

14 April 2016

Martin Merlin, Director
DG FISMA, European Commission

H.E. Pieter de Gooijer
Permanent Representative of the Netherlands

Markus Ferber, MEP

Steven Maijoor, Chairman, ESMA

Dear Messrs Merlin, de Gooijer, Ferber and Maijoor,

Corporate Bond Threshold Calculation under MiFID II for New Issues

We are writing to you in relation to a recent set of technical standards for MiFID II, specifically with regards to the liquidity determination for corporate bonds.

The Wholesale Markets Brokers' Association¹ (WMBA) represents the pre-eminent inter-dealer broking firms operating the secondary markets across the corporate bond space and have, as with other asset classes, observed a steady decline in corporate bond market liquidity in the years following the financial crisis. We welcome the initiative by the European Commission to pursue the creation of a true capital market union with corresponding incentives for corporates to issue bonds to raise finance and we are committed to contributing to those objectives. However, incentivising corporate bond issuance has to go hand in hand with fostering and maintaining liquid and transparent secondary trading markets for these instruments as a critical component in the overall health of the marketplace.

It is our view that the current proposed technical standards under MiFID II will undermine an already relatively illiquid secondary market for corporate bond trading. Under the currently proposed rules, a given bond would be regarded as liquid in the first three to five months post-issuance if the issuance size for that specific bond exceeds a €500 million threshold. This proposed COFIA-oriented threshold would problematically designate a significant number of otherwise relatively illiquid corporate bonds as liquid during the important period immediately after the bonds are available for trading in the secondary market. Whilst the IBIA-oriented post-issuance liquidity assessment on an ongoing basis as recently proposed by the European Commission to ESMA (i.e. a bond having to trade at least 15 times per day) is reasonable, the initial issuance period would crucially remain unaffected. This scenario would also exacerbate the divergence between bonds initially classified as liquid post-issuance and those same bonds on an ongoing basis; in fact data from the Investment Association and Trax[®] show that roughly 97% of bonds defined as liquid under the issuance test would become illiquid under the IBIA ongoing assessment.

¹ The Wholesale Markets Brokers' Association (WMBA) and the London Energy Brokers' Association (LEBA) (jointly referred to in this document as 'WMBA') are the European industry associations for the wholesale intermediation of organised venue (MTF, OTF, OMP, FX, SEF) and Over-the-Counter (OTC) markets in financial, energy, commodity and emissions markets and their traded derivatives. Our members act solely as intermediaries in wholesale financial markets and do not undertake any proprietary trading or provide investment advice.

Therefore, given the desire to reinvigorate capital market funding by not compromising the ability of the secondary market to support the trading of bonds in the post-issuance period, we would urge the European Commission and ESMA to reconsider the initial issuance test for corporate bonds. Instead, we would support a more timely IBIA-oriented liquidity assessment (i.e. within two weeks of issuance) and an issuance threshold of €1 billion. As it stands, we fear that secondary trading – at least for the initial period – would further reduce beyond today’s troublesome levels as market participants are less willing to make markets subject to full pre-trade transparency for fundamentally illiquid issues. This would also directly and negatively impact the cost of issuance for the companies.

We stand at your disposal should you have questions or comments regarding this issue.

With best regards,

Yours sincerely



Alex McDonald
Chief Executive Officer

cc:

Olivier Guersent, Director-General, DG FISMA, European Commission
Tilman Lueder Head of Unit, DG FISMA, European Commission
Lee Foulger, Cabinet of Commissioner Hill
Rodrigo Buenaventura, Head of Markets Division, ESMA