BNY Panel discussion on recent market developments in the securities finance industry

**Moderator:** Brian Staunton, Managing Director Collateral Management, BNY Mellon Markets

**Panellists:**

**Mr. Matt Collins**, Managing Director & EMEA Head of Securities Lending, Morgan Stanley

**Mr. Jonathan Lombardo**, SVP, Global Funding & Financing Sales, Deutsche Boerse Group

**Mr. James Day**, Head of Securities Finance EMEA, BNY Mellon Markets

**Ms. Jen Grenside**, International Head of Equity Financial Resource Management, Citi
ICMA European Repo and Collateral Council Annual General Meeting
14 March 2018, London
Remarks by the Chairman of ICMA’s ERCC Committee

» Mr. Godfried De Vidts, Chairman of ICMA’s ERCC Committee
ICMA ERCC Committee 2018-2019

Jayne Forbes  AXA Investment Managers Ltd, London
Michael Manna  Barclays Capital Securities Limited
Emma Cooper  Blackrock Investment Management (UK) Limited
Eugene McGrory  BNP Paribas
Godfried De Vidts (Chairman)  BrokerTec Europe Limited, London
Grigorios Markouizos (Vice-Chair)  Citigroup Global Markets Limited
Jean-Robert Wilkin  Clearstream Banking, Luxembourg
Andreas Biewald  Commerzbank Aktiengesellschaft
Michel Semaan  Crédit Agricole Corporate and Investment Bank
Romain Dumas  Credit Suisse Securities (Europe) Limited
Jean-Michel Meyer  HSBC Bank PLC
Nicola Danese  J. P. Morgan Securities plc
Antony Baldwin  LCH Limited, London
Daniel Bremer  Merrill Lynch International (trading as Bank of America Merrill Lynch)
Paul van de Moosdijk  PGGM Vermogensbeheer B.V.
Sylvain Bojic  Société Générale S.A.
Richard Hochreutiner (Vice-Chair)  Swiss Reinsurance Company Ltd
Gareth Allen  UBS Limited
Harald Bänsch  UniCredit Bank AG
Nominations to ICMA IRCC Committee

» In accordance with the agreed procedure, the following two ERCC Committee members have been nominated to the IRCC Committee:

• **Godfried De Vidts** (BrokerTec Europe Limited) re-nominated as Chairman of the IRCC Committee for a term to expire at the ERCC’s AGM in 2021

• **Michel Semaan** (Crédit Agricole CIB) nominated as Vice-Chair of the IRCC Committee for a term to expire at the ERCC’s AGM in 2019 (replacing Eduard Cia)

» Nominees to be formally appointed by the ICMA Board at its next meeting on 23 March 2018
In memory of

Karl Rolewicz
1959 – 2018
Results of the 34th semi-annual repo survey
Survey overview

» outstanding value of contracts at close of business on Wednesday, 6th December 2017
» 64 responses
# Headline numbers

<table>
<thead>
<tr>
<th>Period</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2017</td>
<td>EUR 7,250 billion</td>
</tr>
<tr>
<td>June 2017</td>
<td>EUR 6,455 billion</td>
</tr>
<tr>
<td>December 2016</td>
<td>EUR 5,656 billion</td>
</tr>
<tr>
<td>June 2016</td>
<td>EUR 5,379 billion</td>
</tr>
<tr>
<td>December 2015</td>
<td>EUR 5,608 billion</td>
</tr>
<tr>
<td>June 2015</td>
<td>EUR 5,612 billion</td>
</tr>
<tr>
<td>December 2014</td>
<td>EUR 5,500 billion</td>
</tr>
<tr>
<td>June 2014</td>
<td>EUR 5,782 billion</td>
</tr>
<tr>
<td>December 2014</td>
<td>EUR 5,499 billion</td>
</tr>
<tr>
<td>June 2013</td>
<td>EUR 6,076 billion</td>
</tr>
<tr>
<td>December 2012</td>
<td>EUR 5,611 billion</td>
</tr>
<tr>
<td>June 2012</td>
<td>EUR 5,647 billion</td>
</tr>
<tr>
<td>December 2011</td>
<td>EUR 6,204 billion</td>
</tr>
</tbody>
</table>
Headline numbers

34th European repo market survey conducted in December 2017

Lehman
Jun-07
Dec-08
Jun-10
EUR 7,250 bn

LTRO
Jun-01
Jun-02
Jun-03
Jun-04
Jun-05
Jun-06
Jun-07
Jun-08
Jun-09
Jun-10
Jun-11
Jun-12
Jun-13
Jun-14
Jun-15
Jun-16
Jun-17
Jun-18

EUR billion
Trading Analysis

- **Automatic trading system** includes GC Pooling and is settled bilaterally/triparty/CCP.
- **ATS** accounts for 24.5% (26.6%) of transactions.
- **Bilateral** transactions are settled by phone or EM, accounting for 54.7% (54.6%).
- **Triparty** transactions are settled by phone or EM, accounting for 8.6% (7.8%).
- **Broker** transactions are settled bilaterally, accounting for 12.2% (11.0%).
- **Arranged by voice-broker** bilaterally-settled transactions account for 12.2% (11.0%).
34th European repo market survey conducted in December 2017

Trading Analysis

[Graph showing trading analysis with lines for direct, triparty, broker, and ATS from Dec-01 to Dec-17, with vertical lines indicating Lehman and LTRO events.]
Geographical Analysis

ATS via CCP

anonymous 17.1% (19.7%)

domestic 25.9% (23.7%)

in/out eurozone 40.5% (39.7%)

intra-eurozone 16.5% (16.9%)

from reporting bank cross-border to a non-eurozone counterparty

from reporting bank cross-border to a(nother) eurozone counterparty
Geographical Analysis

The chart shows the percentage of domestic, cross-border, and anonymous repo transactions from December 2001 to December 2017. Key events marked include Lehman and LTRO.
Geographical Analysis

The chart shows the percentage of cross-border repo transactions to EUR and cross-border transactions outside EUR from December 2001 to December 2016. Key events such as the Lehman Brothers failure and the LTRO are indicated on the chart.
Business cleared across CCP
Currency Analysis

- **EUR**: 60.9% (61.9%)
- **GBP**: 12.3% (12.2%)
- **USD**: 14.7% (16.9%)
- **JPY**: 4.5% (4.5%)
- **Other**: 7.5% (6.8%)

34th European repo market survey conducted in December 2017
Collateral Analysis

- DE: 19.6% (19.7%)
- IT: 11.7% (11.9%)
- FR: 13.2% (13.6%)
- ES: 5.5% (5.0%)
- BE: 3.0% (2.7%)
- EUR: 4.2% (4.3%)
- UK: 13.7% (13.3%)
- US: 5.9% (8.7%)
- etc: 18.8% (16.5%)
- etc
Collateral Analysis --- Core Eurozone

34th European repo market survey conducted in December 2017
Collateral Analysis --- Peripheral Eurozone

34th European repo market survey conducted in December 2017

Lehman
LTRO
Collateral Analysis

34th European repo market survey conducted in December 2017

- EU non-govis: 14.3% (12.4%)
- EU govvis: 85.7% (87.6%)
Collateral Analysis
Maturity Analysis

short dates = 55.4% (60.7%)
Next European repo market survey:

» Wednesday 6 June 2018
Legal Update

Ms. Lisa Cleary
Senior Director, ICMA
The ERCC committee have taken the decision to discontinue coverage of the GMRA 1995 in the GMRA legal opinions from 2019 onwards.

The GMRA legal opinions will continue to cover:
- GMRA 1995 as amended by the Amendment Agreement; and
- GMRA 1995 as amended by the 2011 GMRA Protocol (subject to certain elections)
Benefits of using GMRA 2011

- The GMRA 2011 reflects:
  - lessons learned from the Lehman default process;
  - amendments made to other master agreements; and
  - bilateral feedback of GMRA users.

- The GMRA 2011 contains:
  - Expanded Act of Insolvency definition;
  - Enhanced default mechanisms;
  - Improved flexibility for non-defaulting party; and
  - Set off mechanism.
• ERCC sponsored project:
  
  • Developing a ‘Initial Margin Pledge Structure’ whereby the ‘haircut’ or initial margin (IM) in a repo transaction is secured on a pledge basis. Ideally this would be documented separately from the GMRA so as to protect the title transfer characteristics of the master agreement but there would need to be a robust linkage between the GMRA and the pledge document to ensure they were executed simultaneously and for the purposes of netting.

  • Developing a ‘Secured Loan Agreement’ which would provide for raising cash against pledged securities.
Current treatment for standard GMRA transaction:

\[
\text{EAD} = 105\text{MM} - 100\text{MM} + 2.9694\text{MM} \\
\text{EAD} = 7.969\text{MM} \\
\text{RWA (@100%)} = 7.969\text{MM} \\
\text{Capital (@10%)} = 0.797\text{MM}
\]

Regulatory risk adjustment of 2.828% of Exposure (105MM).

Treatment for IM Pledge Structure:

The IM of 5MM would attract zero exposure on that basis that the IM is segregated in a pledge account.

\[
\text{EAD} = 100\text{MM} - 100\text{MM} + 2.828\text{MM} \\
\text{EAD} = 2.828\text{MM} \\
\text{RWA (@100%)} = 2.828\text{MM} \\
\text{Capital (@10%)} = 0.283\text{MM}
\]

Regulatory risk adjustment of 2.828% of Exposure (100MM).

Saving using IM Pledge Structure:

\[
\text{EAD} = 5.141\text{MM} \\
\text{RWA} = 5.141\text{MM} \\
\text{Capital} = 0.514\text{MM}
\]

The numbers in this example are for illustrative purposes only.
• ERCC legal working group action item

• Phase I
  – Development of IM Pledge Structure and outline triparty control agreement
  – Discussions with triparty service providers to customise control agreements
  – Preparation of legal opinions to support use of IM Pledge Structure
  – Preparation of associated guidance notes

• Phase II
  – Development of Secured Loan Agreement
Firms undertaking large scale documentation projects to assess identify repapering requirements prompted by Brexit

- Foreseeable changes: (i) BRRD recognition language – Art 55 and recognition of resolution powers; (ii) Art 46(6) MiFIR – EU based CP require EU dispute forum in contract.

- Other: Art 13 EU Insolvency Reg and Art 30 Credit Institution Winding up Directive. Third country law contract may not offer safe harbour from clawback in insolvency.

- Form: amendment to existing 2011 GMRA Protocol or Brexit specific protocol? Standalone arbitration clause?
Contact information:
Lisa Cleary: Senior Director, Associate Counsel
lisa.cleary@icmagroup.org
Tel: +44 (0)20 7213 0330

ICMA Ltd
www.icmagroup.org
The European repo market at 2017 year-end

European Repo and Collateral Council Annual General Meeting

London, March 14th 2018

Andy Hill, Senior Director, ICMA
2017 year-end in the European repo market

- The 2016 year-end has provided an extreme baseline by which future year-ends will be assessed, and, in relative terms, the 2017 year-end was mostly orderly.

- However, balance sheet pressures over the ‘turn’ persisted, and core GC tightened significantly (more than 350bp in the case of German collateral), as did specials (by as much as 600 to 700bp in the case of some French government bonds).

- Meanwhile, compared to 2016, periphery sovereign markets traded relatively tighter, as did Gilt repo.

- Some buy-sides note that it was equally difficult as the 2016 turn.
Germany & France GC (t/n)

Source: Nex Data Services Ltd – BrokerTec Repo
ICMA European Repo and Collateral Council
Annual General Meeting
14 March 2018, London

German Specials (s/n)

Source: Nex Data Services Ltd – BrokerTec Repo
Spread to Eonia (bps)

French Specials (s/n)

Source: Nex Data Services Ltd – BrokerTec Repo
Source: Repo Funds Rate
Source: Bloomberg
Why not as dramatic as 2016?

- Positioning
- PSPP lending programmes
- FX basis
- Preparedness
ICMA European Repo and Collateral Council
Annual General Meeting
14 March 2018, London

PSPP securities lending balances on loan
(average monthly balances)

Source: ECB
ICMA European Repo and Collateral Council
Annual General Meeting
14 March 2018, London

EUR-USD currency basis swap

Source: Reuters
Still closed for business

- Basel reporting
- Bank levies
- G-SIB capital surcharge

The future?
The Guide to Best Practice in the European repo market

Mr. David Hiscock
Senior Director, ICMA
# Contents

**Preface**

Martin Scheck, Chief Executive of the International Capital Market Association (ICMA) and Godfried De Vidts, Chairman of the ICMA International Repo and Collateral Council (IRCC) and the ICMA European Repo and Collateral Council (ERCC)

**Chapter**

1. **Purpose and scope of the Guide**

2. **Best practice in initiating a repo transaction**

3. **Best practice in margining repo**

4. **Best practice in managing the life cycle of a repo**

**Annex I**

**Understanding repo and the repo market**

**Annex II**

**Glossary of repo terminology**

**Annex III**

**What are open, evergreen and extendible repos?**

**Annex IV**

**Example of a mini close-out notice**

**Annex V**

**Forms of confirmation in Annex II of the GMRA**
What is the Guide & How is it Maintained

» The Guide sets out **standards for the orderly trading and settlement of repos**
  » Its purpose is to help foster a smooth and orderly market in repo in Europe by recommending practices which market experience suggests can help avoid uncertainties or disagreements about transactions, and consequent delays or disruption to repo trading and settlement
  » The Guide also codifies market conventions, where this has been thought to be helpful, usually in response to queries from market participants

» The **practices set out in the Guide are general recommendations only**
  » Parties to repos are free to agree other terms, where they see fit
  » It is not necessarily a problem if recommended best practice is not followed, provided parties recognise the risks to which they may expose themselves as a result
  » The Guide has been written to assist staff in member firms of the ICMA ERCC, but other firms may find the Guide helpful – it presupposes some knowledge and experience of how the repo market operates

» The Guide is **maintained by ICMA and authored by Mr Richard Comotto**
  » An ERCC Working Group, Chaired by Mr Sylvain Bojic, works to agree updates
    » Involves input from business, operations, legal, and academic perspectives
  » **Work is ongoing** – next meeting set for 11 April
December 2017 Update

» December 2017 Guide update includes new and/or revised practices relating to:
  » Deadlines for the notification of the termination of open repos
    » Clear distinctions by market, issuer type, currency and ISIN prefix
  » Overdraft charges and the handling of fails on negative rate repos
    » Failing party should pay the highest of (i) the accepted overnight index for the contractual currency; (ii) the central bank deposit rate; or (iii) the repo rate on the failed transaction
  » Mutual exchanges of confirmations
  » Instruction of settlement, using SSIs & instructing on both legs as soon as possible post-execution
  » Maximising netting opportunities
  » Calculating the value of collateral – using middle, CoB executable prices
  » Margin call deadlines and resolving margin disputes
  » Notification of failures to deliver
  » Promptly executing compensatory payments

» New annex: What are open, evergreen and extendible repos?
What are open, evergreen and extendible repos?

<table>
<thead>
<tr>
<th>Repo Type</th>
<th>Repo Rate Options</th>
<th>Termination/Extension Options</th>
<th>Substitution Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open Repo</td>
<td>option 1.1 --- whenever requested by either party, if other agrees</td>
<td>option 3.1 --- any business day within term</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>option 2.1 --- same as termination notice period</td>
<td>option 4.1 --- any business day within term</td>
<td></td>
</tr>
<tr>
<td></td>
<td>option 2.2 --- same as conventional or mandatory settlement period</td>
<td>option 4.2 --- any business day within agreed sub-term</td>
<td></td>
</tr>
<tr>
<td></td>
<td>option 3.3 --- on the re-rate date</td>
<td>option 4.3 --- on any one of a series of agreed business days</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>extension takes place on original repurchase date irrespective of how far in advance extension is agreed</td>
<td></td>
</tr>
<tr>
<td>Evergreen Repo</td>
<td>option 1.1 --- floating rate index would be automatically updated but change in spread can be requested by either party, if other agrees</td>
<td>option 2.1 --- original repurchase date or, if extended, new repurchase date</td>
<td></td>
</tr>
<tr>
<td></td>
<td>option 2.2 --- same as conventional or mandatory settlement period</td>
<td>option 3.1 --- any business day within term</td>
<td></td>
</tr>
<tr>
<td></td>
<td>option 3.3 --- on the re-rate date</td>
<td>option 4.1 --- when parties agree to extend</td>
<td></td>
</tr>
<tr>
<td>Fixed-Term Repo</td>
<td></td>
<td>option 4.2 --- as otherwise agreed</td>
<td></td>
</tr>
<tr>
<td>Extendible Repo</td>
<td>option 1.2 --- floating rate index would be automatically updated but change in spread can be requested by either party, if other agrees</td>
<td>option 2.1 --- spread re-rate date</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>option 3.2 --- any business day within agreed sub-term</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>option 3.3 --- on any one of a series of agreed business days</td>
<td></td>
</tr>
</tbody>
</table>

- **repo rate**
  - can it be re-rated?
  - when can re-rate be requested (rerate date)?
  - re-rate notice period
  - interest payment date
- **termination/extension**
  - eligible dates
  - termination/extension notice period
- **substitution**
  - notice date
  - substitution notice period
On 26 April 2017, the Bank of England posted on its website a new UK Money Markets Code, which has been endorsed by the Money Markets Committee of the Bank.

The Code is accompanied by an Explanatory Note:

- Sets out the standards and best practice expected from participants in the deposit, repo and securities lending markets in the UK.
- Supersedes guidance for participants in these markets provided by the NIPs Code, the Gilt Repo Code and the Securities Borrowing and Lending Code.
- This new Code remains voluntary, but the Bank is encouraging all market participants to follow it.
  - A standardised Statement of Commitment to the Code is provided in Annex 1 and the Bank’s ambition is for the Code to be embedded widely by the beginning of 2018.
- The Code’s overriding principle is for UK Market Participants to always act in a manner to promote the integrity and effective functioning of the markets.
  - It sets out six underpinning principles in order to promote an open, fair and effective market.
  - In Chapter 3, Repo, the Code further sets out a summary of the basic procedures which participants in the repo market should observe as a matter of best practice.
- This high level Code is different in nature from, but complementary to, the general recommendations laid out in the ICMA ERCC Guide to Best Practice.
Regulatory Update

Mr. David Hiscock
Senior Director, ICMA
Revised Markets in Financial Instruments Directive (MiFID) & new Regulation (MiFIR)

MiFID II came into effect from the start of 2018 and does impact SFTs

- SFTs are **exempt from both pre- and post-trade transparency requirements**
- SFTs are also **exempt from MiFIR transaction reporting requirements** (as covered by SFTR)
  - But must still MiFIR transaction report repos with ESCB counterparties (SFTR exempt)

**Partial exemption re best execution requirements:**

- Exempt: RTS 27 (re execution venues executing client orders in MiFID financial instruments)
- Applies: RTS 28 (re investment firms executing client orders on execution venues)

Other requirements, notably including **order record keeping**, are applicable.

Investor protection: MiFID II states that an **investment firm shall not conclude TTCAs for the purpose of securing obligations of retail clients**

- GMRA repos are TTCAs – it seems these are not therefore allowed with retail clients
- The definition of retail clients encompasses entities such as local authorities and municipalities – but subject to applicable procedures these types of clients may be able to elect for treatment as professional clients
SFTR: Key elements and timeline

SFTR proposed by Commission **29.01.2014**

SFTR entry into force **12.01.2016**

Reuse requirements apply (art.15) **13.07.16**

UCITS & AIFs begin periodic reporting (art.13) **13.01.17**

Pre-contractual disclosure rules for UCITS & AIFs (art.14) **13.07.17**

Mandate for ESMA to develop draft technical standards (RTS) on reporting (art.4)

Final draft RTS submitted to EC **31 March 2017**

Final RTS adopted & published c. **Q3 2018**

Banks & investment firms c. **Q3 2019**

UCITS, AIFs & pension funds c. **Q1 2020**

Required reporting of SFTs to trade repositories

CCPs & CSDs c. **Q4 2019**

Non-financial counterparties c. **Q2 2020**
SFTR: reporting (art. 4) – Level 1 text

- **Key provisions:**
  - Both counterparties to **report the details of all SFTs concluded**, as well as any modification or termination thereof to a trade repository specifically authorized under SFTR.
  - Reporting **no later than on the working day following the conclusion**, modification or termination of the transaction (T+1).
  - SFTR sets out **list of minimum reporting elements**, including in relation to the reuse of collateral (where distinguishable from other assets).
  - Requirements apply to **EU counterparties** (incl. all (non-EU) branches) & **EU branches of third country firms**; except certain public bodies (Central Banks, DMOs, BIS).
  - SFTs with EU Central Banks are exempt from reporting.
  - The reporting obligation **may be delegated** to a third party (“mandatory delegation” in case of SME non-financials).

- **ESMA to prepare draft RTS and ITS to specify content, format & frequency of SFT reports to TRs – including LEIs, ISINs & UTIs**
SFTR: reporting (art. 4) – ESMA final draft RTS/ITS (31 March 2017)

- **Key proposals:**
  - Standard reporting format based on **ISO20022**
  - Broadly aligned with **EMIR reporting** regime for derivatives (e.g. action types)
  - **Over 80 proposed reporting fields** for repo alone (counterparty, loan, collateral data)
  - Intra- and inter-TR **reconciliation** required on the majority of fields with very limited tolerance (implemented in two stages)
  - Reporting of **collateral information** by value date + 1 at the latest
  - Daily **collateral updates** with daily revaluations required
  - **Margining** to be reported on an end-of-day basis (CCP & bilateral)
  - **Collateral re-use** to be reported at ISIN level (“approximate measure” applied where assets are not distinguishable) and on S+1

- **ESMA final draft RTS/ITS** currently reviewed by Commission – final adoption expected in **Q3 2018**
EU Banking Prudential Requirements

» Commission proposal 23.11.2016
  » Parliament and Council are still working to finalise their positions, ahead of trilogue
  » Aim to reach agreements by end of this year, to take effect from the start of 2020

» Leverage ratio
  » Commission proposes a binding 3% leverage ratio

» Net stable funding ratio (NSFR)
  » Commission proposes a binding, detailed NSFR
    » So as not to hinder the well-functioning of EU capital markets and to preserve the liquidity of sovereign bond markets, certain adjustments are proposed to the Basel NSFR standard, relating to the treatment of:
      » Derivatives – lower RSF factors & recognition of offset re HQLA Level 1 VM (v. BCBS cash only)
      » Short-term transactions with financial institutions – repo asymmetry down to 5%/10% (v. BCBS 10%/15%)
      » High Quality Liquid Assets (HQLA) – 0% RSF for holdings of HQLA Level 1 (v. BCBS 5% RSF)

» Calibration
  » Key question concerns how to potentially achieve further beneficial refinement
  » Debates re offsetting / netting / potential exemptions
EU CSDR Settlement Discipline

» In April, Commission is expected to publish proposed **RTS for the mandatory buy-in regime**
» Part of CSDR Settlement Discipline measures, alongside late settlement penalty regime
» Comes two years after revised draft RTS were published by ESMA
» Parliament and Council must consider, likely leading to formal adoption some time in mid-2018
» **Anticipate two years thereafter before application starts: ie mid-2020**

» Expected to be largely in line with ESMA’s February 2016 – **key aspects include:**
  » (i) trading-level buy-ins (for the most part);
  » (ii) 7-business days before a failing trade mandates the start of the buy-in process;
  » (iii) 7-business days allowed from the start of the buy-in to completion (settlement);
  » (iv) cash compensation in the event that the buy-in is unsuccessful; and
  » (v) an **exemption for SFTs with less than 30-business day maturities**

» ICMA believes, and has long argued, that the CSDR mandatory buy-in regime
  » Is flawed in its design; and
  » Will be severely **damaging to European bond market liquidity** and stability – particularly for less liquid markets such as those for corporate bonds and emerging markets
EU Bank Recovery & Resolution

» Commission’s proposed BRRD reforms extend moratorium periods
» Presents challenges for market participants
» Seek to limit broadening of moratorium powers
» Note that Brexit complicates resolution (UK v. EU27)

EU CCP Recovery & Resolution

» Commission has proposed an EU Regulation for CCP R&R – may be agreed in mid-2018
» Important given the significant role played by CCPs in repo & collateral markets
» Debate is focussed on derivatives, but regime needs to accommodate repo
» Variation margin gains haircutting (VMGH) is a critical point – seemingly adequately considered
Haircuts

» SFTR Article 29.3 anticipates possible creation of an EU SFT haircut regime
  » On 19 October 2017, the Commission published its final report
    » Took account of, more detailed, October 2016 report prepared by ESMA, EBA and ESRB
    » Overall, the Commission followed that earlier guidance, concluding that:
      » To a large extent, FSB recommendations on SFTs have been addressed in the EU through the adoption of SFTR and certain other specific provisions
        – as such, there does not seem to be a need for further regulatory action at this stage;
      » It will continue to thoroughly monitor applicable developments in SFT markets and the international regulatory space; and
      » It will reassess the added value of qualitative standards and haircut floors on the basis of a report to be prepared by ESMA once comprehensive SFT data is available (ie once SFTR reporting is live)

» Others continue to call for action to regulate haircuts
  » In particular, the ESRB advocates a mandatory minimums regime, with some form of power to use these in order to act against procyclicality
## New near risk-free reference rates – status

<table>
<thead>
<tr>
<th>Currency</th>
<th>Near Risk-Free Reference Rate</th>
<th>Secured or Unsecured</th>
<th>Available?</th>
<th>Administrator</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>SOFR</td>
<td>Secured</td>
<td>(April) 2018</td>
<td>FRBNY</td>
</tr>
<tr>
<td>GBP</td>
<td>Reformed SONIA</td>
<td>Unsecured</td>
<td>(April) 2018</td>
<td>BoE</td>
</tr>
<tr>
<td>CHF</td>
<td>SARON</td>
<td>Secured</td>
<td>Yes</td>
<td>SIX</td>
</tr>
<tr>
<td>Euro</td>
<td>Not yet defined</td>
<td>Not yet defined</td>
<td>No</td>
<td>Not yet defined</td>
</tr>
<tr>
<td>JPY</td>
<td>TONAR</td>
<td>Unsecured</td>
<td>Yes</td>
<td>BoJ</td>
</tr>
</tbody>
</table>
Temporal constraints on benchmark reform in the EU Benchmark Regulation

Administrators - existing BMs
Period to apply for authorisation / registration, may continue to provide benchmarks
Grandfathering of non-compliant benchmark for use in legacy contracts, subject to art. 51(4)

Administrators - new
Should apply for authorisation / registration if they provide or intend to provide indices which are used or are intended to be used as benchmarks

Critical BMs
colleges, mandatory contribution (24m max), mandatory administration (24m max)

Contributors
Supervised contributors subject to art. 16 BMR / no transitional provisions

Users
Users subject to art. 28(2) + ESMA Q&A
For new contracts: use only compliant BMs

BMR
30 June 2016: entry into force
1 January 2018: entry into application
1 January 2020: end of transitional provisions

Source: FSMA
Thank you, Ladies and Gentlemen

» Contacts and information:

- **David Hiscock**: Senior Director – Market Practice and Regulatory Policy
  - [David.Hiscock@icmagroup.org](mailto:David.Hiscock@icmagroup.org)
  - Tel: +44 (0)20 7213 0321 (Direct Line) / +44 (0)7827 891909 (Mobile)

- **Alexander Westphal**: Director – Market Practice and Regulatory Policy and Secretary, ICMA ERCC
  - [Alexander.Westphal@icmagroup.org](mailto:Alexander.Westphal@icmagroup.org)
  - Tel: +44 (0)20 7213 0333 (Direct Line) / +44 (0)7469 159961 (Mobile)

- **ICMA Legal & Regulatory Helpdesk**: 

ICMA Ltd, 23 College Hill, London EC4R 2RP / [www.icmagroup.org](http://www.icmagroup.org)

- **ICMA quarterly report**: provides detailed updates on these matters and ICMA’s broader work
ERCC Operations Group Update

Mr. Nicholas Hamilton
Co-Chair of the ERCC Operations Group
ICMA ERCC Operations Group – The 4 pillars

Collateral Regulation
- EU SFTR
- MMSR and other reporting
- CSDR
- UK Money Markets Code

Collateral Market Infrastructures
- AMI-SeCo and sub-groups
- EPTF
- ICSD initiatives
- Liquidity management

FinTech
- FinTech directory
- Application usage
- DLT applications

Training & Development
- Repo Guide to Best Practice
- Events, courses and workshops
SFTR timeline & ERCC implementation work

- **ERCC SFTR Task Force** established in 2015, chaired by Jonathan Lee (JPM)
- Initial focus on ESMA consultations & Level 2 process – has now shifted to concrete implementation work and best practices
- ICMA **bilateral reconciliation exercise** launched in June 2017 – supported by vendor platforms
- Group continues to grow and, in January 2018, was extended to include SFTR vendors and trade repositories (following initial bilateral meetings)
- Close collaboration across industry, including with other relevant associations (ISLA, AFME,...)
**SFTR reporting vs other initiatives vs current market practice**

**Number of reporting fields required**

<table>
<thead>
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ICMA ERCC Operations Group – The 4 pillars

Collateral Regulation
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AMI-SeCo & CMH-TF

- ERCC represented in **ECB’s Advisory Group of Market Infrastructures for Securities and Collateral (AMI-SeCo)**, through Nicholas Hamilton (ERCC Ops Co-chair)
- At its first meeting in March 2017, AMI-SeCo decided to launch more detailed work to foster further harmonization of collateral management processes and frameworks, following up on related work launched by COGESI
- Detailed work is being undertaken by a dedicated **Collateral Management Harmonisation Task Force (CMH-TF)** and its 5 sub-streams:
  - Substream 1: Triparty collateral management
  - Substream 2: Corporate Actions, Taxation Processes, Non-Euro Collateral
  - Substream 3: Bilateral Collateral Management, Margin Calls
  - Substream 4: Billing Processes, Cut-off Times
  - Substream 5: Collateral Dynamic and Static Data
- Specific focus on WS 1 (tri-party collateral management) and 2 (corporate actions) as key components for the **Eurosystem Collateral Management System (ECMS)**, which is due to go live by 2022
- First set of concrete harmonization proposals to be delivered by **June 2018**
ICMA ERCC Operations Group – The 4 pillars

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Training & Development
Repo Guide to Best Practice
Events, courses and workshops
ERCC Ops FinTech WG

- Group formed in Sep 2016 & chaired by Sanjiv Ingle (SocGen)
- Initial objective to map all established & emerging FinTech solutions supporting collateral operations - in close collaboration with the relevant providers
- Final FinTech mapping directory published in November 2017: over 100 technology tools covered spanning across 10 categories
- Group will continue to update the document and engage with the providers where appropriate
- Interested members are still welcome to join!
ICMA ERCC Operations Group – The 4 pillars

**Collateral Regulation**
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**FinTech**
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**Training & Development**
- Repo Guide to Best Practice
- Events, courses and workshops
ERCC Repo Guide to Best Practice

- Initially published in March 2014
- Sets out detailed standards for the orderly trading and settlement of repo
- Reviewed on an ongoing basis by a dedicated ERCC working group – latest version published in December 2017
- Role in the implementation of SFTR?
- The Guide is available on the ICMA website
Upcoming ICMA courses and workshops on Repo:

- **Annual ICMA Workshop:** Professional Repo and Collateral Management
  Next workshop: 24 – 25 September 2018 in London (hosted by Euroclear)

- ICMA Workshop: Repo and securities lending under the GMRA and GMSLA
  Next workshop: 7-9 March 2018 in London

- ICMA Workshop: GMRA Masterclass – a clause-by-clause analysis & Annex I negotiation
  Next workshop: 26 – 27 March 2018 in London

- ICMA EE course: Collateral Management
  Next course: 9-10 April 2018 in London
## COLLATERAL MANAGEMENT HARMONISATION ACTIVITIES - 2018 PLANNING

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### Explanation of Steps

0. Fact-finding (including terminology)
1. Elaboration of harmonised workflows and business processes
2. Identification of data elements
3. Identification / development of ISO 20022 Message
4. Development of implementation, monitoring and compliance framework
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
**Next ERCC meeting:**

» **Wednesday 17 October 2018, 14:00 – 17:00**

» **Hosted by Bloomberg in London**

**ERCC Professional repo market course:**

» **24 – 25 September 2018**

» **Hosted by Euroclear in London**
Please join us for a networking drinks reception