

ERCC initiative to support settlement efficiency

Update to AMI-SeCo

7 & 8 December 2021

ERCC initiative on settlement efficiency: background

- Improving settlement efficiency and post-trade efficiency more generally has been a recurring theme for the ERCC (and ERCC Ops) over the past years
- In early 2021, in light of the upcoming implementation of CSDR settlement discipline, the ERCC launched an initiative to look at a number of relevant post-trade tools that are available to help the industry reduce number and impact of settlement fails.
- Primary focus on (i) shaping, (ii) partial settlement, and (iii) auto-borrowing, with the aim to better understand current usage and remaining obstacles, as well as to explore ways to encourage and optimise usage through best practice and other means.
- The initiative builds on prior ERCC work on intraday liquidity. It is closely aligned with and complements ongoing cross-industry efforts to prepare for the upcoming implementation of CSDR settlement discipline.
- The work is also complementary to the ongoing work of the CSG settlement efficiency workstream and the detailed analytical work undertaken in that context.
- ICMA is also collaborating closely with other relevant trade associations on the topic, including AFME, ISLA and the relevant buy-side associations.

ERCC initiative on settlement efficiency: milestones

- **Initial ERCC settlement efficiency workshop (26 February 2021)** – led to a [targeted update](#) of the ERCC Guide to Best Practice in the European Repo Market (published on 30 March) and a set of complementary ERCC recommendations to guide further ERCC discussions
- **Targeted follow-up workshops on settlement efficiency:**
 - Workshop #1 – focus on partial settlement & auto-partialling (25 May)
 - Workshop #2 - focus on shaping (2 July)
 - Workshop #3 – focus on auto-borrowing (10 September)
- **ERCC settlement efficiency survey:** To complement the work, the ERCC launched a [member online survey](#) on settlement efficiency and the different tools that are being considered. Over 30 firms responded to the survey. Results were reviewed in the workshops & presented at the 4th CSG SE workshop
- **ERCC white paper on settlement efficiency:** currently being prepared to summarise the discussions so far and set out next steps

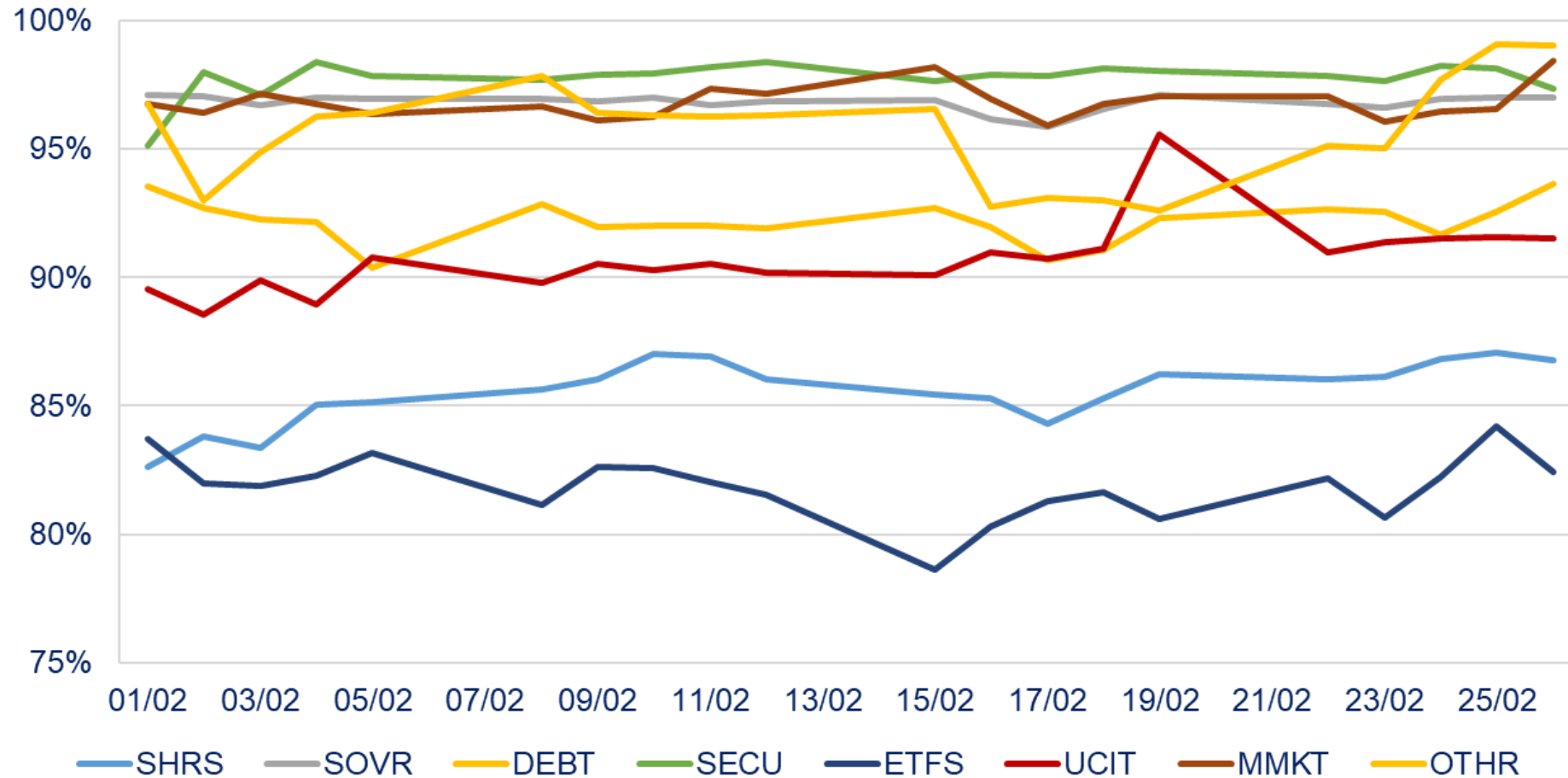
Settlement efficiency rates in Europe

- Detailed settlement efficiency analysis undertaken by the ECB/4CB based on data for **February 2021**
- Calculated settlement efficiency rate in line with **CSDR methodology** (incl late matching)
- Average figures are similar for the ICSDs

Asset class	Value (settled on ISD)	Volume (settled on ISD)
All	94.21%	89.57%
Sovereign bonds (SOVR)	96.27%	96.80%
Other bonds (DEBT)	95.70%	92.17%

Settlement efficiency rates in Europe

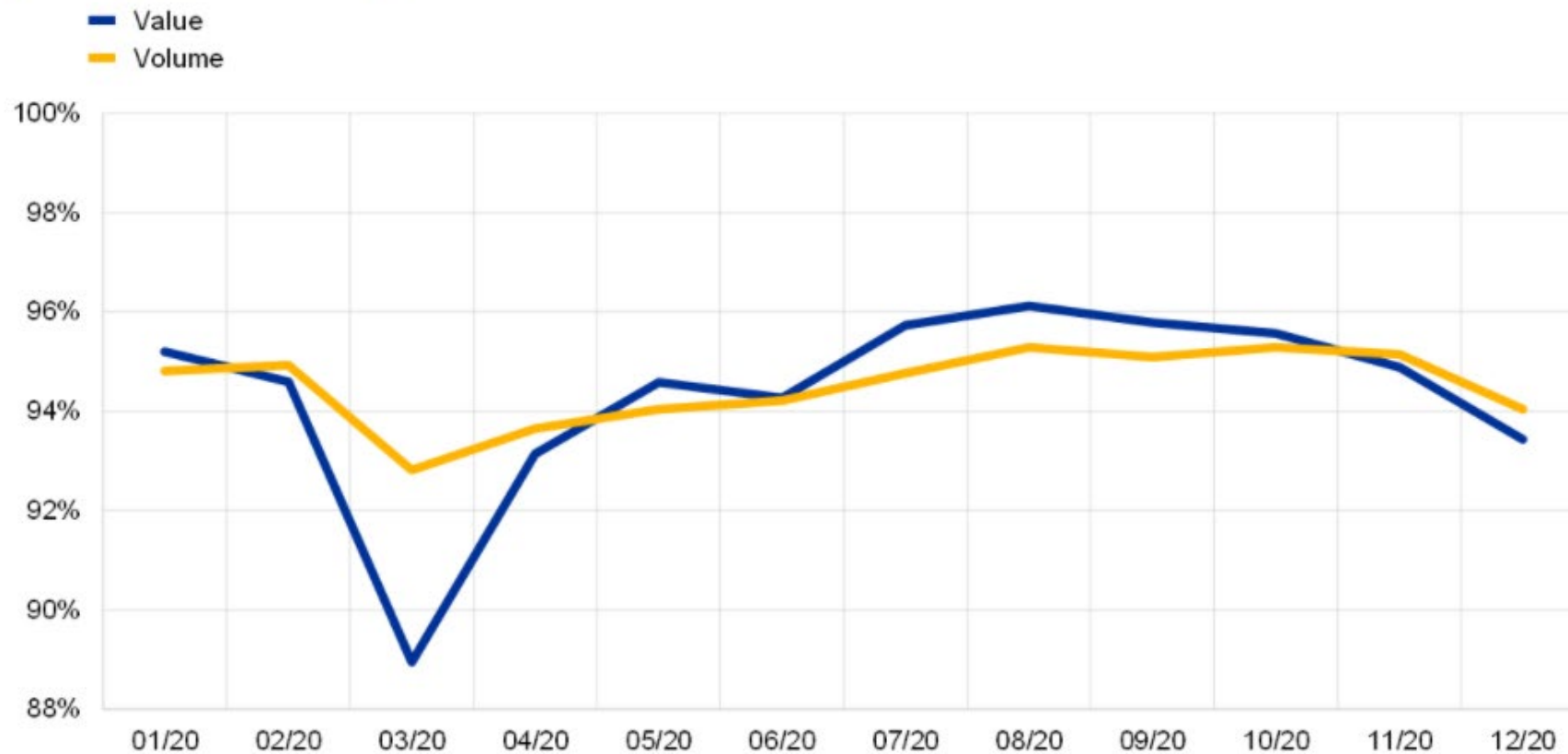
CSDR settlement efficiency rate in volume at end-of-day (by type of asset)



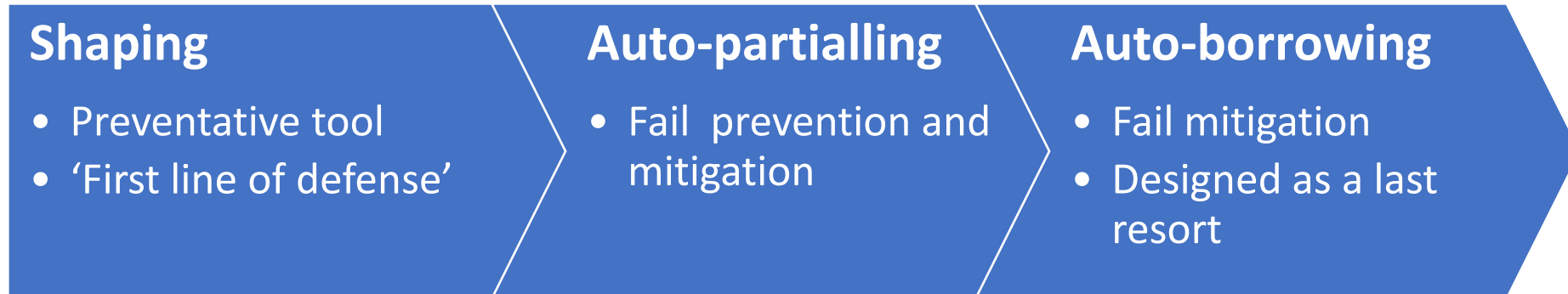
Settlement efficiency rates in Europe

Settlement efficiency at end-of-day in 2020

(percentages, at end-of-day)



Strengthening the settlement efficiency toolbox: 3 key priorities



Summary of conclusions

Topic	Conclusions
Shaping	• Current best practice for repo to shape at EUR 50 million nominal – but as a manual process it is not widely applied (except for CCP-cleared trades) • Broad consensus that shaping should be introduced on an automatic basis in Europe • Discussion on the level at which shaping should apply, but agreement reached that trading platforms would be the most straightforward place to start ○ ICMA is following up with the relevant trading platforms to understand challenges and opportunities of introducing automatic shaping at this level
Auto-partialling	• Available in T2S and both ICSDs, but usage is optional and remains limited • Key technical obstacle around omnibus accounts - partial release should address the issue but is still not available across the board – further monitoring and discussion with CSDs and custodians • ICMA is also looking to fully engage the buy-side and hedge fund community to explore ways to increase usage and address bottlenecks
Auto-borrowing	• ICSD auto-borrowing programmes are seen as a key tool to support market liquidity and settlement efficiency • Still not available in all markets – but connections to some core T2S markets are being developed • Further discussion needed on three key aspects: ○ How to strengthen the rules around the use of auto-borrowing, where appropriate ○ How to improve economic incentives for borrowers and lenders to sign up and actively use AB ○ How to extend coverage of the AB programmes to markets where this tool is currently not available

- ***ERCC settlement principles:*** Based on the initial paper, ICMA to prepare a list of key settlement efficiency principles that ERCC members will be asked to sign up to. This complements efforts to prepare the industry for the upcoming go-live of CSDR cash penalties, including related best practices.
- ***Cross-industry collaboration:*** Share outputs from the discussions so far with other industry bodies and extend outreach to stakeholders that have not been involved yet, in particular on the buy-side
- ***Collaboration with the ECB:*** ICMA to continue collaboration with the ECB on the topic, including through the various stakeholder groups, including the CSG.
- ***Data and measurements:*** ICMA to work with the ECB and the relevant market infrastructure providers in order to further expand and refine existing settlement efficiency data points and metrics to measure current usage of optimisation tools as well as to quantify any progress going forward.
- ***Extension to cash bond and other markets:*** ERCC initiative has already been presented to ICMA's Secondary Markets Practice Committee (SMPC) with a specific focus on the recommendations around auto-partialling and shaping. Follow-up is ongoing and may lead to adoption of additional best practices (e.g. ICMA Secondary Market Rules and Recommendations).



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