

IOSCO CONSULTATION ON REGULATORY REPORTING AND PUBLIC TRANSPARENCY IN THE SECONDARY CORPORATE BOND MARKETS

AMAFI's contribution

Introduction

Association française des marchés financiers (AMAFI) is the trade organisation working at national, European and international levels to represent financial market participants in France. It acts on behalf of credit institutions, investment firms and trading and post-trade infrastructures, regardless of where they operate or where their clients or counterparties are located. AMAFI's members operate for their own account or for clients in different segments, particularly organised and over-the-counter markets for equities, fixed-income products and derivatives, including commodities. Nearly one-third of members are subsidiaries or branches of non-French institutions.

AMAFI welcomes the opportunity to comment on IOSCO Consultation Report (hereafter referred as to the "CR") on "*Regulatory reporting and public transparency in the secondary corporate bond markets*". Before commenting on the recommendations contained in the CR we would like to point out the following general comments.

General comments

On IOSCO work on the corporate bond markets

AMAFI appreciates the work that has been carried out by IOSCO on the corporate bond market since 2004. Indeed, these markets are important for the financing of companies and therefore for the economic growth all over the world. It is therefore a crucial topic from a market regulatory perspective. We encourage IOSCO to continue its analysis on these markets.

On IOSCO recommendations

In general, we agree with the high level recommendations proposed in the CR concerning regulatory reporting on one side, public transparency on the other side. Indeed, regulatory reporting is a key element for regulators to accurately assess the state of the markets. Public transparency, as soon as it is well calibrated, contributes to market efficiency and to the quality of price formation process.

That being said, we have doubts about the usefulness of Recommendation No. 3 (access by regulators to pre-trade information of orders), which is extremely costly to implement. At least this should be implemented on the basis of a thorough costs/benefits analysis.

In the EU, for the last 10 years, the current MiFID regime has set up a transaction reporting regime for listed corporate bond markets. Next year, MiFID II /MiFIR will enlarge the scope and number of data to be reported under transaction reporting regime (client ID, Trading algo ID, investment decision maker ID...), impose pre-trade information on orders for investment firms and trading venues and put in place a public transparency regime.

AMAFI first analysis of MiFID II /MiFIR requirements on regulatory reporting and public transparency

It is obviously not possible today to analyze the consequences of a regulatory regime that will be put in place only next year especially with regards to the outcomes of the new market transparency provisions.

However, it is already possible for us to put forward a certain number of intrinsic defects in the way this regulation has been designed and which should be avoided in the future. In particular:

a) On regulatory reporting requirement

The complexity of the new reporting regime is much greater than that of the current system, which is already complicated. Indeed, MiFID II /MiFIR significantly increases the list of data to be stored by investment firms, transmitted to trading platforms or displayed to regulators. Most new data include personal data concerning both clients and employees of investment firms. Besides that, MiFID II /MiFIR enlarges the list of investment firms eligible for the new reporting provision.

This complexity requires very large IT developments and investments, but despite that firms are not even sure that they will fully comply with the new standards.

Moreover MiFID II /MiFIR does not allow for progressive implementation or fallback solution. Everything must be fully implemented from the start.

This lack of flexibility puts investment firms in situations that cannot concretely be managed. For instance, the new regime requires reporting the Legal Entity Identifier (LEI) of a corporate client. But in some cases, the corporate client does not have a LEI in particular when the corporate client is not a EU firm. Investment firms will therefore not be able to comply with the new rules. In the same way, there are inconsistencies between the MiFIR rules and those relating to the protection of personal data. In many cases, investment firms will not be able to send the required personal data to trading platforms because it is not possible according data privacy rules in some jurisdictions.

With this in mind, AMAFI considers that:

- Any new regulatory reporting regime should be based on an actual cost-benefit analysis.
- Market regulators should take into account other rules or constraints investment firms are subject to when drafting the rules.
- The implementation of the new regime must be flexible.

b) On market transparency

According to the current EU legislative process, the new market transparency regime scheme must be operational by the beginning of 2018 with no possibility of turning back. However, it has been calibrated based on very incomplete data, and there is nothing to ensure that it is truly relevant.

AMAFI therefore considers that the good way to implement a new market transparency regime is to have a step by step approach with testing periods and impact assessment studies before envisaging the final rules.

Moreover, market regulators should not only envisage pre- and post-trade transparency requirements in order to regulate corporate bonds markets. Other topics have to be taken into account such as prudential requirements, primary market rules, buy-side regulation, etc.

IOSCO recommendations

Recommendation 1

Regulatory authorities should be able to obtain the information necessary to develop a comprehensive understanding of the corporate bond market in their jurisdiction. This understanding should include the characteristics of the market and the types of bonds traded

AMAFI agrees with this recommendation.

Recommendation 2

To facilitate cross-border understanding amongst regulators of corporate bond markets, a clear framework and underlying methodology of regulatory reporting and transparency should be available.

AMAFI agrees with this recommendation.

Recommendation 3

Regulatory authorities should have access, either directly or upon request, to pre-trade information where it is available, relating to corporate bonds. This might include information other than firm bids and offers such as indications of interest.

AMAFI has reservations on this recommendation because it implies huge IT development for trading platforms and investment firms. The costs incurred by these developments must be compared with the benefits of such piece of information from a supervisory perspective.

Recommendation 4

Regulatory authorities should implement post-trade (transaction) regulatory reporting requirements for secondary market trading in corporate bonds. Taking into consideration the specifics of the market, these requirements should be calibrated in a way that a high level of reporting is achieved. These requirements should include the reporting of information about the identification of the bond, the price, the volume, the buy/sell indicator and the timing of execution.

AMAFI fully agrees with this recommendation. For us, adding any additional information should be conditional on a cost benefit analysis.

Recommendation 5

Regulatory authorities should consider steps to enhance the public availability of appropriate pre-trade information relating to corporate bonds, taking into account the potential impact that pre-trade transparency may have on market liquidity.

AMAFI agrees with this recommendation. The pre-trade transparency regime should take into account the liquidity of the corporate bond and include waiver for large in scale transactions and above a certain size when market makers are at risk.

Recommendation 6

Regulatory authorities should implement post-trade transparency requirements for secondary market trading in corporate bonds. Taking into consideration the specifics of the market these requirements should be calibrated in a way that a high level of post-trade transparency is achieved. They should also take into account the potential impact that post-trade transparency may have on market liquidity. Post-trade transparency requirements should include at a minimum, the disclosure of information about the identification of the bond, the price, the volume, the buy/sell indicator and the timing of execution.

AMAFI agrees with this recommendation. The post-trade transparency regime should take into account the liquidity of the corporate bond and include deferrals for large in scale transactions and above a certain size when market makers are at risk. Moreover the regime should take into consideration situations where the volume could be masked or capped.

Recommendation 7

Where there is transparency of post-trade data relating to corporate bonds, regulatory authorities should take steps to facilitate the consolidation of that data.

AMAFI agrees with this recommendation. Nevertheless, in fragmented markets such as in the EU, there is no business case for private operators to set up and operate consolidated tape.