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**SIFMA/EPDA/EHYA/LIBA/ASSOSIM RESPONSE TO CESR MAY 2007 CONSULTATION
PAPER ON NON-EQUITY MARKETS TRANSPARENCY**

The Securities Industry and Financial Markets Association (SIFMA),¹ the European Primary Dealers Association (EPDA),² the European High Yield Association (EHYA),³ the London Investment Banking Association (LIBA)⁴ and the Associazione Italiana Intermediari Mobiliari (ASSOSIM)⁵ are pleased to respond to CESR's Consultation Paper on "Non-Equities Markets Transparency" (CP). Where relevant, we make reference to the SIFMA/ESF/EHYA response to CESR's earlier Call for Evidence⁶ where further details can be found in support of comments made in this CP.

GENERAL

We welcome CESR's overall balanced approach and account of industry feedback received in response to its Call for Evidence.

There are many CESR conclusions with which we strongly agree, in particular that:

- Bonds and equities so differ that MiFID transparency rules are not suitable for bond markets.
- Price transparency levels are broadly satisfactory for institutional participants such that imposing more transparency could be harmful.
- Less transparency is available to smaller institutions and retail investors but further initiatives in this area should not be to the detriment of the wholesale market.
- Price transparency would not have prevented retail investors' losses suffered in Parmalat and Argentina defaults.
- It is wise, in this context, to leave further transparency initiatives to the industry and CESR has listed some of the most important criteria. We note that some industry associations, including ICMA and SIFMA, are working on possible such initiatives and attach in Annex a summary of the one that SIFMA is currently exploring.

There are certain areas of CESR's analysis that we believe are either not accurate or require further clarification, or further thinking, before reaching conclusions, in particular:

¹ SIFMA (the result of a merger between the Bond Market Association and the Securities Industry Association) brings together the shared interests of more than 650 securities firms, banks and asset managers. Its 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 confidence in the markets. SIFMA represent its members locally and globally. It has offices in London, New York and Washington DC, and its sister association, the Asia Securities Industry and Financial Markets Association (ASIFMA), is based in Hong Kong.

² EPDA addresses primary and secondary market issues arising across € government bond markets. It represents EU government securities dealers officially recognised in numerous primary, and active in secondary, markets. Its members cumulatively trade over 85% of the EU government bond market volumes. EPDA is a division of SIFMA.

³ EHYA addresses primary and secondary market issues arising across Europe's high yield market. It represents underwriters, investors, issuers, law and accounting firms and other participants in the EU high yield market. Its members cumulatively issue and trade over 95% of the EU high yield bond market. EHYA is an independent, self-funded forum of SIFMA.

⁴ LIBA is the principal trade association in the United Kingdom for firms active in the investment banking and securities industry and the Association represents the major international investment banks which base their European operations in London

⁵ ASSOSIM is the Italian Association of Financial Intermediaries (banks, investment firms and Italian branches of foreign brokerage houses), which represents the vast majority of financial intermediaries acting in the Italian equity, bond and derivatives markets, for some 82% of the total trading volume. Website: www.assosim.it

⁶ <http://www.sifma.org/services/pdf/CESRPriceTransparency6March07.pdf>

- Some issues highlighted in the market failure analysis are not conclusive of a market failure and are not inconsistent with how efficient markets operate.
- We challenge the proposition that more retail transparency results in more retail participation.
- There is not enough consideration of the complexity of the EU retail investor base: issues and responses need to take account of its diversity (e.g. high net worth vs. unsophisticated) as well as the different access routes available to retail (i.e. direct vs. via intermediaries).
- It is too early to assess the impact of MiFID best execution provisions on transparency; CESR should not pre-judge the outcome.
- There are strong commercial and practical reasons not to adopt a rigid segmented approach to oversight of price transparency.

CESR background information (CP Section 2)

We welcome CESR's recognition that bonds and equities so differ that MiFID price transparency rules for equities are not suitable to be transferred to bond markets.

We welcome CESR's analysis of EU Member States' approaches to bond market transparency as summarised in Table 3 of the CP. However, CESR should make it clear that it is not representative of the extent of price transparency available in the EU bond markets. The Table is limited to listed bonds which trade on exchange, whereas there is significant transparency available in both unlisted bonds and listed bonds that do not trade on exchange (e.g. the majority of Eurobonds are listed, but do not trade on, the Luxembourg Stock Exchange) via the usual channels: single and multi-dealer trading platforms, data vendors, index providers etc.

We therefore suggest that CESR rephrase the heading of the Table to "Regulated existing trading transparency etc" and that CESR clarifies upfront that there is also plenty and growing market-driven transparency. This would also help clarify the fact that when the Table states that OTC traded bond prices are "not disseminated", this statement applies to a regulatory requirement but not to the market reality where much OTC price information is disseminated via above-listed channels to paying subscribers.

Finally, we suggest that CESR remove the reference to "off-market" trading and replace it with "OTC" so that there can be no implication that this activity is somehow improper.

Q1: TO WHAT EXTENT DO YOU AGREE WITH CESR'S ASSESSMENT OF MARKET FAILURE IN THE SECONDARY BOND MARKETS?

CESR Market Failure Analysis (CP #14-24)

We welcome CESR's thinking around the four possible examples of market failure as set out by CESR's network of economists and further elaborated on in the CP. We also recognise the fundamental importance of arriving at the correct conclusion. We would like to make the following contribution to that discussion, which we believe will provide input at both a practical and intellectual level to the outcome.

1 Information asymmetries

The CP implies that all information asymmetries are market failures - *'This, as a market failure, arises where one group of participants has more and / or better information than another group. The latter group may make poor trading decisions because of this information shortfall'*.

This is the correct definition of an information asymmetry. However, in any market there are participants with better access to information than others and information asymmetries are not evidence of market failure per se, but can often be an efficient result of how markets operate and the nature of the role that particular participants play (see FSA Feedback Statement on Trading Transparency in the UK Secondary Bond Market).

If information gathering is costly, or valuable knowledge arises as a consequence of undertaking a costly activity (e.g. taking an own account position), then differences in trading information may efficiently continue to exist if the person who might benefit from that information does not perceive the

benefit as sufficient to compensate the person generating that information. Part of the analysis that underlies the potential for a negative relationship between mandated transparency and loss of liquidity relates to this point. In particular, mandated transparency in the above situation, without appropriate compensation, will remove the incentive to generate information, which in this case might be the incentive to maintain the provision of quotes in particular markets.

As further detailed in our response to CESR's Call for Evidence, recent independent academic research from CEPR shows that markets need both transparency and opacity to reach efficient price formation and that in some cases more efficient pricing is achieved in an opaque setting. The issue is one of optimal, not maximum, transparency.

Consequently it is important to work on the basis that an information asymmetry can be both a symptom of a market failure and a sign that a market is working efficiently, and therefore it is critical to investigate the underlying causes of asymmetry before drawing conclusions either way. Where it is a symptom of a market failure, the two most likely causes are 'market power' (e.g. monopolies) and externalities (in particular, a co-ordination problem means that those who would be willing to contribute to the cost of information cannot be brought together to do so). In paragraph 15 of the CP, CESR discusses the links between externalities, information and competition levels. As regards the EU corporate bond market, the CEPR study notes the high level of competition among dealers which exists in Europe in comparison to the US and the positive impact this has had on liquidity and spreads

As also explained in our response to CESR's Call for Evidence (and as has been recognised by the Commission in its opinion on the scope of best execution), institutional investors are generally able to 'shop around' to obtain the best price. They therefore often have more price transparency than the dealers (who do not always see each others' quotes – they are competitors). They further benefit from tighter bid-offer spreads than dealers in the inter-dealer market.

We recognise that retail investors are more likely to be reliant on one broker for their information when making an investment decision, which highlights the importance of the MiFID provisions on best execution and suitability and their conscientious implementation by retail oriented firms and effective enforcement by their regulators, which we discuss later.

2. A sub-optimal public good?

It is difficult to see how price transparency in any way could be considered a 'public good'.

A public good is a good that can be consumed/used by any one individual without impacting on the amount (in terms of value and benefit) to anyone else of that good; and it is not possible to effectively exclude anyone from using that good. The classic examples are television/radio signals and fresh air. A market failure can arise in the provision of a public good when it is not costless to produce but there is no mechanism to compensate the producers of a public good, hence it is not supplied.

Is bond price information a 'public good' that is undersupplied? If it is, then the problem that needs to be solved is how to make sure that those who might benefit from price information can be made to compensate those who produce it. Mandatory transparency without appropriate compensation (including compensation for such costs as those arising from maintaining quote provision etc) is not a solution; rather it would exacerbate the problem by creating disincentives to participate in the markets.

Bond price information is almost certainly not a public good as it does not meet the essential criteria. Use of price information has an impact on the relevant market and therefore it cannot be said to not impact on the value to others of that price information – hence it is not a public good.

3. Market Participants' comments

In paragraphs 19-21 of the CP, after noting that the vast majority of respondents to its call for evidence felt that there was no market failure (which closely mirrors the responses to the Commission's call for evidence last year), CESR lists arguments made from a small number of respondents which might point to a market failure. They seem to fall in three main categories:

- (i) Difficulty for retail investors and smaller institutional participants to access information on the same basis as other participants, meaning they are a step behind other participants. We do not believe that this is evidence of a market failure per se for the reasons set-out in our information asymmetries and public good discussion above.
- (ii) Low levels of direct retail investment in bonds are due to the low levels of transparency: we challenge this assumption for the reasons mentioned in our comments on CESR's conclusions below.
- (iii) Lack of evidence of market failures does not necessarily mean that failures do not exist and greater price transparency would be good for the market anyway: we strongly oppose this approach which is contrary to modern better regulation policy thinking.

Whilst we appreciate the time that CESR dedicates in the CP to these important issues raised by a small number of participants, it is important that due weight be given to, and conclusions reached based on, the views of the vast majority of market participants expressed in this CP and previous consultations over the last two years.

4. Transparency levels vary

In paragraphs 22-23 of the CP, CESR seems to imply that since information asymmetries increase as transparency levels reduce, market failures become more likely in the less transparent markets, where competition also tends to be more limited.

We disagree with this analysis. In our response to CESR's call for evidence we review the various bond market segments and explain why transparency levels vary. As already mentioned, well functioning markets need both transparency and opacity. The balance between the two will vary depending on the state of maturity of a particular market segment, the degree of automation and acceptance by investors, which will drive liquidity, and even within the same segment the balance will vary depending on trade size, volatility and possible market impact. A dealer's ability to deal out of its position (liquidity) will decrease its concerns over higher transparency. However in instruments with lower levels of liquidity the dealer (and indeed its customer) will be very concerned about other market participants being able to react ahead of the dealer trying to liquidate its position which it may have obtained in a transaction with a customer. A dealer concerned about this situation will either not provide liquidity or widen his quote in order to compensate for the increased risk. Either will lead to further decrease in liquidity.

Therefore, the fact that certain segments are more opaque than others does not equate to a market failure. An analysis of bond markets evolution shows that transparency, liquidity and competition naturally increase (up to a point) as products become more commoditised and investor demand grows. This is what can be observed, for example, in the EU High Yield market.

Interaction between the cash bond markets and derivatives markets (CP #25-26)

We agree with CESR that the growth of the derivatives markets adds another dimension to the debate around transparency in the bond markets. We believe that such growth has vastly enhanced the ability of market participants to manage interest (through IRS) and credit (through CDS) risk for the benefit to the market as a whole, both from a bond market price efficiency/accuracy and from financial stability point of view.

CESR's conclusions

We agree with most of CESR's conclusions, namely that:

- Wholesale participants are generally content with transparency levels in bond markets.
- But access to transparency for smaller participants and retail is not as great.
- An increase in transparency will need to be carefully tailored to ensure that liquidity provision and levels of competition are not damaged.
- A thorough cost benefit analysis of any change would need to be undertaken.

However, we have several comments in relation to CESR's conclusions that (1) there would be value to smaller users in receiving access to greater trading transparency and (2) this might also encourage higher retail participation. We address these two points below, but first we believe it important to provide some context and perspective.

Important to provide context and perspective, and to distinguish "retail" v "retail intermediaries"

Since its beginning in the early 60's, the EU bond market has developed as a wholesale market in most European countries. This development has been guided to meet issuers' and investors' needs, not intermediaries'.

Hence EU bond markets are overwhelmingly institutional. Retail investment in primary issuance is below 3% in cash bonds (see Annex 2 of our response to CESR's Call for Evidence).

This percentage is likely to be even smaller in the secondary bond market given most retail investors buy to hold. Moreover, retail participation is likely to be concentrated in high-net-worth individuals (so-called "quasi-institutional" investors), who are not only able to select from and compare a large number of investment firms which compete intensively for their business (and therefore provide them with greater information), but also typically own Bloomberg or Reuters' screens and therefore can have direct access to price information and analytics. Lastly, average retail investors in Europe generally buy fixed income products through investment in UCITs and other funds, via brokers and via the agency desks of dealing firms, all of whom can benefit from the price transparency available to institutional investors if they chose to do so. We recognise that in some jurisdictions where bonds are sold to retail primarily through bank branches, competition and therefore the pressure felt by some retail intermediaries to provide optimum service levels may be more limited until, as discussed later, MiFID's new regulatory pressures improve matters.

Important to think through CESR's two arguments in favour of more transparency

1. Greater transparency would be valuable

It is unclear, however, what CESR think the value is. From signals scattered around the CP we believe that there are three main benefits that CESR has in mind:

(i) Reduce information asymmetries

We have expressed our reservations already regarding this issue. This translates into real practical concerns, in particular how would retail be expected to analyse the reasons/factors behind different prices? Some crucial credit/covenant/seniority/call feature terms of a bond, which are reflected in its price, simply cannot be gleaned from price information on its own or analysed by retail investors. Very few individuals are capable of distinguishing the various terms (other than, perhaps, duration and yield) which go into the pricing a bond. In the US, a country with a long-standing tradition of retail investments in municipal bonds, a 2005 NASD study showed that 60% of retail investors do not even understand that when interest rates go up, bond prices go down, and vice-versa.

We believe that additional price information provided to retail investors should be accompanied by more and better investor educational material, in particular as, under the execution-only provisions of MiFID, they will have the ability to deal in the secondary market without advice in a wide range of cash bonds (as long as they do not contain an embedded derivative element). We discuss a possible industry-led initiative later in this paper.

(ii) Verify best execution

The CP seems to imply that because retail investors cannot see prices they are being taken advantage of.

MiFID provides strong best execution protection to retail investors, both by focusing its application on the most relevant factors for retail investors, namely price and costs, but also by providing them with enhanced powers to "police" their brokers via stricter execution policy consent and

additional information requirements. We believe that mandating transparency is no substitute for EU regulators' duty to ensure proper implementation and enforcement of such provisions, especially given that MiFID transaction reporting requirements will give all EU regulators the ability to monitor and query intermediaries' prices should they wish to do so.

Further, and in addition to the issue of understanding price information already highlighted, there is a limit to the utility of transparency in verifying best execution in a market where the vast majority of bonds are illiquid. While a price agreed a few seconds previously might be relevant (although not conclusive) to the price of an investor's own trade for comparison purposes, the longer the period since the last trade the less relevant (and the more misleading) the price of that trade will be.

(iii) Investor protection generally

As CESR itself concludes, price transparency would not have prevented retail losses suffered in the Parmalat and Argentina defaults. MiFID suitability and appropriateness provisions should reinforce retail investors' protection; but again, it is for regulators to ensure it is implemented by retail distributors, not for retail investors to be expected to rely on prices provided by liquidity providers.

2. Greater transparency would increase retail investments in bonds

We challenge this unsubstantiated assumption on at least three grounds:

(i) There are good reasons for retail investors to invest elsewhere.

We list below what we believe are some of the main reasons for low retail participation in secondary bond markets:

- The availability of cost free substitutes: e.g. bank deposits, fixed or floating, where investors can get higher returns in a fixed 1-5 year deposit at their bank, which also comes with deposit insurance.
- Most retail investors buy from their broker at primary issue and hold until maturity: this is often the most cost effective way of investing in bonds; these investors are very rarely seen in the secondary market. Trading bonds to make gains on interest rate movements or pricing aberrations is unsuitable for all but a few high net worth customers because the aberrations are often small and therefore the amounts that need to be traded to make a profit after costs are very large.
- Limited funds prevents diversification: e.g. with €100,000 it is very hard to be able to diversify in a cost effective manner in the credit markets, which is significant since there is always a finite risk of default even in the government sector. Most brokers are likely to recommend investment through a unit trust which would allow for diversification at less than the transaction cost to the retail investor for buying say 10 bonds⁷;
- Annuities and annualised products: investors can either buy a series of bonds to provide periodic income, especially for retirement, or a packaged product which does the same thing and has a life insurance feature attached to it.

(ii) Countries' fiscal policies

Related to the above, retail investments are often directly related to the fiscal policies in place in various countries. For example, much of the US retail investor base is active in the municipal bond market because of significant attractive tax breaks attached to such investments. Italy has a similar regime which makes investing in a bank's own bonds more tax efficient than putting money in a bank's savings account.

⁷ In its 2005 report 'Europe's Hidden Capital Markets' Section 4.3.iv the Centre for European Policy Studies (CEPS) called for a 'serious policy debate' on whether direct retail participation should be encouraged or retail investments should be channeled into bond funds. The rationale for such a debate, according to CEPS, involves the problem most retail investors have in achieving adequate diversification in a bond portfolio, the limited upside potential (compared to equities) and a finite risk of default even for investment grade issues.

(iii) Lack of evidence of direct causal link

In the US, SIFMA built a retail education and price information website (investinginbonds.com) that, since 2005, makes available to the public all TRACE corporate bond price details public within 15 minutes of trade. There is no clear evidence that the public dissemination of this post-trade price transparency information has led to an increase in retail participation.

3 Proportionate approach to policy making

Therefore, we believe that the correct and proportionate approach to policy in this area must take account of the following:

- Further price transparency to retail must not be to the detriment of the largely institutional wholesale bond market – we strongly agree with CESR on this point.
- There must be a strong focus on investor education: ultimately retail investors will likely become more involved if they understand the fixed income market and basic products better.
- Retail investors must not be given false sense of security that increased price transparency will better protect them. Policy should only encourage direct retail investments in highly liquid, highly rated, bonds and must focus on proper enforcement of best execution, suitability and appropriateness protections.
- In the absence of evidence of a market failure, any further price transparency initiative should be left to the industry.

Q2: TO WHAT EXTENT DO YOU AGREE WITH CESR'S CONCLUSIONS ON THE IMPACT OF IMPOSING MANDATORY PRE OR POST-TRADE TRANSPARENCY REQUIREMENTS?

We strongly agree with CESR's conclusions that:

- Bond and equity markets clearly differ and therefore any transparency regime for bonds should not be designed with reference to the equivalent regime for equities.
- Action should not be taken which might harm the operation of the bond markets

We also agree that transparency could usefully be increased to help retail or small participants, subject to the important reservations expressed in our response to Q1 above.

In paragraph 30 however, CESR quotes one respondent's comment on the benefits of TRACE in the US. This comment should not be relied on in isolation. The experience of TRACE in the US was the subject of a specific question in the EU Commission's Call for Evidence last year. Many market participants, including ourselves⁸, expressed strong reservations about the various studies concluding that TRACE did not impact market liquidity. The anecdotal evidence we provided suggested that it did. CESR should review all the responses to the Commission's call if it is to provide a fair account of market participants' views on the impact of TRACE.

Q3: TO WHAT EXTENT DO YOU THINK RETAIL INVESTOR PROTECTION CONSIDERATIONS WOULD JUSTIFY MANDATING PRE- OR POST TRADE TRANSPARENCY?

We think that the limited additional benefits which pre- and/or post-trade transparency may add to retail investor protection do not justify mandating such requirements.

As CESR itself notes, many EU countries already have strict investor protection regimes, but this has not prevented instances of mis-selling. Price transparency regulation will not protect retail against corporate fraud or issuer default. Issuer default, even if not through fraud, is the biggest risk faced by any fixed income investor. This is not addressed by transparency, only by understanding the issuer and the bond you are buying.

Instead we believe that a carefully considered and modulated industry-led initiative such as that outlined in Annex is the better way forward

⁸ <http://www.ehya.com/docs/PressRelease/BMAUSResponseFINAL.pdf>

Q4: TO WHAT EXTENT DO YOU THINK THAT THE INTRODUCTION OF THE NEW BEST EXECUTION REQUIREMENTS WILL RESULT IN A CHANGE IN THE LEVEL OF TRANSPARENCY INFORMATION PROVIDED ON A VOLUNTARY BASIS BY THE INDUSTRY?

We believe that it is too early to assess the impact of MiFID best execution provisions on price transparency levels. The rules will certainly require making use of the existing transparency available, but it is unclear that this will lead to more transparency provided on a “voluntary” basis. CESR should not pre-judge the outcome.

Further, we are unclear as to whether CESR’s question is targeted at the wholesale market or the retail market. We assume the latter, since as far as the wholesale market is concerned, we would hope that sufficient evidence and industry feedback have now been obtained to the effect that there is a great deal of pre-trade price transparency available to institutional investors.

On the retail side, we agree with CESR that MiFID should enhance retail investor protection, in particular under the new best execution and suitability and appropriateness regime. But in terms of transparency, again one needs to distinguish between retail intermediaries (who have access to that transparency) and retail directly accessing the secondary market. So when CESR says that MiFID best execution could result in dealers improving levels of pre-trade transparency (for retail), this again seems to imply that retail is not involved in this market because of a lack of transparency – for the reasons already explained, we disagree with this assumption.

We also disagree with the argument that, in the absence of a mandatory transparency regime, (retail) intermediaries will struggle to deliver consistent best execution to clients. This ignores the fact that retail intermediaries have access to institutional transparency and that firms have strict internal processes and procedures in place when selling to retail via their private bank. It also seems to imply that regulation should provide retail investors with the tools to by-pass intermediaries. Encouraging them to do so, beyond perhaps government bonds of the investor’s country and AAA corporate bond investments, seems ill-advised to us.

Finally, and as already mentioned in response to Q1 we also disagree with the unqualified statement that post-trade transparency can be useful to verify best execution. This will only be true for extremely liquid bonds which trade continuously, not for the vast majority of illiquid bonds which trade sporadically. In the latter case, it may be misleading as today’s price may have no relation to last week’s price, not because of any issuer developments, but because of a movement in general interest rates.

Q5: HOW WOULD YOU PROPOSE RETAIL INVESTOR EDUCATION BE IMPROVED AND DELIVERED?

SIFMA launched an award-winning investor education website, aimed at US retail investors: <http://www.investinginbonds.com/>. We are currently examining ways of developing a similar site in Europe and attach in Annex the “strawman” proposal.

Q6: TO WHAT EXTENT DO YOU AGREE WITH THE SUGGESTION THAT THE DEFAULTS THAT HAVE AFFECTED RETAIL INVESTORS IN RECENT YEARS HAVE BEEN THE RESULT OF FACTORS OTHER THAN TRANSPARENCY? IF YOU FEEL THAT TRANSPARENCY LEVELS WERE OF SIGNIFICANCE IN THESE LOSSES, PLEASE EXPLAIN HOW

We fully endorse the entirety of CESR’s conclusions, in particular:

- Mandatory transparency requirements aimed at improving the availability of information to retail customers in order to increase their involvement must not be to the detriment of the largely institutional wholesale bond market.
- There was a multitude of reasons for the Argentina and Parmalat defaults; it cannot be claimed that these cases would have taken a different direction if mandatory transparency requirements had been in place. We consider that the more rigorous suitability and appropriateness provisions mandated by MiFID are the better approach for the prevention of such occurrences. If properly enforced, they are likely to be more effective in minimising the possibility of retail investors buying

inappropriate or unsuitable bonds. Investor education is likely to have an important role in enabling execution-only retail investors to make better decisions.

It is worth noting that many institutional investors who had the benefit of greater price transparency also suffered significant losses from the Argentina and Parmalat defaults.

Q7: TO WHAT EXTENT DO YOU AGREE WITH CESR'S ASSESSMENT THAT ANY TRANSPARENCY REQUIREMENTS COULD VIABLY BE SEGMENTED?

We believe that CESR is making this overly, unnecessarily and dangerously complicated. We have the following concerns:

- Market segmentation would require a legal definition of what constitute different market segments.
- Shoe-horning the multitude of fixed income instruments into defined buckets could impact innovation.
- This approach is inconsistent with a constantly evolving market: definitions would likely need regular amendments and could drive investments to undefined (less transparent) segments.
- What would happen to new products/markets that do not fit into existing buckets?
- Should retail be exposed to a product that does not fit into an existing bucket?
- Where would the cross-over businesses belong?
- It would run contrary to other approaches that may deem liquid vs illiquid bonds a more appropriate differentiation since in each bond segment (including government bonds) there will be both liquid and illiquid securities.

Q8: DO YOU AGREE THAT WE HAVE CAPTURED THE MOST IMPORTANT CRITERIA THAT THE COMMISSION SHOULD TAKE INTO ACCOUNT IN JUDGING POSSIBLE SELF-REGULATORY INITIATIVES? IF YOU THINK THERE ARE OTHER FACTORS THAT SHOULD BE NOTED, PLEASE PROVIDE DETAILS.

We strongly agree with CESR that the industry has proved over the years that it is capable of developing mechanisms for the delivery of transparency and other information to market users. Therefore, we support CESR's view that it is wise to consider whether an industry-led solution could be developed if an increase in transparency is deemed appropriate. But given the absence of a market failure and the difficulty in precisely identifying a problem with the current situation, we would qualify this exercise not an industry "solution", but rather a further initiative.

We agree that CESR has covered the main criteria and believe that SIFMA's proposed initiative in Annex is consistent with such.

We are however somewhat surprised, after 2 years of consultation on this topic and much industry feedback received, to read in paragraph 65 that regulators are still asking themselves what precisely should be the aim of any self-regulatory or regulatory driven initiative on transparency.

We are also concerned that having acknowledged that institutional market participants are content with transparency and therefore focused much of the CP on improving retail transparency, CESR implies at places in this Section that industry initiatives should cover both.

The industry needs to be clear on the direction that it needs to take. The strong theme that seems to emerge, both from views expressed by CESR in this CP and by Commissioner McCreevy⁹, is that further industry efforts should focus on how to make more of the existing price transparency available to retail investors without damaging the wholesale bond market.

⁹ See 11 May speech: "Let me make it clear that no market failure has been identified in this area and therefore we are not proposing to regulate. As to industry standards for accessibility to price information, I expect that the retail pricing service that ICMA is developing will address this situation. I would be concerned that any more systematic mechanisms of transaction reporting could be damaging for the bond markets and their liquidity and I want to take this opportunity to make that absolutely clear"

This is the basis on which we are working and have developed the “strawman” attached in Annex. We would be extremely grateful to be informed at the earliest opportunity that this has initial support from the regulatory community.

ANNEX

Strawman – Investinginbonds.com Europe

Concept. To create an extension of SIFMA's U.S. award-winning retail investor education website www.investinginbonds.com ("IIB") specifically tailored to retail investors in the European bond market, and containing price information collected, organised and presented in a way that (1) is meaningful, freely accessible and user-friendly to EU retail investors, and (2) does not impact the current business model that exists around the provision of price transparency in the wholesale market.

Purpose. (1) **Education:** to provide a one stop, free, educational based retail focused web site to retail investors in the European bond market; (2) **Price information:** to make available to retail investors some of the price transparency currently available in the wholesale market, tailored to serve the main educational purpose, without impacting the business model that exists around the provision of prices provided to institutional customers by dealers, platforms and data vendors, or indeed the business model of the private bank industry; (3) **Industry-led:** to provide a market driven friendly and cost-efficient response to a stated regulatory concern that retail investors would benefit from increased price transparency in fixed income markets.

Website. The site would provide (1) retail oriented **educational information on bonds** (e.g. investment considerations, risks, types of bonds, pricing factors, how to invest, click for example on the US IIB [Bond Basics](#)) in several European languages (English, French, Italian, German, Spanish), which can be tailored to investors' levels of sophistication (e.g. from "newcomer" to "expert"); (2) **market overviews** (government, supra/ agency/covered, corporate, ABS and possibly other markets - click for example on the US IIB [Markets at a Glance](#)) containing publicly available information such as indices, ratings, sector research etc., (3) **quote (not trade) price information** on liquid bonds obtained from feeds already provided by dealers to B2C platforms (e.g. Bloomberg etc) and made available end of day/next day via the website (in a format to be determined); **yield information**; and **search facilities** on e.g. issuers, credit ratings, maturities, coupon rate. Unlike the US IIB site, it would not contain TRACE-like transaction and volume data for individual bonds. Appropriate warnings would be required to the effect that, e.g., quotes are for institutional size trades, not tradable and subject to broker's commission. Working group to be formed to discuss details further.

Timeline for Development. 3 to 6 months (depending on complexity of site and clarity of the purpose), to be developed by in house non-profit "The Bond Market Foundation" team that developed, launched and managed the successful IIB site in the U.S., with support from the European office on content and regulation. Governance to be further discussed.

Consistent with SIFMA's stated mission and priorities. (1) "To champion policies and practices that benefit investors and issuers, expand and perfect global capital markets, and foster the development of new products and services. Fundamental to achieving this mission is earning, inspiring and upholding the public's trust in the industry and the markets"; (2) "To ensure the public's trust in the securities industry and financial markets" and "Encourage retirement savings and investment"; and (3) "To promote effective and efficient regulation".