News from the International Capital Market Association (ICMA)
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22 June 2017
For immediate release

ICMA publishes study into the state and evolution of the European credit repo market

The International Capital Market Association (ICMA) has today published a study entitled 'The European Credit Repo Market: The cornerstone of corporate bond market liquidity' which explores and describes the state and evolution of the European corporate bond repo and securities lending market (the 'credit repo market').

This study builds on ICMA's previous work with respect to both corporate bond market and repo market evolution and liquidity, and investigates the European credit repo market from the perspective of its role, structure, participants, dynamics, external impacts, challenges, opportunities, and potential evolution, particularly to the extent that this plays a pivotal role in overall corporate bond market liquidity.

Among the findings of the study:

- The credit repo market is, on many levels, fundamentally different to the larger sovereign bond repo markets. The primary, though not exclusive, role of the credit repo market is to help facilitate the liquidity provision of corporate bond market-makers. Corporate bond market-makers are reliant on a functioning credit repo market, both to fund any long positions that they take onto their books as well as to cover their short sales in order to make good delivery. To the extent that efficient and liquid corporate bond secondary markets are essential in supporting the vital link between corporate capital raisers and investors, the health of the credit repo market plays a direct and critical role.

- The European credit repo market appears to work well, though the capacity for the market to function effectively is highly dependent on the supply of corporate bonds into the market. The extent to which buy-side holders are able and willing to lend their holdings back into the market, whether directly or through agent lenders, has a direct bearing on the ability and willingness of banks to support the market-making function that underpins bond market liquidity. For the most part, supply into the European credit repo market is relatively good, particularly with respect to investment grade corporates. And while repo rates for specials, particularly in the high yield space, can be expensive and volatile, there is usually still availability.

- The changing nature of the underlying market, with a trend toward smaller trade sizes and more rapid turn-over of dealer positions, which is making sourcing supply more difficult. While there may be plenty of bonds in the lending programmes, there is little or no economic incentive to lend small sizes for very short-periods.

- The biggest challenges to the health of the credit repo market are coming from regulation: in particular, the CSDR mandatory buy-in regime and the Net Stable Funding Ratio (NSFR). There is broad concern that the mandatory buy-in regime will be a significant deterrent to lenders of corporate bonds, and so will have a material impact on overall supply, particularly with respect to lower credit or less liquid corporate bonds. Meanwhile, NSFR will increase trading costs and limit the capacity of banks to fulfil the critical role of repo market intermediation.

The study concludes that while ongoing and future challenges to supply and intermediation will ultimately determine the credit repo market's ability to play its pivotal role in supporting corporate bond market liquidity, there would seem to be scope for creating efficiencies through automating many of the highly manual and labour-intensive processes of the market. However, automating the credit repo market is not straightforward, given the intricacies and nuances of the market, with the market becoming even more complex and fragmented with every new layer of regulation.

The study is a joint initiative of the ICMA **European Repo and Collateral Committee** (ERCC) and the ICMA **Secondary Market Practices Committee** (SMPC).

Download 'The European Credit Repo Market: The cornerstone of corporate bond market liquidity'

Notes for editors

International Capital Market Association (ICMA)
ICMA represents financial institutions active in the international capital market and has more than 500 members located in 60 countries. ICMA's market conventions and standards have been the pillars of the international debt market for almost 50 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.
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