

CDCC

# Securitized General Collateral (“GC”) Basket: A solution to address potential impacts of CDOR cessation

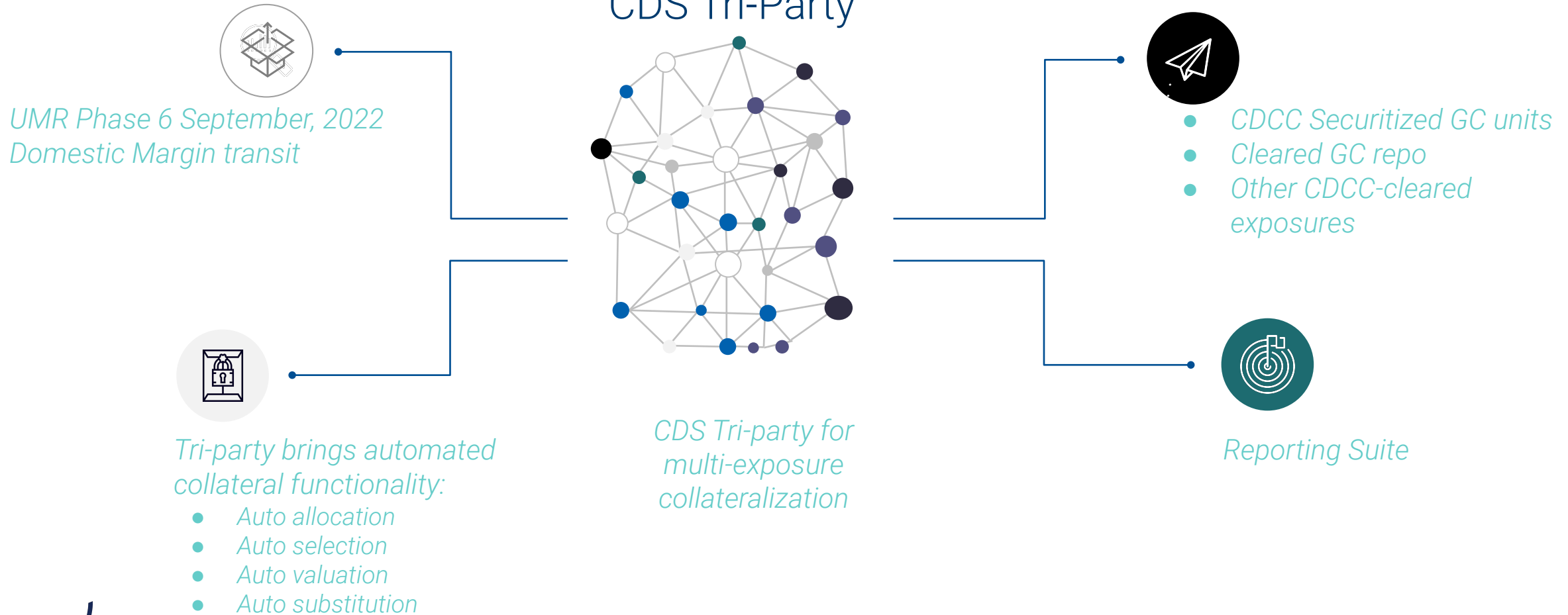
Canadian Fixed Income Forum (“CFIF”)

**Confidential**



April 26, 2022

# CDCC Securitized GC basket powered by CDS Tri-Party





# Product:

## Design & Product specification (Draft)

# Securitized GC basket product design: Context & key elements



## 1. Context:

- Upcoming cessation of CDOR and associated diminishing opportunities to use BAs for financing are leading Investors to seek alternatives to BAs



## 2. Proposed Solution:

- Leveraging existing processes, and adding automation of collateral management, TMX's infrastructure is uniquely positioned to provide a solution through a Securitized General Collateral repo product issued through a Trust structure allowing the pooling of General Collateral securities



## 3. Trading & clearing mechanics:

- Option to repo Unit bilaterally or to mitigate exposure through central clearing at CDCC Central clearing



## 4. Industry validation & product design:

- Seeking balance between degree of customization of baskets and standardization through units to promote liquidity

# Product specification (DRAFT) : Securitized GC units

A balance between customized baskets and standardization through units

## Underlying/ Eligibility

- Multiple generic baskets with specific eligibility requirements\* (e.g. HQLA, investment grade bonds, asset backed securities, equities)

\* configurable eligibility requirements for each generic basket's: assets are selected to ensure diversified exposure, while providing flexibility in types of generic baskets for the Bank Sponsor

## Trading Unit/Value

- Generic ISIN by maturity and by Bank Sponsor (for each type of generic basket)
- Face value of C\$1,000,000

## Issuance term

- 30 days, 60 days and 90 day (TBD: 6 months, 1 year)

## Maturity dates

- 30 days: last business day of the month (TBD)
- 60 days, 90 days: International Monetary Market ("IMM") dates

## Redemption

- At maturity, the holder of the unit receives the face value of the of the pledged guarantee by the Bank Sponsor (Bilateral) or CDCC (Centrally Cleared)



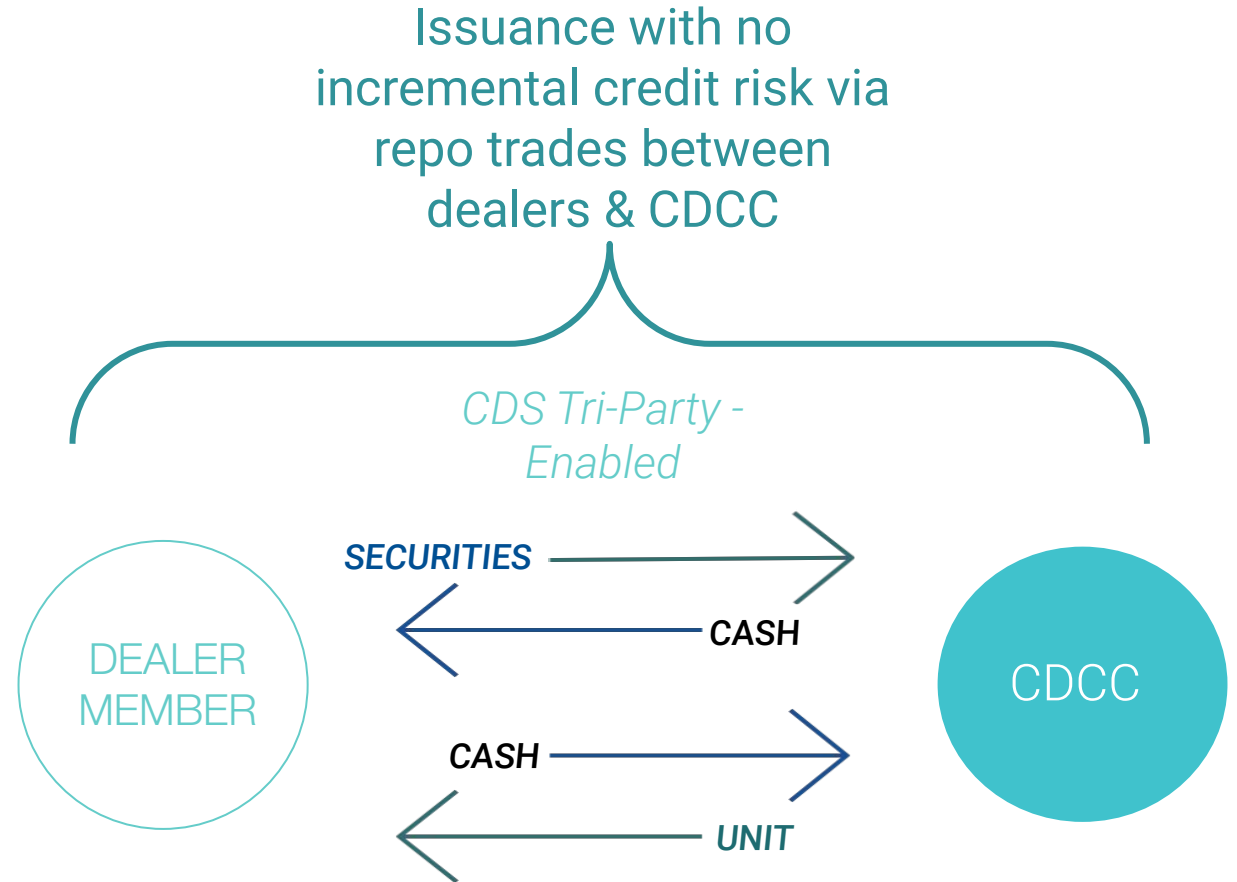
# Model:

Leveraging existing infrastructure  
powered by CDS Tri-Party

# Unit: Issuance process

Conversion of dealers' inventory to standardized liquid tradeable units in a centrally-cleared framework

- Standardization via units: improving secondary market liquidity
- Dealer Member may issue units for different issuance term (e.g. 30/60/90 days) and types of basket (e.g. HQLA, investment grade bonds, asset backed securities, equities)
- Units are created/redeemed at a specific time (e.g. IMM dates)
- Units are created via dedicated repo 'issuance' trades, powered by CDS Tri-party for collateral management
- CDCC guarantees redemption if centrally-cleared; Redemption through bank sponsor if bilaterally traded
- Capital efficient when transacting through CCP
- Balance sheet netting against existing CCP transactions

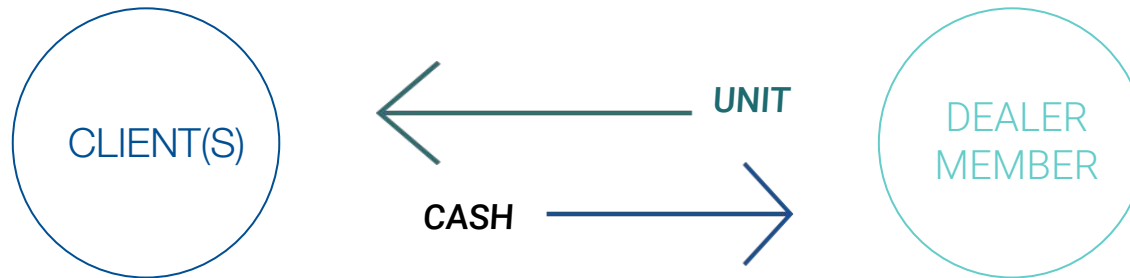


# Unit: secondary market key considerations

Requested flexibility to trade bilaterally and Centrally Clear units

## “Bilateral”

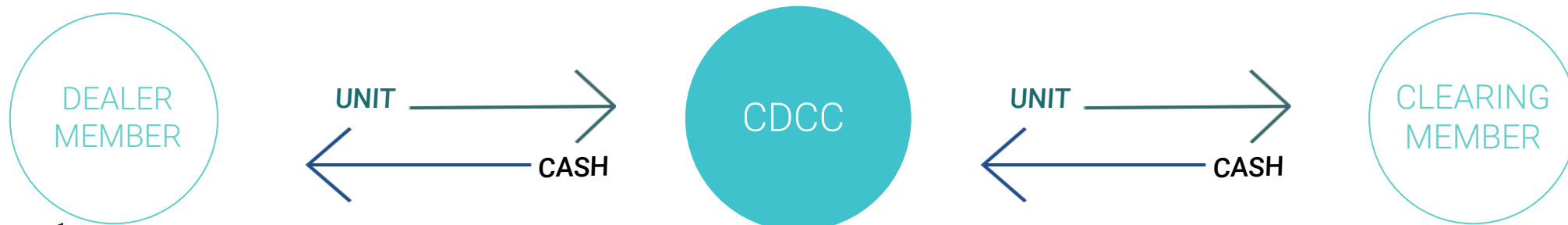
Possibility to offer clients new eligible investment alternatives (Securitized GC units)



## “Cleared”

**Incremental benefits for cash and repo trades:**

Capital efficiencies, balance sheet netting & wider buy-side client access possible with a **Sponsored Repo access model**

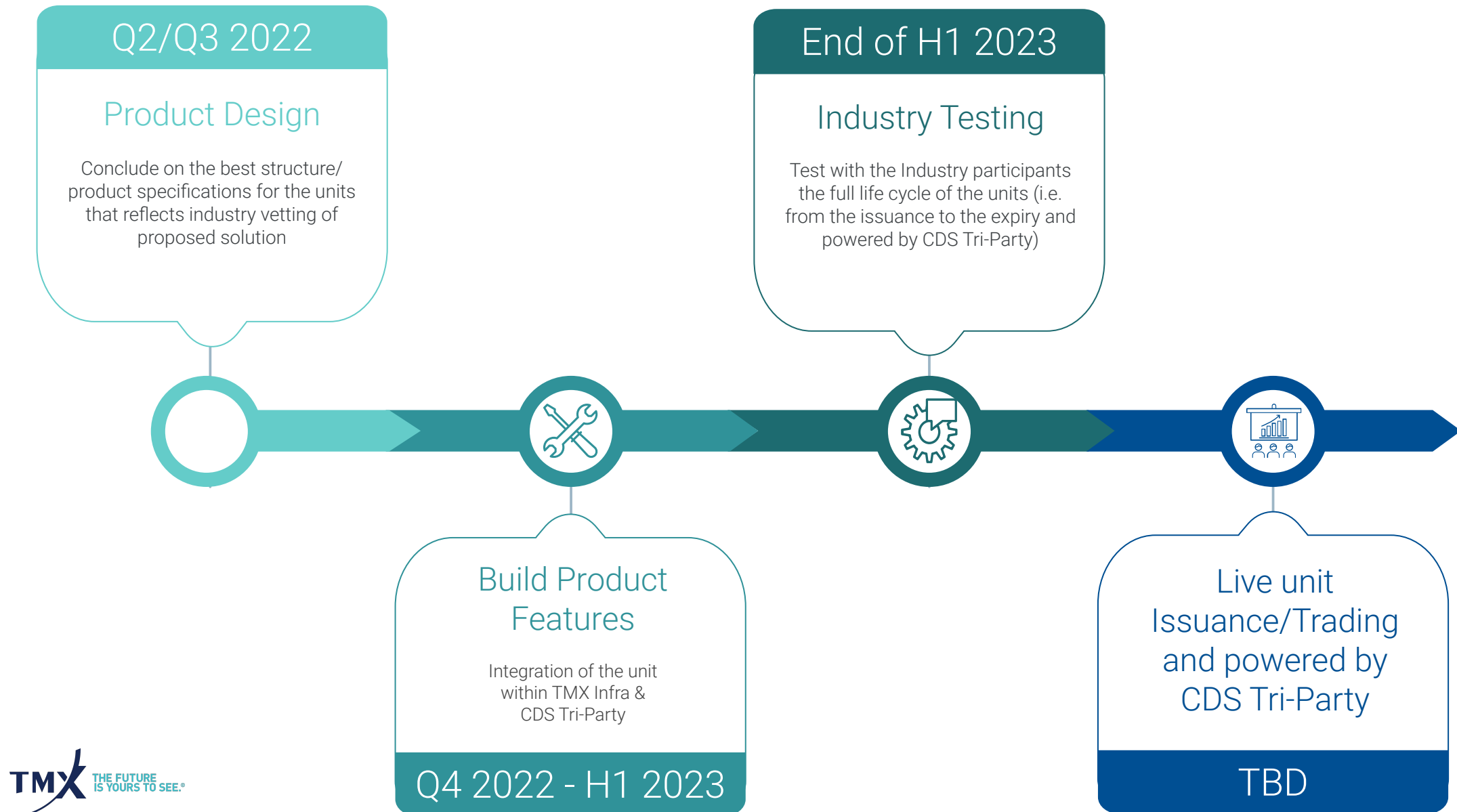




# Timeline:

Product design informs delivery  
timeline

# Timeline Overview



# Next steps

# Proposed Next Steps:

## Establish terms for success

### ❑ Prioritization of product value:

For dealers/asset manager/treasury/investors: alternative to BAs as an investment instrument, funding tool, capital efficiency (CCP), balance sheet netting, collateral mobility, secondary market liquidity

### ❑ Delivery success criteria:

Leveraging on existing operational infrastructure, adding CDS Tri-Party new functionalities for collateral management; a phased approach to maximize value for client

### ❑ Unit/Basket definition and objective:

LCR-friendly and/or eligible-instrument-friendly for investors' investment policy, collateral inventory management purposes

### ❑ Standardization:

Needed for units' liquidity and netting efficiency for cash/repo trades

### ❑ Legal structure:

Bank sponsor, TSX Trust, Credit rating

