Minutes of the Annual General Meeting (AGM) of the ICMA European Repo and Collateral Council held on 20 March 2017, in Zurich

Host: SIX Repo AG  
Location: Convention Point, Selnaustrasse 30, 8001 Zurich, Switzerland  
Time: 13:00 - 16:00 CET

Presenting:  
Mr. Martin Scheck, Chief Executive, ICMA  
Mr. Godfried De Vidts (ERCC Chairman), BrokerTec Europe  
Mr. Paul van de Moosdijk, PGGM  
Mr. Richard Comotto, ICMA Centre – Reading University  
Mr. Andy Hill, ICMA  
Ms. Lisa Cleary, ICMA  
Mr. Alberto Lopez, EMMI  
Mr. Sylvain Bojic, Société Générale  
Mr. David Hiscock, ICMA  
Mr. Nicholas Hamilton, JP Morgan  
Mr. Michael Manna, Barclays  
Mr. Jonathan Lee, JP Morgan  
Mr. John Kernan, REGIS-TR  
Mr. John Abel, Abide Financial

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

1. Welcome

Mr. Martin Scheck, Chief Executive of ICMA, welcomed attendees to the 2017 ERCC AGM and thanked SIX Swiss Exchange and SIX Repo for hosting the event. He stressed the importance of the Swiss region for ICMA, as the association’s headquarters, but also as home to its second-largest regional membership.

As regards the ERCC, Mr. Scheck noted the continuous growth of the ERCC membership over the past years to now just under 100 firms and was particularly pleased to note the increasing involvement of buy-side firms, reflecting the changing dynamics of the market. In the Council, there are now 15 buy-sides represented and since the latest elections this is also reflected in the ERCC Committee, which now includes 3 buy-side representatives.
Mr. Scheck provided a brief overview of current priorities in ICMA’s other core areas besides repo and collateral, i.e. primary markets, secondary markets and the Asset Management and Investors Council, ICMA’s buy-side constituency. ICMA’s 2017 priorities also include a number of specific capital market products and initiatives, such as green bonds, social bonds, covered bonds, securitisation and infrastructure finance.

Mr. Scheck invited attendees to ICMA’s 49th AGM and Annual Conference, to be held from 3-5 May in Luxembourg. As usual, the programme combines both great market insight and an impressive speaker line-up, with ample networking opportunities.

Mr. Scheck closed his introductory remarks by thanking all members of the ERCC Committee and the related working groups, and specifically Mr. De Vidts as ERCC Chairman, for their continuous commitment and engagement which is essential for the success of the ICMA ERCC.

2. Remarks by the Chairman of ICMA’s ERCC Committee

Mr. Godfried De Vidts, Chairman of ICMA’s ERCC Committee, thanked Mr. Scheck for his introductory remarks and welcomed all participants to the ERCC AGM. He introduced the members of the recently elected new ERCC Committee and highlighted the election of three buy-side members onto the Committee. The three members represent a diverse range of institutions, including a re-insurance firm, an asset manager and a pension fund. This will further add to the diversity of the ERCC Committee and will also increase its credibility towards regulators. Mr. De Vidts also especially thanked those members that have lost their seat in the latest elections for their valuable contributions over the past years.

Looking at the most pressing regulatory issues impacting repo and collateral markets, Mr. De Vidts singled out three issues that will need particular attention over the next months: the ESCB lending programme under QE, as well as on the regulatory side the Net Stable Funding Ratio (NSFR) and Leverage Ratio (LR). On all three issues the ERCC will continue to engage with authorities, including the ECB, European Parliament, Council and Commission to highlight the need to carefully reconsider the rules in order to make sure that repo and collateral markets can continue to effectively serve the real economy. In this context, it will not be enough to simply identify the concerns, but to also suggest concrete solutions. Input from the wider ERCC membership in this context is most welcome.

Mr. De Vidts briefly mentioned the ongoing discussions on Brexit, which the ERCC is closely monitoring. The ERCC will continue to passively follow the topic unless members identify any concrete issues that could jeopardise European, or also global repo and collateral business.

Mr. De Vidts briefly presented the agenda for the day, which included all the issues mentioned above, alongside updates on other important market developments and initiatives undertaken by ICMA. The presentations would be followed by a panel discussion on some of the key challenges with the upcoming implementation of the EU’s SFT Regulation.

As has been the case for past ERCC general meetings, presentations and minutes from this AGM will be made available on the ICMA website.
3. European Repo Market: Views from the buy-side

Mr. Paul van de Moosdijk, member of the ERCC Committee, presented his views on the latest developments in the European Repo market, highlighting some of the key challenges from a buy-side perspective.

4. Results of the 32nd semi-annual repo survey

Mr. Richard Comotto presented the results of the latest, 32nd, semi-annual repo survey based on December 2016 data. The survey was published on 14 February 2017 and is available on the ICMA website.

5. Repo market conditions in Europe: What happened with the repo market at year-end and why?

Mr. Andy Hill presented the key findings from a short ERCC study on the conditions in the European Repo market around year-end 2016, marked by extreme volatility and unprecedented market dislocation. The study was published on 14 February and is available on the ICMA website.

6. Legal update

Ms. Lisa Cleary provided an update on the latest legal developments. This included updates on the Corporate Annex to the GMRA and currently continued coverage of the GMRA 1995 in the ICMA legal opinion.

7. Development of a new repo index

Mr. Alberto Lopez, Senior Benchmarks Officer at the European Money Markets Institute (EMMI), updated members on recent work undertaken by EMMI in the development of a euro repo market index.

8. The updated Guide to Best Practice in the European repo market

Mr. Sylvain Bojic, Chair of the ERCC Guide Working Group, introduced the updated version of the ERCC Guide to Best Practice in the European repo market, which was published on 14 February.

9. Regulatory update

Mr. David Hiscock provided an update on recent regulatory developments impacting the Repo Market, including CCP Recovery and Resolution; the ongoing review of CRD IV/ CRR, covering LR and NSFR; haircuts and collateral re-use; the MMF Regulation; and the pertinent provisions of MiFID II/R.

10. Key challenges in repo and collateral operations

Mr. Nicholas Hamilton, Co-Chair of the ERCC Operations Group, gave an overview of the substantial work undertaken by the ERCC Operations Group over the past months to help streamline repo operations and tackle upcoming regulatory challenges. The work is structured along four pillars: (i) Regulation, with a specific focus on the SFTR, (ii) Market infrastructure and related initiatives; (iii) Best practice and education and (iv) FinTech.
11. Panel discussion on SFTR implementation challenges

Moderator:
Mr. Richard Comotto, Senior Visiting Fellow, ICMA Centre

Panellists:
Mr. Jonathan Lee, EMEA FI Regulatory Reporting Manager, JP Morgan
Mr. John Kernan, Head of Product Management, REGIS-TR
Mr. John Abel, Co-Founder and CEO of the Applicant TR, NEX Abide TR AB

Following introductions, Mr. Comotto asked panellists to share their views on the lessons learned from the implementation of EMIR reporting for derivatives, which has suffered from serious problems in terms of data consistency. All three panellists agreed that there are important lessons from the EMIR process and that many of these have indeed been learned for SFTR. Technical guidance provided by authorities on SFTR is much more granular, in particular as regards common standards for trade repositories (TRs), the lack of which was an important reason for the problems with EMIR. Another critical problem in the context of EMIR was the absence of harmonised international standards on some of the key identifiers underpinning the reporting framework, such as the Legal Entity Identifier (LEI), the Unique Transaction Identifiers (UTI) or the Unique Product Identifier (UPI). Since then, a lot of work has been done on a global level so that SFTR will be able to rely on a much more developed and established system of identifiers. Another lesson learned from EMIR is that the implementation proved to be a gradual process, which has been acknowledged by regulators who have refrained from the imposition of sanctions. While hopefully less problematic, the SFTR process is still likely to follow a similar pattern and it is hoped that this is understood by authorities. Finally, it was noted that vendors have also moved on so that firms will be able to rely on a more supportive and experienced vendor environment, which is expected to make an important difference.

Asked about the SFTR consultation process and key remaining concerns with the draft technical standards, panellists noted that there have been several opportunities to feed into the process, through public consultations and hearings. These have been used extensively by the ERCC but also by a wide range of other associations and individual institutions. Mr. Kernan and Mr. Abel also pointed to the substantial work undertaken behind the scenes between ESMA and the relevant TRs, but also with SWIFT, to define common standards and processes. This has been a critical element both for EMIR and SFTR. During the public consultation process a number of important issues have been raised. One example is ESMA’s proposal to impose IFRS 13 accountancy standards for the daily valuation of collateral. This was met with fierce opposition from the industry, including the buy-side, who insisted that the proposed standard is inappropriate for daily reporting and is also feared to negatively affect general marging practices. Another important concern is the inconsistency between the granular EU framework based on trade-level reporting as opposed to the global FSB standards which require position-level data. It was noted that deriving the latter from the former will be far from straightforward.

As regards the imposition of ISO20022 messaging standards in SFTR, panellists agreed that this was an important improvement compared to EMIR which will facilitate implementation in the long-term. A lot of work still needs to be done to fully define the required ISO business process and frictions, especially at reporting go-live, are likely given the wide-spread use of legacy standards in the industry. However, panellists were optimistic that these could be overcome in the longer term and that ISO20022 will add an important element of consistency. Already today there are functioning
precedents such as the ECB’s MMSR or similarly the Bank of England’s sterling money market reporting which are both based on ISO20022. Panellists also pointed to a range of existing technology tools which will help firms with translation into ISO20022.

Panellists discussed the role of vendors in the implementation of SFTR. In relation to repo, there is a concern that some vendors might rely excessively on their experience with the securities lending product, where vendor solutions are already well-established in the form of ALD and contract compare tools, and that the specifics of the repo product might not receive the required attention. This is despite the fact that the SFTR taxonomy in general is more suited to the repo product. Mr. Abel and Mr. Kernan were optimistic that vendors will be able to adjust and develop suitable solutions for both products. They remarked that experience with similar regimes, e.g. MiFID or EMIR, has shown that vendors do not need to be product experts to develop efficient solutions. Most important is to establish a process to source the right information and enrich the reports accordingly. They also noted that market participants have shown to be very pragmatic in their choice of vendor solutions and do not necessarily rely on the same channel for their entire transaction flow across products. Mr. Lee added that an important element will be interoperability between vendors. While ESMA has mandated interoperability for trade repositories through the definition of common standards, more focus is still needed on this aspect in the vendor environment. There seems to be a growing acknowledgement of this among vendors themselves, which is reflected in alliances that are starting to emerge.

In response to a question from the audience regarding comparable reporting requirements for SFTs in the US, Mr. Lee explained that US authorities are already collecting SFT information based on a survey format which would seem to meet the relevant global FSB requirements. The US surveys are however much lighter touch than SFTR in Europe and it is not expected that the US will follow (at least in the short term) the much more comprehensive European approach.

Another question from the audience referred to the role of existing infrastructures (ATSs, CCPs, tri-party agents) in the SFTR reporting process. Mr. Lee noted that one of the key comments consistently made by the ERCC has been for authorities to rely more on data collected from such infrastructures, where possible. These are in a unique position in the market and already centralise a lot of the data required by authorities, ensuring a high degree of data quality and consistency. However, ESMA has made it clear that the primary responsibility for reporting lies with counterparties and that any delegation to central infrastructures would need to be achieved through contractual solutions.

All three panellists concluded on a rather optimistic note. The deadlines specified in the SFTR are seen as generally feasible, although the implementation is expected to be an iterative process, as mentioned previously, with a gradually improving environment. There is hope that firms can reap some positive externalities from the costly SFTR implementation if it leads to a more consistent and efficient post-trade process for SFTs. A key risk is that the parallel implementation of other important regulations, in particular MiFID II, will divert firms’ attention away from SFTR. It was noted that this requires careful planning, but also provides ample opportunity for firms to benefit from synergies across the different reporting regimes.

12. Any other business and next meetings

Mr. De Vidts closed the event by thanking all speakers for their valuable contributions. He invited participants to the next ERCC General Meeting which will be held on 14 November 2017 in Brussels, in the margins of Euroclear’s annual Collateral Conference. The event will follow a slightly different format. It will be a combination of high level keynote speeches and panel discussions with
involvement from industry, public sector and academia and the overall aim of debunking some of the persistent myths about the role and importance of repo markets.

The ERCC Chairman: 

Godfried De Vidts

The ERCC Secretary: 

Alexander Westphal
Annex A
The following member firms were represented at the meeting:

Banca IMI S.p.A.
Banco Bilbao Vizcaya Argentaria, S.A.
Banco BPM S.p.A.
Banco de Sabadell SA
Banco Finantia, S.A.
Banco Santander, S.A.
Bank for International Settlements
Bank Vontobel AG
Bayerische Landesbank
BGC Brokers L.P.
BrokerTec Europe Limited
Caixabank, S.A.
Cecabank, S.A.
Clearstream Banking S.A.
Crédit Agricole Corporate and Investment Bank
Credit Suisse AG
DZ Bank AG Deutsche Zentral-Genossenschaftsbank
Eurex Repo GmbH
Euroclear Bank S.A./N.V.
Eurofima European Company for the Financing of Railroad Rolling Stock
European Bank for Reconstruction and Development (EBRD)
European Investment Bank (EIB)
Goldman Sachs International
IHS Markit
ING Bank N.V.
J.P. Morgan Securities plc
Landesbank Baden-Württemberg
Macquarie Bank Limited
Morgan Stanley & Co. International PLC
Murex S.A.S.
Natixis Asset Management
PGGM Vermogensbeheer B.V.
REGIS-TR
SIX SIS AG
SIX Swiss Exchange AG
Société Générale S.A.
Swiss Reinsurance Company Ltd
Tradition (UK) Limited
VÖB-Service GmbH
VP Bank AG
Westpac Banking Corporation
Zürcher Kantonalbank