

# Repo

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IIFM Discussion Forum  
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# Development Of Intl Repo

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- ◆ Historic start in 1988 of Intl Cross Border Repo
- ◆ PSA and ISMA joined to create a master Repo Agreement
- ◆ UK GILT added to the GMRA

# What is a Repo

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- ◆ It is a simultaneous Purchase and Sell of an asset at a pre agreed price
- ◆ Type of Conventional Structure
- ◆ Classic Repo
- ◆ Buy and Sell

# Repo Trading

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- ◆ Repo Financing
- ◆ Repo Matchbook
- ◆ G/C
- ◆ Specials
- ◆ Terms – Open or fixed date

# Why Repo is an Important Tool

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- ◆ Cash and Liquidity Management
- ◆ Liquidity in the underlying
- ◆ Financing and leveraging the investment
- ◆ Greater Volume and Credit enhancement
- ◆ Repo plays an important part in Derivative instruments, Swaps, Options , Futures etc.
- ◆ REPO Oils the Wheel of the Bond market

# Why Use Repo?

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- ◆ Finance Longs
- ◆ Cover Shorts
- ◆ Money
  - Enhance Yield
  - Reduce Borrowing Costs
- ◆ Security
- ◆ Flexibility
- ◆ Market Intelligence
- ◆ Low Capital Underpinning

# Benefits of Repo

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## ◆ Cash Rich Institutions:

- More secure than deposits
- Less credit risk than commercial paper/CDs
- More flexible than commercial paper/CDs
- Competitive yields
- Low capital underpinning requirement

## ◆ Leveraged Customers:

- Reduces reliance on bank lines
- Substantially cheaper funding on special issues
- Market intelligence
- Low capital underpinning requirement

## ◆ Bond Portfolios

- Increase portfolio yield for no extra trading risk
- Market intelligence
- Reduce custody costs

# Collateral Classes & Currencies

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## ◆ Collateral Classes

- OECD Government Bonds
- Corporate Bonds - High Grade, High Yield, Distressed
- Supranational
- Emerging Market Bonds
- Convertibles
- MBS/ABS/Pfandbriefe
- Distressed Bonds / CDO's
- Supra / Sovereign Bonds

## ◆ Currencies

- Major currency blocks
- Emerging market currencies
- Cross currency



# Participants in the Repo Market

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- ◆ Banks
- ◆ Broker Dealers
- ◆ Securities Lenders
- ◆ Central Banks
- ◆ Hedge funds
- ◆ Asset Managers
- ◆ Pension Funds
- ◆ Insurance Companies
- ◆ Corporations
- ◆ Municipalities

# Sharia Challenges

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- ◆ Need to agree on Sharia structure for Repo
- ◆ Need to work on GRMA to create a Sharia compliant Agreement
- ◆ Need to work out structure for Cash Margin Calls
- ◆ Need to bring Awareness of Repo and its benefits
- ◆ Build a working group to take this forward.

# Documentation

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- ◆ GMRA
- ◆ Haircut
- ◆ Mark to market
- ◆ Margin Calls – Cash , Other acceptable instruments
- ◆ Netting

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