afme / **Briefing note**

BN10-03

MiFID Review – Non-Equities Transparency

Background

The European Commission (Commission) plans to launch in the course of 2010 a review of the Markets in Financial Instruments Directive (MiFID) which came into force on 1 November 2007.

MiFID introduced significant changes to the European regulatory framework for equity secondary markets. As part of the 2010 review, the Commission is expected to propose extending transparency requirements into the non-equities markets.

CESR, the Committee of European Securities Regulators, on 7th May 2010 issued a consultation paper in order to provide technical advice to the Commission in the context of non-equities markets transparency.

The paper sought to establish the existing levels or pre and post trade transparency in the following markets: Corporate Bonds, Structured Finance products (ABS and CDOs), Credit Default Swaps (CDS) and Derivatives (Interest Rate, Equity, Commodities and Foreign Exchange).

CESR also sought questions on which subset of products should be considered under its definition of corporate bonds (such as covered bonds) and also stated it is 27th May 2010 open hearing in Paris, that sovereign bonds would also be considered in the consultation.

AFME, BBA, and ISDA responded to the consultation on 4th June 2010.

Overview

At the heart of the transparency debate lie three key issues:

- Promoting a thriving market place which will enable wide participation and real benefit to the European economy.
- Encouraging greater education and transparency for smaller institutions without punitive impact on the wholesale marketplace.
- Calibrating the balance between protecting liquidity for market participants whilst also ensuring adequate transparency.

Liquidity should be most important factor considered when calibrating a regime for post-trade reporting. This component is difficult to measure and changes over time for bond instruments. Oversimplification of a post-trade regime without considering the liquidity of the instrument may serve to make the instruments less liquid.

It is the goal of all market participants that the European Fixed Income market continues to thrive and provide a tangible benefit to the real economy. Markets continue to remain volatile and so we recommend prudent approach to regulation to ensure that confidence in the markets is not further eroded.

We discuss the key points relating to each individual product category in related briefing notes, listed below.

AFME's position

When considering regulatory intervention to increase transparency in non-equities markets (excluding structured finance, which raises different issues and is covered in a separate note), the following factors should be considered:

1. The key roles the dealers play as intermediaries - committing capital, providing issuers access to funding and providing liquidity to investors - should not be underestimated.
2. There are fundamental differences between equities market and the fixed income market, which comprises diverse asset classes, each requiring its own appropriate calibration for transparency.
3. There is little retail involvement in fixed income market. Whilst increased participation of retail investors is encouraged, it should not be to the detriment of wholesale investors.
4. The majority of non-equities assets have very good levels of pre-trade transparency, although improvements can be made in certain important areas. The markets can do more to better organise and disseminate the information.
5. In determining appropriate starting points, we recommend limiting post-trade transparency to clearing-eligible products.
6. Any additional post-trade transparency measures should build on existing platforms and reporting requirements
7. Whilst additional transparency for standardised and liquid instruments may provide some benefit to participants, we recommend a phased approach to assess its impact.
8. It is important not to increase complexity and cause confusion to participants through provision of excess data. The cost of any such provision should ultimately be proportionate to the benefit it provides to the market.

AFME fully **supports full and immediate transparency to the relevant regulators** across all asset classes and jurisdictions covered in the consultation. It also **supports full industry cooperation** on all initiatives intended to create transparent and efficient markets.

A phased approach would enable the market to absorb the changes without adverse consequences.

Useful Publications

CESR Technical advice to the European Commission in the context of the MiFID review - Non- equity markets transparency

AFME Briefing Note BN10-01: MiFID Review
AFME Briefing Note BN10-02: MiFID Review – Equity Markets
AFME Briefing Note BN10-04: MiFID Review – Transparency in Corporate, Covered and Government Bonds
AFME Briefing Note BN10-05: MiFID Review – Transparency in Credit Default Swaps
AFME Briefing Note BN10-06: MiFID Review – Transparency in Interest Rate Derivatives
AFME Briefing Note BN10-07: MiFID Review – Transparency in FX Derivatives
AFME Briefing Note BN10-08: MiFID Review – Transparency in Equity Derivatives
AFME Briefing Note BN10-09: MiFID Review – Transparency in Commodity Derivatives

AFME Fifth Annual Market Liquidity Fixed Income Survey

AFME/ EPDA Price Discovery and Market Guide for the European Government Bonds Market

AFME Price Discovery and Market Guide for the European Corporate Bonds Market (due to be published Summer 2010)

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