

Minutes of the European Repo Committee meeting held on 26 September, 2014 in Munich

Present:	Mr. Godfried De Vidts Mr. Constantino Toribo Garcia Ms. Maria Arauzo Arranz Mr. Romain Dumas Mr. Andreas Biewald Mr. Tony Baldwin Mr. Ronan Rowley Mr. Olly Benkert Mr. Jean-Michel Meyer Mr. Andrea Masciovecchio Mr. Stefano Bellani Mr. Ulf Bacher Mr. Michel Semaan Mr. Eduard Cia Mr. Guido Stroemer	ICAP (Chairman) Bankia Caixabank Credit Suisse Commerzbank Daiwa Capital Markets Deutsche Bank Goldman Sachs HSBC Intesa SanPaolo J.P. Morgan Newedge Group Nomura UniCredit Bank UBS
On the phone:	Mr. Grigorios Markouizos Mr. Sylvain Bojic Mr. Nicholas Hamilton Mr. Kevin McNulty Mr. Richard Comotto Ms. Lisa Cleary Dr. Nathalie Aubry-Stacey	Citigroup Société Générale JP Morgan (ERC Ops Group Chairman) ISLA ICMA Centre ICMA ICMA
Also Present:	Mr. Harald Baensch Mr. David Hiscock Ms. Lalitha Colaco Henry	UniCredit Bank ICMA ICMA (Secretary)
Apologies:	Mr. Simon Kipping Mr. Eugene McGrory Mr. Ed McAleer Mr. Andy Hill	Bank of America Merrill Lynch BNP Paribas Morgan Stanley (IRC Co-Chairman) ICMA

Welcome by the Chairman

Mr. Cia warmly welcomed the Committee to Munich and said how pleased he was to host the meeting and the Oktoberfest events planned for later in the day. The Chairman thanked UniCredit for kindly hosting the meeting and for their generosity towards the Committee.

1. Legal Update

Ms. Cleary said that the working group had been looking to develop a buy-side annex that would be a standard-form annex to the GMRA. The group had been clear that such an annex should not be thought of as a “GMRA-lite” document. As an annex to the GMRA, it would be governed by English law. The GMRA buy-side annex would attempt to dispense with the need for long-form negotiations for certain counterparties and there would be no room for incorporating additional terms. It was noted that there was still considerable work to be done in order to develop the document. It is hoped that a draft will be circulated to the ERC Committee in advance of their next meeting.

Ms. Cleary also requested that members of the ERC Committee prioritise adherence to the 2011 GMRA protocol. The protocol enables the parties to a 1995 or 2000 GMRA to amend certain terms of each such agreement to reflect certain provisions of the GMRA 2011. By adhering to the protocol a firm is able to effect all relevant amendments to each GMRA between itself and all other adhering parties without the need for individually renegotiating each GMRA. As the protocol is a multi-lateral agreement, the whole market needs to adhere to it in order for it to work as envisaged. All adhering firms are listed on the ICMA website. To date, only three firms have adhered to the protocol. From 2016, the 1995 version of the GMRA will no longer be covered by the legal opinions, which makes the use of the protocol of utmost importance, as this will allow firms to update their 1995 agreements. It was agreed that each member of the ERC Committee would discuss the protocol with their legal teams to see if a 2016 deadline, to cease coverage of the 1995 legal opinions, is feasible. Ms. Cleary also said that she would be happy to discuss with members any concerns with the protocol.

ICMA will shortly be starting the legal opinion exercise for 2015. Some thought is being given to including Malaysia. Additionally, ICMA is considering expanding counterparty coverage under some of the legal opinions.

Ms. Cleary also noted that the working group had again been considering clause 6(j) of the GMRA, in the light of ISDA’s recent notification regarding the operation of the ISDA master agreement’s condition precedent clause 2(a)(iii). The working group are looking at whether market guidance or GMRA amendments are necessary.

2. Triparty Settlement Interoperability (TSI)

The Chairman said that Martin Scheck and he had met with the two ICSDs in July to discuss the reasons for the delay to bridge enhancements. At that meeting, the ICSDs had been given till 15 August to develop a workable solution to bridge enhancements. On 14 August, the CEOs of Euroclear and Clearstream wrote to the Chairman, giving a firm commitment to carry out bridge enhancements, to be delivered by the end of Q3 2015. These enhancements will result in the bridge being open till 3PM CET and faster processing from the current 60 – 120 minutes to between 35 – 90 minutes. There will then be a second stage of enhancements which will be delivered by Q1 2017 at the latest, which will see further improvements to settlement times throughout the entire operational day to between 10 – 40 minutes.

However, the Chairman noted that he had heard that the ICSDs were discussing with market participants if they would want or need greater interoperability between the ICSDs in a T2S

environment. The market view needs to be affirmative to this question - greater interoperability is needed because T2S doesn't include commercial bank money transactions, which will have to be settled over the bridge. It was also noted that while Clearstream will make its ICSD-issued securities (i.e. Eurobonds) and securities issued outside Europe available via T2S, Euroclear will not. There will be a lot of change in this area and at this time it is difficult to know whether there should be greater interoperability between the ICSDs or not, but given that T2S will not be all-encompassing, it would be sensible for the market to push for greater interoperability.

3. Minutes of the previous meeting

The draft minutes of the last ERC Committee meeting, held on 17 June, 2014 in Berlin, were unanimously approved without comment and accordingly will be published on the ICMA website.

4. Composition of the ERC Committee

The Committee agreed that that Mr. Simon Kipping (Bank of America Merrill Lynch) should be appointed to the Committee given Mr. Malekian's departure. Mr. Kipping will sit on the Committee till the next elections, to be held in May 2015.

The Chairman asked the Committee for views on how the election process can be improved. A range of suggestions were discussed, including: (a) holding elections every two years; (b) expanding the size of the committee; (c) setting aside a specified number of seats for buy-side firms; (d) holding an electronic ballot; (e) ensuring a minimum number of votes per candidate. It was agreed that the Secretary would consider the feasibility of such suggestions, together with how such changes could be effected and would present her findings to the Committee in due course.

Mr. Hamilton also noted that the ERC Operations Group had received a query from a vendor wishing to join the Operations Group. The Operations Group had concluded that the way forward would be to establish a sub-committee of vendors who could work on issues such as matching and affirmation and other issues common to vendors.

5. Quantitative study on the impact of regulations on liquidity in the European Repo market

Mr. Comotto said that he had received data from two of the three providers, but had not yet received data from the third. It was hoped that negotiations with the third provider would be concluded shortly and that Mr. Comotto would obtain the data in sufficient time to analyse it and provide his conclusions to the ERC Secured Benchmark Working Group in advance of their meeting with the European Money Markets Institute (EMMI)¹ on 8 October.

There was some discussion about whether the survey should be repeated periodically. It was agreed that after the current survey had been concluded, the Committee could consider this.

¹ The EBF-Euribor changed its name to the European Money Markets Institute on 20 June 2014.

6. ERC Secured Benchmark Working Group update

Mr. Romain Dumas said that the next joint meeting of the ERC Secured Benchmark Working Group with the EMMI Eurepo Steering Committee would take place on 8 October. It was noted that the EMMI Eurepo Steering Committee had decided to reduce the number of Panel Banks from 10 to 8. However, the Eurepo Steering Committee had not been unanimous in this decision. It had also been agreed that the Eurepo benchmark would cease by the end of the year.

There was some discussion about the need for the industry to develop a replacement to the Eurepo benchmark, especially as discussions had been ongoing for some time. An industry solution would be needed before the Eurepo index is switched off. To this end, there needs to be decisive action and commitment to developing a replacement. It was suggested that perhaps EMMI need to obtain firm commitments from banks about providing data to calculate a new index. However, it was also noted that many firms are moving away from indices like LIBOR, and instead using third-party indices, as such indices are seen as less risky.

Mr. Dumas felt that the work of the ERC Secured Benchmark Working Group to date had been productive, given that other organisations that have recently developed indices (such as STOXX GC Pooling index and RFR from IIS) have adopted the principles elaborated by the Working Group. Namely, the Working Group had proposed that an industry index should: (1) be composed of trades that are only electronically executed quotes on screen; (2) be CCP cleared; and (3) based on overnight trades as a minimum.

The Chairman noted that EMMI had been in discussions with the five trading platforms - MTS, Btec, Eurex Repo, Tullet and Senaf, who have expressed interest in the proposals, though the main focus for Btec and MTS is on the RFR product. A clear governance framework for the repo index is being set up. The governance framework will satisfy EU and IOSCO standards. EMMI's Eurepo Steering Committee would be responsible for choosing an independent calculation agent.

The Committee felt that it was important for the index to have some tenor in it. It should not be just an overnight rate, changing from one day to the next. There need to be supplementary indices with longer tenors. It was emphasised that, as the Committee feel that volumes of term repo will increase, there will need to be an index to reflect this segment of the market as well. In the meantime, the ERC Secured Benchmark Working Group looks forward to receiving the results of Mr. Comotto's quantitative study (as outlined in Agenda item 5 above).

7. Paper on the interaction of regulation on repo and collateral markets

Mr. Hiscock said that his work on this paper had not advanced as much as he would have liked, given the difficulties that Mr. Comotto had been having obtaining the data for his quantitative study on dislocations in the European Repo market around reporting dates. Once Mr. Comotto's study has been finalised, Mr. Hiscock hopes to be able to complete his paper. The Chairman noted that once the paper has been completed, it would be worth discussing the conclusions with Mr. Ulrich Bindseil of the EBC and with other regulatory authorities.

8. ERC Operations Group update

Mr. Hamilton said that work with Rule Financial on the high-level study on the impact of the roll-out of T2S was continuing. There are two elements to the work. First, a cash and repo operating

model is being developed, which will focus on how market participants will interact with T2S. Second, an ERC T2S survey was developed, seeking views from across the market place. Just under 50 firms responded. Work is continuing and will culminate in a webinar, to be held the first week in November and a presentation at the European Repo Council general meeting, being held on 19 November. It was noted that bilaterally agreed treasury management instruction in T2S will be considered in phase 2.

On trade matching and affirmation, Mr. Hamilton said that the Operations Group were surveying the six vendors and would work with them to see if they could achieve greater interoperability. Regarding the development of a repo data repository, the ERC Operations Group are awaiting the outcome of the G20 summit to be held in Brisbane on 15 – 16 November, when it is expected that the FSB will publish its suggested framework for haircuts and haircut floors in repo and securities financing transactions, together with an implementation timetable to take forward the policy recommendations, such as a repo data repository, on which it has already consulted.

The ERC Operations Group has also been busy working on the shift to T+2 taking place over the weekend of 6 October. The paper “The impact of T+2 settlement on the European repo market” was published on the ICMA website. The ERC Operations group anticipates that the move to T+2 will be lumpy. The ERC Operations Group also published a briefing paper on CSDR mandatory buy-ins and the treatment of SFTs.

Finally, it was noted that the ECB announced that triparty collateral management services offered by triparty agents on a cross-border basis would be supported via the CCBM as from 29 September, subject to the triparty agents having been approved as eligible for use in Eurosystem credit operations.

9. The granularity of the semi-annual repo survey

Mr. Comotto said the paper that had been circulated to the Committee represented the maximum of what could be asked in the repo survey – the intention was not for the Committee to necessarily approve all the suggested additions – merely that members could see the range of possibilities and select what they thought desirable. Additionally, the suggested additions had been drafted to take account of the FSB’s wish list. However, Mr. Comotto said that he had not included anything on haircuts and had only included limited questions on collateral maturity of EU government bonds. It is anticipated that it would take a year to bring in any amendments to the survey, depending on what is agreed. Mr Comotto suggested some firms would struggle to complete a deeper survey. Committee members agreed to provide comments directly to Mr. Comotto.

The Chairman mentioned he had met Commission staff to discuss the SFT Regulation. The Commission have taken on board lessons from the implementation of EMIR and therefore the regime for SFTs will be much simpler. It is also anticipated that the Commission will use internationally agreed standards and will be clearer about what they want the Regulation to achieve. The Commission have additionally changed the proposal to refer to “re-use”, using the FSB’s definition. Exemptions will be provided for small non-financial counterparties and there will be a delayed entry into force of around 2 – 3 years, with some counterparties being allowed a delay of beyond 2017 to report.

10. EBA guidelines on the disclosure of encumbered and unencumbered assets

Mr. Hiscock said that the EBA had published its final guidelines on disclosure of encumbered and unencumbered assets in the summer. The guidelines include a long list of what is to be considered as an encumbered asset and accordingly what needs to be reported to the EBA. While the final guidelines do not pose a concern at this time, the worry is that over time, the EBA may decide to go beyond disclosure requirements and impose limits on the amount of encumbered assets a firm is allowed to hold. This will remain a watching brief.

11. Securities financing – education sessions

The Chairman noted that a Roundtable had been arranged by AFME and ICMA with MEPs for 30 September, which he was due to attend. Additionally, an education session is being arranged jointly with ISLA for MEP assistants for 7 November. There is still some work to be done in advance of this education session, though a MEP has kindly agreed to sponsor the event. The aim is to educate MEP assistants about the SFT market and why it matters. It will be a challenge, as it is likely that the MEP assistants will have little financial markets knowledge and the session will have to cover a lot of material in a short amount of time.

12. CSDR

The Chairman noted that he had received a letter from Mr. Patrick Pearson setting out the Commission's view that Article 5(2) of the CSDR means that the opening leg of a SFT that concerns transferable securities which is executed on a trading venue must settle, at the latest, on the second business day after the trading takes place. There are no exemptions for SFTs from the T+2 requirement which means that an unintended consequence of the CSDR is that forward-forward repo cannot trade on an electronic platform. The trading platforms will shortly be writing to the Commission about this. It is hoped that the Commission may try to limit the damage in the Regulatory Technical Standards.

The Committee considered the papers drafted by Mr. Comotto amending the Guide to Best Practice and the Repo FAQs. The amendments to new paragraph 2.9 (changing "standard" non-forward settlement period to "most common" non-forward settlement period) were agreed. Regarding cut-off times for open repos, the Committee agreed to 3pm CET for US currency, 1pm CET for EUR and continental currencies and the cut-off time for UK gilts would remain as is.

On mandatory buy-ins, the Chairman noted that a 2-day workshop had been held in early September co-chaired by ICMA and AFME, with ECSDA and EACH also participating. This was followed up by an ESMA industry roundtable to discuss settlement efficiency and discipline, to which ICMA and ISLA were not invited. A further meeting between ICMA, ISLA and ESMA then took place on 24 September to discuss mandatory buy-in and discipline issues specific to SFTs. Mr. Bellani said that the ERC delegation outlined the main issues, particularly in relation to how mandatory buy-ins do not work with current GMRA provisions. Additionally, they had focused on what repo could be excluded from the mandatory buy-in provisions, though it seems that ESMA are considering exempting only very short dated and open repos as opposed to the ERC's preferred 3-month and shorter repos. The ERC delegation stressed that if the ESMA position were to be taken forward, it would create silos which would create a two-tiered repo market and would be detrimental to both repo and cash market liquidity. ESMA noted that while the Level 1 text has already been finalised, they believe that it will be possible to craft a solution addressing the

ERC's and ISLA's concerns. This solution will be set out in a forthcoming consultation paper. The Chairman noted that the meeting had been constructive.

It is anticipated that the introduction of T2S will significantly change the settlement landscape and it is hoped that many of the settlement fails that occur today will diminish. The Chairman will be meeting with the ECB on 6 October and will stress the concerns with the CSDR. He will also be meeting with the DMOs in early November and will emphasise the ERCs arguments in that forum. The Chairman also noted the link to MiFID 2 and the need to raise the level of awareness about what is liquid and what is not liquid.

13. Basel III leverage ratio framework and disclosure requirements

Mr. Hiscock said that the BCBS had yet to provide feedback to the ERC's request for further clarity on the leverage ratio, though the European Commission was expected to publish its delegated act in early October. Apparently the Commission has made modifications responsive to industry feedback.

Mr. Hiscock also noted that the NSFR work is expected to be endorsed at the G20 summit in Brisbane but may not be published till the end of the year.

14. AOB and upcoming dates

Term sell/buy-backs: Mr. Comotto noted that he had received a query regarding term sell/buy-backs with an FRN as the underlying collateral. The Repurchase Price is calculated assuming the current coupon. If the coupon changes during the term of the repo, should the amendment of the Repurchase Price take place through (1) an immediate change in the Repurchase Price; or (2) a claim for the difference? (1) was market practice. While it was noted that these two options amount to the same thing, legally they are different. It was agreed that Mr. Comotto would produce a draft paper to be circulated to the Committee for approval.

Negative interest rates: Mr. Masciovecchio said that given ISDA's negative interest rate protocol for CSAs it was worth re-considering the wording in the ERC Guide to Best Practice in the European repo market, which currently sets a floor at zero. Mr. Comotto noted that there is an inconsistency between Annex 2 (the margining guidelines) and the main body of the Guide. He had circulated a draft to the Committee for comment. It was agreed that the rate should not be floored at 0 but should be set at whatever the parties have agreed.

Future European Repo Committee meetings have been scheduled as follows:

- (1) **19 November** – (2:00 – 5:00 GMT, hosted by ICMA after the European Repo Council General Meeting);
- (2) **12 January 2015** (hosted by Commerzbank in Frankfurt from 11:00 – 13.30 in advance of the meeting of the Committee with the ECB from 14:00 – 17:00).

In addition, Committee members were asked to take note of:

- (3) T2S webinar by Rule Financial – 10 November (12:00 – 13:00 GMT);
- (4) **European Repo Council General Meeting** – 19 November 2014, 9:00 – 14:00 – hosted by MTS in London.
- (5) **Repo Course on the Guide to Best Practice** – 17 November in London.

The Chairman:

The Secretary:

Godfried De Vidts
19 November 2014

Lalitha Colaco-Henry