International
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Association

ICMA

Minutes of the annual general meeting of the European Repo Council held on January 22, 2014 in Luxembourg

Location: **Hemicycle, 1, rue du Fort Thuengen, L-1499 Luxembourg**

Time: **16:30 – 18:30**

1. Opening of the meeting by the Chairman of the European Repo Committee, Godfried De Vidts

The Chairman welcomes everyone to the semi-annual European Repo Council meeting and thanks Clearstream for hosting the event.

The Chairman explains that today's meeting is a little shorter than usual, but the aim is to finish within the allocated 2 hours to give everyone time to prepare for an event in the evening, which is always an excellent way to catch up with business contacts. The Chairman notes that, in a way, the ERC AGM has the same purpose, making sure that everybody is fully briefed on what is happening in the "repo world", helping people to make new acquaintances and setting the scene for wider knowledge and recognition of the value of repo.

The Chairman highlights that it has been a busy period since the last General Meeting of the European Repo Council in London. This meeting's agenda reflects the various work streams that the ERC has contributed to in an effort to prepare the ground for a more robust financial market to serve Europe's citizens. But have these preparations, the implementation and execution of the new regulatory requirements, reached their goal? Have our political masters pushed us too far? Have regulators covered all the ground? Will there be no next crisis?

To understand better what the future will bring, the Chairman explains that he would like to look back a little. He notes that this year is the 100th anniversary of the start of the First World War. Luxembourg, in common with the whole of Europe, suffered in both world wars. These two terrible wars are the reason why the European Union was created, starting initially with agreements based on steel and coal, which were important for the rebuilding of a war ravaged Europe. A European Economic Union followed with European institutions quickly being set up and Kirchberg in Luxembourg bears witness to the vast administration that emerged. The European Monetary Institute (EMI) prepared the groundwork for what we now know as the European Central Bank, based in Frankfurt. In the preparations for the creation of the ECB a political choice was made to create a currency union. However, only a cash union was created, namely, the euro. The Chairman notes that he has said in central bank circles many times that in his view it was a historic mistake not to create a common government bond union with all the necessary centralised organisation as well. The Chairman will explain why.

The central bank community in Basel has undertaken a major reform for monetary policy implementation in shifting from unsecured to secured lending. Basel I, II and III are not unfamiliar to the audience at the meeting. In the early 1990s, starting with the central banks

International Capital Market Association
Talacker 29
P.O. Box
CH-8022 Zurich
Phone:
+41 44 363 4222
Fax:
+41 44 363 7772
www.icmagroup.org

of Belgium and France, reforms to use collateral as safeguard for liquidity provision by European central banks gained ground - a practice that already existed in the USA. This was followed quickly by the rest of the central bank community world-wide. Hence a repo market emerged in each of the European countries initially based on the domestic government bond market. When the ECB was created, each of those national repo government bond markets continued as before, but the denomination of the bonds changed into euro, similar to the convergence of the cash from legacy currencies to the coins and notes now widely known, but with one difference in that the legacy coins and notes have been taken out of circulation. SEPA is witness of the progress made in this respect; electronic transfers throughout the Eurozone are now possible without any difficulties.

The Chairman further explains that 15 years later, we still have basically national legal frameworks for government bond markets in the Eurozone, instead of a single market, which could have been fixed (with hindsight) at the start of the currency union. Senior central bankers have told the Chairman that there was no time and the preparations for the euro were already complicated enough. The Chairman has some respect for that, but the mess that has been created because of this historical mistake not to switch immediately to a Euro platform for clearing and settlement has proven to be very expensive, and will remain expensive for many years to come. The T2S initiative is a partial solution, but as we approach the first wave of migration, for people involved in the preparation of this project it is plain to see that the enormous cost in time and IT developments could have been avoided. All it needed was a more serious approach to the 15 Giovannini barriers.

The latest crisis has finally pushed our political leaders to make the necessary but, in the Chairman's view, too cautious, steps for further integration in Europe. Thankfully, the debate is not on the battlefield but in meeting rooms in Brussels and the other capital cities of Europe.

The creation of the three ESAs provides a robust regulatory framework for the future. However the lack of confidence in these institutions, shown by both the Commission and the European Parliament, means that the execution of agreed regulatory measures lacks flexibility. Overly strict measures are imposed on those regulatory authorities instead of allowing them to react swiftly when they need to do so. The Chairman calls on the next European Parliament to re-think the Meroni rules, so that regulators can react quickly and more boldly.

The Single Supervisory Mechanism, the first step to Banking Union, has now been agreed and the ECB is working on implementation of this major step in the coming 12 months. But we still lack fiscal union, tax treaties are still subject to national authorities only, as we see in the FTT debate, and a common government bond issue is still way off the radar.

The Chairman notes further that the ERC has witnessed the lack of progress for many years. More than ten years ago, the ERC expressed its desire for a more coherent European clearing and settlement framework. The creation of T2S was eventually announced in the Cesame meetings to reform the "back-office" of Europe. At the same time, the repo community identified constant frictions when transferring collateral throughout the Eurozone, hampered by ill-suited domestic systems for a euro-wide zone. And even with only two international CSDs, the "famous" bridge could not overcome problems between them.

The Chairman makes a few points now on the current situation:

1. The ERC has called for at least ten years for better interoperability between the ICSDs, as an example that we hope will be followed by the CSDs of the eurozone (present and future). In that spirit, Clearstream, Euroclear and Eurex Clearing last year signed a Memorandum of Understanding to boost triparty repo settlement interoperability by 2015. A progress report on this initiative will follow immediately after the Chairman's opening speech.

2. The multiple CCPs that are coming to market now could be the cause of problems for the future. The ERC has always endorsed the use of centralised clearing facilities, but the G20 call for use of these facilities for derivatives and other products has shown that these new "monsters", as somebody in the ERC Committee called them, are not very well understood. CCPs have only created bigger too-big-to-fail institutions, risk is not moving out of the banking system but simply being placed somewhere else. The recovery and resolution work for CCPs should be in place before we are forced to add even more risk into these facilities. Again the repo community is ahead of its time. Recently we have seen a return to bilateral clearing against some government bond collateral as the excessive initial margin imposed by CCPs outstrips the usefulness of their offerings. Is that what we want?

3. The ERC Ops and the EBF post-trade working group with ECB secretariat support has looked into the link between commercial bank vs central bank money. People will recall that the ERC commissioned a study by Richard Comotto that, with the various reports the ERC produced for the Cesame meetings, describe the difficulties in settlement in the Eurozone. The results of this excellent co-operation between the ERC, the EBF and the ECB will be posted in the report that will be published shortly by the ECB (most likely by the end of February or beginning of March 2014).

4. The Eurepo project that the ERC Committee launched in co-operation with the EBF failed exactly because of the fragmentation we continue to see in the Eurozone. The range of euro-denominated government bonds is well understood by the repo community. There are many private initiatives looking to create indices of specific bonds and/or basket trading, a trend reinforced by the lack of a unique European government bond. The Chairman states further that, if he is totally honest, even if he had many meetings in Brussels for such a project, he is not hopeful to see it in his lifetime. A working group of the ERC Committee under the chairmanship of Romain Dumas is currently working with the EBF Eurepo Steering Committee on a revised Eurepo product. Mr Dumas will give a short update on this work, with the next meeting of this working group scheduled for 23 January in Berlin.

5. ICMA and the ERC distributed a study in October to the wider regulatory community, in Europe and beyond. The study called "Avoiding Counterproductive Regulation in Capital Markets: A Reality Check" is posted on the ICMA website. The Chairman was pleasantly surprised by the feedback from a wide range of ERC market participants, traders, operations, lawyers, economists, regulatory affairs, and compliance people. The paper identified that collateral needs to be recognised for its many benefits but also the dangers arising from the impact of regulation. The ERC plans to organise workshops with the ECB and the BOE. This will be followed up with a conference around collateral in Brussels. The Chairman hopes the European Commission will find time to have a similar workshop so actions can be taken in the new legislation with a new Parliament.

To finish his opening presentation, the Chairman calls upon the repo community to continue to explain to all - be it politicians, central bankers, regulators or other interested parties - that the repo product should be seen as part of the foundation of a more robust financial market framework. Repo is part of the solution, it feels immediately the ill effects of wrong policy choices and above all, repo will be part of the framework that will help us to recover from this economic recession. The ERC, with the newly elected committee of today are ready to fulfil its part of the job; and promise to continue to work hard, reach out and help to create a climate for investment that will bring great benefit to Europe's citizens.

The Chairman also stated that if on 22 January, 2014, 16.30 (Luxembourg time), the quorum required pursuant to ICMA rules 1013.3 and 1011.2 (presence of not less than one third of the members of the ERC council) is not attained, notice is given that immediately following the determination that the required quorum has in fact not been attained, a further meeting of the ERC council will be held on 22 January 2014, immediately following the close of the meeting which commenced at 16.30 (Luxembourg time) at Hémicycle, 1, rue du Fort Thuengen, L-1499 Luxembourg. This second council meeting may transact business irrespective of the number of ERC council members represented (cf. ICMA rules 1013.3 and 1011.3), and its agenda will be identical with the agenda for the previous meeting.

2. <u>Approval of the minutes of the ERC Meeting held on October 16, 2013 in London</u>

The council unanimously approves the minutes of the ERC general meeting held on October 16, 2013.

3. <u>Triparty settlement interoperability</u>

The Chairman welcomes Stefan Knoblauch of Eurex, Cedric Gillerot of Euroclear and Jean-Robert Wilkin of Clearstream, who discuss triparty settlement interoperability (TSI).

Mr Knoblauch begins by describing the basis of the memorandum of understanding relating to TSI signed by Clearstream Banking (Luxembourg and Frankfurt), Euroclear Bank, Eurex Clearing and the ERC in July 2013. The memorandum of understanding relates to GC Pooling (the multi-baskets and multi-currencies repo product cleared by Eurex Clearing) to be settled across multiple collateral management systems and securities settlement systems. Mr Knoblauch notes that the structure envisaged by the TSI memorandum of understanding is the very high level future structure for GC Pooling repo transactions. In relation to work undertaken so far towards TSI, the TSI participants have held four workshops covering the processes required to handle TSI for GC Pooling.

Mr Knoblauch explains further that the TSI participants have held four workshops, with the objective to conduct a top-down analysis and now have a mutual understanding of the functioning of the GC Pooling product and the general processes involved in the management of trades and the impacts of TSI on the different layers in the post-trade processing chain, taking into account future implementation of T2S. The areas primarily impacted by TSI are clearing, exposure and collateral management, asset servicing and reference data, settlement and bookings. The pre-requisites to TSI are project definition and scoping and a detailed feasibility analysis.

Mr Knoblauch hands over to Mr Gillerot, who gives further information on the outcome of the work completed so far by the TSI participants. One outcome of those meetings so far has been that the two ICSDs have agreed that the mandatory and optional timings of the "Bridge" (i.e. the Clearstream Banking Luxembourg/Euroclear Bank settlement link) must be improved to be aligned with T2S and TSI settlement windows, including the T2S end-of-day window for

Bilaterally-Agreed-Treasury-Management adjustments. TSI will also require a high level of harmonisation and synchronisation of settlement and asset servicing infrastructures of Clearstream Banking Frankfurt, Clearstream Banking Luxembourg and Euroclear Bank, including the links between them, pre- or post- implementation of T2S, and the TSI participants have not yet completed the on-going top-down analysis and the building of end-to-end scenarios under TSI. Based on the work done so far, two settlement models are being considered to support the cross-ICSDs settlement flows for relevant TSI trades (directly through the "Bridge" or indirectly via the ICSDs-Clearstream Banking Frankfurt links), but additional work is required to draw conclusions.

Mr Gillerot hands over to Mr Wilkin, who explains that much effort has been put into preparing for and holding each of the four workshops held by the TSI participants so far. In terms of next steps, there will be two workstreams. First, work will begin between the two ICSDs on the "Bridge" mandatory and optional timings improvements. Secondly, the TSI participants will hold additional workshops focusing on exposure management and links between relevant securities settlement systems and the bookings of settlement flows, pre- and post-T2S, and to design and agree on end-to-end scenarios. The objective of the TSI participants is to draw conclusions on the TSI model, finalize the project scope and conduct a detailed feasibility analysis by May/June 2014.

The Chairman thanks Mr Knoblauch, Mr Gillerot and Mr Wilkin for presenting the work of the TSI participants.

4. Results of the semi-annual European repo survey

The Chairman introduces Mr Comotto, who discusses the results of the latest semi-annual repo survey.

Mr Comotto introduces his presentation by explaining that the survey is based on the outstanding value of repo contracts at close of business on 11 December 2013. ICMA received 68 responses. The headline numbers show the minimum market size to be EUR 5,499 billion. This represents a decline in market size from the figure of EUR 6,079 billion recorded in the last survey in June 2013. Using a constant sample of banks in both surveys, it is estimated that that the market has shrunk by around 8.2% since June 2013, but has grown by around 0.5% year-on-year. This may be due to the availability of fixed-rate full-allotment funding from the ECB over the year-end but may also be partly seasonal and could possibly be a reaction to regulatory pressure for reduced reliance on short-term wholesale funding.

In terms of trading analysis, Mr Comotto explained that the share of directly-negotiated repos continued to recover, although this was no longer at the expense of voice-brokered business (as had been the case previously), but rather at the expense of electronic trading. In relation to geographic analysis, it is worth bearing in mind that there was a new question in the survey on this subject, which may have led to the results showing an unexpected growth of anonymous electronic trading and use of CCPs.

Analysis of the collateral pool shows an increase in Italian and Spanish collateral. Following the sovereign debt crisis, the use of triparty repo remains little changed within the survey but there has been a large increase reported directly by the tri-party agents, suggesting new customers or increased use by banks not in the survey.

5. Legal Update

The Chairman introduces Lisa Cleary, who provides a legal update.

Ms Cleary explains that the ICMA legal opinions are central to supporting the netting mechanism of the GMRA. The 2014 update process is now underway to update the opinions for publication in Spring, with the addition of Lichtenstein as a new jurisdiction. This brings the total number of jurisdictions covered to 64. In an effort to support and encourage the use of up to date market documentation, it has been discussed when it would be appropriate to discontinue coverage of the GMRA 1995 within the opinions. This will not be done in the short term but it should focus market participants' minds in terms of documentation for the medium term.

Ms Cleary notes that ICMA is delighted to confirm the adherence of a further two counterparties to the GMRA 2011 Protocol, which provides parties with the ability to upgrade certain provisions of their existing GMRA documentation on a multilateral basis with other adhering parties. Time and time again the market is reminded (both within the regulatory agenda and from an anecdotal perspective) about the importance of keeping documentation up to date, especially following market event reviews. ICMA is delighted to see the first ERC member adhere to the protocol and wishes to assist others in doing the same. It is important that efforts to make repo documentation even more robust are supported by the market participants who have helped to develop it.

In addition to this, ICMA is in the process of updating the Italian and Canadian Annex for use with the GMRA 2011. These will be made available later in Q1 2014.

Finally, another area in which the GMRA working group has been developing the documentation is with respect to FATCA. The group has developed standard language for use with the GMRA which is broadly based on existing market standard FATCA wording (for example, ISDA wording). The wording places the risk of non-compliance on the payee, the recipient being the party burdened with the FATCA withholding tax if it chooses not to comply. The GMRA wording is in the process of being finalised and will be published in the next few weeks.

6. Panel Session: The Safety Net

Ms Cleary leads a panel discussion entitled "The Safety Net". The panellists are Habib Motani, Partner at Clifford Chance, Duncan Wales, Group General Counsel at ICAP and Jean-Robert Wilkin, Head of Product Management at Clearstream.

Ms Cleary introduces the panel discussion by explaining that the panel will discuss the importance of close out netting in promoting financial stability by way of risk mitigation and the legal and operational infrastructure which supports it. The repo market can be regarded as the plumbing of the financial market. Its substantial value as a collateral financing tool and a central bank monetary operations tool should not be underestimated. Indeed, to destabilise the repo market would be to undermine the policy objectives of the regulators in encouraging secured financing. Over many years the repo market has developed in terms of market infrastructure and legal documentation. ICMA has played a central role in the development of the legal architecture of the GMRA.

Ms Cleary invites Mr Wales to offer his observations from a market operator's perspective on how repo is used from a practical perspective. Mr Wales notes that the biggest repo volumes can be seen in electronic trading and at the short end of the curve. Brokered segments (where there has recently been some volatility) have contracted at the short end of the curve. Mr Wales notes that there are three key elements to appreciate, namely liquidity (noting that repo is a liquidity driven business); real economy risk; and policy choices, and how those three elements work together is fundamental to the success of the repo market.

Ms Cleary thanks Mr Wales for his insight and invites Mr Wilkin to provide his insight on the value that the collateral management infrastructure through which the repo market operates offers in terms of operations, transparency and safety. Mr Wilkin notes that various different elements make up the infrastructure of the repo market. The repo market has a very resilient operating model, which has been shown through its robustness during the financial crisis. Nevertheless, market participants are always trying to improve the market infrastructure, and new regulation such as EMIR and CSDR provides an opportunity for even more improvement. The repo market also needs to work on transparency of its infrastructure, but it is extremely comforting that the legal framework is so robust.

Ms Cleary agrees that the repo legal framework is robust and notes that the safety and credibility of the markets' legal and operation infrastructure is perhaps as its most crucial when the market is experiencing difficulty. Ms Cleary invites Mr Motani to share his views on this. Mr Motani notes that the GMRA structure did indeed work well in the financial crisis. Where there were difficulties in the crisis, it tended to be due to valuing collateral, rather than the operation of the GMRA, which was why the GMRA 2011 was not a re-write of the previous version of the GMRA, but mainly included tweaks to certain provisions. Mr Wales echoes Mr Motani's views and notes that the Lehman process was relatively smooth for the repo market. Mr Wales also notes that when MF Global left the market, the key concern was liquidity in, and valuation of, the underlying collateral.

Ms Cleary notes that some people have suggested that close out netting reduces the incentive to monitor credit quality, and asks Mr Wales for his views on that suggestion. Mr Wales explains that he disagrees with that suggestion, as repo margining requires active management, that counterparty and market risk can quickly become closely correlated, and it therefore forces parties to both value collateral and assess credit properly.

Ms Cleary notes that recent examples of resolution related legislation may have unintended consequences which threaten the credit risk mitigation mechanism of close out netting, despite policy makers emphasising the importance of preserving such measures. Ms Cleary asks Mr Motani for his views on whether the future implementation of the RRD poses similar risks. Mr Motani explains that RRD has the potential to pose such risks, but it is hoped that those risks will not materialise in practice due to thoughtful implementation.

Ms Cleary moves on to highlight that threats persist from the treatment of repo in the gross leverage ratio proposals and the shadow banking proposals, with a particular focus on the cross-cutting theme of collateral. With increasing collateral requirements, a threat to netting could produce unsustainable market conditions if repo transactions had to be reported on a gross basis. Ms Cleary asks the panellists to comment on how important repo netting is in sustaining workable collateral supplies? Mr Wales explains that the underpinning purpose of repo is that it is nettable, so anything that hampers netting will have a very swift undermining effect on the repo market. FTT is an example of this. Mr Wales notes that it would not take a lot from a policy perspective to undermine the only mechanism for circulating liquidity in financial markets. Mr Motani agrees with Mr Wales and notes that, taking a step back, the regulatory response to the crisis has been to focus on two things: transparency and collateral. Regulatory proposals relating to CCPs, mandatory clearing and so on, are all focused on collateral, showing how central collateral is to the regulatory response to the crisis. Netting is an easy, convenient method of collateralising. So if the regulatory response is focused on collateral, and policy makers do something to undermine netting, this goes against the fundamental premise of the regulators' response to the crisis so far. Mr Wilkin agrees that netting is a very helpful tool.

Ms Cleary thanks the panel for their contribution to the discussion.

7. Elections to the European Repo Committee

The Chairman invites members of the European Repo Council to hand in their completed ballot forms. The results of the election are set out below (see minute of Agenda item 13). The Chairman also thanks Mr McAleer, who has chosen not to stand for re-election to the European Repo Committee, for his service to the Committee.

8. Leverage ratio

Mr Comotto gives a short presentation on the leverage ratio proposals. Mr Comotto highlights a June 2013 BIS paper[1] proposing that netting should be prohibited, and explains the practical impact that would have for the repo market. Mr Comotto also highlights a number of other areas of concern with the June 2013 paper, including questions surrounding forward asset purchases and fails. Mr Comotto notes that BIS has issued a further paper[2] in January 2014, which resolves some of the issues with the June 2013 paper. It appears that under the January 2014 proposals, cash positions can be netted under strict conditions, but securities positions cannot be netted. More significantly, trades conducted through CCPs will benefit from netting. This is likely to have a significant impact on the repo market. Additionally, fails have been removed from the proposals. However, there is no clarification on when the trade value should be calculated.

9. Settlement under T2S

Mr Comotto reports that the ERC has been participating in a working group under the auspices of Cogesi, as part of its preparatory work ahead of the introduction of T2S, looking at the efficiency of settlement in commercial bank money. Mr Comotto notes that central bank money and commercial bank money are intertwined and inter-dependent, with central bank money affording safety and commercial bank money affording access to smaller banks, non-banks and other currencies. In terms of settlement in commercial bank money, 11 possible settlement chains were identified in the ERC's study. The members of the ERC Operations Group were each asked to provide their internal cut-off times for same day settlement under each of the 11 settlement chains. This was intended to allow identification of inefficiencies in the settlement processes. The results of the survey were compiled in a series of charts, showing the range of cut-off times for each settlement chain, together with the cut-off times of CSDs, ICSDs and custodians. Qualitative questions were also asked to provide colour on the results of the survey.

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[1] Alternatively: https://www.bis.org/publ/bcbs251.pdf

[2] Alternatively: https://www.bis.org/publ/bcbs270.pdf

10. Secured benchmarks

The Chairman introduces Romain Dumas, who discusses the work of the European Repo Committee in relation to secured benchmarks. Mr Dumas explains the significance of the repo market, accounting for almost 80% of lending and borrowing transactions. Repo markets have been able to absorb a substantial part of the reduction of unsecured lending/borrowing following the crisis, therefore limiting the intervention of the ECB to facilitate liquidity. Mr Dumas explains further that, in light of the significance of the repo market, we feel we have a duty to extract information from the wealth of transactions occurring daily. A working example of a secured benchmark can be seen in the US, with such benchmark being created by the Treasury Market Practices Group at the instigation of the Federal Reserve Bank of New York. That index is based on an average daily volume of close to USD400bn of overnight transactions, only includes actual transactions and has a fully transparent index methodology. In relation to creating a model for the Eurozone, it is important to recognise the differences between the European and US markets. In particular, European repo markets liquidity is along national "GC" lines and certain basket products (e.g. GC Pooling); sovereign risks subject the CCP model to constrains unknown to the US; transaction data remains with inter-dealer brokers in Europe (and not with CCPs as is the case in the US); and there are no pure GCF/DBV type products with high turnover in Europe. A working group of the ICMA European Repo Committee has discussed the need for, and features of, a suite of secured benchmark indices reflective of the European repo market and determined that the guiding principles for European repo indices should be anchored to actual market transactions; focus on overnight and term transactions; be anchored to existing liquid markets; capture only centrally cleared transactions; be a broad-based secured index capturing the concept of "GC"; and governed by an industry body.

Mr Dumas reports that in September 2013, the EBF, the working group of the ICMA European Repo Committee, the Eurepo Steering Committee and an observer from the ECB met to discuss the various existing secured benchmark initiatives and devise a way forward. The outcome was that, for the benefit of the wider public, it is considered to be necessary to build a new secured index as a unique pan- Eurozone daily index, capturing the weighted average of all centrally cleared, electronically transacted overnight repo transactions. This is a challenge given the liquidity structure of the European repo markets, but it is a challenge that can be resolved. Extracting information from the deepest and most liquid funding market with volumes in excess of EUR250bn transacted daily is a worthwhile goal. The next meeting of the ICMA European Repo Committee working group and the Eurepo Steering Committee is scheduled for 23 January 2014.

Mr Dumas notes that the work on repo indices has laid bare some other challenges which the repo market should take upon itself as an industry (including repo dealers, CCPs and post-trade providers), namely the creation and development of liquidity in a Euro GCF like basket; and the establishment of a true term benchmark.

11. ERC Operations Group update

The Chairman introduces Nicholas Hamilton, Chair of the ERC Operations Group, who reports on the work of the ERC Operations Group in 2013.

Mr Hamilton begins by noting that he cannot think of period where the ERC Operations Group has had such a full and diverse book of work to mature. It is a fascinating time as the development of global and regional repo regulatory and product processes gather momentum, with a number critical milestones in 2014 and 2015 in T2S, CSDR and MiFIR in particular.

Mr Hamilton thanks a number of participants in the ERC Operations working and focus groups, noting the contributions of Camille McKelvey, Rob Mason and Jonathan Lee in particular, in addition to the great support of the ICMA directors and associates who ably provide both thought leadership and administration for the many meetings, outcomes and reviews conducted under the auspices of the ERC Operations Group. Mr Hamilton also notes the guiding hand of Mr Comotto, whose academic steer, energy and enthusiasm continues to anchor the group's technical and presentation work and links more and more the empirical data provided in papers and surveys to a meaningful operations context and tangible delivery. This is epitomised in the excellent (and timely) consolidation of repo market legal and operational activities in the new Guide to Best Practice in the International Repo Market, which is due to be published shortly for the benefit of users of the repo product globally. Finally, Mr Hamilton notes that the Chairman's balance of diplomacy and forthrightness has given the ERC Operations Group the right foundation to build a strong objective operations framework that will continue to evolve in 2014.

Mr Hamilton notes that there are 18 member firms contributing to the main ERC Operations Group, with three additional working groups and two focus groups. The ERC Operations Group also provides input into a number of individual responses to market discussions. The agenda items are very much interlinked across the transaction cycle and it is important to advance on all fronts to ensure successful harmonisation of operations practices and the positioning of new product to market to compliment the planning and movement of the collateral and financing activity into T2S and the broader regulatory demands including CSDR and MiFIR.

Mr Hamilton reports that, more recently, the ERC Operations Group has been working on a market timeline and survey for settlement disciplines of member firms through their agent, CSD and ICSD activities to provide a perspective to the ECB on end-of-day timings and areas of sensitivity. This has been insightful and shows there is still work to do to harmonise cross border windows and also further reinforces the opportunity in extending the ICSDs' bridge windows. The TSI proposal and modelling is also moving forward. Mr Hamilton hopes to engage soon in the detailed schematics and operating model discussions to assist in bring this product to market.

In terms of the ERC Operations Group's main workstreams, the affirmation and matching working group aims to encourage automation of the post trade processes across the European communities and ensure a level of consistency and completeness in vendor offerings to compliment operations market practices. Further partnership with the cash and lending industry in AFME and ISLA may provide opportunities to develop more holistic solutions.

Mr Hamilton makes reference to the recent ERC matching and affirmation survey results. In November 2013 a survey was created by the ERC Operations Group with a view to understand the offerings in the vendor community with particular focus on matching and affirmation (particularly trade date affirmation) for financing transactions. This survey was conducted in light of the clear need in the industry for increased focus on trade date affirmation in line with potentially regulatory demands and industry changes (such as the proposed repo trade repository and T2S), as well as improving STP and reducing the fail population. The survey was issued to six vendors and focused on functionality across affirmable events and matching fields, trade types and terms as well as opportunities for matching at a settlement level. The survey was well received by the vendors and has enabled the ERC Operations Group to form a clearer picture of what the offerings are in the market and work with the vendors to close out on any gaps. Subsequent to the circulation of the survey results within the ERC community, the ERC Operations Group now thinks it appropriate to create a short anonymous report to share its findings with the vendors. Mr Hamilton notes that if there are any questions in relation to the survey or the affirmation and matching work being carried out within the ERC Operations Group, then ERC Council members can contact Ms McKelvey.

Mr Hamilton moves on to note that the move to T2S is imminent in operation and technical terms. The ERC Operations Group is focused on mapping the repo lifecycle and understanding what operations processes will need to be deployed to ensure the efficiency of the product in the CSD and ICSD processes. There is no repo-specific message to tag the product in the T2S process, and the practical implications must be considered as the market normalizes its cash and repo instructions into the new mechanisms. In relation to this, the ERC Operations Group is partnering with Rule Financial to assist in developing this view for community publication and also as a basis for further discussion with market participants on the practical elements and standards that will need to support the processing.

Mr Hamilton reports further that a significant number of new regulatory initiatives will also either go live or enter lobbying, planning and/or build phases in 2014. The last two years have seen growing interest in the role that securities financing markets played in the global financial crisis. Regulators have voiced concern around the role played in these markets by unregulated shadow banking entities and the general lack of transparency around market activity, the scale of positions, interconnectedness and consequent systemic risk. The call for full disclosure to regulators through a comprehensive reporting framework has gone out and the ERC decided to mobilize in a dedicated working group in early 2013 to represent major market participants and to try to guide a path to effective and implementable reporting that would meet regulatory demands. The working group of banks, together with Mr Comotto and David Hiscock of ICMA reviewed papers from European Central Bank, European Systemic Risk Board, Committee on Payment & Settlement Systems/Bank for International Settlements and Federal Reserve Bank of New York. The key objective here was to identify the full set of requirements as they stood. Having reviewed the requirements and assessed how explicit they were, the working group then identified the hopes, fears and unknowns. In many instances the documents appeared more exploratory than explicit, presenting great opportunity to shape the specific requirements, together with quite a lot of risk, which was that the reporting regime could become overly large and onerous if left unchecked. Working group member banks completed a checklist on the availability of repo market data to help identify ways in which the market could meet the majority of micro and macro prudential regulatory requirements without building a full trade repository at this time. In October 2013, an initial white paper entitled "Enhancing the Transparency of the European Repo Market," was launched by the ERC at the EBRD Russian Trade Repository conference in London. This put forward proposals to offer a rapid expansion in repo market transparency leveraging existing data sources.

Mr Hamilton reports that the focus in 2014 will be achieving greater engagement at both an industry and regulator level. The year has started with a greater number of ERC members and market practitioners better positioned to mobilise, given how calls for the imposition of a data repository have risen up the regulatory agenda. Mr Hamilton notes that the greater the reach of the ERC Operations Group, the greater its impact.

The ERC Operations Group also has the opportunity to track progress on the Liikanen initiative, where the requirement to establish a repo data repository appears to be a major component of surveillance of the effective separation of trading and other banking activities. The ERC has been called upon by the Financial Stability Board to participate in a repo market data collection and aggregation working group as they review practical considerations for establishing a global network of repo data repositories.

Finally, the ERC Operations Group is contemplating putting together and ERC repo position data survey pilot, to demonstrate its potential as a micro/macro prudential regulatory tool – front running formal regulatory requirements and helping shape those requirements.

Mr Hamilton encourages further operations support from the European Repo Council, and explains that the ERC Operations Group is keen to attract new members to push its community engagement forward and enable greater consistency in market practice and harmonisation of operations processes.

12. Regulatory Update

Mr John Serocold addresses the meeting and begins by explaining that he is deputising for Mr Hiscock. Mr Serocold notes that the latest version of the ICMA Quarterly Report[3] is available on the ICMA website, which provides an overview of the various regulatory and market practice initiatives on which ICMA is working.

Mr Serocold provides a brief update on three regulatory issues. In relation to shadow banking, Mr Serocold notes that there is active and on-going ERC engagement in efforts at both the international and EU levels on this topic, highlights the Commission proposal in this area, and encourages ERC member firms to respond to any Quantitative Impact Studies, as they are a very important way of influencing the regulatory debate. Regarding leverage, Mr Serocold highlights a quote from the latest BCBS publication acknowledging the impact of market participants' feedback, namely: "The Committee thanks those who provided feedback and comments as these were instrumental in revising and finalising the leverage ratio standard." Finally, Mr Serocold reports that ICMA expects to respond to an EBA consultation on asset encumbrance.

13. Results of the elections to the European Repo Committee

The Chairman announces that the following people have been elected to European Repo Committee:

Maria Arauzo Arranz
CAIXABANK, S.A., Barcelona

Ulf Bacher
Newedge Group SA

Tony Baldwin

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[3] Alternatively: http://www.icmagroup.org/assets/documents/Regulatory/Quarterly_Reports/ICMA-Quarterly-Report-First-Quarter-2014.pdf

Daiwa Capital Markets Europe Limited

Stefano Bellani
J. P. Morgan Securities Ltd.

Olly Benkert
Goldman Sachs International

Andreas Biewald
Commerzbank Aktiengesellschaft

Sylvain Bojic
Société Générale

Eduard Cia
UniCredit Bank AG

Godfried De Vidts
Chairman
ICAP Securities Limited

Romain Dumas
Credit Suisse Securities (Europe) Limited

Stephen Malekian
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

Rajen Patel
Morgan Stanley & Co. International PLC

Ronan Rowley
Deutsche Bank AG

Guido Stroemer
UBS AG

Constantino Toribio Garcia
BANKIA

The Chairman congratulates the new Committee members.

14. Any other business and next meetings

The next ERC General Meeting will be held on October 7, 2014 in London, hosted by MTS.

The Chairman:

Godfried De Vidts

The acting Secretary:

C. Bellamy

Charlotte Bellamy

Annex 1

List of presenters and represented firms in attendance

Presenting:

Godfried De Vidts *(Chairman), ICAP*
Stefan Knoblauch, *Eurex*
Cedric Gillerot, *Euroclear*
Jean-Robert Wilkin, *Clearstream*
Richard Comotto, *ICMA Centre*
Lisa Cleary, *ICMA*
Duncan Wales, *ICAP*
Habib Motani, *Clifford Chance*
Jean-Robert Wilkin, *Clearstream*
Romain Dumas, *Credit Suisse*
Nicholas Hamilton, *J.P. Morgan*
John Serocold, *ICMA*

The following member firms were represented at the meeting:

ABN AMRO N.V., Amsterdam
Aurel BGC, Paris
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
Banque et Caisse d'Epargne de l'Etat, Luxembourg
Barclays Capital Securities Limited, London
Bayerische Landesbank, Munich
Belfius Bank & Insurance, Brussels
BNP Paribas, Paris
BNP Paribas Fortis, Brussels
CAIXABANK, S.A., Barcelona
Cecabank, S.A., Madrid
Citigroup Global Markets Limited, London
Commerzbank Aktiengesellschaft, Frankfurt
Commonwealth Bank of Australia, Sydney
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (trading as Rabobank International), London branch
Crédit Agricole Corporate and Investment Bank, Paris
Credit Suisse Securities (Europe) Limited, London
Daiwa Capital Markets Europe Limited, London
Danske Bank A/S, Copenhagen
Deutsche Bank AG, Frankfurt
DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt
EquiLend LLC, New York
Eurex Repo GmbH, Frankfurt
GESMOSA-GBI, Agencia de Valores, S.A., Madrid
Goldman Sachs International, London

HSBC Bank plc, London
HSBC France, Paris
ICAP Securities Limited, London
ING Bank N.V., Amsterdam
ING Belgium SA/NV, Brussels
IntesaSanpaolo S.p.A, Milan
J.P. Morgan Securities plc, London
Jefferies International Limited, London
KBC Bank N.V., Brussels
KBL European Private Bankers S.A., Luxembourg
Landesbank Baden-Württemberg, Stuttgart
LCH.Clearnet Limited, London
Lloyds Bank plc, London
Merrill Lynch International (trading as Bank of America Merrill Lynch), London
Mitsubishi UFJ Securities International plc, London
Mizuho International plc, London
Morgan Stanley & Co. International PLC, London
NATIXIS, Paris
Newedge Group SA, Paris
Nomura International plc, London
Nordea Bank Danmark A/S, Copenhagen
Otkritie Securities Limited, London
Raiffeisen Zentralbank Österreich AG, Vienna
RBC Europe Limited, London
Société Générale S.A., Paris
Swiss Reinsurance Company Ltd, Zurich
The Royal Bank of Scotland plc, London
UBS AG, Zurich
UniCredit Bank AG, Munich
UniCredit Bank Austria AG, Vienna