Press release

News from the International Securities Market Association (ISMA)

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Please see foot of release for contact details

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ISMA survey shows dramatic increase in tri-party repo
Latest figures show continued growth in European repo market

(LONDON, UK) The International Securities Market Association (ISMA) today released the results of its sixth semi-annual survey of the repo market in Europe, conducted on December 10, 2003. The survey shows that there was a dramatic increase in the amount of total outstanding repo business settled through tri-party repo arrangements in the six month period from June to December 2003. Continued steady growth in the European repo market as a whole during this period is also indicated, with a further increase in the market share of electronic trading systems.

In the latest survey, over 11% of total outstanding repo business in Europe was settled though tri-party repo arrangements (this has increased from 6.2% in the June 2003 survey). Tri-party repo is a custody solution in which a third-party custodian manages cash and collateral accounts for the repo counterparties - effectively outsourcing the bank's back office and saving on settlement costs. Although tri-party repo is clearly gaining in popularity in Europe, the survey shows that it has some way to go before it reaches the level of the US market, where tri-party repo is used in some 60% of transactions. The December figure for tri-party repo may reflect some tightening of the market, but the scale of the increase in its use suggests strong underlying growth.

Analysis of the underlying data from the banks who have taken part in all six surveys reveals that the market grew by over 22% in 2003. Most of the growth occurred in the first half of the year, the slowdown in the second half reflecting difficult trading conditions in the bond markets generally. Godfried De Vidts, Chairman of ISMA's European Repo Council, commented: "This latest ISMA survey demonstrates that there is still enormous potential for growth in the European repo market - with many institutions in Europe yet to start trading repo in appreciable volumes ".

The repo market is making increasingly widespread use of electronic trading; the market share of electronic trading has risen to 20% of the total value of outstanding contracts in this survey, demonstrating the continuing upward trend. The majority of survey participants are now using electronic systems for some part of their repo business.

More follows/…

Although the bulk of repo transactions in Europe continue to involve government bonds as collateral because they are readily available and easy to value accurately, the survey nevertheless indicates a continuing increase in the number of transactions where non-government bonds and indeed equities are used as collateral.

The latest survey also points to the growing integration of repo and fixed-income securities lending with very substantial volumes of securities lending business being conducted on repo desks.

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 established under the auspices of ISMA to promote and represent banks active in Europe's repo markets. A sample of financial institutions in Europe were asked for the value of their repo contracts that were still outstanding at close of business on December 10, 2003. Replies were received from 76 offices of 69 financial institutions, representing the large majority of significant players in the European repo market.

ISMA's next repo market survey is due to take place on Wednesday, June 9, 2004

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Notes for editors

1 Obtaining copies

ISMA's *European repo market survey Number 6 – conducted December 2003 is* available for download free of charge from ISMA's web site at www.isma.org/surveys/repo/latest.html

2 The repo market

Repos, or repurchase agreements, are simply short-term loans, where a security, usually a government bond, is used as collateral. They are principally used to fund bond positions in the wholesale financial markets, which in turn are used for hedging and arbitrage strategies against derivatives; the repo market therefore underpins the functioning of the financial markets as a whole. Despite being pivotal to the securities market in Europe, figures on repo market size are difficult to obtain. ISMA's semi-annual surveys are acknowledged to provide the most reliable analysis of the market yet produced, giving an insight into its structure, growth and size.

3 International Securities Market Association (ISMA)

ISMA is the self-regulatory organisation and trade association for the international securities market. For some 450 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. 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 and is backed by legal opinions on its enforceability in more than 30 jurisdictions worldwide. The most recent version of the GMRA, taking into account market developments since 1995, was published in 2000.

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4 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 regional council (ERC) is the first such regional council to be established. Its members comprise the major banks and securities houses active in Europe's cross-border repo markets.

5 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'.

6 Contact details for further information

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