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Dear Sir

Call for evidence in relation to transparency provisions of MiFID

Introduction

M&G has been looking after savers since 1931 and now has £17bn of retail funds under management and more than 750,000 investors. Since May 1999 M&G has been part of the Prudential Group and now has responsibility for the management of all of Prudential's assets in the UK and Europe. Total assets managed by M&G are thus some £155bn covering Institutional, Retail and Life and Pension clients. Of this some £64bn is in fixed income investments making M&G one of Europe's leading players in the fixed income market.

General response

We would advise extreme caution in any regulatory intervention in the area of transparency which could impact, intentionally or otherwise, on liquidity in these markets. Our view is that there is no evidence of market failure and that these markets work well and demonstrate an ability to innovate, a view we believe is reflected in the CEPR report and the FSA document. We believe that in this asset class, where the markets are largely OTC dealer-dominated, there is a trade off between liquidity and transparency.

CESR will be aware that the ABI, together with the European High Yield Association, ICMA, IMA, LIBA and the Corporation of the City of London, commissioned an independent report 'European Corporate Bond Markets: transparency, liquidity, efficiency' produced by the Centre for Policy Research (CEPR) and published in May this year. We support the general tenor of the conclusions in this report, particularly in respect of pre-trade transparency (see Chapter Seven). The Commission will also be aware of the FSA Feedback Statement, FS 06/04, to their earlier discussion paper on transparency DP 05/05.

With regard to the Call for Evidence, Section 3.1, we note the comment that the options open in respect of transparency are not limited to an all or nothing approach and could extend to a tailored regime for a particular instrument class. In the case of the bond asset class we believe that differentiation between different types of bonds to be inappropriate as the costs of implementating a system that accurately differentiated would be prohibitive.

We would be happy to discuss any of our issues with you. If you have any questions please do not hesitate to contact James Hudson on 44 207 548 3356 or myself

Yours faithfully

A handwritten signature in black ink, appearing to read 'Simon Pilcher', with a large, stylized initial 'S' and 'P'.

Simon Pilcher
Chief Executive, Fixed Income

Appendix

M&G responses to specific questions.

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

We agree that this is the Scope as agreed under MiFID.

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

We believe that differentiation between different types of bonds to be inappropriate as the costs of implementing a system that accurately differentiated would be prohibitive even if clear boundaries between different types could be established.

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

We would advise extreme caution in any regulatory intervention in the area of transparency which could impact, intentionally or otherwise, on liquidity in these markets. Our view is that there is no evidence of market failure and that these markets work well and demonstrate an ability to innovate.

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

For reasons outlined above we have no comment on this question

Question 5.: To what extent do you consider there to be:

a. observable or demonstrable problems with respect to the possible policy rationales for mandatory transparency identified above in relation to one or more of the instrument markets under review?

b. evidence that mandatory pre- or post-trade transparency would solve any of those problems?

We believe there are no observable or demonstrable problems that mandatory pre- or post-trade transparency would solve

Question 6: To what extent could recent and upcoming technological and market developments in relation to the instrument markets under review:

a. contribute to a relatively inexpensive extension of mandatory transparency?

b. render mandatory transparency unnecessary?

We are concerned that mandatory post-trade dissemination of prices may reduce liquidity, rather than the reverse. This will certainly happen if full details must be released of trade size - but is also a risk even if the trade is reported as "£1mm+" - or equivalent, for there are securities that are very tightly held / illiquid and the best technique is to deal as silently as possible in order to protect the risk position that the bank in question has assumed. The greater the visibility to this trade the more the risk they are taking and hence the logical reaction for them would be to widen their bid-ask spread in consequence.

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?

Mandatory transparency arises from equities markets being historically more formal than bond markets. There is no conceptual reason for one market to have a greater or lower level of transparency. The present position is however the reality and should not be tampered with without good reason.

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 organisation be prepared to provide any relevant data if necessary?

No comment

Question 9.: Are there academic or institutional papers or ongoing work that should be considered in preparing the Report not included in our bibliography?

We are not aware of any.

Question 10.: What conclusions do you draw from the existing academic debate and the work being conducted by other interested parties?

We draw the conclusion that there is no market failure to be addressed.

Question 11.: In your view, how applicable is the academic or institutional literature concerning transparency in the cash equities markets to the present discussion?

No comment

Question 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?

We see no differences that would lead us to expect the loss of liquidity experienced in the US market post the implementation of Trace to not occur in the EU.

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

If there were issues in EU markets then EU action would be appropriate. We do not however see any problems

Question 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?

We have not identified any problems. Any that did develop we would expect to disappear as a natural product of market evolution in the short-to-medium term.

Question 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?

No comment

Question 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:

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?*

We strongly believe that no changes are required to transactions in any of the above.