AUTORITÉ DES MARCHÉS FINANCIERS

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The AMF proposes a methodology for calibrating the thresholds determining the transparency regime applicable to corporate bond transactions.

The AMF takes stock of the current transparency regime, and suggests that, with a view to its revision, an approach be adopted that weighs up the gain in terms of access to information against the cost in terms of liquidity and efficiency.

The revisions to the MiFIR regulation and MiFID 2 directive, which together regulate investment services and financial market activities in the European Union, were published in the Official Journal of the European Union on March 8, 2024.

In particular, this revision endorses the establishment of a consolidated tape (CT) for bond instruments, which should facilitate access to post-trade information on transaction prices and quantities for all investors.

At the same time, it lays the foundations for an overhaul of the post-trade transparency regime applicable to these transactions. Indeed, under the current European framework, virtually all corporate bond transactions within the European Economic Area are eligible for a substantial publication deferral due to the illiquid nature of the security. This result is due to the fact that very few bonds meet the criteria characterizing a liquid instrument: in 2023, of the 127,129 bonds offered for exchange on European Union stock exchanges, only 1,148 were considered liquid (including 93 French bonds: 32 corporate bonds out of 2,400 active bonds and 61 sovereign bonds out of 203 active bonds).

Against this backdrop, the aim of the new text is to strike a new balance that ensures greater transparency, without undermining the smooth operation of the market. The new text, which confirms the principle of a deferral depending on the security's liquidity, stipulates that:

- the liquidity of a bond is now assessed solely on the basis of its issue size;
- the maximum deferred publication period is determined on the basis of four categories: small, medium, large and very large. From now on, this period will be governed by maximum limits set in the text adopted by the legislators, which ESMA will have to specify in technical standards;
- The corresponding publication delays range from real time to a maximum authorized delay of 4 weeks, depending on the size of the transaction and the liquidity of the bonds.

The AMF's study aims to propose a methodology for calibrating these thresholds, based on an analysis of transaction data received by the AMF as part of its reporting to the regulator.

In particular, this approach puts the gain in terms of access to market information into perspective with the cost potentially incurred by this greater transparency, for the market as a whole, in terms of liquidity and efficiency. The aim is to capture the maximum number of transactions published "as early as possible" to make the consolidated tape useful and viable, while enabling financial players (particularly market makers) to hedge their transactions under the best possible conditions. The analysis is based on the corporate bond segment.

The proposed methodology makes it possible to measure the "cost" induced by an increase in transparency, as the time required for the market to absorb a transaction of a given size.

It emerges that the main challenge in calibrating thresholds lies in identifying the relevant threshold for separating medium and large transaction sizes. This is all the more important as the switch from one category to the other would have a significant impact on the level of transparency offered by the consolidated tape. Indeed, in this case, the publication deadline rises from a maximum of the end of the trading day to two weeks for illiquid bonds, and from 15 minutes to one week for liquid bonds.

The proposed cost/benefit analysis varies this threshold and shows, for example, that raising the threshold defining an average transaction from 2 to 5 million euros would result in :

- for non-liquid securities: a 30% reduction in volumes absorbed by the market over the time induced by the deferral, but a 55% increase in transparency;

- for liquid securities: a 24% reduction in market-absorbable volumes over the allotted time, but a 72% increase in transparency.

Ultimately, calibrating thresholds raises the question of the maximum cost we are prepared to bear (i.e. the reduction in volumes that can be absorbed by the market), taking into account the gain in visibility obtained for the market and induced by the reduction in the deferral granted for the publication of information by the consolidated tape.

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↘ Bonds transparency: How to calibrate publication deferrals?

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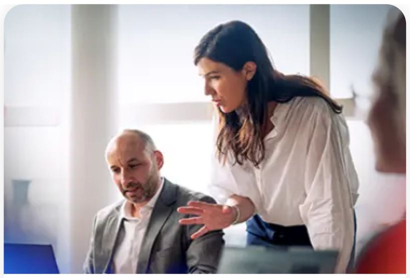

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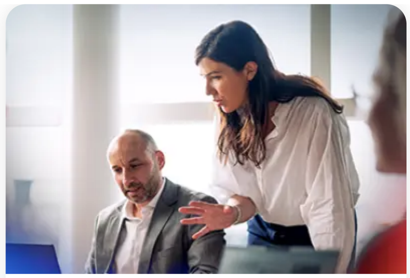

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