BME SPANISH EXCHANGES COMMENTS ON THE CONSULTATION PAPER ON TRANSPARENCY OF CORPORATE BOND, STRUCTURED FINANCE PRODUCT AND CREDIT DERIVATIVES MARKETS (CESR/08-1014)

Madrid, February 19th, 2009

INTRODUCTION AND EXECUTIVE SUMMARY.

Bolsas y Mercados Españoles (BME) is the company that integrates all the securities markets and financial systems in Spain. The parent group comprises the Madrid, Barcelona, Bilbao and Valencia stock exchanges, MF Mercados Financieros, Iberclear, BME Consulting and BME Market Data. BME is one of the leading European market operators.

BME welcomes CESR/08-1014 Consultation Paper on Transparency of corporate bond, structured finance product and credit derivatives markets" and thanks the opportunity to submit its views in relation with the questions set down in the Consultation Paper. Below you will find our General Remarks summarizing our views, followed by specific answers to the questions put forward in the Consultation Paper.

General Remarks

BME responded in 2007 to CESR's Call for Evidence on "non-equities transparency". In line with the responses provided in 2007, and considering the recent EU regulatory implementation activity as well as the present global financial turmoil, BME generally supports that

- **There is momentum for re-assessing transparency in the light of the financial turmoil.**
  Under present circumstances, there is a significant need to recover the investors' confidence in the financial markets by means of lasting solutions leading to stabilization and normal functioning of markets.

  Transparency constitutes a cornerstone in conforming investors' confidence. Logically, as based on previous experience, a high degree of market transparency allows investors to undertake well informed trading decisions in a level playing field environment regarding other investors when it comes to accessing pre and post trading information; this may result in an increase in the number of market operations and consequently an increase in liquidity and in the improvement of the price formation/discovery mechanisms. This process may lead to recovery of confidence in markets and, consequently, may benefit the financial markets as a whole.

Hence, a higher degree of investors' confidence generates higher market liquidity for which increasing transparency might be a feasible way to reach it.

- **There is a market failure regarding post-trade transparency in non-equity markets.**

  Non-equity markets are not characterized by a sufficient degree of transparency, not just post- but also pre-trading transparency. This feature is generating a set of market inefficiencies which are, amongst other effects, gradually reducing the investors' interest in these markets, especially when it comes to retail investors.

  Lack of transparency in non-equity markets leads to a tricky situation, i.e., although regulation requires best execution to be analyzed regardless of the type of security traded, transparency is not required for non-equity instruments. We find it to be a regulatory inconsistency, which might be solved introducing transparency requirements for non-equity securities.

  Being aware of the differences between types of securities and markets, a minimum degree of transparency, common to trading on all kind of securities, would lead to an increase in the quality of the markets by means, *inter alia*, of increasing liquidity and investors' confidence. As an example, *sensu contrario*, we could highlight the outstanding performance, in terms of liquidity and price formation that took place during the crisis in Regulated Markets under a highly transparent environment.

- **The market failure focuses on OTC trading of non-equity securities.**

  The lack of transparency above mentioned and assigned to non-equity markets refers to the OTC trading segments of these instruments, for which no meaningful data is available. It is not a coincidence that OTC trading on these types of securities has been at the heart of the origins of the financial turmoil, pointing out to lack of transparency as its main cause.

  Indeed, transparency is achievable in non-equity markets, and it delivers positive results as can be inferred when analyzing, amongst others, the Spanish corporate bonds market, AIAF, which counts with high levels of both transparency and liquidity at the same time.

  Consequently, decisions need to be taken on non-equity markets transparency aimed at improving the market as a whole and at establishing a level playing field in terms of transparency irrespective of the market model in which securities are traded.

- **There is room not only for post-trading transparency, but also for pre-trading transparency on non-equity markets.**

  Although the scope of the Consultation Paper circumscribes to the analysis of post-trade transparency of corporate bonds, structured finance products and credit derivatives markets, pre-trade transparency should also be tackled and addressed adequately.

  In our view, and because of the arguments hereby provided, we understand that introducing a proper pre-trade transparency regime for non-equity markets would be crucial. Being aware of the differences in instruments and existing market requirements, pre-trade transparency on these markets might be tailored, by means of adaptation and waivers, to satisfy specific needs and features arising from each concrete market and type of instrument traded on it.

- Initiatives and measures to be adopted may need to take into account, as a priority, **investors' interest and protection,** especially as regards retail investors, **as well as the eventual effects on the market as a whole.**

<u>Recommendations</u>

- The extension of post-trade transparency requirements to non-equity markets, adapted as necessary for each kind of market and instrument, in order to avoid distortion in price formation and decision making processes;
- Prioritizing the interest and protection of investors and of the financial markets as a whole when assessing eventual measures and initiatives on this issue as it is the path to follow for returning financial markets to normality and recovering investors' confidence.

PART I: CORPORATE BONDS.

Q1: Do you believe the situation described above may be symptomatic of a market failure?

Yes.

Though, as it is explained by the report, the original causes that have made the present situation in the credit markets are related to an excessive degree of leverage and to an inadequate risk assessment undertaken by a number of market participants during recent years. In our view, at the present moment one of the main causes that has boosted the bonds market drought is the lack of a sound background of price contributors and the lack of transparency in a number of corporate fixed income instruments. The aforementioned lack has amplified the pernicious effects of the "crisis" over the market as well as it has made the information asymmetry previously existing in the bond markets even deeper.

Q2: Have you perceived a potential asymmetry of information between market participants?

Yes.

In the conclusions delivered by CESR's 2007 Report on the transparency of corporate bond markets, the information asymmetry between retail and wholesale investors was then mentioned. Financial crisis on 2007 and 2008 has contributed to deepening and widening these asymmetries, and even towards other categories of institutional investors, i.e., Investment Funds, which are facing enormous difficulties for the valuation of fixed income assets in their portfolios.

Q3: In your view, what were the key reasons which have led to sharply reduced liquidity in secondary trading of European corporate bonds in 2007?

In our opinion, the causes making liquidity in the corporate fixed income markets to dry up during 2007 and 2008 may be described as:

- The general financial deleveraging process across the global economy,
- The extinction, due to, e.g., mergers and bankruptcy processes, of some of the main market participants, which in the recent years have been the main providers of prices and references in the bond markets,

- An increase in the investors' lack of confidence towards the markets incorporating credit risk due to a widespread aversion to risk,
- The loss of credibility on the credit risk assessment methods of analysis and models that have been working as a proxy for market prices, that were unknown to a number of investors and that has been used to justify the acquisition of market positions considered as being lowly exposed to credit risk.

Q4: Do you believe that additional post-trade transparency of European corporate bonds would have helped maintaining liquidity in stressed market conditions? Can you explain why?

Yes.

Under stress circumstances, both the lack of information regarding execution prices –post-transparency- and in view of the uncertainty introduced by the impossibility to get to exactly assets' fair value, has lead certain participants to withdraw quotations from the markets, thus reducing available market liquidity.

Q5: In your view, what were the key reasons for the widening of the bid/offer spreads for European corporate bonds?

Widening bid/offer spreads constitutes a typical defensive measure used by market makers in order to protect themselves in instability circumstances. Where extreme circumstances, i.e. scenarios in which even maintaining wide spreads for quotations turns out difficult, market makers opt to withdraw all of their quotations.

Q6: Do you believe that greater post-trade transparency would have been helpful in limiting the widening of the bid/offer spreads we have observed for European corporate bonds?

To our understanding, the existence of a greater degree of transparency would have helped certain market participants to make up a more accurate idea of the real situation and to stand at the markets providing them with liquidity.

Q7: Do you use CDS prices for pricing European corporate cash bonds? If so, what are the key benefits?

As a consequence of the financial turbulences, in the last months the link between prices provided by CDSs and prices for cash bonds has decoupled; basis between cash prices and credit derivatives has been markedly volatile with consecutive widening and narrowing (due to the fact that liquidity factors considered for bonds and CSDs price formation are no exactly the same). Hence, in view of using CDSs for directly valuating bonds, it is recommended to previously undertake a more detailed analysis of the liquidity conditions existing for each these instruments.

Q8: Which methods of bond price valuation do you use in the current market turmoil? Do you think that the CDS market is still a reliable indicator for bond price valuation?

Methods of bond price valuation are mainly analysis based on issuers' individual risk, securities liquidity and comparable benchmarks methodologies. In this sense, the lack of standard information quickly accessible on the activity of fixed income markets, post-trading, together with the fracture in credit risk analysis, have made it greatly difficult the application of valuation models, whose results, from past experience, are pretty uneven.

No, CDS market is not a reliable indicator for bond price valuation at this moment. As it has been previously remarked, prices provided by CDSs and bond cash prices have been decoupled in the last months. This decoupling leads not to recommend the usage of CDSs provided prices as a proxy for calculations.

Q9: The spreads between the CDS and corporate cash bonds have widened significantly in the first quarter of 2008. Did this widening of the spreads make it more difficult to price European corporate bonds? If so, do you think that additional post-trade transparency of corporate bond prices would have helped you to price European corporate bonds? How do you assess the situation since mid-September 2008?

Yes. As it has been previously stated, the widening of the basis existing between bonds' quotations and CDSs has increased the difficulty to use valuation models for delivering bond prices. The existence of a greater amount of information regarding post-transparency would contribute to a more accurate valuation of European corporate bonds.

Q10: Do you expect that the relationship between the CDS market and the cash bonds market will return to what has been observed historically once market conditions stabilize? If not, can you please articulate the reasons?

The phenomenon described may be possible. However, the financial turmoil has highlighted that CDS markets do not constitute a reliable indicator for valuation given that the link between CDSs and corporate bonds is not such stable during crisis circumstances due to their linkage to different sort of market conditions.

Q11: Have you experienced difficulties in valuing corporate bond holdings? If so, what were the main reasons?

Yes.

Both, the lack of information regarding prices of certain financial instruments and the lack of systematized information allowing the usage of quotations on similar securities to be applied to other instruments in order to find potential references for securities' values, have widened the negative effects and have made valuation of investors' portfolios more difficult.

Q12: Would additional post-trade trade transparency in distressed market conditions help valuation?

Yes. Any sort of additional information, in distressed market conditions, would contribute to improve valuation of assets.

Q13: Do you agree with the potential benefits and drawbacks described above? Please provide evidence supporting your opinion. Please explain how the potential drawbacks might be mitigated.

Yes, and we mainly agree with the statement that by means of fostering post-transparency European investors would gain advantage from the possibility to verify the execution prices they attain.

Likewise, regarding the comment in the report concerning the difficulties arising from the lack of information to comply with MiFID obligations, as we stated in our response to CESR's 2007 Consultation, the lack of post-transparency general obligations for corporate bond markets prevents from making decisions based on executed prices for placing orders and for the selection of the trading venues; additionally, in practice, it makes it impossible to review the execution conditions delivered by each trading venue in order to check orders best execution.

Q14: Are there other main benefits or drawbacks of increased post-trade transparency in the bond markets which CESR needs to consider?

No.

Q15: What are your personal experiences with TRACE? Please specify whether you are directly trading in the US corporate bond markets on the buy or sell side.

BME does not trade in US bond markets.

Q16: Do you see other benefits or drawbacks of the introduction of a TRACE-like post-trade transparency regime for OTC trades in corporate bonds in Europe?

A number of research studies after TRACE's implantation in the US bond market conclude and show that:

1. - A greater degree of transparency in the bond market generates a reduction in transaction costs by a range of 20% to 50% depending on the concrete research and the size of the analyzed operations[1].

2.- A greater degree of transparency increases liquidity in the bond market (assessed by trading volumes and bid-offer spreads) as a result of the reduction in transaction costs mentioned before and the information asymmetry existing in the market, and thus benefiting less sophisticated investors[2].

3. - An increase in transparency leads to a strengthening of competition among dealers and it boosts market innovation (introduction of new products and operation tools)[3].

4. - Benefits resulting from an increase in transparency are far away from a zero-sum game. Liquid considered bonds are more positively affected but illiquid considered bonds are favored as well[4].

Q17: Are you of the view that the more notable volume declines experienced for 144a securities, compared to securities which are covered by TRACE, is due to a lack of post-trade information? Please provide a rationale.

Yes, we agree with that statement set out by the Financial Industry Regulatory Authority's -FINRA- research and presentation.

We consider FINRA, given that it manages wide and structured real time market information as the major non-government regulator for all kind of securities firms and intermediaries in the US, occupies a privileged position to analyze the negative effects on the North American market derived from the different transparency regimes in certain segments of the market.

On the other hand, qualified representants of the US Securities and Exchange Commission –SEC, have expressed their support to an increase on post-trade transparency in the bond markets. They have also expressed

1 Bessembinder, Maxwell and Ventarataman (2005) "Market Transparency, Liquidity Externalities, and Institutional Trading Costs in Corporate Bonds"

2 Bessembinder, Maxwell and Venkataraman (2005) "Market Transparency, Liquidity Externalities, and Institutional Trading Costs in Corporate Bonds" and Goldstein, Hotchkiss and Sirri (2005) "Transparency and Liquidity: A Controlled Experiment on Corporate Bonds,"

3 Edwards, Nimalendran and Piwowar (2006)" Corporate Bond Market Transparency:Liquidity Concentration, Informational Efficiency, and Competition"; Laganá, Perina, Köppen-Mertes and Persaud (2006) "Implications for Liquidity from Innovation and Transparency in the European Corporate Bond Market"

4 Edwards, Nimalendran and Piwowar (2006)" Corporate Bond Market Transparency:Liquidity Concentration, Informational Efficiency, and Competition"

in several times the beneficial effects that a measure like this have delivered to the US fixed income market[5].

Q18: Please provide information on your experience, if any, in terms of timing, content and access to information of the market-led solutions outlined above. What is your assessment of the effectiveness of the present self-regulatory initiatives?

Any initiative aimed at improving available information and transparency regarding the corporate bond market would be welcome. However, concerning the market-led solutions detailed in CESR's Report, our experience shows that, at least for Spanish securities, available information is quite limited with regard to the number of bonds for which prices are available through the web sites. Additionally, as empirically tested, under concrete situations published prices do not fit prices to which secondary markets are eventually traded.

Q19: Please provide comments on the characteristics that market-led initiatives should, in your view, have.

To our understanding, initiatives aimed at improving transparency and operability in the corporate bond markets should be coordinated by the regulator itself, thus allowing a homogeneous framework and equivalent conditions applying to all bond markets in the EU.

On the other hand, any initiative to be developed should not, by nature, reject setting certain pre-transparency conditions up which should materialize by means of the obligation to execute operations in electronic trading systems that comply with certain conditions regarding access, transparency and fairness concerning clients' orders.

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 crisis?

Yes. We understand that any measure aimed at improving transparency in the bond markets may contribute to increase investors' confidence in bond markets and, consequently, liquidity conditions in the markets for these products as well.

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5 Speech by SEC's Staff, Chester S. Spatt, Chief Economist and Director of the Office of Economic Analysis, U.S. Securities and Exchange Commission. "An Overview of Bond Market Transparency" http://edgar.sec.gov/news/speech/spch010606css.htm

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

Yes. As it has been previously stated, greater transparency increases liquidity in the bond market (assessed by trading volumes and bid-offer spreads) as a result of the reduction in transaction costs and information asymmetries existing in the market and, thus benefiting less sophisticated investors[6].

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

In the bond markets there is a difference between issues distributed among retail investors and those distributed among institutional investors. When planning an issue, the issuer considers the potential target and designs its distribution policy accordingly.

In practice, the Directive 2003/71/CE, Prospectus Directive, sets out some of the features to be considered in order to qualify an issue as retail. Art. 2 includes a definition of "qualified investor" and Art. 3 establishes some quantitative thresholds in terms of face amount and number of investors included in the issue, for the bond to be considered retail or institutional.

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

With respect to the harmonization in itself, as in any process of this kind, a harmonized pan-European transparency regime would dodge the possibility of regulatory arbitrage, which could reduce the effectiveness of transparency measures.

As for the transparency regime, the main benefit would be encouraging the emergence and strengthening of retail bond markets across Europe.

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 cash corporate bonds?

Indeed. The current financial crisis has led, in practice, to investors having less information and data for their valuation of financial assets, particularly corporate bonds. Considering CDSs as a proxy for bonds value, there has

6 Goldstein, Hotchkiss and Sirri (2006) "Transparency and Liquidity: A Controlled Experiment on Corporate Bonds,"

been a lag or uncoupling when using CDSs to directly calculate bonds prices: now there is a need of a detailed study of liquidity conditions for each type of instrument and an assessment of the risk factors associated to the bonds and CDSs price formation.

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

Yes. Additionally, apart from improving some issues related to portfolio valuation, it would help addressing the difficult issue of best-execution obligation compliance and it could contribute to reduce the high volatility experienced by the bonds markets since the beginning of the crisis.

Q26: What would be the most cost-effective way of delivering additional transparency an industry-led solution, possibly based on a road map set by regulators, or mandatory regulatory post-trade transparency requirements?

a) The retail market.

b) The wholesale market;

Please, provide a rationale.

To our understanding, the only way to achieve harmonization at the EU level is establishing post-trading transparency obligations for any type of instruments and participants in the corporate bonds markets.

In our view, our responses highlight the importance of an eventual extension of pre and post transparency obligations to the EU bonds markets, as well as the setup of a regime consistent with the MiFID principles.

Any attempt to achieve the former by means of auto regulation will unavoidably lead to particular domestic regimes and to a lower level of transparency, thus creating an unbalanced and inefficient environment. Therefore, it is necessary a common regulatory framework, established by the European Commission for each and every Member State.

Auto regulation should be used for national implementation of the common legislation, so that the particular national market structure is taken into account and more strict rules can be eventually introduced.

Finally, looking at how straightforward the regulation on transparency obligations has been to the equities markets, it is difficult to understand why a different solution (such as auto regulation) must be sought for the bonds markets.

Q27: Which should be in your view 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.

In our view, any post-trade transparency regime to be deployed should comply with the following principles:

- Homogeneity; It should embody a set of standard rules common to all participants in the EU bonds markets.
- Universality; it should be applicable to each and every corporate bond in the EU.
- Real time; Information should be disseminated as son and fast as possible and, in any case, as near to real time as possible.
- Maximum dissemination; information should be available through electronic means.
- Free access; information should be accessed for free.

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?

As a general principle, and in order to gather the whole benefits of an increase of transparency in the bonds markets, we think that transparency obligations should be mandatory for all the market segments and every type of investor, following similar principles governing the equities transparency regime.

We acknowledge that certain bonds markets can have particular market structures, type of investors or operations that could advise some specific transparency model, as far as it could avoid the downsides of a single model.

The equities transparency regime in MiFID acknowledges similar exceptions and allows some delays and specific limits based on the instrument liquidity, the transaction type, the order size and the trading system type.

Therefore, we think that on top of an extension of the transparency obligation to the bonds markets, in a similar way to MiFID's provisions for equities, some limits and delays could be provided.

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?

Yes. It is possible a step-by-step implementation, as in TRACE, will make it easier to intermediaries to adapt their technical systems to the new transparency regime.

PART II: STRUCTURED FINANCE PRODUCTS AND CREDIT DERIVATIVES.

For the sake of the clarity and the usefulness of the input provided with regard to this second part of CESR's Consultation Paper, BME would like to draw your attention to the following relevant general nuances.

In order to properly assess our response on this section, it may be taken into account that, at this moment, BME does not constitute a reference market in the field of credit derivatives markets. Hence, at present, a strong position on the issues to be discussed is not hold. However, it must be noted that, as a matter of principle, we support market transparency -post-trade transparency under the scope of this Consultation- as one of the main characteristics of Regulated Markets.

Additionally, in order to achieve the much desired truly level playing field across EU securities markets, a homogenous regime on transparency should be in place across EU Member States. By establishing such a regime and common criteria for competent supervisory authorities to be applied on EU securities markets, regulatory arbitrage would not constitute a substantial criterion for deciding where to trade.

Q30: Does this analysis represent your practical experience regarding information relevant and available for pricing of each of the products covered by this consultation paper?

Yes, it does to the extent which it affects the structure of products and their classification. With regard to the information available concerning securitization secondary markets, please see Q31.

Q31: Are there other sources of information available which you use for pricing and valuation purposes? Can you provide details regarding the respective role of pricing services using proprietary models and consensus pricing services?

In the case of the Spanish securitization market (ABSs, CDOs and ABCPs), the Regulated Markets publish, regarding all those issues admitted to trading on the secondary market operated by AIAF Mercado de Renta Fija, a Quotations Daily Bulletin. All relevant data concerning operations executed by Market Members on securities admitted to trading can be consulted on this Bulletin, such as inter alia trading session average prices, traded volumes, yields. The aforementioned information is made available, together with the rest of relevant financial features and any subsequent modification of them regarding all securitization assets managed in the market, in an open and free of cost way through AIAF's webpage: http://www.aiaf.es/aiaf/index.home.

On the other hand, for the usage of the Market Members and Spanish securities markets supervisory authorities, AIAF Mercado de Renta Fija provides an information electronic system through which entities can gain access to a complete set of analysis tools, historic data bases, prices, etc., for particular processes carried by them.

Q32: What do you think are the benefits and/or downsides of a post-trade transparency regime for ABS? Please support your arguments with evidence and explain how the possible downsides could be mitigated.

In our view, positive effects are exclusively expected to be delivered by the setting up of a post-transparency regime for structured products (ABSs, CDOs y ABCPs).

Q33: Do you believe that post-trade transparency would be desirable for all types of ABS? If not, can you explain which types of instruments/tranches (e.g. AAA RMBS) should be subject to post-trade transparency?

Yes. We understand the set up of a post-transparency regime for structured products markets (ABSs, CDOs y ABCPs) would be desirable.

To our understanding, in view of setting up conditions for market post-transparency it would not be worth establishing different regimes depending on the ratings of the securities. This is specially backed, as it is shown in Q33 and in the same way shown in Q28, given that bond markets can present a number of market structures, sort of investors or operations that may suggest establishing a concrete made-to-measure transparency model which avoids eventual prejudices resulting from a one-size-fits-all scheme for the whole market.

Regulation brought up by the MiFID Directive with regard to equity markets identifies similar problems and allows certain delays and concrete limits based on the liquidity of the security, the sort of transaction, the size of the operation and the specific characteristics of the trading venue.

Q34: Would it be meaningful to segment a post-trade transparency regime between ”higher liquidity” ABS (i.e. commoditized products, standardized structures, higher credit quality and homogeneous collateral) from ”low liquidity” ABS (i.e. bespoke products, non-standardized structures, lower credit quality, heterogeneous collateral)? In this case, could you explain what could be considered as low liquidity ABS?

No.

We do not see any benefit about establishing a market segmentation between “highly liquid” and “lowly liquid” ABSs.

Q35: What post-trade information should be published? In addition to information about the price at which the transaction was executed, the volume and the time of the transaction, would there be any benefit in publishing information about portfolio composition, asset class, the initial interest (seller or buyer)? Is there any other information which would be relevant?

We understand that, with regard to trades executed in the secondary markets, the information to be published should cover: price, trading volume, date and time of the execution, as well as the main characteristics of the instrument on which the operation has been executed (including ISIN code to distinguish adequately the security to which the information is linked)

Additionally, inter alia, any standardized information regarding the characteristics of the assets used in the structure, composition of the underlying portfolio and recent evolution of the main portfolio's magnitudes. We understand that this information is much worthy for the investor to understand and analyze the risks he is undertaking by acquiring ABSs and structured products. Thus, it is also much worthy establishing standards on this sense.

Q36: When should post-trade information be published? Should it be published immediately after a trade has been concluded? Please explain rationale.

Post-trade information should be published as soon as possible and, as a maximum before the close of the trading day after the trading day in which the execution took place; however, it would be desirable the information to be available before.

The aforementioned regime could be made similar and consistent with the *transaction reporting* regime defined by Directive 2004/39/EC of the European Parliament and of the Council of 21 April on markets in financial instruments -MiFID, through which investment firms and credit institutions must send to their Competent Authority all the information concerning buying and selling transactions, cash or forward, executed bilaterally with other entity or a customer, or through an electronic trading platform.

Q37: Do you believe that a post-trade transparency regime should or could be implemented in connection with other regulatory interventions at the same time (e.g. relating to the quality of information of the underlying assets, standardization of reporting)?

As it has been explained in Q35, we understand that any standardized information regarding the characteristics of the assets, composition of the underlying portfolio and recent evolution of the main portfolio's magnitudes, is much worthy for the investor to understand and analyze the risks he is undertaking by acquiring structured products and, thus, it is also much worthy establishing standards on this sense.

Q38: Would you like to make any other observations relevant for CESR work on the need for post-trade transparency for ABS?

No.

Q39: Please indicate whether you represent an organization which is involved in:

a) Originating ABS

b) Selling ABS

c) Buying ABS

d) Providing pricing information on ABS; or

e) Rating ABS

d) Providing prices and information on ABSs, CDOs and ABCPs.

Bolsas y Mercados Españoles (BME) is the company that integrates all the securities markets and financial systems in Spain; in this sense, as it has been explained in previous answers, BME's Markets provide prices and information on all the structured securities (ABSs , CDOs & ABCPS) listed in any of the Regulated Markets belonging to the Group.

Q40: What do you think are the benefits and/or downsides of a post-trade transparency regime for CDOs? Please support your arguments with evidence and explain how the possible downsides could be mitigated.

Please, see Q32.

Q41: Do you believe that post-trade transparency would be desirable for all types of CDOs? If not, can you explain which types of structures/tranches (e.g. cash CDOs vs. synthetic CDOs) should be subject to post-trade transparency?

Please, see Q33.

Q42: Would it be meaningful to segment a post-trade transparency regime between „vanilla‟ CDOs (i.e. comparable to the ABS with standardized structures, higher credit quality and homogeneous collateral) from Structured Finance CDOs (i.e. bespoke products, non-standardized structures, lower credit quality, heterogeneous collateral)? In this case, could you explain what could be considered as less "vanilla" CDOs?

We do not see any benefits in establishing any market segmentation depending on the product's characteristics.

Q43: To what extent would post-trade transparency be helpful to reduce the bid and ask spread or price dispersion for a particular transaction/instrument?

Please, see Q16 and Q17.

Q44: What post-trade information should be published? In addition to information about the price at which the transaction was executed, the volume and the time of the transaction, would there be any benefit in reporting information about portfolio composition, asset class, the initial interest (seller or buyer)? Is there any other information which would be relevant?

Please, see Q35.

Q45: When should post-trade information be published? Should it be published immediately after a trade has been concluded? Please explain rationale.

Please, see Q36.

Q46: When facing inactive markets, to what extent would a post-trade information regime be applicable? If not, could you detail the rationale for an alternative system when markets are no longer active?

It would be completely applicable. We understand that given the fact that what a post-trading transparency regime establishes is the procedure for the publication of trades executed in the market, under a scenario of inactive market, total or partial absence of executed trades, the volume of available information on prices and trading volumes in the markets will be much lower as a result of the illiquidity of the market itself. In any case, the lack of references is a valuable indicator for investors to the extent that it provides information on the degree of liquidity of the assets.

Q47: To what extent can observable prices in the secondary market help to test or promote internal valuation models?

To our understanding, the only means for testing internal theoretical models employed for calculation of fair value prices is through contrasting real market information or, if that information is not available, already executed prices.

Q48: Do you believe that a post-trade transparency regime should or could be implemented in connection with other regulatory interventions at the same time (e.g. relating to the quality of information of the underlying assets, standardization of reporting)?

In the same line as in previous Questions, in the case of CDOs, any measure aimed at widening and standardizing the information available to investors would be useful and welcome.

Q49: Would you like to make any other observations relevant for CESR work on the need for post-trade transparency for CDOs?

No.

Q50: Please indicate whether you represent an organisation which is involved in: a) Originating CDOs b) Selling CDOs c) Buying CDOs d) Providing pricing information on CDOs; or e) Rating CDOs

Please, see Q39.

Q51: What do you think are the benefits and/or downsides of a post-trade transparency regime for ABCPs? Please support your arguments with evidence and explain how the possible downsides could be mitigated.

Please, see Q32.

Q52: Do you believe that post-trade transparency would be desirable for all ABCPs, whatever their structures or maturities? If not, can you explain which types of structures should be subject to post-trade transparency?

Please, see Q33.

Q53: What post-trade information should be published?

Price, yield, trading volume, date and time.

Q54: Would you like to make any other observations relevant for CESR work on the need for post-trade transparency for European ABCPs?

No.

Q55: Please indicate whether you represent an organisation which is involved in: a) Originating ABCP b) Selling ABCP c) Buying ABCP d) Providing pricing information on ABCP; or

e) Rating ABCP

Please, see Q39.Q56: What do you think are the benefits and/or downsides of a post-trade transparency regime for CDS? Please support your arguments with evidence and explain how the possible downsides could be mitigated.

To our understanding, developing post-trade transparency measures for CDSs markets would be positive. This post-trade transparency should be homogeneous and made similar to the one established by MiFID regarding the requirement of submitting *Transaction Reporting* to the competent authority.

We deem much appropriate European Commission's proposal aimed at establishing Central Counterparty for trades on these products. In our view, developing this sort of infrastructure would mean a relevant step forward for both, market and mitigation of risks associated to operation on CDSs, irrespective any difficulties that may be found when adopting this solution regarding non-standardized products whose valuation is complex.

Q57: Do you believe that post-trade transparency would be applicable to all types of CDS? If so, can you explain the rationale for which types of CDS (e.g. single name CDS) should be excluded from post-trade transparency?

We do not see any reason to exclude a particular type of CDSs from the post-trade transparency obligations.

Q58: What post-trade information should be published? CDS spread, notional amount, reference entity, maturity?

Reference entity, sort of risk covered, CDS's prime, notional amount and maturity.

Q59: When should trade information be published? Should it be published immediately after a trade has been concluded? Please explain rationale.

Please, see Q36.

Q60: Do you believe that a post-trade transparency regime should or could be implemented in connection with other regulatory interventions at the same time (e.g. relating to the quality of information on the underlying assets, standardization of reporting)?

Please, see Q36.

Q61: Would you like to make any other observations relevant for CESR work on the need for post-trade transparency for CDS?

Please, see previous responses.