SIFMA®
Securities Industry and
Financial Markets Association

EUROPEAN PRIMARY DEALERS ASSOCIATION
An Affiliate of SIFMA®

RESPONSE TO ITALIAN TREASURY PUBLIC CONSULTATION ON THE

DRAFT REGULATION ON WHOLESALE TRADING VENUES FOR GOVERNMENT BONDS

DECREE OF THE MINISTER OF THE ECONOMY AND FINANCE WHICH SUBSTITUTES THE MINISTERIAL DECREE N.219 OF 13 MAY 1999

7 MARCH 2008

Introduction

The Securities Industry and Financial Markets Association[1](SIFMA) and the European Primary Dealers Association[2] (EPDA) welcomes the opportunity to comment on the draft Decree regulating wholesale trading in government bonds (Decree of the Minister of the Economy and Finance which substitutes the Ministerial Decree N.219 of 13 May 1999, hereafter the 'Decree'). We welcome the initial steps taken by the Italian Tesoro to move to a more open and competitive trading platform landscape for Italian government bonds as we believe this will promote innovation, reduce trading costs and improve service levels, whilst not damaging liquidity. To this end, the EPDA has produced a number of papers and briefing notes highlighting the benefits of a multi-platform environment which will be referred to throughout this document.[3]

This submission seeks to stress, primarily, the importance for the Tesoro of giving effect to the Markets in Financial Instruments Directive (MiFID)[4] 'passport' by recognizing the terms of the authorisations governing Multilateral Trading Facilities (MTFs) based in other EU Member States whilst emphasizing the benefits of an open competitive landscape for bond markets and the Italian government bond market specifically.

We also wish to emphasise the importance of the market's ability to choose and indeed switch between trading platforms. We are concerned that a number of the proposed criteria for trading platforms contained in Article 23 are duplicative or "super-equivalent" of a home market's MTF regime and are therefore unnecessary. As such, they risk undermining MiFID's core objectives of providing a level playing field in the area of securities trading (by requiring non-Italian MTFs to justify again their compliance with MiFID requirements) and discouraging competition between trading venues throughout the EU.

Further, we favour existing market driven bond price transparency measures in the absence of evidence of any identified market failure in the Italian government bond market. This submission highlights possible risks and burdens in imposing additional price transparency obligations in respect of government bonds, especially without a proper cost-benefit analysis.

---

[1] The Securities Industry and Financial Markets Association brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

[2] The European Primary Dealers Association (EPDA) is an affiliate of SIFMA. The EPDA addresses specific primary and secondary market issues arising across Euro government securities markets and recommends best practices in those markets. The EPDA represents government securities dealers officially recognised in numerous primary, and active in the secondary, markets. The EPDA Members cumulatively trade in excess of 85 per cent of the volume in the government bond market. EPDA Members are Bank of America, Barclays, BNP Paribas, Calyon, Citi, Credit Suisse, Deutsche, Dresdner, Goldman Sachs, HSBC, ING, JP Morgan, Lehman Brothers, Merrill Lynch, Morgan Stanley, Natixis, Nomura, Royal Bank of Scotland, Société Générale & UBS.

[3] EPDA letter to DG Competition, 3 July 2006; EPDA Briefing Note *Regulatory Regime and Minimum Standards in a Multiple Trading Platform Environment*, September 2007; EPDA Briefing Note *Quoting Obligations, Market Conditions and Multiple Trading Platforms*, November 2007.

[4] Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 implemented by Commission Regulation (EC) No 1287/2006.

Our concerns are compounded by the fact that recent academic research in the area strongly discourages regulated price transparency in the EU government bond market.[5]

Finally, we believe that it is important for the Tesoro to take account of existing industry initiatives in relation to some of the proposed changes, in particular in relation to quoting and trading activity data where EPDA has issued recommendations and standard reporting formats that have been agreed with several Debt Management Offices (DMOs). We are concerned that some of the current proposals could further fragment the EU-wide government bonds market which will unnecessarily increase the burden for Specialists active in the Italian government bond market.

MIFID Legal Framework

The EPDA's briefing note of September 2007 entitled *Regulatory Regime and Minimum Standards in a Multiple Trading Platform Environment* summarized key aspects of the MiFID Directive as they apply to Multilateral Trading Forums (MTFs). Although we do not replicate verbatim that summary here, we do consider it worthwhile to reiterate particular points that are relevant to Articles of the proposed regulation.

MiFID Article 14, entitled "Trading process and finalization of transactions in an MTF", imposes obligations on Member States to require that MTFs establish transparent and non-discretionary rules and procedures to do (among other things) the following:

(a) ensure fair and orderly trading and establishing objective criteria for the efficient execution of orders;
(b) determination of financial instruments that can be traded on under its systems;
(c) provide sufficient information to enable users to form investment judgments;
(d) have criteria for access to the system by participants; and
(e) facilitate efficient settlement of the transactions on the system.

MiFID further requires an MTF to monitor its rules and report any abuses to the competent regulatory authority.

On this basis, MTFs are required to implement and monitor a system of rules akin to those of Regulated Markets in order to protect investors/participants who trade on that system. These requirements allow the European financial markets and individuals to be confident that investor protection will not be damaged by removing the "concentration clause". This will instead allow Regulated Markets and MTFs to compete across Europe in order to drive down the cost of capital, improve service and increase innovation which is a cornerstone of the EU's Lisbon agenda.

It should be noted that, to a large extent, the MiFID framework was developed to apply across financial products, including equity where the greatest retail participation exists and which therefore necessitates the greatest investor protection. It would be assumed that if such a regime is satisfactory for retail participants, it should certainly be satisfactory for a wholesale market where the participants are large and sophisticated dealers.

The MiFID Article 14 requirements appear to be reflected in Article 21 of the Decree entitled 'Functioning requirements of the wholesale MTFs for government bonds'. Moreover, as we assume that Article 21 and 22 only apply to those entities within Italy that are regulated as MTFs therein, we will not comment further on the substance of that part of the decree as on

---

[5] *European Government Bond Markets: transparency, liquidity, efficiency*, Centre for Economic Policy Research, May 2006

its face it seems to comply within MiFID and in any event, does NOT apply to MTF's resident outside of Italy within the European Union.

MiFID implementation

Prior to MiFID, MTFs were regulated in Member States as Alternative Trading Systems (ATS) and based on the Committee of European Securities Regulators (CESR) ATS standards which came into existence in 2002 in response to the emergence of ATSs/MTFs in the period since the ISD (the forerunner to MiFID) was implemented. It should be noted that the CESR ATS Standards are still highly relevant in the post-MiFID world and are an important reference point for Member States transposing MiFID obligations into national law for the purposes of creating/amending their MTF regime.

To this end, the FSA has developed comprehensive rules for ATS set out in MAR 5.1 to 5.5 of the FSA handbook. The FSA rules are particularly relevant because most ATSs/MTFs in Europe – including those that may choose to operate in the Italian wholesale government bond market - are situated in the UK. In the institutional market, where we would expect participants to need greater investor protection, already over 50% of volumes are traded on UK-based ATSs/MTFs, such as TradeWeb or Reuters.

For the implementation of MiFID and the regulation of MTFs, the UK Financial Services Authority has set out in Annex A of 2007/13 of 25 January 07 and Annex E of 2007/42 of 26 July 07 its new regime which will replace the existing ATS rules as of November 2007. This interprets and implements the provisions of MiFID which in turn had borrowed heavily from the existing CESR ATS standards. The new regime is comprehensive in its regulation of MTFs, covering all the areas set out in Article 14 of MiFID as well as the requirements for appropriate monitoring and reporting to the regulator of market abuse and/or unusual trading activity. In addition, MTFs will need to comply with the general requirements applied to all investment firms relating to amongst other things systems and controls, conflicts of interest and outsourcing.

Article 23.3: Criteria for the identification of wholesale MTFs

Article 23.3 of the proposed Decree on wholesale trading in government bonds establishes criteria for the identification of wholesale MTFs. These include factors relating to capital adequacy and guarantee of business continuity through to the willingness to supply trading data and to ensuring sufficient coverage of the yield curve.

Although it might be said that Article 23.3 of the proposed Decree does not *require* MTFs to meet the criteria listed therein, it is clear that their failure to do so will materially affect their prospects of access to the Italian market. As mentioned above, much of Article 23 seems to include provisions that are required under MiFID as part of a home state's MTF regime and which are reflective within CESR's ATS Standards. MTFs resident outside of Italy but within the EU should be deemed to satisfy these standards without the requirement to demonstrate that satisfaction again to another Member State unless it can be justified on the basis of a proper cost-benefit analysis that such a duplicative regime is in the interests of the market.

Those MTFs whose home-state is the UK, and which have been authorized by the FSA, will already be subject to comprehensive provisions that cover many of the criteria contained in Article 23.3 (we identify some of these below). In the EPDA's view, the application of many of the Article 23 provisions to UK-based MTFs would undermine the passport principle at the heart of MiFID namely: that firms may operate throughout the EU on the basis of home-country authorization (which in the case of most MTFs will be determined by the FSA).

Article 23.3(a) capital adequacy of the companies managing the wholesale MTF

Article 12 of MiFID requires Member States to ensure that the competent authorities do not grant authorization unless the investment firm has sufficient capital (this provision applies to MTFs). In addition, Standard 6 of CESR ATS Standards implies that investment firms should have the necessary capital to run the appropriate systems. To operate as a MTF under EU law, it is up to the home-state to ensure the capital adequacy of the applicant MTF. Article 23.3(a) of the proposed Decree should not apply to MTFs based in Member States other than Italy, however this is not clear on the face of the proposed Decree.

Article 23.3(b) Guarantee of business continuity

CESR Standard 6 states that investment firms should be able to demonstrate that there are satisfactory contingency arrangements in the event of "system disruption". The FSA's Senior Management Arrangements, Systems and Controls provide detailed requirements for investment firms including MTFs to have in place, for example, appropriate systems and controls (SYSC 3). These include systems business continuity (SYSC 3.2.19, SYSC 4.1.6), which would appear to make unnecessary for UK-based MTFs the requirement in Article 23.1(b).

Article 23.3 (c) Adequacy of the organisational structure

CESR Standard 6 states that investment firms should be able to demonstrate to the home state regulatory authority that there are satisfactory arrangements for the operation of the system. Moreover, Standard 1 states that investment firms should notify their home state regulatory authority of the key features of its system. Similarly, the FSA rules extend to governance arrangements, including organisational structure (SYSC 4.1.1.1, SYSC 4.1.2, and SYSC 4.1.4) and which would make unnecessary for UK-based MTFs the requirement in Article 23.1(c).

Article 23.3 (d) Adoption of appropriate measures for identifying, mitigating and managing the risks which may compromise the regular functioning of the trading venues

CESR Standard 6 states a firm operating a qualifying system should have satisfactory arrangements for dealing with any disruption to its system. FSA rule SYSC 4.1.1 requires investment firms to have effective processes to identify, manage, monitor and report the risks it is or might be exposed to (SYSC 7.1.1 and SYSC 7.1.2 elaborate further on risk controls, including Identification of risks relating to the firm's activities, processes and systems.

Article 23.3 (e) Capacity to manage the potential adverse consequences, for the operation of the trading venue or for its participants, of any conflict of interest

MAR 5.3.1 of FSA includes requirements for transparent, non-discriminatory rules. FSA rule SYSC 10.1 deals with the identification and management of conflicts of interest (see in particular SYSC 10.1.1, 10.1.2, 10.1.3, 10.1.6, 10.1.7) thus rendering unnecessary, for UK-based MTFs, Article 23.3(e).

Article 23.3 (f) Adoption of effective arrangements to facilitate the efficient and timely finalization of the transactions executed under the systems managed and to guarantee the sound management of the technical operations

Both CESR Standards 6 (systems) and 7 (clearing and settlement) envisage these types of requirements. In the UK these are implemented, in part, by FSA rules for market conduct applying specifically to MTFs. MAR 5.3.1(4) provides that a firm operating an MTF must have objective criteria for the efficient execution of orders and have sufficient resources for the role they are to perform, taking into account the different financial arrangements that the MTF may have established in order to guarantee the adequate settlement of transactions[6].

There appears to be considerable overlap between Article 23.3(f) of the proposed Decree and Article 21.1(e) which requires MTFs to maintain "necessary arrangements to facilitate the efficient settlement of transactions concluded under its system". The latter provision is a more precise reflection of MiFID Article 14(5) and it would seem appropriate to remove at least the first clause of Article 23.3(f) of the proposed Decree.

We also consider to be unnecessary the reference in Article 23.3(f) of the proposed Decree to MTFs guaranteeing "the sound management of the technical operations". Moreover, and as recommended by the EPDA's September 2007 briefing note, such technical requirements may not be necessary in a competitive trading platform environment and might best be left to the market to judge. Once Primary Dealers have the option to choose between several "eligible" platforms in order to satisfy their quoting obligations, they can switch to another platform if a platform's trading system fails, experiences latency or does not operate to normal capacity. A multi platform environment therefore reduces systemic risk as it operates as another level of "business continuity" across the market by allowing users to easily switch platforms where one experiences a failure/disruption (even if it has adequate systems and controls) as for example, experienced by the MTS system in October 2006.

More generally, the technical features of an eligible platform may be viewed as a competitive advantage for that platform rather than as an eligibility requirement beyond what is required by MiFID. The technical features (and innovation thereof) will make traders prone to, or reluctant to, trade on certain platforms.

Rather than imposing additional requirements or eligibility criteria, the emphasis should rather be on providing dealers with the relevant information so that they can make informed choices of platform. This is already ensured by the proposed regulation at Articles 21.2(a) and 21.3[7] of the proposed Decree, an approach that would be entirely consistent with Article 14(4) and 42(3) of MiFID.

Article 23.3 (g) Adoption of regulations that, taking into account the structural characteristics of the market, the bonds traded, the size of the transactions and the type of dealers, provide for adequate pre- and post-trade transparency requirements and discipline the obligations of the dealers and the measures that can be adopted with respect to dealers not fulfilling their obligations

CESR Standard 4 states that investment firms operating a monitoring system should monitor user compliance with the contractual rules of the system and in any case of misuse, operators should act and ensure that their contracts with users enable them to do so.

The EPDA assumes that in a multi-platform environment (as has been confirmed in Belgium and the Netherlands, for example) the domestic market committees will share most of the burden of governing the structure of the market by setting the quoting obligations (quoting

[6] MAR 5.3.1.4(d)
[7] There is a typographical error in the proposed Decree as there are two sub-clauses numbered Article 21.3. The comment above refers to the second such clause which should be re-numbered 21.4.

hours, bond allocations, etc). This would be a change from the current model where this task has generally been outsourced to MTS to do on behalf of the DMOs.

In the new model, eligible trading platforms would only act as a means of satisfying those obligations as they would be set in the market committees between the DMO and its Primary Dealers (where trading platforms maybe present as observers). Therefore, the potential for conflicts of interest between the users and owners of trading platforms is minimized as compared to the current model; and where they remain, they should be dealt with by the MTF and Regulated Market provisions of Member States in any event. For the above reasons the EPDA doesn't consider additional governance requirements to be necessary. We deal separately below with the Article 26 requirement for post trade price transparency.

Article 23.3 (h) Willingness to supply, on a timely and continuous basis, data in relation to the quoting and trading activity in Italian government bonds with the frequency, format and level of detail indicated by the Ministry

The requirements contained in Article 23.3(h) and Article 23.6 of the proposed Decree can be implemented consistently with the EPDA's recommendations contained in its briefing note of November 2007.[8] On the question of monitoring of quoting obligations, the EPDA believes that quoting obligations and bond allocations should be agreed between the DMO and its Primary Dealers within its market committee or alternative designated body by the applicable DMO such as a trade association (with the eligible trading platforms engaged only as observers). As with the Harmonised Reporting Format agreed between the EPDA and the Thomsen Committee for dealers to report their monthly volumes, we believe that an agreed format for reporting monitoring obligations should be agreed that each platform can provide to the DMO with necessary market statistics to appraise the performance of its Primary Dealers and to monitor compliance with their market making commitment. The format should be designed in a manner which would allow DMOs to easily combine a number of reports in order to assess the Primary Dealers' performance.

The EPDA retained a technical consultant[9] to study the various technically feasible options for delivering/aggregating an agreed format for reporting from multiple trading platforms. They have produced a report[10] which has already been shared with the DMOs' community.

Article 23.3 (i) Willingness to report promptly to the Ministry, the Bank of Italy and Consob on the decisions to admit, suspend and remove dealers in Italian government bonds from trading

We have no objection to this provision.

Article 23.3 (j) Tradable bonds as well as the number of primary dealers and transaction volumes for each bond, so that sufficient coverage of the yield curve and the significance of trading prices are guaranteed

We believe that provided a Primary Dealer who makes a market on one eligible platform has rights of access to all other eligible platforms for no additional membership costs, such dealer will be able to aggregate all prices from the various sources onto the screens of their trading desk thereby avoiding splitting liquidity.[11] The Article 23.3(j) requirement is unnecessary as

---

[8] EPDA Briefing Note *Quoting Obligations, market Conditions and Multiple Trading Platforms*, 2.4 at p.5, November 2007

[9] E-Trading Software, http://www.etradingsoftware.com/

[10] Please see "Quoting and Multiple Trading Platforms - Technical Options, 23 October 2007", produced by eTrading Software. copies available upon request to the EPDA.

[11] EPDA Briefing Note, November 2007, 2.1.2.

each Primary Dealer is required to price the whole yield curve themselves as part of their quoting obligations.

EPDA recommendations for regulation of wholesale trading in Italian Government Bonds

The EPDA would encourage an approach similar to that taken by Belgium and Netherlands in moving to a competitive trading platform environment, with a focus on the smooth operation of the trading system rather than specific aspects of individual platforms.[12]

The EPDA Briefing Note of November 2007 entitled *Quoting Obligations, Market Conditions and Multiple Trading Platforms* included recommendations for moving from a system that designates one platform to a Multi-Platform Trading Environment ("MTPE") for quoting obligations. Those not already referred to in this submission are summarized below.

Minimum Regulatory Regime

We believe that for a platform to be eligible, it needs to be either an MTF or Regulated Market under MiFID. As the MiFID regime was designed with retail investors in mind, we strongly believe that this would provide adequate protection for wholesale market participants[13].

Splitting Liquidity

We believe that provided a Primary Dealer who makes a market on one eligible platform has rights of access to all other eligible platforms for no additional membership costs, such dealer will be able to aggregate all prices from the various sources onto the screens of their trading desk thereby avoiding splitting liquidity. In addition, platforms should be allowed to discriminate in setting trading fees for 'aggressor' and 'aggressed'.

Accessing Liquidity

The EPDA believes that participants accessing markets even if spread across Multiple Trading Platforms should be on a level playing field. As noted in the EPDA document entitled "Third Party Access Discussion Paper, 27 February 2007"[14], third party participation may undermine the current market structure which has found a balance among mandatory quoting obligations, liquidity provision, and a Primary Dealer's overall relationship with a particular Debt Management Office. The platforms should make public the list of their participants and notify all participants of any (proposed) change to this list (addition and/or withdrawal).

Price Transparency

All eligible platforms are obligated under MiFID to make the anonymised bid/offer and market depth available at commercially reasonable prices to the market. Investors who wish to purchase the feed will then have a choice of provider, although we anticipate the price feeds to be of similar quality due to the sophisticated pricing engines of the dealers. This being said, we suspect that as today, most investors will get their indicative prices from the B2C platforms

[12] Part 2 of the EPDA Briefing Note of November 2007 sets out eight recommendations relating to Quoting on Multiple Trading Platforms.
[13] For the reasons outlined in the EPDA Briefing Note entitled "Regulatory Regime and Minimum Standards in a Multiple Trading Platform Environment, 12 September 2007", copies available on request to Mark Austen on mausten@sifma.org.
[14] Also available on request to the EPDA.

and negotiate their trades through the RFQ functionality thereon or alternatively over the phone with reference to these prices or those from data vendors.

Quoting Obligations and Monitoring

The EPDA believes that quoting obligations and bond allocations should be agreed between the DMO and its Primary Dealers within its market committee or alternative designated body by the applicable DMO such as a trade association (with the eligible trading platforms engaged only as observers) and the trading platform consistently applies the quoting obligations to all their market makers.

Minimum Number of Market Makers

The EPDA is open to the idea that a platform's eligibility be further dependent on the appointment of a minimum number of market makers. Providing this requirement is not too onerous, it would allow for a competition whilst preventing fragmentation across numerous platforms which may entail unnecessary additional connection costs to the dealer community.

Market Supervision

As for market supervision, MTFs and Regulated Markets are equally required to monitor and report any abuses to their competent authority and for these reasons we do not believe there is a need to have additional safeguards in place.

Price Transparency: Post-Trade Disclosure Requirements

In addition to the requirements contained in Article 23.3(h) and Article 23.6, Article 26 requires dealers to make public their trading data.

<u>Article 26</u>
<u>Post-trade disclosure by authorised persons</u>

1. The authorised persons who conclude wholesale transactions in government bonds admitted to trading on Italian regulated markets, outside a regulated market or an MTF or a systematic internaliser, shall make public the following information at a minimum:

> ***the date and time of the transaction;***
> ***the identification details of the bond;***
> ***the volume and price of the transaction concluded.***

2. The information referred to in paragraph 1 shall be made public by the end of the working day following the conclusion of the transaction. The information shall be made public in a manner which is easily accessible and on reasonable commercial terms.

The Decree would extend to Italian government bonds the post-trade pricing transparency obligations imposed by the MiFID Directive on shares only. We would query any cost/benefit analysis that has been conducted, consistent with a "better regulation" philosophy, in advance of proposing these transparency requirements. The issue of post-trade price transparency for government bonds has been the subject of much discussion over recent years, and several submissions and reports from regulators, market participants and academics. The overwhelming majority view, and the conclusion reached by the EU Commission, is **that there is little evidence of market failure in the wholesale business**.

<u>Scope of Article 26</u>

In addition to the necessity of the Article 26 requirement for post-trade pricing transparency, we question the scope of the provision, in particular whether it applies to trading of Italian government bonds taking place outside of Italy. It seems to be assumed that the provision extends to those "authorised persons" regulated outside of Italy and for trades executed outside of Italy by those entities (for example, a Japanese bank trading an Italian government bond on a wholesale market in Hong Kong with a US counterparty). Article 2 of the Decree does not include a definition for "authorised persons" and we would question whether the Decree is enforceable against persons authorised outside of Italy for trades executed outside of Italy.

<u>Systematic Internalisers</u>

Article 26 exempts wholesale transactions in Italian government bonds concluded by "authorised persons...outside....a systematic internaliser." Article 4.1(7) of the MiFID directive (Directive 2004/39/EC) defines a systematic internaliser as "an investment firm which on an organised, frequent and systematic basis, deals on own account by executing client orders outside a regulated market or an MTF". Yet it is clear from the provisions laid down in the MiFID level 2 legislation that this definition is set with specific reference to share trading (see Article 21 of Commission regulation (EC) 1287/2006: Criteria for determining whether an investment firm is a systematic internaliser). We would query whether the concept of a "systematic internaliser" exists outside of the context of share trading. Certainly MiFID does not lay down set this definition within the context of the bond trading activities of investment firms. Furthermore, the Decree itself does not provide any further definitional guidance on this point as Article 2 does not include a definition for "systematic internalisers".

Impact of Post-Trade Pricing Transparency Provisions

The EPDA is concerned that these disclosure requirements are unnecessary and could well be counterproductive. This is particularly the case for voice trades, which typically include the larger value trades and therefore those trades which could be far more difficult to unwind should the proposed price transparency requirements be applied. If Specialists as "authorised persons" are required to disclose the next day all trades, this is a very real concern, particularly for trades in long dated paper, off the run issues and in large value as these positions may be held on one's books for a number of weeks. If the market is aware that one participant holds a large amount of paper especially in relatively illiquid bonds, its likely the market will move away from that participant. This will make the participant less willing to put at risk its own capital to facilitate the trade in the first place, thereby driving down overall liquidity in the marketplace.

Moreover, this may inadvertently reveal a client's position as large trades in certain types of paper by a specific Specialist may be able to be identified by other participants in the market as being that of a particular client. Research by the Centre for Economic Policy Research[15] strongly advocates for the complementarity of voice and transparent settings, arguing that in certain circumstances price efficiency is better achieved by voice. The risks are further heightened by the lack of flexibility in the proposal for disclosure by the end of the following day's trading (MiFID, in imposing post-trade disclosure for the trading of shares only, provides leeway for deferred publication of larger value trades).

We favour setting transparency requirements at an optimal rather than maximum level. Research has shown that the introduction of full transparency can drain liquidity from the market. Our previous detailed work[16] (and that of other trade associations[17] and industry groups such as ESME[18]) has shown that price transparency in the wholesale EU bond market is developing efficiently. Where it is low, it is not a failure as such, but rather a reflection of market fundamentals such as size and structure of the market and demand for liquidity.

We acknowledge the significant retail component in Italian government bonds. However, post-trade price transparency for government bonds is presently available from a wide range of sources from data vendors (including Bloomberg and Reuters) or B2C platforms for institutional investors. We do not object to wholesale trading platforms, as is presently the case with MTS, providing a delayed feed for retail price transparency. For example, MTS currently provides a daily bulletin the following day which includes for a selection of Italian

[15] *European Government Bond Markets: transparency, liquidity, efficiency*, Centre for Economic Policy Research, May 2006.

[16] EPDA letter to European Commission DG Internal Market and Services of 15 September 2006 in response to EC Call for Evidence of 12 June 2006.

[17] *Pre- and post-trade transparency provisions of the markets in Financial Instruments Directive (MiFID) in relation to transactions in classes of financial instruments other than shares*, submission by 13 trade associations, including European Primary Dealers Associations in response to European Commission Call for Evidence, 15 September 2006.

[18] *Non-Equity Market Transparency*, ESME's Report to the European Commission, June 2007.

Also *Improving Efficiency in the European Government Bond Market*, Avinash D Persaud, Intelligence Capital and commissioned by ICAP Plc, government bonds the minimum, maximum, and average price traded as well as the volume and last price traded.

It seems an onerous burden on “Specialists” or other “authorised persons” to put in place appropriate systems for “commercialising” or “publishing” post trade information by the close of business the next day solely for Italian government bonds when it is unclear of the intended recipient of the benefit of the provision of such data. If the audience is to be retail customers, it seems unclear what benefit such publication would bring to this class of investors who are unlikely to have knowledge of the publication of the information likely fragmented across a number of sources and where to obtain/acquire it; and even if they did so the information would be for inter-dealer prices in large sizes which would seemingly be of little relevance to them.

In the absence of evidence that shows that the proposed requirements would bring positive effects to the marketplace, the EPDA remains strongly opposed to the proposed post-trade disclosure requirements as overly burdensome and potentially damaging to liquidity on the Italian government bond market. In the current liquidity crisis, we would urge extra caution in considering any measures that may introduce further liquidity risk in the European government bonds market. SIFMA’s recently published Annual European Fixed Income e-Trading Survey emphasised the importance to investors at present of access to, and depth of, liquidity. Liquidity factors were primary considerations for investors in choosing to trade electronically and in choosing a platform on which to trade. In choosing to trade electronically, the key factors identified by investors were ‘streaming prices’ (chosen by 34% of investors) and ‘market volatility’ (26%) while transparency was identified as an important factor by only 10% of respondents.[19]

For your information, SIFMA is working on a European retail education website available in 5 languages, including Italian, whereby we will publish end of day prices for a number of government and other bonds within Europe including Italian government bonds. The launch date of this site is April 2008 and it is aimed specifically at the retail investor. A US version of the site is already established and can be viewed here: www.investinginbonds.com. This initiative is designed to improve transparency and education to EU citizens, and we would welcome the opportunity to present to the Italian authorities as soon as the system is up and running.

Article 26 entry into force

Finally, we note that the obligations in Article 26 of the proposed Decree will come into force on “authorised persons” within 15 days of the coming into force of the Decree. If this is the case, we would strongly advise a number of months advance notice of its implementation (at least for this article) as entities will be required to make special provision for Italian government bonds outside of the rest of their trading which will require significant development.

[19] *3rd Annual European Fixed Income e-Trading Survey*, SIFMA in association with Concise Consultants Ltd, 12 February 2008