

September 14, 2006

**BY ELECTRONIC MAIL: markt-g3@ec.europa.eu**

European Commission  
Internal Market DG  
Unit G3  
B-1049 Brussels  
Belgium

Ladies and Gentlemen:

Bloomberg welcomes and appreciates the opportunity to respond to the call for evidence issued by the Internal Market and Services DG on the possible extension of the pre- and post-trade transparency requirements in the Markets in Financial Instruments Directive (“MiFID”) to the bond markets and other non-equity markets (the “Call for Evidence”).<sup>1</sup>

We wish to commend the Commission on its response to the requirement set forth in MiFID Article 65(1) that the Commission present a report to the Parliament and the Council on the possible extension of MiFID transparency to non-share markets. The Commission’s proposed classification scheme for non-equity shares offers a comprehensive and useful division of the financial instruments to be considered. Most important, we think, is the Commission’s statement of its commitment to its own initiative on better regulation<sup>2</sup> and its guidelines on impact assessment<sup>3</sup> as evidenced in the Commission’s methodology for considering whether and to what degree to extend the MiFID transparency regime to non-share markets. We agree with the Commission that “[t]he first step is to analyse whether there is a problem that could be remedied by public policy and if so, what causes it, who it affects, and whether the EU level is the appropriate level to deal with it in view of the principle of subsidiarity.”<sup>4</sup>

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<sup>1</sup> Internal Market and Services DG, 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 (Brussels, 12 June 2006) (the “Call for Evidence”).

<sup>2</sup> See Press Release number MEMO/05/340, Brussels, 27 September 2005.

<sup>3</sup> See Impact Assessment Guidelines (SEC (2005)) 791 at:  
[http://europa.eu.int/comm/secretariat\\_general/impact/docs/SEC2005\\_791\\_IA%20guidelines\\_annexes.pdf](http://europa.eu.int/comm/secretariat_general/impact/docs/SEC2005_791_IA%20guidelines_annexes.pdf).

<sup>4</sup> Call for Evidence, Section 4.1 – Problem Identification.

Competition in the markets among data providers has led to the widespread availability of data bases and trade analytics that are in common use among brokers, dealers and the buy-side in evaluating and pricing bonds. These services, technologies and platforms (among them, the Bloomberg Professional Service) are windows onto the market that provide a type and level of transparency uniquely suited to the fixed-income markets. Greater competition is increasing the demand for such products and services.

We think the U.K. Financial Services Authority (the “FSA”) was correct in concluding that mandatory bond transparency in the European markets is unnecessary. As you know, London occupies a pivotal position in the European bond markets. Some 70% of secondary market trading in corporate bonds takes place in London. As the regulatory body responsible for monitoring and regulating that market, the FSA issued its Discussion Paper 05/5 in September 2005, which provided an analysis and assessment of trading transparency in the U.K. secondary bond markets.<sup>5</sup> The FSA solicited responses to its analysis from market participants and in July 2006 in Feedback Statement 06/4,<sup>6</sup> after considering the feedback it had received, offered the following conclusions:

We believe from a U.K. perspective that no case has been made, based on a clear market failure, for regulatory intervention on market transparency. . . . We think great care should be taken where regulation impacts, or might impact, on the structures that a market has developed. While mandatory post-trade transparency might raise fewer concerns than pre-trade transparency about the affect on market structure, we are not convinced that regulation in this area would necessarily deliver net benefits, given the possible trade-off in many bond markets between transparency and liquidity provision.

Rather, we believe there is scope for the development of trading transparency to be market-led, and we note the growth in the provision of transparency over recent years. To the extent that concerns have been raised about the deficiency of transparency in certain areas, we believe we should look to the market to generate solutions in the first instance. . . .<sup>7</sup>

Bloomberg has long been a leader in providing transparency to the bond-markets in direct response to the ever more sophisticated demands of its clients. In fact, Bloomberg’s development is a direct illustration of the market’s response to ever increasing demands for more sophisticated trading tools, bond-pricing analytics and data. The result has been and continues to

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<sup>5</sup> Financial Services Authority Discussion Paper 05/5: Trading transparency in the UK secondary bond markets (September 2005) available at: [http://www.fsa.gov.uk/pubs/discussion/dp05\\_05.pdf](http://www.fsa.gov.uk/pubs/discussion/dp05_05.pdf).

<sup>6</sup> Financial Services Authority Feedback Statement 06/4: Trading Transparency in the UK Secondary Bond Markets, Feedback on DP05/5 (July 2006) available at: [http://www.fsa.gov.uk/pubs/discussion/fs06\\_04.pdf](http://www.fsa.gov.uk/pubs/discussion/fs06_04.pdf)

<sup>7</sup> *Id.* at Section 5 Conclusions.

be increasing growth in market-led transparency, delivered via electronic trading systems and quote screens. Bloomberg is also a leader in the industry-led development of bond indices that provide an additional tool to enable market participants to monitor market prices and developments. On the basis of our own experience, we fully support the FSA's findings that transparency in the bond markets is extensive and continues to grow in response to competitive pressures and the demands of the market itself. We agree with the FSA that in this area, regulatory intervention is not only unnecessary but also may disrupt a market drive dynamic that continues to provide investors with the benefits of transparency driven by competition.

Our answers to some of the specific questions the Commission posed in its Call for Evidence follow.

**Question 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?**

Unlike equity securities, bonds tend toward fungibility; they often are priced in relation to one another. This is particularly the case among the higher rated bonds, securities of similar rating and duration tend to trade within narrow price variations of one another and are priced in relation to known measures, such as sovereign securities and bond futures. We believe the correct focus of analysis with respect to the appropriateness of extending mandatory transparency to the bond markets is not the instruments themselves but the degree to which there already is a sufficiently robust level of market-led transparency.

We think that demonstration has been made. The benefits of the existing, market-driven transparency are evidenced by the fact that bid-offer spreads are tighter in the European bond markets than in many other markets, including the U.S. markets, a finding supported by research the FSA reviewed in DP 06/4.<sup>8</sup> In particular, comparing U.K. and Europe to the U.S., the FSA notes that “there is greater pre-trade transparency in the UK — and generally in Europe — than there was in the US when TRACE was implemented . . . . It is possible that greater post-trade transparency in Europe would improve pricing and reduce spreads. But it may also increase the risk faced by dealers.”<sup>9</sup>

In summarizing its analysis of the CEPR reports, the FSA draws two important conclusions: “there is little evidence of significant inefficiency in the operation of the European bond markets; and great care must be taken when considering mandating transparency requirements.”<sup>10</sup> We agree and would add, given the noteworthy success of the development of

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<sup>8</sup> *Id.* at Sections 3.12 to 3.18 and Annex 5: A summary of the CEPR reports.

<sup>9</sup> *Id.* at Section 3.5.

<sup>10</sup> *Id.* at Section 3.18.

market-led transparency in the bond markets, should the Commission identify a sector of the market requiring enhanced transparency, rather than mandating a regulatory solution, the better course would be to work with industry to develop any needed enhancement.

**Question 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 organization be prepared to provide any relevant data if necessary?**

The Bloomberg Professional Service collects a very broad range of pricing data concerning fixed-income securities and provides analytical tools that enable the professional investor to evaluate prices it is being offered and relative values in the fixed-income market. We would be pleased to demonstrate the workings of the Bloomberg Professional Service to members and staff of the Commission.

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We appreciate the opportunity to respond to the Commission's Call for Evidence and to make our views known to the Internal Market DG. If you have any questions or would like to discuss our views with you further, please let us know.

Respectfully submitted,

*Alexander Clode* by R.D.B.