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

Day 4 – Tuesday, 5 October 2021

- **RWA and FRTB capital charges and Leverage Ratio for repo -** Christopher Blake, Group treasury, HSBC; Anant Gajjar, Global Capital Lead, HSBC
- **LCR and NSFR for repo -** Cecile Retaureau, Managing Director, EMEA Head of Financing Distribution, UBS
- **SFTR for repo -** Richard Comotto, ICMA
- **Settlement discipline under EU CSDR -** Andy Hill, Senior Director - Market Practice and Regulatory Policy, ICMA
- **ESG and repo panel -** Claus Breternitz, Trader, Commerzbank; Andrew Alabaster, BlackRock; Sam Crawford, Head of Secured Funding Structuring EMEA, BNP Paribas; Gerard Denham, Senior Vice President, Fixed Income Funding & Financing, Eurex

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- **Q1:** What is short-term defined as for risk weights?
- **A1:** Under the Basel standards it is defined as less than 3 months original maturity. However in European regulation it is less than 3 months residual maturity.

- **Q2:** what is SFT that you mention?
- **A2:** It stands for Securities Financing Transactions - so a broad scope covering Repo, Stock borrow/lending, margin loans.

- **Q3:** Could you give the formula for how you arrived at 10% RW on slide 10 please?
- **A3:** The formula can be found on the Basel website: https://www.bis.org/basel_framework/chapter/CRE/31.htm?inforce=20191215&published=20191215

- **Q4:** Does o/n and t/n exposures by AA rated UK bank also qualifies as 20% of RW?
- **A4:** Yes o/n and t/n would also be considered short term as we can unconditionally call the trade.

- **Q5-1:** In which BCBS article is the short-term defined?
- **A5-1:** It is article 20.14 in the footnote: https://www.bis.org/basel_framework/chapter/CRE/20.htm?inforce=20191215&published=20191215
    - **Q5-2:** thanks - but the definition for three month as short-term seems to be only applicable for short-term claims. If you take the general Basel 3 text, i.e. https://www.bis.org/bcbs/publ/d424.htm , you see under Article 31 a short-term definition of up to 1 year. Also the maturity of "short-term" is used for short-term ratings, i.e. P-1 - which is up to 1 year as well.
    - **A5-2:** I believe that is very specific to the floor of Bank risk weights to sovereign risk weights under SCRA approach, that one is not based on ratings and is new under Basel III finalisation. 19 in the Basel text defines short term exposures as original maturity less than 3 months, which are the risk weights to be used for jurisdictions that allow external ratings. The Basel Committee has moved away from calling them "short term claims" to "short term exposures".

- **Q6**: Could you discuss possible impact of output floor on the relationship between Non-banks and banks?
- **A6:** It will really depend on whether a bank is constrained by the output floor. Once constrained it could significantly impact the provisioning of financing to Non-Banks especially when combined with minimum haircut floors. If most banks are impacted then it would potentially mean market wide changes in pricing, in the same way that the leverage ratio impacted the repo markets.

- **Q7:** Do you think there's a market consensus view on HQLA 2b's for equities? i.e. the indices that are in scope for HQLA is the same bank by bank, jurisdiction by jurisdiction
- **A7:** Similarly to the comment on the chat regarding Covered bonds qualification for L1 vs L2a, there could indeed be some slight divergence on HQLA 2b, related for instance on whether a bank consider which index a liquid and tradable versus another

- **Q8:** When stocking up HQLA. That is evidently less the case in Europe. What are your views on this? Why does US banks' behaviour differ from euro area banks in this regard?
- **A8:** there are indeed some gaps created across jurisdiction when it comes to HQLA definition between cash and "cash like" securities with implication for both LCR on the HQLA stock and NSFR when is comes for HQLA1vs cash trades. US jurisdiction looks like the friendlier for now, with EU following thanks to strong local lobbying and last Basel III standard applying jurisdictions. From personal experience, when there is a strong lobbying from bank locally, it does have an impact on local implementation

- **Q9:** I'd be interested in what lesson did you draw from the Covid-19 crisis for the management of your repo book, respective LCR and NSFR? Many thanks!
- **A9:** I will only comment from a UBS lens here. We have 2 internal measures in LCR : a 35d+ and a 95 day+ stressed LCR. One main consequence of the Covid19 crisis has been to focus a bit more on building longer duration for our firm financing/PB financing holding. There was not shortage of LCR on the street and the interbank remained active in lending out LCR even in Q1 2020 / Pricing moved up for such premium but overall, well behaved in interbank. When it comes to NSFR, it only got implemented post crisis in a world where there is still a large excess liquidity from Government / SB various schemes. We will have to see how this excess dries up leaving banks to source more term cash (for UBS would be more 6month evergreen repo, or term callable MTN/CPs for instance)

- **Q10:** Re NSFR, what is the relationship between NSFR (demand/supply) and TLTRO take-up? I'd be interested in your observations how TLTROs affected in the past the market for NSFR.
- **A10:** TLTROs (> 1y) are technically NSFR efficient and would technically help on the ASF mainly on Credit assets (mainly trades were done on eligible retained covered/RMBS/secured bank MTN holdings for instance) but with ECB amending the eligibility criteria (for instance secured MTN not always eligible anymore etc) and the fact that the TLTROs are technically not in extendible or evergreen format (e.g. once <1y most of the NSFR advantage disappears), I believe banks would now privilege trades on street (interbank or with cash rich buyside/AM counterparts for instance)

- **Q11:** If you have to report 'any daily changes in amount and value of collateral', it basically mean you have to report everyday right?
- **A11:** For fixed-income, definitely.

- **Q12:** What does SFT stands for?
- **A12:** Financing transaction, i.e. repo, securities lending, margin lending. Have a look at the SFTR slides.

- **Q13:** Can a buy in situation result in profit for the defaulting party?
- **A13:** Never. At best they will be in the same economic position, but usually there will be a cost arising from the buy-in premium. There may also be additional costs passed on, such a brokerage or buy-in agent fee

- **Q14:** Is this the ICMA ESG paper you allude to?
- https://www.icmagroup.org/assets/documents/Regulatory/Repo/ICMA-ERCC-Green-and-sustainable-finance-role-of-the-repo-market-CP-220421.pdf.
- **A14:** If it is the September paper, yes. The April version was the consultation paper. The September paper is the summary of responses.

- **Q15:** What is brown funding?
- **A15:** Not green.

- **Q16:** In terms of green repo with an ESG-friendly counterparty, do you see any market leader ESG rating agency/agencies that could become market standard, similarly to the ICMA Green Bond Principles for example?
- **A16:** The ICMA GBP do not provide ratings. But as far as guidance on repo and ESG financing is concerned, ICMA's repo committee has started thinking about best principles.

- **Q17:** In terms of third-party ESG rating agencies, do you see a clear market leader currently?
- **A17:** No. Far from it. Very confused situation.