

Canadian Repo Counterparty Study Shows System Should Be Robust
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By Paula Sambo

(Bloomberg) -- A study of Canada's Central Counterparty for fixed-income repurchase agreements shows that the country's financial system should be robust in a crisis, according to Todd Evans, managing director at the Investment Industry Association of Canada, which commissioned the report.

* The new study provides update on the evolution of Canada's Central Counterparty (CCP) since its launch in 2012, compiling research and interviews with sell-side banks and buy-side pension plans

* Canada is first to have built out buy-side participation in repo clearing, which has increased total volumes cleared by the CCP and as a result, increased the potential for netting and efficiencies in the market, study says

** "With bilateral trade, there is always the risk that funding gets cut off, whereas with a central counterparty, the idea is that even if one of the participants has significant financial problems, the system would remain whole, finance would be more orderly in the marketplace," Evans said

** Need for a clearing body became urgent during the 2008 financial crisis, when the lack of liquidity in debt trading hurt dealers, Evans says

* To continue to evolve, volume of cleared repos needs to increase in order for its stakeholders to realize the benefits

** CCP operations must be robust and efficient under all conditions to retain the trust of the members who rely on the utility

* Canada had a \$211 billion repo market, or 2% of global market, in mid-2016, compared with a \$2.7 trillion for the U.S., according to the study