



# Press release

News from the International Securities Market Association (ISMA)

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I S M A

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release: immediate

## **ISMA releases latest figures on European repo market Minimum size of market now over EUR 4.5 trillion**

(LONDON, UK) The International Securities Market Association (ISMA) today released the results of its seventh semi-annual survey of the repo market in Europe, conducted on June 9, 2004. The survey measured the amount of repo business still outstanding at that date from 81 participating banks, setting the lower boundary figure for the size of the market at over **EUR 4.5 trillion**. This makes repo one of the largest financial markets in Europe.

Growth in the repo market was estimated at 19% year on year. Most of this growth took place in the six months to June, reflecting recovery in fixed income trading after a slowdown in the latter half of 2003.

This latest survey shows that growth in the electronic trading of repo has accelerated and now accounts for almost 24% of total reported business in the market, almost equalling the volume that goes through voice-brokers. This figure includes electronic trading in which counterparties see each other's name and anonymous trading using a central clearing counterparty (CCP) to stand between counterparties. The market share of repo deals transacted anonymously on an automated trading system rose sharply over the year to reach 11.6% in June.

For the first time the survey also includes figures on repo turnover supplied directly by the main automated trading systems in Europe. This additional data reveals that electronic systems dominate trading at the very short and more commoditised end of the market where contracts have remaining terms to maturity of 1 month or less, while direct inter-dealer trading and trading via voice-brokers account for the overwhelming bulk of longer-term and more complex trading activity.

The results of the survey confirm that the share of outstanding repo business in Europe settled through tri-party repo arrangements remained fairly steady after a substantial increase in market share in December 2003 and accounts for 10.9% of outstanding business. (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). This kind of repo transaction effectively reduces operational risk - an important consideration for banks in the light of the capital adequacy requirements of Basel II.

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Godfried De Vidts, Chairman of ISMA's European Repo Council, commented: "Repo has assumed even greater strategic significance for financial institutions in Europe as they seek to mitigate the regulatory charge to be imposed by Basel II; the survey clearly demonstrates continued strong growth in the use of repo, as its benefits as a risk management tool become more widely recognised".

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 June 9, 2004. Replies were received from 81 offices of 75 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.

ISMA's next repo market survey is due to take place on Wednesday, December 8, 2004

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#### **Notes for editors**

##### **1 Obtaining copies**

ISMA's *European repo market survey Number 7 – conducted June 2004* is available for download free of charge from ISMA's web site at [www.isma.org/surveys/repo/latest.html](http://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 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 440 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.

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#### **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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