

An abstract graphic on the right side of the slide, consisting of a grid of green rectangular shapes that curve and warp, creating a sense of depth and movement. The grid is denser in the center and fades out towards the edges.

Innovative Buy-Side access models for central clearing

July 2019

Central clearing – A core element to ensure stability and resilience of financial markets

“... Improving over-the-counter derivatives markets:

All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest.”

Quoted from the G20 Pittsburgh Summit Leaders' Statement, September 2009

Identified issues related to traditional client clearing models

OTC Derivatives

- ❖ Strong concentration of client risk on a few clearing members
- ❖ Limitation in terms of porting of positions and collateral in case of clearing member default
- ❖ High costs for both clearing members and its clients due to balance sheet constraints

Securities Financing (Repo/ Securities Lending)

- ❖ CCP cleared repo short-term inter-bank highly liquid; access via direct memberships.
- ❖ Clearing of client repos via traditional clearing models not economical for clearers
- ❖ UMR and cleared derivatives create significant requirement for buy-side to place and raise cash securely; however, buy-side struggles to secure balance sheet for (reverse) repos reliably and on a cost efficient basis

Solution:

- Allow buy-side to directly access CCP Clearing

Challenge:

- Address specifics of client types and transaction types to make CCP clearing feasible and relative to bilateral business attractive

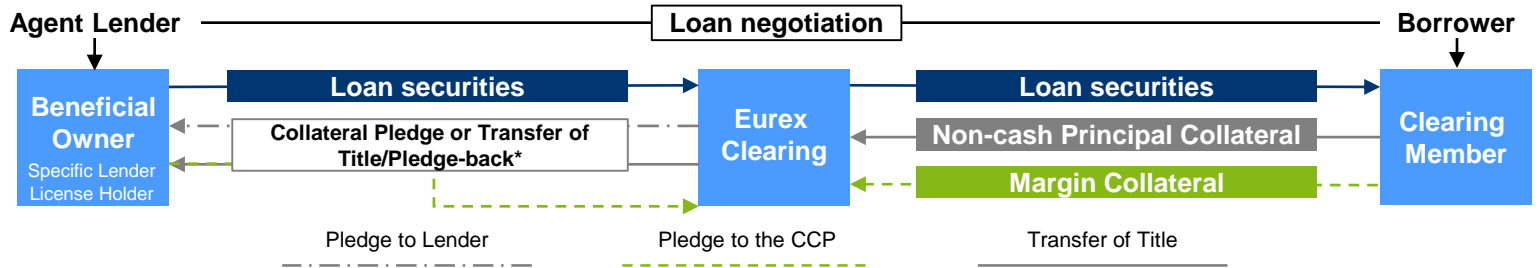
Buy-side service offering overview and client penetration

Product/ Service	Direct and Specific Clearing Member types for the buy-side	Model	Status	Client examples
Securities Lending	<ul style="list-style-type: none"> Buy-Side as Lenders can directly participate in the CCP model where beneficial owners interact with banks on a centrally cleared basis through their Lending Agent 	Specific Lender License (SLL)	1 LIVE	SLL Member <ul style="list-style-type: none"> PGGM (Beneficial owner) Agent lender <ul style="list-style-type: none"> BNY Mellon
Special / GC Repo / GC Pooling	<ul style="list-style-type: none"> Specific Direct Membership for Repo and GC as direct participation model for non-banks place and/ or take cash on a secured and centrally cleared basis <ul style="list-style-type: none"> cash investment (reverse repo) cash investment and –taking (reverse repo and repo) 	Specific Repo License (SRL) ISA Direct	2 LIVE 3 LIVE	SRL Member <ul style="list-style-type: none"> HDI (Cash provider) Airbus (Cash provider) ISA Direct Member <ul style="list-style-type: none"> PGGM Treasury B.V. Ronin Trading Europe LLP Clearing Agent <ul style="list-style-type: none"> Société Générale
OTC Derivatives	<ul style="list-style-type: none"> Expansion of scope of eligible participants for full direct clearing membership The ISA Direct model combines a direct clearing membership with elements of the traditional service relationship in client clearing 	ISA Direct	3 LIVE	ISA Direct Member <ul style="list-style-type: none"> Swiss Life Bq. Cantonale Vaudoise Clearing Agent <ul style="list-style-type: none"> ABN AMRO Clearing Zürcher Kantonalbank

Specific Lender License / Specific Repo License tailored to risk profile of underlying transactions

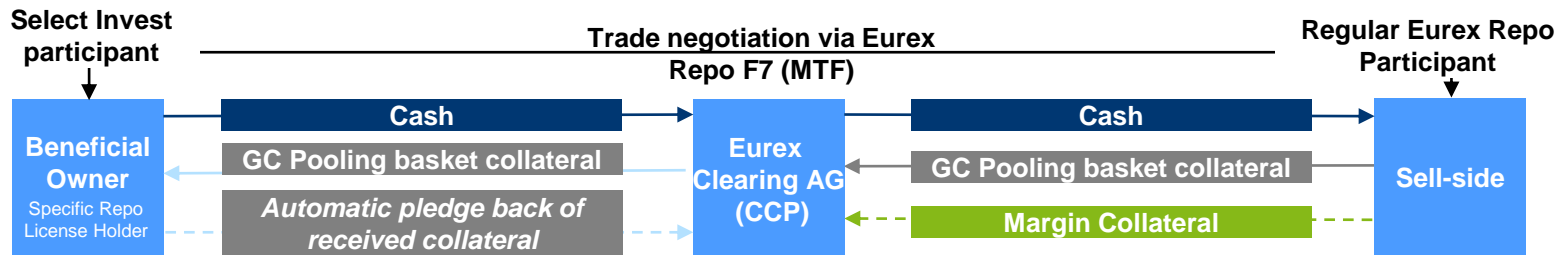
1

Specific Lender License



2

Specific Repo License



CCP has **no credit risk** towards

- (a) Beneficial owner as lender in a securities lending transaction
- (b) Cash Provider / Cash Investor

as in both models provided **collateral remains with the CCP**

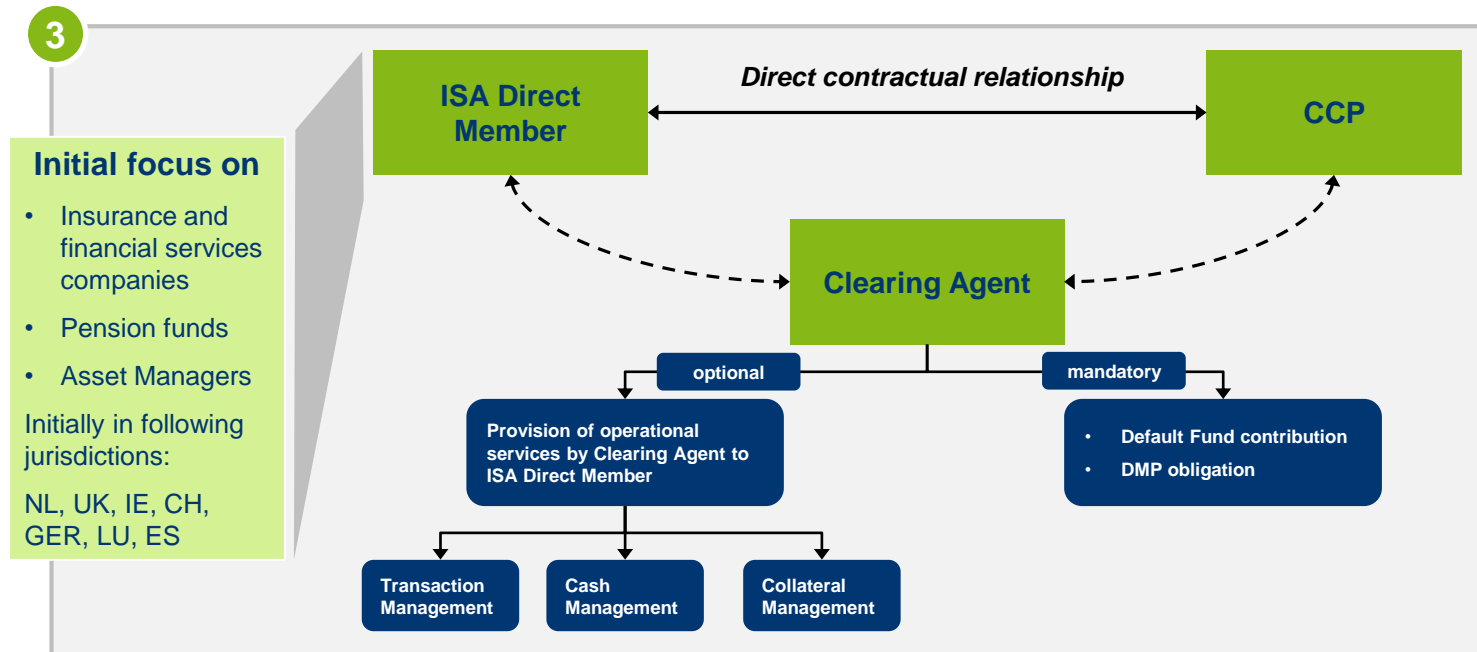


- ✓ No initial margin (IM) requirement
- ✓ No default fund (DF) requirement
- ✓ No default management (DMP) obligation

*Beneficial Owner receives Non-cash Principal Collateral via Transfer of Title with a Pledge-back to the CCP

The ISA Direct model combines a direct clearing membership with elements of a traditional service relationship in client clearing

Direct contractual relationship between ISA Direct Client and CCP with a Clearing Agent providing mandatory and optional service functions



Access type characterized by a principal relationship between buy-side clients and the CCP

Existing Clearing Member acts as Clearing Agent

ISA Direct Member has to meet admission criteria equivalent to regular Clearing Members with extended servicing functions by the Clearing Agent

Core benefits of direct buy-side CCP access models



Improved safety & resilience



Better protection of client assets



Reduction of concentration in client clearing



Improved portability in default scenarios



Broadening of scope of general CCP benefits in regards to safety and resilience



Access for non-banks to CCP cleared (reverse) repo in particular in stressed market conditions



Economic perspective



Reduction of capital requirements and potentially improved return of capital for banks



Consequently improved conditions for the buy-side firms

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