EMMEC meeting

Tour de table of repo issues

Godfried de Vidts, ICMA Senior Advisor

21 September 2023
Madrid

AGENDA

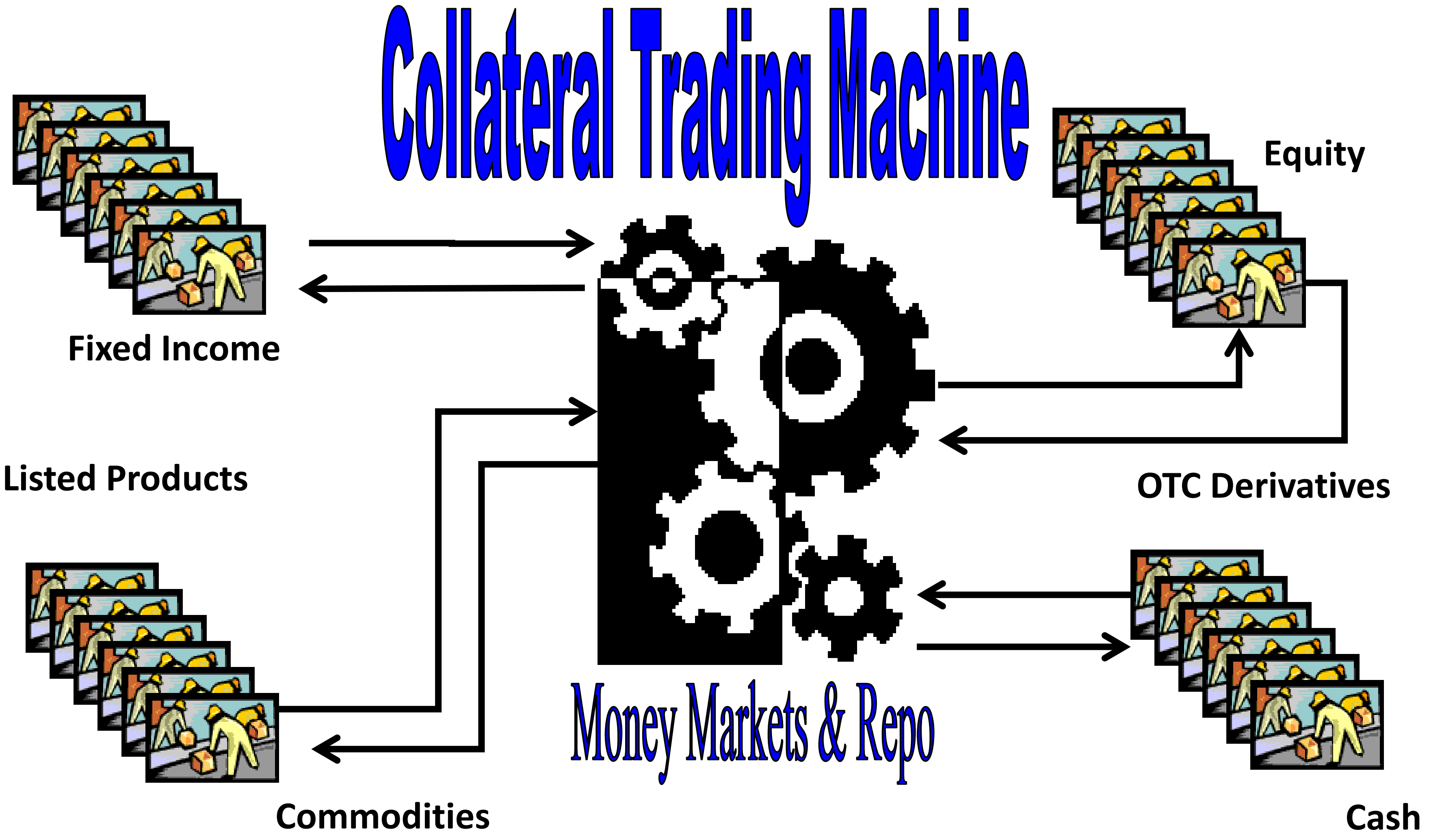
- Definition of Liquidity & Collateral Management
- Importance of treasury activity
- The basics rules
- Collateral is the new cash
- Global disruptors
- Regulatory & prudential interventions
- Market evolution & initiatives
- Spread the message

Definition of Liquidity and Collateral Management

Collateral and liquidity management can be defined as the optimal management of credit, collateral, capital and all related execution, pricing, operational, documentation, and risk management of a portfolio across all products, all business units, and all locations.

Collateral study – University of St. Gallen

Liquidity and collateral management



The basic rules

The basic rules	
COUNTERPARTY	COLLATERAL
good	**good**
good	**bad**
bad	**good**
bad	**bad**

Collateral is the new cash

- Collateral is becoming increasingly important in the post-crisis world, driven by both a need for more secured funding as well as regulatory requirements to reduce credit risk. In many ways, collateral has become the new cash, underpinning the smooth functioning of funding and capital markets that reduces risk, and, in turn, provides the basis for economic growth.
- Knowledge of various types of collateral …. has become an art that is little understood outside our expert group, mainly because of the complexity inherent to fixed income markets.
- In particular the euro European Government Bond landscape continues to suffer from legacy issues. Overcoming these issues has been a long time the focus of the ERCC, but can only be solved if political will is there

The bigger picture

Global disruptive challenges

- Russian crisis (90ies)
- LTCM
- Dot-com bubble
- ABS/MBS securitisation
- Lehman default
- Europe’s sovereign debt crisis
- Corona crisis
- Ukraine war – Russia sanctions
- UK fiscal event

Regulatory interventions

- Basle framework
- Liquidity buffer
- Haircuts
- Pricing of collateral
- Initial / variation margin
- EMIR & UMR (Sep 2022)
- CCP-clearing
- Reporting (incl SFTR)

Market evolution & initiatives

- Buy-side clearing
- Issuance of ESG
- Monetary policy interventions (OMT, QE, QT, TPI)
- NBB as issuance agent for EC bonds
- Blockchain, Digital Assets
- Collateral scarcity while excess liquidity – year end problems
- **Repo desk as the gate keeper?**

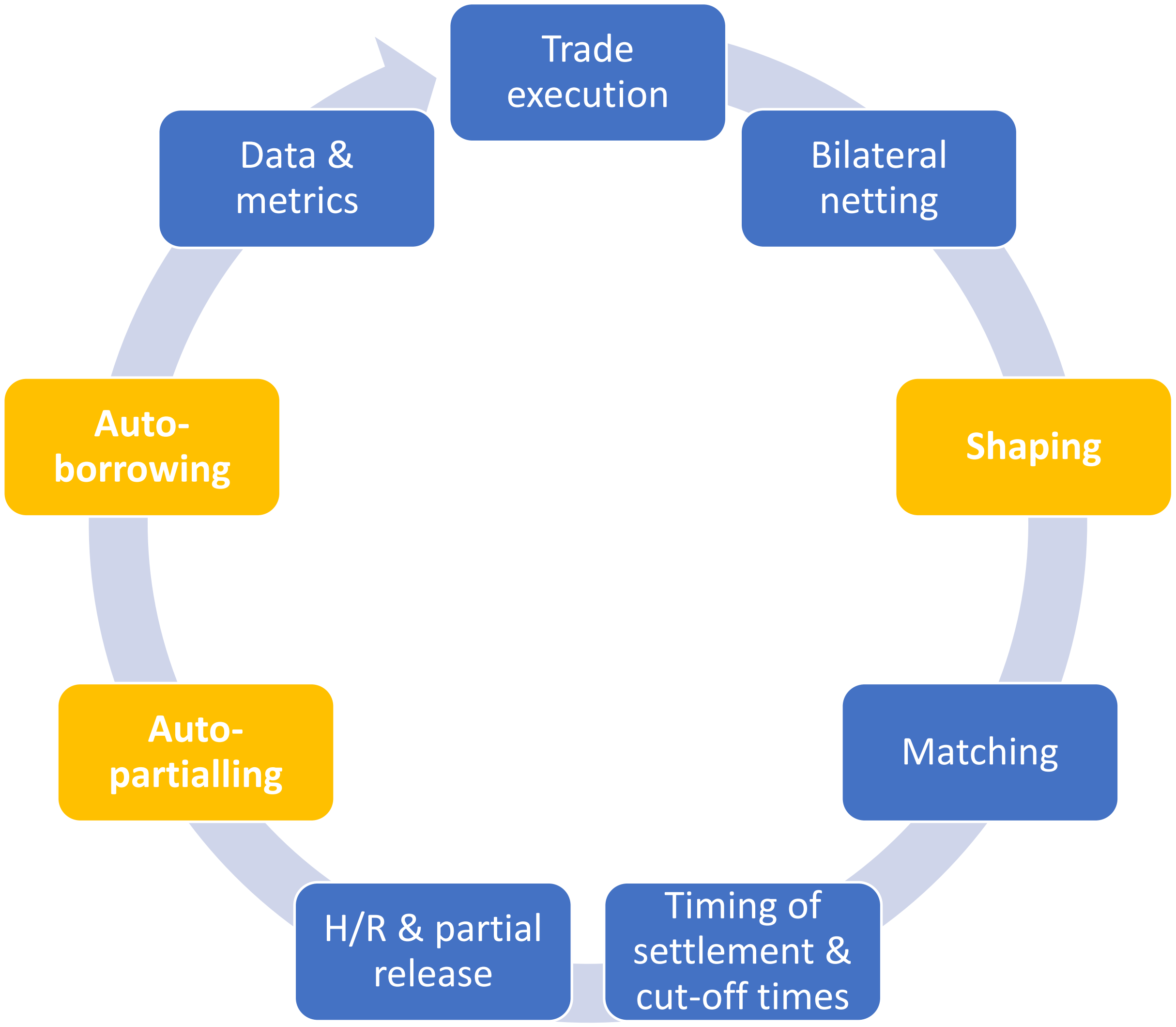
Recap: ICMA initiative on settlement efficiency

- ERCC discussion paper *Optimising settlement efficiency* published in February 2022 reflecting extensive discussions with members
- Focus on key settlement optimisation tools that have been identified as important drivers of settlement efficiency but currently not sufficiently utilised:
    - Shaping of settlement instructions
    - Partial settlement and auto-partialling
    - Automatic lending and borrowing programmes
- On the back of the paper and further discussions, ICMA members agreed and adopted related best practice recommendations for repos which were subsequently extended to secondary bond markets
- Since then, the focus has been on monitoring adoption of the tools and related data elements:
    - Close collaboration with (I)CSDs both as part of the T2S work and bilaterally
    - ICMA online survey on settlement efficiency (concluded in March 2023)

ICMA best practice recommendations

Topic	Relevant extract from the Guide
Recommended delivery size (shaping) Paragraph 2.70	"It is best practice to divide or 'shape' instructions for the delivery of a large amount of collateral into smaller deliveries or 'shapes', so as to limit the economic impact of settlement failures. Accordingly, it is recommended that parties in the European repo market should agree to shape transactions into multiple deliveries of 50 million nominal value in EUR, GBP and USD, and the nearest equivalent in other currencies or the amount mandated or generally accepted in other currencies. (…)"
Partial settlement Paragraphs 2.71-2.79	"It is best practice for partial deliveries to be accepted whenever there has been a delivery failure, provided that the party expecting delivery would not be disadvantaged by an incomplete delivery and provided that partialling is operationally feasible for both parties. Market users should make best endeavours to eliminate operational obstacles within their own firm and encourage customers to accept partial delivery." "It is best practice for parties to opt into the use of auto-partial facilities at CSDs. Auto-partial settlement should not be for less than the minimum tradeable amount in the market for the security being partially delivered."
Participation in auto-borrowing facilities at (I)CSDs Paragraph 2.80	"It is best practice for all participants in (I)CSDs to sign up as borrowers to auto-borrowing or automatic pool lending facilities and, where practicable, to sign up as lenders. As full use as possible should be made of these facilities."

Settlement efficiency drivers – lifecycle overview



Contacts

Godfried De Vidts

Senior Advisor of the ICMA European Repo and Collateral Council (ERCC)

Godfried.devidts@icmagroup.org

Alexander Westphal

ICMA ERCC Secretariat

Alexander.Westphal@icmagroup.org