ICMA ECP COMMITTEE - ABECP RESPONSES TO IOSCO QUESTIONS

A. SFPs within the scope of this project

Q1 – Column 1 of table 1 below provides a list of SFPs which we are proposing to include in this project.
Please indicate whether any other SFPs should be included.

A1 – These responses relate to ABECP, a sub-part of the already recognised ABCP product.

B. Volume and frequency of secondary trading in SFPs

Q2 – Please indicate in **table 1** below:

Please provide the information pre sub-prime crisis (using average monthly data for Q2 2007) and currently (using monthly average data for December 2008)

a) The approximate secondary trading volume[5] in US Dollar that your firm conducts (excluding inter-company trading desk transactions) for each SFP identified in column 1. Where appropriate indicate how it varies according to the seniority of the tranche: AAA, Mezzanine and Equity/First Loss.

b) The general frequency with which your firm trade the SFPs identified in column 1 over their lifetime (excluding inter-company trading desk transaction).
Where appropriate indicate how it varies according to the seniority of the tranche: AAA, Mezzanine and Equity/First Loss.

c) The approximate average trading size for each SFP identified in column 1.
Where appropriate indicate how it varies according to the seniority of the tranche: AAA, Mezzanine and Equity/First Loss.

A2 – Estimated amounts for the ABECP market are reflected in the table.

Table 1—Questions relating to size and frequency of secondary trading in SFPs

Products	**Volume of trade Million USD (Q2 a)**		**Frequency of trade: Average number of trades per tranche of a product over its lifetime (Q2 b)**		**Average trading size Million USD (Q2 c)**	
	Pre crisis (Q2 2007 monthly average)	**Currently (December 2008)**	**Pre crisis (Q2 2007 monthly average)**	**Currently (December 2008)**	**Pre crisis (Q2 2007 monthly average)**	**Currently (December 2008)**
ABECP	**150,000**	**35,000**	**1**	**1**	**50**	**50**

[5] **Do not include purchase of securities in the primary market (e.g. when buying from the issuer)**. A purchase and sale of a security in secondary market should be deemed a single trade only if it was conducted on a riskless principal basis. If the firm is at risk between the purchase and sale, the purchase and sale should be considered as separate trades.

C. Nature of the secondary market in SFPs

Please answer the questions in this section with regard to your jurisdiction

Q3 – Please indicate in **table 2** below:

a) Whether the SFPs identified in column 1 are traded on exchange, on other public trading platforms or OTC.
Please provide the breakdown between 'organised' public platforms and OTC (provide an estimate if you do not have the exact figure).

b) Who are, in the secondary market, the main sellers of each SFP identified in column 1 (if possible, with percentages). Where appropriate indicate how it varies according to the seniority of the tranche: AAA, Mezzanine and Equity/First Loss.
Where possible please use the following categories to facilitate the processing of responses: Bank Buy and Hold, Bank Trading Book, Bank Conduit, Money Markets Funds/Fund Manager, Hedge Funds, Insurance or Others.

c) Who are, in the secondary market, the main buyers of each SFP identified in column 1 (if possible, with percentages). Where appropriate indicate how it varies according to the seniority of the tranche: AAA, Mezzanine and Equity/First Loss.
Where possible please use the following categories to facilitate the processing of responses: Bank (see above for bank categories), Money Markets Funds/Fund Manager, Hedge Funds, Insurance, Retail investors or Others.

d) How standardised (low, medium or high) in terms of deal structure, credit quality and homogeneity of collateral each of the SFPs identified in column 1 are.
Where appropriate indicate how it varies according to the seniority of the tranche: AAA, Mezzanine and Equity/First Loss.

A3 – Estimated proportions for the ABECP market are reflected in the table.

<u>Table 2—Questions relating to nature of secondary market in SFPs</u>

Products	**Traded on exchange, other public trading platforms or OTC (and relative percentage) (Q3 a)**	**Seller types (Q3b)**		**Buyer types (Q3 c)**		**Degree of standardisation (Q3 d)**
		Pre crisis (Q2 2007)	**Currently (December 08)**	**Pre crisis (Q2 2007)**	**Currently (December 08)**	
ABECP	**100% OTC**	**MMF 60** **Banks 15** **Sov/Supra 10** **Corporate 5** **Dealer 10**	**70** **15** **5** **5** **5**	**10** **10** **10** **5** **65**	**0** **0** **0** **0** **100**	**Medium to high**

D. Existing price transparency in SFPs

Q4 – Please indicate in **table 3** below:

a) Sources of price information (e.g. dealer quotes, consensus average price, mark to model, price of new issue, CDS) used for price discovery for each SFP identified in column 1.

b) Whether price information which is currently available commercially is adequate for price discovery for each SFP identified in column 1. If this is not the case, please explain why. Can you indicate what price information you find the most useful?

c) Whether you are aware of any post-trade reporting information being available to market participants for each SFP identified in column 1. Where appropriate explain how the reporting system works.

A4 – ABECP is a market that is still accessed over the phone, through relationships with a wide range of dealers under competition. Applicable price transparency sources for the ABECP market are reflected in the table.

Table 3 – Questions relating to existing price transparency in SFPs

Products	**Sources of price information for price discovery (Q4a)**	**Adequacy of prices available commercially (Q4b)**	**Post-trade reporting information available (Q4c)**
ABECP	Either of TradeWeb and Bloomberg ECPX: real-time – dealer (composite) executable/indicative (average over 20,000 postings per day on TradeWeb)	Adequate.	Euroclear and Banque de France: weekly – evaluated traded prices

In addition, the Federal Reserve publishes daily ABCP prices for the U.S. market, which can be helpful in assessing prices in Europe as many of the issuers are global.

Euroclear, Banque de France, and Fed prices are all on the web, free, include historical data, and do not require passwords. For reference:

Euroclear:
https://www.euroclear.com/site/public/EB/!ut/p/c1/04_SB8K8xLLM9MSSzPy8xBz9CP0os3gz08BgH3MPIwOLMB8LA6MQxwDLEH8XAwN3U6B8JJK8gW-AC1DeyMDTNCDY2N3JlIDucJB9-PWD5A1wAEcD_PqD0OXRXGBgru_nkZ-bql-QG2GQ6anrCAAqsvTf/dl2/d1/L2dJQSEvUUt3QS9ZQnB3LzZfNjVRU0w3SDIwMFRNRjAyN1BWQkhRRzFLUDc!/

Banque de France:
http://www.banque-france.fr/gb/poli_mone/place/tcn/pub_stats.htm

Federal Reserve:
http://www.federalreserve.gov/releases/cp/

E. Need for post trade transparency in SFPs

Q5 – What do you see as the potential benefits associated with the creation of mandatory post-trade transparency for SFPs?

Q6 - What do you see as the potential drawbacks associated with mandatory post-trade transparency for SFPs?

Q7 – Do you believe that some types of SFPs are more suited to a post-trade transparency regime than others? If so, please identify the specific type(s) of SFPs and explain.

Q8 - Should a mandatory post-trade transparency regime be introduced for SFPs, please indicate what kind of information (e.g. price, size) could be reported without impacting liquidity or participation in the SFP market.

Q9 – What features should a centralized reporting system for SFPs have?

Q10 – Do you believe that the absence of post-trade transparency in SFPs has contributed to the market turmoil?

Q11 – Do you believe that post-trade transparency in SFPs could contribute to market recovery?

Q12 – Do you believe that post-trade transparency requirements should be implemented after other transparency initiatives (such as enhanced information on the quality/performance of the underlying assets, standardization of investor reports, etc)? If so, can you please indicate which other transparency initiatives should be implemented before post-trade transparency requirements.

Q13 – Do you believe that now is an appropriate time to implement post-trade transparency requirements? If not, please indicate the reason(s) and when you believe that it would be more appropriate.

Q14 – Do you think more requirements for loan level information from issuers and cash flow modeling tools by 3rd party vendors in Europe would help pricing transparency and create more standardisation in valuing SFP?

A – In the context of ABECP, the following responds collectively to these questions:

ABECP is a short term cash instrument, so investors can not buy paper with the goal of selling to realise capital gains. Investors buy to hold, simply to try to match cash flows. ABECP has never been nor will be a trading market and even pre-crisis only about 2% of paper reached secondary markets. Secondary paper is less interesting to investors as the end date is already fixed and cannot be tailored to their needs. Overwhelmingly, buyers of secondary paper have been dealers, who often end up holding secondary paper to maturity.

In terms of pricing, investors are focused on discovering a fair price when they buy. As per the response to Q4 above, investors have tremendous access to trade prices. This is a market for sophisticated wholesale investors who have sufficient power to put dealers under competition to obtain market information and the best prices.

Neither investors, issuers, or dealers want trade-by-trade price disclosure. Individual trade disclosure could immediately spotlight positions and activities of individual participants. Individual trades are negotiated and pricing is impacted not only by interest rate levels and credit but also by exact maturity date, size, and demand for issuance by specific names. Participants making price accommodations for specific trades would not want this to affect all their activity. Investors and issuers already have sufficient macro pricing information to factor into their specific trades.

In all of the meetings, papers, conferences, and studies on ABCP since the financial crisis began, it is difficult to find any mention of price transparency as an important issue. Efforts to further price transparency do not address the fundamental concerns of the market. Investors have pulled back from ABCP because of concerns with 1) program structure and 2) credit. More price data would not bring back bids or liquidity.

It is important to note that it remains true that no investor has suffered defaulted ECP or USCP issued by a multi-seller conduit. Multi-seller programs have been more resistant to turmoil because of strong bank sponsorship, funding costs passed through to underlying customers, limited exposure to sub-prime and CDO of ABS, and additional backstop liquidity and credit enhancement when required. Investors have expressed the view that they are comfortable with the multi-seller model in the long term, and will buy again once markets have settled and bank credit is stable.

The Structured Investment Vehicle model – with inadequate backstop liquidity – is no longer used. Investors will only re-consider securities arbitrage conduits when and if they are comfortable with underlying structured finance assets.