

Follow-up note to the ERCC Committee call held on 27 January 2021

<u>Committee members:</u>	Mr. Gareth Allen	UBS Limited (ERCC chair)
	Ms. Emma Cooper	Blackrock (ERCC vice chair)
	Mr. Charlie Badran	AXA IM
	Mr. Dan Bremer	BAML
	Mr. Nick Dent	Barclays
	Mr. Eugene McGrory	BNP Paribas
	Mr. Peter Fejfer Nielsen	Citi
	Mr. Jean-Robert Wilkin	Clearstream
	Mr. Andreas Biewald	Commerzbank
	Mr. Romain Dumas	Credit Suisse
	Ms. Marije Verhelst	Euroclear
	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	
Mr. Harald Bänsch	UniCredit Bank	
<u>Other participants:</u>	Mr. Nicholas Hamilton	J.P. Morgan (ERCC Ops co-chair)
	Mr. James Upton	LCH (ERCC Ops co-chair)
	Mr. Ned Taylor	HSBC
	Mr. Arne Theia	UniCredit Bank
	Mr. Godfried De Vidts	ICMA
	Ms. Zhan Chen	ICMA
	Ms. Lisa Cleary	ICMA
	Mr. Richard Comotto	ICMA
	Mr. Andy Hill	ICMA
	Mr. Alexander Westphal	ICMA (ERCC Secretary)
<u>Guest:</u>	Ms. Corentine Poilvet-Clediere	LCH SA
	Mr. Romain Darre	LCH SA
	Mr. John Edwards	BrokerTec
<u>Apologies:</u>	Mr. Jean-Michel Meyer	HSBC
	Mr. Richard Hochreutiner	SwissRe

1) Minutes from previous meeting

The Committee approved the minutes of the previous virtual meeting of the ERCC Committee held on 9 December without further comments. [The minutes have been published on the [ICMA website](#).]

Given that a number of guests were invited to join the meeting, members agreed to swap agenda items to start with the discussion on CCP fails (previously agenda item 6), followed by the related update from the ERCC Operations Group (previously agenda item 5).

2) CCP settlement fails

Ahead of the meeting a concern had been raised around settlement fails, specifically related to CCP-cleared trades. Eugene McGrory introduced the issue, explaining that the level of fails remains relatively high with periodic spikes observed even in core GC trades where liquidity should not be an issue. In a CCP context this is particularly problematic as there is no mechanism in place to allow firms to claim compensation from the CCP and it also increasingly becomes a reputational concern. Members agreed that it was crucial for the industry to come together to address the issue ahead of the implementation of CSDR settlement discipline measures or any other regulatory action.

Corentine Poilvet-Clediere, head of RepoClear, was invited to the meeting to respond to the concern and to provide some background on settlement performance in LCH SA, the settlement fails management process, as well as some relevant recent improvements, including the imminent introduction of auto-partialling. Ms. Poilvet-Clediere's presentation was followed by a discussion with members on the issue and possible ways to address the problem at an industry level. It was agreed to schedule a follow-up workshop to allow for a more detailed discussion on the issue. It was noted that the detailed work undertaken by ERCC Ops on intraday liquidity will be highly relevant and will serve as a useful basis for the discussion.

John Edwards, global head of BrokerTec, was invited to the meeting to provide some background on the recent technical issues that occurred during the past week as a result of the large-scale migration of the BrokerTec platform onto CME's Globex platform.

3) Update from the ERCC Operations Group

Nicholas Hamilton and James Upton, co-chairs of the ERCC Operations Group, updated members on the latest ERCC Ops discussions. Following on from the previous agenda item, Mr. Upton presented recent progress in relation to the ERCC Ops' work on intraday liquidity, which covers many of the same elements and tools that have been mentioned in relation to settlement efficiency and should provide a useful basis for the ongoing discussion. As part of the intraday liquidity work, a number of concrete best practice proposals have been developed, including on shaping and partialling. The proposals were agreed in November in a joint session with the Best Practice working group and will be incorporated into the ERCC Guide. The updates will be published in due course, along with a short paper explaining some background and the issues that are being addressed.

Mr. Hamilton reported back from the latest discussions in the ECB's AMI-SeCo group and its related working groups, in particular the Collateral Management Harmonisation Task Force (CMH-TF), in which a number of ERCC Ops members are actively involved. The groups provide a very useful forum to raise concerns and feed into the work of the ECB. Among other things, we have been collaborating closely with the ECB in the context of the intraday liquidity work. Mr. Hamilton also noted a particular focus currently on resiliency and communication flows, following on from a number of disruptions/incidents in the T2S settlement system over the past year.

4) Repo market conditions

Members briefly touched on other relevant repo market developments, noting in particular the recent ERCC report [The European repo market at 2020 year-end](#) which has been published on 13 January.

In this context, Godfried De Vidts mentioned some concerns that have been expressed in relation to the recent renewal of the accreditation of the CUSIP securities identifier in the US. In order to provide some background, Marije Verhelst read out a short statement on the issue prepared by her colleague Dan Kuhnel on behalf of [ANNA](#). Some further background information will be sent to the Committee after the meeting.

5) Digitisation

a) **JP Morgan's Repo DLT pilot**

Lav Lukic and Nicholas Hamilton gave a short presentation to members to introduce a recent DLT pilot project for repo which JP Morgan concluded in collaboration with Goldman Sachs and BNY Mellon (as custodian). The key focus of the project has been on the benefits of real-time settlement from an intraday liquidity management perspective and increased operational efficiency. While the project has been largely driven by the US, the benefits are also relevant for the European market. Members briefly discussed the of the project and the tokenisation more broadly.

b) **Common Domain Model**

Rowan Varrell updated members on the latest progress in relation to ICMA's work to extend the Common Domain Model (CDM) to repo, noting that ICMA is currently finalising the framework agreement with Regnosys to start the first phase of the modelling work, which is scheduled to take 18 weeks. A CDM Steering Committee has been established to support the project and ensure sufficient industry input. While feedback from members so far has been encouraging, further contributors would be very welcome as active member engagement continues to be crucial to oversee the modelling work and to provide relevant data to test the model.

c) **Legal Tech**

Lisa Cleary briefly mentioned ongoing discussions in the Legal Working Group on a potential project to establish a GMRA clause library, following the example of ISDA and ISLA who are working on such an offer with the relevant provider. While no decision has been taken yet on the ICMA side, feedback from members on the proposed project would be very helpful.

6) Legal update

In terms of other legal developments, Lisa Cleary mentioned three issues:

- The annual GMRA legal opinion exercise is well under way and expected to be concluded in the usual timeframe.
- In light of recent legal changes, there might be a case to add Nigeria as a further jurisdiction for GMRA legal opinions, provided there is sufficient demand from members.

- Further to previous discussions on the phasing out of EONIA, Ms Cleary invited members to share more detailed feedback on the need for ICMA to support the transition. As a follow-up, ICMA will circulate a formal request for feedback to members which will provide some relevant background.

7) Regulation

a) CRR

Members reconsidered two CRR-related concerns which had initially been raised in the previous Committee meeting in December:

- **LCR:** Credit Suisse raised a concern related to LCR and triparty repos. Romain Dumas introduced an updated slide deck on the issue and asked members to provide feedback, in particular on the need to advocate for a refinement of the relevant Basel rule (CF LCR40.79). Members agreed with the general assessment and suggested that ICMA should explore the scope for advocacy on this point. A follow-up discussion with a smaller group of interested members will be scheduled to discuss the issue and decide on next steps, in particular possible advocacy with the BCBS.
- **Large exposures:** Members reconsidered a concern initially raised by the German banking associations (GBIC) in relation to the Large Exposure regime under [CRR 2](#), specifically the mandatory substitution approach which is due to apply as of June 2021. Since the previous discussions, AFME also wrote to the Commission on this topic. Most members were unaware of any internal discussions on this point, but it was agreed that, provided the GBIC interpretation is correct, this would indeed be problematic, in particular from a triparty repo perspective. Members are encouraged to raise the issue internally and to share any feedback with ICMA, as a basis for possible further action.

b) CSDR

Andy Hill and Lisa Cleary updated members on the latest developments in relation to CSDR mandatory buy-ins, in particular ICMA's ongoing work on a response to the Commission's [targeted review consultation](#) which will close on 2 February. *[Post-meeting update: The final ICMA response was submitted and [published](#) on 2 February.]*

Separately, there have been some discussions with other trade associations on the timing implications of the ongoing review and whether there is a case for joint outreach to the Commission to ask for urgent clarification of the implementation timeline.

c) SFTR

Alex Westphal and Richard Comotto provided a brief update on the latest SFTR developments, covering among other things the end of the Brexit transition period and the resulting split of SFTR into two separate regimes, the fourth and final go-live phase in the EU which saw the reporting start for NFCs, as well as ongoing discussions around ESMA's level 3 guidance and the implications for ICMA's detailed SFTR best practice recommendations.

d) BRRD 2

Following up on previous concerns, Lisa Cleary noted some positive development in relation to the ongoing review of the Bank Recovery and Resolution Directive (BRRD), namely the publication of the final [draft RTS on the contractual recognition of stay powers](#) by the EBA on 16 December. ICMA was pleased to note that, following industry advocacy at the end of last summer, the EBA decided to revise some of the more problematic requirements of the associated RTS. There will shortly be a joint association call to discuss implementation timing and compliance.

e) Other regulatory updates

Members did not raise any other relevant regulatory developments.

8) AOB

- **ERCC elections:** The elections to the ERCC Committee opened on 16 January. Members who have not voted yet were reminded to submit their ballot paper before the deadline on 9 February. The results will be announced on 10 February, unless there is a tie (in which case another week-long ballot will be organised for the tied candidates).
- **Next meeting:** The next meeting will be organised in March, following the conclusion of the ongoing ERCC elections.