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Recommendations by the Expert Group on European Corporate Bond Markets

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Making issuance easier for companies

RECOMMENDATION

Amend the Market Abuse Regulation to alleviate disproportionate requirements regarding market soundings

RATIONALE

- **The Market Abuse Regulation has significantly increased the obligations regarding market soundings. The risks and uncertainties linked to the implementation of these new rules and their interpretation by National Competent Authorities can deter intermediaries from carrying out market soundings.**

Making issuance easier for companies

RECOMMENDATION

Support transparent and fair allocation methods on the high yield market

RATIONALE

- **On the high yield segment of the corporate bond market, the allocation process is typically left to the discretion of one or more lead bank(s) and therefore more opaque than on the investment grade segment**
- **even though in principle issuers can influence the allocation process, the extent to which high yield issuers do so varies greatly – particularly in the case of smaller, less frequent issuers.**

Making issuance easier for companies

RECOMMENDATION

Enable National Promotional Banks to support SMEs for issuing corporate bonds

RATIONALE

- **Corporate bond markets are fragmented and bond issuances are concentrated in a few countries whereas, in other Member States, bond markets are relatively small or less developed**
- **In this context, National Promotional Banks could play a role in developing corporate bond markets by facilitating access to funding for SMEs**

Making issuance easier for companies

RECOMMENDATION

Enhance the alleviations of the Growth Prospectus foreseen in the Prospectus Regulation

RATIONALE

- **The Prospectus Regulation adopted on 30 June 2017 simplifies the rules and streamlines related administrative procedures.**
- **More needs to be done to make it cheaper and simpler for small businesses to access corporate bond markets**

Making issuance easier for companies

RECOMMENDATION

Further encourage private placements of corporate bonds

RATIONALE

- **Private placement emerges as an attractive access point to debt markets, in particular for smaller, and in some instances lower-rated issuers**
- **Despite this success, the development of private placement markets remains very uneven, meaning that there is room for smaller, more standardised issuances, which could be a step towards corporate bond markets for smaller issuers in particular**

Ensuring an appropriate level of information and transparency

RECOMMENDATION

Explore mechanisms that would enable smaller issuers to obtain reliable credit worthiness assessments

RATIONALE

- Ratings can help investors to assess the credit risk and therefore the price of an issuance.
- However, resorting to the services of a Credit rating Agency can be very expensive for small issuers.

Ensuring an appropriate level of information and transparency

RECOMMENDATION

Closely monitor the impact of MiFID II rules on the availability of research, especially for SMEs, and react promptly is necessary

RATIONALE

- **requiring the cost of research to be unbundled from the cost of execution may result in a reduction of the number of issuers covered by research, and/or the quality of this research, as well as the diversity of views from different research analysts**

Increasing access and options for investors

RECOMMENDATION

Harmonise ranking of creditors and definition of insolvency triggers at EU level, and increase transparency of investors' position in national creditors' rankings

RATIONALE

- **An efficient and straightforward insolvency framework is an important pre-condition for sustained investor interest in corporate bonds**
- **The current fragmentation of national insolvency frameworks across the EU discourages cross-border investments in corporate bonds by increasing uncertainty for investors**

Increasing access and options for investors

RECOMMENDATION

Take coordinated action to discourage any artificial inflation of primary orders

RATIONALE

- **When a new corporate bond is issued, the demand for bonds often largely exceeds the amount of bonds offered. This leads some investors to inflate their orders.**
- **This can be detrimental to other investors which, often constrained by strict internal rules, request only the amount which they ultimately seek to receive and end up being allocated a smaller portion of the issuance.**

Increasing access and options for investors

RECOMMENDATION

Recalibrate or alleviate Solvency II capital requirements for corporate bonds with a long tenor and review eligibility criteria of Matching Adjustment

RATIONALE

- **The very long term part of the bond market (maturities of 15 years and longer) market is clearly lagging other markets such as the US and British corporate markets, as well as the EU sovereign market**
- **the capital requirements associated with long term corporate bonds under Solvency II are excessively conservative. This deters investment by insurance companies in these assets.**

Increasing access and options for investors

RECOMMENDATION

Review and promote convergence of Member State practices with regard to internal crossing of orders

RATIONALE

- **while the internal crossing of orders does not bring visible liquidity to the market, it can bring efficiency to fund managers and best execution to their clients.**
- **Fund managers currently lack clarity over whether or not they are allowed to internally cross-buy and sell orders, notably due to divergent interpretations of UCITS and AIFMD rules by Member States**

Increasing access and options for investors

RECOMMENDATION

Adopt and implement the PEPP to facilitate retail exposure to corporate bond markets and promote convergence in MS interpretation of UCITS and AIFMD's marketing rules

RATIONALE

- **Retail investors play a minor role in corporate bond markets in the EU, holding only 3.8 % of euro area corporate bonds outstanding as of Q2 2016**
- **direct purchases of bonds by retail investors are complex and costly in Europe. In addition, most individuals do not have sufficient investable assets to purchase a bond directly.**
- **Their exposure to corporate bond markets could be facilitated through attracting investment solutions targeted at the retail market.**

Increasing access and options for investors

RECOMMENDATION

Identify and tackle obstacles to investors trading ETFs on exchange

RATIONALE

- **Passive investment strategies may be an effective way for retail investors to achieve exposure to corporate bonds at a reasonable price**
- **The growing importance of ETFs prompted concerns among some regulators on their impact on market stability – but given their limited size, potential impact on underlying securities and risks to financial stability remain marginal at this stage.**



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Thank you!

