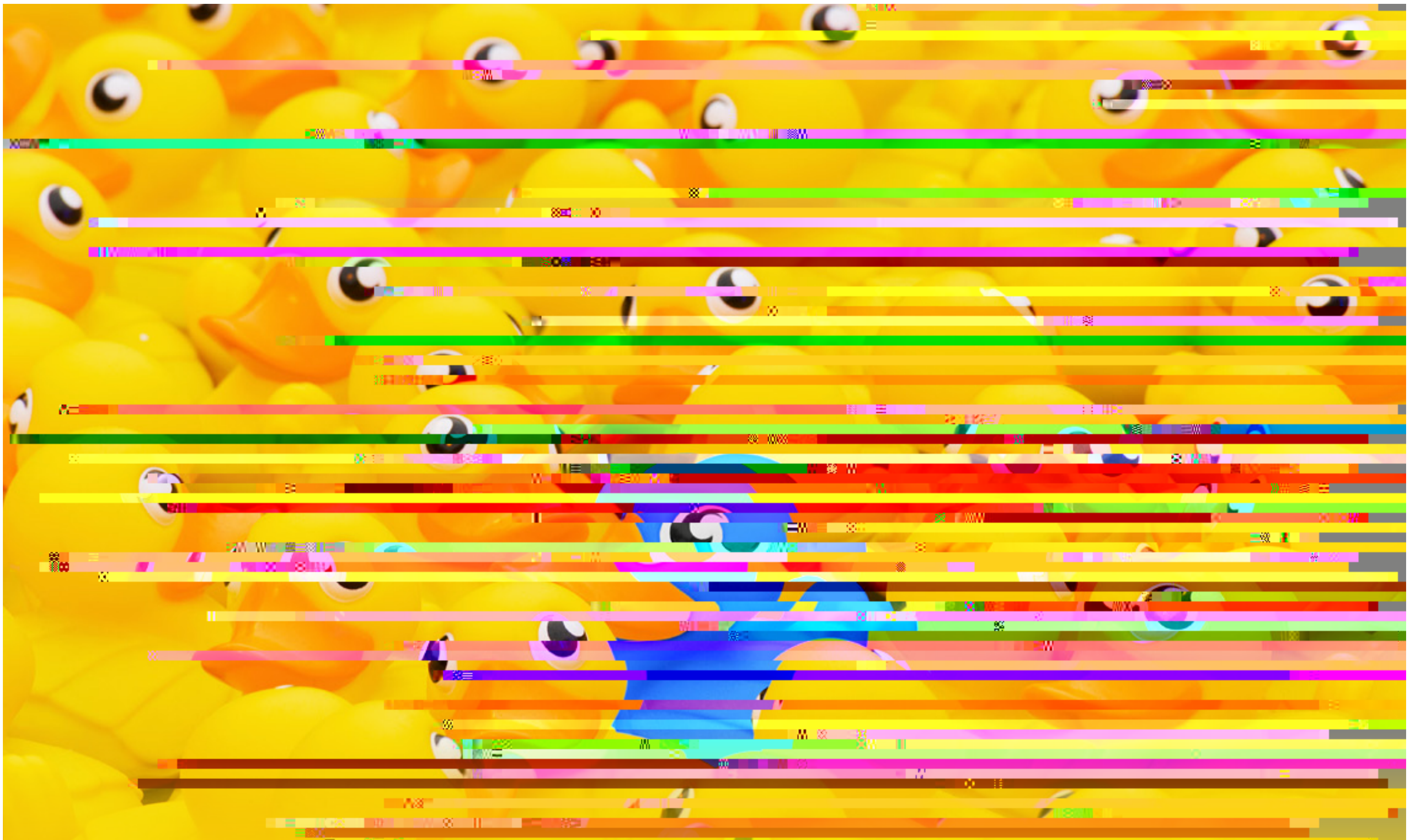

CHALLENGING THE STATUS QUO

Market participants discuss the importance of peer-to-peer lending, its misconceptions and why firms should be looking at new routes to market

J.P.Mor

FinOptSys and SwapOne partner on swap solution

Inside this issue

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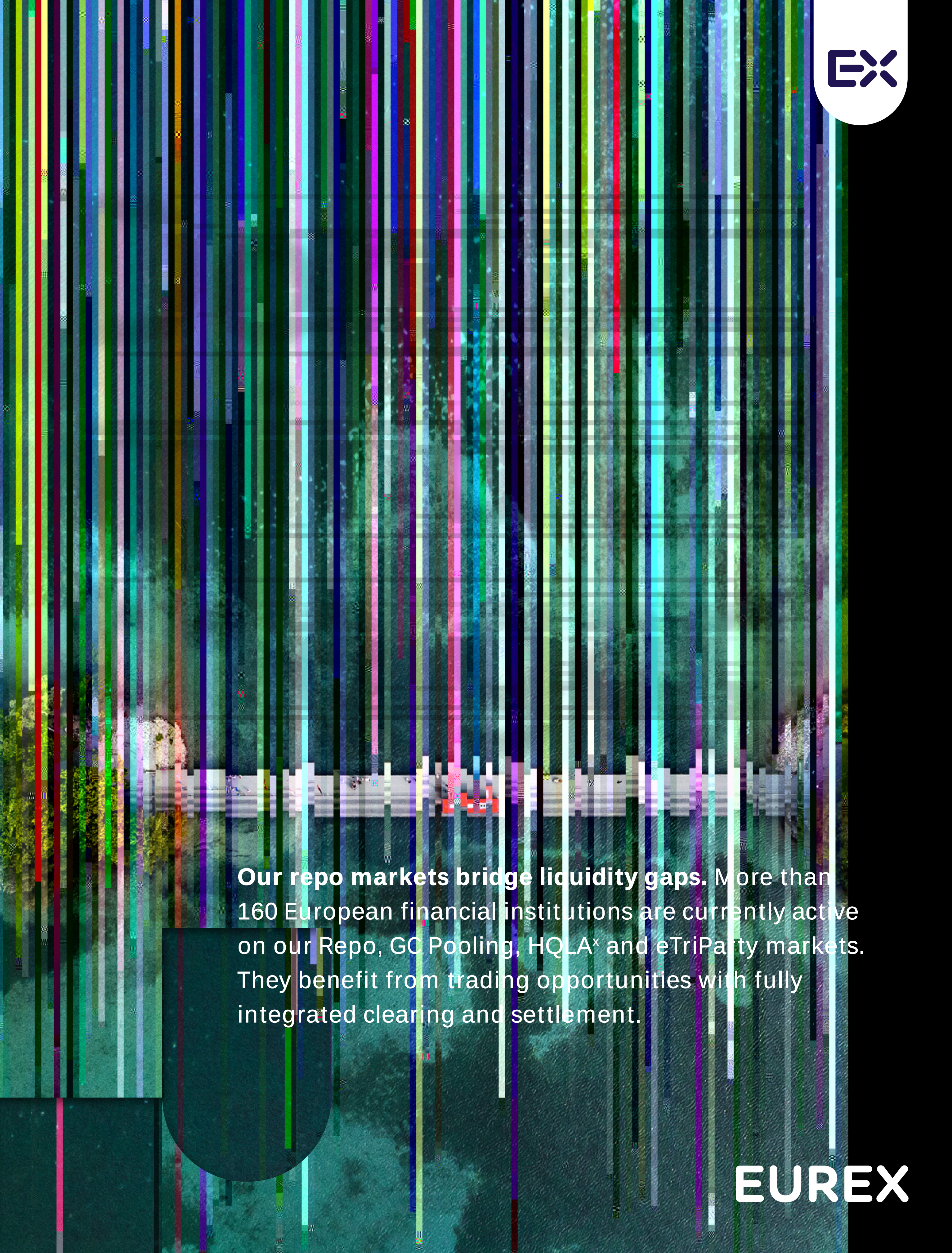

Our repo markets bridge liquidity gaps. More than 160 European financial institutions are currently active on our Repo, GC Pooling, HQLA^x and eTriParty markets. They benefit from trading opportunities with fully integrated clearing and settlement.
EUREX

According to the regulator, these measures will mitigate illegal activities within the market, give investors more time to digest market information and create "a fairer marker order".

In the next step, from 18 March, the CSRC says it will continue to strengthen supervision to "effectively protect the legitimate rights and interests of investors".

ICMA releases ex-Japan APAC repo market survey

The International Capital Market Association's (ICMA's) Global Repo and Collateral Forum (GRCF) has released survey results on the ex-Japan APAC repo market.

Outstanding value of repos and reverse repos on 14 June 2023 on the books of the survey sample was US$269.1 billion. Average daily turnover between 9 June 2022 and 14 June 2023 was US$12 billion.

These numbers are down on the previous year, with 2022 generating US$310.0 billion in outstanding value of repos and reverse repos and US$43 billion in average daily turnover.

The size of the survey in June 2023 was lower than the previous year, which reflected changes in the composition of the survey sample; in particular, the loss of two international banks from the survey sample and changes in regional bank participation.

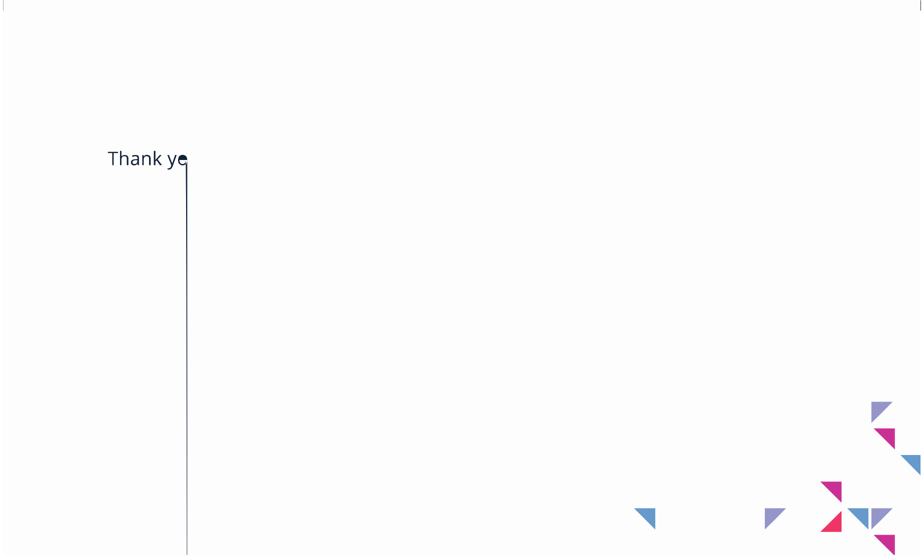
For the first time, the report includes a snapshot of the onshore repo markets in China and India. These two economies are the second and fourth largest economies in the world and the two most populous countries, says ICMA.

The survey does not measure the size of domestic repo markets in the APAC region, but captures cross-border business involving internationally active banks.

According to the June 2023 survey, there were approximately 231,700 transactions over the year, of which 53.0 per cent were reverse repo.

The survey suggested modest growth in the outstanding value of the ex-Japan APAC repo market but declining turnover, which ICMA says implies more longer-term transactions.

In addition, the report found that triparty and central counterparty (CCP)-clearing repos played a "small and diminishing role"



LCH RepoClear SA launches €GCPlus green basket

bank digital currencies, green finance, cybersecurity and steps to eliminate financial crime.

This first batch of projects for 2024 builds on a further eight projects that are currently ongoing within the BIS Innovation Hub and 12 that were completed during 2023.

Two projects from the Hong Kong Innovation Centre feature in this new list of research programmes. Project Symbiosis will apply artificial intelligence and big data technology to supply chain adaptation and disclosure. This will use AI to map emissions disclosure from small and mid-sized companies, thereby seeking to improve tracking of Scope 3 emissions.

The second Hong Kong-led project, titled Project Aurum, steps into a new phase where it will model payments privacy for retail CBDC transactions, thereby seeking to extend central bank understanding of privacy factors when designing CBDC architecture.

A project led by the Singapore Innovation Centre, named Project NGFS Data Directory 2.0, will upgrade the data directory platform for Greening the Financial System, making this data directory more effective as a public resource and improving the process for searching through data sources.

Project Promissa, which is a joint initiative conducted with the Swiss National Bank,
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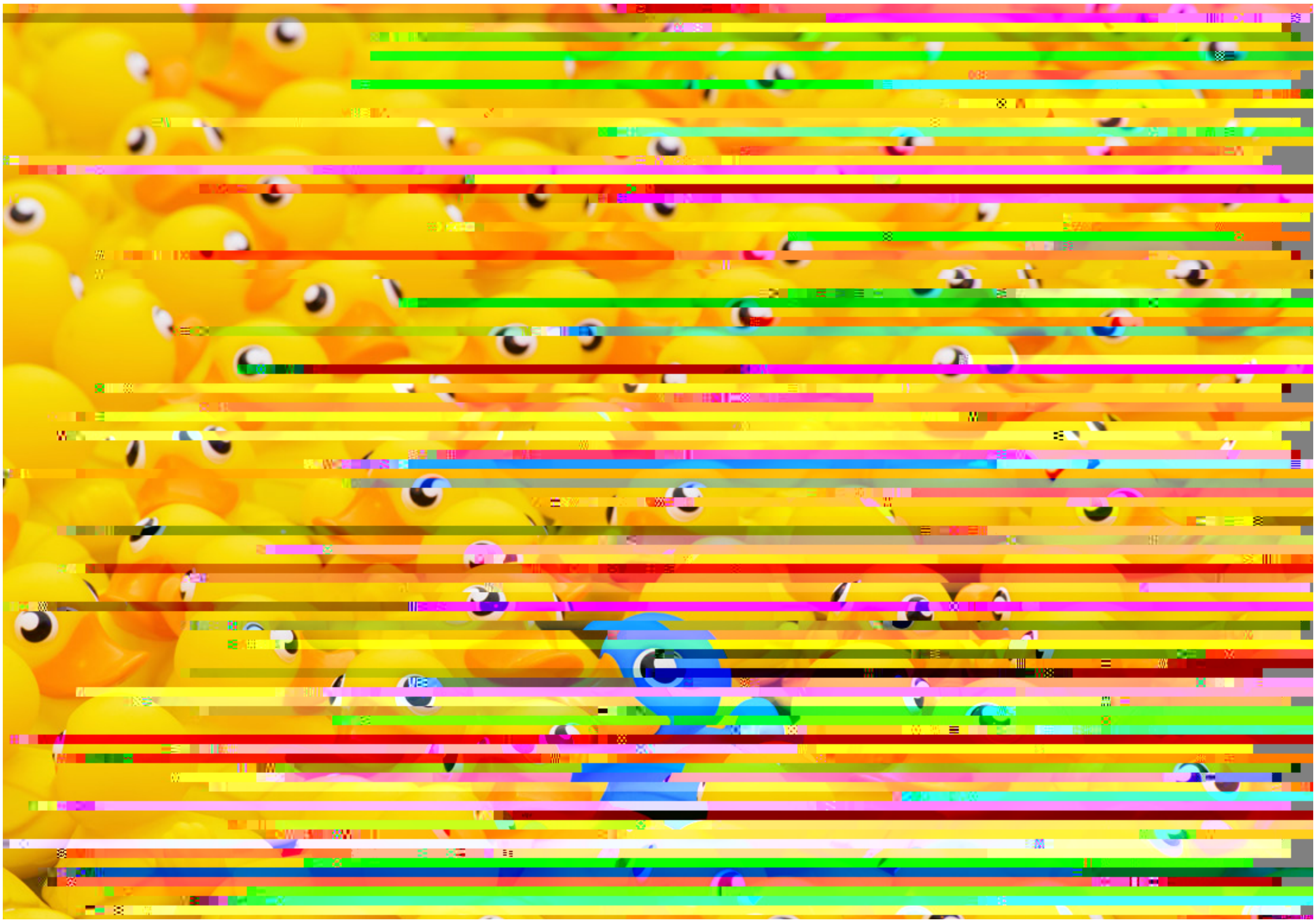
Redefining Collateral Mobility



Challenging the status quo

Market participants discuss the importance of peer-to-peer lending, its misconceptions and why firms should be looking at new routes to market. Carmella Haswell reports

Peer-to-peer (P2P) lending is going to become a significant part of the business, according to market participants. The structure forms another route to market, providing additional lending and financing optionality to institutions. Firms are encouraging securities lending players to explore all available options outside of the status quo.

P2P securities lending is a process of lending and borrowing that takes place without the use of traditional bank intermediaries. For example, a pension plan will lend its eligible securities directly to a borrower counterparty, often against standardised collateral sets.

From a technology standpoint, Anthony Caserta, director of business development at FinOptSys, says that when thinking of P2P, it “is not just peer-to-peer, but point-to-point” with any combination of buy-side and sell-side interactions. He adds: “There are already a number of structures out there, and as a fintech we work with other technology firms and market participants to come up with solutions.”

FinOptSys has worked with State Street on Venturi, which includes a live P2P repo platform with embedded trade-level indemnification. The firm recently announced Plexus, a swaps P2P platform with front-to-back straight-through processing (STP) and lifecycle management.

In the European repo market, securities financing operates through two primary channels. The first, special repo, facilitates the financing of a specific security against cash. This segment constitutes about 85 per cent of overall single-counted market volumes, totalling €4,600 billion according to data from the European Repo and Collateral Council dated June 2023.

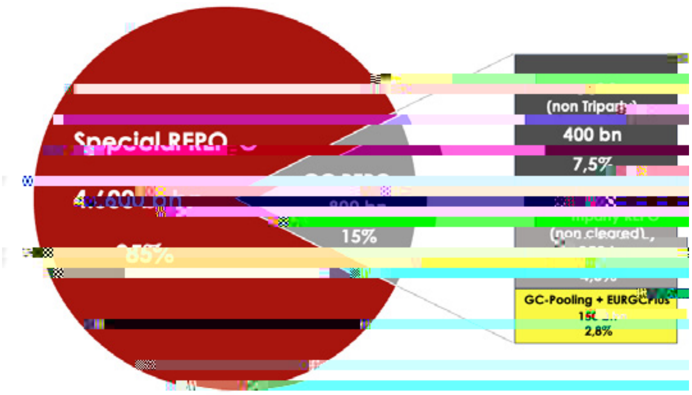
Outstanding amounts in this category have grown in recent years, largely as a result of the impact of quantitative easing. This monetary policy has increased the value of the underlying securities, particularly sovereign securities. To maximise the value derived from these securities, transactions are conducted on an individual ISIN basis. Participants in this market have two options: they can either opt for clearing through a central counterparty or engage in direct face-to-face transactions.

The second avenue is the General Collateral (GC) market. This market segment facilitates the financing of a limited number of homogeneous securities, typically fewer than 10, in a single transaction, constituting approximately seven to eight per cent of the total market volumes, equivalent to €400 billion. Additionally, it accommodates the financing of a larger block of securities, occasionally comprising several hundred lines, grouped within a basket and specified by eligibility criteria. This larger block represents about seven to eight per cent of the overall volumes, totalling around €400 billion according to the ERCC survey cited above.

In the latter case, the large number of underlying lines has led some custodians to offer an outsourced collateral management service, a triparty repo service, encompassing activities including valuation, margin calls and substitution. Similar to the "specific" repo market, the triparty repo market offers the flexibility to trade repo on either a cleared or uncleared basis, with the uncleared segment representing roughly €250 billion. The baskets are both bilateral and specific to each pair of counterparties wishing to transact together.

Regarding the other sub-segment, clearing mechanisms have led the cleared triparty repo service to rely on standardised baskets designed to concentrate liquidity. Among the main baskets, one is "ECB eligible", reflecting monetary policy requirements, and the other is "compatible with LCR criteria", aligned with Basel Committee criteria for the Liquidity Coverage Ratio (LCR). This cleared triparty repo market is represented by two separate offers that are quasi-similar — EuroGCplus (€GCplus) and GCPooling — marketed by private market infrastructures LCH SA and Euroclear in the case of €GCplus, and Eurex Clearing and Clearstream for GC Pooling. To enhance liquidity, these GC products are accessible exclusively through electronic execution platforms. In one case, this is Brokertec and MTS (along with TP Repo to a lesser extent), while in the other it is the Eurex Repo trading platform.

Fig 1: European repo market



Single-counted outstanding €5,400 millions (doubled-counted €10,800 millions ERCC June 2023)

The value proposition offered by these cleared triparty repo platforms is unique, as their purpose is to serve as a key component of the interbank market, directly linked to monetary policy and European regulations. We are referring here to the secondary market for central bank liquidity and the market for high-quality liquid assets (HQLA) used to manage the LCR buffer. This explains the historical support from public authorities for the liquidity of these offerings, with the Banque de France supporting €GCplus and the German monetary authorities, namely Finanzagentur/KfW, supporting GC Pooling.

Despite this quasi-institutional support, the modest volumes in these two offers raises questions about their respective attractiveness — for European participants seeking financing and for the circulation of the underlying collateral, as well as for the appeal of the European financial space on the international stage. The combined outstanding amount has reached approximately €150 billion, representing about 2.8 per cent of the global repo market, with €GCplus accounting for €10 billion and GC Pooling accounting for €140 billion.

The limited appetite from banks might, on initial scrutiny, indicate specific technical shortcomings in the product offers. More worrisome is that this scenario could also signify a questionable strategic positioning. Given the present operational landscape for the European infrastructure ecosystem, friction may appear insurmountable for participants. Indeed, in the context of a supposedly vast and deep European market, the presence of two competing solutions with the same liquidity objective, based on the same product, raises questions.

In essence, it is possible that these offers, as they are currently presented in the market, could generate friction and, in doing so, impact both liquidity and the transmission of monetary policy. In essence, there is a possibility that these solutions, in their current form, fall short of fully realising the market's potential.

To some extent, the US market can provide comparative insights: it totals US$7.1 trillion in outstanding, with a cleared GC repo market (equivalent to the European GC Pooling and €GCplus perimeter) valued at US$650 billion (approximately nine per cent of the total outstanding), with US$400 billion in agency MBS baskets and

Several factors contributed to these volumes. From 2007 to 2014, GC Pooling served as a key "anti-crisis" instrument, facilitating the anonymous acquisition of liquidity without counterparty risk as banks faced the clearing house.

From 2015 to 2021, the stable yet modest residual base of 40 billion was primarily fuelled by the demand for HQLA and arbitrage, rather than liquidity requirements. However, despite less accommodative monetary policy and significant collateral needs, the platform appears to encounter a glass ceiling. In essence, the German model has demonstrated an inability to realise its full potential over several years. This limitation stems from a model that is excessively "siloed" and domestic, lacking interoperability and no longer aligning with the demands of a neutral and integrated European ecosystem.

As for €GCplus, the storyline is less vibrant precisely because the platform never truly took off. Launched too late, in 2011, under the name Collateral Basket With Pledge (CBWP) — amid the European chaos of the 2010-12 crisis — the intention was commendable, but the offer did not meet the technical expectations of the banks. It was rebranded as EuroGCplus (€GCplus) in 2014 and relaunched belatedly in 2014-2016, even as the market was flooded with liquidity.

Despite being supported by the Banque de France, which saw this as a way to compete with the liquidity of the German silo, volumes have remained marginal so far. Regarding its strategic positioning, weaknesses are similar to those for GC Pooling, with some additional unresolved functional biases making efficiency, and therefore onboarding of new clients, problematic.

The intention here is not to delve into the technical details of the two offers individually, but rather to highlight more generic issues. As the offers stem from the cross-collaboration of a triparty agent and a clearing house, weaknesses sometimes arise from one, sometimes from the other, and sometimes from an unfortunate synergy of both.

The first point of attention concerns the narrow scope of eligible
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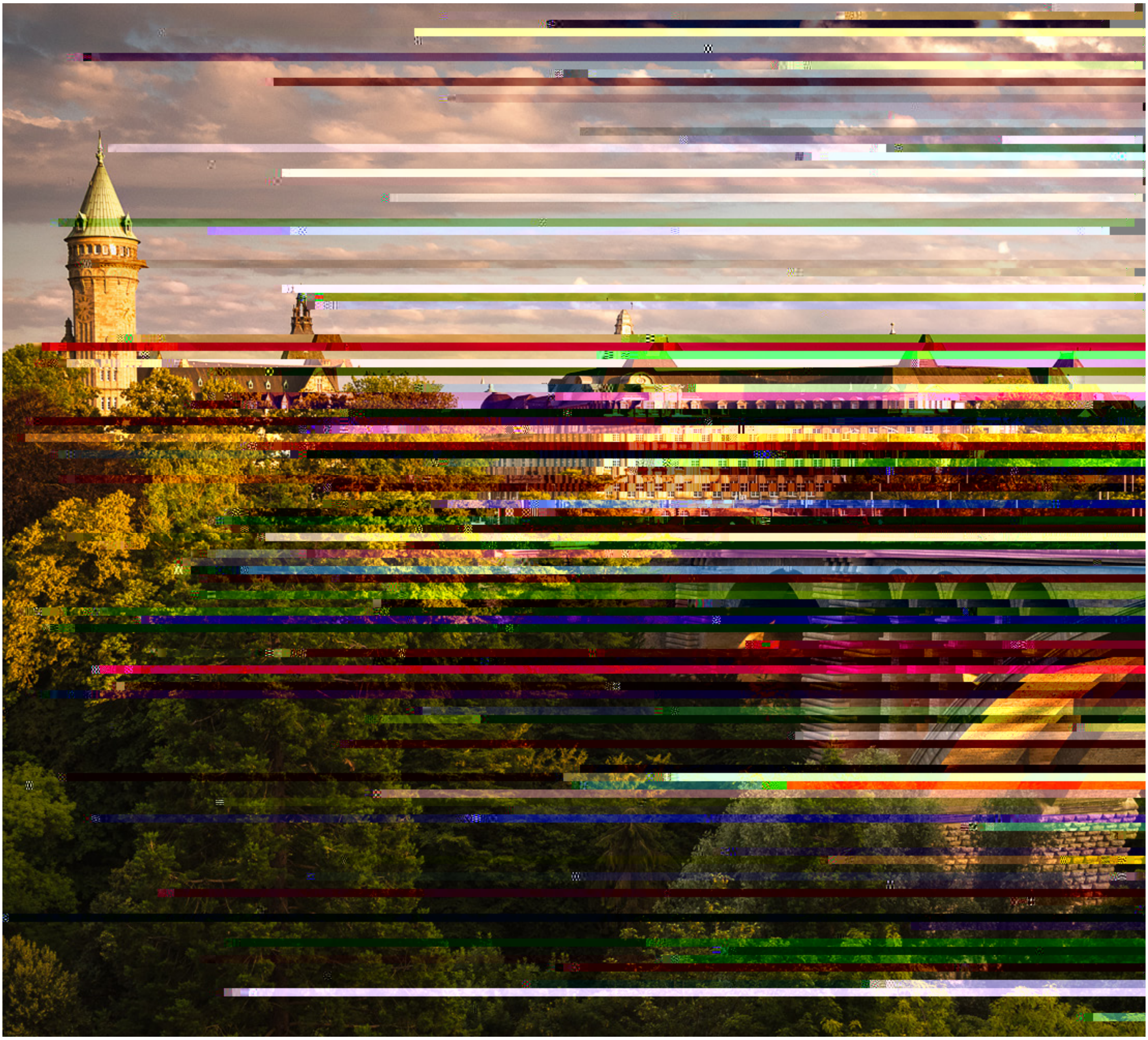

GFF Summit 2024: between innovation and regulation

The question of technology coincided with a wide range of topics at this year's Global Funding and Financing Summit in Luxembourg. Sophie Downes reports

The question of technology coincided with a wide range of topics at this year's Global Funding and Financing Summit, which combined the expertise of Clearstream, Eurex Clearing and Eurex Repo. Delegates gathered in Luxembourg to discuss the challenges and opportunities presented by technology, regulations and market dynamics, with an emphasis on collaboration and strategic preparation for the future.

Brian Nolan, co-founder and CEO of Finteum, continued: “Adoption by more and more participants is going to be important. With banks like UBS, NatWest and Commerzbank getting involved in digital repo and intraday, there is a great business case for it for all market participants.”

Pivotally, Nolan is optimistic for the future: “I believe that 2024 is going

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THE FOUNDATION

MARKETS

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Bitcoin ETFs: spotlight on a new asset class

Matthew Chessum, director of securities finance at S&P Global Market Intelligence, evaluates the first week of trading and lending in Bitcoin ETFs, following recent approval by the Securities and Exchange Commission

On 10 January 2024, the SEC approved 11 US-listed exchange traded funds (ETFs) that invest in Bitcoin. This has opened up a new asset class for many investors, as the move has simplified the process of gaining direct exposure to the cryptocurrency. The ease of investing in Bitcoin through an ETF structure will not only increase the popularity of this asset class, but is also likely to catapult it into the financial mainstream. One week after these new ETFs started trading, and following US$1.15 billion of net flows, S&P Global Market intelligence ETF data reveals the emergence of some interesting trends.

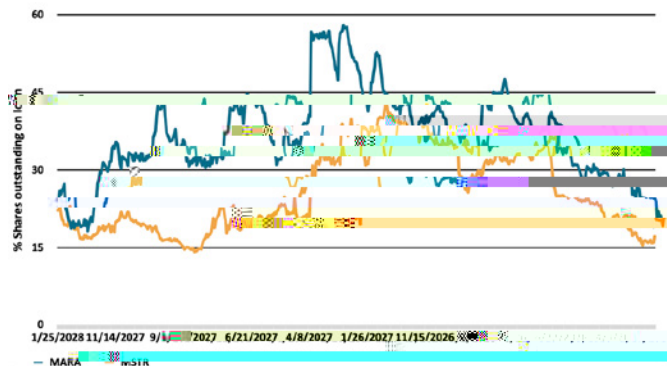
The iShares Bitcoin Trust (IBIT, US$1.2 billion) and the Fidelity Wise Origin Bitcoin Fund (FBTC, US$1 billion) experienced the largest inflows across all newly formed ETFs during the first week of trading. Blackrock and Fidelity have proven popular among investors, receiving a combined 68 per cent of all week one inflows (with BITI accounting for 37 per cent of these inflows, and FBTC 31 per cent).

The iShares Bitcoin Trust (IBIT) was the first of the group to amass more than US$1 billion in assets, accumulating the largest inflows during the week and boasting an AUM of US$1.17 billion on 18 January. The value of combined inflows into these two ETFs (US$2.2 billion) was equal to the value of the outflows seen across the Grayscale Bitcoin Trust (GBTC) during the period.

The Grayscale Bitcoin Trust (GBTC) experienced US$2,216.3 billion of outflows during the week. This ETF was the only fund to experience daily outflows during its first week of trading. The meteoric rise in the price of Bitcoin, which pushed ever higher as investors anticipated the approval of these new funds, appears to have led to profit taking by existing investors in the former closed-end fund. Now converted, existing units can be traded freely on exchange, which lowers the bid-offer spread for investors that would previously have had to trade over the counter, often at a substantial discount to the Bitcoin price.

Fund flows have been affected by the decision of some Bitcoin ETF issuers to charge 0 per cent fees for a limited amount of time, with the agreement to raise them when a defined AUM is reached. The majority of the funds are expected to charge between 0.2 per cent and 0.4 per cent in the future. The Grayscale Bitcoin Trust ETF (GBTC) continues to charge 1.5 per cent, highlighting its track record as its differentiating competitive factor. When looking outside the fee, the Grayscale ETF had the lowest average trading spread across the group during the week and experienced the highest trading volumes and values (fig 1). This suggests that liquidity and price remain important factors for a substantial proportion of the investor base.

In the securities lending markets, ETFs generated US$635 million in revenues during 2023, which was a decline of 25 per cent YoY. The asset class has focused upon a handful of high revenue producing stocks such as iShares IBOXX High Yield Bond ETF (HYG), iShares IBOXX Investment Grade Bond ETF (LQD) and Invesco Senior Loan ETF (BKLN) over the last few years, as the change in the interest rate environment has created a number of opportunities for investors looking to take advantage of the change in the yield environment.



With the emergence of the new Bitcoin ETFs, a new driver of revenues for 2024 may be in the making. Given the level of investor demand and the fact that the asset class does not provide a yield — as returns are based solely upon pricing speculation — these most recently approved ETFs are likely to represent the start of a growing trend of investment strategies designed to generate returns across this increasingly popular asset.

Industry appointments

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ClearStructure

A New Era

in

Eldridge promoted

State Street Corporation has appointed Michael Eldridge as UK country head and branch manager.

Reporting to executive vice president Cuan Coulter, Eldridge will oversee all aspects of State Street's business in the UK.

He will also supervise the execution of the firm's strategy across product deployment, client relationships, risk and compliance, employee development and community engagement.

Eldridge has more than 30 years' experience in the financial services industry, with a strong background in custody operations, global markets and investment banking.

Since joining State Street in 2016, Eldridge has led multiple projects in senior roles, including the establishment of new operating teams in the UK, Germany and India.

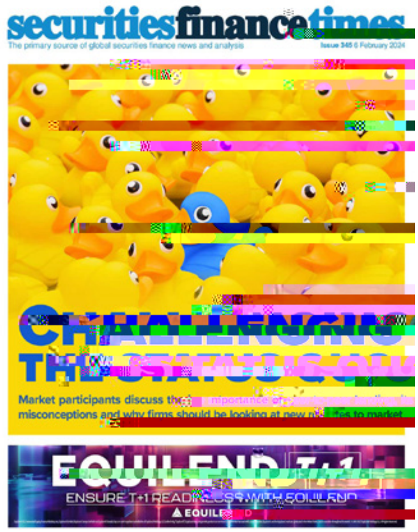
Zekraus departs from Pirum

Pirum chief operating officer and head of the Americas, Robert Zekraus, has left Pirum.

Zekraus joined the London and New York-based securities finance specialist in May 2021, having previously served at Scotiabank for more than six years, rising to managing director for global banking, markets and prime services.

Before Scotiabank, Zekraus worked for more than 15 years at Barclays Investment Bank, in both New York and London. During this period, Zekraus was head of US securities lending and worked in the equity finance funding and financing sales division.

Speaking to SFT, Pirum chief executive Philip Morgan indicated that his team is grateful for everything that Zekraus has done for the company over the past three years, during which Pirum has expanded its client coverage, grown its US footprint and accelerated its service offer across all products.



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Industry sentiment survey:

Digitisation of unstructured data

This six minute survey focuses on crucial themes: challenges in implementing automation technology, hurdles in adopting AI/machine learning tech, and difficulties in managing unstructured data.

We would really appreciate your time in answering this short survey.