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IOSCO Issues Consultation Report Examining Regulatory Reporting and Public Transparency in the Secondary Corporate Bond Markets

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August 21, 2017 TO: ICI Members

ICI Global Members SUBJECTS: Fixed Income Securities

Trading and Markets RE: IOSCO Issues Consultation Report Examining Regulatory Reporting and Public Transparency in the Secondary Corporate Bond Markets

The Board of the International Organization of Securities Commissions (IOSCO) recently published a consultation report on regulatory reporting and public transparency in the secondary corporate bond markets.[\[1\]](#) The Consultation 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.[\[2\]](#) In a comment letter on the Liquidity Report, ICI Global discussed recent significant structural changes to the US corporate bond markets, described the varied liquidity of US corporate bond markets, and presented data on the nature and extent of funds' participation in the US corporate bond markets.[\[3\]](#)

The Consultation Report complements IOSCO's prior reports on corporate bond markets by proposing that regulatory authorities should consider steps to enhance pre-trade transparency in corporate bond markets and implement regimes that require post-trade transparency. The Consultation Report makes seven specific recommendations (reproduced below) concerning the availability of data, pre- and post-trade regulatory reporting, and public transparency in the secondary corporate bond markets. Comments on the Consultation Report must be received by October 16. We summarize the Consultation Report briefly below.

Availability of Data Regarding Corporate Bond Markets

In IOSCO's view, regulators should have access to timely, accurate, and detailed information regarding secondary corporate bond markets to improve the ability to surveil the markets, facilitate the development of an audit trail, and inform the development for regulatory policy, among other things. The Consultation Report identifies factors that impair

the ability of regulators to access easily, analyze, and compare data across jurisdictions, including a deficiency of regulatory data available and a lack of consistency in standards across jurisdictions. As such, IOSCO makes the following recommendations:

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

Pre- and Post-Trade Regulatory Reporting

The Consultation Report summarizes the regulatory reporting regimes of IOSCO members and finds, 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 report also finds that few jurisdictions require reporting of pre-trade information, such as information about orders, quotes, or indications of interest. The report makes the following recommendations to improve regulatory reporting:

- *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 Consultation Report describes a trend toward increased transparency in the corporate bond markets due to both 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. The report explains that the structure of corporate bond markets—which are typically fragmented and dominated by over-the-counter activity—poses challenges in facilitating transparency. The report also acknowledges that increasing corporate bond market transparency could potentially reduce liquidity and describes steps taken by regulators to address this concern. The Consultation Report ultimately 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*, (August 2017), available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD578.pdf> (Consultation Report).

[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 regulators 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) (Liquidity Report).

[3] Letter from Dan Waters, Managing Director, ICI Global, to Alp Eroglu, IOSCO, dated September 30, 2016, available at <https://www.ici.org/pdf/30289.pdf>.