21 May 2007

THE ICMA BOND MARKET TRANSPARENCY QUESTIONNAIRE: ASSESSMENT OF RESPONSES

The background to our Questionnaire

The European Commission is due to report early next year about whether to propose that the regulation of market transparency for equities under MiFID should be extended to bonds. On May 2, Commissioner McCreevy said:

"We took soundings last year and have asked two groups, the CESR and our European Securities Markets Experts, to advise us. We have asked them to focus on the question whether there is a market failure with regards to transparency. Most market participants have said broadly that there are no significant problems, at least in the wholesale markets. But we must listen to all stakeholders, including very importantly retail investors, as well of course as taking into account the views of regulators, the Member States and Parliamentarians. Whatever happens there is a case for the industry to raise its own standards of accessibility to pricing information. We aim to hold a public hearing in September of this year, and to finalise our report in early 2008."

In ICMA's response to the Commission's Call for Evidence on bond market transparency, we argued that there was no market failure in the European bond markets and therefore no case for regulatory intervention, but that we should consult our members about a market-led alternative to regulation. To consult our members about such a market-led alternative, we sent all our members the ICMA Bond Market Transparency Questionnaire on April 16, giving them three weeks to respond. As agreed by the ICMA Board, the detailed drafting of the Questionnaire was approved by our Regulatory Policy Committee.

The responses to our Questionnaire

The responses we have received to the Questionnaire are analysed in detail at Annex A. We have listed at the end of Annex A the names of respondents, while keeping the content of their responses anonymous, where they have requested this.

In total, we have received 92 responses.[1] Respondents include almost all the very largest securities firms in Europe, and a wide selection of firms representing different European regions.

A clear majority of respondents, including a clear majority of the very large securities firms, agree with the proposition that: "ICMA should resist regulatory intervention and propose satisfactory market-led alternatives providing that such proposals are responsive to members' concerns and the concerns of the wider market; and are designed to improve the quality of the market."

The Questionnaire sets out two different (but not mutually exclusive) options for a market-led alternative to regulation of trade publication. Both options would be designed to help retail investors, while avoiding liquidity problems for firms:

- Option 1 is a Price Service, which would involve publishing, at the end of the day, an average of the closing bid and offer quotes for each reportable

[1] The Commission received responses from 59 organisations in response to its Call for Evidence, and CESR received 23 responses to its own Call for Evidence.

security and the high, low and average prices for each bond trade which has been reported to ICMA.

- Option 2 is a Single Trade Publication Service, which would involve publishing trades in large investment grade bonds above a specified minimum level and below a specified upper size limit.

Respondents to the Questionnaire have differing views about which of the two Options for a market-led alternative to regulation they would prefer. Around a half would prefer Option 1; a quarter would prefer Option 2; and a quarter would prefer both Option 1 and Option 2. Respondents also have differing views on the form that Option 2 should take, its impact on liquidity, and on willingness to extend reporting requirements.

Most respondents, including almost all of the very large securities firms, are in favour of including access to an educational service on investing in bonds.

The way forward

We are very grateful to those ICMA members who have responded to the Questionnaire. Given the importance of this issue for our members, we expect that the ICMA Board will want to have a discussion on the responses to the Questionnaire.

Subject to the agreement of our Board, we plan to follow up the responses to the Questionnaire as follows:

First, we will post this position paper on our website so that all our members can read it, and send it to the Commission and CESR, as we previously indicated in responding to the Commission's Call for Evidence.

Second, we plan to engage in a dialogue with the Commission and CESR through our Committees of members, led by our Regulatory Policy Committee. The Commission has agreed to participate in our next Regulatory Policy Committee meeting on 14 June. We plan also to invite representatives of our Market Practices Committee and Council of Reporting Dealers.

Third, we intend to set up a Bond Market Transparency Working Group, overseen by our Regulatory Policy Committee. The composition of the Working Group will be representative of members who have responded to the Questionnaire. Possible terms of reference, as a basis for discussion, might be as follows:

- to continue to make the case against regulatory intervention, as there is no market failure, particularly in the wholesale markets;

- in the interests of helping retail investors in particular, to examine both Options 1 and 2 for market-led alternatives to regulation of trade publication in more detail, taking into account the limited accessibility of existing sources of quote data, and to see whether it is possible to reach a consensus on how such a market-led initiative should work;

- to set out the market-led initiative in the form of an industry-wide standard of good practice, which would attract the support of a critical mass of members across Europe, and which they could meet either through ICMA's market services or through existing local mechanisms or in other ways;

- to consider the best way of providing educational material about investing in bonds, using existing sources of information, wherever possible;

- to engage further with buy-side investors in Europe and others (eg academics); and

- to provide an interim report in time for the public hearing of the Commission on bond market transparency on September 11, if possible; and a final report in good time ahead of the Commission's own report and recommendations, due early next year.

As a basis for discussion in the proposed Working Group, we have prepared – at Annex B – a short note on Options 1 and 2: why they were selected and how they might work, together with a statement on the implications for costs and timing.

Fourth, as we have had a significantly better response from firms in some ICMA regions than in others, we therefore plan to hold meetings with members in the latter regions to discuss their views in more detail.

Finally, if a market-led alternative to regulation in the form of an industry-wide standard of good practice were to be implemented, we would expect to review its operation in conjunction with independent experts (eg academics and others). Members and users would be consulted about how well the industry-wide standard was working in practice, and whether in the light of experience it should be amended to make it as useful as possible.

ANNEX A

ANALYSIS OF RESPONSES TO THE ICMA BOND MARKET TRANSPARENCY QUESTIONNAIRE

The Questionnaire was sent to all our members.[2] We received 92 responses from 85 different firms. (The names of the respondents are listed at the end of Annex A.) Almost all of the Very Large Securities Firms (VLSFs)[3] responded to the Questionnaire: ABN AMRO; Barclays Capital; BNP Paribas; Calyon; Citigroup; Credit Suisse; Deutsche Bank; Dresdner Kleinwort; Goldman Sachs; HSBC; Merrill Lynch; JPMorgan; Morgan Stanley[4]; Société Générale; The Royal Bank of Scotland; and UBS.

In this Annex we set out our analysis of the responses to all the questions[5] in the Questionnaire. The responses from all respondents are analysed first. Within the overall total, the responses from VLSFs are then analysed separately, where relevant.

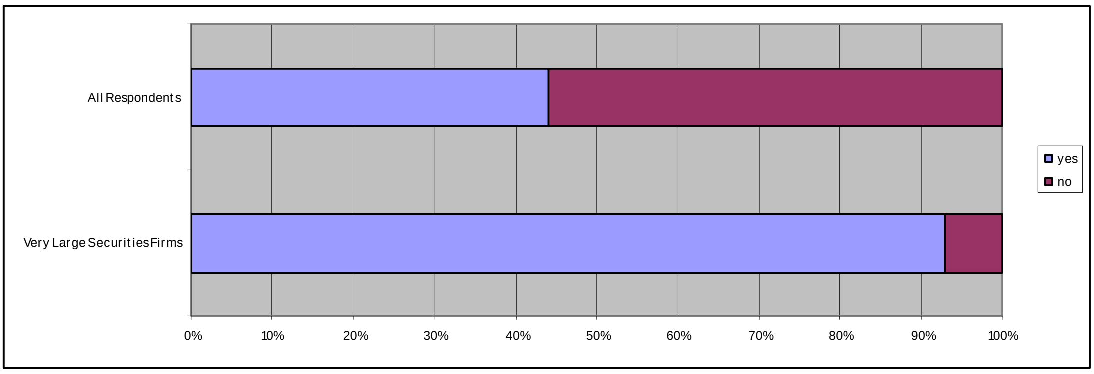
Question 4: Is your firm an ICMA Reporting Dealer?

Amongst the 91 respondents to this question, 27 stated that they were ICMA Reporting Dealers.

Question 5a: Currently only Reporting Dealers and all other members based in the UK are required to report trades on the TRAX system. If ICMA was to extend its post-trade transparency publication service, do you believe reporting requirements should be extended outside the UK?

Among the 89 respondents to this question, a majority (50/89=56%) did not believe that ICMA should extend its reporting requirements outside the UK in those circumstances, while a minority (39/89=44%) believed that reporting requirements should be extended.

Among the 14 VLSFs responding to this question, nearly all (13/14=93%) supported the extension of reporting requirements outside the UK in those circumstances.



[2] 415. A few groups maintain multiple memberships.

[3] 16 of the 19 ICMA members on the 4 May 2007 Euroweek list of the year-to-date top 25 'Bookrunners of all International Bonds'.

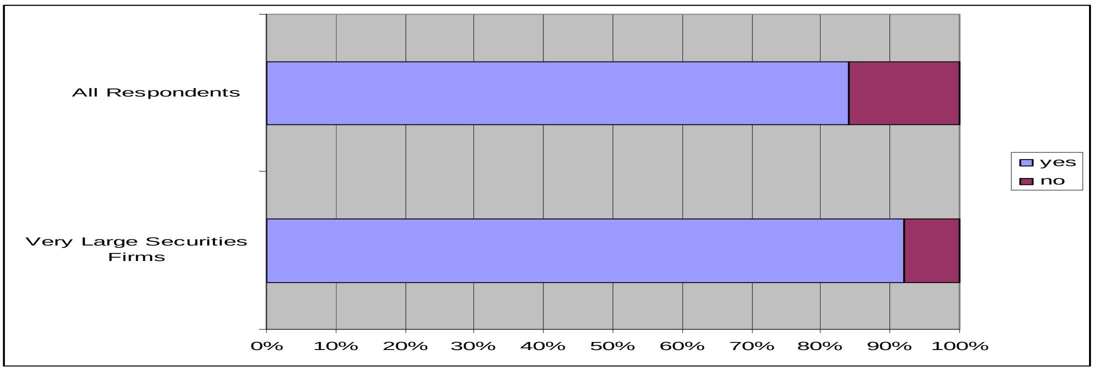
[4] Morgan Stanley responded to the Questionnaire in the form of a letter rather than a response to the questions.

[5] except the first three questions, which related to contact details.

Question 5b: If you are a Reporting Dealer or a UK-based ICMA member and answered yes to Question 5a above, would your support for any proposal by ICMA be conditional upon suitable reporting requirements being extended outside the UK?

Among the 38 respondents to this question, a majority (32/38=84%) made their support for any proposal conditional upon suitable reporting requirements being extended outside the UK. A minority (6/38=16%) did not make their support conditional.

Among the 12 VLSFs responding to this question, almost all (11/12=92%) made their support conditional upon suitable reporting requirements being extended outside the UK.



Question 5c: If you are not a Reporting Dealer or UK-based firm, would your firm be prepared to report trades in a manner suitable for consolidation and publication by ICMA as described in this questionnaire?

Among the 59 respondents to this question, a majority (45/59=76%) of respondents indicated that they would not be prepared to report trades in a manner suitable for consolidation and publication by ICMA. A minority of (14/59=24%) responded that they would be prepared to report trades in such a manner.

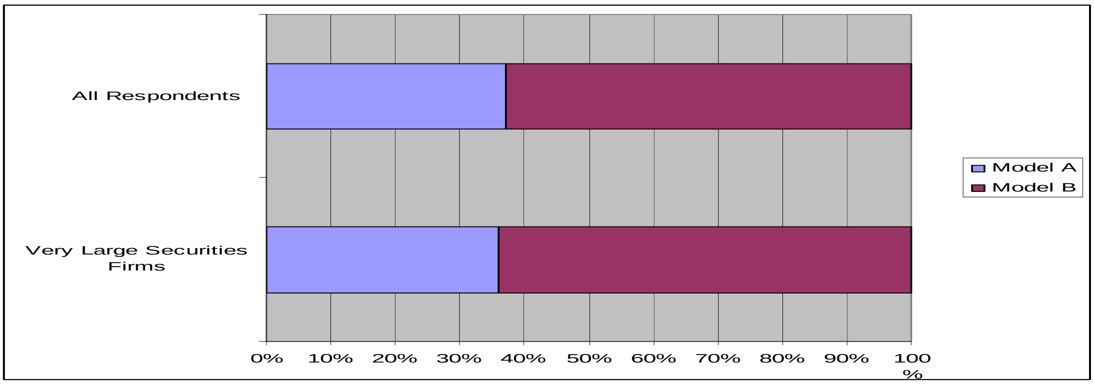
Question 6: Which of the following models best represents your firm's view on how to respond to the regulatory debate over bond market transparency?

Model A: ICMA should focus its attention on resisting pressure for regulatory intervention and should not offer market-led initiatives at this stage.

Model B: ICMA should resist regulatory intervention and propose satisfactory market-led initiatives providing that such proposals are responsive to member concerns and the concerns of the wider market; and are designed to improve the quality of the market.

Among the 91 respondents to this question, a majority (57/91=63%) of respondents favoured Model B while a minority (34/91=37%) were in favour of Model A.

Among the 14 VLSFs responding to this question, a majority (9/14=64%) were in favour of Model B while a minority (5/14=36%) favoured Model A.



Question 7: If you answered, Model A, please indicate which of the following cause you to choose this approach (tick as many as appropriate):

a. **there is no market failure and no significant problem that needs to be addressed**
b. **even if there were problems in the market, the proposals would not be effective**
c. **ICMA should wait until the position of the Commission, CESR and ESME becomes clearer**

Among the respondents favouring Model A, the two most common reasons (cited in each case by 20/34=59% of respondents) for doing so were 7c – ICMA should wait until the position of the Commission, CESR and ESME becomes clearer – and 7a – there is no market failure and no significant problem that needs to be addressed. Only three respondents (3/34=9%) cited rationale 7b: even if there were problems in the market, the proposals would not be effective.

Among the 5 VLSF supporters of Model A, 4 cited one or more of the rationales set out in Question 7a – 7c: 2 VLSFs cited rationale 7a; 1 VLSF cited both 7a and 7b; and 1 VLSF cited 7c. The fifth VLSF did not select any rationale, stating in its response (to Question 13) that it had a clear preference for Model A at this stage.

Question 8a and 8b: If Model B were to represent the majority view of ICMA member firms on how ICMA should respond to the bond market transparency debate, should any final proposal cover (please indicate either or both Options 1 and 2)?

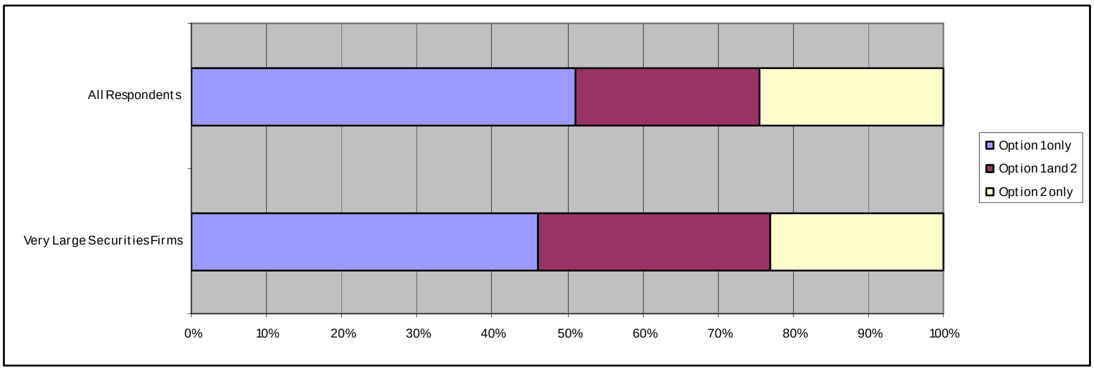
Option 1: The Price Service which would publish an average of the closing bid and offer quotes for each reportable security and the high, low and average prices for each bond trade that has been reported to ICMA. The price service would be available on an ICMA website at the end of the day.

Option 2: The Single Trade Publication Service which would publish trades in large investment grade bond with a trade size above either EUR 15,000 or 50,000 and below a certain size limit either EUR 500,000, 1 mn or 2 mn. The tape would be viewable on an ICMA website either close to real time or at end of day.

73 respondents stated that the final proposal should cover either or both Options 1 and 2. Among the 73 respondents, 37 (51%) supported Option 1 only; 18

(24.5%) supported Option 2 only; and 18 (24.5%) supported both Options 1 and 2.

Among 13 VLSF respondents to this question, 6 (46%) supported Option 1 only; 3 (23%) supported Option 2 only; and 4 (31%) supported both Option 1 and 2.



In commenting on Option 1, one VLSF stated that there are arguments in favour of increased transparency in terms of an end-of-day publication of aggregate data (for both wholesale and retail trades). This respondent would support the publication of end-of-day high and low trading prices for liquid, large, investment grade bonds but was opposed to real-time publication of data because of the detrimental effect this would be likely to have on dealers' willingness to provide liquidity.

Another VLSF recommended that Option 1 be limited to government bonds and large investment grade corporate bonds. This respondent also suggested the inclusion of an overall 'health warning', noting the impact that transaction size may have on price levels and transaction costs as well as highlighting potential levels of volatility in intra-day price levels.

In commenting on Option 2, one VLSF argued that the proposed services should be limited to a list of the most liquid government and corporate bonds (100+100, for instance) to be reviewed by ICMA members every 6 months.

Another VLSF believed that a lower size limit of EUR 500,000 should be established for illiquid bonds and that the definition of an illiquid bond should be a function of rating (i.e. sub-investment grade) and the size of the issue.

Question 8b.i: If yes [to Option 2], which of the following size limits should be adopted: 1. EUR 500,000? 2. EUR 1 mn? or EUR 2 mn?

Out of 60 respondents to this sub-question, the largest proportion (26/60=43.3%) favoured a trade size limit of EUR 500,000, while (20/60=33.3%) favoured EUR 2 mn and (14/60=23.3%) favoured EUR 1 mn.

The 9 VLSF respondents to this sub-question were evenly split between one third (3/9=33%) favouring EUR 500,000; one third (3/9=33%) favouring EUR 1 mn; and one third (3/9=33%) favouring EUR 2 mn.

In commenting on this question, one VLSF warned that a fixed limit would not properly reflect different volumes and levels of liquidity for different fixed income products.

Another VLSF commented that the trade size limits suggested are not relevant to the government bond market and therefore recommended that consideration be given to creating a separate set of criteria for government bonds which is similar to that set out in Option 1.

Intesa Sanpaolo recommended that the service be extended to trades above EUR 2mn with trade size being flagged as: '2mn+' for trades between EUR 2mn and EUR 5mn, '5mn+' for trades between EUR 5mn and EUR 10mn and '10mn+' for trades above EUR 10mn.

Question 8b.ii: If yes [to Option 2], should the service be 1. Close to real time? or 2. End of day?

Out of the 63 respondents to this sub-question, the majority (46/63=73%) were in favour of end-of-day publication, with (17/63=27%) favouring close to real time publication.

Among the 10 VLSFs responding to this question, a majority (7/10=70%) opted for end-of-day publication while the minority (3/10=30%) favoured close to real time publication.

In commenting on this question, one VLSF did not think that any trades should be excluded.

Question 8b.iii: If yes [to Option 2], should the service exclude trades of 1. EUR 50,000 and below? or 2. EUR 15,000 and below?

Out of the 56 respondents to this question, a majority (35/56=63%) favoured a minimum publication size of EUR 50,000, while a minority (21/56=37%) opted for a minimum trade size of EUR 15,000.

Among the 9 VLSFs responding to this question (including one who advocated no lower limit), a majority (5/9=56%) favoured the exclusion of trades of EUR 50,000 or below, while a minority (4/9=44%) favoured a EUR 15,000 publication floor.

Question 8b.iv: If yes [to Option 2], should the service publish trade prices and not size?

Out of the 60 respondents to this question, a majority (36/60=60%) were against limiting the service to trade prices while a minority (24/60=40%) were in favour of such a limitation.

Among the 9 VLSF respondents to this question, a majority (5/9=56%) were against limiting the service to trade prices while a minority (4/9=44%) were in favour of such a limitation.

A number of respondents, including VLSFs, commented that size should be published because pricing depends on size. Thus, price information is more useful with size information.

Question 8b.v: If yes [to Option 2], should the service publish closing average bid-offer prices for large investment grade bonds?

Out of the 63 respondents to this question, a majority (49/63=78%) were in favour of publishing closing average bid-offer prices for large investment grade bonds, while a minority (14/63=22%) opposed this.

Among the 9 VLSF respondents to this question, a majority (7/10=70%) were in favour of publishing average bid-offer prices for large investment grade bonds while a minority (3/7=30%) opposed this.

Question 9: What does your firm believe will be the impact of Option 2 in the following general areas:

Question 9a: If you are a liquidity provider, would implementation of Option 2 in some cases restrict your willingness to commit capital?

Out of the 64 respondents to this question, a majority (36/64=56%) indicated that Option 2 would have an impact on their willingness to commit capital. A minority (28/64=44%) responded that Option 2 would not have such an impact.

Among the 14 VLSFs responding to this question, a majority (11/14=79%) indicated that Option 2 would have an impact on their willingness to commit capital, while a minority (3/14=21%) indicated that Option 2 would not have such an impact.

Question 9b: If you are a liquidity taker, do you think that Option 2 could reduce liquidity?

Out of the 66 respondents to this question, a majority (35/66=53%) indicated that Option 2 would not reduce liquidity while a minority (31/66=47%) of respondents indicated that Option 2 would reduce liquidity.

The 6 VLSFs responding to this question were equally divided between (3/6=50%) who responded that Option 2 would not reduce liquidity and those (3/6=50%) who indicated that liquidity would be reduced.

Question 9b.i: If yes [to impact on liquidity], would delaying publication until the end of the trading day reduce the impact?

Out of the 46 respondents to this question, a majority (35/46=76%) of respondents indicated that a delay in publication until the end of the trading day would reduce the impact of Option 2 on liquidity. A minority (11/46=24%) of respondents disagreed.

Among the 7 VLSFs responding to this question, a majority (6/7=86%) indicated that a delay in publication would reduce the liquidity impact of Option 2, while a minority of one respondent (1/7=14%) did not consider that delayed publication would have such an impact.

Question 9b.ii: If yes [to impact on liquidity], would restricting publication to liquid bonds reduce the impact?

Out of the 35 respondents to this question, a majority (20/36=55%) indicated that restricting publication to liquid bonds would reduce the impact of Option 2 on liquidity. A minority (16/36=45%) of respondents disagreed.

Among the 8 VLSFs responding to this question, a majority (6/8=75%) indicated that restricting publication to liquid bonds would reduce the impact on liquidity. A minority (2/8=25%) of VLSFs disagreed, indicating that such a restriction would not reduce the impact on liquidity.

Question 10: Do you feel that Option 2 would adequately address [the above liquidity] concerns in the following respects:

Question 10a: Execution of block trades?

Out of the 62 respondents to this question, a majority (34/62=55%) indicated that Option 2 would address concerns regarding the execution of block trades. A minority (28/62=45%) disagreed.

Among the 11 VLSFs responding to this question, a majority (7/11=64%) indicated that their concerns regarding the execution of block trades would not be addressed. A minority (4/10=36%) disagreed.

One VLSF commented that such concerns would be addressed if adequate liquidity-based size limits were introduced. Another VLSF also questioned the impact of Option 2 on block trades on the basis that liquidity is driven by other factors than just transparency. Another VLSF commented that Option 2 would make it more difficult to undertake block trades.

Question 10b: Reduction of liquidity in illiquid markets?

Out of the 63 respondents to this question, a majority (36/63=57%) indicated that Option 2 would not address concerns regarding the liquidity of illiquid markets. A minority (27/63=43%) disagreed, indicating that their concerns would be addressed.

Among the 11 VLSFs responding to this question, a majority (7/11=64%) indicated that concerns regarding the liquidity of illiquid markets would not be addressed. A minority (4/11=36%) felt that Option 2 would address such concerns.

Two VLSFs commented that they did not think such concerns would be addressed, especially if publication was in near real time and not adequately size-limited. Another VLSF questioned the impact of Option 2 on the liquidity of markets on the basis that liquidity is driven by factors other than just transparency.

Question 10c: Reduction of liquidity in liquid markets?

Out of the 62 respondents to this question, a majority (39/63=62%) indicated that Option 2 would not address concerns regarding the liquidity of liquid markets. A minority (24/63=38%) disagreed, indicating that their concerns would be addressed.

Among the 11 VLSFs responding to this question, a majority (8/11=73%) indicated that concerns regarding the liquidity of liquid markets would not be addressed. A minority (3/11=27%) felt that Option 2 would address such concerns.

Two VLSFs commented that they did not think such concerns would be addressed, especially if publication was in near real time and not adequately size-limited. Another VLSF questioned the impact of Option 2 on the liquidity of markets on the basis that liquidity is driven by factors other than just transparency.

Question 10d: Reduction in profitability resulting from tighter bid/offer spreads?

Out of the 61 respondents to this question, a majority (31/61=51%) indicated that Option 2 would address concerns regarding the reduction in profitability resulting from tighter bid/offer spreads. A minority (30/61=49%) disagreed.

Among the 10 VLSFs responding to this question, a majority (7/10=70%) indicated that concerns regarding the reduction in profitability would not be addressed. A minority (3/10=30%) felt that Option 2 would address such concerns.

One VLSF commented that it did not think such concerns would be addressed, especially if publication was in near real time and not adequately size limited.

Question 11: Should any service contain information on the liquidity of bonds covered, and include:

Question 11a: Number of trades?

Of the 71 respondents to this question, a majority (44/71=62%) indicated that any transparency service should include information on the number of trades. A minority (27/71=38%) disagreed.

Among the 13 VLSFs responding to this question, a majority (7/13=54%) indicated that any transparency service should include information on the number of trades. A minority (6/13=46%) disagreed.

Question 11b: Monthly volume of trades?

Of the 71 respondents to this question, a majority (47/71=66%) indicated that any transparency service should include information on the monthly volume of trades. A minority (24/71=34%) disagreed.

Among the 13 VLSFs responding to this question, a majority (10/13=77%) indicated that any transparency service should include information on the monthly number of trades. A minority (3/13=23%) disagreed.

One VLSF commented that 'the time delay of 1 day is conditional on the exclusion of large trades'.

Question 11b.i: If yes [to monthly volume of trades], with what time delay: 1 day, 1 week, 1 month, 3 months?

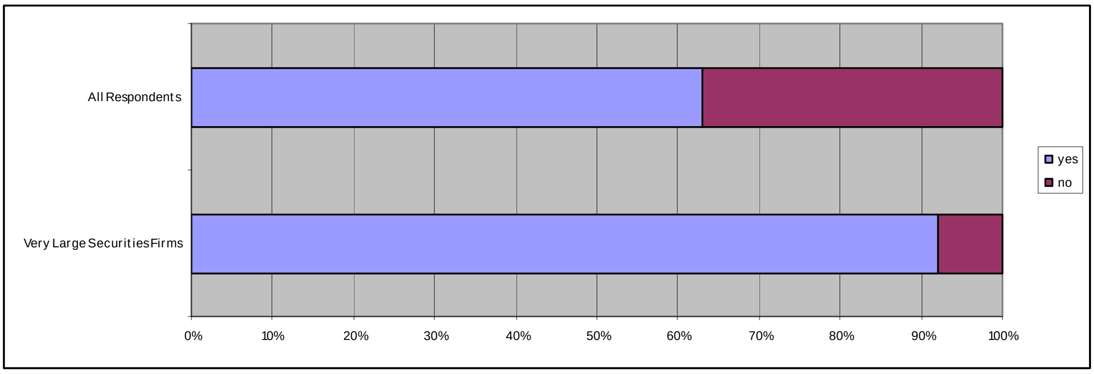
Of the 48 respondents to this question, 21 (44%) favoured a 1 week delay in publication, while 15 (31%) favoured publication with a delay of 1 day, 10 (23%) favoured publication with a delay of 1 month and 1 (2%) favoured publication with a delay of 3 months.

Among the 10 VLSFs responding to this question, 4 (40%) favoured a delay of 1 day, 4 (40%) favoured a delay of 1 week, 1 (10%) favoured a delay of 1 month and 1 (10%) favoured a delay of 3 months.

Question 12: Does your firm support the inclusion in any service of educational material about investing in bonds?

Of the 72 respondents to this question, a majority (45/72=63%) were in favour of including in any service educational material about investing in bonds. A minority of respondents (27/72=37%) opposed the inclusion of such material.

Among the 13 VLSFs responding to this question, a majority (12/13=92%) were in favour of including educational material, with only one respondent (1/13=8%) opposed.



One VLSF recommended that *'anything agreed by ICMA needs to bear in mind existing resources such as investinginbonds.com'*. Another VLSF made its support for educational material conditional on its limitation to the liquid segments which permit sales in small retail sized denominations, defined as trades between EUR 1,000-50,000.

ADDITIONAL COMMENTS

Question 13: Please provide any additional comment on the ICMA proposals for increased post-trade transparency that you consider appropriate together with any suggestions for alternative proposals.

A total of 27 respondents, including 14 VLSFs[6], made additional comments. A number of these comments related to specific questions in the Questionnaire and have been incorporated in the relevant sections of the analysis of responses to which they relate. Many respondents also made additional comments of a more general nature. These general comments are quoted in the following paragraphs and are grouped in terms of the general themes to which they relate. Quotes are attributed to respondents, where they have permitted this. Otherwise, quotes are attributed to 'a VLSF' or 'a respondent', as appropriate.

Absence of market failure

A number of respondents commented that there was little or no evidence of market failure.

For example, Morgan Stanley stated that it *'does not believe there to be any evidence of market failure in the institutional bond markets. This has been supported by the independent research published in 2006 by the Centre for Economic Policy Research and the FSA Feedback statement to their discussion paper on transparency in the secondary bond markets. Consequently we are firmly opposed to any action being taken to pre-empt the European Commission's findings under Article 65 of MiFID surrounding the extension of pre- and post trade transparency requirements to products other than equities.'*

Deutsche Bank commented that it *'…believes that there is a general acceptance that transparency is more than adequate for the majority of participants at the wholesale end of the market, with little or no evidence of market failure.'*

[6] Morgan Stanley's letter in response to the Questionnaire is quoted in this section.

ING Bank Belgium referred to *'…the consensus view of the industry that there is no evidence of market failure that requires regulatory intervention to impose pre- or post trade transparency in European bond markets.'*

A VLSF commented: *'Research into the effects of transparency on the fixed income market have not delivered a clear cut policy implication. The review into European Corporate Bond Markets and European Government Bond Markets identifies both cases and reasons why transparency enhances liquidity and welfare as well as cases and reasons why it reduces liquidity and welfare. Opacity is not regarded as a market failure.'*

Some respondents also compared the liquidity and spreads of the European bond market with that of the US. A VLSF commented that *'…although the euro-bond market is not post-trade transparent its liquidity compares favourably to that of the dollar-denominated market which introduced TRACE.'* Referring specifically to TRACE, a respondent noted *'…that the introduction of TRACE has had no real positive effect on liquidity in the US, if anything, possibly negative and the regulators need to define the expected benefits and target areas any regulatory driven transparency rulings put in place.'*

Another respondent commented that NASD reporting had the effect of *'…preventing dealers with position carrying capacity to quote the spread that suits their position…this…will put undue pressure on trading houses.'*

Timing of proposals

Some respondents commented that further analysis of the alleged market failures is required before finalising and submitting any proposals. Deutsche Bank *'…feels that it is neither helpful nor desirable for ICMA to elicit a response from their members to questions that lead to conclusions that have far greater implications and that would be based upon as yet unsupported assumptions on the effectiveness of transparency. We again raise with ICMA the need to survey members on where they believe the market failures occur and whether and how that might be addressed through further transparency. The second stage of that process would be to put forward possible solutions to address the specific areas of market failure identified.'*

Morgan Stanley stated: *'We have constantly opposed the nature and content of ICMA's proposals to develop a means of providing increased pre- and post-trade transparency in the bond market and the speed with which these have been put forward without the adequate engagement of its membership. As a significant market participant, and an ICMA member, we would like ICMA to urgently review its intentions with regards to pre- and post-trade transparency in the bond market, and would like ICMA to no longer look to develop and market any solution. Rather, ICMA should remain positively engaged with EU policy makers and seek to engage with its membership once a clearly defined view has been articulated by EU policy makers on the basis of an analysis of market conditions and the need, if any, for additional regulation of the non equity markets.*

Impact of more transparency

One VLSF commented that transparency would: *'damage the competitiveness of the UK market; force changes in the operating structure and business models of market participants; increase trading costs for investors; reduce the information available in the market; [and] show no benefit to the retail investor.'* This VLSF concluded that *'…regulatory initiatives in this area should focus on reducing trade* *barriers and integrating markets so as to the improve openness and competition rather than introducing price transparency into the market.'*

Another VLSF commented that *'…the limitations of 'transparency' as a tool to provide investor protection should be recognised. We believe that the obligations on intermediaries to provide 'best execution' and ensure that the transactions they recommend to their clients are 'suitable' for those investors' needs which MiFID introduces are likely to prove more effective in this sphere.'*

Deutsche Bank commented that *'…the focus should be primarily on banks' and brokers' policies in relation to suitability and appropriateness and retail investor regulations, rather than debating whether there is sufficient transparency in the bond markets… In Deutsche Bank's opinion the international operating models in the retail fixed income space would need to converge for many of the issues to be addressed.'*

Another VLSF commented that *'… any proposals in this sphere should recognise that bond markets are not homogeneous and that there are structural differences in bond markets across Europe which may weigh against any 'one size fits all' pan-European approach to resolve particular issues.'*

Based on its expectation that margins/profitability would be squeezed over time, another VLSF argued that this could *'…only be justified by the growth of the markets due to increased confidence and participation by investors arising from greater post-trade transparency.'*

Another VLSF commented that *'… a campaign to increase participation is necessary to somewhat compensate for reduced profitability by increasing the number of transactions across which liquidity providers can gain income.'*

Extension of reporting requirements

Some respondents commented that the proposals would conflict with local post trade reporting requirements and only add costs to both participants and the market in general.

One VLSF commented that *'…any market led solution should take into account the concerns of the wider market and avoid adding reporting requirements that could inadvertently damage market liquidity and impose additional costs on market participants.'*

ING Bank Belgium commented that it *'…is currently fulfilling the post-trade requirements with the relevant local regulator for which an efficient reporting infrastructure is already in place. Any expansion of reporting into (for example) the ICMA database is expected to contribute to a growing cost base, not only for ING but for the industry as a whole.'* On this basis ING Bank Belgium recommended that the ICMA proposals should take account of other local reporting infrastructures.

The Danish Securities Dealers Association commented: *'In Denmark we have had a separate set of rules for post trade transparency for many years. The rules are currently being amended as a consequence of MiFID. It would be of great concern to the Danish bond market if there would be yet another set of rules.'*

Focus on retail

A significant number of respondents commented that, given the general view that there is little evidence of market failure in the wholesale market, any market-led initiative should be focused on retail investors.

Deutsche Bank commented that it *'believes that there is a general acceptance that transparency is more than adequate for the majority of participants at the wholesale end of the market, with little or no evidence of market failure. ... Whilst ICMA has offered to explore an industry led solution, we remind ICMA that the focus of that solution should be in respect to retail and smaller institutional business…'*

Another VLSF commented: *'There is more transparency that we can give to retail investors in order to help them understand the market and access it fairly.'*

Another VLSF commented that *'…our survey answers [are] made in reference to the 'Wholesale' bond market. We have no objection to measures aimed solely at true retail investors, such as "the retail tape" or the proposed Educational Website.'* However, *'….retail customers have no direct access to market makers…and the vast majority of retail investment is pooled via fund managers, who already enjoy high levels of transparency.'*

Another VLSF commented: *'Retail may benefit from additional post trade transparency which may assist them with best execution and portfolio valuation.'*

Another VLSF commented: *'The level of transparency of the bonds market is an issue only for retail investors. Therefore, any proposal should primarily focus on providing retail customers with the most relevant information: retail sizes/prices, educational materials, only on the most liquid bonds.'*

A respondent commented that *'…there is a definitely a strong opportunity for providing post trade transparency in this area. Such an initiative would not jeopardize market makers P&L.'*

Design of a market-led initiative

Referring to the Argentinean bond default, one VLSF commented that *'… increased transparency on below investment grade [bonds] is not necessarily a good thing for retail'*, and advocated strong resistance to the inclusion of such bonds in the proposals.

A respondent argued that *'…there is a huge diversity of instruments encompassed by the proposals that would get caught as "liquid", and a large number would in fact not be liquid in any real sense. End of day publication is far more aggressive than the regime for equity trades of comparable size which attract up to 3 days delay'*.

Finally, one VLSF commented: *'Consideration should be given to setting up a test trading environment to model the operation of various factors in order to identify possible deleterious consequences.'*

ATTRIBUTION OF RESPONSES

Question 14: ICMA's feedback on this questionnaire will largely be anonymous, with responses aggregated by type and location of firms. In some cases, it may be helpful if we can quote specific responses and attribute these. May ICMA attribute your responses to your firm in its feedback to the questionnaire?

Of the 88 respondents to this question, a minority (30/88=34%) agreed that ICMA could attribute their responses, while a majority (58/88=66%) asked ICMA to keep their responses anonymous.

List of Respondents
to the ICMA Bond Market Transparency Questionnaire

1. ABN AMRO^
2. ABN AMRO Bank N.V.
3. Aktia Savings Bank
4. Alm. Brand Bank (trading as Alm. Brand Henton), Denmark
5. Amagerbanken Aktieselskab, Denmark
6. Amsterdam Efectenkantoor B.V.
7. A/S Jyske Bank, Denmark
8. AXA Bank Belgium
9. AXA Investment Managers
10. Banca del Sempione
11. Banca Nationale del Lavoro
12. Banca Profilo S.p.A
13. Banco Itau S.A.
14. Bank Delan
15. Bank Sal Oppenheim jr. & Cie (Luxembourg) S.A.
16. Banque Centrale du Luxembourg
17. Banque de Luxembourg
18. Barclays Capital^
19. Binck Securities bv
20. BNP Paribas^
21. Bohler & Associates Limited
22. Bondpartners SA
23. Brockhouse & Cooper Inc
24. Calyon^
25. Capitalia
26. Charles Stanley & Co Ltd
27. Citigroup Global Markets Limited^
28. Collins Stewart (C.I.) Limited
29. Credit Suisse^
30. Creditot Emiliano S.p.A
31. Daiwa Securities SMBC Europe plc
32. Danish Securities Dealers Association
33. Danmarks Nationalbank, Denmark
34. Danske Bank A/S (trading as Danske Markets), Denmark
35. Deutsche Bank AG^
36. Deutsche Borse Group (Clearstream Banking Luxembourg)
37. Dexia Bank Belgium
38. Dexia-Bil (Luxembourg) S.A.
39. DnBNOR Bank SA
40. Dresdner Bank (Switzerland) Ltd
41. Dresdner Bank AG and Dresdner Kleinwort Limited
42. Dresdner Kleinwort^
43. European Investment Bank
44. Evolution Securities
45. Finter Bank Zurich
46. Fionia Bank A/S, Denmark
47. Fortis Bank
48. Fortis Banque Luxembourg
49. Globalsecurities AG
50. Goldman Sachs^
51. HSBC Bank plc^
52. HSBC Trinkaus & Burkhardt (International) SA
53. HSH Nordbank AG Copenhagen Branch, Denmark
54. IFP Intermoney Financial Products SA

55. ING Bank N.V. London Branch
56. ING Bank NV (Belgium)
57. ING Bank, Switzerland
58. Intesa Sanpaolo S.p.A., Including Banca Caboto and Banca IMI
59. J.P. Morgan Securities Ltd^
60. KBC Bank NV
61. Keijser Capital N.V.
62. Kredietbank Luxembourg
63. Landesbank Berlin AG
64. Les Fils Dreyfus & Cie AG, Naquiers
65. Mediobanca S.p.A.
66. Merrill Lynch International^
67. MM Warburg & Co Luxembourg
68. Morgan Stanley^
69. Nomura International plc
70. Nordea Bank
71. Nordea Bank Danmark A/S, Denmark
72. Nordic Investment Bank
73. Nykredit Bank A/S (trading as Nykredit Markets), Denmark
74. OKOBANK
75. Petercam
76. PKB Privatbank AG Lugano
77. Rabobank – Cooperatieve Centrale Raiffeisen-Boerenleenbank BA
78. RZB AG, London Branch
79. Schroder & Co Bank AG
80. Shinkin International Ltd
81. SNS Securities
82. Societe Europeenne de Banque
83. Societe Generale Corporate and Investment Bank^
84. Spar Nord Bankaktieselskab, Denmark
85. SWEDBANK
86. Sydbank, Denmark
87. The Royal Bank of Scotland^
88. UBS AG (London branch)^
89. UBS Limited
90. UBS Global Asset Management*
91. Verwaltungs- und Privat-Bank AG
92. Winterflood Securities Ltd

^Very Large Securities Firm
*Non ICMA member

ANNEX B

OPTIONS 1 AND 2

Introduction

Taking account of the Questionnaire, this Annex explains why Options 1 and 2 were selected and how they might work, and considers the implications for cost and timing.

Why Options 1 and 2 were selected

ICMA's initial concept was for a close-to-real-time tape of all retail trades below EUR 50,000 and an end-of-day tape of all trades in investment grade bonds (with volume caps). A number of member firms advised that this concept was flawed:

- since retail trade prices (unlike equity trade prices) include a sales charge or mark-up, a retail investor cannot compare his trade with others based on price alone;

- publishing large trades at end of day may enable competitors to identify the dealer concerned and expose him to unacceptable risk (MiFID permits publication delays of up to three days for very large equity trades).

To overcome these flaws, two new Options were selected for the Questionnaire.

How Option 1 might work

Option 1 was described in the Questionnaire as follows:

Price Service (Option 1): An end-of-day Price Service would publish an average of the closing bid and offer quotes for each reportable security and the high, low and average prices for each bond trade which has been reported to ICMA. This is essentially the same service as is currently provided to subscribers to ICMA's existing service. The difference is that it would be easily accessible by retail investors and available on an ICMA website at the end of the day rather than the start of the following day.

Option 1 would show aggregated price and volume trade data on an ICMA website which would be available for anyone to view:

- cash trades in large investment grade bonds would be published with certain conditions, e.g.: bonds rated BBB- and above and with a minimum issue size of EUR 500mn (or currency equivalent) would be included;

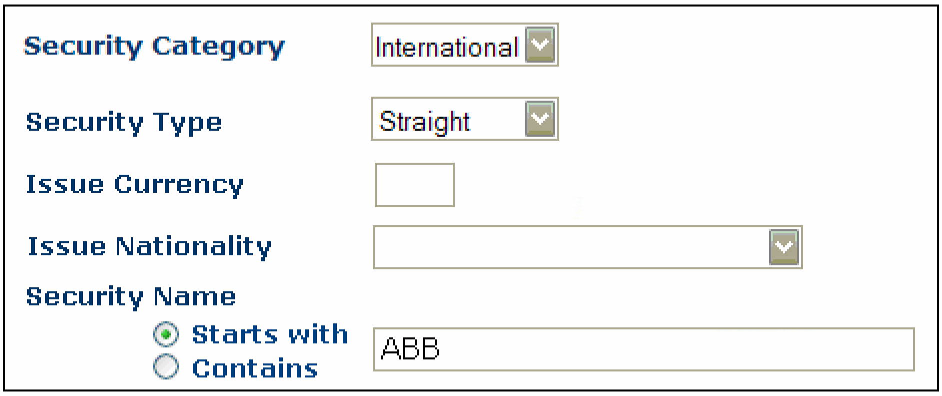
- the day's data would be available at the close of each day;

- monthly volume data as an average daily turnover figure would be included;

- number of trades per bond would be included;

- closing bid and offer prices, or alternatively the mid price, for publishable bonds would be included.

Users could search for data as illustrated below:



The result of the search would be displayed as below. Columns for could be omitted if required (e.g. volume, bid, offer prices etc.):

High, low and average trade prices for DDMMMYYYY

Volume figures for DDMMMYYYY

Security Name	Curr	High Price (Trade)	Low Price (Trade)	Avge Price (Trade)	No of Trades	Last Mth Av Daily T/over	Bid Price (Closing)	Offer Price (Closing)
ABBEY NATIONAL 4.625 11/02/2011	EUR	100.18	100.18	100.18	1	1,586,525	100.18	100.18
ABBEY NATIONAL 7.125 PERP	EUR	100.22	100.22	100.22	2	300,665	100.22	100.22
ABBEY NATIONAL F/R 04/2015 Q	EUR	103.46	103.46	103.46	6	1,826,809	103.46	103.46
ABBEY NATIONAL F/R 06/2012 Q	EUR	110.8	110.8	110.8	4	300,665	110.8	110.8
ABBEY NATIONAL TREASURY 3.375 08/06/2015	EUR	99.82	99.82	99.82	7	1,826,809	99.82	99.82
ABBEY NATIONAL TREASURY 4.25 12/04/2021	EUR	95.19	95.19	95.19	11	1,586,525	95.19	95.19
ABBEY NATIONAL TREASURY F/R 02/2008 Q	EUR	85.61	85.61	85.61	1	1,826,809	85.61	85.61
ABBEY NATIONAL TREASURY F/R 03/2008 M	EUR	99.82	99.82	99.82	1	300,228	99.82	99.82
ABBEY NATIONAL TREASURY F/R 03/2008 Q	EUR	100	100	100	2	300,665	100	100

First Prev Next Last

How Option 2 might work

Option 2 was described in the Questionnaire as follows:

Single Trade Publication Service (Option 2): A Single Trade Publication Service would publish trades in large investment grade bonds with a trade size above EUR 50,000 (or EUR 15,000) and below a certain size limit (e.g. EUR 500,000, EUR 1 mn, EUR 2 mn). Larger trades would be excluded on the grounds that their price may reflect a large size and be misleading and also may betray the execution of block trades. Prices of small trades, which may be disproportionately affected by odd lot mark-ups and other charges, may be considered to be confusing. The tape would be viewable on an ICMA website either close to real time or at end of day. Trade sizes would not be published.

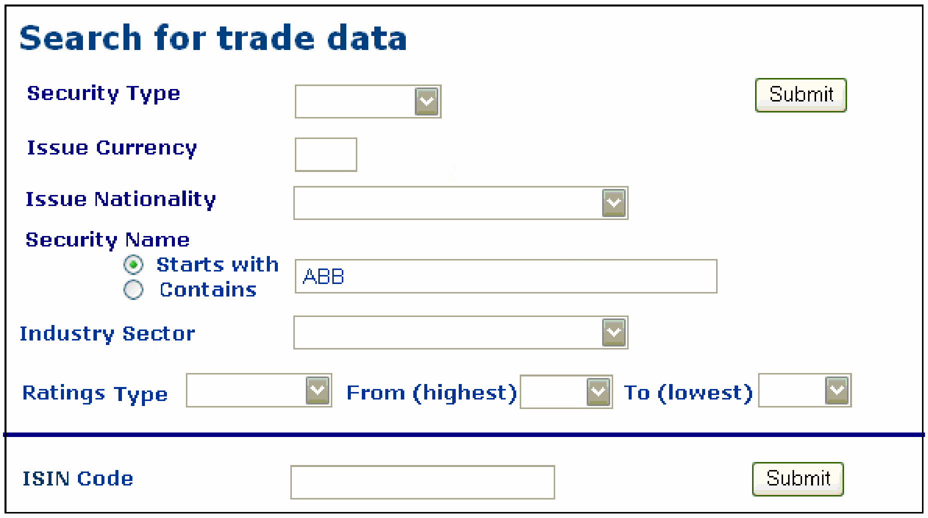
Option 2 would show individual trade data on an ICMA website which would be available for anyone to view:

- cash trades in large investment grade bonds would be published with certain conditions, e.g.: bonds rated BBB- and above and with a minimum issue size of EUR 500mn (or currency equivalent) would be included;

- the day's data would be available at the end of each day (or could be available in close to real time);

- large trades of > EUR 500,000 (or alternatively EUR 1mn or EUR 2mn) would be excluded;
- small trades of ≤ EUR 50,000 (or alternatively ≤ EUR 15,000) would be excluded;
- monthly volume data as an average daily turnover figure would be included;
- number of trades per bond would be included;
- closing bid and offer prices, or alternatively mid prices, for publishable bonds would be included at the close of each business day.

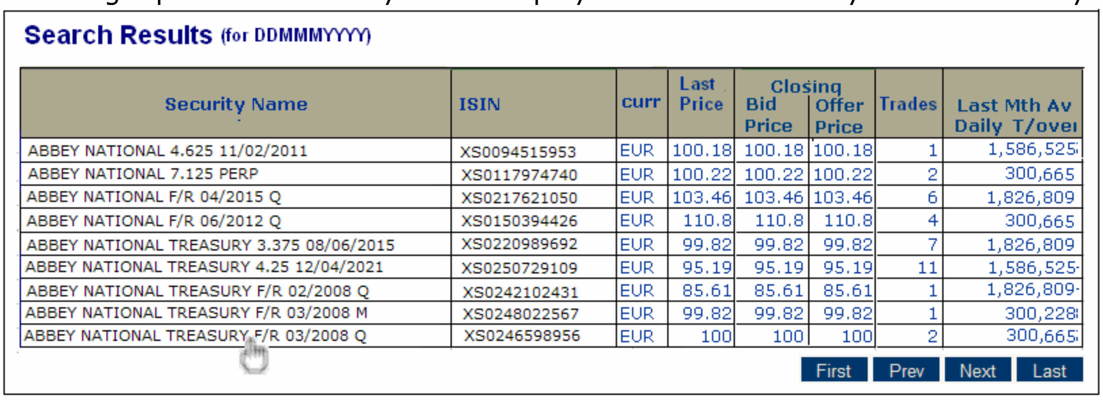
Users could search for trade or bond data as illustrated below:



Trade data would be displayed in columns:

- The sort order could be personalised by selecting the relevant column
- Total trade sizes could be capped
- Columns could be omitted (e.g. volume, bid, offer prices etc.)

Selecting a particular security would display each trade that day for that security:



Search Results (for DDMMMYYYY)

Security Name	ISIN	curr	Last Price	Closing Bid Price	Closing Offer Price	Trades	Last Mth Av Daily T/over
ABBEY NATIONAL 4.625 11/02/2011	XS0094515953	EUR	100.18	100.18	100.18	1	1,586,525
ABBEY NATIONAL 7.125 PERP	XS0117974740	EUR	100.22	100.22	100.22	2	300,665
ABBEY NATIONAL F/R 04/2015 Q	XS0217621050	EUR	103.46	103.46	103.46	6	1,826,809
ABBEY NATIONAL F/R 06/2012 Q	XS0150394426	EUR	110.8	110.8	110.8	4	300,665
ABBEY NATIONAL TREASURY 3.375 08/06/2015	XS0220989692	EUR	99.82	99.82	99.82	7	1,826,809
ABBEY NATIONAL TREASURY 4.25 12/04/2021	XS0250729109	EUR	95.19	95.19	95.19	11	1,586,525
ABBEY NATIONAL TREASURY F/R 02/2008 Q	XS0242102431	EUR	85.61	85.61	85.61	1	1,826,809
ABBEY NATIONAL TREASURY F/R 03/2008 M	XS0248022567	EUR	99.82	99.82	99.82	1	300,228
ABBEY NATIONAL TREASURY F/R 03/2008 Q	XS0246598956	EUR	100	100	100	2	300,665

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Individual trade detail would be in trade time order with the most recent first:

Trade Detail (for DDMMYYYY)

ABBEY NATIONAL TREASURY F/R 03/2008 Q   EUR   XS0246598956

Trade Time	Traded Price	Traded Volume
14:08:54	99.98	59,000
14:08:08	99.97	500,000
09:54:51	99.995	499,000
09:54:00	99.99	300,000
09:48:00	100	245,000
09:19:08	99.98	78,000
09:11:11	99.98	125,000

First Prev Next Last

Other considerations affecting Options 1 and 2

Monthly volumes of trades: Either option could contain monthly trade volume figures published as an average daily turnover and would be available with a delay of 1 day or alternatively 1 week.

Bid and offer closing prices: Bid and offer prices are derived from the quote files received from ICMA's reporting dealers each business day at close of business.

Educational material: Educational material on bonds could be included. This would take advantage of existing information as far as possible; e.g. the website: http://www.investinginbonds.com/

Cost and time implications

Option 1: Based on our assumptions, the work involved would be to change existing filtering processes, change existing transmission processes, create new web pages and provide distribution mechanisms for the publication and interrogation of the data. Subject to the requirements being as assumed, the work required would be in the region of 250 to 300 man days or 5 months elapsed time from the point at which functionality was agreed.

Option 2: Based on our assumptions, the work involved would be to create new data filtering processes, new data transmission processes, new database definition, data transformation and loading processes, new web pages and provide distribution mechanisms for the publication and interrogation of the data. Subject to the requirements being as assumed, the work required would be likely to be in the region of 550 to 600 man days or 7 months elapsed time from the point at which functionality was agreed.