

Minutes of the ERCC Committee meeting held on 25 September in London Hosted by BAML

Present:	Mr. Michel Semaan	Crédit Agricole (ERCC Chair)	
	Mr. Grigorios Markouizos	Citi (ERCC Vice Chair)	
	Mr. Charlie Badran	AXA IM	
	Mr. Dan Bremer	BAML	
	Mr. David Joughin	Deutsche Bank	
	Mr. Eugene McGrory	BNP Paribas	
	Mr. Jean-Robert Wilkin	Clearstream	
	Mr. Peter Schmidt	Commerzbank	
	Mr. Jean-Michel Meyer	HSBC	
	Mr. Nicola Danese	J.P. Morgan	
	Mr. Antony Baldwin	LCH Limited	
	Mr. Sylvain Bojic	Société Générale	
		Mr. Godfried De Vidts	ICMA ERCC Special Advisor
		Ms. Lisa Cleary	ICMA
	Mr. Richard Comotto	ICMA Centre	
	Mr. Andy Hill	ICMA	
	Mr. Bogdan Pop	ICMA	
	Mr. Alexander Westphal	ICMA (ERCC Secretary)	
Guest:	Mr. Ian Sloyan	ISDA	
On the phone:	Mr. Nick Dent	Barclays	
	Mr. Paul Van De Moosdijk	PGGM	
	Mr. Richard Hochreutiner	Swiss Reinsurance (ERCC Vice Chair)	
	Mr. Harald Bänsch	UniCredit Bank	
Guest (phone):	Ms. Corentine Poilvet-Clediere	LCH	
Apology:	Ms. Emma Cooper	Blackrock	
	Mr. Andreas Biewald	Commerzbank	
	Mr. Romain Dumas	Credit Suisse	
	Mr. Gareth Allen	UBS Limited	

Welcome

Michel Semaan, ERCC Chairman, welcomed members and opened the meeting. He reported back from the most recent ICMA Board meeting which was held on 20 September in Copenhagen. One of the topics discussed was the recent events in the US Repo market, which triggered some comments on the need for the industry, in particular through the ERCC, to be more vocal in order to inform the public discussion on repo and related issues, and to counter some of the often misleading views on this complex topic.

Mr. Semaan then handed over to Godfried De Vidts to introduce the agenda.

1) Minutes from previous meetings

Members approved the minutes of the previous ERCC Committee meeting, held on 18 June in Madrid without further comments.

2) Common Domain Model (CDM)

Ian Sloyan (ISDA) joined the meeting to give a detailed introduction to ISDA's CDM project. In terms of background, Mr. Sloyan explained that the CDM project was an essential part of the broader ISDA strategy to move from documentation to code. He went through some of the key catalysts and opportunities that triggered ISDA's work on the CDM before moving on to explain the basic setup and functionalities of the model. In order to show case some concrete benefits of the CDM in practice, Mr. Sloyan then focused on regulatory reporting as one specific example where the CDM could be of particular value. Although he also stressed that this should not be considered as the main argument for CDM adoption, which would rather be about the overall consistency achieved across systems, the resulting operational efficiency, and reduced need for reconciliation across the whole trade lifecycle. In this context, members also discussed the timing of CDM implementation and noted that the CDM is unlikely to be of immediate help for SFTR implementation but that it should hopefully facilitate reporting in the longer term.

In terms of next steps, Mr. Hill and Mr. Sloyan encouraged members to make sure that their firm actively contributes to the CDM work. Input so far has been limited to a few member firms. It would be very important to broaden the group of firms involved in order to create momentum and make sure that the work reflects a broad market consensus. At this point what is most urgently needed from member firms is concrete transaction data from different systems across the firm to show the different representations of a repo. This would serve as a basis to develop a standard model for repo in the CDM. Ideally, the CDM working group should include experts representing all the different perspectives of relevance for the project, namely front office, operations and technology experts.

In this context, Lisa Cleary also mentioned ICMA's ongoing discussions with ISDA on potential collaboration on the ISDA Create product, which is a live tool to digitise master agreement negotiations. It is currently being considered whether and how this could encompass GMRA negotiations.

3) Repo Market conditions

Richard Comotto presented the provisional findings from the 37th European Repo Survey which is due to be published in the next few weeks. The headline number indicates a slight decline compared to the previous survey (but with slightly fewer contributors, so after adjustment it

will likely be an increase). In terms of trends, the figures do not show any dramatic changes, but do show: (i) continued trend towards more automatic trading, (ii) recovery of tri-party repo, (iii) continued recovery of Italian collateral.

This was followed by a discussion with members on the general repo market conditions, which Mr. De Vidts suggested should become a standing agenda item going forward. Members discussed the implications of a recent ECB announcement on 12 September to introduce a tiered system for remunerating excess liquidity at the central bank starting from 30 October 2019. Members expected that the tiered system will introduce incentives for periphery banks, including from Italy, to deposit more excess reserves at the central bank at 0% interest (rather than a negative return from holding government bonds). The additional liquidity will likely be sourced from core banks, at least partly through repo, which in turn is expected to drive up GC rates versus BTPs provided by Italian banks as collateral. Should such a trend materialise, the ECB would have some flexibility to recalibrate/fine-tune the multiplier, although members also expected the upward pressure to remain relatively limited considering the amount of liquidity concerned.

Members discussed the recent repo market volatility in the US and the implications for the European repo market. The impact of the Fed interventions is expected to remain limited by the fact that only intermediaries have access to the additional liquidity and are bound by balance sheet constraints that limit their capacity to intermediate effectively. In this regard, many of the issues discussed in the financial crisis resurface, in particular in relation to the changing role of the Fed/central bank in the market which will likely become more central with pressure to expand the group of entities with access to central bank money. Members commented that the observed volatility in the US is likely to persist, albeit at less extreme levels, unless either some of the regulatory pressures are eased or the central banks assume a more central role in the market as a liquidity backstop. This seems a logical evolution given the regulatory developments, which will ultimately also materialise in Europe. This in turn will raise a number of questions. In relation to Europe, members also observed that the balance sheet dynamics and business models of European banks seem to be changing already, in light of the discussion around applying daily averaging, with firms more focused on actively managing their balance-sheet. This will have impacts across the board.

Members also discussed the role of CCP-clearing in this context. In the US, where buy-side access to CCPs is already a reality and MMFs are important cash providers in the cleared repo market, this has not helped mitigate the stress, but has rather exacerbated the problem by increasing the reliance on overnight funding. This is a warning sign also for Europe in light of the advent of sponsored clearing. Members commented on the role of the buy-side/hedge funds and their business model which is often not well-suited for the very short-term nature of the CCP-cleared market.

Finally, members also discussed in how far the underlying reduction of leverage in the system might even be in line with regulatory objectives. However, members also pointed out that the regulator's focus in relation to leverage is much more on non-HQLA collateral, rather than treasuries, also considering that the latter has a real impact on the (US) government's funding costs.

4) **Brexit update**

Godfried De Vidts introduced a brief discussion with members on potential implications for the repo market arising from Brexit, considering the latest status of the political discussions. In particular, members discussed in how far this could lead to a political push to consider alternative governing law(s) for the GMRA. Members agreed however that in the context of the GMRA this is currently not an issue.

In this context, Corentine Poilvet-Clediere (LCH) joined the meeting by phone to provide an update on the successful migration of euro repo business from LCH Limited in the UK to LCH SA in France earlier this year and some further developments of their offering. Ms. Poilvet-Clediere noted that the big-bang migration took place on 22 February with 98% of repo business successfully migrated that day. The remaining 2% were related to pending regulatory approvals from a few jurisdictions, which have been received since then or will be received in due course. It was agreed to invite Eurex to the next meeting to provide a similar update on their Brexit planning.

5) **BCBS framework on minimum haircut floors**

Andy Hill updated members on the latest discussions with the FSB/BCBS on minimum haircut floors. As a follow-up to a meeting in April, the ERCC had a number of further discussions with the FSB/BCBS, focused particularly on the concerns in relation to the capital treatment for SLB transactions under the BCBS minimum haircut framework. More specifically, the main concern related to the posting of non-cash collateral where there appeared to be no explicit scope for an exemption (unlike in the case of cash collateral where there is an explicit carve-out). In this context, the FSB was also interested to receive more information on Pledge-based securities lending, a request that was passed on to ISLA.

Further to the discussions with the FSB, on 2 August the EBA issued a helpful [Policy Advice on the Basel III Reforms on SFTs](#) which not only confirms the cautious approach suggested previously by the Commission and ESMA in relation to the implementation of numerical haircut floors in Europe, but also includes a helpful interpretation of the relevant section of the BCBS framework in relation to the treatment of non-cash collateral in securities lending. The latter seems to address the concerns previously discussed with the FSB by clarifying that the carve-out should apply to both cash and non-cash. Separately, it was agreed that ICMA should follow

up with ISLA on the topic to update them on the latest state of the discussion and to remind them to provide feedback on the FSB/BCBS question regarding pledge-based securities lending.

6) Legal updates

Lisa Cleary updated members on the latest legal developments. As regards the GMRA legal opinion updates, Ms. Cleary reminded members that it had been decided this year to delay the publication of the updates for EU jurisdictions due to the uncertainty related to Brexit. Given continued delays in the Brexit process and with some firms having expressed concerns about the extended time gap in opinion updates, it has now been decided to go ahead with the publication for EU jurisdictions. Where necessary, further interim updates will be published to capture Brexit-related issues.

As regards the ongoing discussions in relation to the IM Pledge project, ICMA is currently consulting members on some threshold questions to kickstart the project, although feedback so far has been limited. On this note, Ms. Cleary encouraged members to make sure that their firm is represented and actively contributes to the important work of the Legal Working Group, as there are still notable gaps in the group.

7) Balance sheet netting in T2S

Godfried De Vidts and other members reported back from a meeting between ECB market infrastructure experts and representatives of the major accounting firms which the ERCC hosted on 10 September. The purpose of the meeting was to educate the accounting experts on the technical setup of T2S in order to provide a basis for further analysis on the question whether cross-CSD settlement in T2S fulfils the conditions for balance sheet netting set out in international accounting standards.

As a follow-up to the meeting, ICMA is working with the ECB to put together some concrete settlement scenarios that should be considered in the analysis and which are hoped to further support the required accounting analysis. Accounting firms have also been invited to share any follow-up questions and comments.

8) Best Practice

a) Transition from EONIA to €STR

Following the publication of the ERCC *Memorandum on Repo market best practice with respect to the transition from EONIA to €STR* on 2 July, the ERCC's Guide Working Group further discussed the issue and agreed related amendments to the ERCC Guide to Best Practice. These include more specific recommendations related to the threshold for claims of differences arising as a result of the recommended crystallisation of the rate on T (versus the final rate published on T+1), something that was not yet covered in the initial memo. Sylvain Bojic, chair of the Guide

Working Group, commented on the reasons for recommending a threshold for net claims of €500 per counterparty per day. While a few members preferred a threshold expressed per trade, the group agreed that this would have been unrealistically high (e.g. 35bp for a standard 50 million trade). Members also noted that from an operational perspective the current approach will be cumbersome as it will require firms to implement a mechanism to aggregate on a daily basis all trades per counterparty to calculate whether the threshold has been breached. However, members also pointed out that the resulting number of threshold breaches will likely still be very limited and that firms of course have a choice not to claim any compensation in order to avoid the operational burden. Members endorsed the proposed approach. ICMA will update the best practice recommendations on the website accordingly and to incorporate the amendments into the next iteration of the Guide itself. *[Post meeting note: The [updated memorandum](#) which reflects the decisions taken at this meeting was published on 27 September.]*

b) Update from the ERCC Guide Working Group

Sylvain Bojic informed members that the next meeting of the Guide Working Group will be held on 3 October. Ahead of the meeting a list of proposed amendments has been prepared and circulated as a basis for discussion at the meeting. Mr. Bojic also encouraged additional participation in the Guide Working Group.

9) Update from the ERCC Operations Group

Alex Westphal updated members on the latest ERCC Ops initiatives and discussions. The work continues to progress along four pillars.

- **Regulation:** where ERCC Ops is acting as a steering group for the SFTR work and also the CSDR implementation work (as regards implications for Repo Ops).
- **Market infrastructure:** which is the key focus for the ERCC Ops in terms of work commitments. Nicholas Hamilton represents the ERCC in the ECB's advisory group on market infrastructure, the AMI-SeCo. A particular focus of AMI-SeCo and ERCC Ops is the ongoing work in relation to collateral management harmonisation, which is coordinated by a dedicated ECB Task Force, the CMH-TF. Several members of ERCC Ops are involved in this group and are coordinating their work through weekly update calls. The CMH-TF work itself is making good progress. Detailed harmonisation standards have been developed in relation to triparty collateral management and corporate actions, both areas of particular relevance for the development of the Eurosystem Collateral Management System (ECMS) scheduled to go live in November 2022. As those topics are being concluded, the focus is shifting to other areas, e.g. bilateral collateral management. In this context, the ERCC Ops was asked by the ECB to have a closer look at settlement cut-off times. We therefore decided to update, jointly with ISLA, a previous ERCC survey on this topic. Around 40 responses were received that are currently being collated. Besides the work with the ECB, ERCC Ops also continues to work on a number of other topics in

relation to market infrastructure, including intraday liquidity management and affirmation and confirmation processes in the repo market.

- **Best Practice & education:** where ERCC Ops feeds into the work of the Guide working group and oversees ICMA's educational offering on repo.
- **FinTech:** a small ERCC Ops FinTech working group continues to regularly update the existing FinTech mapping and also feeds into ICMA's broader FinTech agenda coordinated by Gabriel Callsen, who is also representing the ERCC on the ECB's FinTech Task Force, a sub-group of AMI-SeCo.

On a more general note, Alex Westphal encouraged members to ensure that they are represented and actively contribute to the ERCC Ops Group. Similar to the Legal Working Group, participation over the past months has not been as good as would be needed to support the extensive agenda.

10) Regulation

a) CSDR

Andy Hill provided a short update on ICMA's latest work in relation to CSDR mandatory buy-in provisions and the ongoing discussions with ESMA. A number of issues are being discussed with ESMA and are still pending clarification. One important concern continues to be the implied asymmetry in the payments of the buy-in price differential and cash compensation. ICMA has proposed to solve the issue through contractual means and ESMA seems to be open to such a solution, but this also needs to be supported by the Commission. ICMA proposed to hold a workshop with both ESMA and the Commission to go through the different key issues in more detail, including ICMA's ongoing work on a pass-on mechanism for buy-ins.

There are also a number of open questions related specifically to SFTs, including the treatment of open repos and basket trades. The next meeting of the CSDR Working Group on 10 October will focus on these SFT-specific aspects of CSDR mandatory buy-ins. The meeting will be organised jointly with ISLA and the invitation will be shared with Committee members.

Lisa Cleary complemented Mr. Hill's remarks from a legal perspective, commenting on the implications for the GMRA. For in-scope SFTs (i.e. with a term of more than 30 business days) the expectation is that firms will use contractual remedies (GMRA mini close-out) before the end of the CSDR extension period, i.e. before the CSDR mandatory buy-in must be triggered. However, there is an ongoing discussion on documenting potential fall-backs, possibly within the GMRA or at a more generic level, e.g. ToB. Another issue that is being discussed is the CSDR requirement for firms to ensure enforceability of the mandatory buy-in obligation across all relevant jurisdictions, which is likely to require legal opinion coverage.

b) SFTR

Alex Westphal updated members on the latest developments in relation to SFTR implementation, including discussions with regulators as well as the extensive work of the ERCC SFTR Task Force in preparation for the reporting go-live in April 2020.

In terms of process, ESMA is currently finalising important Level 3 measures which will complement the SFTR technical standards published in March this year. ESMA's additional implementation guidance will include detailed Reporting Guidelines, a first draft of which was published in May for public consultation (see ERCC response here). ESMA is reviewing the feedback received and is expected to publish the final version of the Guidelines in early Q4 2019. Timing remains a key concern, given the number of important open questions and the time needed by firms for the complex IT system developments and subsequent industry testing. ICMA continues to work closely with ESMA and has had a number of follow-up discussions further to the end of the consultation.

Members discussed one particular concern that has received a lot of attention recently, namely the insistence of ESMA to maintain the 'issuer LEI' field as a mandatory reporting field for collateral, despite the significant gaps in the global database in relation to issuer LEIs, in particular outside of Europe. Besides continued advocacy with ESMA, Godfried De Vidts suggested to take up the issue directly with the Global LEI Foundation (GLEIF), responsible at a global level for the issuance of LEI codes.

Mr. Westphal updated members on the work of the ERCC SFTR Task Force on best practices, commenting that engagement with members on SFTR remains very good (with now over 650 members on the group representing around 120 institutions). The Task Force meets frequently and is making good progress with the various documents, most notably the SFTR Guide with best practice recommendations authored by Richard Comotto. While currently still an internal draft, it is planned to publish the Guide soon after the final ESMA Guidelines are available.

Lisa Cleary informed members about ongoing cross-association work to develop a Master Regulatory Reporting Agreement (MRRA), which aims to cover both EMIR and SFTR delegated reporting. The project is supported by 5 associations and Linklaters is holding the pen on the legal agreement. Again it is important that firms are engaged in this work through the ERCC Legal WG, particularly given the challenging publication deadline of December for the MRRA.

c) Other regulatory updates

Andy Hill updated members on other relevant recent regulatory developments impacting the repo market, including an agreement by the FSB in July to delay the implementation of its SFT-related recommendations (to January 2020) and the final phase of the uncleared margin

requirements (to September 2021). He also mentioned recent advice published by the EBA in August on the implementation of Basel III in Europe. On the latter, ICMA will get in touch with ISDA to see if there is a case for closer collaboration.

11) AOB and further dates:

Members considered a recent proposal by a consultancy to organise a workshop on the “Future of Technology in SFT markets” and agreed not to pursue the offer due to commercial concerns and given that the added value is expected to be limited.

- **14 November, 11:00 – 13:00 CET:** ERCC Committee meeting in Brussels (ahead of the Collateral Conference), hosted by Euroclear
- **15 November, 13:00 – 16:00 CET:** ERCC General Meeting in Brussels, hosted by Euroclear (as part of their Collateral Conference)