FESE AISBL
Avenue de Cortenbergh, 116-1000 Brussels
VAT: BE0878.308.670
Tel.: +32 2 551 01 80 – Fax : +32 2 512 49 05

FESE Response to IOSCO Consultation Report

IOSCO Consultation Report on Examination of Liquidity of the Secondary Corporate Bond Markets

Introduction:

The Federation of European Securities Exchanges (FESE) represents 36 exchanges in equities, bonds, derivatives and commodities through 19 Full Members from 30 countries, as well as 1 Affiliate Member and 1 Observer Member. FESE represents public Regulated Markets (RMs), which provide both institutional and retail investors with transparent and neutral price-formation.

At the end of 2015, FESE members had 9,201 companies listed on their markets, of which 6% are foreign companies contributing towards the European integration and providing broad and liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access the capital markets; 1,299 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their RM and MTF operations, FESE members are keen to support the European Commission's objective of creating a single market in capital markets.

FESE is registered in the European Union Transparency Register with number 71488206456-23.

FESE Comments:

1. Increase in issuance vs. secondary trading

As we know that bonds often trade more frequently in the first weeks of issuance. The increase in new issuances, due to the record low interest rates and other factors, in the recent years might make it appear as if there is no reduction in secondary liquidity.

2. US data skewing results

It is important to realise that there are significant differences between different countries and their bond markets. The developments in the US market seem to be different from other markets in some metrics. The US seem to be a positive outlier, and given the size of the US market, this might skew the overall results and conclusions. We would argue that the experience in Europe has been somewhat different to the US perspective. We would encourage IOSCO to look into this deeper, and, for example, carry out a more geographical analysis. The results of such an analysis might show significant differences between different markets and jurisdictions. This is important since there is not ONE single corporate bond market.

3. Transparency vs. Liquidity

We welcome the idea of investigating the effects of transparency on liquidity in bond markets through a new project of the IOSCO Committee 2. The discussions on introducing transparency in bond markets in the European Union, in MiFID II/MiFIR, were almost solely focusing on the 'dangers' of transparency. In FESE's view there is not enough focus on the benefits of transparency. We would encourage IOSCO to take a more balanced approach to this analysis.

FESE believes that the lack of transparency and information has in fact exacerbated the situation during and after the financial crisis, in particular the loss of investor confidence in general, the increase in aversion to credit risk and the loss of credibility in the credit risk assessors and in the methodologies used. More generally during the crisis, investors have moved to those markets with transparency.

Therefore, FESE would argue that pre-trade and post-trade transparency can play a positive role in enhancing liquidity, including in corporate bond markets.

4. Availability and Quality of Data

Access to better data (such as TRACE in the US) does not only enable us to get a better picture of the market, but it also eliminates information asymmetries, and could improve the functioning of the markets, as can be witnessed in the US. The availability of data and the quality of such data vary significantly across jurisdictions, which in turn can also skew the results and conclusions.

5. Retail vs. institutional trading

The European bond market is utilised by both banks and corporates to raise funds and it offers funding opportunities at competitive risk adjusted rates which help European companies to finance growth. The bond market is highly diverse, both in terms of the range of issuers and the terms and conditions for individual issues.

As a general remark, FESE supports the goal to broaden the investor base in EU bond markets and therefore there could be further analysis of retail participation in the markets taking into account the current markets practices and dynamics.