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Press release

News from the International Capital Market Association (ICMA)

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For immediate release

Liquidity in the European secondary bond market: perspectives from the market
ICMA publishes survey on current state and future evolution of the European corporate bond market

A new study from the International Capital Market Association (ICMA) identifies the main causes of the potential crisis facing liquidity in the corporate secondary bond markets in Europe and calls for constructive and coordinated action from all market stakeholders to find solutions.

Commentators and market participants are expressing increasing concerns that the secondary markets for European bonds have become critically impaired and are no longer able to function effectively. This phenomenon has been widely attributed to the unintended consequences of banking regulation and extraordinary monetary policy. There are broader concerns about increased market volatility, frozen capital markets, risks to economic growth and another financial crisis.

In this context the study from the International Capital Market Association (ICMA) presents a picture of the current state of the European investment grade corporate bond market (including financial and non-financial corporates) based on the views of a wide range of market participants: the investors, the traders, the issuers and the intermediaries. It highlights the risks and the challenges and also focuses on the extent to which participants are meeting those challenges and adapting to a new landscape.

“Liquid and efficient capital markets support economic activity, growth, and jobs.” comments Martin Scheck, ICMA Chief Executive “It is the responsibility of market providers, investors, issuers and regulators to ensure that this vital function is not compromised’’.

The current state and future evolution of the European investment grade corporate bond secondary market: perspectives from the market

Among the main findings of the study are:

- While liquidity has clearly eroded post-crisis, mainly as a result of stricter capital requirements for market-makers and unusually benign market conditions, the story is more nuanced than simply the end of liquidity. There are arguments to suggest that the levels of market depth and liquidity experienced between 2002 and 2007 were largely the result of banks mispricing balance sheet and risk, and overtrading in cash bonds being driven by the Credit Default Swap (CDS) and structured product markets.

- Intermediaries, chiefly banks and broker-dealers, are responding by changing their models. As a result of more active capital allocation within the banks, there is a shift to holding smaller quantities of bonds in inventory, but seeking to increase turnover through smarter, more active trading on an agency basis.

- The electronification of the credit market is making an impact in Europe, and most, if not all, of our contacts expect this trend to continue. However, while the general view is that technology has an important role to play this is still not a substitute for liquidity.

- There is a high level of concern from both intermediaries and investors regarding new regulation, not least MiFID II. While many see improved transparency as a good thing, there is a worry that too much transparency could cause market liquidity to deteriorate further. There is a suspicion that regulation confuses transparency and liquidity, which is not the same thing.

- A number of market-led solutions to the potential crisis of liquidity are discussed and analysed, including greater utilization of e-commerce and e-trading, more developed cross-market connectivity, and changes in issuance practice. However, it is widely accepted that these initiatives cannot replace the role of market-making nor compensate for unhelpful regulation.

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Notes for editors

Importance of bond markets
The bond markets are the principal mechanism for raising long-term public and private debt to fund public expenditure and to support economic activity and growth. The corporate bond (or 'credit') markets used by banks, insurance companies and commercial and industrial firms have been a particularly stable and reliable source of funding and have grown in size and importance, particularly since the crisis and a move away from reliance on traditional forms of bank funding that are becoming less viable under the new capital regimes. The size of the Euro denominated corporate bond market is estimated at €3.4 trillion in terms of outstanding debt (source: ECB).

International Capital Market Association (ICMA)
ICMA represents financial institutions active in the international capital market and has more than 460 members located in 54 countries. ICMA's market conventions and standards have been the pillars of the international debt market for almost 50 years, providing the framework of rules governing market practice which facilitate the orderly functioning of the market. ICMA actively promotes the efficiency and cost effectiveness of the capital markets by bringing together market participants including regulatory authorities and governments.
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