

PRESS RELEASE

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Monday, 8 April, 2013

Release: immediate

ICMA European Repo Council calls for exemption of repo transactions from FTT

The proposed EU Financial Transaction Tax would cause the short-term repo market in Europe to contract by an estimated amount of at least 66%, with serious negative consequences for other financial markets and the real economy, according to a study commissioned by the European Repo Council of the International Capital Market Association. The study, authored by Richard Comotto, Senior Visiting Fellow at the ICMA Centre, Henley Business School, University of Reading, argues that it is essential for secured financing, such as repo and securities lending, to be exempted from the FTT to ensure an efficient debt capital market and support the continued collateralisation of the financial markets.

The repo market is crucial to the efficient functioning of almost all financial markets; it provides cost effective and secure funding for professional financial intermediaries, which in turn lowers the cost of financial services to investors and issuers.

The current proposal is for a minimum flat rate tax of 0.1% on the gross market value of cash transactions with financial institutions located in the 11 EU member states which have signed the enhanced cooperation regime. The flat rate is applied regardless of the length of term of the repo, making repo trading for terms of less than 12 months (and possibly longer) economically unviable.

A major contraction in the repo market of the EU11 would have a number of unfortunate consequences.

The loss of repo and the lack of an alternative secured financing instrument would pose serious problems for institutional and corporate investors, who would be forced into unsecured deposits which are not subject to FTT.

Lending by banks to industry would be compromised by banks being unable to readily borrow from institutional investors and manage their liquidity in the interbank market. The absence of an efficient repo market to underpin primary and secondary debt market activities would make it harder for financial institutions and firms in the real economy to raise adequate capital from banks but especially for non bank investors. The difficulty of raising working and investment capital would impose a competitive disadvantage on EU11 financial institutions, corporates and governments.

EU monetary policy would also be challenged by the disappearance of EU11 repo markets as repo provides the framework of collateralised transactions through which ECB monetary policy is transmitted.

The global regulatory framework for ensuring financial stability, being put together under the Basel regime and requiring the collateralisation of financial transactions would also be adversely affected. Collateral management would become too expensive and the infrastructure that supports the efficiency of collateral management would cease to be viable. Liquidity buffers would be harder to build up, other than in cash. The loss of short-term repo (and securities lending) would exacerbate systemic operational risk by removing the means of borrowing securities to prevent delivery failures.

Godfried De Vidts, Chair of ICMA's European Repo Council said: "Repo transactions fulfill a crucial role in financing the economy and are an increasingly important part of the regulatory landscape as a result of the Basel requirements moving financial institutions towards secured lending. Harming the efficient operation of this market by the imposition of a financial transaction tax would jeopardise central bank monetary implementation and be at odds with the various steps taken by the ECB to safeguard the single currency".

The study was launched on 8 April 2013 at a press conference hosted by the European Banking Federation in Brussels.

A copy of: 'Collateral damage: the impact of the Financial Transaction Tax on the European repo market and its consequences for the financial markets and the real economy' is available from:

www.icmagroup.org

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Notes for editors

For more information about the operation and functions of the repo market see:

<http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/short-term-markets/Repo-Markets/frequently-asked-questions-on-repo/>

International Capital Market Association (ICMA) and European Repo Council

ICMA represents financial institutions active in the international capital market worldwide. ICMA's members are located in 50 countries. ICMA's market conventions and standards have been the pillars of the international debt market for over 40 years, providing the framework of rules governing market practice which facilitate the orderly functioning of the market. The ICMA European Repo Council is a special interest group established under the auspices of ICMA to represent the major banks active in Europe's cross-border repo markets.