa Benda, Head of Collateral Management Product, BNY Mellon

Panellists:
Mr. Adam Bate, Executive Director, Bank Resource Management, Morgan Stanley
Mr. Nicola Danese, Managing Director, JP Morgan
Mr. Michael Manna, Head of Fixed Income Financing Trading, EMEA & Asia Pacific, Barclays
Mr. Marcello Topa, Director, EMEA Market Policy & Strategy, Citi
Mr. Jean-Robert Wilkin, Executive Director, Head of Market Development, Clearstream

Ms. Benda introduced the panel and set out the objectives for the discussion. Following the successful completion of the technical part of T2S project with the final migration wave concluded in September 2017, it is now time to focus on the way forward for the project. What has been achieved so far and what are the necessary next steps to allow users to unlock the full value of the new settlement environment? The panel sought to approach these questions both from a front-office and an operational perspective, also considering complementary work that is under way in relation to collateral management. To start, Ms. Benda asked Mr. Topa to briefly elaborate on the key features of T2S, given that there are still many myths and misperceptions around this technical topic. Mr. Topa explained that T2S is first and foremost a technical platform to allow for real-time settlement of securities against cash. The infrastructure is managed by the Eurosystem and shared between all the CSDs that have signed up to the project (currently 22). It is also important to note that T2S is not a CSD itself, which is an important legal distinction.

Mr. Manna and Mr. Danese commented from a trader's perspective on the progress made so far. Mr. Manna pointed out that while settlement arrangements are an essential part of every trade, T2S is a complex issue that is not yet very well understood in the front-office. Moreover, from a trading perspective T2S hasn't had much impact in practice yet. The three main concerns in relation to settlement remain in place, namely: (i) both central bank money (CeBM) settlement in T2S and commercial bank money (CoBM) settlement with ICSDs and agents continue to co-exist, as many clients do not have direct access to T2S, and along with this the frictions between both settlement environments, (ii) triparty repo is a very efficient way to do business but is still fragmented and requires firms to move collateral, (iii) there is still a great reliance on the ICSD Bridge which continues to create frictions. None of these aspects have improved with T2S. In addition, even more importantly from a trading perspective, settlement costs have not decreased. Considering the substantial development costs for T2S, it is thus in the current circumstances not easy to see the business case for the project. Mr. Danese generally agreed with this view and compared the move to T2S to an upgrade from an old Nokia phone to a new smartphone: the new infrastructure has a lot of potential but in order to utilize this potential additional features and applications need to be developed first. For the time being, T2S remains merely a technical upgrade which cannot be fully utilized yet as the essential additional elements are still missing. Important aspects to consider in this context are: (i) a solution needs to be found to allow balance sheet netting for cross-CSD settlement in T2S, (ii) a collateral management tool within T2S would be needed to allow firms to centrally manage collateral pools, (iii) T2S needs to facilitate the efficient management of intraday liquidity.

While agreeing in principle with the traders' assessment, Mr. Bate also pointed out that the degree to which firms already feel the benefits from T2S also depends on their operational set-up pre-T2S and the manner by which they connect to the platform. Firms with a less sophisticated set-up prior to T2S will probably already reap significant benefits from the opportunities that T2S offers in terms of timely settlement messaging and additional functionalities, such as auto-collateralisation. In contrast, firms that already had a well-developed set-up pre-T2S, including an efficient European sub-custody network enabling them to better realise netting efficiencies, probably have not felt the need to make any changes to this set-up as a result of T2S and are thus not experiencing any significant improvements. Mr. Wilkin agreed that most firms have indeed not yet reviewed their operational and account set-up, also because T2S is not a mandatory project for users and has therefore often been considered a lower priority as compared to mandatory projects such as compliance with a whole range of regulations or Brexit. In order to accelerate progress, he therefore encouraged users to consider T2S as a mandatory initiative. Mr. Wilkin also drew a comparison between T2S and the introduction of the single euro currency in the early 2000s. The euro has led firms to consolidate their cash accounts with different central banks into a single euro account. On the securities side, T2S aims to offer a similar opportunity to firms; although he also acknowledged that this choice is not a reality yet. Other panellists agreed that T2S is in principle an important step in the right direction with the potential to bring markets in Europe closer together and hence an important complement to the CMU project. However, high expectations have been disappointed so far, as it has become clear that in practice such consolidation on the securities side is much more difficult to achieve than on the cash side, given the significant number of national barriers that continue to prevent a more integrated post-trade environment. Panellists stressed especially the large number of barriers that will have to be addressed by the public sector, e.g. in relation to withholding taxes and corporate actions, as highlighted in the recently published report by the European Post Trade Forum (EPTF). Only once these legal barriers have been dismantled there is a real opportunity to unlock the value of T2S and allow firms to fully utilize the potential benefits from the new settlement environment.

Mr. Topa agreed with the need for policy makers to act but also stressed the need for the private sector to actively embrace the new settlement environment provided by T2S. Now that the technical infrastructure is in place, users have to learn how to make full use of it. This will require all players in the market, CSDs, custodians and market participants, to develop the necessary solutions/services, including in relation to custody and the efficient processing of corporate actions and taxes. There is also a need to achieve a further harmonisation of business processes and T2S can serve as a catalyst here. Panellists agreed with the latter and welcomed the pro-active approach taken by the Eurosystem in this context to foster further harmonization, in particular in relation to collateral management. The planned Eurosystem Collateral Management System (ECMS), due to go live in 2022, and complementary work undertaken by the Collateral Management Harmonisation Task Force (CMH-TF) are important initiatives which are expected to benefit the market more widely. Panellists also briefly discussed the ICSDs' related joint initiative to allow cross-CSD settlement for eligible Eurobonds in T2S. Mr. Danese said that he was generally supportive of the project as it aims to increase the number of settlement options for firms. The benefits, however, are ultimately also linked to the question of balance sheet netting in T2S mentioned above, which, if allowed, would add significant value to the initiative. Regarding the implementation timeline of the Eurobond project, Mr. Wilkin explained that the technical solution has been finalized and that a concrete go-live date will be announced in summer.

Based on a question from the audience, panellists also briefly considered the role for new technology, in particular Distributed Ledger Technology (DLT) and whether this could undermine the case for T2S. Mr. Wilkin commented that he saw new technology, including DLT, rather as an enabler for T2S, i.e. as a tool which could potentially be integrated into T2S, building on the harmonization already achieved to raise the efficiency of the model. He also mentioned that CSDs, among others, are already actively considering DLT-based solutions and referred to the LA Ledger project as an example which Clearstream is undertaking with several other CSDs. Panellists also referred to a detailed report on this topic recently published by the ECB which considers the potential implications of DLT on the settlement landscape in Europe.

Ms. Benda thanked the panellists for the interesting discussion and concluded the panel with a call for more market participants to get involved in the ongoing work of the CMH-TF, which she stressed should not be seen only as an ECB initiative but rather as a market project and an opportunity to actively shape the work in order to maximise the benefits that firms can get out of the new settlement environment.

9. Any other business and next meetings

The next **ERCC General Meeting** will be held on 17 October 2018, 14:00 – 17:00 (UK time), in London, kindly hosted by Bloomberg.

The ERCC's Annual **Professional Repo and Collateral Management workshop** will be held on 24 – 25 September 2018 in London, kindly hosted by Euroclear.

Annex A

The following firms were represented at the meeting:

Abide Financial
Accenture Post Trade Processing
Aetos Limited
AXA Investment Managers GS Limited
Banco Bilbao Vizcaya Argentaria, S.A.
Banco de Sabadell SA
Banco Santander, S.A.
Bank of China Limited, London Branch
Bank of China Limited, Luxembourg Branch
Bankia, S.A.
Barclays
Bayerische Landesbank
Belfius Bank & Insurance
Bloomberg L.P.
BNP Paribas Asset Management
BNP Paribas London Branch
BNY Mellon
Borsa Italiana
BrokerTec Europe Limited
Caixabank, S.A.
Canadian Imperial Bank of Commerce London Branch
Capula Investment Management
Cecabank, S.A.
Cinnober Financial Technology
Citibank International Limited
Citibank, N.A.
City University London
Clearstream Banking S.A.
CMS Cameron McKenna Nabarro Olswang LLP
CORRIGAN CONSULTING LIMITED
Crédit Agricole Corporate and Investment Bank
Daiwa Capital Markets Europe Limited
DBS Bank Ltd.
Deutsche Bank AG, London Branch
Deutsche Boerse AG
DZ Bank AG
Elixium
EquiLend LLC
Equitylinked LLP
Eurex Repo GmbH

Euroclear Bank S.A./N.V.
EuroMTS Limited (trading as MTS Markets)
European Investment Bank
European Money Markets Institute (EMMI)
First Abu Dhabi Bank (PJSC)
FTI Consulting, Inc.
GLMX
Global Capital
Global Investor Group
Goldman Sachs Asset Management International
Goldman Sachs International
GPW Benchmark S.A.
Grangeway Solutions
Grimaldi Studio Legale
HSBC Bank plc
IBP Markets Ltd.
IHS Markit
IHS Markit Group Holdings Limited
Independent
ING Bank N.V.
Insight Investment
International Council of Securities Associations (ICSA)
Investec Bank plc
J.P. Morgan Securities plc
Jefferies International Limited
Kepler Cheuvreux SA
La Banque Postale Asset Management
Landesbank Baden-Württemberg
LCH Limited
Lloyds Bank plc
London Business Bank Ltd
Loppex
Macquarie Bank Limited
MarketAxess Europe Limited
Merrill Lynch International
Mitsubishi corporation International (Europe) plc
Moody's Investor Service Ltd
Morgan Stanley & Co. International PLC
MUFG Securities EMEA plc
Murex S.A.S.
National Australia Bank Limited
NEX
NEX Group plc

NEX Markets
Nomura International plc
Northern Trust Global Services Limited
Pictet Asset Management Limited
Pirum Systems Limited
Reserve Bank of Australia
Risk
Risk Control
Royal Bank of Canada
S.W.I.F.T. SCRL
Santander UK plc
Schroder Investment Management Limited
Shanghai Clearing House
SimCorp GmbH
Simmons & Simmons LLP
SMBC Nikko Capital Markets Limited
Société Générale S.A.
Standard Chartered
Standard Chartered Bank
State Street Bank and Trust Company
State Street Global Advisors Limited
The Bank of New York Mellon
The Depository Trust & Clearing Corporation
The International Securities Lending Association (ISLA)
The Royal Bank of Scotland plc
The Wall Street Journal
TI Finance
Tradeweb Europe Limited
Tradition (UK) Limited
TriOptima UK Ltd
TSB Bank plc
Tullett Prebon (Securities) Limited
UBS Asset Management (UK) Ltd
UBS Business Solutions AG, UK Branch
UBS Limited
White & Case LLP