Swedish Securities Dealers Association

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CESR Consultation on Transparency of Corporate Bond, structured finance product and credit derivatives markets

The Swedish Securities Dealers Association (SSDA) welcomes the opportunity to respond to CESR's consultation on the transparency of Corporate Bond, structured finance product and credit derivatives markets.

By way of introduction, SSDA wishes to emphasise that the Association concurs with the response to the above consultation as answered by the European Banking Federation.

In addition, the Swedish Securities Dealers Association wishes to state the following.

On a general note, the SSDA finds CESR's approach to the topic to be systematic and well-reasoned, as transparency in many cases creates confidence, especially in the equity markets. Trading in Corporate Bonds, however, differs inasmuch as these more often constitute buy-and-hold instruments.

There is a difference between various issues of Corporate Bonds. There are issues of, and trading in, certain Corporate Bonds which involve large volumes and high liquidity. There are other issues in which the bonds are traded very sporadically, perhaps not even once a month, but each transaction could be very large. As far as the latter are concerned, the conditions are special. Any publication of trading in the latter might:
immediately reveal the issuer's loan needs - and thereby constitute, in practice, an inconceivable source of financing;
disclose the market maker's positions, with the market maker's attendant aversion to taking this risk;
force the issuer to avoid this form of financing and, instead, have recourse to the banks' normal credit facilities.

Financial theory demonstrates that transparency in securities markets is positive - but only on condition that all participants are so small that they cannot influence the price and that there is no informational value in the transactions. A small Corporate Bond market, e.g. the Swedish one, is characterised by the direct opposite, with each participant being able to influence the market price and each transaction being of great informational value. There is a thus a risk that transparency will increase the game theory element and thereby render trading more difficult with the end result that the market is not attractive for neither of the issuers and investors.

In many cases the connection between the liquidity and post-trade transparency counteract each other, particularly as regards less frequently traded securities where liquidity is conditional on there being a market maker which is at all times prepared to take positions in the security, irrespective of whether or not there is any opposite interest.

A small spread in a security does not necessarily mean that liquidity is good. A small spread may very well exist at the same time as underlying volumes are extremely limited, entailing that even a small transaction affects the price structure significantly and, for example, causes the spread to widen.
The different conditions which exist between large and small issues in Corporate Bonds, provide different conditions for post-trade transparency. There is no sharp boundary between those two kind of issues. This is best

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handled through self-regulation. In this context, the ICMA “European Financial Services Industry Standard of Good Practice on Bond Market Transparency for Retail Investors” is an excellent example of how this can be resolved.

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