European Commission

CAPITAL MARKETS UNION

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Recommendations by the Expert Group on European Corporate Bond Markets

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Ensuring the efficiency of intermediation and trading

RECOMMENDATION

EU authorities should review capital and liquidity requirements (Liquidity Coverage Ratio, Net Stable Funding Ratio, Leverage Ratio) on the basis of a quantitative assessment of their impact on market-making and corporate bond liquidity

RATIONALE

- **Since the financial crisis, regulatory reform efforts have aimed at making the financial system safer and more resilient. The EG acknowledges the need to enhance the capacity of the financial system to withstand shocks.**
- **But reduction in market liquidity raises the overall risk profile for the financial system and the economy as a whole.**
- **In addition, the EG argues that the treatment of corporate bonds in the calculation of some some prudential requirements does not adequately reflect their true value and resilience in times of stress.**

Ensuring the efficiency of intermediation and trading

RECOMMENDATION

Carefully manage the implementation and impact of the CSDR mandatory buy-in provisions

RATIONALE

- Currently, the regulation on settlement and central securities depositories (CSDR) requires market participants having failed to deliver a security to initiate a buy-in process.
- This creates risks for liquidity providers, investors and securities lenders, and has a negative impact on market efficiency and stability.

Supporting new forms of trading and improving the post-trade environment

RECOMMENDATION

Support the development of strong e-trading systems through (i) Industry groups guidance papers on good practices and (ii) regulatory leniency from regulators

RATIONALE

- **Electronic platforms offer new solutions to bring together buyers and sellers in timely and efficient manners.**
- **They have the potential to attract more participants to bond markets and reduce transaction costs.**

Supporting new forms of trading and improving the post-trade environment

RECOMMENDATION

Report in 2018 on how barriers to greater fixed income clearing are being addressed and identify best practices

RATIONALE

- **The fixed income post-trade environment in Europe remains highly fragmented, denying market participants access to deeper pools of liquidity and efficient risk mutualisation.**
- **Closed business models stifle innovation.**

Ensuring an appropriate level of information and transparency

RECOMMENDATION

Create a consolidated tape owned by ESMA with an interface accessible by all at a reasonable cost

RATIONALE

- Assessing the state of liquidity and the functioning of European corporate bond markets is difficult given the lack and fragmentation of data
- This is detrimental both to market participants and regulators, and hinders the development of European corporate bond markets and the creation of a Capital Market Union since activity data forms the foundation for regulatory requirements which again affect bond market liquidity

Ensuring an appropriate level of information and transparency

RECOMMENDATION

Encourage NCAs to adopt similar deferral regimes across European jurisdictions in regard to post-trade transparency requirements

RATIONALE

- The availability of reliable trade information can support price formation and hence attract more interest in corporate bond markets. But the potential variation across jurisdictions in post-trade information dissemination could be a disincentive to capital deployment for liquidity provision, as a market-makers position (having executed a trade) may be at risk until they are able to exit or hedge its position.
- Not harmonising the rules across Europe creates an unlevel playing field for both market practitioners and jurisdictions, contrary to the founding ideas of CMU.

Ensuring an appropriate level of information and transparency

RECOMMENDATION

ESMA to establish a specialist industry working group or consultation with experts to help formulate a suitable methodology for the yearly assessment of corporate bond liquidity (to determine a move to the next transparency threshold)

RATIONALE

- **A corporate bond is subject to pre and/or post-trade transparency requirements under MiFID II if it is considered liquid.**
- **Each year, ESMA will assess if liquidity has been negatively impacted and if a move to the next phase (i.e. tighter transparency thresholds) is warranted.**
- **Given the potential adverse implications on liquidity, the methodology has to be solid.**

Improving the supervisory and policy framework

RECOMMENDATION

Address overlaps and inconsistencies in the EU and national regulatory frameworks on corporate bonds by

- **assessing the differences between EU legislations**
- **streamlining and consolidating overlapping and inconsistent rules**
- **setting up a specialist industry group to advise regulators on how to adapt the framework for corporate bonds**
- **upgrading capacity and knowledge of all competent authorities and ensuring adequate training of supervisors and regulators**

RATIONALE

- **Overlaps and inconsistencies between different EU capital market laws also hold back the development of European corporate bond markets**

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Thank you!