ICMA EUROPEAN REPO COUNCIL

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Bank of England public consultation:
A new sterling money market data collection and the reform of SONIA

Response by the ICMA ERC Operations Group

Introduction:

On behalf of the European Repo Council ("ERC") Operations Group of the International Capital Market Association ("ICMA")[1], the purpose of this letter is to provide feedback to the Bank of England (the "Bank") on the consultation paper "A new sterling money market data collection and the reform of SONIA". In line with the focus of the ICMA ERC, we limit our comments to section 2 of the consultation paper ("A new sterling money market data collection") covering questions 1 – 18. Given that SONIA is an unsecured benchmark and the contemplated reforms to SONIA are focused therefore on unsecured transactions, for the remaining questions in relation to the reform of SONIA we would leave it to individual member firms and other relevant trade associations to comment.

A. Summary of key issues

The ICMA ERC Operations Group generally welcomes the Bank's proposals. In particular, we acknowledge the apparent intention of the Bank to adopt a proportionate approach and to minimise where possible the operational burden for firms. This is especially important given the number of reporting initiatives that are already under way in relation to securities financing transactions ("SFTs")

[1] Since the early 1990's, the International Capital Market Association (ICMA) has played a significant role in promoting the interests and activities of the international repo market, and of the product itself. The ICMA European Repo Council (ERC) has become the industry representative body that has fashioned consensus solutions to the emerging, practical issues in a rapidly evolving marketplace, consolidating and codifying best market practice. The discussions that take place at the ICMA ERC meetings underpin the strong sense of community and common interest that characterises the professional repo market in Europe. In support of the work of the ICMA ERC, the ICMA ERC's Operations Group brings together relevant specialists to focus on all applicable post trade activities.

which will require substantial compliance efforts and investments from firms. While we welcome the overall approach of the Bank, we have identified a number of general challenges with the current proposals which we think need to be addressed:

- The proposed implementation timeline is very tight and would pose significant challenges to firms, given that the reporting changes may require the reconfiguration of systems and have budget planning implications. In order to allow firms sufficient time to develop an efficient automated reporting mechanism in compliance with the proposed requirements, **we recommend giving firms <u>at least 6 months</u> time between the notification of daily reporters and the actual start of reporting**.
- Given the number of initiatives on SFT reporting that are under way at a European level (ECB's MMSR, EU SFT Regulation, ESCB SFT Data Store) as well as at a global level (FSB), we believe that a key objective underlying all of these initiatives should be to ensure more consistency between the different reporting requirements. This will be essential to avoid duplications and unnecessary operational burdens for firms and to minimise the already substantial implementation costs. The overall integrity of the approach on SFT data collection is however also clearly in the interest of regulators at all levels, as this is the only way to ensure that the collected data is consistent and helps to deliver a common understanding of the functioning and evolution of SFT markets and the underlying risks.
- There are a number of **more specific challenges** with the proposals put forward by the Bank which we believe should also be addressed. These are explained in more detail in our responses to the individual questions below.

B. Detailed responses to the questions

Q1: In your view, are there categories of institutions with significant borrowing activity in sterling secured money markets that the Bank's approach misses?

We do not believe that the requirement misses any category of institution with significant sterling secured money market borrowing.

Q2: Is the Bank's approach to identifying daily reporters based on covering 90% of market activity as identified by the annual return appropriate?

The Bank's proposed approach seems reasonable.

Q3: The Bank plans to allow for a three month preparation period between daily data contributors being notified and the commencement of data submissions. Is this sufficient time to prepare for the daily collection? What would prevent you from meeting this timeline?

The ICMA ERC Operations Group does not believe that three months between notification and implementation of daily reporting is sufficient. Currently, SFT reporting to the Bank is provided at a summarized level and on an ad hoc basis only. The detailed reporting requirements proposed by the Bank would require significant and time intensive changes that would involve multiple business lines and systems. In particular, the timeline needs to grant sufficient time for firms to:

(1) Secure the budget for the required system developments;
(2) Secure technology and operations staff (many of which are already fully consumed by other regulatory driven change programs) to implement the changes and allow sufficient time for efficient technology to be built allowing to: (i) access transactional information source systems, (ii) filter for specific data set, (iii) format according to standardized fields and (iv) introduce straight through processing (STP) to meet daily delivery by the appointed timeframe;
(3) Obtain sufficient test environments and a period of internal and external testing;
(4) Additional time may be required to implement any changes to the data, technical or workflow requirements following a review of the initial survey.

As a result, the ICMA ERC Operations Group would recommend giving firms **at least 6 months** between the notification and the start of daily reporting, which is in our view a more appropriate timeframe to allow firms to make the necessary changes to comply with the reporting requirements and to avoid an unnecessary compliance burden and reduce manual processes.

Q4: In your view, are there any parts of sterling money markets that the Bank's approach misses? For example is there significant offshore sterling money market activity? If so, how might the Bank capture that activity?

We do not believe that the proposed approach misses any significant parts of the sterling money market.

Q5: How much easier (or more difficult) would it be to provide information on all sterling repo, rather than solely on repo against UK government-issued stock as proposed?

The ICMA ERC Operations Group welcomes the proposal to focus the scope of SFT reporting on those transactions that are considered most relevant by the Bank and notes that this would reduce many implementation challenges and the reconciliation burden for firms. We anticipate that working from a clearly defined list of GBP UK Government issued collateral would also ensure greater consistency of reporting across firms and a more tightly controlled operating environment.
Precedents for such an approach can be found, for instance, in Irish Stock Exchange reporting.
There are however a few challenges with the restricted scope which have to be taken into account.
For example, this would result in an open question around the treatment of multi-collateral repo trades where a mixture of both UK Government debt and other bond collateral is used. In particular, if General Collateral (GC) outside of CREST's Term DBV is in the scope of reporting, it will be difficult to

narrow down reporting to just UK government-issued stock. This is due to the fact that most GC triparty profiles can accept a wide array of assets against GBP cash borrows. This would be the case for instance for triparty services provided by BNY Mellon, Euroclear Bank or Clearstream Luxembourg.

Q6: Does setting a threshold for the minimum transaction size make reporting more or less straightforward?

The ICMA ERC Operations Group is generally supportive of the proposed threshold. Limiting the universe to sterling borrowing trades larger than £1 million secured by UK Government debt will reduce the number of data items to reconcile and control. This will benefit firms with very limited additional complexity in the reporting logic.

As a more general remark on the scope of reportable transactions, we would like to ask the Bank to clarify how partial returns should be treated in terms of reporting. The consultation paper specifies that the rollover of term dates should be considered as a new trade, but does not specify the treatment of partial returns. On the treatment of open repo, the ICMA ERC Operations Group welcomes the Bank's proposal to treat these transactions as having an original maturity of one business day (i.e. to report them every day as a new transaction) and would like to remark that this approach could usefully be adopted at EU and global levels to reduce the reporting burden and ensure global consistency. We would like to remark however that because the trade is still open the relevant repo interest can only be reported on termination of the trade.

Q7: Does a reporting period of a year for the annual survey pose any problems?

We generally agree with the proposed reporting period of 1 year, although this might require some changes to the archiving logic in the concerned firms. The ICMA ERC Operations Group would however recommend giving firms time until February to finalise their annual reports in order to ensure the accuracy and avoid unnecessary corrections.

It is also worth mentioning that annual reporting, although clearly easier to achieve than daily reporting, would still constitute a considerable burden for firms. Even if reports are only submitted on a yearly basis, firms still need to understand all the relevant definitions and build the logic to precisely select the intended population of reportable transactions, given that the Bank's expectation is presumably to receive accurate annual data.

Q8: Are the definitions in Annexes 1-3 sufficiently detailed? If not, how could they be improved?

The ICMA ERC Operations Group would like to request clarification from the Bank as to how firms should report borrowing against GC baskets (and other GBP mixed baskets) that include some UK Government securities. Haircuts may be a particular challenge in these instances, particularly where the averaged value reflects different collateral types, not just UK Government Debt.

We believe that Annex 1 could be improved by providing further clarification on the types of trades intended for inclusion in the definition of 'own-name money market trades associated with custodial services provision and stock lending activity.' We expect that client-driven transactions that raise sterling funds should be out of scope. As an example, this would include trades to raise sterling that are secured by UK government securities during the course of Prime Brokerage relationships. This is because firms are not borrowing funds as Principle in these instances. Further clarity in this regard would be appreciated.

Firms would also appreciate greater clarity on the Annex 2 exclusion of reporting of internal transactions. Is it correct to assume that all **Inter-entity** transactions (where one bank legal entity is trading with another legal entity under the same group) are out of scope in the same way that **Intra-entity** (where an entity is trading with itself) transactions are?

Q9: Are there changes to the definitions that would reduce the reporting burden without materially altering the information collected?

We would like to point out that the Collateral Type field may be challenging and could lead to inconsistencies in the reporting of specials, particularly in the absence of a widely-accepted GC repo rate index. In our view, the Bank would be better placed to determine what is special since it will have collected all repo rates. This field could perhaps be simplified to the following options: DBV, other baskets, specific collateral.

In addition, there seems to be an inconsistency in the Repo Settlement Mechanism definitions. CCPs operate at a clearing level, triparty agents at a collateral management level and settlement at CSD-level. Thus, it is possible to have transactions that are CCP-cleared and triparty-managed (GC financing/pooling), and transactions that are triparty-managed and bilaterally-settled. Therefore, at a minimum, these fields cannot be mutually exclusive.

Finally, the ICMA ERC Operations Group would urge that data elements in the Bank's exercise are aligned with those of the SFTR from the start, given that the latter are now fairly firm.

Q10: How accurately does the timestamp in your trade capture system reflect the time at which a deal is struck?

Firstly, we would like to recommend that the Bank specifies that this field is populated with the trade Execution Time, rather than Booking Time. This would introduce most consistency with other reporting regimes. In most instances this timestamp will closely reflect the actual point of execution. However, there may be instances, particularly for voice traded transactions in which this time reflects the trade booking time in the front end trading system, not on the actual time the trade was agreed (either via broker or some other means). There may thus be some instances, particularly on voice trades in which the booking time is later than the execution time, reflecting system downtime and booking nuances. In some cases this might lead to trading counterparties reporting different timestamps in reference to the same trade, depending on when the trade was booked in their systems.

We would appreciate the Bank's view on how to treat late booked transactions, particularly in instances where a trade is not booked until after the transaction date.

As regards the time of reporting, it will be essential to ensure consistency with other parallel initiatives on SFT data collection. In particular, it is important to note that the FSB's data experts are currently looking at settlement date data rather than trade date reporting. Given the substantial reporting burden that firms will be facing already, it would be significantly preferable to avoid any duplication in reporting due to inconsistencies between different levels of reporting.

Q11: Would reporting Legal Entity Identifiers cause you any technical issues?

The ICMA ERC Operations Group strongly supports the adoption of LEI as a global standard for reporting counterparties. We would however like to point out that the adoption of LEIs is an evolutionary process, with data unlikely to be available for all counterparties until 2017 at the earliest. In addition, there is some potential for mismatches in LEI reporting by counterparties, as different LEIs may be assigned initially depending on how the trade is booked (e.g. to the parent entity or to the relevant subsidiary) – so subsequent trade matching processes will need to ensure the identification and rectification of any mismatches.

Q12: Would reporting institutions find it helpful for the Bank to specify a number of plausibility checks that should be applied pre-submission? If transactions were to be flagged by such defined checks, submissions would need to be annotated as verified transactions (where that is the case).

Yes, working with the Bank on report pre-validation checks could be very useful to reduce the burden on the single point of contact for questions. Additionally, these data quality checks could be built within the systems to reduce operational burden. We would however also like to point out that the scope for resolving many issues pre-submission is likely to be limited given the tight reporting schedule and will ultimately of course depend on the practicability of the proposed checks.

Q13: Would providing a contact for the Bank between 07.00 and 08.30 each reporting day be problematic?

The ICMA ERC Operations Group would appreciate further clarity in relation to the responsibilities and tasks that contact/s provided by firms would be expected to have. In general, the ICMA ERC Operations Group believes that firms will be happy to provide front office contacts who will be able to assist and advise on most market activity related queries. There are however some constraints which might make it challenging for banks to provide a single point of contact in the front office. For instance, in some cases the concerned activity queried will fall outside the remit of a given desk. We would also like to highlight that front office contacts would be unable to advise or assist in relation to any more technical or report production matters and that additional provision of these resources during in the period between 7am - 8.30am may prove more problematic. We would therefore like to ask the Bank to clarify what responsibilities are expected of these early morning contacts.

Q14: Do you anticipate that daily data would usually be submitted via an automated process? Would you require the ability to manually upload data?

Firms represented in the ICMA ERC Operations Group will aim to automate the process from the outset. In the short term it may however be necessary to manually upload some of the data given the quick turnaround time to begin the reporting. It should thus be ensured that a manual upload is at least available to overcome any system issues.

Q15: Do you have any comments regarding the system for providing data? Are there any specific problems posed by the provision of data in .xml file formats?

Members of the ICMA ERC Operations Group are familiar and comfortable with adopting either of the proposed formats. It would however be helpful if the Bank could specify their approach in relation to data security – particularly given the requirement to identify counterparties.

Q16: To help understand the Bank's support requirements, when would you ordinarily expect to deliver data to the Bank?

Firms will likely submit the data in the early morning on T+1, following system batch runs.

Q17: Will the proposed timetable for the commencement of reporting present any major issues?

As mentioned in our response to Question 3, the ICMA ERC Operations Group does not believe that the proposed timetable leaves sufficient time for firms to develop efficient solutions to comply with the reporting requirements. We would like to reiterate our recommendation to extend the time between notification and implementation of daily reporting to at least 6 months. Before that time reporting might need to be largely done on a manual basis, as it will take time to develop automated solutions. Such manual process would be extremely burdensome for firms. In addition, we also think that the proposed time between the final notification for early adopters (October) and the start of ad hoc reporting (December) is too short and should be extended.

Q18: Do you have any additional comments or feedback on the Bank's proposals for a new sterling money market data collection?

As mentioned above, we would like to stress again that the reporting requirements under the Bank's money market reporting should be, whenever possible, consistent with other reporting requirements, in particular the ECB's MMSR, the EU SFTR and upcoming global FSB standards. Given the substantial efforts required from firms to put in place the necessary reporting mechanism, this consistency across initiatives would be crucial to avoid duplicative reporting processes and to reduce overhead in technology and operations to support separate reporting. Finally, in addition to the provision of a "Reporting Schema," we would very much appreciate the Bank continuing to provide example reporting templates.

Concluding remarks:

The ICMA ERC Operations Group would like to thank the Bank for the opportunity to respond to the present consultation. As mentioned above, we welcome the general sprit of the consultation paper and the overall proportionate proposals. We have nevertheless identified a number of concerns and challenges which we think need to be addressed and would like to thank the Bank for its careful consideration of the ICMA ERC Operation Group's comments above. The ICMA ERC Operations Group remains at your disposal to discuss any of the points covered in this response.

Yours sincerely,

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Chairman
ICMA ERC Operations Group

cc : *ICMA European Repo Committee*
ICMA ERC Operations Group