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By electronic mail: www.cesr.eu

The Committee of European Securities Regulators (CESR)
11-13 Avenue de Friedland
Paris, France 75008

RE: CESR Consultation on Transparency of Corporate Bond, Structured Finance Product and Credit Derivatives Markets; Ref: CESR/08-1014

Ladies and Gentlemen:

Bloomberg L.P.[1] ("**Bloomberg**") welcomes and appreciates the opportunity to respond to CESR's Consultation on Transparency of Corporate Bond, Structured Finance Product and Credit Derivatives Markets; Ref: CESR/08-1014, dated December 19, 2008 (the "**Consultation**"). Bloomberg applauds the range of topics CESR will review in connection with this Consultation, and we appreciate that CESR has requested guidance from market participants regarding transparency of corporate bond, structured finance product and credit derivatives markets.

Bloomberg has long been a leader in providing transparency in direct response to the ever more sophisticated demands of investors. Transparency in the fixed-income and credit derivatives markets is important from the point of view of public policy. Transparent post-sale data provides a basis for evaluating the prices at which securities and other instruments should be bought and sold and the value of such interests as collateral for loans by banks and other creditors. Governments can use such data to verify the amount of taxes they are entitled to collect from owners, buyers, and sellers of fixed-income securities and other interests and it can assist regulators in determining whether banks, investment firms and other financial intermediaries are in compliance with applicable capital requirements.

Bloomberg believes that there must be coordinated action at a pan-European (and international) level to make dramatic improvements in the transparency regimes of the banking and financial sector. A robust transparency regime, including access to pre- and post-trade

1 The BLOOMBERG PROFESSIONAL service provides financial market information, data, news, analytics and multimedia reports to investment firms, institutional investors and other professionals via approximately 250,000 BLOOMBERG PROFESSIONAL service subscriptions worldwide. The BLOOMBERG PROFESSIONAL service is owned by Bloomberg Finance L.P., and Bloomberg L.P. operates the BLOOMBERG PROFESSIONAL service on behalf of Bloomberg Finance L.P.

information, would promote price discovery and assist in ensuring best execution. It would also reduce spreads, spur market innovation and promote the development of new financial products and indices. Most important of all, transparency dramatically enhances investor confidence. To address these issues, the raw data — the data necessary for valuations — must be available on non-discriminatory, commercially reasonable terms to financially disinterested parties for analysis.

We set forth our responses to some of the inquiries raised by the Consultation below. Please note that the numbered sections follow those used in the Consultation.

Corporate Bond Markets

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

We agree with CESR that corporate bond markets have experienced an unprecedented period of turbulence in recent months and we have observed the trends noted by CESR, including contraction of liquidity, reduction of market depth and widening of bid-offer spreads. We also concur with CESR's views as noted in the Consultation at paragraph 12, page 5:

> CESR is of the view that, in general, trade transparency is an essential element of efficient and well-functioning securities markets. However, at the same time CESR is conscious of the fact that it is only one of the tools contributing to the achievement of this goal and plays a different role in relation to different financial instruments and markets. As a consequence, the characteristics of the respective instruments and markets have to be taken into account when deciding on an appropriate level of transparency for various types of instruments and markets.

Furthermore, we support CESR's observation that "whilst wholesale investors may have adequate access to pre- and post-trade information on prices and volumes, smaller participants including retail investors could benefit from improved access to this information."[2] We will discuss the potential benefits of introducing a regime for post-trade transparency of corporate bonds in Europe such as the TRACE system in Question 16 below.

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

We agree with CESR that post-trade transparency in the corporate bond markets could lead to increased efficiencies of the price discovery process and verification of best execution data. At the same time, however, we recognize that greater post-trade transparency could have a negative impact on liquidity because it could reduce incentives for liquidity providers to participate in corporate bond markets. As CESR notes, liquidity providers may fear that

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[2] *See* Consultation at paragraph 27, page 8.

immediate reporting will expose the positions they have taken on before they have been able to lay them off in the market and that result will reduce their willingness to take on sizable positions.[3]

Industry efforts and regulatory initiatives have helped to promote transparency in this market. Competition among data providers has led to the widespread availability of databases and trade analytics that are in common use among brokers, dealers and the buy-side in evaluating and pricing bonds. These services, technologies and platforms (among them, the BLOOMBERG PROFESSIONAL service) are windows onto the market that provide a type and level of transparency uniquely suited to the fixed-income markets. Greater competition continues to increase the demand for such products and services.

For example, Bloomberg has created a valuation tool called "BVAL" which allows Bloomberg's end users to value virtually every security (*e.g.*, all publicly traded stocks, private instruments, bonds and other instruments), regardless of where the issuer is located or where the security is offered or listed. Bloomberg is also a leader in the development of bond and other indices that provide an additional tool to enable market participants to monitor market prices and developments.

Whilst this market needs to be part of the transparency discussion, we observe that transparency in the bond markets is extensive and continues to grow in response to competitive pressures and the demands of the market itself.

Structured Finance Products

30. Does this analysis represent your practical experience regarding information relevant and available for pricing of each of the structured finance products covered by this consultation paper?

Bloomberg supports measures that would increase transparency in the structured finance markets. The complexity of structured finance products such as asset-backed securities ("**ABSs**") or collateralized debt obligations ("**CDOs**") inherently exacerbates the lack of transparency in these markets.

Most structures provide general documentation about the type of underlying exposures and the credit ratings, if any, that have been assigned to the underlying exposures and the tranches of the structure itself. Most structures, however, do not provide a significant discussion concerning the specific risk drivers associated with underlying exposures, or how these risk drivers may cause the valuation of the underlying exposures and the structure itself to change in response to various economic conditions. A significant transparency concern relates to investors' ability to properly assess the credit risk associated with the assets used to back securitization products. For instance, a residential mortgage-backed security can be

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3 *See* Consultation at paragraph 55, page 16.

collateralized by thousands of individual mortgages available from hundreds of individual sources or an asset-backed security can be supported by multiple structured notes with documentation available from multiple sources.

This raises several problems for the investor. For example, the amount of due diligence required to properly assess the credit risk of these investment vehicles is onerous and quite difficult. Investors need access to these details, however, to be able to form an independent valuation. Therefore, regulators must be able to quickly collect information that cuts across an entire industry or segment, rather than just an individual bank or issuer. To provide regulators with the tools needed to evaluate the capital markets as a whole, any restrictions that limit a regulator's ability to ascertain necessary market information should be re-evaluated. We respectfully recommend that CESR consider the creation of a centralized reporting mechanism to which these details, and other securitization documentation such as offering circulars, indentures, and trustee reports, could be reported and accessed by third parties for valuation purposes.

Only limited price transparency is available on most structured finance securities, and there generally is not an established secondary market for these instruments. Market participants attribute the lack of an established secondary market to the fact that trade execution occurs bilaterally between the investor and the dealer bank. As a result, for many structured finance product types, actual trade prices generally are not reported in an organized or centralized fashion. We respectfully suggest, therefore, that CESR should focus attention on the lack of liquidity in most structured finance offerings and work toward improving price discovery. We believe that CESR should encourage market participants to openly share trading information about ABSs, CDOs and other complex products, such as daily (or weekly or monthly) volumes, bid/ask spreads, consensus prices, and price ranges and report this information to a centralized reporting mechanism or other independent, third-party service providers. We believe that even a "snapshot" of this data disclosed one time per month or at close of month could make a significant difference in the transparency of these markets and provide a necessary context for price discovery.

There are currently no pre-trade obligations or reporting requirements for structured finance transactions. The main sources of data are primary offering documents of securitizations. Credit rating agencies also provide certain data. In the United States, for example, National Recognized Statistical Rating Organizations such as Moody's and Standard & Poor's, do rate certain securitization tranches, but these organizations do not focus on all aspects of a rated transaction. We respectfully suggest that CESR consider that any transparency regime of structured finance products should require disclosure of all relevant data, including loan-level information on underlying collateral. Without the public dissemination of material data such as daily volumes, bid/ask spreads, consensus prices and price information, investors may be hindered from determining risk and value of a given ABS, CDO or other structured finance product.

Credit Derivatives/Credit Default Swaps (CDS)

56 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.

We believe a strong post-trade transparency regime is essential to the proper functioning of the credit default swaps ("**CDS**") marketplace. The CDS market suffers from a number of costly market failures because available pricing information is inadequate and, where available, is not provided on a non-discriminatory, commercially reasonable basis.

Under current circumstances, the dealers possess significantly more raw data than investors because they engage in more transactions in the products in which they deal than do their customers. That informational asymmetry impairs the customers' ability to evaluate prices they are offered by dealers and to negotiate effectively to obtain narrower spreads and better pricing. At the same time, particularly at times of high risk, market volatility, investors' awareness that they are at an informational disadvantage may diminish their willingness to trade, and thus may harm liquidity, as CESR observes.[4]

57. 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?

Post-trade transparency should be applicable to all types of CDS. While the markets for different types of CDS vary in certain characteristics, they all suffer from the market failures discussed in Bloomberg's response to Question 56. It is true, however, that different CDS markets would benefit to varying degrees from enhanced liquidity and, in our view, the need for enhanced transparency is greatest in the case of the markets for index-derived instruments because they are large, important markets. More generally, frequently traded CDSs might benefit more from a transparency regime than infrequently traded CDSs because, to the extent transparency may diminish dealers' willingness to offer liquidity, there is less risk of a sharp liquidity reduction as a result of greater transparency in deep and liquid markets than in thinly traded markets, as CESR notes.[5] As a result, it may be advisable to phase in transparency requirements over time, focusing first on the most liquid securities and markets.

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

For transparency to create a fair and efficient market, data must be reported and disseminated in as close to real time as possible. Currently, the only consistently available data

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[4] Consultation at paragraph 34, page 9.

[5] *See* Consultation at paragraphs 55-57, page 16.

on individual CDS trades is an end-of-day pricing product. Though it is useful for marking-to-market, there is no widely available information on the state of any given CDS at any given moment in the trading day. Investors need to know about the most recent trades in the market to obtain the most fair and competitive pricing. The contribution that real-time data makes to financial market efficiency is evidenced by the dramatic difference in pricing for real-time data and delayed data from securities exchanges.

60. 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)?

A strong transparency regime should include a standardized reporting protocol. Effective use of raw data requires consolidation from multiple sources, and that process in impeded by use of multiple protocols. For example, use of a common clock for reporting purposes would facilitate the proper sequencing of raw trading data. Further, if each source of similar data has a different set of strings attached, it will effectively become impossible to consolidate the data in anything but the least useful type of applications, resulting in a decrease in effective transparency for market participants. Competition to add the most value to (and derive the most insight from) commonly available data sets could devolve into competition to own and control those data sets. That, in turn, would lead to further fragmentation, substantially increased costs to investors, and, ultimately, less transparency.

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We appreciate the opportunity to make our views known to CESR. Please contact me at [+44 20 7330 7676] or by email at [aclode@bloomberg.net] should you wish to discuss our response further or have any additional questions or comments.

Respectfully submitted,

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