

FT Trading Room Corporate bonds

Europe seeks to kick-start sluggish corporate bond market

Brussels wants to bring transparency to a market that remains opaque for many investors



City of London financial district. The European Commission says poor transparency is hampering the EU's desire to reduce its reliance on London
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Philip Stafford JUNE 28 2021

Banks, regulators and fund managers are gearing up for a fresh Brussels-led effort to jump-start trading in Europe's corporate bond market, which has been held back by a stubborn lack of transparency.

The European Commission has this year initiated a push founded on the creation of a central database to hold vital trading information such as the price, size, yield and trading venue of bond transactions.

The move reflects a recognition that despite sweeping reforms three years ago the market remains too opaque in the eyes of many investors, who also face a mishmash of data because trading venues report trades differently.

The commission signalled in January that its underlying concern was that poor transparency was hampering the development of EU capital markets as it seeks to reduce the EU's reliance on the City of London.

Policymakers have found a potential model for better reporting in the US's Trace system, which is used to log over-the-counter transactions in fixed income securities.

Brussels has confirmed that a so-called consolidated "tape" — a live database containing basic trading information — will be part of reforms it plans to unveil later this year.

Its previous attempt to build a tape via the 2014 Mifid II [markets rules](#) put the onus on private companies to build one, but nothing emerged.

Nicholas Bean, global head of electronic trading solutions at Bloomberg, said: “Under the current [Mifid II] regulatory framework, operating a consolidated tape is not a commercially viable proposition, even at cost.”

“If this is addressed through regulatory changes, we will perform the necessary due diligence to see whether we could bring — or assist in bringing — benefits to our clients and the broader market in facilitating the operation of a tape.”

Brussels is also considering plans to revamp its system of waivers and deferrals on reporting for illiquid bonds, according to two people familiar with the commission’s thinking. The current system means around 96 per cent of deals do not have to be reported to the market immediately.

The authorities’ efforts to build secondary market trading have been hit by the European Central Bank’s corporate bond-buying programme in recent years, which has mopped up and held €281bn of bonds and sharply reduced market liquidity.

A report for the commission by UK consultancy Market Structure Partners last year pointed out that a closing price in the bond market often bore no relationship to the trade price.

This month the Dutch Authority for The Financial Markets, one of the EU’s most influential regulators, urged a “fundamental rethink” in Brussels of the region’s bond market. “The lack of transparency is the direct result of the current structure of the EU’s fixed income market,” it said.

One London data provider, Ediphy, is trying to build industry support for an “at-cost” utility that pulls together the fragmented trading reports. Its efforts have drawn the support of fund managers Groupama Asset Management, ING and KBC. The Dutch regulator is also watching the project.

Ediphy aims to supply the technology for a consolidated tape that would be overseen by another private company, said Christopher Murphy, founder and chief executive. “Our only objective is to consolidate what is to be made public,” he said.

Potential operators also have to meet regulatory standards some feel are impossibly high. EU rules stipulate that a tape covers four-fifths of the total volume of transactions across Europe.

But the Market Structure Partners highlighted discrepancies in officially published data, citing analysis by Ediphy that found some 17,500 securities identification tags, or ISINs, were wrongly classified.

“It is therefore unlikely that any [tape provider] can be confident that they have met the 80 per cent threshold requirement,” said the Market Structure report.

