



European Repo Council

London, August 19th 2014

To: **Patrick Pearson**, European Commission, Head of Financial Markets Infrastructure

Copy: **Jennifer Robertson**, European Commission, Deputy Head of Financial Markets Infrastructure

Verena Ross, ESMA, Executive Director

Rodrigo Buenaventura, ESMA Head of Markets Division

Marc Bayle, ECB, T2S Project Manager

Paul Bodart, T2S Board

Re: **Request for clarification on CSDR provisions for trading Securities Financing Transactions on Trading Venues**

Dear Mr. Pearson

We are writing to you on behalf of the International Capital Market Association's (ICMA's) European Repo Council (ERC) and the International Securities Lending Association (ISLA) regarding the Level I text of the CSDR, as passed into law in July 2014. In particular, we would like to request clarity on the provisions of the regulation for trading securities financing transactions (SFTs), including repurchase agreements ('repos') and securities lending transactions, on trading venues for start settlement beyond two business days after trade date (T+2).

As you will no doubt be aware, SFTs often trade for forward settlement dates, both bilaterally and on trading-venues such as the electronic platforms supported by inter-dealer brokers (IDBs). Unlike outright cash securities transactions, SFTs, by their very nature, do not have a 'standard' settlement date as such, and to meet the various financing needs of market participants they remain completely flexible in terms of both start and end settlement. While

there are some conventional forward settlement dates, such as those relating to deliverable bonds for financial futures contracts¹ (such as Eurex Bund futures), market participants are also able to tailor and negotiate their own settlement start and end dates to meet their particular financing needs or those of their clients. This is equally applicable to general collateral (GC) financing transactions and specific security financing transactions ('specials'), and is true of both bilaterally negotiated trades and 'on-screen' transactions negotiated and executed on trading venues. Furthermore, the ability to negotiate and execute forward SFTs on trading venues is desirable from the perspective of market transparency, liquidity, and operational efficiency.

Given the need to maintain the intrinsic flexibility of SFTs, it was the understanding of ICMA, ISLA, and others that accordingly SFTs were beyond the scope of the CSDR provisions for standardizing T+2 or shorter settlement for cash securities, even where executed on trading venues. This view would seem to be supported by [Article 5](#) (paragraphs 1 and 2) of the CSDR Level 1 text, which outlines the types of transactions which are executed on trading venues that should settle not later than the second business after the trading takes place. This article does not specifically mention 'complex operations composed of several transactions such as securities repurchase or lending agreements'.

However, [recital 13](#) of the regulation does reference these explicitly and this has created some uncertainty about the application of T+2 to SFTs:

The intended settlement date of transactions in transferable securities which are executed on trading venues regulated by Directive 2014/65/EU and Regulation (EU) No 600/2014 should be no later than on the second business day after the trading takes place. For complex operations composed of several transactions such as securities repurchase or lending agreements, that requirement should apply to the first transaction involving a transfer of securities. Given their non-standardised character, that requirement should not apply to transactions that are negotiated privately by the relevant parties, but executed on the trading venues regulated by Directive 2014/65/EU and Regulation (EU) No 600/2014 or to transactions that are executed bilaterally, but reported to a trading venue regulated by Directive 2014/65/EU and Regulation (EU) No 600/2014. Moreover, that requirement should not apply to the first transaction where the transferable securities concerned are subject to initial recording in book-entry form.

We would therefore like to ask for clarification on this issue. More specifically, we would like to request confirmation that as SFTs are not explicitly included in the list of impacted transactions in Article 5, they are not subject to the provisions of the CSDR requiring settlement no later than T+2, regardless of whether they are traded bilaterally, negotiated privately, or negotiated and executed on a trading venue.

¹ It should be noted that these forward repo markets for deliverable securities are a key element in the efficient pricing of financial futures contracts

We thank you in advance for your help in clarifying this issue. We would further propose that if you wished to discuss further the nature, structure, and significance of the forward markets for SFTs, we would be happy to arrange a meeting for you and your colleagues, including market traders and the relevant trading venues, as well as the relevant representatives of ESMA and local regulators.

Kind regards,

A handwritten signature in black ink, appearing to read 'De Vidts', with a long horizontal stroke extending to the right.

Godfried De Vidts
Chair, ICMA European Repo Council

A handwritten signature in black ink, appearing to read 'Kevin McNulty', with a long horizontal stroke extending to the right.

Kevin McNulty
Chief Executive, International Securities
Lending Association