
Press Release

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New report highlights European investor concerns over proposed MiFID transparency regime for fixed income

A significant proportion of European investors say that the MiFID II proposal to force all quotes in fixed income instruments to be firm and disclosed to the market, will have a negative impact on trading activity and reduce liquidity, according to new research from the Association for Financial Markets in Europe.

In AFME's *Investor Survey of Fixed Income Liquidity*, 56% of investors polled said they believe the MiFID II pre-trade transparency regime will have a negative impact on market activity through:

- a decline in trading volumes;
- a reduction in transaction size, compromising the execution of large orders;
- an increase in the cost of trading; or
- a stop to trading altogether.

The fixed income market continues its migration from voice to electronic trading, though more slowly than previously envisaged. More than one third (37%) of respondents said that electronic trading has increased over the past two years and 39% expect it to increase over the next 12 months. However, this growth is evolving from a low base: in 2012, 55% of investors conducted no more than 40% of their trades electronically.

The findings also show that the majority (63%) of investors believe a choice of both electronic and voice methods of trading is necessary in order to maintain optimal market liquidity. Compared to the large investors, a significant proportion of small investors¹ (23%) believe that voice is the only method of trading necessary to maintain optimal market liquidity.

In addition, the three key reasons highlighted by investors for choosing to trade by voice include 'to improve liquidity' (52%), followed by the 'size of the trade' (51%) and 'certainty of execution' (44%).

The *Investor Survey of Fixed Income Liquidity* findings will be discussed in more detail at AFME's 8th Annual European Market Liquidity Conference, which takes place in London on 13 February 2013.

Christian Krohn, a managing director at the Association for Financial Markets in Europe commented:

"The survey findings send out a clear investor message for European policymakers, namely that many investors believe MiFID's pre-trade transparency proposals² will have damaging effects on trading activity, especially with regard to large trades. The European Council and Parliament amendments to

¹ with assets under management of less than €5 billion

² The European Commission proposes that all quotes that investment firms agree to provide must be firm. In addition, these quotes must be disclosed to other clients and, below a certain size, are to be publicly disseminated.

limit MiFID requirements to trades below a certain size are to be welcomed. However the Council proposal to broaden the scope to illiquid instruments will still hamper trading activity.

“The survey also demonstrates the need to maintain the choice of both voice and electronic as methods of execution, which is seen by fixed income investors as essential to maintain optimal market liquidity.

“Proposals to force all over-the-counter voice trading to take place under MiFID’s proposed transparency rules will remove this flexibility and will have unintended damaging effects on liquidity.”

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Notes:

1. AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association through the GFMA (Global Financial Markets Association). For more information please visit the AFME website, www.afme.eu
2. AFME’s *Investor Survey of Fixed Income Liquidity* was carried out by Cicero Research which interviewed 100 investors, ensuring a balanced sample of European countries and types of organisation.
3. AFME’s *Credit Price Discovery and Market Data Guide* provides investors and other interested parties with an overview of the trading venues and prices and data providers. It can be found at <http://www.afme.eu/WorkArea/DownloadAsset.aspx?id=5260>
4. AFME’s latest briefing note on *Fixed Income Transparency* can be find at <http://www.afme.eu/WorkArea/DownloadAsset.aspx?id=7701>
5. Follow us on Twitter @news_from_afme

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