

## **Summary of Discussions at the Second Repo Market Forum<sup>1</sup>**

The Financial Markets Department of the Bank of Japan held the Second Repo Market Forum on December 3, 2015 at the Bank's head office in Tokyo.

The repo market plays a critical role in the financial markets both at home and abroad. Following the recent financial crisis triggered by the collapse of Lehman Brothers in 2008, various discussions have been taking place at international forums, with the aim to enhance the transparency and strengthen the risk management of repo transactions. Furthermore, in Japan, market participants have been paving the way to shorten the settlement cycle of JGBs.

The Financial Markets Department of the Bank of Japan, in its capacity as a central bank, hosted a conference titled "Repo Market Forum" in May 2015 to support market participants' efforts toward the further development of the repo market by encouraging the exchange of views among wide-ranging players in the repo market such as financial institutions, financial market infrastructures, industry associations, the Financial Services Agency, and the Bank of Japan. In light of the progresses in discussions and studies following the conference in May, the Department decided to host the second conference to enable wide-ranging players in the repo market to share their insights and discuss latest developments of the market.

The following is the summary of discussions at the forum.

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<sup>1</sup> The original text is in Japanese.  
([http://www.boj.or.jp/announcements/release\\_2015/data/re1151221c.pdf](http://www.boj.or.jp/announcements/release_2015/data/re1151221c.pdf))

**(Agenda of the Forum)**

**Opening Remarks**

**Eiji Maeda** (Director-General of the Financial Markets Department, Bank of Japan)

**Session 1. Recent Developments of the Repo Market in Japan**

Reporter: **Yoshiaki Azuma** (Head of Market Infrastructure Division, Financial Markets Department, Bank of Japan)

**Session 2. Discussions on the Repo Market at International Forums and Principles for the Domestic Implementation of Internationally Agreed Policies**

Reporter: **Mr. Yoshinori Harada** (Deputy Director, Office of International Affairs, Financial Services Agency)

**Akira Tsuchikawa** (Director, Market Infrastructure Group, Financial Markets Department, Bank of Japan)

**Session 3. Progress towards Shortening of the JGB Settlement Cycle**

Reporter: **Mr. Satoshi Yoshida** (Managing Director, Treasury Department, Daiwa Securities Co. Ltd., and Chair of the Working Group on Shortening of JGB Settlement Cycle at Japan Securities Dealers Association)

**Closing Remarks**

**Yoshiaki Azuma** (Head of Market Infrastructure Division, Financial Markets Department, Bank of Japan)

## **Opening Remarks**

**(Eiji Maeda, Bank of Japan <BoJ>)**

A number of "major developments" have recently taken place in the repo market. One is the release of the target implementation time for shortening of the JGB settlement cycle in June 2015. Another is the release by the Financial Stability Board (FSB) of the final policy recommendations on the framework for numerical haircut floors and the final report on data collection and aggregation in November 2015, both of which were part of the agenda at international forums regarding regulations on repo transactions. These developments are both important steps toward further enhancing the safety, efficiency, and transparency of the repo market, and are worthy of being called "reforms," considering their impact on the market.

The implementation time for shortening of the JGB settlement cycle is targeted for the first half of fiscal 2018, while that for numerical haircut floors and data collection and aggregation is targeted for the end of 2018. Necessary preparations must be made toward the launch of a new repo market in Japan.

To successfully implement the reforms, we need to bear in mind the following two points.

Firstly, close cooperation and collaboration among wide-ranging players in the market will continue to be indispensable. Although repo transactions *per se* are simple transactions in which funds are temporarily exchanged with securities, they can be used for various purposes, including funding or procurement of securities, and offer of investment or intermediation services to clients. Since the repo market is comprised of all these transactions, players are inevitably diverse. Thus, market participants need to make a concerted effort to implement the reforms smoothly. To support this, the Bank would like to continue to engage in close dialogue with market participants.

Secondly, we need to keep in mind the vision of Japan's repo market. Money markets around the world, including Japan, are experiencing unprecedented situations such as the introduction of various financial regulations and a highly accommodative monetary environment even by historical standards. Financial regulations and monetary easing are not aimed to impede the development of the market. Rather, they are aimed to

encourage the sound development of the financial markets in a longer perspective by curbing excessive risk-taking and contributing to the overall economic recovery. In the same way, it is important to tackle the reforms of the repo market bearing in mind that our goal is to pave the way for realizing our vision, such as making repo transactions more active and international.

I thank all the participants with considerable expertise in the repo market for attending this forum. I hope this forum will contribute to the further development of Japan's repo market.

### **Session 1: Recent Developments of the Repo Market in Japan**

**Yoshiaki Azuma (BoJ)** illustrated recent developments and characteristics of Japan's repo market, and presented a comparative analysis of the repo market in Japan and abroad. The following are the main points of the report:

- The repo market remains to be one of the core markets in the short-term money markets in Japan, and in contrast to the United States, the recent outstanding amount of repo transactions continues to hover at high levels.
- Recently, the outstanding amount of repo transactions of equities and commercial papers (CPs) has been increasing.
- Market participants are steadily making progresses in their discussions and efforts for the shortening of the JGB settlement cycle (to a T+1 cycle) and the shift of the existing master agreement from a cash-collateralized lending style agreement (the *Gentan-repo* master agreement) to a repurchase style agreement (the new *Gensaki* method master agreement).

**Azuma** also explained that, while existing statistics do not fully capture transactions denominated in foreign currencies and those with non-residents, the data collection and aggregation launched by the FSB would enable to grasp the overall picture of the repo market in an internationally comparable manner. **Azuma** also shared the results of a survey conducted by a European financial industry association on the impact of financial regulations on Europe's repo market, and pointed out the need to closely watch the impact of financial regulations on Japan's repo market.

In the discussions following the presentation by **Azuma**, a number of participants agreed that the outstanding amount of Japan's JGB repo market is at a high level. Another participant stated that a further review of the Bank's securities lending facility would be beneficial in making the repo market more active.

One participant pointed out that volatility had recently increased in Japan's repo market due partly to the increasing concentration of transactions among certain major players and the impact of financial regulations. In response, another participant noted that the volatility in Japan's repo market has been increasing compared to the past. However, because it started from an extremely low level, it is still lower than the volatility in overseas markets.

One participant suggested that the recent increase in the proportion of term general collateral (GC) repo transactions was affected by the increase in overseas investors' demand for JGBs as collateral. As background to this, the participant pointed out the global rise in demand for high-quality collateral, partly reflecting financial regulations and the decline in the FX swap-implied yen rate.

One participant stressed the importance of market participants' concerted effort in implementing the forthcoming financial regulations and reforms such as the shortening of the JGB settlement cycle, including the shift to the new *Gensaki* method master agreement. Another participant expressed strong interest in how the newly established T+0 GC repo market will affect other intra-day money markets. The participant thus expressed the intention to continue discussions on this topic among market participants.

## **Session 2: Discussions on the Repo Market at International Forums and Principles for the Domestic Implementation of Internationally Agreed Policies**

**Yoshinori Harada** (Financial Services Agency <J-FSA>) explained the new framework for international negotiations regarding financial regulations and supervision after the financial crisis, and outlined the discussions on "shadow banking" held at the G20 and the FSB. Furthermore, **Harada** explained the policy framework for repo transactions, mainly referring to the final policy recommendations on the numerical

haircut floors released by the FSB. **Harada** explained that (i) the implementation date of the numerical haircut floors had been postponed by one year to the end of 2018; (ii) the numerical haircut floors would also be applied to transactions between non-banks; and (iii) the need and the method of implementation of the numerical haircut floors on transactions between non-banks are to be decided by each authority by November 2016, based on the assessment of the scale of the repo market in the respective jurisdictions. **Harada** stated that the J-FSA will consider the specific method of implementation in Japan through close cooperation with market participants and the Bank.

**Akira Tsuchikawa (BoJ)** explained the direction for the data collection and aggregation in Japan, which will be implemented at the end of 2018 by the FSB. Specifically, **Tsuchikawa** explained that (i) the initiative will be jointly undertaken in Japan by the Bank and the J-FSA, with the Bank taking on the practical task of data collection and aggregation, and reporting to the FSB; (ii) data are to be collected directly from parties in the transactions; (iii) parties subject to the data collection will primarily be top-tier institutions in terms of transaction volume; and (iv) data are to be collected on a monthly basis. **Tsuchikawa** added that the scope of data collection would be considered taking into account the survey results on transaction volume, which will be conducted by the latter half of 2016. Issues regarding the provision of feedbacks to market participants and publication of collected data will also be studied. **Tsuchikawa** stated that the Bank, along with the J-FSA, intends to consider these matters through close communication with market participants.

In the discussions following the presentation by **Harada** and **Tsuchikawa**, one participant commented that the definition of "non-banks" subject to the numerical haircut floors appears to be ambiguous. Another participant, referring to the fact that the numerical haircut floors is to be applied to non-centrally cleared repo transactions, questioned the procedures for cases where a clearing house is temporarily inaccessible or a party inadvertently fails to or incorrectly applies a haircut.

With regard to the data collection and aggregation, one participant requested that financial institutions subject to the data collection be selected per type of collateral in order to refine data collection and reduce the burden on reporting financial institutions. As a background, this participant noted that the principal player in the JGB repo market

may not necessarily be the principal player in other repo markets, such as the equity repo market. Another participant questioned the reason for choosing to collect data directly from the parties in transaction, when the final report released by the FSB listed central clearing parties (CCPs) as an option of sources for data collection.

### **Session 3: Progress towards Shortening of the JGB Settlement Cycle**

**Satoshi Yoshida (Daiwa Securities)** reported that (i) the target implementation time for the shortening of the JGB settlement cycle was agreed to be set at the first half of fiscal 2018; (ii) Japan Securities Clearing Corporation (JSCC) has released a provisional technical specifications document and market participants are progressing in their system development; (iii) comprehensive running tests are planned to start in autumn 2017, and a newly created panel has begun discussions on the scope of participants and test scenarios; (iv) the new *Gensaki* method master agreement is being revised to enable GC repo transactions in which specific collateral would be designated after the execution of the trade (the Subsequent Collateral Allocation Method GC repo transactions); and (v) discussions on market practices and accounting procedures for the shortening of the JGB settlement cycle are progressing.

Following **Yoshida**, **JSCC** reported that it is making steady progress in the system development for the shortening of the JGB settlement cycle. **JSCC** also reported that it will start clearing inflation-linked JGBs simultaneously with the implementation of the shortening of the JGB settlement cycle. **JSCC** also mentioned that it is actively seeking new participants in its clearing scheme, and some are showing interest in participating from the implementation of the shortening of the JGB settlement cycle.

**Japan Securities Dealers Association (JSDA)** reported that discussions are under way on the procedures for keeping statutory records and accounting regarding the Subsequent Collateral Allocation Method GC repo transactions. **JSDA** also reported that a development of the equity repo market had come up as an agenda in the course of discussions for the shortening of the equity settlement cycle, and further discussions are planned regarding this topic.

One participant questioned whether the new *Gensaki* method master agreement currently being revised to enable Subsequent Collateral Allocation Method GC repo transactions could be used ahead of the implementation of the shortening of the JGB settlement cycle.

### **Other Discussions**

One participant expressed its concern that as internationally active banks are compelled to take conservative positions and adapt to regulations in the toughest jurisdiction, the effects of financial regulations might also become larger in Japan. The participant added that it might be desirable to encourage greater use of CCPs to curb the effects of regulations on the market.

One participant noted that some jurisdictions appear to be taking increasingly tough stances toward sovereign debt risks, and suggested that it might become necessary for Japanese financial institutions to conduct JGB transactions directly with non-residents rather than through the institutions' local offices in foreign jurisdictions.

One participant pointed out that Japanese investors' demand for foreign bonds has undoubtedly increased. The participant also noted that as transactions are increasingly becoming globalized, market participants in Japan are becoming increasingly susceptible to regulations of foreign jurisdictions and the trading behaviors of non-residents.

### **Closing Remarks**

**(Yoshiaki Azuma, BoJ)**

The Bank, tasked with the conduct of money market operations and as a provider of payment and settlement services, has great interest in the development of Japan's money markets. In particular, development of the repo market, one of the core markets in Japan's money markets, is an extremely important theme for increasing the activities of and confidence in the entire financial market. As a central bank, the Bank would like

to actively contribute to the further development of the repo market, including the shortening of the JGB settlement cycle and the implementation of regulations on repo transactions.

The shortening of the JGB settlement cycle will require significant changes to transaction practices, including the introduction of the Subsequent Collateral Allocation Method GC repo transactions and the shift to the new *Gensaki* method master agreement. At the same time, these changes have the potential of bringing about structural changes to the market, such as the creation of a new intra-day money market or further globalization of Japan's repo market. Bearing these perspectives in mind, the Bank would like to continue to engage in active dialogues with market participants.

In addition, with regard to the data collection and aggregation launched by the FSB, the Bank will take on the practical task of collecting data from market participants. The Bank, jointly with the J-FSA, will consult with market participants on practical aspects, such as the selection of financial institutions subject to the initiative and the method for providing aggregated data as feedback to the market. We greatly appreciate the relevant parties' continued cooperation in this initiative.

As a last word, I would like to just note that the developments of the financial markets do not always result from institutional changes stemming from the consensus of market participants. In some cases, further improvement in the market's efficiency and stability results from the gradual adaptation of each participant to environmental changes. I strongly hope that today's discussions were informative for participants in making efforts for the reforms and would lead to creating a dynamic repo market.