



*London*  
**STOCK EXCHANGE**

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Dear M. Demarigny

**RESPONSE TO CESR CALL FOR EVIDENCE ON NON-EQUITIES  
MARKETS TRANSPARENCY**

Thank you for the opportunity to provide our views on transparency of non-equities markets.

In general, we do not believe there to be conclusive evidence of market failure, or of a need for mandatory pre or post trade transparency. However, in the specific area of retail participation in the most liquid (Government and corporate) bonds, there is potential that greater transparency will have a positive effect on liquidity.

If the Commission does decide to take action, we believe that it should be limited to this area and any guidelines produced should be subject to a small scale pilot exercise to determine whether there is a need for greater transparency and whether this improves retail participation.

Our detailed response to the consultation questions are attached as an appendix.

I hope our views are helpful to CESR's work. Please do not hesitate to contact me if you wish to discuss any aspect of this letter.

Yours sincerely

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## APPENDIX

### **1) Does CESR consider there to be convincing evidence of market failure with respect to market transparency in any of the instrument markets under review?**

The Exchange cannot identify specific evidence of market failure, in part due to the fact that recent studies have shown how difficult it is to gather good quality data on the bond markets. Having said that, we believe that if CESR is to investigate this area it might like to test the extent that retail investors are receiving best execution when dealing in bonds in the absence of pre-or post-trade transparency.

### **2) What evidence is there that mandatory pre- and post-trade transparency would mitigate such a market failure?**

If indeed there were found to be a problem with retail bond execution, the cause of the problem would need to be identified. If it transpired that this was due to a lack of transparency, it should not be assumed that the solution should be mandatory transparency. We would ask CESR to consider the extent to which market-led transparency arrangements could be a solution. Only if this was rejected should mandatory arrangements be pursued.

### **3) To what extent can the implementation of MiFID be expected to change this picture?**

From a market perspective, we do not see much evidence that exchanges, MTFs or internalisers intend to extend any of the transparency measures beyond equities, although we do note the recent ICMA proposals.

Similarly, we are unaware of any competent authority implementation proposals that seek to extend transparency beyond shares admitted to trading on a regulated market. Indeed we note, and agree with, the recent comments by Commissioner McCreevy that differing and super-equivalent implementation could turn MiFID into a “real practical nightmare”

There are two key principles that we believe CESR should consider.

The first is that if the result of this call for evidence does lead to more transparency, it should be co-ordinated across the EU. This does not necessarily require further legislation, it could be achieved by Level 3 work, or by industry led codes such as that seen in the post-trade space.

The second principle is that any solution needs to be tailored to the market failure.

If there is deemed to be a market failure, we do not believe it would be appropriate to extend the MiFID provisions, which are equity-specific, to bonds on an identical basis.

If regulators decide that more transparency is required and that action should be taken, then any measures should be tailored to meet the specific features of the bond markets. For example, bond trades are typically much larger than equities – therefore the MiFID delayed publication regime for equities would have to be re-

worked. In addition, some of the MiFID parameters will have to be redefined, such as normal market size.

**4) Can CESR indicate and describe a significant case or category of cases where investor protection has been significantly compromised as a result of a lack of mandatory transparency?**

Although we have stated that there is no clear evidence of market failures, we do believe that retail participation in the most liquid (Government and corporate) bonds, is one area where greater transparency may have a positive effect on investor protection and liquidity. Retail investors often lack the resources to track down the best possible price for a bond issue. We note that direct participation in the UK is limited, whilst we understand that participation in the other jurisdictions is greater – this could in part be due to greater transparency.

**5) Could it be feasible and/or desirable to consider extending mandatory transparency only to certain segments of the market or certain types of investors?**

If the Commission does decide to take action, we believe that it should be limited to the specific area of retail investment in the most liquid (Government and corporate) bonds.

We believe it is feasible to have transparency for certain segments. Attempts to differentiate retail and professional trading have been made in MiFID with a determination of retail size trades for equity trading. We also note that a differentiated approach is made for the wholesale debt market in the Prospectus Directive with a different approach for issues with a denomination of over €50,000. We therefore believe it is possible to do likewise for non-equity transparency if indeed additional transparency was deemed desirable.

We believe that any risks that might be associated with a segmented approach could be managed by introducing increased transparency through a pilot exercise to determine whether there is a need for greater transparency, whether this improves retail participation, and whether a segmented approach is feasible. We suggest there should be a two-year sunset clause after which the success of the pilot should be assessed.

**6) What criteria does CESR recommend should be applied by the Commission in determining whether self-regulatory solutions are adequate to address any of the issues above?**

We have no comment to make on this question.