

Friday, 21st May 2010

**MESSAGE ON SOVEREIGN BOND MARKETS
FROM ICMA'S CHAIRMAN AND CHIEF EXECUTIVE**

Last week, ICMA issued a statement to our members about developments in the sovereign bond markets. Our message today follows up that statement by setting out the practical steps we are taking in response.

Events over the past three months have had a profound impact on a number of the European sovereign bond markets and indeed, on other world markets:

- creating considerable uncertainty for investors;
- raising the level of market volatility;
- causing problems for our members in terms of buying and selling these securities efficiently;
- liquidity became more limited and was often one-sided;
- market confidence evaporated leading to wider bid-offer spreads, price distortions and in some cases an inability to buy or sell sovereign securities.

All of which, when taken together, can only be described as a severe market failure.

This situation affects all the users of the securities markets: issuers, intermediaries and investors, many of which are members of ICMA.

The severity of the situation has led to the measures announced last week by the European Union, the ECB and the IMF in a co-ordinated response aimed at restoring market confidence, and improving liquidity and the orderly trading of these securities in the Euro zone.

At ICMA, our mission is to help the development of resilient and efficient securities markets, and we have built up rules, recommendations and guidelines over many years in support of this. Hence we are extremely concerned about the recent developments, as are our 350 plus members. Whilst much has now been done by the official sector, mainly in the context of the secondary markets, we are currently working with our members – on both the buy side and the sell side – to examine all areas of the securities markets in detail to see what can be done better to create order, improve efficiency and security for all market participants.

Our work is focused in three broad areas:

- in the primary markets, where the key concerns relate to the need for full disclosure to investors of the terms, conditions and covenants of new issues - and their appropriateness - whether documented under local law or international law. We are discussing with our members whether our guidelines were being followed, and whether they remain appropriate or need updating. As part of this we are considering inter alia the level of disclosure at launch, due diligence, prospectus quality and the differences between issues documented under local law or international law in terms of investor protection;
- in the secondary markets. Although this has been the focus of the official sector intervention, we need to see what other improvements can be made to secondary market practices to improve liquidity so that spreads and volatility are reduced and orderly pricing can be assured; whether liquidity is fragmented across multiple trading platforms and, if so, what can be done; and how liquidity would be affected if more pre- or post-trade transparency were to be introduced. We have just completed a survey of liquidity and transparency in the corporate bond market, involving our buy-side, sell-side and repo members, and we will consider any implications for the market in sovereign bonds;
- in the market infrastructure, where standards of resilience need to be raised in order to cope with the rapid growth, speed and complexity of financial activity;
- ICMA will also concentrate on improvements in procedures relating to sovereign defaults and capital market based restructurings.

The issues above are complex, and require further analysis. We are already working with our various market practice committees of member experts to see what can be done.

The existence of robust and efficient securities markets is critical for our members' businesses. At ICMA we have been striving for this for many years, and the current situation only serves to emphasise how much work remains to be done. We will continue our efforts to find solutions, although we recognise that this will take time. We will update our members regularly on progress.



Hans-Joerg Rudloff



Martin Scheck