Minutes of the Expert Group on Corporate Bond Market Liquidity

Brussels, 13 December 2016

Minutes
Meeting of the Expert Group on Corporate Bond Market Liquidity
14 November 2016, Brussels

1. Approval of the agenda

2. Nature of the meeting

The meeting was non-public.

3. List of points discussed

Introduction and opening remarks

The Chair introduced the work of the expert group, by giving an update on the work that the European Commission has done so far in the framework of the Capital Markets Union, the Call for Evidence, and other relevant initiatives.

The mandate of the expert group is to advise the Commission on the functioning of EU corporate bond markets. DG FISMA would like the group to focus on how these markets can be made more efficient as a source of corporate finance and of investment opportunities. The group should also advise the Commission on how these markets can be more resilient and resistant to adverse shocks, so that they are a stable source of funding for companies.

The concrete end product of the work of the group over the coming months will be a report to the Commission presenting fresh ideas on how to improve the functioning of European corporate bond markets, to be delivered in September of next year.

Tour de table on problem identification and main topics to be addressed in the report

The aim of this section was to have an exchange of views on the main challenges for European corporate bond markets and potential policy and market-based solutions to address those challenges.

The following points emerged from the tour de table:

• Good market liquidity is an important component of fair, efficient and resilient secondary markets. The expert group noted that some market practitioners report a relative deterioration of secondary market liquidity, which contrasts with data studies that have not been conclusive so far. But the expert group should also focus on how
The corporate bond market can be used by issuers to raise capital, particularly small issuers.

- The expert group needs to have a good understanding of the drivers behind all structural and cyclical issues affecting corporate bond market functioning in order to formulate appropriate policy recommendations.

- Several members stressed that market fragmentation is apparent between regions, issuers, instruments. The expert group should reflect on the potential solutions to reduce this fragmentation, for example by developing linkages between different geographic markets, or by developing modular documentation standards to reduce heterogeneity.

- The expert group should reflect on the role of intermediaries, notably the reduction of risk capital deployed in liquidity provision. How to create incentives to bring market participants back to market making, and whether to use regulation to encourage this activity? How to foster the engagement in the market of a rich and diverse base of participants? In particular, what role can asset managers, hedge funds, quant funds etc. play to complement market makers’ activity?

- The expert group should reflect on transparency, and it is important to distinguish between pre- and post-trade transparency.

- The effects of regulation on the functioning of corporate bond markets were discussed.

- A number of other issues/challenges were raised including:
  - Data availability and information.
  - Private placements.
  - Markets for covered bonds, repos, single name CDS.
  - Technology, market infrastructure, electronification – what are most promising channels?
  - Ecosystem.

**Endorsement of the EG's rules of procedure, mandate and work plan**

Members endorsed the expert group's rules of procedure, mandate and work plan.

**Current status of European corporate bond markets**

The aim of this session was to identify and discuss: the role that corporate bond markets play in the capital funding of European businesses; the structural and policy changes that have taken place over the last five years and have had an impact on corporate bond market functioning; the role of liquidity in the functioning of corporate bond markets and the causes and drivers of market liquidity.

The following points emerged from the discussion:
• It doesn't make sense to look at corporate bonds as one single market, given their complexity. The expert group have a closer look at these markets along different criteria, especially by size of corporates and size of issuances. Experts should reflect on which other criteria should be used for the more granular analysis, which will also be important to discuss the implications of the implementation of MiFID/MiFIR pre-transparency requirements over time.

• The corporate bond market ecosystem matters for the development of local markets. Market intermediaries and infrastructure providers (e.g. providers of ratings and information) are underdeveloped or non-existent in some EU countries.

Trends in the evolution of corporate bond markets over the medium term

The aim of this session was to discuss: (i) how expect corporate bond markets are expected to function over the medium term; (ii) how the characteristics of bond markets are expected to evolve in the future; (iii) how bond markets are expected to perform against the objectives of efficiency and resilience.

The following points emerged from the discussion:

• Issuers value highly their flexibility in arranging issuances. They often issue bonds for very specific purposes and if they can find suitable investors in the primary market they may not be concerned with how liquid secondary markets are. Views on the benefits of standardisation diverge: some market participants consider that standardisation would improve the functioning of the market, while others see it as a constraint factor whose disadvantages would outweigh the benefits.

• The investor base plays an important role for the integration of European markets, and instruments such as ETFs and credit funds can pool savings more effectively and invest also in smaller issuances. The expert group should also reflect on what kind of infrastructure is needed to foster more pan-European market integration.

• The guiding principles of the expert group’s reflections should be to promote a fair, effective and resilient corporate bond market, which ultimately benefits corporate issuers, and to promote participation from a rich and diverse investor base into those markets.

• Experts should also reflect on non-regulatory, market-led solutions.

4. Conclusions/recommendations/opinions

The Chair summarised the main conclusions from the day’s discussions:

• The tour de table gave a good sense of the priorities of the group, and the main challenges that need to be addressed.

• The group broadly agreed on the diagnostics but it is clear that we need to dive deeper into the data, move beyond averages and carry out analyses at more disaggregated level.

• Both market integration at European level and development of individual markets are important.
• Transparency will be a key issue for the expert group to discuss.

• Related markets for funding and hedging purposes will have to be included in the analysis.

• Regulation may play a role in the evolution of European corporate bond markets but there are many other factors at play and it is not clear that regulation is among the most important ones.

5. **Next steps**

In this final session members agreed on the establishment of the sub-groups and expected deliverables for the next meeting. The expert group agreed on the following topics for the four sub-groups, based on the discussions during the day:

(1) Issuers and issuance

(2) Intermediation function and market-making

(3) Demand side

(4) Ecosystem and framing conditions.

The expert group also endorsed the next steps ahead of the meeting of the second meeting on 23 January:

• Formation of the sub-groups.

• Reflection on the data and information that experts can feed into the work of the group, and that can be used for the analysis and formulation of the recommendations.

• Interim results of the Commission study on drivers of corporate bond market liquidity will be sent to the group ahead of the meeting.

• Preparation of an annotated outline of the final study.

6. **Next meeting**

The next meeting will be held on 23 January 2017 in Brussels.

7. **List of participants**

**Members**

Halina ANTOSZYK, Citigroup Inc. - CitiHandlowy

Hans BEYER, Nordic Securities Association, Skandinaviska Enskila Banken AB

Scott COWLING, Blackrock EMEA

Graziano CREMA, Banco Bilbao Vizcaya Argentaria

Scott EATON, MarketAxess Limited
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Andrew HILL, International Capital Market Association

Christoph HOCK, Union Asset Management Holding AG. - Union Investment Privatfonds / Institutional GmbH

Sanjay JHAMNA, JPMorgan Chase & Co.

David MAROTO SOBRADO, Telefonica, S.A.

Denis PROUTEAU, BPCE - Natixis

Kurt SCHACHT, CFA Institute

Fabrizio TESTA, London Stock Exchange Group - MTS SpA and EuroMTS Ltd

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