

Press release

News from the International Capital Market Association (ICMA)

Talacker 29, P.O. Box, CH-8022, Zurich
www.icmagroup.org

Please see foot of release for contact details

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For immediate release

ICMA-ERC survey shows strong recovery in European repo market

(London, UK) The European Repo Council of the International Capital Market Association (ICMA) today released the results of its 18th semi-annual survey of the European repo market. The survey sets the baseline figure for market size at EUR 5,582 billion, representing an increase of 14.7% on the figure of EUR 4,868 billion for the previous survey in June 2009.

This latest survey shows robust overall growth in volumes in the second half of 2009, which confirms the tentative signs of recovery seen in June 2009. The data also demonstrates the resilience of the European repo market, which largely continued to function during the financial crisis of 2008-09. The repo market provided a vital link between central banks and banks during the crisis, and a strong repo market will also be vital in the future if there is to be an orderly withdrawal by central banks of their exceptional liquidity support and a revival of bank lending to customers, as this will depend on the revival of interbank liquidity, for which repo is essential.

The ICMA survey also showed further evidence that the market has taken on board the lessons of the market crisis, with higher use of Central Counterparty (CCP) clearing (already well established in repo), the greater focus on netting generally and the reduction in undocumented transactions.

The Chairman of the ICMA's European Repo Council, Godfried de Vidts, highlighted the importance of a well-functioning European repo market for the economic recovery of the region: "The repo product is a key source of funding in the interbank market, allowing banks to finance lending to their customers and so supporting revival in the global economy, the evidence from the survey of continuing recovery in the market is therefore encouraging".

Commenting more broadly on the market and the work of the ERC he said: “Liquidity and collateral management are already very high on the list of priorities of banks, and the repo market itself, through the ERC, is working to reinforce lessons of the turmoil, including a more robust clearing and settlement framework which would eventually allow a wider range of bonds to be centrally cleared, irrespective of the location of trading and/or settlement.”

Key findings of the survey include:

Electronic repo trading – the overall market share of electronic trading of repo fell back slightly to 27.5% from a high of 28.5% in June 2009, reflecting the fact that growth in this sector did not keep up with the growth in the overall market, much of which was in forward-start repo which is relatively little traded electronically. Market share of anonymous electronic trading jumped from 14.5% in June to 18.3% in December 2009.

Collateral – the share of government bonds used as collateral for repo transactions fell to 76% from 81.2% in the previous survey, this was largely due to a reduction in the use of UK government bonds as collateral to 7.7% of the total business in the latest survey from 12.8% in June 2009.

Forward repo – the market share of forward repo (repo which settles in a longer time frame than next day settlement) increased to a record share of 11.3%.

Undocumented buy-sell backs - the level of undocumented repo transactions has dropped to an all time low of only 2.9%.

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Notes for editors

1. ICMA ERC European repo market survey

The survey is based on returns received from 58 financial institutions in Europe, and is a snapshot of the volume of repo trades outstanding on a single day in December 2009. It is conducted by the ICMA Centre at the University of Reading

A copy of the 18th ICMA ERC European Repo Survey can be downloaded from ICMA's website at: www.icmagroup.org

2. International Capital Market Association (ICMA)

ICMA represents financial institutions active in the international capital market worldwide. ICMA's members are located in 46 countries, including all the world's main financial centres. ICMA's market conventions and standards have been the pillars of the international debt market for over 40 years, providing the framework of rules governing market practice which facilitate the orderly functioning of

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the market. ICMA actively promotes the efficiency and cost effectiveness of the capital markets by bringing together market participants including regulatory authorities and governments. See: www.icmagroup.org

3. ICMA Communications

Allan Malvar

+44 20 7517 3236

+44 7738 696 451

allan.malvar@icmagroup.org

Margaret Wilkinson

+44 20 7517 3237

+44 7931 100 499

margaret.wilkinson@icmagroup.org