

Central clearing of repo markets in Europe – lift the barriers and watch the market evolve

March 2025

Table of contents

- 03 Management Summary
- 04 Overview of European SFT markets
- 05 Recent regulatory developments urging further action in the EU
- 07 Critical measures to structurally foster the voluntary adoption of centrally cleared SFT markets
- 11 Closing remarks

Management summary

- For many years, European financial institutions have voluntarily cleared securities financing transactions (SFT) due to the benefits of centrally cleared SFT markets and their reliability even in times of market stress. However, especially amidst the recent US developments around US Treasury clearing and adoption of Basel III, the EU should not miss the momentum to leverage its EU clearing strategy and further enhance the attractiveness of the EU clearing ecosystem for SFTs.
- While EMIR 3.0 started to reduce some regulatory hurdles for market participants to reap the full benefit of centrally cleared SFT markets and targeted changes to Solvency II are on their way, **further targeted regulatory incentives are required to facilitate a further uptake of voluntarily cleared SFT markets, notably by non-financial institutions.**
- **Pending entry barriers for centrally cleared SFTs should be removed:** Building on EMIR 3.0, the exemption for centrally cleared derivatives in funds' counterparty limits should be extended to centrally cleared SFTs. UCITS should be explicitly allowed to pledge securities to a CCP in a cleared reverse repo transaction. Fund managers should be allowed to re-use cash collateral received from centrally cleared SFTs to meet their margin requirements at CCPs. Further, EIOPA's recent advice to address the punitive capital treatment in Solvency II for insurance firms with direct CCP exposure should be expanded to SFTs.
- **Risk standards between bilateral and centrally cleared markets should be aligned:** In the non-centrally cleared space, the EU currently does not have equivalent haircut requirements like those for CCPs. Although the EU should continue to carefully review its approach before making any changes, global consistency should be fostered with a view to ensure that haircuts are generally risk-adequate across the board.
- **Innovation and efficiencies should be promoted, notably cross product netting:** To ensure economic attractiveness for market participants using centrally cleared markets, Basel and CRR standards should allow them to offset their margin requirements for SFTs with those for other products.
- **A favourable treatment of centrally cleared SFT under the NSFR should be considered:** To enable banks to benefit from preferential treatment of centrally cleared SFTs in contrast to bilateral transactions with other banks and financial counterparties under the NSFR, banks should be able to apply a 50% ASF and a 0% RSF in respect of centrally cleared SFT transactions when calculating the NSFR.
- **Voluntary clearing by the public sector should be incentivized:** More public sector entities clearing voluntarily in the EU would deepen the ecosystem and create a pull factor. The participation of central banks, in particular, would provide a crisis-proof liquidity management mechanism in the non-banking sector.

Overview of European SFT markets

According to a 2024 ICMA survey, the Euro denominated European centrally cleared SFT market, such as securities lending and repurchase agreements (repos) has a notional outstanding amount in excess of EUR 3,500bn.

As demonstrated in numerous publications¹, the **European centrally cleared SFT market liquidity has been reliable during multiple periods of capital market stress** over the last two decades, e.g., the Covid-19 outbreak, European sovereign debt crises. Furthermore, as analysed by the ECB² short-term unsecured borrowing has been broadly replaced by secured financing which has further **increased the importance of the SFT market for stability and competitiveness of EU capital markets.**

According to a June 2024 ECB analysis³ on SFT trading activity in German, Spanish, Italian and French government bonds, the **European repo market has exhibited significant growth since 2021.** Whilst the large majority of interbank bond repo activity is **centrally cleared (approx. 80%+), there is a substantial and increasing amount of non-CCP cleared activity originating from Non-Bank Financial Institutions (NBFIs).** As highlighted by the FSB, SFTs play a crucial

role in supporting price discovery and secondary market liquidity for a wide variety of securities. For more than 20 years, **European financial institutions have voluntarily cleared SFTs in order to reduce counterparty risk, improve settlement efficiency and lower capital costs.**

Indeed, **centrally cleared SFT markets have numerous benefits and have proven to be resilient in periods of stress** as alluded to above. Centrally cleared SFT offers anonymous trading and the neutralisation of counterparty risk, as all counterparties face the CCP. Trading takes place under standardised conditions with a comprehensive range of transparent general collateral baskets covering the liquidity portfolios of a wide range of banks and NBFIs. Finally, collateral can be substituted, giving participants the flexibility to manage funding requirements under normal and stressed market conditions, which contributes significantly to maintaining the stability of funding markets.

¹ See for example "The European repo market and the COVID-19 crisis" by ICMA.

² See for example ECB Money Market Study from 2022.

³ https://www.ecb.europa.eu/paym/groups/pdf/mmcbg/20240612/Item_1.3_2024_06_12_MMCG_market%20structure.pdf

However, there is still, **in particular in comparison to the US, limited pick-up in centrally cleared SFT activity by NBFIs**. By and large, a rather fragmented European SFT market can be observed with a large banking sector but only limited cross-border lending activity. Larger NBFIs are still able to source liquidity at competitive levels from financial intermediaries. In particular, repo liquidity provision is frequently deemed a facilitator for more attractive products offered by the intermediary. As such, repo transactions are seldom executed in isolation and NBFIs often are charged no or only limited haircuts on repo collateral as a holistic assessment of the client relationship

is undertaken by the financial counterparty. Also, NBFIs will often sterilise the cash component of a repo with a cash product in order to reduce the balance sheet for the bilateral bank counterparty.

As European issuance has increased and the ECB has retraced some of their stimulus, many NBFIs have started to look for funding which no longer can be easily or reliably met through legacy structures. This demand increases the pressure on bank balance sheets which, in principle, can be alleviated by central clearing.

Recent regulatory developments urging further action in the EU

EMIR 3.0 has recently provided some targeted incentives in funds regulation (i.e., MMFR, UCITS-D) with a view to lifting some regulatory hurdles such as counterparty and cash limits for fund managers using centrally cleared derivatives and repo transactions.

Also, the European Commission announced a review of the Solvency II Delegated Act to make further progress in addressing regulatory constraints that currently disincentivise or restrict market participants from using centrally cleared markets. **EIOPA's recent technical advice to overcome the current unfavourable capital treatment of (re-)insurers compared to traditional clearing members when accessing CCPs directly is a welcomed step in the right direction.**⁴

Nevertheless, the recommended changes to the current regime are limited to derivatives transactions and **should be expanded to SFTs**.

However, the significance of cleared SFT markets was highlighted even more outside of the EU, when the **SEC adopted a central clearing mandate for U.S. Treasuries** in December 2023, including repo and reverse repo agreements, becoming gradually effective until mid-2027.⁵ The rules

⁴ EIOPA technical advice on standard formula capital requirements for direct exposures to qualifying central counterparties, July 2024.

⁵ [SEC.gov | SEC Extends Compliance Dates and Provides Temporary Exemption for Rule Related to Clearing of U.S. Treasury Securities](#)

include changes to enhance customer clearing and broaden the scope of which transactions clearinghouse members must clear to make the Treasury market more efficient, competitive and resilient. **In addition, the US has been considering other policy changes with implications for SFT markets**, such as banking regulation. Historically, the EU has been able to claim wider Basel application to all EU banks, but due to the recent US banking turmoil in the spring of 2023, the US was reconsidering unique US exemptions from Basel standards as well as addressing window-dressing practices and the lack of bilateral haircuts, etc. While there was a risk that the EU and US will be misaligned in the implementation of Basel standards with respect to SFT transactions, this is yet to be confirmed as the Fed has indicated that they may significantly scale back the Basel III reforms.

In the UK, the 2024 system-wide exploratory scenario exercise of the Bank of England (BoE) has shown the existence of systemic risk to NBFIs partly resulting from the lack or near lack of haircuts in the non-CCP cleared repo market.⁶ The scenario results show that haircuts behave procyclical and that NBFIs would face significant haircut increases in stressed market conditions. The BoE is accordingly considering a floor for haircuts in the non-CCP cleared repo market to reduce procyclicality and has recommended that NBFIs shall consider access to centrally cleared repos.

While the US and UK approaches are expected to increase transparency and bring more repo into the cleared environment, **removing regulatory barriers and fostering a level playing field with the bilateral market also in Europe would allow centrally cleared SFT markets to unfold their benefits, in particular in an environment with increasing balance sheet scarcity.**

The ESRB has made specific recommendations towards the European Commission to make central clearing more attractive in the EU government bond cash and repo market in this context,

including by mandating risk management requirements for bilateral transactions and by addressing other disincentives faced by NBF entities.⁷ Many of the recommendations by the ESRB are therefore supported and further expanded by the recommendations of this paper.

Further, **the FSB has just reiterated some of its previous recommendations with respect to SFT markets** in context of potential policy measures to address financial stability risks from NBF leverage in core financial markets.⁸ For instance, the FSB suggests that jurisdictional authorities could consider minimum haircuts in SFTs, including government bond repos; enhanced margining requirements between NBFIs and their derivatives counterparties; and central clearing mandates in SFT and derivatives markets.

While it remains to be confirmed if the new Trump administration may impact the implementation of US Treasury clearing mandate or the final US approach on Basel III as currently suspected, or how the final FSB guidance will look like, **the EU should not miss the momentum to get active now and get the targeted incentives going that would structurally foster the attractiveness of EU SFT markets.**

Amidst the US policy changes with respect to SFT markets, the EU already started to explore further measures in recent years, including a central clearing mandate for SFTs. As a result, EMIR 3.0 ensured first targeted incentives to foster an uptake of voluntary clearing, as alluded to above, and thereby provided an important milestone to meet the EU objectives of the Capital Markets Union, stability, and autonomy agendas. **Nevertheless, there is still critical adjustments needed to further enhance the attractiveness of the EU clearing ecosystem for SFTs. As part of a continued EU clearing strategy, in particular, further targeted incentives respectively removal of entry barriers for centrally cleared SFTs should be fostered in the short to mid-term to facilitate a further uptake of voluntarily cleared SFT markets.** In the long term, ESMA could assess if SFTs meet the criteria for mirroring the US approach for a clearing obligation and if a respective mandate further supports the development of deeper and more resilient EU SFT markets.

⁶ BoE, [The Bank of England's system-wide exploratory scenario exercise final report](#), November 2024.

⁷ ESRB, A system-wide approach to macroprudential policy - ESRB response to the European Commission's consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation, November 2024

⁸ <https://www.fsb.org/uploads/P181224.pdf>

Critical measures to structurally foster the voluntary adoption of centrally cleared SFT markets

1) Resolving pending regulatory hurdles in EU funds regulation:

Building on the recent EMIR 3.0 reliefs mentioned above, for a further deepening of the EU SFT markets and attractiveness on global scale, the remaining regulatory hurdles notably for non-banks and the buy-side should be addressed.

This includes in particular that the **strict collateral concentration and diversification rules applied to UCITS should be further adapted risk-adequately for CCP cleared repos**. A CCP becomes the buyer and seller to all centrally cleared transactions and thereby hit the remaining counterparty limit much faster than in a bilateral context, despite the risk reducing nature of clearing. **All centrally cleared transactions should therefore be excluded from relevant concentration and diversification requirements, making the use of central clearing for the buy-side more attractive without restricting the use of bilateral markets.** Such an exclusion should apply to both direct and indirect clearing models.

Further, funds are currently restricted from pledging collateral received in a reverse repo transaction, even if this collateral would be held bankruptcy remote from the pledgee to meet CCP margin requirements. Consequently, in CCP cleared transaction, additional assets would need to be sourced to meet the mandatory CCP margin requirements. Also, funds are explicitly not permitted to raise cash through a repo transaction to meet mandatory margin requirements.⁹

To unlock efficiencies for funds, **UCITS should be explicitly allowed to pledge securities to a CCP** if received by the fund by way of a transfer of title in a cleared reverse repo transaction with that CCP. Further, **fund managers should be allowed to re-use cash collateral received from centrally cleared SFTs to meet their margin requirements at CCPs.**

Addressing such restrictions for EU market participants would significantly increase efficiencies for centrally cleared SFTs and remove entry barriers for EU based asset managers.

⁹ Eurex, [Whitepaper: Improving Access to Central Clearing \(eurex.com\)](https://www.eurex.com/Whitepaper/Improving%20Access%20to%20Central%20Clearing), February 2021.

2) Aligning risk standards between bilateral and centrally cleared markets, i.e., haircuts:

Global standards aimed at regulating SFT markets have been implemented differently across the globe, resulting in an unlevel playing field of centrally and non-centrally cleared markets and different jurisdictional approaches:

For centrally cleared markets, the PFMI and EMIR regulate the application of haircuts. Since 2015, the FSB has been recommending the introduction of minimum haircut standards for non-centrally cleared SFTs¹⁰ as well, including qualitative standards for all market participants to calculate collateral haircuts and numerical haircuts specifically for non-banks with a view to enhance the resilience of non-bank financial institutions. The FSB has confirmed this assessment at the end of 2024.¹¹ In 2016/17 the EU concluded¹² that to a large extent, the FSB recommendations on SFTs have been addressed through the adoption of the SFTR and specific provisions in sectoral financial services legislation and guidelines (such as UCITS-D, AIFMD, or banking regulation). Before introducing the qualitative standards and numerical haircut floors recommended by the FSB, the EU decided to first gather more SFTR data. In addition, the EBA¹³ preferred taking a cautious approach on numerical haircuts with a view to avoid a shift of activities to the shadow banking sector and recommended to rather introduce related requirements under market regulation for a more holistic approach to non-bank transactions, avoiding that SFTs could still be conducted below the haircut floors.

Therefore, there are currently no requirements for haircuts in the non-centrally cleared space like for CCPs in the EU, but market participants enjoy contractual freedom for non-centrally cleared SFTs. In the absence of legal provisions,

ICMA¹⁴ established industry best-practice guidance, including recommendations e.g., on taking liquidity of collaterals into account or the numerical expression on haircuts vis-à-vis margins. However, the ESRB¹⁵ found that by 2020 around 75% of non-centrally cleared repo transactions have a 0% haircut on the collateral. Furthermore, as it was expected to implement the FSB framework through Basel III¹⁶, the implementation dates for the policy recommendations related to minimum haircut standards were adapted accordingly and postponed to 2023 and 2025 respectively. **Hence, the EU has so far not introduced haircuts to non-centrally cleared SFTs but decided in the recent CRR/CRD review to let the EBA assess the appropriateness of haircuts.**

How are other jurisdictions approaching the FSB framework? It remains to be seen if the final US approach to Basel III will in the end implement the FSB recommendation for haircuts as initially intended. As outlined above, in the UK the BoE has identified the lack of haircuts in the non-CCP cleared repo market during stable market conditions as a source of risk to NBFIs in stressed conditions and is therefore considering setting haircut floors. **Whilst the EU should continue to carefully review its approach before making any changes, global consistency should be fostered with a view to ensure that haircuts are generally risk-adequate across the board.**

¹⁰ Regulatory framework for haircuts on non-centrally cleared securities financing transactions - Financial Stability Board (fsb.org)

¹¹ <https://www.fsb.org/uploads/P181224.pdf>

¹² ESMA, Report on securities financing transactions and leverage in the EU, October 2016.

¹³ EBA, Policy Advice on Basel III reforms – SFTs (europa.eu), 2019.

¹⁴ icmagroup.org/assets/documents/Regulatory/Repo/ERCC-Guide-to-Best-Practice-March-2021-300321.pdf; ICMA SFTR recommendations September 2020 (icmagroup.org)

¹⁵ ESRB Report, The macroprudential use of margins and haircuts (europa.eu); Mitigating the procyclicality of margins and haircuts in derivatives markets and securities financing transactions (europa.eu)

¹⁶ Basel III Framework (CRE 56.6)

3) Promoting innovation and efficiencies, notably cross product netting:

Further, in order to ensure that the use of centrally cleared markets is economically attractive for market participants, they should be able to offset their margin requirements for SFTs with those for other products.

Some EU CCPs already offer such cross-product netting and margining efficiencies, notably in Euro denominated products with a view to support a deepening of Euro liquidity within the EU. The benefits of cross product netting can be recognised for counterparty credit risk capital purposes, only where permission has been granted to apply internal (IMM) models for the calculation of credit exposure. However, under the Basel III framework, as implemented by the EU Capital Requirements Regulation (CRR), the application of the Output Floor means that banking institutions will be constrained by the Standardised Approaches for the calculation of capital requirements. Under the Standardised Approaches, the credit exposure measurement for SFTs and derivatives are separate standalone calculations, and the benefits of cross-product netting agreements cannot be recognised. When cross-product netting cannot be recognised in credit exposure measurement, the lower margins requirements resulting from EU CCP cross product margining methodologies are not sufficient to offset credit exposure, resulting in higher capital requirements. **This disincentivises clearing brokers from offering the innovative cross-product margining capabilities of EU CCPs to their clients (non-banks and buy-side) and in-turn disincentivises the voluntary adoption of buy-side client of central clearing for SFTs in the EU.**

To facilitate the use of centrally cleared SFT markets, **the EU should hence engage in international fora to improve the recognition of cross product netting of centrally cleared SFT and derivative transactions in the Basel Standardised methodologies. In view of the lengthy timeframes for changes to the Basel standards, the EU should consider pre-empting a change through amendments to the CRR.** Industry Groups have proposed methodologies to improve the recognition of cross product netting of centrally cleared SFT and derivative transactions in the Standardised approaches, and these are currently under review by market stakeholders. These initiatives have new momentum in the context of the bonds and repo clearing mandate in the US as cross-product margining on CCP level across SFT and derivatives is seen by all market participants as a key feature to further increase efficiency and attractiveness of moving SFT into a cleared environment.

4) Allowing a favourable treatment of centrally cleared SFT transactions under the NSFR:

The treatment of cleared SFT transactions under the Net Stable Funding Ratio (NSFR) regulation also warrants further detailed examination, particularly in view of the normalisation of central bank balance sheets and the return of banks to private funding markets.

Centrally cleared cash funding repo markets have seen significant demand in the EU in recent years due to their various benefits, have proven to provide stable liquidity and have performed with minimal disruption through several periods of financial market dysfunction compared to bilateral markets. In addition, Eurex GC Pooling in particular has proven to be resilient in periods of stress. This demonstrated resilience and stability is underpinned by several important features. Firstly, cleared repo offers anonymous trading and the neutralisation of counterparty risk, with all counterparties ultimately facing the CCP. Secondly, trading is under standardised terms, with a comprehensive range of transparent general collateral baskets which cater to the liquidity portfolios of a diverse range of domestic and international banks and NBFIs. Finally, collateral can be substituted, which provides participants with the flexibility to manage funding requirements in normal and stressed market conditions and contributes significantly to maintaining funding market stability.

Notwithstanding the aforementioned benefits, cleared SFT transactions receive no preferential treatment for banks under the NSFR regulation, as centrally cleared transactions are treated in an equivalent manner to bilateral transactions with other banks and financial counterparties (i.e. 0% credit for available stable funding – ASF). In contrast, banks receive highly favourable available stable funding benefits (50% ASF) when borrowing short-term (<6mths) on a bilateral basis from government/public sector and non-financial (corporate) counterparties. Furthermore, there is the perverse situation that if banks centrally clear those same borrowings from government/public sector and non-financial (corporate) counterparties, the favourable ASF benefits are lost as the CCP becomes the counterparty for the purposes of NSFR regulation. This acts as a direct disincentive for cleared SFT markets.

Therefore, banks should be able to apply a 50% ASF and a 0% RSF in respect of centrally cleared SFT transactions when calculating the NSFR.

5) Incentivising voluntary clearing by the public sector, notably central banks:

Last but not least, in the endeavour to further deepen the EU clearing ecosystem for SFTs, the EU should also establish incentives for more public sector entities to voluntarily join the EU's clearing landscape.

In particular, the participation of central banks in centrally cleared SFT markets would provide a crisis-proof liquidity management mechanism in the non-banking sector. In addition, the transmission of monetary policy could be improved if central banks were to (partially) implement their monetary policy measures via CCPs.

While there is already a growing number of public sector entities joining central clearing, a higher participation rate would provide a “pull factor” for other market participants to join as well, and would further contribute to the diversification of the ecosystem and guarantee that “single points of failure” are systematically avoided while overall efficiency, liquidity, and stability could be structurally enhanced. **The expected EMIR 3.0 guidance for public entities to join CCPs and comply with margin and default fund contributions should therefore ensure a proportional approach that does not disincentivise them to voluntary clear.**

In particular, it would be welcome if ESMA clarifies that the minimal credit risk of public entities shall be recognised and that CCPs shall be allowed not to collect margins and default fund contributions as a result of applying a zero-risk-weight for the credit exposures for a harmonised approach across the EU.

Closing remarks

European centrally cleared SFT markets have numerous benefits and have proven to be resilient and reliable during multiple periods of capital market stress over the last two decades, thereby making an important contribution to systemic resilience and stability of the overall financial EU market.

However, there are still critical adjustments needed to further enhance the attractiveness of the EU clearing ecosystem for SFTs to driving voluntary adoption.

As part of a continued EU clearing strategy, in particular, further targeted incentives or respectively removal of entry barriers for centrally cleared SFTs should be fostered.

Contact us

Eurex Repo

Repo.Sales@eurex.com

© Eurex, March 2025

Published by

Eurex Repo GmbH
Mergenthalerallee 61
65760 Eschborn
Germany

www.eurex.com

ARBN Number

Eurex Frankfurt AG ARBN 100 999 764

© 2025 by Deutsche Börse AG. Eurex®, the EX® and EC®-Logo are registered trademarks of Deutsche Börse AG. This publication is published for information purposes only and does not constitute accounting advice, investment advice or an offer, solicitation or recommendation to acquire or dispose of any investment or to engage in any other transaction. While reasonable care has been taken in the preparation of this publication neither Eurex Frankfurt AG, nor any of its affiliates make any representation or warranty regarding the information contained herein. Customers should consider the legal, accounting and regulatory requirements in the jurisdictions relevant to them before using Eurex® products or services. All descriptions, examples and calculations contained in this publication are for illustrative purposes only.

Find out more online at
eurex.com/repo

