



AUTORITÉ
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The AMF publishes further research regarding liquidity in the corporate bond market

Following an initial comprehensive study by the AMF published in November 2015, the work presented in this new research sheds additional light on the various types of liquidity measurements specific to corporate bonds. Which indicators are sufficiently scientifically robust? The specific characteristics of the corporate bond market and the availability or quality of transaction data limit the relevance of the indicators conventionally used for other markets. This study conducted by an external researcher to the AMF in partnership with the Institut Louis Bachelier provides a rigorous academic analysis of these indicators.

An important issue for a European market which has tripled in a decade

The corporate bond market, which is still largely an over-the-counter market, has been marked over the past ten years by many economic, technological and regulatory changes. The low-interest-rate environment has led to a large number of bond issues, as companies have taken advantage of this opportunity to obtain cheap financing. Moreover, this low-rate environment has also prompted investors and savers to consider riskier assets in search for better returns. This has enabled companies that are less well rated to access the bond market. These various effects have led to an unprecedented increase in the global size of the corporate bond market. In Europe, it increased three times between 2008 and 2018.

Two priority indicators to better assess the factors determining liquidity

The study examines how the exclusive data received by the market regulator can be used to establish liquidity indicators on the bond market for non-financial companies. It recommends two indicators that can be used to assess two different aspects of liquidity; it gives their historical evolution and explores explanatory factors. The recommended liquidity measures include a price dispersion index calculated for the most liquid securities (the width component of liquidity) and the number of ISIN codes traded each day (the breadth component).


A fall in liquidity to monitor

Analysis performed on the 2012-2016 data reveals that the combination of the two measurements, both the width and breadth components, sends a worrying, but not necessarily alarming signal regarding the change in market liquidity for corporate bonds. It therefore confirms the analysis provided since November 2015 by the composite indicator proposed by the AMF. The two indicators proposed in this new research make it possible to better identify the components, for example the fact that the effective market size in terms of the number of different bonds traded daily has decreased, even though the primary market has grown so remarkably.

Read more

- ✎ [Study - Measuring liquidity on the corporate bond market](#)
- ✎ [Study of liquidity in French bond markets published in 2015](#)

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