

Survey Results on the Canadian Repo Market



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The results of the 2016 Committee on the Global Financial System (CGFS) survey on *Repo Market functioning in Canadian markets* summarize personal opinions expressed by the survey respondents and do not necessarily reflect the views of the CGFS or the Bank of Canada. The results are not a representation of market share and therefore are not to be used for commercial purposes.

Survey Description

- This repo survey conducted by the Bank of Canada, on behalf of the CGFS Repo Study Group in November 2016, specifically focused on Canadian market participants. The Study Group's objective was to evaluate changes in the structure, activity, and liquidity of global repo markets. Similar surveys were conducted in other jurisdictions.
- The survey collected market participants' assessment of broad market trends in a Canadian repo market and their views on the relative importance of possible drivers of these trends. The survey focused on the repo transactions collateralized by Government of Canada securities.
- The survey was completed by a small number of active sell- and buy-side institutions representing the primary types of participants in the Canadian repo market. The results may not be representative of less active market participants.
- The Canadian results presented here are included in the survey's global aggregated results in the [CGFS Repo Market Functioning](#) report.

Survey Considerations

- When reviewing the results, please take into consideration the following:
 - This survey gathers data on opinions and perceptions of individuals closely involved in their firms' repo activities. The data is not based on exact institutional figures;
 - All individual responses were equally weighted and do not take into account the relative activity or size of the respondent;
 - Most survey questions were optional and could be skipped;
 - Questions about changes in repo market activity relate to changes occurring over the past two years, and do not necessarily reflect changes that may have taken place prior to that time period;
 - The term repo is meant to cover both repo and reverse-repo unless specifically indicated otherwise;
 - The results exclude any “Not Applicable” or missing answers; and
 - Answers that included a range of numbers are presented using a middle of the range.

Summary of Results

- Dealers' repo volumes and outstandings are little changed over the past two years. Dealer to dealer repo trading has declined slightly, while activity between dealers and central banks is somewhat higher. Buy-side respondents noted that their repo counterparties continue to be sell-side participants.
- Most non-price market terms such as haircuts and term to maturity have not changed over the past two years. Repo rate spread over money market reference rate increased modestly for all counterparty types.
- Repo market liquidity was generally perceived to have declined slightly, with buy-side noting that access to the repo market around quarter-ends is somewhat diminished.
- Respondents recognize that repo market changes have been driven by a number of factors including bank regulatory initiatives, monetary policy, market microstructure and internal risk management. Regulatory initiatives are perceived to be the most important drivers both over the past two years and going forward.

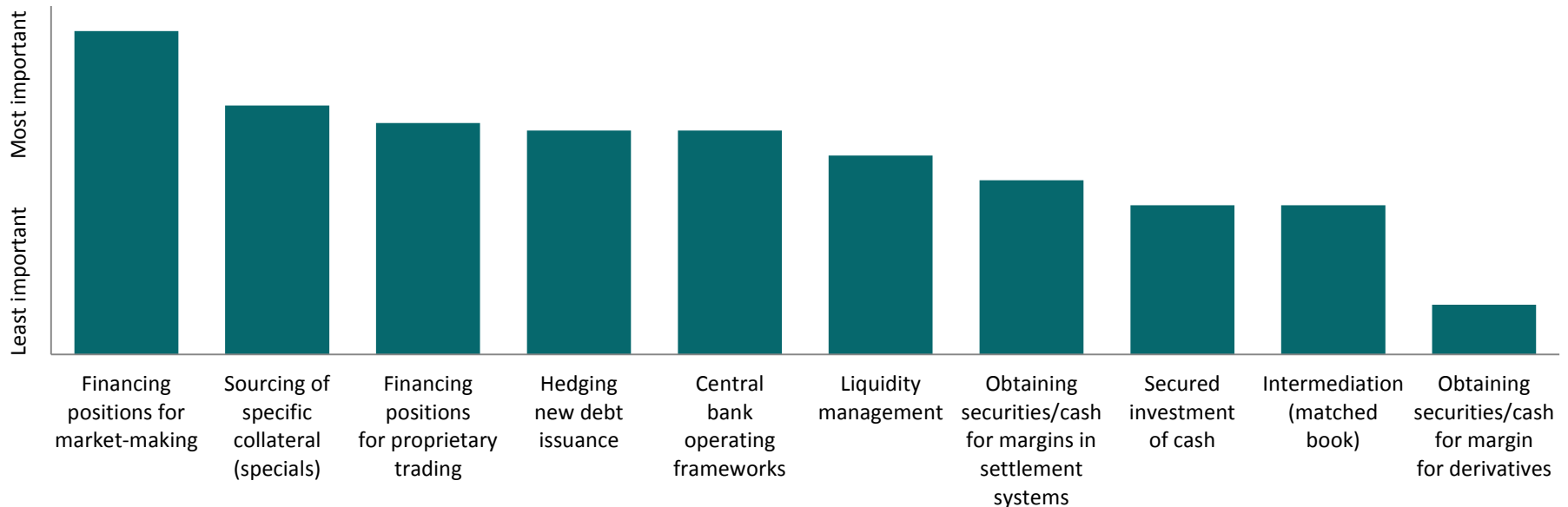
Uses of repo



Factors influencing sell-side firms' participation in repo markets

- Sell-side institutions indicated that they participate in repo markets for a wide range of reasons, with the most important use of repo being to finance long/short positions for market-making activities.
- In the event of a repo market dislocation or illiquidity, participants suggested that they would instead increase their usage of securities lending and interest rate derivatives, and/or reduce their trading positions.

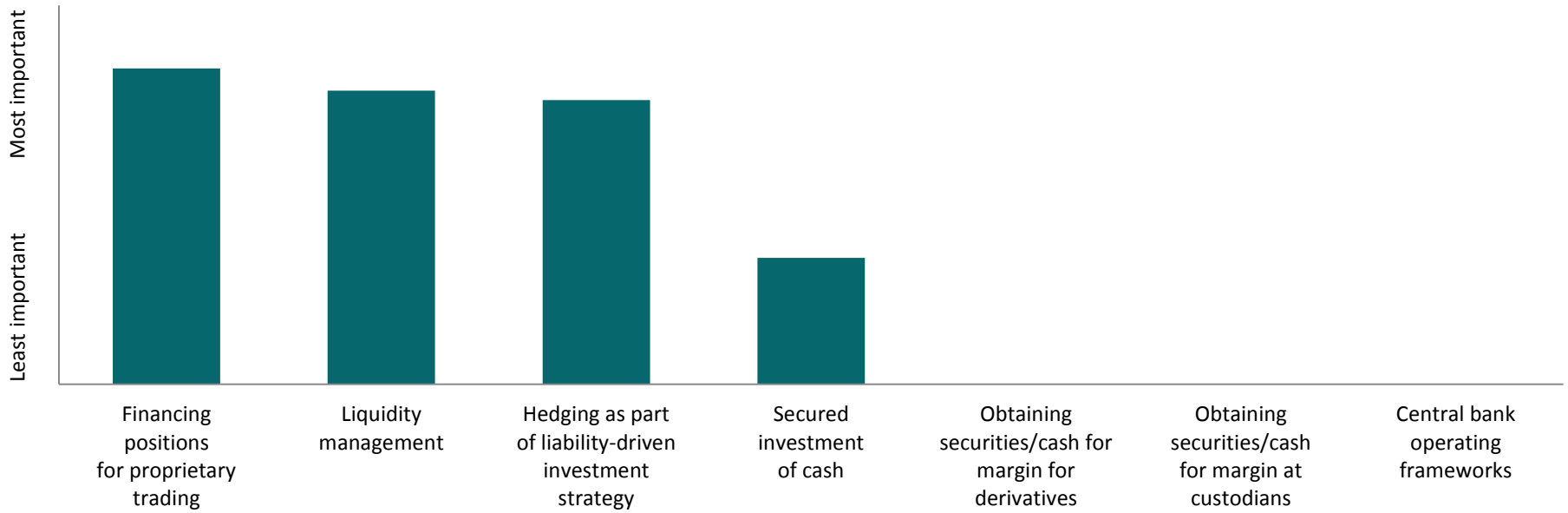
Sell-side uses of repo (Ranking score)



Factors influencing buy-side firms' participation in repo markets

- Buy-side institutions indicated that participation in repo markets is mostly influenced by a few factors, including financing proprietary trading positions, liquidity management, and hedging as part of liability-driven investment strategy.

Buy-side uses of Repo (Ranking Score)



Market Changes



Changes in sell-side repo activity over the past two years

- Dealers' overall repo volumes and outstandings are little changed over the past two years. Across counterparty types dealer to dealer activity has declined slightly, while activity between dealers and central banks is somewhat higher.
- Demand for repo from levered investors and central banks has increased, as has the number of central bank counterparties that dealers have.

Counterparties	Outstanding		Volumes (daily average)		Counterparties		
	Repo	R-Repo	Repo	R-Repo	C/P Demand	Internal C/P limits	Number of C/P
Overall	2.9	2.9	2.9	2.9	3.2	2.9	3.1
Dealers	2.4	2.4	2.4	2.4	2.7	3.4	2.9
Cash lenders	3.3	2.9	3.5	3.0	3.3	3.4	3.0
Central Banks	4.0	3.7	3.4	3.7	3.7	3.0	3.8
Levered Investors	3.0	3.4	2.9	3.1	3.7	2.5	3.3
Other type of institutional investors	3.3	3.4	3.1	3.1	3.0	3.0	3.3
Other types of c/p	3.2	3.4	3.2	3.2	3.4	2.8	2.8
% of respondents who believe the overall changes are permanent	86%	86%	71%	71%	86%	86%	86%

Response options: 1=significantly lower, 2=somewhat lower, 3=no change, 4=somewhat higher, 5=significantly higher

A yellow cell shows an average of 3.0, a red cell shows an average of 2.5 or below and a green cell shows an average of 3.5 or above

Repo spread is defined as spread of repo rate over a relevant reference rate such as the Overnight Index Swap rate.

Changes in sell-side price and non-price terms and market liquidity over the past two years

- Most non-price market metrics have not changed over the past two years. However, the repo rate has increased modestly relative to the money market reference rate (repo spread) for all counterparty types.
- Repo market liquidity was seen to have declined less than for the underlying sovereign debt markets, or for other secured funding.

Counterparties	Price and non-price terms				Market liquidity		
	Repo spread	Typical max maturity	Haircuts	Other non-price terms	in repo markets	in sov. debt cash markets	in other secured funding markets
Overall	3.7	2.9	2.9	2.8	2.5	2.3	2.3
Dealers	3.6	2.8	3.0	3.0	2.4		
Cash lenders	3.5	3.0	3.0	3.0	2.9		
Central Banks	3.4	3.1	3.1	2.8	3.3		
Levered Investors	4.1	2.8	3.1	2.9	2.6		
Other type of institutional investors	3.9	3.0	3.0	3.0	2.8		
Other types of c/p	4.0	2.8	3.0	3.0	2.8		
% of respondents who believe the overall changes are permanent	71%	71%	71%	71%	100%	100%	100%

Response options: 1=significantly lower, 2=somewhat lower, 3=no change, 4=somewhat higher, 5=significantly higher

A yellow cell shows an average of 3.0, a red cell shows an average of 2.5 or below and a green cell shows an average of 3.5 or above

Repo spread is defined as spread of repo rate over relevant reference rate such as the Overnight Index Swap rate.

Changes in buy-side repo activity over the past two years

- Volume executed by buy-side firms increased slightly, as did the number of bank counterparties that they dealt with. In contrast the amount of repo available from each bank counterparty was slightly lower.
- Perceptions of market liquidity in GoC repo and securities has been relatively stable, but access to repo markets at month-ends and especially quarter-ends has declined somewhat.

Volume	Amount of Repo		Counterparties		Price and non-price terms		Market liquidity			
	executed by your firm	available to your firm from bank counterparties	available to your firm from non-bank counterparties	No of bank C/P	No of non-bank C/P	Changes to price terms	Other non-price terms	Access at month end	Access at quarter end	GoC Repo
3.5	2.7	3.0	3.7	3.0	3.5	3.0	2.5	2.1	2.6	2.7

Response options: 1=significantly lower, 2=somewhat lower, 3=no change, 4=somewhat higher, 5=significantly higher

A yellow cell shows an average of 3.0, a red cell shows an average of 2.5 or below and a green cell shows an average of 3.5 or above

Qualitative observations regarding changes in repo markets

Sell-side

- Capital allocation is optimized across business lines and across jurisdictions;
- Dealers allocate balance sheet space proportionally to how much business a client generates for the dealer as a whole;
- Some shift from repo activities to off-balance sheet instruments such as securities lending.

Buy-side

- Modest reduction in availability of dealers' balance sheet and higher funding costs;
- Preference to avoid an increase in repo trades at quarter end;
- Preference to use dealers' balance sheets for more profitable trades.

- There was limited evidence from the buy-side of any potential migration of repo away from dealers to other counterparties. However, some respondents indicated that regulation is expected to support increased use of peer-to-peer and direct repo in the future.

Drivers of market changes



Sell-side identification of potential drivers behind recent market changes – Regulatory factors

- Bank regulatory initiatives were perceived to have been the most important factor behind recent market changes and are expected to remain a key driver over the next five years.

	Outstanding	Volumes Daily avg	Counterparties			Price and non-price terms				Liquidity conditions	Expected Drivers
	Repo	Repo	C/P Demand	Int C/P limits	No of C/P	Repo spread	Typical max maturity	Haircuts	Other non-price terms	in sovereign debt cash markets	Importance of this driver in the next five years?
Banking Regulatory Initiatives	1.3	1.5	1.0	1.3	2.0	1.3	1.5	2.0	3.0	1.0	1.0
Capital	1.0	1.0	1.0	1.3	1.8	1.4	1.6	2.0	2.0	1.0	1.0
Basel 3	1.3	1.4	1.6	1.3	1.7	1.4	1.5	2.0	2.0	1.3	1.1
<i>Leverage ratio</i>	1.4	1.5	1.3	1.4	2.0	1.3	1.5	2.0	2.0	1.3	1.3
<i>Stress Testing</i>	2.0	2.1	2.3	2.3	2.2	2.1	2.1	2.1	2.2	2.0	2.0
<i>BCBS Fundamental Review of the Trading Book</i>	1.8	1.8	2.3	2.0	2.7	2.0	2.3	2.5	2.5	1.8	1.8
Liquidity	1.0	1.0	1.0	1.3	1.3	1.8	1.5	1.5	1.3	1.0	1.0
LCR	1.4	1.5	1.7	1.6	1.7	1.5	1.7	1.7	1.9	1.4	1.6
NSFR	1.1	1.3	1.3	1.1	1.4	1.3	1.4	1.7	1.6	1.1	1.0
Firm-Specific Risk Management Practices	1.7	1.7	2.0	2.0	2.0	1.3	1.3	2.3	2.0	1.7	1.7

Response options: 1=very important, 2=somewhat important, 3=not important

A green cell shows an average of 1.5 or below, a lighter green cell shows an average of 1.6 or above

Sell-side identification of potential drivers behind recent market changes – other factors

- Respondents noted that both macroeconomic conditions and market microstructure have had some impact on repo markets¹.

	Outstanding	Volumes Daily avg	Counterparties			Price and non-price terms				Liquidity conditions	Expected Drivers
	Repo	Repo	C/P Demand	Int C/P limits	No of C/P	Repo spread	Typical max maturity	Haircuts	Other non-price terms	in sovereign debt cash markets	Importance of this driver in the next five years?
Macroeconomic conditions	1.7	2.0	1.5	3.0	2.5	1.3	1.7	1.7	2.0	1.3	1.3
Current and Expected Interest Rates	2.0	2.1	1.7	2.7	2.6	1.8	1.9	2.1	2.3	1.8	1.6
Unconventional Monetary Policy: Asset Purchases	1.5	1.8	1.3	2.3	2.7	1.8	2.0	2.5	2.7	1.5	1.6
Unconventional Monetary Policy: Negative Rates	1.3	1.7	1.0	2.0	2.0	1.3	2.0	2.0	2.0	1.3	1.3
Market Microstructure	2.3	2.3	2.0	1.5	2.0	2.0	2.3	2.3	2.5	2.0	2.0
Triparty Clearing bank Policies	2.0	2.0	2.0	2.5	1.0	1.7	2.3	2.3	2.7	1.5	1.4
Central Clearing Policies	1.4	1.4	1.6	1.9	1.5	1.6	1.7	1.7	1.8	1.7	1.7
Trading Execution (e.g. electronic trading)	2.7	2.7	2.7	2.5	2.8	2.4	2.7	2.6	2.8	2.4	2.4
Changes in market participants (new entrants and exits)	1.9	1.8	2.0	2.3	1.8	1.9	2.4	2.5	2.7	2.1	2.1

Response options: 1=very important, 2=somewhat important, 3=not important

A green cell shows an average of 1.5 or below, a lighter green cell shows an average of 1.6 or above

(1) Since similar surveys were conducted in other jurisdictions some of the factors/drivers may not be present in all jurisdictions.

Buy-side identification of drivers behind recent market changes

- Similar to the responses from sell-side institutions, buy-side firms perceived banking regulatory initiatives to be the most important driver of market changes.

	Volume	Amount of Repo		Counterparties		Price and non-price terms		Market liquidity			
	executed by your firm	available from bank C/P	available from non-bank C/P	No of bank C/P	No of non-bank C/P	Changes to price terms	Other non-price terms	Access at month end	Access at quarter end	GoC Repo	GoC Security
Macroeconomic Conditions	2.0	2.8	3.0	2.8	2.5	2.3	2.8	2.8	2.8	2.5	2.3
Market Microstructure	2.0	2.5	2.0	2.5	2.5	2.0	3.0	2.5	2.5	2.5	2.3
Banking Regulatory Initiatives	2.0	1.5	2.0	2.0	2.0	1.4	1.4	1.5	1.4	1.8	1.8
Other Regulatory Initiatives	2.0	2.0	3.0	2.0	2.0	1.8	1.8	1.8	1.8	1.8	1.8
Your Firm's Risk-Management Practices	1.8	2.2	3.0	2.3	2.0	2.5	2.5	2.5	2.5	2.5	2.5

Response options: 1=very important, 2=somewhat important, 3=not important

A green cell shows an average of 1.5 or below, a lighter green cell shows an average of 1.6 or above