

**Minutes of the European Repo Committee meeting held on December 4, 2013 in Munich**

Present:	Mr. Godfried De Vidts Mr. Simon Kipping Mr. Eugene McGrory Mr. Andreas Biewald Mr. Ronan Rowley Mr. Michel Semaan Mr. Sylvain Bojic Mr. Guido Stroemer Mr. Eduard Cia	ICAP (Chairman) Bank of America Merrill Lynch BNP Paribas Commerzbank Deutsche Bank Nomura Société Générale UBS UniCredit Bank AG
On the phone:	Mr. Grigorios Markouizos Mr. Tony Baldwin Mr. Olly Benkert Mr. Andrea Masciovecchio Mr. Stefano Bellani Mr. Raj Patel	Citigroup Daiwa Capital Markets Goldman Sachs Intesa SanPaolo J.P. Morgan Morgan Stanley (alternate for Mr. Edward McAleer)
Also Present:	Mr. Harald Bänsch Mr. Andy Dyson Mr. Richard Comotto Mr. Martin Scheck Mr. David Hiscock Ms. Charlotte Bellamy	UniCredit Bank AG ISLA (Dial-in) ICMA Centre ICMA ICMA ICMA (Secretary)
Apologies:	Mr. Stephen Malekian Mr. Romain Dumas Mr. Jean-Michel Meyer Mr. Edward McAleer Mr. Ulf Bacher	Barclays Capital Credit Suisse HSBC Morgan Stanley Newedge Group

**1. Minutes of the previous meeting**

The draft minutes of the previous ERC Committee meeting held on October 23, 2013 are approved.

**2. Financial reporting of forward starting repos**

The Chairman explains that Mr Benkert would introduce this topic. Mr Benkert reports that he had been examining the feature of the leverage ratio proposals which may be interpreted such that any repo starting beyond T+0 would be grossed-up. The proposals define forward starting repo very broadly, hence apparently capturing any repo with a start date later than overnight. One proposal could be to follow the ICMA convention of the definition for forward starting repos which include those which start after T+3. Failing to do this could have a very significant impact on the European repo market where a large amount of spot and T+1 starting trades are transacted. The Chairman notes that the Committee should monitor this issue.

**3. BCBS Leverage Ratio Consultation**

The Chairman asks Mr Comotto to give an update on this topic. Mr Comotto reports that, following the last Committee meeting in which the Committee decided to consider providing data to quantify the impact of the proposals under the BCBS Leverage Ratio Consultation, it appeared that there was little that would be added to the work already done in this area by others. As such, it was decided that, at this stage, the ERC would not pursue requests for data from firms.

Mr Hiscock reports that the Prudential Regulation Authority in the UK has issued a statement stating that, as of 2014 for UK banks, it will apply the leverage ratio framework as set out under Capital Requirements Regulation (CRR), although this standard will be reviewed in 2014 once the Basel III and CRR leverage ratio definition is finalised. Furthermore, an exchange of letters, between the UK Financial Policy Committee and the UK Chancellor, makes clear that variation of leverage ratios at firm and market levels is seen as a desirable power, to help avoid inappropriate build-up of risks. The Chairman notes that the topic of leverage ratio will be discussed at the next ERC AGM.

**4. International Repo Council in Asia Pacific**

The Chairman invites Mr Scheck to introduce this topic. Mr Scheck thanks the Committee for inviting him to the meeting. Mr Scheck reports that ICMA has recently established an Asia Pacific representative office in Hong Kong, in order to develop its service to members in that region. The Board of ICMA is keen to progress ICMA's activities in the Asia Pacific region by leveraging the experience and expertise gained through ICMA's work in Europe, in particular in the area of repo given its global nature. The ICMA Board has been discussing the best way to provide the most effective and efficient service to member firms in Asia Pacific for the benefit of the repo market in that region, and is aware that ASIFMA has recently established a funding committee in the Asia Pacific region. Mr Scheck notes ICMA's global knowledge and expertise in repo, demonstrated by

the GMRA and the range of GMRA legal opinions, various other repo publications available to ICMA members, and the Legal Helpdesk run by ICMA. Mr Scheck asks for the Committee's views on the best way ICMA could assist in supporting the repo market in the Asia Pacific region. The Committee discusses this, and there is a suggestion that some level of collaboration between ICMA and ASIFMA in this area may be a route worth exploring. The Chairman asks the Committee to consider this issue further, discuss with their respective colleagues internally and revert in writing to the Chairman or David Hiscock before 31 December 2013.

#### **5. Triparty settlement interoperability (TSI)**

The Chairman invites Mr Markouizos to update the Committee on this issue. Mr Markouizos reports that the other TSI participants (Euroclear, Clearstream and Eurex) have met three times recently to discuss TSI. There are significant differences in the technological infrastructure used by Euroclear and Clearstream, and it will require a significant technological input to achieve the result envisaged by the TSI MoU. The time horizon for completing the project is tight, and Mr Markouizos reports that it is not certain that TSI will be delivered by the end of 2015. Recognising strongly expressed views from a number of Committee members, the Chairman notes that notwithstanding the practical and timing issues facing the TSI participants, this issue remains of critical importance for the European repo market and the ECB, and it is in the interests of all parties that this project is finalised. Pressure should be maintained to ensure that a workable compromise can be found amongst the TSI participants.

#### **6. Settlement cut-off times**

The Chairman invites Mr Comotto to report to the Committee on this topic. Mr Comotto refers to a survey which he has conducted, through ERC Operations Group members, on settlement cut-off times within banks. The survey relates to four markets and compares banks' cut-off times across alternative settlement chains. The survey is designed to highlight areas of inefficiency and difference between banks' cut-off times. The intention is that this data will be presented to COGESI, to highlight the current inefficiencies and discuss how these can be reduced. More work is underway to iron out some apparent data anomalies, but it is evident that there do not appear to be significant opportunities for improved efficiency within firms but there seems to be major issues with regard to the infrastructure linkages in some of the settlement chains.

#### **7. Secured Benchmarks**

The Chairman reports on a meeting hosted by Euribor-EBF in Brussels on 20 November 2013, gathering representatives of the Committee and Euribor-EBF, with the ECB present as an observer; and two ATs presenting the services they provide in order to facilitate a determination of the data that could be used as the basis for a new secured benchmark. The Chairman explains that differentiation across the various secured benchmarks that currently exist is problematic and a new suite of secured benchmark indices that will be viable for the medium to long term future is desirable. The current lack of a single euro capital market is a significant impediment, so there is a clear link to the need to complete TSI and the COGESI led efforts to improve collateral harmonisation and the efficiency of the repo market. A further meeting of the sub-group of the

Committee focusing on this issue and Euribor-EBF will be held in January 2014, to progress work in this area.

#### **8. ERC Guide to Best Practice in the International Repo Market**

The Chairman introduces the discussion by reporting on the current status of the Guide to Best Practice in the International Repo Market, the latest draft of which reflects comments received from certain Committee members. The Chairman notes that the Guide is intended to be a living document, to be reviewed and updated on an ongoing basis, responsive to applicable developments. Mr Comotto notes the great deal of work that has gone into preparing the Guide so far, in consolidating various separate existing best practice recommendations and clarifications of market conventions. New guidance has been added in response to questions put to the ERC and the ICMA Legal Helpdesk, and raised directly by firms and by the ERC Operations Group, and following discussions in the ICMA/ISLA GMRA/GMSLA Workshop. The structure was agreed by the Committee and drafts exposed for comment at various stages. Mr Comotto also notes that the Guide is intended to recommend best market practice, rather than acting as a training manual or a commentary of current market practices. A discussion follows, with Mr Patel (for Mr McAleer) emphasising the importance of the Committee reviewing the draft Guide and providing specific approval and/or comments where necessary before the Guide is published. The Chairman asks the Committee to review the current draft of the Guide to Best Practice and indicate to ICMA by 31 December 2013 whether they have comments, or whether they are happy for the Guide to be finalised and published as it currently stands.

#### **9. Financial Transaction Tax (FTT)**

Following a brief introduction by the Chairman, Mr Bänsch reports on recent updates in relation to the FTT proposal, including meetings of the 11 Member States involved in the FTT proposal, the latest understanding of the new German coalition government agreement and legal challenges which have been raised. The Chairman notes that, whilst diligence remains necessary, he is optimistic that repo would be exempt from any FTT that does get adopted.

#### **10. FSB Shadow Banking workstream (including data repository)**

Mr Hiscock reports that the joint ICMA/ISLA response to the FSB proposals relating to Shadow Banking has been submitted, and it was fully endorsed by the EBF. In terms of next steps, representatives of the Committee will meet with the FSB's workstream 5 in London in December; along with a variety of other market participant representatives.

The Chairman reports that work is under way to follow-up to the ICMA paper entitled "Avoiding Counterproductive Regulation in Capital Markets: A Reality Check", published in late October 2013. Following meetings with a group of ICMA member firm representatives, this follow up work will focus on producing a further paper on collateral, which is perceived as being poorly understood and an essential thread running through most of the expressed concerns. The Chairman intends to organise various meetings, to be held later in Q1 2014, including with

representatives of the ECB, BOE, European Parliament, and the European Commission to discuss the areas of concern to be covered in this collateral paper.

**11. Asset Encumbrance**

Mr Hiscock reports that there are very few developments in this area, but highlights a recent [blog publication](#)<sup>1</sup> by Mr Comotto on this topic.

**12. Unified LCR and CRD IV**

Mr Biewald reports that there has been very little movement on these issues, including no final decision on the classification of covered bonds. It remains a concern that it appears there will not be a uniform treatment for government bonds across the EU, with each Member State rather retaining the right to treat its own sovereign debt as highly liquid regardless of its treatment in other Member States. It is noted that stress test requirements and the treatment to be followed in the Asset Quality Review may be different to day to day rules which banks will be required to follow, and it is desirable to discuss this general topic with financial stability authorities. The Chairman agrees to look into this.

**13. ERC Ops Group update**

Mr Hiscock reports on behalf of Mr Hamilton, by reporting (a) that the ICMA European Repo Council White Paper on enhancing the transparency of the European repo market was appended to the joint ICMA/ISLA response to the FSB shadow banking consultation; (b) that he and Mr Hamilton spoke recently at an EBRD event relating to the Russian data repository; and (c) that the ERC Ops Group met on 8 November and progressed the various outstanding workstreams including COGESI related work and TSI; and other topics such as data repositories and T2S. The next meeting of the ERC Ops Group will be held on 19 December 2013.

**14. Regulatory Update**

Mr Hiscock notes that the Committee has already discussed most currently relevant regulatory topics, but briefly recalls the discussion above regarding the ICMA paper entitled "Avoiding Counterproductive Regulation in Capital Markets: A Reality Check" and flags that negotiations to complete the new EU MiFID II legislation are nearing completion.

**15. Any other business**

The Chairman notes plans for meetings in early 2014, including the ERC AGM in Luxembourg on 22 January.

The meeting is closed at 13:15 CET.

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<sup>1</sup> Alternatively: <http://icmacentre.wordpress.com/2013/11/18/repo-and-encumbrance/>