



January 16, 2006

RESPONSE TO THE CONSULTATION ON TRANSPARENCY OF CORPORATE BOND MARKET

Introduction

This document seeks to express TLX view with regard to the principal fields of interest submitted by IOSCO (as reported by Consob) and in particular with regard to:

- The efficiency of price formation in the corporate bond markets;
- The impact of pre- and post-trade transparency on efficiency of price formation in the corporate bond markets;
- The relationship between transparency and liquidity in the corporate bond markets.

Taken into account the nature of TLX S.p.A., which is a company oriented to satisfy Italian retail investors, our considerations concern this typology of market.

The Italian framework

The Multilateral Trading Facility managed by TLX S.p.A. has been the first experience of self-regulation in the field of pre- and post-trade transparency in the Italian system of non-regulated trading. TLX S.p.A. manages a regulated market and a MTF (as defined by Directive 2004/39 CE) at the same time. Being the two different trading venues coexistent on the same trading platform gives the company the possibility to reach a minor cost together with a high level of transparency, which is the same for the two markets and does not depend on the category of financial instrument. For this reason, in addition to commercial reasons and for the efficiency of negotiations, TLX S.p.A. has standardized the level of transparency of the two systems. This implies that the set of information the company supplies to investors is higher than the one provided for by the applicable Italian law, especially for what concerns the ATS.

Based on the information derived from a comparison between the different Italian trading systems, it may be argued that the level of transparency chosen by not-regulated markets is flattened on the *minimum requirements* imposed by law. For this reason, the EuroTLX case lends itself well to the considerations asked by IOSCO and to the issues about possible *market failures* that do not allow the achievement of a desirable level of transparency induced by market forces.

Price formation in the corporate bond market

As stated in many studies, price formation in bond markets has higher scientific bases than what can be observed on equity markets. In particular, the limited number of factors which influence the fair value of a corporate bond (interest rate, credit risk, etc.) allows to determinate the security value on the basis of mathematical algorithm. This procedure is not always effective if applied on the equity market and in any case it is usually not appropriate for the *spot* valuation of securities quotations.



The different price formation methodology and the easier determination of bond value accentuates information asymmetry among market participants: when the level of competence, the resources and the access to a plurality of information are increasing, professional investors are able to determine the security price with a particularly high quality level (in other words, they are *price maker*); on the contrary, *retail* investors do not generally have the competences, the instruments and the access to information which are necessary to determine the price (*price taker*).

The empirical evidence shows how in markets for professional investors the level of transparency is definitely higher than in markets where professional investors negotiate with *retail* investors. The following statements can summarize what has been said:

- professional investors have a greater possibility of price determination (they are especially *price maker*);
- apart from specific cases, the introduction of higher transparency levels is linked to costs which participants have to bear;
- the presence of transparency levels which are stated by contractual relations (and not by law requirements) and imply implementation costs is compatible only with a strong "demand for transparency";
- the demand for transparency gets a more significant value for *price takers*, who, given the impossibility of price determination, orientate their selection just on the basis of observation of other people' prices;
- the absence of transparency in the professional corporate bond market causes a sub-optimal effect in terms of price formation and price control by participants.

The impact of pre- and post-trade transparency on efficiency of price formation in the corporate bond markets

For the above considerations, it may be argued that transparency does have a direct impact on efficiency of price formation in the secondary *professional* market for corporate bonds: a higher pre- and post-trade transparency has been autonomously generated in the professional market and is an indicator of higher securities price quality, and of a bigger control. In other words, the higher level of price transparency has bridged the information gap and so has contributed to the reduction of information asymmetries among professional investors.

From an economic point of view, it is evident that the condition of lower transparency observed in the *retail* market can only be due to excessive implementation costs of transparency or to a *market failure*: the more informed ones (professional investors) have an incentive to maintain a sub-optimal level of transparency in order to exploit the existent information asymmetry and to negotiate at favourable conditions, whereas the less informed ones (retail investors) are scarcely aware of the potential "damage" caused by the absence of transparency and, in any case, they find it difficult to constitute a united group which can become a real "demand for transparency".

Beyond specific considerations, it may be assumed that, at least for the most traded instruments and for the venues that permit the trading of such financial instruments in a systematic way, the costs linked to transparency are lower than the derived benefits.



The relationship between transparency and liquidity in the corporate bond markets.

In addition, it is useful to remind that, the higher the possibility for securities to be traded on a plurality of venues, the more the transparency coincide with the possibility for retail investors to compare prices and to directly evaluate them. This is an essential condition that allows retail investors to reach a degree of financial culture and of comprehension of their own investment and disinvestment actions, and therefore to generate the desired efficiency of price formation and the corresponding liquidity.

Conclusions

For what has been said it is believed that:

- there are no doubts about the contribution of transparency to the efficiency of price formation and to the price control;
- there is probably a market failure, at least for the bonds which are more liquid and traded in systems which allow their trading in a professional and systematic way;
- there are no reasons to believe that the bond market for *retail* investors is very different from the equity market; in valuation terms, *retail* investors are in any case *price taker* and benefit by a fair, transparent and liquid market, independently from the typology of financial instrument. In addition, even if some instruments are typically subject to the buy and hold of bonds, transparency does allow the correct and continuous valuation of the own portfolio in a systematic way, and so it is to be recognized as a value also and especially for *retail* investors;
- an increase of pre- and post-trade transparency duties which aligns the bond market to the equity one is deemed to be desirable.

Attachment 1: inverted order book (buy price > sell price)

Attachment 2: TLX example. Filled order book thanks to price transparency and to competition with the market maker. Increase of book liquidity.



Attachment 1

<HELP> per spiegazioni, <MENU> per funzioni simili. P174 Corp **ALLQ**

OOMLN 6 3/8 07 € Market 103.750/103.820 Prev 103.760 UBMX

Altri provider Opzioni OOMLN 6 3/8 07 Tutti prz 17:08:03

Richiesta buy Richiesta sell AXES BW OW

SPREAD / BTF 0 11/23/06 Corp il 97.539 / 97.568 2.602 / 2.571 30.6 / 30.3 pb

Abbr	Soctà	Prz bid / Prz ask	Rend bid / Rend ask	Vol bid x Vol ask (M)	Ora
CBBT	BONDTRADER COMPOSITE	103.750 / 103.788	2.908 / 2.874	1000 x 2000	17:08
CBK	COMMERZBANK AG GROUP	103.781 / 103.848	2.878 / 2.818	1000 x	17:07
SOCG	SOCIETE GENERALE.	103.710 / 103.810	2.944 / 2.855	1000 x 1000	17:07
CG	CITIGROUP AUTO EX	103.730 / 103.770	2.926 / 2.890	1000 x 1000	17:06
CSEB	CSFB LONDON	103.743 / 103.785	2.914 / 2.877	1000 x 1000	17:03
HSET	HSBC EXECUTABLE	103.740 / 103.790	2.917 / 2.873	1000 x 1000	17:02
AKRO	BANCA AKROS SPA	103.74 / 103.82	2.916 / 2.842	250 x 250	17:00
BIMI	BANCA IMI NEW YORK	103.680 / 103.810	2.970 / 2.855	1000 x 1000	17:00
BPEX	BNP PARIBAS LONDON	103.763 / 103.797	2.897 / 2.866	1000 x 1000	16:06
MPNG	MPS FINANCE	103.75 / 103.88	2.908 / 2.793	250 x 250	12/7/2005
BNL	BNL SPA	103.769 / 103.830	2.891 / 2.837	1000 x 1000	12/7/2005

Solo dealer abilitati Blu = Dealer abilitati Bianco = eseguire Grigio = non monitorato Verde = Best bid/ask

Provider scelti ** 1mo UBMX 2do 3zo 4to 5to Singoli prezzi No

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2005 Bloomberg L.P.
 H179-856-3 08-Dec-05 17:08:03

<HELP> per spiegazioni, <MENU> per funzioni simili. P174 Corp **ALLQ**

DT 3 1/4 01/10 Market **99.950/100.070** Prev 99.890

Altri provider Opzioni DT 3 1/4 01/10 Tutti prz 17:11:32

Richiesta buy Richiesta sell AXES BW OW

SPREAD / OBL 3 1/2 10/09/09 #145 Corp il 102.045 / 102.060 2.925 / 2.920 33.6 / 33.1 pb

Abbr	Soctà	Prz bid / Prz ask	Rend bid / Rend ask	Vol bid x Vol ask (M)	Ora
CBBT	BONDTRADER COMPOSITE	99.953 / 99.992	3.261 / 3.251	4000 x 4000	17:10
FRTB	FORTIS BANK	99.880 / 100.030	3.280 / 3.241	2000 x 2000	17:11
UBMX **	UBM AUTO EX	99.950 / 100.070	3.270 / 3.233	500 x 500	17:11
DZAG	DZ BANK	99.919 / 100.069	3.271 / 3.231	5000 x 5000	17:11
WLBT	WEST LB AG	99.945 / 100.069	3.270 / 3.232	1000 x 1000	17:11
RBOS	RBS FINANCIAL MKTS	99.863 / 100.113	3.285 / 3.219	1000 x 1000	17:10
CBK	COMMERZBANK AG GROUP	99.950 / 100.010	3.262 / 3.246	1000 x 1000	17:10
SOCG	SOCIETE GENERALE.	99.915 / 100.065	3.271 / 3.232	1000 x 1000	17:10
NOLB	NORD LB	99.950 / 100.100	3.262 / 3.222	1000 x 1000	17:10
CSEB	CSFB LONDON	99.866 / 99.963	3.284 / 3.259	1000 x	17:10
BPEX	BNP PARIBAS LONDON	99.956 / 100.069	3.260 / 3.231	1000 x 1000	17:10
HEX1	LANDESBANK HESSEN GZ	99.902 / 100.002	3.275 / 3.248	5000 x 5000	17:10
HSH	HSH Nordbank	100.021 / 100.134	3.243 / 3.213	500 x 500	17:10
KBLU	KREDIETBANK LUX	99.94 / 100.09	3.265 / 3.226	500 x 500	17:06
CG	CITIGROUP AUTO EX	99.940 / 100.050	3.265 / 3.236	1000 x 1000	17:06

Solo dealer abilitati Blu = Dealer abilitati Bianco = eseguire Grigio = non monitorato Verde = Best bid/ask

Provider scelti ** 1mo UBMX 2do 3zo 4to 5to Singoli prezzi No

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2005 Bloomberg L.P.
 H179-856-3 08-Dec-05 17:11:32

<HELP> per spiegazioni, <MENU> per funzioni simili. **P174 Corp ALLQ**
 KPN NV KPN 4 06/22/15 96.2294/96.6174 (4.49/4.44) BGN @12/07

Altri provider Opzioni KPN 4 06/22/15 Tutti prz 17:08:27

Richiesta buy Richiesta sell AXES BW OW

SPREAD / DBR 3 3/4 01/04/15 Corp il 103.205 / 103.225 3.334 / 3.331 114.5 / 114.8 pb

Abbr	Socità	Prz bid / Prz ask	Rend bid / Rend ask	Vol bid x Vol ask (M)	Ora
CBBT	BONDTRADER COMPOSITE	96.326 / 96.326	4.479 / 4.479	1000 x 1000	17:05
ING	IN G BANK	95.858 / 96.388	4.542 / 4.471	500 x 500	17:06
CBK	COMMERZBANK AG GROUP	96.030 / 96.180	4.517 / 4.496	1000 x 1000	17:06
RAB0	RABOBANK INTERNATION	96.300 / 97.050	4.484 / 4.384	500 x 500	17:06
CG	CITIGROUP AUTO EX	96.020 / 96.390	4.518 / 4.468	1000 x 1000	17:06
SOCG	SOCIETE GENERALE.	95.930 / 96.430	4.531 / 4.464	1000 x 1000	17:06
FRTB	FORTIS BANK	95.960 / 96.330	4.527 / 4.478	1000 x 1000	17:06
BPEX	BNP PARIBAS LONDON	95.952 / 96.324	4.528 / 4.478	1000 x 1000	17:06
HSET	HSBC EXECUTABLE	95.940 / 96.260	4.529 / 4.486	500 x	17:06
DZAG	DZ BANK	95.999 / 96.249	4.521 / 4.488	5000 x 5000	17:06
AKRO	BANCA AKROS SPA	96.03 / 96.93	4.520 / 4.399	250 x 250	17:06
BBVA	BBVA	/ 96.962	/ 4.396	x 1000	17:06
BCEE	BCEE	96.571 / 96.871	4.447 / 4.407	1000 x 1000	17:06
WLBT	WEST LB AG	96.459 / 97.002	4.460 / 4.387	1000 x 1000	17:06
CSEB	CSFB LONDON	96.087 / 96.478	4.512 / 4.459	x 1000	17:04

Solo dealer abilitati Blu = Dealer abilitati Bianco = eseguire Grigio = non monitorato Verde = Best bid/ask

Provider scelti ** 1mo UBMX 2do 3zo 4to 5to Singoli prezzi No

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2005 Bloomberg L.P.
 H179-856-3 08-Dec-05 17:06:27

<HELP> per spiegazioni, <MENU> per funzioni simili. **P174 Corp ALLQ**
 OTE 5 08/05/13 € Market 106.960/107.670 Prev 106.780 UBMX

Altri provider Opzioni OTE 5 08/05/13 Tutti prz 17:08:36

Richiesta buy Richiesta sell AXES BW OW

SPREAD / DBR 4 1/4 01/04/14 Corp il 106.880 / 106.895 3.265 / 3.263 61.1 / 61.3 pb

Abbr	Socità	Prz bid / Prz ask	Rend bid / Rend ask	Vol bid x Vol ask (M)	Ora
CBBT	BONDTRADER COMPOSITE	107.294 / 107.294	3.876 / 3.876	1000 x 1000	17:08
CG	CITIGROUP AUTO EX	107.100 / 107.310	3.903 / 3.874	1000 x 1000	17:08
UBMX **	UBM AUTO EX	106.960 / 107.670	3.925 / 3.821	500 x 500	17:08
BPEX	BNP PARIBAS LONDON	107.114 / 107.386	3.902 / 3.862	1000 x 1000	17:08
HSET	HSBC EXECUTABLE	107.100 / 107.460	3.904 / 3.851	1000 x 1000	17:08
DZAG	DZ BANK	107.047 / 107.347	3.912 / 3.868	5000 x 5000	17:08
BBVA	BBVA	/ 107.669	/ 3.821	x 1000	17:08
WLBT	WEST LB AG	107.454 / 107.659	3.852 / 3.822	1000 x 1000	17:08
HSB	HSB Nordbank	107.384 / 107.657	3.862 / 3.822	500 x 500	17:08
RBOS	RBS FINANCIAL MKTS	107.096 / 107.593	3.905 / 3.832	250 x 250	17:07
SOCG	SOCIETE GENERALE.	107.220 / 107.420	3.887 / 3.857	1000 x 1000	17:07
FRTB	FORTIS BANK	106.980 / 107.250	3.922 / 3.882	1000 x 1000	17:06
BIMI	BANCA IMI NEW YORK	107.060 / 107.350	3.910 / 3.868	1000 x 1000	17:00
MPNG	MPS FINANCE	107.22 / 107.51	3.887 / 3.844	500 x 500	12/7/2005

Solo dealer abilitati Blu = Dealer abilitati Bianco = eseguire Grigio = non monitorato Verde = Best bid/ask

Provider scelti ** 1mo UBMX 2do 3zo 4to 5to Singoli prezzi No

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2005 Bloomberg L.P.
 H179-856-3 08-Dec-05 17:08:36

<HELP> per spiegazioni, <MENU> per funzioni simili. P174 Corp ALLQ

VOD 4 3/4 05/09 Market 104.920/105.080 Prev 104.910

Altri provider Opzioni VOD 4 3/4 05/09 Tutti prz 17:09:07

Richiesta buy Richiesta sell AXES BW OW

SPREAD / OBL 3 1/2 10/09/09 #145 Corp il 102.050 / 102.065 2.923 / 2.919 27.9 / 27.4 pb

Abbr	Soctà	Prz bid / Prz ask	Rend bid / Rend ask	Vol bid x Vol ask (M)	Ora
CBBT	BONDTRADER COMPOSITE	104.967 / 104.994	3.202 / 3.193	1000 x 1100	17:08
CBK	COMMERZBANK AG GROUP	104.970 / 105.140	3.201 / 3.150	1000 x 478	17:09
FRTB	FORTIS BANK	104.910 / 105.040	3.219 / 3.180	2000 x 2000	17:08
ING	IN G BANK	104.888 / 105.055	3.225 / 3.175	500 x 500	17:07
CG	CITIGROUP AUTO EX	104.920 / 105.020	3.216 / 3.186	1000 x 1000	17:07
RBOS	RBS FINANCIAL MKTS	104.796 / 104.919	3.253 / 3.216	250 x 250	17:06
KBLU	KREDIETBANK LUX	104.99 / 105.19	3.195 / 3.135	500 x 500	17:06
AKRO	BANCA AKROS SPA	104.95 / 105.10	3.206 / 3.161	250 x 250	17:06
HSH	HSH Nordbank	104.899 / 105.032	3.222 / 3.182	500 x 500	17:06
BIMI	BANCA IMI NEW YORK	104.850 / 105.070	3.237 / 3.171	500 x 500	17:00
MPNG	MPS FINANCE	104.91 / 105.10	3.219 / 3.162	500 x 500	12/7/2005
MCCT	MCC ROME	104.904 / 105.054	3.220 / 3.175	1000 x 1000	12/7/2005
BNL	BNL SPA	104.927 / 105.084	3.214 / 3.166	1000 x 1000	12/7/2005

Solo dealer abilitati Blu = Dealer abilitati Bianco = eseguire Grigio = non monitorato Verde = Best bid/ask
 Provider scelti ** 1mo UBMX 2do 3zo 4to 5to Singoli prezzi No

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2005 Bloomberg L.P.
 H179-856-3 08-Dec-05 17:09:07



Attachment 2

M2

File Edit Users Configuration Monitoring Info Query Reports Custom Sheets Window Help

Connected Supervision

Instrument

EQUITY EMERGENTI CORPORATE REG STRUTTURATE REG TITOLI DI STATO CERTIFICATES SUPRA SSO TITOLI DI STATO

IDF_TradingCurrency IDF_TradingSegment IDF_Tr

Instrument Definition

IDF_IsinCode	IDF_TradingCode..	IDF_LongDescription
XS0171942757	X94275	General Motors 7,25% 03.07.13

Book Replay

Collapse/Expand Trading Code X94275 Date 08/12/2005 Time 17:09:00

Buy					Sell				
Quote Flag	Client ID	Member Code	Order Qty	Price	Price	Order Qty	Member Code	Client ID	Quote Flag
			4000.00	71.00	71.98	7000.00			
			200000.00	70.86	71.99	10000.00			
			20000.00	70.26	72.00	1000.00			
			2000.00	69.00	72.79	450000.00			
			1000.00	68.00	72.86	200000.00			

09/01/06 15:49:00

M2

File Edit Users Configuration Monitoring Info Query Reports Custom Sheets Window Help

Connected Supervision

Instrument

EQUITY EMERGENTI CORPORATE REG STRUTTURATE REG TITOLI DI STATO CERTIFICATES SUPRA SSO TITOLI DI STATO

IDF_TradingCurrency IDF_TradingSegment IDF

Instrument Definition

IDF_IsinCode	IDF_TradingCode..	IDF_LongDescription
FR0000492092	F49209	Alcatel 4,375% 17.02.09

Book Replay

Collapse/Expand Trading Code F48764 Date 07/12/2005 Time 12:13:00

Buy					Sell				
Quote Flag	Client ID	Member Code	Order Qty	Price	Price	Order Qty	Member Code	Client ID	Quote Flag
			100000.00	105.00	105.25	5000.00			
			41000.00	105.00	105.30	10000.00			
					105.47	100000.00			

09/01/06 16:07:00



M2

File Edit Users Configuration Monitoring Info Query Reports Custom Sheets Window Help

Connected Supervision

Instrument

EQUITY EMERGENTI CORPORATE REG STRUTTURATE REG TITOLI DI STATO CERTIFICATES SUPRA SSO TITOLI DI STATO L

IDF_TradingCurrency IDF_TradingSegment IDF_Tradi

Instrument Definition

IDF_IsinCode	IDF_TradingCode	IDF_LongDescription
X50130182784	X18278	Ericsson 6,375% 31.05.06

Book Replay

Collapse/Expand Trading Code X18278 Date 07/12/2005 Time 11:20:00

Buy					Sell				
Quote Flag	Client ID	Member Code	Order Qty	Price	Price	Order Qty	Member Code	Client ID	Quote Flag
			100000.00	101.91	101.91	2000.00			
			34000.00	101.90	102.28	10000.00			
					102.34	100000.00			

09/01/06 16:13:21

M2

File Edit Users Configuration Monitoring Info Query Reports Custom Sheets Window Help

Connected Supervision

Instrument

EQUITY EMERGENTI CORPORATE REG STRUTTURATE REG TITOLI DI STATO CERTIFICATES SUPRA SSO TITOLI DI STATO

IDF_TradingCurrency IDF_TradingSegment IDF_Trac

Instrument Definition

IDF_IsinCode	IDF_TradingCode	IDF_LongDescription
IT0006553249	I55324	Finmeccanica TV 30.12.08

Book Replay

Collapse/Expand Trading Code I55324 Date 07/12/2005 Time 17:20:00

Buy					Sell				
Quote Flag	Client ID	Member Code	Order Qty	Price	Price	Order Qty	Member Code	Client ID	Quote Flag
			100000.00	100.61	100.69	50000.00			
			10000.00	100.50	100.70	46000.00			
			100000.00	100.43	100.71	24000.00			
					100.94	22000.00			
					101.26	100000.00			

09/01/06 16:18:54



M2

File Edit Users Configuration Monitoring Info Query Reports Custom Sheets Window Help

Connected Supervision

Instrument

EQUITY EMERGENTI CORPORATE REG STRUTTURATE REG TITOLI DI STATO CERTIFICATES SUPRA SSO TITOLI DI ST

IDF_TradingCurrency IDF_TradingSegment IDF

Instrument Definition

IDF_IsinCode	IDF_TradingCode	IDF_LongDescription
XS0143675196	X67519	Renault Fixed Floater CAP 28.02.08

Book Replay

Collapse/Expand Trading Code X67519 Date 07/12/2005 Time 17:20:00

Buy				Sell					
Quote Flag	Client ID	Member Code	Order Qty	Price	Price	Order Qty	Member Code	Client ID	Quote Flag
			100000.00	100.10	100.24	10000.00			
			1000.00	100.09	100.29	17000.00			
					100.42	100000.00			

09/01/06 16:25:47