US Rates Strategy

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Sponsored repo: Signing up more partners

Sponsored repo volumes have nearly doubled in the last year with money funds providing 65% of the cash lent. Over the next year, we look for volumes to rise further but sponsored client onboarding remains challenging.

- In the past year, aggregate sponsored repo volumes have nearly doubled, rising $800bn. This reflects both growth in hedge fund financing demand as well as rising money fund balances.

- **Money funds provide 65% of the cash lent in sponsored repo or about $850bn. Most of the largest funds are already sponsored into the FICC's clearing platform.**

- But their activity is intermediated through a relatively narrow set of counterparties. **Most funds have fewer than three sponsors and three large custody banks account for half of money funds' sponsored repo volume**. By contrast, they typically face 8 or more counterparties in their uncleared transactions.

- Across the 121 funds we studied, just 38 reported no sponsored repo activity in either April or May. These are small funds the cumulatively account for 7% of industry assets. **Put differently, all the largest money funds and most of the industry has *already* been sponsored.**

- Over the next year, we suspect that money funds' cleared repo allocations across their *existing* sponsors will increase. But once additional sponsors are onboarded we look for higher sponsored repo volumes to flow through a larger and more varied mix of counterparties.

Higher sponsored volumes

Members of the Fixed Income Clearing Corporation (FICC) can sponsor their client's repo activity onto the central clearing platform. The sponsored client gains remote access to clearing while dealers can expand their balance sheet netting capacity. Sponsored clients become "limited" FICC members whose activity on the platform is guaranteed by their sponsor. They are exempt from loss mutualization. Currently, sponsors are covering the costs of sponsored clearing including the FICC's margin and liquidity requirements.

Aggregate repo volumes (reverses and repos) sponsored on the FICC's central clearing platform have sharply increased in the last year, often exceeding $2trn/day. On the cash lending side, volumes have nearly doubled in the past year to more than $1.2trn/day (Figure 1).[1] **Much (65%) of the cash lent through sponsored repo comes from money funds** (Figure 2).

[1] These are "reverses" on the sponsored platform.

While some of the sharp increase in sponsored activity is likely tied to the SEC's central clearing mandate that will take effect in mid-2027, the bulk probably reflects strong repo demand. On the cash side, money fund balances surged $2.2trn since December 2022 as the Fed raised policy rates. Much of this was invested in bills but as their balances grew so did their demand for repo especially once overnight tri-party rates moved above the RRP rate. On the opposite or collateral, side, there has been a similarly sharp increase in hedge fund financing demand. Their overall repo positions rose $1.6trn over the period.[2] Banks and dealers who sit in the middle between these counterparties have increasingly relied on central clearing to net down their long and short repo positions.

But to access the FICC's platform, their clients need to either become direct FICC members or get indirect access through sponsorship. FICC is developing other indirect access models that allow for a mix of margin segregation and netting arrangements. Depending on the type of client and the dealer's ability to net the client's margin there may be cheaper alternatives to sponsored repo by the time mandated clearing goes live.

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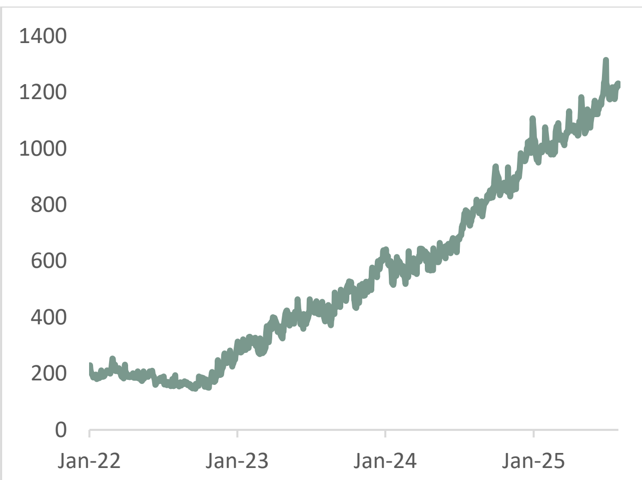
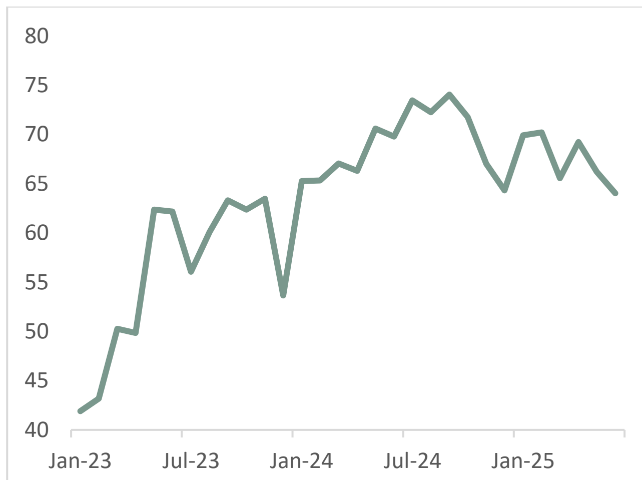
Figure 1: Sponsored reverses ($bn)



Source: DTCC, SMBC Nikko

Figure 2: Money fund repo (% sponsored)



Source: Crane's Data, DTCC, SMBC Nikko

Few partners

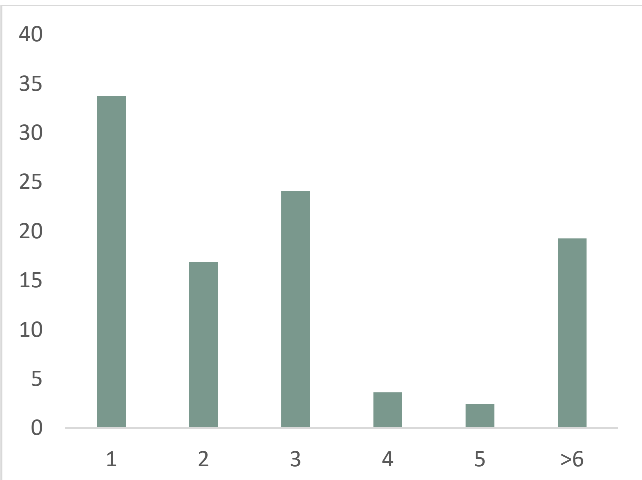
Money fund cash making its way into sponsored repo comes through a limited number of counterparties. We looked at money funds' sponsored and uncleared repo holdings at the end of April and May. We exclude the June data to avoid distortions created from quarter-end positioning and heavy RRP use. Our focus is on the 121 money funds with more than $0.75bn in AUM. This covers $5.9trn in assets or over 80% of the industry.

First, nearly ¾ of the money funds reporting any sponsored activity faced three or fewer intermediaries (Figure 3). By contrast, money funds have more counterparties for their uncleared repo; the typical (median) number of counterparties is eight. Second, there isn't much variation across these sponsors. **Just over half of sponsored repo volumes (~$400bn) is intermediated by just three**

[2] Against all collateral including Treasuries.

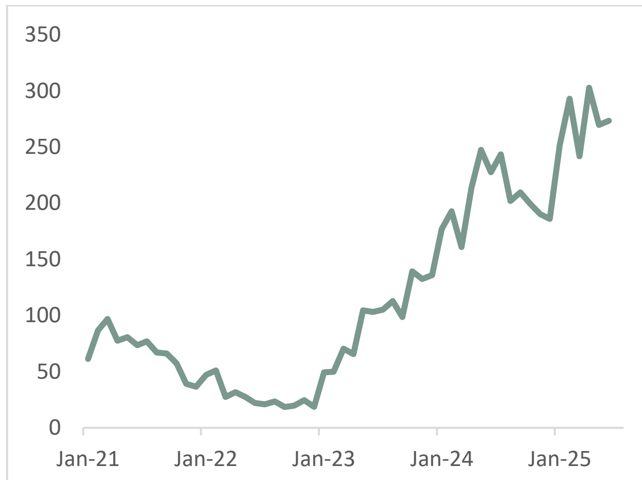
large custody banks (Bank of New York, Northern, and State Street). The remainder is sponsored onto FICC by other, large domestic and non-US GSIBs. In the past year, US GSIB bank Treasury repo borrowing from money funds has increased sharply (Figure 4).[3] Finally, larger money funds tend to have more counterparties and are more likely to lend their cash through sponsored repo. That said, as we review below, individual counterparty allocations are somewhat low. Across the 121 funds studied, just 38 reported no sponsored repo activity in either April or May. However, these are small funds with aggregate balances of $420bn. **Put differently, all the largest money funds and most of the industry has *already* been sponsored**.

Figure 3: Sponsored counterparty distribution (% funds)



Note: Across the 83 funds reporting sponsored activity. Source: Crane's Data, SMBC Nikko

Figure 4: Non-custody US GSIB TSY repo ($bn)



Note: This includes the following banks: BoA, Citi, GS, JPM, MS, and Wells. Source: Crane's Data, SMBC Nikko

Low allocations

Money funds have strict limits governing their counterparty exposures. But their boards have more flexibility with respect to their Treasury repo counterparties since they can "look through" to the underlying (riskless) collateral in a default. We split money funds' Treasury repo exposures into three types: repo facing the FICC, uncleared repo, and repo held in the Fed's RRP. We then calculated average and median repo allocations (as a percent of the funds' AUM) across each position by counterparty. At the end of May, the average FICC repo allocation per counterparty was 4% (of AUM) compared to 1.5% for uncleared counterparties and 10.4% for the RRP. The medians are lower across all three repo types but have the pattern. The results from the average and median calculations for the April data are also similar.

Growth in sponsored

Assuming the 38% of repo that is not centrally cleared is eventually pushed onto the FICC's platform by mid-2027, sponsored repo volumes may need to rise further.[4] **But as the largest money funds have already partnered up with sponsors how much room is there for them to add new**

[3] Excluding the two GSIB custody banks.
[4] See, "The $12 Trillion US Repo Market: Evidence from a Novel Panel of Intermediaries", S. Hempel, R. Jay Kahn, and J. Shephard, Federal Reserve Board, July 11, 2025. The authors estimate this would be about $4.6trn.

counterparties? And, what are the plans for the small money funds that did not report any cleared repo activity this spring?

For the typical fund this could mean adding eight or more additional sponsors to the three they currently face. **We do not have a good sense for how many new sponsors money funds wish to engage**. Increasing the number of sponsors increases the funds' counterparty diversification and could help their bargaining power. **But getting agreements in place and documents signed and then *repeating* the process for another 7 or 8 sponsors takes time and legal resources**. Standardized documents would lower the marginal cost of adding additional sponsors. But while there has been some progress on this front, the process still involves significant bilateral negotiations and review. This has created an onboarding backlog and as a result, the SEC postponed the clearing mandate's deadline by a year.

This backlog may have been exacerbated by how the sponsored market has evolved since 2022. Non-custody bank and dealer sponsors typically have sponsored more cash borrowers than lenders. As they move to balance out the mix, they are running up against increased competition from other intermediaries who are also balancing out their sponsored customer mix.

Over the next year, we suspect that money funds' cleared repo allocations across their *existing* sponsors will increase. But once additional sponsors are onboarded we look for higher sponsored repo volumes to flow through a larger and more varied mix of counterparties.

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