

UPDATE ON THE PRIMARY DEALERSHIP MODEL

NATHALIE FILLET

Global Markets

BNP Paribas

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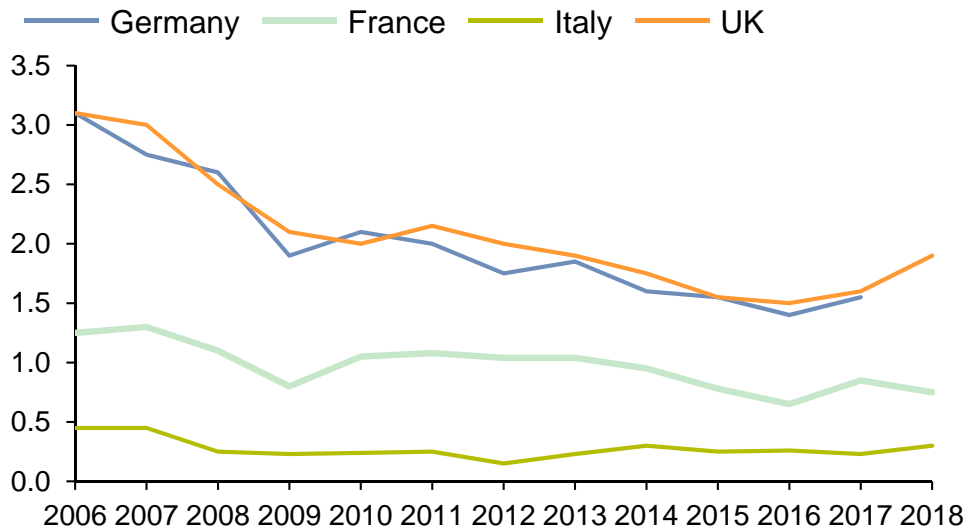
The bank for a changing world

Current trends in the European sovereign bond markets

- **Turnover of European government bonds has been decreasing since the crisis with some event-driven spikes**
- **There are fewer primary dealers in the market and volumes are more concentrated among the top players**
- **The changing regulatory landscape and spread compression continue to accelerate the electrification of the business**
- **The Primary dealership system has adapted to the new landscape**

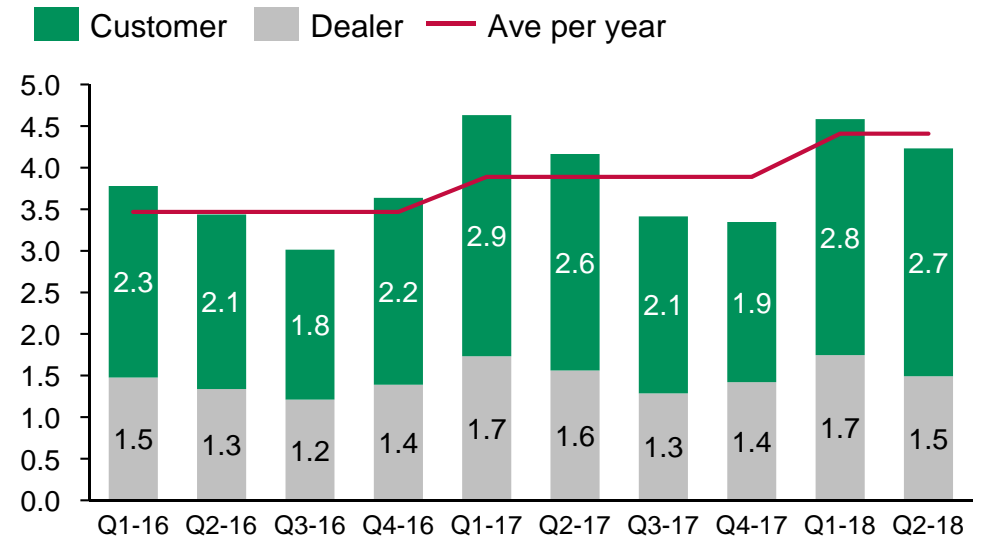
Lower Turnover in the European Sovereign Bond Markets

Turnover ratios of European government bonds



Source: AFME Government Bond Data Report 2018 Q2

Eurozone aggregated sovereign bond market turnover (€bn)

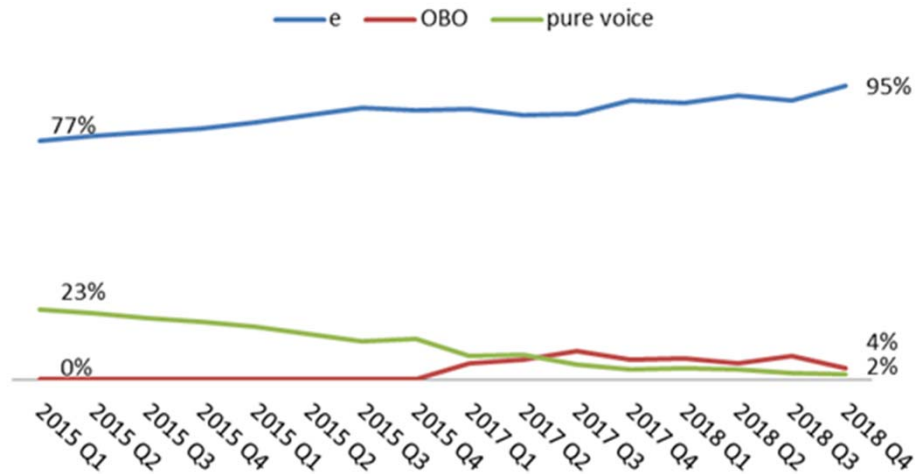


Source: Economic and Financial Committee of EU

- The 2008 crisis has had the largest impact on turnover, only finding a floor in 2016
- Changes in regulation have also impacted turnover, albeit slightly
- Unsurprisingly, there has been a larger pool of liquidity in core markets vs peripherals
- The market has been somewhat cyclical, driven by specific macro events (various elections)

Electronification of the European Sovereign Bond Markets

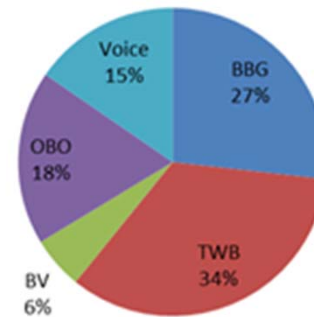
Evolution of BNPP e-traded EuroGovies (# of tickets)



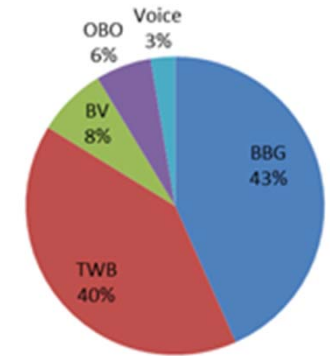
Source: BNPP

Breakdown of the EuroGovies market (2018ytd)

BONDS MARKET 10Y EQ



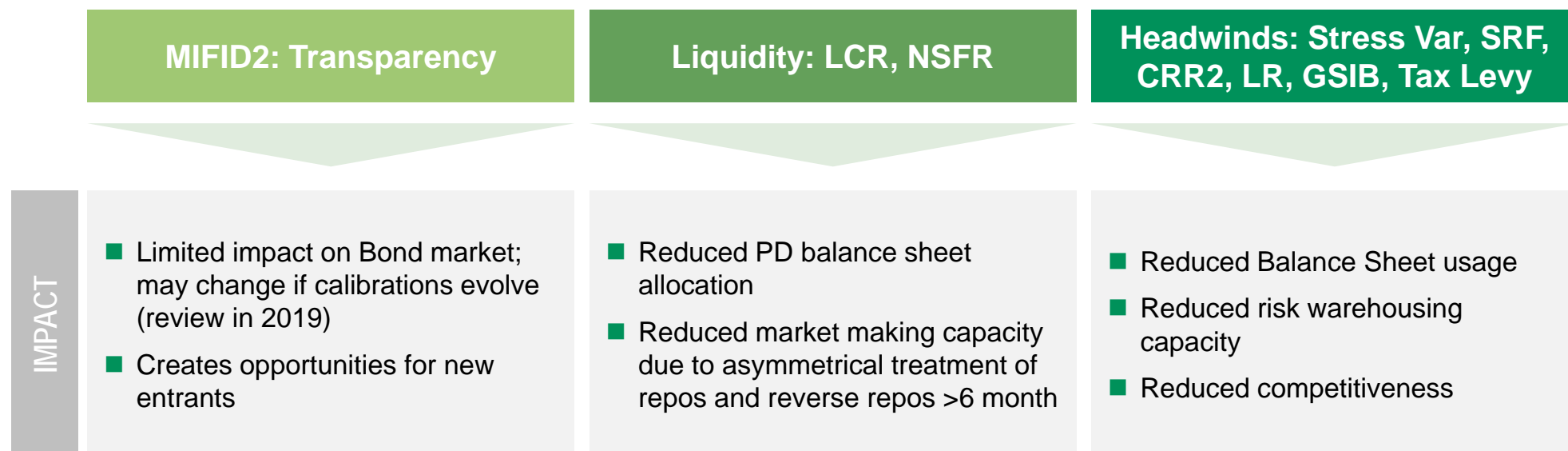
BONDS MARKET TICKETS



Source: BNPP, Tradeweb, Bloomberg, BondVision

- **Electronification of the bond market has been accelerated by new regulations (MiFID II, etc.) and the need for PDs to align business models due to continued margin compression**
- **In additions, increased cost of balance sheet and tighter margins are making PDs less likely to hold inventory**

Changing regulatory framework for the European primary dealer business model



- **The European sovereign bond market has, so far, adapted well to the new regulatory environment**
 - However, warehousing positions have become more costly and less profitable for primary dealers, potentially driving out smaller players
 - Liquidity has become more concentrated around planned auctions

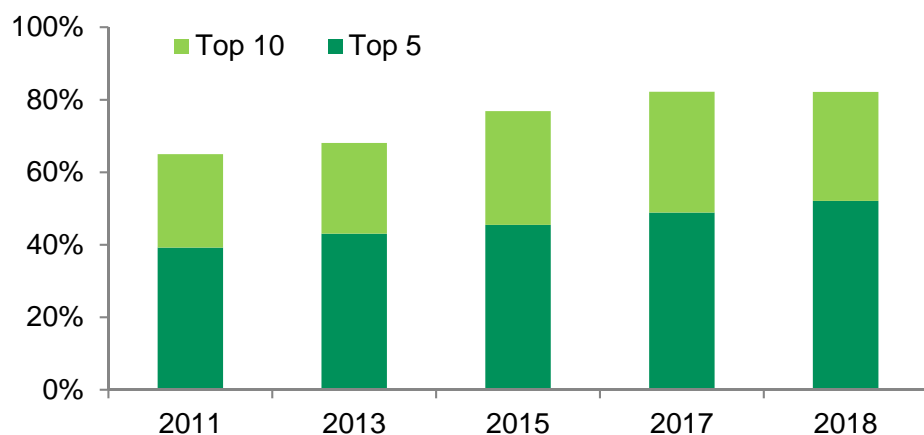
Evolution of European Primary Dealers

Ranking of top 5 primary dealers: 2006 vs. 2017-2018

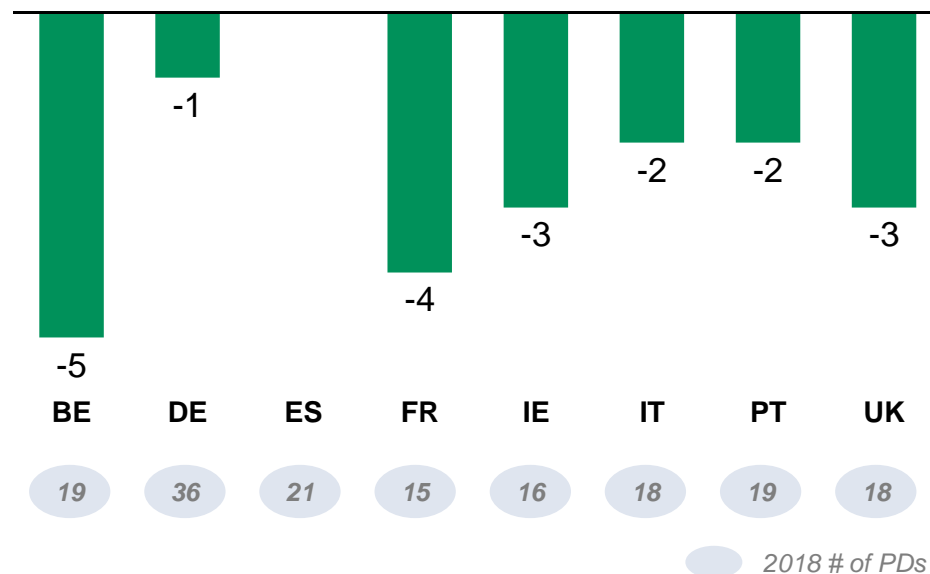
Domestic		EU	US	Asia
Italy		France		
2006	2018	2006	2017	
Barclays	JPM	BNPP	BNPP	
SG	Banca IMI	Barclays	HSBC	
DB	Unicredit	SG	JPM	
UBS	MPS	DB	SG	
UniCredit	Barclays	HSBC	CA	
Spain		Germany		
2006	2018	2006	2018	
Barclays	HSBC	DB	BNPP	
BBVA	BBVA	MS	Commerzbank	
CA	JPM	RBS	HSBC	
Santander	Barclays	GS	Danske	
SG	Citi	SG	CA	

Source: BNPP, National DMOs

Top 5 & Top 10 in OAT Secondary Turnover



Changes in number of primary dealers since 2010



Source: BNPP, National DMOs

- Domestic primary dealers have become more dominant in their markets except Spain
- Most European countries have seen a decrease in the number of primary dealers vs 2010
- There has been more concentration of volumes among the top dealers

The Bulk of the Sovereign Financing still done via Auctions

- 89% of Eurozone Sovereign has been done via auctions in 2018, versus 85% in the last 5 years
- Strong start of the year 2019 with 40% of syndications in Total Sovereign issued in Jan versus 34% in Jan 2018
- Smaller countries do more syndications (10y new benchmarks)
- Last syndicated deal for Germany: New 30 year inflation-linked security in 2015

	2018 Total Supply	Syndications EUR	Syndications %	2018 Number of Syndications
Germany	145	0	0%	0
France	195	8	4%	2
Italy*	238	19	8%	1 + 2 BTP Italia
Spain	132	27	20%	4
Portugal	16	7	44%	1 + 2 floaters
Ireland	14	4	28%	2
Holland**	24	6	25%	1
Belgium	34	10	28%	2
Austria	18	7	40%	1
Finland	10	6	60%	2
Slovenia	2	1	50%	1
Total	827	94	11%	22

* including BTP Italia

** : DDA

All sources: BNP Paribas, DMOs



The Primary Market Harmonisation

- All DMOs announce a yearly issuance programme at the end of the previous year
- A joined issuance calendar is published on a common website (quarterly basis) (http://europa.eu/efc/sub_committee/index_en.htm)
- Issuance is well spread over the week with sometimes overlaps that the market can handle

Method & Auctions Systems

	Single-Price auction	Multi-Price auction	Hybrid auction
Bloomberg Auction System	Finland Portugal UK (Linkers) Ireland	Belgium UK (Conventional)	-
In-house Auction System	Italy	France Austria	Germany Spain

Source: BNPP, National DMOs

- Different auctions systems & different procedures (methodology single/multi price)
- Specific case of Germany – Bund Auction Group – more similar to the US system than the rest of the Eurozone
- No direct clients participation to auctions in the Eurozone unlike in the US



The Primary Dealership System: What Changes?

- **Primary dealership system still prevails in the eurozone and DMOs will continue to rely on banks to place their debt**
- **Foods for thought**
 - **More harmonisation in the system toward the Eurobond?**
 - **How increase clients participation to auction?**
 - **Via primary dealers?**
 - **With a system more similar to the US one with direct Clients Participation**
 - **But it would imply a change in the PDship system for Eurozone countries (fair treatment of all players)**



EGBs: A Primary Dealership Secure System

- Primary dealers are priority partners with Treasuries for the management of the State's debt and treasury.
- Primary dealers are appointed to buy promote and distribute sovereign debts
- The selection is based on objective (market share in primary market (auctions only) and animation of secondary market) and qualitative criteria. Differences between countries exist but same principle
- **Primary Dealers Obligations**

Active participation to auctions

Market-making - Contribution to the efficiency of the secondary market (greater liquidity – min bid-offer spreads - Investors best interest - Best execution)

Quotation on electronic markets – comparative ranking (Two way price Minimum size Tight bid-offer spreads)

Advisory services and research activity to contribute to the management of the public debt

Organizational structure (administrative, accounting & risk control)

- **Primary Dealers Rewards**

Non-Competitive Bids after the auction (France :25% - Italy 10% to 25%. From the T+ 1 to 5 days after the auction)

Access to information (borrowing needs, new issues, new financial instruments....)

Syndications Mandates

The system of primary dealerships is essential to security, stability and liquidity of the EGBs market

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