



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.”

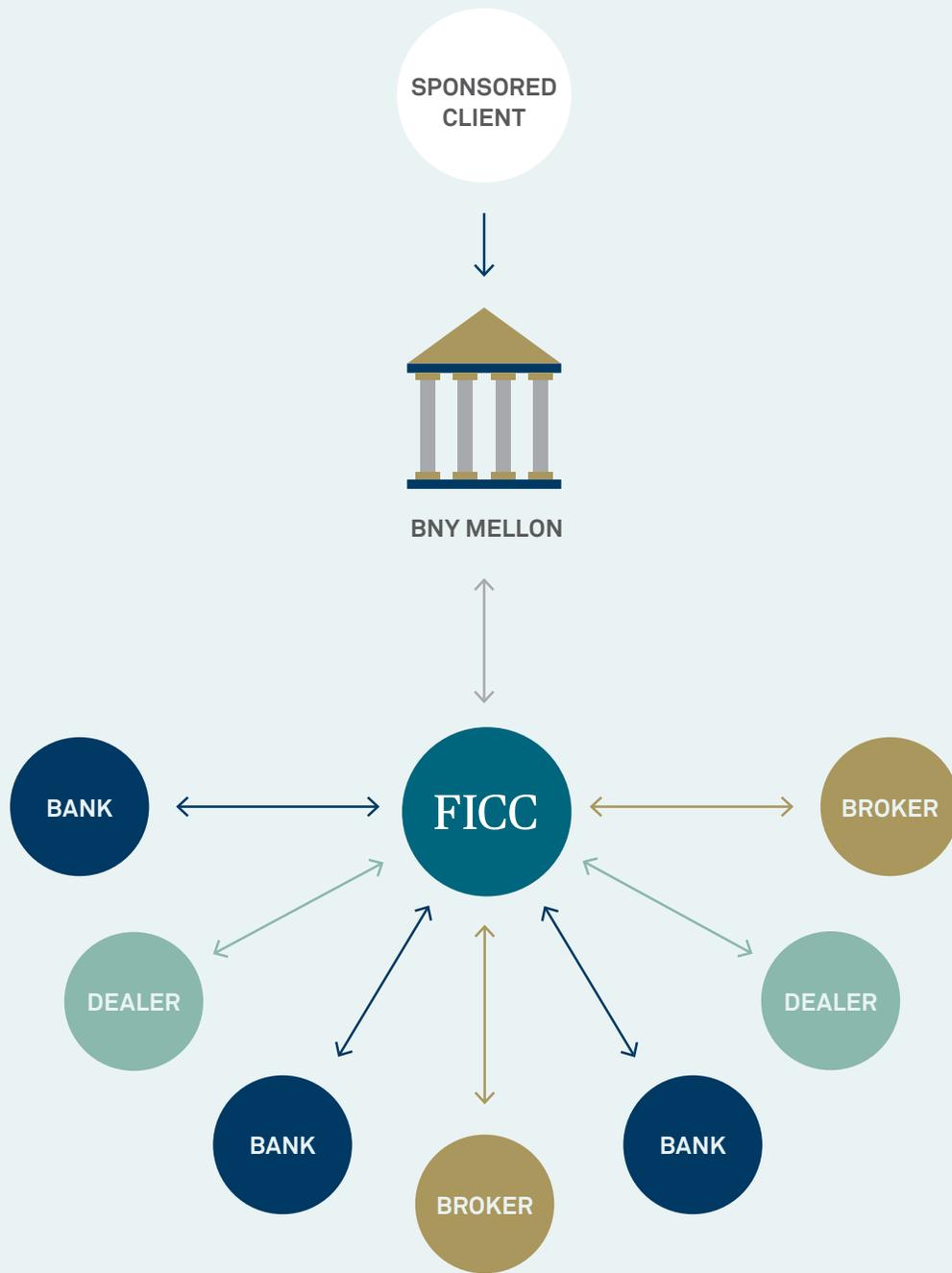
What Is Sponsored Membership?

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.

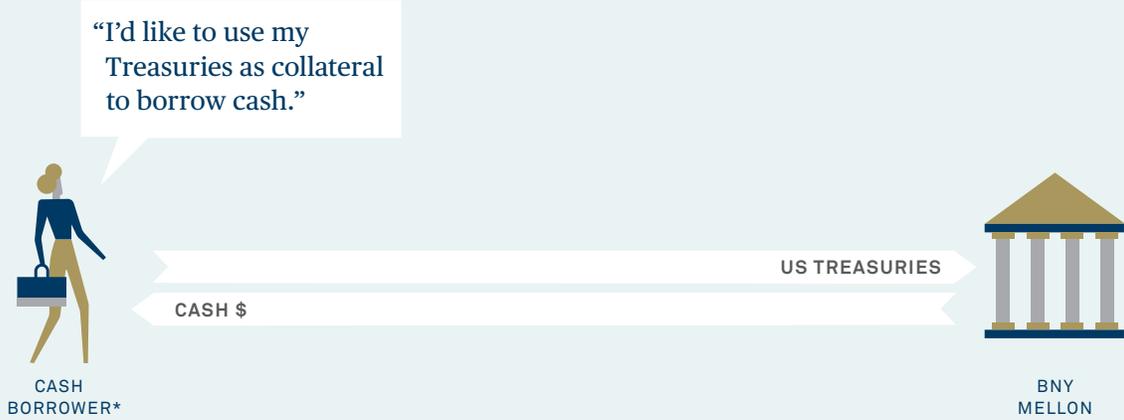
CLEARED REPO

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

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