

The impact of legislation on the bond markets; MIFID II and the Basel Securitisation Framework

Frankfurt am Main, 22 January 2013

Bond Market Contact Group



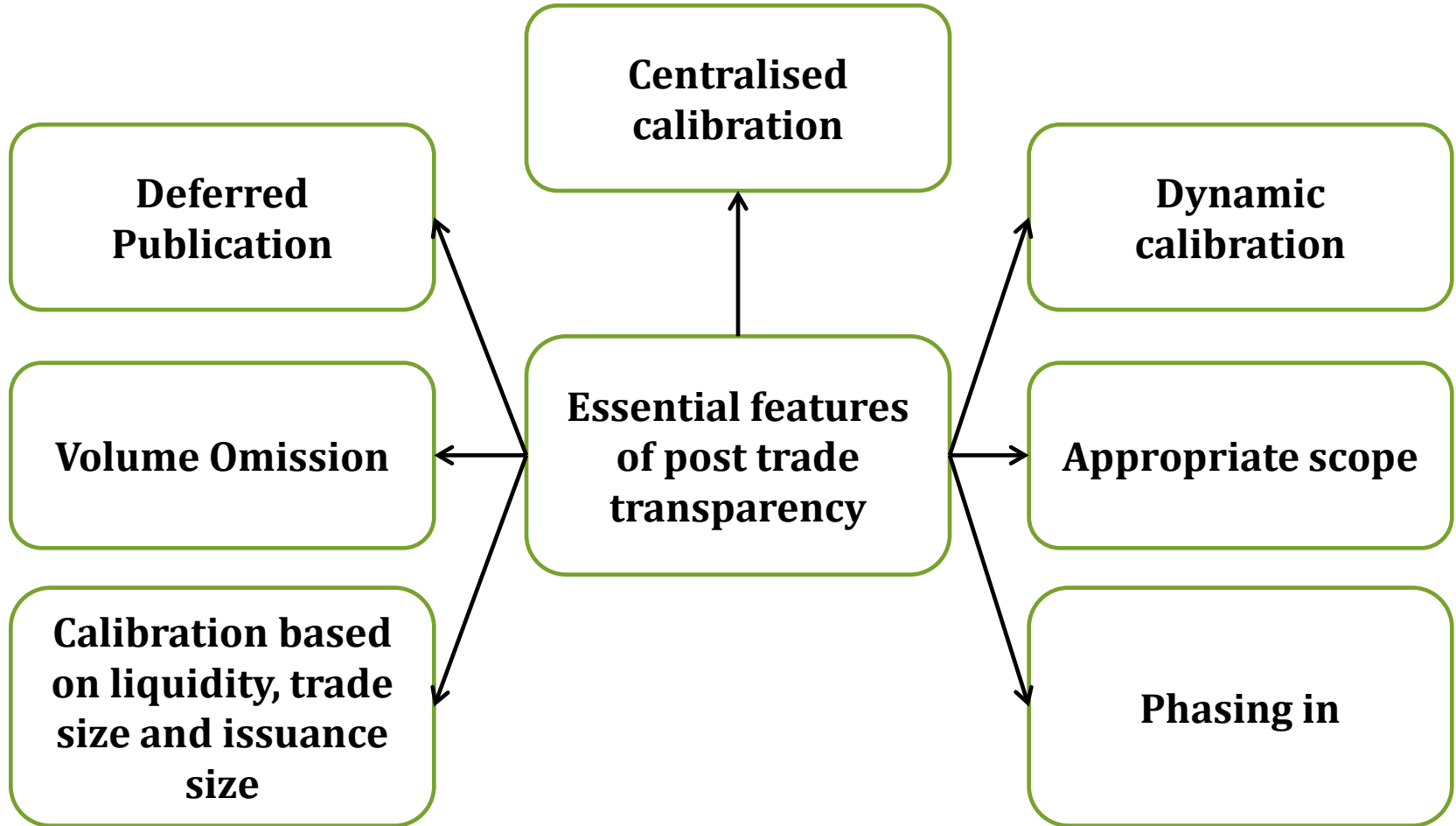
Pre-trade transparency

- **Multilateral Trading Venues** must publish continuous quotes upon which multiple parties can act. Waivers based on liquidity and market model.
- **Systematic Internalisers** (i.e. market makers) that agree to provide a quote upon clients' request will have to provide a firm quote. The quote must be disclosed to all clients. Below a certain size, the quote must be executable for all clients and disclosed to the public.

Post-trade transparency

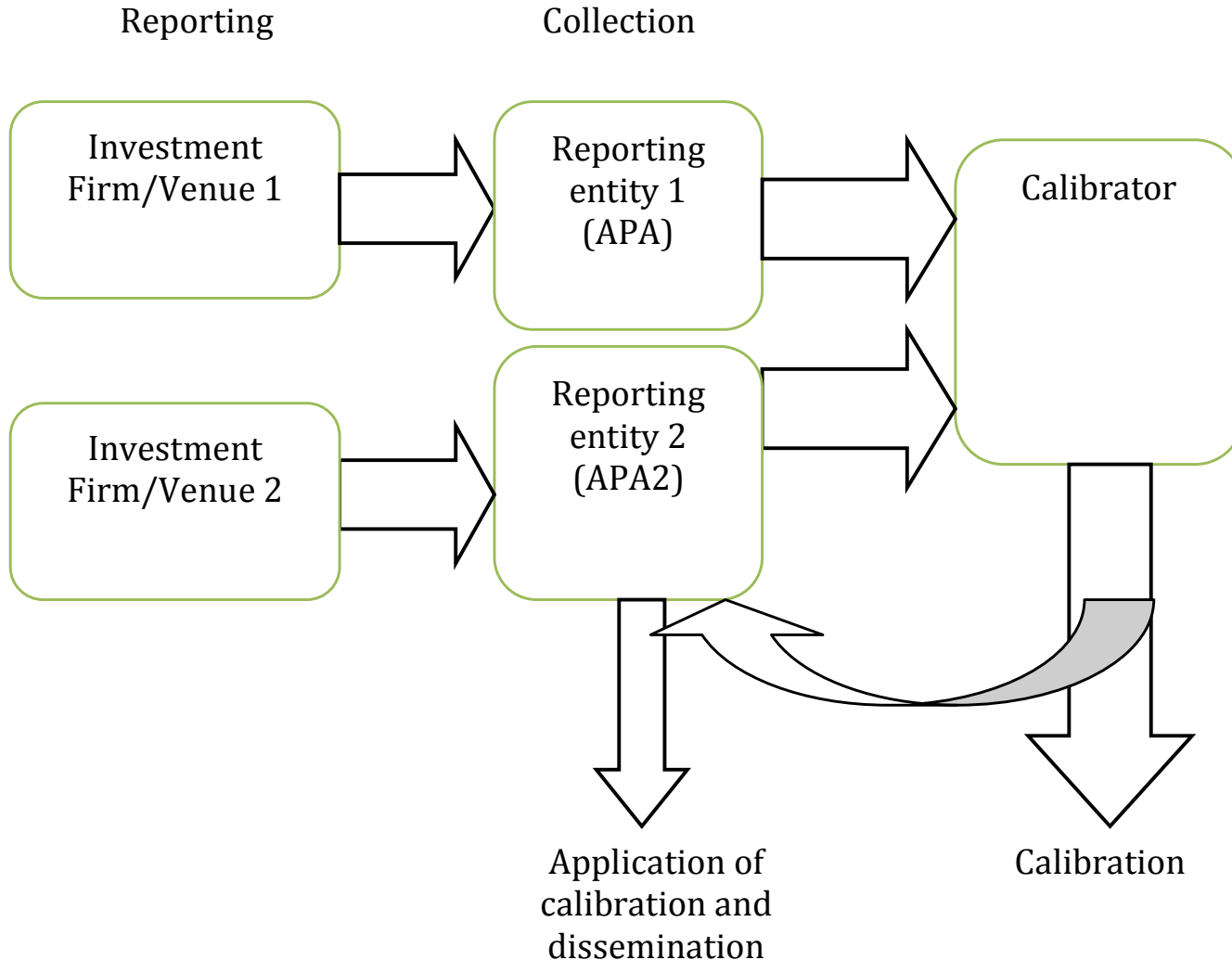
- **Multilateral and bilateral trades.** The price, volume and time of transactions will have to be published real-time or with a time delay based on size and type of the transaction. Volume omission enabled.

Industry framework: essential features of post trade transparency



Liquidity Category							
		A		B		C	
Issue Size (EUR)	Transaction Size	Disclosure Requirement	Vol (EUR) /Trade no	Disclosure Requirement	Vol (EUR) /Trade no	Disclosure Requirement	Vol (EUR) /Trade no
>5 billion	>20 mm	Volume Omission, EOD	10bn & 500 trades	Volume Omission EOD	5bn & 200 trades	Volume Omission , T+3	0mm & 0 trades
	10-20 mm	Real-time		Volume Omission, EOD		Volume Omission , T+3	
	1-10 mm	Real-time		Real-time		Volume Omission , T+3	
	<1mm	Real-time		Real-time		Real-time	
[500mm] - 5bn	>10mm	Volume Omission T+3	100mm & 60 trades	Volume Omission T+7	20mm & 20 trades	Volume Omission T+7	0mm & 0 trades
	5-10mm	T+3		T+3		Volume Omission T+7	
	500k-5mm	EOD		T+3		Volume Omission T+7	
	<500k	Real-time		Real-time		Real time	
< [500mm]	All trade sizes	Time delay & Volume Omission					

Industry framework: draft operational structure



Basel Consultation on Securitisation Capital Requirements: the proposals

- **Aim:** to make “capital requirements more prudent and risk sensitive, mitigate mechanistic reliance on external credit ratings, and reduce cliff effects”
- **Proposed Revisions:** two alternative hierarchies (A and B)

Figure 1: Alternative A

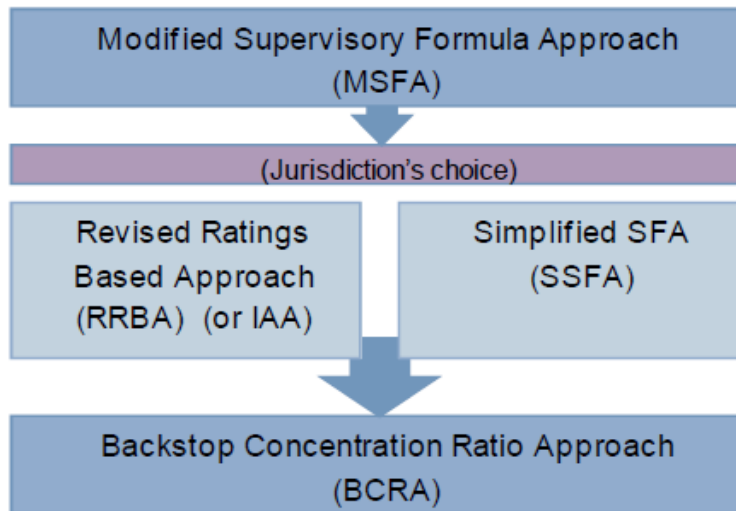
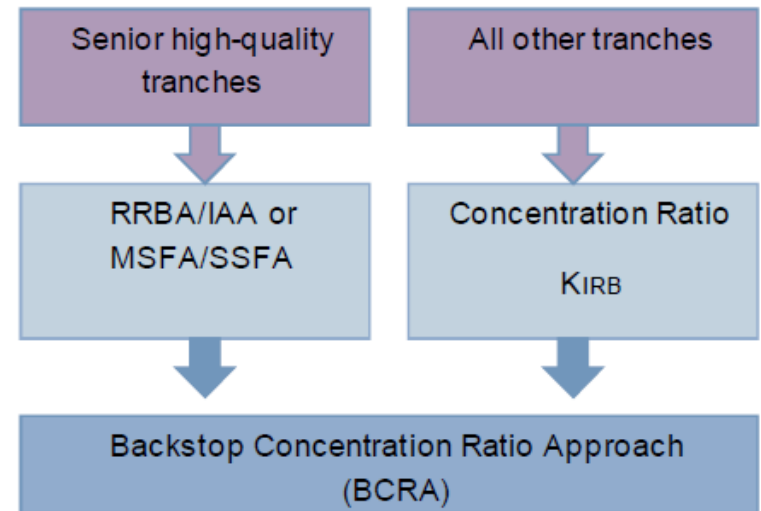


Figure 2: Alternative B



Basel Consultation on Securitisation Capital Requirements: our view

- Large divergence and inconsistency between the results of the different approaches
- Large increase in capital requirements, especially for highest quality ABS
- New maturity effect has a dramatic impact

Will lead to:

- Large capital increases for European banks against securitisation bond holdings
- Drastically increased lending margins if banks to retain RAROC

- What will be the cumulative impact of current and future legislation on the liquidity of the securitisation market?
- What does more transparency mean for the distribution model of bonds? Pros and cons.
- What do you think of the AFME post trade transparency proposal as a way to maximize transparency while minimizing risks for liquidity?



Association For Financial Markets in Europe

The Association for Financial Markets in Europe advocates stable, competitive and sustainable European financial markets that support economic growth and benefit society.

Contact

Sander Schol
St Michael's House
1 George Yard
London EC3V 9DH
United Kingdom

Tel: +44 (0) 20 7743 9352
www.afme.eu