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International
Capital
Market
Association

ICMA

Mr Jonathan Faull
Director General, Internal Market and Services
European Commission
Rue de Spa 2
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April 4, 2013

Dear Jonathan,

ICMA has prepared a paper for policy makers about why corporate bond markets are so important for economic growth, for investors, for companies, and for governments, around the world; and why it is therefore essential that laws and regulations that affect them avoid any unintended adverse consequences that could inhibit those markets.

The paper explains:

- that corporate bonds are one of a range of means, alongside equity share capital, bank lending, and other methods, by which companies fund their business needs and their expansion;

- that they have long been a particularly stable and reliable source of term finance for non-financial services companies in the real economy;

- how the importance of corporate bonds for issuing companies has grown, particularly as bank lending has been squeezed, and is likely to continue to grow, as a pivotal mechanism for creating and sustaining enterprise, business investment, and economic growth;

- how corporate bonds offer a range of advantages to investors, in particular for individuals and funds that need stable and predictable income and retention of capital value, for example to save for retirement; and that they are an important means to stimulate private investment and limit citizens' dependence on the public sector;

- how primary and secondary markets in corporate bonds link corporate issuers and investors efficiently around the world;

- how domestic and international corporate bond markets provide for diverse needs, domestic markets catering in particular for smaller, growing companies, and domestic investors, while international markets enable large companies and conglomerates to draw on global pools of capital, including those which represent the savings and pensions of individuals, for major development projects, and enable institutional investors to obtain well diversified and consistent returns;

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- how the existence of different markets helps today's start-ups and smaller enterprises grow into tomorrow's major companies, by helping them to generate wealth while graduating smoothly into more sophisticated and international financial and investment environments;

- how corporate bond markets are also important to governments to help meet the urgent global public policy challenges presented by ageing populations, and the need to maintain growth whilst remedying the imbalances that led to the 2008 market turmoil, helping to limit government indebtedness, whilst offering investors an alternative to government bonds.

The paper explains that, in general, wholesale corporate bond markets have worked well, but retail investment in corporate bonds has been more constrained. It outlines the need for markets and the authorities to enable wholesale markets to meet investors' and companies' needs even better, to build on the success of wholesale corporate bond markets by encouraging more retail involvement, and to work together to provide the optimal environment for corporate issuers of bonds, and investors in corporate bonds, to thrive.

It highlights that good conduct and good regulation in these markets – ICMA standards of good practice, and applicable national laws and regulations – are both vital; how rules, whether promulgated by industry bodies or imposed by the authorities, can have beneficial or benign or harmful effects; and that sometimes good intentions are thwarted by unintended consequences.

It cites the Third Basel Accord, financial transaction taxes, short selling regulation, and the revision of bond market regulation, as examples where there is widespread concern that current legislative proposals will damage liquidity in the secondary market, with consequent harm to the primary market.

It advocates collective work by all interested parties – legislators, regulators, market intermediaries, and market users – with better dialogue at an early stage of policy development: to help the authorities understand the markets and the possible effect on them of different measures; to enable the markets to understand the authorities' policy intentions and advise on the best technical ways of meeting them; to discuss public policy needs in a technically neutral way; and to promote good regulation and prevent malpractice, but also to ensure that avoidable and unintended problems are avoided.

Yours sincerely,

Martin Scheck
Chief Executive