

Amended – 14 January 2009

EUROPEAN FINANCIAL SERVICES INDUSTRY STANDARD OF GOOD PRACTICE ON BOND MARKET TRANSPARENCY FOR RETAIL INVESTORS

Introduction

There is a consensus in the European financial services industry that competition ensures that the appropriate level of pre- and post-trade price transparency is already available to wholesale participants in the bond markets, but that retail investors¹ might benefit from easier access to price transparency.²

ICMA has therefore developed a voluntary European Industry Standard of Good Practice for Bond Market Transparency for Retail Investors (the 'Standard') to provide easier access to price transparency for retail investors by improving the quantity and accessibility of price and liquidity information available to retail investors about liquid and highly rated bonds.³

This paper describes the objectives of the Standard and its technical specifications. The Annex sets out ICMA's proposals for enabling those market participants who report to ICMA to comply with the Standard.

Objectives of the Standard

To increase confidence in the European bond markets amongst retail investors, both within and outside Europe, the Standard has been developed to meet the following objectives:

- To provide retail investors with easier access to information on the prices and liquidity of bonds with a high credit quality and large issue size.
- To ensure that: the price and liquidity information provided to retail investors is fair, clear and not misleading; and retail investors have access to suitable educational material to assist them in making informed investment decisions.
- To maintain the competitiveness of the European financial services industry by ensuring that the Standard, which is voluntary, does not impose new reporting requirements on the industry.

¹ 'Retail investor' is defined here to include individuals and small institutional investors.

² This would give them a better understanding of the range and liquidity of highly rated bonds available; it would also give them greater confidence as to the current level of prices; and it would improve their ability to judge in broad terms whether execution has been fair.

³ There are limits to the potential benefits of increased price transparency. Given that transparency is only one of many factors impacting on the level of retail participation in bond markets, easier access to price transparency will not necessarily increase retail investment in bonds. Issue size and credit rating are likely to impact liquidity but do not guarantee it. Also, price transparency cannot be expected to provide investors with protection from buying bonds unsuitable to their needs or which fail to repay because of fraud or other reasons for default. It would not have prevented retail losses suffered in e.g. the Parmalat and Argentina defaults.

The Standard does not affect market participants in those EU jurisdictions (e.g. Denmark and Italy) where reporting requirements already exist which meet local needs.

Technical specifications

It is for market participants to choose whether they wish to comply with the Standard, as compliance is voluntary. If they choose to comply, they are encouraged to meet the following technical specifications as a minimum⁴:

- *Reporting Arrangements*: Market participants (or trade associations or others acting on their behalf) willing to comply with the Standard should notify the European Commission of the existence or establishment of 'Reporting Arrangements' for the receipt and publication of post-trade price information consistent with the Standard⁵.
- *Scope*: Selected bonds meeting all of the following criteria should be covered:
 - 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.
- *Content*: In the case of each bond covered, the following information should be published:
 - High, low and median⁶ trade prices and average closing bid and offer quotes; and
 - Monthly trade volume and average daily number of trades.
- *Timeliness*: Information should be published at the following times:
 - High, low and median trade prices and the average closing bid and offer quotes for each bond covered should 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 should be published at the beginning of August).
- *Accessibility*: All published information should be available for any retail investor to view via one or more prominent websites.

⁴ ICMA proposes to comply with the Standard by meeting these technical specifications. Retail investors do not currently have access to ICMA's price service. (See the Annex.)

⁵ ICMA proposes to use its existing Reporting Arrangements to enable those market participants who choose to report to ICMA to comply with the Standard.

⁶ Defined as the middle price in the distribution of that day's trade prices. If there is an even number of trades, it will be the average of the middle two prices.

- *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.
- *Explanatory text:* Alongside price and liquidity information, Reporting Arrangements should, where legally permissible, publish text explaining that:
 - The Standard is limited to large investment grade bond issues rated A- or above. In this context, the explanatory text should: warn investors that, unless they have sufficient funds to create a diversified portfolio, they should consider restricting investment to higher-quality and liquid bonds; and highlight the tendency for liquidity 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.
- *Educational material:* Reporting Arrangements should publish, or provide a website link to, suitable educational material on investing in bonds⁷, including information on: 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; and the role of dealers, fiscal and paying agents, custodians and depositaries.
- *Need for professional advice:* Conforming services should prominently inform retail investors of the necessity to obtain professional advice before investing in bonds and inform them that bonds with a high minimum denomination, amongst others, may not be suitable for retail investors.
- *Additional static data:* It is recommended that, where feasible, conforming services provide ISIN, credit rating and minimum denomination for each issue.
- *Information on suitable broking services and links to relevant regulatory sites:* It is recommended that conforming services provide links to retail broking services of reporting dealers. Links to appropriate regulatory web-sites might also be included on a reciprocal basis.

Review

The provisions of the Standard should be subject to review by Reporting Arrangements after 12 months in operation.

⁷ For example, SIFMA's retail investor education website, www.investinginbonds.com, tailored to retail investors in the European bond market