BRITISH BANKERS' ASSOCIATION

Pinners Hall
105-108 Old Broad Street
London EC2N 1EX

Tel: +44 (0) 20 7216 8800
Fax: +44 (0) 20 7216 8811

BBA RESPONSE TO EUROPEAN COMMISSION CALL FOR EVIDENCE ON 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

The British Bankers' Association represents more than 260 banks carrying on business in the United Kingdom. The majority of these banks come from outside the United Kingdom and our members cover the whole range of investment services. They are particularly active in the bond markets. The BBA is the principal banking association in the UK and speaks for banks representing 95% of the banking assets held in the UK.

In response to the European Commission call for evidence on transparency please find attached as an appendix to this letter the BBA response to Financial Services Authority discussion paper DP 05/05 on trading transparency in the UK secondary bond markets.

We would also draw the Commission's attention to the FSA Feedback statement FS 06/04 – for their discussion paper DP 05/05. We would highlight a number of the FSA's conclusions:

1. 'We still consider that transparency is not an end in itself, and that the ultimate aim should be to have markets that are fair, orderly and clean. As a result, we have maintained our focus on whether there are failures evident in the way the markets currently operate and, associated with this, the role that transparency plays in delivering efficient markets.'

2. 'We do not see any evidence of substantial market failures related to transparency in wholesale bond markets based in the UK. We agree with the view of the majority of respondents that a combination of competition, market-driven transparency, the interaction between cash and credit derivatives markets, and regulation seems sufficient, in general, to deliver efficient pricing and fair executions.'

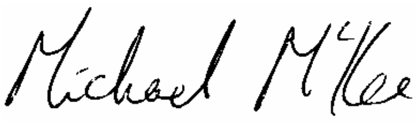
3. 'Extreme caution would need to be exercised in mandating greater transparency in the UK and Europe. In particular, we agree with many respondents, and with the conclusions of the CEPR research, that mandating pre-trade transparency is likely to impact on the existing complex market structures, in potentially significant but unknown ways. We also note that these markets are still relatively dynamic, and continuing to evolve.'

The EU's bond markets are mainly traded through London although issues emanate from all over the world and many bonds are also issued in Luxembourg in particular (but mainly traded in London). In the light of the FSA's findings and the research and responses on which it was based, the BBA would urge the European Commission to reach the same conclusion as the FSA – namely that there is no market failure in European bond markets.

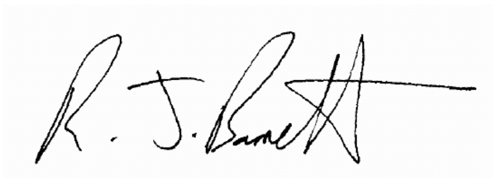
Transparency in the bond and derivatives markets is growing all the time with the development of increased electronic trading and Straight Through Processing (STP). However inevitably, transparency is greater for the more liquid bonds / derivatives. For more illiquid bonds the practical issue will always be the small number of dealers who are willing to commit capital, and the fact that often there will only be one dealer who is prepared to make a market. This, however, is a perennial characteristic of the bond market – and not something that can be changed by greater transparency. In view of this, our members consider changes to the transparency regime are likely to be of marginal benefit and that there is a substantial risk that any utility would be outweighed by the risks and costs associated with potential changes.

We are happy to discuss this paper with you in more detail. If you have any questions about it please contact me on 7216 8858 or Ross Barrett on 7216 8841.

Yours Sincerely



Michael McKee
Executive Director
Wholesale and Regulation



Ross Barrett
Director
Wholesale and Regulation