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Our ref: Bond Transparency

Dear Tim

Trading Transparency in the UK Secondary Bond Markets

This is the Panel's response to DP05/5. The Panel recognises the potential for the MiFID transparency regime to be extended to asset classes other than shares and welcomes the FSA's initiative to issue a Discussion Paper to help develop policy on trading transparency on the secondary bond markets. We will restrict our comments to issues relating to retail participants.

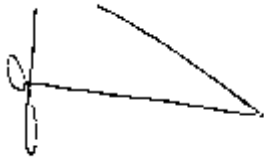
The Panel notes that the level of direct retail investment in the bond market in the UK is much less than that pertaining in other EU countries. We understand that one of the reasons for this may be the tax breaks afforded to retail investors in bonds in other jurisdictions. Another reason may be the higher level of interest in bond investment among retail investors in other EU countries, in some cases encouraged by more readily available price data on liquid issues. In the UK, by contrast, it seems to us that there is an absence of a culture of retail bond investment. By and large, retail investors in the UK are more likely to invest directly in equities than they are in bonds. In our view, the different levels of retail investment in the secondary bond market in individual EU countries indicate that it would not at the present time be right for the EU to adopt a 'one-size-fits-all' approach to the regulation of bond markets. An approach which varied according to the market in individual countries would be more appropriate in our view.

In the UK, our perception is that the large majority of retail consumers have limited knowledge of secondary bond markets and would not necessarily appreciate the risks to which they would be exposing themselves if they were to invest in them. The situation is not helped by the fact that firms are inclined to use the term 'bond' to describe a wide range of products some of which would not be regarded as 'bonds' in the true sense of the word. So, while we acknowledge it is arguable that the limited degree of transparency to retail investors in the secondary bond markets is a factor which might mitigate against their direct involvement, we do not think that this is necessarily a bad thing in consumer protection terms. At the present time, we feel that levels of consumer understanding of the secondary bond markets are such that the large majority of potential investors would be well advised to seek professional advice on the suitability of the secondary bond market to their own individual

circumstances before committing themselves to an investment. For example, suitability will naturally vary across different issuer types and this will not necessarily be appreciated by the large majority of retail investors. And, in any event, it might be more appropriate for the investment to be made through a collective investment scheme.

For the small band of retail consumers in the UK who already invest in the secondary bond market, more pre- and post-trade transparency of prices is likely to be in their interests. In the case of liquid bonds, for example, it would provide them with more information on market trends, enabling them to decide on the best time to trade and to check post-trade on the quality of the execution they receive. Arguably, more readily available information on prices will ensure better quality of execution in general and increase competition among market makers. However, for the reasons mentioned earlier in this letter, we do not feel that the UK market would be receptive to such change without considerable improvement in understanding among retail investors of the secondary bond market. Our preference, therefore, would be for the development of an EU approach that pays due regard to the different mix of professional and retail users in different Member States and the development of a UK approach that puts the emphasis on adequate protection for retail investors (at the expense of maximum transparency).

Yours sincerely

A handwritten signature in black ink, consisting of a vertical line on the left, a horizontal line extending to the right, and a diagonal line crossing the horizontal one from the top right towards the center.

John Howard
Chairman