

# Press release

News from the International Capital Market Association (ICMA)

Talacker 29, P.O. Box, CH-8022, Zurich  
[www.icmagroup.org](http://www.icmagroup.org)

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For immediate release

## **European repo market side-lined by ECB LTROs**

(London, UK) The European Repo Council of the International Capital Market Association (ICMA) today released the results of its 23rd semi-annual survey of the European repo market. The survey, which measures the amount of repo business outstanding on 13 June, sets the baseline figure for market size at EUR 5,647 billion compared to the total figure of EUR 6,204 billion reported in December 2011.

Based on a constant sample of banks, the market contracted over the last 6 months by 9.9%. This decline was in large part due to the effect of the ECB's 3-year Long Term Refinancing Operations (LTRO), both of which took place after the December 2011 survey. Banks have reduced their reliance on funding from the repo market as a result of their access to generous LTRO financing. The size of the market remains well above the level recorded in the December 2008 survey (EUR 4,633 billion).

Other key findings from the survey:

The share of the market traded electronically reached a high of 33.1% of the sample, with a corresponding decline in the share of voice-brokered repo business. Trading through an Automatic Trading System (ATS) is the easiest way to access Central Counterparty (CCP) clearing, which is attractive to banks seeking to reduce risk and anticipate regulatory pressure to clear transactions across CCP.

Risk aversion remains an important factor in the selection of collateral. However, this is no longer automatically reflected in increased use of government bonds. On the one hand, the share of German government bonds as collateral has dropped to 14.2% (from 15.4%) due to scarcity as a result of hoarding by investors seeking safe haven assets. On the other hand, credit concerns have driven a reduction in the use of Spanish government bonds as collateral. The search for safe havens may also be behind a continued increase in the use of UK collateral to 15%.

The share of tri-party repo in the survey fell to 10.9%, but data from the tri-party agents shows growth in this sector, supporting anecdotal evidence that this business is growing amongst non-bank financial institutions that are not part of the ERC survey.

The latest survey confirmed the trend to a significant lengthening of the maturity profile of European repo in anticipation of stricter regulatory liquidity requirements, with transactions with more than a year to maturity expanding to 13.3% of the survey.

Godfried De Vidts, Chairman of ICMA's European Repo Council said: "This latest repo survey gives a reliable picture of the current size and structure of the European repo market and clearly shows the impact of potential regulatory changes as anticipated by the market. The ERC's commitment to compiling data on the European repo market through the survey has provided beneficial insights into this important funding product for over a decade."

The ICMA ERC remains actively involved in consultations on regulatory initiatives which will impact the repo market. It has commissioned a number of academic studies which have contributed to the FSB's fact finding exercise ahead of the publication of its recommendations on Securities Lending and Repo in September and is monitoring the call by the European Parliament and the European Central bank for a repo trade repository.

The next ICMA ERC general meeting will be held at 14.30 on 27 September 2012 in London. It is open to all repo market participants and will start with a keynote speech by Mr. David Rule, Chair of the Financial Stability Board's shadow banking work stream on securities lending and repo. Further details are available from [erc@icmagroup.org](mailto:erc@icmagroup.org)

**A copy of the survey is available from [www.icmagroup.org](http://www.icmagroup.org)**

## **Notes for editors**

### **1. ICMA ERC European repo market survey**

The survey is based on returns received from 62 financial institutions in Europe, and is a snapshot of the volume of repo trades outstanding on a single day in June 2012. It is conducted by the ICMA Centre at the University of Reading

A copy of the 23rd ICMA ERC European Repo Survey can be downloaded from ICMA's website at: [www.icmagroup.org](http://www.icmagroup.org)

### **2. International Capital Market Association (ICMA) and European Repo Council**

ICMA represents financial institutions active in the international capital market worldwide. ICMA's members are located in 50 countries. 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.

The ICMA European Repo Council is a special interest group established under the auspices of ICMA to represent the major banks active in Europe's cross-border repo markets.

See: [www.icmagroup.org](http://www.icmagroup.org)

### **3. ICMA Communications**

Allan Malvar

+44 20 7213 0322

+44 7738 696 451

[allan.malvar@icmagroup.org](mailto:allan.malvar@icmagroup.org)

Margaret Wilkinson

+44 20 7213 0323

+44 7931 100 499

[margaret.wilkinson@icmagroup.org](mailto:margaret.wilkinson@icmagroup.org)