ICMA

International Capital Market Association

The European Repo Market Factsheet

What is repo?

- A repo is an immediate sale of securities and a simultaneous commitment by the seller to repurchase the same quantity of the same issue of securities from the buyer in the future at a different price.
- During the repo, the seller of securities has the use of cash and the buyer has the use of the securities. Should the seller fail to repurchase the securities at maturity, the buyer is free to recover his cash by permanently selling the securities. The securities therefore act as '**collateral**' and reduce the risk to the buyer.
- The repurchase price of a repo is equal to the sale price plus '**repo interest**' to the buyer, which is calculated using an agreed '**repo rate**'.
- The rights and obligations of the parties in a repo should be set out in a written contract, in particular, what happens if one of the parties defaults. The most commonly-used repo contract is the ICMA's **Global Master Repurchase Agreement (GMRA).**

Who uses repo?

- **Market-makers** - who are essential to the liquidity of the securities markets and efficient price discovery - have to borrow cash to fund the inventories and temporary long positions and borrow securities to cover the temporary short positions that routinely arise when market-making. Repo is their most cost-effective source of funding. It is also a means of borrowing of securities. Market-makers also borrow securities in the repo market to avoid settlement failures where an outgoing delivery depends on an incoming delivery that does not arrive in time.
- **Risk-averse short-term investors** such as money market mutual funds use repo as a safe asset that can match their short-term investment horizon.
- **Liquidity managers** - including treasurers in both financial and non-financial firms - need a resilient source of short-term funding to meet sudden cash calls. For example, an insurance company may face unexpected claims.
- **Long-term investors** such as pension funds and asset managers can use repo to meet sudden cash calls without having to liquidate bonds in their investment portfolios. This need has been increased by the roll-out of the regulatory requirement to start paying margin on derivatives hedges.
- For most **central banks**, the security offered by repo makes it their preferred tool for open market operations.

Types of repo

- There are two species of repo: the '**repurchase transaction**' (called a 'classic repo' in the US) and the '**buy/sell-back**'. Repurchase transactions are always subject to a written legal agreement like the GMRA, whereas buy/sell-backs used to be undocumented. There are no legal differences between a repurchase transaction and a documented buy/sell-back. Repurchase transactions and buy/sell-backs differ substantially only in their mechanics.
- The buyer's side of a repo is sometimes called a '**reverse repo**'.
- A **triparty repo** is not a different type of repo. It is simply a repo between two parties for which collateral management has been delegated to a third-party agent, usually a custodian.
- Most repos are agreed for a **fixed term** and most of these are short-term but they can extend out to one or more years. Some fixed-term repos start on **forward** dates, which may be up to several months in the future.
- Repos can also be open-ended. These **open repos** are agreed without a maturity date but can be terminated by either party at any time.
- Most repos pay a **fixed repo rate** but parties can agree a **floating rate**. Floating repo rates are linked to an interest rate index, usually plus or minus a spread of several basis points. The most common floating rate indices are overnight indices such as €STR in euros, SOFR in US dollars and SONIA in sterling.
- Parties can agree to "clear" a repo across a central counterparty (CCP), which means the CCP becomes the buyer to every seller and the seller to every buyer and guarantees the transaction to both parties.

How is repo traded?

Direct repo	Repo can be negotiated directly between the two counterparties by telephone or electronic messaging. Direct repo trading forms the over-the-counter (OTC) repo market.
Voice-brokered repo	A repo can be arranged by a voice-broker, who broadcasts prices and other information among its clients and puts buying and selling interests in touch when their bids and offers match or cross.
Electronic repo	Repos can be executed across an electronic platform. The platform can be automatic in that it matches opposite orders input into a central limit order book with no further intervention required from the parties. Electronic trading can also be semi-automatic in that parties click on and accept orders displayed on the order book, after which there is no need for further intervention. Finally, electronic trading can be automated, which means the platform facilitates the process of negotiation, which requires the parties to interact over the platform in order to complete the transaction.

ICMA repo survey

- The ICMA survey measures the outstanding value (not turnover) of the repos plus the reverse repos on the books of the survey sample - usually about 60 banks - at close of business on the second Wednesday of June and December.
- Only automatic electronic trading is separately identified by the survey.
- Participants do not report repos with central banks where these are for monetary policy purposes.
- The survey results are not adjusted for double-counting where both participants report the same transaction.
- The survey has been running since 2001. To access the latest survey as well as previous versions, please go to ICMA repo survey.

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