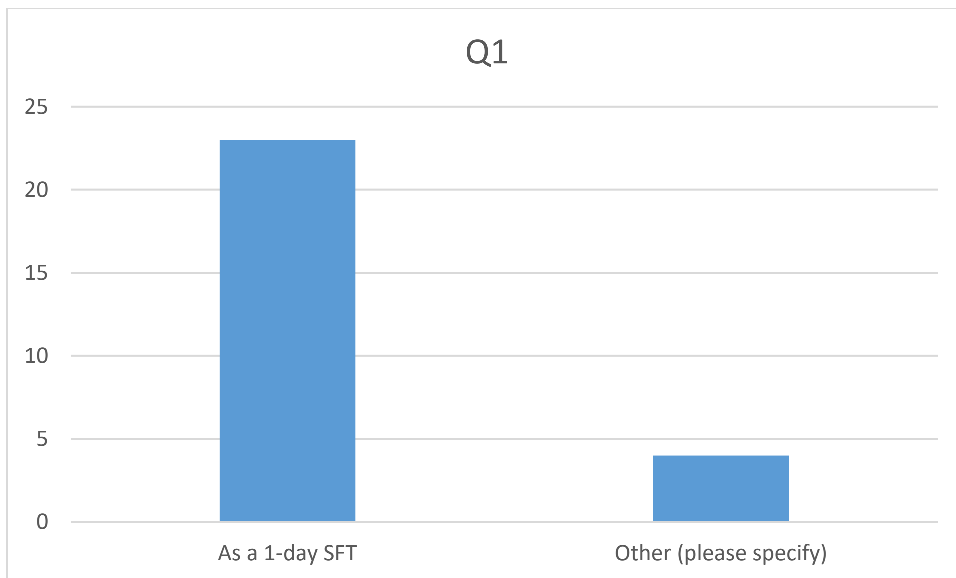
CSDR Buy-ins & treatment of open SFTs

1) Treatment of vanilla open SFTs

The following questions relate to firms' treatment of a standard open trade with the right for either party to terminate the trade with one-day's notice.

Q1. How would your firm treat this trade from a risk perspective?



Other (please specify):

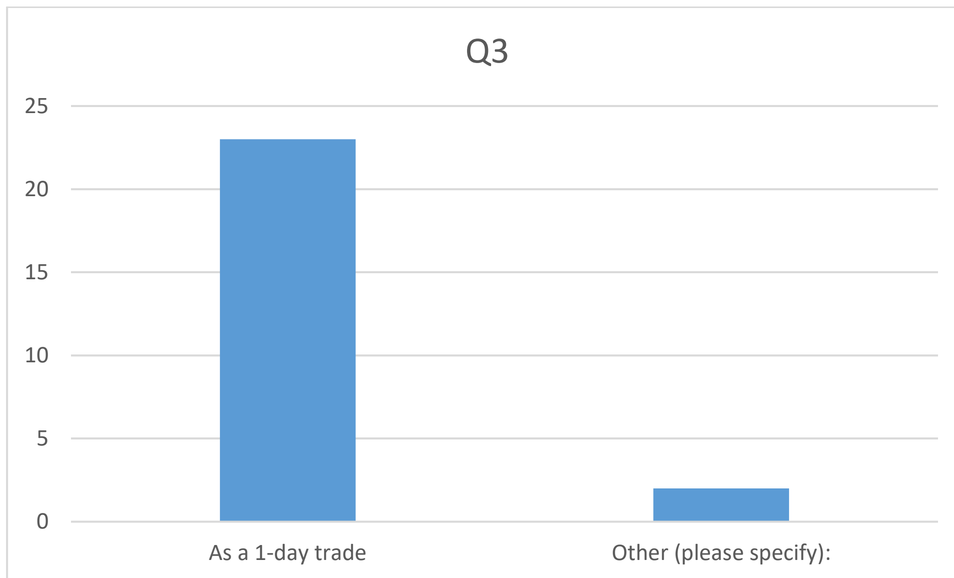
- 3-day
- As far as the liquidity risk, it depends on the aim of the exercise/severity of the scenario measured. Different % of roll-over or run-off could even be applied by differentiating between assets and liabilities
- Though from for Market and Credit Risk perspective, these will be managed as 1 Day SFTs, from an RWA calculation & reporting perspective, as per prescribed regulations (Basel 3, CRD IV)the effective maturity is considered over the full 'Margin Period of Risk'
- Standard open SFT trade with 1-day open notice

Q2. What is the basis for this risk treatment (accounting/regulatory/internal guidance, etc.)?

- Internal liquidity risk model based on assumption that a standard open repo trade has a value date T+2 and could be called to terminate next day. Therefore T+3
- Internal guidance x 4

- As far as the liquidity risk, in the regulatory reporting, the earliest maturity is considered in line with ECB Liquidity stress test approach, while internal metrics could adopts also other scenarios.
- Open trades are treated like 1-day SFT for risk purposes and for LCR reporting. OSFI is aware of this treatment in the LCR. Furthermore, the guidance within the OSFI LAR chapter 3 contains the following language on open maturity SFTs "Open maturity security
- Regulatory interpretation and internal guidance
- Both sides have the right to close for t+1
- Effective duration of trade is 1 day due to either party contractually being able to terminate loan.
- Regulatory
- Regulatory and internal guidance contractual basis
- The legal right to close the transaction the following day.
- Regulatory and internal guidance
- Internal guidance based on market practice of negotiation and settlement. we take into consideration the exact call period negotiated
- Our interpretation of regulatory guidelines
- Agreements with clients provide rights to recall and settlement of recall to follow settlement cycle of the specific security
- Legally enforceable right of closure for 1 day.
- As per comments for Q1 above, from an RWA calculation perspective, as per prescribed regulations (Basel 3, CRD IV), the effective maturity is considered over the full 'Margin Period of Risk' (MPOR), which is typically closer to 5 days. Hence 'Exposure at Default
- We are able to terminate within 1 day, so the potential maturity is tomorrow.
- Accounting, Risk, Internal Guidance
- Internal risk guidance
- Regulatory/internal guidance
- The trade is open - it is a rolling one day open trade with right of substitution. There are no restrictions on closing the trade. There is no pre-agreed date of termination.
- Internal guidance (SecLend trades)

Q3. How would your firm treat this trade from a liquidity coverage ratio (LCR) perspective?



Q4. What is the basis for this LCR treatment?

- Regulatory and internal risk assessment
- the remaining maturity on the trade at the end of each business day is only ever 1 day
- ECB Liquidity Stress Test Exercise (LiST2019) published Guidelines
- Regulatory (PRA and FED) and Internal guidance. Overnight repo wording from the LCR, PRA110 and NSFR
- Open trades are treated like 1-day SFT for risk purposes and for LCR reporting. OSFI is aware of this treatment in the LCR. Furthermore, the guidance within the OSFI LAR chapter 3 contains the following language on open maturity SFTs "Open maturity security financing transactions (including open maturity prime brokerage margin loans) can be treated as overnight maturity provided the institution can demonstrate to OSFI: i) that it can contractually and operationally collapse an open maturity trade."
- Earliest contractual obligation for inflow/outflow under LCR rules
- Regulatory interpretation and internal guidance
- Both sides have the right to close for t+1
- PRA guidance
- Basel III framework
- The legal right to close the transaction the following day.
- Regulatory and internal guidance x 2
- Presence of the call period and internal guidance
- Our interpretation of regulatory guidelines
- Contractual arrangement with clients and counterparts
- Internal guidance
- Legally enforceable right of closure for 1 day.
- Ability to terminate
- 1. Regulatory Compliance (Finma Liquidity Circular 2015/2, mn 210.1)

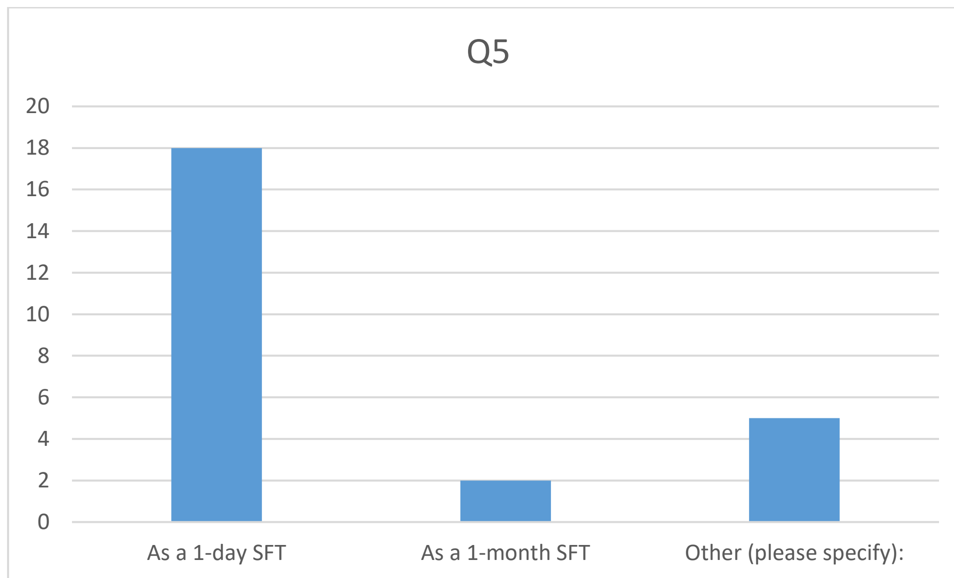
2. In compliance with internal policy guidance: open-ended SFTs should reflect the residual maturity on the next day (T+1), given that both parties have the option to early terminate the SFT at any time.

- We are able to terminate within 1 day, so the potential maturity is tomorrow.
- Regulatory
- Trade could be terminated at any time.
- Regulatory/internal guidance (ILG): Considered a day 1 inflow for all Repo (inc. Reverse Repo) which is transacted on an open basis
- The trade is open it is a rolling one day open trade with right of substitution. There are no restriction on closing the trade. There is no pre-agreed (contractual) date of termination.
- Internal guidance for SecLend trades with no impact on LCR from these products + EBA Q&A 2015-1743 on regulation 575-1743 & 2019/876

2) Treatment of termed trades (<30 business days) with a call

The following questions relate to firms' treatment of termed-SFTs with a call. In this case a 1 month trade (<30 business days), with a 1-day call that allows either party to terminate the transaction early with 1-day's notice.

Q5. How would your firm treat this trade from a risk perspective?



Other (please specify):

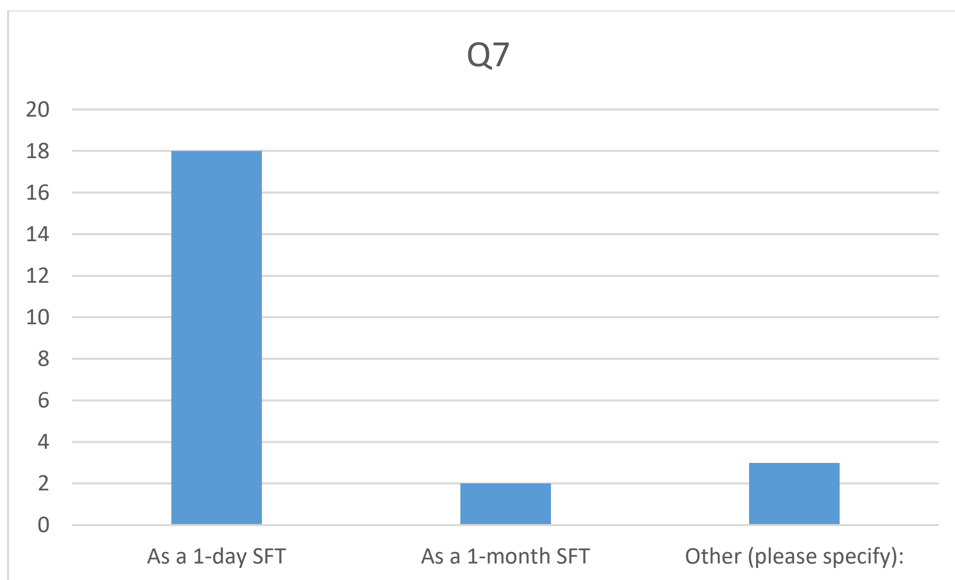
- As far as the liquidity risk, it depends on the aim of the exercise/severity of the scenario measured. Different % of roll-over or run-off could even be applied by differentiating between assets and liabilities
- 'Exposure at Default' (EAD) is calculated over Margin Period of Risk but to calculate RWA we have an effective maturity which is equivalent to the maturity of the trade
- We don't have termed SFT's with a call right
- We don't have this situation; if call, then open ended
- Term trades with 1-day notice period

Q6. What is the basis for this risk treatment (accounting/regulatory/internal guidance, etc.)?

- Internal guidance x4
- As far as the liquidity risk, in the regulatory reporting, funding deals are considered as 1-day maturities. On the contrary, assets are considered at the latest possible maturity (even if within 30 days). This treatment is line with artt. 428J and 428Q of 2019/876
- Regulation
- Internal guidance
- Term SFT's with 1 day call option are treated as a 1-day SFT because it can be called with only 1 days' notice (by either party) and hence can be closed out next day.
- Regulatory interpretation and internal guidance

- Both sides have the right to close for t+1
- Regulatory x2
- Regulatory and internal guidance contractual basis
- The legal right from both parties to close the transaction in one day.
- Internal guidance/ market practice in terms of negotiation and settlement
- Our interpretation of regulatory guidelines
- Accounting and Basel
- Legally enforceable right of close for 1 day.
- 1. 'RWA' Regulatory Compliance (Basel 2, CRD IV)
  2. In compliance with Internal Risk Policy Guidance whereby both counterparts can terminate the trade in 1 day
- We can only book/trade termed SFT's without a call right.
- Accounting, Risk, Internal Guidance - the above description does not describe a true term trade if it can be closed with 1-day notice
- Trade could be terminated at any time.
- Can be called for t+1, no different to an open trade
- Treated as Evergreen - There is general agreement to maintain an overall notional amount on loan, this is not linked to the underlying securities. The securities within that Evergreen don't have any pre-agreed termination date. The securities aren't 'on open' with right of substitution. There is no restriction in closing the loan of securities. There is no pre-agreed (contractual) date of termination of any particular security.
- There is no particular difference from risk calculation in COREP

Q7. How would your firm treat this trade from a LCR perspective?



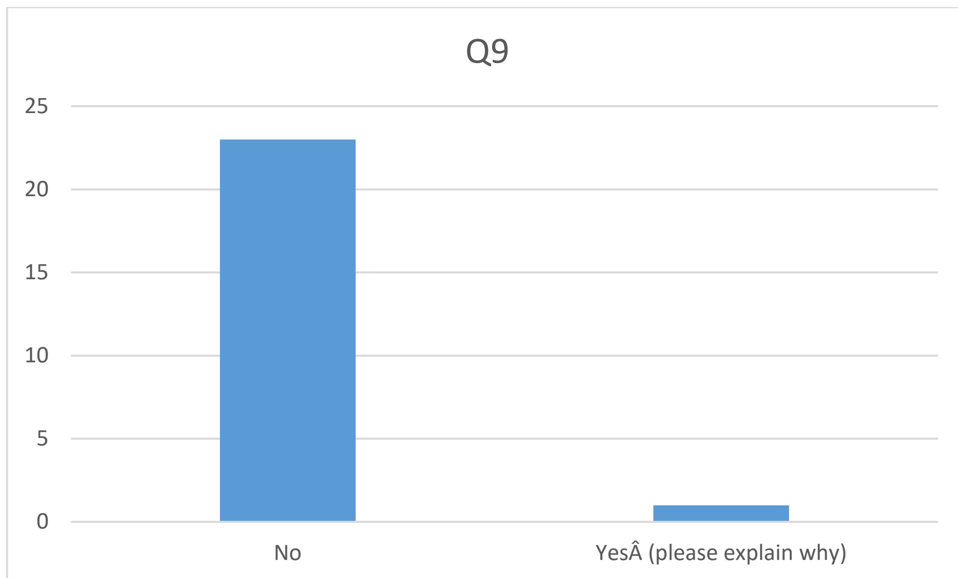
Other (please specify):

- We don't have termed SFT's with a call right

Q8. What is the basis for this LCR treatment?

- The effective term maturity as long as trade is not called.
- Because it can be terminated within one day by either side we see it still as an overnight trade.
- CRR 575/2013 and DR 61/2015
- Regulatory and Internal Guidance.
- Term SFT's with 1 day call option are treated as a 1-day SFT because it can be called with only 1 days' notice (by either party) and hence can be closed out next day.
- Regulatory interpretation and internal guidance
- Both sides have the right to close for t+1
- PRA guidance
- Regulatory and internal guidance contractual basis
- The LCR rule says we should apply the worst case scenario.
- Internal guidance x2
- Internal guidance/ market practice in terms of negotiation and settlement
- Our interpretation of regulatory guidelines
- Basel
- Legally enforceable right of close for 1 day. Anything other would be a misrepresentation of the liquidity impact of the trade.
- Ability to terminate
- Residual maturity for liabilities should reflect any put options by the counterparty and any call options by firm (subject to firm reputation factors) as the earliest possible option exercise date within the 30 calendar-day horizon. Residual maturity for assets should be based on the latest possible date, based on the contractual rights available to the counterparties, assuming the exercise of any option to extend maturity, but not assuming any early redemption options.
- We can only book/trade termed SFT's without a call right.
- Internal guidance, assumption is liquidity exercised at the first call date
- Trade could be terminated at any time.
- Regulatory/internal guidance, again considered a day 1 inflow for all Repo (inc. Reverse Repo) which is transacted on an open basis
- The trade is open it is a rolling one day open trade with right of substitution. There are no restriction on closing the trade. There is no pre-agreed (contractual) date of termination.
- EBA Q&A 2015-1743, 2015-2112 on regulation 575/2013 and 2019/876

Q9. If this trade was for a longer period, say 3 months, but still with a 1-day call, would the risk or LCR treatment be any different?



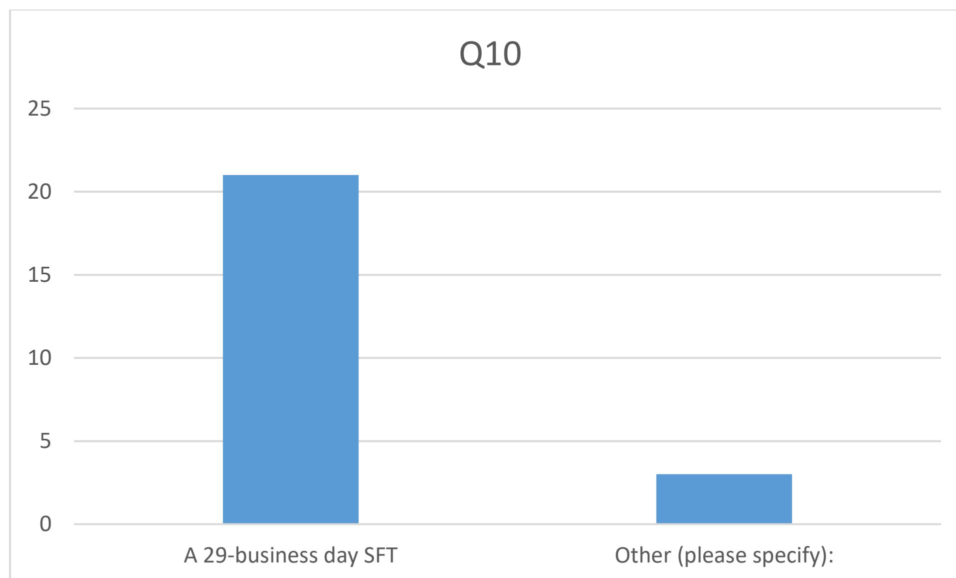
Please explain why:

- Cf Question 8

3) Short-term evergreens

These questions relate to firms treatment of short-dated 'evergreens'. In this case an SFT that is termed at 29-business days, and remains at 29-business days (extending each day), until either party unilaterally terminates the trade, at which point it will become a regular 29-day termed SFT.

Q10. How would your firm treat this trade from a risk perspective?



Other (please specify):

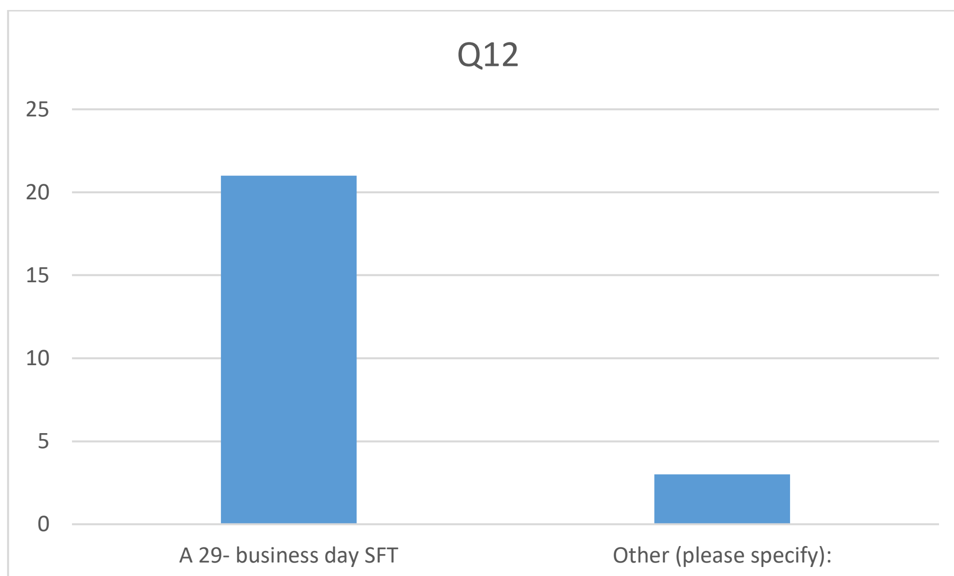
- The maturity is treated at the first call, that means at 29 days bucket every day, until a party terminates it unilaterally.
- It depends, generally If it is single stock then 29 business day SFT, if basket of stocks then one day SFT.
- Treated as a 1 day SFT

Q11. What is the basis for this risk treatment (accounting/regulatory/internal guidance, etc.)?

- Regulatory and internal assessment
- Internal guidance x6
- As far as the liquidity risk, in the regulatory reporting, repos are treated at the first call, while reverse repos at their final maturity
- Regulatory and Internal Guidance.
- A 29 day evergreen is treated as a 29 day SFT for risk purposes until either party notifies the termination, then it would be treated as a regular term deposit which rolls down and matures in 29 days. This is how it operationally functions and is the purpose of these types of deals. This is similar to how notice/evergreen deposits would be treated as well.
- Earliest contractual obligation
- Regulatory interpretation and internal guidance

- The longest the trade is required to be is a 29 day trade so each day it is treated as a 29 day trade
- Regulatory
- Regulatory and internal guidance contractual basis
- The legal right from both parties to close the transaction in 29 days.
- Our interpretation of regulatory guidelines
- Legally enforceable 29 day close out
- 1. 'RWA' Regulatory Compliance (Basel 2, CRD IV)
  2. In compliance with Internal Risk Policy Guidance whereby both counterparts can terminate the trade We 29 days (Exposure at Default (EAD) is calculated over Margin Period of Risk (MPOR) but to calculate RWA we have an effective maturity which is considered as 29 day for these type of trades)
- We can terminate within 29 days.
- Accounting, Risk, Internal Guidance
- Internal Risk Guidance
- The trade is open it is a rolling one day open trade with right of substitution. There are no restriction on closing the trade. There is no pre-agreed (contractual) date of termination.
- LCR and COREP are reported at a given moment at this moment the trade has 29 days contractual maturity. The impact is on ALMM where there is a specific table for rollover of funding

Q12. How would your firm treat this trade from a regulatory liquidity perspective?



Other (please specify):

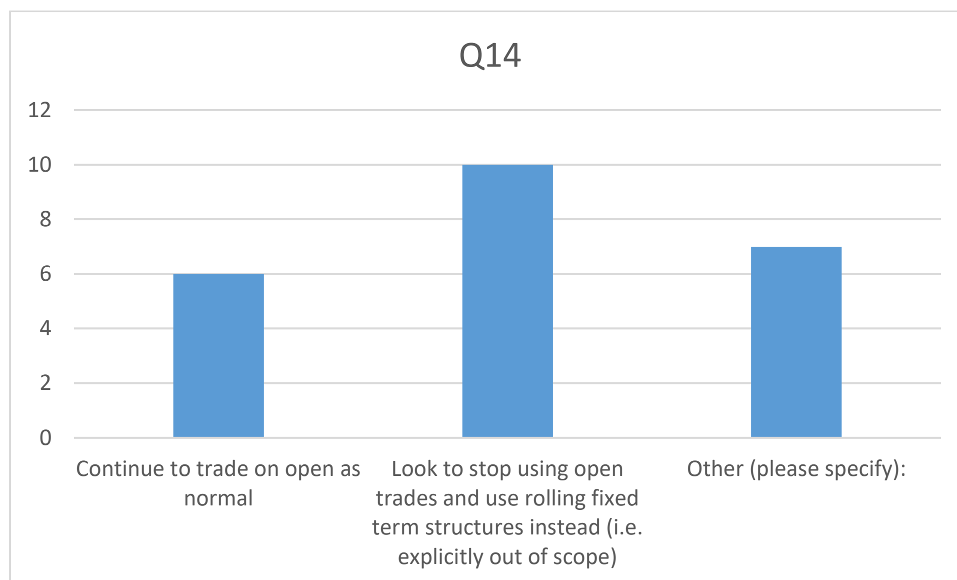
- It depends, generally If it is single stock then 29 business day SFT, if basket of stocks then one day SFT.
- Treated as a 1 day SFT
- Cf question 10

Q13. What is the basis for this regulatory liquidity treatment?

- We would look at the remaining maturity on the trade at the end of each business day.
- CRR 575/2013, DR 61/2015 and 2019/876 Regulation
- Regulatory Guidance.
- A 29 day evergreen is treated as a 29 day SFT for risk purposes until either party notifies the termination, then it would be treated as a regular term deposit which rolls down and matures in 29 days. This is how it operationally functions and is the purpose of these types of deals. This is similar to how notice/evergreen deposits would be treated as well.
- Earliest contractual obligation for inflow/outflow under LCR rules
- Regulatory interpretation and internal guidance
- The longest the trade is required to be is a 29 day trade so each day it is treated as a 29 day trade
- PRA guidance
- Basel III
- Internal guidance x3
- Our interpretation of regulatory guidelines
- Legally enforceable 29 day close out. Anything else would be a misrepresentation of liquidity impact of the trade.
- For evergreen-type SFTs, optionality should be taken into consideration as above, but can be affected by delay draw features, e.g., if a delayed draw language of 35 days is included in a repo transaction, the residual maturity would be 35 days as the inflow could not occur within the 30-day LCR window. The treatment is consistent for evergreen-type SFTs with delay draw features less than the 30-business day LCR window.
- We can terminate within 29 days.
- Regulatory /Internal guidance
- Regulatory
- Open end trade with 29 day call right.
- The trade is open it is a rolling one day open trade with right of substitution. There are no restriction on closing the trade. There is no pre-agreed (contractual) date of termination.
- Cf question 12

4) General questions on open SFTs

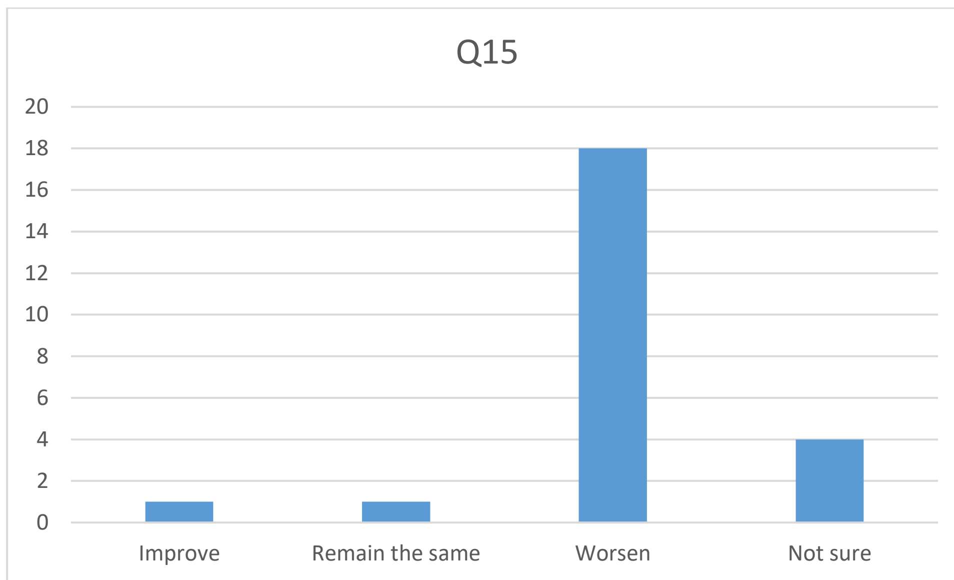
Q14. If open trades are considered in scope of CSDR buy-ins, would you:



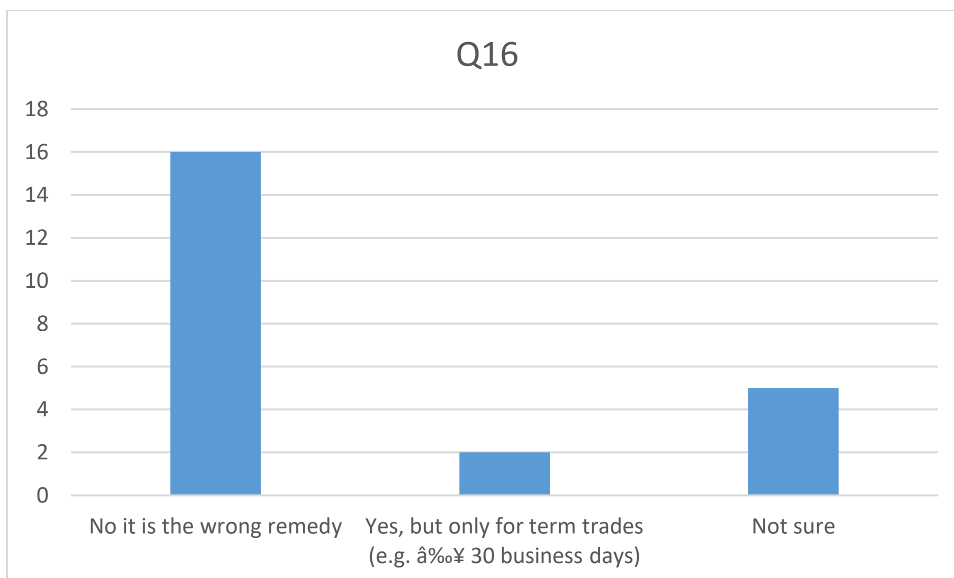
Other (please specify):

- We might do a mixture of both options**.**
- We would consider all options against the trading book
- We may choose to offer less liquidity on short covering but would continue to use OPEN
- Since both the REPO and SL Markets predominantly trade on OPEN, firm would have no choice but to trade on Open. Our view however that is the introduction of mandatory buying for Open SFT would significantly impact the liquidity and efficiency of the wider market.
- I don't know for the moment, maybe a mixed out of both.
- Potentially a mix of open and term but looking to trade more term where possible assuming both sides of the trade have interest
- Risk vs reward analysis on a trade by trade basis.

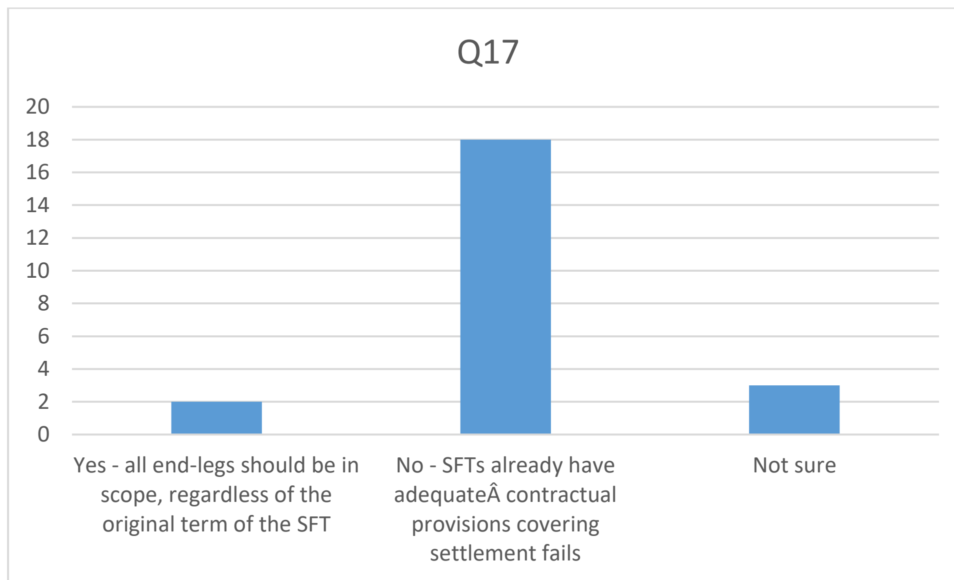
Q15. What would be the impact on your operational efficiency if open SFTs are in scope?



Q16. Article 7.4(b) of CSDR specifies an exemption with respect to certain SFTs: "for operations composed of several transactions including securities repurchase or lending agreements, the buy-in process...shall not apply where the timeframe of those operations is sufficiently short and renders the buy-in process ineffective." This seems to allude to start-legs being in scope. Do you think that the start-leg of any SFT should be in scope of CSDR mandatory buy-ins?



Q17. Do you think that SFT end-legs should be in scope of mandatory buy-ins?



Q18. Additional comments on the treatment of the open and open-like SFTs under the CSDR mandatory buy-in regime

- With regards to Q22 & Q23, unable to answer as more information would be required in the question. i.e. different treatment for repo vs. security lending.
- None
- Regarding OPEN repo trades the start leg should NEVER be in scope. In reality if a repo seller finds out they can't settle the bond they agreed to repo they can close it for t+1. Therefore you will have a fail in and fail out which can be paired off. When an OPEN trade is closed and the OPEN leg did settle it makes some sense to include the close leg in scope. Regarding term trades the KEY is was the repo traded as FIXED with no rights of substitution or was it traded as a GC basket with rights of substitution? If a trade was done as FIXED including the start leg as in scope makes some sense however if it was traded with rights of substitution then the start leg should be OUT of scope b/c the repo seller can request a sub for t+1 and be left with a fail out and fail in which can be paired off.
- A Regime similar to the US TMPG Regime for US Treasuries will provide more settlement Efficiency in a negative rate environment
- If open trades are deemed to be in scope then this will significantly worsen operational efficiency and increase systemic risk
- Since both the REPO and SL Markets predominantly trade on OPEN, firm would have no choice but to trade on Open. Our view however that is the introduction of mandatory buying for Open SFT would significantly impact the liquidity and efficiency of the wider market. In the event that liquidity and market efficiency were, as feared, impacted in this way, we would need to consider ceasing the use of OPEN trades, and instead assess use of rolling, fixed term structures instead. Additionally, the contractual tenor of open trades should be considered like a daily callable trade, when the end date is the date when the trade is closed. This is also reflected in the P&L / accounting treatment for open trades, where interest is accrued on a daily basis until a trade is closed.
- We have only a few repo/lending deals not settled on the day it has to be.

- The mandatory buy-in regime should only be applicable to recalls i.e. actual sales, however the initiator of the buy-in should be the original seller.
- Our Evergreen/Term Trades are typically booked with full right of substitution whereby all securities in the basket can be recalled but there is still a term liability. This is similar but I believe different to your second example. For risk limits we treat this as a term evergreen but each security is fully recallable so I believe should be out of scope for CSDR. I am interested in the market's view on this.
- Commercial risk with buy-in ending in cash option, which is not necessarily what the lender wants.