Minutes of the Expert Group on Corporate Bond Market Liquidity

Brussels, 25 April 2017

Minutes
Meeting of the Expert Group on Corporate Bond Market Liquidity
06 April 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 the good work done overall by the subgroups on developing the storyboard and analytics of each chapter. He explained that the following step would be to finalise the presentation part, and start fleshing out the policy implications and recommendations.

Presentation by rapporteurs on the state of play of each chapter

Rapporteurs updated the expert group on the work carried out so far by each subgroup. Members from the other subgroups reacted to each presentation, highlighting potential aspects to consider, additional information or potential issues. For each discussion, the Chair summed up the main findings and the aspects on which each subgroup should focus moving forward.

On the ecosystem subgroup:

- The rapporteur stressed that it would be difficult to make recommendations on areas where rules were still in the making.
- The issue of legal heterogeneity resulting from the transposition of EU directives into national legal frameworks, as opposed to the direct application of EU regulations, was raised.
- It was stressed that the report should discuss how liquid a naturally illiquid market, such as that of corporate bonds, could reasonably be, and how pricing could be made more efficient.
- The way placement actually happens and what infrastructures are used should be investigated.
The chapter on ecosystem should be broken down into three categories: (i) information flows, analytics, data flows; (ii) intermediation and support functions; and (iii) trading infrastructures.

On the issuers and issuance subgroup:

- It was noted that the average tenor of issues in the EU is lower than in other markets, and that issuers had a role to play in the allocation process of new issues.
- A comparison could be drawn between issuers in corporate bond markets and issuers in other markets.
- The subgroup should look into the geographical fragmentation and size of the corporate bond market, as well as barriers preventing foreign investors from accessing local markets. The question of whether corporate bond market liquidity was impacted by developments at EU or national levels, and which strategies issuers adopted with regard to national markets, were discussed.
- The Prospectus regulation, the reference to Solvency II and the impact of MiFID II/MIFIR provisions on research should be further developed.
- The use of proceeds should be investigated in the report.

On the intermediation function and market making subgroup:

- Difficulties to standardise were discussed.
- The impacts of pre- and post-trade transparency on liquidity should be further developed for the policy implications.
- The role of electronic trading in creating liquidity was debated. It was noted that it could be possible to express dissenting opinions in the report.
- Liquidity enhancing solutions, such as buy-side to buy-side trading, were debated.
- The chapter should include references to the repo and CDS markets.

On the demand-side subgroup:

- The role of long term investors on the market, such as insurance companies and pension funds, as well as the appetite for longer maturities on the European markets should be discussed in the report. It was noted that a comparison with the UK and US markets could be made, if data are available.
- The role of hedge funds on the markets was discussed. The chapter could compare cash markets and derivative markets, and the role of hedge funds therein.

Discussion on ETFs

AMF gave a presentation on their study *ETFs: characteristics, overview and risk analysis - The case of the French market*, followed by a discussion in the expert group. The Chair concluded that the study sent a reassuring message on financial stability, but noted that it was based on the French experience only, and remained a very small part of the market. However, it was underlined that the market had the potential to develop fast, and as such should be considered in the report, for instance in the Demand-side and the Market-making and Intermediation chapters.

Breakout session for each subgroup
The expert group split up to discuss by subgroup the findings of the previous discussions, identify the work needs and next steps for their respective chapters, as well as allocate tasks. The Chair asked the subgroups to think about ways to approach the recommendations and agree on working methods.

5. Conclusion and next steps

The Chair concluded by stressing that the expert group should now focus on highlighting areas of potential recommendations, with a view to presenting first policy implications at the next meeting. Recommendations were not expected to be closed at this stage, and potential divergences should be brought to the table to discuss where the balance of opinion would be.

6. Next meeting

The next meeting will be held on 17 May 2017 in Brussels.

7. List of participants

Members

Halina ANTOSZYK, Citigroup Inc. - CitiHandlowy
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
Paul MALLOY, Vanguard
David MAROTO SOBRADO, Telefonica, S.A.
Kurt SCHACHT, CFA Institute
Le Quang TRAN VAN, Association Française des Entreprises Privées / French Association of Large Companies
Rupert WARMINGTON, Tradeweb Europe
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

Kheira BENHAMİ, Autorité des Marchés Financiers (AMF)

European Commission

John BERRIGAN, DG FISMA

Niall BOHAN, DG FISMA

Andrea BELTRAMELLO, DG FISMA

Lieven BAERT, DG FISMA

Agnès LE THIEC, DG FISMA

Amaury CHAZEAU-GUIBERT, DG FISMA