

## Checklist for bilateral pair-off agreements recommended by ICMA as best practice in the European repo market

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*This document outlines proposed best practices that have been prepared on the basis of ERCC member feedback and agreed by the ERCC Operations Group. We would welcome further feedback from market participants and relevant infrastructure providers. Please send your comments or questions to [ercc@icmagroup.org](mailto:ercc@icmagroup.org).*

- 1 For manual agreements, the parties should agree the legal status of the agreement: do the provisions represent a contractual obligation or just a statement of best endeavours?
- 2 The parties should exchange each other's full legal names and LEIs.
- 3 For manual agreements, names and addresses of those executing the agreement are to be exchanged.
- 4 For manual agreements, the parties should exchange the names of those acting as operational contacts (including contacts for the escalation of issues) plus any telephone numbers, electronic messaging addresses and e-mail addresses to be used in the operation of the agreement. These details should be kept up to date.
- 5 The parties should agree the types of transactions that will be eligible to be paired off under the agreement. They could agree to consider all proposals or decide to specify eligibility in terms of:
  - 5.1 whether cash transactions and repos, or repos only, can be paired off;
  - 5.2 type(s) of repo (repurchase transaction or buy/sell-back or both);
  - 5.3 cash currency or currencies;
  - 5.4 collateral currency or currencies;
  - 5.5 types of collateral securities;
  - 5.6 whether pair-offs must be full or can also be partial;
  - 5.7 whether pair-offs must be one-to-one in terms of the transactions being paired off or can also be one-to-many or many-to-many;
  - 5.8 whether pair-offs must be negotiated separately for each ISIN or whether pair-offs of several ISINs can be negotiated as part of a single package;
  - 5.9 custodian bank(s) or depository/depositories;
  - 5.10 minimum or maximum terms-to-maturity for repos to be paired off;
  - 5.11 thresholds in terms of the gross value and/or number of transactions to be paired-off and/or netting benefit below which no requests would be made by either party;
  - 5.12 other eligibility criteria.

- 6 It should be agreed which of the two parties has the right to initiate a pair-off:
  - 6.1 only one of the parties (eg the dealer in D2C transactions) --- see 7 below;
  - 6.2 either party --- see 8 below.
  
- 7 Where it is agreed that only one of the parties can initiate pair-off proposals, it should also be agreed whether:
  - 7.1 the designated initiator has absolute discretion as to whether or not to make a pair-off proposal, where eligible opportunities exist (that is, within the agreed eligibility criteria see 5 above); or
  - 7.2 the designated initiator is obliged to make a pair-off proposal when there are eligible opportunities.
  
- 8 If either party can initiate a pair-off, it should be agreed as to whether:
  - 8.1 the other party can make a counter-proposal, time permitting;
  - 8.2 where there is more than one pair-off proposal, in the event of a disagreement about which proposal to pursue, where both proposals fall within the agreed eligibility rules (see 5 above), what will be the rule to decide which proposal is to be pursued (eg the one most significant netting result) and whether either party can decide not to pursue any proposal.
  
- 9 If a pair-off is agreed but one party fails to follow through, it should be agreed as to whether or not the other party should be compensated and how compensation will be calculated. It should be noted that any interest costs or CSDR penalties incurred as a result of the late matching or settlement of underlying instructions, caused by failure to complete or cancel a pair-off in time, should be passed through to the responsible party in line with best practice, in the same way that such costs or penalties would be passed on where late matching or settlement had other causes.
  
- 10 Deadlines should be expressed in terms of the time zone of the settlement agent.

#### Messaging standards

- 11 ICMA will investigate producing an XML schema and a CSV file template for manual pair-offs.
- 12 Any XML schema should be compliant with ISO 15022, ISO 20022 and FIX.

#### Minimum data requirements

- 13 A request to pair-off should be communicated using a standard template with sufficient data to identify the transaction to be paired-off. The list is repeatable for each transaction to be paired-off. These fields would be:
  - 13.1 settlement date of the pair-off (ie the date of the deliveries and payments to be paired off)

- 13.2 pair-off ID (identifying set of transactions to be paired off) --- for manual pair-offs, this should be a standard format agreed by the parties
- 13.3 number of transactions in set to be paired-off
- 13.4 initiating party's name --- full and/or short name as agreed
- 13.5 initiating party's LEI
- 13.6 counterparties' name --- full and/or short name as agreed
- 13.7 counterparties' LEIs
- 13.8 instruction ID for proposed net settlement--- for manual pair-offs, this should be a standard format agreed by the parties
- 13.9 UTI of transactions to be included in pair-off
- 13.10 party giving or party taking net collateral in this transaction (ie seller or buyer)
- 13.11 Transaction Date for Purchase leg of each transaction to be included in pair-off
- 13.12 cash currency
- 13.13 Purchase Date for Purchase leg of each transaction to be included in pair-off, whether or not the Purchase leg is included in the pair-off
- 13.14 Repurchase Date or Termination Date for Repurchase leg of each transaction to be included in pair-off, whether or not the Repurchase leg is included in the pair-off
- 13.15 Purchase Price or Repurchase Price of each transaction to be included in pair-off
- 13.16 ISIN or ISINs of collateral in transactions to be included in pair-off
- 13.17 nominal value or number of each ISIN
- 13.18 place of settlement
- 13.19 settlement agent
- 13.20 name and number account to be credited
- 13.21 name and number account to be debited
- 13.22 net settlement amount for the set of all transactions with same pair-off ID
- 13.23 settlement message type.

#### Workflow and deadlines

- 14 A request for a pair-off should be communicated by the initiator as soon as possible and no later 12:00 on S-1 in the time zone of the settlement agent --- see 10 above.
- 15 The initiator must have placed their settlement instruction(s) for the transaction(s) in the pair-off proposal on hold in order to prevent inadvertent use of those securities.
- 16 The recipient must send an acceptance, rejection or counterproposal back to the initiator as soon as possible but no later 15:00 on S-1 in the time zone of the settlement agent.
- 17 As soon as practicable after receiving a pair-off proposal, the recipient should validate the proposal to ensure it follows the rules under this agreement and reconcile the details of the transaction(s) listed with its own books and records.

- 18 The recipient must have placed the relevant settlement instructions on hold while it is processing the request.
- 19 If the proposal is invalid or does not reconcile with the recipient's books and records, the recipient should contact the initiator as soon as practicable.
- 20 If or when a pair-off proposal has been validated and reconciled by the recipient, it should make a decision whether to accept, reject or make a counter-proposal as soon as practicable and send an acceptance, rejection or counter-proposal promptly but no later than by 15:00 on S-1 or T. In the case of a counter-proposal, the recipient should allow the initiator sufficient time to consider and respond to the counter-proposal. The parties should agree in advance how long the initiator should have to respond.
- 21 Unless otherwise agreed, the initiator of a pair-off proposal should have the right to withdraw its pair-off proposal before the recipient has responded or to withdraw its proposal in immediate response to the recipient's acceptance.
- 22 If a request to pair-off proposal is accepted, both parties should cancel their existing settlement instructions and inject new instructions for net settlement as soon as possible but no later than their custodian or (I)CSD cut-off on S-1.
- 23 If a pair-off proposal is rejected, the initiator should release their settlement instructions for the transaction(s) in the proposal as soon as possible.

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