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**European Commission Call for Evidence
Pre-and post-trade transparency provisions of the Markets in Financial
Instruments Directive (MiFID) in relation to transactions in classes of financial
instruments other than shares**

INTRODUCTION

ABN AMRO welcomes the opportunity to comment on DG Internal Market's call for evidence on transparency in bond and other non-equity markets. Given its wide range of banking products and financial services offered in non equity markets, ABN AMRO has been highly involved in the MiFID level 1 discussions on transparency in shares admitted to trading on regulated markets. Today we are pleased to share our views on the extension of the MiFID pre-and post trade transparency obligations to other financial instruments. We sincerely trust that the European Commission will take those into account when elaborating its report to the European Parliament and to the Council as required by article 65(1) of the MiFID level 1 Directive.

At the outset, we would like to highlight that in our view the market currently has the level of transparency required. Non-equity markets work efficiently demonstrating appropriate level of liquidity, competition, product innovation which is beneficial for the investors. **In the absence of evidence of any market failure, there is no need to regulate through introducing mandatory transparency.** Furthermore, mandatory pre and post-trade transparency could even damage those markets.

In this context, according to the better regulation principle to which the European Commission is highly committed, it is up to the latter to firstly bring the evidence of a market failure in this field and secondly to demonstrate that mandatory transparency is the best way to address those inefficiencies to the detriment of self regulation and markets developments.

In consequence, we would like to express our strong support for the responses compiled by the Bond Markets Association, the London Investment Banking Association and the European Banking Federation. We also join skepticism expressed by the UK Financial Services Authority on this topic¹.

Response to questions

1. Do you have any comment on the proposed scope of the Report?

The scope of the report seems appropriately delimited.

¹ Financial Services Authority 'Trading Transparency in the UK Secondary Bond Markets' 06/4 July 2006

2. Do you consider this classification scheme to be sufficient for the purposes of the review?

We agree with the European Commission proposal on high level classification of non- equity markets. It indeed respects particularities of each financial instrument. For the sake of clarity, we suggest that the term 'credit derivatives' should read 'derivatives'.

3. Do you consider there are possible policy rationales for mandatory transparency we have not listed?

We believe that introducing mandatory transparency will not serve the three policy rationales mentioned by the Commission. Regarding the rationale of market efficiency and price formation process, the latter may not be improved by additional pre or post trade transparency. This is because price formation of non-equity instruments may also be dependent upon prevailing market conditions in a specific sector (e.g. liquidity), macro-economic factors (e.g. interest rates) as well as being influenced by trading in a diverse array of related derivative instruments e.g. single name or index related credit derivative instruments. Given the complex interplay between these instruments and market factors, little value may be added to the price discovery process as it would not be possible to meaningfully determine the precise factors that caused certain prices to be quoted or reported in a specific instrument at that point in time. On the contrary a regulatory transparency could adversely affect product innovation and ultimately market efficiency.

The growth in this area over the last few years is a proof of market efficiency. **Further mandatory transparency will constitute a threat for development of competition and could equally impact liquidity.** Investor protection rationale is already addressed by detailed MiFID requirements on best execution and investment advice. We encourage the drive towards technological developments since this gives greater transparency to the quoting process. However, thanks to technology progress there is no need for additional transparency regulation. Thus it can not become a policy rationale.

4. Do you agree with our proposals for prioritisation of the review?

The European Commission proposal for prioritisation of the review seems reasonable: if there should be more focus in certain areas, then the more liquid commoditised products e.g. government bond, supranational and investment grade corporate would be product groups to target given the retail interest in those products.

5. To what extent do you consider there to be:
- Observable or demonstrable problems with respect to the possible policy rationales for transparency identified above in relation to one or more of the instrument markets under review?
- Evidence that mandatory pre- or post-trade transparency would solve any of those problems?

See the introduction and response to question 3.

6. To what extent could recent and upcoming technological and market developments in relation to the instrument markets under review:
- Contribute to a relatively inexpensive extension of mandatory transparency?
- Render mandatory transparency unnecessary?

Continual development in technology and the markets in general improve the level of transparency of non-equity products. Therefore a regulatory driven solution is not required and as stated previously could have a negative effect on liquidity and in general on well-working markets in Europe.

7. To what extent are non-equity financial instruments different from equities so that lower levels of mandatory transparency in those markets may be justified?

Equity and non-equity markets differ from various angles (mainly liquidity, volume and frequency of trade). Therefore comparing them would be misleading (see also our response to question 3).

8. What data sources do you consider relevant to the issues you have raised (if appropriate, cross-refer to your answers below)? Would you or your organisation be prepared to produce any relevant data if necessary?
9. Are there academic or institutional papers or ongoing work that should be considered in preparing the Report not included in our bibliography?

The bibliography listed by the EU Commission seems exhaustive. Subject to the evidence submitted by the EU Commission establishing market failures and justifying the regulatory intervention in this field, we will do our best to produce any possible and relevant data demonstrating the lack of regulatory need.

10. What conclusions do you draw from the existing academic debate and the ongoing work being conducted by the interested parties?
11. In your view, how applicable is the academic or institutional literature concerning transparency in the cash equities markets to the present discussion?

See previous answers.

12. What similarities and what differences are there between US and EU markets that should be borne in mind when seeking to draw inferences from the TRACE experience in the US?

As expressed by the FSA paper on transparency², the US TRACE experience in the US corporate debt markets is not applicable in the EU debate. The current environment in Europe is much different to the 'pre TRACE space' in the US: there is a much greater appetite for fixed income products in the US rather than in the EU and the EU spreads are already much tighter with greater price transparency.

13. To the extent that you have identified problems or believe that others may do so, do you agree that only EU-level action would be appropriate in the present case?

There is no need for any regulatory action in this field, neither at the EU, nor at national level.

14. If you have identified problems or believe that others might do so, to what extent do you consider those problems would disappear as a natural product of market evolution in the short-to-medium term?

The natural competitive nature of the market, product innovation and technological developments will continue to increase pre-and post trade transparency. Therefore, no regulation is required.

15. In respect of both pre- and post-trade transparency, are the four options the right ones to consider, and in particular should other options be considered?
16. Would you, in light of your answers to the other questions, favour any of the four options in relation to pre- and post-trade transparency (or another option you might propose for consideration) in respect of transactions in any of:

² Financial Services Authority 'Trading Transparency in the UK Secondary Bond Markets' 06/4 July 2006

- **Cash government bonds**
- **Cash investment-grade corporate bonds**
- **Cash high-yield corporate bonds**
- **Asset-backed securities**
- **Credit default swaps, interest rate swaps and bond futures; or**
- **Any other financial instrument you consider relevant.**

The four options are sufficiently listed as a potential solution. However, they should be analysed more in-depth only if there is a clear evidence of a market failure in this area. Therefore, a 'no-change option' is the only conceivable one.