



ICMA EUROPEAN REPO and COLLATERAL COUNCIL

ESMA
103 rue de Grenelle
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23 September 2016

Call for evidence on Asset segregation and custody services:

The purpose of this letter is to provide feedback to this ESMA Call for Evidence on behalf of the [International Capital Market Association's](#) ("ICMA's") [European Repo and Collateral Council](#) ("ERCC").

ICMA ERCC:

Since the early 1990's, the ICMA has played a significant role in promoting the interests and activities of the international repo market, and of the product itself.

The European Repo Council (ERC) was established by the ICMA in December 1999, to represent the cross-border repo market in Europe and 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. Consistent with the fact that it is repo desks which can increasingly be equally considered to be collateral desks, it has been the ICMA ERC which has served to guide the ICMA's work on collateral, providing support to its broader efforts and driving many of the ICMA's specific collateral related initiatives. Thus, just as repo and collateral are intimately related in the market, so the ICMA ERC and the ICMA's work on collateral are also intimately related. In recognition of these intimate relationships, with effect from 4 December 2015, the ICMA ERC has been renamed as the ICMA ERCC.

[Membership of the ERCC](#) is open to ICMA members who transact repo and associated collateral business in Europe. The ICMA ERCC currently has over 90 members, comprising the vast majority of firms actively involved in these markets.

Importance of Repo and Collateral Markets:

Repo and collateral markets lie at the heart of today's financial market system and are vital to its smooth functioning. This has significant implications for both financing, of business and governments, and the effectiveness of financial regulatory measures designed to provide financial stability – each of which will be adversely impacted if the operation of repo and collateral markets becomes impaired.

To further elaborate, the ICMA ERCC wishes to highlight that repo plays a vital role within the financial system. It underpins the functioning of secondary and primary capital markets, where corporate and government borrowers raise money to finance their long-term needs. The cost of borrowing in the capital markets will be increased in case there is not a well-functioning repo market. Repo is also the key component of the shorter-term money markets, which provide an essential mechanism to allow for the efficient management of short-term cash and collateral requirements. Since repo provides a secured means of financing in this market it is the instrument of choice, with market participants and public authorities keen to avoid the proliferation of unsecured counterparty exposures. In case the repo market is unable to fulfil this role, commercial banks would have no choice other than to conduct all their liquidity management through central banks.

The ICMA ERCC also observes that collateral now plays a key role in financial markets, in no small part as a result of official policy interventions designed to mitigate the risks of financial market activities. For these measures to work as intended, it is essential that there is sufficient collateral fluidity – such that the right amount, of the right type, of collateral can be available whenever and wherever needed. This needs a good infrastructure for the movement of collateral, but also a robust repo market, since the repo market provides the principal mechanism for the transfer of collateral.

Challenges Facing Repo and Collateral Markets:

The ICMA ERCC has published a number of papers to illustrate the importance of repo and collateral and in its [most recent paper](#) has drawn attention to the state of the repo market. The cumulative impact of the pressures being imposed on the repo market are such that it is already a market under significant stress. Given the role of repo and collateral markets at the heart of the financial system, this has negative implications for the smooth functioning of broader financial markets – which will, in turn, lead to increased costs and risk for market participants, including those corporates and governments borrowing to finance their economic needs. At the same time there also risks being a detrimental impact on the effectiveness of many of the measures put in place to improve the stability of the financial system, dependent as they are on high quality collateral.

The ICMA ERCC has chosen to respond to this ESMA Call for Evidence on Asset Segregation and Custody Services (ASCS) because the ICMA ERCC is concerned that the ASCS proposals risk further exacerbating strains on the availability of collateral, which will further add to the problems outlined in the previous paragraph.

ICMA ERCC's Response to this ESMA Call for Evidence:

The ICMA ERCC has carefully reviewed the response submission being made to ESMA in respect of this Call for Evidence by the International Securities Lending Association (ISLA). In light of this, rather than itself articulating detailed responses to the individual questions posed, the ICMA ERCC has determined that besides articulating the overall concerns outlined above it is appropriate to limit this response submission to a specific and full endorsement of the detailed responses made by ISLA.

The ICMA ERCC respectfully requests that ESMA takes due account of its overarching concerns and its support for the detailed views expressed by ISLA and stands ready to discuss these matters further in case ESMA would find that helpful.

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