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(Submitted by e-mail to [wholesalecompetition@fca.org.uk](mailto:wholesalecompetition@fca.org.uk))

6 October 2014

Dear Sirs,

**FCA Wholesale sector competition review – Call for inputs (Q9 / debt underwriting)**

The International Capital Market Association (ICMA) is responding to the above.

Setting standards internationally, ICMA is a unique organisation and an influential voice for the global capital market. It represents a broad range of capital market interests including global investment banks and smaller regional banks, as well as asset managers, exchanges, central banks, law firms and other professional advisers. ICMA's market conventions and standards have been the pillars of the international debt market for over 40 years. See: [www.icmagroup.org](http://www.icmagroup.org).

ICMA is responding in relation to its primary market constituency that lead-manages syndicated debt securities issues throughout Europe. This constituency deliberates principally through ICMA's Primary Market Practices Committee<sup>1</sup>, which gathers the heads and senior members of the syndicate desks of 47 ICMA member banks, and ICMA's Legal and Documentation Committee<sup>2</sup>, which gathers the heads and senior members of the legal transaction management teams of 18 ICMA member banks, in each case active in lead-managing syndicated debt securities issues in Europe.

We set out our response in the Annex to this letter and would be pleased to discuss it with you at your convenience.

Yours faithfully,

A handwritten signature in black ink, appearing to read "R. Ewing", with a large, sweeping flourish at the end.

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<sup>1</sup><http://www.icmagroup.org/About-ICMA/icma-councils-and-committees/Primary-Market-Practices-Sub-committee/>.

<sup>2</sup><http://www.icmagroup.org/About-ICMA/icma-councils-and-committees/Legal-and-Documentation-Sub-committee/>.

**Annex**  
-  
**Response**

**Cost of equity and debt underwriting**

Q9: Taking account of the work already carried out in this area and the MiFID II developments, we welcome evidence on:

- whether there are reasons to revisit competition in equity underwriting (including IPOs), or
- the need for similar analysis of the market for debt issuance

1. **Response scope** – This response is made in respect of the Eurobond markets (and so the second bullet of Q9). ICMA understands AFME is responding from the equity market perspective.
2. **Underwriting fees** – ICMA understands there is strong underwriter competition in relation to fees. In this respect ICMA notes a quote (in GlobalCapital's June 2014 Special Report *Financing Corporates*<sup>3</sup>) by Stéphane Tortajada, head of group finance and investments at Electricité de France, that "There are a very large number of banks and the competition between them is very tough." The relevant article in the Special Report (*Falling in and out of love – the bank-client relationship changes*) is of general interest and *inter alia* further refers to wooing issuer clients with fee-free bonds and competing not only on fees but also on quality of technical execution (as "Price [i.e. underwriting fees] cannot really compress that much any more"), which will also include distribution capability (relationships with investors). This seems to constitute evidence of competitive DCM underwriting fees at this initial indicative stage, but ICMA is able and willing to assist the FCA with further particulars if desired.
3. **Allocations and stabilisation** – These aspects indeed relate to potential conflicts of interest (as noted in the call for inputs and within the jurisdiction of MiFID and potentially the distinct BoE/FCA/HMT Fair and Effective Markets Review) or market manipulation (within the jurisdiction of MAD/MAR) and so do not seem related to competition (or at least to a lack thereof). As noted above, underwriters compete not only on fees but also on quality of technical execution (a reason why issuer-underwriter relationships are rightly important), which includes allocations and stabilisation. However both activities are subject to existing regulations, respectively, on conflict of interest and market manipulation. Regarding the earlier, underwriters have default allocation policies in place (absent specific issuer priorities), which will *inter alia* cover underwriter affiliates such as their asset management arm. See further the responses to Qs.58-62 in the underwriting/placing section of ESMA's recent consultation on MiFID Level 2 measures (at pp. 21-30 of the submitted ICMA response<sup>4</sup>).
4. **MiFID II** – Currently MiFID already imposes conflict of interest obligations and it is unclear to what extent the MiFID II Level 2 measures need to, or will, introduce new requirements on firms. Certainly 'laddering' and 'spinning' have long been considered abusive – see further #27 of the responses to Qs.58-62 of the MiFID Level 2 consultation.

<sup>3</sup> [http://cdn.globalcapital.com/Media/documents/euroweek/pdfs/Corps\\_2014.pdf](http://cdn.globalcapital.com/Media/documents/euroweek/pdfs/Corps_2014.pdf).

<sup>4</sup> [http://www.esma.europa.eu/system/files/esma\\_mifid2\\_cp\\_icma\\_responsefiled.doc](http://www.esma.europa.eu/system/files/esma_mifid2_cp_icma_responsefiled.doc).