



Press release

News from the International Securities Market Association (ISMA)

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I S M A

Please see foot of release for contact details

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FOR IMMEDIATE RELEASE

Change to ISMA's rulebook will reduce risk in the international securities market

(London, UK) The International Securities Market Association (ISMA) has today announced a change to its rules and recommendations governing trading in the international securities market by bringing ISMA's rulebook more in line with the TBMA/ISMA Global Master Repurchase Agreement (GMRA). The rule change, shortening the minimum buy-in period between a failure to deliver securities and the execution of a buy-in from the market from 12 to 5 business days, will take effect from January 1, 2004.

John Langton, ISMA's Chief Executive and Secretary General commented; "This harmonisation of ISMA's buy-in rules with the close-out provisions in the GMRA has been achieved simply and quickly by all parties co-operating in the best interests of the market, clearly demonstrating the benefits of a self regulatory regime in ensuring best practice."

The majority of cash trading in the international securities market, the largest market for raising international capital, takes place subject to ISMA's rules and recommendations. These rules permit the buyer of securities to 'buy-in' the securities should the seller of the securities fail to deliver them by a specified date, with the difference between the market price and the contract price to be settled between the parties. Similarly the GMRA, the standard agreement for the international repo market, gives the parties certain rights should the seller fail to deliver securities on the purchase date or the buyer fail to deliver equivalent securities on the repurchase date.

Previously a discrepancy in timing between ISMA's buy-in rules and the GMRA potentially exposed a party who was both a buyer in a cash trade subject to ISMA's rules, and a seller under a repo transaction governed by the GMRA, to the risk of not being able to recover from the cash seller the full amount required to pay to the repo counterparty. Market participants have been discouraged by this basis risk from borrowing bonds through a repo transaction to cover short positions, leading to increased credit risk. The harmonisation of the time periods in ISMA's buy-in and sell-out rules with the GMRA makes borrowing in the repo market more attractive to investment banks and is likely to increase activity in the market.

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More follows/ ...

Notes for editors

1 International Securities Market Association (ISMA)

ISMA is the self-regulatory organisation and trade association for the international securities market. For over 450 member firms in some 50 countries world wide, ISMA oversees the efficient functioning of the market through the implementation and enforcement of a self-regulatory code covering trading, settlement and good market practice. The Association also provides its member firms - and other users - with a range of services, products and support.

ISMA has devoted considerable attention to developing a standard master agreement for repo transactions in conjunction with The Bond Market Association in New York (formerly the Public Securities Association (PSA)). The first version of the TBMA/ISMA Global Master Repurchase Agreement (GMRA) was published in 1992, followed by a substantially revised version in 1995. Due to its versatility and adaptability to suit local law and practice, it has since become accepted as the international standard for repo transactions. The most recent version of the GMRA, taking into account market developments since 1995, was published in 2000.

2 The European repo market

Repos, or repurchase agreements, are simply short-term loans, where a security, usually a government bond, is used as collateral. They are principally used to fund bond positions in the wholesale financial markets, which in turn are used for hedging and arbitrage strategies against derivatives; the repo market therefore underpins the functioning of the financial markets as a whole. Despite being pivotal to the securities market in Europe, figures on repo market size are difficult to obtain. ISMA's semi-annual surveys are acknowledged to provide the most reliable analysis of the market yet produced, the most recent survey which took place in June 2003 set the lower limit for the size of the market at EUR 4 trillion.

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