

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

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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](#)

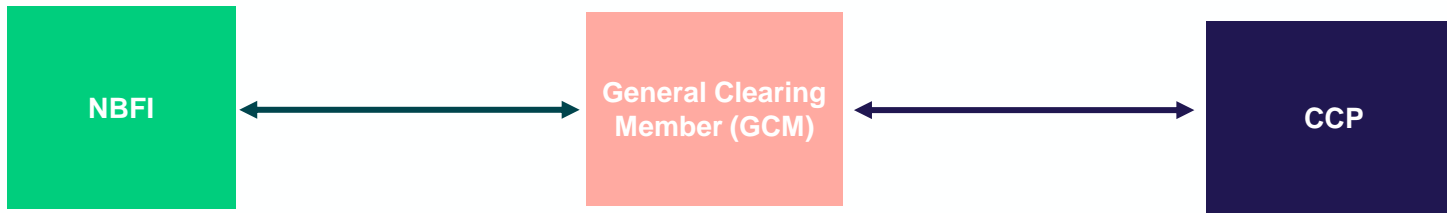
# Buy-side becomes direct counterparty to the CCP in most actively used centrally cleared repo offerings

- 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

\*Also see BIS/ IOSCO paper ["Client clearing: access and portability", September 2022](#) for a good summary on the necessity of an alternative clearing access model

# 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
- NBFi 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
- NBFi trade counterparty risk is against CCP
- NBFi liable for CCP Margin (typically)
- Optional extension includes provision of indemnity by Sponsor in favour of CCP against losses from default of NBFi

# 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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