The post-Brexit impact on secondary and repo markets

By **Andy Hill** and **Alexander Westphal**

Secondary markets

1 How well have secondary markets functioned for bond trading? Have there been any problems arising from market fragmentation?

Members report that there has been little or no disruption in secondary bond markets and that pricing and liquidity have not been impacted. Firms appear to have been well prepared for the end of the post-Brexit transition period, and had begun the process of opening, capitalising, and staffing their EU entities, as well as undertaking the necessary repapering work with their clients and counterparties, long in advance of 1 January 2021. In fact, some were even operating as separate UK and EU entities in the weeks before the transition period ended.

Any challenges appear to be more related to derivatives, particularly with respect to the trading obligation for credit default swaps (CDS), with some initial confusion around counterparty eligibility which resulted in a reduction in liquidity.

2 To what extent have there been changes in the location of secondary market activities or infrastructures?

Some members report significant organisational impacts, with key trading or sales staff being relocated from the UK to their EU entities. They have either moved already or are projected to do so in the near future. So far this has been more material from the perspective of sell-side firms, with little or no impact on buy-side trading desks.

Trading venues (ie multilateral trading facilities (MTFs)) had already relocated or set up EU entities to complement their UK platforms well in advance of the end of the extension period. Members report that since 1 January 2021 bond market access and liquidity is fully interchangeable between both UK and EU MTFs.

3 What amendments to the ICMA Secondary Market Rules & Recommendations have been required?

There have been no required revisions to the ICMA Secondary Market Rules & Recommendations (SMR&Rs) as a consequence of the end of the post-Brexit transition period. The SMR&Rs are intended to provide best practice for secondary trading in cross-border bond markets. Where relevant, specific jurisdictional regulatory requirements will take precedence over the SMR&Rs.

Repo markets

4 How well have repo and collateral markets functioned? Have there been any problems arising from market fragmentation?

Similar to member feedback with respect to secondary bond markets, repo markets have continued to function well, with no observed disruptions to market access, pricing, or liquidity. A "worst case" scenario had long been anticipated, and investment firms and infrastructures were well prepared.

Repo clearing: In the case of repo, most euro-denominated trades were already cleared in CCPs located in the EU prior to the end of the post-Brexit transition period. The most significant shift occurred in February 2020, when LCH successfully concluded the migration of its euro repo clearing activity from LCH Ltd in London to LCH SA in Paris. The rationale for the migration was only partly related to Brexit, given the existing drive to consolidate repo clearing in one location so as to maximise the scope for netting. CCP-cleared repo accounts for well over 50% of the repo market (in terms of volume).

5 What other impacts have been noted?

SFTR: From a transaction reporting perspective, the end of the post-Brexit transition period has meant that SFTR is now split into two separate reporting regimes, UK SFTR and EU SFTR. In most cases, an individual entity is subject to either UK SFTR or EU SFTR, although there is some degree of double reporting required, especially in scenarios where a branch in either the EU or the UK is involved. However, the more serious concern is around possible divergence of the reporting rules going forward, given firms' extensive efforts over past years to implement the complex SFTR rules.

Trade repositories: In order to continue to serve both UK and EU clients in their transaction reporting under the relevant regimes (including EMIR and SFTR), trade repositories had to set up separate authorised entities in each jurisdiction and have played an important role in supporting clients in the transition and route reporting flows correctly.

Settlement: Prior to the end of the post-Brexit transition period, Euroclear acted as issuer CSD not only for the UK, but also for Irish corporate securities, through Euroclear UK & Ireland (EUI), a London-based company without physical presence in Ireland. In the context of the end of the post-Brexit transition period, this model had to be reviewed. After considering a number of alternative solutions, it was agreed that in future Euroclear Bank, Euroclear's ICSD based in Brussels, would act as issuer CSD for Irish corporate securities. The migration was successfully concluded on 15 March.

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