International
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Press release

News from the International Capital Market Association (ICMA)

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Industry survey indicates that European repo market remains buoyant despite turbulent financial markets

(London, UK) The European Repo Council of the International Capital Market Association (ICMA) today released the results of its 15th semi-annual survey of the European repo market. The survey, which is effectively a snapshot of the volume of repo trades outstanding on a single day in June, based on returns from 61 financial institutions, sets the baseline figure for market size at EUR 6,504 billion, an increase from the December 2007 figure of EUR 6,382 billion and a slight fall on the year from the June 2007 headline figure of EUR 6,775 billion.

The consistent figure for market size shows that the European repo market has held up well in the recent turbulence and has not been subject to the same deleveraging that has been reported in other financial markets, such as complex structured finance and unsecured lending.

While the market as a whole has been resilient, the survey indicates that individual participants have been affected by adverse conditions. Whilst 19 institutions expanded their repo book since the last survey, 41 had contracted their repo activity. This is the first time the survey has noted such a big negative imbalance in the expansion and contraction of institutions' repo books.

The main findings of the survey were:

- The surge in the market share of business conducted through voice-brokers evident in the December 2007 survey, attributed to the value of brokers in searching out liquidity in difficult market conditions, has been reversed. The drop back to 21.1% of market share for voice brokers has been mirrored by a recovery in market share of electronic trading to 24.4% and in triparty repo. Moreover, the maturity range of electronic trading has been significantly extended. All of which suggests more confidence in the marketplace.

- Levels of cross- border trading have recovered from the December 2007 survey, possibly indicating willingness to trade with a wider circle of counterparties.

- The growth in credit repo (transactions using collateral other than government bonds) has continued despite difficult conditions. The share of EU collateral issued by central governments reached a new low of 81.0%. The share of government bonds used in triparty repo also fell back, as did the share of equity collateral. Equity was favoured as triparty collateral at the start of current market difficulties because of the ready availability of prices for valuation from the public order books of equity exchanges. Less use of equity in the latest survey suggests that bond collateral has become easier to value (and equity prices have become more volatile).

- The increase in the share of the US dollar, the currency whose liquidity (in the European market) was most affected by market difficulties, may be further evidence of some easing of strains, although by how much may be questioned given the apparent scarcity of dollars in triparty repos and the decline of cross-currency repos (typically, US dollar cash against collateral in other currencies).

- Market participants remain cautious and are looking for ways to control risk. This may be reflected in the increase in anonymous electronic trading, which benefits from the netting services provided by central clearing counterparties (CCP's), as well as anonymity. On the other hand, the contraction in open repos (transactions rolled over automatically until one of the parties decides to terminate) may be due to the obstacles presented by accounting and regulatory rules to the netting of this type of instrument.

Godfried De Vidts, Chairman of ICMA's European Repo Council (ERC) commenting on the latest survey said: "Despite continuing turbulence in the wholesale money markets, the survey demonstrates that the repo markets show remarkable resilience. To secure the continuing future growth of the market the ERC Committee is focusing on the robustness of the legal documentation, the Global Master Repurchase Agreement (GMRA), and the need for more netting opinions in new jurisdictions as well as new types of counterparties. Clearly the repo market is benefiting from the optimisation of electronic repo trading system and the use of central counterparties. Repo has become a key market tool employed by central banks around the world. The ongoing work of the industry on clearing and settlement, including Target 2 Securities and CCBM2 together with renewed competitiveness in our markets due to the implementation of MiFID bode well for the future growth of repo."

-ENDS-

Notes for editors

1. Copies of the ERC survey

A copy of the 15th ICMA ERC European Repo Survey can be downloaded from ICMA's website at: www.icmagroup.org

2. International Capital Market Association (ICMA)

ICMA is the self regulatory organisation and trade association representing a broad range of financial bodies including global investment banks and smaller regional banks, asset managers, exchanges, central banks, law firms and other professional advisers. ICMA's 400 members are located in some 50 countries across the globe.

ICMA's market conventions and standards have been the pillars of the international debt market for 40 years, providing the self regulatory framework of rules governing market practice which have facilitated the orderly functioning and impressive growth 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.

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