



Confirmation of Priorities and the Way Forward

May 16, 2024

Initial priorities

- ❖ Fully operationalize TMX and Clearstream's tri-party service (CCMS) and gain its broad adoption in Canada
 - Developing industry standardized collateral baskets

- ❖ Developing market best practices including on margining and risk
 - Overseeing the implementation of the fail fee framework for GoC securities

- ❖ Supporting required changes made by CDS to facilitate T+0 BDN FRNs issuance for the Canadian money market

Initial workstreams

The initial workstreams are focussed on helping to fully operationalise CCMS and ensure maximum operational effectiveness for the Canadian repo market. The workstreams are:

1. Custodian model
2. Standardized basket
3. Valuation – pricing and haircuts

1. Custodian model workstream – problem statement

1. Buy-side mobilization of collateral requires Custodians integrated to CCMS

- Buy side involvement in Repo is further enabled by CCMS
- BA Cessation is a further driver

2. Although there are common solutions - each Custodian is different

- Generally, how most process transactions and account setups are similar
- For some custodians changes are configurable, for others it requires development

3. Prioritization for Custodians Investments

- Typically, most custodial investments at present are regulatory driven or due to *market changes*
- Investments in enabling a non-regulatory driven initiative are less frequent

1. Custodian model workstream – outcomes

1. Establish benefits to the market of buy-side involvement in CCMS

2. Identify working models for custodians

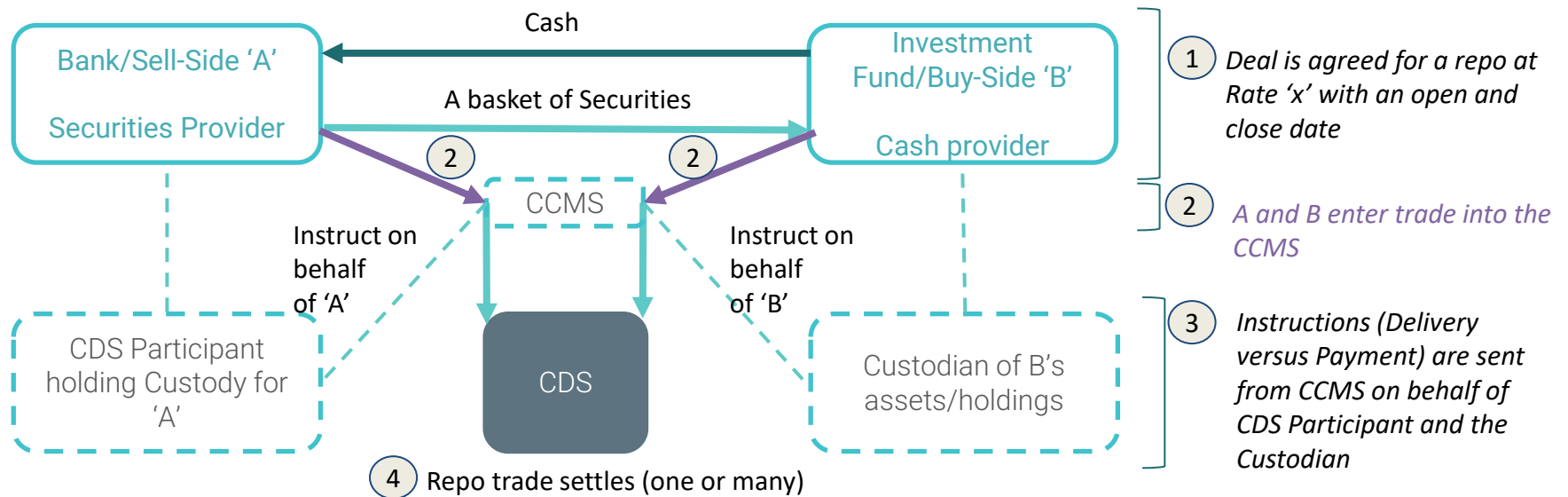
- Identify common challenges across custodians to onboard the buy side to CCMS
- Ensuring CCMS integration models are well understood by custodians
- Solution configurable options for custodians to consider

3. Developing an industry roadmap for custodians and buy-side

- Buy-side commitment to joining the services within the next 12 months will need to be established
- Aligning working models with buy side demand to develop a roadmap for CIMPA
- Further enabling corporates - many of whom don't have custody accounts

CCMS tri-party repo – custodian model

A basket of securities is repo'ed without custody intermediation



2. Standardized basket workstream – problem statement

Canada lacks standardization and breadth of repo products available for trading or central clearing

- ❖ Although CCMS is a great step forward, General Collateral (GC) repo baskets could improve and facilitate standardized trading of Canadian securities
 - Not a new concept, Eurex repo basket trading live since 2005
 - Standardization and transparency of GC baskets improve access to the Canadian repo market (GC utility had been planned for CDCC in 2012 but never implemented)
 - Appealing for risk management (CCP), anonymity and ability to move large size of liquidity
 - Can help support the development of a liquid term repo market

2. Standardized basket workstream – outcomes

- Scalability on potential baskets of collateral instruments:
 - Optimize trade execution for a large number of securities by putting them in one basket
 - Simplify collateral management by creating baskets for specific use cases (eg HQLA, central bank operations, CCP baskets, GC funding)
 - Broaden eligible assets to include corporate and financial institutions
 - Offer a range of risk and return choices for cash providers
 - Allow for anonymous trading when centrally cleared

- As regulatory and risk management demands continue to evolve in complexity, strong desire by participants to transact large pools of eligible collateral through trading one ISIN with option to centrally clear

3. Valuation and haircuts workstream – problem statement

Valuation

- Bilateral securities financing trades require agreement on asset valuation that can lead to disputes between counterparties, especially for less liquid securities. Tri-party service provides a reliable and independent source of valuation that can be trusted by all parties.

Haircuts

- Looking to align with current market practice on haircuts for various asset classes
- Some clients are bound by regulations which set floors on haircut's required, that may differ from the current market standards
- Potentially utilize the existing haircuts outlined in the SLF as a benchmark

Next steps

- ❖ Please indicate your firm's interest in either co-chairing or participating in any of the three individual workstreams
- ❖ Please submit your responses by EOD June 5 to the CIMPA secretariat, including the name(s) and for which workstream(s)
- ❖ The workstreams are expected to be formed at the latest by mid-June, with work commencing thereafter

Questions?

