

Third Meeting of the Collateral Initiatives Coordination Forum

Thursday 27 September 2012

Location: 2 Broadgate, London EC2M 7UR

Time: 10:00 – 11:00

Attending:

Godfried De Vidts (Chairman)

Werner Frey

Rory Cunningham

Soraya Belghazi

Cedric Gillerot

David Hiscock (Secretary)

Nathalie Aubry-Stacey

Hugh Gibson

Mike Johnstone

Alex McDonald

Representing:

AFME

EACH

ECSDA (dialling in)

ECSDA

ICMA

ICMA

ISLA (dialling in)

LMA

WMBA

Minutes

1. Introduction

Welcoming the participants, the Chairman opened the meeting. The Chairman drew attention to the 10 August letter signed by the ABI, EFAMA, IMA and NAPF, indicating that these associations have decided to withdraw their participation in the CICF. The reasons for this are concern over the possible loss of a distinctive buy-side voice, lack of resources and the need for more time to analyse where joint work would be mutually beneficial. Underscoring the continued importance of work on collateral, the Chairman highlighted that the ECB has asked him to give a presentation on the topic on 18 October, mentioned recent collateral related press coverage and pointed out the further pressure from current proposals, especially the BCBS/IOSCO call for gross exchange of initial margin on non-centrally-cleared derivative contracts (on which ISDA in particular are just commenting in detail).

The Secretary raised the question of how the CICF should respond to the withdrawing associations, particularly considering their request to remain engaged in collateral issues. It was noted that there is evidence of interest on the part of buy-side firms in collateral issues. Following some reflection it was clear that the remaining CICF participants recognise the wishes of the withdrawing associations, including as to continued engagement. The Chairman instructed the Secretary to draft a suitable reply letter, including a proposal that henceforth the withdrawing associations should be kept fully informed of CICF activities by including them as copy recipients upon circulation of CICF e-mails.

A number of other matters were mentioned in discussion amongst the participants. These included:

- the ICMA ERC General Meeting on the afternoon of 27 September, at which David Rule would deliver an update on the work of the FSB's shadow banking workstream on repos and securities lending – which is expected to include a proposal for mandatory minimum haircuts;
- continuing debate about the application of exemptions from margin requirements which should apply in the case of pension funds;
- apparent official indifference to unsecured versus secured interbank lending; and
- recent work on details of the EU short selling regulation.

2. CICF publications

Noting that there had been relatively little in the way of responses on the drafts of the two potential CICF publications, the collateral fluidity white paper and the collateral fundamentals paper, the Chairman stated that he was keen to try and press ahead with publication of both. Illustrating the importance of maintaining collateral fluidity, the Chairman recalled the case, many years ago, when the major sovereign investor created a squeeze in the US bond market through the extent of their holdings of a particular on-the-run Treasury; and noted the very recent press report regarding Swiss national bank holdings impacting the euro sovereign market.

Furthermore, the Chairman noted that the repo market now sees most Spanish bonds on special, with the large holdings of the Eurosystem constricting supply in the market. For markets to be liquid, both adequate amounts of cash and of collateral must be available and capable to flow. To improve the situation, policy makers need to be better informed of these matters. Prompted by a question, he went on to explain that there are concerns about the major projects of T2S and the CSD regulation. There needs to be appropriate sequencing of changes and adequate time to put them into effect. ICMA's ERC is already discussing these matters in its detailed discussions with the applicable officials.

Some detailed comments were flagged in relation to both draft papers and the supporting diagrams. The Chairman asked participants to provide the Secretary with written submissions of all points by mid-October, which the Secretary will consolidate into new drafts. These will be recirculated for review and approval, with the aim of having the papers completed to everyone's satisfaction by the end of October. The target would be for early November publication. It was suggested that timing should be agreed closer to the time, as it may be attractive to link this to some other topical development, such as the publication of the BCBS/IOSCO principles for margining.

It was agreed in discussion that there also needs to be further detailed agreement on the modalities of publication. This will certainly involve placing the paper on a CICF website page but also needs to include a mailing process and potential publicity measures. It was noted that all CICF participants should include links on their websites to guide users to the [CICF website pages](#). It was suggested that an effort be made to monitor website activity, allowing some insight to be gained into how much the white paper is actually accessed post-publication. The Chairman called upon the Secretary to liaise with all CICF participants to agree on these practicalities over the coming few weeks; and proposed that there should be contact about the white paper with the previously participating buy-side associations and with the [World Gold Council](#).

3. Regulatory developments impacting collateral

Mr Frey provided an update on the European Post-Trade Group ("EPTG"). Recalling the EPTG's quadripartite structure, involving the European Commission, the ESCB, ESMA and industry, Mr Frey explained that there have so far been two EPTG meetings, one in Brussels and one in Frankfurt. These have both been concerned with establishing the EPTG's operating processes.

The next EPTG meeting will be in London and is expected to reach agreement on two lists. The first is a global list of open post-trade issues. The second is an extract of this, representing the EPTG's action list. This will be divided into noni concrete areas, with lead EPTG sponsors allocated to each action on the list. Progress reports will be presented to subsequent EPTG meetings, along with updates on other global list items (where EPTG's role is limited to aiding coordination). It has been agreed that EPTG proceedings will be fully transparent (albeit that the practicalities of publishing applicable materials have not yet been fully settled).

The Chairman briefly reported on COGESI's collateral harmonisation work. This is now being progressed in three workstreams (in each of which he is directly involved) covering:

- gap analysis exercise on collateral eligibility requirements;
- extension of operating hours of (I)CSDs/link arrangements; and
- elaboration of a report on minimum common features for CCPs / (I)CSDs triparty interoperability.

Recalling the FSB's work on shadow banking, the Chairman reiterated that mandatory minimum margins are expected to be amongst the policy proposals in the final report of the workstream on repos and securities lending, which will be published during fourth quarter 2012. Also recalling the BCBS/IOSCO call for gross exchange of initial margin on non-centrally-cleared derivative contracts, which ISDA's estimates show having an extremely material impact, the Chairman noted that the squeeze on collateral will continue to develop. Impacts will be uneven, including in the design of measures – for example if government bond collateral is exempted from the forthcoming mandatory minimum haircut requirement.

The Chairman highlighted that, at the ICMA ERC General Meeting on the afternoon of 27 September, he would be announcing an ERC initiative to hold an academic symposium in 2013. The aim of this one day event would be to dispel misinformation about repo markets and to make sure that there is good academic input to help inform policy making. A number of other recent concerns, including the previously mentioned pension funds exemption issue and independent client accounts were mentioned in a short ensuing conversation. The Chairman called on CICF participants to keep the Secretary informed of developments, allowing that information can be shared amongst the group and for the enrichment of the CICF website.

4. CICF collateral events

The Chairman suggested that it could be worth staging a CICF sponsored collateral conference, which could be a highly attractive event so long as the right speakers can be found. It was suggested that the target audience should probably be those who do not really know much about collateral issues. The Chairman called upon CICF participants to give some thought to this concept, allowing that the next CICF meeting can explore the topic in detail – leading to a possible event in the first half of 2013.

Turning to the topic of training, the Chairman noted that the ICMA experiences very strong appetite for its courses, which include one on [collateral management](#). He called upon CICF participants to submit information about what they are doing regarding collateral education and to submit ideas about what more could be done over time. Others noted that they are supportive of education and that there is a clear need to do more of it. Besides efforts made to train market participants, this includes educating regulators and central banks.

5. Any other business

To help develop the CICF's profile, the Chairman proposed that CICF participants should make a point of mentioning the CICF in the course of their respective association's events. Thanking everyone for having participated, he called for CICF participants to meet again in January (on a date to be agreed) and, in the meantime, to support the completion and publication of the two CICF papers.

The Chairman mentioned that he would be speaking at [SIBOS 2012](#), as a respondent to the IMF's Manmohan Singh, who would be presenting his latest work on collateral.

There being no further business, the Chairman then closed the meeting.

Conclusion and next steps

It was agreed that the Secretary should draft a suitable reply letter to the withdrawing buy-side associations, including a proposal that henceforth they should be kept fully informed of CICF activities by including them as copy recipients upon circulation of CICF e-mails.

It was agreed that the CICF secretariat should continue to coordinate efforts to prepare the short CICF paper covering collateral fundamentals and the proposed CICF White Paper on Collateral Fluidity. CICF participants should contribute all detailed written comments on the current drafts by mid-October, which the CICF secretariat will then assimilate. The CICF secretariat's aim should be to arrive at agreed final versions of these two CICF papers by the end of October. In the meantime the Secretary will also coordinate as necessary with CICF participants to agree on the practicalities for subsequent publication and distribution; including the finalisation of when this should occur.

It was agreed that the CICF secretariat should continue to enrich the CICF website pages with relevant materials, including such as are provided to the Secretary by other CICF participants, and that other CICF participants should establish links from their websites to the [CICF website pages](#).

CICF participants were tasked to give some thought to the concept of staging a CICF sponsored collateral conference, allowing that the next CICF meeting (to be arranged on a date in January) can explore the topic in detail – leading to a possible event in the first half of 2013.

CICF participants were tasked to submit information to the Secretary about what they are doing regarding collateral education and to submit their ideas about what more could be done over time.

CICF participants were asked to make a point of helping to develop the CICF's profile, by mentioning the CICF in the course of their respective association's events.