Press release

News from the International Securities Market Association (ISMA)

Rigistrasse 60, P.O. Box, CH-8033, Zurich
www.isma.org

Please see foot of release for contact details

ISMA/2002/07
Wednesday, September 18, 2002
release: immediate

ISMA releases latest European repo market statistics
Survey records market size of at least EUR 3,305 billion, with annual growth of almost 16%

(LONDON, UK) Figures published today are the most authoritative indicator of the size and importance of the repo market in Europe. The third in a series of semi-annual surveys commissioned by the International Securities Market Association (ISMA) estimates that the total value of the outstanding repo business of 86 financial institutions in Europe is equivalent to EUR 3,305 billion. The survey also suggests that the European repo market has grown by almost 16% since June 2001, notwithstanding the general slowdown in financial activity over the latter part of the period.

The repo market is pivotal to the functioning of the rest of the financial markets. Repo is a safer investment than other money market instruments and is therefore treated more leniently in terms of capital requirements. This allows banks to improve their return on capital by effectively lending more with less capital. Despite the growing importance of the market in Europe since its introduction in the 1990s, figures on its size were difficult to obtain. ISMA's semi-annual surveys are acknowledged by market participants to be the most reliable analysis of the market so far produced, establishing the lower boundary for the size of the European repo market and giving an insight into its structure.

The surveys are 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. The latest survey asked a sample of financial institutions in Europe for the value of their repo contracts that were still outstanding at close of business on June 12, 2002. Replies were received from 86 financial institutions, representing the majority of significant players in the European repo market.

Annual growth of 16%

The total value of repo contracts outstanding on the books of the 86 respondents who participated in the latest survey was EUR 3,305 billion, compared to figures from participating banks of EUR 2,400 billion in December 2001 and EUR 2,157 billion in June 2001. The growth in the European repo market was measured by comparing the business from the respondents who have participated in all three surveys. The aggregate outstanding value of repo contracts at these institutions grew by nearly 16% over the year to June 2002.

Electronic trading market share stagnates

The latest survey revealed a much larger share of total trading for direct (dealer-to-dealer) business and a much smaller share for voice-brokers. The share of repo trading done through electronic systems was virtually unchanged from December.

more follows/…

Continued upward trend in cross border contracts with non-eurozone countries

The share of outstanding repo contracts with domestic counterparties fell again in June 2002. However the share of repos with cross-border counterparties was much larger than in December. The upward trend in the share of repos with cross-border counterparties outside the eurozone continued (up again from 22.9% to 24.9%).

Shift to shorter maturities

The average remaining term to maturity of reported business shortened between the December and June surveys. The share of outstanding repos with one month or less remaining to maturity was very much larger in June (67.2% compared with 58.2% in December) at the expense of repos with a term longer than one month.

More floating rate repos

The June survey revealed a smaller share than previously for repo contracts paying a fixed rate of return and a much larger share for floating-rate repos (12.1% compared with 8.1% in December).

ISMA's next repo market survey is scheduled to take place on December 11, 2002

ENDS

Notes for editors

1 Obtaining copies

ISMA's *European repo market survey Number 3 – conducted June 2002* is available for download free of charge from ISMA's web site at www.isma.org/surveys/repo/latest

2 International Securities Market Association (ISMA)

ISMA is the self-regulatory organisation and trade association for the international securities market. For some 500 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').
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.

6 Contact details for further information

To obtain a copy of the report and for questions about ISMA:

Margaret Wilkinson
ISMA Limited, London
(44-20) 7538 5656 phone
margaret.wilkinson@isma.co.uk

Trish de Souza
ISMA Limited, London
(44-20) 7538 5656 phone
trish.desouza@isma.co.uk

For comments from the ERC:

Godfried De Vidts (ERC Chairman)
at Fortis Bank, Brussels
(32-2) 565 6019 phone
(32) 4784 00122 mobile
godfried.devidts@fortisbank.com

For details of the findings and for further background about how the repo markets operate:

Richard Comotto
Visiting Fellow, ISMA Centre, University of Reading, Reading, UK
(44-1797) 224 446 phone
comottor@aol.com