

The Credit Repo Market

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Credit Repo Participants and Purpose

- Rates / Credit / EM Repo
- Flow / Structured
- Rating curves IG, HY
- Collateral types non-HQLA, non-CB eligible
- OTC, bilateral, triparty, electronification
- Natural lenders: Insurance and pensions, asset managers, cash-rich banks, large corporates
- Natural Borrowers: Hedge funds, Mutual funds, EM-based banks
- Both ways: Main dealers / IBD's
- Firm financing and Matched Book
- Service a global client franchise through:
- Maturity transformation: more common in HQLA bonds (Rates)
- Intermediation: more common in CREM. Source collateral portfolios from asset managers, sec lenders and lend them to other clients/dealers, using own financial resources for collateral exchanges

- IR risk: Rates sensitivity limits/exposure: DV01
- WAM limits, mismatch: RR-R...
- Buy-in risk: MTM losses if outright sale is forced
- Counterparty Credit risk: despite daily margin calls, a dealer could still incur a loss in the event of a counterparty default. Typical mitigants: haircuts, unwind triggers
- Region and country limits
- Ratings limits
- Collateral types limits: non-HQLA, non-CB...
- Concentration limits per issuer, counterparty, underlying bond
- Wrong Way Risk, Cross-Currency
- Liquidity Risk: LCR, NSFR, currency gap limits
- Financial Resources: Balance Sheet, RWA
- Stress: market and credit
- Major Risk point: diversification/portfolio approach
- Example: fund diversified credit bond portfolio from a Chinese bank containing EVERGRANDE bonds

- GC v/s Specials: access to sec lenders (with ALD) connectivity to platforms, wide client reach
- Flow Credit Repo (largely within 3 months)
- East to West global business with refinancing either directly or through an intermediary collateral upgrade transaction
- New products/asset classes: pledge, loans...
- New trends: loans, TRS, longer-dated NSFR beneficial trades
- Structured transactions: look at maturity, correlation, liquidity, complexity, format, operations
- And most importantly: the magic CCM structured triangle: Collateral, Counterparty, Maturity
- Overview of Credit Repo spreads and where do we go from here? Risk/Reward Ratios



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