

July 8, 2022

International Organization of Securities Commissions

**Re: Discussion Paper on Corporate Bond Markets – Drivers of Liquidity During COVID-19 Induced Market Stresses**

We welcome the opportunity to provide feedback to the International Organization of Securities Commissions (“IOSCO”) on its discussion paper on corporate bond markets.<sup>1</sup> Corporate bond markets play an essential role in the global financial system, and we therefore appreciate IOSCO’s consideration of policy measures to increase market resiliency, efficiency, liquidity, and competition.

As the Discussion Paper notes, market participants’ “access to data” is “key to price formation, trading, and liquidity.”<sup>2</sup> However, the availability of reliable, comprehensive, and timely data regarding secondary market trading activity in corporate bond markets varies widely across jurisdictions. A wealth of empirical research has demonstrated that greater post-trade transparency improves the quality and resiliency of corporate bond markets,<sup>3</sup> including for the following reasons:

- Trusted and reliable sources of data regarding current price levels and trading volumes helps investors continue trading during periods of heightened volatility, as opposed to temporarily withdrawing, which exacerbates volatility.
- Reducing information asymmetries enhances market resiliency by increasing investor confidence across all market conditions.
- Access to timely data regarding recently executed transactions means that changes in supply and demand are more likely to be integrated into the price discovery process.
- Post-trade transparency facilitates the entry of new liquidity providers, since in an opaque market, it is difficult for new entrants to access the information needed to compete with incumbent intermediaries.

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<sup>1</sup> Corporate Bond Markets – Drivers of Liquidity During COVID-19 Induced Market Stresses, IOSCO (Apr. 6, 2022) (“Discussion Paper”) available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD700.pdf>.

<sup>2</sup> *Id* at 39.

<sup>3</sup> See, e.g., Hendrik Bessembinder, Chester Spatt, and Kumar Venkataraman, “A Survey of the Microstructure of Fixed-Income Markets” (Journal of Financial and Quantitative Analysis, Vol. 55, No. 1, Feb. 2020) (surveying academic literature analyzing the introduction of post-trade transparency in the U.S. corporate bond market and noting “public transaction reporting through TRACE is associated with significant reductions in customer trade execution costs”) available at <https://www.sec.gov/spotlight/fixed-income-advisory-committee/survey-of-microstructure-of-fixed-income-market.pdf>; Asquith, P., et al., “The Effects of Mandatory Transparency in Financial Market Design: Evidence from the Corporate Bond Market” (April 2019) (“Our main finding is that TRACE causes trading costs to decline significantly for the entire bond market and for both dealers and customers”), available at <https://www.nber.org/papers/w19417>.

- Post-trade transparency helps foster further evolution in the trading landscape, including the growth of electronic trading and the adoption of all-to-all trading protocols.
- Comprehensive post-trade transaction data helps market participants achieve best execution by facilitating transaction cost analysis and enhances competition by empowering investors to hold their liquidity providers accountable.<sup>4</sup>
- Finally, transparency benefits investors both large and small, including institutional investors transacting in larger size, as customer bargaining power increases.<sup>5</sup>

While many jurisdictions continue to lack a comprehensive post-trade transparency regime, several efforts are underway to establish consolidated reporting frameworks in the corporate bond markets.<sup>6</sup> We support these efforts, and broadly recommend that IOSCO continue to encourage national and regional regulators to prioritize establishing post-trade consolidated tapes for corporate bonds. In doing so, we believe regulators should seek to establish post-trade consolidated tapes that are: (i) comprehensive, providing market participants with a consolidated view of all trading activity in a particular instrument (both on-venue and off-venue); (ii) as close to real-time as possible; and (iii) low cost in order to be accessible by all investors. The benefits of post-trade transparency cannot be fully realized until investors have access to a comprehensive, real-time, and low-cost post-trade consolidated tapes that aggregate relevant trade information.

Respectfully,

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<sup>4</sup> See, e.g., Bessembinder, H., et al., “Market transparency, liquidity externalities, and institutional trading costs in corporate bonds,” *Journal of Financial Economics* (2006) available at [https://www.researchgate.net/publication/222515781\\_Market\\_Transparency\\_Liquidity\\_Externalities\\_and\\_Institutional\\_Trading\\_Costs\\_in\\_Corporate\\_Bonds](https://www.researchgate.net/publication/222515781_Market_Transparency_Liquidity_Externalities_and_Institutional_Trading_Costs_in_Corporate_Bonds); Edwards, A. K., et al., “Corporate bond market transaction costs and transparency,” *The Journal of Finance* (2007) available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=593823](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=593823); and Goldstein, M. A., et al., “Transparency and liquidity: A controlled experiment on corporate bonds,” *Review of Financial Studies* (2007) available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=686324](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=686324).

<sup>5</sup> See generally Asquith, P., et al., “The Effects of Mandatory Transparency in Financial Market Design: Evidence from the Corporate Bond Market” (April 2019) available at <https://www.nber.org/papers/w19417>; Jacobsen, S., et al., “Does trade reporting improve market quality in an institutional market? Evidence from 144A corporate bonds” (2018) at pages 1 and 7, available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3171056](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3171056).

<sup>6</sup> See e.g., Wholesale Markets Review: Consultation Response, HM Treasury (Mar. 1, 2022) (“Given the important role that data plays in helping markets to function efficiently, the government agrees with the need to improve the quality and usability of market data and remains committed to help progress the emergence of a consolidated tape”) available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1057897/Wholesale\\_Markets\\_Review\\_Consultation\\_Response.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1057897/Wholesale_Markets_Review_Consultation_Response.pdf); EU Aims to Unify Capital Markets with Live Trading Databases, *Financial Times* (May 23, 2022) available at <https://www.ft.com/content/0d975632-34c0-4f80-a6da-846a441bab6c>.