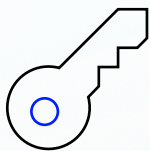


RepoClear

Expanding the repo ecosystem through buy-side clearing

By Corentine Poilvet-Clediere and Antony Baldwin

There is growing recognition across the industry that broader access to repo clearing benefits both the financial system and individual market participants. Netting of counterparty exposures, margin requirements and other risk management mechanisms reduce counterparty credit and liquidity risks.¹ Balance sheet netting also enables both the sell-side and buy-side to create additional market-making capacity that dealers can provide to their clients, reducing risk and freeing capital to finance growing debt.



Sponsored Clearing is just a door, and what really matters is the scale of the liquidity pool and the flexibility of the operational setup that lie behind it.

Additionally, during periods of market stress, access to liquidity can be (and historically has been) challenging for buy-side participants, whom the repo clearing ecosystem has been unable to accommodate. Therefore, there is the need for a wider choice of channels to access this liquidity. This is now being addressed through Sponsored Clearing.

Sponsored Clearing

Sponsored Clearing provides an additional route to repo liquidity by enabling buy-side clients to have direct relationships with central counterparties (CCPs) via agent member banks. This is crucial for asset managers, with advisors increasingly recommending that funds widen their access to liquidity.

But Sponsored Clearing is just a door, and what really matters is the scale of the liquidity pool and the flexibility of the operational setup that lie behind it. Key questions to ask a CCP before onboarding include:

01. How big is the liquidity pool and is it demonstrating growth?
02. Does it offer a choice of trading venues and settlement locations?
03. How diverse and active are the participants?
04. How extensive is the market coverage?
05. Does it provide the correct balance of direct access and appropriate agent support?

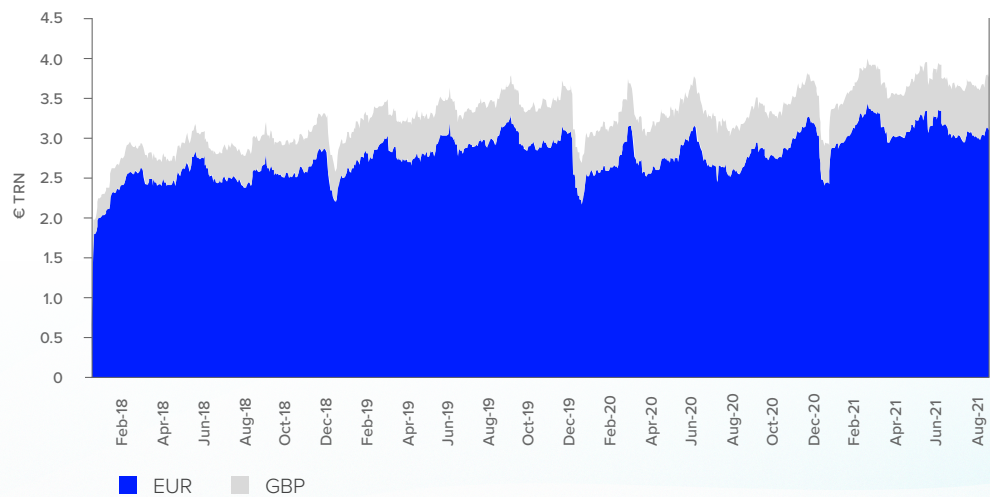
Getting this right at the outset is critical for long-term and sustainable success. Importantly, access to the CCP only needs to be established once for any level of future business the buy-side fund may wish to conduct with the CCP.



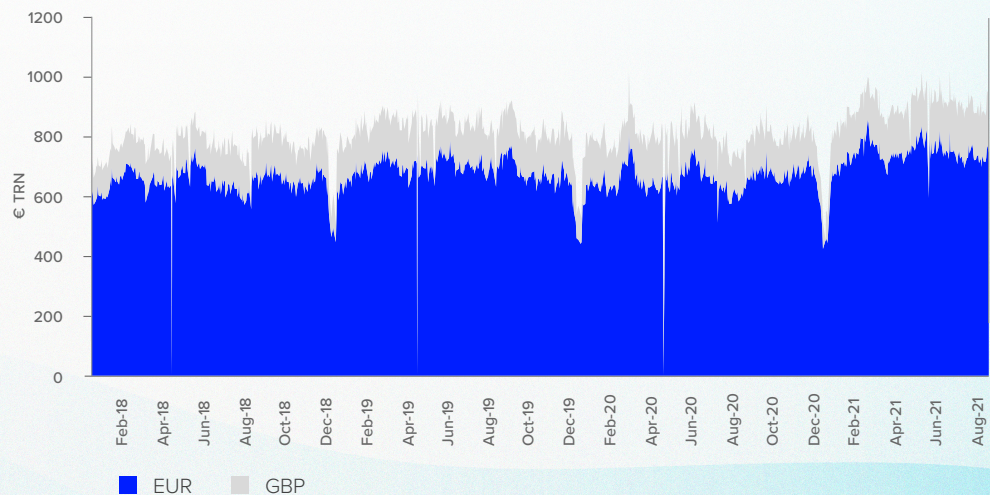
LCH RepoClear’s Sponsored Clearing service has addressed these challenges and expanded the repo market ecosystem. This has opened up buy-side access to a large, expanding liquidity pool across 14 debt markets, and two General Collateral products, Term £GC and €GCPlus. The size of the liquidity pool is a key factor in the success of Sponsored Clearing, as it provides the potential for better pricing from dealers and access to a large number of execution clearing counterparties, who supply significant liquidity to the system. This ensures diversity for clients, regardless of market conditions, and frees up balance sheet capacity for banks to fund other areas of the market, as needed.

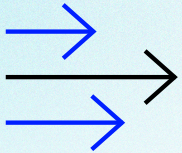
Buy-side users of Sponsored Clearing, known as Sponsored Members, also benefit from a choice of trading and settlement venues through LCH’s open access approach, with operational settlement netting through clearing resulting in a much greater degree of settlement efficiency than in the non-cleared market.

LCH RepoClear – Open Outstanding



LCH RepoClear – Daily Cleared Volumes





LCH's close partnership with the markets enables RepoClear to innovate and meet the evolving needs of its member community.

Innovating to meet the needs of the buy-side

As market dynamics change and regulation continues to impact participants, LCH's close partnership with the markets enables RepoClear to innovate and meet the evolving needs of its member community. For example, the planned merger of the RepoClear and €GCPlus services at LCH SA in Paris creates more opportunities for margin and balance sheet netting within a single clearing service.

Equally, RepoClear continues to work with members to expand its range of settlement locations to further increase balance sheet netting opportunities and increase choice.

These innovations are focused on providing more opportunities and efficiencies within the European Repo market. RepoClear is estimated to clear over 90% of the cleared European repo market.² The service continues to expand the range of fund types eligible for Sponsored Clearing, including the recent addition of regulated investment funds for the UK Gilt market. Access will be further extended in the future, with the potential to offer a guaranteed sponsored repo service that could allow hedge funds to join as clearing members.

The growth of RepoClear's Sponsored Clearing model has brought the benefits of clearing to a greater portion of buy-side participants, with twenty two Sponsored Members now participating in the sterling fixed income market. The recent launch of sponsored clearing at LCH SA in August will extend these benefits to the euro market. A number of buy-side participants are at various stages of preparedness across both the sterling and euro segments. Innovation at RepoClear is driven by the needs of its members. To this end, the service continues to focus on improving the operational experience of members — both buy- and sell-side — by supporting the market with the introduction of tools to improve settlement efficiency and reduce fails.

“Our team has been working closely with LCH to expand this access. We are pleased that investors in our QIAIF range can now take advantage of the same broad market access and liquidity via RepoClear.”

– Jos Vermeulen, Head of Solution Design, Insight Investment

Creating a virtuous circle

Sponsored clearing at RepoClear is not only playing a central role in the expansion of the repo market ecosystem; it is creating a ‘virtuous circle’ effect in the market by attracting an increasing range of eligible participants to the CCP. This further deepens the liquidity pool and provides secure, stable access to eligible buy-side firms.

By alleviating pressure on banks’ balance sheets, extra capacity can be released to better support a diverse range of buy-side clients, while limiting the effects of stressed markets on repo liquidity. Sponsored Clearing also supports the regulatory aims of increasing access to and adoption of clearing and gaining a centralised view of the risk carried by the market. The regulatory direction of travel is increasingly being remarked upon by industry groups, such as the recent [Group of 30](#) report.

Sponsored Clearing is now an essential structural tool for buy-side repo market participants and is a key driver for the expansion of the repo market ecosystem.



1 Group of Thirty Working Group on Treasury Market Liquidity. (2021). U.S. Treasury Markets: Steps Toward Increased Resilience. Group of Thirty. <https://group30.org/publications/detail/4950>

2 Source: Finadium. <https://finadium.com/growth-patterns-in-the-continental-european-clearedrepo-market-premium/>

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