ASSIOM'S RESPONSE TO CESR'S CONSULTATION

Transparency of corporate bond, structured finance product and credit derivatives markets

February 2009

ASSIOM, the Italian Association of Capital Markets Dealers, is the result of the merger, occurred on the 14th of October 2000, between AIOTE and ASSOBAT, the two main Italian Bond Dealers Associations specialized the former in Eurobonds and the latter in Italian govies and domestic securities..

Assiom represents the melting pot, the common ground for Italian capital markets dealers and aims at achieving three main goals: listen, represent, educate dealers in their daily activity in the financial markets while providing support and advice in all problems that such activity may give rise to..

The association is based on the work of committees focussed on subjects related to market practices, rules and regulations, fiscal and financial education, relationship with its members, relationships with Regulators and other Italian and European market associations.. Since November 2006 Assiom is a member of the European Financial Market Federation.

Assiom's Board of Directors is composed by 27 individual members representing banks, financial institutions, insurance companies, mutual funds, holding companies and banking foundations. The Board monitors and coordinates the results of the various committees providing advice, support and approval as requested. ASSIOM is and will remain a "No profit" association and is essentially based on the voluntary services of its more than 1100 individual members: an extraordinary opportunity of growth and sharing for those who work in financial markets and feel actively involved in building a better financial environment.

These dealers are the "Human Link" between the family savings and the public or private banking industry, between today's sacrifices and tomorrow's social security, between economics and ethics..

BACKGROUND

ASSIOM welcomes the opportunity to take part in the consultation on the "Transparency of corporate bond, structured finance product and credit derivatives markets".

After the consultation on "Non-equity markets transparency" (2006-2007), we agree about focusing on corporate bonds, structured finance and CDS, as these markets were deeply impacted by the recent financial turmoil.

We also find helpful the distinction between corporate bond markets (Part I) and structured finance product and credit derivatives markets (Part II); while we appreciate the correlation between these markets, we also believe they differently impact on wholesale and retail customers and must be therefore differently addressed..

As an association of Italian financial market dealers, trading in the name of various categories of investment firms, we are conscious of the following:

- Italian retail clients are very active in the corporate bond markets (both primary and secondary);
- in addition to government bonds, retail clients often underwrite/trade corporate bonds; among these, Italian bank issues play an important role in the asset allocation of Italian retail clients' bond portfolios;
- for the above mentioned reasons, pre and post-trade transparency obligations have been extended in Italy to financial instruments other than equities..

CESR's consultation paper covers in depth many aspects of the corporate bond, structured finance product and CDS markets.

ASSIOM's working group is made up by members from intermediaries (directly or indirectly) involved in retail market. Our comments will hence be focused on corporate bonds, while structured finance product and CDS markets are mainly wholesale markets.

In ASSIOM's opinion Section 7 (Conclusions and recommendations) well summarizes the Consultation Paper and covers the most relevant issues, so our responses will reply to questions from 20 to 29.

SECTION 7 - Conclusions and recommendations

Questions to market participants

Q20: Do you think that the introduction of additional post-trade information on prices could help restore market confidence and maintain market liquidity in times of future crises?

No, market confidence collapsed because of tightening credit conditions amid fears of global recession and uncertainty about the value of bank's asset portfolios. No post-trade transparency would have helped to improve liquidity as no one in the market seemed willing/available to provide the least level of liquidity: bid/ask spreads greatly widened and sizes of bonds quotes were drastically reduced in those few cases where trading was still allowed by market makers.

In this respect it may be worth noting that in Italy the "branded domestic bank bond market" provided sufficient liquidity to retail clients in view of the firm commitment by the issuer, formalized in the bond base prospectus, to warrant liquidity in the secondary market

More data about bond market liquidity on Italian trading venues are displayed in the table below; number of trades remains high even in the most critical periods.

gen-08	161,149	281,591	13.010
feb-08	183,414	243,017	14.564
mar-08	162,197	207,240	13.911
apr-08	181,984	242,760	16.059
mag-08	185,731	238,304	16.547
giu-08	195,198	248,207	27.254
lug-08	185,875	233,008	15.393
ago-08	117,727	142,333	7.738
set-08	226,975	263,499	15.841
ott-08	284,573	390,353	19.935
nov-08	221,618	295,722	

dic-08	202,862	264,740	

Q21: Do you believe that additional post-trade transparency of European corporate bond markets would contribute to liquidity in normal market conditions? Can you explain why?

No, additional post-trade transparency would be of little help to liquidity, even in normal market conditions. CESR itself acknowledges that in European Union countries (except in Italy and few other countries) corporate bonds are mainly traded wholesale and usually wholesale markets can count on sufficient/reliable sources of information. On the other hand, retail clients refer to intermediaries to obtain market information and in some cases i.e. Italy, specific additional transparency obligations have been imposed.

Before introducing additional post-trade transparency obligations, market led solutions (e.g. ICMA/SIFMA) must be further experienced and assessed.

Q22: To what extent can corporate bond markets be characterised as wholesale or retail markets? How would you distinguish between wholesale and retail markets? What are the differences across the EU?

ASSIOM fully agrees with CESR's view about the corporate bond market structure in Europe (see. Q21). The difference between wholesale and retail market is based on the product offer through distribution network and the size of trades:

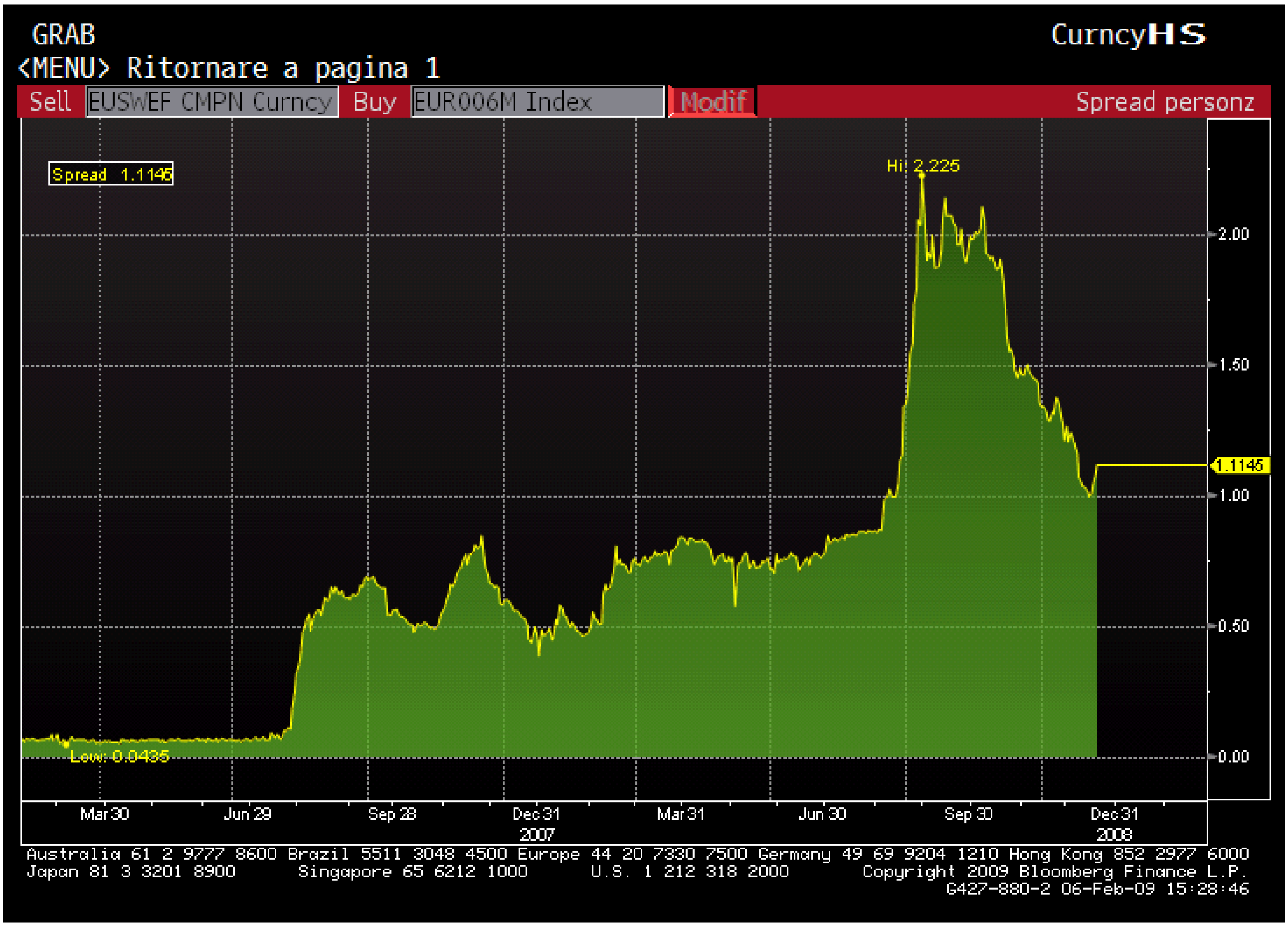
- Italian retail investors use to underwrite/negotiate corporate bonds through bank branches or, in a growing number of cases, through trading-on-line services; they invest in bonds also because of lower withholding tax as compared to bank deposits. The average trading size is usually lower than € 50.000.
- Wholesale markets usually play a relevant role in the primary market activity and in the mutual fund sector. Trading sizes are often greater than € 1 million..

Q23: What would be the benefits and the downsides of a harmonised pan-European transparency regime for a) the wholesale market; b) the retail market. Please provide arguments and fact based data on the potential impact.

a) A harmonized pan-European transparency regime for wholesale markets can already be found through the existing industry-led initiatives. ASSIOM doesn't believe that mandatory intervention can improve market conditions.
b) A harmonized pan-European transparency regime for retail markets, at this stage, would have little benefit, because of the wide differences in the role of retail investors in the single countries. Indeed CESR should avoid that domestic regulators impose measures not in line with the "level playing field", hence charging investment firms in such countries with higher costs which put them in a less competitive situation.

Q24: Is the reduced reliability of the CDS market as an indicator/ proxy for calculating the value/ price in the cash market under certain market conditions an issue which calls for more post-trade transparency of corporate cash bonds?

In general terms, greater post-trade transparency would not increase the reliability of CDS as a proxy for the price in the cash market. As a matter of fact, CDS are quoted for a few issuers, while corporate bond markets quote thousands of securities issued by hundreds of companies. Bond prices are also impacted by the liquidity of the specific issue and by the trading size of the transaction. Even in more specific markets, while conditions deteriorate, CDS could fail to be a reliable proxy of the underlying cash instruments. This is the case also in the relationship between EONIA Swap and EURIBOR (see below chart). The two financial instruments suffered a decorrelation similar to that of bonds. This can be explained considering that CDS quotes are subject to different implications than the cash market



Q25: Do you think that transparency requirements could help address wider issues such as those relating to accurate valuations?

A “consolidated” transparency regime could certainly represent a reliable source of information under normal circumstances. Nevertheless, the more illiquid be the bonds the less accurate would be such valuation, especially when not supported by a proper level of traded volumes.. The current issue of securities valuation has little to do with trade transparency, but has been caused by the perceived fall in reliability of the issuers and the unprecedented widening of the bid-ask spreads

Q26: What would be the most cost-effective way of delivering additional transparency for a) the retail market, and b) the wholesale market: an industry-led solution, possibly based on a road map set by regulators, or mandatory regulatory post-trade transparency requirements? Please, provide a rationale.

a) Retail investors are mainly interested in getting the trade executed, resting on best execution/suitability obligations imposed on intermediaries by MiFID and on market information that intermediaries have to provide upon request .

   ASSIOM believes that, first, it would be appropriate to evaluate the effects of the recently introduced MiFID obligations on bond retail markets, including best execution rules; only in the case of market failures and in absence of industry-led solution, regulators should consider to set a road map. Xtracter is currently providing post-trade information but there is no evidence of a widespread use of such information by retail investors. Before new regulator's initiatives, a larger distribution of the existing ones would be needed.

b) Wholesale market: as already stated in answer Q2 a), ASSIOM doesn't believe that additional transparency can improve market conditions unless it is sought through industry-led initiatives. Various on line information sources can already provide pre- and post-trade prices, even to smalls firm.

Questions to market participants

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Q27: Which should in your view be the key components of a post-trade transparency framework for corporate bonds? Please provide your view with respect to depth and breadth of information as well as to timeliness of data as described above.

ASSIOM believes that Xtracter provides an adequate framework for post-trade transparency for the corporate bond retail market. In Italy, the same market already enjoys post-trade transparency

Q28: Should the information on the volume be reported only below a certain size, what would be the threshold to avoid any risk of market impact ?

ASSIOM believes that the threshold should be about € 0,5/1,0 mln.

Q29: Would you see some benefits in a step-by-step implementation, starting with the most liquid bonds, as employed when TRACE has been introduced?

As mentioned above (Q26 a), in the case of a step-by-step implementation the first step is to evaluate the effects of the recently introduced MiFID on bond retail markets, including best execution rules.

EUROPEAN LEVEL PLAYING FIELD

There is a growing concern that the financial crisis may lead to uncoordinated solutions among member states which would jeopardize the level playing field among market participants and hence represent a MiFID failure..

In this respect Assiom applies to CESR in order to avoid that unjustified burdens/additional obligations be imposed in Italy by CONSOB, by means of Level 3 measures.