Question & Answer Report: Professional Repo Market & Collateral Management Workshop 2022

Day 2 - Tuesday, 1 November 2022

CET
10:00 ESG and repo
Richard Comotto, ICMA

10:30 The interaction between repo and bonds
Richard Comotto, ICMA

11:15 The interaction between repo and bond futures
Andy Hill, Senior Director, ICMA

12:35 European repo market infrastructure
Richard Comotto, ICMA

12:55 CCP: margining & default management
Dhruve Bhavsar, Head of Business Risk, LCH

Q: The pull-to-par effect on a high/low coupon bond is another source of income accrual. why is that not included in the carry?
A: It is and this is explained in the proper sequence in a later slide.

Q: Why is repo interest applied to market value and not to purchase price of the repo transaction?
A: Because you borrow against the market value of the collateral so you must pay interest on that.

Q: Why is the discount rate used to compute the forward price of the bond its repo rate rather than say the YTM that closer represents the risk of the bond itself?
A: Because it's the financing rate of the carry.

Q: How do you choose the CTD when the IRR and net basis are juxtaposed like the dec 22 long gilt future at present?
A: The IRR and net basis should be consistent but the lowest IRR is the best indicator of the CTD.

Q: Does anyone do HIC Repo on any scale these days and does it generate any additional capital charges to represent the increased risk?
A: Rumour has it that it is sometimes done. It would certainly be hit by capital costs but would also be legally vulnerable. Failure to deliver is often required to perfect title transfer.

Q: In the United States if collateral is put in a segregated account at the custodian or CSD (which imposes potential criminal prosecution on the repo seller if they sell of the collateral) would it still be considered HIC repo with all the problems associated with it?
A: The US is peculiar about these things. But if the collateral is blocked in the name of the seller, it's a secured loan and not a repo. Is this triparty?
A: No
A: Then not a repo, even in the US.

Q: Segregated by the Seller in the name of the Buyer
A: I've heard of this but cannot remember the name. Unique to the US because of the law under which this is done. In those circumstances, I guess the US courts would concur that it's a repo. But it wouldn't fly outside the US.

Q: Securities and Exchange Commission (SEC) Rule 15c3-3 is the rule that imposes severe penalties if the seller takes the assets but that rule applies to brokerage clients and it implies they can take the assets i.e. have them delivered at any time
A: Outside the US, there isn't this protection and there would be problems about no delivery

Q: So I am wondering if the "repo" structure that does this is just HIC at the end of the day

A: You could argue that they are in effect HIC but you could also argue that they are not as possession but not control stays with the seller.