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Press release

News from the International Capital Market Association (ICMA)

Talacker 29, P.O. Box, CH-8022, Zurich
www.icmagroup.org

Please see foot of release for contact details

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For immediate release

Latest ICMA survey shows continued robustness in size of the European repo market

(London, UK) The European Repo Council of the International Capital Market Association (ICMA) today released the results of its 27th semi-annual survey of the European repo market. The survey, which computes the amount of repo business outstanding on 11 June 2014, sets the baseline figure for market size at EUR 5,782 billion. This represents a small decline from the figure of EUR 6,076 billion recorded in the survey of June 2013 but a recovery from the essentially seasonal decline seen in December 2013. Overall, the market has resumed its gradual trend back to normality as banks reduce their reliance on central bank liquidity.

Godfried De Vidts, Chairman of ICMA's European Repo Council, outlined the challenges facing the European market: "As repo markets are exposed to many regulatory initiatives the latest repo survey remains the most valuable tool to measure the health of this market. While policy makers turn their attention to growth, it is of utmost importance to take into account potential counterproductive regulatory initiatives that risk curtailing the liquidity and fluidity of collateral, the basic ingredient of the repo market. Basel measures expressed in the new liquidity ratios, and regulatory initiatives such as the Financial Stability Board's shadow banking workstream on Securities Financing Transactions (SFTs), to be followed by Europe's SFT Regulation should be looked at in the wider context of markets reform. New EU trading (MiFID), clearing (EMIR) and settlement (CSDR) rules are initiatives that have a common denominator – what is liquid or illiquid collateral, which is clearly an issue that is best understood when looking at repo financing. Along with the survey, we are also providing a briefing on developing more efficient and effective collateral markets, which shows the ERC's commitment to continue to guide the repo markets in providing finance to the real economy. We welcome deeper involvement with the regulatory authorities."

27th ICMA ERC European Repo Survey

Continually Working to Develop Efficient and Effective Collateral Markets - An Occasional Paper prepared on behalf of the European Repo Council

Key findings of the survey:

- A rebound in market growth in H1 2014 after a sharp fall in H2 2013. The latter was due to the trimming of repo books at year-end for balance sheet reasons and special ECB assistance to relieve seasonal shortages, which displaced the need for market funding. So the underlying market trend appears to be upward, albeit at a modest rate. This recovery contrasts with recent reports of cuts in repo books by US banks but the contrast reflects structural differences between US and European markets, the latter relying less on repo and not being subject to quite the same degree of regulatory pressure to reduce reliance on short-term wholesale funding. However, current and prospective regulation is weighing on the European market.

- The growth in European repo may also be a sign of continuing normalisation of financial markets. Reduced reliance on the ECB, reflected in lower liquidity surpluses and repayments of the 3-year LTROs, is forcing banks back into market. This has been evidenced by tighter funding conditions.

- Growing investor confidence in Italy, Spain and other eurozone peripherals was reflected in their larger share of the repo market, at the expense of core eurozone collateral.

- Electronic trading, particularly CCP-cleared trading, continued to increase share (largely at the expense of voice-brokers) and reached record levels. This reflected in part growing repo activity in Italian collateral (notwithstanding improved market sentiment, many counterparties prefer to deal with Italian banks across a CCP) and a shortening of maturities (which are dominated by electronic systems). The choice of shorter maturities would seem to reflect banks deciding that, with such low market rates and little prospect of imminent rate rises in the eurozone, that there is no advantage in taking extra risk by investing for longer terms.

- The expansion of the European repo market would appear to be at odds with reports of several US banks and European banks with large US operations contracting their repo activity during the first half of the year. It is, however, important to distinguish between the two markets in terms of where they are in the cycle of recovery from the global financial crisis and the degree of regulatory pressure to reduce banks' reliance on short-term money market funding, which itself reflects structural differences in bank funding. The recent growth of the European repo market represents a recovery and return to some form of normality, as evidenced by the declining liquidity surplus at the ECB, rather than an increase in market leverage that might concern regulators.

Contact

Allan Malvar
+44 20 7213 0322
+44 7738 696 451
allan.malvar@icmagroup.org

Notes for editors

1. ICMA ERC European repo market survey
In June 2014, the European Repo Council (ERC) of the International Capital Market Association (ICMA) conducted the 27th in its series of semi-annual surveys of the repo market in Europe. 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 11, 2014. Replies were received from 65 offices of 61 financial groups, mainly banks. Returns were also made directly by the principal automatic repo trading systems (ATS) and tri-party repo agents in Europe, and by the London-based Wholesale Market Brokers' Association (WMBA).

A copy of the 27th ICMA ERC European Repo Survey and previous surveys can be downloaded from ICMA's website at: www.icmagroup.org

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

ICMA represents financial institutions active in the international capital market and has members located in 53 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 firms active in Europe's cross-border repo markets.