International
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News from the International Capital Market Association (ICMA)

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For immediate release

ICMA publishes report on state of the European repo market at year-end 2017

(London, UK) ICMA has published a report on the European repo market at year end 2017, based on market data and interviews with market participants (sell-side and buy-side) to provide a brief analysis of the way the market performed and the underlying factors that affected it.

The period around year-end has always been a challenging time for short-term funding markets as banks close their trading books in order to reduce balance sheet, however monetary policy and various regulatory initiatives (including Basel III reporting requirements) have combined to increase year-end pressure on the market.

The year-end 2016 saw extreme volatility in the European repo market, when a shortage of high quality collateral (mostly European sovereign bonds) resulted in unprecedently low repo rates and severe market dislocation for dealers and fund managers in the short term funding and collateral liquidity market. The 2017 data shows that while there were significant year end effects on repo rates and on liquidity, particularly affecting the ability of the pension and insurance funds to manage their cash and collateral requirements over the year end period, these were markedly less severe than in the previous year.

The European repo market at 2017 year-end – January 2018

The report identifies several possible reasons for the 2017 year end being less disorderly than 2016. In general the market was more aware and therefore better prepared (and positioned) after the dislocations of the previous year. Improved   National Central Banks lending facilities for Public Sector Purchase Programme holdings also appear to have been a factor. More bank balance sheet committed to the repo market during 2017, with improved netting efficiency and increased profitability, certainly helped in the long-term run-up to year-end.

The report notes that 2017 year-end effects, are a reminder that the European repo and collateral markets are innately dependent on bank intermediation to function effectively, and that regulatory pressures on banks' balance sheets directly impact repo market liquidity.

Godfried DeVidts, Chair of ICMA's European Repo and collateral Council (ERCC) said: "This update on year-end pressure on the repo market contributes to the overall mission of the ERCC, which strives to ensure that market participants can finance the real economy as effectively as possible. The ERCC's semi-annual repo survey shows trends; enhancing market infrastructure issues has always been high on the agenda; and the legal robustness and protection afforded by the GMRA is core to the well being of the international repo market.

Punctual commentary, such as today's updated study, helps convey understanding of where more work is needed. Analysing, discussing and solving highlighted problems contributes to achieving the ultimate goal of perfect collateral fluidity"

For more information about the European repo market and the repo product please see FAQS on repo

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International Capital Market Association (ICMA)
ICMA is the trade association for the international capital market with over 530 member firms from 60 countries, including banks, issuers, asset managers, infrastructure providers and law firms. It performs a crucial central role in the market by providing industry-driven standards and recommendations for issuance, trading and settlement in international fixed income and related instruments. ICMA liaises closely with regulatory and governmental authorities, both at the national and supranational level, to help to ensure that financial regulation promotes the efficiency and cost effectiveness of the capital market
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ICMA European Repo and Collateral Council (ICMA ERCC)
The ICMA ERCC is a special interest group established under the auspices of ICMA to bring together the major institutions active in Europe's cross-border repo and collateral markets.