



Clearstream adds central bank money settlement for triparty repo

Clearstream's Christian Rossler and James Cherry speak to Bob Currie about the introduction of central bank money settlement for its uncleared triparty repo service

Clearstream has added a central bank money (CeBM) settlement facility to supplement its long established non-cleared triparty collateral management service, thereby providing CeBM settlement for both cleared GC Pooling and Special Repo segments, and its uncleared triparty repo (TPR) service.

According to the Luxembourg-based market infrastructure group, it is the only triparty agent to offer uncleared triparty repo with CeBM settlement.

“We think this is a really important development for the repo market,” says James Cherry, director, head of business development for Collateral, Lending and Liquidity Solutions at Clearstream. “Commercial bank money settlement involves the liability of a commercial bank, and credit exposure to that institution, whereas settlement in central bank money involves the discharge of settlement obligations on the books of the central bank directly — this is viewed enormously positively by large risk averse organisations.”

For Christian Rossler, vice president of business development for Collateral, Lending and Liquidity Solutions at Clearstream, this is a perfect time to add additional surety and choice to its secured financing programme. Clearstream has seen a surge in activity across both its centrally cleared and uncleared repo products through 2023 and into 2024.

After an extended period of low interest rates, successive European Central Bank (ECB) rate rises and earlier-than-expected repayment of targeted longer-term refinancing operations (TLTROs) led to an increase in the cost of funding on the capital market.

Excess liquidity has fallen from record highs of almost €4.7 trillion in 2022, to just over €3.5 trillion in Q1 2024, predominantly due to TLTRO tranches maturing and market participants making early repayments of their TLTRO holdings.

For the period 1 November 2023 to 30 January 2024, TLTRO III outstanding amount contracted by €37.3 billion as a result of the non-reinvestment of maturing TLTRO funding, along with early repayment of €61.7 billion in TLTRO funds in December.

The ECB’s adjustment of the remuneration cap for non-bank deposits has also provided a stimulus for trading activity throughout European repo markets. Non-banks and new customers have contributed more liquidity to the repo markets since the ECB,

acting through the national central banks, has offered a rate of only €STR-20bps on non-bank cash deposits since May 2023.

In addition, Deutsche Bundesbank has stopped paying interest on domestic government deposits since 1 October 2023. This development led to a further step up in the use of CCP repo on the part of public authorities, with large amounts of public funds also finding their way into Clearstream’s TPR facility.

More broadly, the ECB continues to reduce the size of its asset purchase programme (APP), with Eurosystem central banks having ceased the reinvestment of principal payments from maturing APP securities since July 2023.

Cleared and uncleared repo

Clearstream’s uncleared triparty repo for the euro segment applies a similar structure for settling the cash leg of the repurchase agreement trade to that applied for GC Pooling. This enables the cash provider to settle the transaction in central bank money via the Eurosystem’s real-time gross settlement payments platform TARGET2 (T2). To access the T2 payments system, the cash provider will need to position the required funds in its direct cash account (DCA) with the national central bank.

“This is a game changer — enabling triparty repo transactions conducted via the Clearstream ICSD now to settle in central bank money,” explains Rossler. While Clearstream has offered a TPR facility to customers since 1992, this has previously settled in commercial bank money on the books of the ICSD. “We are now the only TPR provider for uncleared repos to offer settlement in both central bank and commercial bank money,” he says.

This change brings additional surety and confidence to the cash provider, in cases where the securities (ie collateral) leg of the delivery-versus-payment (DvP) repo trade fails to settle, either in part or in full. In this situation, the cash provider has a credit exposure to the triparty agent for the time that the trade remains partially open. “Reluctant to have cash sitting overnight on the balance sheet of the triparty agent, the cash provider may previously have opted to cancel the trade,” says Cherry. However, with this overnight exposure now being against the central bank in a CeBM settlement environment, it mitigates this credit risk and largely removes the incentive for the cash giver to cancel when the trade remains partially open.

In providing the option to settle in CeBM, Clearstream, as a triparty agent, also handles a large part of the operational and administrative overhead associated with the settlement process.

By outsourcing these obligations to the triparty agent, for repo market participants, it eliminates the cost and burden of establishing and managing their own collateral management operation. Consequently, uncleared repo via Clearstream's triparty service, as well as CCP-cleared repo via GC Pooling and special repo, have been attractive venues for a wide range of cash providers, including central banks, sovereign institutions and supnationals, along with commercial banks, buy-side firms and corporates.

To settle in CeBM, the cash receiver is required to deposit collateral in a commercial bank money (CoBM) account in its name at Clearstream's ICSD, Clearstream Banking Luxembourg. Clearstream will then move this collateral into an intermediate account, prior to transferring it into a securities account at Clearstream Banking Frankfurt (CBF), the German CSD, for CeBM settlement via the TARGET2-Securities (T2S) platform. In delivering DvP settlement finality, these securities will be then transferred into the collateral receiver's account at CBF against transfer of cash.

Clearstream's triparty solution also simplifies the contractual and documentation overhead when compared with managing bilateral funding relationships with multiple counterparties. Clearstream has established a centralised agreement called the Clearstream Repurchase Conditions (CRC), which provides funding and financing customers with access to a wide range of counterparties that have signed up to the CRC agreement.

Alongside this facility, counterparties have the option to trade under the terms of a standard Global Master Repurchase Agreement (GMRA), or to employ a Global Collateral Management Service Agreement (GCMSA) which provides flexibility for the collateral to settle in either the Clearstream ICSD or in CBF.

The early repayment of TLTRO obligations, and the steps to unwind central bank asset purchase programmes, has resulted in the release of a wide range of assets back into the market which were previously pledged to the central bank against emergency support programme funding.

Some of this collateral is HQLA, but some is also lower-grade

collateral which is harder to finance. Clearstream's uncleared TPR solution, supported by its collateral optimisation solution, somewhat offsets this constraint, helping counterparties to find suitable cash providers that may be willing to lend against a wider range of non-cash collateral.

As a result, triparty repo has provided a natural home for repo trades collateralised with equity and corporate bonds. While Deutsche Börse's GC Pooling cleared repo programme offers financing against standardised collateral baskets, the triparty repo service enables counterparties to collateralise trades using individual ISINs or a pooled basket of ISINs.

Trade proposition

Over a number of years, Clearstream has established a Marriage Broking model, whereby dedicated specialists at Clearstream evaluate counterparty eligibility profiles to identify new potential financing or securities lending counterparties that align with a firm's credit risk profile, its collateral eligibility criteria, and its trading preferences.

Drawing on its collaboration with Intelli-Select, Clearstream is also developing opportunities to bring greater technical power to the Marriage Broker service using its AI-based own Selection Criteria with Automate Reasoning (OSCAR) module for tailoring bespoke collateral baskets and identifying wider opportunities for counterparty matching.

Significantly, the TPR programme provides flexibility to support intraday financing. While GC Pooling provides lending against fixed repo tenors, Cherry explains that the TPR programme offers flexibility for repo counterparties to negotiate shorter or longer bespoke financing terms, including the ability to raise same-day liquidity and diversify collateral sets to meet specific needs.

Since Deutsche Bundesbank, under the ECB's guidance, has reduced the yield paid on cash deposits, this has motivated European finance agencies and state treasuries in particular to seek higher rates of return through secured financing markets, resulting in a sharp upturn in volumes through GC Pooling and higher trade volumes for clients seeking the additional flexibility offered by TPR. "Our message to cash providers is that they are receiving the best

of both worlds,” says Rossler. “They can achieve yields on their cash balances comparable to what they can access elsewhere in the money markets, but with the additional safety offered through being able to settle in central bank money.

“Clearstream also offers counterparty diversification via the triparty programme, and the potential to identify new trading opportunities against a range of collateral types by drawing market leading expertise and the introduction of new technologies such as OSCAR.” This is supported by daily mark-to-market and opportunity for the collateral taker to re-use collateral posted against the repo transaction.

For cash takers, the programme offers opportunities to diversify their funding sources and to finance securities held in inventory against a deep pool of cash providers — including debt management offices, supranationals and sovereign entities — while extending flexibility of funding terms and collateral eligibility.

Release schedule

Clearstream has now completed testing with early adopters for the CeBM-settled triparty repo services and this has been available for use since December 2023.

Rossler indicates that the company is eager to welcome other early adopters that are interested to begin production testing.

“We are a seasoned agent for CeBM settlement, having provided this for the GC Pooling service, offered by Eurex Repo and Clearstream, for more than 15 years,” says Rossler. “We have a detailed knowledge of how this works and how to offer this efficiently to clients.”

The funding and financing marketplace has been redefined by a shift in the monetary policy environment and the decision of national central banks no longer to pay attractive remuneration on central bank deposits. This has forced cash providers to seek alternative avenues in the money markets to generate yield on their cash in a secure environment.

“Excess liquidity in the range of billions seeks to return to the money market securely, to be placed securely, but without any increase in operational risk or credit exposure,” concludes Rossler.

“Clearstream’s triparty repo service — in concert with the GC Pooling and Special Repo service offered in partnership with Eurex Clearing — is well positioned to meet this requirement.” ■

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