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Alp Eroglu
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16th October 2017

Dear Mr. Eroglu:

Re: Public Comment on Regulatory Reporting and Public Transparency in the Secondary Corporate Bond Markets

The IBFed[1] appreciates the opportunity to provide comments to the IOSCO consultation report entitled, *Regulatory Reporting and Public Transparency in the Secondary Corporate Bond Markets* (Report). The Report states that IOSCO undertook this report as part of its mandate to examine the global corporate bond markets, specifically focusing on issues related to regulatory reporting, transparency, and the collection and comparison of data across national jurisdictions.[2] The Report sets out seven recommendations, reflecting and responding to developments in the corporate bond markets since the publication of IOSCO's reports on the subject, *Transparency of Corporate Bond Markets* (2004 Report)

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[1] The International Banking Federation (IBFed) was formed in 2004 to represent the combined views of our national banking associations. The IBFed collectively represents more than 18,000 banks, including more than two thirds of the largest 1000 banks in the world. IBFed member banks play a crucial role in supporting and promoting economic growth by managing worldwide assets of over 75 trillion Euros, by extending consumer and business credit of over 40 trillion Euros across the globe, and by collectively employing over 6 million people. The IBFed represents every major financial centre and its members' activities take place globally. This worldwide reach enables the IBFed to function as a key international forum for considering regulatory and other issues of interest to the global banking industry. For more information visit: www.ibfed.org

[2] IOSCO, *Regulatory Reporting and Public Transparency in the Secondary Corporate Bond Markets* (Aug. 2017), p. 1.

and the more recent *Examination of Liquidity of the Secondary Corporate Bond Markets* (Liquidity Report).[3] In general, the Report recommends that regulatory authorities: (i) ensure that they have access to sufficient information to perform regulatory functions; and (ii) consistent with IOSCO principles that promote transparency of trading information, consider steps to enhance pre-trade transparency in corporate bond markets and implement regimes that require post-trade transparency.

We commend IOSCO for issuing this consultation and for continuing its study and analysis of the operation of secondary corporate bond markets. We believe that secondary bond market regulatory reporting and public transparency requirements should be consistent at a global level in order to promote compliance certainty for market participants and for competent authorities to be able to obtain reliable and consistent industry data. IBFed therefore welcomes IOSCO's effort to promote further convergence in bond market financial reporting. We would like to address, however, three points raised from our review of the Report: (1) recognition as the governing principle for the regulatory framework; (2) regulatory reporting for post-trade information; and (3) regulatory access and public availability of pre-trade information.

Recognition as Governing Principle for Regulatory Framework. We generally agree with IOSCO's recommendation that in order to facilitate cross-border understanding among regulators, national authorities should work toward a clear framework and underlying methodology of regulatory reporting and transparency.[4] IBFed supports making trading data available in order for regulators to fulfil their supervisory mandates. We also believe it is of the utmost importance that national authorities strive to have data requirements that are consistent from one jurisdiction to another in order to avoid data information gaps and an information technology burden, both of which lead to unnecessary costs for banks. We believe that the principle of recognition, which permits a national authority to recognize that the foreign regulatory regime is sufficiently comparable to the national authority's regime to allow for reliance on the foreign jurisdiction's regulatory regime, would be an appropriate regulatory tool and starting point to accomplish this objective. As noted in the Report, this view presumes that regulators in one country can evaluate whether a given data point in a foreign jurisdiction has the same meaning as the domestic data point. In order to facilitate further cross-border understanding, IBFed further believes that regulatory reporting tools and data further could be made available to all market participants via one or more clearinghouses or through IOSCO in order to promote the principle of recognition as a means of progressing toward convergence in financial reporting in this area.[5]

Post-Trade Information: Regulatory Reporting. We generally agree with IOSCO's recommendation that regulatory authorities should consider implementing post-trade (transaction) regulatory reporting requirements for secondary market trading in corporate

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[3] The Liquidity Report was issued in August 2016. IBFed responded to the Liquidity Report. *See* IBFed Letter to IOSCO (30 Sept. 2016), *available at* http://www.ibfed.org/news/ibfed-response-to-iosco-on-examination-of-liquidity-of-the-secondary-corpor.

[4] *See* Report at 8 (IOSCO Recommendation 2).

[5] *See* IBFed Letter to IOSCO regarding Public Comment on the Task Force on Cross-Border Regulation (3 March 2015) ("We view IOSCO as exercising an important role in developing recognition standards . . . [For example,] IOSCO could act as a repository of information whereby experiences of cross-border regulatory tools . . . may be shared and evaluated by both regulatory authorities and market participants.").

bonds.[6] The Report states that the goal should be to achieve a high level of reporting that would include identification of the bond, price, volume, buy/sell indicator, and the timing of execution.[7] Such data requirements, however, should not be overly prescriptive, since that likely would impact the liquidity in certain bond markets where dealers routinely trade in large volumes or where trading is not standardized. A balance between post-trade transparency requirements and market liquidity must be maintained, particularly in situations of market volatility and stress. We do not believe that in every instance, more transparency necessarily justifies less liquidity. Post-trade reporting requirements, therefore, should be well calibrated (taking into account the liquidity and size of the corporate bonds) and should allow for sufficient period of time before publication in order to allow liquidity providers the opportunity either to hedge their risk or reduce their positions.[8]

Pre-Trade Information: Regulatory Access and Public Availability. We disagree with IOSCO's recommendation that regulatory authorities should have access to pre-trade information regarding corporate bonds (either on a regular basis or on request) as well as its recommendation that regulatory authorities consider steps to enhance public availability of pre-trade information,[9] due to the sensitive nature of such information and the likely significant impact it would have on global liquidity in the corporate bond markets. We believe that the reasons stated by IOSCO for favouring pre-trade information access (*e.g.*, assisting regulators to better understand the market) – outside of a regulator appropriately exercising its regulatory investigative powers (such as examining for alleged market manipulation or illegal trading activity) – are substantially outweighed by the disruption in liquidity that would likely occur in the secondary corporate bond markets. Such disruption could adversely impact and compromise customers' access to the global bond markets and/or limits their ability to engage in certain corporate bond transactions. At a minimum, IOSCO should withdraw this recommendation and revisit this topic after it has obtained additional information indicating the viability and functionality of pre-trade access and its consequences, both intended and unintended.[10]

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[6] *See* Report at 11 (IOSCO Recommendation 4).

[7] *See id.*

[8] *Cf.* "US banks push for delay in reporting corporate bond trades," Financial Times (13 Sept. 2017), *available at* https://www.ft.com/content/c4176a68-ea8f-11e4-a701-00144feab7de ("Immediate post-trade transparency requirements discourage large order transactions, as buyers that are uncertain of ultimate size become concerned about being run over. . . . [On the other hand,] a delay in reporting big bond trades may give brokers the incentive to take reasonable risk to facilitate client flow.")

[9] *See* Report at 9 (IOSCO Recommendation 3) (regulatory authority access to pre-trade information) and Report at 11 (IOSCO Recommendation 5) (public availability of pre-trade information)

[10] The IOSCO consultation states that the new regulatory framework under MiFID II/MiFIR will give regulatory authorities access to detailed pre-trade information on orders, since investment firms and trading venue operators will be required to maintain extensive data relating to all orders and transactions in financial instruments that the investment firm has carried out or that the venue advertised through its systems. *See* Report at 9. We encourage IOSCO to research and analyze the operation and results (including intended/unintended consequences) of the MiFID II/MiFIR framework on regulators' access to pre-trade information, and make this study available to the public after its completion.

Thank you for your consideration of these views concerning regulatory reporting and public transparency in the secondary corporate bond markets. If you have any questions or wish to discuss, please contact either of the signatories below.

Yours sincerely,

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