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

5 December 2023
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

<table>
<thead>
<tr>
<th>Europe* (EUR trillion)</th>
<th>US* (USD trillion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total daily outstanding</td>
<td>5.63</td>
</tr>
<tr>
<td>Non CCP cleared (% of total)</td>
<td>3.54 (63%)</td>
</tr>
<tr>
<td>CCP cleared (% of total)</td>
<td>2.09 (37%)</td>
</tr>
<tr>
<td>EUR denominated</td>
<td>3.42</td>
</tr>
<tr>
<td>EUR CCP cleared</td>
<td>1.85 (54%)</td>
</tr>
<tr>
<td>EUR D2C cleared</td>
<td>0.02 (&lt;1%)</td>
</tr>
<tr>
<td>CCP cleared (% of total)</td>
<td>3.09 (32%)</td>
</tr>
<tr>
<td>D2C cleared</td>
<td>0.77 (25%)</td>
</tr>
<tr>
<td>Non CCP cleared (% of total)</td>
<td>5.43 (68%)</td>
</tr>
<tr>
<td>Bilateral</td>
<td>2.89</td>
</tr>
<tr>
<td>Tri-Party</td>
<td>2.54</td>
</tr>
<tr>
<td>CCP cleared (% of total)</td>
<td>3.09 (32%)</td>
</tr>
<tr>
<td>D2C cleared</td>
<td>0.77 (25%)</td>
</tr>
</tbody>
</table>

* Dec 22 ICMA survey, Eurex, all single counted

- 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 denominted cleared repo D2C market share to increase from 1% in 2022 to 20% by 2026

EUREX

***Plus a further USD 605 billion of cash traded treasuries according to recent FICC whitepaper

*OFR data 30 June 23, FICC, single counted, Eurex
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**

- NBFI
- General Clearing Member (GCM)
- CCP

**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**

- NBFI
- Clearing Agent Bank (Sponsor)
- CCP

**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.
Disclaimer

© Eurex 2023

Deutsche Börse AG (DBAG), Clearstream Banking AG (Clearstream), Eurex Frankfurt AG, Eurex Clearing AG (Eurex Clearing) and Eurex Repo GmbH (Eurex Repo) are corporate entities and are registered under German law. Eurex Global Derivatives AG is a corporate entity and is registered under Swiss law. Clearstream Banking S.A. is a corporate entity and is registered under Luxembourg law. Deutsche Boerse Asia Holding Pte. Ltd., Eurex Clearing Asia Pte. Ltd. and Eurex Exchange Asia Pte. Ltd are corporate entities and are registered under Singapore law.

Eurex Frankfurt AG (Eurex) is the administering and operating institution of Eurex Deutschland. Eurex Deutschland is in the following referred to as the “Eurex Exchange”.

All intellectual property, proprietary and other rights and interests in this publication and the subject matter hereof (other than certain trademarks and service marks listed below) are owned by DBAG and its affiliates and subsidiaries including, without limitation, all patent, registered design, copyright, trademark and service mark rights. While reasonable care has been taken in the preparation of this publication to provide details that are accurate and not misleading at the time of publication DBAG, Clearstream, Eurex, Eurex Clearing, Eurex Repo as well as the Eurex Exchange and their respective servants and agents (a) do not make any representations or warranties regarding the information contained herein, whether express or implied, including without limitation any implied warranty of merchantability or fitness for a particular purpose or any warranty with respect to the accuracy, correctness, quality, completeness or timeliness of such information, and (b) shall not be responsible or liable for any third party’s use of any information contained herein under any circumstances, including, without limitation, in connection with actual trading or otherwise or for any errors or omissions contained in this publication.

This publication is published for information purposes only and shall not constitute investment advice respectively does not constitute an offer, solicitation or recommendation to acquire or dispose of any investment or to engage in any other transaction. This publication is not intended for solicitation purposes but only for use as general information.

All descriptions, examples and calculations contained in this publication are for illustrative purposes only. Eurex and Eurex Clearing offer services directly to members of the Eurex Exchange respectively to clearing members of Eurex Clearing. Those who desire to trade any products available on the Eurex market or who desire to offer and sell any such products to others or who desire to possess a clearing license of Eurex Clearing in order to participate in the clearing process provided by Eurex Clearing, should consider legal and regulatory requirements of those jurisdictions relevant to them, as well as the risks associated with such products, before doing so.

Only Eurex derivatives that are CFTC-approved may be traded via direct access in the United States or by United States 60,194 (June 30, 2009), 74 Fed. Reg. 32,200 (July 7, 2009) and the CFTC’s Division of Clearing and Intermediary Oversight Advisory Concerning the Offer and Sale of Foreign Security Futures Products to Customers Located in the United States (June 8, 2010).

Trademarks and Service Marks

Bux®®, DAX®®, DivDAX®®, eb.rexx®, Eurex®, Eurex Repo®, Eurex Strategy Wizard®SM, Euro GC Pooling®, FDX®®, GC Pooling®, GCP®®, MDAX®®, OADAX®®, SDAX®®, TecDAX®®, USD GC Pooling®, VDX®, VDX-NEW® and Xetra®® are registered trademarks of DBAG. All MSCI indexes are service marks and the exclusive property of MSCI Barra. ATX®, ATX® five, CEC® and RDX®® are registered trademarks of Vienna Stock Exchange AG. IPD® UK Quarterly Indexes are registered trademarks of Investment Property Databank Ltd. IPD and have been licensed for the use by Eurex for derivatives. SLI®, SM® and SMIB® are registered trademarks of SIX Swiss Exchange AG. The STOXX® indexes, the data included therein and the trademarks used in the index names are the intellectual property of STOXX Limited and/or its licensors Eurex derivatives based on the STOXX® indexes are in no way sponsored, endorsed, sold or promoted by STOXX and its licensors and neither STOXX nor its licensors shall have any liability with respect thereto. Bloomberg Commodity IndexSM and any related sub-indexes are service marks of Bloomberg L.P. PCS® and Property Claim Services® are registered trademarks of ISO Services, Inc. Korea Exchange, KRX, KOSPI and KOSPI 200 are registered trademarks of Korea Exchange Inc. BSE andSENSEX are trademarks/service marks of Bombay Stock Exchange (BSE) and all rights accruing from the same, statutory or otherwise, wholly vest with BSE. Any violation of the above would constitute an offence under the laws of India and international treaties governing the same. The names of other companies and third party products may be trademarks or service marks of their respective owners.

Eurex Deutschland qualifies as manufacturer of packaged retail and insurance-based investment products (PRIIPs) under Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs Regulation), and provides key information documents (KIDs) covering PRIIPs traded on Eurex Deutschland on its website under the following link: http://www.eurexchange.com/exchange-en/resources/regulations/eu-regulations/priips-kids.

In addition, according to Art. 14(1) PRIIPs Regulation the person advising on, or selling, a PRIIP shall provide the KID to retail investors free of charge.