

Agenda Item B: The role of non-banks in money markets – current and prospective developments

Frank Odendall, Head of Securities Financing Product & Business Development, Eurex

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Central clearing substantial pillar of European Money Markets

- Voluntary (repo) and mandatory clearing (OTC IRS / CDS)

- Main benefits
 - Liquidity
 - Operational efficiency (multilateral netting, straight through processing, transparency)
 - Counterparty risk mitigation
 - Regulatory capital cost relief for commercial banks
 - Pricing

- Challenges around costs, regulatory support and adequate access model for non-banks

Voluntary repo clearing already significant and growing part of Eurozone Money Markets

- CCP repo clearing available for more than 20 years in Europe
- Approx. 50% of Euro denominated repo market centrally cleared according to ICMA survey*
- Diverse and growing participation base
 - Commercial banks
 - Multiple central banks, national debt management offices (DMOs) and supranational institutions (Supras)
 - EU pension funds and insurances
 - Limited or no participation of regulated or unregulated investment funds or corporates

* Source: [ICMA repo survey](#) no. 44, December 2022, all single counted

CCP cleared repo by non-banks (D2C) already established in US, but expectation for Eurozone D2C to grow substantially

Current	Europe* (EUR trillion)		US* (USD trillion)	
	Total daily outstanding	5.63	Total daily outstanding	8.52
	Non CCP cleared (% of total)	3.54 (63%)	Non CCP cleared (% of total)	5.43 (68%)
	CCP cleared (% of total)	2.09 (37%)	Bilateral	2.89
	EUR denominated	3.42	Tri-Party	2.54
	EUR CCP cleared	1.85 (54%)	CCP cleared (% of total)	3.09 (32%)
	EUR D2C cleared	0.02 (<1%)	D2C cleared	0.77 (25%)

CCP Cleared
EUR 54% vs USD 32%

D2C Cleared
EUR 1% vs USD 25%

* [Dec 22 ICMA survey](#), Eurex, all single counted

* [OFR](#) data 30 June 23, FICC, single counted, Eurex

Outlook

- Majority of non-cleared Euro denominated share understood to be D2C
- FICC expects approximately USD 1 trillion daily in incremental indirect participant treasury activity from Repo and Reverse Repo to come into clearing under the Expanded Clearing Proposal***
- Eurex expects the Euro denominated cleared repo D2C market share to increase from 1% in 2022 to 20% by 2026

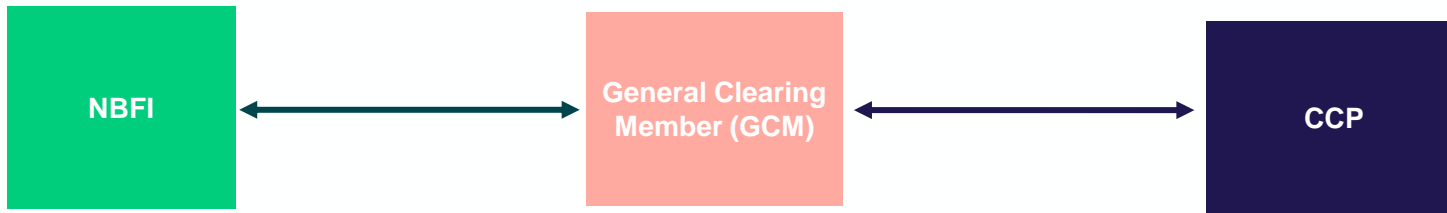
***Plus a further USD 605 billion of cash traded treasuries according to recent [FICC whitepaper](#)

Buy-side becomes direct counterparty to the CCP in most actively used centrally cleared repo offerings

- Traditional client clearing model not suitable and hence limited as any back-to-back CCP cleared repo between buy-side, clearing member and CCP results in prohibitively high capital cost for clearing members*
- However, buy-side typically not permitted or willing to contribute to the mutualised CCP's default fund or has the operational capacity to support a full membership
- Therefore, CCPs "sponsored" repo clearing models typically have three core components:
 - Buy-side has contractual relationship with the CCP & legal responsibility to perform on the repo towards CCP and vice versa,
 - Buy-side has no legal obligation to contribute to the CCP's mutual default fund, and
 - Buy-side has no legal obligation to participate in DMP

Traditional client clearing vs. “sponsored” access

Traditional client clearing set-up



Key features

- GCM has full trade exposure to CCP
- GCM solely liable for
 - CCP margin
 - CCP default fund
 - CCP default management
- NBFIs trade counterparty risk is against GCM

“Sponsored” access



Key features

- GCM has no trade exposure to CCP
- GCM solely liable for
 - CCP default fund
 - CCP default management
- NBFIs trade counterparty risk is against CCP
- NBFIs liable for CCP Margin (typically)
- Optional extension includes provision of indemnity by Sponsor in favour of CCP against losses from default of NBFIs

Drivers behind central clearing for repos for non-banks

- CCP cleared repo participation by non-banks can increase commercial banks' profitability, improve available repo balance sheet capacity to buy-side, enhance operational efficiency and mitigate counterparty risk
- In addition, overall market resilience and transparency is greatly improved
- Eurex tried to quantify the benefits in a [whitepaper on CCP cleared client repo](#)

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