

ERCC Committee meeting on 29 June 2021 (10:00 – 12:00 UK time)
Minutes

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| <u>Committee members:</u> | Mr. Gareth Allen | UBS AG (ERCC chair) |
| | Ms. Emma Cooper | Blackrock (ERCC vice-chair) |
| | Mr. Charlie Badran | AXA IM |
| | Mr. Dan Bremer | BAML |
| | Mr. Thomas Hansen | Banco Santander |
| | Mr. Nick Dent | Barclays |
| | Mr. Peter Fejfer Nielsen | Citi |
| | Mr. Jean-Robert Wilkin | Clearstream |
| | Mr. Andreas Biewald | Commerzbank |
| | Mr. Romain Dumas | Credit Suisse |
| | Mr. Ned Taylor | HSBC |
| | Mr. Lav Lukic | J.P. Morgan |
| | Mr. Antony Baldwin | LCH Limited |
| | Ms. Amandine Triadu | Mizuho |
| Mr. Paul van de Moosdijk | PGGM | |
| Mr. Sylvain Bojic | Société Générale | |
| <u>Other participants:</u> | Mr. Olivier Grimonpont | Euroclear |
| | Mr. James Upton | LCH (ERCC Ops co-chair) |
| | Mr. Nicholas Hamilton | JP Morgan (ERCC Ops co-chair) |
| | Mr. Arne Theia | UniCredit Bank |
| | Mr. Rowan Varrall | ICMA |
| | Ms. Zhan Chen | ICMA |
| | Ms. Lisa Cleary | ICMA |
| | Mr. Richard Comotto | ICMA |
| | Mr. Godfried De Vidts | ICMA |
| | Mr. Andy Hill | ICMA |
| | Mr. Alexander Westphal | ICMA (ERCC Secretary) |
| <u>Apologies:</u> | Mr. Eugene McGrory | BNP Paribas |
| | Ms. Marije Verhelst | Euroclear |
| | Mr. Harald Bänsch | UniCredit Bank |

1) Minutes from previous meeting

The Committee approved the [minutes](#) of the previous meeting of the ERCC Committee held on 10 May without further comments.

2) Repo market conditions

Gareth Allen introduced a discussion with members on repo market conditions and the latest relevant developments, noting that the market continues to be relatively benign with ongoing spread and haircut compression.

Members moved on to discuss a recent outage on the BrokerTec platform which occurred earlier this month. Members confirmed the severity of the outage and discussed potential systemic dimensions. In particular, it was noted that the outage did not result in a substantial shift of liquidity to alternative platforms as could have been expected. As one of the reasons members pointed to the settlement environment in Europe which remains fragmented, making it more difficult for firms to seamlessly connect different liquidity pools. The ICSDs agreed that there are still frictions in the setup, but also highlighted the good progress that has been made over the past years. It was noted that the market is still in transition and that, in order to reap the benefits of the more connected settlement environment, firms also have to make adjustments to their internal setup and processes which hasn't yet happened at a larger scale. It was also suggested that the constraints for market participants to easily switch trading platforms are not only related to the settlement setup at CSD level but also to connectivity limitations at platform and CCP level.

ICMA reported back from a separate discussion directly with BrokerTec, who are planning to issue in due course an incident report which will explain the causes and consequences of the outage in more detail. The report will be shared with the Committee once available.

3) Settlement efficiency (initially item 5 on the agenda)

James Upton updated members on the latest settlement efficiency discussions. Further to previous discussions in the Committee and the endorsement of a list of specific recommendations in relation to the use of auto-partialling, shaping and auto-borrowing, the ERCC is running a series of workshops to allow for a more in-depth discussion on each of the recommendations. The objective is to understand remaining obstacles and discuss how the recommendations can be implemented. On 25 May, a first workshop was held focused on auto-partialling. The second workshop on shaping will be held on 2 July and a third meeting on auto-borrowing will be organised later in summer. Mr. Upton noted that engagement from members and other stakeholders has been excellent so far, highlighting also the very positive response to an ERCC online survey on settlement efficiency which had been undertaken in support of the work. Based on the outcome of the workshops, ICMA will work on a communication to promote the findings and any related recommendations. Members also suggested to hold a follow-up meeting after the three targeted workshops to discuss broader questions/frictions related to the settlement environment in Europe.

Nicholas Hamilton commented on the good collaboration with the ECB on this topic. The ERCC is closely involved in an ad-hoc working group on settlement efficiency set up under the umbrella of the ECB's AMI-SeCo and led by the CSD Steering Group (CSG). The data-driven approach of this work has been very helpful and a good complement to our own discussions. In particular, the 4CB have prepared detailed settlement efficiency statistics which were shared with the group as a basis for discussion. These data points will continue to be important to monitor progress going forward, including on the implementation of the ERCC recommendations. The ERCC is therefore advocating for the analysis to become a regular exercise. Andreas Biewald, who also attended the latest CSG workshop, commented on the need to connect these discussions with the broader discussion on remaining frictions in the settlement setup, in particular between ICSDs and CSDs.

It was agreed that, as part of the settlement efficiency agenda, the ERCC should organise a dedicated workshop to consider these broader issues in more detail.

On a related issue, LCH explained a recent proposal to introduce fail charges at the CCP level. Members raised concerns that such charges would have to apply across the board in order to be effective and cautioned that a unilateral introduction at CCP level risks being unfairly penalising for intermediaries without addressing the source of the issue. LCH continues to discuss the proposal with their members.

4) Repo and sustainability

Zhan Chen presented a summary of the feedback received in response to the ERCC's consultation paper [*Green and sustainable finance: What is the role of the repo market?*](#), noting that we received 20 responses by the deadline on 4 June, many of which very detailed and helpful. In terms of next steps, Ms. Chen explained that ICMA is working on a short summary report which we hope to publish in the next weeks. A draft will be circulated to the Committee for review ahead of publication. Members briefly discussed the consultation feedback and the ERCC's approach to repo and sustainability more generally. Members noted that there are still a number of open questions on this topic and a need to discuss further. However, it was agreed that it is important for the ERCC to continue to actively engage on the topic and to help develop a clearer understanding by providing concrete definitions and other guidance. Any related work will also be closely coordinated with ICMA's Sustainable Finance team to ensure overall consistency.

5) CSDR mandatory buy-ins

Andy Hill updated members on the latest developments in relation to CSDR mandatory buy-ins. Further to the end of the CSDR review consultation earlier this year, we are currently awaiting the resulting Commission report which is expected in the next weeks, ahead of the summer recess. The report is hoped to include some constructive proposals, but it will not put forward any concrete legislative amendments yet which are only expected later this year along with an impact assessment and which will take at least a further year to be adopted. There is therefore an urgent question about the implementation timeline of the current rules which, in the absence of any further action by authorities, will apply in February 2022. ICMA and other stakeholders have raised this concern repeatedly and we are currently reaching out pro-actively to the various stakeholders involved in the process, including ESMA, the Commission, the European Parliament and national authorities, to discuss urgent solutions.

In parallel, the work on compliance solutions for February 2022 continues. Lisa Cleary explained the approach which has been agreed across the various trade associations involved. Given the ongoing uncertainty, it has been decided to follow a two-phased approach: In the first phase, a single cross-product solution is being developed by the various associations involved to ensure firms' basic compliance in February 2022. In a second step, more tailored product-specific

solutions could then be developed by each association individually. On the ICMA side this work is being coordinated by the CSDR legal working group.

6) Best practice

Sylvain Bojic provided a brief update on recent best practice discussions, reporting back from the latest meeting of the ERCC's Best Practice Working Group which was held on 21 June. During the meeting members reviewed the recent updates to the UK Money Market Code [published](#) on 21 April and whether there is any need to follow up with the Bank of England. Members also briefly discussed the form of any upcoming CSDR best practices as well as the possibility to extend the scope of the [ERCC Guide to Best Practice in the European Repo Market](#) beyond Europe, in line with the ongoing discussions on the review of the ERCC/IRCC governance structure (see below).

7) Legal update

Lisa Cleary briefed members on recent legal developments, noting the upcoming meeting of the ERCC Legal Working Group will be held on 1 July. Besides compliance with CSDR article 25, as mentioned above, topics on the agenda include the potential secured loan agreement, the clause library project and an ICMA survey to be launched in summer on the GMRA opinion coverage, both in terms of counterparties and jurisdictions. Ms. Cleary also mentioned that ICMA is considering, subject to pending regulatory and legislative reform and sufficient interest from members, to commission a GMRA legal opinion for Ghana.

8) Common Domain Model

Rowan Varrall reported on the latest progress in ICMA's work with Regnosys to extend the Common Domain Model (CDM) to repo. The first phase of the project was launched in March and entails the modelling in the CDM of fixed-term 'standard' repos (as well as bonds), focusing on trade execution, clearing and settlement. This first phase of the project is on track to be finalised by mid-June, as planned. On 21 July, ICMA will be holding a [virtual event](#) to showcase the implementation of the CDM for repo and bonds and its benefits.

9) Regulation

a) CRR

Members discussed the latest developments in relation to CRR:

- **LCR and triparty:** In previous meetings members discussed a concern on the treatment of triparty trades under LCR, resulting from the relevant BCBS FAQ 27 (implemented as [LCR40.79](#)). On 18 June, an ERCC delegation had a call with the EBA to discuss the issue.

Romain Dumas reported back from the meeting, noting that the discussion was helpful and that the EBA was interested to receive further details. As a follow-up, ICMA shared an updated slide deck with an additional illustrative example of the problem which we hope provides further clarification. The slides have been shared with the Committee ahead of the meeting. ICMA will follow up with the EBA in due course to discuss next steps.

- **LCR and open repos:** In the absence of Harald Bänsch, Arne Theia introduced a concern that supervisors in the EU may be considering a change to the treatment of open repos under LCR, such that these wouldn't be considered as inflows anymore. Other members confirmed that they have also come across this suggestion. It was agreed that such a change would be highly problematic as it would drive firms away from using open repos. The result would be substantial operational burden without any significant benefits. It was suggested that ICMA should follow up on the matter with relevant contacts at supervisors.
- **Pension Funds:** Andy Hill and Godfried De Vidts reported back from the latest meeting of the Commission's Expert Group on Pension Scheme Arrangements (PSAs) which is considering the implications from the phasing out of the PSA's current exemption from the clearing obligation. During the meeting there was a constructive discussion on a number of possible regulatory adjustments, in particular related to capital rules, which ESMA had initially set out in a report issued in December 2020. Solutions that have been discussed in this context include adjustments to LR rules, although these are unlikely. There seems to be more traction on other proposals, including preferable counterparty risk weights for PSAs, capital relief for clearing agents, or changes under Solvency 2. No conclusions have been reached and the discussion will continue at the next Expert Group meeting in autumn.

b) SFTR

Alex Westphal and Richard Comotto provided a brief update on the latest SFTR developments. The ERCC's SFTR Task Force continues to meet on a monthly basis to work through reporting issues and related best practices. The focus of the discussions is shifting increasingly to matching issues, with a focused reconciliation workshop scheduled for 30 June. In the meantime, ESMA's review of important level 3 guidance continues. Updated versions of the Guidelines, validation rules and XML schemas are expected to be published in mid-July.

c) Other regulatory updates

No further updates or concerns related to regulation were raised.

10) AOB

- **Review of the European Repo Survey:** As mentioned at the previous meeting, ICMA is currently reviewing the European Repo Survey in view of achieving a more automated process which realises synergies with SFTR reporting. In the first instance, ICMA is speaking to the central infrastructures involved in the process, ie TRs and vendors, to assess the scope for collaboration. The discussions so far have been promising.
- **IRCC/ERCC governance review:** Further to the initial discussion at the previous meeting, ICMA is currently working on a concrete proposal for the planned review of the IRCC/ERCC governance structure. The plan is to further develop the proposal over summer and circulate to the Committee for review and discussion.
- **ERCC Professional Repo course:** After a break in 2020, this autumn we will again hold the annual [ERCC Professional Repo Market and Collateral Management course](#). The seminar will be held in a virtual format over four half-day sessions on 27-28 September and 4-5 October. Richard is still looking to fill a few open speaker slots.
- **Next meeting:** The next Committee meeting will be held after the summer break, in early September. A date will be announced in due course.