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„Towards better secondary bond markets: what to do, and why it matters"

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I would like to thank ICMA for organising this debate.

An efficient bond market is necessary to respond to capital investment needs of EU due to its size, and also a variety of bonds issued by companies compared to equities. There is enough evidence that well-functioning debt capital markets can be critical in helping governments and companies raise finance for public and private initiatives. Bond markets can also help finance green, digital and social investments. I trust that European green bond standard, once implemented, will help companies and public authorities to raise funds on capital markets to finance ambitious large-scale investments, while meeting tough sustainability requirements and protecting investors. I think nobody has doubts - an efficient bond market is necessary to respond to capital investment needs of EU and make it attractive to foreign capital.

From my conversation with stakeholders, I understood that the bond markets suffers from a relative lack of transparency and high levels of data fragmentation. Let me first say few words on the lack of transparency, in particular on its link with liquidity provision. I understand that when market makers trade in the bond markets, especially in large size or an illiquid instrument, they take on a position on their balance sheets, which incurs market risk. If too many sensitive information have to be published too soon (i.e. 'too much' transparency) we have a situation where the market maker does not have time to unwind their position, and the level of risk they face increases. This is likely to negatively impact the amount of liquidity the market makers are able to provide or the price which they will be able to offer.That means that there is a certain transparency balance required for the bond market to function well - there has to be the right level of transparency, which benefits investors without letting market makers, face undue risks.

The first MiFIR addressed this balance by introducing requirements for more transparency in the publication of bonds trading while also introducing deferrals for trades in illiquid bonds or above specific sizes. Unfortunately, the complex rules and the national discretion in calibrating the deferrals mean that today market participants face highly complex transparency rules. And I hear that in the current system around 96 per cent of bond deals do not have to be reported to the market immediately because they are subject to deferrals.

On the data fragmentation issue let me go back to the first MiFIR which required venues and investment firms to publish the price, volume and time of transactions "as close to real-time as technically possible" to improve post-trade transparency within the fixed income markets. Still the situation today is characterised by a fragmentation and lack of standardisation across trading venues and across the 15 Approved Publication Arrangements (APAs). Venues and APAs often use non-standardised formats, and the data can be difficult to access.

There are also instances of data being reported inaccurately. This makes the collection of accurate data to understand the real price of a bond, highly challenging. If we address adequately this fragmentation and lack of standardisation, it can help improve the accuracy of data, refine and improve trading protocols, and enhance the trading opportunities for the end investor. Less fragmentation of data can increase the international attractiveness of the European bond markets.

As you know, the current MiFIR proposal seeks to improve the transparency regime and address data fragmentation. This in turn can favour liquidity provision and international access to the EU bond markets. What can be done is essentially focused on two main measures:

- harmonising the rules on deferrals
- Introducing a post-trade consolidated tape for all bond instruments

On the deferrals, the exact calibration of the new regime will be the result of the political negotiations between the co-legislators. I trust that harmonisation of the current regime - which offers the National competent authorities (NCAs) large

discretion in establishing deferral periods - will provide market participants with common rules and therefore increased post-trade transparency. The objective should be to agree on the shortest possible deferrals for trades in liquid instruments where the risk faced by the market maker is minimal.

For large trades - or trades in illiquid bonds - either only volume, or both volume and price, should be masked for a time that is considered sufficient for the market maker to unwind their position. But harmonised deferral regime does not solve the fragmentation of data. A consolidated tape for bonds would bring the information into an accessible central location and provide an accurate picture of market activity - improving the real-time data quality and providing a consolidated view on the price of bond instruments. The Consolidated Tape for bonds could add a lot of value to the European Capital Market - and for this reason, there may be justification for its introduction as the first Consolidated Tape in Europe. It will provide a true reflection of transparency; improve execution outcomes and the service provided to end investors, mainly asset managers acting on behalf of their clients such as insurers, pension funds as well as retail investors.

Co-legislators also have to consider how to improve the current data standards to make sure that the CT provider is able to effectively aggregate data. ESMA - in coordination with the Commission and market experts - should be tasked with looking at whether and how the current RTS on data standards need to be modified to facilitate the work of the tape provider. Co-legislators could also consider the option of providing the possibility for the tape provider to have a revenue redistribution scheme in place for bonds. This could be similar to that for equities, but calibrated in a way where inaccurate or non-standardised data reporting will not be able to benefit from any monetary compensation.

Finally, on the international competitiveness, a more transparent and less-fragmented bond market, where data are more easily accessible and readable, will be more attractive globally. Academic literature on deferrals shows that shorter deferrals and increased transparency in the bond market lower transaction costs. And in the US it has been shown that the estimated reductions in trading costs was 40 to 60% after the introduction of TRACE, their CT for bonds. I would say that a

market which offers more transparency and less costs is more competitive, hence more attractive.

To conclude, if we manage to achieve harmonised transparency regime and better access to consolidated, accurate post-trade data this will benefit the European bond markets. I also understand that the challenge for legislators and regulators is to finding the right balance for transparency that would not negatively affect the provision of liquidity.