



ABI RESPONSE TO CESR CALL FOR EVIDENCE ON NON-EQUITIES MARKETS TRANSPARENCY, CESR/07-108, 6 FEBRUARY 2007

Introduction

The Association of British Insurers (ABI), is the trade association for authorised insurers operating in the United Kingdom. As a result of protection, pension and savings products provided by these companies, their fund management arms manage assets of the order of £1,200bn (€1,700bn) across all financial asset classes. They also manage assets on behalf of third parties. ABI members, as insurers, hold assets of some £500bn (€700bn) in fixed income, one third of which are non-UK.

Expect where the context requires we have not repeated the content of our response to the EU Commission Call for Evidence of June 2006.

Questions

- Q1 *Does CESR consider there to be convincing evidence of a market failure with respect to market transparency in any of the instrument markets under review?*

We do not consider there to be convincing evidence of market failure in the bond markets with respect to market transparency. These markets are dynamic and continue to evolve in reaction to both the stimulus of changing technology and changing best practice. In connection with the latter we note the ICMA proposals on post trade transparency published in February 2007. We support the measured approach to implementation within these proposals and will respond to the ICMA consultation process

- Q2 *What evidence is there that mandatory pre- or post-trade transparency would mitigate such a market failure?*

As noted in Q1 we do not consider there to be any market failure.

- Q3 *To what extent can the implementation of MiFID be expected to change this picture?*

It is difficult to assess the impact of MiFID implementation at this stage

In respect of Article 65, as the bond markets are largely OTC dealer markets, we have serious concerns as to the trade off between transparency and liquidity. These concerns prompted the ABI, a number of other trade associations and the Corporation of London to commission a number of academic studies:

European Government Bond Markets: transparency, liquidity, efficiency. CEPR May 2006

European Corporate Bond Markets: transparency, liquidity, efficiency
CEPR May 2006

European High-yield Bond Markets: transparency, liquidity, efficiency
Toulouse University January 2007.

These studies indicate that any mandated change in transparency in these markets needs careful consideration and would best be limited to post-trade transparency. These studies have been and in the case of the High-yield study will be made available to both the Commission and CESR.

More immediately until the European Commission opines on the scope of best execution (and any subsequent CESR consultation) it is difficult to assess how the implementation of MiFID will impact on the way fixed income markets operate.

The delays that have affected the progress of MiFID suggest that, notwithstanding the Commission's obligation to report at the end of October under Article 65, some time should be allowed for the initial MiFID structure to bed down and its impacts on market structures assessed before any further measures are considered.

Q4 *Can CESR indicate and describe a significant case or category of cases where investor protection has been significantly compromised as a result of a lack of mandatory transparency?*

We are not aware of any cases where investor protection has been compromised as a result of a lack of mandatory transparency.

Q5 *Could it be feasible and/or desirable to consider extending mandatory transparency only to certain segments of the market or certain types of investors?*

We are not in favour of such differentiation. There would be practical difficulties in defining the parameters of such a system and the costs might well outweigh the benefits, if any.

Q6 *What criteria does CESR recommend should be applied by the Commission in determining whether self-regulatory solutions are adequate to address any of the issues above?*

We would suggest that the appropriate test for self-regulatory solution is that they deal with market failures, if and when they arise.