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**Panel 3: Bond Markets – Should Their Transparency be Enhanced?**

*Michele Faissola*

*Managing Director, Global Head of Rates*  
Deutsche Bank AG, United Kingdom

# Bond Markets: Should Transparency Be Enhanced?

Michele Faissola, Deutsche Bank Head of Global Rates



IOSCO Annual Conference  
Hong Kong, 8 June 2006

A Passion to Perform.

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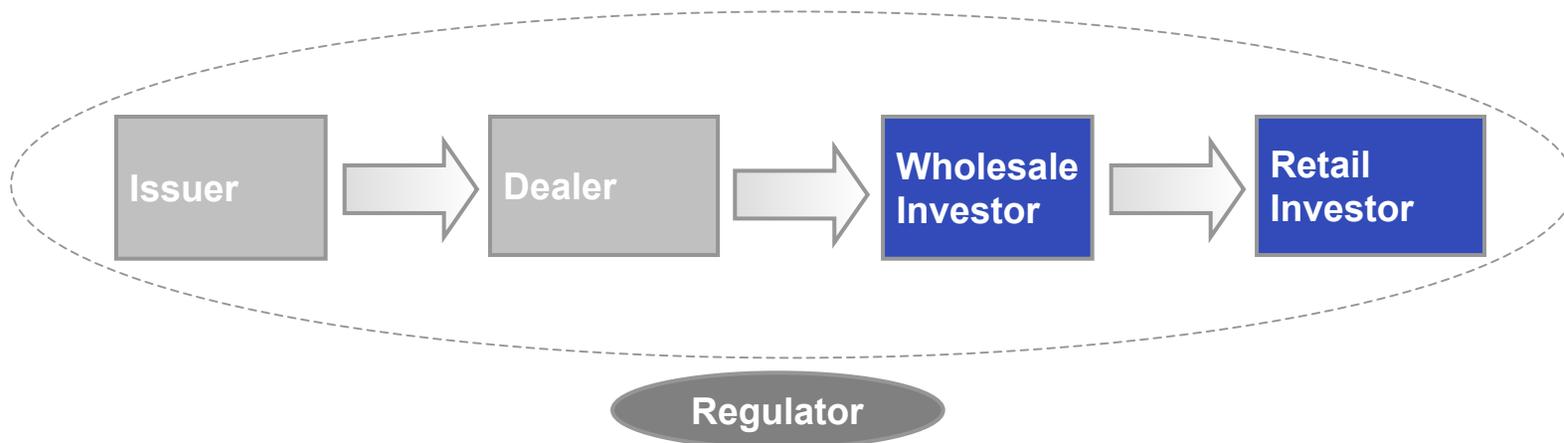


# Discussion: Aspiring to Maximum Transparency without Affecting Efficiency

1. Bond Market Developments: Advantages / Disadvantages

2. Need for Transparency: Inherent versus Regulated

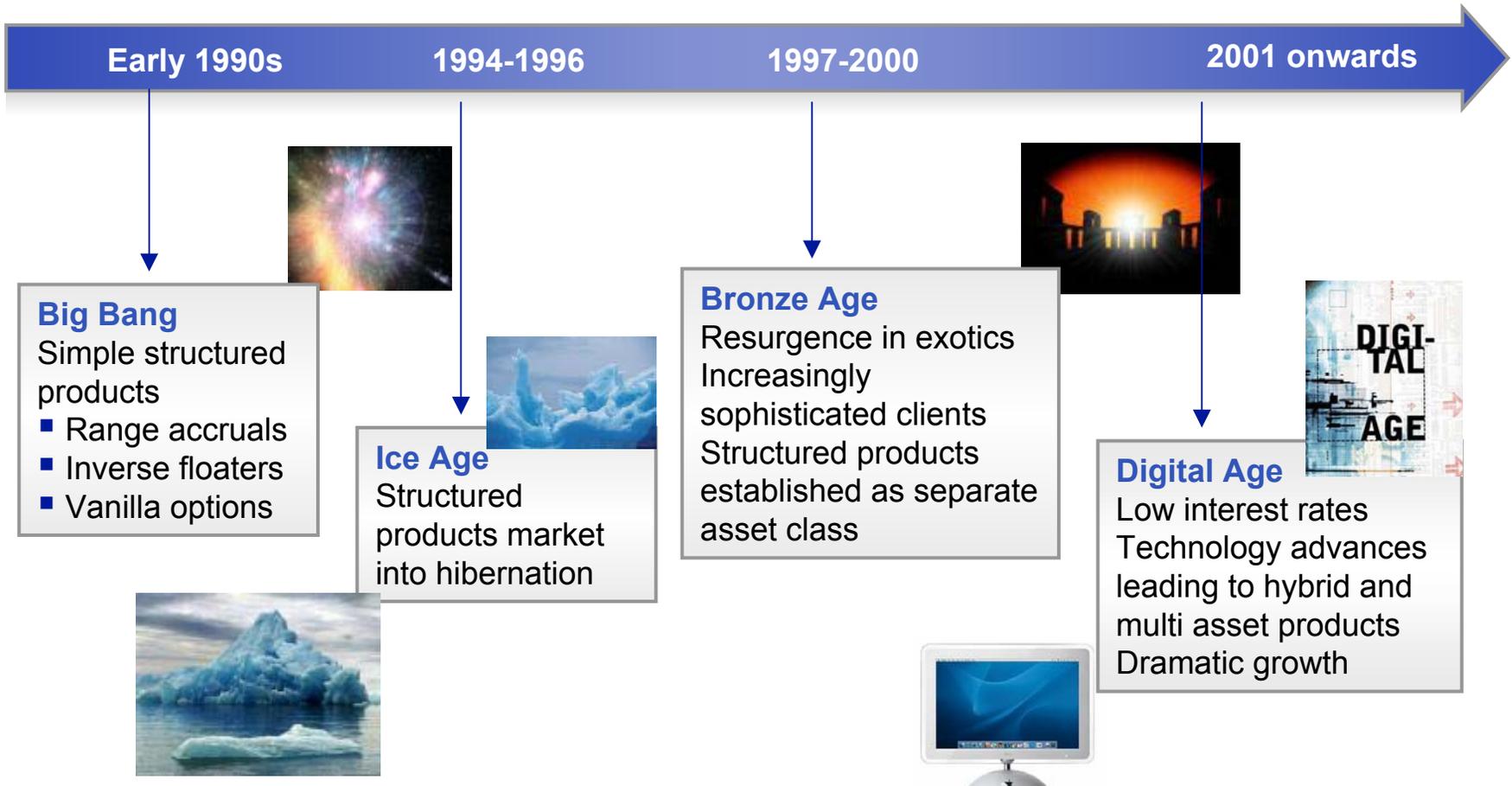
3. Regulated Transparency: Causes for Concern





# Bond Market Developments

# A Brief History of Structured Products



## Innovation Broadens Financing for Borrowers

### Access

- **New market Opportunities for capital raising**
- **Financing made available more cheaply**

### Innovation

- **Flexible instruments available to borrowers**
- **Different risks, tenors, maturities, and payouts broaden financing opportunities**

### Leverage

- **Issuers have access to different capital structures**
- **All segments of the economy have benefited**



## Bond Market Developments

# Innovation Has Allowed New Market Segments to Borrow

### MTN issuance 2000 – 2005

Segment	US \$ mn	No of MTNs
Automotive	4,544	70
Insurance	4,490	26
Water	2,087	5
Telecommunications	1,882	6
Energy production & Distribution	1,382	22
Retail	1,250	7
Oil & Gas	923	9
Trading/Leasing	716	70
Consumer Electronics/appliances	546	49
Aerospace & Defence	367	1
Real Estate	283	1
Food/Beverages/Tobacco	276	3
Diversified industrial	239	3
Transport	80	2
Construction & Building Materials	74	2
Forestry products	74	2
Media	61	5
Chemicals	28	3

Source: MTN-I

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## Innovation Expands Market for Investors

### Access

- Gives investors ability to take market positions otherwise difficult
- Any payoff can be embedded

### Innovation

- Constant innovation in new products, currencies, underlying assets or vehicles
- Products can adapt to changing environment and client needs

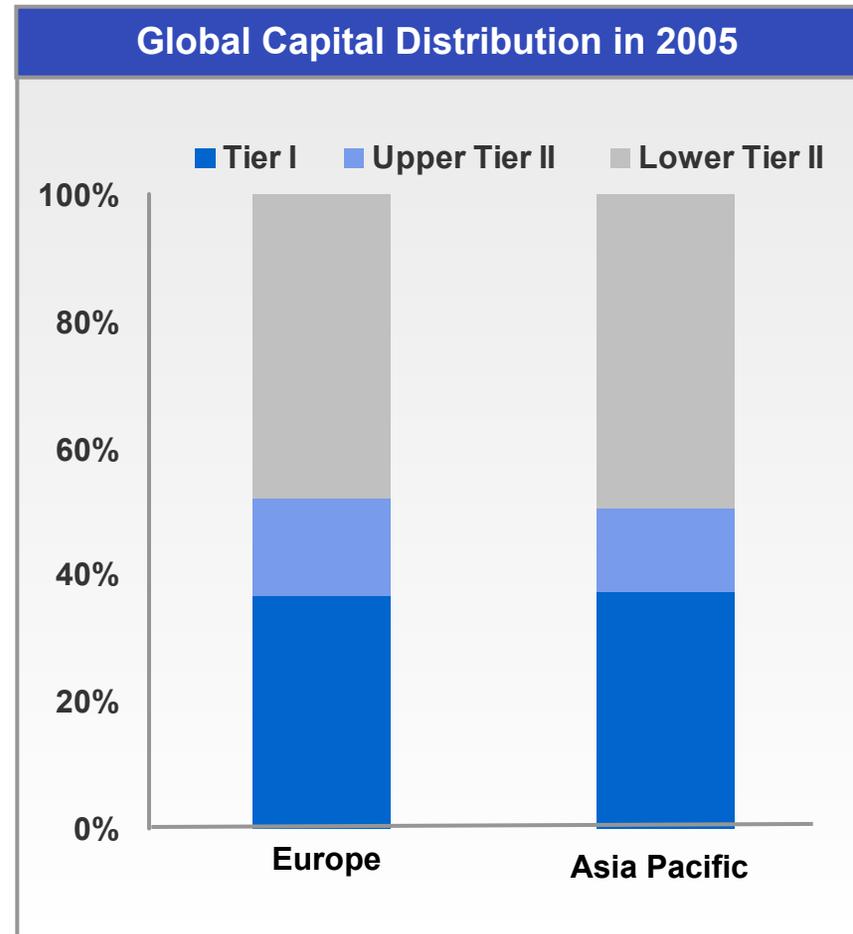
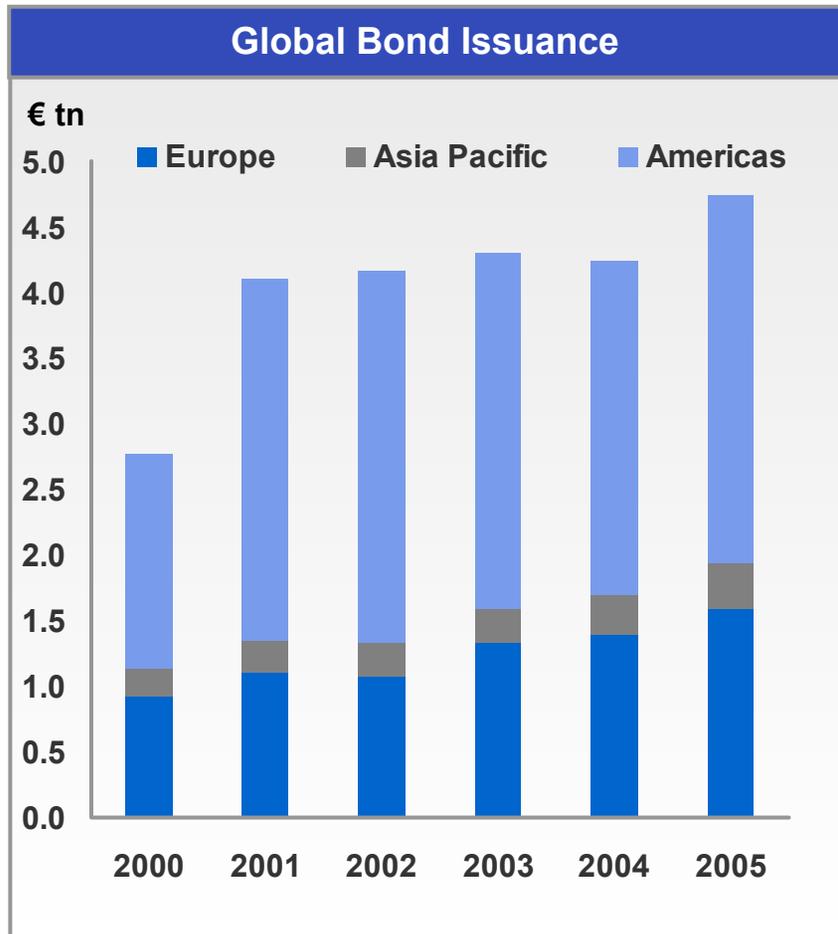
### Leverage

- Allows risk taking in controlled format, often with principal protection
- Achieves higher returns than vanilla products



## Bond Market Developments

# Investor Sophistication Drives Dynamic Market Growth



Source: Dealogic / Bondware

Note

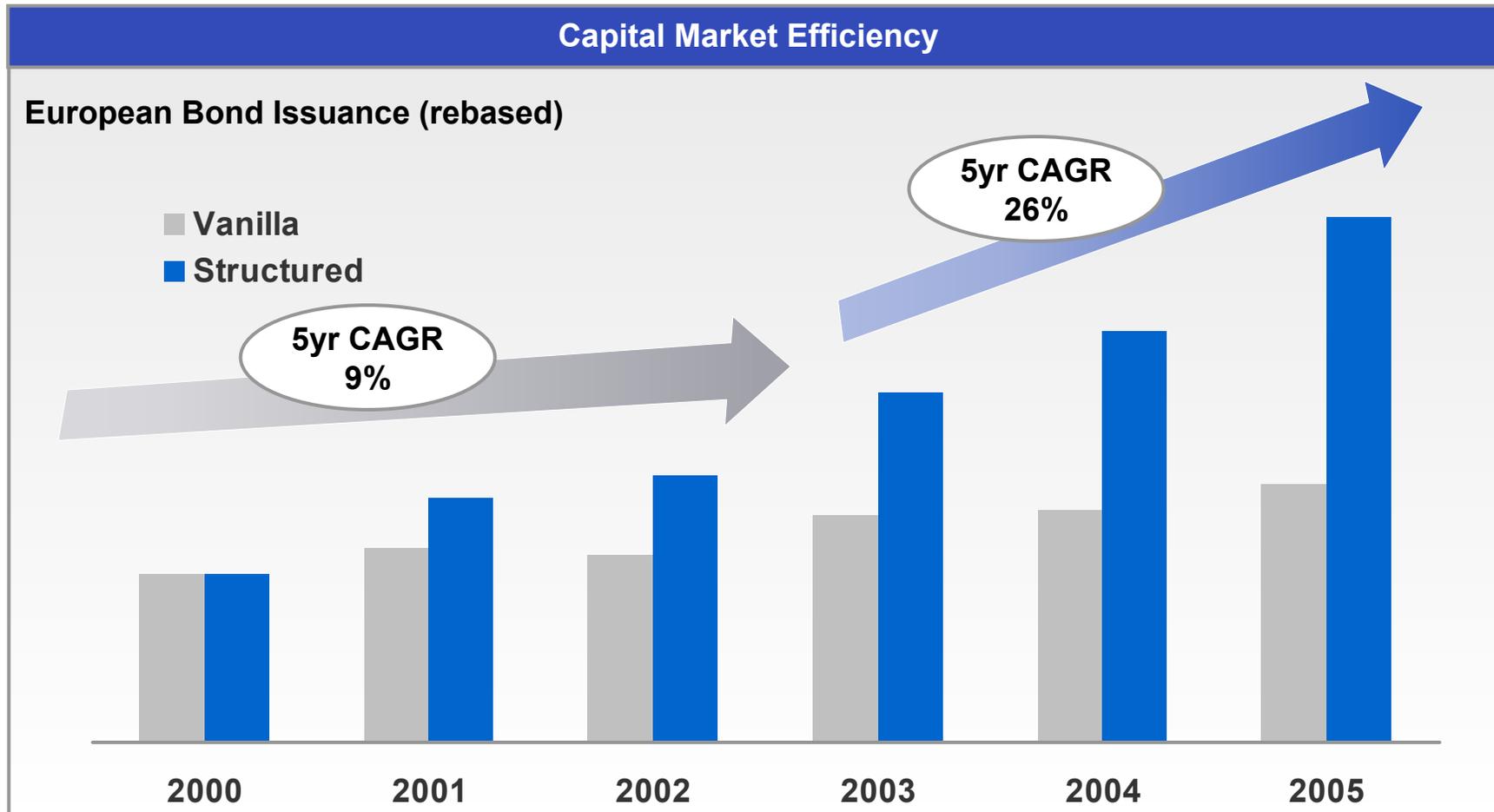
Data for North America not available

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## Bond Market Developments

# Structured Bond Issuances Have Grown Dramatically



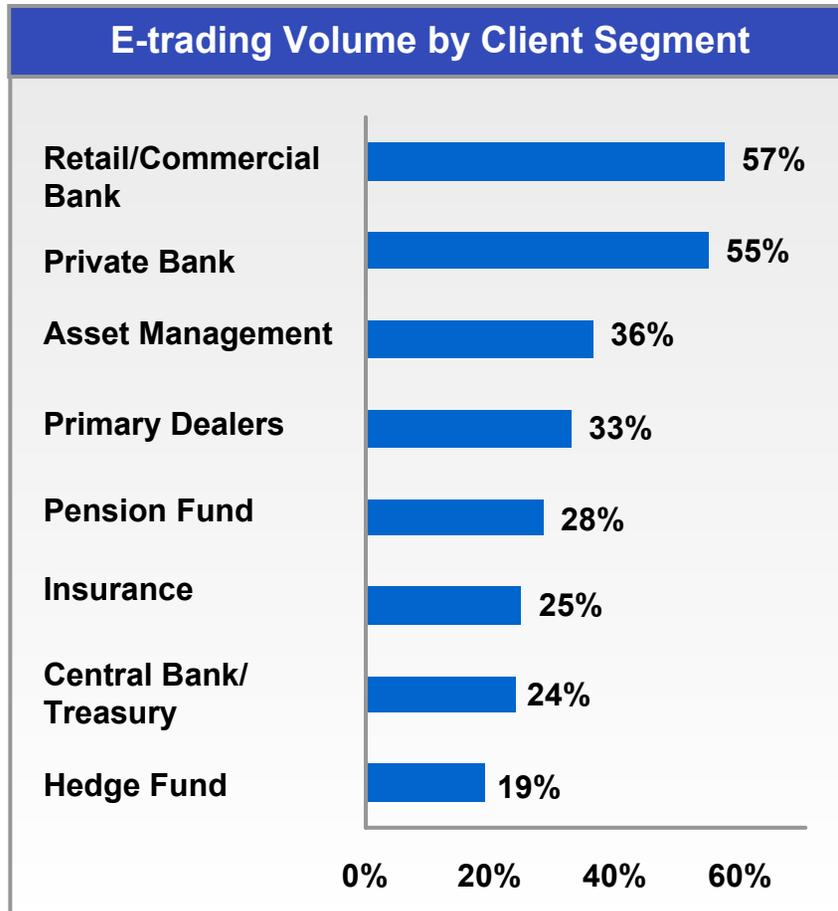
Source: Dealogic / Bondware, DB Research  
Note: Structured bonds include RMBS, CDOs, CMBS and ABS



## Need for Transparency – Inherent vs. Regulated

Need for Transparency: Inherent vs. Regulated

## Technology Creates Transparency



Source: Bond Markets Association

**Pricing Transparency**

- Market place electronification has created significant transparency across all asset classes, resulting in massive decrease in bid-offer spreads
- 76% of buy-side firms now execute over 40% of overall trading volume electronically
- 65% of buy-side firms and 81% of sell-side have seen their electronic volume trading increase by over 20% over the past 2 years
- Price transparency is quoted as the most important factor in opting for electronic trading

Need for Transparency: Inherent vs. Regulated

## Capital Raising Activity is Already Highly Regulated

Capital Structure		Regulation	Flexibility
AB/ Non Recourse			
Senior Unsecured			
Tier 2			
Tier 1			
Shareholder Equity			



## **Regulated Transparency: Causes for Concern**

Regulated Transparency: Causes for Concern

## Should MIFID Regulations Be Extended to Bond Markets?

**“Great caution is warranted in considering any mandatory imposition of transparency requirements on government bond markets along the lines of those in MiFID for equity markets...Regulators should be cautious in intervening in these markets. It may be wiser to let them evolve further under the influences of rapid technical change and changes in the market structures themselves”**

***European Government Bond Markets:  
transparency, liquidity, efficiency***  
Centre for Economic Policy Research  
May 2006

