

Collateral and Repo Services

Overview of Repo Transactions

It is generally anticipated that tightening regulatory frameworks, such as implementation of the Dodd–Frank Wall Street Reform and Consumer Protection Act and Basel III capital requirements, will cause shortages of good collateral. The importance of liquidity has been emphasized by many high-ranking central bank officers and experts. Amid this background, ABMF SF2 has been grappling with cross-border collateral and cross-currency repo issues over the course of Phase 3 and assessing the differences in repo markets in the region, including transaction flows and messages. This issue remains a challenge.

There are several types of repo transactions. In this report, repo transactions are categorized into two types. One is a repurchase agreement (sell and buy-back), which is commonly known as repo in many markets, by transferring ownership title. The other type is borrowing or lending (including pledged) that does not transfer ownership title, considering the transaction flows and interest payment processes. This classification is in line with market practices in Europe, which categorizes the former type as a repurchase agreement (repo) and the latter as a pledge agreement (pledge). For more details on the cross-border use of repo and collateral, please refer to Appendix 6.

In Europe, the cross-border use of collateral has been under consideration since the 1990s and a system has been successfully implemented. Indeed, the complexities of the cross-border use of collateral can only be properly analyzed based on a thorough understanding of collateralization in a national context.

Repo Transactions in ASEAN+3

According to a survey conducted by the Self-Regulatory Organization Working Group, a repurchase agreement (sell and buy-back) is more prevalent in most economies than a borrowing or lending (pledge) repo.⁵ In addition, the Global Master Repurchase Agreement (GMRA) proposed by the International Capital Market Association seems to be gaining acceptance in ASEAN+3 economies.

The survey also highlighted that transaction flows related to collateral and repo services, including interest and tax payments such as withholding, are different in each economy in the region. It was recognized that the standardization of repo transaction flows would not be

⁵ The Self-Regulatory Organization Working Group (SRO WG) is a voluntary group that convenes in conjunction with ABMF. Mr. Ryuichi Shiina of the Japan Securities Dealers Association led the survey effort and presented on repo markets in ASEAN+3 economies at several SRO WG.

Table 12: Repurchase Transactions in ASEAN+3

	Repurchase Agreement or Sale and Purchase	Pledged or Borrowing and Lending
CN	(Interbank market) <ul style="list-style-type: none"> • Outright repo: 3.4% of trade volume • Transfer of ownership occurs 	(Interbank market) <ul style="list-style-type: none"> • Pledged repo: 96.6% of trade volume • Non-transfer of ownership
HK	<ul style="list-style-type: none"> • Classic repo 	<ul style="list-style-type: none"> • Borrowing and lending market exists, but is not clear whether it is used as an alternative to repo
ID	<ul style="list-style-type: none"> • Sell and buy-back: 50%-70% • Classic asset blocking 20%-40% 	<ul style="list-style-type: none"> • Does not exist
JP	<ul style="list-style-type: none"> • Gensaki transactions (sale and purchase): 20% share in repo market 	<ul style="list-style-type: none"> • Bond borrowing and lending used as an alternative to repo (cash collateralized repo): approximately 80% share of the repo market
KR	<ul style="list-style-type: none"> • (OTC repo) Most repos are so-called classic repo that combines spot sale and forward buy in a single contract. Sell and buy-back repo is almost nonexistent. • (Exchange repo) Only classic repo 	<ul style="list-style-type: none"> • Borrowing and lending market exists, but is not used as an alternative to repo
MY	<ul style="list-style-type: none"> • Classic repo and sell and buy-back 	<ul style="list-style-type: none"> • None
PH	<ul style="list-style-type: none"> • Classic repo with third-party collateral management 	<ul style="list-style-type: none"> • None
SG	<ul style="list-style-type: none"> • Real repo (transfer of ownership) 	<ul style="list-style-type: none"> • Does not exist
TH	<ul style="list-style-type: none"> • Most repos are in the form of classic repo, while sell and buy-back is not popular because there is no tax incentive 	<ul style="list-style-type: none"> • Securities borrowing and lending exists, but is not active
VN	<ul style="list-style-type: none"> • All repos are in the form of classic repo 	<ul style="list-style-type: none"> • Does not exist

ASEAN+ 3 = Association of Southeast Asian Nations plus the People's Republic of China, Japan, and the Republic of Korea; BN = Brunei Darussalam; CN = People's Republic of China; HK = Hong Kong, China; ID = Indonesia; JP = Japan; KR = Republic of Korea; MM = Myanmar; MY = Malaysia; PH = Philippines; SG = Singapore; TH = Thailand; VN = Viet Nam.

Source: Self-Regulatory Organization Working Group (Mr. Ryuich Shiina) as modified by ADB Consultant for ABMF SF2.

an easy task given wide differences across ASEAN+3 economies in the tax operations and legal issues associated with these transactions.

Figure 11 presents an overview of repo transactions in Japan as a case study for ABMF members and experts.

A repurchase agreement (sell and buy-back) is a bond sales transaction in which the traded bonds (spot legs) is traded back in the opposite direction (forward legs) on the date and at the price specified in an agreement concluded in advance between the parties of the transaction. The repurchase agreement (sell and buy-back) incorporates risk management measures such as the use of a package settlement provision, margin call feature, and substitution.

In a borrowing or lending transaction, one party (the lender) lends bonds to a second party (the borrower). After a specified period, the borrower returns bonds of the same kind and in the same amount to the lender, thereby settling the lending transaction. Previously, the type of borrowing and lending transaction that prevailed in Japan was used for avoiding paying the securities transaction taxes due when the bonds were sold. A transaction tax is one of the most important factors in each market for the acceptance of a certain type of repo. The

transaction tax on repo trades was abolished in Japan. As such, a repurchase agreement based on the GMRA and transferring ownership is now prevalent.

