

The future challenges in repo post-trade processing: Changes, impacts & consequences

Last update: 8 February 2016



Background

- Various regulatory initiatives are under way requiring improved identification and information flow of repo transactions
- The ERCC Operations Group has been actively working towards “joining the dots” of the different initiatives
- The objective of the work includes but goes beyond regulatory compliance, aiming to improve the efficiency of repo post-trade processing more generally
- As an important first step, the ERCC Operations Group in cooperation with post-trade vendors published on 8 December 2015 a template of matching fields for trade matching and affirmation of repos (‘TMA template’)
- The focus will now have to shift to identifying and implementing an efficient operating model to manage the required changes

Towards an efficient operating model

- Harmonised matching fields
 - ❖ TMA template to capture all fields required for regulatory compliance purposes, including regulatory initiatives on SFT reporting and CSDR settlement discipline
 - ❖ Turn template into best practice and ensure wide implementation and use of the TMA template (both sell-side and buy-side)
- Standardised messaging
 - ❖ Develop and establish standardised formats
 - ❖ In particular, further work required on LEIs, UTIs, UPIs
- Additional work on repo confirmations
 - ❖ Review current conventions and legal requirements
 - ❖ Identify redundancies and improve the efficiency of the process

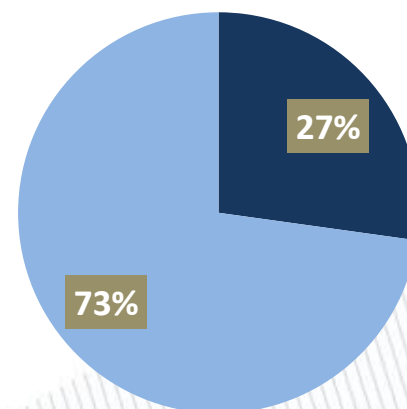
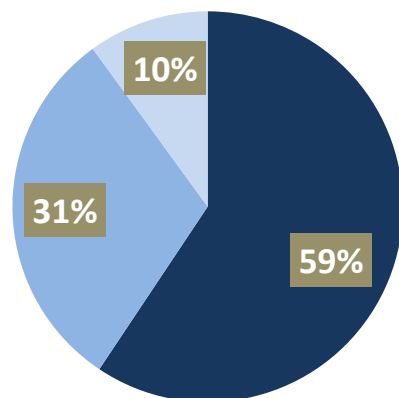
Other actors in the settlement chain

- Role of matching systems/ TMA vendors:
 - ❖ Need to integrate/support the TMA template
 - ❖ Facilitate reporting of repos?
 - ❖ Possibility to provide STP from matching to settlement instruction?
 - ❖ Interoperability between providers?
- Role of Central Counterparties (CCPs):
 - ❖ Delegated reporting, in particular of anonymous trading?
- Role of Tri-party agents:
 - ❖ Regulatory reporting and tracking of reuse?
- Role of Central Securities Depositories (CSDs):
 - ❖ Reporting on settlement discipline, including buy-ins
 - ❖ Need to replicate the information at settlement level, in particular, information required for applying the SFT exemption for buy-ins correctly

The Repo market

- Estimated total size (June 2015): **EUR 5,612 billion** (value of outstanding contracts)*

■ OTC (direct or voice-brokered) ■ ATS ■ Tri-party ■ CCP-cleared ■ Non-CCP cleared



- Note: importance of CCP-clearing differs significantly between different scenarios, being by far most prevalent in electronic trading (~95%) and far less so for OTC trades (~5%)

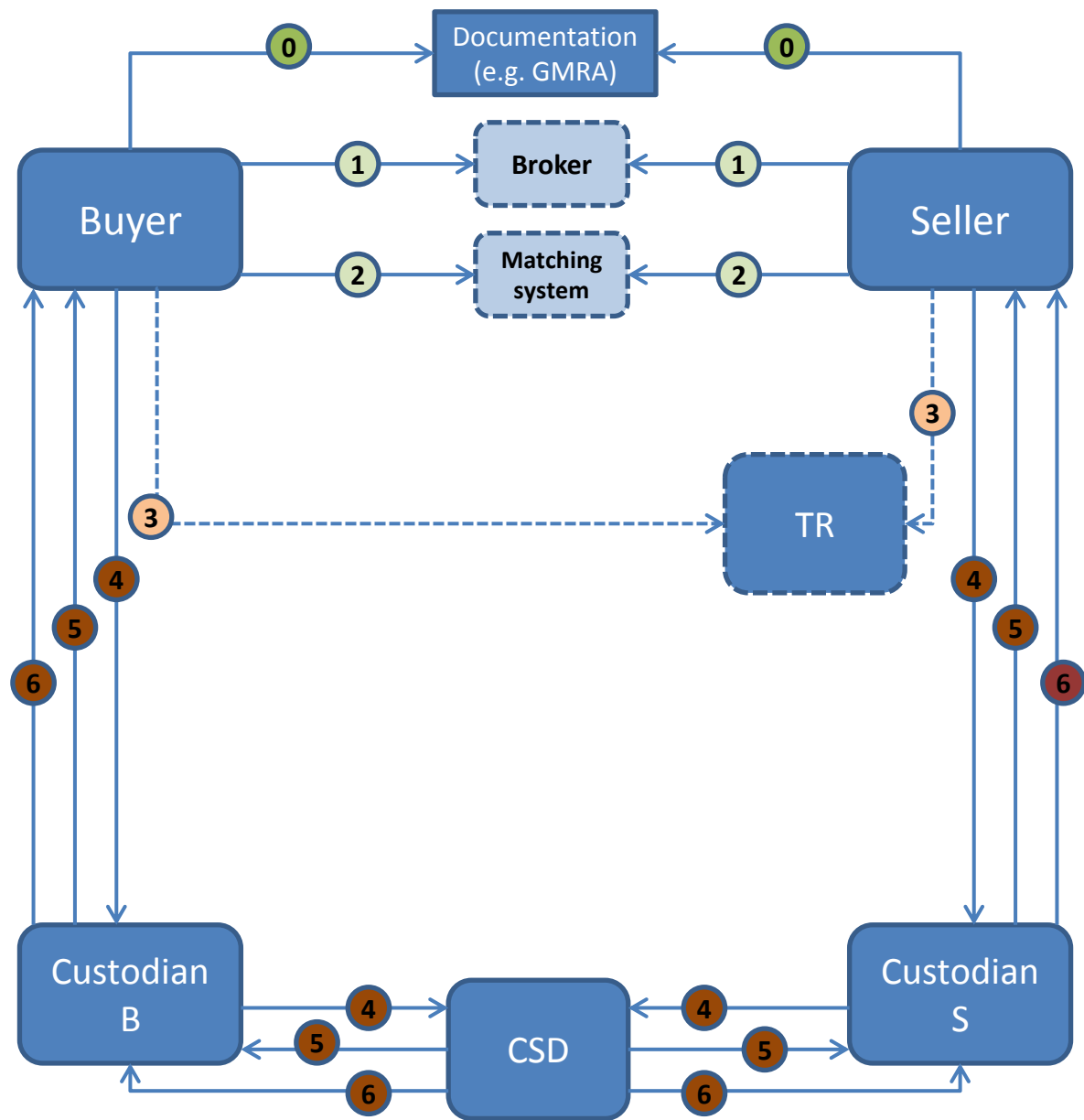
* See latest [ICMA European Repo Market Survey](#) (June 2015 data). Please note that the survey is based on stock data. This tends to significantly understate the share of electronic trading and CCP-clearing, as compared to other accounts based on flow data such the [ECB's money market survey](#).

Flow diagrams: Scenarios covered

- Identification and reporting of SFTs (pre-ISD)
 - ❖ OTC (direct or voice-brokered), non CCP-cleared
 - ❖ ATS, CCP-cleared
 - ❖ OTC, CCP-cleared
 - ❖ Automated Trading System (ATS), non CCP-cleared
 - ❖ Tri-party, non CCP-cleared
 - ❖ Tri-party, CCP-cleared
- CSDR settlement discipline and SFTs (post-ISD)
 - ❖ Settlement fail, non CCP-cleared
- In each of these scenarios:
 - ❖ Diagram to illustrate the processing flows and actors involved; and
 - ❖ Identification of the relevant regulatory requirements for each flow

(1) Identification and reporting of SFTs: Pre-ISD



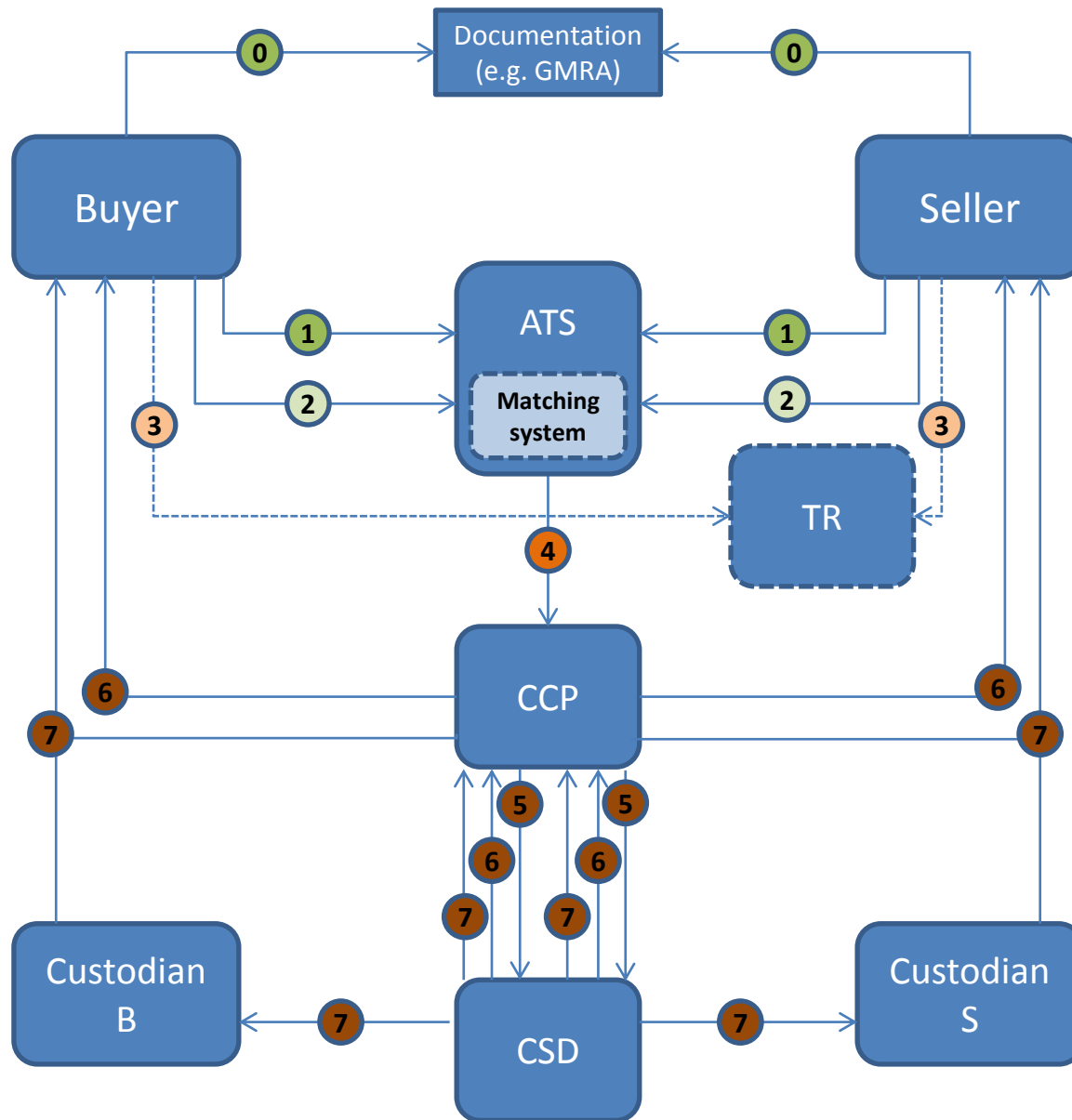


✓ OTC
✓ No CCP

Regulatory impact

✓ OTC
✓ No CCP

#	Process	Relevant requirements and reference
0	GMRA documentation in place	<ul style="list-style-type: none"> • GMRA (to be modified to account for buy-ins) [section 1*] • ICMA Secondary Markets R&R (to be modified to account for buy-ins) • ERC Repo Best Practice Guide (incl. TMA template) [section 1] • Collateral re-use risk disclosure to be established (SFTR) [section 2.1]
1	Trade execution	N/A
2	Confirmation & affirmation process	<ul style="list-style-type: none"> • Trade confirmation rules (CSDR) [2.4] • Needs to capture all information required for reporting purposes (see 3) • Needs to cover at least all fields required in the settlement instruction (see 4) • Based on ERC TMA template
3	Trade reporting	<ul style="list-style-type: none"> • Reporting under EU SFTR [2.1] • ECB MMSR [2.2] • BoE sterling money market reporting [2.3] • FSB work on SFT data [2.5] • MiFIR transaction reporting (tbc) [3.2] • See the <i>Data Items Overview</i> table for more details on the required fields • Tight reporting timeline may require reporting prior to trade affirmation/confirmation & subsequent procedures to identify and report adjustments • Treatment of confidential data items (e.g. haircuts)
4	Settlement instruction	<ul style="list-style-type: none"> • Mandatory matching fields (CSDR) [2.4] • Needs to allow CSD to correctly determine SFT exemption under CSDR [2.4] • Needs to fulfil CSD (fails) reporting requirements under CSDR [2.4]
5	Matching & settlement status	<ul style="list-style-type: none"> • CSD to provide participants real-time access to settlement/matching status and daily information on penalty calculations [2.4]
6	Lifecycle management	<ul style="list-style-type: none"> • Tracking of re-use under SFTR [2.1]



✓

ATS

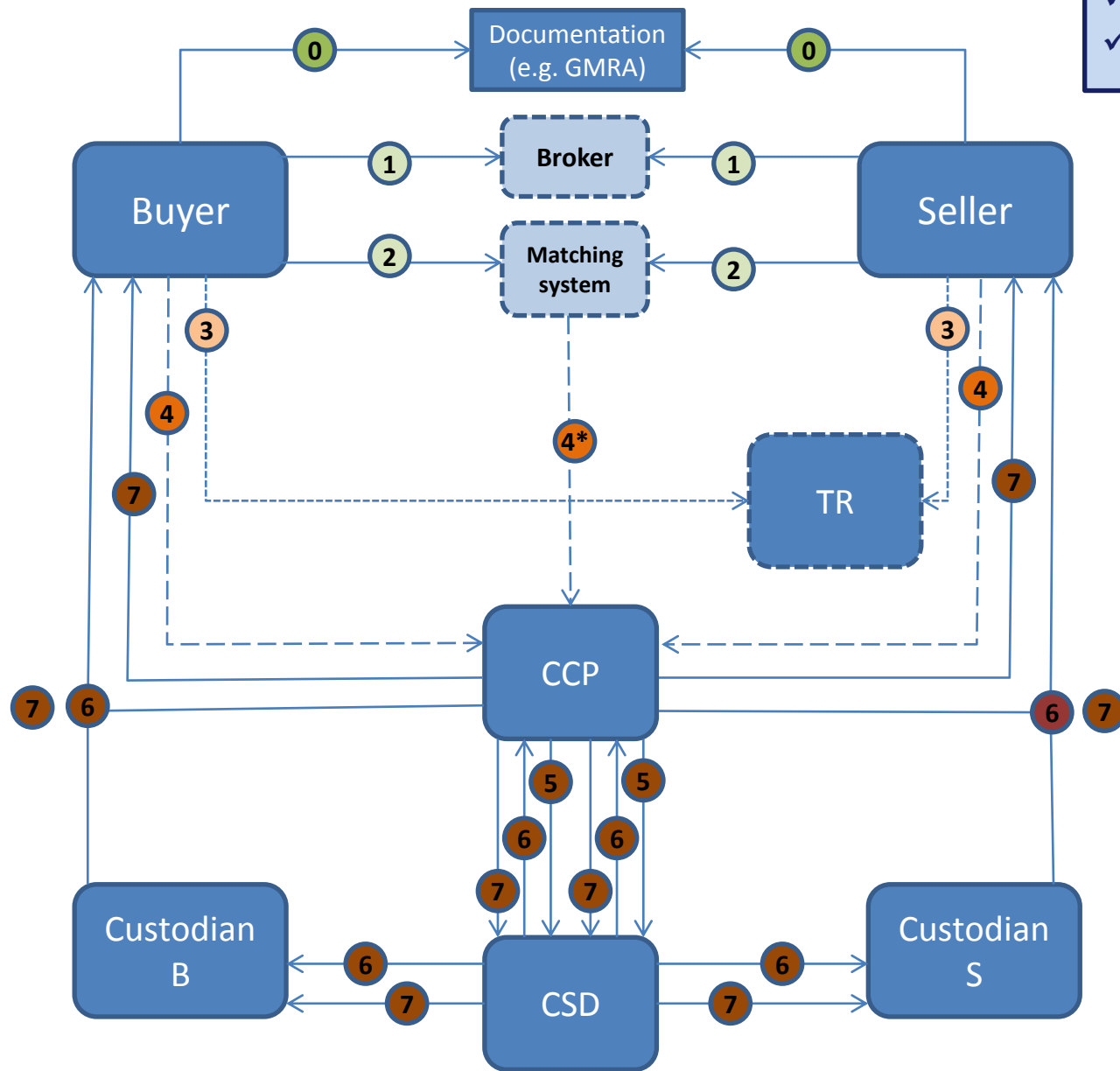
✓

CCP

Regulatory impact

✓ ATS
✓ CCP

#	Process	Relevant requirements and reference
0	GMRA documentation in place	<ul style="list-style-type: none"> • GMRA (to be modified to take account of buy-ins) • ICMA Secondary Markets R&R (to be modified to take account of buy-ins) • ERC Repo Best Practice Guide (incl. TMA template) • Collateral re-use risk disclosure to be established (SFTR)
1	Bid/Offer	N/A
2	Trade execution	N/A
3	Confirmation/ affirmation	<ul style="list-style-type: none"> • Trade confirmation rules (CSDR) • Needs to capture all information required for reporting purposes (see 3) • Needs to cover at least all fields required for the settlement instruction (see 4) • Based on ICMA TMA template
4	Trade reporting	<ul style="list-style-type: none"> • Reporting under EU SFTR • ECB MMSR • BoE sterling money market • FSB work on SFT data • MiFIR transaction reporting (tbc) • See the <i>Data Items Overview</i> table for more details on the required fields • Tight reporting timeline may require reporting prior to trade affirmation/confirmation & subsequent procedures to identify and report adjustments • Treatment of confidential data items (e.g. haircuts) • Delegated reporting?
5	Trade feed to CCP	<ul style="list-style-type: none"> • Mandatory matching fields (CSDR) • Needs to allow CSD to correctly determine SFT exemption under CSDR • Needs to fulfil CSD (fails) reporting requirements under CSDR
6	Settlement instruction (PoA)	<ul style="list-style-type: none"> • CSDR: mandatory matching fields • CSDR: fields also need to fulfil CSD (fails) reporting requirements
7	Settlement status	<ul style="list-style-type: none"> • CSD to provide participants real-time access to settlement/matching status and info on penalties/ buy-ins
8	Lifecycle management	<ul style="list-style-type: none"> • Tracking of re-use under SFTR

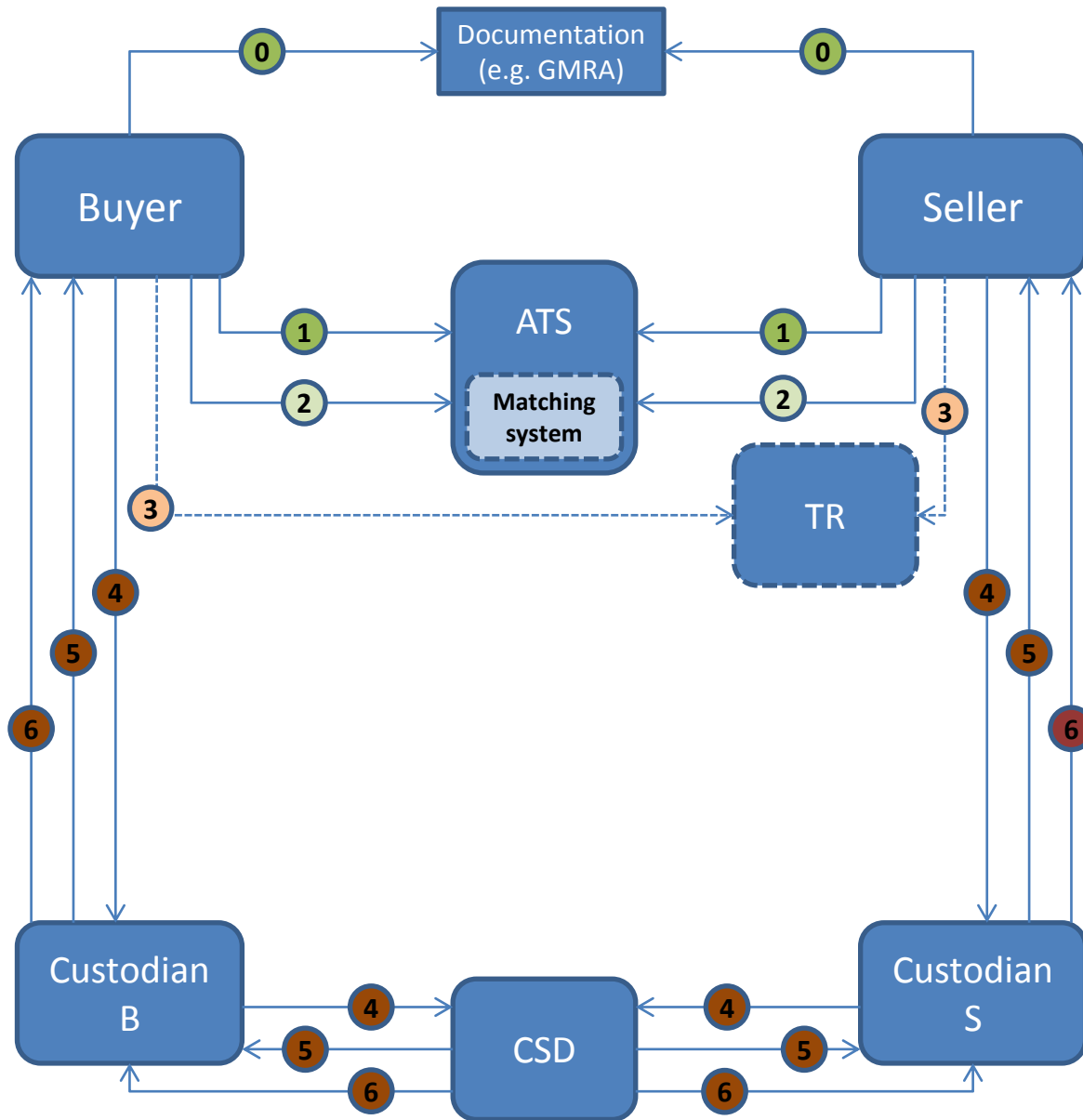


* Where direct feed exists between matching system and CCP.

Regulatory impact

✓ OTC
✓ CCP

#	Process	Relevant requirements and reference
0	GMRA documentation in place	<ul style="list-style-type: none"> • GMRA (to be modified to take account of buy-ins) • ICMA Secondary Markets R&R (to be modified to take account of buy-ins) • ERC Repo Best Practice Guide (incl. TMA template) • Collateral re-use risk disclosure to be established (SFTR)
1	Trade execution	N/A
2	Confirmation/ affirmation	<ul style="list-style-type: none"> • Trade confirmation rules (CSDR) • Needs to capture all information required for reporting purposes (see 3) • Needs to cover at least all fields required for the settlement instruction (see 4) • Based on ICMA TMA template
3	Trade reporting	<ul style="list-style-type: none"> • Reporting under EU SFTR • ECB MMSR • BoE sterling money market • FSB work on SFT data • MiFIR transaction reporting (tbc) • See the <i>Data Items Overview</i> table for more details on the required fields • Tight reporting timeline may require reporting prior to trade affirmation/confirmation & subsequent procedures to identify and report adjustments • Treatment of confidential data items (e.g. haircuts) • Delegated reporting?
4	CCP give-up	<ul style="list-style-type: none"> • Mandatory matching fields (CSDR) • Needs to allow CSD to correctly determine SFT exemption under CSDR • Needs to fulfil CSD (fails) reporting requirements under CSDR
5	Settlement instruction (PoA)	<ul style="list-style-type: none"> • Mandatory matching fields (CSDR) • CSDR: fields also need to fulfil CSD (fails) reporting requirements
6	Matching & settlement status	<ul style="list-style-type: none"> • CSD to provide participants real-time access to settlement/matching status and info on penalties/ buy-ins
7	Lifecycle management	<ul style="list-style-type: none"> • Tracking of re-use under SFTR

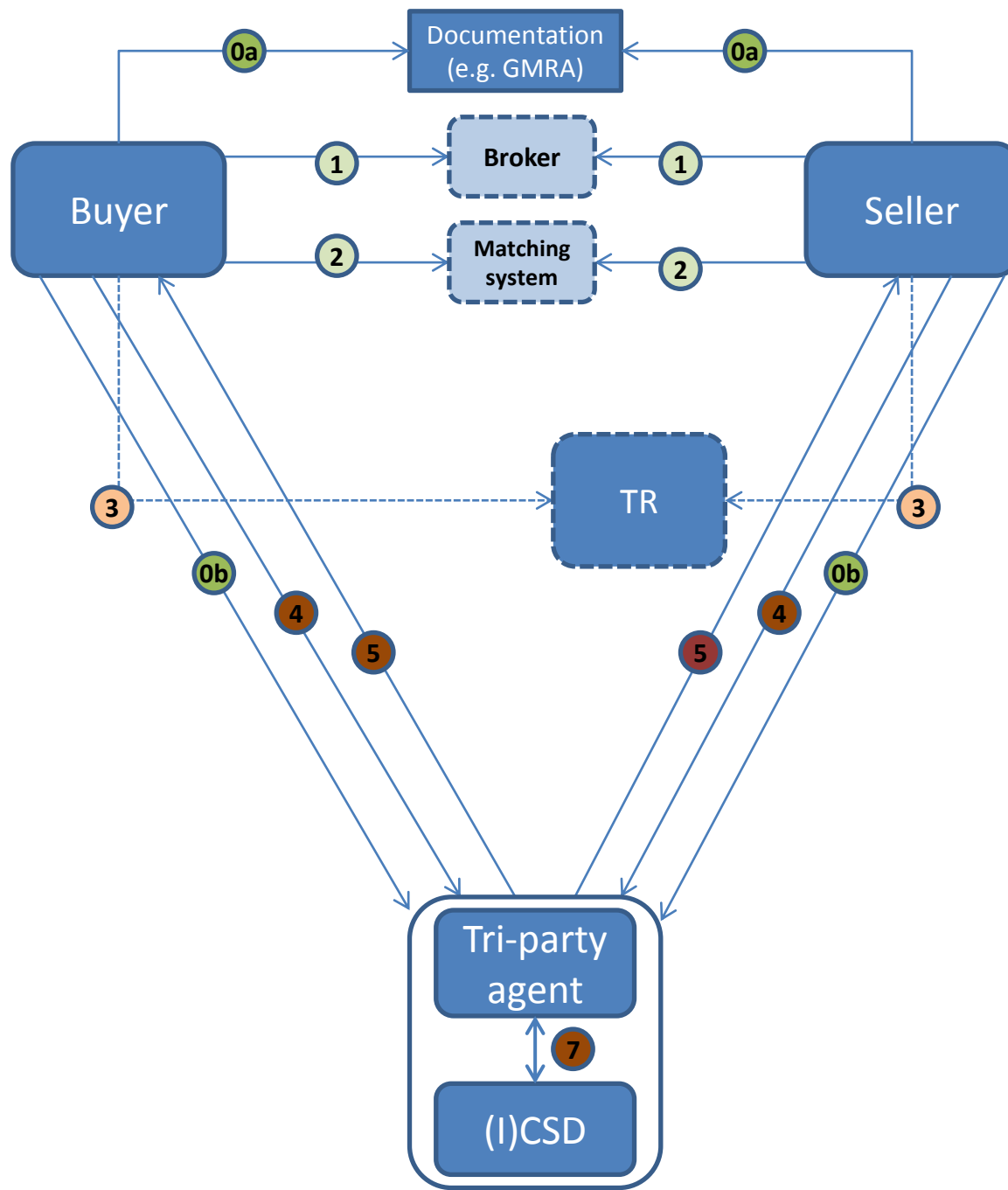


✓ ATS
✓ No CCP

Regulatory impact

✓ ATS
✓ No CCP

#	Process	Relevant requirements and reference
0	GMRA documentation in place	<ul style="list-style-type: none"> • GMRA (to be modified to account for buy-ins) • ICMA Secondary Markets R&R (to be modified to account for buy-ins) • ERC Repo Best Practice Guide (incl. TMA template) • Collateral re-use risk disclosure to be established (SFTR)
1	Bid/ offer	N/A
2	Confirmation/ affirmation	<ul style="list-style-type: none"> • Trade confirmation rules (CSDR) • Needs to capture all information required for reporting purposes (see 3) • Needs to cover at least all fields required for the settlement instruction (see 4) • Based on ERC TMA template
3	Trade reporting	<ul style="list-style-type: none"> • Reporting under EU SFTR • ECB MMSR • BoE sterling money market • FSB work on SFT data • MiFIR transaction reporting (tbc) • See the <i>Data Items Overview</i> table for more details on the required fields • Tight reporting timeline may require reporting prior to trade affirmation/confirmation & subsequent procedures to identify and report adjustments • Treatment of confidential data items (e.g. haircuts) • Delegated reporting?
4	Settlement instruction	<ul style="list-style-type: none"> • Mandatory matching fields (CSDR) • Needs to allow CSD to correctly determine SFT exemption under CSDR • Needs to fulfil CSD (fails) reporting requirements under CSDR
5	Matching & settlement status	<ul style="list-style-type: none"> • CSD to provide participants real-time access to settlement/matching status and info on penalties/ buy-ins
6	Lifecycle management	<ul style="list-style-type: none"> • Tracking of re-use under SFTR

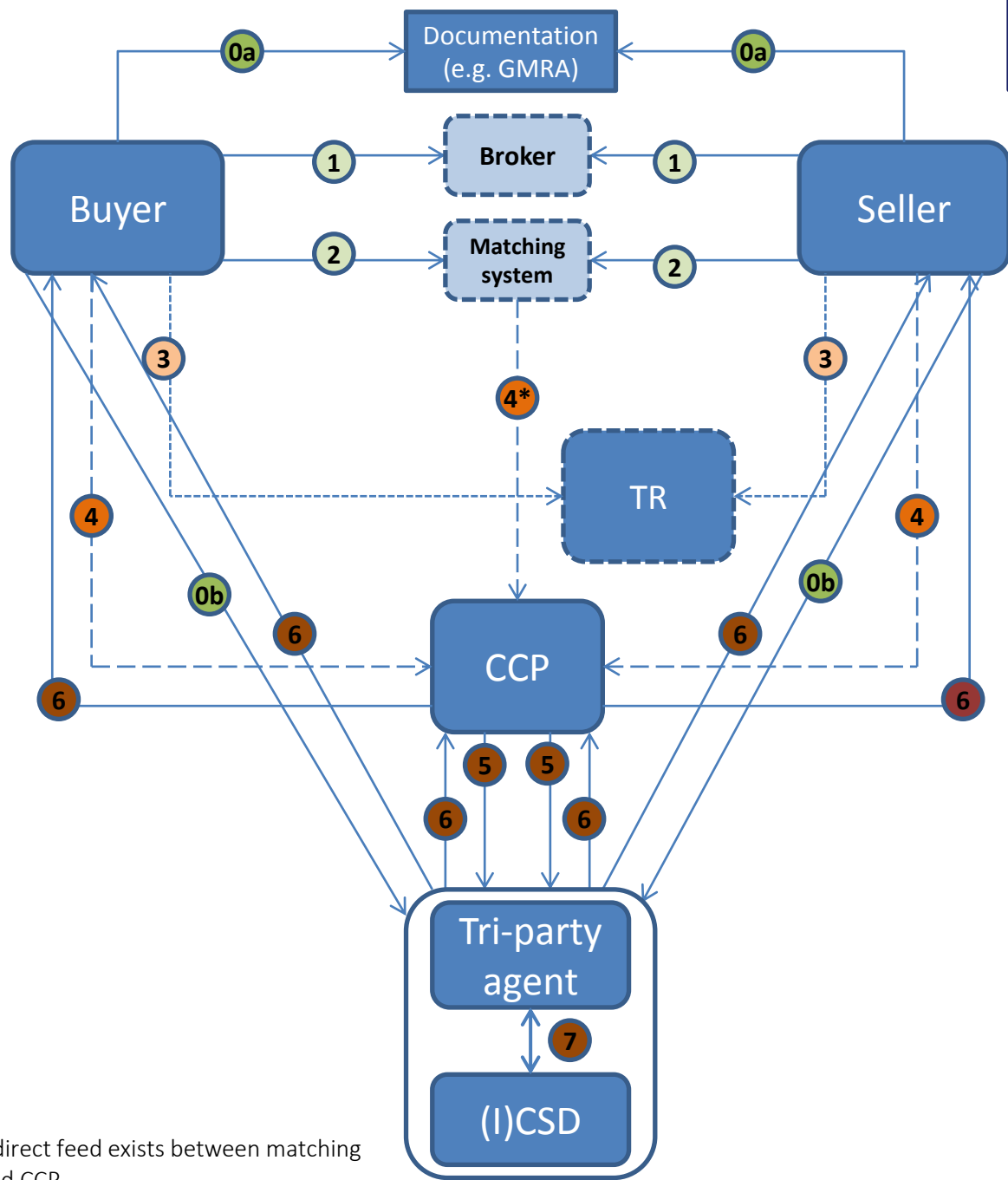


✓ Tri-party
✓ No CCP

Regulatory impact

✓ Tri-party
✓ No CCP

#	Process	Relevant requirements and reference
0a	GMRA documentation in place	<ul style="list-style-type: none"> • GMRA (to be modified to take account of buy-ins) • ICMA Secondary Markets R&R (to be modified to take account of buy-ins) • ERC Repo Best Practice Guide (incl. TMA template) • Collateral re-use risk disclosure to be established (SFTR)
0b	Triparty service agreement	<ul style="list-style-type: none"> • Delegated reporting?
1	Trade execution	N/A
2	Confirmation & affirmation process	<ul style="list-style-type: none"> • CSDR: trade confirmation rules • Needs to capture all information required for reporting purposes (see 3) • Needs to cover at least all fields required for the settlement instruction (see 4) • Based on ICMA TMA template
3	Trade reporting	<ul style="list-style-type: none"> • Reporting under EU SFTR • ECB MMSR • BoE sterling money market • FSB work on SFT data • MiFIR transaction reporting (tbc) • See the <i>Data Items Overview</i> table for more details on the required fields • Tight reporting timeline may require reporting prior to trade affirmation/confirmation & subsequent procedures to identify and report adjustments • Treatment of confidential data items (e.g. haircuts) • Delegated reporting (triparty agent)?
4	Settlement instruction	<ul style="list-style-type: none"> • Mandatory matching fields (CSDR) • Needs to allow CSD to correctly determine SFT exemption under CSDR • Needs to fulfil CSD (fails) reporting requirements under CSDR
5	Settlement status	<ul style="list-style-type: none"> • CSD to provide participants real-time access to settlement/matching status and info on penalties/ buy-ins
6	Lifecycle management	<ul style="list-style-type: none"> • Tracking of re-use under SFTR • Role of triparty agent?



✓ Tri-party

✓ CCP

* Where direct feed exists between matching system and CCP.

Regulatory impact

#	Process	Relevant requirements and reference
0a	GMRA documentation in place	<ul style="list-style-type: none"> • GMRA (to be modified to take account of buy-ins) • ICMA Secondary Markets R&R (to be modified to take account of buy-ins) • ERC Repo Best Practice Guide (incl. TMA template) • Collateral re-use risk disclosure to be established (SFTR)
0b	Triparty service agreement	<ul style="list-style-type: none"> • Delegated reporting?
1	Trade execution	N/A
2	Confirmation & affirmation process	<ul style="list-style-type: none"> • CSDR: trade confirmation rules • Needs to capture all information required for reporting purposes (see 3) • Needs to cover at least all fields required for the settlement instruction (see 4) • Based on ICMA TMA template
3	Trade reporting	<ul style="list-style-type: none"> • Reporting under EU SFTR • ECB MMSR • BoE sterling money market • FSB work on SFT data • MiFIR transaction reporting (tbc) • See the <i>Data Items Overview</i> table for more details on the required fields • Tight reporting timeline may require reporting prior to trade affirmation/confirmation & subsequent procedures to identify and report adjustments • Treatment of confidential data items (e.g. haircuts) • Delegated reporting (triparty agent)?
4	CCP give-up	N/A
5	Settlement instruction	<ul style="list-style-type: none"> • Mandatory matching fields (CSDR) • Needs to allow CSD to correctly determine SFT exemption under CSDR • Needs to fulfil CSD (fails) reporting requirements under CSDR
6	Settlement status	<ul style="list-style-type: none"> • CSD to provide participants real-time access to settlement/matching status and info on penalties/ buy-ins
7	Lifecycle management	<ul style="list-style-type: none"> • Tracking of re-use under SFTR • Role of triparty agent?

(2) CSDR settlement discipline and SFTs: Post-ISD



Pre-Trade

✓ No CCP
✓ Fail (delivery)

Trade
execution &
processing

Trade
reporting

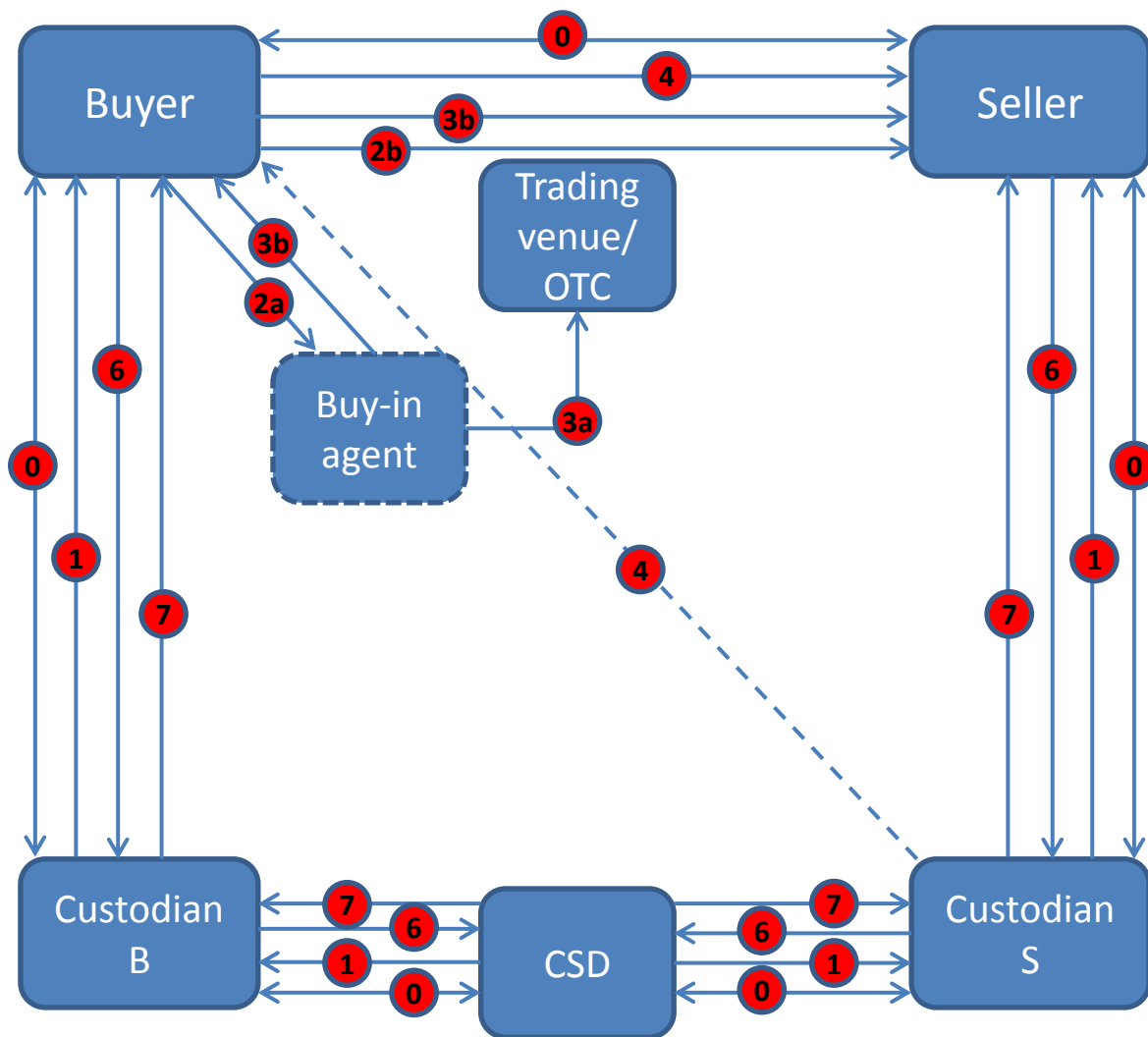
Clearing

Purchase
leg

Lifetime
of trade

Repurcha
se leg

Post ISD



Regulatory impact

✓ No CCP
✓ Fail (delivery)

#	Process	Relevant requirements and reference
0	Contractual arrangements for buy-ins	<ul style="list-style-type: none"> CSDR requires all parties in the chain to have appropriate contractual arrangements in place ensuring that the buy-in obligation is enforceable (including with non-EU counterparties) [art. 25, draft RTS]
1	Information on fails and penalty calculation	<ul style="list-style-type: none"> CSD to provide real-time access to status of instructions and fails, as well as daily information on the calculation of penalties for each failed transaction [art.17, draft RTS]
2	Initiate buy-in process	<ul style="list-style-type: none"> As soon as the extension period is over, receiving trading party to appoint the buy-in agent (2a) and send buy-in notification to the failing party (and CSD) (2b) [buy-in process specified in art.30-31, draft RTS] A correct application of the SFT exemption requires the identification of repos at instruction level ("transaction type field") as well as terms (maturity etc)
3	Buy-in execution and notification	<ul style="list-style-type: none"> Buy-in agent to execute (3a) Receiving trading party to notify failing trading party of the result (3b)
4	Payment of cash compensation or buy-in price difference	<ul style="list-style-type: none"> If buy-in is successful: Failing trading party pays difference between buy-in price and original transaction price and buy-in costs to the receiving counterparty Custodian of failing trading party liable for the price difference in case the trading party does not pay If buy-in is not successful: Failing trading party pays cash compensation to receiving party Both payments are asymmetric (ie payment is 0 if the price difference is in favour of the failing party) [art.32-35, draft RTS]
6	Cancel settlement instruction (and reinstruct)	<ul style="list-style-type: none"> Buy-in successful: Instructions to be cancelled and new instruction to be sent Buy-in not successful: Settlement instructions to be cancelled
7	Charge/ credit penalties (monthly billing)	<ul style="list-style-type: none"> CSD to charge/ credit participants cash penalties on a monthly (net) basis (based on gross calculation) [art.16-17, draft RTS]

Further information

- SFT identification and reporting: [Regulatory overview paper](#)
- ICMA ERCC Operations Group [webpage](#)
- [ICMA ERC Guide to best practice in the European Repo Market](#)
- ICMA ERCC Operations Group [TMA template](#) of repo matching fields and [Glossary of Terms](#)