



**ICSA**

INTERNATIONAL COUNCIL of SECURITIES ASSOCIATIONS

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August 4, 2015

Ms. Susanne Bergsträßer  
Chair, Standing Committee on Secondary Markets (SC2)  
The International Organization of Securities Commissions  
C/ Oquendo 12  
28006 Madrid, Spain

Dear Ms. Bergsträßer:

**RE: Corporate Bond Market Liquidity**

The International Council of Securities Associations appreciated the opportunity to meet with you on June 15 at the IOSCO conference in London. We note that your Standing Committee has received a broad mandate to scope out the extent of reduced corporate bond liquidity in developed and emerging markets, and the appropriate policy remedies.

The general comments and questions expressed at our June meeting are as follows:

- Liquidity is a front and center issue that has spread from corporate to government bond markets and repo.
- How has reduced liquidity impacted market volatility, bond pricing, and financing patterns?
- A comprehensive approach to the bond market liquidity problem is needed, including quantitative analysis to assess the impact of regulatory reform in implementation; structural market changes; and cyclicalities, notably the low interest rate environment.
- Future regulation (e.g. Fundamental Review of the Trading Book, bank structural reform, and financial transaction taxes) could have further impacts on liquidity.
- An IOSCO position on bond transparency would be beneficial. Pre- and post-trade transparency calibration under MiFiD must be monitored closely.

- Automatic and inflexible mandatory buy-ins in European bond markets reinforce illiquidity and pricing problems.
- Over-regulation of highly regulated vanilla issuance could force out investors.
- While making for more efficient market access, electronic trading platforms cannot replace liquidity provided by market makers. Regulatory initiatives to foster capital markets funding should maximize interest in primary and secondary markets.
- Voluntary standardization of bond issuance could help to mitigate the problem but is not a “silver bullet”.


Market association publications on liquidity topics are summarized below and attached.

ICSA has formed a working group to assess the bond liquidity problem in developed and emerging markets, and will examine various regulatory remedies for individual jurisdictions. The working group has representation from industry representatives in markets across the globe. This work may be helpful in carrying out your own committee’s work. We would be delighted to consult with your group whenever it might be appropriate.

We also look forward to accommodate you on your consultative report at the appropriate time.

Kindest personal regards.

Yours sincerely,

A handwritten signature in black ink, appearing to read "I. C. W. Russell". The signature is written in a cursive style with a long, sweeping underline.

Ian C.W. Russell

Chairman

c.c.: David Wright, Secretary General, IOSCO

Greg Medcraft, Chair, IOSCO

## ASSOCIATION PUBLICATIONS

*Market Making: Key for Efficient Markets That Finance Economic Activity/Amafi, AMF, Assosim, bwf, SSDA - April 2015 (attached)*

- Emphasises that marketing making is fundamental to financing governments and firms

*Global Financial Markets Liquidity Study/ PWC (GFMA, ISDA, IIC) – publication anticipated Q3-15*

- Analyses market-based evidence of trends in liquidity and potential causes and influences.

*The current state and future evolution of the European investment grade corporate bond secondary market: perspectives from the market / ICMA - November 2014 / <http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Secondary-Markets/survey-report-liquidity-in-the-european-secondary-bond-market-perspectives-from-the-market/>*

- Describes liquidity concerns
- Based on interviews
- Assesses impact of regulation
- Metrics: bid-ask, volumes, trade count, trade size, RBS meter

*ICMA Impact Study for CSDR Mandatory Buy-ins / ICMA - February 2015*

<http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/Secondary-Markets/csdr-settlement-discipline/>

- Automatic and inflexible mandatory buy-ins would have profound negative effects on pricing and liquidity
- Based on interviews, many bond and repo market participant would pullback as consequences would be so severe
- Cost financing as measured in increased bid-ask spreads would be significant

*The current state and future evolution of the European repo market / ICMA – publication anticipated October 14*

- Qualitative study based on semi-structured interviews with market-makers, users, intermediaries, infrastructure providers, central banks, and DMOs
- Explores market evolution: liquidity, pricing, business models, products, market structure, challenges, and opportunities

*Trading Price Transparency in Japanese Corporate Bond Market / JSDA - June 2015 (attached)*

- Describes Japanese corporate bond market
- Dealer quotes have been published on trading day since 1966
- From 2 November traded prices will be published next day (except for “volatile” bonds)

*TCMA*

- The Board mandated a study of market liquidity in June
- A Market survey is being conducted with results publication anticipated Q3-15