Dansk Aktionærforening

CESR
11-13 avenue de Friedland
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Transparency of corporate bond, structured finance product and derivatives markets, CESR Consultation Paper CESR/08-1014
and
Questions for retail investors on the consultation paper on transparency of corporate bond, structured finance product and derivatives markets, CESR/09-22

Danish Shareholders Association, DAF, finds that the discussion about transparency in the non-equity markets and the non-equity products is of outstanding importance following the events in the financial markets over the past couple of years.

The private investor

The financial crisis has become expensive tuition for many private investors.

Private investors are very different as far as their level of knowledge about financial products and markets are concerned. Their behavior in the market differs a lot.

The majority of private investors know very little about financial products and the financial markets. They depend totally on the information and advice they get from the investment firms or banks (in the following for short: banks).

Many private investors are not actively monitoring their own savings. They have a portfolio agreement with a bank.

The portfolio-manager takes all the decisions. The investor is not actively searching information. He or she is at the mercy of the portfolio-manager. The investor's knowledge about the value of the savings/investment is what the portfolio-manager tells him or her. The same is the case for the risks related to the investment.

According to the MiFID directive is the bank supposed to be a shield for this type of private investor but the lesson for many investors has been that the bank is more a veil than a shield.

Many investors have learned that their savings have been placed in structured products produced by the bank or the associates of the bank. That should not be the case if the spirit of MiFID ruled in the banks. But, the majority of the portfolio-agreements in force are from before MiFID.

Other private investors are more active and with better knowledge of the financial products and the markets.

A small group of private investors is outstanding. They are extremely qualified investors acting actively in the market with many different products. They are often acting in direct competition with banks and other financia l institutions. They are active searching information about products, market participants, positions, trading activity etc.

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

We find asymmetry of information in different ways.

Information on the composition of and the risks related to a product can be difficult to get.

The qualified private investor who is using the internet actively and searching for information is in competition with the professional market participants. The banks and other professional participants try to establish asymmetry e.g. by delaying information.

Asymmetry is also the result when the trading lots at the regulated markets are too high for the private investors.

The really dangerous asymmetry is for the financial illiterate investor. Many consumers try to get a better return on their savings by investing them than by placing them in deposit accounts. These investors need qualified information.

Today the majority of them depend on information from their bank. But the bank is not an independent advisor. And experience show that the information from the bank to the clients is too often neither easy to understand nor complete.

Financial education is a must. But financial education takes years. And we will never be able to give the necessary education to all consumers.

1. 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? (Question 22 of the consultation paper)

Corporate bonds have traditionally not been used much in Denmark. Some corporate bonds have been marketed to institutional investors. Over the past years a market has been established with structured bonds marketed to private investors. Traditionally, the important bond product for private investors in Denmark has been mortgage bonds.

An important point in the distinction between wholesale and retail markets is the size of the trades. The average private investor is trading smaller amounts than traded in the wholesale market.

In Denmark the banks endeavoured for years to establish a wholesale market for mortgage bonds at the stock exchange and refer retail clients to trade OTC with a bank. This splitting up of the market made it almost impossible for retail clients to find out what the market price should be in the retail market.

Many private investors prefer an order driven market with full and immediate transparency. Many banks prefer a market maker market with protection of the market maker such as delayed information about transactions.

2. What would be the potential benefits and downsides of a harmonised pan-European transparency regime for the retail market? Would greater post-trade transparency for example attract retail investors more? (Question 23 of the consultation paper)

Full effect of a pan-European transparency regime requires that the regime covers all the key aspects, as listed in article 202:

- Transparency of underlying assets
- Transparency of the structure of the product
- Trade transparency
- Position transparency
- Transaction reports
- General information about the market

The benefit of a harmonized pan-European transparency regime would be an invitation to private investors to expand their field of interest to the pan-European market, knowing that the transparency-rules are the same. To get the full effect will it be necessary to harmonize other rules than transparency rules (e.g. size of stock exchange trading lot) as well.

The downside would be that the transparency regime is not the only rule governing the market. Investors could harm themselves if they do not know all the rules.

3. Do you believe that better post-trade transparency could improve the efficiency of the price discovery process, reducing bid-ask spreads and search costs for investors and fostering competition among dealers? (Question 13 of the consultation paper)

Yes, we believe that better post-trade transparency could improve the efficiency of the price discovery process. It would contribute to reducing bid-ask spreads and search cost for investors and foster competition among dealers because investors would have improved opportunities when discussing with intermediaries about not only best execution but best investment decision.

4. Would additional post-trade transparency help investment firms to comply with MiFID requirements intended to enhance investor protection, such as information disclosure to clients, suitability assessments and providing best execution to investors? (Question 13 of the consultation paper)

If investment firms want to improve the investor protection by developing the way in which they comply with MiFID requirements such as information disclosure to clients, suitability assessments and best execution then additional post-trade transparency would probably help them.

Investors who are able to find information can use additional post-trade transparency in their dialogue with the investment firms about the fulfillment of the MiFID requirements.

5. Do you think that greater post-trade transparency could have a negative impact on liquidity? Or do you think that it could have any other drawbacks which CESR needs to consider? (Questions 13 and 14 of the consultation paper).

Greater post-trade transparency will perhaps reduce the incitement to act as a market maker and instead support order driven markets.

6. Please provide information on your experience, if any, in terms of timing, content and access to information of the market-led solutions such as those of ICMA or SIFMA. What is your assessment of the effectiveness of the present self-regulatory initiatives? (Question 18 of the consultation paper)

We have no direct comments to the solutions from ICMA and SIFMA.

The core problem in relation to a self-regulating industry is that self-regulation tends to be less efficient in difficult times to the detriment of the private investors.

7. What would be the most cost-effective way of delivering additional transparency for the retail market: an industry-led solution, possibly based on a road map set by regulators, or mandatory regulatory post-trade transparency requirements? (Question 26 of the consultation paper)

It is possible that the most cost-effective way of delivering additional transparency for the retail market will be an industry-led solution. But an efficient and lasting solution must be based on mandatory regulatory transparency requirements.

8. 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? (Question 20 of the consultation paper)

Introduction of additional post-trade information on prices will be a contribution to restoring market confidence and market liquidity.

9. Regarding structured finance products and credit derivatives, 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? When should post-trade information be published? Should it be published immediately after a trade has been concluded? (Questions 35 , 36, 44 and 45 of the consultation paper)

Information about prices, volume and time of transactions should be published. More information about portfolio composition, asset class, and initial interest should also be published to help building up confidence. Information should be published as soon as possible.

Kind regards,

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