Press release

Post-crisis regulation requires further evaluation as it could be detrimental for repo and securities lending markets finds GFMA and ICMA market assessment

17 December 2018

The Global Financial Markets Association (GFMA) and the International Capital Market Association (ICMA) have today published a report, *The GFMA and ICMA Repo Market Study: Post-Crisis Reforms and the Evolution of the Repo and Broader SFT Markets*, which assesses the impact of post-crisis regulation on the functioning of the global repo and securities financing transactions (SFT) markets.

The report provides a broad account of the global repo market's operation during the crisis and analyses the subsequent regulatory reforms. It finds that they have had a profound impact on banks' SFT businesses with a significant increase in capital requirements, which could detrimentally impact the securities lending market and the way the repo market functions under stressed scenarios.

This assessment is followed by an analysis of how changes in the cost of SFTs have affected banks' product offerings and client choices, as well as how volatility in some repo markets has impacted the selection of IBOR (Interbank Offered Rate) replacement rates.

The report includes primary research in the form of qualitative and quantitative analysis. The qualitative analysis consists of a survey on the current and future states of the repo markets, completed by 33 senior front office staff from major dealer banks across the globe. The quantitative impact study (QIS) assesses the impact of the proposed minimum haircuts for SFTs, which were introduced as part of the Basel III framework in 2017 in order to limit leverage banks provide to the non-bank sector. The QIS aims to establish if this framework will lead to unintended consequences by further contracting banks' SFT markets participation.

Kenneth E. Bentsen, Jr, CEO of GFMA, said: *"Repos and other SFTs play a critical role in the global financial system and support the real economy in many different ways. Therefore, it is essential that the SFT markets function smoothly during both normal and stressed times. Our report's findings suggest the need for several policy revisions and that further work needs to be conducted in recalibrating the global prudential standards, without sacrificing safety and soundness, to ensure better functioning of the repo and broader SFT markets for the benefit of the wider global economy."*

Godfried De Vidts, Chair of the ICMA European Repo and Collateral Council, said: *"It is clear that regulation is a key driver of changes in the way the repo and broader SFT markets operate today and how they will evolve in the near future. While the markets have thus far proved resilient, they are still some way from reaching a new normality, with regional markets at different stages of that evolution reflecting divergent implementation of regulatory reforms on different timelines, and the impact of future regulatory reforms remains a key concern. Hence it is important to conduct review of the coherence and calibration of the post-crisis regulatory framework, particularly pertaining to how it impacts the repo market, and to ensure that any proposed further reforms are subjected to robust impact analysis."*

Recommendations:

The report makes several recommendations to review the post-crisis regulatory framework, particularly pertaining to how it impacts the repo market, including that:

- The FSB and Basel Committee on Banking Standards should review the coherence and calibration of the post-crisis regulatory framework, particularly pertaining to how it impacts the repo market. The treatment of repo transactions backed by the highest quality government bonds should be reviewed in order to ensure that the private sector market has the capacity to absorb QE unwind and to operate without significant reliance on central banks during normal and stressed market conditions.
- The minimum SFT haircuts regime should be reviewed in line with policy objectives to address unregulated markets in order to avoid significant disruptions to the repo and securities lending market.

– Ends –

GFMA Contact

Corliss Ruggles	+852 9359 6996	cruggles@asifma.org
Rebecca Hansford	+ 44 (0)20 3828 2693	rebecca.hansford@afme.eu
Katrina Cavalli	+1 (212) 313-1173	kcavalli@sifma.org

ICMA Contact

Allan Malvar	+44 20 7213 0322	allan.malvar@icmagroup.org

About GFMA

The Global Financial Markets Association (GFMA) brings together three of the world's leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (AFME) in London, Brussels and Frankfurt, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA. For more information, visit www.gfma.org

About ICMA

ICMA represents institutions active in the international capital market worldwide and has 550 members located in 62 countries. ICMA's market conventions and standards have been the pillars of the international debt market for 50 years, providing the framework of rules governing market practice which facilitate the orderly functioning of the market.

The ICMA European Repo and Collateral Council (ICMA ERCC) is a special interest group established under the auspices of ICMA to bring together the major institutions active in Europe's cross-border repo and collateral markets. www.icmagroup.org