

## ICMA study in the state and evolution of the European credit repo market

A joint initiative of the SMPC and ERCC

Terms of Reference

March 2017

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### Background

ICMA, through its Secondary Market Practices Committee (SMPC), is actively involved in monitoring and discussing the liquidity conditions and evolution of the European corporate bond markets, and have published two key studies on the state and evolution of the European IG market, in [2014](#) and [2016](#). Meanwhile, ICMA's European Repo and Collateral Committee (ERCC) continues to undertake initiatives related to the functioning and liquidity of the European repo and collateral markets, and has similarly published a number of studies related to the importance of [collateral fluidity](#) and the [state and evolution of the market](#).

ICMA has also been very focused on highlighting the inextricable link between the repo market and underlying bond markets, as well as with related derivatives markets. It is now broadly recognized that any meaningful analysis of bond markets also requires a deep consideration of the related funding and hedging markets.

As part of its ongoing work related to both corporate bond market liquidity and evolution as well as repo market functioning and efficiency, ICMA proposes to conduct a study into **the state and evolution of the European credit repo market**.

### Scope

The study is intended to explore and describe the current state and ongoing evolution of the European credit repo market. In particular, it aims to analyze and illustrate trends and impacts related to:

- (i) regulation and monetary policy;
- (ii) roles of the market (e.g. supporting market-making, facilitating different client trading strategies, etc.);
- (iii) evolving business models of various participants;
- (iv) structural evolution related to market participants, technology, or infrastructure; and
- (v) demand, supply, and pricing dynamics

The study will examine both the GC funding market and specifics/specials market for corporate bonds with respect to:

- (a) Investment grade, high yield, distressed, and hybrid debt
- (b) Non-financials and financials
- (c) EUR, GBP, USD, and other currencies issued in the European market

To the extent that it is relevant, the study may also present recommendations to improve efficiency and liquidity and in the credit repo market.

## **Methodology**

### *Interviews*

The study will mostly be informed through a series of semi-structured interviews with:

- Banks/sell-side liquidity providers
- Buy-side users of the market (real money and levered)
- Agency lenders
- Inter-dealer brokers
- Any relevant platforms or infrastructure providers

As much as possible, interviews will be conducted in person, but will also be conducted by phone where this is more practical (e.g. with outside of London). A target of 20-30 interviews is proposed.

### *Data*

Credit repo is largely a bilateral, non-cleared, dealer-to-client market, so there may be little readily available data relating to market flows and pricing. However, market participants will be asked to provide any useable or anonymized data or analytics, to the extent that this may be possible.

All interviews and data will be represented in the final report in aggregated and anonymized form.

## **Timing**

The interviews (and data requests) are intended to run through March and early-April 2017. The second half of April 2017 would be used for drafting and editing the report. The projected publication date is May 2 2017 (which is the date of the next SMPC meeting).

## **Publication and audience**

As well as being of interest to ICMA's secondary market and repo constituents active in the European credit markets (including sell-side, buy-side, intermediaries, and infrastructure providers), the report of the study should also be of interest to regulators and policy makers. In particular, it should be helpful in informing the work being undertaken by the European Commission's Expert Group on Corporate Bond Market Liquidity, which is also intended to focus on liquidity and market structure of the credit repo market, and which is due to produce a final report with policy recommendations by September 2017.

## **Principal researcher and author**

Andy Hill (ICMA) will take responsibility for conducting the interviews, identifying any relevant data, and authoring the study report. In doing so, he will consult closely with David Hiscock (ICMA), as well as Godfried De Vidts (ERCC Chair) and Sonali Theisen and Yann Couellan (SMPC Co-chairs).