Non equities transparency CESR paper of 19 December 2008

Market participants.

Q 1. : Do you believe the situation described above may be symptomatic of a market failure?

There have been good reasons for retail investors to discontinue to believe in their advisors. Perhaps both together have been insufficiently informed or even misled.

Retail investors also start acting more on their own, on internet for instance and cannot find appropriate information on non-equity market instruments.

If they had felt better informed they might have been tempted to continue to invest because feeling that the errors were theirs. When they feel misled it is different and it induces the investor to withdraw.

Q 2. : Rightly or wrongly the retail investor feels les informed than large investment bodies of the investment banking type. The fact that the retail investor feels that he should ask for information at investment banking level indicates that he feels there is asymmetric information.

Market liquidity

Q 3 : Key reasons that led to reduced liquidity in corporate bonds

The business cycle heading towards recession, reduced trust in (conspicuously greedy) business leaders, lack of corporate governance in day to day reality, more trust in sovereign bonds, higher attractiveness (unjustified!) in equity, less use of convertible bonds, reduced trust in the future of (large) companies.

Q4. Do you believe that additional post-trade transparency would have helped ?

Stock exchanges and alternative trading platforms have helped to raise liquidity in equity while in corporate bonds there is less of this kind of transparent information on trades and prices and les publicity towards investors. The long (too long) list of bonds on for instance the Luxembourg stock exchange has no publicity effect, only a price reference for net asset value calculation of fund managers. If we had a nice section on corporate bonds(in an appropriate manner) with some label of quality given by the trading organizer '(with the right distribution of information on screens and internet) we think that these investments would become more popular.

Bid/Offer spread

Q 5: Why widened spreads ?

More volatile markets, les liquidity, less transparency

Q6: Would post trade transparency have helped in limiting the widening of spreads?

Efficient transparency on volumes and prices would have helped, especially if coming from a source that inspires confidence (highly regarded stock exchange, top class bank associations…) and nowadays in times of reduced trust this is not an easy task to determine who still enjoys confidence of investors.

CDS/ corporate bonds relationship

Q7, Q8, Q9 and Q10 : For Credit Default swaps I only mention that the complexity factor has become a factor of distrust.

Valuation

Q11 : difficulties in valuating bond holdings

We can for the moment no longer trust on credit rating agencies. On the other hand before valuating a corporate bond one must follow the fundamental approach of a bank, namely to consider and scrutinize management, three years annual results, technical quality of the production units and the quality of the products, not forgetting the industrial sector and the country's economy.. How the hell can that be done by an investor ? He can not even trust most banks' advice either!

Q12: Distressed market conditions

Post trade transparency also in distressed market conditions is the opinion of the market but to valuate corporate bonds especially in distressed market conditions you need more than the opinion of the market. We are not part of a flock of investors but must make up our own mind and we need advice of a reliable source, known to be reliable so that we can refer to it to justify our investment decisions and on top of this we need to make the right decision based on the knowledge we enumerated sub Q 11.

There is also the fact that the market can be so distressed that even good bonds need to wait for better periods before it is wise to offer them to the market. That is why sometimes they are temporarily put in side pockets (kinds of bad banks for funds) waiting for more normal market conditions.

For the other questions we do not have specific answers.

So we limit ourselves to the “Questions particularly relevant to representatives of Retail Investor Associations”.

1. Question 22 of the survey. Corporate bonds. Distinction between wholesale and retail. Similar to other markets we believe that the distinction would be in the amounts concerned to be qualified as “large blocks” or wholesale business. Not the nature of the buyer or seller, not the trading platform, not the international nature can help substantially to distinguish between retail and wholesale business. So the example of Italy with a threshold of 0,5 Mio € is a good one.

2. Question 23. We think that reliable disclosures of prices would help to foster confidence, hence interest of retail investors.

3. Question 13 of the survey: potential benefits and drawbacks of transparencyWe agree that the need to publish deals can reduce the appetite of major investors but more than this we fear that the publication might induce investors to follow the fashion, to act as flocks since gregarious behavior is so common, unfortunately, in finance as we have seen amongst banks and highly respected financial institutions who were so keen in investing in financial instruments and regrouped financial instruments they in fact invested in to do as “the Jonesens” as John Maynard Keynes would have said. So there should be something of a more scientific reference than the dealing decisions of major players but nowadays these cannot be any longer the international rating agencies that have lost big part of their feathers.

4. Question 14 of the survey : We insist more on reliability than on transparency, on the basis of past experience. One should stress the responsibility of the supplier of information and accept more easily some restriction of information but absolutely not any misleading information. Terminology should also be used carefully. A correct price or a best execution should be made clear in order not to mislead. Some narrative explanation is unavoidable.

5. We are absolutely not for too much information (the thing that kills the information) and not for details that require a lot of costs that anyway in the end are paid for by the investor.

6. Question 18 : ICMA has certainly been an excellent association to promote bond trading. In the light of present day events some stick behind the door should reinforce self-regulation.

7. Question 26 : for retail investors the role of stock exchanges seems to be a good way to inform the retail investor and the stock exchanges should play their role towards greater transparency also in the bond market. It is a pity that privatized stock exchanges could be tempted to concentrate on the business that is for them more profitable than to keep in mind their essential role to serve the interest of investors and issuers. They should reconsider this kind of trading on their platform.

8. Question 20. Additional post-trade information is only valid if it comes from a reliable source of information, and a source of information that is also known to be reliable, such as a stock exchange or a platform of high standards.

9. Structured finance products and credit derivatives: first of all one should abstain from promoting too complex products of which the complexity too often serves the interests of the issuers. Volumes are a bit less important to the retail investor, unless he is particularly sophisticated. Real time is splendid but for the retail investor it is more important to be informed on reliability of the issuer, the real prices, the safety of the product etc.; and he certainly does not want to be misled by formulas of the reverse convertible things that have led him to buy more illusions than bonds.