

Paris establishes itself as the European Capital for the collateral Market

Paris is becoming the European collateral capital in a post-Brexit world. A clear advantage over Frankfurt, as this resource is indispensable for the proper functioning of Finance. Brexit triggered a discreet but strategic battle which Paris is about to win. It will become the European capital of collateral management, i.e. the assets deposited as collateral in financial transactions.

“The subject is essential”, says Alexandre Gautier, Director of Markets at the French Central Bank (Banque de France). “Without Collateral, there is no possible activity in clearing houses, no liquidity in the Eurosystem, nor any secured financing in the inter-dealer community or even Securities lending.” Becoming the place of reference for collateral is expected to attract whole banking teams to Paris. Today’s European collateral market is handicapped by its fragmentation. A problem that Paris intends to solve.

“Thanks to technology, it is now possible to imagine a much greater harmonisation of the terms of collateral management”, says Alexandre. The centralization of a unique marketplace will allow the mobilisation of requested assets easily and facilitate the exchange of collateral. For example: Exchange a basket of French gov bonds vs a basket of stocks or ETFs.

A Collateral reserve

With the support of the Banque de France, Paris took the leadership over Frankfurt by increasing its projects. This initial focus was on the securities making the collateral.

“A true reserve of collateral is being developed in Paris” says Cyril Louchtchay de Fleurian, Head of Collateral at Euroclear. Euroclear is the European post-market giant, and a discreet player, holding 27 trillion euros of assets on behalf of its clients throughout the world it is a collateral powerhouse. Although headquartered in Brussels, Euroclear is particularly active in Paris in terms of collateral management. It is in France that Euroclear initiated using new asset classes and financial products as collateral such as HQLA funds or ETFs as guarantee. Thanks to the establishment of the European settlement T2S platform, the major banks can now choose Euroclear Paris to centralise their transactions.

Another significant contributor, the Parisian clearing House LCH SA, now deals with all Euro Repo and secured financing transactions. “With the repatriation of Belgian debt last week we already process for the five largest countries in terms of volume, including France, Germany, Italy and Spain” explains Michael Carignano from LCH. A centralisation that was favoured by the clear focus on collateral in the French Capital.

The Arrival of a dedicated Exchange

The next step will be taken early in the new year with the launch of the first electronic collateral exchange, Elixium. This All to All (Banks, Asset managers, Corporates...) platform aims to bring transparency and increase liquidity in this market. Elixium chose Paris as its European Headquarters following the Brexit vote last year. “The Initial plan was for our European operations to be based in London” explained Gabriele Frediani, Head of business development at Elixium, “But given the uncertainties associated with Brexit, we chose to set up Elixium SA in Paris to cover continental Europe”.

“Here again the decisive element in choosing Paris over Frankfurt was the interest received by the Banque de France and Euroclear for the project as a whole”. Paris can now look to attract other activities including the clearing of OTC derivatives; however this battle may prove more difficult as Frankfurt seems to have already taken a lead.

Guillaume Benoit, Les Echos, le 4 décembre 2017. <https://www.lesechos.fr/vg/articles/a3/6c0421a3.php>