

The Association of Corporate Treasurers

Comments in response to

Bank of England market notice: asset purchase facility - consultation on proposals for amendment to the corporate bond secondary market scheme

November 2009

16th December 2009

The Association of Corporate Treasurers (ACT)

The ACT is a professional body for those working in corporate treasury, risk and corporate finance. Further information is provided at the end of these comments and on our website www.treasurers.org.

Contact details are also at the end of these comments.

In this case, we canvassed the opinion of our members through our Bond Working Group and our Policy and Technical Committee.

General

The ACT welcomes the opportunity to comment on this matter.

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Responses to questions

1 *The Bank welcomes views on the whether introducing corporate bond sales (in addition to purchases) would improve two-way liquidity in the sterling corporate bond market.*

We welcome the intention to be prepared to sell as well as purchase corporate bonds.

2 *The Bank would be grateful for views of whether the APF acting on both sides of the market would be a positive step in terms of improving price transparency?*

The announcement of transaction volumes and prices by the Bank is welcome.

3 *The Bank would appreciate comments on whether such an extension to the current Scheme would also further encourage market making in the sterling corporate bond market?*

We are not best placed to respond to this question.

4 *Given the Scheme's objectives, the Bank would be grateful for views on whether the outlined auction structure is likely to help improve liquidity in the corporate bond market, or whether alternative structures would be more effective?*

It appears fit for purpose.

5 *The Bank would appreciate feedback on whether sales of the size suggested would be suitable to support greater price transparency in the sterling corporate bond market? In particular, the Bank would appreciate views about the £1 million minimum bid size.*

We are aware of demand for corporate bonds in small lots from smaller investors wanting to diversify their portfolios. We recognise the desire of the Bank to minimise administration costs arising from numbers of transactions but suspect there would be additional demand for smaller lot sizes even if the Bank recovered additional costs (perhaps through marginally higher prices) from the bidder. If a minimum bid size is needed it should be as small as practicable.

Further points

Our members have expressed concerns at the concept of the Bank setting target spreads for individual corporate bonds. Any pre-determined spread would quickly become known and the market might attach an undue significance to this. The Bank could, instead, be prepared to sell everything at whatever best price is offered or just retain the absolute right to accept or reject offers on any or no grounds but not linking this to the existence of a specific private spread.

We recognise that the cut-offs for accepted bids will be public but it would be preferable not link this to the existence of a private spread target. Sales may be for a number of reasons where the Bank might accept larger spreads to increase sales or it may be selling to provide liquidity when it might have a smaller cut off.

The Association of Corporate Treasurers

The ACT is an international body for finance professionals working in treasury, risk and corporate finance. Through the ACT we come together as practitioners, technical experts and educators in a range of disciplines that underpin the financial security and prosperity of an organisation.

The ACT defines and promotes best practice in treasury and makes representations to government, regulators and standard setters.

We are also the world's leading examining body for international treasury, providing the widest scope of benchmark qualifications and continuing development through training, conferences and publications, including *The Treasurer* magazine and the annual *Treasurer's Handbook*, and online.

Our 3,600 members work widely in companies of all sizes through industry, commerce professional service firms.

Further information is available on our website (below).

Our policy with regards to policy and technical matters is available at <http://www.treasurers.org/technical/resources/manifestoMay2007.pdf>.

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