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# Securities Financing Transactions: Case Study on the Situation in Switzerland – Update

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## **Securities Financing Transactions: Case Study on the Situation in Switzerland – Update**

State Secretariat for International Finance (SIF), with the support of the Swiss National Bank (SNB).

### **Abstract**

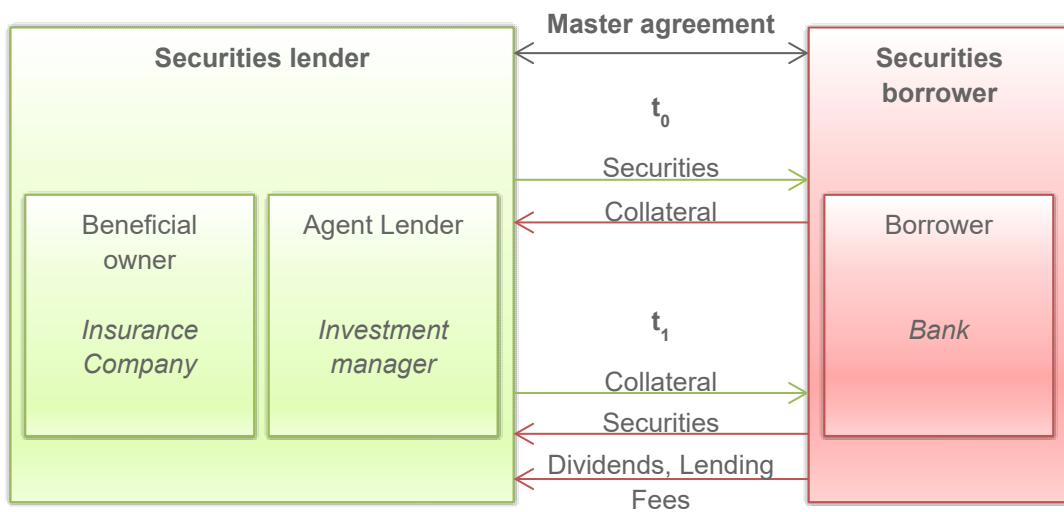
This paper presents aggregated data from a survey on securities financing transactions (SFTs) in Switzerland. The survey of Swiss market participants including banks, insurers, fund managers, pension funds, and corporates assesses the scale of the SFT market in Switzerland, with a particular focus on the size of the non-bank to non-bank sector. A first survey was undertaken in 2016 against the backdrop of adopted recommendations by the Financial Stability Board pertaining to SFTs. In 2021, the SIF, supported by the SNB, updated the results. Findings show that the size of the non-bank to non-bank segment remains of marginal importance, as at least one bank is involved in the vast majority of the outstanding transaction volume reported.

# 1 Introduction

## 1.1 Securities Financing Transactions

Securities financing transactions (SFTs) are transactions in which securities (e.g. shares or bonds) are used as collateral to borrow cash or other securities, and vice-versa. SFTs include repurchase agreements (repos) and securities lending and borrowing transactions (SLB). In a repo transaction, securities are sold for an agreed period of time until the securities' seller repurchases them.<sup>1</sup> In a SLB transaction securities are temporarily transferred to a third party in exchange for collateral, in the form of shares, bonds or cash.<sup>2,3</sup> SFTs can be conducted by banks as well as non-banks. Figure 1 illustrates how a SFT typically works.

**Figure 1: Example of a Securities Financing Transaction**



**Source:** based on Bank of England<sup>4</sup> (simplified)

<sup>1</sup> Kraenzlin, S. (2007) *The characteristics and development of the Swiss franc repurchase agreement market*, Financial Markets and Portfolio Management, vol. 21, Issue 2, p. 243. For a global study on how repo markets function worldwide, see e.g. Committee on the Global Financial System (2017) *Repo market functioning*, CGFS Papers No 59.

<sup>2</sup> For definitions and additional information on securities lending transactions, see e.g. International Securities Lending Association (2016) *Securities Lending Market Report*, September 2016 (available at <http://www.isla.co.uk/wp-content/uploads/2016/10/ISLA-SL-REPORT-9-16-final.pdf>) and International Capital Market Association (2017) *Securities Lending* (available at <http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/repo-and-collateral-markets/securities-lending>).

<sup>3</sup> Bank of England SLRC (2010) *Securities Lending: an Introduction Guide*, p. 2 (available at [http://www.bankofengland.co.uk/markets/Documents/gilts/sl\\_intro\\_green\\_9\\_10.pdf](http://www.bankofengland.co.uk/markets/Documents/gilts/sl_intro_green_9_10.pdf)).

<sup>4</sup> Bank of England SLRC (2010) p. 3.

According to the Financial Stability Board (FSB), SFTs can play a crucial part in the financial system, as they can enable services, such as providing liquidity and facilitating market making,<sup>5</sup> and thus allow for credit intermediation.<sup>6</sup> Such credit intermediation can provide a valuable alternative to bank funding to support real economic activities.<sup>7</sup> However, these transactions may also entail financial stability risks, as they can facilitate credit growth outside the banking system, can lead to the build-up of excessive leverage outside the reach of prudential liquidity and capital regulation, and they can also increase procyclicality within the financial system.<sup>8</sup>

## 1.2 International Developments relating to Securities Financing Transactions

Because SFTs can also involve non-banks, these transactions are considered as so-called non-bank financial intermediation (NBFi). The NBFi sector and its oversight have been on the agenda of the G20, the FSB and various standard-setting bodies since the global financial crisis. In this context, the FSB, which coordinates the development and the implementation of international standards in the area of financial regulation, developed and adopted a number of recommendations regarding SFTs.<sup>9</sup>

Against the backdrop of these recommendations and to monitor the size and the importance of the NBFi segment in the Swiss SFT market, Swiss Authorities undertook a survey of Swiss market participants in 2016. The State Secretariat for International Finance (SIF), with the support of the Swiss National Bank (SNB), updated the survey in 2021.

## 2 Swiss Case Study on Securities Financing Transactions

### 2.1 Design of the Survey

To assess the scale of the Swiss SFT market and in particular the importance of non-bank to non-bank activities in this market, the SIF first evaluated existing data metrics. These metrics, which include the Liquidity Coverage Ratio (LCR) reporting, the banking statistics, and data from the SIX Repo trading platform, provide helpful insights into the Swiss SFT market. Table 1 summarizes and compares these data sources against the recent FSB recommendations for SFTs (see Section 1.2). However, because these sources do not comprehensively capture the SFT activities of all relevant market players in Switzerland, in particular non-bank to non-bank transactions, a survey with a number of relevant market participants was conducted.

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<sup>5</sup> FSB (2013) *Strengthening Oversight and Regulation of Shadow Banking. Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos*, p. 4.

<sup>6</sup> The FSB defines “credit intermediation involving entities and activities (fully or partly) outside of the regular banking system” as shadow banking activities. Some authorities and market participants prefer to use other terms such as “market-based finance” instead of “shadow banking” (FSB (2016) *Global Shadow Banking Monitoring Report 2016*)

<sup>7</sup> FSB (2013), p. ii.

<sup>8</sup> FSB (2013), pp. 4 et seq.

<sup>9</sup> See FSB (2013) and FSB (2014) *Strengthening Oversight and Regulation of Shadow Banking. Regulatory framework for haircuts on non-centrally cleared securities financing transactions*: These FSB recommendations are built on four pillars: (i) improvement of transparency to recognize emerging risks and excessive build-ups and vulnerabilities, (ii) specific regulatory requirements regarding the re-use of cash collateral and the re-hypothecation of securities, (iii) standards for structural elements, especially the promotion of central counterparties, and (iv) securities valuation methods, including numerical haircut floors for non-bank to non-bank SFTs.

**Table 1: Overview of Data Coverage by existing Reporting Sources**

	FSB recommendations <sup>10</sup>		LCR-reporting	Banks statistics	SIX Repo trade platform
Instruments	Repo	SLB	Repo, SLB	Repo, SLB (if cash collateral)	Repo
Institutions	All financial market participants of the jurisdiction		Banks and investment firms in Switzerland (incl. foreign subsidiaries and branches)	Banks in Switzerland (incl. foreign subsidiaries and branches)	156 market participants (incl. foreign banks and insurance companies <sup>11</sup> )
Frequency	Monthly ( <i>frequent snapshots</i> )	Monthly ( <i>frequent snapshots</i> )	Monthly <sup>12</sup>	Monthly	Daily
Granularity	Trade-level and stock data ( <i>high level of granularity</i> )	Stock data ( <i>high level of granularity</i> )	Stock data	Stock data	Trade-level
Maturity	All ( <i>high level of granularity</i> )	All ( <i>high level of granularity</i> )	≤ 30 days	All	All
Currencies	All ( <i>high level of granularity</i> )	All ( <i>high level of granularity</i> )	All <sup>13</sup>	All	Diverse

A first report (“the 2017 report”) summarized the findings of a survey conducted in 2016 in which market participants were asked to report outstanding volumes of securities lending, securities borrowing, repos, and reverse-repos<sup>14</sup> as of year-end (2013, 2014 and 2015) by counterparty types (i.e. bank, non-bank, central counterparties<sup>15</sup> (CCP)). The present report (“the 2022 report”) summarizes the findings based on a new survey, based on the same questionnaire, which was carried out between November 2021 and January 2022. Participants were asked to report outstanding volumes of SFTs as of year-end 2016 through 2020). The survey did not control for double counting (i.e. the same transactions could have been reported by both counterparties).<sup>16</sup> The questionnaire contained additional, complementing questions, such as the estimated average volume of transactions per month and the use of sovereign bonds or cash as collateral.

Participation in the survey was voluntary and based on the agreement that only aggregated and anonymized data would be published. In total, 20 market participants received the questionnaire (against 24 in 2016), including banks, fund managers, insurers, pension funds, and corporates. The sample was selected to cover a range of industries within the bank and non-bank segments and to include specifically major non-bank market participants known to be active in the SFT market. In total, 14 market players answered the survey (against 22 participants in 2016).

<sup>10</sup> Based on FSB (2013), pp. 6-10 and simplified for purposes of comparison.

<sup>11</sup> List of participants: [six-repo-memberlist-public.xls \(six-group.com\)](https://www.six-group.com/eng/press-releases/2022/06/20220622-six-repo-memberlist-public.xls)

<sup>12</sup> A low number of small institutions are allowed to report on a quarterly basis only.

<sup>13</sup> Some large institutions are required to report their LCR separately for each significant currency (in addition to the aggregate value).

<sup>14</sup> In a repo transaction, the participant acts as cash taker, while in a reverse repo transaction, the participant acts as cash provider.

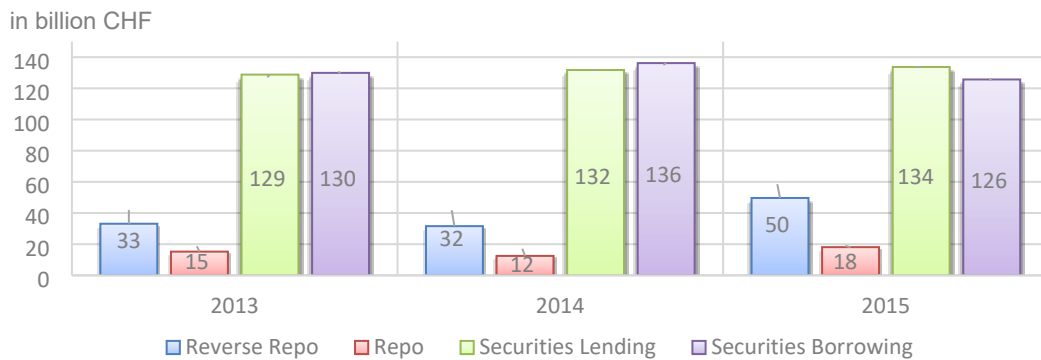
<sup>15</sup> Central counterparties (CCPs) serve many securities and derivative markets, allowing participants to have exposure to the CCP instead of bilateral exposures to each other (FSB (2013), p. 17).

<sup>16</sup> Thus, the survey may suffer from a double counting and hence an overestimation of the respective transaction volumes.

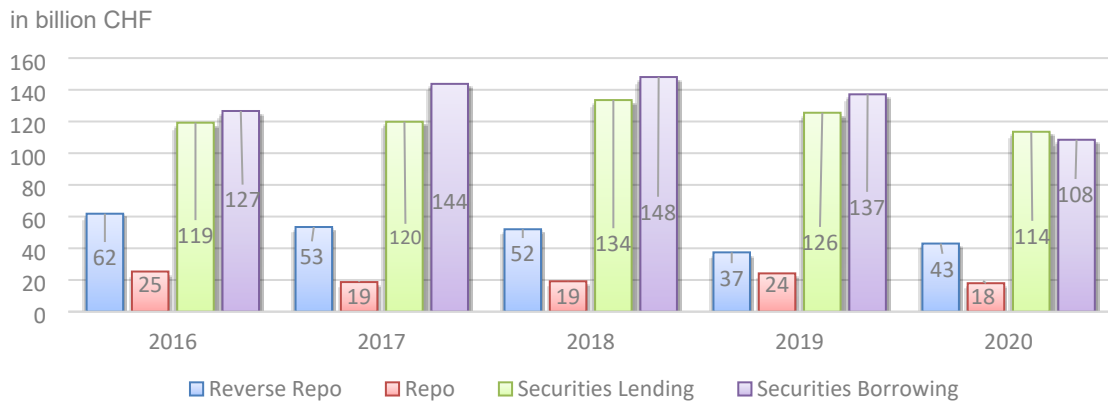
## 2.2 SFT Activity in Switzerland: Results of the Survey

Figure 2 presents the aggregated reported transaction volumes outstanding as of year-end. Overall, the situation against the 2017 report has remained stable. The results can be summarized as follows: first, the volume of SLBs is still considerably larger than that of reverse repos and repos. Second, the reported size of the SLB market is over 200 billion Swiss francs (2017: 120-130 billion CHF), i.e. roughly 30 percent (2017: 20 percent) of the Swiss Gross Domestic Product (GDP)<sup>17</sup>, while reported outstanding volumes of repos and reverse repos are estimated at less than 100 billion Swiss francs (2017: between 10 and 50 billion CHF). Third, reported volumes are relatively small and remained stable over the five years, apart from the slightly lower reported volumes in 2020 compared to previous years.

**Figure 2: Reported Securities Financing Transaction Volumes**



Source: FINMA, SIF, SNB survey.



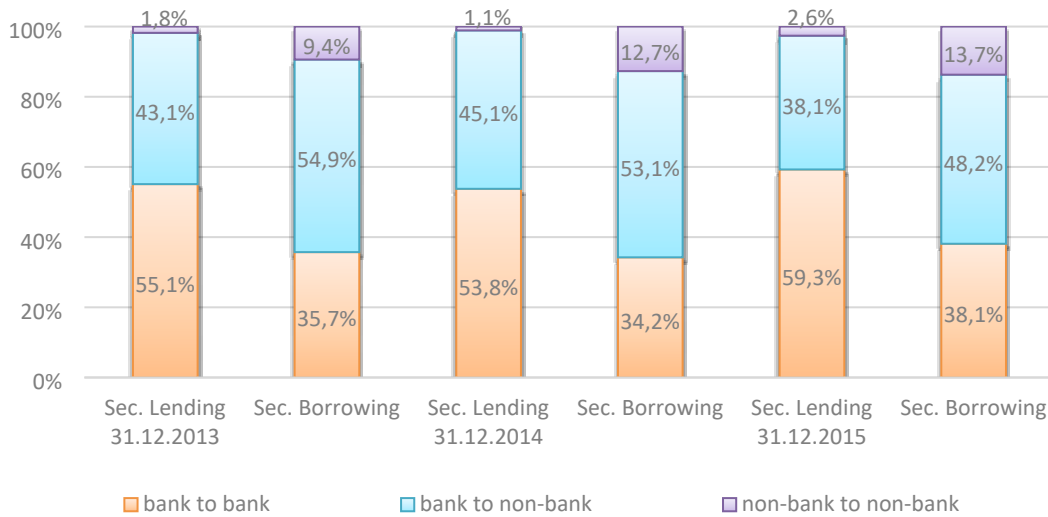
Source: Data survey SIF, SNB

Figure 3 presents the reported volumes by counterparty pairs (bank to bank, bank to non-bank (and vice versa) and non-bank to non-bank) for SLB transactions. In the SLB market segment, the shares of counterparty pairs remained relatively stable over the five-year period (2016-2020) and against the results of the last survey. The SLB transactions are almost exclusively collateralized by securities and these transactions are largely concluded bilaterally. On the lending side, the share of bank to bank transactions

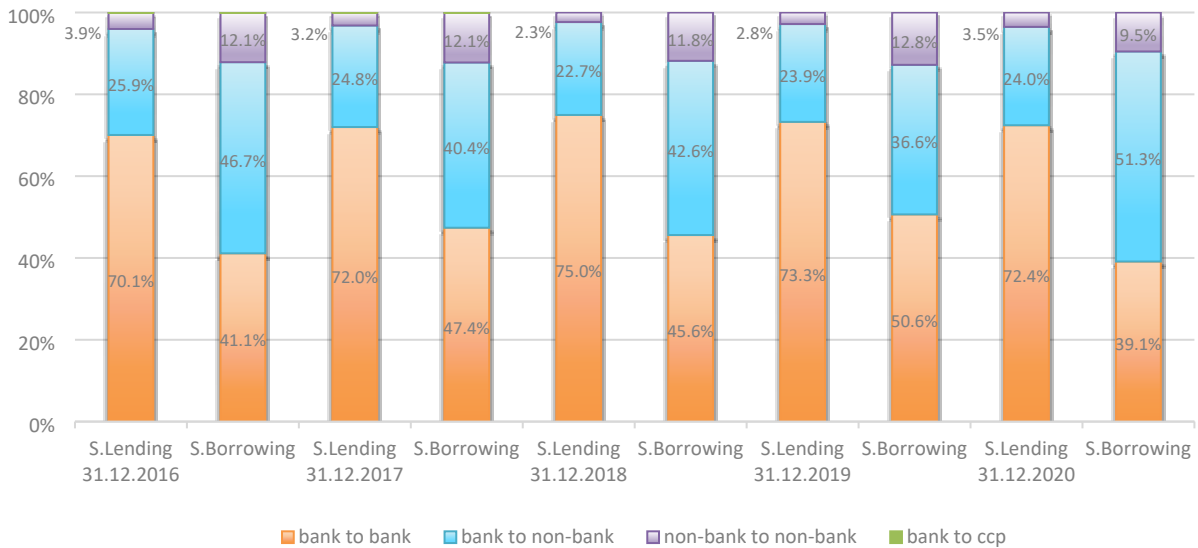
<sup>17</sup> <https://www.bfs.admin.ch/bfs/fr/home/statistiques/economie-nationale/comptes-nationaux/produit-interieur-brut.html>

represents 70 to 75 percent, while the share of bank to non-bank transactions slightly less than a fourth of the overall transaction volume. The share of non-bank to non-bank part is marginal. On the borrowing side, the share of non-bank to non-bank transactions has remained stable, with an approximate share of 10 percent. Concerning the shares of reported bank to CCP and non-bank to CCP transactions, they are quasi inexistent.

**Figure 3: Reported SLB Transactions segmented by counterparty pairs**



Source: FINMA, SIF, SNB survey.

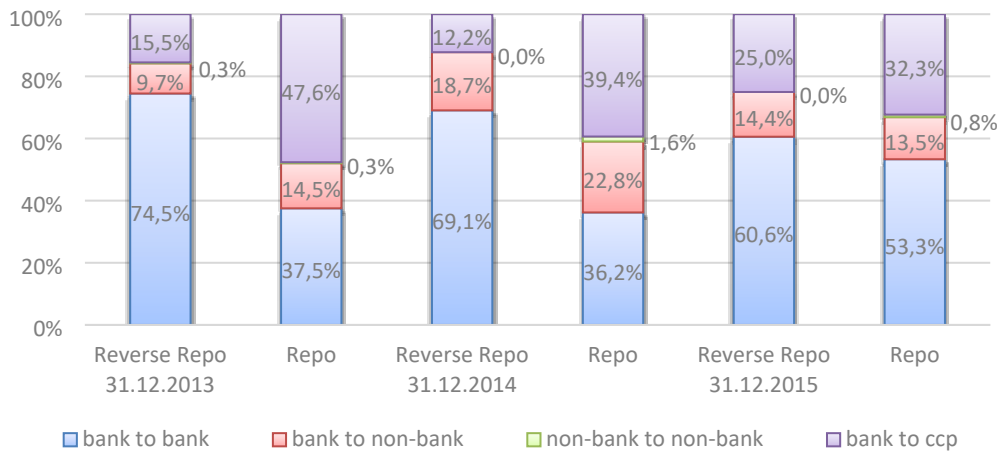


Source: Data survey SIF, SNB

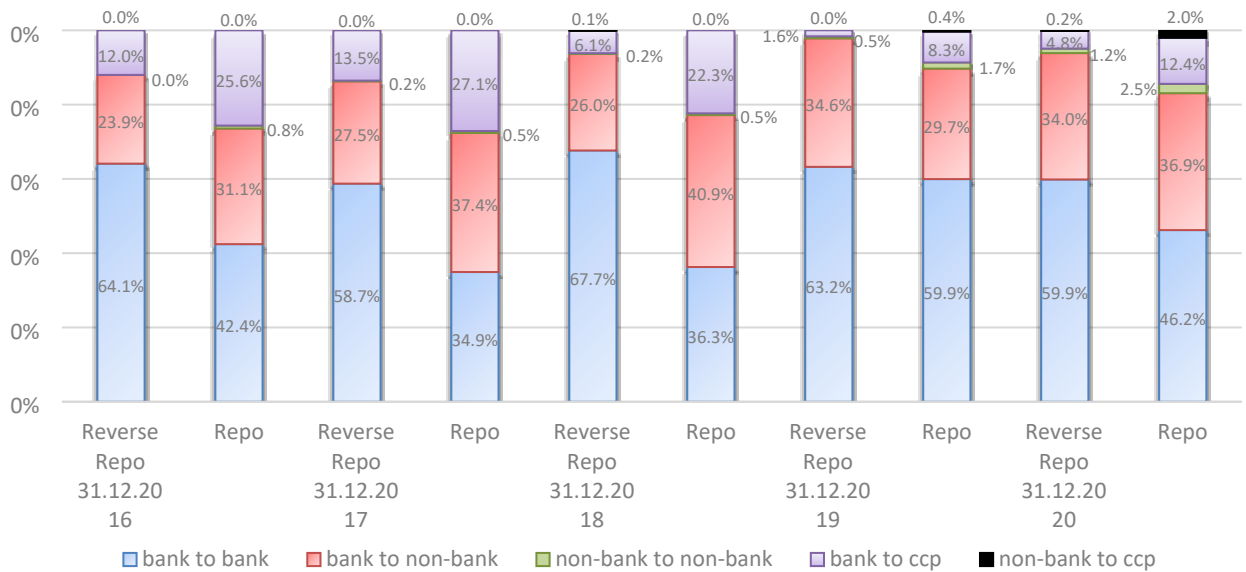
Figure 4 shows the reported volumes of repos and reverse repos by counterparty pairs (bank to bank, bank to non-bank (and vice versa), non-bank to non-bank, bank to CCP and non-bank to CCP). The repo transactions tend to be take place via a trading platform. For reverse repos, the bank to bank share has slightly decreased over the reported years, but still represents the majority of transactions. The share of non-bank to non-bank transactions is virtually inexistent in the reports. Transactions involving CCPs have decreased since 2016. For repos, the bank to bank shares remained in a stable range,

whereas reported bank to CCP transactions have slightly decreased over the whole period. The non-bank to non-bank share is less than 3 percent for repos. Nonetheless, in 2020, the non-bank to CCP share increased to 2 percent from a typical 0 in previous years. This increase, however, remains negligible.

**Figure 4: Reported Reverse Repos and Repos segmented by Counterparty**



Source: FINMA, SIF, SNB survey.



Source: Data survey SIF, SNB

### 3 Conclusion

With the goal to continue monitoring the evolution of the SFT market in Switzerland, the SIF updated the market analysis conducted in 2016. With new results for 2016 through 2020, the survey was targeted on relevant market participants that are known to be active in the Swiss SFT market, with a particular focus on non-bank players. The survey sheds light on the relevance of SFT activities in Switzerland, in particular in the non-bank to non-bank market segment.

A key finding regarding the structure of the Swiss SFT market is that, in terms of outstanding volumes, at least one bank is involved in the vast majority of transactions. Accordingly, the outstanding non-bank



## **Securities Financing Transactions: Case Study on the Situation in Switzerland**

to non-bank segment as of year-end is marginal. The SLB market remains significantly larger than the repo market. Moreover, the reported business volume is dominated by banks and, to a lesser extent, by insurance companies. Securities financing transactions between non-banks take place mainly in the form of securities lending transactions. Repo activity between non-banks hardly exists; cleared repos involve almost exclusively banks.

Swiss authorities will continue to monitor the SFT market to assess potential changes in its scale, with a particular focus on the importance of non-bank to non-bank activities in this market.