



Reaping the benefits

Matthias Graulich and Frank Gast discuss the success of Eurex's Partnership Program and the reasons behind the expansion into the repo segment

Becky Butcher reports

What is the aim of the Eurex Partnership Programme?

Matthias Graulich: The aim of the partnership programme is to establish a true partnership with major market participants by aligning interests and achieving certain objectives. As a market infrastructure provider, we can come up with a new product or a new service but we always need the market participants to support the roll-out and, ultimately, the adoption of these products and services. That is why we decided to go ahead with the programme, we want to develop our provider/client relationship into a partnership and reward those who contribute most to making our projects a success.

The reward has two elements: one is economic, and the other is governance as we now include the best-performing partners into the governance of Eurex Clearing. You could also call this setup "virtual equity" as it has both an economic and a governance element.

What were your motivations behind the extension to cover repo and OTC foreign exchange segments?

Graulich: We started off with over-the-counter (OTC) interest rates derivatives in October 2017 and this was the start of the partnership

programme. We always had plans within the initial programme terms for the partnership programme to expand. We started the programme with one product group, as we wanted to test the water and see whether the programme would be successful and would receive support within the major market participants, which was successful. Then we had to find the right timing from a business and product perspective. We felt that the right timing is now—there is dynamic in the market, for example, Brexit is triggering some thoughts around moving the Euro-denominated repo business from London to the continent for a number of reasons like regulatory uncertainty, TARGET2-Securities and netting efficiencies.

Why is the repo market an important element of the partnership programme?

Frank Gast: Currently, we have a very broad client base for both trading and clearing repos with about 140 banks and a number of buy-side firms, who are all connected to Eurex Clearing and Eurex Repo. There are two strategic elements and objectives within the partnership programme for repo. One is focused on the interbank repo market for government bond of general collateral and specials where a very significant portion is currently cleared in London. The other is to build up a cleared repo service for the dealer-to-client business, which today is not cleared to any significant degree. But this is a huge market where people are faced with balance sheet constraints. Bringing this business onto a central counterparty (CCP) has significant benefits

but it is also a challenge to get buy-side firms like pension funds and asset managers directly connected to a CCP where we need the support of clearing brokers and the major dealers in order to facilitate access and provide a solution.

There is also a link between the OTC interest rate derivative (IRD) and the repo programme. The debate in Brussels about bringing pension funds into central clearing for interest rate swaps is still ongoing; so far they have been exempted. In case there is a steep increase in interest rates they are faced with a significant cash requirement to fund variation margin. The question then would be where to source this cash in a relatively short period of time? And here, the solution is the cleared repo market because in the past it has proven that it is very robust in stress and crisis situations; it even has seen liquidity increases in contrast to non-cleared repo, where you could see in certain scenarios an immediate drying up of liquidity.

Since the expansion announcement, what kind of interest have you seen? And are you happy with the interest you have seen? What is your expectation until the programme effectively starts in February 2019?

Graulich: We got a lot of support from the market, with a total of 25 participants and key players in the market who have signed up in the early registration phase. We had a sign-up phase for early registration where you benefit from being an early mover. The 25 participants are from across Europe, with seven or eight countries covered. We are very happy with the number that have signed up in the first month and see this as a very good start to the programme.

We are convinced that we will reach a similar level to the OTC partnership programme, where we currently have 34 participants. We see a significant overlap in both programmes. It was a successful start and the next step will be to generate volume within the early volume phase, which started at the beginning of December and which will hopefully kick-start a volume increase similar to the developments in the OTC IRD programme.

What are the benefits of market participants joining the programme?

Graulich: By participating in the programme, you have the opportunity to get a revenue share and be part of Eurex. If you registered early, you can boost your performance throughout the next year by an additional multiplier 0.25. The performance measurement concept consists of two factors, one is a volume dimension, so the more volume you put through Eurex on the trading and clearing layer the better your performance is. You can enhance the volume performance through a multiplier, meaning you can triple your volume performance by fulfilling certain conditions like early registration, early volumes or supporting our dealer-to-client access models for repo.

We do the monthly performance-based revenue sharing for a period of four years. After year four, we look back at the average performance

over this period and fix the revenue shares into perpetuity. Therefore, if someone did a great job during those four years, they will benefit from this indefinitely in the future.

Gast: There is another benefit, one that is very important: balance sheet netting. In the context of T2S and the positioning of Eurex and Clearstream, our clients will benefit from increased balance sheet netting opportunities. Within T2S, customers will be able to centralise the settlement of their entire Euro repo activity against central bank money. For centrally cleared repos we will connect the liquidity-driven general collateral pooling market with the securities driven special/general collateral market and additional balance sheet netting can be achieved.

Do you have any plans to further expand the partnership programme into other segments?

Graulich: Repo has been rolled out now. We have announced to include the OTC FX business. Further products may be added this year, but it is too early to be more concrete.

Right now, we want to make the repo expansion a success and you can't do it all at once. What we currently have on the radar is already significant and OTC IRD is still at an early stage and requires a lot of attention, dedication, and focus. **SLT**



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