

SUMMARY OF THE DISCUSSION

Toronto, October 1, 2024, 1:30 to 3:30 p.m.

Members were welcomed to the second CIMPA meeting. One of the co-chairs mentioned that half of the meeting would be spent on better understanding the repo developments in Europe, specifically Eurex's cleared repo. CIMPA could use the European developments to guide our work in modernizing the Canadian repo landscape over the next decade.

1. European repo developments

Frank Gast, Managing Director, Member of the Management Board Eurex Repo GmbH & Global Head of Repo Sales, Eurex, provided an overview of the development of the European repo market, and Eurex's cleared repo offerings.

Mr. Gast explained the fragmented nature of the European market, where varying rules and practices across jurisdictions pose challenges for managing collateral and liquidity. To address these, Eurex has standardised processes and facilitated easier repo market access for buy-side firms—who often lack direct access to central clearing—through sponsored clearing models and expanded triparty services, which have helped improve overall market liquidity.

Mr. Gast discussed Eurex's cleared GC Pooling, executed on Eurex Repo trading system F7, cleared at Eurex Clearing CCP and collateral and settlement managed through Clearstream's triparty infrastructure. It pools eligible securities into standardized traded repo baskets with pre-defined margin levels, with Eurex acting as the central counterparty. This model simplifies collateral management and reduces complexity for participants, for example by reducing the need for multiple bilateral repo agreements. GC Pooling has proven particularly valuable during financial crises, such as the Lehmann Brothers 2009 collapse and the European 2010-12 sovereign debt crisis, by providing a reliable liquidity backstop when traditional repo markets faltered. Although European Central Bank's Quantitative Easing reduced demand for GC Pooling, Eurex has seen a strong revival of activities in GC Pooling following ECB policy with reduction of excess liquidity and rate changes. Eurex expects demand to continue with tighter monetary policy.

Mr. Gast noted that according to ICMA ERCC repo survey, close to 50% of European outstanding repo volume in EUR cash is cleared despite having no regulatory requirement. He pointed to the benefits achieved through balance sheet netting and on capital treatment, as well as the increased operational efficiencies and professional risk management, as key drivers for its uptake despite the requirement for initial margining.

Members discussed the potential for Canadian banks to access the Euro repo market through Eurex. Eurex is looking to work more closely with Canadian clients, particularly in times of financial stress when access to Euro liquidity could be beneficial. In discussions on the Canadian market, Mr. Gast emphasized the importance of balancing capital and liquidity costs, particularly given the concentration of key players. He also emphasized the importance of building a standardized pool of liquid assets, especially during periods of market stress, as it creates the foundation for liquidity.

He also highlighted the key role that the German Debt Management Office (DMO) and the Bundesbank are playing in facilitating the growth of cleared repo in the bund market, with both institutions being key participants in the cleared market. In addition, several other European central banks, DMOs and supranationals as well as buy-side firms are contributing to a diverse participant base of cash providers and cash takers at Eurex Repo resulting in a very liquid repo cleared repo market.

2. Canadian Collateral Management Service (CCMS) update

A CDS representative provided an update on the CCMS, a triparty repo service developed by TMX and Clearstream for the Canadian market. He noted that the project had been slightly delayed due to the move to T+1 settlement at the end of May and the limited CCMS testing availability during the summer due to CDS' Post Trade Modernization initiative taking priority. However, he mentioned that CCMS is now on track to onboard 12-16 clients by year-end, including all Primary Dealers. They are now currently testing high transaction volume capabilities with large banks, with a full evaluation anticipated by late October. Buy-side firms are monitoring the platform's performance closely, particularly feedback from their custodians, and adjustments will be made as needed based on the experiences of early adopters. Two of the active large custodians in Canada are expected to be onboarded by the end of the year, with the first buy-side client coming onboard sometime in November. The initial focus (Phase 1) will be to onboard buy-side participants as cash providers (collateral receivers).

One of the challenges discussed was coming to an industry alignment on settlement times as they apply to CCMS to ensure that participants have sufficient liquidity/collateral.

Looking ahead, Phase 2 of CCMS will enhance the system's scalability, with a focus on further onboarding buy-side firms and expanding integration with custodians, this includes buy-side participants having the ability to provide collateral and receive cash. Members also discussed having a possible ad-hoc call before the next CIMPA meeting in January to further discuss the settlement timing issue.

3. CIMPA subgroups update

The CIMPA subgroups provided updates on their progress. All three subgroup co-chairs highlighted the benefits from a diverse membership and close collaboration taking place between buy-side, sell-side, custodians, and infrastructure providers.

a. Custodian model subgroup

The subgroup co-chairs highlighted the key task of developing relatively standardised approaches to seamlessly integrate different custodians into the CCMS. A six-principle framework has been established to guide the development of the custodian models. These principles include leveraging existing processes and technology, adopting a phased implementation approach, and ensuring compatibility across various asset types, starting with fixed income and potentially extending to equities. The phased approach will begin with reverse repo transactions in Phase 1, which are simpler to implement, followed by the inclusion of repo and other securities in Phase 2. The framework also highlights the need for timeline driven processes for setting specific cutoff times for trades, and addresses counterparty default management, ensuring clear roles and responsibilities in handling defaults as outlined in contractual agreements.

The onboarding roadmap for buy-side accounts is commencing in November, with three buy-side firms expected to be onboarded by the end of the year which is expected to further boost custodian engagement on CCMS. The CIMPA co-chair noted that early adopters of CCMS will likely gain a competitive advantage, which should accelerate adoption among custodians as competition intensifies. He also highlighted the potential for larger corporations to join as key cash providers, thereby increasing market liquidity, enhancing stability through diversified funding sources, and creating new business opportunities for custodians.

The subgroup plans to expand participation from additional buy- and sell-side firms. The CIMPA committee fully supports this expansion, recognizing the importance of inclusivity in developing a robust and efficient custodian model.

b. Standardized baskets subgroup

The subgroup co-chairs outlined the progress on developing standardized general collateral (GC) baskets to improve liquidity and simplify repo trading in the Canadian market. The group has agreed to start with developing three main types of baskets, making the transition more manageable for market participants: 1) GoC (Government of Canada) basket; 2) Provincial basket(s); and 3) CMB (Canada Mortgage Bonds) basket. The exact specifications of the three types of baskets are still under consideration.

The implementation of these baskets aligns with the broader CCMS initiative, with a target date of H1-2025 for full rollout. The group is also exploring scalability by considering additional baskets that cater to specific market needs, such as pension fund and corporate baskets. Longer-term objectives include developing High Quality Liquid Asset (HQLA) baskets, aligning with global trends and regulations. The working group plans a demonstration of the OSCAR (Own Selection Criteria with Automated Reasoning) platform, a part of CCMS for setting up, activating, and maintaining GC baskets. Dummy test trades are also planned in Q1-2025 to validate the process and ensure smooth implementation.

CIMPA co-chair noted that the development of standardized baskets provides efficient opportunities for netting, which could significantly enhance market efficiency and allow market participants to better manage their liquidity and funding needs.

c. Valuation and haircuts subgroup

The subgroup co-chairs highlighted efforts to establish best practices for collateral valuation and haircut methodologies for both bilateral and triparty repo transactions. To promote consistency in collateral pricing, the group is addressing challenges in data and methodology, including pricing sources for bonds, handling trade start dates and the use of bond coupon in pricing. The working group is developing transparent haircut principles that align with regulatory benchmarks (e.g., BoC's Standing Liquidity Facility), while balancing the needs of both cash providers and borrowers.

The principles will be finalized by 2024 year-end, with further engagement from global experts to incorporate best practices. In 2025, the focus will shift to finalizing comprehensive standards for valuation and haircuts and addressing any identified gaps.

4. Other items

The member from CDCC provided an update on the progress of the Secured General Collateral note (SGC) initiative, which is expected to see the first trade in November.

The next CIMPA meeting will take place in January 2025. A possible ad-hoc call may be scheduled earlier to discuss issues around intraday liquidity management and net settlement times within the CCMS framework.

Meeting participants:**CIMPA members:**

Nick Chan, BMO Capital Markets (Co-Chair)
André Zanga, Casgrain & Company Limited
George Kormas, CDCC
Steve Everett, CDS
Rob Lemon, CIBC
Richard Anton, CIBC Mellon
Sandy McRae, CPP Investment Board
Nicolas Poisson, Fiera Capital
Rob Goobie, HOOPP
David McKinnon, Manulife
Chris Miller, National Bank
Arthur Kolodziejczyk, RBC IS
Robert Dias, Scotiabank
Jordan Cobb, State Street (representing Travis Keltner, State Street)
Adnann Syed, TD Asset Management

External participants:Item 1

Frank Gast, Managing Director, Member of the Management Board Eurex Repo GmbH & Global Head of Repo Sales, Eurex

Item 3

David Petiteville, RBC IS
Charles Lesaux, RBC Capital Markets
Alasdair Graham, BMO

Bank of Canada:

Harri Vikstedt (Co-Chair)
Maks Padalko
Wendy Chan
Jean-Philippe Dion
Zahir Antia
Danny Auger
Adrian Walton
Xuezhi Liu