

Q&A Memo

Corporate Bonds

What are corporate bonds, and why are they important?

Corporate bonds are debt securities that businesses issue and sell to investors to raise funds. They are an important source of funding for large and mid-sized companies, which can use the proceeds from bond sales to invest in growth and jobs. They offer businesses access to alternative, more diverse sources of funding. They also create new opportunities for European savers and investors. These are key objectives of the Commission's flagship capital markets union project.

Why is the Commission concerned about European corporate bond markets?

Issuance of corporate bonds in Europe has increased steadily in recent years, and is today more than double the 2007 level. This has been driven by low interest rates and ECB's bond purchases. However, questions remain as to how sustainable this trend will be when the economic environment changes. In addition, corporate bonds represent only 4% of the total funding for European businesses. This is far behind the 11% that bonds contribute to company financing in the US.

The main concerns raised in the [Capital Market Union](#) (CMU) consultation and the [Call for Evidence](#) were:

- a perceived reduction of liquidity in European secondary markets;
- the segmentation of corporate bond markets along national lines;
- barriers standing in the way of larger and more efficient European corporate bond markets.

The study by Risk Control that the Commission is publishing today also suggests that corporate bond market liquidity has deteriorated in Europe.

What will the Commission do to address these concerns?

The [CMU mid-term review](#) announced that the Commission will publish a communication with actions to improve the functioning of corporate bond markets.

Who will benefit?

Both European businesses and investors will benefit. The Commission wants to make it easier for companies to issue corporate bonds to finance their activities. This in turn will create new opportunities for savers and investors.

What are the main messages from the Commission expert group?

The expert group is concerned that corporate bonds have been regulated like equity. The experts ask European and national authorities to adapt regulatory approaches to the different characteristics and functioning of bond markets.

Experts also urge European authorities to accelerate the development of a consolidated tape for corporate bonds. This will help investors to make more informed choices by giving them reliable data on bond trading.

Another key recommendation is to increase supervisory convergence and streamline legislative overlaps and inconsistencies.

Many recommendations aim at making bond issuance easier for companies and increasing access for investors.

What is the Commission view on the expert group's recommendations?

The analysis and recommendations only reflect the views of the experts. They do not constitute the views of the Commission, nor give any indication on the approach that the Commission may take in the future.

The Commission will follow up on some recommendations as part of its ongoing work. For other recommendations, the Commission will gather views from a broader audience.

What will be the next steps?

The recommendations by the expert group and the findings of the quantitative study will be discussed at a public hearing organised by the Commission on 24 November (register [here](#)).

A public consultation will be launched in early 2018 to gather views from a broader audience.

The European Commission will adopt a communication with actions to foster corporate bond markets in the autumn of 2018.

Reports by the expert group and study by Risk Control

[Link to FISMA corporate bond webpage](#)

Registration to the public hearing of 24 November:

https://ec.europa.eu/info/events/finance-171124-corporate-bond-markets_en