

# Primary Dealer Status

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October 2017

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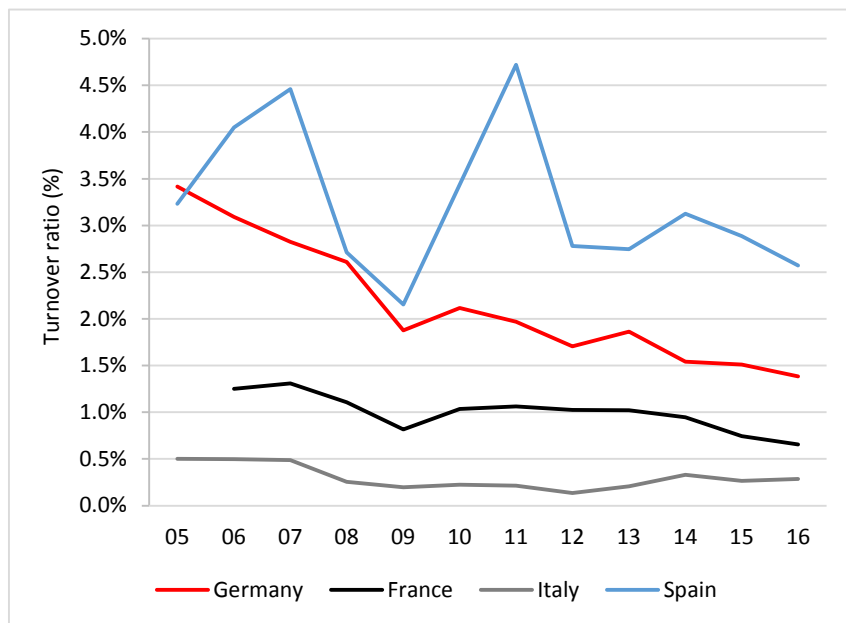
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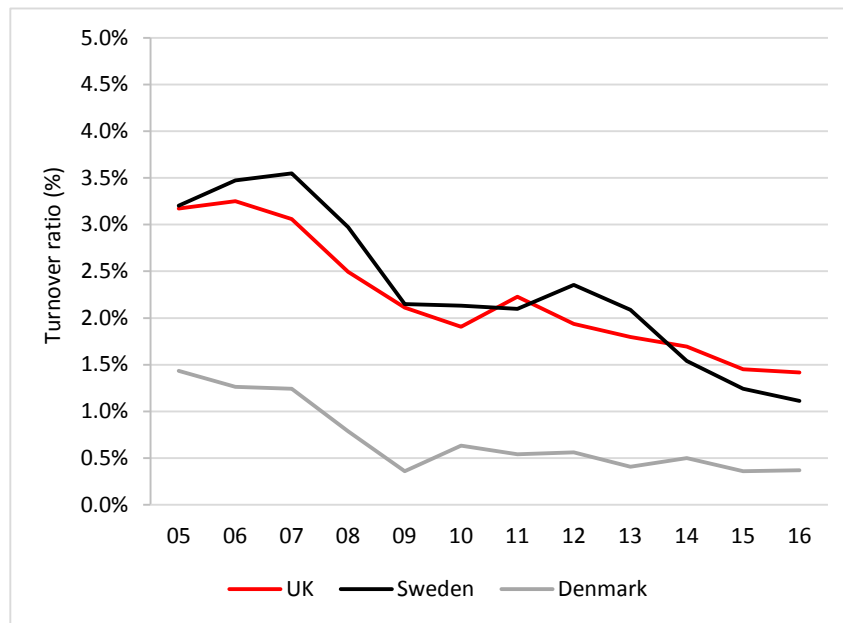
# Turnover for European Government Markets

Turnover ratio for Germany, France, Italy and Spain



Source: HSBC, AFME\*, National DMOs

Turnover ratio for UK, Sweden and Denmark



Source: HSBC, AFME\*, National DMOs

\* Data is from AFME's 'Government Bond Data Report, European Market Update Q2: 2017'

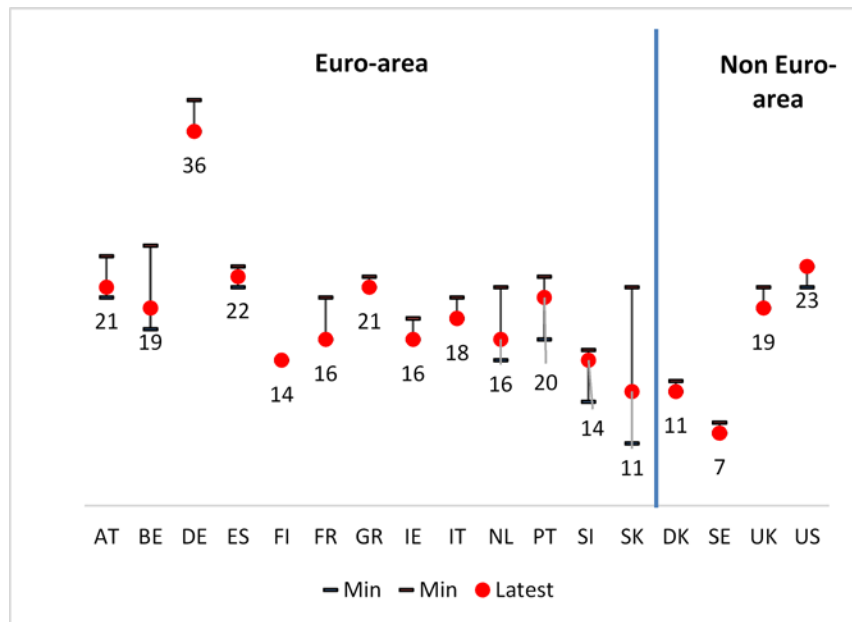
(see <https://www.afme.eu/globalassets/downloads/data/government-bonds/afme-crd-govt-bond-data-report-q2-2017.pdf>)

- **Turnover in the European government bond markets continues to decline**

- Germany has seen turnover decline from 3.4% in 2005 to a mere 1.4% in 2016
- Non-euro countries have also seen the turnover continue to decline, with both UK and Sweden at roughly half of the level in 2005

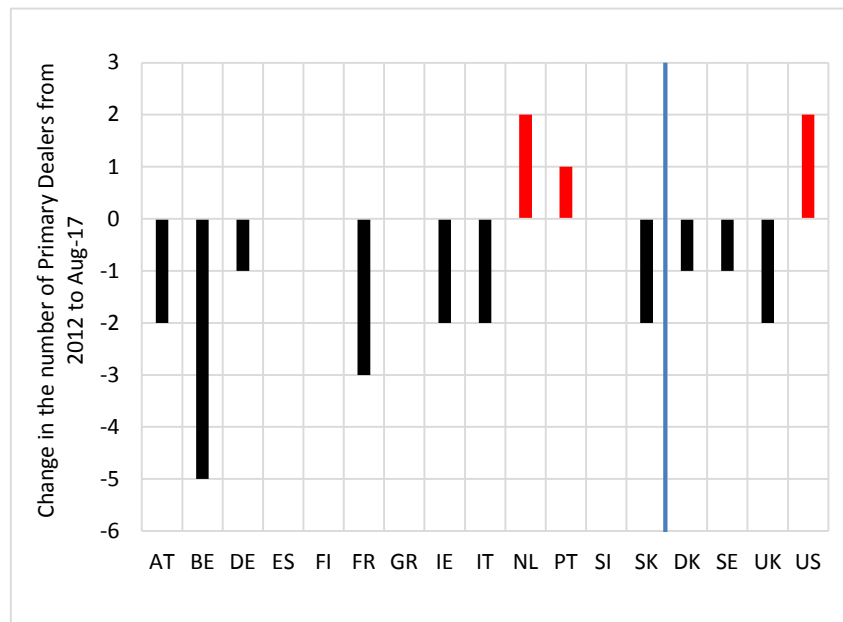
# Primary Dealers Numbers

Historical range of number of Primary Dealers (2012 – Aug-17)



Source: HSBC, AFME, National DMOs

Changes in the number of Primary Dealers since 2012



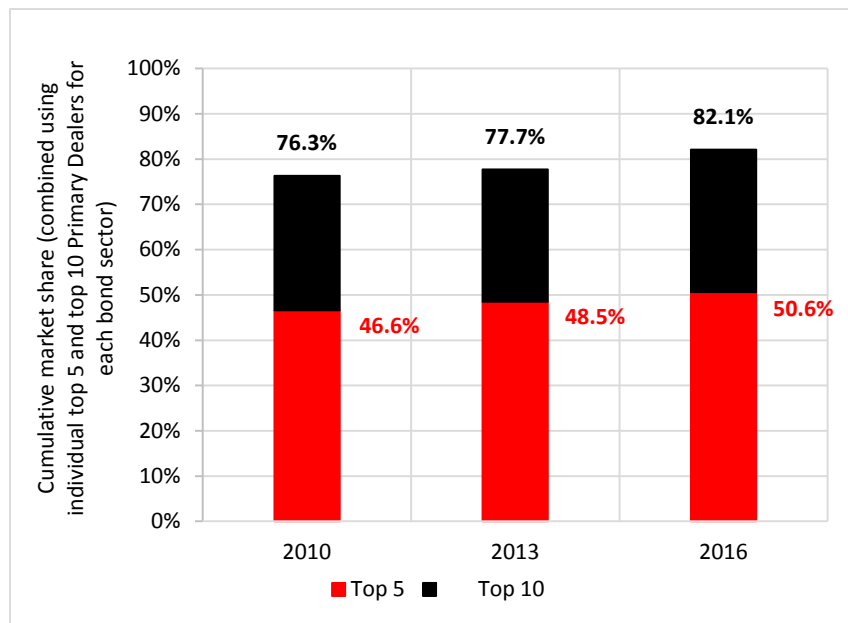
Source: HSBC, AFME, National DMOs

- **Number of primary dealers has seen changes since 2012**

- Seven euro-area countries have seen the primary dealers (PD) community decrease over the period
- Some countries have seen notable variability in the number of PD, e.g. Belgium
- While the UK has seen a reduction, the US has seen an increase in the number of primary dealers

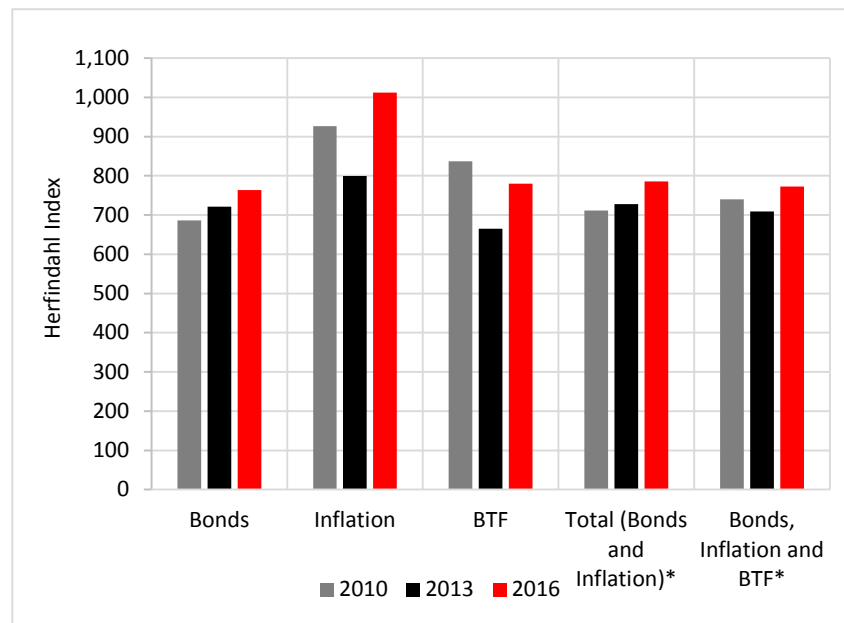
# Data from the French market suggests increasing PD concentration

Cumulatively the Top 5 and Top 10 in bonds and also in inflation have increased their share of market turnover



Source: HSBC, AFT

Herfindahl index for Primary Dealer in the French government bond, inflation and BTF market – rising since 2010



Source: HSBC, AFT

## • Evidence of increasing concentration among Primary Dealers in French market

- The Top 5 Primary Dealers in French market have increased their share of market turnover since 2010...in 2016 was above 50%
- The Top 10 PDs account for over 82% of turnover
- Using the Herfindahl index (measure of concentration), both bonds and inflation have seen increases since 2010...
- ...the only sector that is lower than 2010 is BTFs

# Lack of Primary Market Harmonisation

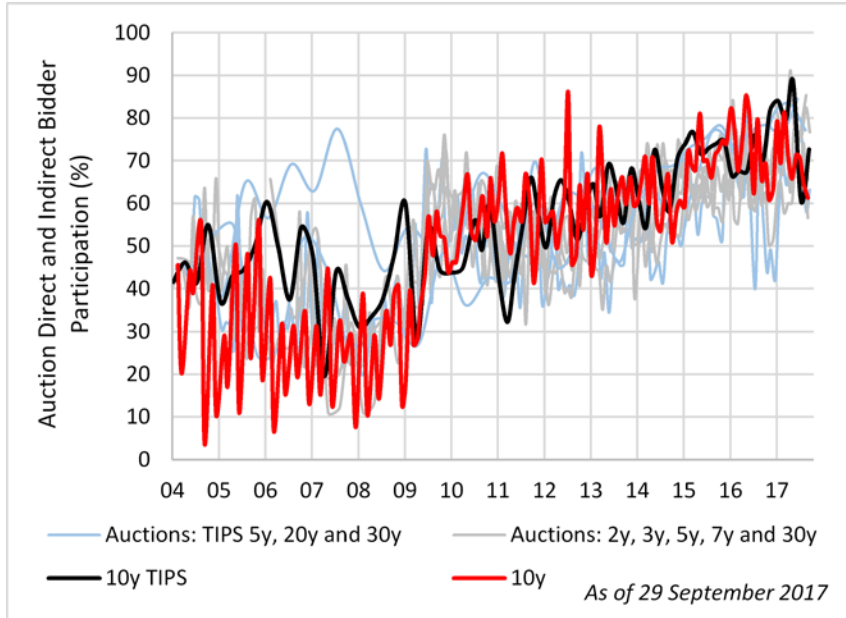
Method for standard primary auctions in each country

Country	Type of Primary Auction Used	Auction Procedure
Austria	Multi-price	Austrian direct auction system
Belgium	Multi-price	Bloomberg auction system
Finland	Single price auction	Bloomberg auction system
France	Multi-price	Banque de France
Germany	Multi-price and Average possibility	Bund bidding system
Ireland	Single price auction	Bloomberg auction system
Italy	Single price auction	Todeal Bank of Italy
Netherlands	Single price auction	MTS
Portugal	Single price auction	Bloomberg auction system
Slovakia	Multi-price/Single price auction	Bloomberg auction system
Slovenia	Multi-price	Bloomberg auction system
Spain	Modified Dutch	Servicio de Liquidación del Banco de España (SLBE)

*Note: The list covers only the major methods of primary auction bond issuance. Does not include process for T-Bills or some inflation-linked issuance (such as BTP Italia)*

*Source: HSBC, National DMOs*

## US has seen increasing direct and indirect bidding at auctions



Source: HSBC, US Treasury, Bloomberg

- **Aspiration of harmonisation across all markets**

- However, there remains significant differences across all the Euro-area markets that primary dealers need to contend with
- This includes the methodology for auction processes, including whether single, multi price or combination of both
- Additionally, although the Bloomberg auction system is prevalent, there are other systems used elsewhere

- **Clients participation into auctions has remained low in the Euro-area**

- Different in the US

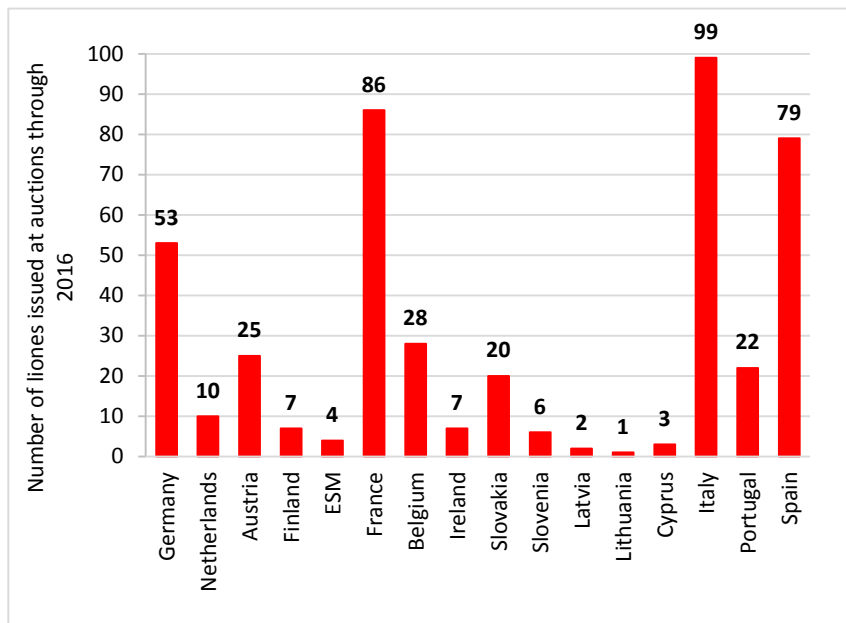


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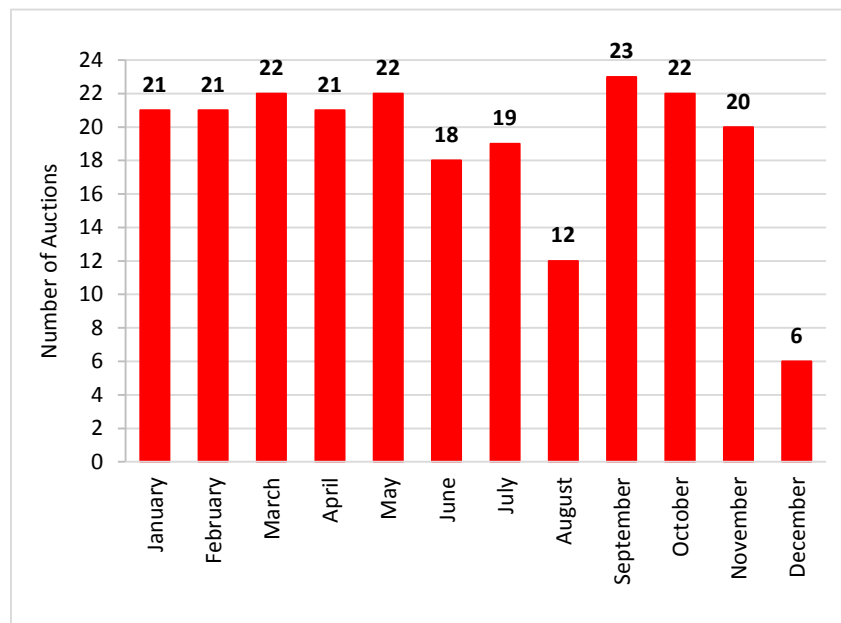
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# Auction Workload

In 2016 a total of 452 lines were auctioned



Number of Euro-area auctions (incl. ESM), monthly in 2016



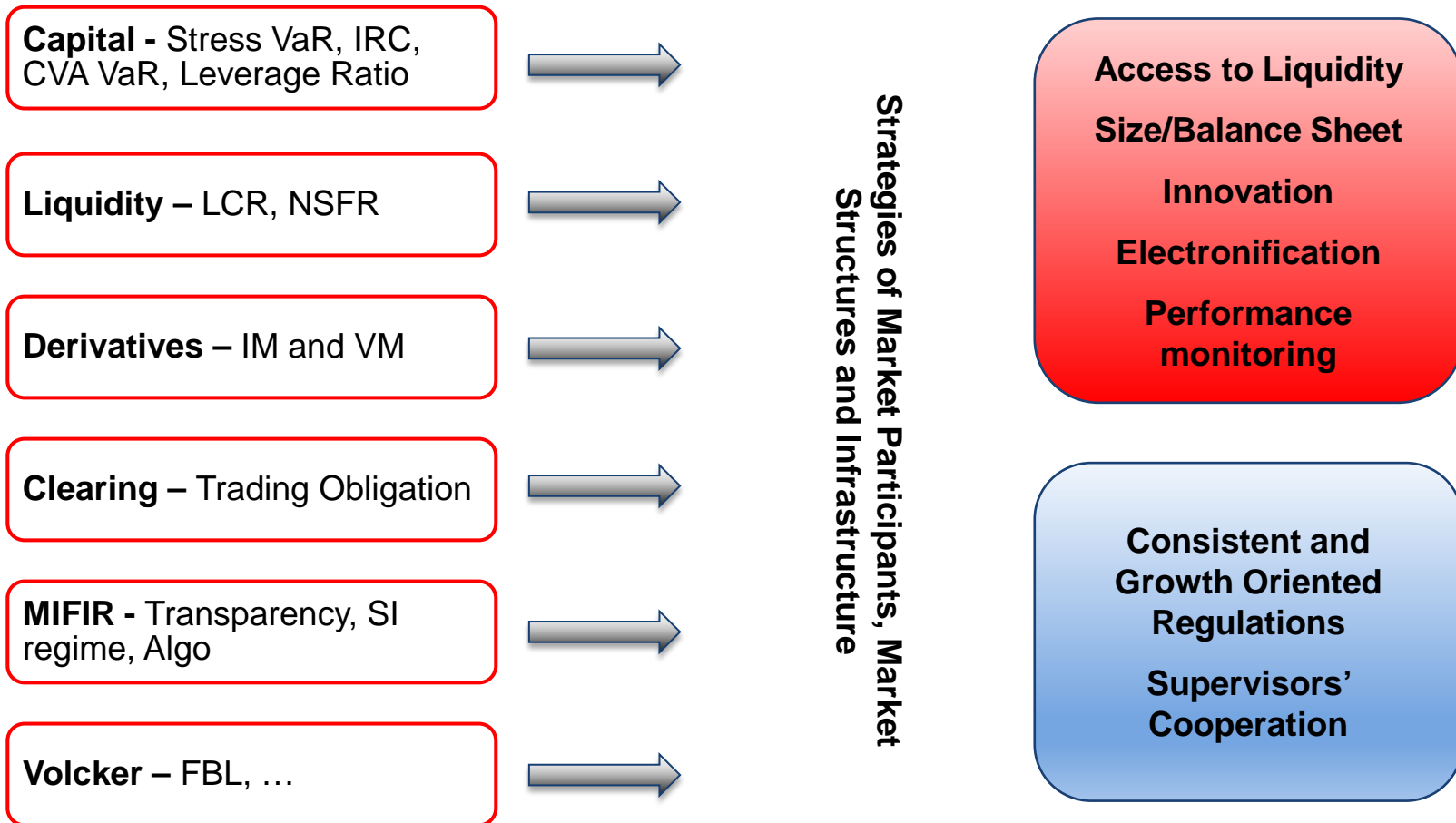
Source: HSBC, National Debt Agencies and DMOs

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- **Number of auctions and lines is large in Euro-area**

- For Euro-area, including ESM, there was a total of 452 lines auctioned through the course of the auctions in 2016...
- ...Italy saw a total of 99 lines issued, whereas France (86), Spain (79) and Germany (53) were also notable
- In terms of auction times, this averaged 19 per month in 2016...
- ...however, the first five months of the year saw 21-22 auctions per month – just over one auction per working day

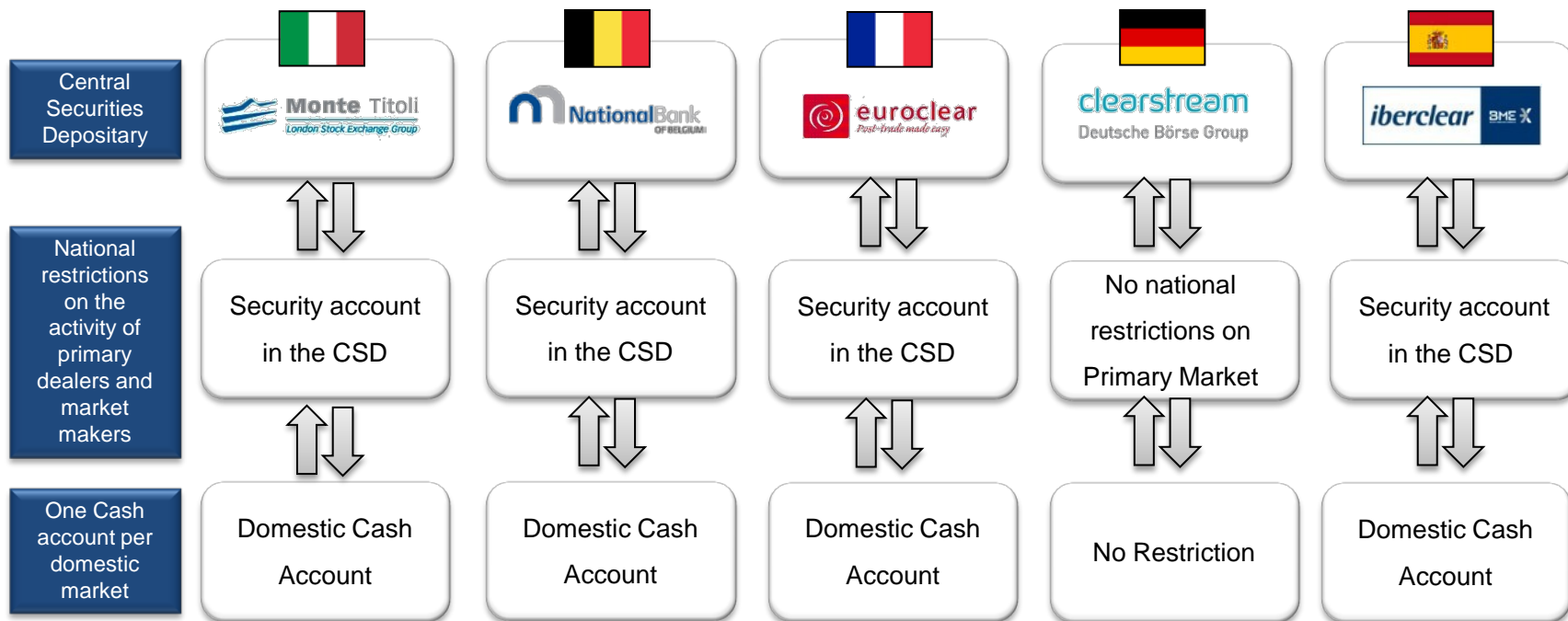
# The Regulatory Framework



Source: HSBC

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# Post-Trade European Landscape (Before T2S) – Primary Dealership



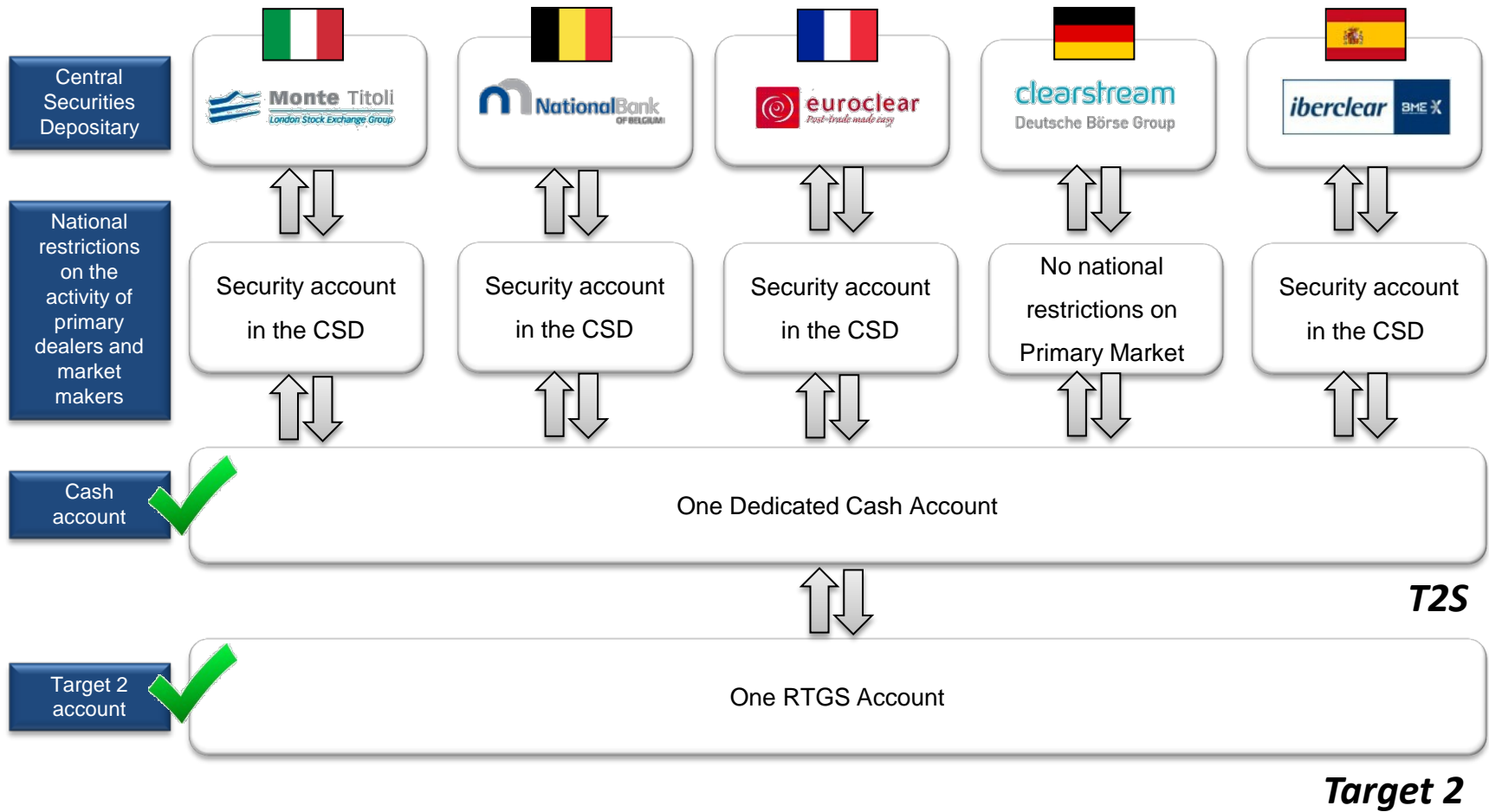
Source: HSBC

- **Several domestic markets with:**

- Their own cut-off settlement cycles
- Their settlement costs
- Their set of matching standards



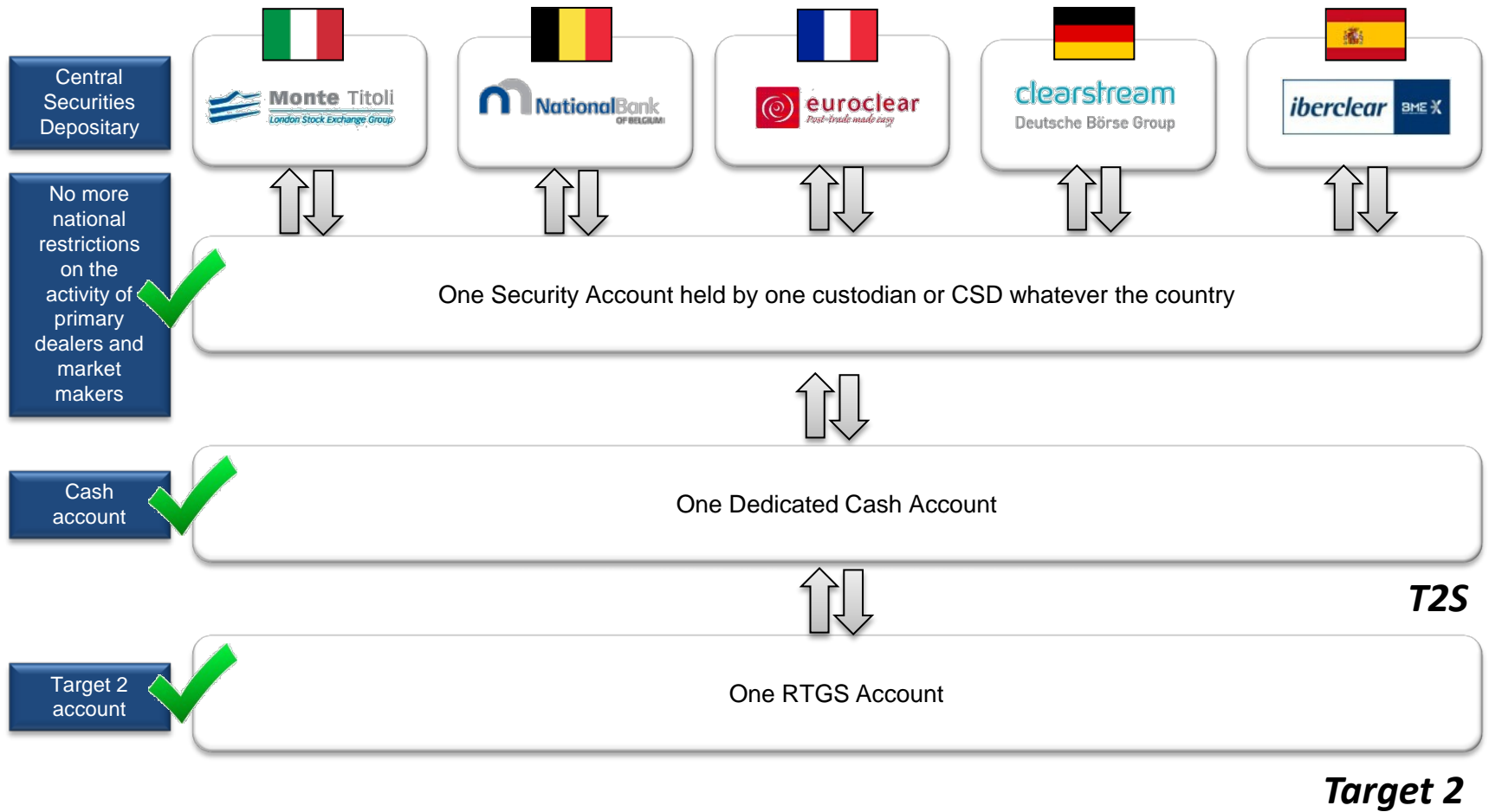
# Post-Trade European Landscape (Post T2S) – Primary Dealership



Source: HSBC

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# Expected European Post-Trade market – Primary Dealership



Source: HSBC

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# Primary Dealership: Barriers to Complete Harmonisation

- **T2S main goal was to harmonise the post-trade market in the Euro-System**

- At the beginning of the T2S project, the ‘Giovanni Barriers’ were identified by a group of financial market experts to describe the main obstacles for efficient cross-border clearing and settlement in Europe
- After T2S implementation, barrier number 10 “National restriction on the activity of primary dealers and market makers” still remains an issue for an efficient cross-CSD settlement environment
- However ongoing discussions between T2S participants are removing some barriers

- **As of today**

- A security account held by the CSD is still required on the French and Italian market for Primary Dealership
- Germany is a specific market with most of the activity performed on International Central Security Depository
- Due to recent migration of the Spanish market, ongoing discussions and technical issues still prevent cross-CSD Issuances on the Spanish Market

# A huge transformation has taken place

- **Primary dealers have undertaken significant change, adapting to the shifting landscape**
  - Regulatory transformation
  - Capital charge
  - Mean of trading
- **...however specific issues remain**
  - No new comers have been forthcoming given the constraints (e.g. Capital Charge)
  - Fragmentation continues to prevail (Clearing, Auction system)
  - Low level of clients participation at auctions remains an issue
  - Coordination on issuance program can still be improved

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# Items for Discussion

- **Simplifying the current set-up for Primary Dealers**
  - Are there any initiatives that could be taken in order to try and simplify the Primary Dealer model?
- **Elevated sovereign issuance in a declining ECB PSPP purchasing future**
  - The ECB is likely to reduce their bond purchases through PSPP over the coming year or so
  - Euro-area governments will continue to issue sizeable amounts of bonds going forward
  - How will the market and Primary Dealers absorb this projected increase in ex-PSPP issuance?

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