



Press release

News from the International Securities Market Association (ISMA)

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release: immediate

ISMA continues to build more accurate European repo market stats European bank survey records market size of at least EUR 2,298 billion outstanding business

(LONDON, UK) Figures published today will enable banks dealing in repo to gauge more accurately the size of the market in Europe. In the second in a series of surveys commissioned by the International Securities Market Association (ISMA), the total value of the outstanding repo business of 66 banks is estimated to be equivalent to EUR 2,298 billion.

ISMA's survey includes most of the largest banks active in Europe's repo markets, but it is difficult to say precisely how much of the market it covers. The detailed figures obtained do, however, serve to establish a floor for the size of the market and are acknowledged by market participants as the most authoritative analysis so far produced. Whilst the international repo market is one of the largest financial markets in Europe, figures relating to market size before ISMA launched its semi-annual surveys had tended to amount to approximations.

The survey was conducted by the ISMA Centre at the University of Reading in the UK, at the request of the European Repo Council (ERC), a body set up within ISMA's structure to promote and represent banks active in Europe's repo markets. Participants were asked for the value of their outstanding repo business at close of business on Wednesday, December 12, 2001 and a breakdown, including information on counterparties, currency and contract maturity.

Repo business shows 28% annualised growth

The total adjusted value of repo contracts outstanding on the books of the banks who participated in the latest survey was EUR 2,298 billion (2,298,000,000,000) compared with EUR 1,863 billion on the books of those taking part in the June survey. 50.4% of outstanding contracts were repos and 49.6% were reverse repos. The growth in the European repo market between the June and December surveys was measured by comparing the business of the banks that participated in both surveys. The aggregate outstanding value of repo contracts at these banks grew by 13% during the intervening six months, equivalent to a compounded annual rate of growth of about 28%.

Counterparty analysis demonstrates shift towards electronic trading

ISMA's latest survey shows a downward movement in the amount of direct and brokered business, in favour of an increase in repo trading via automated trading systems (ATSs).

Upward trend in cross-border contracts with non-eurozone countries

December's results show a significant drop in the value of outstanding repo contracts with domestic counterparties and with cross-border counterparties in the eurozone in favour of substantial increases in the value of outstanding contracts with cross-border counterparties outside the eurozone (up from 17.5% in June to 23.6% in December).

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Cash currency analysis shows larger share for the euro

76.7% of reported outstanding repo contracts were denominated in euros, 11.2% in sterling and 7.7% in US dollars. This represents an increase since the June survey in the share of euro transactions (up from 73.3%), away from those in US dollars and at the expense of Japanese yen.

Shift towards longer contract maturities

The survey shows a major shift in maturity distribution to beyond seven days. The share of outstanding repo contracts with less than one week remaining to maturity contracted sharply to 31.4% (down from 44.6% in June). The share of contracts with between seven days and one month remaining grew to 23.5% (up from 17.6%) and contracts with more than six months outstanding increased to 17.3% (up from 10.7%).

ISMA's next European repo market survey is scheduled to take place on Wednesday, June 12, 2002.

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Notes for editors

1 Obtaining copies

ISMA's *European repo market survey December 2001* is available for download free of charge from ISMA's web site at www.isma.org/surveys/repo.

2 International Securities Market Association (ISMA)

ISMA is the self-regulatory organisation and trade association for the international securities market. For some 530 member firms in almost 50 countries world wide, ISMA oversees the efficient functioning of the market through the implementation and enforcement of a self-regulatory code covering trading, settlement and good market practice. The Association also provides its member firms - and other users - with a range of services, products and support.

ISMA has devoted considerable attention to developing a standard master agreement for repo transactions in conjunction with The Bond Market Association in New York (formerly the Public Securities Association (PSA)). The first version of the TBMA/ISMA Global Master Repurchase Agreement (GMRA) was published in 1992, followed by a substantially revised version in 1995. Due to its versatility and adaptability to suit local law and practice, it has since become accepted as the international standard for repo transactions. The most recent version of the GMRA, taking into account market developments since 1995, was published in 2000.

3 European Repo Council (ERC)

The International Repo Council (IRC) is a special interest group established by ISMA for members active in the international repo markets. Beneath the level of the IRC, regional repo councils may be established to represent the repo market of a particular geographic area. The European Repo Council (ERC) is the first such regional council to have been established. Its members comprise the major banks and securities houses active in Europe's cross-border repo markets.

4 ISMA Centre

In 1991, ISMA sponsored a professorship in investment banking at the University of Reading in the UK, which led to the creation by the University of the ISMA Centre. The ISMA Centre's first responsibility was to provide the tuition expertise for ISMA's practitioner programmes. Since then, it has grown to become one of the world's major centres of academic excellence in the study of financial markets and is internationally recognised as 'The Business School for Financial Markets'.

5 The repo market - a brief overview

'Repo' is shorthand for "sale and repurchase agreement". A repo transaction involves (i) a sale of securities in return for cash and (ii) a promise to buy those securities back again at some point in the future. In the intervening period, the seller of the securities (the borrower) pays a premium to the buyer (the investor) in return for the supply of cash. This premium is known as the 'repo rate' (similar in effect to, but not to be confused with, 'interest rate').

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The term 'repo' is usually used to cover three types of transaction:

Sell/buy-back

This is the simplest form of repo. It involves the outright sale of a security at the beginning of the transaction and an outright repurchase of that security at a later date. Securities used are predominantly fixed-income but markets also exist in equity and commodity repos. Sell/buy-backs can be executed either under the GMRA or without any form of master agreement.

Classic repo

This is a form of sell/buy-back, but one which is always executed under written documentation such as the GMRA. Such transactions are usually termed, simply, 'repo'.

Securities lending/borrowing

This term - interchangeable with the term 'stock lending/borrowing' - refers to the transfer of securities for a specified period in exchange for collateral (which could either be cash or other securities). This market is predominantly driven by a borrower's desire to obtain a particular security for a particular purpose, for example, to fulfil an obligation under a derivative contract.

Contact details for further information

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