Minutes of the Expert Group on Corporate Bond Market Liquidity

Brussels, 18 July 2017

Minutes

Meeting of the Expert Group on Corporate Bond Market Liquidity

16 June 2017, 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 welcomed the group and noted that the subgroups were coming to a stage where they can make recommendations. The Secretariat would continue to provide support with the finalisation of the text of the report and draft a short report around those recommendations. The group welcomed Patrice Bergé Vincent. The Chair recalls that in the Capital Markets Union Mid-Term Review, the commission committed by end of the year to produce a policy statement on what the Commission will do to improve corporate bond markets, on the basis of the recommendations from the expert group.

Presentation by rapporteurs on their recommendations

Rapporteurs presented the work carried out by the subgroups on their recommendations. Members from the other subgroups reacted to each presentation, highlighting potential issues with the proposed recommendations or presenting additional information. Policy officers from the Commission also took part in the exchanges, with a view to giving more insight into the current status of legislations and some visibility on the measures planned. For each discussion, the Chair summed up the main findings and the aspects on which each subgroup should focus moving forward. One general comment applying to all subgroups was that recommendations should be formulated in such a way that they are (i) understandable for non-practitioners and (ii) specific enough to be "actionable".

On the recommendations relating to issuers and issuance:

- A prioritisation of recommendations would be useful due to their large number overall
- The treatment of very long-term, illiquid bonds was discussed.
- ESMA gave an update on its ongoing work on prospectus, including the public consultation to be launched in July 2017.
• It should be further investigated whether the question of primary allocation and its impact on liquidity would deserve a recommendation.
• The role of national promotional banks was debated in the group.
• It was mentioned that a recommendation on private placement would be helpful given their role as a gateway for SMEs.

On the recommendations relating to the demand-side:

• A recommendation related to monetary policy was deemed less important as expectations are that the programmes will wind down.
• The role and importance of ETFs were discussed extensively to try and weigh their pros and cons in terms of added liquidity and risk.
• A strong call was made by the expert group for consolidation of data on corporate bonds, although the challenges in terms of timeline and supervision were acknowledged.
• Ways to foster retail investment while protecting investors from being exposed to too much risk were debated.

On the recommendations relating to the intermediation function and market making:

• The recommendations were discussed also taking into account the impact that they could have on smaller markets.
• Different perspectives were expressed on price transparency and its impact on investors on the one hand and market makers on the other.
• Overall recommendations seemed well advanced and were well received by the expert group. Questions were raised concerning which levels would be right for capital requirements to maintain the soundness of the system.

On the recommendations relating to the corporate bond ecosystem:

• The proposed recommendations aimed to identify possible ways to harmonise legislation having an impact on the corporate bond markets. However, efforts made by regulators to minimise the negative impacts of fragmentation were mentioned.
• The divergences of some legislations between the US and the EU were discussed, raising the question of whether more convergence should be sought.
• The impact that MiFID II rules on research payment would have on small issuers was discussed. It was highlighted that it was planned in the CMU Mid-term review that this aspect would be closely monitored.

4. Final results of the study on the drivers of corporate bond market liquidity

Risk Control gave a presentation to the expert group on the final results of their study on the Drivers of Corporate Bond Liquidity. Expert group members then discussed the final conclusions. The various methodologies used by Risk Control to assess market liquidity were discussed. The experts were encouraged to use the findings of this study when fine-tuning their recommendations.

5. Conclusion and next steps

The Chair concluded by summarising areas where recommendations would need further work and stressed the need to have a solid rationale for each of them before the next meeting. It was
mentioned that new recommendations could still be put forward, all the more so as the current set would still need to be consolidated and streamlined to account for overlaps. The format of the expert group's final report and how to best communicate to policymakers on the findings of the expert group's work were discussed.

6. Next meeting

The next meeting will be held on 13 July 2017 in Brussels.

7. List of participants

Members

Halina ANTOSZYK, Citigroup Inc. - CitiHandlowy
Patrice BERGE-VINCENT, ICI Global
Hans BEYER, SEB – Nordic Securities Association
Graziano CREMA, Banco Bilbao Vizcaya Argentaria
Scott EATON, MarketAxess Limited
Harald ENDRES, Bundesverband Öffentlicher Banken Deutschlands, VÖB - Bayerische Landesbank
Andrew HILL, International Capital Market Association
Christoph HOCK, Union Asset Management Holding AG. - Union Investment Privatfonds / Institutional GmbH
Sanjay JHAMNA, JPMorgan Chase & Co.
Paul MALLOY, Vanguard
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
Le Quang TRAN VAN, Association Française des Entreprises Privées / French Association of Large Companies
Victoria WEBSTER, Association for Financial Markets in Europe

Observers

Claudia GUAGLIANO, European Securities and Markets Authority (ESMA)
Philippe MOLITOR, European Central Bank (ECB)
Alex RODRIGUEZ TOSCANO, European Federation of Investors and Financial Services Users (BETTER FINANCE)

Christian STIEFMUELLER, Finance Watch

European Commission

Niall BOHAN, DG FISMA

Andrea BELTRAMELLO, DG FISMA

Lieven BAERT, DG FISMA

Agnès LE THIEC, DG FISMA

Amaury CHAZEAU-GUIBERT, DG FISMA

Santosh PANDIT, DG FISMA

Sébastien BAGOT, DG FISMA