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Market intermediation: How will regulatory developments impact dealer capacity?
What is the impact of more central clearing on government bond and repo markets?
How would a shorter settlement cycle impact bond market functioning?

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Central Clearing in Government Bond and Repo Markets

Why?

- More Netting – Less balance sheet/capital
- Fewer fails
- Clear transparent market-wide margin requirements
- Reduced risks stemming from counterparty defaults
- More transparency for regulators

Impact on market & dealer intermediation capacity

CENTRAL CLEARING

MARKET IMPACT

- Increase in cost for non-bank entities previously not facing CCP. HFT liquidity? Basis trades? IDBs?
- CCPs facing new counterparties, change to perceived risk of CCP?
- Pro-cyclicality of margin requirements
- Larger number of CCPs may introduce fragmentation
- Counterpart exposure limits for some investors
- Tech/administrative hurdles

IMPACT ON DEALER INTERMEDIATION CAPACITY

- Uncertain impact on balance sheet/capital requirements
- Agency model has capital implications for the Agent banks
- May Increase systemic risks, who pays the margin?
- Greater market concentration amongst sponsoring banks?
- Rise of ‘All-to-All’ trading?

T+1 settlement

TIMING

- Europe: ESMA calling for Oct 11 2027
- UK: By End of 2027
- USA: since 28 May 2024

WHY T+1?

- Reduction in systemic risk as counterparties get securities and cash earlier
- Reduction in counterparty exposure risk
- Reduction in margin requirement
- Synchronise timing for cross-market trades

MARKET IMPACTS

- Implementation: fragmentation of European system
- Operational: Meaningful reduction in window to match trades
  - Time Zone challenges
- Market Functioning: Intra Day liquidity – Repo
  - Fails penalties significant
  - Potential for increase in fails

Questions

- Is there scope for the new US administration to take a different approach or timeline towards UST clearing?
- Would UST mandatory clearing have helped avoid/alleviate the symptoms experienced during periods of market stress such as the 2019 funding crunch or March 2020 'Dash For Cash'?
- US sponsored repo model has seen a steady increase in adoption while take-up of buy side clearing models in Europe has been limited; what has contributed to such difference?
- T+1 implementation in Europe is much more complex than US given settlement fragmentation, and broader targeted scope, across government and credit bonds; what are the extra challenges or benefits in Europe vis-à-vis US?

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