Press release

News from the International Securities Market Association (ISMA)

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ISMA

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release: immediate

European repo market size hits EUR 5 trillion
Latest ISMA survey reveals strong growth.

(LONDON, UK) The International Securities Market Association (ISMA) today released the results of its eighth semi-annual survey of the repo market in Europe, conducted on December 8, 2004. The repo market is pivotal to other financial markets, particularly those in bonds and derivatives, as it is the main source of financing for dealers. Repo, being a collateralized loan provides a secure means of lending and, for borrowers, an economic means of leverage.

The ISMA survey, which measured the amount of repo business still outstanding at that date from 76 participating institutions, shows that the lower boundary figure for the size of the market is now **EUR 5 trillion**. The actual size of the European repo market is clearly much larger, making it one of the largest financial markets in Europe.

The survey demonstrates continued strong growth in the market of up to 32% in the year from December 2003, most of which took place in the first half of 2004.

Godfried De Vidts, Chairman of ISMA's European Repo Council, commented: "The repo market has achieved maturity but we foresee that its use will be widened to all banks in Europe as, under the capital adequacy requirements of Basle II, the emphasis will be on secured rather than unsecured funding. Future development of the repo market will be dependent to a large extent on the correct infrastructure for clearing and settlement being in place. Work by CESAME – the EU expert group on clearing and settlement – on integrating EU securities and settlement systems, will pave the way for the development of repo in the new EU member states when they join the single currency in the next few years. The financing of new asset classes like ABS/MBS (asset-backed or mortgage-backed securities) will give a further boost to the repo markets in Europe".

One of the most important developments in the repo market in recent years has been the growth of electronic trading. Along with spot FX and bonds, repo is one of the few OTC markets in which electronic trading has been unequivocally successful. The share of repo trading attributable to electronic trading remains fairly constant at 21.3%. This figure includes electronic trading in which counterparties see each other's name as well as anonymous trading using a central clearing counterparty (CCP) to stand between counterparties. The market share of repo deals transacted anonymously rose to 11.7% over the year to December. The survey suggests that, in terms of market share (but not in terms of

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absolute value or turnover), the growth of electronic trading may have paused for the moment. Electronic trading continues to be concentrated in very short-term transactions, whereas voice-brokers - whose share has declined to just over 24% - dominate the higher-margin longer-term repos and forward repos.

The latest survey shows a decline in the market share of collateral issued by countries in the Eurozone to 66.3% (down from 70.5% in December 2003), this is mainly accounted for by a sharp decrease in the use of German securities as collateral, possibly indicating a slowdown in the growth of the Eurozone repo market.

The share of outstanding repo business in Europe settled though tri-party repo arrangements declined slightly after a substantial increase in market share in December 2003 but still accounts for 9.8% of outstanding business, well above its historical levels. Tri-party repo is a custody solution in which a third-party custodian manages cash and collateral accounts for the repo counterparties - outsourcing the bank’s back office and saving on settlement costs while ensuring the security of settlement.

The latest survey contains for the first time an estimate (by participating voice-brokers) for the share of ‘specials’. These are repo transactions in collateral for which there is such strong demand that buyers are willing to offer cash in exchange at below the normal ‘general collateral’ (GC) repo rate. The share of specials in the brokered market was revealed to be 6.4%.

The surveys are conducted by the ISMA Centre at the University of Reading in the UK, at the request of the European Repo Council (ERC), a body established under the auspices of ISMA to promote and represent banks active in Europe’s repo markets. A sample of financial institutions in Europe were asked for the value of their repo contracts that were still outstanding at close of business on December 9, 2004. Replies were received from 76 offices of 69 financial groups, representing the majority of significant players in the European repo market. All institutions who participate in the survey automatically receive, in confidence, a list of their rankings in the various categories of the survey. The ISMA survey is the only authoritative source of data on the size and composition of the European repo market.

ISMA’s next repo market survey is due to take place on Wednesday, June 9, 2005

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Notes for editors

1 Obtaining copies

ISMA’s *European repo market survey Number 8 – conducted December 2004 is* available for download free of charge from ISMA's web site at www.isma.org/surveys/repo/latest.html

2 The 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

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surveys are acknowledged to provide the most reliable analysis of the market yet produced, giving an insight into its structure, growth and size.

3 International Securities Market Association (ISMA)

ISMA is the self-regulatory organisation and trade association for the international securities market. For some 430 member firms in almost 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. 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 and is backed by legal opinions on its enforceability in more than 30 jurisdictions worldwide. The most recent version of the GMRA, taking into account market developments since 1995, was published in 2000.

4 European Repo Council (ERC)

The International Repo Council (IRC) is a special interest group established by ISMA for members active in the international repo markets. Beneath the level of the IRC, regional repo councils may be established to represent the repo market of a particular geographic area. The European Repo Council regional council (ERC) is the first such regional council to be established. Its members comprise the major banks and securities houses active in Europe's cross-border repo markets.

5 ISMA Centre

In 1991, ISMA sponsored a professorship in investment banking at the University of Reading in the UK, which led to the creation by the University of the ISMA Centre. The ISMA Centre's first responsibility was to provide the tuition expertise for ISMA's practitioner programmes. Since then, it has grown to become one of the world's major centres of academic excellence in the study of financial markets and is internationally recognised as 'The Business School for Financial Markets'.

6 Contact details for further information

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