

ICMA EUROPEAN REPO COUNCIL

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The following best practice was developed by the ICMA European Repo Committee's Operations Group (ERC Ops Group); and submitted to the ICMA European Repo Committee (Committee) for its acceptance on behalf of the ICMA European Repo Council (ERC).

Following acceptance in principle at the Committee's 30 June meeting, the ERC Ops Group has duly completed its mandate in respect of this best practice statement through production of this finalised text for publication.

Henceforth ERC members are recommended to take this best practice statement into account when determining their internal working practices.

ERC recommendation on Repo matching as a driver for risk reduction

The European Repo Council recommends the same day affirmation of specific types of bi-lateral and non electronic Repo trade activity, either orally or through an automated mechanism. We refer members to the ICMA semi-annual survey¹ which identifies that Repo product flow has increased in the growth of volume, complexity and duration over the past five years. The ERC White Paper² on the European Repo Market highlights the sensitive areas of liquidity management and the importance of Repo to support market stability and that a broad regimented control of the product is desirable to reduce operations risk.

Currently trade matching exists, predominantly within the settlement cycle and some participants may not instruct their trading until inventory is available, outsource their activity to a 3rd party or execute cross regionally. This may all impact a timely and accurate trade ticket match or affirmation. Indeed, if trade affirmation is based on settlement, affirmation of the off leg value date could be many months into the future.

Recent market developments are causing these practices to be less sustainable than ever before. Specifically, there is a drive for trade date completeness in risk. The FSA liquidity requirement also supports the need for a same day match of economics. This will assist with accurate regulatory and local book and records for internal and external risk management. Additionally future plans to bring settlement into T+2 for the cash product, growth in T2S flow, demand for interoperability on same day, the increasing volume of longer dated deals, and finally deals with a degree of term date optionality all support matching activity.

¹ https://www.icmagroup.org/market_info/repo.aspx

² <https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Repo-Markets/European-repo-market-white-paper.aspx>

Today much of the focus for matching is on the sensitive credit risk elements of the client community and asset classes as a priority. The committee however supports a positioning of control at the core product level across all counterparties and asset classes within the Repo product. In particular there are higher risks in specific Repo products and transaction attributes and lifecycle events.

Whilst the trade date matching of all Repo activity is desirable, priority should be given, but not limited to the following which highlight the sensitivities to size, uncertainty and complexity of trading:

- OTC large trades over 50 million Euro $\text{\$}$. size will influence economic impact of error
- Open trades . the duration risk of open trade vs. a term trade may impact funding, hedging (rate re-pricing and rate changes are key parts of managing this risk if the trade is not settled out . then only closure would identify this risk)
- Term (> 1 week) transactions . duration compounding cash differences on incorrect nominal, pricing et al
- Evergreen transactions . with the longer term duration an economic difference may be compounded
- Amortising and Capitalising trades . movement of nominal and cash difference will impact funding and position risk management

The ERC Ops Group recommends that affirmations should take place on recorded lines and that a formal acknowledgement is made of the key economic events outlined herein.

Specifically the committee recommends the following features of transaction are affirmed:

- Counterparty
- Trade date
- On and off leg value date Term/open/fixed trade
- Nominal
- Price
- Haircut
- Repo rate . fixed/ floating and spread over details
- Call days for open trades

Additionally post trade amendments should also be affirmed:

- Re-pricing
- Open trade closures
- Amortisation events
- Capitalisations
- Changes in haircut

The ERC Ops Group recognised that the Triparty and margin processes events were sufficiently controlled in market operations today to not warrant additional affirmation to the current market matching and validation.