International
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Association

News from the International Capital Market Association (ICMA)

Dreikönigstrasse 8, CH-8002 Zurich
www.icmagroup.org
Please see foot of release for contact details

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For immediate release

Latest ICMA survey sets baseline size of the European repo market at EUR 5,656 billion
Study points to collateral scarcity and market dislocation at year-end 2016

(London, UK) The European Repo and Collateral Council of the International Capital Market Association (ICMA) has released the results of its 32nd semi-annual survey of the European repo market. The survey, which calculates the amount of repo business outstanding on 7 December 2016 from the returns of 65 offices of 62 financial groups, sets the baseline figure for market size at **EUR 5,656 billion.**

Using a consistent sample of banks that have contributed to the last 3 surveys, the market shows 0.8% year on year growth and 2.4% growth from the June 2016 survey. The size of the repo market remains static, with some seasonal fluctuations. Negligible real growth in the repo market, the mechanism by which collateral is moved around the financial system, at a time when demand for collateral is increasing is indicative of a market under stress.

Download the 32nd ICMA ERCC European Repo Market Survey.

The results of the 32nd survey point to increasing demand for collateral in the form of High Quality Liquid Assets (HQLA):

- The demand for HQLA, was reflected in further growth in the share of government bonds in the repo market and an increase in the share of direct trading over electronic trading (to 60.6% from 55.9% in June 2016). There was also a lengthening of maturities to meet the regulatory horizon of the Liquidity Coverage Ratio. Direct trading provides the flexibility needed for such trades.
- There was growth in cross-border repos with counterparties outside the eurozone. The demand for HQLA was reflected in a reversal in net flows, with counterparties outside the eurozone becoming net sellers of collateral to the rest of the market.
- Market share of General Collateral financing systems in the survey reduced. Firms would have been reluctant to have such collateral automatically allocated by GC financing systems at relatively cheap GC repo rates (which were close to the ECB deposit rate) when they could repo out at better rates bilaterally.

The repo market at year-end 2016
A further detailed study of conditions in the euro repo market at year end 2016 shows that market participants experienced extreme volatility and market dislocation as they tried to meet their needs for collateral in the form of HQLA to meet regulatory requirements. The study, produced by Andy Hill on behalf of the ICMA ERCC, is based on market data and interviews with repo market-makers, buy-side firms, and infrastructure providers.

It supports the view that the year-end break-down was the result of a perfect storm driven by heightened demand for high quality liquid assets, the ECB's quantitative easing program, and further regulatory pressure on banks' balance sheets resulting in scarcity of HQLA.

Closed for business: a post-mortem of the European repo market break-down over the 2016 year-end

Godfried De Vidts, Chairman of ICMA's ERCC said: 'The 2016 year-end was the first real test for the market since the Lehman default and sovereign bond crisis (when the market functioned relatively effectively). If the extreme volatility and dislocations witnessed at the end of December are an indication of future market resilience, we should be concerned. Market behaviour since the year-end, and forward pricing pressures for the March quarter-end, would seem to suggest that we may be entering a new normal for the repo market. Turbulence in the repo market will ultimately be felt most by the pension funds, insurance companies and asset managers to whom citizens entrust their money. Since demand for HQLA, quantitative easing, and pressures on banks' balance sheets are only set to increase, careful fine-tuning of some of the technical measures put in place by regulatory reforms, already being considered by the authorities, is fully justified."

Best Practice in the European Repo Market
ICMA's ERCC has published its revised Guide to Best Practice in the European Repo Market. Based on detailed input from experienced, current market practitioners, the Guide's purpose is to help foster a fair and efficient European repo market by recommending practices which market experience suggests can help avoid uncertainty or disagreement about transactions, and consequent delay or disruption to repo trading and settlement.

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

Contact details for further information

Allan Malvar	Margaret Wilkinson
+44 20 7213 0322	+44 20 7213 0323
+44 7738 696 451	+44 7931 100 499
allan.malvar@icmagroup.org	margaret.wilkinson@icmagroup.org

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.