



BNY MELLON

# Sponsored Cleared Repo



Central Clearing has become an increasingly important feature of the repo landscape in recent years.

# What Is Cleared Repo?

Since the financial crisis, regulators from around the world have agreed a series of capital reforms that, while strengthening the loss-absorbing capability of the banking sector, have also had an adverse consequence on the funding capacity available to repo market participants.

This is where central clearing and sponsored cleared repo access come into play.

Consolidating repo activities through industry utilities known as central counterparties (CCPs) offers a highly efficient means to counter the increased capital burden created by the regulations.

Banks and dealers achieve efficiencies in their repo activities through the centralization and netting of exposures with CCPs like the Fixed Income Clearing Corporation (FICC).

However, because direct CCP access has historically only been available to banks and broker dealers, the full scope of potential optimization could not be realized — until now.

BNY Mellon is a market leader in facilitating direct CCP access, providing the corresponding risk mitigation and capacity benefits of repo clearing to qualifying cash investors and borrowers through a mechanism called “sponsored membership.”

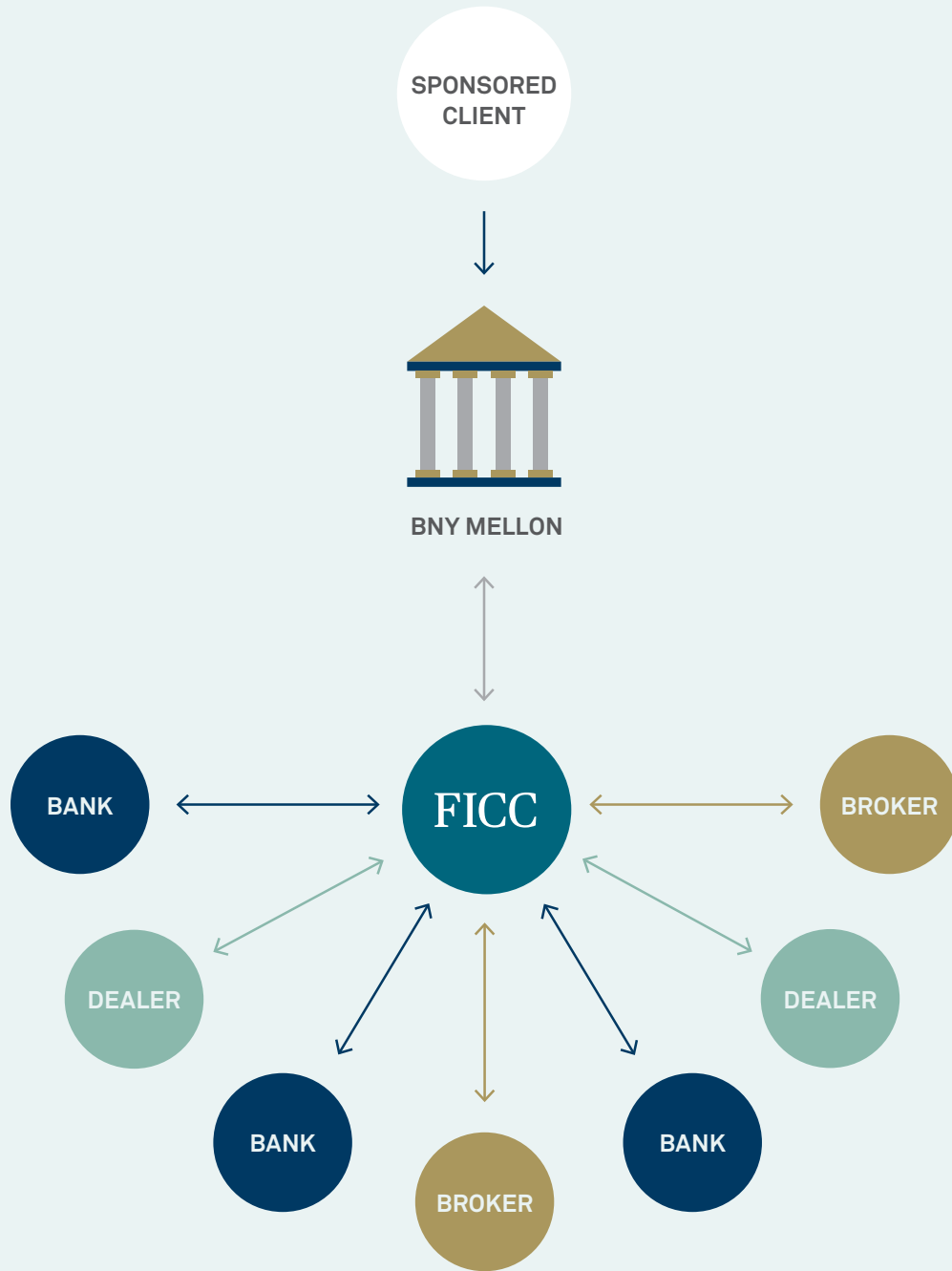
# What Is Sponsored Membership?

Sponsored membership enables you to face FICC directly in repo transactions without the requirements of full membership of the clearing house, such as making default fund contributions, being part of the loss mutualization waterfall and the obligation to provide contingent liquidity.

In short, sponsored membership allows you to enjoy the upside of CCP membership without many of the associated responsibilities because BNY Mellon takes care of a number of those obligations for you.

## **FICC**

The Fixed Income Clearing Corporation is a highly rated CCP that specializes in the matching, clearing and netting of transactions in US Treasuries and Agency debt securities, including repo trades involving US Treasuries as collateral.



### SPONSORED MEMBERSHIP EXPLAINED

In a sponsored cleared repo transaction, BNY Mellon sponsors your trade into FICC. This means that after initially entering into a bilateral repo trade with BNY Mellon, we “novate” that trade into the clearing house, resulting in you facing FICC directly, but without the responsibilities and obligations of full CCP membership.

# How Does Sponsored Membership Work?

FICC sponsored membership through BNY Mellon is straightforward. Here is the process.

## **BILATERAL REPO**

In a typical bilateral repo, the counterparties get comfortable with each other's creditworthiness and perform required anti-money-laundering and "know your customer" due diligence. Upon completion, the parties enter into a master repurchase agreement that governs the transaction.

Once trading commences, the cash borrower posts US Treasuries to its counterparty in exchange for cash.

Similarly, cash investors seeking short-term collateralized investment options can lend cash in exchange for US Treasuries via a reverse repo.

Since the transactions typically result in an increase in the dealer's balance sheet, there is an increased capital requirement that drives the cost of repo higher, while also broadly reducing industry capacity.

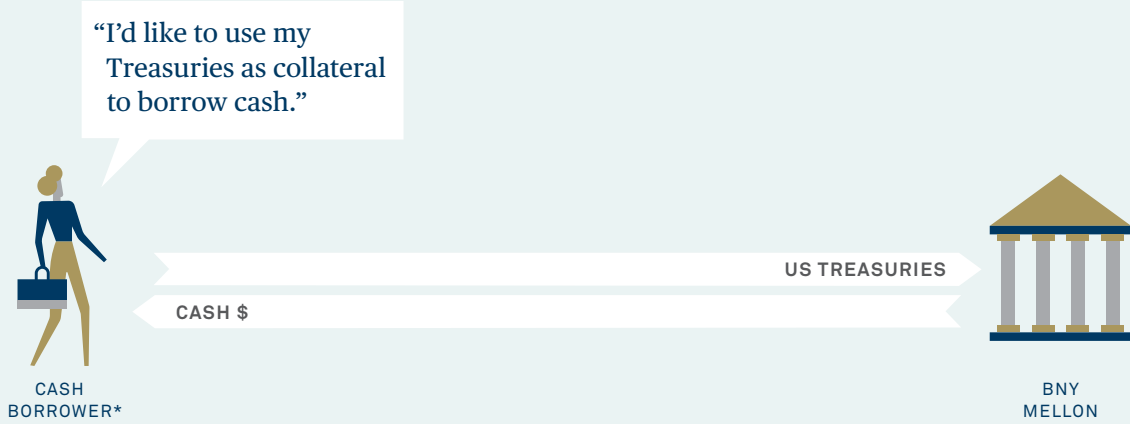
## **CLEARED REPO**

For a sponsored member, a cleared repo starts out like a bilateral repo trade with BNY Mellon.

However, since the sponsored party (in this case a cash borrower) will ultimately be facing FICC directly, and because BNY Mellon will be guaranteeing the performance of that sponsored party, there are a few additional steps:

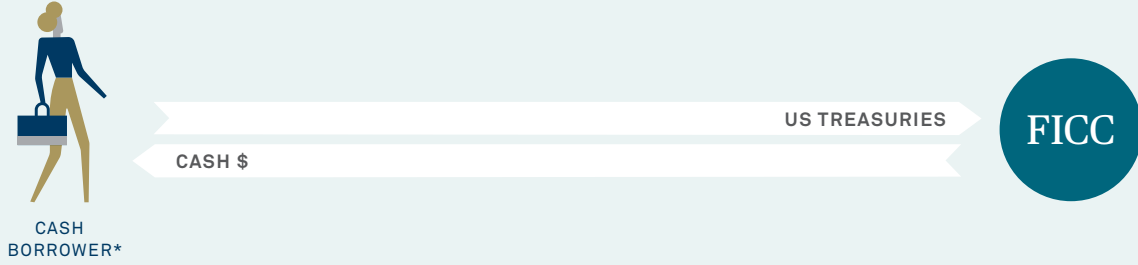
1. Additional documentation needs to be agreed up front with both BNY Mellon and with FICC.
2. After a trade has been agreed and settled between BNY Mellon and the sponsored party, BNY Mellon then "steps out" of the trade via a novation.
3. This means FICC replaces BNY Mellon as the counterparty to the repo for the remainder of the transaction's lifecycle.

# BILATERAL REPO



POST THE NOVATION

# CLEARED REPO



\*Also applicable to cash lenders seeking Treasuries in a reverse repo.

THE BENEFITS  
OF REPO CLEARING  
WITH BNY MELLON

1

## Enhanced Liquidity

Improved balance sheet efficiency leads to increased capacity.

2

## Safety and Stability

Enjoy the security of facing a central counterparty — without the obligations of full membership.

3

## Access to a CCP

Sponsored membership is a highly effective way for the buy side to access FICC.

4

## Transact Entirely Within BNY Mellon's Construct

Execute and settle your repo trades without having to leave the BNY Mellon settlement and custody ecosystem.



# What Else Should I Know?

When BNY Mellon sponsors a counterparty, we facilitate all the settlement and collateral management responsibilities for you, all within the confines of BNY Mellon's securities clearing, custody and collateral management infrastructure.

If you're a cash investor we will ensure that you receive the appropriate collateral and provide segregated custody.

If you're a cash borrower, we will act as the settlement and processing agent and manage the flows of funds and collateral.

## **WE ARE THE CLEARER FOR US TREASURY SECURITIES**

BNY Mellon's Government Securities Services Corp. is the sole settlement agent for US government debt instruments, such as US Treasuries. This means all cash trades in or repo trades backed by Treasury collateral — whether cleared through FICC or traded bilaterally — settle through us.

This means that regardless of whether we are your repo counterparty or if you custody with us, your US Treasury trade will be passing through BNY Mellon at some stage during the transaction.

Through a BNY Mellon sponsored clearing arrangement, you're able to source, execute, settle and clear your repo trades all within our custody and clearing construct.

Keeping everything within our network enables you to maximize operational efficiency across the various elements of the cleared repo lifecycle, minimizing risk associated with moving elements of the workflow outside of BNY Mellon.

When you choose us, you access the entire repo ecosystem — all in one place.

Since BNY Mellon also acts as a clearing agent and custodian for FICC itself, cleared repo trades facing the clearing house never leave our internal system.

# Next Steps

Interested in exploring what sponsored repo clearing with BNY Mellon can do to help you to source financing or invest your cash?

## HERE IS HOW YOU GET STARTED

1. Contact your BNY Mellon relationship manager.
2. Determine with us whether the sponsored repo program is the right fit for your business.
3. Submit to a credit review process.
4. If you're approved to participate, sign the relevant legal documentation with us and FICC.
5. That's it — you're ready to participate in the sponsored membership program and begin enjoying the benefits of cleared repo.

# Contact Us

For more information on sponsored repo through BNY Mellon, please contact:

## **Kieran Lynch**

+1 212 815 2242

kieran.lynch@bnymellon.com

### **US**

## **Jim Palmer**

+1 212 815 2245

james.l.palmer@bnymellon.com

### **EMEA**

## **Simon Weetman**

+44 20 7163 4725

simon.weetman@bnymellon.com

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may be used as a generic term to reference the corporation as a whole and/or its various group entities. This material and any products and services may be issued or provided under various brand names of BNY Mellon in various countries by duly authorized and regulated subsidiaries, affiliates, and joint ventures of BNY Mellon, which may include any of those listed below: The Bank of New York Mellon, a banking corporation organized pursuant to the laws of the State of New York, whose registered office is at 240 Greenwich St, NY, NY 10286, USA. The Bank of New York Mellon is supervised and regulated by the New York State Department of Financial Services and the US Federal Reserve and is authorized by the Prudential Regulation Authority (PRA). The Bank of New York Mellon operates in the UK through its London branch (UK companies house numbers FC005522 and BR000818) at One Canada Square, London E14 5AL and is subject to regulation by the Financial Conduct Authority (FCA) at 12 Endeavour Square, London, E20 1JN, UK and limited regulation by the PRA at Bank of England, Threadneedle St, London, EC2R 8AH, UK. Details about the extent of our regulation by the PRA are available from us on request. The Bank of New York Mellon SA/NV, a Belgian limited liability company, registered in the RPM Brussels with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, authorized and regulated as a significant credit institution by the European Central Bank (ECB) at Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany, and the National Bank of Belgium (NBB) at Boulevard de Berlaimont/de Berlaimontlaan 14, 1000 Brussels, Belgium, under the Single Supervisory Mechanism and by the Belgian Financial Services and Markets Authority (FSMA) at Rue du Congrès/Congresstraat 12-14, 1000 Brussels, Belgium for conduct of business rules, and is a subsidiary of The Bank of New York Mellon. The Bank of New York Mellon SA/NV operates in Ireland through its Dublin branch at Riverside II, Sir John Rogerson's Quay Grand Canal Dock, Dublin 2, D02KV60, Ireland and is registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E. The Bank of New York Mellon SA/NV, Dublin Branch is subject to limited additional regulation by the Central Bank of Ireland at New Wapping Street, North Wall Quay, Dublin 1, D01 F7X3, Ireland for conduct of business rules and registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E. The Bank of New York Mellon SA/NV is trading in Germany as The Bank of New York Mellon SA/NV, Asset Servicing, Niederlassung Frankfurt am Main, and has its registered office at MesseTurm, Friedrich-Ebert-Anlage 49, 60327 Frankfurt am Main, Germany. It is subject to limited additional regulation by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany) under registration number 122721. The Bank of New York Mellon SA/NV operates in the Netherlands through its Amsterdam branch at Strawinskylaan 337, WTC Building, Amsterdam, 1077 XX, the Netherlands. The Bank of New York Mellon SA/NV, Amsterdam Branch is subject to limited additional supervision by the Dutch Central Bank ('De Nederlandsche Bank' or 'DNB') on integrity issues only (registration number 34363596). DNB holds office at Westeinde 1, 1017 ZN Amsterdam, the Netherlands. The Bank of New York Mellon SA/NV operates in Luxembourg through its Luxembourg branch at 2-4 rue Eugene Ruppert, Vertigo Building – Polaris, L- 2453, Luxembourg. The Bank of New York Mellon SA/NV, Luxembourg Branch is subject to limited additional regulation by the Commission de Surveillance du Secteur Financier at 283, route d'Arlon, L-1150 Luxembourg for conduct of business rules, and in its role as UCITS/AIF depositary and central administration agent. The Bank of New York Mellon SA/NV operates in France through its Paris branch at 7 Rue Scribe, Paris, Paris 75009, France. The Bank of New York Mellon SA/NV, Paris Branch is subject to limited additional regulation by Secrétariat Général de l'Autorité de Contrôle Prudentiel at Première Direction du Contrôle de Banques (DCB 1), Service 2, 61, Rue Taitbout, 75436 Paris Cedex 09, France (registration number (SIREN) Nr. 538 228 420 RCS Paris - CIB 13733). The Bank of New York Mellon SA/NV operates in Italy through its Milan branch at Via Mike Bongiorno no. 13, Diamantino building, 5th floor, Milan, 20124, Italy. The Bank of New York Mellon SA/NV, Milan Branch is subject to limited additional regulation by Banca d'Italia - Sede di Milano at Divisione Supervisione Banche, Via Cordusio no. 5, 20123 Milano, Italy (registration number 03351). The Bank of New York Mellon SA/NV operates in England through its London branch at 160 Queen Victoria Street, London EC4V 4LA, UK, registered in England and Wales with numbers FC029379 and BR014361. The Bank of New York Mellon SA/NV, London branch is authorized by the ECB (address above) and subject to limited regulation by the FCA (address above) and the PRA (address above). Regulatory information in relation to the above BNY Mellon entities operating out of Europe can be accessed at the following website: <https://www.bnymellon.com/RID>. The Bank of New York Mellon, Singapore Branch, subject to regulation by the Monetary Authority of Singapore. The Bank of New York Mellon, Hong Kong Branch, subject to regulation by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong. The Bank of New York Mellon, Australia Branch is subject to regulation by the Australian Prudential Regulation Authority and is exempt from holding an Australian Financial Services License. The Bank of New York Mellon is regulated by the New York State Department of Financial Services under the New York Banking Law which is different from Australian law. The Bank of New York Mellon has various other branches in the Asia-Pacific Region which are subject to regulation by the relevant local regulator in that jurisdiction. The Bank of New York Mellon Securities Company Japan Ltd, as intermediary for The Bank of New York Mellon. The Bank of New York Mellon, DIFC Branch, regulated by the Dubai Financial Services Authority (DFSA) and located at DIFC, The Exchange Building 5 North, Level 6, Room 601, P.O. Box 506723, Dubai, UAE, on behalf of The Bank of New York Mellon, which is a wholly-owned subsidiary of The Bank of New York Mellon Corporation. Past performance is not a guide to future performance of any instrument, transaction or financial structure and a loss of original capital may occur. Calls and communications with BNY Mellon may be recorded, for regulatory and other reasons. Disclosures in relation to certain other BNY Mellon group entities can be accessed at the following website: <http://disclaimer.bnymellon.com/eu.htm>. This material is intended for wholesale/professional clients (or the equivalent only), is not intended for use by retail clients and no other person should act upon it. Persons who do not have professional experience in matters relating to investments should not rely on this material. BNY Mellon will only provide the relevant investment services to investment professionals. Not all products and services are offered in all countries. If distributed in the UK, this material is a financial promotion. If distributed in the EU, this material is a marketing communication. This material, which may be considered advertising, is for general information purposes only and is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter. Unless stated otherwise, this material does not constitute a recommendation or advice by BNY Mellon of any kind. Use of our products and services is subject to various regulations and regulatory oversight. You should discuss this material with appropriate advisors in the context of your circumstances before acting in any manner on this material or agreeing to use any of the referenced products or services and make your own independent assessment (based on such advice) as to whether the referenced products or services are appropriate or suitable for you. This material may not be comprehensive or up to date and there is no undertaking as to the accuracy, timeliness, completeness or fitness for a particular purpose of information given. BNY Mellon will not be responsible for updating any information contained within this material and opinions and information contained herein are subject to change without notice. BNY Mellon assumes no direct or consequential liability for any errors in or reliance upon this material. This material may not be distributed or used for the purpose of providing any referenced products or services or making any offers or solicitations in any jurisdiction or in any circumstances in which such products, services, offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements. Any references to dollars are to US dollars unless specified otherwise. This material may not be reproduced or disseminated in any form without the prior written permission of BNY Mellon. Trademarks, logos and other intellectual property marks belong to their respective owners. Neither BNY Mellon nor any of its respective officers, employees or agents are, by virtue of providing the materials or information contained herein, acting as an adviser to any recipient (including a "municipal advisor" within the meaning of Section 15B of the Securities Exchange Act of 1934, as amended, "Section 15B"), do not owe a fiduciary duty to the recipient hereof pursuant to Section 15B or otherwise, and are acting only for their own interests. The Bank of New York Mellon, member of the Federal Deposit Insurance Corporation (FDIC).