

Overview

The ICMA 2016 Corporate Bond Secondary Market Study is intended to build on the 2014 ICMA study, [*The current state and future evolution of the European investment grade corporate bond secondary market: perspectives from the market*](#), advancing the discourse around market quality and liquidity, why this is important, and how the market is, or could, adapt to the rapidly transforming landscape. Rather than restating the causes of the ‘liquidity challenge’, the study is intended to be more forward looking and solutions focused, rather than problem focused. Furthermore, the paper will be more quantitative than the 2014 study, relying on far more data and analysis to help identify the critical issues and to attempt to build a relevant and practical ‘dashboard’ for market quality and liquidity. As with the previous study, it will then build on this analytical base with a more qualitative assessment, using input from a series of interviews with key market practitioners and stakeholders.

Essentially, the study will set out to discuss and answer three key questions:

- ***What is the current state of and likely course for European corporate bond market quality and liquidity?***
- ***If market quality and liquidity are declining, what are the implications, is this necessarily a problem, and to what extent should policy makers be concerned?***
- ***How is the market evolving, and what can and should market practitioners and stakeholders do, or consider, to help address any potential problems arising from the state of the market.***

In light of the surprise announcement of the ECB’s Corporate Sector Purchase Programme, due to begin at the end of Q2, the study should be well received as both pertinent and timely.

Scope

Given that the SMPC is the market forum representing the interests of the European investment grade corporate bond market, this will be the primary focus of the study, covering both non-financial and financial IG corporate bond markets, including euro and non-euro. However, it is impossible to separate any meaningful analysis of the cash bond market without also assessing the related hedging and funding markets. Therefore, it will also be necessary to analyze the state and evolution of the CDS market and credit repo market.

It would also seem to be limiting to view the European IG corporate bond market in isolation, and it is reasonable to assume that there is a high degree of correlation and shared evolutionary impetuses with other debt markets, including High Yield corporate bonds, as well as SSA markets, the covered bond market, and possibly even ABS and Emerging Markets. It would also be interesting to draw comparisons with developments in the US corporate bond markets, not least since there is far more data (and available analysis) available compared to the European market. Finally, conditions and developments in the primary market, and the identification of possible correlations with secondary market liquidity, would also be highly relevant.

Finally, as Exchange traded funds (ETFs) are looked to as a potential solution to enhance liquidity, the study will also look at liquidity conditions and the scope for development for corporate bond ETFs.

Primary focus

- **European IG corporate bond secondary market (non-financial and financial, euro and non-euro)**
 - European IG corporate bond cash market
 - European IG CDS market (in particular single name)
 - European credit repo market
 - European corporate bond ETF market

Secondary focus

- European HY market
- European IG primary market
- US corporate bond market

Tertiary focus

- European SSA markets
- European covered bond and securitization markets
- European EM market

Data and analysis

Primary focus: European IG Corporate Bonds (non-financial and financial)

Analysis by overall market, sector, currency, and possibly focusing on a select few individual issues (a life cycle case study).

Related focus:

- CDS market (in particular single name CDS)
- Credit repo market
- ETF market
- Primary market

It is almost impossible to view liquidity in cash bonds without also assessing conditions in the related hedging and financing markets. Furthermore, comparing liquidity conditions in the related ETF market, as well as evaluating any correlation between primary and secondary market conditions, could be insightful.

Possible comparative focus:

- Levered loan market
- High yield market

- SSA markets
- Equity markets
- US corporate bond market

It is possible that there are many commonalities across different fixed income asset classes, and regions, but also differences (such as observations related to turnover in the levered loan market). These could also provide clues to understanding market evolution.

Problem based indicators

The indicators suggested by the SMPC relate directly to identifying the potential problem:

- *Market depth:*
 - ability to execute orders relative to size of order
 - time to execute orders relative to size
- *Market resilience:*
 - market move relative to trade size
- *Phantom liquidity:*
 - firm vs indicative prices
 - rate of 'dropped prices'
- *Capacity to provide liquidity:*
 - dealer balance sheet dedicated to market-making
 - trading-book turnover
 - proportion of trades relating to a position/order

Correlation analysis

Corporate bond market liquidity vs.

- CDS market liquidity
- issue size
- primary market activity/pricing
- other bond/fixed income markets
- ETF activity
- equity activity
- repo activity
- issue currency

Interviews

It is proposed that a series of semi-structured interviews be conducted with a range of market stakeholders, including:

- Bank/broker-dealer corporate bond traders

- Investment and asset manager portfolio managers and traders
- Lead managers
- Corporate bond issuers (non-financial and financial)
- Inter-dealer brokers and electronic trading platform providers

Relevant participants will be accessed via the various ICMA market committees and forums, with the appropriate secretaries facilitating introductions where necessary. The aim is to conduct a minimum of 30 interviews, covering a broad and representative sample of the various constituents.

These interviews will seek to ascertain the various constituents' views on the health of the credit (and related) markets, the perceived challenges facing the market, and the potential to adapt, innovate, and evolve the market structure.

A further aim of the study will be to identify which measures of liquidity are most commonly used by firms, and how these vary between sell-side and buy-side, as well across different asset classes. This will also help inform the data and analysis that is used in the study, and which will help develop a potential 'market liquidity and quality dashboard'. While it would be ideal to have a better understanding of liquidity metrics used throughout the market before beginning the data analysis, and the data analysis completed before beginning the interview process, it is likely that these will need to happen concurrently, with interviews and analysis informing each other on an ongoing basis.

It is also intended to interview sell-side and buy-side economists who can discuss the linkages between corporate bond secondary markets and the 'real economic', as well as identifying potential macro-economic risks arising from any impairment to secondary market quality and liquidity.

Parallel Asian Study

Note that an ICMA Asian corporate bond secondary market study will be conducted in parallel. This will be led by Mushtaq Kapasi (Chief Representative, ICMA Asia Pacific), in close coordination with Andy Hill, and will be based on the same approach. The intention is to publish both studies on the same date.