

# 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



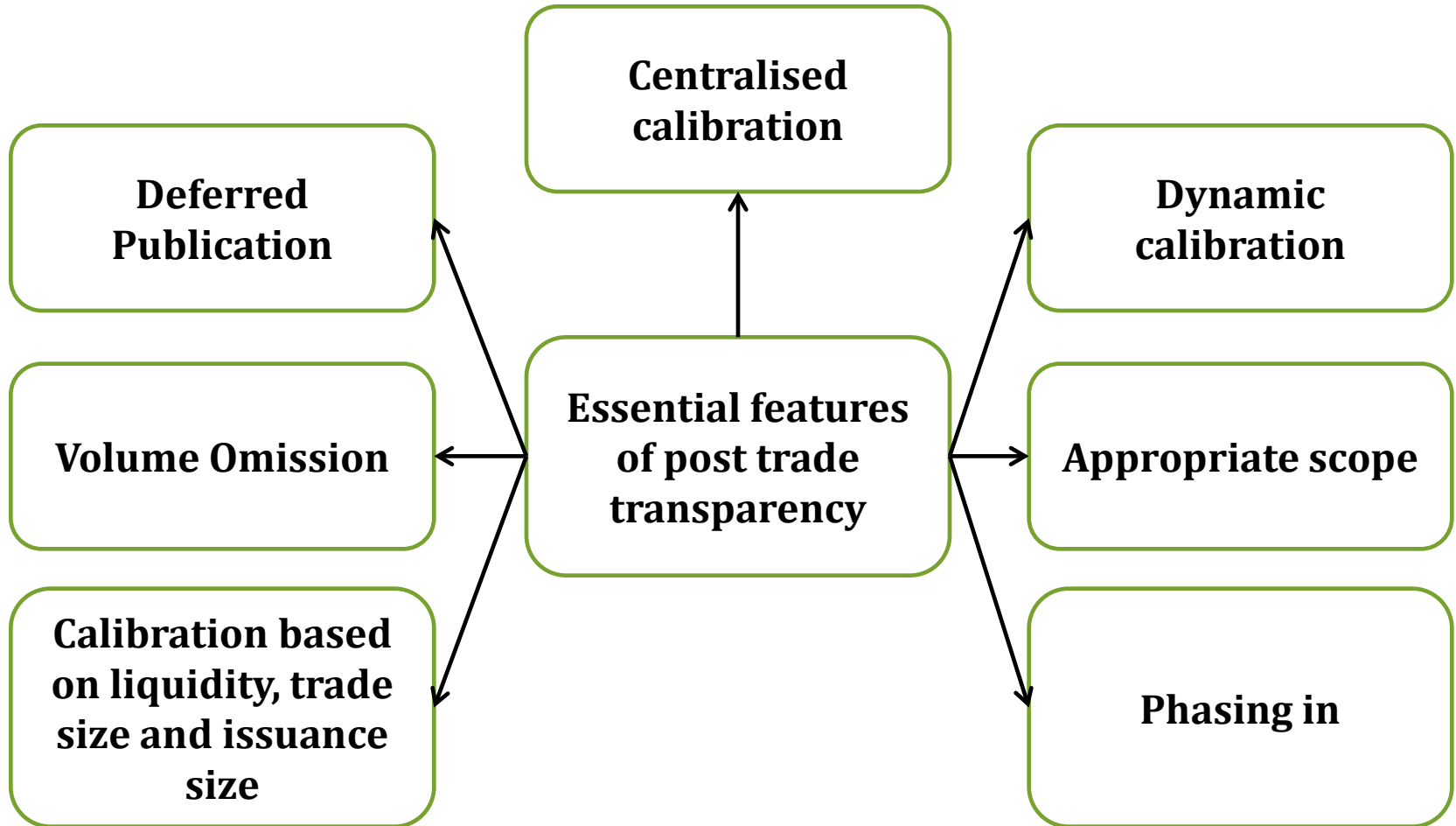
## Pre-trade transparency

- **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

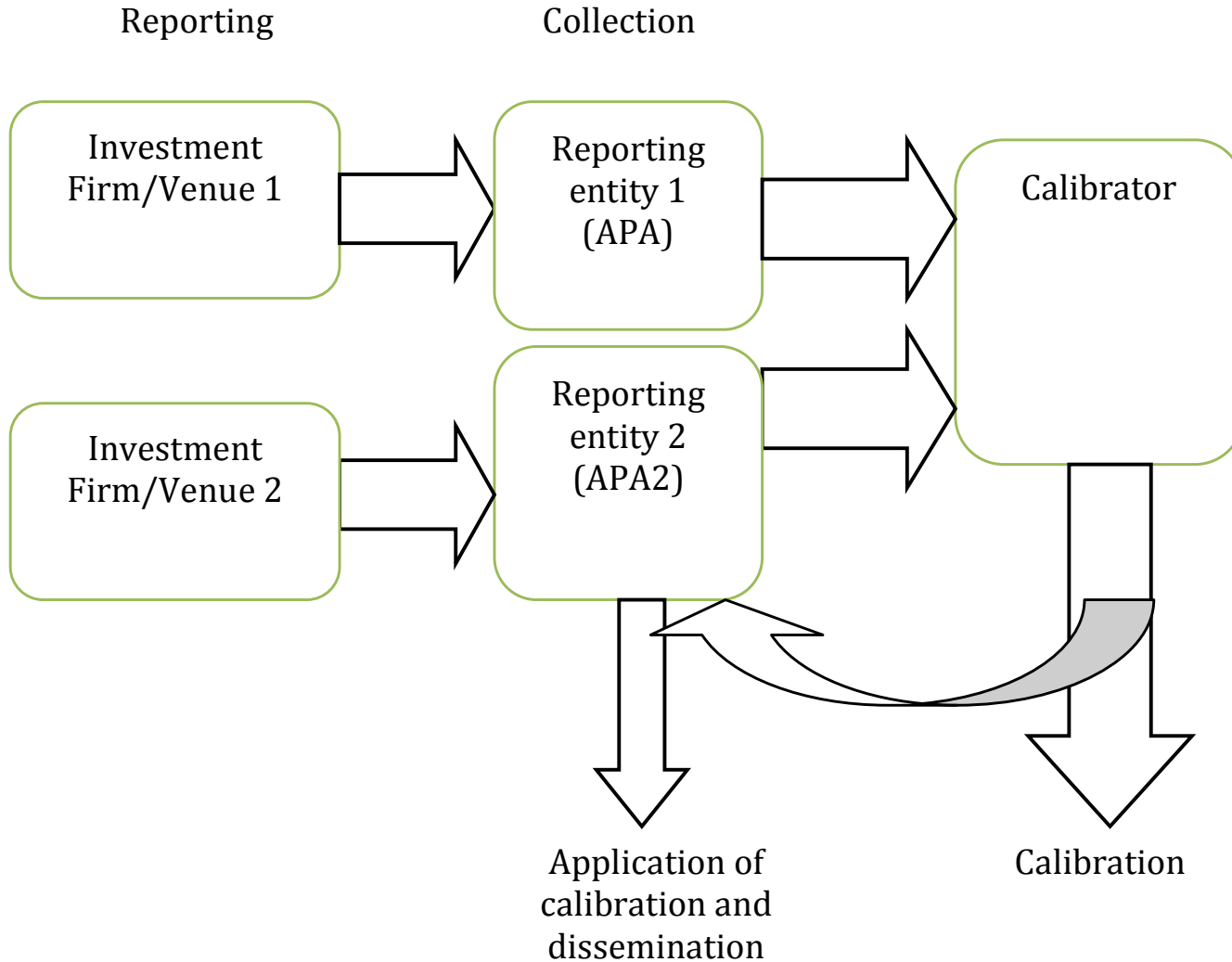
- **Multilateral and bilateral trades.** The price, volume and time of transactions will have to be published real-time or with a time delay based on size and type of the transaction. Volume omission enabled.

# 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

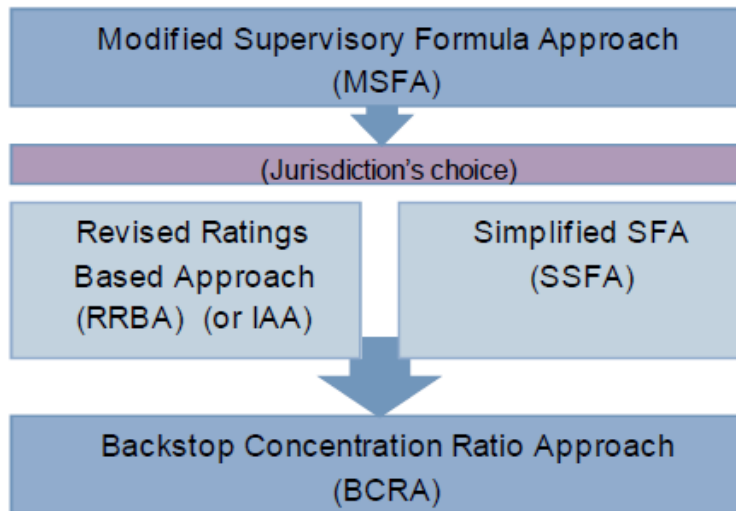
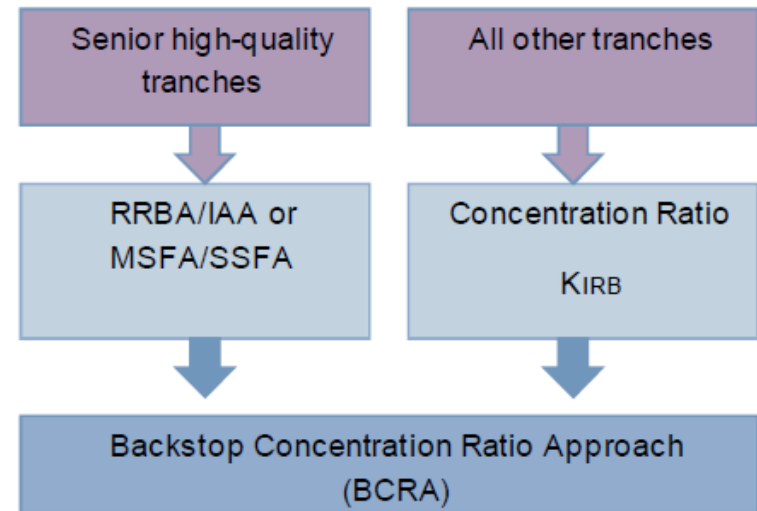


Figure 2: Alternative B



# 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.

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