International
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Association

News from the International Capital Market Association (ICMA)

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For immediate release

Liquidity in the secondary European corporate bond market.
ICMA publishes second study on state and future evolution of the European corporate bond market

The International Capital Market Association (ICMA) has today published a study entitled 'Remaking the corporate bond market' exploring the evolution of the European investment grade corporate bond market and updating an earlier study published in 2014.

It looks at how liquidity and market efficiency are being defined and impacted by the convergence of extraordinary monetary policy and unprecedented prudential and market regulation. The study is based on a series of in-depth interviews with market participants represented by ICMA, including investors, issuers, banks and broker-dealers, intermediaries and infrastructure providers – with the important addition of their quantitative input. It provides recommendations to support the long-term efficiency and functioning of the market.

Sonali Das Theisen, Global Credit Trading, Head of Market Structure & Data Science, Citi and Co-Chair of the ICMA Secondary Market Practice Committee commented: "As the industry navigates the impacts of MiFID, CSPP, CSDR, CMU, 'Brexit', capital market regulation and other influences, ICMA's 2016 Corporate Bond Market Study provides valuable insight into the evolution of the European investment grade market. The study represents a unique 360° view of market stakeholders, including asset managers, liquidity providers, issuers, and intermediaries. This paper highlights the dynamics market participants believe are impacting liquidity and efficiency in trading corporate bonds."

The main findings of the new ICMA corporate bond market study are:

- **Providing and sourcing liquidity is more challenging**. It is increasingly difficult to trade in large sizes, to execute orders quickly, or to establish reliable prices.

- **European corporate issuers are increasingly concerned about the state of the corporate bond secondary market.** The disconnect between primary market stability and secondary market liquidity directly impacts their ability to raise capital necessary to fund investment.

- **But stakeholders are in the process of adapting to the challenged environment by changing their business models.** While sell-side firms continue to reshape their models around balance sheet efficiency, the buy-side is taking more initiative in terms of locating and creating liquidity. Technology is playing an increasingly important role in the market.

Robert Parker, Chairman of the ICMA Asset Management and Investors Council, further explains: “There is still liquidity in the market but the environment is definitely more challenging and you need to create your own liquidity, and it comes at a price.”

Based on the stakeholder interviews the study makes a number of recommendations, which could improve the long-term efficiency and functioning of the European corporate bond markets.

- **Provide capital relief for market-making**. Policy makers and regulators should at the very least consider the possibility for less stringent capital charges related to this activity, including associated hedging and financing.

- **Revitalize the single-name CDS market**. Single-name CDS not only provide an efficient and standardized tool for market-makers and investors to hedge credit exposures, but given its close relationship with the underlying reference bonds, an active and liquid single-name CDS market could help stimulate liquidity in the corporate bond market.

- **Review and re-assess harmful regulation**.

- **Bring all market stakeholders together to review the market structure**. All market stakeholders, including investors and asset managers, corporate issuers, banks and broker dealers, intermediaries and infrastructure providers, relevant market associations and representative bodies, as well as policy makers and regulators, need to work together in a formalized and structured forum to share views and ideas on market structure and development.

The data collection for this study predates the referendum on the United Kingdom’s membership of the European Union on 23 June 2016. The outcome of this could have serious implications for corporate bond markets, in particular the sterling market, but also for the euro and other markets, potentially testing market efficiency and liquidity.

Download ‘Remaking the corporate bond market’

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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 €3.9 trillion in terms of outstanding debt (source: Bloomberg).

As the ability of banks to provide direct funding to the corporate sector has become challenged, post-crisis, policy makers are beginning to look to capital markets as an ever more important source of financing for the real economy, while also underpinning economic stability; an objective that is at the very heart of Europe's plan to build a Capital Markets Union.

International Capital Market Association (ICMA)

ICMA represents financial institutions active in the international capital market and has more than 500 members located in 60 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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