

- **the role of repo**
- **conditions for a successful market**
- **Global Master Repurchase Agreement**
- **international regulatory developments**

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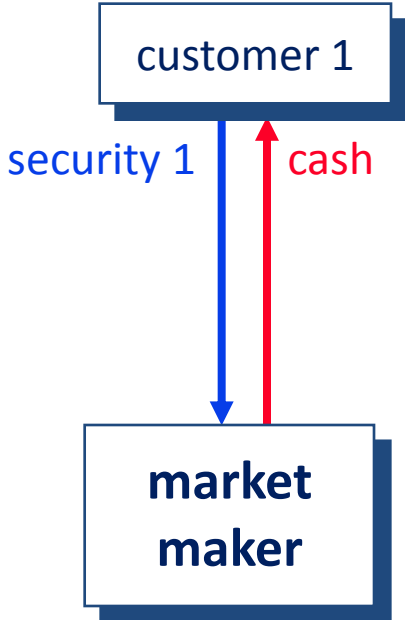
**THE BUSINESS SCHOOL
FOR FINANCIAL MARKETS**

the role of repo

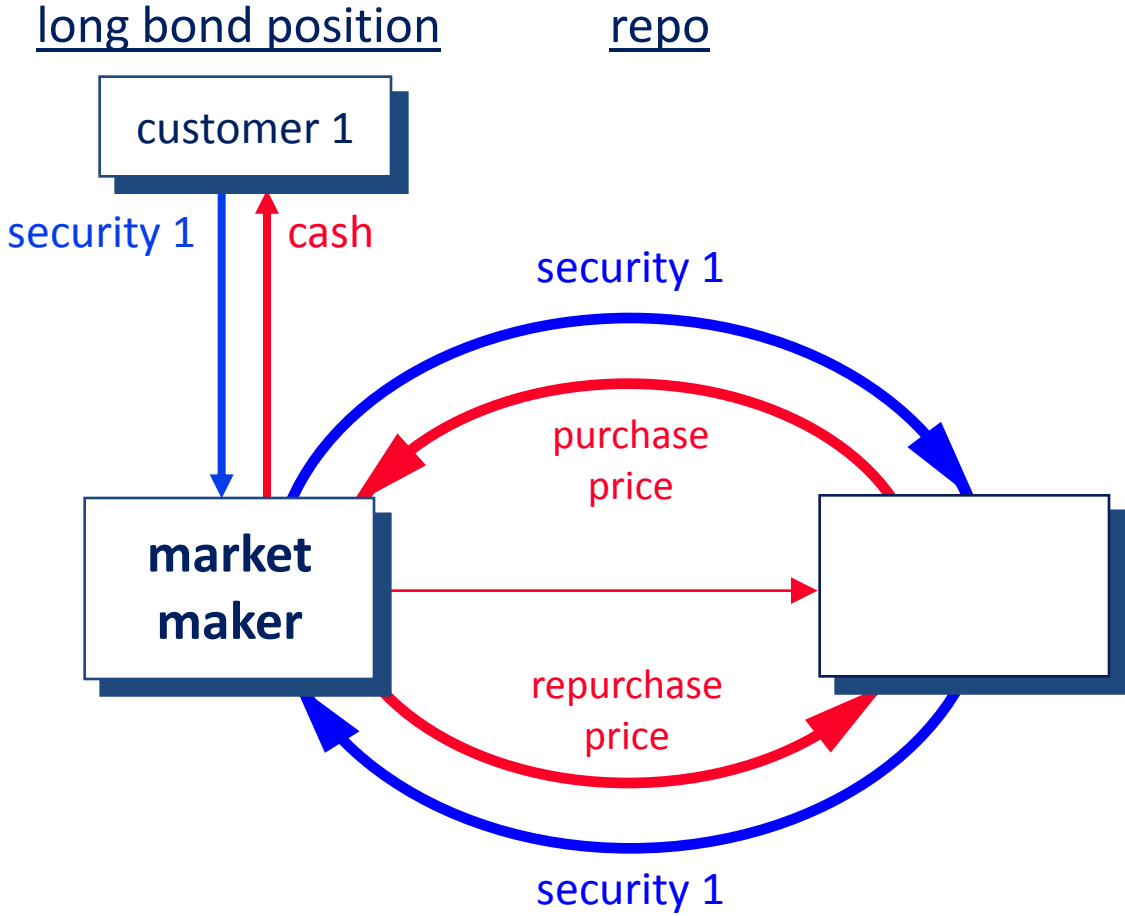
- repo has two functions:
 - funding long positions in securities v cash investment
 - covering short positions in securities v securities lending
- positions are used for risk-taking, hedging, arbitrage
 - risk-taking provides liquidity & price discovery
 - hedging supports market-making & new bond issuance
 - arbitrage enhances price discovery
- no bond market can be liquid without a repo market
- no derivatives market can be liquid without a repo market

the role of repo

long bond position



the role of repo



the role of repo

long bond position

repo

customer 1

security 1 cash

security 2

security 1

[]

market maker

[]

purchase price

purchase price

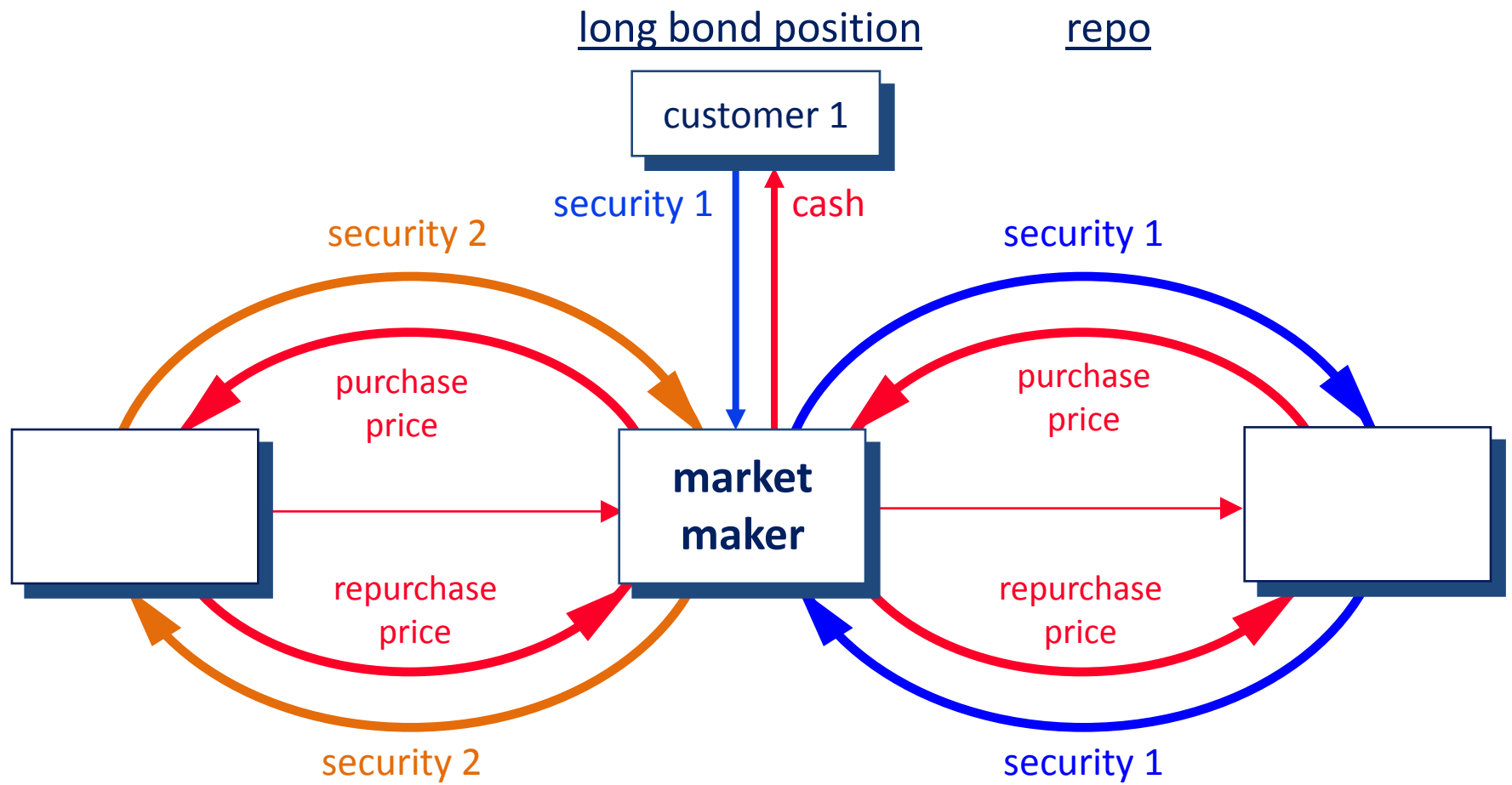
repurchase price

repurchase price

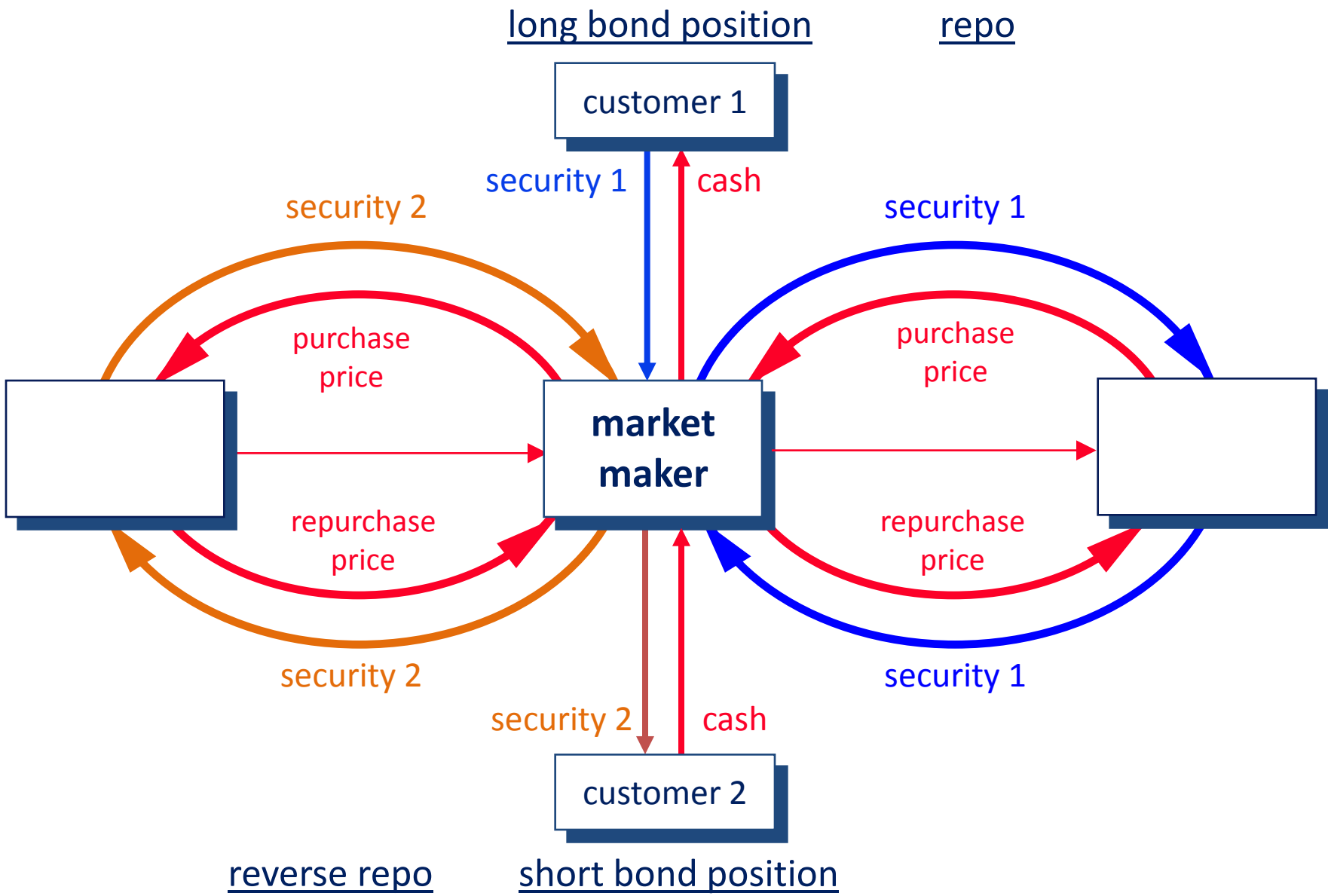
security 2

security 1

reverse repo

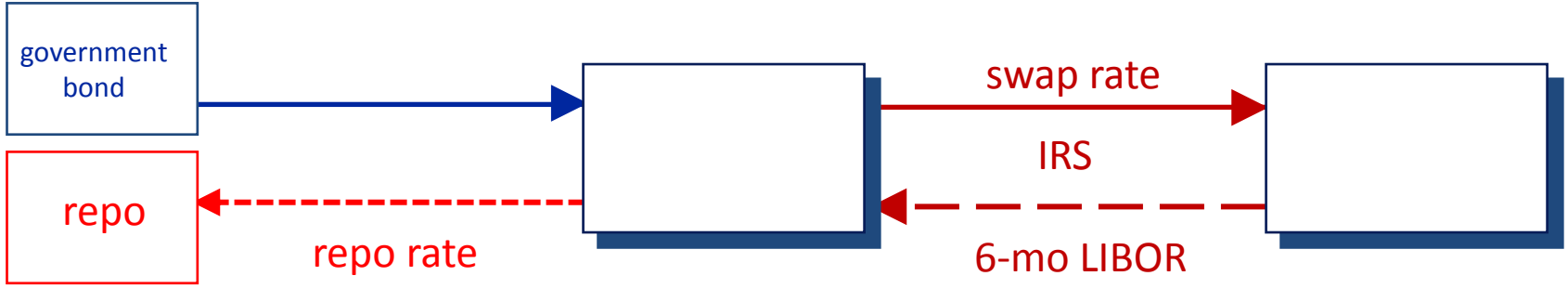


the role of repo



the role of repo

- capital market = cash + derivative + repo



conditions for a successful repo market

- liquid cash & derivatives market
- safe & efficient clearing and settlement infrastructure
- legal enforceability of title transfer
- legal enforceability of netting (set-off)
- robust legal documentation
- accounting treatment as financing, not disposal
- tax treatment as financing, not disposal
- tax neutrality for coupon/manufactured payments
- market best practice reinforced by regulation
- for enhanced efficiency
 - tri-party collateral management systems
 - central clearing counterparties (CCP)
 - electronic trading systems
 - affirmation systems

Global Master Repurchase Agreement

key legal risks

- recharacterisation risk
- netting in insolvency
- conflict of laws

Global Master Repurchase Agreement

- what is a master agreement
 - general terms & conditions of relationship
 - single agreement consolidating transactions
- benefits of a master agreement
 - sets market standard
 - enhances operational efficiency
 - implements margin maintenance
 - supports simultaneous performance and payment netting
 - sets out orderly default procedures
 - reinforces set-off in default
 - reduces regulatory capital

Global Master Repurchase Agreement

key terms in a master agreement

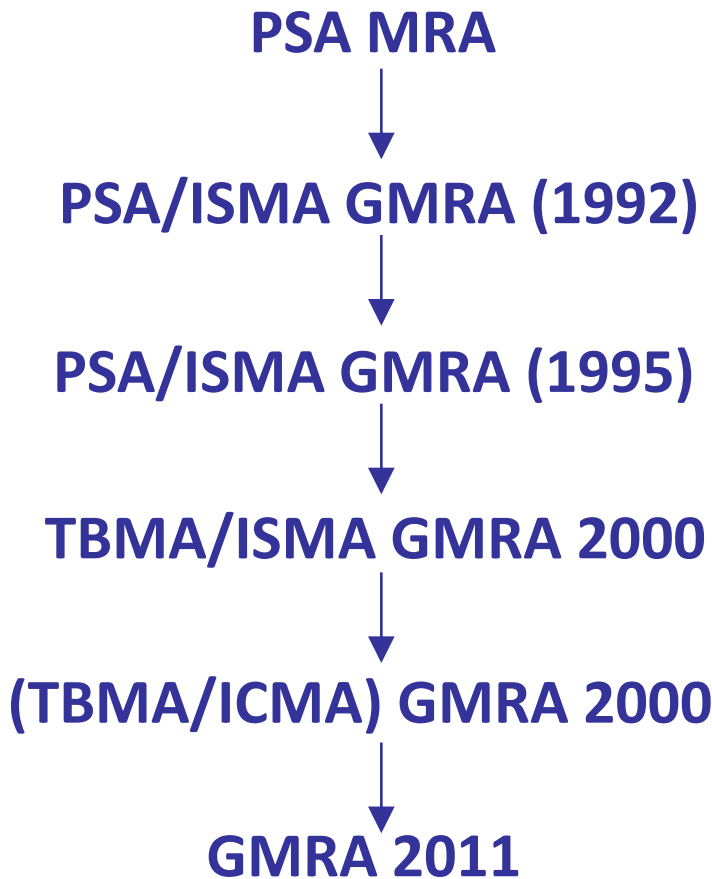
- absolute transfer of title of purchased securities, margin securities and substitute securities
- appropriate haircut/initial margin
- frequent marking-to-market
- margin maintenance/repricing following material changes in collateral value
- events of default, and consequent rights and obligations
- full set-off of claims between counterparties in event of default
- failure to deliver collateral
- rights of substitution of collateral
- treatment of coupon and other payments on collateral

Global Master Repurchase Agreement

GMRA

- ICMA & SIFMA
- English law
- principal-principal transactions
- fixed-income

Global Master Repurchase Agreement



- PSA = Public Securities Association of America (now TBMA)
- TBMA = The Bond Market Association (then SIFMA, now AFME)
- ISMA = International Securities Market Association (now ICMA)
- ICMA = International Capital Market Association
- MRA = Master Repurchase Agreement
- GMRA = Global Master Repurchase Agreement

Global Master Repurchase Agreement

- 1 applicability
- 2 definitions
- 3 initiation, confirmation, termination
- 4 **margin maintenance**
- 5 income payments
- 6 payment & transfer
- 7 contractual currency
- 8 substitution
- 9 representations
- 10 **events of default**
- 11 tax event
- 12 interest
- 13 single agreement
- 14 notices and other communications
- 15 entire agreement, severability
- 16 non-assignability, termination
- 17 governing law
- 18 no waivers
- 19 waiver of immunity
- 20 recording
- 21 third party rights

Global Master Repurchase Agreement

architecture

- pre-printed Master Agreement
- Annex I: Supplemental Terms and Conditions
- Annex II: Confirmation
- other annexes

Global Master Repurchase Agreement

Annexes

- Buy/sell-back annex
- Agency annex
- Bills of exchange annex
- Equities annex
- Gilts annex (Bank of England)
- Italian annex
- Japanese securities annex (JSDA)
- Canadian annex
- Netherlands annex
- South Africa annex
- Thailand annex
- AFMA annex
- RITS annex
- FASB 125 annex

Global Master Repurchase Agreement

legal opinions

- commissioned by ICMA, SLRC
- only available to members
- regulatory requirement

Global Master Repurchase Agreement

- Core Opinion
 - GMRA, GMSLA
 - basic counterparty coverage
 - companies
 - banks
 - securities dealers
 - central banks
 - extended counterparty coverage
 - insurance companies
 - hedge funds
 - mutual funds
 - general items
- Appendices
 - enforceability of whole agreement
 - recharacterisation risk
 - set-off in insolvency

Global Master Repurchase Agreement

Anguilla	Estonia	Luxembourg	Sweden
Australia	Finland	Malta	Switzerland
Austria	France	Mexico	Taiwan
Bahamas	Germany	Netherlands	Thailand
Bahrain	Greece	Netherlands Antilles	Turkey
Barbados	Guernsey	New Zealand	UAE
Belgium	Hong Kong	Norway	USA
Bermuda	Hungary	Oman	
Brazil	India	Philippines	
BVI	Indonesia	Poland	
Canada	Ireland	Portugal	
Cayman Is.	Israel	Scotland	
China	Italy	Singapore	
Croatia	Japan	Slovakia	
Cyprus	Jersey	Slovenia	
Czech Republic	Kuwait	South Africa	
Denmark	Latvia	South Korea	
England	Lithuania	Spain	

international regulatory developments

- microprudential --- Basel III
 - more and higher quality capital
 - higher risk weights
 - liquidity ratios
 - leverage ratio
- macroprudential --- Financial Stability Board (FSB)
 - role in shadow banking (banking by non-banks)
 - interconnectedness and complexity
 - amplification of procyclicality
 - transparency of market and firm
- infrastructure
 - US triparty risks

key market developments

- diminishing collateral supply, increasing collateral demand
 - new sources of collateral
 - integration of clearing & settlement infrastructure
 - interconnectivity of CSDs
 - interoperability of trading, collateral management & clearing
- automation
 - electronic trading
 - affirmation
 - triparty collateral management
- regulatory pressure
 - cost
 - collateral mix
 - term repo