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## **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 investors might benefit from easier access to price transparency.<sup>1</sup>

ICMA has therefore developed a voluntary European Financial Services Industry Standard of Good Practice on 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.<sup>2</sup>

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.<sup>3</sup>

### **Objectives of the Standard**

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.

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<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> The standard, its technical specifications and ICMA's proposal how to comply with the standard are provided for information only and are not and should not be considered as advice or a recommendation to buy or sell any financial product. Any person who is considering buying or selling any financial product should seek appropriate investment, financial, tax and legal advice.

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 minimum<sup>4</sup>:

- *Reporting Arrangements*: Market participants (or trade associations or others acting on their behalf) willing to comply with the Standard should post on their websites the existence or establishment of 'Reporting Arrangements' for the receipt and publication of post-trade price information consistent with the Standard<sup>5</sup>.
- *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 median<sup>6</sup> 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.
- *Charging*: All published information should be available to retail investors at a transparent and reasonable cost or free of charge.

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<sup>4</sup> 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.)

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

<sup>6</sup> 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.

- *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 bonds<sup>7</sup>, 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.

## **Review**

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

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<sup>7</sup> For example, SIFMA's retail investor education website, [www.investinginbonds.com](http://www.investinginbonds.com), tailored to retail investors in the European bond market

## ANNEX: HOW ICMA PROPOSES TO MEET THE STANDARD

To comply with the standard, ICMA is proposing an end-of-day Retail Investor Bond Information Service giving average closing bid and offer quotes and the high, low and median prices for trades reported to TRAX that day. The service will be easily accessible by retail investors and available on an ICMA website at the end of the trading day.

The ICMA website will publish aggregated price and volume trade data which will be available for anyone to view free of charge. This will include:

- Cash trades in large international, foreign and domestic high investment grade bonds, i.e. bonds currently rated A- and above with a minimum issue size of EUR 1 billion (or currency equivalent)
- Trade sizes between EUR 15,000 and EUR 1 million (or other currency equivalent)
- Remaining maturity of one year or more
- Issuer classification of sovereign, sub-sovereign, corporate and financial
- Straight bonds, floating rate notes and convertible bonds in all convertible currencies
- Bonds denominated in currencies which can be settled within the EU
- The day's data would be available at the close of each day
- The average daily volume and number of trades with a delay of one month (i.e. average figures for June will be published at the beginning of August)
- Average closing bid and offer prices for bonds satisfying the above filtering process

Users will be able to search for data as illustrated below:

<b>Security Category</b>	International <input type="button" value="v"/>
<b>Security Type</b>	Straight <input type="button" value="v"/>
<b>Issue Currency</b>	EUR
<b>Issuer Classification</b>	CORPORATE <input type="button" value="v"/>
<b>Security Name</b>	
<input checked="" type="radio"/> Starts with	ABB
<input type="radio"/> Contains	

The result of the search would be displayed as below:

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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Users will be able to sort the data by clicking on the required column.

The provisions of the Standard as implemented by ICMA will be subject to review by ICMA's Regulatory Policy Committee after 12 months in operation, including a review of usage. ICMA invites other Reporting Arrangements to join it in this review.