Question & Answer Report: ICMA Professional Repo Market & Collateral Management Online Course 2021

Day 1 - Monday, 27 September 2021

CEST	
10:15	**What's in the course and how it will run -** Richard Comotto, ICMA
10:20	**The repo instrument: legal, economic and operational character -** Richard Comotto
11:40	**Types of repo -** Richard Comotto
12:40	**GC v specials and repo v securities lending -** Richard Comotto
13:05	**The interaction between repo and bonds -** Richard Comotto
13:35	**The interaction between repo and interest rate swaps -** Vasileios Stathakopoulos, Head of EMEA Rates Repo trading, Credit Suisse

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- **Q1:** Nowadays the industry is more inclied to use "pledge" approach for collateral in sec lending world becuase of RWA. is it also the case in repo world?
- **A1:** No. Pledged collateral is only about 15% of GMSLA usage. And it is only used in special situations, usually where the lender is a high RWA counterparty.

- **Q2:** If the borrower and lender agreed to do Repo on Pledge (security Interest) will they sign GMRA or any other additional annex is required? Which Jurisdictions is allowing today on pledge (eg: English Law is allowed)?
- **A2:** There is no such thing as a pledge repo. This is a disguised secured loan, which is risky. And this includes Chinese pledged repo. And you cannot use GMRA for pledging. All jurisdictions allow pledging but some do not allow sale of collateral, so prevent real repo.

- **Q3:** How would you explain why pledged repos are dominant in China onshore? Why is there not enough momentum for outright repo in China?
- **A3:** Lack of a legal framework. Pledging is baked into the civil code. There is outright repo in China but that may be legally riskier than pledged repo.

- **Q4:** Can equity acts as underlying in a repo transaction?
- **A4:** Yes, but you need to add special provisions to your legal agreement. In the case of the GMRA, you would apply the Equity Annex to do this. The equity repo market is small.

- **Q5:** In European legislation (SFTR) is meant "substitution" instead of "equivalence". Is this the same?
- **A5:** No. SFTR includes the substitution of collateral during the life of an SFT as a modification that should be reported.

- **Q6:** Under the FED RRP, buyers are said to be looking for Tbills because of a collateral shortage, but since buyer does not recognize Tbill as part of its balance sheet, why would buyers then access RRP to secure collateral?
- **A6:** They have full legal rights to the collateral and so can re-use, so they are still useful. The accounting picture is not important in this respect.

- **Q7:** Any thought on bond forwards under isda?
- **A7:** Not repo. Only have one leg.

- **Q8:** What is naked selling? thought this is applied to deratives only?
- **Q8:** Naked selling is short-selling without borrowing to allow delivery. In derivatives, you can short without delivery.

- **Q9:** Is there justification for pledged repos between central banks and commercial banks for the extension of funding?
- **A9:** Good point. There is no problem about using pledging between central banks and commercial banks. Central banks are legally privileged.

- **Q10:** My question is regarding insolvency. Once a counterparty goes insolvent and is unable to net off. is the lender of cash (now owner of collateral) entitled to sell the collateral immediately and recover their cash or the liquidator would have to be involved before the collateral sale?
- **A10:** Depends on the jurisdiction but usually there would be a stay of enforcement on the disposal of pledged collateral.

- **Q11:** Can you cross currency repo? So for example deliver a German bond and take a USD loan?
- **A11:** Absolutely. Lots of those.

- **Q12:** For some people it is not natural to think about the buyer/seller of the repo, but rather as a borrower/lender of cash. Would you have an 'Eselsbrücke' (=German for 'trick to remember') who is who (repo buyer = cash borrower, repo seller = cash lender)?
- **Q12:** Not sure there is an easy memorial. It may have to be something learned through familiarity.

- **Q13:** I have a question about Coupon and Manufactured Payment. Some Coupon amounts are paid, then taxes are applied. Should the Manufactured payment should be equal to the coupon minus the taxes according to the rights of the Buyer or to the Seller ?
- **A13:** The GMRA says the manufactured payment must be gross, even if the coupon is paid net. But if you are dealing in net-paying securities, you'd remove that tax provision.

- **Q14:** Open repo has as collateral a specific is in or may use a pool of assets?
- **A14:** Any repo can be against collateral that is selected from a basket of eligible collateral. But all collateral have to have specific ISINs, whether there is one or several securities.

- **Q15:** Extendible repo. Is there a limited number of times it can be extended?
- **A15:** No. You can agree anything.

- **Q16:** Is it possible to trade evergreen repo with creeping end date through a clearer (e.g. LCH)? or is it still just bilateral only?
- **A16:** In principle, yes but you'd have to keep modifying the trade.

- **Q17:** TRS -- Since there is no ownership of asset, what is balance sheet implication of them?
- **A17:** Answer soon. But under IFRS, none!

- **Q18:** How can an Institution save capital under US GAPP? your slide (maybe number 19) talks about saving capital through CDS indexing? why there will be a capital saving?
- **A18:** It's due to US accounting rules. A lot of capital regulation work from balance sheets. This includes Leverage Ratio.

- **Q19:** Are “synthetic repos” documented under a master agreement typically?
- **A19:** Only the derivative side. ISDA.

- **Q20:** I am interested in the sell buyback. Can central bank have title transfer when lending funds to banks but when borrowing funds in open market operations not title transfer?
- **A20:** Yes. Some central banks borrow unsecured but lend through repo.

- **Q21:** The Greek Repo Market is currently rathe stale. Does it have to do with tax laws? What should change for it to become attractive again?
- **A21:** That's topic discussed at the ERCC recently. A key measure would be to allow the holding of Greek government bonds through Euroclear and Clearstream. This sometimes called 'euroclearability'. It makes bonds attractive to international investors.

- **Q22:** Hi, is the only difference for forward starting repo’s that it allows you to enter the repo greater than 3 days in advance of the purchase date? Is the benefit only economical or are there any other benefits to forward starting repo’s?
- **A22:** Forwards allow you to lock in supply or demand for cash and securities in advance of need. It helps reduce market pressure on end-dates or expiry dates.

- **Q23:** If we do repo on Equity for SFTR would we need to say the agreement to cover that transaction is GMSLA?
- **A23:** No, there is an equity repo market. You need to check your documentation.

- **Q24:** Where Sec lending is more popular around the world?
- **A24:** It's bigger in equity. Not sure if any particular market has more SL than repo.

- **Q25:** Are in place particular rules regarding day count in repo mkt different to those for the bond mkt?
- **A25:** Yes. Repo interest should follow money market conventions, ie as in interbank deposits or forward FX.

- **Q26:** I like reading as a means to digest the material and let is sit best. is there a book on repo that you can recommend? Would you have a book published by yourself?
- **A26:** I'm afraid not. The books out there are very basic or limited to the US and out-of-date. I can suggest the Repo FAQs on the ICMA website. For technical detail, look at the ICMA Guide to Best Practice.

- **Q27:** I wanted to ask a simple question on the effect of a repo on accounting. What is the impact to have a bigger accounting value that is ""artificially"" increased by selling a repo ? We are seeing at the end of half year or end of the year participants reducing their position. So I have the feeling that it is not positive effect, but I don't understand the reason why. Thanks for your answer.
- **A27:** Repo inflates the balance sheet because collateral does not leave the balance sheet of the seller because the risk/return on the collateral remains with the seller and balance sheets show who has risk/return, not the legal owner.

- **Q28:** What are the implications of choosing collateralised loan vs repo between treasury desks for overnight cash placements?
- **A28:** Collateralized loans are subject to higher capital charges and the repo market is usually larger.