

Towards a more efficient European primary bond market: *the case for harmonisation and standardisation*



Objective of the primary bond market

To match demand and supply of funds in the most efficient way so as to:

1. Contribute to growth and investment in Europe by optimising the allocation of funds over investment opportunities.
2. Provide for the broadest possible range of available opportunities to invest European savings for fund managers, companies and private individuals.

Ambition

If we would design from scratch the optimal, most efficient flow of funds from investors to issuers with current available technology, we would most probably end up with a different market structure.

Therefore: how should we evolve from the current primary market to a:

- fully digitalised workflow;
- based on platform infrastructure;
- providing relevant data flows to all participants;
- with high transaction efficiency (high speed, low cost);
- in a transparent and easily accessible European bond market?

Utopia?

- fully digital markets already exist in fx, irs, repo, bonds (secondary)
- fully digital placement formats already exist: f.i. government bond auctions (Bloomberg, MTS, IPREO), EPPF
- trading of financial products on platforms is widespread: f.i. Bloomberg, Tradeweb, MTS, Brokertec
- standardised data provision is available in many varieties: f.i. pre- and post trade reporting, harmonised reporting format for government bonds etc.

We mainly need co-ordination and co-operation to implement already existing possibilities and technologies.

The case for harmonisation and standardisation

Digitalisation and smooth data flows require
harmonisation and standardisation

What to harmonise?

1. Documentation (contracts and confirmations)
2. Identification (investors and counterparties)
3. Procedures

Harmonisation of documentation

Why?

- to reduce costs by digital generation of contracts and confirmations
- to have a faster post-trade workflow ($< t+5$)
- to make contracts and confirmations better machine readable
- to make the European bond market more uniform, transparent and attractive for investors

How?

- harmonisation of definitions, conventions, calendars
- uniform confirmations, term sheets, system of digital signatures etc.
- automatic digital creation of all documentation, based on standard agreements

Harmonisation of identification

Why?

- automatic processing of transactions and data requires uniform identification
- to better be able to analyse historic transaction data

How?

- *agree* on unique investor identifiers to be used in data flows (f.i. in bid books of syndicated transactions)
- *proposal*: use LEI (Legal Entity Identifier) with a suffix to identify the specific part/department/portfolio of a counterparty
- *agree* on uniform, recognisable trade identifiers (f.i. by using common EU-ISINs for international euro transactions)

Harmonisation of procedures

Why?

- smooth and fast transaction flow requires digitalisation
- digitalisation calls for uniform procedures
- interoperability and open competition requires clarity about procedures

How?

- more (centralised) co-ordination of procedures and workflows, taking into account the needs of all participants in the transaction chain

Questions and discussion

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