

Press release

News from the International Capital Market Association (ICMA)

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ICMA/20010/05

Tuesday 13 July 2010

For immediate release

European Repo Market White Paper emphasises importance of repo and urges reform of market infrastructure.

(London, UK)– ICMA’s European Repo Council (ERC) has today published a White Paper on the European repo market, including the role of short-selling, the problem of settlement failures and the need for reform of the market infrastructure. It emphasises the importance of the repo market for the efficiency and stability of the financial system.

The White Paper was commissioned by ICMA’s ERC in response to current regulatory considerations which will impact the repo market. There is concern that regulatory initiatives should not constrain the capacity of the repo market in Europe at a time when increasing demands are being made on it, both by the regulators themselves in terms of proposals for enhanced collateral management to reduce risk and by governments in terms of increased debt issuance.

Proposals relating to the restriction of short-selling would have unintended consequences for the securities market, which will increase costs and risks for issuers and investors.

There is also an urgent need for action to remove the barriers to the efficient cross-border transfer of securities posed by the settlement infrastructure. The paper highlights infrastructure problems which have caused fails in the system in recent difficult market conditions and suggests solutions.

The White Paper was written by Richard Comotto of the ICMA Centre drawing on extensive interviews with market participants, regulators and clearing systems.

Godfried De Vidts, Chairman of the ERC commented: “The White Paper will make an important contribution to the debate that is needed amongst policy makers, assisting them to make informed decisions. The support from the market, in the form of the ERC Committee and the ERC Operations Committee, allowed the author to produce this comprehensive document in a comparatively short time, demonstrating the commitment of the repo community of the ERC to continue working on a meaningful debate to solve repo related issues. We welcome more in-depth, constructive discussions with all concerned and trust they will lead to a well-functioning secured funding market that will continue to be an important brick in the building of a more robust financial market environment.”

The main issues which the ERC White Paper addresses are:

Role and functioning of the repo market: The White Paper emphasises the important role played by the repo market in providing secure and efficient cash funding, and as a means of borrowing securities, which underpins bond market liquidity. Repo is also a key tool for central bank operations. At a time when governments are depending on markets to distribute large quantities of debt, regulation which affects the repo market could have serious consequences for sovereign debt issuance. It also explains how some of the more arcane features of that market (ie negative repo rates) form a normal part of market operation.

Short selling: In response to the Greek crisis regulators are discussing how to control short-selling and in particular naked short-selling. The repo market provides the borrowing facilities that support short-selling. The paper describes the essential role of short-selling, and outlines the likely costs and risks of regulatory restrictions. The argument is made that short-selling is not a problem but a necessary and desirable market activity for a well-functioning and liquid securities market, and that "abusive" short-selling is rare and should be tackled through existing market abuse regulations. The paper supports reporting of short positions to regulators to assist them in monitoring short-selling and identifying potential abusive behaviour. The cost of suppressing a normal market activity would be serious unintended consequences for market efficiency and liquidity at a time when governments are seeking to use those markets to issue large amounts of debt. The damage to the repo market would also derail the regulators' proposals to encourage increased collateral management as a means of containing credit risk.

Clearing and settlement: The White Paper proposes that official action is needed by regulators to remove barriers to clearing and settlement in Europe, which may have contributed to problems experienced during recent market turbulence; and suggests reforms. It details interconnectivity barriers between national Clearing and Settlement Depositories in various Eurozone countries and the International Clearing and Settlement Depositories (ICSDs) used by international investors.

The European repo market white paper is available from [ICMA's website](#)

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Notes for editors

1. ICMA European Repo Council (ERC)

The ERC was established in December 1999 by ICMA. Membership is open to any ICMA member who undertakes dedicated repo markets activity. The ERC seeks to address market practice issues arising in the cross-border repo market in Europe. A core responsibility of the ERC and one of the original reasons for its existence is to assist ICMA in maintaining the legal documentation which underpins the safe functioning of the cross-border repo market, specifically, the Global Master Repurchase Agreement (GMRA).

The ERC has run its Professional Repo Market course since 2002.

2. International Capital Market Association (ICMA)

ICMA represents financial institutions active in the international capital market worldwide. ICMA's members are located in 46 countries, 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 framework of rules governing market practice which facilitate the orderly functioning 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

3. ICMA Communications

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