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The future bond market defines its contours

(Translated by Crédit Agricole CIB)

Cassiopée is a consensual project that relies on transparency to attract liquidity even if several platforms must coexist, at least at the beginning.

By Frédérique Garrouste

The corporate bond market hopes that it has found the answer. When it was blocked at the end of 2008, players mobilized under the leadership of Paris Europlace, and their reflections have resulted in a specific project. A much-needed true bond market is being organized to deal with the financial world's persistent problems, promising liquidity and resilience. "Due to the crisis and the resulting new prudential standards, market makers withdrew from the bond market because it had become too costly in terms of capital," says Sylvain de Forges, chairman of the Cassiopée Committee, which has been working since last November on organizing the secondary bond market. "This has led to the idea of having one or more platforms, making it possible to concentrate the interests of sellers and buyers." Of course, the idea is not new: Deutsche Börse and Euronext have already launched bond markets, though these have not really succeeded in taking off. The Cassiopée Committee intends to avoid their pitfalls. "The project takes up the points agreed upon by participants in the preparatory work, some fifty companies representing all of the players involved," notes Sylvain de Forges, who is also the deputy chief executive officer of AG2R La Mondiale.

Close to an equity market

The operating scheme attempts to avoid the mechanisms that led to the bond market's liquidity shortage. "Whereas there is currently a separation between the functions of investor, broker and market maker that results in opaque pricing, here the operating scheme is like that of an equity market," explains Philippe Rakotovao, global head of Credit Sales and Trading at Crédit Agricole Corporate and Investment Bank. "This is what is new about the consensus reached by the market. The objective is to put together an order book where all the orders will be firm, including those of investors. Under the circumstances, the platform's prices could serve as a reference for the entire corporate bond market."

Since transparency is a key factor, the platform will treat the margins due to companies on the market and to the clearing house as net prices. These margins will be included in the difference between the buy and sell prices. Information rules will be similar to those for equity markets with free post-market dissemination. Bond exchange infrastructure will be responsible for stating prices in terms of the cost of financing relative to the interest rate swap, as is done on the primary market.

As a precaution related to the system's experimental nature, initial transactions will be limited to the most frequently traded investment grade issues. The system should be operational at the end of the year, since the voluntary infrastructure for trading bonds in accordance with the requirements set forth by the Cassiopée Committee has until the end of June to be implemented. At this stage, the main uncertainty has to do with the number of candidates. "More than one company on the market is likely to adopt such principles," predicts Sylvain de Forges. "If several platforms propose to list the same bond line, I suppose the issuer and the lead banks in the issue will make specific recommendations – but it will of course be the market that chooses the main platform for a given issue."

Between the desire to build a market that takes all the initiatives into account and the objective of concentrating liquidity, the project's initiators have decided to make no decisions. "The Cassiopée Committee will not label the offers put forward by operators," says Philippe Rakotovao. "It is likely that even if several platforms are in the running, one of them will turn out to be more efficient and will end up concentrating the liquidity."

NYSE Euronext, which is preparing an offer, also wants to answer this question. "Currently NYSE Euronext is the only stock market operator that committed itself at the market's High Committee

meeting to submit an application in accordance with the statement of needs formulated by the Cassiopée Committee. Our model could consist in having the contributions of other markets and/or electronic platforms converge on our tool so that our structure centralizes their interests,” says Philippe Musette-Sykes, head of cash debt markets at NYSE Euronext. “This means it would process both indirect and direct flows. Certain players, markets and electronic platforms recognize the usefulness of such a tool and have been in contact with us.”

Sylvain de Forges, chairman of the Cassiopée Committee

“The representatives of the players concerned have reached a consensus on the project”

The objective is to put together an order book with nothing but firm orders

Ensuring system security

The pre- and post-execution transparency and reporting rules are designed to bring the future market into compliance with the requirements of the Markets in Financial Instruments Directive (MiFID), originally drawn up for equities. There are also plans to transmit orders through a clearing system, and LCH Clearnet is preparing an offer.