

## What can be gleaned from SFTR public data for 2022?

### EU/EU

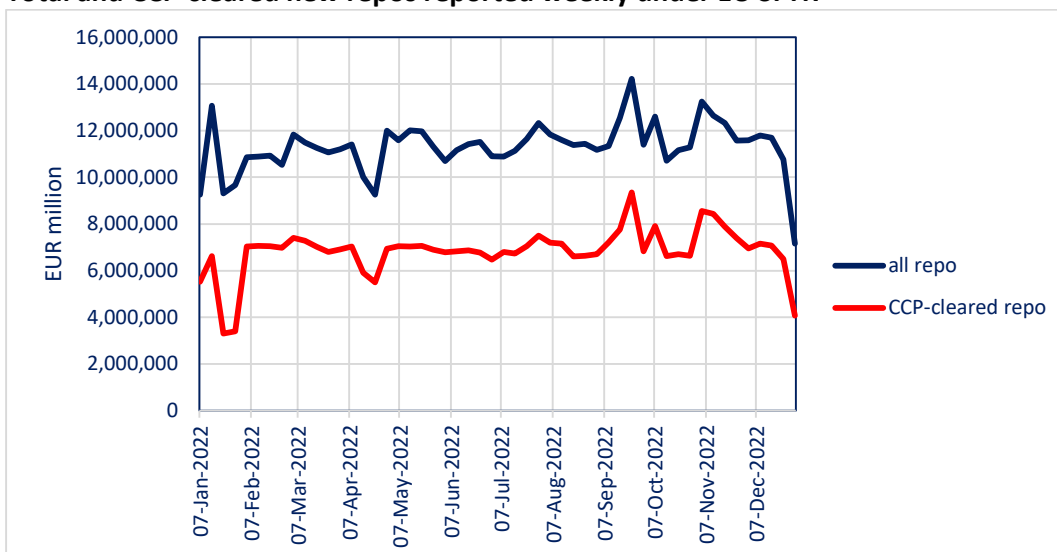
In 2022, the EU repo market saw average daily turnover of **EUR 2,261 billion** and almost **82,000** new transactions per day, up 0.5% and down 1.0%, respectively, compared to 2021. After building up over 2021, the average end-week balance in 2022 was **EUR 11,796 billion** and the average number of transactions outstanding at end-week was some **440,000**, up 14.1% and 26.3%, respectively. The breakdown is summarized in the table and illustrated in the charts below.

2022 (EUR billion)	average daily turnover	average end-week balance
<b>all repo</b>	2,264	11,796
<b>number of repos</b>	81,769	439,685
<b>repurchase transactions</b>	91%	92%
<b>CCP-cleared repo</b>	1,367 (60%)	4,850 (41%)
<b>repo on EU trading venue</b>	1,196 (53%)	4,271 (36%)
<b>repo on non-EU trading venue</b>	166 (7%)	602 (5%)
<b>post-trade registration of OTC repo</b>	65 (3%)	335 (3%)
<b>OTC repo</b>	837 (37%)	6,120 (52%)
<b>EU-EU repos</b>	1,114 (49%)	5,859 (50%)
<b>EU-nonEU trades</b>	1,149 (51%)	5,914 (50%)

Sources: DTCC, RegisTR, KPDW, author's calculations

The year started in the EU repo market with the usual bounce-back in turnover from the (usual) collapse at end-year, which was due (as usual) to market intermediaries window-dressing their regulatory and other reports by shrinking their balance sheets. The subsequent January overshoot in reporting (perhaps as much as 35,000 trades per day) suggests that parties had a lot of catching-up to do after Christmas and that a lot of processing is still manual.

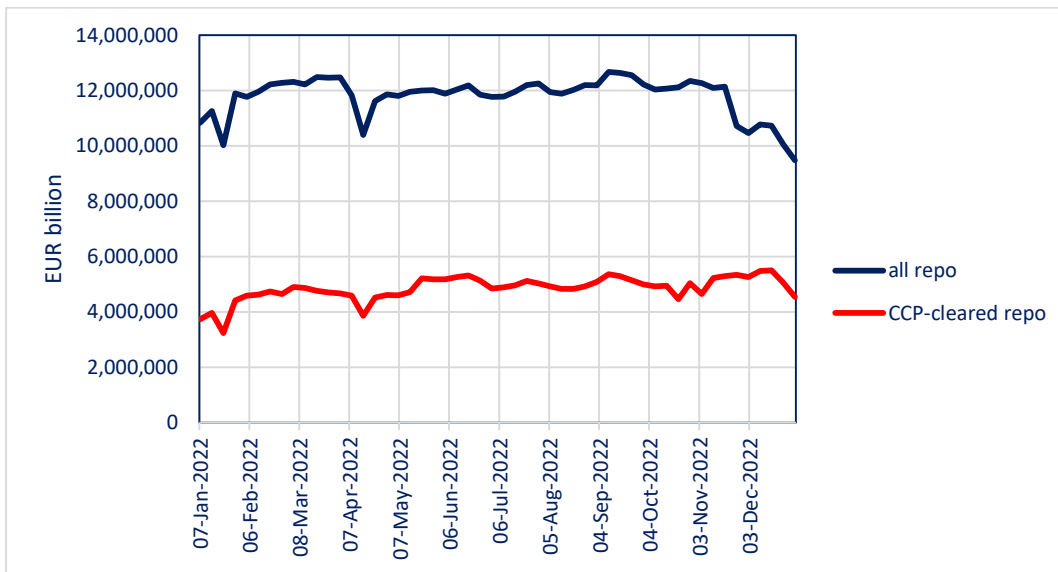
### Total and CCP-cleared new repos reported weekly under EU SFTR



Sources: DTCC, RegisTR, KPDW

There also seem to have been reporting delays in EU SFTR in the last two weeks of January, driven largely by CCP-cleared repos. That’s a bit of a mystery as CCP-cleared repos should be relatively straightforward to report given that they tend to be simple (very short-term, plain vanilla and against government securities) and the CCPs provide much of the reporting data.

### Total and CCP-cleared outstanding repos reported end-week under EU SFTR



Sources: DTCC, RegisTR, KPDW

The EU market took a break at Easter. However, the effect of summer vacations was not apparent in the data. Nor did end-quarters noticeably affect turnover in March, June or September (the end-quarter impact was largely on prices, with euro repo rates dipping into special territory). The impact of futures delivery deadlines was very faint.

What did move the market in 2022, according to SFTR data, were interest rate hikes by the ECB on 27 July, 14 September and 2 November. The impact of the September rate rise was amplified by the turmoil triggered by the UK mini-budget on 23 September

Fluctuations and trends in the EU repo market were mainly driven by **CCP-cleared repo**. But the weight of CCP-cleared repo diminished over 2022 to 60% of turnover and 41% of average end-week balances from 66% and 46%, respectively, in 2021. And the number of CCP-cleared transactions fell to 64% of the total in terms of new transactions and 37% of average outstanding transactions at end-week from 66% and 39%, respectively. The smaller share of balances compared to turnover and the smaller fall in the numbers of transactions compared to value reflects the fact that CCP-cleared repos tend to have a shorter tenor than other repos and there was perhaps a reduction in transaction size. The decline in the market share of CCP-cleared repo may be a reflection of improved reporting of uncleared repos but the importance of CCP-cleared repos in SFTR data remains inflated by the double-counting of such transactions.

There was a sharp drop in the value of turnover on **EU-based Trading Venues** in 2022 (53% from 61% in 2021) but a much smaller change in the number of new transactions (59% from 61%), the average end-week balance (36% from 38%) and the average number transactions outstanding at end-week (35% from 37%). The counterparts to these declines were increases in activity on other execution venues. **OTC trading** increased its share of turnover to 37% from 32% and **non-EU Trading Venues** to 7% from 5%, while post-trade registration grew to 3% from 2%. However, the average end-week balances of EU-based Trading Venues and OTC trading fell (to 36% and 52% from 38% and 54%, respectively). The differences between the changes in turnover, numbers of transactions and end-week balances suggest the shift in the location of trading was into smaller and shorter-term repos, which is consistent with the changes in CCP-cleared repo.

There was also a shift in the value of turnover from repos between **EU counterparties** (down to 49% from 57% in 2021) into transactions between **EU and non-EU counterparties** reported by the former (to 51% from 43%). The change in the number of transactions was smaller (53% from 58% and 47% from 42%, respectively) and the change in average end-week balances was smaller still (down to 50% from 52% for repos between EU counterparties) or in the opposite direction (to 50% from 47% for repos between EU and non-EU counterparties). These changes in the counterparty locations therefore echoed the changes in the location of trading and central clearing.

As one would expect, the pattern of change in end-week balances over the year was similar but less volatile than for turnover. The peaks in business in September and November were much less pronounced in terms of end-week balances, indicating significant volumes of short-term trades on these occasions.

Another key difference was that end-week balances started to decline earlier than new transactions in early April and late November, suggesting a shortening of maturities. The November change shows intermediaries starting to shrink their balance sheets well in advance of the year-end. This chimes with anecdotal evidence.

The average daily transaction size in the EU repo market was EUR 28 million. Repurchase transactions were larger than buy/sell-backs (EUR 28 versus 26 million). CCP-clearer repo were smaller (EUR 26 million). The biggest transactions were on non-EU Trading Venues (EUR 44 million) and in post-trade registered transactions (EUR 33 million), and between non-EU and EU counterparties reported by the former (EUR 40 million). Can we see the influence of London here?

## UK

The UK repo market clocked up an average daily turnover of GBP 1,520 billion or EUR 1,786 billion in 2022 and an average end-week balance of GBP 7,900 billion or EUR 9,234 billion, down 3% and up 15%, respectively, over 2021. The growth in balances implies a lengthening of the average term to maturity.

The UK accounted for 44% of the turnover measured by both SFTR regimes in 2022 and 44% of average end-week balances. This compares to 45% and 39%, respectively, in 2021.

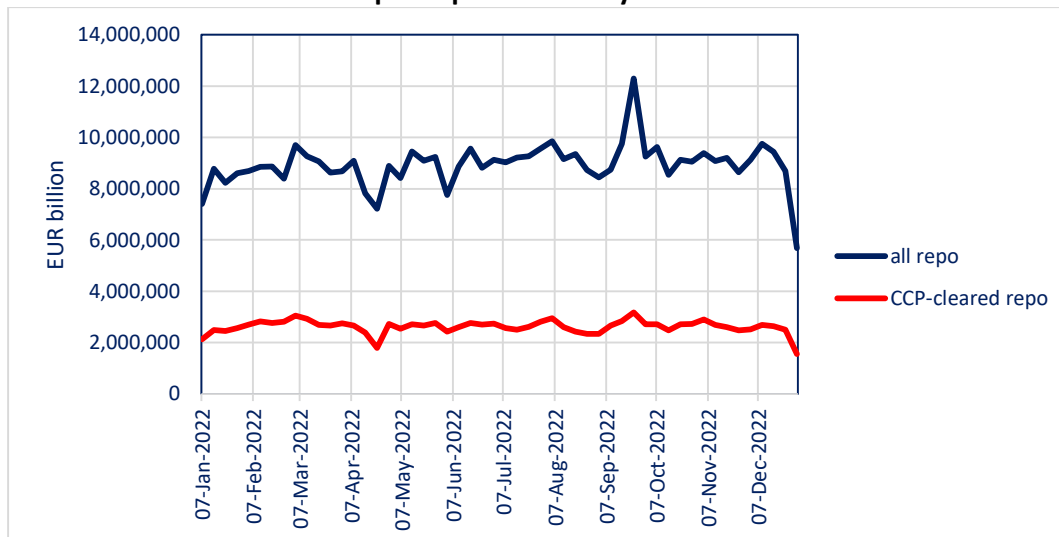
2022 (EUR billion)	average daily turnover	average end-week outstanding
<b>all repo</b>	1,786	9,234
<b>repurchase transactions</b>	97%	95%
<b>CCP-cleared repo</b>	524 (29%)	1,746 (19%)
<b>repo on UK trading venue</b>	244 (14%)	923 (10%)
<b>repo on non-UK trading venue</b>	476 (27%)	2,037 (22%)
<b>post-trade registration of OTC repo</b>	78 (4%)	715 (8%)
<b>OTC repo</b>	987 (55%)	5,505 (60%)
<b>UK-UK repos</b>	358 (20%)	1,677 (18%)
<b>UK-nonUK trades</b>	1,428 (80%)	7,549 (82%)

Source: DTCC, author's calculations

UK SFTR did not suffer the same post-Christmas reporting volatility seen in the EU. Nor did it see a repeat of the dramatic spike in reported data seen in UK data in June-July 2021.

The dominating event in the UK repo market in 2022 was the financial turmoil triggered by the UK mini-budget on 23 September. Average daily turnover on the UK repo market in that week jumped by 26% over the previous week to GBP 2,200 billion or EUR 2,460 billion per day. Its effect on end-week balances was much less, implying that much of the trading frenzy was in very short-term repo. And most was OTC.

### Total and CCP-cleared new repos reported weekly under UK SFTR



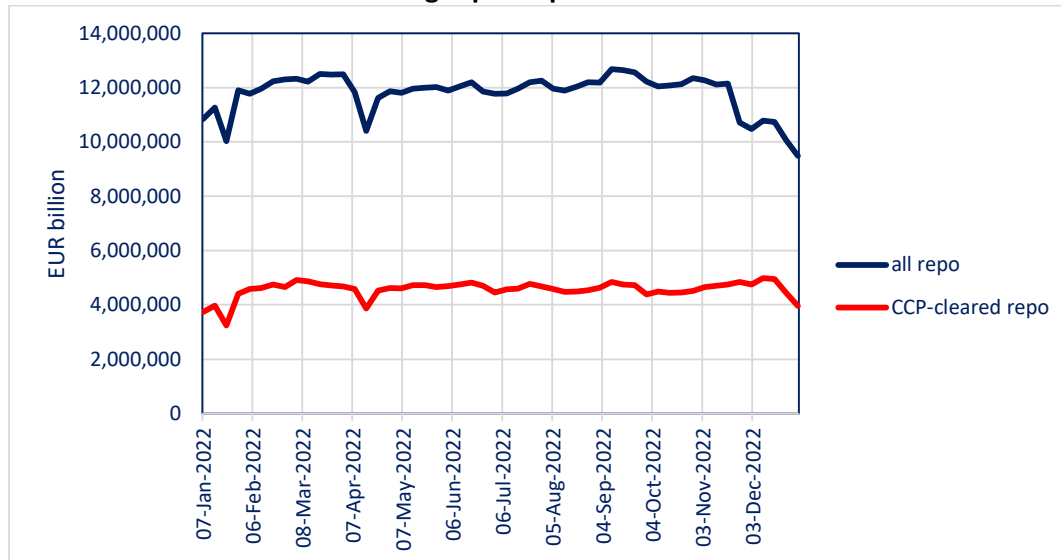
Source: DTCC

It is also apparent from the charts that CCP-cleared repos are much less important in the UK (29% of average turnover and 19% of average end-week balances). Moreover, the share of CCP-clearing has also been trending down in the UK market (from 40% of turnover and 24% of average end-week balances). And the average end-week balance of CCP-cleared repo in the UK was almost flat in 2021 and has declined over 2022 by about EUR 220 billion (4.5 percentage points), somewhat different from in the EU market, which tends to rise over the year and then step down at the start of the next year.

It can also be seen from the charts that turnover in the UK repo market did not start winding down for the year-end until the second-half of December, much later than in the EU market. But, as in the EU, end-week balances started to fall from late November, implying a similar shortening of repo tenors in the approach to end-year.

An interesting feature of the end-year winding-down in the UK was the smaller drop in CCP-cleared repo compared to the market as a whole, a manifestation of the greater resilience of CCP-cleared repo due to the balance sheet benefits of netting.

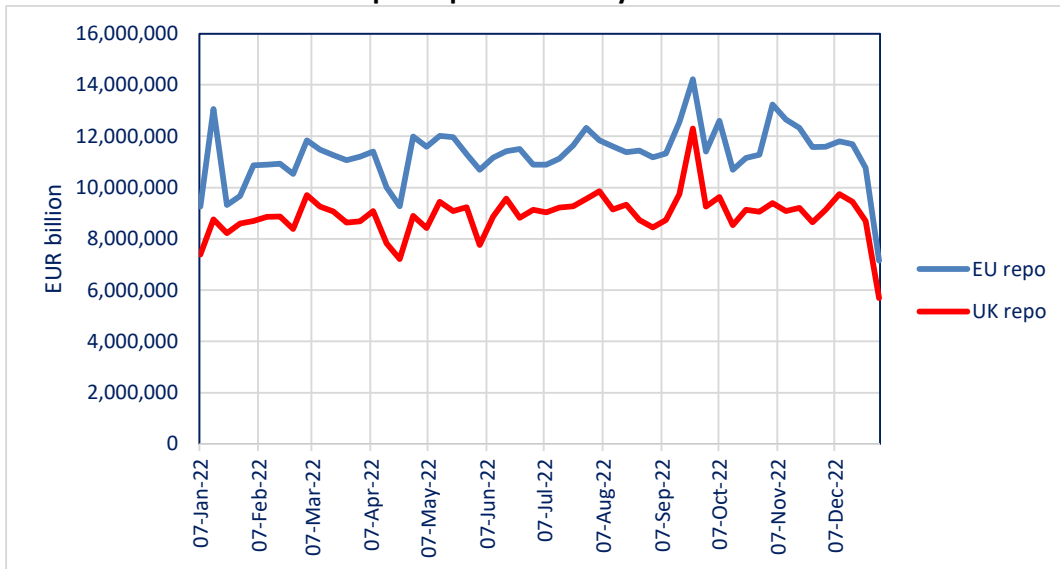
#### Total and CCP-cleared outstanding repos reported end-week under UK SFTR



Source: DTCC

A strong correlation can be seen between the evolution of reported activity in the UK and EU repo markets. Many events had the same impact or lack of impact in both markets. Thus, the UK market also slowed for Easter but did not register summer vacations or end-quarters. On the other hand, unlike in the EU market, the effect of futures delivery deadlines may be discernible in the UK market, while the eight interest rate increases by the Bank of England over 2022 did not have an obvious impact.

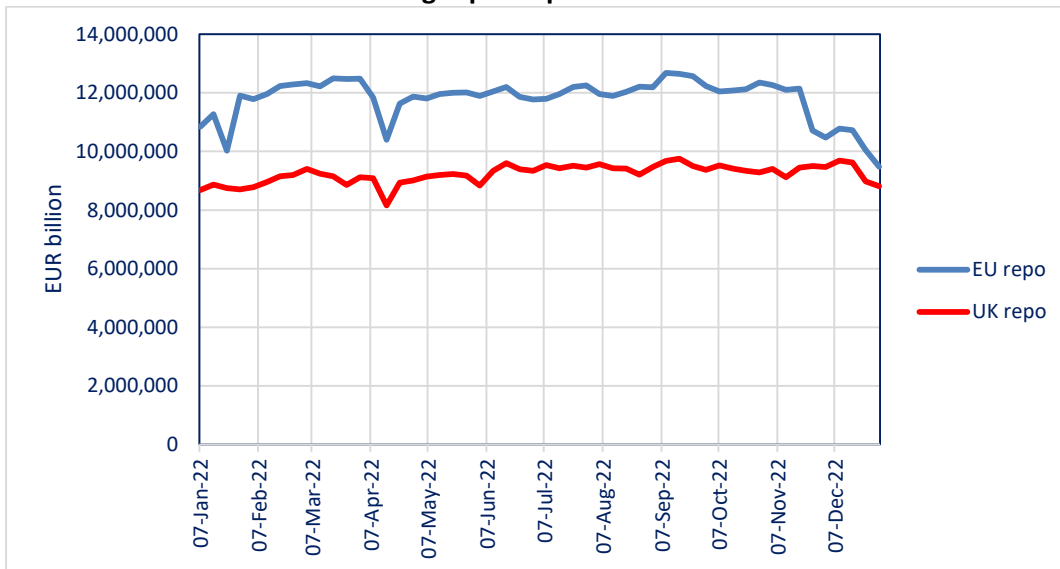
**Total and CCP-cleared new repos reported weekly under UK and EU SFTR**



Sources: DTCC, RegisTR, KPDW

What is also noticeable from the comparison of UK and EU repo markets is smaller end-year fall in the UK, especially in terms of average end-week balances. Were more term transactions over year-end?

**Total and CCP-cleared outstanding repos reported end-week under UK and EU SFTR**



Sources: DTCC, RegisTR, KPDW

As in the EU market, the growth path of the UK repo market was clearly driven by **CCP-cleared repo** and, as in the EU, the weight of CCP-cleared repo diminished over 2022 to 29% of turnover from 40% in 2021.

The share of turnover on **UK-based Trading Venues** grew in 2022 to 14% from 11% in 2021 and **OTC trading** increased its share to 55% from 49%, at the expense of trading on **non-UK Trading Venues**, whose share of turnover fell to 27% from 33%. In terms of the average end-week balance, however, the share of UK-based Trading Venues was almost unchanged in 2022, the fall in the share of non-UK Trading Venues and rise in the share of OTC trading were smaller (-3 and +2 percentage points, respectively) and post-trade registration grew by almost 3 percentage points. It could be, therefore, that trades on UK Trading Venues and in the OTC market were shorter-term, while those on non-UK Trading Venues were longer-term.

Turnover between **UK counterparties** jumped to 20% in 2022 from 14% in 2021 and between **UK reporting counterparties and non-UK counterparties** rose to 80% from 72%, while turnover reported by **non-UK counterparties** (whether with UK or non-UK counterparties) all but disappeared (from 13% in 2021). In terms of the average end-week balance, the changes were not too different. UK-UK business grew to 18% from 14%, UK-nonUK increased to 82% from 72% and that reported by non-UK counterparties fell to almost zero from 12%.

The extinction of business reported by non-UK counterparties likely reflects revised reporting by foreign branches in the UK and/or the unwinding of post-Brexit reporting confusion. However, caution needs to be exercised in interpreting this subset of SFTR data as not even ESMA and the FCA seem sure how to report the locations of counterparties (an issue which was highlighted in a recent ESMA consultation).

Finally, transaction sizes were larger in the UK repo market than in the EU. Average daily transaction size was EUR 35 million. Repurchase transactions were larger than buy/sell-backs (EUR 35 versus 28 million). CCP-clearer repo were smaller than other repo (EUR 26 million). The biggest transactions were on UK-based Trading Venues and in the OTC market (EUR 41 million in both) and between UK counterparties (EUR 44 million).

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Richard has been involved with repo for over 20 years and is a well-known figure in the market. During that time, he has been an adviser to the ICMA's European Repo and Collateral Council (ERCC), among other things, conducting its authoritative semi-annual survey of the European repo market since 2001 and authoring its Guide to Best Practice in the European Repo Market, which is the most comprehensive code of conduct in the financial markets.

To learn more about Richard's experience, please visit our website:  
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