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News Release

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European Primary Dealers Association issues discussion paper on third party access to Euro zone dealer markets

London, February 27th 2007; In a discussion paper issued today, the European Primary Dealers Association (EPDA) cautioned that any change to the current structure of the Eurozone dealer markets on electronic trading platforms should not be implemented without extensive consultations with the industry at large, and in particular, the sovereign issuers of Euro zone debt.

The EPDA's study into the potential practice of third party access to traditional dealer markets on electronic trading platforms is aimed at fostering debate and discussion within the wider market. Drawing on the collective knowledge and experience of its members, the paper poses important questions which need to be addressed by any specific proposal to allow third party access to traditional dealer markets.

The EPDA studied the workings of the financial markets, current regulation, the operational specifics of electronic trading platforms and the interaction between B2B and B2C trading environments.

The EPDA believes that third party participation in the B2B market, whether by direct access (market making) or through order routing, would not necessarily create further depth in such issuer's debt. Allowing third party access, in the form of order routing, would also introduce external commercial pressure which may upset the delicate balance in the Euro zone government market.

The discussion paper points out that the Euro government bond market is idiosyncratic because it is the amalgamation of 12 separate sovereign debt markets (Luxembourg does not have debt) that share one currency. Each of these separate issuers seeks to tap liquidity from a fragmented investor base. Primary dealers endeavour to provide seamless liquidity as they are regulated in part by the mandatory market making obligations (except for Germany), including during times of volatility. However, if they were put under commercial pressure to allow largely unregulated clients to route orders through, that could introduce risk into the system because such participants would not be incentivised to adhere to the rules in the same way as primary dealers.

“While issuers have influence over their primary dealerships, primary dealers may not be in a position to exercise control over third parties as they would be squeezed between the commercial pressure of their prime brokerage business and the inability to regulate the activity of third parties trading in the primary dealers’ name. Lack of control could give rise to potential misbehavior by rogue traders. The corollary to that is market structure risk,” the discussion paper states

Commenting today on the release of the discussion paper, Mark Austen, Executive Director of the EPDA said:

“The EPDA fully supports an integrated financial market that allows capital and financial services to flow freely so that deep, liquid and innovative European capital pools may be tapped by all businesses. At the same time, an integrated European financial market must be subject to prudential safeguards and investor protection. We strongly believe that any changes to the current structure of the dealer markets must be considered in the context of the uniqueness of the Euro zone government market. In our opinion, any proposal should be made to the market with enough time to allow for a full and open discussion on its merits with all interested parties including issuers before such proposal may be implemented.”

A full copy of the EPDA discussion paper is available on the SIFMA website at:
www.sifma.org

The European Primary Dealers Association addresses specific primary and secondary market issues arising across Euro government securities markets and recommends best practices in those markets. The EPDA represents government securities dealers officially recognised in numerous primary, and active in the secondary markets. The EPDA members cumulatively trade in excess of 85 percent of the volume in the European government bond market.