

# Sponsored Clearing — A Virtuous Circle

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RepoClear

The emergence and growth of 'Sponsored Clearing' in the repo market is a direct consequence of both bank demands and the growing buy-side interest in cleared repo in the wake of post-crisis regulatory developments. The model provides buy-side participants with direct membership of a clearing house through sponsorship from a bank 'agent member' and has clear benefits for traditional clearing members and buy-side firms alike.

In essence, LCH Sponsored Clearing balances the advantages of clearing house membership for buy-side firms with the need to ensure the integrity of the CCP and grow the attractiveness of the biggest netting and liquidity pools in Europe. It does this by requiring the 'agent member' to facilitate margin payments and provide default fund contributions in lieu of the 'sponsored member'. Some additional resources are also required from the agent member to ensure their interests are fully aligned with those of LCH and other members of RepoClear.

LCH has a robust set of credit criteria to allow buy-side firms access into Sponsored Clearing. Membership already extends to certain investment funds, such as Pension Funds and UCITS Money Market Funds, maintaining the high standards associated with membership of a highly rated clearing house.

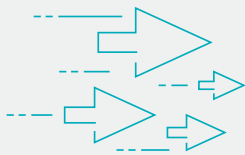


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## MEMBER BENEFITS

There are significant benefits for bank members. Sponsored Clearing can reduce risk by unlocking balance sheet netting, which frees up capital and enables repo capacity. This is especially important now that regulatory changes have introduced average balance sheet accounting, rather than reporting on specific dates during the year. This brings the potential for more reductions in available repo capacity, with the obvious impact on access to financing for the buy side. In short, Sponsored Clearing brings buy-side members into the CCP and makes repo clearing even more attractive to bank members by increasing opportunities for balance sheet optimisation.

For sponsored members themselves, the opportunity to become a direct counterparty of LCH reduces their bilateral counterparty risk and opens the door to LCH's €3.5 trillion pool of outstanding cleared repo liquidity and more than 100 members. This liquidity provides access to unrivalled repo capacity at a price that usually reflects the netting available to bank counterparts. Additionally, sponsored members benefit from a world-class risk management framework and valuable operational benefits.



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Sponsored Clearing is available now at LCH Ltd for GBP products and will soon be available at LCH SA for Euro debt.\*

### SELF-SUSTAINING MODEL

Sponsored Clearing is available now at LCH Ltd for GBP products and will soon be available at LCH SA for Euro debt.\* Membership and volumes are growing, with a 66% increase in Sponsored Clearing gross open outstanding year to date in 2019. Money market funds are now clearing in addition to pension funds, mirroring the growing trend towards clearing that we have seen in the US market.

The numerous benefits of Sponsored Clearing for all participants, underpinned by robust risk management, form the platform for a self-sustaining model. As the netting reduces risk and further eases capital pressures on banks, they are in turn able to inject more repo capacity into the market. That capacity grows the netting pool and the cycle begins again, to the benefit of both the buy-side and the sell-side. For the repo market, this is a very exciting time.

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*\*Subject to regulatory approval.*

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