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GFF Summit: New repo opportunities on the buy side

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Securities financing is changing. The old model for the buy side – maintaining multiple bilateral relationships with a range of sell-side institutions, each with their own customized contractual commitments – is costly on several levels. It is time consuming and labor intensive to both establish and maintain these relationships, and repo transactions are often still negotiated by phone or fax. And these types of relationships make price discovery and regulatory reporting burdensome and costly, adding to the inefficiency.

A system based on bilateral relationships also limits the options for market participants on the buy side. Their choice of counterparties is necessarily restricted by the number of these relationships that can be maintained, and the choice here is now diminishing due to regulatory pressures that have reduced the capacity of banks to provide repo liquidity.

But the good news is that things are changing. While the trade execution of many types of derivative and FX transactions, as well as OTC interest rate swaps, have for some time been moving to regulated electronic market places and central clearing at Eurex Clearing and other CCPs, buy side to sell side securities financing is now joining this trend.

Cleared repos that are electronically executed via a multilateral trading facility such as Eurex Repo offer a range of advantages for buy-side participants. Access to a pan-European liquidity pool means improved price discovery, while single counterparty risk and standardized documentation means reporting is greatly streamlined and simplified. In addition, Eurex Repo offers trading for over ten hours a day and permits Same-Day Settlement from 0730 to 1730 CET; a great improvement in trading and settlement hours relative to bilateral markets.

These developments are coming at a crucial time for buy-side treasuries which are facing a range of both workload and liquidity pressures. Collateral obligations from uncleared and cleared derivatives are increasing cash variation margin investment and funding challenges have thus grown significantly.

Solutions such as Eurex's unique ISA Direct model – adopted in 2019 by, among others, PGGM and Swiss Life – can help buy-side clients meet collateral and margin obligations from cleared OTC interest rate swaps and repos more safely and efficiently. Indeed, the established and crisis proven liquidity of the GC Pooling repo market – which utilizes Clearstream TriParty – permits the reliable funding and placing of cash against more than 13,000 ISINs of eligible collateral. And, crucially, it allows the re-use of collateral for initial margin across multiple product lines at Eurex Clearing and almost eliminates any cash transfer risks for euro-denominated cash variation requirements for Eurex Clearing AG cleared OTC interest rate swaps.

To hear more about how repo is changing – as well as discussions covering a range of other industry topics – please register for our GFF Summit in Luxembourg from 28 to 30 January. Alongside my colleagues from Eurex and Clearstream, I look forward to seeing you there.

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