

Review of ICMA's Standard of Good Practice on Bond Market Transparency for Retail Investors

14 January 2009

Introduction

1. ICMA published its Standard of Good Practice on Bond Market Transparency for Retail Investors ("Standard")¹ in September 2007. Subsequently, ICMA's website bondmarketprices.com² was launched in December 2007. This note represents a one-year review of the Standard and the bondmarketprices.com Service ("Xtrakter Service") as stipulated in the Standard. It covers:
 - a. The objectives of the Standard
 - b. The specifications and scope of the Standard
 - c. Implementation and utilisation of the Standard
 - d. Assessment
 - e. Recommendations
2. The Standard has been measured against data available from Xtrakter Ltd. The Xtrakter Service has been reviewed on the basis of how well it delivers the requirements of the Standard to retail investors.³

Background to the Standard and the Xtrakter Service

3. After consulting its members in 2007, ICMA concluded that retail investors might benefit from easier access to price transparency in the bond market. It was felt that easier access to price transparency could help to improve understanding of the range of products available and the levels of liquidity in those products. Accordingly, in September 2007 ICMA introduced a voluntary European Financial Services Industry Standard of Good Practice on Bond Market Transparency in an attempt to improve the quality and accessibility of price and liquidity information available to retail investors about more liquid and more highly rated bonds.
4. In December 2007 ICMA launched bondmarketprices.com as a dedicated website providing free access to post-trade data on higher quality investment grade bonds with a large issue size. The website is now owned and operated by ICMA's subsidiary Xtrakter Ltd. using data from Xtrakter's TRAX trade reporting services. Approximately 200 firms report trades to Xtrakter's TRAX trade reporting service. Most of these firms are UK

¹ See

http://www.icmagroup.org/market_practice/Advocacy/bond_market_transparency.aspx

² See <http://www.bondmarketprices.com>

³ ICMA are most grateful to David O. Clark for the substantial contribution he has made to this review.

based.⁴ Market estimates indicate that two-thirds, by value, of all transactions in the European bond market have at least one leg of the trade going through London. Currently, trades are reported and published on the Xtrakter Service on a daily basis for about 1,200 – 1,500 bonds though the actual number of bonds traded each day will vary.

5. On November 20 2008 ICMA and Euroclear SA/NV signed an agreement whereby Euroclear will acquire 100% of Xtrakter Ltd. pending receipt of regulatory approvals. Euroclear have indicated to ICMA that they will continue to provide the Xtrakter Service free of charge.

The objectives of the Standard

6. The objectives of the Standard are encapsulated in the Standard itself:

“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.”

7. Although these objectives clearly summarise what the Standard is trying to achieve it is sensible that the Standard should explain why we are trying to achieve these objectives and we therefore propose that the preamble states:

“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:”

This overriding objective is particularly relevant in the light of the recent financial market turmoil.

8. When the Standard was discussed amongst ICMA members in 2007, a question was raised as to whether ICMA and the industry in general should be encouraging direct retail investment in the bond market. Three points are worth mentioning in this context:
 - a. Most ICMA members offer a bond broking service to retail clients, either directly or through their group structure.
 - b. Since the current financial market turmoil the type of bonds reported on the Xtrakter Service, i.e. large, higher rated and more liquid bond issues, are likely to have represented the best performing and safest investments available to retail clients, to date.
 - c. Retail clients are protected by the suitability and best execution requirements of MiFID. It is presumed that most retail investors would be discouraged by

⁴ All of ICMA’s Council of Reporting Dealers are currently required to report their trades to TRAX. The Council is made up of 29 members of which 11 are outside the UK (4 in Paris, 1 in Milan, 1 in Copenhagen, 2 in Frankfurt, 1 in Brussels, 1 in Stockholm and 1 in Zurich). Non-UK members of the Council will generally report both their non-UK and UK business operations to TRAX.

their investment advisors from buying many complex structured investments that otherwise fall within the scope of the Standard.

Nonetheless, ICMA considers that it would be sensible for the Standard to stipulate that any conforming service should highlight the necessity for retail clients to obtain professional advice before investing in bonds.

9. It is worth noting that the Standard was not intended to apply in those EU jurisdictions where reporting requirements already exist which meet local needs.

The specifications and scope of the Standard

10. The Standard calls for the following information to be published in respect of qualifying bonds:

- *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: €1 billion (or other currency equivalent).
 - Minimum current credit rating: A- and above.
 - Trade size: between €15,000 and €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 trade prices and average closing bid and offer quotes; and
 - Monthly trade volume and average daily number of trades.

11. This review assesses whether the following criteria set out in the Standard are still appropriate: (a) parameters for displaying bonds, including trade size, issue size and credit rating; (b) timeliness of prices, and (c) monthly volumes and average daily trade figures.

Parameters for displaying bonds

12. It was decided at the time the Standard was drafted that providers of any service should not be required to make subjective judgments about the suitability of particular bonds and indeed there would be practical problems in doing so, because ISIN numbers do not indicate whether, for instance, a bond is structured or plain vanilla. ICMA continues to believe that the criteria for displaying bonds should not require subjective judgements by services.

13. It is worth noting that in spite of a general decline in trading volumes since the start of the financial crisis, the Xtrakter Service is reporting the largest number of bond trades since the service was launched – approximately 1,200-1,500 reported trades per day in the €15,000 – €1 million price range. This is partly because wholesale market trade size has dropped so significantly that many trades which might previously have been outside the Standard's trade size range now come within it. This raises the question of whether to reduce the reportable maximum trade size. However it should be remembered that
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the €1 million threshold was chosen to avoid disclosing large trades and the price distortions which they might entail, not because it represented a threshold between retail and wholesale trades. The minimum trade size of €15,000 serves retail well by reducing the instances of off-market prices caused by the inclusion of retail commission or mark-up in very small trades. Moreover, the minimum credit rating of A- will have been relatively safer for retail investors during the recent market turmoil than lower thresholds. Issues below these thresholds will be relatively much less liquid now than they were before the crisis. Accordingly, we see no reason to vary this approach.

14. An analysis of TRAX trade data used by Toulouse University⁵ indicates that the trade size filters used by the Xtrakter Service would have captured 70% of euro trades and 21% of euro volume reported to TRAX. Given the general fall in trade sizes these figures are likely to be higher in the current market.
15. It would be helpful if conforming services were to include credit ratings, ISINs and minimum denominations in static data provided on bonds, but this is not always easily done and its provision should be a recommendation rather than a requirement of the Standard.

Timeliness of prices

16. The Standard calls for "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". A retail investor may wish to track a bond on a daily basis and might be discouraged if the bond does not appear on some days because there has been no reportable trade. This forms the basis of the European Commission's criticism set out in its article 65 review, which stated:

"Such self-regulatory solutions should however give retail customers access to meaningful prices. The ICMA system, for example, calls for trades between €15k and €1M to be captured for the purpose of generating end of day prices. Where no trade is done on a particular day then no prices are displayed. Clearly, if for a particular bond it frequently happens that the only trades done on a day are over €1M or under €15K, the danger is that the system will frequently not give access to prices at all.

For this reason, the Commission services would encourage all designers and implementers of self regulatory solutions, including ICMA and SIFMA, to consider carefully the design parameters so that retail access to realistic and up-to-date prices is broadened and deepened to the fullest extent possible consistent with ensuring that liquidity is not impaired."

17. One way of responding to the Commission's criticism about systems not giving access to prices at all (because no trades have taken place that day) would be to display the last price at which the bond traded. However, ICMA considers that there is a danger in displaying out-of-date prices on a retail site. First, the aim of both the Standard and the Xtrakter Service is to display prices of highly liquid bonds. Bonds which do not trade often may not be particularly liquid, and displaying out-of-date prices of bonds may imply a level of liquidity that does not exist. Secondly, ICMA feels that if prices are displayed in relation to trades that have taken place some time in the distant past, it could potentially mislead less sophisticated retail investors – i.e. the prices would not be realistic or up-to-date as identified in the Commission review.
18. ICMA continues to believe that end of day, high/low and median prices as well as the prior day's close represent the best format for retail investors particularly in view of the

⁵ The TRAX trade data was provided by Xtrakter for the Toulouse University study "European Corporate Bond Markets: transparency, liquidity, efficiency" which was published in May 2006.

best execution requirements of MiFID. Real time or delayed real time prices are more likely to confuse the issue when a retail investor is negotiating a trade, and by comparing the trade price concluded with the day's high/low, median and close, an investor will more easily and consistently be able to assess the quality of execution.

19. It is also worth noting that if a price cannot be found on the Xtrakter Service, it may nevertheless be possible to see it on the SIFMA site (see para 29 below) since the criteria for reporting on the two sites are different. For technical reasons the Xtrakter Service is unable to display end of day quotes for bonds that have not traded on the day. However, the SIFMA site which does not provide trade prices does provide end of day quotes for a slightly broader range of bonds to that covered by the Xtrakter Service. There are reciprocal links between the two sites and the combined services meet, and in many areas exceed, the requirements of the Standard. Between the two services, retail investors are likely to find a closing quote or a high, low and median price for almost any liquid bond which conforms to the reporting criteria of either the Xtrakter Service or SIFMA site. Nevertheless, ICMA will explore the possibility of making closing quotes available for bonds in the absence of trade data.

Monthly volumes and average daily trade figures

20. It should be noted that the Standard calls for monthly turnover figures by volume and number of trades for each reported issue. While the Standard is silent on whether this should cover all trade sizes or simply those in the €15,000 - €1 million range, the Xtrakter Service reports the latter. In many ways the Xtrakter interpretation of the Standard is more useful to retail as it provides a good indication of liquidity in retail size which is essentially what a retail investor is looking for. Turnover reporting is an important element of the Standard as retail investors' interest in the bond market is surely driven as much by a desire for liquidity as for yield.

Implementation and utilisation of the Standard

The Xtrakter Service

21. The Xtrakter Service provides (a) high, low and median trade prices; (b) average closing bid and offer quotes; and (c) average daily volumes shown for the calendar month before the preceding calendar month. Trade prices are available on the day soon after 17:30 London time. Bid and offer quotes are available on the day soon after 21:00 London time. Trade prices are displayed even if there are no quotes available for a particular bond. However, bid and offer quotes will not be displayed if there is no trade data for that bond. Bid and offer quotes are the latest available for a particular security as derived from TRAX prices and prices received from ICMA's Council of Reporting Dealers.
 22. The Xtrakter Service still remains unique, outside the Nordic, Swiss and Italian markets, in the provision of accessible and useful trade price and liquidity information for retail investors. Geographically utilisation comes mainly from the UK, Benelux and Italy.
 23. The generally tight daily high/low trading range on bonds reported on the Xtrakter Service compares very favourably with the range reported on the US TRACE system where, even before the financial turmoil, average daily price ranges in the most liquid corporate issues were in the range of 3 per cent compared to less than 1 per cent for prices reported on the Xtrakter Service. Analysis available on www.investinginbonds.com clearly shows that most of this wider daily price range on TRACE results from very small trades. It should be noted that the usefulness of the Xtrakter Service is considerably enhanced because trades with end users are unlikely to be included by firms reporting trades to TRAX. Any change in the reporting framework to capture trades with retail end users would be likely to widen the price ranges
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considerably as most intermediaries incorporate retail commission in the price rather than as a separate item.

24. Average weekly hits on the Xtrakter Service are in the range of 50-150. The main reasons for this poor utilisation appear to be poor web-searchability (i.e. the site does not have a very high Google ranking) and a lack of reciprocal links. An alternative explanation, which should not be discounted, is that many retail investors are simply not interested in a bond price service. This is consistent with the observation that retail investors in Europe access the bond markets indirectly through retail brokers and investment funds. However, given the difficulties in accessing the Service on the web as well as some shortcomings in design referred to below, this cannot be proved one way or another.
25. Although a lack of web-searchability is a sufficient explanation for the poor utilisation of the Xtrakter Service any shortcomings in the site itself need to be examined. Chief amongst these is that the site only lists bonds for which a qualifying trade has been reported on the previous day.
26. Xtrakter has indicated that it is currently working to improve the site to make it more attractive to retail investors. It is expected that the improved site will be launched in early 2009. Additionally, Xtrakter has indicated that it will be providing ISIN look up and other facilities for retail investors through www.Xtrakter.com - a link to which is available on the Xtrakter Service.
27. The most important issue is the need to publicise the Xtrakter Service together with the Standard and to make it more easily searchable on the web, and that regulators and other trade associations should provide links to conforming services on their web sites. ICMA and Xtrakter have agreed to carry out a programme of publicity for the Service, principally by seeking to establish reciprocal links with major issuers, other trade associations and regulators.
28. While the original intention had been for the educational requirements of the Standard to be implemented through a link to the SIFMA service (see below), a number of educational features have additionally been added in the latest version of the site.

The SIFMA website

29. SIFMA has recently launched a free educational website on bond markets for European retail investors.⁶ In addition to providing the educational service, it also displays end of day prices for rate products (provided by Tradeweb) and credit products (provided by Markit). The site provides approximately 500 data and content feeds and also links to Xtrakter's price service on a reciprocal basis. It provides links to sovereign issuer web sites; a section devoted to bond investment strategies; and calculators etc. Information on collateralised securities is also provided but prices are only provided for covered bonds, which are considered more appropriate for retail investors. Closing prices will only be provided for bonds which have an end of day price on Tradeweb or there are at least seven dealer feeds contributing to Markit, thus ensuring that the more liquid segment of the market are covered. The site is in five languages (English, French, German, Italian and Spanish) and contains links to national and European wide sources of literature in English and other languages.

Other sources

⁶ See <http://www.investinginbondseurope.org/>

30. An increasing number of commercially driven sites, in addition to those imposed by regulation in member states, are becoming available. A number of such sites were identified.

Nordic markets

31. <http://www.omxnordicexchange.com/fixedincome> gives access to information on the Nordic markets. The information provided is of high quality and in general exceeds the requirements of the Standard.

Italy

32. <http://www.eurotlx.com/tlx-portal/inglese.jsp> gives access to TLX S.p.A. historical data. TLX S.p.A. organises and manages markets for the trading of financial instruments aimed at non-professional investors. The company manages the TLX Regulated Market and the EuroTLX Multilateral Trading Facilities (MTF). The historical prices listed are the previous days open, high, low, last price, no. of trades and trade volumes. Monthly data is also available. ISIN numbers and minimum denominations are available as well as an extensive product description for each instrument admitted to trading. In addition current markets are shown with bid/offer size and last trade information. Approximately 2,500 instruments are traded on the two markets. Liquidity is provided by HVB - Bayerische Hypo-und Vereinsbank (UniCredit banking group) and by Banca IMI, investment bank of Intesa Sanpaolo banking group.

Switzerland

33. http://www.swx.com/market/bonds/quotes/swiss/short/table_en.html This service reports trades in an extensive list of domestic foreign and international bonds traded on SWX. It is not limited to CHF bonds. Trading in retail size in Switzerland is conducted through SWX.

SIFMA's US retail site

34. <http://www.investinginbonds.com/> This provides data based on the TRACE reporting system. It contains a mass of educational material based on the US market.

Other

35. A search of Google using "bond prices" or "bond investing", "bond yield" produces a wealth of useful sites of an educational nature but no price services. It would be hard to argue that general educational information is not available to the retail investor. We have not covered services provided to clients by their brokers. Many of these are likely to be of high standard and to provide information beyond that stipulated in the Standard-current quotes, cheap/dear analysis, historical charting and credit analysis for instance.

Assessment

CESR Consultation

36. In its advice to the Commission⁷ (and repeated in the CESR consultation published on 19 December 2008⁸) CESR considered the following criteria as a framework for valuing the appropriateness of any market-led initiative in the area of post-trade transparency for retail bond markets:

⁷ See p. 18 of "CESR's response to the commission on non-equities transparency" (Ref: CESR/07-284b) which can be found at: <http://www.cesr-eu.org/popup2.php?id=4708>

⁸ See <http://www.cesr.eu/index.php?docid=5434>

- a) The depth and breadth of the information provided, including the kind of bonds and information covered, the institutions caught by the requirements, how data is presented (e.g. aggregated or provided on a trade-by-trade basis) and whether data about volumes is offered;
- b) The appropriate coverage both in terms of geographic distribution and market share;
- c) The timeliness of the data. Some recipients might wish to have access to data on a near real-time basis, while others might be content with end-of-day publication; and
- d) The delivery mechanism employed, which needs to be (i) appropriate for the intended recipient; (ii) well-advertised, easily accessible source of information; (iii) user-friendly display/presentation of trading information; given the needs of the particular target group; (iv) equal access to all investors within the target group afforded, irrespective of where they were located within Europe.

37. The CESR consultation additionally notes that:

“self regulatory solutions have so far focused on transparency which is characterised by:

- Aggregated data instead of information on a trade-by-trade basis;
- The provision of information on prices/quotes on an aggregated and delayed basis and, in the case of ICMA, the publication of information on volumes with a significant delay; and
- Limited coverage in terms of issues and transactions covered and institutions which provide trading information to be published.

Of the two market-led initiatives, ICMA’s service is more focused on providing post-trade transparency information. CESR considers that the services provided by the industry including ICMA should be enhanced in terms of content and timing of information provided to the public.”

38. First, ICMA are pleased that CESR is still of the view that “the industry may be particularly well-placed to deliver a solution for markets that, by their nature, are cross-border/multi-jurisdictional.”

39. In relation to the CESR criteria set out in paragraph (a), ICMA are of the view that the Standard and the Xtrakter Service are appropriate. The depth and breadth of the data required by the Standard and included on the Xtrakter Service are sufficiently deep and broad for the intended retail audience. Moreover, as mentioned above (in para 18) the Xtrakter Service which provides high/low and median prices is a better format for retail investors than a service that displays prices on an unconsolidated trade-by-trade basis. It is vital that any retail service provides information in a format that is easily accessed and understood by retail investors. ICMA takes the view that a stream of trade prices for bonds provided by individual dealers would only be of use if consolidated into the type of format provided by Xtrakter. Moreover, the Standard also requires that monthly trade volume and average daily number of trades be displayed, and this data is displayed on the Xtrakter Service. Accordingly, ICMA considers that the criteria in paragraph (a) are met.

40. In relation to the criteria set out in paragraph (b) ICMA notes CESR’s comment that self-regulatory solutions are so far characterised by limited coverage in terms of issues and transactions covered and institutions which provide trading data. While the data displayed on the Xtrakter Service is from firms reporting trades to TRAX who are mainly based in the UK, market estimates indicate that two-thirds, by value, of all transactions in the European bond market have at least one leg of the trade going through London. The rationale for limiting the scope of the data provided is outlined above and, while their coverage by the Xtrakter Service should not be construed as investment advice for retail investors, ICMA remains of the view that the types of bonds covered by the

Xtrakter Service are the most suitable for retail investors due to their liquidity and their risk profile.

41. In relation to the criteria set out in paragraph (c) ICMA considers that end-of day prices are the best format for retail investors (see para 18 above).
42. In relation to the criteria set out in paragraph (d) ICMA considers that, in terms of the Standard, the requirement for a service to provide data to retail investors at a transparent and reasonable cost or free of charge remains appropriate. However, ICMA acknowledges that, in relation to the Xtrakter Service, there is still considerable work to be done to improve the marketing and accessibility of the service. More could also be done to make the Xtrakter Service more user-friendly. As mentioned above, Xtrakter expect to launch in early 2009 a new version of the Xtrakter Service specifically addressing this point. However, as it is an internet-based service, ICMA considers that it is accessible to all investors both in Europe and globally subject only to regulatory constraints in other jurisdictions, such as the US.
43. ICMA also notes CESR's comment that the Xtrakter Service publishes information on volumes with a "significant delay". ICMA does not consider that this is a disadvantage for retail investors, as they are mainly interested in information on volumes on a longer term basis.

Other

44. The main question raised by retail investors is, "How do I buy bonds?" This appears to be a particular problem in the UK though most UK and many foreign banks do provide a bond broking service through their private banking and stock-broking arms. Independent financial advisors tend to focus on the equity markets. On the continent, as well as the UK, most banks focus on their own product. Aside from the issue of suitability - which has been addressed by MiFID - it is not unreasonable that banks should seek to sell their own product to their clients. Nonetheless as an industry body it would be appropriate to provide information about how to deal in the wider market. Accordingly, ICMA considers that it would be sensible for the Standard to recommend that conforming services provide links to the retail broking services of firms reporting trades.
45. Information of an educational nature is increasingly becoming available quite apart from that which is available on broker sites.
46. To the extent that there are shortcomings in ICMA's Standard they are mainly shortcomings in the geographical range of dealers inputting trade prices to conforming services. ICMA strongly recommends that the resources of the industry and of regulators be directed towards ensuring that the Standard is implemented on a Europe wide basis.
47. While there may be arguments to reduce the size limit of qualifying bond issues and reduce the rating floor from "A-" to "BBB-" the arguments for the original criteria still stand. Retail investors, to the extent that they invest directly in the public bond markets, need to focus on the better rated and more liquid issues. Indeed the industry, including investors, dealers and issuers should do more to ensure that liquidity is improved and that generally means larger and better rated issuers. Retail investors will continue to invest predominantly in in-house issues by their banks, and press and retail organisations will no doubt continue to provide price comparisons for these types of investment.

Recommendations

48. Having reviewed the Standard and the Service ICMA proposes that the following amendments should be made to the Standard:
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- I. Amend the Objectives to state: "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:" (see para 7)
 - II. Amend the Standard to stipulate that conforming services 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. (see para. 8)
 - III. Amend the Standard to recommend that conforming services provide the following static data for each issue: ISIN, rating and minimum denomination. In addition links to retail broking services of reporting dealers could be provided. Links to appropriate regulatory sites could also be included on a reciprocal basis. (see para. 15)
 - IV. Amend the Standard to recommend that conforming services provide links to the retail broking services of firms reporting trades. (see para. 44)
49. In addition, ICMA recommends that the following steps should be taken in respect of conforming services.
- I. ICMA together with other trade associations should work jointly with regulators to publicise the Standard and existing services as well as to encourage a wider geographical range of dealers inputting trade prices to confirming services. Industry resources should be pooled towards ensuring implementation of the Standard.
 - II. ICMA members should, as far as possible, report trades through channels that conform to the Standard.
 - III. In the case of the Xtrakter Service, ICMA will step up its efforts to assist Xtrakter in improving links to Regulatory and Issuer websites and to improve the quality and accessibility of the Xtrakter Service in general. Xtrakter has agreed to implement a number of changes to the Service as soon as is feasible.
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