Electronic RFQ Repo Markets: The Solution for Reporting Challenges and Laying the Building Blocks for Automation

Challenges faced by the repo market including regulatory reporting requirements, reduced balance sheet and fewer resources, have all been well documented. Therefore it comes as no surprise that the use of electronic Request for Quotes (RFQ), a process which puts multiple dealers in competition, in dealer-to-client repo has seen a significant uptake in the last year. This article explains how the use of electronic RFQs in repo continues to support the market and why we expect innovation to drive efficiencies, solve for new challenges and lay the building blocks that will allow a move to true automation.

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Although the European dealer-to-dealer repo market has long been electronic, dealer-to-client business has historically been conducted manually by voice and messaging. Only recently has dealer-to-client flow started to move to electronic execution venues such as Tradeweb.

In the last twelve months, Tradeweb has seen record increases in its dealer-to-client electronic RFQ repo business.

The move from manual to electronic has several immediate implications for the repo dealer-to-client business. Electronic

RFQs maintain the same market dynamics as voice and messaging while providing both clients and dealers with a traceable record of their trading activity. In an age of regulatory best execution mandates, this is vital to proving that regulated institutions and their service providers have delivered on their obligations. Electronic RFQs also support Straight-through Processing (STP) and data management. An efficient, networked electronic process is the desired end-state for forward-looking repo market participants.

Meeting best execution obligations

Best execution requirements are not a new concept. While not specific to repo, the onset of MiFID II both enhances and strengthens the concept of this obligation by introducing a higher bar for compliance with investment firms taking steps to demonstrate they have taken all sufficient steps to obtain the best possible result for their clients. Repo best execution is arguably more complicated than other products as there are haircuts and the concept of clients needing to spread and maintain balances across key liquidity providers. This means repo best execution is based on more than just price. Trading via RFQ provides an important order and audit trail so traders can verify their actions with supervisors, clients and regulators at a later date. Additionally, although MiFID II is a European regulation, it has taken on extraterritorial implications as asset managers worldwide look to harmonize their approach to best execution. Global execution venues clearly have a role to play.

Easier data automation

Electronic markets support a range of processing and reporting functions: regulatory reporting; trade confirmation; reporting of execution statistics; and managing the business. Additionally, the introduction of repo reporting requirements in the Securities Financing Transactions Regulation (SFTR) has posed a significant challenge to European repo markets with electronic venues being looked to as a solution. Although this reporting could be completed manually, the complexity and time required suggest this is not economical for any firm with even a small volume of recurring repo transactions. Similar to those products heavily impacted by the introduction of MIFID II, we expect SFTR will result in a significant movement to execution on venue. The synergies of regulatory reporting add weight to an already persuasive argument for change.

What's in it for dealers?

For dealers, electronic RFQ platforms are a scalable solution that allows efficient routing of inquiry flow to appropriate personnel, electronic trade confirmations and full STP with real time risk and management reporting in addition to regulatory reporting. In the case of Tradeweb, dealers can see balance sheet impact of trades pre-trade at the sub-account level utilizing live market cash values, which is a significant improvement in balance sheet management and optimization versus manual flow.

Growing an efficient repo market

There appears to be little question that repo markets will continue to move towards electronic RFQ execution platforms for dealers and clients. Driven by best execution requirements and easier data management compared to manual trading, the market will increasingly be forced to turn to electronic platforms as an efficiency play.

This trend contributes to effective resource management by allowing sales and traders at both dealers and clients to focus their time on "high-touch" trades. In other words, while the "low touch" commoditized portions of the business get routed to electronic venues, important high value trades can continue to be conducted manually.

The evolution of and shift to electronic RFQ repo markets is putting the building blocks in place for the next steps of automation. As more traders must become proficient with technology, a new kind of repo trader will emerge who manages automated RFQ processes to best effect. Connectivity with internal technology systems, such as credit and risk, will result in robust pre- and post-trade analytics. This also means dealers can use RFQ platforms to auto-quote trades with specific counterparties, based on existing exposures and risk parameters.

Tradeweb's innovative automated trading functionality, AiEX, supports these new opportunities across client firms. Electronic repo platforms support the vast needs of regulatory reporting, STP and managing desk efficiencies; these are challenges that the entire market faces. For the dealer-to-client RFQ market, Tradeweb combines the best elements of the voice and messaging marketplace with the ease of an electronic platform. This is enabling repo market participants on both the client and dealer sides to find a range of new possibilities for automation and efficiency.

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