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News from the International Capital Market Association (ICMA)

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For immediate release

Latest ICMA survey sets baseline size of the European repo market at EUR 5,379 billion

(London, UK) The European Repo and Collateral Council of the International Capital Market Association (ICMA) has released the results of its 31st semi-annual survey of the European repo market. The survey, which calculates the amount of repo business outstanding on 8 June 2016 (prior to the Brexit vote in the UK) from the returns of 67 offices of 63 financial groups, mainly banks, sets the baseline figure for market size at **EUR 5,379 billion**, a 4.1% decrease on the December 2015 figure of EUR 5,608 billion and a year on year decrease of 1.6% from the survey in June 2015.

The decline in the baseline figure since the previous survey largely reflects the reduced number of survey participants. However, a comparison of a constant sample of survey participants shows a small, largely seasonal, rise of 0.5% since December but a year-on-year decline of 1.6%, confirming that the overall trend for repo market activity continues to be downward.

Download the 31st ICMA European Repo Market Survey

This long term reduction in repo activity may be attributed to the impact of regulation, including new liquidity and leverage regulations. However, the survey shows that G-SIFIs (global systemically important financial institutions) with strong investment banking franchises have taken the opportunity to increase the size of their repo books, perhaps because there is scope provided by the phased implementation of these new regulations. National differences in the implementation of the new rules may have also created opportunities for some banks. If this is the case, then further contraction can be expected in the market.

Godfried De Vidts, Chair of ICMA's ERCC commented: "Today's data from our long-standing survey gives a rather mixed picture of the repo market. Repo markets have been subjected to regulatory and prudential measures that taken all together may jeopardise the real economic benefit of this product. But, as we embark on mandatory clearing for OTC derivatives, adding buy-slide clients, the impact of this regulation is not always clear. The ERCC has always encouraged transparency and we look forward to continuing our constructive work with regulators to make sure these market signals are captured correctly and appropriate measures taken."

Main survey findings
Government securities: the most dramatic change in the latest survey is the jump in the share of collateral represented by government securities to 85.8% from 78.6% of the European fixed income collateral in the survey. The most likely cause is the forthcoming

implementation of reforms to money market mutual fund in the US in October, which is encouraging many prime funds to transform themselves into government securities funds in order to avoid more onerous operating conditions. Some European banks have been reliant on US funds for a significant share of their US dollar funding. But money market mutual fund regulation may not be the only factor. Demand for government securities is also buoyant because of the need for high quality liquid assets (HQLA) to meet liquidity requirements. This seems to have been driving a recovery in the share of German government bonds.

Duration: new regulation does not yet seem to have driven a sustained collective lengthening of the duration of funding in the repo market. This may, in part, reflect a lack of longer-term funding, the supply of which has been reduced by reform of money market mutual funds, which have been forced to shorten the duration of their of investment, even in secured products such as repo.

Asian repo: for the first time, the survey has tried to break out Asian repo business conducted in Europe and the role of Eurobonds as collateral. Some 0.5% of cash was in Asian currencies other than the Japanese yen and 1.2% was in non-Japanese Asian collateral. Eurobonds accounted for 2.6% of repo collateral in Europe. However, these numbers are expected to rise in future surveys as more participants are able to answer the new questions.

The survey further continues to show the importance of CCPs in the European repo market, which regulatory measures are likely to encourage. Reflecting this, the ICMA European Repo and Collateral Council has published a short study on the trade registration models used by European central counterparties (CCPs) for repo transactions. This focuses on a specific issue ("the counterparty gap") that emerged from a broader analysis of CCPs' trade registration models.

The Counterparty Gap - A study for the ICMA European Repo and Collateral Council on the trade registration models used by European central counterparties for repo transactions.

For more information about the repo product and the market see Repo FAQs

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International Capital Market Association (ICMA)

ICMA is the trade association for the international capital market with over 500 member firms from almost 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 ensure that financial regulation promotes the efficiency and cost effectiveness of the capital market www.icmagroup.org

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.