

Press release

News from the International Capital Market Association (ICMA)

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Please see foot of release for contact details

ICMA/2006/04

March 21, 2006

release: immediate

Spectacular growth in the European repo market continues

10th repo survey from ICMA shows increase in market size now estimated at EUR 5, 883 billion

(LONDON, UK) The International Capital Market Association today released the results of its semi-annual survey of the repo market in Europe conducted on December 7, 2005, which shows that the minimum market size has risen to over EUR 5.8 trillion - an increase in market size of 18% since December 2004. The European repo market now probably exceeds its US equivalent in size. The average size of the participating institutions' individual repo books, jumped to EUR 74 billion from EUR 66 billion.

This is the tenth in the series of ICMA surveys which have provided firm statistical evidence of continuing spectacular growth in the repo market over the last 5 years. The European repo survey was established in 2001 to provide accurate statistics on the size and composition of the repo market. Repo is the essential financing tool which effectively underpins capital market operations by funding bond positions in the wholesale capital markets, which in turn are used for hedging and arbitrage strategies against derivatives. Despite being crucial to the development of the capital market in Europe, accurate figures on repo market size were hard to obtain and the ICMA surveys have an important role, providing market participants with the necessary data to gauge their market share and develop their business strategies.

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The 10th survey highlights a number of important issues relating to the composition and operation of the market:

- the advance in the electronic trading of repo continued in 2005, with inter-dealer automated trading systems now taking a 24.7% share of reported business, of which about half is anonymous trading settled with central clearing counterparties (CCPs);
- the share of the market taken by voice brokers fell to 21.8%;
- floating-rate repo (indexed to EONIA) grew rapidly, possibly in anticipation of rising short-term interest rates;
- long-term repos (beyond one-year), spurred by recent tax changes, accounted for more than 5% of business;
- the dominance of German issued securities as collateral was confirmed as their share of reported business increased to 24.9%; and
- the market share of EUR denominated capital continued to decline.

Commenting on the survey, Godfried De Vidts, Chairman of ICMA's European Repo Council said; 'I am naturally delighted that the survey again demonstrates the increasing size and importance of this market, however there is still much hard work to be done to ensure that Europe gets the infrastructure it needs to maintain its global competitiveness. The news that the European Commissioners for Competition and the Internal Market intend to propose action on the current fragmented infrastructure of European securities settlement before the summer is most welcome. In light of the imminent approach of Basel 2, repo market participants urgently need improvements in this area in order to build on the existing success of the market'.

ENDS

Notes for editors

1 Obtaining copies of the survey

ICMA's *European repo market survey Number 10 – conducted December 7, 2005* is available for download free of charge from ICMA's web site at www.icma-group.org/surveys/repo/latest.html

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2 International Capital Market Association (ICMA)

ICMA is the self-regulatory organisation and trade association representing financial institutions issuing, and dealing in the international capital market. ICMA's members are located in some 50 countries, including all the world's main financial centres, and currently number over 400 firms in total. ICMA was created in July 2005 by the merger of the International Primary Market Association and the International Securities Market Association

3 European Repo Council (ERC)

The European Repo Council is a special interest group established under the auspices of ICMA to promote and represent banks active in Europe's repo markets. Its members comprise the major banks active in Europe's cross-border repo markets.

4 The survey

The surveys are conducted by the ICMA Centre at the University of Reading in the UK, at the request of the European Repo Council (ERC). A sample of financial institutions in Europe were asked for the value of their repo contracts that were still outstanding at close of business on December 7, 2005. Replies were received from 80 offices of 70 financial groups, representing the majority of significant players in the European repo market. All institutions who participate in the survey automatically receive, in confidence, a list of their rankings in the various categories of the survey. The ICMA survey is the only authoritative source of data on the size and composition of the European repo market.

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