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REPO 2024

Repo Annual 2024

In the fast-paced realm of financial markets, understanding the driving forces behind significant shifts in trading volumes and the strategic initiatives shaping the landscape is paramount. Eurex's Frank Gast, global head of repo sales, and Carsten Hiller, head of repo sales for Europe, offer invaluable insights into the recent surge in repo volumes and the pivotal directions guiding Eurex Repo's trajectory.

Gast and Hiller delve into the multifaceted factors propelling Eurex Repo's growth, providing a nuanced perspective on the market dynamics influencing current trends. From regulatory changes to evolving client needs, their discussion unveils the intricate interplay of forces fueling the firm's momentum.

Moreover, Neil Taylor, head of repo business development at OSTTRA, underscores the imperative for dealers and clients to adapt swiftly amid the market's increasingly complex operational challenges. Taylor's elucidation on the significance of streamlining post-trade workflows highlights the critical role of operational efficiency in navigating today's repo landscape.

Joseph DiMartino, managing director of repo trading at Clear Street, echoes this sentiment, emphasising the indispensable role of technology in meeting both client demands and regulatory standards. DiMartino's perspective underscores the pivotal intersection of technological innovation and regulatory compliance in shaping the future of repo trading.

Meanwhile, Shiv Rao, chairman and founder of Sunthay, sheds light on the regulatory hurdles confronting repo market participants and the innovative solutions emerging to mitigate their impact. Rao's discussion of Sunthay's collaborative initiative underscores the industry's resilience in overcoming regulatory barriers through strategic partnerships and innovative approaches.

Celebrating a decade of unwavering support for the international repo market, SIX reflects on its remarkable journey and contemplates the path ahead. As the industry evolves, SIX reaffirms its commitment to driving innovation and fostering growth, poised to navigate the ever-changing landscape with agility and foresight.

In a final reflection, Steve Griffiths, CEO and founder of Absolute Collateral, champions the transformative power of innovation in envisioning a future that transcends the confines of the present. Griffiths' impassioned advocacy for innovation serves as a rallying cry for industry leaders to embrace change and chart a course towards a more dynamic and resilient repo market.

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Inside this Annual

Guaranteed Repo

Guaranteed Repo is a global electronic trading solution that increases capacity, reduces costs and improves operational efficiency in financing markets.

Sunthay has developed and refined the concept and has contributed standardised guarantee documentation. Bloomberg provides the electronic trading capability, and Euroclear provides post-trade collateral management services. Guaranteed Repo can operate in multiple jurisdictions for multiple asset classes.

SUNTHAY

www.sunthay.com

SEC adopts rules on central clearing for US Treasury market

The Securities and Exchange Commission (SEC) has adopted rule changes to enhance risk management practices for central counterparties in the US Treasury market and to facilitate additional clearing of US Treasury securities transactions.

The rule changes provide an update to the membership standards required of covered clearing agencies for the US Treasury market, with respect to a member's clearance and settlement of specified secondary market transactions.

According to the Commission, these rules are designed to reduce the risks faced by a clearing agency and "incentivise and facilitate" additional central clearing in this market.

Covered clearing agencies within the US Treasury market will now adopt policies and procedures that require their members to submit for clearing certain specified secondary market transactions.

These transactions include all repo and reverse repo agreements centralised by US Treasury securities entered into by a member of the covered clearing agency, unless, the SEC states, "the counterparty is a state or local government or another clearing organisation or the repurchase agreement is an inter-affiliate transaction".

Additional transactions included in this rule are all purchase and sale transactions entered into by a member of the clearing agency that is an interdealer broker, or entered into between a clearing agency member and either a registered broker-dealer, a government securities broker, or a government securities dealer.

The amendments permit broker-dealers to include customer margin required and on deposit at a clearing agency in the US Treasury market as a debit in the customer

Richards steps down from ICMA

Paul Richards is stepping down as head of market practice and regulatory policy (MPRP) at the International Capital Market Association (ICMA).

Following 50 years in the international capital markets, Richards will leave his role at the end of June 2024.

He will then assume the position of senior advisor to ICMA until the end of the year.

During his 18-year tenure at ICMA, 16 of which he spent as head of MPRP, Richards worked with members on the implications of the global financial crisis and Brexit.

He also contributed to the London Interbank Offered Rate (LIBOR) transition in the bond market, where he chairs the RFR Bond Market Sub-Group.

ICMA will now begin a comprehensive search for Richards' successor.

Bryan Pascoe, chief executive of ICMA, comments: "I would like to thank Paul for his extraordinary dedication and commitment, and for the unique contribution he has made to ICMA and the international capital markets more broadly.

"I look forward to continuing to work with Paul in his current and future roles through this year."

reserve formula. Furthermore, clearing agencies in-scope will be required to collect and calculate margin for house and customer transactions separately.

The final part of the new rule changes will ensure that the covered clearing agency has the appropriate means to facilitate access to clearing, including for indirect participants.

Exemptions for transactions apply where the counterpart is a central bank, sovereign entity, international financial institution, or "natural person".

Changes regarding the separation of house and customer margin, the broker-dealer customer protection rule and access to central clearing are to take effect by 31 March 2025.

Following this, the requirement to clear specific transactions would come into effect in two phases, initially with a requirement to clear cash transactions and then a requirement to centrally clear repo transactions.

Compliance by the direct participants of a US Treasury securities central clearing agency, with the requirement to clear eligible secondary market transactions, would not be required until 31 December 2025, and 30 June 2026, respectively, for cash and repo transactions.

Commenting on the decision, SEC chair Gary Gensler says: "The US$26 trillion Treasury market — the deepest, most liquid market in the world — is the base upon which so much of our capital markets are built.

"Having such a significant portion of the Treasury markets uncleared — 70 to 80 per cent of the Treasury funding market and at least 80 per cent of the cash markets — increases system-wide risk."

He adds: "The adopting release addresses clearing of Treasury securities in two important ways. First, the final rules make changes to enhance customer clearing. Second, the final rules broaden the scope of which transactions clearing house members must clear. I am pleased to support these rules because they will help to make the Treasury market more efficient, competitive and resilient."

In response to the news, Ragu Raymond, director of collateral management business development and client success at Baton Systems, comments: "The market in 2024 needs more clarity as to what percentage of the US Treasury and repo trading book will be subject to mandatory clearing.

"If clearing becomes mandatory for certain trades but not all, there is a risk of creating a bifurcated market structure with different pools of liquidity for trades that are newly cleared versus those that remain bilateral, introducing previously unencountered costs and hurdles."

Raymond indicates that firms will be forced to adhere to more restrictive collateral schedules "as most CCPs only accept high quality liquid assets (HQLA), whereas bi-lateral over-the-counter repo provides a greater degree of flexibility".

"This has benefits from a transparency and market stability perspective, but you have to balance that out with higher costs on the collateral side, from CCP fees and an operational processes perspective," he concludes.

The Depository Trust and Clearing Corporation (DTCC) says its Fixed Income Clearing Corporation (FICC) will take the necessary steps as required under the amendments to prepare for this significant initiative.

The firm adds: "DTCC remains committed to supporting the industry and providing solutions that enable compliance with the expanded treasury clearing rule. We are prepared for this significant undertaking and will continue to evolve our access models and enhance capital efficiency whenever possible to effectively support our clients."

Marc Natale, global head of presales, marketing and GTM at Murex, says: "Mandatory clearing of US Treasuries and US Treasury repo will require market participants to post more collateral at CCPs, bringing with it greater operational work for sourcing and then posting the required collateral.

"Those affected by the new rules will need collateral management systems that are flexible and agile in identifying what the most eligible collateral is across their desks and how they mobilise it for posting at CCPs."

TransFICC launches automated customer trading

TransFICC has launched TransACT (automated customer trading).

The new service will automate request for quote (RFQ) negotiation workflows for banks trading on dealer-to-client venues.

The firm, which specialises in workflow services for fixed income and derivatives markets, says the offering enables dealers to fully automate significant parts of their credit trading more efficiently.

Commenting on the launch, Judd Gaddie, co-founder of TransFICC, says: "Our auto-negotiation service provides the code, support and security out of the box. The only bank requirement is to have a Pricer, meaning the service can quickly go live.

"What used to take months or years for a bank to deploy has been reduced to a few weeks."

TransACT is available for immediate use on MarketAxess, Tradeweb, Bloomberg and TruMid for US Credit, with the service expanding to other RFQ assets later this year.

TMX Group and Clearstream launch Canadian Collateral Management Service

TMX Group and Clearstream have launched the Canadian Collateral Management Service (CCMS).

The new offering facilitates the collateralisation of securities finance activities throughout the Canadian market. It also provides domestic triparty repo capabilities, which aim to increase liquidity and minimise exposure risk.

The trades were conducted by BMO, CIBC, RBC, Scotiabank and TD.

Harri Vikstedt, senior policy director at Bank of Canada, and co-chair of Canadian Infrastructure and Market Practices Advisory Group, says: "The introduction of CCMS will promote a well-functioning money market and modernise the Canadian repo landscape.

"It will help the development of an active two-sided term repo market which will support liquidity in cash products."

Further automation capabilities will be enabled over the coming months, the firm says.

In addition, CCMS will be extending its services to corporate cash triparty repo for "the first time" in Canada, with subsequent expansions into securities lending and the use of equities collateral later in the year.

Steve Everett, head of Post Trade Innovation at TMX Group, adds: "As the Canadian market moves towards T+1, CCMS will also play a pivotal role in supporting this critical transition."

ESMA proposals are disproportionate and unjustified, says ICMA

The International Capital Market Association (ICMA) has branded proposals from the European Securities and Markets Authority (ESMA) on CSDR penalties as "disproportionate and unjustified".


Don't mind the gap
Our repo markets bridge liquidity gaps. More than 160 European financial institutions are currently active on our Repo, GC Pooling, HQLA^{x} and eTriParty markets. They benefit from trading opportunities with fully integrated clearing and settlement.
Architects of trusted markets
EUREX

HKMA issues digital green bonds

The Hong Kong Monetary Authority has issued a tranche of digital green bonds using the International Capital Markets Association's Bond Data Taxonomy.

This bond issue is the first adoption of the ICMA Bond Data Taxonomy (BDT) by a sovereign, supranational and agency (SSA) issuer and the first for a green bond.

The BDT offers a standardised and machine-readable language to capture key economic terms for the bond that is normally included within the term sheet, along with pricing and settlement dates and other relevant information such as the governing law, bond ratings and selling restrictions.

ICMA notes that the Taxonomy is technology agnostic and is applicable for traditional and digital securities.

Speaking about this development, ICMA chief executive Bryan Pascoe says: ''The issuance by the HKSAR Government of digital green bonds in alignment with ICMA's Bond Data Taxonomy marks a significant milestone to foster interoperability and facilitate scalability of DLT-based bond markets. It is also further testament to the HKSAR Government's position as a leader in capital markets development."

HKMA deputy chief executive Darryl Chan comments: "The HKSAR Government's second digital bond issuance has made multiple innovations, including the alignment with ICMA's Bond Data Taxonomy which marks an important step in promoting automation and interoperability in capital market processes. We look forward to our continued collaboration with ICMA to enhance transparency and efficiency in markets."

The association published the remarks in a briefing note responding to ESMA proposals to increase the penalty rates for settlement fails, as well as introducing "progressive penalties" that increase every day of the fail.

ICMA analysed the Central Securities Depositories Regulation (CSDR) proposals in the context of the causes of settlement fails, the "natural cost" of failing and behavioural incentives for timely settlement.

The briefing argues that, if implemented, the proposed penalty recalibrations would undermine the competitiveness and credibility of the EU as a global financial marketplace.

Furthermore, the extreme distortions that they would bring about may incentivise adverse market behaviour, as being failed would become economically more appealing than facilitating settlement.

This would then feed into bid-ask spreads across all bond classes, says ICMA, as well as adversely impairing liquidity.

ICMA points to the US Treasury Markets Practices Group penalty framework as an example of a penalty mechanism that is appropriately designed and calibrated.

It argues that, unlike ESMA, it achieves its purpose of disincentivising poor settlement behaviour in low interest rate environments.

HSBC goes live on Broadridge's sponsored repo solution

HSBC goes live on the newly launched sponsored repo solution built on Broadridge's DLT enabled Distributed Ledger Repo (DLR) platform.

Broadridge says the milestone represents a 'major leap' towards delivering substantial benefits to clients.

The firm aims to reduce settlement costs, streamline processes, enhance scalability and decrease operational risks through the use of distributed ledger technology (DLT) and smart contracts.

HSBC is the second client to go live since the launch of the sponsored repo solution in early October.

John Farrell, Americas head of markets operations at HSBC, says: "Digitising our existing sponsored repo trade flow and seamlessly integrating it into Broadridge's DLR tech stack empowers us to enhance efficiencies, mitigate risks of transaction failures and significantly lower settlement costs.

"We are committed to exploring innovative avenues to reduce operational risks, and we believe this platform will be instrumental in achieving our objectives."

Horacio Barakat, head of digital innovation at Broadridge, says: "We are delighted to announce the next phase of Broadridge's ground breaking sponsored repo solution, which leverages distributed ledger technology to empower clients with operational efficiencies and substantial reductions in settlement costs.

ICMA releases ex-Japan APAC repo market survey

The International Capital Market Association's (ICMA's) Global Repo and Collateral Forum (GRCF) has released survey results on the ex-Japan APAC repo market.

Outstanding value of repos and reverse repos on 14 June 2023 on the books of the survey sample was US$269.1 billion. Average daily turnover between 9 June 2022 and 14 June 2023 was US$12 billion.

These numbers are down on the previous year, with 2022 generating US$310.0 billion in outstanding value of repos and reverse repos and US$43 billion in average daily turnover.

The size of the survey in June 2023 was lower than the previous year, which reflected changes in the composition of the survey sample; in particular, the loss of two international banks from the survey sample and changes in regional bank participation.

For the first time, the report includes a snapshot of the onshore repo markets in China and India. These two economies are the second and fourth largest economies in the world and the two most populous countries, says ICMA.

The survey does not measure the size of domestic repo markets in the APAC region, but captures cross-border business involving internationally active banks.

According to the June 2023 survey,

there were approximately 231,700 transactions over the year, of which 53.0 per cent were reverse repo.

The survey suggested modest growth in the outstanding value of the ex-Japan APAC repo market but declining turnover, which ICMA says implies more longer-term transactions.

In addition, the report found that triparty and central counterparty (CCP)-clearing repos played a "small and diminishing role" as repos tended to be cleared on a CCP after having been negotiated bilaterally between counterparties.

Cross-border business with APAC and non-European counterparties increased its share of the survey, while there was a shift in the allocation of collateral into Japanese government bonds (JGBs) and other APAC securities.

The US dollar remained the dominant currency in this repo survey, with JPY moving into second place ahead of the AUD. This reflects a corresponding shift in collateral composition, the survey notes

The survey was conducted alongside Asia Securities Industry and Financial Markets Association's (ASIFMA's) secured funding markets committee.

Commenting on the results, ICMA chief executive Bryan Pascoe says: "Since 2016, this survey has served as a valuable resource, providing insights into the dynamics of the Asia-Pacific cross-border repo markets.

Clearstream joins ECB trials to explore DLT for central bank money settlement

Clearstream, Deutsche Börse Group's post-trade business, has joined the European Central Bank (ECB) trials and experiments.

ECB is aimed at exploring the potential of distributed-ledger technology (DLT) for wholesale central bank money settlement in the light of the development of a digital Euro.

Clearstream says they aim to assess the feasibility of using DLT for wholesale transaction processing, using tokenised securities.

To support the trials, the firm has collaborated with Google Cloud to "enhance" its D7 platform with respective DLT capabilities. Clearstream will connect to all three central bank digital offerings: Bundesbank's Trigger Solution, Banca d'Italia's TIPS Hash-link and Banque de France's Full DLT Interoperability.

Jens Hachmeister, head of issuer services and new digital markets at Clearstream, says: "We are expanding our D7 digital securities infrastructure with DLT components and fostering connections with the main digital payment solutions across the Eurosystem.

"Of course, Clearstream will leverage the trial insights to further enhance D7 for the industry."

The ECB trials will be conducted from May to November 2024 in a productive environment, using real central bank money.

Repo growth and innovation in uncertain markets

Eurex's Frank Gast, global head of repo sales, and Carsten Hiller, head of repo sales Europe, discuss what is behind the firm's recent growth in repo volumes, the core initiatives the company is working on, and where Eurex Repo is heading next

Eurex continues to see strong growth in its repo markets following an extremely busy 2023, with volumes in the first four months of 2024 up by almost 25 per cent year-on-year across the repo markets.

What is driving the year-on-year growth in volumes across Eurex Repo?

Frank Gast: A lot of clients have reactivated over the past two years. We have more than 160 clients across our repo markets, and many firms have returned to being active in GC Pooling. We have a great diversity of clients across commercial banks, debt management offices (DMOs), central banks, supranationals and buy side firms. This diversity ensures that we have cash providers and collateral providers, and that is what is fueling our strong volume growth.

How have you seen firms re-engage with Eurex Repo and what is their core motivation for this decision?

Gast: On the buy side, it is a case of firms looking to use all of the available tools in the market. They must follow the Uncleared Margin Rules (UMR) and fulfil certain cash or securities requirements. If there is stress in the market, the buy side needs access to all of the available levers it can pull to source liquidity. In addition to triparty and bilateral markets, CCP markets are another source of liquidity for the buy side to have in place.

For the banks, we see a lot of second-tier firms and supranationals who were not necessarily active in repo in the past, and are now using repo because of the current rate levels and depth of our liquidity tool. Since rates are where they are today, they now need to be part of the repo market in a way that they were not when rates were lower.

Thirdly, the motivation for hedge funds is to be wherever they can to leverage all of the opportunities offered by the current interest rate levels. For hedge funds, not tapping into all repo markets is a missed opportunity that will impact their returns.

Carsten Hiller: We now see investment opportunities in the market and opportunities to manage short cash and short liquidity. Cleared repo offers an advantage from a risk perspective, which is attractive to firms looking to join the cleared repo market. But also, when it comes to handling counterparties, firms have access to more than 160 counterparties without needing individual bilateral agreements.

Therefore, firms that have historically placed excess cash and liquidity with the central bank are now looking at the repo market to increase returns.

Hiller: We also see the large international banks shifting business in the short-end over to Eurex, and providing more quotes in the order book. Currently, there are additional quotes in the order book in French, Spanish, Belgian and Austrian government bonds. The overall number of tickets increased, attracting other participants who saw the quotes from Eurex on their screens. The more liquidity we generate on our platform, the more it encourages people to trade on Eurex.

"For the banks, we see a lot of second-tier firms and supranationals who were not necessarily active in repo in the past, and are now using repo because of the current rate levels and depth of our liquidity tool."

Frank Gast
Managing director and global head of repo sales
Eurex

Where are you noting the largest points of growth across the platform?

Gast: Most of the growth is in GC Pooling, which is our cash-driven market. The reduction of excess liquidity and interest rate levels are certainly playing a crucial role. But Eurex is also known for term business, where we see significant growth. Eurex is unique in offering term repo — you cannot get term rates up to two years out in any other repo market apart from Eurex. The benefits of netting across our market segments are an important driver for the term business we see.

From your understanding, how is the macro environment impacting the market?

Hiller: Looking at the overall market environment and what has happened over the previous 18 months, we have seen a shift from collateral scarcity into collateral abundance. Going back two years, we saw extreme special rates in German bunds. The demand for bunds was substantial, while the available inventory fell short of meeting that demand. This was driven by external factors such as the war in Ukraine, but also by hedge funds positioning for the European Central Bank (ECB) to hike rates, which meant that they were going short on the bund and had to borrow it back in the repo market. This was all driving and further increasing the demand for bunds, which also resulted in the expensive special rates.

"Increasing issuance activity in the primary market is necessary to achieve the overall goal of green transitions. Still, the primary market cannot grow without a liquid secondary market for cash bonds and the repo market."

Carsten Hiller
Head of repo sales Europe
Eurex

Today, the demand for bunds has decreased by around 30 per cent in the first quarter in terms of traded volumes, and the rate at which bunds are trading is almost at the level where every bund is comparable to the GC Pooling levels. Significantly, while traded volume in the bund has declined, we have been able to compensate for that through higher trading activity in other European government bonds, especially in French, Italian and Spanish government bonds. Here, clients are actively shifting over business into Eurex, especially for term repo.

Eurex recently expanded its GC Pooling offering by adding another green bond basket. What was the motivation behind this decision?

Gast: We are always innovating. We started with GC Green bond baskets three years ago and are now entering the next phase with more features, such as automatic substitution and allocation. We have a lot of issuers of green bonds as clients, such as finance agencies, development banks and the major regional European banks. They have an interest in a liquid secondary market. More than 20 clients are interested in the basket and are set up for the launch. When you see this number of clients showing interest in trading a basket on either side, you know there is demand for the offering.

The new GC Pooling basket provides additional features such as collateral forecast reports, automated allocation and automated substitution of collateral to make the handling for traders more convenient. We will keep innovating and bringing new offerings to the market.

Hiller: Back in 2020, when we first launched our Green Bond GC Basket, we intended to kick off the discussion about green collateral in the repo market. In our markets, we look at Green Bonds as collateral in repo transactions, which means the repo does not directly have an additional sustainability impact. However, we are supporting the overall ecosystem of the green bond segment, and our main goal is to contribute to developing an efficient and transparent market for sustainable finance by supporting the funding and liquidity of sustainable assets.

Increasing issuance activity in the primary market is necessary to achieve the overall goal of green transitions. Still, the primary market cannot grow without a liquid secondary market for cash bonds and the repo market.

Another Eurex initiative shows the firm including repo in cross-product margining. How is this advancement currently developing?

Gast: Currently, our Prisma model offers cross-margining between listed and OTC derivatives, but repo has not been added yet. We will implement it stepwise this year. Next, we will allow repo to be part of the cross-product margining. This will bring huge benefits to our clients, particularly to buy side firms coming on board.

We are also growing our offering among the hedge fund community. These firms trade huge positions, for example in bund futures. If they can achieve synergies between the listed, OTC, and repo markets on margins, rather than looking at repo in isolation, it will be of significant added value to them.

How strong is the adoption of cleared repo among the buy side?

Gast: Our key strategic focus has been attracting more buy side firms to cleared repo. For years, we have had our ISA Direct offering for pension funds, insurance companies and corporates, who are contributing around 10 per cent of our total volumes today and are the fastest growing segment in our market.

Now, we are extending the buy side access with an indemnified model to hedge funds, and the first of these are currently onboarding with a view to having the first pilot clients ready in the second half of the year. It is similar to the US FICC model, which we are bringing to Europe to broaden the ecosystem. We want to provide optionality to the market, giving them different ways to access funding.

Cleared repo is key because of the netting benefits. Banks, as the counterparties of hedge funds, can net their positions in cleared markets, which they cannot do in bilateral or triparty markets. This multilateral netting balance sheet netting is a driving factor in adoption.

Looking ahead, what is next for Eurex Repo?

The European Collateral Management System (ECMS) is coming in November 2024. This ECB project harmonises collateral infrastructure across Europe and integrates local central banks. Eurex is planning to launch additional partnerships to promote the benefits of re-using collateral in the context of the ECMS.

For example, the expansion in the use of collateral from our pan-European, cash-driven liquidity pool, GC Pooling, will enable refinancing opportunities with local central banks. Furthermore, we also plan to roll out cross-product margining in various steps as previously mentioned. Eurex Repo is going to have a busy year ahead.

Frank Gast
Managing director and global head of repo sales
Eurex

Carsten Hiller
Head of repo sales Europe
Eurex

Improving the resilience and stability of the market

Matthew Chessum, director of securities finance at S&P Global Market Intelligence, explores how the availability of data, which was once fairly limited, has evolved to become an essential aspect of financial markets, and in turn allowed the repo market to become a globalised and heavily interconnected utility

Data-driven innovation has been present across all areas of financial services since the 1900s. In the early days of finance, data was collected on a manual basis and market participants relied on paper records and rudimentary tools to track prices, volumes and transactions. The availability of data was therefore often limited.

The advent of telegraphy in the late nineteenth and early twentieth century, followed by the use and introduction of the telephone and the ticker tape, enabled a revolution in terms of the availability and dissemination of data across financial markets. The widespread adoption of the computer in the late twentieth century transformed data processing and analysis within financial markets as the volume of data exploded — owing to electronic trading platforms and market data feeds. Computerisation gave rise to the ability to use data in trading algorithms, enabling faster execution and automation. This is when the value of data became truly understood as its use was essential for creating the tools needed to generate a competitive edge.

The use and success of algorithmic trading ushered in a new era of data-driven analysis and modelling in financial markets, as quantitative finance became increasingly popular in the late twentieth century. Data became even more essential as statistical analysis, time series modelling, and risk management techniques, became increasingly prevalent across trading desks.

Currently, financial data is creating an era of big data and artificial intelligence. The proliferation of digital technologies, and the exponential growth in data volumes, have led market participants to have access to vast amounts of both structured and unstructured data that can be leveraged to gain insights, develop predictive models, and enhance both decision making and risk management processes.

Since the repo market's origins in the 1920s, when the Federal Reserve in the US used repurchase agreements to conduct monetary policy operations, the role of data within the repo market has continued to evolve in a similar way. The availability and transmission of data has played a critical role in the natural evolution of the market, allowing it to become a globalised and heavily interconnected utility, as well as becoming a key short-term mechanism for borrowing and lending.

This evolution, in both the size and importance of the market, has increased the requirement for all financial participants to have a firm understanding of how the repo market functions. Given the importance of the repo market in determining liquidity provision, interest rate transmission, collateral management, and broader financial market stability, having access to accurate, timely and comprehensive data, remains critical to a wide range of financial market participants.

The decentralised nature of the repo market, which operates across multiple jurisdictions, currencies, and types of securities, has often led to numerous challenges in aggregating and standardising repo data across the different market segments. This has made obtaining a comprehensive view of market activity challenging. As an over-the-counter market, confidentiality concerns have also made market participants apprehensive about disclosing trading information — limiting the amount of quality data available. The level of diversity seen across market participants, the level of regulatory variation, and the complexity of transactions, also create potential barriers to transparency across this segment of the financial landscape.

Having access to repo market data is incredibly useful for several reasons. First and foremost is risk management. As with other financial products, data allows market participants to assess and manage the risks associated with repo transactions. This includes counterparty credit risk, liquidity risk, market risk and operational risk. Having the ability to use data to simulate changes to trading structures and trading strategies is an essential role for any fund manager or trader to undertake.

Data also allows for price discovery and market efficiency. Being able to use data to accurately assess prevailing market conditions in order to obtain competitive and accurate pricing, leads to better execution, facilitating access to funding at fairer rates. In turn this promotes more efficient markets, which supports a more effective allocation of capital and the optimisation of trading resources.

Data-driven decision making helps to evaluate risk-return profiles of repo transactions and helps to optimise funding and investment strategies, along with effective balance sheet management. Repurchase transaction data assists market participants in identifying market trends, recognising patterns and evaluating the impact of both regulatory changes and market events on specific trading positions or across a trading book. Data-driven insights contribute to a deeper understanding of the repo market, leading to more informed decision making.

The necessary data

As the provider of one of the largest securities lending and repo datasets available, S&P Global Market Intelligence, through its Repo Data Analytics (RDA) product, provides the data necessary to execute on data-led decisions. The data available allows market participants to identify broader trends that may not otherwise be apparent when looking at individual data points; analyse liquidity across a choice of markets, tenors of trades and haircuts; and provides a window into both liquidity and market rates.

The product currently covers over twenty thousand instruments, incorporating activity from more than two trillion dollars of global transactions. And it continues to grow. The data can be viewed through our bespoke web portal or can be delivered directly via API or daily data feed. Key features include the ability to screen portfolios by maturity, haircut, currency, asset class and region. It offers a visualisation of market activity through interactive dashboards, as well as the ability to review a trading book using a proprietary tool that offers the ability to compare trading books versus the rest of the market using rates, haircuts and maturities.

Overnight repo curves and a look through the securities lending market are also available. These functions permit participants to assess the benefits of the chosen route to market based on rate and liquidity, in addition to the benefit of seeing aggregated rates across specific yield curves.

Previously, repo market data has only been available through a relationship with trading partners or via an electronic trading platform. RDA offers an independent source of daily market repo data, marking a turning point in the evolution of data provision across the broader market. As seen in the securities lending market, independent aggregated market data increases the statistical significance of analysis by drawing data from a range of various sources. As a result, more robust conclusions about repo market trends can often be obtained with greater confidence. This all helps in providing more vigorous forecasting and planning, risk management and decisions making.

As has also been seen in the securities lending market, data aggregation on a major scale is only the first step in a natural progression to real-time (or intraday) monitoring, surveillance, and pricing. It is also the first step in the journey towards more advanced data analytics using machine learning, artificial intelligence, and big data analytics, to extract further insights from the repo market. These techniques often allow the identification of patterns, trends and anomalies in market activity that may otherwise be missed. Data trends on this scale are increasingly important in informing trading strategies and enhancing risk management practices even further.

Given the numerous benefits that the availability of data brings, the arrival of more independent data sources to the repo market is something to be celebrated. Data remains the fuel for innovation and research. It can be used to develop new trading strategies, risk models and technology solutions that benefit market participants, investors, and the market as a whole. It is a key component in improving the resilience and stability of the market.

A well-informed repo market will be much better equipped to withstand shocks, mitigate systemic risks, and maintain financial stability. As has been seen throughout the existence of the financial markets, data-led innovation has transformed the finance industry by improving decision making, reducing risks, enhancing efficiency, and most important of all, delivering better results for customers.

Matthew Chessum
Director of securities finance
S&P Global Market Intelligence

What’s next for repo post-trade workflows?

Dealers and clients will need to work at pace to streamline their operations as the market experiences complex operational challenges, says OSTTRA’s Neil Taylor, head of repo business development, who explores the importance of investing in repo post-trade workflows

The repo market is facing its next series of complex operational challenges, driven by a mix of regulations and market practice changes. This phase of market evolution will require sharp thinking by dealers and clients on what automation and post-trade processing should look like, and how counterparties can work together to maximise improvements in existing workflows and processes.

Current discussion surrounding post-trade workflows, is beginning to move repo outside of a silo and into a broader framework of collateralised products. This is evident in the growth of sell side collateral optimisation and buy side portfolio finance desks. These units can come under multiple names, such as financial resource optimisation, treasury, or collateral trading. Regardless of what they are called, repo can now be considered one of several products that should be looked at together to capture processing efficiencies, reduced costs and additional revenue.

Investing in improving repo post-trade workflow helps to capture the use of a firm’s assets beyond just repo settlement. Adding repo post-trade efficiency to initial margin and variation margin postings for OTC derivatives, for example, means having a clearer and faster view of available cash and securities, thereby reducing risk-weighted assets (RWA) for regulated institutions. As we enter a Basel III Endgame environment, even small improvements in processing speed and accuracy can deliver outsized benefits.

Repo will be impacted downstream by T+1 in North America. Any financed trade will need to be entered into and unwound with the same accuracy as the underlying

asset's settlement cycle. US Treasuries are already settled on T+1, but the flexibility that a dealer may have had with a repo financing trade on an equity, settling at T+2, will soon be curtailed. Improved post-trade workflows will result in greater income, with the ability to more closely tie settlement cycles together for financing and asset settlement in one activity. Conversely, chasing exceptions or poorly tying funding streams to asset purchases and sales, will result in lost opportunities and revenues.

The potential introduction of T+1 in Europe would bring similar requirements with a regional twist, due to the current levels of infrastructure fragmentation compared to the US. This leads industry associations to recommend strategies that benefit a wide range of products. Among these are a need to streamline exceptions processing, speed up exception resolution, and optimise the settlement of available inventory.

T+1 is not expected to be easy in Europe without robust post-trade automation, especially in securities finance and repo. In a 2024 call for evidence, the European Securities and Markets Authority (ESMA) noted a long list of complications from a European move to T+1 including "The reduction of 80 to 90 per cent of the available time for post-trading processes, the lack of automation, and inventory management", also noting: "Securities borrowing and lending, repo, FX trading and cross-border activities seem to be some of the most challenging aspects of a transition to T+1."

Post-trade processing in repo will be central to this conversation, once regulators propose their rules.

The expected introduction of mandatory clearing for US Treasuries and US Treasury repo over the next two years, and the beginning of discussions in Europe about similar regulation, also point to a need for more efficient repo post-trade workflows.

Market participants expect that the mandatory clearing rules will require a large number of new clients to sign up for a CCP — this could impact the firms that were captured by Uncleared Margin Rules (UMR) over the last few years. New clients, new rules and new workflows, will all combine to create the potential for confusion in the early days. And while most US Treasury repo transactions will be cleared, there will remain a large segment of the market, including the official sector, that will require counterparties to maintain processing for both CCP and bilateral transactions.

It is no surprise that improved post-trade technology will be the only viable solution for extending repo settlement benefits to margin across other products. T+1 in North America, and later in Europe, as well as mandatory clearing (which will begin in the US), will mean that not only will manual processes not be acceptable, but they will not succeed at all in this environment.

These are complex times. Dealers and clients will need to work at pace to streamline their operations, and ensure that reliable, scalable and efficient post-trade workflow solutions are delivered across cleared, bilateral, repo, and other collateralised trading products.

OSTTRA provides services that support post-trade repo processing, including the automation of affirmation and confirmation, lifecycle event management, and allocation processing via OSTTRA MarkitWire. Transactions previously captured on OSTTRA MarkitWire can soon be leveraged to achieve settlement via straight-through processing (STP), through SWIFT connectivity to custodians and depositories.

In addition, the OSTTRA reconciliation service, OSTTRA triResolve, ensures the accuracy of repo portfolios on a multilateral basis, with streamlined exception management processes.

The home of MarkitServ, Traiana, TriOptima and Reset, OSTTRA brings the expertise, processes and networks together to solve the post-trade challenges of the global financial markets. OSTTRA aims to strengthen the post-trade infrastructure and ecosystem, with robust and progressive end-to-end post-trade solutions and unrivalled connectivity.

"It is no surprise that improved post-trade technology will be the only viable solution for extending repo settlement benefits."

Neil Taylor
Head of repo business development
OSTTRA

Modernising the repo market: Navigating regulatory changes and embracing innovation

To align with the rapid pace of modernisation, firms must prioritise investment in technology that meets both client demands and regulatory requirements, according to Clear Street's Joseph DiMartino, managing director of repo trading

An industry reliant on phone calls, chats and emails — the repo market has been hesitant to adopt new technologies and modern ways of working. Despite the crucial role that repo plays in funding the financial industry, the more than US$3 trillion US repo market still runs on outdated practices, including spreadsheets and paper confirmations.

However, changing market demands and new US central clearing rules are bringing repo into the 21st Century.

In the most significant change for the Treasury market structure in decades, the US Securities and Exchange Commission (SEC) adopted a rule in December 2023, aimed at reducing risk and increasing transparency in the US repo market.

In practice, this rule will reassemble how the Treasury market functions by requiring market participants to clear all repo and interdealer cash trades. A 2021 report by the Treasury Market Practices Group estimated that 13 per cent of cash transactions are centrally cleared, 68 per cent are bilaterally cleared, and 19 per cent involve hybrid clearing.

After a relatively calm four years, a policy of quantitative tightening has reawakened volatility during banks' critical funding periods, making the activity in the repo market more significant than ever. As broker-dealers, funds, and other market participants adjust to changing regulations and client needs, those who invest in cutting-edge technology will take the lead.

Legislation driving modernisation

The SEC's December 2023 landmark regulations include specific requirements for repo and reverse repo collateralised by US Treasury securities to be cleared centrally. The new rules for clearing houses will take effect in March 2025. Firms will have to meet heightened standards for risk management, access to settlement services, and protection of customer assets. The rules for clearing house members to clear cash transactions will take effect in December 2025, and repo transactions will go into practice in June 2026.

Central clearing is set to increase transparency in the repo market and may reduce gross exposures and flows, lessening the amplification of small shocks and lowering stress in the Treasury and other markets. However, the associated rise in transactional fees could cause some market participants to shrink their balance sheets.

Smaller players will have to pass on the additional cost, and may lose clients who cannot accept a higher barrier to entry, leading to potential concentration risk. However, granting increased exposure to the Fed and its operations, either outright or through primary dealerships, could alleviate some of these concerns. Additionally, there is a possibility of unintended consequences, including less liquidity and possible disruptions in US Treasury auctions.

In tandem, debt-fueled bets by prop traders and hedge funds, also known as basis trades, have drawn scrutiny from regulators, who are concerned that an abrupt unwind of leveraged positions could strain markets. Visibility of Treasury cash-futures basis trades are historically limited, and the Federal Reserve is seeking to better understand hedge funds' Treasury holdings and repo activity.

Enhancing efficiency in post-trade

"Major industry transformations happen every 15 to 20 years, and while there have been steady incremental improvements over recent years, I think we're set for a period of significant reform," said Magnus Haglind, head of products, marketplace technology, for Nasdaq. "For example, we're now in the second full decade of cloud adoption in many parts of the global economy, but its potential has yet to be realised in financial markets."

Haglind was referring to the slow adoption of new technologies in financial services compared to other industries. Fundamental change across the financial services industry will require a change in mindset, and firms must ensure they have the right people and training to support agile, client-centric development.

Innovation also requires a shift around cost dynamics. For many firms, back office processes are out of sight and mind until something goes wrong. The cost of trade failure is substantial when factoring in borrowed securities, interest costs, balance sheet impact, and penalties.

Simplifying the technology behind trading and post-trade functions can transform it from a cost centre to a competitive advantage. But for many firms, upgrading would require rewriting numerous systems with significant technical debt, massive resourcing, and high planning costs — a daunting project.

Modernisation ultimately results in enhanced transparency, reduced counterparty risk, and cost efficiency. Firms already using new technology will be better equipped to adopt standardisation models, increase cost efficiency, and reduce counterparty risks.

The repo market is historically relationship-driven, but the importance of relationships should not undermine or stifle technological innovation. While differences in collateral and dates can complicate standardising repo operations, when the balance sheet gets scarce, it becomes more difficult to trade on a platform, particularly repo.

To streamline processes, firms should reduce manual actions, automate functions like affirmation and confirmation processes, and move away from overnight batch processing.

A modern brokerage ecosystem

The shrinking prime brokerage industry, coupled with the regional banking crisis, the meme stock saga, and the collapse of Archegos Capital, has challenged hedge funds in formulating their prime brokerage strategies. A counterparty's stability in volatile markets can be a key differentiator, together with their product offering, securities lending supply, and financing capabilities. For example, as Common Equity Tier 1 (CET1) ratios face pressure under Basel III regulations, banks may need to scale down their balance sheets, potentially reducing hedge fund lending.

The solution lies in a centralised platform that breaks down silos of critical inputs, and harnesses advanced analytics and machine learning to optimise inventory, collateral, and margin, in response to customer demand. Advancements in pre and post-trade processes such as onboarding, trade settlement, and loan allocation, promise to increase efficiencies. The ultimate aim is to enhance liquidity, improve economics, and mitigate systemic risk.

As the repo market faces increased demand for transparency, automation, and time and cost efficiency, the future is a modern, scalable prime brokerage model. A technology-first approach — driven by engineers and securities finance veterans — can improve speed to market and expansion into new products and services. Downstream, these efficiencies translate into personalised, white-glove client service with increased visibility and lower costs.

The repo market is ripe for disruption. There is an opportunity for independent prime brokers with the autonomy to prioritise client interests without the constraints of standardised capital requirements or conflicting business agendas.

This new generation of firms have greater flexibility and discretion in pricing, and can deliver products faster, with enhanced customisation and improved alignment on risk and margin policies.

To align with the rapid pace of modernisation, firms must prioritise investment in technology that meets both client demands and regulatory requirements. Those who embrace this shift will play a crucial role in shaping the modern and scalable landscape of capital markets, ultimately enhancing access, speed, and service for all stakeholders.

Joseph DiMartino
Managing director of repo trading
Clear Street

Guaranteed Repo: How banks can intermediate with less impact on their financial resources

Shiv Rao, chairman and founder of Sunthay, reviews the proposed regulations providing barriers for repo market participants, and explores how the firm's joint initiative with Bloomberg and Euroclear aims to help reduce the impact of these upcoming requirements

Globally, the funding market is enormous. In the US alone, primary dealers' outstanding repo and reverse repo exposure totalled an average daily US$5.7 trillion in January, according to data from the Securities Industry and Financial Markets Association (SIFMA).

A repurchase agreement is, in effect, a short-term collateralised loan. One party sells a security — a US Treasury note, for example — to another and agrees to buy it back, typically the next day. The interest paid for this financing is the repo rate. Reverse repo is the same transaction from the perspective of the buyer of the security in its first leg. Institutions that hold a lot of bonds, such as broker-dealers or hedge funds, can turn to the market to borrow cheaply, using these assets as collateral. Other entities with a lot of cash, such as money market funds, can use repo transactions to earn a safe return.

Banks play a crucial intermediary role in this market. They facilitate transactions between parties that would not normally trade directly with one another — a hedge fund and a money market fund, for example. A rule adopted by the US Securities and Exchange Commission (SEC) in December 2023 could add to costs, by requiring the clearing of most repo transactions.

In addition, proposed regulations would raise capital requirements on banks, potentially making them less economical, causing the banks to become reluctant to participate in the market. Guaranteed Repo, a joint initiative between Bloomberg, Euroclear and Sunthay, can help to reduce the impact of these regulations.

What is Guaranteed Repo?

Guaranteed Repo is a trading solution for credit-intermediated repo transactions. The concept was developed by Sunthay, which supplies standardised guarantee documentation. Bloomberg hosts electronic trading, and Euroclear provides post-trade settlement and collateral management.

Guaranteed Repo is designed to enable banks to continue their roles as intermediaries in repo markets without using their balance sheets. Unlike with some other types of repo arrangements, banks are not counterparties in Guaranteed Repo trades — they neither lend to the hedge fund, nor borrow from the money market fund. Instead, those traders deal directly with one another through the functionality. The bank's role is to serve as a contingent obligor — it promises to step in should there be a default by the party whose performance it is guaranteeing.

Clearing requirements

In December 2023, the SEC adopted a rule that will require clearing of all US Treasury-backed repo transactions in which at least one counterparty is a direct participant in a covered clearing agency (CCA). Direct participants are primarily the banks and broker-dealers that are full members of the CCA. Because most expected users of Guaranteed Repo are not direct participants in the CCA, their transactions are excluded from the clearing requirement.

In the US, the only repo CCA is the Fixed Income Clearing Corporation (FICC). It offers several clearing models, the most widely used of which is called sponsored repo. For banks, sponsored repo is based on a principal model. In it, sponsoring members, such as banks and broker-dealers that are full members of FICC, enter into principal transactions with sponsored members — typically entities such as hedge funds and money market funds that are not full members — and subsequently novate, or reassign, these principal transactions to FICC.

Sponsoring members guarantee the performance of sponsored members to FICC. These guarantees result in risk-weighted assets (RWAs) on both the repo and reverse repo leg transactions, that are identical to equivalent uncleared bilateral repo transactions.

Sponsored repo transactions maintain leverage in the financial system at the same level as uncleared bilateral transactions, as novation transfers leverage from the banking system to FICC, with losses mutualised among members. By contrast, Guaranteed Repo reduces financial system leverage by making banks contingent obligors rather than principals.

Guaranteed Repo complements clearing by offering repo market participants an alternative that achieves similar goals, potentially at a lower cost. As a result, transactions that are unprofitable for banks if cleared could become profitable.

Basel III Endgame

The Basel Committee on Banking Supervision (BCBS) has come to a consensus on the minimum capital standards that they would enforce on banks. The 45 central banks and regulatory agencies that make up the committee membership have begun to formulate the local rules, implementing the final accord in their 28 countries and jurisdictions.

When implemented, the standards are expected to increase capital requirements overall for a number of banks. While changes in the amount of capital required for secured funding transactions — including repo and securities lending transactions — are likely to be quite benign for many, the overall increase in the amount of capital that banks need to hold will make them focus on efficiency across all business lines.

US regulators were the first to release proposed rules. The Federal Reserve, Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) promulgated a notice of proposed rulemaking in July 2023. The proposed rule would have resulted in the US 'gold plating' the consensus rules by adopting higher capital requirements for US banks relative to other jurisdictions. Following extensive pushback from market participants, US regulators announced that they are reviewing the proposed rule.

While a revised US proposed rule might dial back some of the impact of the original proposal, the impact of the global consensus rules is nevertheless likely to be quite punitive on secured funding transactions. Chief among the consensus revisions to existing rules is a sharply reduced ability for banks to use internal models to determine counterparty risk weights. This change is likely to substantially increase risk weights — and RWAs — for exposures to unrated and low-rated counterparties.

The Endgame rules could therefore produce a counterintuitive effect: banks' exposures to low-risk entities could result in substantially higher RWAs than exposures to higher-risk entities. That result derives from a repo desk convention. A substantial portion of banks' uncleared bilateral repo trades that provide funding to end users, such as hedge funds, are transacted with zero per cent haircuts — meaning that the cash equals the value of the securities. Conversely, banks generally post haircuts — typically two per cent for government bond-backed trades — when they raise funding from end providers such as money market funds.

Guaranteed Repo will result in substantially lower RWAs than other repo trading models, thereby lowering the amount of capital needed. The reason being that banks' credit exposures are limited to one counterparty in the transaction — the trader they are guaranteeing. By contrast, other repo trading models cause banks to have exposure to two counterparties.

Consider three hypothetical scenarios that show the lower RWAs in Guaranteed Repo (Figure 1). Scenario 1 represents banks' typical exposure from a two-leg trade — the bank receives a zero per cent haircut from its hedge fund counterparty and posts a two per cent haircut to its money market fund counterparty. Scenario 2 sets both haircuts to zero per cent, and Scenario 3 sets them both to two per cent. The risk weights for the counterparties are 100 per cent for the leg involving the non-investment-grade counterparty, such as the hedge fund, and 65 per cent for the leg with the investment-grade counterparty.

Figure 1

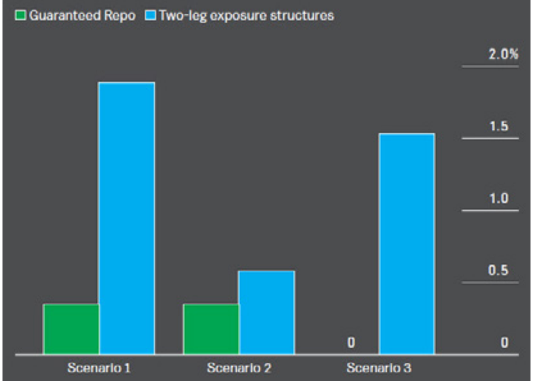
Repo Haircut Scenarios

Consider three hypothetical repo deals with identical collateral—US Treasuries with less than one year to maturity—in which banks receive and pay various haircuts, the percentage difference between the collateral value and the price paid. Under all three scenarios, risk-weighted assets for Guaranteed Repo are lower than for a typical two-leg structure.

Scenario conditions

	Haircut received	Haircut paid	Market-volatility haircut		Risk weight	
	Reverse repo	Repo	Reverse repo	Repo	Reverse repo	Repo
Scenario 1	0.00%	2.00%	0.35%	0.35%	100%	65%
Scenario 2	0.00	0.00	0.35	0.35	100	65
Scenario 3	2.00	2.00	0.35	0.35	100	65

Total risk-weighted assets



Sources: Bloomberg, Sunthay GRX LLC

The chart highlights the RWAs under the single transaction exposure formula for Guaranteed Repo trades compared with two-leg structures. Eliminating repo leg exposures causes RWAs for Guaranteed Repo transactions to be substantially lower than the other structure in all three haircut scenarios. In fact, in Scenario 3, RWAs for Guaranteed Repo are zero because the haircut received on the loan to the hedge fund is greater than the standard minimum required market-volatility haircut.

G-SIB surcharge

Financial institutions deemed as global systemically important banks (G-SIBs) are assigned an additional capital surcharge based on a number of metrics such as size and interconnectedness. This additional G-SIB surcharge can substantially increase capital requirements for banks, making them reluctant to expand their intermediation activities when market disruptions occur. The surcharge increases in large increments (50 basis points in the US, for example), making the marginal transaction that tips a bank into the next higher surcharge bucket very costly. As a result, banks are highly resistant to engage in the marginal transaction.

Guaranteed Repo transactions can help banks maintain their critical intermediary roles when the marginal transaction is expensive. Most elements of the calculation do not apply to Guaranteed Repo transactions, particularly the US Method 2 calculation, which reflects a bank's reliance on short-term wholesale funding. Because banks are contingent obligors in these transactions, they do not incur short-term liabilities. So that element of the G-SIB surcharge calculation does not apply. While making the incremental surcharge step more granular (as US regulators have proposed) can reduce the cost of the marginal transaction, it is nevertheless expensive. Guaranteed Repo is more efficient in helping banks to increase their intermediation in stressed periods than other alternatives.

Regulators have also moved to eliminate 'window dressing' for the purpose of managing the G-SIB surcharge, by requiring the stock elements of the surcharge to be calculated based on daily averages. As Guaranteed Repo transactions are not included in most elements of the G-SIB surcharge calculation, banks can use it to maintain their support of repo markets at current intra-reporting period levels.

Other regulatory benefits

Guaranteed Repo transactions are excluded from the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) calculations. Guarantees furnished by banks are neither credit facilities nor liquidity facilities under the LCR. And because banks are not principals to transactions, the NSFR does not apply.

Injecting liquidity

Central banks' liquidity facilities are generally only available to regulated banks. Regulators rely on banks to deploy the liquidity to sectors and clients in need. The past few years have shown that balance sheet and capital constraints can limit the ability of banks to act as liquidity conduits.

Guaranteed Repo can help address these constraints. From an operational perspective, Guaranteed Repo trades are executed and settled directly by end users, without reliance on intermediate transactions with banks. Central banks can use this direct access method to rapidly direct liquidity toward entities or sectors experiencing stress. Collateral eligibility and haircuts can be predetermined, and eligible counterparties and guarantors can execute standardised documentation in advance.

In summary, Guaranteed Repo can potentially reinforce systemic resilience. It reduces systemwide leverage, thereby lowering contagion risk. It diffuses risk among market participants, reducing concentration. It requires less intraday liquidity systemwide, decreasing the risk of disruptions caused by an inability to settle transactions. And it reduces costs for market participants, as collateral and cash move directly between end users and providers.

Shiv Rao
Chairman and founder
Sunthay

SIX: Celebrating 10 years of repo trading

For 10 years, SIX has supported the international repo market through its trading services. In light of this milestone, the company reflects on some of its largest achievements and explores what the future holds for the market

SIX established its repo trading platform in 2014, with the aim of supporting the Swiss money market and its fully integrated value chain.

Not only did the repo trading platform underpin activities like liquidity management, but it was also used by the Swiss National Bank (SNB) to implement its monetary policy operations, auctions of federal bonds, and money market book claims — succeeding a previous platform that was offered by a former SIX-joint venture.

The platform operated by SIX was made available to Swiss and international financial institutions, and ensured that trading, securities settlement, and payment processing, were offered as a fully-integrated solution from a single, centralised source in 14 currencies.

Getting to the CO:RE

In 2016, SIX went live with its new electronic trading facility — CO:RE (Collateral & Repo) — offering a single point of access to more than 160 domestic and international clients, including banks, insurance companies and funds, who are active participants in the domestic multi-currency repo market.

This launch further cemented the company's position in the repo and securities finance world.

CO:RE replaced a number of legacy systems, shoring up the repo market with upgraded technology and capabilities, together with new functionalities. In addition, CO:RE provided an enhanced real-time securities finance offering, bringing together trading and collateral management in a fully integrated value chain, from trading to settlement and collateralisation at the Central Securities Depository (CSD) and custody level.

The solution also gave users the ability to monitor their collateral in real-time — with multi-day forecasting tools further helping financial institutions with collateral management.

In 2017, the Swiss Financial Market Supervisory Authority (FINMA) approved the request of SIX for its CO:RE trading platform to be designated as a multilateral trading facility (MTF).

The Collateral Cockpit takes centre stage

In 2020, SIX launched its Collateral Cockpit, a technology interface designed to join together fragmented front and back office information systems, thereby giving repo market participants the ability to view, manage and optimise their collateral in real-time on a single platform.

Historically, collateral management was a convoluted process.

For instance, collateral was often managed across the front and back office through a byzantine network of systems developed by a range of different technology providers. This complexity and lack of visibility meant manual intervention was frequently required to prevent operational errors from happening.

These issues have since been remedied by Collateral Cockpit, as it enabled both automation and transparency by giving users a holistic view across all of their collateral processes and activities.

Taking collateral management up a notch

As a next step in its path of innovation, in 2021 SIX unveiled its renewed Triparty Collateral Management (TCM) solution, complementing its existing Triparty Agent (TPA) and Collateral Cockpit solutions.

When using the TCM service, two parties to a transaction delegate their day-to-day operational responsibilities around collateralisation to SIX. The SIX TPA then performs tasks such as the selection and automatic execution of collateral transfers, and ongoing validation that exposures are being appropriately collateralised through multiple daily mark-to-market checks during the transaction lifecycle.

This service creates additional opportunities for clients by helping them to reduce operational risks and costs. By leveraging TCM in conjunction with Collateral

Cockpit, users can monitor their exposures and margin calls in real-time, while also benefiting from having simplified collateral management processes, like easily substituting collateral position with a few clicks.

Move to SARON

In the aftermath of the rate rigging allegations, LIBOR — which was the reference rate for a number of currencies including the Swiss Franc — ceased to exist and was replaced with SARON. SIX has closely collaborated with the Swiss National Working Group on the LIBOR replacement — the Swiss Reference Rate SARON is currently calculated based on the interest rates from repo transactions on SIX's CO:RE trading platform, and the associated information is distributed globally by SIX Financial Information.

What do the next 10 years hold?

The local market gets bigger.

Volumes in the SIX repo market are expected to grow further, and this is likely to trigger even greater global participation in the already international market.

Although a number of non-Swiss institutions — such as entities from the UK, Germany and Denmark — are present in the repo market, it is expected that more organisations from further afield will join them, potentially including additional central banks, insurance companies, pension funds, and fund management groups.

Collateral mobility becomes more important.

Over the last few years the industry has faced collateral shortfalls, sparked by central bank quantitative easing policies and post-financial crisis regulations, such as Basel III and Solvency II — both of which subject financial institutions to risk-weighted capital requirements.

The hunt for high quality liquid assets (HQLA) was also intensified following the introduction of mandatory OTC derivative clearing rules and margining requirements for uncleared or bilaterally traded OTCs.

As central banks wind down their balance sheets and financial institutions become more accustomed to these regulations, fears about collateral scarcity are easing, but organisations are all too aware that they need to have efficient collateral management processes in place.

The ability to mobilise collateral as quickly as possible will be critical for firms moving forward.

Transparency into securities finance transactions (SFTs) will only grow.

Introduced in 2016, the Securities Financing Transaction Regulation (SFTR) required financial institutions to report details of their SFTs — repos, securities lending, securities borrowing, and margin lending — to trade repositories. With the integrated SFTR reporting service for repo transactions on the CO:RE trading platform, and its investment in REGIS-TR, SIX is well positioned to be a supporting partner for its clients.

With regulatory reporting becoming increasingly ubiquitous more generally, SFTs and repos could face added scrutiny.

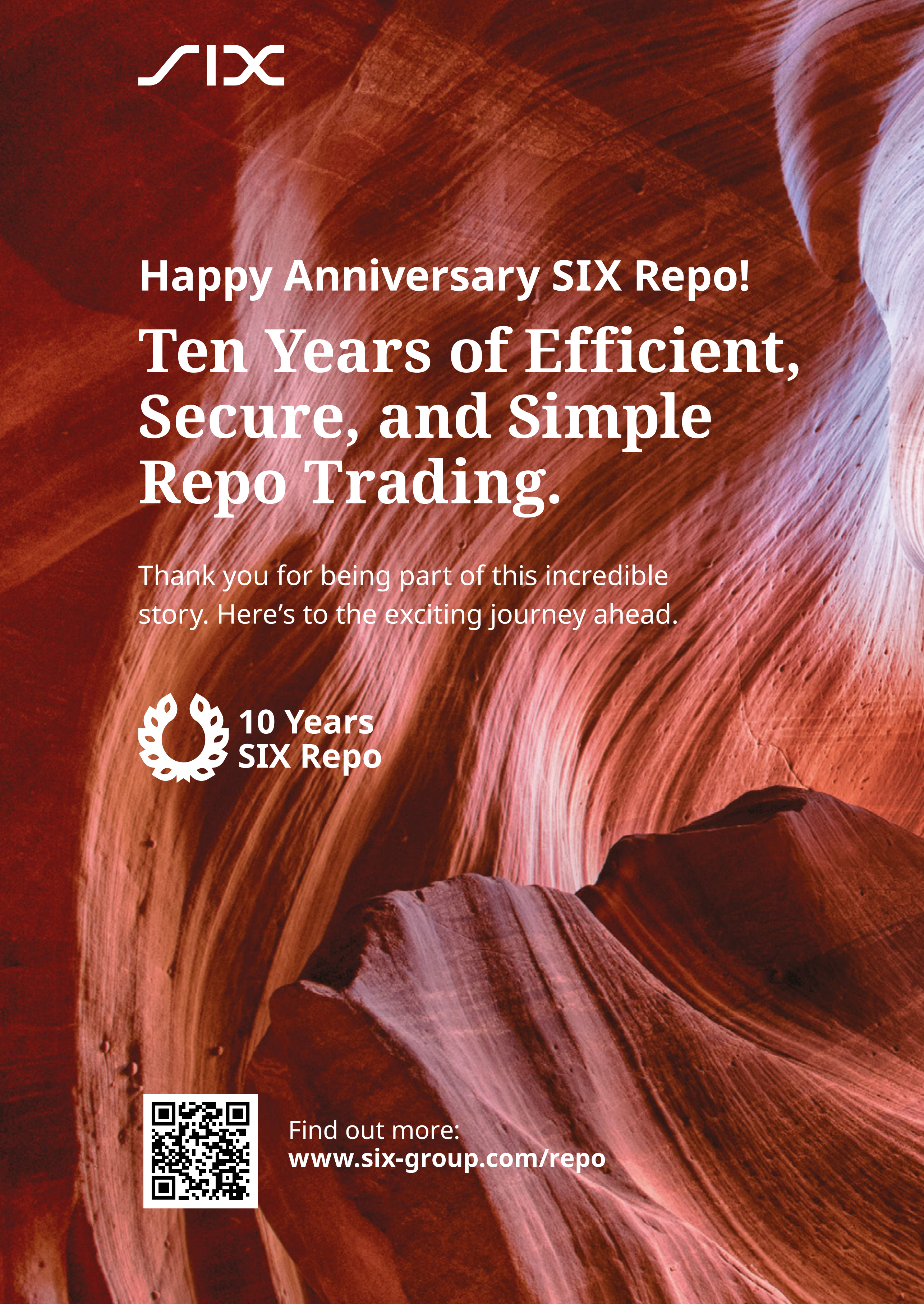
Repo will continue to undergo a digital transformation.

SIX is playing an instrumental role in the digitalisation of financial markets, including repo, and, together with partners, is actively supporting initiatives in the space of digital securities transactions

On its repo trading platform CO:RE, SIX has seen the first repo transactions using digital native assets as collateral in early 2023.

Having been at the forefront of innovation in the repo market since 2014, SIX has every intention of staying the course over the next decade and beyond.

With this occasion, we would like to thank your clients and partners for being part of this incredible story. We are looking forward to the exciting journey ahead and welcome all companies that would like to join the SIX repo market.


SIX
Happy Anniversary SIX Repo!
Ten Years of Efficient, Secure, and Simple Repo Trading.
Thank you for being part of this incredible story. Here’s to the exciting journey ahead.
10 Years SIX Repo
Find out more:
www.six-group.com/repo

The spark of innovation: A financial markets perspective

Those who innovate are capable of visualising a world different to the current status quo, says Steve Griffiths, CEO and founder of Absolute Collateral

Innovation has become inseparable from technology, which is why it is important to understand exactly what the nature of innovation is, and the many applications it can have.

Imagination

Innovators are by their nature, highly imaginative and capable of visualising a world different to the current status quo. Their ability to hold this vision in one hand, while understanding the mechanisms needed to bring their idea into fruition, is their skill.

It requires the blending of intellect — logic, reason and objectivity — with intuitive abilities — emotions, creativity and subjectivity — to form a new perspective, through which the traditional framework is perceived and interpreted. This is their uniqueness.

When you innovate, you tread an unknown path. Far too often, companies and investors attempt to confine creativity within key performance indicators (KPIs), metrics, and rigid procedures, hoping to transform the unfamiliar into the familiar through a mechanised process with prescribed steps. The true innovator comprehends what is known, and recognises that the unknown is the very essence that allows innovation to take shape. Without uncharted territories, there exists no space for change or the emergence of fresh ideas.

When innovation is applied to technology, it allows this freedom of perception even greater reach. To be innovative is to change existing frameworks. The manner in which this is done is understood by the innovator. This is their tool.

Financial markets

The financial markets' application of innovative technology is geared towards making money, as well as its associated aspects, such as revenue, volume, client acquisition, and market share. This frames innovation in a certain light, but money is only one aspect. Arguably, innovation and creativity are then only 'tolerated' when they produce something tangible that makes money.

Permitting innovation to develop along only one narrow path, by definition, restricts its potential. It not only diminishes and limits that spark of innovation, but it causes the one path that is open (money) to destabilise. Firms can end up in a situation where the very goal they are trying to achieve becomes ever-elusive.

Innovation transcends the concept of money, so tying your ideas, processes, and methods to money, causes innovation to suffer. This is the heart of the problem regarding innovation. Innovation defies restraints, and while money is an important avenue, it is not the only one.

Innovation allows for the possibility to achieve more than mere intellect, data, logic and objectivity functions can comprehend. To reduce the focus of innovation to money, limits the potential for this extraordinary possibility. This is the core of the innovative dilemma.

Technology is a catalyst for a growing financial market. It puts players from all areas of the globe in contact with one another. Your perspective on the markets is no longer limited to what is in front of you, but expanded to infinite global possibilities previously denied. The ability to integrate a global perspective with your own personal view is essential.

Technology

The modern world revolves around technology, and applications are embedded into nearly every decision making process. The way individuals relate to technology can define their ability to assimilate a global perspective and reconcile it with their personal viewpoint. Technology, therefore, should enhance an individual's perspective while developing that individual's ability to learn skills and capture new opportunities.

The balance between computer algorithms and AI doing work on behalf of an individual, diminishes that individual's capacity to develop — those processes are taken care of and automated without an individual's conscious thought. Essentially, the need for a mind and conscious thought become redundant.

Technology backed by innovative ideals — to enhance an individual's development — is how innovation changes the world constructively. As individuals evolve, these changes are reflected and accelerated by technology.

This simple understanding is embedded in an innovative person. Their skill in bringing innovative ideas to reality, all while working within the status quo. This is the challenge they accept. The great results that follow are the reward — a reward which also happens to benefit the whole market simultaneously.

Absolute Collateral

At Absolute Collateral, we work with market participants and infrastructure entities, each of whom have a unique perspective, and can redirect resources previously spent maintaining artificial boundaries into expanded trading, realising that sometimes no action, is itself, action.

The financial markets do not exist as a separate thing in of itself. The markets exist as a collection of relationships between each player involved, where the products (and money) act as a medium through which ideas are expressed. This then creates a unique perspective, each of which can combine in myriad ways, reinforcing existing markets and products, as well as creating new ones. The totality of this is what we call 'the financial markets'.

Therefore all players, large and small, are connected and communicating to each other via this field of activity, all while remaining unique individuals within it. Every action and inaction by one player is communicated to every other player via updated activity in the markets. It is then realised that no action, is action. How?

Take a simple trade. When a trade is executed, the financial market reflects this change in all those combinations available (increased volume, price discovery, market share, revenue etc). If this trade takes place in a new market a particular player is not involved in, all that really happens is that that player limits their perspective of the action or change. They have still changed, since the market has changed.

If the player continues their course of no action, they develop along a path that ignores the updated action, and can miss opportunities to grow and develop in new ways. Carried too far, great adjustments are needed to realign to the current financial market and expand trading ideas to include these new markets and products.

In this scenario, our new market remains underdeveloped, siloed, or 'one-way'. This not only affects those within the new market, but everyone else as well. Potential combinations between and within all products, markets and players remain latent. When one loses, all lose.

We therefore provide opportunities for all market participants and infrastructure entities to grow and develop into new markets that they themselves are already a part of. We provide the tools for individual development and growth that lay latent, but ready to be activated.

"Innovation allows for the possibility to achieve more than mere intellect, data, logic and objectivity functions can comprehend."

Steve Griffiths
CEO and founder
Absolute Collateral

Camille McKelvey
Head of business development STP
MarketAxess Post-Trade

Unlocking efficiency: Introducing RepoData by MarketAxess

Camille McKelvey, head of business development STP at MarketAxess Post-Trade, explores the importance of data and how the firm's new solution aims to provide insights and new opportunities in a hyper-competitive environment

In the ever-evolving world of finance, efficiency is everything. Recognising this, MarketAxess RepoData combines artificial intelligence (AI) with robust data analytics to revolutionise how financial institutions optimise their balance sheets and transform trading operations.

RepoData emerged in response to the surging demand from repo desks for real-time and historical insights into repo transaction data across all client accounts. MarketAxess RepoData enables firms to convert vast repositories of repo data into actionable intelligence, facilitating informed decision making and strategic manoeuvring in the market landscape.

Central to RepoData's functionality is its ability to aggregate, normalise, and employ machine learning and AI to extract invaluable insights from repo data repositories. This platform is tailored for the needs of financial institutions when shifting towards automated, ultra-low latency electronic trading.

The rise in trading volumes and market participants underscores the necessity for RepoData, which offers unmatched visibility into repo transaction data from both internal and external sources.

Key features of RepoData:

- Comprehensive coverage: RepoData encompasses repo and buy-sell-back transactions across an array of product categories, including government bonds, SAS, emerging markets, and corporate bonds.
- Granular insights: RepoData provides insights into repo rates and volumes across various terms, ranging from overnight to forward start, empowering organisations with an understanding of market dynamics.
- Data delivery: RepoData ensures timely access to critical insights through two daily CSV files, summarising repo rates and volumes at both ISIN and product levels, therefore ensuring organisations are equipped with relevant and actionable information.

RepoData leverages the extensive repository of the MarketAxess Repo Post-Trade platform, a bilateral repo confirmation matching platform. With US$230 billion in matched trade average daily volume (ADV) and over 700,000 trades matched per annum, MarketAxess RepoData serves as a source of repo insights for both sell and buy side institutions.

RepoData's value proposition extends beyond repo traders, encompassing existing credit and rates clients seeking insights into funding costs and market dynamics. By offering aggregated and anonymised data, RepoData ensures compliance with industry standards, while delivering actionable intelligence to enable decision making.

While RepoData is not real-time in its current iteration, future phases promise enhanced real-time capabilities, further augmenting its value proposition for financial institutions navigating the fast-paced financial landscape.

In conclusion, RepoData stands as a beacon of innovation in repo instrument analytics, providing financial institutions with unprecedented insights and capabilities to thrive in today's hyper-competitive financial markets. As the financial industry marches towards a digital future, RepoData promises to unlock new opportunities and drive sustained growth for organisations worldwide.

Securities finance in times of monetary transition

Clearstream's Marton Szigeti and Eurex Repo's Frank Gast speak to Bob Currie about how monetary readjustment, and changes in regulation and operational culture, are reshaping user engagement in securities lending and cleared repo markets

These are times of transition and readjustment for securities finance practitioners, driven by shifts in macroeconomic policy, geopolitical tensions, and by changes to the regulatory fabric overarching lending and financing strategy.

The European Central Bank (ECB) noted in its November 2023 statement that weaker growth in 2023, coupled with persistent inflationary pressures, underscores the importance of continued consistency between monetary and fiscal policy. While the ECB opted to keep interest rates unchanged at its 26 October meeting, it has repeatedly committed to setting interest rates "as high as needed for as long as necessary".

These factors are driving market participants to reassess their investment strategies, borrowing and lending dynamics, and risk management approaches within the industry. They do so against a background of significant financial uncertainty. It is widely accepted that we are nearing the peak of the tightening cycle — but opinion is split on when central banks will move to policy easing and how aggressively they will cut. This is reflected in wide dispersion in policy rate forecasts from market analysts and the signals on future interest rate pricing coming out of the forwards markets.

Higher for longer

After being negative from 2014 to September 2022, the sharp rise in interest rates and earlier-than-expected repayment of Targeted Longer-term Refinancing Operations (TLTROs) led to an increase in the cost of funding on the capital market.

Against the backdrop of persistent inflation in the Eurozone, the ECB continued its aggressive tightening of monetary policy during 2023, delivering a tenth successive rate increase in September and pushing interest rates to their highest level since the launch of the euro.

Against this background, excess liquidity has fallen from record highs of close to €4.7 trillion in 2022 to around €3.6 trillion in December 2023 as TLTRO tranches have matured and as some market participants have made early repayments of their TLTRO holdings. Its Asset Purchase Programme (APP) is contracting at a “measured and predictable pace”, according to the central bank, as the Eurosystem no longer reinvests the principal payments from maturing securities.

The ECB’s adjustment of the remuneration cap for non-bank deposits has also had an impact on European repo markets. Non-banks and new customers have contributed more liquidity to the repo markets, particularly since the ECB, acting through the national central banks, has offered a rate of only €STR-20bp on non-bank cash deposits since May 2023.

In addition, Deutsche Bundesbank has stopped paying any interest on deposits since 1 October 2023. “This development led to a further step up in the use of CCP repo on the part of public authorities,” says Frank Gast, managing director, Eurex Repo, and head of sales for Europe, FIC derivatives and repo sales. After a period of reduced activity, cash-driven repo transactions, especially those cleared through a CCP, are again attracting significant attention.

These macroeconomic drivers are prompting investors to revise their trading strategies and to reassess their positioning in the market. “Previously inclined towards short positions, investors have now pivoted to long positions in government bonds,” observes Gast. “This switch has had a dual impact: it has reduced the need to borrow securities to cover short positions and simultaneously heightened demand for financing.”

The practical effects of this change are evident in the declining average lending fees for core European government bonds year on year, notes Gast, coupled with a significant upturn in balances under collateral management, particularly in sectors where firms act as triparty agents.

Driving up the volume

Against this macroeconomic background of interest rate tightening, TLTRO repayments and further reduction of excess liquidity, Eurex Repo has continued to experience a rise in repo trading activity across its platform, culminating in new record volumes for its cleared repo markets.

Specifically, total average daily term-adjusted volume across all markets increased by 70 per cent relative to 2022, powered by a 38 per cent YoY rise in volumes in the special repo market and a 140 per cent increase for GC Pooling.

In general terms, Eurex Repo has focused its recent strategy on attracting more customers into cleared repo, particularly from buy-side firms, on building GC Pooling trading activity, and on improving market share in the B2B special and GC repo segments.

These initiatives appear to be bearing fruit, with total daily term-adjusted volumes for buy-side clients rising by more than 200 per cent over 2023. “The revitalisation of this cash-driven repo segment was significantly influenced by the momentum in Eurex’s buy-side and dealer-to-client strategy,” explains Gast. Sales initiatives designed to boost liquidity in French, Italian and Spanish government bonds in the special repo segment have, in addition, stimulated volume growth across a range of clients.

While there has been a pick-up in shorter maturity trades from overnight to one week, 2023 has particularly delivered a rise in term transactions which continued during the typically quieter trading months of July and August and has extended into Q4. In November, term-adjusted repo volume grew by 70 per cent and, on 28 November, the organisation recorded a new daily record of €1.53 trillion of term-adjusted volume in its repo markets.

Moreover, as its repo rates move closer to the ECB's deposit rate, Eurex Repo anticipates that an increasing number of banks will become involved as cash providers in 2024. Spreads between the GC Pooling ECB basket and the Deposit Facility Rate (DFR) narrowed from around 14 bps at the start of 2023 to 5-6 bps by year end.

For the GC Pooling EXT basket (the GC Pooling ECB EXTended basket, which covers approximately 10,000 ECB eligible securities) spreads have fallen to 2-4bps. Furthermore, the spread between the two main GC Pooling baskets contracted from about 10 bps during the first half of 2023 to 3 bps by December.

Adding new participants

Eurex Repo has established an expanding community of buy-side firms, supranational agencies, corporates and non-financials in its programme, with new cash providers joining the programme drawn by attractive yields. This has included a growing number of pension funds.

For the sell side, firms continue to be driven by a need to optimise their balance sheet efficiency — meeting their financing requirements in line with risk-weighted asset (RWA), liquidity coverage ratio (LCR) and net-stable funding ratio (NSFR) obligations under Basel III. Under a major update to global capital standards, commonly labelled the Basel III Endgame, firms are still able to apply advanced approaches for their RWA calculations for credit and operational risk, but banks applying internal modelling are now under pressure to adopt standardised modelling for a significant portion of their operations — which must exceed 72.5 per cent by the end of 2026, with an intermediate target of 55 per cent by the first quarter of 2024.

These significant changes to the Basel risk-based capital framework are prompting sell-side firms to examine new liquidity sources and to reassess the viability of principal models and CCP-cleared solutions.

Eurex has also introduced a dedicated programme over several years designed to attract more buy-side clients into European cleared repo and to enhance buy-side clearing access for a wider set of instruments including exchange-traded and OTC derivatives. Through ISA Direct and ISA Direct Indemnified, Eurex Clearing aims to combine the advantages of direct clearing access for buy-side firms with the benefits of traditional sponsored access via a clearing member. This establishes a principal-client relationship between the buy-side firm and the CCP, but with a clearing agent performing additional service functions to enhance the clearing solution.

With these benefits, Eurex added 17 new trading and direct members to its financing programme during 2023, with more than 20 prospect clients expected to join the programme next year. More firms are coming into the market for cleared repo, notes Gast, providing access to liquidity at affordable rates, offering straight-through workflows and an effective risk management framework around the transaction.

"This is attractive from an execution and an operational standpoint, enabling participants to do cash management for perhaps billions of euros against a broad choice of counterparts," he continues. "By using Eurex Clearing, cash lenders are able to position their cash promptly and efficiently against a wide range of repo borrowers, perhaps taking 20 or 30 minutes to complete these secured lending commitments when it might have taken them the entire morning to do so bilaterally."

On this point, recent experience has underlined that buy-side firms and banks need to continuously evaluate their liquidity management strategies, both under normal operating conditions and during crisis scenarios. “Recent crises have highlighted the benefits of using a CCP not only for its risk mitigation capabilities, but also for its streamlined settlement infrastructure,” Gast observes. In a bilateral framework, settlement processes can often become unnecessarily complex and more vulnerable to disruptions.

Strategic lending

Building on these observations, Marton Szigeti, head of collateral, lending and liquidity solutions at Clearstream, indicates that Deutsche Börse Group offers a comprehensive portfolio of funding and financing, securities lending and collateral management solutions that are helping users across the financial ecosystem to manage the macroeconomic, regulatory and operational challenges that confront them.

“Clearstream offers a strategic lending programme where we stand as a contractual counterparty to lenders and borrowers,” explains Szigeti, “thereby offering the advantage of trading against an AA-rated financial market infrastructure company as intermediary.” “We believe that it will become increasingly hard for some firms to access the liquidity they require without intermediation to help them to manage the credit risk,” says Szigeti. “With this, we see growing interest in our strategic lending programme, given the favourable capital treatment this can create.”

In line with this statement, he notes that securities lending volumes through Clearstream’s programme are up approximately 40 per cent over 2023. However, the profile of this loan activity is changing, with a contraction in specials-driven loan activity to cover short positions or to support event-driven investment strategies. Instead, loan demand is being heavily driven by firms sourcing securities to power their financing strategies and to meet their obligations to hold liquid asset buffers under LCR or NSFR.

“In monetary policy terms, there are signs that we are now near to the end of the tightening cycle and, with this, traders are changing short strategies to long strategies, thereby reducing the associated demand for stock borrow to close out short positions,” comments Szigeti.

“In turn, corporates and buy-side firms are being well paid to lend their inventory of stress-compliant assets,” says Szigeti. “With this, many of the corporate entities that we have on Clearstream’s books are becoming increasingly active in the securities lending space.”

In expanding its lending programme, Clearstream is adding ETF lending to its services during Q1 2024. This asset class expansion is not only extending the range of securities and loan availability offered through the fails coverage programme, but also makes a wider pool of securities available to clients via the strategic lending programme.

For lenders, this will, among other benefits, provide opportunities to enhance portfolio yields and to deliver additional liquidity to the market. For borrowers, this will provide access to ETF securities for strategic trading purposes and will extend fails coverage to boost settlement efficiency in ETF secondary markets.

Settlement discipline

With the introduction of the Settlement Discipline Regime component of the Central Securities Depositories Regulation (CSDR) on 1 February 2022, this has reinforced demand to borrow securities for fails coverage purposes. In doing so, it has also motivated firms to review their operational cultures, changing how they monitor and manage potential fails — particularly by adopting an intraday approach to their fails coverage.

Szigeti observes that prior to SDR — and during an extended period of low interest rates — it was relatively common for firms to autoborrow the securities and then to hold these securities overnight before entering them for settlement in the next settlement cycle. “Whereas in the past, perhaps 50 to 60 per cent of securities borrowed to cover a non-delivery would be held overnight, this has now fallen substantially — to no more than 20 per cent,” says Szigeti. “This is a major efficiency consideration, and a major cost saving, when considering that billions of euros of trades are being borrowed on a daily basis."

On balance, many settlement counterparties — particularly on the sell-side — are monitoring the status of their trades much more closely across the settlement cycle, they are identifying potential fails at an earlier stage and are acting more quickly to close out those failed positions or to apply functions such as shaping or partial settlement.

Market outlook

With the expectation that interest rates are stabilising and are likely to fall, Szigeti predicts that buy-side firms will continue to adjust their trading strategies, reducing their short positions and increasing the balance of long positions in their portfolios. This shift in investment strategy implies that fewer special securities, which typically command higher fees, will be in demand, especially in the government bonds sector. Instead, there will be a heightened need for financing solutions.

A key focal point, he suggests, will be the potential leverage employed by the buy-side in basis trades, particularly involving government bonds through central counterparties. The introduction of haircuts as a means to limit leverage could have a significant impact as it can affect both liquidity and cost of financing.

Eurex Repo will continue during 2024 to expand its product coverage and to extend the range of participants active on its platform, indicating that a diverse and well-balanced composition of participants is essential to enhancing the strength of the liquidity pool and to supporting a robust and sustainable funding framework for repos and reverse repos.

"Beyond the current blend of commercial banks, national debt management offices (DMOs), central banks, supranational entities, and, more recently, pension funds active in Eurex's repo markets, our aim is to further extend the pool with the inclusion of entities such as insurance companies, money market funds, and hedge funds," says Gast.

In the case of hedge funds, the ISA Direct Indemnified solution offers direct access to the clearing house and the first pilot clients are expected to complete their onboarding during H1 2024. "We have conducted detailed discussions with clearing agents and have several clearing agents that have, or are about to, upgrade their clearing membership to offer this service to hedge funds," says Gast.

This, he suggests, is an important step for Eurex Clearing in moving its buy-side strategy to the next level. Buy-side clients currently contribute approximately 10 per cent of current volume to Eurex Repo and the firm expects this to grow, with more hedge funds coming on board, to around 20-25 per cent of volume through its programme in the mid-term.

EMIR 3.0 negotiations have also opened a window to remove further barriers for the buy side to access repo clearing through targeted amendments to the Money Markets Fund Regulation and the UCITS directive. In June 2023, the exemption for EU pension funds from the clearing mandate finally lapsed after several years of extensions.

For the bank community, State Street selected Eurex in May 2023 as the first location outside of the US that it will use for trading and clearing repo transactions. In September, the Bank of New York also joined Eurex as its first non-US CCP for clearing repo trades. Commenting on these developments, Gast observes that "onboarding two of the world's largest custodian banks has been an important milestone for Eurex's cleared repo markets in the past year and illustrates the huge opportunities that exist in the European repo market".

Eurex aims to continue to drive momentum through GC Pooling by adding new functions and new participants. In December, it launched a "break-date" term-trading solution that will enable traders to book a term trade, but for this to be segmented and rolled over as a series of monthly transactions, helping the client to maximise balance sheet efficiency over reporting dates. "This provides an example of how we want to support the market, helping banks and broker-dealers to manage their balance sheet more efficiently," says Gast.

More generally, the focus at Eurex is to be home of the euro yield curve, offering cross-product coverage within the euro currency for repo, exchange-traded and OTC interest rate derivatives. Eurex is one of the few places where participants can trade term repo up to 18 months. Eurex Repo also aims to grow its market share for repo financed against a wider range of EU government bond issuers, including Spanish, Italian and French government bonds.

An important development to watch, notes Gast, is that Eurex Repo will be introducing cross-product margining between its fixed income futures and repo markets. For buy-side clients that are users of fixed income derivatives, this will provide a prime opportunity to extend into repo financing and to benefit from margin offset across these cleared trading exposures. “Eurex Clearing is in prime position to facilitate this, given that we have a lot of buy-side firms already actively trading on Eurex in the futures markets,” says Gast.

It also identifies opportunities to expand its solutions coverage for ESG financing and green repo. Deutsche Börse supports a number of issuers — particularly supranationals, development banks and finance agencies — that are keen to build liquidity in secondary markets and to promote an active repo market for green bonds and social bonds. In catering for this appetite, Eurex Clearing and Clearstream have developed green bond GC baskets — which they suggest are the first standardised green general collateral baskets available in the market.

From a Deutsche Börse perspective, the acquisition of an 81 per cent share in governance, ESG and analytics specialist Institutional Shareholder Services (ISS) has enabled the Frankfurt and Luxembourg-based market infrastructure company to make ISS’ ESG ratings available for collateral eligibility screening on Clearstream’s collateral services platform, the primary collateral engine supporting the ICSD’s securities lending and collateral management services. “We believe that ESG as a trading factor will continue to increase and we are continuing to invest to facilitate this expansion,” says Szigeti.

Additionally, Eurex plans soon to launch EU bond futures and to support growth in secondary market trading in EU bonds. “The prerequisite is whether there is a liquid cash market and a liquid repo market to provide the foundations for a liquid futures market and to make this successful,” says Gast. “We are collaborating on this development with the relevant market players and this will be an important part of our schedule for 2024 and beyond.”

Frank Gast
Member of the Management Board
Eurex Repo

Marton Szigeti
Head of collateral, lending and liquidity solutions
Clearstream

Boosting liquidity in African eurobonds

Gabriele Frediani, head of development and market infrastructure coverage for Europe at the Liquidity and Sustainability Facility, talks about his new position at the firm and how it operates to support the liquidity of African sovereign eurobonds

Gabriele, tell us about your move to join the Liquidity and Sustainability Facility.

About a year ago, when I met the firm's CEO David Escoffier, my curiosity was piqued as I have always been interested in repo beyond its traditional shores. For most countries in the world, having a functioning repo market, in one shape or another, is key. When I spoke to Escoffier at COP28, I was flattered and excited to join a team of skilled and driven professionals, having already delivered trades for an organisation with a genuine purpose.

Can you provide an overview of LSF and its objectives?

The Liquidity and Sustainability Facility (LSF) is a pioneering initiative established with the support of the United Nations Economic Commission for Africa (UNECA) and Afreximbank. It aims to bolster the liquidity of African sovereign eurobonds while simultaneously incentivising investments aligned with Sustainable Development Goals (SDGs) and green initiatives across the African continent.

By engaging with both African governments and private investors, our primary objective is to enhance liquidity in the market to the level of international standards, thereby fostering debt sustainability for African nations. LSF's objective is to reduce the cost of borrowing by African sovereigns, increase the pool of private capital willing to invest in Africa, and mobilise affordable resources for green investments.

How does LSF support the liquidity of African sovereign eurobonds, and what impact does this have on borrowing costs for African nations?

LSF plays a crucial role in improving liquidity premia for African sovereign eurobonds, which historically have faced significant borrowing costs. Through our engagement with various stakeholders, we aim to compress yields by strengthening demand and consequently enhancing the price of eligible sovereign bonds. This, in turn, could potentially save African nations an estimated US$11 billion in borrowing costs over five years. By reducing these costs, we seek to support the debt sustainability of African nations, thereby promoting economic stability and growth.

Could you elaborate on how LSF incentivises green and SDG-related investments in Africa?

LSF is committed to promoting sustainability-linked investments in Africa by utilising its resources to engage with investors, particularly those interested in green and SDG-linked initiatives, and providing better terms and conditions for SDG-aligned African sovereign eurobonds. Currently, the share of green, sociable and sustainability (GSS) bonds issued in Africa accounts for less than one per cent of the global total, indicating significant potential for growth. By facilitating investments aligned with SDGs and green objectives, we aim to support the green and sustainable recovery of African countries while simultaneously addressing pressing environmental challenges.

How does LSF plan to contribute to the development of a mature repo market for African sovereign eurobonds, and what benefits would this bring to the continent?

Until now, while a few African nations have pioneered local repo markets, the continent as a whole has lacked a mature repo market on par with those of the G7 countries to enhance the liquidity of African government bonds and improve their competitiveness in global markets. LSF, as a professional market participant with strong stakeholder support, seeks to help the African sovereign eurobonds repo market achieve the same level of maturity.

Through our engagement with diverse financial institutions, both globally and in Africa, we aim to establish a deep and solid repo market for African sovereign eurobonds. A well-developed repo market can contribute to African governments' ability to finance themselves on international financial markets under favourable conditions. For private investors, this means they can conduct repo transactions with African bonds with the same quality standards as in mature economies. Furthermore, our goal is to level the financial playing field for Africa and contribute to changing the perception private investors have of these markets.

LSF engages with various counterparties. What is the criteria for selecting counterparties and the significance of such engagements?

LSF engages with counterparties of the highest quality and reputation, including insurance companies, banks, pension funds, asset management firms, and public and private investment funds. We prioritise counterparties established in recognised jurisdictions to ensure the integrity and reliability of our engagements.

Can you discuss the governance structure of LSF and its commitment to transparency?

LSF operates under high standards of governance and is supervised by a high-quality board composed of directors representing various stakeholders. This ensures adherence to our mission of public good and transparency. We are committed to upholding the highest standards of transparency in all our operations.

How does LSF engage with African governments and international organisations to achieve its objectives?

LSF has engaged in extensive collaboration with African governments and international organisations to address the challenges facing African countries. Endorsements from 26 African countries at the CoM2022 conference, organised by the UNECA, underscore the support for our initiatives. Additionally, we have worked closely with organisations such as the International Monetary Fund (IMF), World Bank Group, G7, G20 and COP teams to garner support and facilitate our operations.

What does LSF have in the pipeline over the coming 12 months?

We will focus on developing partnerships with European institutions, such as CSDs and ICSDs, triparty agents, exchanges, trading platforms and central banks, and more broadly building a solid deal pipeline on the continent.

We are keen to contribute to crowding in more private investors from different horizons wishing to participate in the African sovereign eurobonds market, particularly if they have a focus on African GSS eurobonds.

"LSF plays a crucial role in improving liquidity premia for African sovereign eurobonds, which historically have faced significant borrowing costs."

Gabriele Frediani
Head of development and market infrastructure coverage for Europe
Liquidity and Sustainability Facility

Making a mark

TP ICAP's Nichola Hunter and Adam Southern speak to Carmella Haswell about the firm's new "front-end refresh" and wider plans to drive the growth of its eRepo platform

Global financial market infrastructure firm TP ICAP is working to establish its place in the market following "significant growth" on the platform in 2023. With Germany and France becoming its strongest performing regions in Europe, the team aims to build on this success within the gilt market.

Headquartered in London, the firm recorded a 132 per cent year-on-year increase in notional volume traded on the TP ICAP platform for 2023. This trend has improved through the year, with December up 167 per cent compared with the same period in 2022.

TP ICAP acts as an interdealer broker, energy and commodities broker, and provider of over-the-counter (OTC) pricing data. It aims to provide clients with access to global financial and commodities markets, improving price discovery, liquidity and distribution of data through responsible and innovative solutions.

According to Adam Southern, eRepo manager at TP ICAP, last year was "a significant year for us on the platform in terms of establishing ourselves in the market". In November, TP ICAP's average traded daily notional in Germany was €37 billion, with France reaching €30 billion per day. "The two countries are some of the biggest within the repo market. It is great that we now represent a solid market share," he adds.

As the firm reviews next steps for 2024, it strives to build on this success in the gilt market, which it describes as

“important and concentrated”. The TP ICAP team will be focusing on building liquidity, working with key market participants, and creating the necessary incentives to get participants trading gilts on the eRepo platform.

A competitive landscape

eRepo is a high availability, low latency central limit order book platform that services the inter-dealer market. Offering core and semi-core government bonds with straight-through processing (STP) connectivity, eRepo also provides connectivity via a graphic user interface (GUI), as well as API integration. According to Southern, the firm trades 12 country debts, all either cleared by LCH or bilaterally.

The company aims to expand the number of debt instruments offered on the platform in the coming year.

The platform — designed to help market participants manage high volume demands in the European repo market — celebrated a milestone in September when it recorded a volume of £100 billion in one trading day.

TP ICAP’s Nichola Hunter, global head of fixed income sales and trading, and chairman of iSwap, comments: “With any order book in the market, there is a tipping point. eRepo has been around for quite a while. We historically carved out a niche as being a disaster recovery alternative to the main incumbent. We would see increased volumes on days where our main competitors had a system issue, for example. The market demands competition — competition drives innovation."

The repo market has grown exponentially, as evidenced by the International Capital Market Association's (ICMA's) European Repo Market Survey. The survey measured and analysed the value of outstanding repo and reverse repo on the books of 62 participants at close of business on 14 June 2023. The total size of the survey grew 11.5 per cent YoY to a record €10,794 billion.

For its clients, TP ICAP identifies Germany, France and Spain as hosts of opportunity in a growing repo market. According to Southern, Germany was once ahead of France in terms of traded notional volumes on the TP ICAP platform, but notes that there is now a more equal footing between the two regions. As a result, Southern indicates that "banks may now see this as an equally safe asset to Germany".

Similar growth has been identified in Spain. In 2024, Southern expects that this region will move from a buy and sell back market to 'classic repo', "joining the rest of the EU countries in streamlining the process for banks". He anticipates opportunities for clients in Euro GC+ in the region, which look to gain popularity this year.

A drive in technology

Technology is core to the functioning of the securities finance industry, with regulatory authorities pushing for further automation to streamline the trade lifecycle process. This has become evident through the introduction of the Central Securities Depositories Regulation (CSDR) and the impact of the Securities Financing Transactions Regulation (SFTR), which caused firms to alter their operational processes.

Southern indicates that with advances in financial technology, banks have an appetite to streamline the whole trade lifecycle process, from price discovery, order entry and into post trade and analytics. "[Banks] are using algorithms to assist the traders, as well as using STP," he continues. "In addition, we are now seeing more integration with settlement — which will continue in 2024." Southern remarks that banks will look to automate the trade lifecycle process as much as possible to reduce risk and optimise execution.

From a TP ICAP perspective, the firm is focused on migrating to its technology platform, Fusion, which has become a key objective for the company on the eRepo platform. Fusion is an electronic platform that aims to provide more client-led technology and deeper liquidity. Its purpose is to give traders an improved trading experience in terms of speed, reliability and ease of trading. Fusion provides a number of features including single login access and access to aggregated liquidity for specific asset classes.

Moving forward, the team plans to incorporate additional features into the platform, such as giving traders the ability to click on an ISIN and review the historical pricing data of that particular bond. TP ICAP will also introduce new order types, such as switch trading, for mid-year 2024.

"Technology is such a major component of the TP ICAP strategy, specifically our Fusion distribution, which encompasses a whole host of things including front end, API connectivity, and post-trade services," says Hunter.

From an eRepo perspective, TP ICAP's focus will be on refreshing its front end to reach a broader spectrum of dealers — including smaller regional dealers. Hunter adds: "Ultimately, Fusion is the window into TP ICAP across all of the asset classes. Getting eRepo distributed through a new light weight, functionally rich GUI will be highly beneficial for the end users."

TP ICAP will continue to focus on its "front-end refresh" — Fusion — which is of "critical" importance for the eRepo platform. The firm will also continue on a partnership path with third-party integrators to collaborate and integrate its APIs.

Concluding, Hunter remarks: "It is important to have competition in a marketplace, it drives innovation and pricing, which is healthy in a market. There needs to be liquidity and critical mass in an order book environment — that takes time, effort and trust from participants. For 2023, we exceeded expectations and put foundations in place that put us in a good position to continue that growth trajectory for 2024."

ABSOLUTE COLLEATERAL

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Absolute Collateral is a repo trading platform for global, conventional and Islamic buy- & sell-side clients across international and domestic assets. We play our part in helping develop a deep & liquid tradeable market from within the MENA region by working with the wider ecosystem.

Based in the DIFC Dubai, we have recently expanded and joined the Central Bank of Bahrain fintech regulatory sandbox as an approved company. Our next steps are to join further GCC sandboxes and partner with local and global entities that support our ethos of developing the markets from within the region.

We host regional roundtables with banks, central banks, banking & legal associations ready and committed to growing their own markets and collaborate with custodians / post trade services that compliment our ethos.

Clear Street®

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Clear Street is modernizing the brokerage ecosystem. Founded in 2018, Clear Street is a diversified financial services firm replacing the legacy infrastructure used across capital markets. The firm started from scratch by building a completely cloud-native clearing and custody system designed for today's complex, global market. Clear Street's proprietary platform adds significant efficiency to the market while focusing on minimizing risk, redundancy, and cost for clients. Clear Street's goal is to create a single platform for every asset class, in every country, and in any currency.

Clear Street provides a wide array of securities financing solutions. The business is led by industry veterans and powered by modern technology, allowing us to leverage our extensive distribution channels and market knowledge to support the financing and liquidity needs of our clients.

EUREX

www.eurex.com

Eurex stands for the leading European derivatives exchange and – with Eurex Clearing – one of the leading central counterparties globally. We are the architect of market liquidity, efficiency and integrity by providing our customers with innovative solutions to seamlessly manage risk.

On the trading side, we mastermind the most efficient derivatives landscape by pioneering ingenious products and infrastructures as well as by building 'smart' into technology – offering a broad range of international benchmark products, operating the most liquid fixed income markets in the world and featuring open and low-cost electronic access.

As central counterparty, Eurex Clearing builds trusted relationships with and amongst market participants, paving their way for efficient risk management via unique clearing models.

Eurex automated and integrated joint Clearing House, Eurex Clearing AG eliminates the individual counterparty risk by offering central counterparty services for instruments traded on the Eurex exchanges, Eurex Repo GmbH and the FWB® Frankfurter Wertpapierbörse (the Frankfurt Stock Exchange: Xetra® and floor).

This way Eurex participants benefit from a high-quality, cost-efficient and comprehensive value chain of trading and clearing services via one single electronic system.

MUFG

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Mitsubishi UFJ Financial Group (MUFG) is one of the world's leading financial groups. Headquartered in Tokyo and with over 360 years of history has a global network with locations in more than 50 countries. MUFG has about 170,000 employees and offers services including commercial banking, trust banking, asset management and securities. MUFG aims to "be the world's most trusted financial group" and flexibly respond to all of the financial needs of customers serving society, and fostering shared and sustainable growth for a better world.

MUFG Securities EMEA plc is headquartered in London and has an office in Dubai, the EMEA business offers an expansive product suite through Repo, Rates, Equities, Capital Markets, Credit, and Structured Products.

Securities financing activities
Government/Corporate Bond Repo GC, Non-Cash funding/collateral trading Securities lending and borrowing.

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OSTTRA – The home of industry-shaping businesses MarkitServ, Traiana, TriOptima and Reset, OSTTRA (osttra.com) brings the expertise, processes and networks together to solve the post-trade challenges of the global financial markets. OSTTRA strengthens the post-trade infrastructure and ecosystem with robust and progressive end-to-end post-trade solutions and unrivalled connectivity.

OSTTRA Trade Processing for Repo automates the post-trade workflow from initial confirmation through the contract lifecycle, including allocations, amendments, re-rates and terminations. Built on our trusted OSTTRA MarkitWire platform, with its established network of 2,000+ firms, our solution centralises and streamlines Repo processing.

Transactions previously captured on OSTTRA MarkitWire can soon be leveraged to achieve settlement STP through SWIFT connectivity to custodians and depositories. In addition, the OSTTRA reconciliation service, OSTTRA triResolve, ensures the accuracy of repo portfolios on a multilateral basis, with streamlined exception management processes.

Contact OSTTRA at info@osttra.com to find out more.

S&P Global
Market Intelligence

S&P Global Market Intelligence

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www.spglobal.com/marketintelligence

At S&P Global Market Intelligence, we understand the importance of accurate, deep and insightful information. We integrate financial and industry data, research and news into tools that help track performance, generate alpha, identify investment ideas, perform valuations and assess credit risk. Investment professionals, government agencies, corporations and universities around the world use this essential intelligence to make business and financial decisions with conviction.

S&P Global Market Intelligence is a division of S&P Global (NYSE: SPGI), the world's foremost provider of credit ratings, benchmarks and analytics in the global capital and commodity markets, offering ESG solutions, deep data and insights on critical business factors. S&P Global has been providing essential intelligence that unlocks opportunity, fosters growth and accelerates progress for more than 160 years. For more information, visit www.spglobal.com/marketintelligence

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SIX provides and operates stable and efficient infrastructure for the Swiss and Spanish financial centers, thus ensuring access to the capital markets and the flow of information and money between financial market players. As a global provider of financial information, SIX delivers high-quality reference, pricing, corporate actions, and ESG data and provides regulatory services and indices to clients around the world. The company is owned by its users (more than 120 banks) with a workforce of 4,160 employees and a presence in 19 countries.

SUNTHAY

www.sunthay.com

Shiv Rao
Chairman

Our aim is to restore capacity to repo markets through our Guaranteed Repo solution, developed in collaboration with Bloomberg and Euroclear.

Guaranteed Repo is a global electronic trading solution that increases capacity, reduces costs and improves operational efficiency in financing markets. It is a fully integrated, scalable, front-to-back solution.

Sunthay has developed and refined the concept and has contributed standardized guarantee documentation. Bloomberg provides the electronic trading capability, and Euroclear provides post-trade collateral management services. Guaranteed Repo can operate in multiple jurisdictions for multiple asset classes.

Setting standards in the international capital market

The International Capital Market Association (ICMA) has made a significant contribution to the development of the international capital and securities markets for over 50 years.

ICMA represents members globally who are active in the international capital market on a cross border basis. It is also distinctive amongst trade associations in representing both the buy-side and the sell-side of the industry.

ICMA works to maintain the framework of cross-border issuing, trading and investing through development of internationally accepted standard market practices. It liaises closely with governments, regulators, central banks and stock exchanges, helping to ensure that financial regulation promotes the efficiency and cost effectiveness of the international capital market.

ICMA supports the growth of green, social and sustainability bond markets through its management of standards, which 97% of sustainable bond issuance is aligned to.*

ICMA's Fintech practice advances the adoption of market electronification across the securities lifecycle; promoting interoperability, market efficiency and fostering innovation.

Join the community of around 620 institutions in 68 jurisdictions globally that are already experiencing the benefits of ICMA membership.

** as at 2023, 97% of sustainable bonds globally were aligned with GBP, SBP, SBG,SLBP. Data source LGX DataHub and Bloomberg*