



ICMA

International Capital Market Association

European Financial Services Industry Standard of Good Practice on Bond Market Transparency for Retail Investors

*A presentation by Richard Britton on behalf of the International Capital Market Association to the EU Commission's Public Hearing on MiFID-non-equities market transparency
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Background

- Professional investors
 - appropriate level of pre- and post-trade price transparency is already available
 - Competition driven
- Retail investors
 - Might benefit from easier access to price transparency
 - Improve understanding of range and liquidity
 - Confidence as to current price levels
 - Improve ability to judge whether the price has been fair



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Provisos

- Not investment advice
- Transparency is not the whole story
 - Large, high quality issues do not guarantee liquidity
 - Quality of investment advice is crucial
 - Issuer defaults are an ever-present reality
- Not intended to apply in those EU jurisdictions where reporting requirements already exist which meet local needs
- Compliance with the standard will be voluntary



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Technical specification (1)

- Scope
 - Bond type: straight bonds, floating rate notes and convertibles.
 - Issuer type: sovereigns, sub-sovereigns, corporates, and financials.
 - Maturity: one year's remaining life or more.
 - Minimum issue size: EUR 1 billion (or currency equivalent).
 - Minimum current credit rating: A- and above.
 - Trade size: between EUR 15,000 and EUR 1 million (or other currency equivalent).
 - Currency: bonds denominated in currencies which can be settled within the EU.



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Technical spec (2)

- Content
 - High, low and median trade prices and average closing bid and offer quotes
 - Monthly trade volume and average daily number of trades.
- Timeliness
 - High, low and median trade prices and the average closing bid and offer quotes for each bond covered to be published at the end of the trading day.
 - Average daily volume and number of trades with a one month delay (e.g. June data to be published at the beginning of August).



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Technical spec (3)

- **Accessibility**
 - All published information should be available for any retail investor to view via one or more prominent websites.
- **Charging**
 - All published information should be available to retail investors at a transparent and reasonable cost or free of charge.
- **Language**
 - All information should be published in the local language or in English.



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Technical spec (4)

- Explanatory text on the web site
 - The Standard is limited to large investment grade bond issues rated A- or above. Unless investors have sufficient funds to create a diversified portfolio, they should consider restricting investment to higher-quality and liquid bonds; but liquidity tends to diminish after the new issue period.
 - The Standard sets a minimum trade size because retail bond trade prices (in contrast to equity trade prices) may include a sales charge or mark-up, making it more difficult for retail investors to compare the trade with others based on price alone.
 - The Standard sets a maximum trade size because the publication of very large trades may enable the dealer to be identified by competitors, exposing the dealer to unacceptable risk and therefore damaging market liquidity.



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How will ICMA comply?



- ICMA will meet these specifications
 - using its existing Reporting Arrangements to enable those market participants who choose to report to ICMA to comply with the Standard
- Data will be published on the ICMA web site
- Access to data will be free of charge
- Launch is planned for early January 2008
- Review in January 2009



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Data presentation

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Security Category International

Security Type Straight

Issue Currency EUR

Issuer Classification CORPORATE

Security Name

Starts with

Contains

ABB

High, low and median trade prices for DDMMYYYY

Volume figures for DDMMYYYY

Security Name	Curr	Trade			Previous Calendar Month Average		Average Closing	
		High Price	Low Price	Mdn Price	No of Trades	Volume	Bid Price	Offer Price
ABBEY NATIONAL 4.625 11/02/2011	EUR	100.18	100.18	100.18	1	1,586,525	100.18	100.18
ABBEY NATIONAL 7.125 PERP	EUR	100.22	100.22	100.22	2	300,665	100.22	100.22
ABBEY NATIONAL F/R 04/2015 Q	EUR	103.46	103.46	103.46	6	1,826,809	103.46	103.46
ABBEY NATIONAL F/R 06/2012 Q	EUR	110.8	110.8	110.8	4	300,665	110.8	110.8
ABBEY NATIONAL TREASURY 3.375 08/06/2015	EUR	99.82	99.82	99.82	7	1,826,809	99.82	99.82
ABBEY NATIONAL TREASURY 4.25 12/04/2021	EUR	95.19	95.19	95.19	11	1,586,525	95.19	95.19
ABBEY NATIONAL TREASURY F/R 02/2008 Q	EUR	85.61	85.61	85.61	1	1,826,809	85.61	85.61
ABBEY NATIONAL TREASURY F/R 03/2008 M	EUR	99.82	99.82	99.82	1	300,228	99.82	99.82
ABBEY NATIONAL TREASURY F/R 03/2008 Q	EUR	100	100	100	2	300,665	100	100

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Investor education

- Vital element to help investors understand what they are seeing
 - bond types
 - the risks attached to bonds
 - the impact of interest rate moves on bonds
 - the lifecycle of a bond
 - the calculation of bond income
 - buying/selling bonds
 - the role of dealers, fiscal and paying agents, custodians and depositaries

- The Securities Industry and Financial Markets Association (SIFMA) will deliver this part of the project
 - The ICMA web site will point investors to the SIFMA site