

Regulatory update

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CSDR mandatory buy-ins & SFTs

European Repo and Collateral Council 2019 Annual General Meeting

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ICMA's focus on CSDR-SD

- ICMA's focus on CSDR is primarily with respect to Settlement Discipline measures, and in particular the mandatory buy-in framework.
- ICMA's work on CSDR-SD includes:
 - Working with ESMA, members, and the broader industry to develop Level 3 guidance, market solutions, and best practice to ensure relatively smooth implementation and to minimize damage to market functioning and liquidity.
 - Raising awareness of regulatory obligations, scope, and impacts; particularly for buy-side firms and with regard to extraterritorial implications.
 - Continuing to advocate authorities and policy makers to reconsider implementation.
- Work focused through a dedicated CSDR-SD Working Group, with input from the SMPCC and ERCC.
- Also working closely with AFME, ISLA, et al.

Current priorities

General

- Solving for the apparent asymmetry in the buy-in/cash compensation difference payment
- Providing for a pass-on mechanism
- What happens if a buy-in agent cannot be found
- Updating the ICMA Buy-in Rules [led by the SMR&R WG]

SFT specific

- Treatment of open trades (and open-like structures)
 - Including once they reach 30 business days
- How to buy-in an SFT
- Calculating the appropriate difference payment (in the case of a buy-in)
- Implications for existing legal framework (GMRA/GMSLA)

Related ICMA Papers:

[CSDR Settlement Discipline: mandatory buy-ins](#)
July 2018 (Information Brochure)

[How to survive in a Mandatory Buy-in World](#)
June 2018 (Discussion Paper)

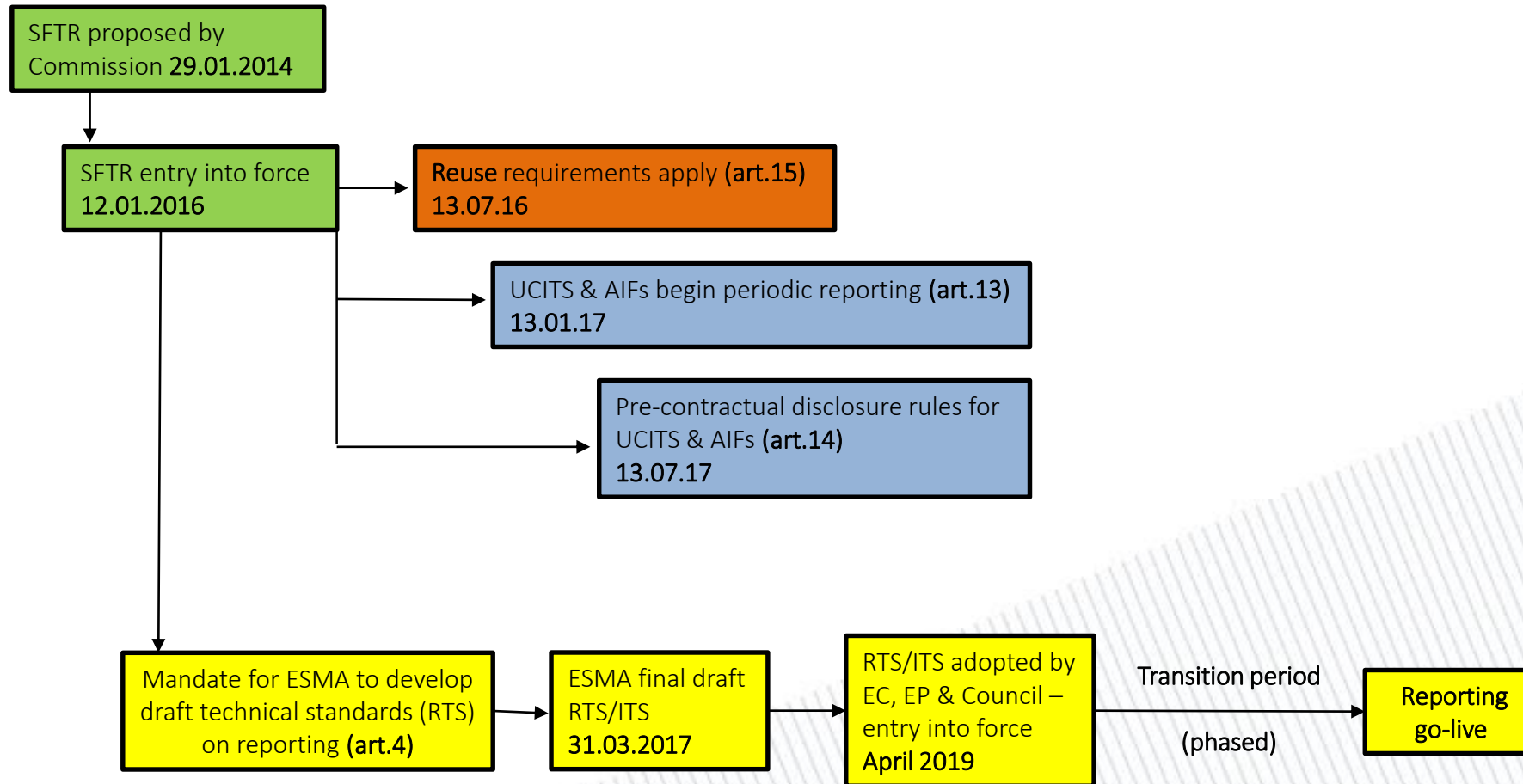
[CSDR Mandatory Buy-ins and Securities Financing Transactions](#)
October 2018 (Discussion Paper)

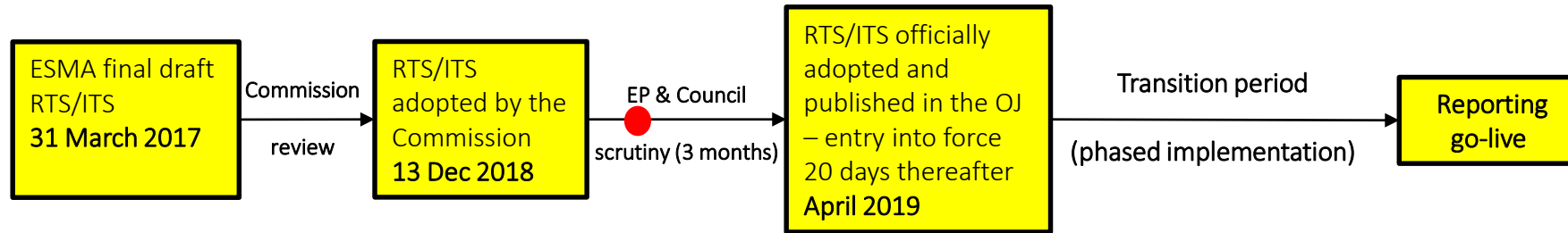


More information and resources can be found on the dedicated CSDR-SD landing page on the ICMA website:

<https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Secondary-Markets/secondary-markets-regulation/csdr-settlement-discipline/>

SFTR: Key elements and timeline





- **Phased transition period until application of the requirements specified by SFTR – expected reporting go-live dates:**
 - **April 2020** (12 months after entry into force): Banks and investment firms
 - **July 2020** (15 months ...): CCPs & CSDs
 - **October 2020** (18 months ...): Buy-side
 - **January 2021** (21 months ...): Non-Financial Counterparties (NFCs)
- **ESMA** has a key role to play in the implementation process:
 - Draft RTS & ITS submitted to the Commission in March 2017 (“Level 2”)
 - Additional “Level 3” implementation guidance forthcoming, including Q&As, detailed Guidelines & validation rules
 - Public consultation on draft Guidelines expected once the RTS/ITS have been finalized

ICMA ERCC approach to SFTR

- SFTR reporting is a **key priority** for the ICMA ERCC
 - Extensive reporting requirements as a major operational challenge for SFT markets
 - Double-sided reporting and reconciliation requirements necessitate cross-industry collaboration & agreement
- **ERCC SFTR Task Force** established in 2015, initially to respond to ESMA's consultations on SFTR technical standards
 - Main objective of the group is to facilitate implementation by providing common interpretations, definitions and market best practices
 - Group is open to a broad range of market participants, including sell-side, buy-side, market infrastructures and service providers (TRs & vendors) – in total nearly 100 firms represented
 - Working closely with other trade associations, in particular ISLA, as well as regulators, in particular ESMA

SFTR Task Force – key deliverables

- **SFTR Annex to the [ERCC Guide to Best Practice in the European Repo Market](#)**
 - ERCC Guide offers a useful and well-established framework
 - Draft Annex being developed with the TF - already over 50 issues covered (Q&A format)
 - Aim is to share/validate any recommendations with ESMA

- **Field-by-field analysis & ESMA validation logic**
 - ERCC commented on a first set of ESMA draft validation rules in Oct 2017
 - Focus sessions with TF members to go through the reporting tables, field-by-field and validate field contents and validation logic (further feedback submitted in Dec 2018)

- **SFTR template reports**
 - Dummy transaction reports for a variety of trade scenarios (25 scenarios covered)
 - Covers new transactions, but also subsequent lifecycle reports (substitution, early termination etc.)
 - Number of required fields ranging between 45 – 60 per trade scenario (new trade)

SFTR Task Force – sample reports: overview table

	type	term	start	repo rate	term.opt.	venue	any special parties	event(s)	collateral	post-trade infrastructure	market name
1.1	SBSC	fixed	immediate	fixed	no	OTC		new	specific	ICSD	
2.1	REPO	fixed	immediate	fixed	No	OTC		new	specific	CSD direct participant	traditional OTC
2.2	REPO	fixed	immediate	fixed	No	OTC	branch	new	specific	custodian	
2.3	REPO	fixed	immediate	fixed	No	RFQ	small NFC	new	specific	custodian	
2.4	REPO	fixed	immediate	fixed	no	voice-broker		new	specific	ICSD	traditional brokered
2.5	REPO	fixed	immediate	fixed	no	OTC	agent	new	specific	custodian	agency
2.6	REPO	fixed	immediate	fixed	no	RFQ	agent	New	specific	custodian	
2.7	REPO	fixed	immediate	floating	no	OTC		New	specific	ICSD	OTC floating-rate
2.8	REPO	fixed	forward	fixed	no	OTC		New	specific	ICSD	forward
2.9	REPO	open	immediate	re-ratable	no	OTC		new+rerating	specific	ICSD	OTC open
2.10	REPO	open	immediate	re-ratable	no	OTC		New	basket ISIN only	triparty agent	traditional tri-party
2.11	REPO	fixed	immediate	fixed	no	OTC	agent	new but collateral unknown on T	basket ISIN only	triparty agent	
2.12	REPO	open	immediate	re-ratable	no	OTC		new	basket ISIN only	DBV	
2.13	REPO	fixed	immediate	fixed	no	ATS		new	specific	ICSD	bilateral electronic
2.14	REPO	fixed	immediate	fixed	no	ATS		new	specific	CCP	anonymous electronic
2.15	REPO	fixed	immediate	fixed	no	ATS	clearing member	new	specific	CCP	anonymous electronic
2.16	REPO	fixed	immediate	fixed	no	OTC		new (from prior repo)	specific	CCP post-trade	
2.17	REPO	fixed	immediate	fixed	no	ATS		new (no prior repo)	basket ISIN only	CCP+triparty agent	GC financing
3.1	REPO	fixed	immediate	fixed	no	OTC		new+substitution	specific	ICSD	
3.2	REPO	fixed	immediate	fixed	no	OTC		new+early termination	specific	ICSD	
3.3	REPO	fixed	immediate	fixed	no	OTC		variation margin	specific	ICSD	
4.1	REPO	open	immediate	re-ratable	evergreen	OTC		new+termination	specific	ICSD	
4.2	REPO	fixed	immediate	re-ratable	evergreen	OTC		new+termination	specific	ICSD	
4.3	REPO	fixed	immediate	re-ratable	evergreen	OTC		new+advance+termination	specific	ICSD	
4.4	REPO	fixed	immediate	re-ratable	extendible	OTC		new+extension (one-off & into new extendible)	specific	ICSD	

Note: highlighted cells indicate addition of new features to sample.

Post-Crisis Reforms and the Evolution of the Repo and Broader SFT Markets

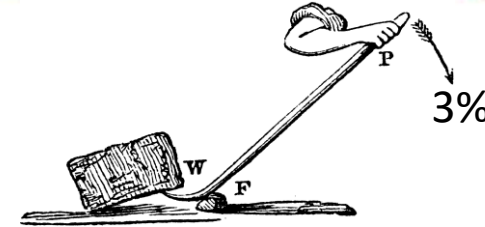
- » GFMA/ICMA joint report published 17 December
 - » prepared with the support of member firms
 - » 33 survey respondents from repo and collateral desks across regions; and
 - » QIS with 14 member firms on SFT minimum haircuts

- » Purpose of the report is to provide an **analysis and evaluation of:**
 - » the post-crisis assessment of vulnerabilities in SFT markets;
 - » subsequent **regulatory reforms; and**
 - » **how these have influenced the way in which SFT markets function**
 - » Also highlights practitioners' views on potential future developments and vulnerabilities

- » Goal is for this report to provide a comprehensive and fact-based analysis to assist policymakers' discussions on ways to **further assess the coherence and calibration of the post-crisis reforms** with regards to their impact on repo and broader SFT markets



Revisions to Leverage Ratio Disclosure Requirements



- » On 18 October, the BCBS published a statement on leverage ratio window-dressing behaviour
 - » Recalls that the Basel III leverage ratio (LR) standard comprises
 - » a 3% minimum level that banks must meet at all times (& a buffer for G-SIBs); and
 - » public disclosure requirements, for which purpose banks must calculate the LR on a quarter-end basis (albeit some jurisdictions require calculate more frequently)
 - » Heightened volatility in various segments of markets around key reference dates (eg quarter-ends) has alerted the BCBS to potential regulatory arbitrage by banks
 - » a particular concern is "**window dressing**", in the form of temporary reductions of transaction volumes in key financial markets around reference dates
 - » **this is unacceptable** – banks should desist from undertaking transactions with the sole purpose of reporting and disclosing higher leverage ratios at reporting days only
- » On 13 December, the BCBS published, for comment by 13 March, a consultative document entitled *Revisions to Leverage Ratio Disclosure Requirements*
 - » Seeks views on revisions to LR disclosure requirements to additionally include:
 - » **disclosures of the LR exposure measure amounts of SFTs, derivatives replacement cost and central bank reserves calculated using daily averages** over the reporting quarter

New near risk-free reference rates (RFRs) – status

Currency	Near Risk-Free Reference Rate	Secured or Unsecured	Available?	Administrator
Euro	ESTER	Unsecured	October 2019	ECB
GBP	Reformed SONIA	Unsecured	Yes	BoE
USD	SOFR	Secured	Yes	FRBNY
CHF	SARON	Secured	Yes	SIX
JPY	TONAR	Unsecured	Yes	BoJ

- » EU Benchmark Regulation (BMR) transition period runs until the end of 2019
 - » Constraints on use of benchmarks apply thereafter
 - » possible extension being debated by legislators
 - » As things stand, EONIA will not be BMR compliant
 - » €RFR WG consulting on transition from EONIA (for comment by 1 February)
 - » propose modified methodology: EONIA = ESTER + spread (fixed)



Thank you, Ladies and Gentlemen

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- **ICMA Legal & Regulatory Helpdesk:**
<https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/icma-legal-and-regulatory-helpdesk/>
- **ICMA quarterly report:** provides detailed updates on these matters and ICMA’s broader work
<http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Regulatory-Policy-Newsletter>