



BG/SJ - n° 2204/Div.

Mr Fabrice Demarigny  
Secretary General  
Committee of European Securities  
Regulators (CESR)  
11-13, Avenue de Friedland  
75008 Paris

Paris, March 6, 2007

## **AFG'S POSITION ON THE CALL FOR EVIDENCE: NON-EQUITIES MARKET TRANSPARENCY**

Dear Mr Demarigny,

The Association Française de la Gestion financière (AFG)<sup>1</sup> welcomes the CESR's Call for Evidence on the non-equities market transparency.

For several years now, AFG has been actively contributing to European discussions and consultations relating to the Markets in Financial Instruments Directive (MiFID), either directly or through the European Fund and Asset Management Association (EFAMA).

Below you will find the AFG's positions on the different questions raised by the Call for Evidence. We will refer to the questions asked to CESR by the European Commission and annexed to CESR's Call for Evidence.

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<sup>1</sup> The Association Française de la Gestion financière (AFG)<sup>1</sup> represents the France-based investment management industry, both for collective and discretionary individual portfolio managements. Our members include almost 400 management companies and more than 700 investment companies.

They are entrepreneurial or belong to French or foreign banking, insurance or asset management groups. AFG members are managing more than 2500 billion euros in the field of investment management, making in particular the French industry the leader in Europe in terms of financial management location for collective investments (with nearly 1500 billion euros managed, i.e. 22% of all EU investment funds assets under management, wherever the funds are domiciled in the EU) and the second at worldwide level. In the field of collective investment, our industry includes – beside UCITS – the employee savings schemes funds and products such as regulated hedge funds/funds of hedge funds and a significant part of private equity funds. AFG is of course an active member of the European Fund and Asset Management Association (EFAMA).

*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?*

A clear distinction should be made between standard products and “tailor made” products. If the question of pre- and post- trade transparency is legitimate for standard products, it is hardly the case for products which are not market standards. **It appears very important to our members to leave aside the issue of transparency for instruments or contracts « tailor made » for one or few investors.**

For more standard products, our members consider that pre-trade information available via brokers and banks on the prices of not very liquid instruments is sufficient. First, **there is no identified market failure on this segment of the market that would lead to the need of more pre-trade transparency.** Second, the post-trade transparency is neither useful on this market segment. A consequence of the lack of liquidity on certain issuances is that several hours or days can elapse between two deals. Putting in place « transaction cost analysis » based on price coming from transactions made at a different time and with different sizes would be a non-sense. Post trade transparency, in this case, would lead to erroneous conclusions and the level of information contained into the price will be very low.

Concerning government bonds, **there are no major stakes as this market, for our members, is efficient with a high degree of pre- and post-trade transparency on prices.**

Concerning corporate bonds, managers estimate **that the information provided by the banks and the brokers on the prices before the transactions is sufficient.**

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

N/A.

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

As there has been no market failure identified until now (see above), it is difficult to expect any change of this picture through the implementation of the MiFID.

*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?*

Bonds markets are essential for the long-term investment and retirement plans to individual investors. The experience shows that retail investors are not the main investors on these markets. The retail investors' flows linked to markets are very low, and even nearly inexistent.

Our members think that bonds markets and the other markets highlighted in this call for evidence are structurally designed for professional investment managers. These markets are OTC markets where main players are large investment banks or specialized voice brokers.

Our members estimate that investor protection has always been respected under the scope of market 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?*

Our members are accustomed to working with certain intermediaries (brokers or investment banks) on some deals because they know, by experience, that only these intermediaries are able to provide fair prices and adequate sizes on a particular issue. If the increase of transparency on these markets conducts investors to ask for quotes on less liquid deals to more than one or two intermediaries, it will lead to harmful opposite effects (especially in terms of cost and time). The EU market is far more liquid than the US market, therefore it is easier to make a deal on a euro-issuance rather than dollar (or sterling) issuance. The overall studies, although contradictory, which show a correlation between transparency, price and liquidity on the US market can not be implemented on the European Market. Dealers on this latter market have a weaker pricing power than the US ones.

Our members wish to underline that requesting opinions from different counterparties can negatively impact investor's protection. Contrary to a common belief, the less an issue is liquid, the smaller number of counterparties should be consulted.

Only one improvement in the bond market could be wished: having a better vision of traded volumes. That would make it possible to correct some asymmetry of information between buy and sell side. These latter players have, via the communications between brokers for example, a much broader vision of the conditions of market than asset managers. Prices coupled with the volumes exchanged on the markets obtained with more post trade transparency would be helpful for asset managers. Moreover, getting a higher degree of post-trade transparency would lead to better analysis of prices practised by intermediaries. This could help to set up benchmarks to compare transaction costs.

*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?*

In case an action has to be taken, it should only be at EU level since we strongly support the establishment of a single European market. Any other option would lead to dumping among European financial markets. In the absence of regulators' actions, it seems that the market will go towards more post-trade transparency. Pre-trade transparency already exists on a large number of products where it brings an added value to these products. Asset managers consider that for all the electronic trading systems (Markit, BondVision, ISMA...), quotes given by intermediaries and other information such as Bloomberg and Reuters are sufficient in terms of pre trade transparency whatever the financial instrument is.

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If you wish to discuss the contents of this letter with us, please contact myself at 01 44 94 94 14 (e-mail: [p.bollon@afg.asso.fr](mailto:p.bollon@afg.asso.fr)), Stephane Janin, Head of International Affairs Division, at 01 44 94 94 04 (e-mail: [s.janin@afg.asso.fr](mailto:s.janin@afg.asso.fr)) or Bertrand Gibeau, asset management expert at 01 44 94 94 31 (e-mail: [b.gibeau@afg.asso.fr](mailto:b.gibeau@afg.asso.fr)).

Yours sincerely,

(signed)

Pierre Bollon