

Press release

News from the International Capital Market Association (ICMA)

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Survey of European repo market reflects deleveraging by banks.

(London, UK) The European Repo Council of the International Capital Market Association (ICMA) today released the results of its 16th semi-annual survey of the European repo market. The survey, a snapshot of the volume of repo trades outstanding on a single day in December 2008, based on returns from 61 financial institutions, sets the baseline figure for market size at EUR 4,633 billion, the decline, adjusted for changes in the survey sample, is 26% from the June 2008 figure of EUR 6,504 billion.

The contraction in the European repo market reflects deleveraging by banks, who are seeking to reduce their balance sheets and risk exposures. This process has accelerated since the Lehman's collapse. Consolidation in the banking industry has also meant that a number of long term contributors including Lehman's have departed from the survey. As ICMA's series of semi-annual surveys has demonstrated, the European repo market has continued to function as an essential source of liquidity for financial institutions throughout the worst of market difficulties, which will confirm the shift from unsecured money markets into repo that has been taking place for many years.

The other main findings of the survey include:

- The share of repo trading transacted electronically has jumped from 24.4% in the last survey to 27.8% in December. This has been driven by the increase in anonymous electronic trading, which leapt from 12.7% to 17.4%. Anonymous trading has the benefit of a secure Central Counterparty (CCP) and also netting of trades which substantially reduces counterparty risk in turbulent markets.

- The share of the market underpinned by Government bond collateral increased, rising from 81.0% to 84.7% reflecting the desire of market participants to reduce risk. The share of German collateral also rose from 25.5% in June 2008 to 29.8% possibly reflecting a flight to quality.
- Maturities have generally shortened, as banks have sought to reduce exposure further. Although short dated repo transactions (less than one month) have decreased from 61.3% to 55.4% in the latest survey, this reflected seasonal trends (banks seeking to lock in funding at the year end) and disguises the underlying trend towards shortening of maturities.
- Securities lending and borrowing on repo desks fell sharply from 21.7% in June 2008 to 12.4%.

Commenting on the figures, Godfried De Vidts, Chairman of ICMA's European Repo Council (ERC) said: "The contraction in the repo market has come as no surprise as major players continue to decrease leverage. The development of secured financing in Europe over the last 10 years has undoubtedly led to the greater availability of sources of funding in the current credit crisis, mitigating its effects. We also see from the survey that while the political and regulatory debate regarding the use of CCPs continues in other markets, the repo market has been ready to embrace the benefits of netting and avoidance of counterparty risk".

Warning against the danger of complacency, De Vidts reminded market participants and infrastructure providers that much remained to be done to reach the goal of a single competitive European capital market: "Barriers that still exist for some Euro Government Bonds in the use of CCP services need to be resolved immediately. I have a simple message to the infrastructure providers for fixed income and equities - allow full access and interoperability. Only an open competitive landscape can provide stimulus for growth in the secured markets and the benefits that this brings."

-ENDS-

Notes for editors

1. Copies of the ERC survey

A copy of the 16th ICMA ERC European Repo Survey can be downloaded from ICMA's website at: http://www.icmagroup.org/market_info/surveys/repo.aspx

2. International Capital Market Association (ICMA)

ICMA is the self-regulatory organisation representing the financial institutions active in the international capital market worldwide. ICMA's members are located in 46 countries across the globe, including all the world's main financial centres. ICMA's market conventions and standards have been the pillars of the international debt market for over 40 years, providing the self regulatory framework of rules governing market practice which have facilitated the orderly functioning and 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. See: www.icmagroup.org

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