

Press release

News from the International Capital Market Association (ICMA)

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ICMA-ERC survey indicates that European repo has adapted to new market conditions.

(London, UK) The European Repo Council of the International Capital Market Association (ICMA) today released the results of its 21st semi-annual survey of the European repo market, undertaken in June 2011. The survey sets the baseline figure for market size at EUR 6.2 trillion. Using a constant sample of banks that have consistently appeared in all recent surveys, the size of the market shows modest growth of 3.6% since the December 2010 survey and year-on-year growth of 10.2%. These figures indicate a pronounced upward trend since 2008, although the survey was carried out before the market turbulence of the summer.

Analysis of returns from 59 institutions, including most of the major repo market participants in Europe, shows that the structure of the market has adapted well to various challenges that are the legacy of events since 2007.

The significant volume of electronic trading and clearing across central counterparties (CCPs) that was already taking place in the European repo market prior to 2007 (and prior to regulatory pressure on OTC markets to adopt such trading methods) has grown and the role of CCP-cleared electronic trading has been consolidated. A recent example has been the introduction of CCP clearing in Spain, which has facilitated market access for Spanish banks despite difficult conditions and is evidenced in the survey by a continuing growth in repos against Spanish collateral. However, the repo market has also succeeded in bringing bilateral and voice-brokered transactions, which are not electronically-traded, into CCP clearing by means of post-trade registration. CCP-cleared transactions (originated electronically or otherwise) account for almost one-third of outstanding repo contracts.

The Chairman of the ICMA's European Repo Council, Godfried De Vidts said: "The overall growth in the use of repo, underpinned by continuing use of centralized clearing where available, highlights the pivotal role that repo plays in the global financial markets. Domestic market participants' increased use of CCPs and the imminent introduction of triparty services by other CCPs will provide scope for increased use by non-traditional users of this safe way of financing, ahead of the introduction of Basel III. ICMA's ERC continues to monitor closely developments affecting the market".

The latest survey shows a significant lengthening of the maturity profile of European repo. Transactions of less than one month (so-called 'short dates') have dropped sharply from their historical norm of about two-thirds to just over 50%, repos with terms of more than six months have doubled to almost 7% and repos of over one year duration have jumped from 1% to almost

9%. This shows rapid adaptation to regulatory pressure on banks to reduce their liquidity risk by seeking longer-term funding.

In addition to the desire to reduce risk exposure and satisfy regulatory demands, the European repo market has also had to deal with strains in the market for collateral. The latest survey shows a significant reduction in repos of German government bonds, which have become scarcer as they have become a safe haven in the eurozone and cautious investors lock them away. In response, the repo market has turned to high-quality non-government substitutes, in particular, German covered bonds or pfandbriefe. This has been particularly evident in tri-party systems, where collateral is managed and settled by automated third-party agents, which have seen a general shift out of all government securities, into highly-rated non-government securities. This switch into non-government collateral contributed to the ongoing trend of decline in the overall share of repo collateral provided by government securities, which fell to a record low of 73.7%.

Notes for editors

1. ICMA ERC European repo market survey

The survey is based on returns received from 59 financial institutions in Europe, and is a snapshot of the volume of repo trades outstanding on a single day in June 2011. It is conducted by the ICMA Centre at the University of Reading

A copy of the 21st ICMA ERC European Repo Survey can be downloaded from ICMA's website at: www.icmagroup.org

2. International Capital Market Association (ICMA) and European Repo Council

ICMA represents financial institutions active in the international capital market worldwide. ICMA's members are located in 50 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 the market. ICMA actively promotes the efficiency and cost effectiveness of the capital markets by bringing together market participants including regulatory authorities and governments.

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

See: www.icmagroup.org

3. ICMA Communications

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