

MEMO# 31176

April 20, 2018

IOSCO Publishes A Final Report on Regulatory Reporting and Public Transparency in Secondary Corporate Bond Markets

[31176]

April 20, 2018 TO: ICI Members

ICI Global Members SUBJECTS: Fixed Income Securities

Trading and Markets RE: IOSCO Publishes A Final Report on Regulatory Reporting and Public Transparency in Secondary Corporate Bond Markets

The Board of the International Organization of Securities Commissions (IOSCO) recently published a final report on regulatory reporting and public transparency in the secondary corporate bond markets.[\[1\]](#) The Final Report is the third publication produced pursuant to a 2004 IOSCO initiative designed to examine several aspects of global corporate bond markets. The two prior reports focused on transparency and regulatory reporting and corporate bond liquidity, respectively.[\[2\]](#)

The Final Report complements IOSCO's prior reports on corporate bond markets by recommending regulatory authorities consider seven recommendations concerning the availability of data, pre- and post-trade regulatory reporting, and public transparency in the secondary corporate bond markets. These recommendations are nearly identical to the recommendations that IOSCO proposed when it consulted on regulatory reporting and public transparency in corporate bond markets last fall.

Availability of Data Regarding Corporate Bond Markets

IOSCO believes regulators should have access to timely, accurate, and detailed information regarding secondary corporate bond markets to improve their ability to surveil the markets, facilitate the development of an audit trail, and inform the development of regulatory policy, among other things. The Final Report identifies factors that impair the ability of regulators to access, analyze, and compare data across jurisdictions, including a deficiency of data available to regulators and inconsistent reporting standards. IOSCO makes the following recommendation to alleviate these impairments:

Recommendation 1: Regulatory authorities should be able to obtain the information necessary to develop a comprehensive understanding of the corporate bond market in their

jurisdiction. This understanding should include the characteristics of the market and the types of bonds traded.

The Final Report also notes that regulators should have an accurate and timely understanding of the trends in and health of the corporate bond markets outside their home jurisdiction. To promote this goal, IOSCO recommends the following:

Recommendation 2: To facilitate cross-border understanding amongst regulators of corporate bond markets, regulatory authorities should make a clear framework and underlying methodology of regulatory reporting and transparency available.

Pre- and Post-Trade Regulatory Reporting

The Final Report summarizes the regulatory reporting regimes of IOSCO members and finds that few jurisdictions require reporting of pre-trade information, such as information about orders, quotes, or indications of interest. IOSCO expresses the view that pre-trade information would assist regulators to better understand the market, facilitate effective market monitoring, and help ensure market integrity and fairness in trading. Regarding post-trade reporting, the Final Report notes that although most jurisdictions require post-trade reporting of secondary bond market transactions, the scope and timing of post-trade information reports differs among jurisdictions. The Final Report states that post-trade regulatory reporting is important for regulators to monitor trading of corporate bonds and trends in the market. The report makes the following recommendations to improve regulatory reporting of corporate bond transactions:

Recommendation 3: Regulatory authorities should have access, either directly or upon request, to pre-trade information where it is available, relating to corporate bonds. This might include information other than firm bids and offers, such as indications of interest.

Recommendation 4: Regulatory authorities should implement post-trade (transaction) regulatory reporting requirements for secondary market trading in corporate bonds. Taking into consideration the specifics of the market, these requirements should be calibrated in a way that a high level of reporting is achieved. These requirements should include the reporting of information about the identification of the bond, the price, the volume, the buy/sell indicator and the timing of execution.

Public Transparency in the Secondary Corporate Bond Markets

The Final Report describes a trend toward increased transparency in the corporate bond markets due to regulatory and commercial initiatives. The report notes that some jurisdictions have introduced regulatory requirements to facilitate or require public transparency of post-trade information, and private-sector organizations sometimes voluntarily make pre- and post-trade information available publicly. The report explains that the structure of corporate bond markets—which are typically fragmented and dominated by over-the-counter activity—poses challenges to enhancing transparency. The report also recognizes that increasing corporate bond market transparency could potentially reduce liquidity and describes steps taken by regulators to address this concern.

The Final Report finds that pre-trade transparency, when appropriately calibrated, contributes to the price discovery process and supports liquidity and the ability to make informed trading decisions. IOSCO further states that it supports regulatory steps to enhance pre-trade transparency, taking into account the potential impact to liquidity. With respect to post-trade transparency, the Final Report notes that post-trade information is a

key component to a robust and efficient market as well as investor confidence. IOSCO also notes that where there is transparency of post-trade data relating to corporate bonds, regulatory authorities should facilitate consolidation of this information. The Final Report makes three recommendations on corporate bond market transparency:

Recommendation 5: Regulatory authorities should consider steps to enhance the public availability of appropriate pre-trade information relating to corporate bonds, taking into account the potential impact that pre-trade transparency may have on market liquidity.

Recommendation 6: Regulatory authorities should implement post-trade transparency requirements for secondary market trading in corporate bonds. Taking into consideration the specifics of the market these requirements should be calibrated in a way that a high level of post-trade transparency is achieved. They should also take into account the potential impact that post-trade transparency may have on market liquidity. Post-trade transparency requirements should include at a minimum, the disclosure of information about the identification of the bond, the price, the volume, the buy/sell indicator and the timing of execution.

Recommendation 7: Where there is transparency of post-trade data relating to corporate bonds, regulatory authorities should take steps to facilitate the consolidation of that data.

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endnotes

[1] IOSCO Board, *Regulatory Reporting and Public Transparency in the Secondary Corporate Bond Markets*, (April, 2018), available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD597.pdf> (Final Report). The Final Report follows an IOSCO consultation on this subject in August 2017. See IOSCO Board, *Regulatory Reporting and Public Transparency in the Secondary Corporate Bond Markets*, (August 2017), available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD578.pdf> (Consultation Report). ICI Global commented on the Consultation Report, expressing support for the objective of making the secondary corporate bond markets more transparency without unduly disturbing market liquidity. Our letter urged IOSCO to recommend that regulators take an incremental and data-driven approach to corporate bond market transparency to reduce the risk of harming liquidity.

[2] IOSCO Technical Committee, *Transparency of Corporate Bond Markets*, International Organization of Securities Commissions (May 2004), available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD168.pdf> (concluding that regulators needed additional trading data to determine appropriate levels of regulatory reporting and transparency in corporate bond markets); IOSCO Board, *Examination of Liquidity of the Secondary Corporate Bond Markets, Consultation Report*, (August 2016), available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD537.pdf> (finding although there had been meaningful changes to the characteristics and structure of the secondary corporate

bond markets, there was no reliable evidence indicating regulatory reforms had caused substantial declines in market liquidity).

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