



EGB Primary Market Harmonization

ECB – Bond Market Contact Group



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EGBs: Primary Market Harmonisation

The path to harmonised EGBs primary markets: difficult but inevitable?

- EGBs markets still diversified
 - 19 countries with different credit rating
 - Different degrees of liquidity from one market to another
 - Liquidity not concentrated on benchmarks but on a lot of points through each market's curve
 - Different borrowing's needs meaning different funding strategy

2015 EGB Issuance (EUR bn)		2015 Gross Issuance	2014 Gross Issuance	Change	2015 Net Issuance	2014 Net Issuance	Change
Issuer	Redemptions						
AUS	13	17	21	-17%	4	-1	379%
BEL	25	33	32	2%	8	13	-41%
FIN	5	10	12	-15%	5	5	-4%
FRA	117	187	173	8%	71	69	2%
GER	155	159	173	-8%	4	29	-86%
IRE	2	14	12	14%	11	9	26%
ITA	199	250	274	-9%	52	83	-38%
NET	39	48	51	-5%	10	18	-48%
POR	7	13	17	-24%	6	3	76%
SPA	86	142	136	4%	56	68	-17%
Total EGB	647	872	900	-3%	225	297	-24%

*For France, the estimates are reported net of buybacks

**We exclude Greece from this table as it has no market access at the moment

	Debt (ex T-Bills) Eur bn	Daily Turnover Eur bn	Times Debt
Italy*	1681.1	25.0	3.6
France	1150.7	15.3	3.2
Belgium	357.4	2.3	1.5
Germany	1232.7	20.7	4.0
Spain*	745.5	5.2	1.7
Netherlands*	336.6	3.3	2.4
Portugal	201.2	1.3	1.6
Finland	90.9	1.2	3.2
Austria	199.9	0.9	1.1
Total	5995.8	75.2	3.0

* electronic only



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The path to harmonised EGBs primary markets: what exists

- EGBs markets already have a relatively harmonised primary dealership system (except Germany)
 - Primary Dealers are appointed by sovereign issuers to buy, promote and distribute Sovereign bonds
 - Primary dealers obligations and rights are relatively similar from one DMO to another
 - The weight of each criteria will depend on the issuer needs, the liquidity in the secondary market and the difference in borrowing's needs which means different funding strategy
 - The larger the funding needs, the highest weight on primary

2015 PDs Criteria	Portugal	France	Italy	Germany	Spain	Austria*	Slovenia
Primary	35	40	45	100	45	100	
Secondary	35	30	42		50		65
Buy Back	5		5				15
Derivatives/Loans	10						
Qualitative	5	30	8		5		20
T-Bill Performance	10						
	100	100	100	100	100	100	100
Primary	35	40	45	100		100	
Market Share	35	40	33	100		100	
Primary qualitative index			12				
Secondary	35	30	42				65
Turnover		27	14				65
Compliance	15		14				
End- Investor meetings & Turnover	20						
Repo		3	8				
Efficiency/Qualitative ass			6				

* Austria takes into account secondary volumes but does not communicate on the weights



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The path to harmonised EGBs primary markets: where to go?

- Harmonisation demands all players' commitment: dealers, investors but also DMOs
- Harmonization aim should be to prepare the market to make the transition toward one single market, with one unique issuer, issuing Eurobonds
- Until then, the nature of the market caps harmonization
 - profile and seasonality of demand
 - specific needs of issuers
 - dealers constraints
- Still, there are some ideas to develop
 - Better harmonised and coordinated issuance calendar agreed by all Eurozone DMOs
 - Better communication between DMOs with regards to timing of syndications
 - Unique auction system
 - Limitation of overbidding



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The path to harmonised EGBs primary markets: a real coordinated issuance calendar

- All DMOs announce a yearly issuance programme
- All DMOs publish an issuance calendar (see table below)
 - Split all over the week with sometimes overlaps
 - The market can handle several auctions the same day

	Monday	Tuesday	Wednesday	Thursday	Friday
1st week			GE - Shatz 2016		
2nd week		GE - Bund linker AT - RAGB 5y, 10y IT - BTPs NL - DSL 2018	GE - Bund 2025 PT: OT auction optional		
3rd week	BE - Olo auction		GE - OBL 2020	FR - OATs 2- to 5- years, OATis, OATeis, BTANis SP - Bonos and Obligaciones	
4th week		IT - BTPeis, CTZs	PT: OT auction optional		

- More harmonization to reduce uncertainty
 - Joined issuance calendar to be published on a common website
 - Coordination for announcement and revision of issuance programmes – pre-defined dates
 - DMOs to respect rules and discipline

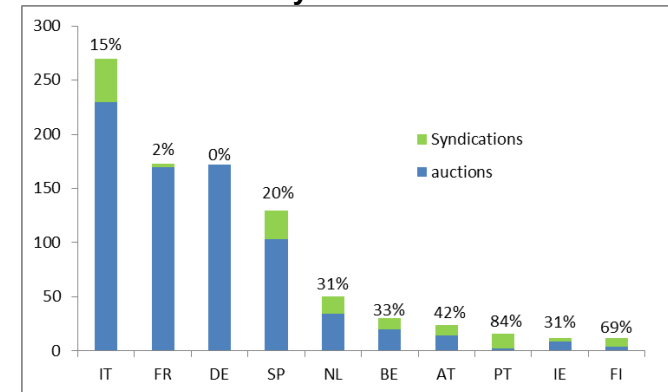


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Auction/Syndication : the correct balance

- The concentration of syndications in Q1 does not seem to be a problem
 - Adapt to demand's profile and well absorbed by the market
 - Better direct communication between DMOs via a supply charter (timing, maturity)
- Syndication Pros
 - Better control of the timing and the pricing of the deal
 - Better knowledge of the investors base
- Auction Pros
 - Less execution risk
 - Allows taps of more than one line
 - Better response to dealers' needs
- Current combination of auction and syndication is well balanced
 - Syndications dedicated to new benchmarks for small issuers and new products for large issuers
 - Auctions used for tapping all existing lines and are usually larger than syndications for large issuers
 - Syndications count from 15% of Eurozone total issuance, with a high at 84% for Portugal and a low at 0% for Germany

2015 auctions/syndications breakdown



Including DDA for NL and BTP Italia for IT



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One single auction system: a long way

- One single auction system would be favourable to the market but is still a long way
 - Harmonization of the auctions process
 - Standardisation of auction results (bids, allocation, cut off and average price...)
 - Standardisation and reduction of the delay for publication to limit the operational risk
- Still a long and costly process to select a correct and secure system (website) and to reach an agreement between the DMOs
- Different auctions procedures (single or multi-price) match different DMOs' targets while market players' views remain very diversified
 - Easier and simple versus fair and transparent
- Overbidding issue
 - Overbidding exists because of competition within primary dealers and current strong appetite for bonds
 - Overbidding also depends on expected volatility and capital gains
 - Overbidding has slightly reduced last year
 - Reallocation of weightings in the DMOs evaluation criteria in favour of secondary market but not necessary what DMOs would agree to

Average Auctions Premium cents (nominal)

	2011	2012	2013	2013	2014
BTAN/OAT	9	9	8	7	7
BUND	4	5	6	6	3
BTP	7	12	5	7	5
DSL	9	9	7	8	5
RAGB	22	25	18	18	19
OT	28	-	-	-	32
SPGB	18	18	16	16	18
OLO	22	23	14	14	17



The Harmonization of primary markets: issues for discussion

1. The path to more harmonisation is not questioned but should take some time
2. Secondary market rules have started to be harmonised
 - Settlement T+2
 - More electronic trading on same electronic platforms through different markets
3. Harmonisation of the primary market, first steps, what horizon ?
 - Technology harmonisation, one single system
 - Coordination of issuance calendars between DMOs
4. Harmonisation of the primary market, further steps ?
 - Launch of common bills
 - Through which entity?



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