International
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Press release

News from the International Capital Market Association (ICMA)

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LTRO continues to weigh on European repo market

(London, UK) The European Repo Council of the International Capital Market Association (ICMA) today released the results of its 24th semi-annual survey of the European repo market. The survey, which measures the amount of repo business outstanding on 12 December, sets the baseline figure for market size at EUR 5,611 billion. This figure shows a 0.9% decline in the size of the market since the last survey in June 2012 and represents a 9.5% reduction of repo business since the December 2011 survey.

Analysis of a constant sample of survey respondents, using only the figures for the banks that participated in the last three surveys, reveals a more marked decline in market size of 6.6% since June 2012 and an 11.9% year-on-year contraction. Continued weakness in the market is thought to reflect the effect of the ECB's Long Term Refinancing Operations (LTRO) liquidity, which has meant that banks have been able to decrease their reliance on funding from repo operations in the market. However, the size of the market remains well above the trough recorded in the December 2008 survey (EUR 4,633 billion).

Godfried De Vidts, Chairman of ICMA's European Repo Council said: "The survey results demonstrate the continued existence of a robust European repo market; however the future of this market is in jeopardy. The European Commission's latest proposal for Financial Transactions Tax comes at a time when the Basel Committee has guided interbank lending transactions away from an unsecured to a secured basis and when wholesale market participants, together with the Central Bank community, have moved to the repo market because it is the safest way of distributing liquidity throughout the European banking system. The FTT proposals to tax repo transactions put the economic viability of repo, including triparty, transactions at significant risk, which will lead to less liquidity provision to the real economy."

Other key findings of the survey:

- The share of government bonds within the pool of EU originated collateral reached a high of 81.3%, reflecting greater availability of core Eurozone government bonds and particularly of German government bond collateral , as investors stopped hoarding 'safe haven' assets such as German government bonds following the improvement in market sentiment that followed the announcement of the OMT in September.

The share of transactions with more than one year to maturity decreased sharply from 13.3% in the June survey to 5.9% suggesting that this form of longer-term financing has been substituted by access to the three year LTROs.

The share of all CCP-cleared repos (which includes those transacted on an ATS and automatically cleared across a CCP, but also those transacted directly with a counterparty or via a voice-broker, and then registered with a CCP post trade) rebounded sharply to 31.7% from 26.1%, close to the high of 32.0% reported in December 2011.

The share of transactions in the survey conducted electronically was broadly unchanged since the previous survey at 32.8%, but the share of voice brokers continued its apparent downward trend.

On the issue of potential collateral shortage Godfried De Vidts said "The FTT proposals also put at risk the implementation of EMIR, which requires the use of collateral for centralised and bilateral clearing. As ESMA highlighted upon release of its first EU securities markets risk report on 14 February: the collapse of unsecured markets during the financial crisis, as well as regulatory initiatives, have led market participants to rely increasingly on collateral as a means of mitigating counterparty risk, stimulating the demand for collateral. Additional demand for collateral will exceed the additional supply of collateral in 2013-2014, making collateral comparatively scarcer." He added: "If the FTT on repo transactions (which facilitate collateral being available where it is needed) goes ahead, the regulatory collateral crunch will actually materialise. Is that what we really want to happen?"

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Notes for editors

1. ICMA ERC European repo market survey

The survey is based on returns received from 71 financial institutions in Europe, and is a snapshot of the volume of repo trades outstanding on a single day in December 2012. It is conducted by the ICMA Centre at the University of Reading

A copy of the 24th 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. 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.