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

Day 2 – Tuesday, 28 September 2021

- The interaction between repo and bond futures, Chris Baron, BoA
- The credit repo market, Michel Semaan
- European repo market infrastructure, Richard Comotto, ICMA
- Tri-party repo --- role and mechanics, Jan Grauls, Euroclear

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- **Q1:** Which is the difference between implied repo and actual repo?
- **A1:** The next couple of slides will get into that. The IRR is essentially the repo rate which is currently priced in the futures contract, and the actual repo rate is just the level of where the bond is trading in repo markets

- **Q2:** Wouldn't the price of the CTD bond not go up if there's a big net basis gap between the next cheapest to deliver bond?
- **A2:** Not necessarily, when there's a clear CTD like this then the other bonds in the basket won't have much connection to the bond contract or the actual CTD

- **Q3:** Can you actually get the IRR in the market? or is it a theoretical concept?
- **A3:** This is where the arbitrage opportunities can arise. The IRR is where you'll be agreeing to buy/sell a bond up to the delivery date, therefore any differences between this and where actual repo level is can be traded upon

- **Q4:** When "buying the basis", to get a synthetic reverse repo position, is that assuming the purchased bond hasn't been repoed out to fund the position?
- **A4:** When you buy a bond in basis, the level you repo the purchased bond out will be your 'Actual Repo' level

- **Q5:** Why future basis is calculated as Spot (adjusted by FC) minus Future, on the contrary than rest of futures (for example index) where it is calculated as Future - spot?
- **A5:** I'm not sure of any reason for this. Just how things are typically referred to in bond basis markets

- **Q6:** typically, one can observe repo rates dropping in the lead-up to bond delivery date and volumes increasing mildly. can you speak as to the dynamics that contribute to these changes?
- **A6:** Very often this comes from the boxing of the CTD. If holders of the bonds don't want to lend it out in the lead up to delivery, supply dries up in repo markets and hence levels often go deeply negative

- **Q7:** Out of the three options: physical delivery, rolling the contract and trade out of basis, which is the most common one?

- **A7:** Trading out of basis positions is most common. Physical delivery is often used if no bids can be found to trade out of a long position in the days prior to delivery. Rolling of the contracts often gives very good opportunities for the next delivery cycle but depends on the CTD being the same for both cycles

- **Q8:** What do EM, IDB, and WAM stands for?
- **A8:** Emerging Markets, Inter-Broker-Dealer(investment banks in general) and weighted average maturity

- **Q9:** Will the mandatory buy in required by CSDR be detrimental for repo?
- **A9:** In my personal view and a big part of the market, yes. the devil is in the details of how it is implemented. Big lobbying going on for delaying it, seems to be happening.

- **Q10:** Is the solution to exclude repo in your opinion?
- **A10:** Yes, as impact on repo liquidity would be far too great

- **Q11:** In the context of East-West bullet point, Can you again outline why it could make sense for Asian bank to first enter collateral swap (what bonds against UST), and only then borrow USD against UST? Can you give example of country/what bonds?
- **A11:** The Asian client will lend their credit bond portfolio against USD cash. When I speak of direct or intermediary steps to refinance, this is done by the broker-dealer who lent the USD cash to the Asian client and is looking to borrow it back by on-lending the bond portfolio

- **Q12:** What tool do you use to estimate bonds liquidation slippage following a potential counterparty default?
- **A12:** Credit stress tools: recovery value of the bond with the haircut applied and the underlying liquidity

- **Q13:** How do you measure the underlying liquidity? Are you using vendors such as bbg LQA, Euroclear liquidity drive or do you rely on internal metrics and traders experience?
- **A13:** A mix of both internal and external benchmarking methods. valuation and liquidity can be fairly straightforward for liquid assets and more bespoke for less liquid ones.

- **Q14:** What is difference between generic ISIN and Specific ISIN?
- **A14:** The generic ISIN is for a list of securities from which the seller can select specific securities to deliver to the buyer.

- **Q15:** If the CCP provides pre & post trade anonymity how do you report the transactions for the SFTR regulation?
- **A15:** You report the CCP as your counterparty, which is what they are.