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International Capital Market Association

## **European repo market requests for interoperability in CCPs**

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# The issues

- Market solutions to improve distribution of liquidity in Euro-zone
- Product innovation bilateral and triparty products
- Increased focus on counterparty risk
- Central Counterparty recommended by G-20
- MiFID pillars (access, interoperability, competition)
- Level playing field

- €GC is the introduction of an innovative General Collateral (GC) clearing service from LCH Clearnet commencing with a range of cash-led euro area Government bond baskets, classified by credit rating. The €GC product is a natural extension of the Sterling GC product. It represents a replication of the DBV product structure in the Euro market in that it utilises the auto-allocation tools provided by the major ICSDs (Euroclear and Clearstream) to effect settlement.
- €GC provides RepoClear participants with a step-change improvement in collateral management efficiency and flexibility. The key features of the product are:
  - Trading of standardised GC baskets;
  - Term trades characterised as a series of linked one-day settlements such that all open trades expressed in the basket can net against each other, each day, irrespective of term; and,
  - Settlement achieved through the use of the auto-allocation tools provided by the ICSDs (Euroclear and Clearstream) for their Tri-party businesses.

- Letter ERC Ctte to Eurex Clearing and LCH Clearnet July 15, 2009
  - little progress as regards triparty interoperability
  - differences identified between LCH Clearnet & Eurex Clearing models
  - ICSDs try to align respective GC-products & simplify 3party models
  - any solution will have to involve changes at the level of the CCPs
- Response LCH Clearnet.
  - politically agnostic regarding settlement location ex Germany has 3 locations
  - absence of settlement bridge in 3party systems major constraint
  - supports efforts of the ERC to accelerate introduction of essential European settlement infrastructure
- Response Eurex Clearing.
  - welcomes ERC commitment to foster 3 party interoperability
  - refers to Euro GC Pooling
  - ready to incorporate certain features (deadline extension, re-use to Central bk)



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GC Pooling®

- GC Pooling® is a cash-driven general collateral market of Eurex Repo® (part of Deutsche Borse Group) and offers a unique combination of collateralized money market trading with the efficiency and security of Eurex Clearing AG's central counterparty. It is easy to trade extremely large tickets and deals can be seamlessly completed and then processed automatically without any issues over credit or security allocation.
- The compelling advantage of GC Pooling® is the re-use possibility of received collateral for further money market transactions and refinancing within the framework of ECB open market operations. The OneWeek Tender term with flexible value dates for term legs enables participants to utilize surplus liquidity resulting from the European Central Bank tender in an efficient manner.
- - Secured Euro cash funding collateralized by unique, harmonized baskets
  - Cash-driven General Collateral (GC) trading on an open order book basis
  - Two available baskets comprises approximately 8,000 or more than 23.000 ECB/Bundesbank-eligible securities
  - Multiple terms: OverNight, TomNext, SpotNext, OneWeek Tender, SpotTerm and FlexTerm
  - Anonymous trading via Eurex Clearing stepping in as central counterparty

- Clearing as Central Counterparty
  - Minimize risk through the use of Eurex Clearing as central counterparty
  - Netting at clearing level with Eurex Clearing delivery management
  - Balance sheet netting due to central counterparty
  
- Clearing as Central Counterparty
  - Re-use of collateral and pledge to ECB/Bundesbank (Euro GC Pooling® Basket only)
  - Linking of Clearstream Banking, Frankfurt and Clearstream Banking, Luxembourg assets to one virtual collateral pool
  - Automated processing in Clearstream Banking, Luxembourg and Clearstream Banking, Frankfurt security accounts
  - Automated allocation of securities
  - Real-time substitution of securities
  - The collateral management services are provided by the Clearstream Systems Xemac® and CmaX.

- ERC/EBF to discuss with all parties market needs for comprehensive market wide solution to link various liquidity pools
- €GC to be operating with 2 settlement locations (Euroclear & Clearstream) as one pool of liquidity facilitated by interoperability between LCH Clearnet & Eurex Clearing
- GC Pooling® provides access to central bank liquidity through Eurex Clearing in Germany (outsourcing from Bundesbank of collateral management). Adding additional Euro zone countries jeopardises the level playing field while possibly changing the appropriate implementation of monetary policy.
- Can we await CCBM2?



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