CNMV COMISIÓN NACIONAL DEL MERCADO DE VALORES

IOSCO seeks feedback on market liquidity issues affecting corporate bond markets under stress

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1.- Target audience (potential stakeholders):

The paper is addressed to all stakeholders, including:

- Market participants in general, both direct and indirect.

- Rating agencies

- Academics.

2.- Informative Note

On 6 April 2022, the International Organization of Securities Commissions (IOSCO) published a press release informing of the publication of the report: *Corporate bond markets – drivers of liquidity during COVID-19 induced market stresses*, and seeking feedback on the analysis carried out in respect of the microstructure of the corporate bond market, the resilience and the supply of liquidity during COVID-19 induced market stresses in March 2020 and subsequent months.

The corporate bond analysis provides a broader context on the underlying markets that buyside investors such as ETFs and traditional open-ended funds increasingly invest in. These markets have grown exponentially since the Global Financial Crisis. The COVID-19 induced market stress highlighted the potential systemic significance of disorderly corporate bond trading and liquidity dysfunction. While market dynamics are evolving with new entrants such as ETFs and increased automation, the secondary corporate bond market remains mostly reliant on a small network of OTC dealers in markets that remain fairly illiquid. The March 2020 events raised questions about market-functioning and whether improvements could be made to strengthen liquidity and alleviate supply side constraints in situations of stress.

The key findings of the analysis contained in the report are:

- Corporate bond markets have grown significantly over the last decade, even on a cross-border basis.
- Corporate bond markets are less liquid than other trading markets and the number of individual corporate debt securities that trade regularly is small.
- Primary markets are important to the overall market liquidity.
- Overall, the corporate bond market had low liquidity levels.
- It is difficult to assess whether corporate bond market liquidity primarily dried-up because of reduced liquidity supply by dealers, increased liquidity demand by investors, or a combination of both – and what was the greater relative contributor to the stresses.

- On the demand side, evidence on the influence of long-term investors in corporate bond markets for the period under analysis is mixed, in part because their behavior varies considerably by jurisdiction, in part due to the nature of their investment strategies, and in part due to the extraordinary speed of the crisis and subsequent recovery.
- Liquidity in open-ended funds (OEFs) during the COVID-19 induced market stresses of March 2020 showed that some OEFs contributed to selling pressure in some jurisdictions, driven by investor redemptions mostly related to the flight-to-quality and the dash-for cash.
- The structure of the corporate bond markets also contributed to the constraints in meeting demand for liquidity during the COVID-19 induced market stresses of March 2020.

IOSCO includes twenty-three questions in the paper, and seeks feedback on whether the analysis carried out is appropriate, on possible ways to help improve market functioning and liquidity provision, such as assessing the feasibility, benefits and costs of mitigating shifts in liquidity demand and alleviating supply side market constraints, including the potential unintended consequences from any prospective market changes.

3.- Submission of comments

The deadline for submitting comments is **30 June 2022**.

Stakeholders can submit their comments to IOSCO by the following means:

- E-mail: CBML-feedback@iosco.org

Although the comments can be sent directly to IOSCO, we would appreciate it if stakeholders could send a copy of their responses to the consultation to the CNMV, in order to have information available on the opinion of Spanish market participants, to the following address:

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