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P R E S S R E L E A S E

Tuesday, July 26, 2005

Release: immediate

Associations and Corporation commission research to contribute to transparency debate in European bond markets

The Association of British Insurers (ABI), the Corporation of London, the International Capital Market Association (ICMA), the Investment Management Association (IMA), and the London Investment Banking Association (LIBA), announced today that they have jointly commissioned independent research into European bond markets.

This cross-market project will be used to inform the associations' input into the European Commission's review of bond market transparency, required by the MIFID (The Markets in Financial Instruments Directive). The Commission's review is due to be completed by April 2007.

The research will seek to answer a range of questions relevant to a comprehensive regulatory review of market transparency, including:

- Do European bond markets deliver efficient market outcomes?
- To the extent that outcomes are not efficient, could improved pre-and /or post-trade transparency improve bond market efficiency?
- To what extent will increased transparency occur as part of the natural evolution of bond markets?
- To what extent can market participants be encouraged to develop their own solutions and what can only be achieved by direct regulatory intervention?

This research will take the form of two independent studies. One will concentrate on the corporate bond market; the second will cover sovereign debt.

The Centre for Economic Policy Research (CEPR) has been commissioned to undertake both studies. Professor Bruno Biais of Toulouse University and CEPR will lead the study on European corporate debt markets. Professor Richard Portes of the London Business School and CEPR will lead the study on European sovereign debt markets. Both studies are expected to be published early in 2006.

Heads of the associations and Corporation welcomed the launch of both projects.

Sir Adam Ridley, Director General of LIBA, said "*Regulators, including the Commission, are beginning to accept that before regulating they need to be clear that intervention is*

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necessary and will produce a net economic benefit. We welcome this approach, and believe it should be applied to the Commission's review of bond market transparency. This research will be an important contribution to a well founded debate on the role of regulators in European bond markets."

Richard Saunders, Chief Executive of the IMA, said "*Lack of transparency in a market is not of itself evidence of market failure. We are interested in having markets that deliver a fair outcome for all users. This may or may not involve additional transparency. If the research shows that there are issues that require change, we would expect the regulators to assess first the potential for a market solution, before proposing intervention.*"

Peter Montagnon, Director of Investment Affairs at the ABI said "*Any decision about transparency needs to be made on the basis of full understanding so that the markets work in the interest of all their users. As investors, we are therefore happy to work with the sell-side, and other participants in commissioning this research.*"

John Langton, Chief Executive and Secretary General of ICMA, said "*Our decision to commission the studies also reflects our view that there is not a great deal of up-to-date research published on European bond markets. Much of what is available looks at bond pricing and does not consider more fundamental issues such as the efficiency of the bond markets, including issues such as liquidity and the role of transparency. Moreover the research is heavily weighted towards the US markets, which do not operate on the same model as European bond markets.*"

Michael Snyder, Chairman of Policy and Resources, Corporation of London said "*If regulation is to support rather than hinder the competitiveness of financial markets, it must be based on a clear understanding of market structures and dynamics. The Corporation of London sponsors a wide range of research to facilitate this sort of understanding, and sees these projects as a major component of its contribution to the move towards well-informed and market focussed regulation.*"

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Notes for Editors

1. The Markets in Financial Instruments Directive (MIFID)

MIFID) is a major plank in the European Commission's Financial Services Action Plan (FSAP). The purpose of the FSAP is to finalise the single market in financial services in Europe, thus contributing towards the EU's goal of achieving a significant increase in economic growth by 2010. Thirty nine measures have been enacted, of which MIFID is one of the most important.

One significant part of MIFID brings in changes to the transparency regime for trading equities. The impact cannot yet be assessed, but early analysis suggests that it will be far reaching, affecting how, and how much, liquidity is provided to the market and potentially tilting the competitive balance between firms, exchanges and data vendors.

Article 65(1) of MIFID requires the European Commission to submit a review to the European Parliament on the possible extension of the scope of the transparency provisions to markets other than equities.

2. Commissioning organisations

Association of British Insurers (ABI)

ABI is the trade association of the UK's authorised insurance companies. Its membership, some 400 companies, provides over 94% of the insurance business undertaken by such

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companies. Members provide a diverse range of protection, investment and pension products to institutional and retail clients both within the UK and outside. In the course of business ABI members manage assets of the order of £1,100 billion (€1,600 billion) across all asset classes, of which equities and fixed interest are the largest.

Corporation of London

The Corporation of London provides local government services for the financial and commercial heart of Britain, the City of London. It is committed to maintaining and enhancing the status of the City as the world's leading international financial and business centre through the policies it pursues and the high standard of services it provides. The Corporation is older than parliament itself and today combines its ancient traditions and ceremonial functions with the role of a modern and efficient local authority, looking after the needs of its residents, City businesses and over 320,000 people who come to work in the City every day. Among local authorities the Corporation is unique; not only is it the oldest in the country but it operates on a non-party political basis through its Lord Mayor, Aldermen and members of the Court of Common Council.

International Capital Market Association (ICMA)

ICMA is the self-regulatory organisation and trade association representing the investment banks and securities firms issuing, trading and dealing international securities worldwide. ICMA's members are located in 50 countries across the globe, including all the world's main financial centres, and currently number some 430 firms in total. ICMA performs a crucial central role in the market by providing and enforcing a self-regulatory code of industry-driven rules and recommendations which regulate issuance, trading and settlement in international fixed income and related instruments.

Investment Management Association (IMA)

The IMA represents the UK-based investment management industry. IMA members include independent fund managers, the asset management arms of banks, life insurers and investment banks and occupational pension scheme managers, and are responsible for the management of over £2 trillion of funds (based in the UK, Europe and elsewhere).

London Investment Banking Association (LIBA)

LIBA is the principal trade association for firms active in the investment banking and securities industry in the United Kingdom and Europe. The Association represents the interests of its members on all aspects of their business including the major securities and derivatives markets and promotes their views to the authorities in the United Kingdom, the European Union and elsewhere.

3. The Centre for Economic Policy Research (CEPR)

The Centre for Economic Policy Research (CEPR) is a network of over 600 Research Fellows and Affiliates, based primarily in European universities. The Centre coordinates the research activities of its Fellows and Affiliates and communicates the results to the public and private sectors. CEPR is an entrepreneur, developing research initiatives with the producers, consumers and sponsors of research. Established in 1983, with headquarters in London, CEPR is a European economics research organisation with uniquely wide-ranging scope and activities; it is pluralist and non-partisan, bringing economic research to bear on the analysis of medium- and long-run policy questions.

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