

European Repo Market update

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ICMA and the European Repo and Collateral Council (ERCC)

- ICMA's mission is to **promote resilient & well functioning international debt capital markets**
 - ICMA currently has over **580 members based in more than 60 countries**
 - around 75% of members are European
 - spanning the market, **members include issuers, intermediaries, investors, and infrastructures**
- ICMA market practices support the three key aspects of the international debt capital market
 - Primary market (origination)
 - Secondary market (trading)
 - Financing market (repo=collateral)
- **Since the early 1990's, ICMA has played a significant role in promoting the interests and activities of the international repo market, and of the product itself**
 - The European Repo and Collateral Council (ERCC) was established by ICMA in late 1999
 - 105 ICMA ERCC member firms, representing the major players in the repo market (dealers, asset managers and infrastructures)
 - Main governance body is the annually elected ERCC Committee, supported by working groups

ICMA's European Repo Market Survey

- Published by ICMA's ERCC on a **bi-annual basis since 2001** – 37th edition published on 13 November 2019 (see right)
- Based on data collected from the **major participants in the European Repo market** (55 firms in the latest survey) – estimated to cover around 80% of the total market
- Complemented by direct submissions from main electronic trading platforms (ATS) and tri-party agents
- Survey measures the **value of outstanding transactions** at close of business on the survey date (**5 June** in the latest survey)...
...i.e. stock figures as (opposed to flow/volume figures measured between two dates)



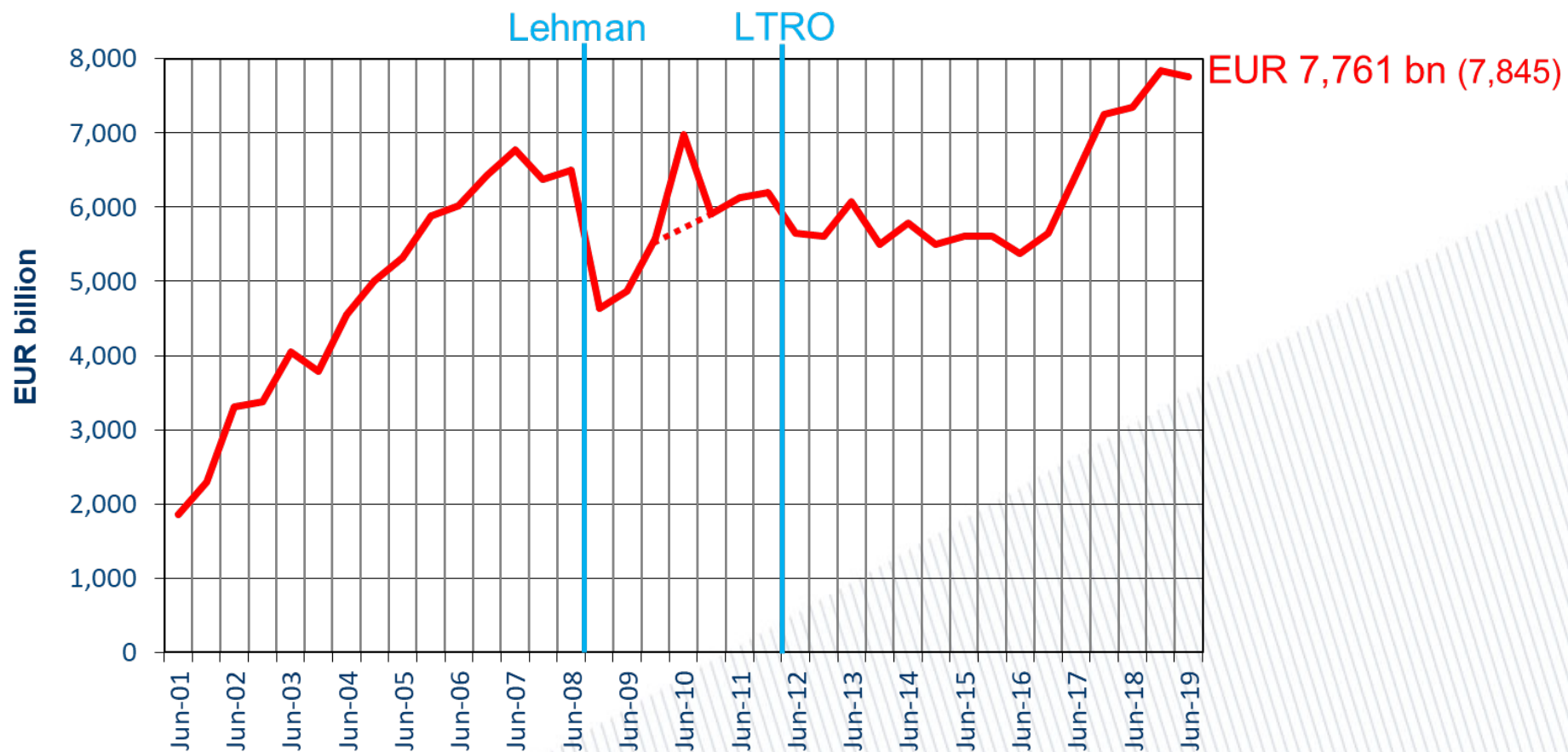
International Capital Market Association European **Repo** Market Survey

Number 37 - Conducted June 2019
Published November 2019

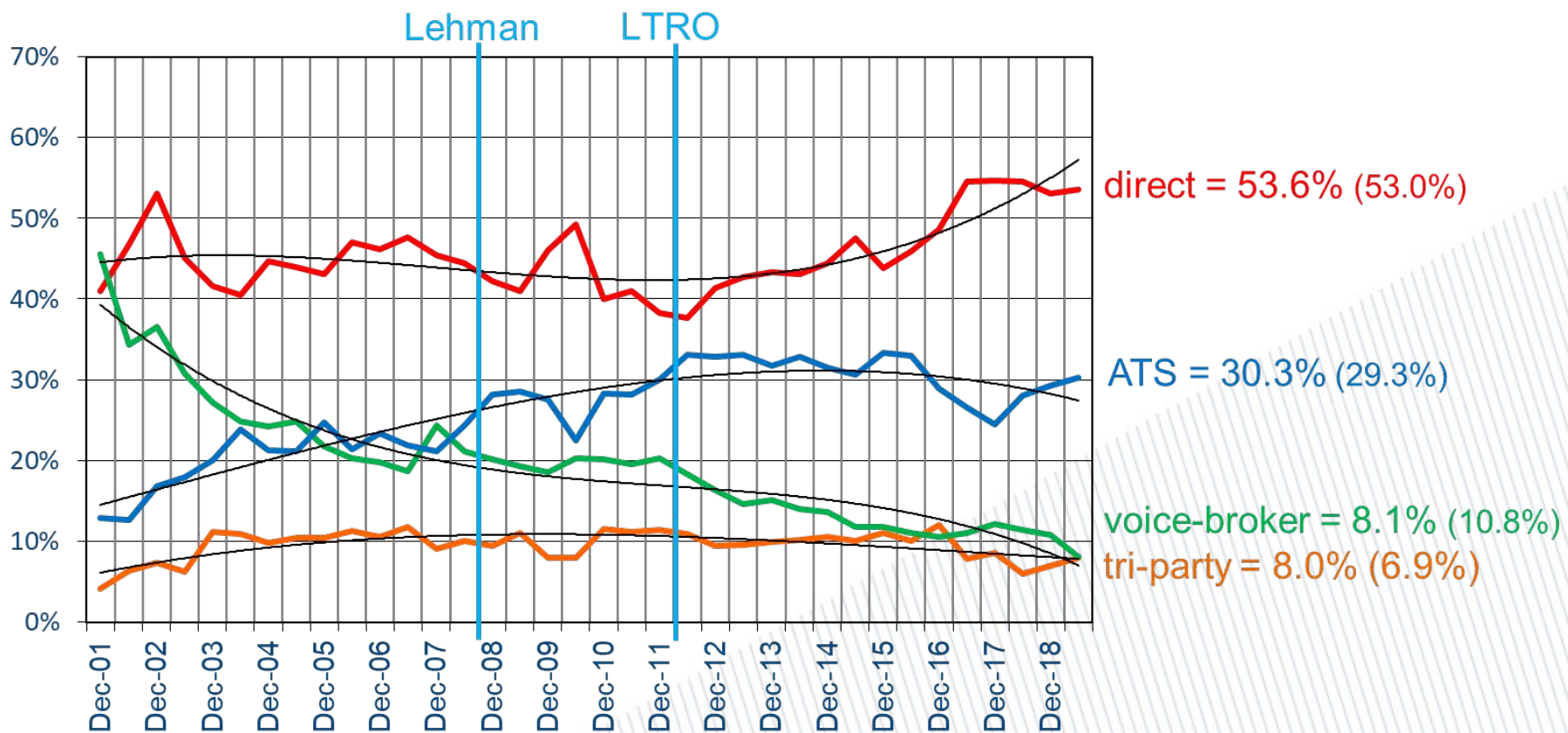


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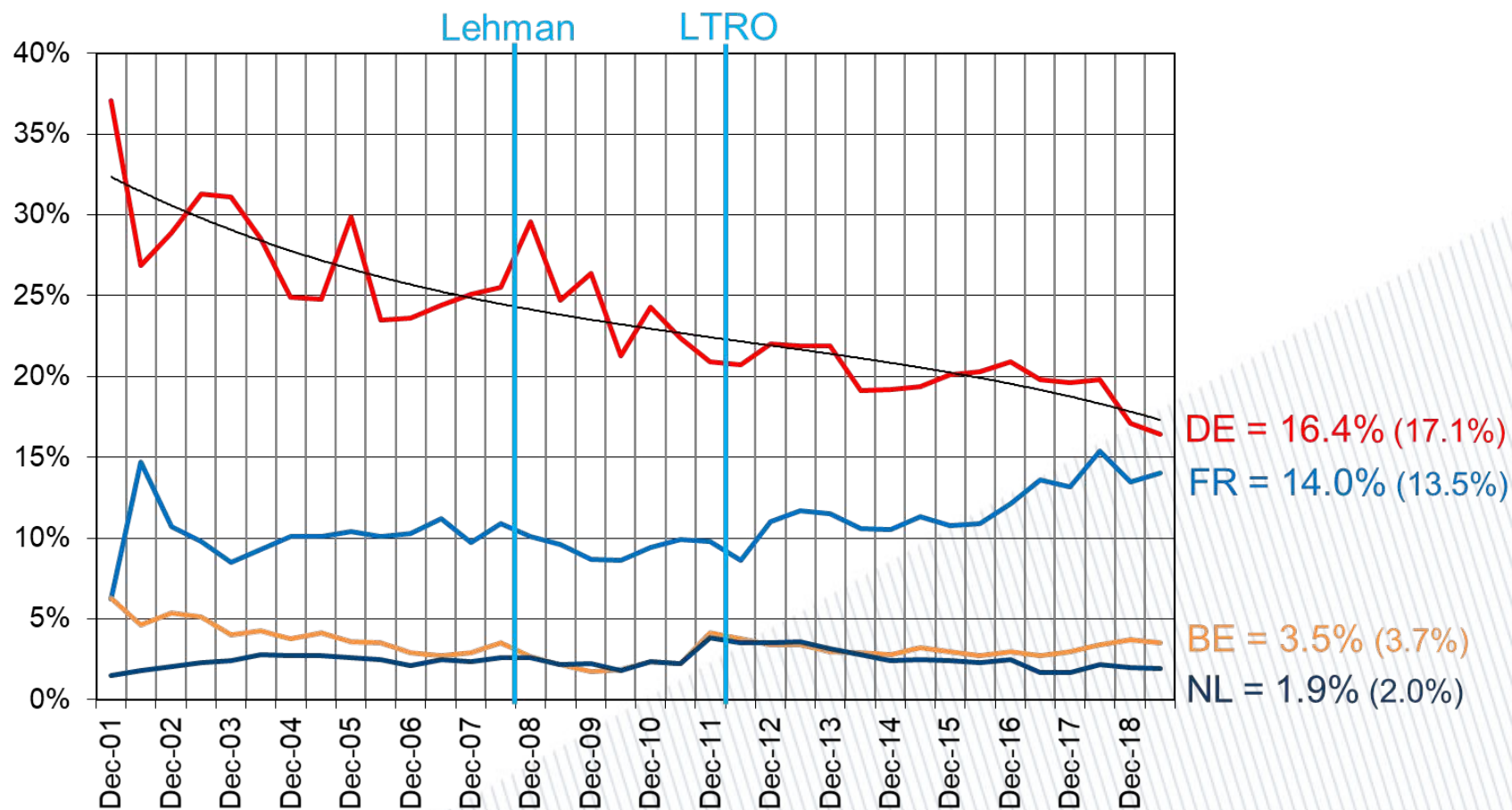
Headline numbers



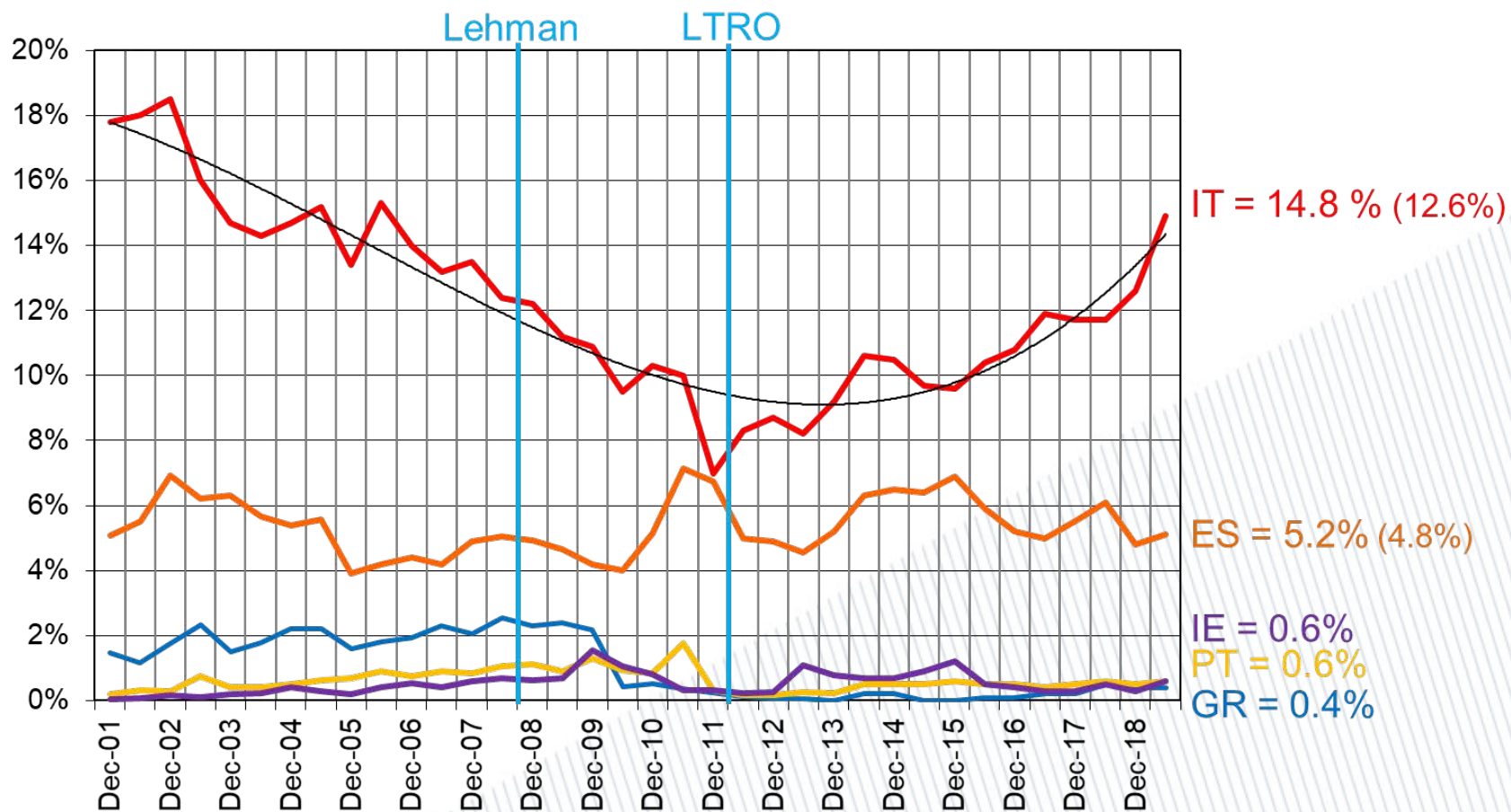
Trading analysis



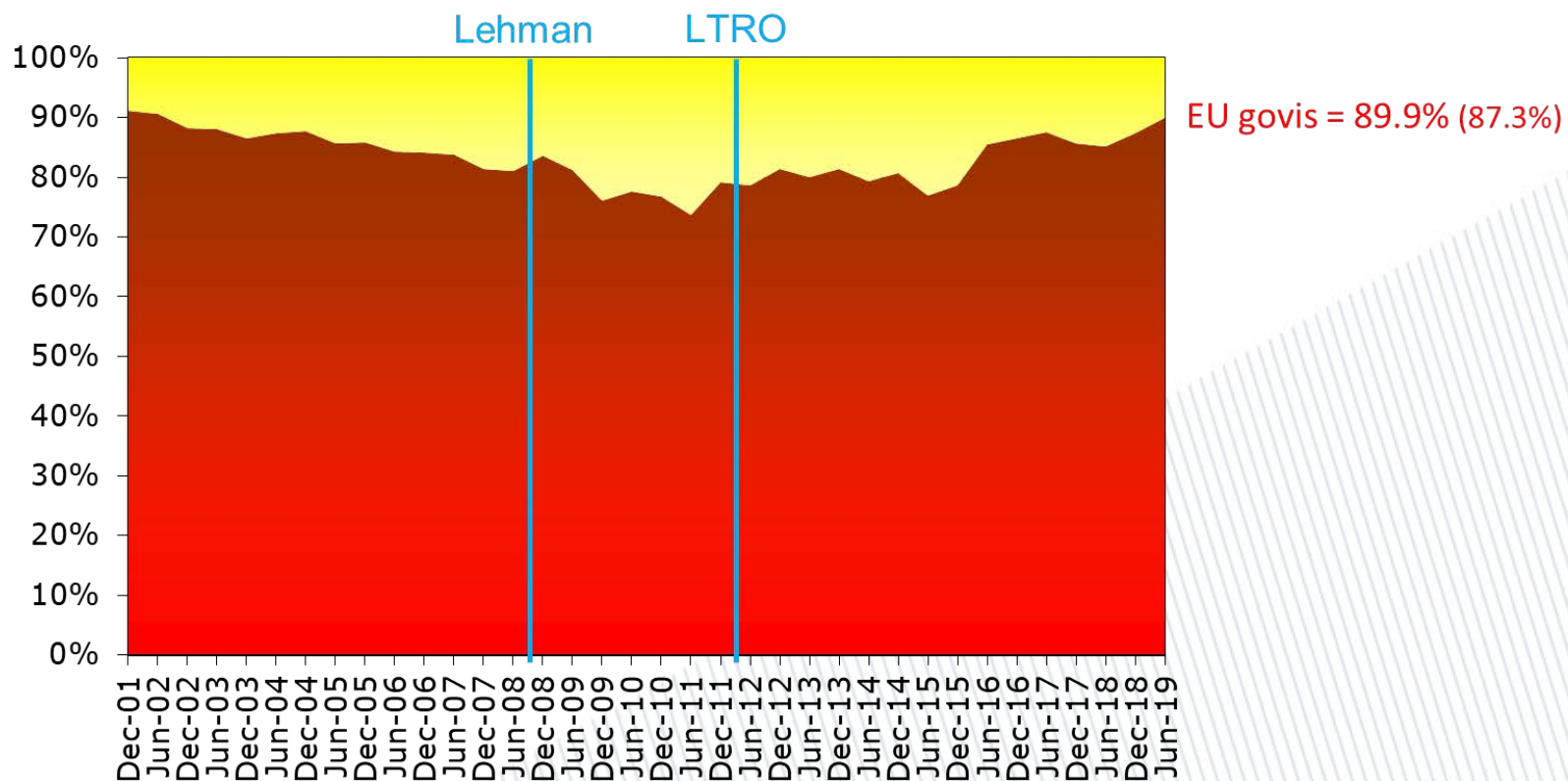
Collateral analysis --- Core Eurozone



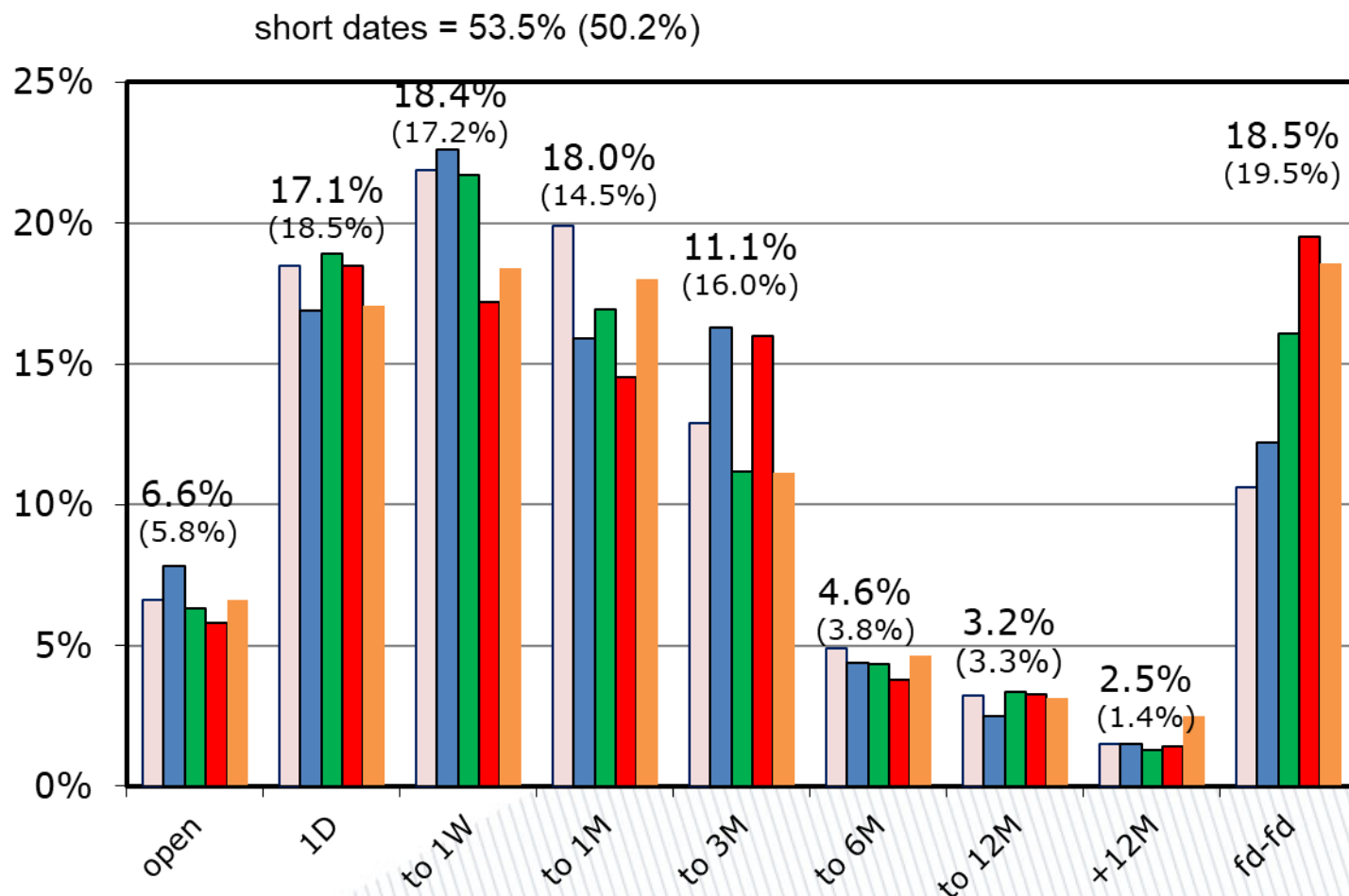
Collateral analysis --- Peripheral Eurozone



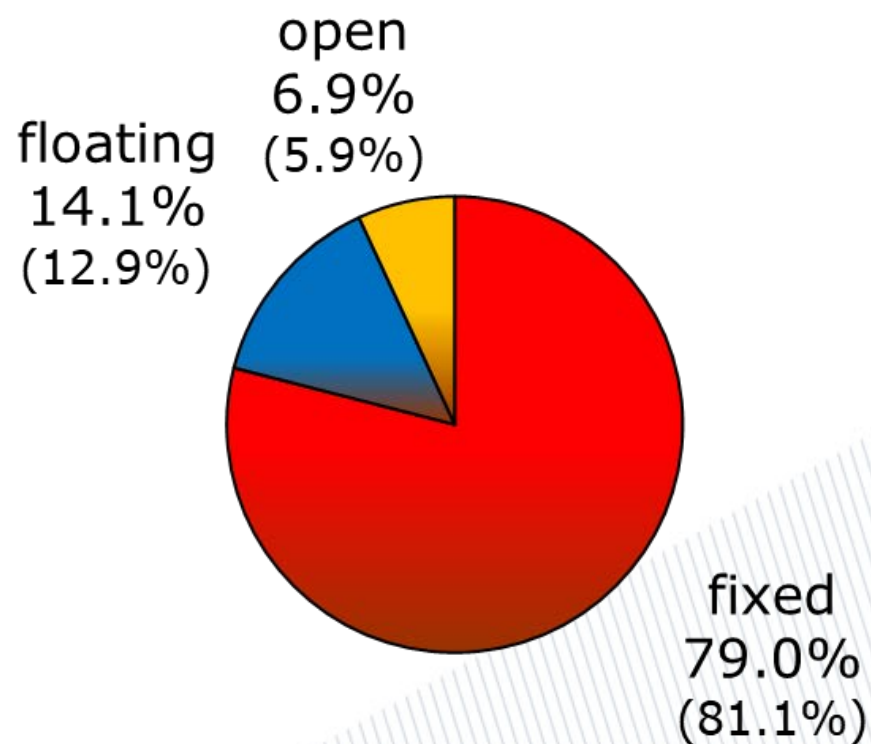
Collateral analysis



Maturity analysis



Rate analysis

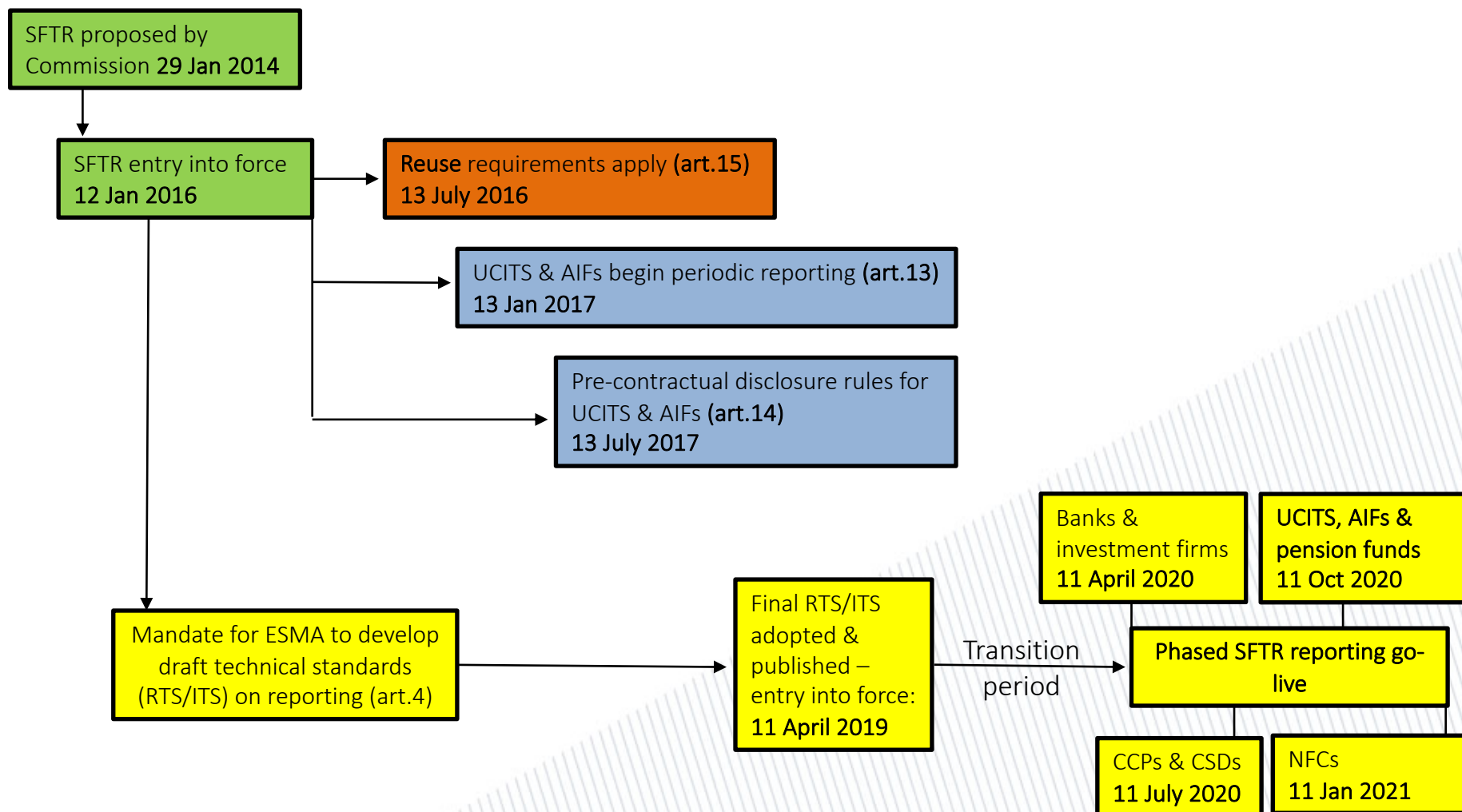


- ICMA actively involved in the discussions on **global benchmark reforms** and the transition to risk-free rates (RFRs)
 - ICMA participates in the relevant official groups that are looking at this topic, including:
 - UK: [Working Group on Sterling Risk-Free Reference Rates](#)
 - Euro area: [Working group on euro risk-free rates](#)
 - Switzerland: [National Working Group on Swiss Franc Reference Rates](#)
 - Recent focus on the transition from EONIA to €STR on 1-2 October 2019
- From a legal perspective, **impact of the transition on the repo market** fairly limited...
 - No explicit reference to EONIA in the GMRA
 - Bilateral Annexes that reference EONIA will have to be updated
 - Use of floating-rate repo mostly limited to the French market
- But transition creates **operational challenges for floating-rate repo...**
 - Publication of €STR at 9:00 CET on T+1 – too late for same-day settlement
 - ERCC agreed best practices to ensure consistent approach

ICMA ERCC recommended best practice for repo (from 1 October 2019)

- The **Interbank market should transact purely on a fixed-rate basis** (“classic repo”) and should no longer use floating rate repo.
- In the case of **non-interbank transactions** (such as dealer-to-client), where firms agree to transact on a floating-rate basis (using EONIA or €STR), **best practice will be to apply the fixing of the penultimate accrual date of the transaction to the final (repurchase) date** (i.e. “crystalizing” the penultimate fixing into a fixed rate for the final business day). This will allow for parties to send timely settlement instructions for the repurchase leg of the transaction.
- Where the Repurchase Price of a floating-rate repo indexed to an overnight index has to be calculated and instructed before the fixing and publication of the final rate and the parties decide to make retrospective reimbursements for any difference between the actual and correct Repurchase Prices, it is best practice to document this agreement and the deadline for reimbursement, if necessary in the Confirmation of the transaction, and for any reimbursement to be made immediately following the Repurchase Date, but no later than 30 days afterwards. Where several reimbursements are to be claimed on the same day, a single net amount should be claimed from a counterparty, rather than separate claims for each transaction. **The net claim per day per counterparty should not be for less than EUR 500 or the approximate equivalent in other currencies.**

SFTR: implementation timeline



SFTR reporting – key elements

■ SFTR reporting requirements apply to...

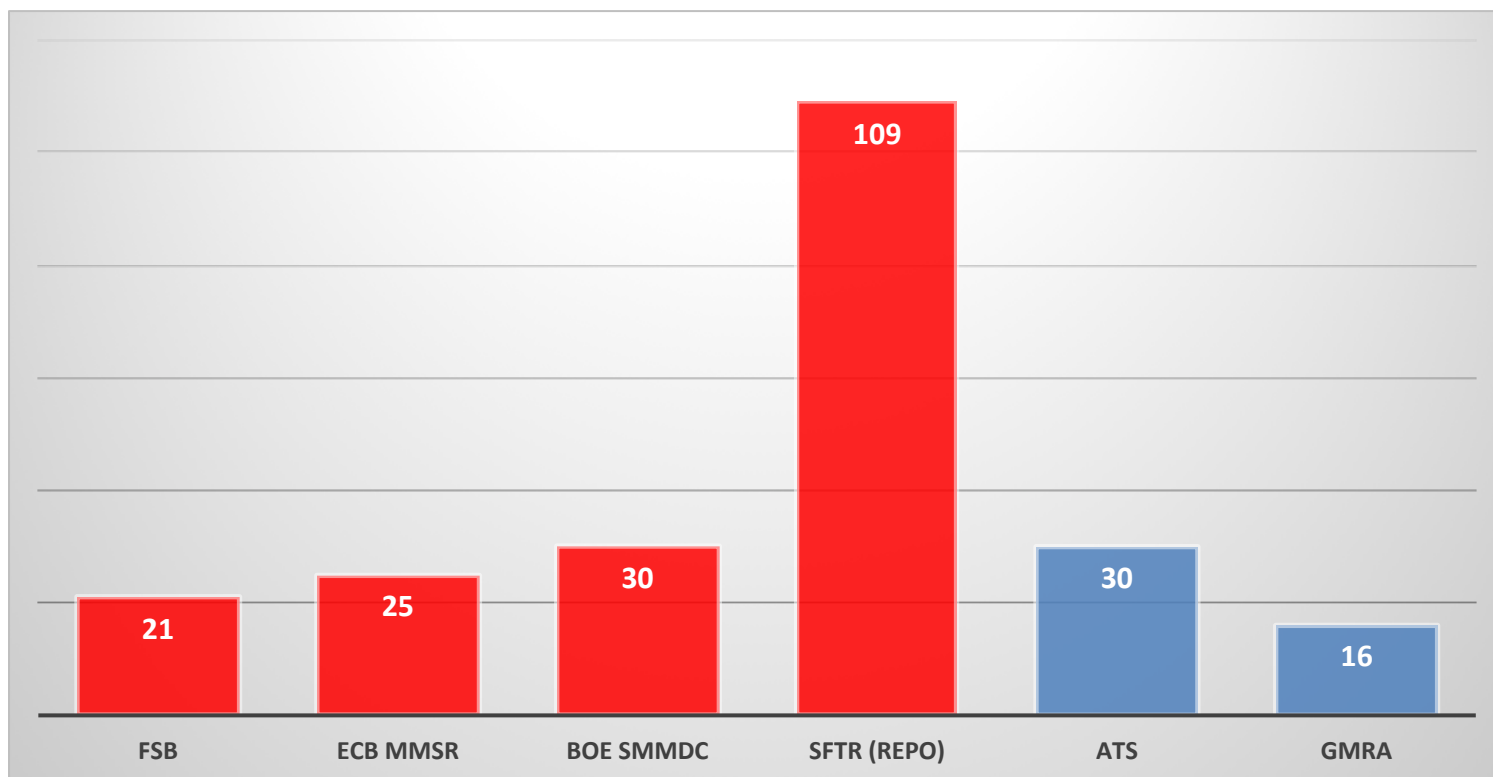
- Instruments: SFTs defined as Repo, Buy/sell-backs, securities lending, commodities lending, margin lending
- Entities: **EU-based** financial or non-financial counterparties to SFTs - incl. all branches (EU and non-EU) & **third country firms**, where SFT “concluded in the course of the operations” of an EU branch
- Limited exemptions for certain public bodies (central banks, DMOs, BIS) & SFTs with EU central banks captured under MiFIR instead)

■ The level of granularity introduced by SFTR is unprecedented...

- Double-sided trade-level reporting to authorised trade repositories
- Including new transactions but also any modifications and lifecycle events
- In total, 155 reporting fields specified across 4 different reports
- Intra- and inter-TR required on the majority of fields with very limited tolerance
- Daily collateral updates with daily revaluations required
- Collateral re-use to be reported at ISIN level (based on FSB “approximate measure”)

SFTR reporting vs other initiatives vs current market practice

Number of reporting fields required



SFTR is a key priority for ICMA

- **Extensive reporting rules are a major operational challenge for the repo market...**
 - Double-sided reporting and reconciliation requirements necessitate cross-industry collaboration & agreement
- **Dedicated SFTR Task Force created in 2015...**
 - Main objective of the group is to facilitate implementation by providing common interpretations, definitions and market best practices
 - Has become ICMA's largest active WG with broad range of market participants represented, including sell-side, buy-side, FMIs and service providers (TRs & vendors) – **over 120 firms**
 - Working closely with regulators, in particular ESMA, and other trade associations, including ISLA
- **Key deliverables that are being developed...**
 - SFTR Guide with best practice recommendations (70 issues covered so far)
 - SFTR sample reports (covering 35 repo scenarios so far)
 - Reporting of lifecycle events
 - Master Regulatory Reporting Agreement (MRRA) (jointly with ISLA, ISDA, AFME, FIA)

CSDR & settlement discipline - key elements and timeline

- The **EU CSD Regulation (CSDR)** introduces harmonized standards for the authorization and regulation of EU central securities depositories (CSDs)
 - Mostly focused on prudential, organizational, and business standards for EU CSDs...
 - But some requirements directly affect trading level entities, in particular settlement discipline measures (art.7) – including **cash penalties** for settlement fails and **mandatory buy-ins**
- The **scope of the settlement discipline measures** is very broad and includes
 - All transactions in financial instruments intended to settle on an EU CSD
 - Hence applies to all **trading level entities regardless of their domicile** that settle trades on an EU CSDs, whether as direct participants or indirectly via a settlement or clearing agent
- **Implementation timeline:**
 - CSDR itself entered into force in September 2014
 - Most CSDR requirements already apply, except...
 - ...settlement discipline rules, including mandatory buy-ins, which are due to come into force in **November 2020**

CSDR mandatory buy-ins – impacts

- **Mandatory buy-ins under CSDR will be a dramatic departure from current market practice (ICMA buy-in rules)**
 - CSDR buy-ins are a regulatory requirement and not a discretionary right
 - Appointment of buy-in agent mandatory for non-CCP-cleared trades
 - Buy-in process automatically triggered 7 (business) days after ISD & must be completed (settled) within a further 7 business days (4 days for liquid equities) – if unsuccessful defaults to cash compensation
 - No pass-on mechanism & payment of the buy-in price difference or cash compensation is asymmetrical (only made by the failing party)
- **From an SFT perspective, there are important direct and indirect impacts from mandatory buy-ins**
 - Mandatory buy-ins will apply to SFTs (with a term ≥ 30 business days), which raises a number of complications and ambiguities as to how buy-ins can be applied
 - Due to the inherent relationship between cash and SFT markets, the regulation will also have a significant indirect impact on repo and securities lending, not least as a result of the asymmetry

What is ICMA doing about mandatory buy-ins: implementation

- Updating the **ICMA buy-in rules** to be CSDR compliant:
 - Providing a contractual framework and market best practice to support implementation
 - Providing contractual solutions to some of the regulation's more problematic challenges
- **Addressing the asymmetric payment provisions** for buy-in and cash compensation
 - Working with ESMA to provide Q&A that allows for symmetrical payments through contractual agreements (such as the ICMA buy-in rules)
- Working with the broader industry to design and propose a workable **pass-on mechanism**
- Working with ISLA to establish **best practice for SFTs** in the case of fails
 - Exploring possibility of updating the **GMRA** to include buy-in provisions
- Working with ISLA to propose appropriate **exemptions for certain SFTs**:
 - Open trades (including once they have reached 30 business days)
 - Basket trades (including triparty and DBV)

What is ICMA doing about mandatory buy-ins: advocacy



- ICMA efforts to **raise awareness** among market participants of scope, details, and potential implications, through general outreach and publications, including:
 - [Information brochure](#) (Aug 2019)
 - [Discussion paper on buy-ins and SFTs](#) (Oct 2018)
- Continuing **advocacy with regulators and policy makers** with a view to delaying/amending the CSDR mandatory buy-in provisions
 - Latest **ICMA impact study** in relation to mandatory buy-ins under CSDR published on 23 November 2019 (see right)

Mandatory buy-ins under CSDR and the European bond markets **Impact Study**

An initiative of the ICMA Secondary Market Practices Committee

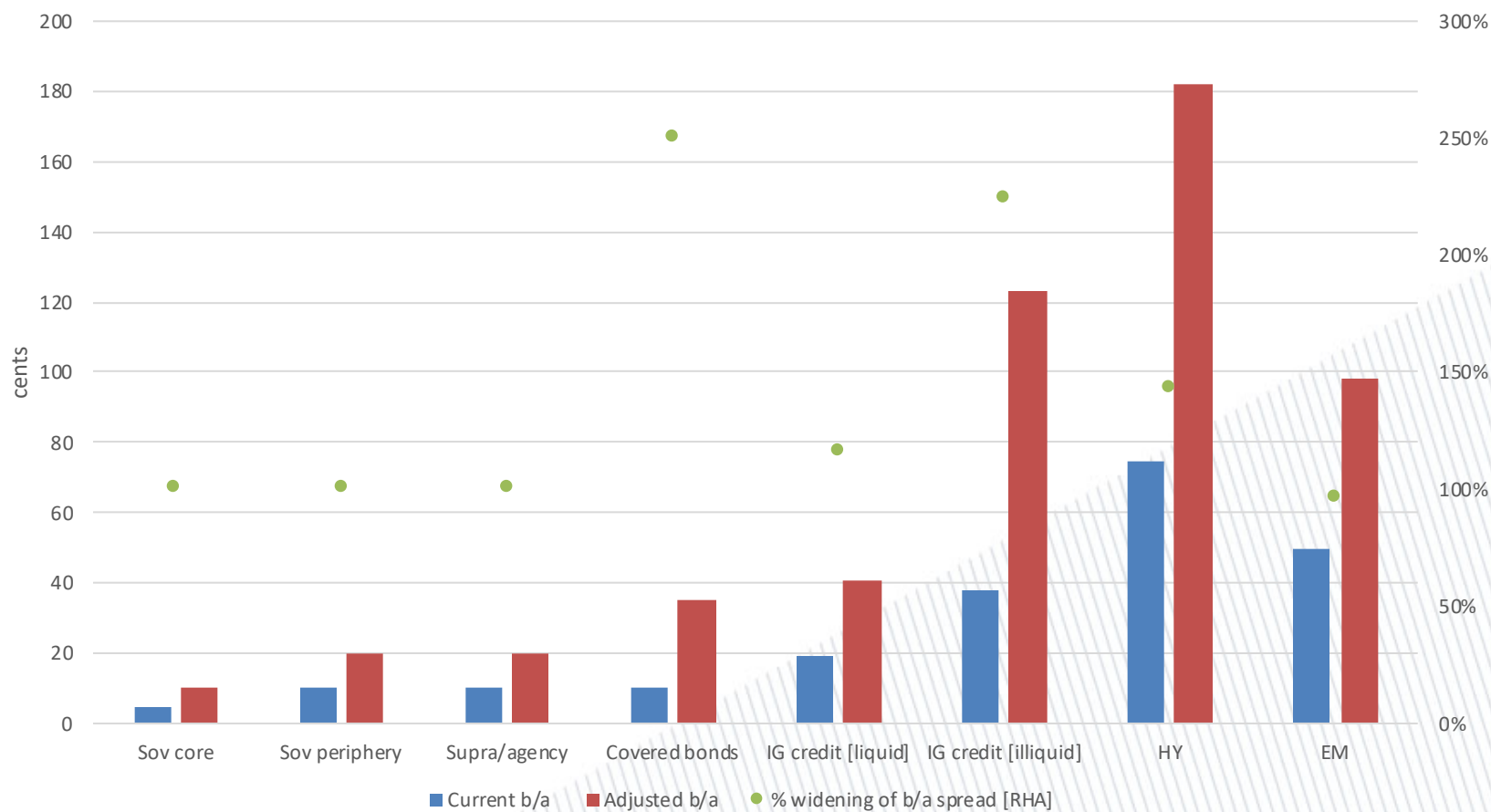
| November 2019



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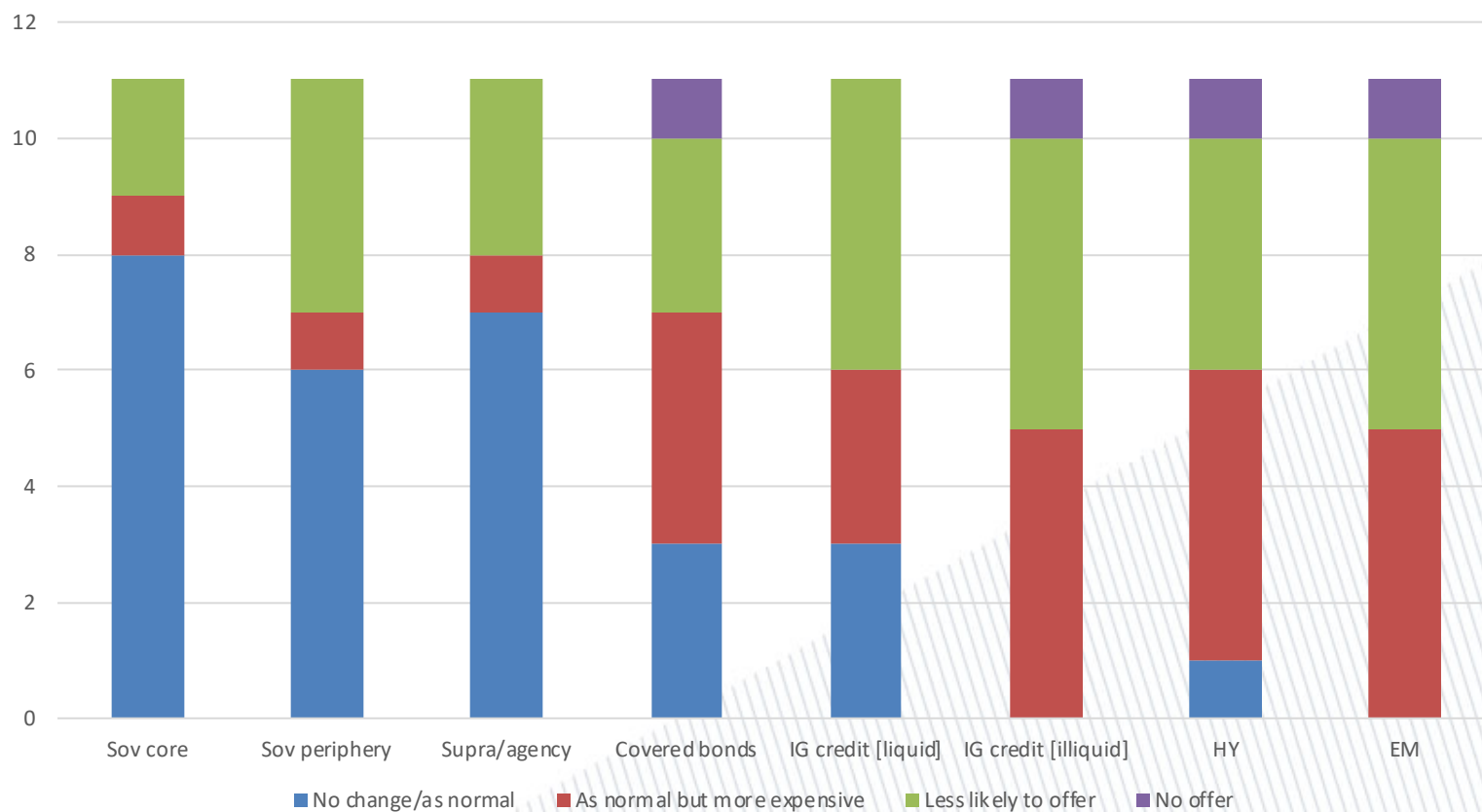
Mandatory buy-in impact study

Impact on bid-ask spreads



Mandatory buy-in impact study

Expected impact on lending securities





Thank you for your attention

Further information:

- [ICMA European Repo and Collateral Council](#)
- [ICMA ERCC Reports](#)
- ICMA offers a range of repo-related courses & workshops – for details, see [ICMA events](#)

Save the date:

- **Next ERCC General meeting** to be held on **19 March 2020 (10:00 – 13:00 UK time)** in London (details to be announced shortly on the website)

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