

# UPDATE ON THE PRIMARY DEALERSHIP MODEL

NATHALIE FILLET

Global Markets

BNP Paribas

Frankfurt, 12 February 2019



**BNP PARIBAS**

The bank for a changing world

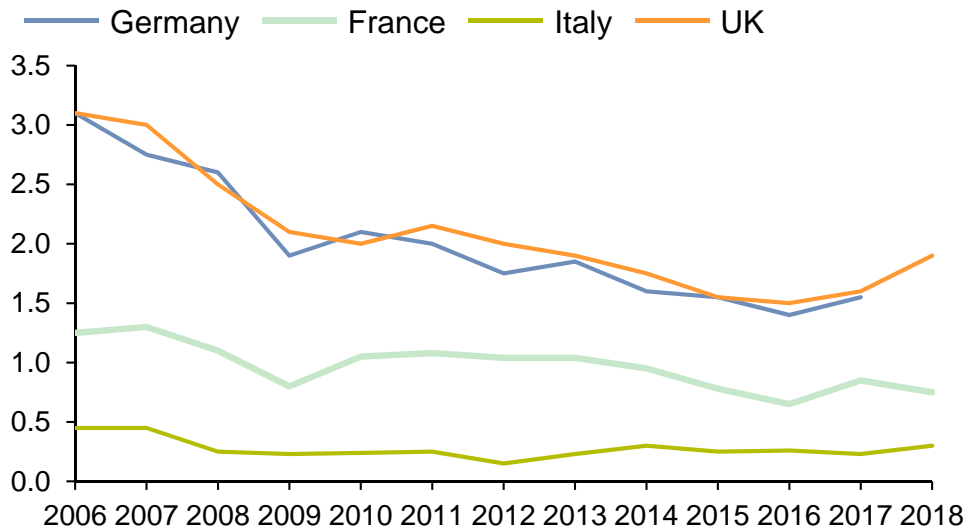
# Current trends in the European sovereign bond markets

---

- **Turnover of European government bonds has been decreasing since the crisis with some event-driven spikes**
- **There are fewer primary dealers in the market and volumes are more concentrated among the top players**
- **The changing regulatory landscape and spread compression continue to accelerate the electrification of the business**
- **The Primary dealership system has adapted to the new landscape**

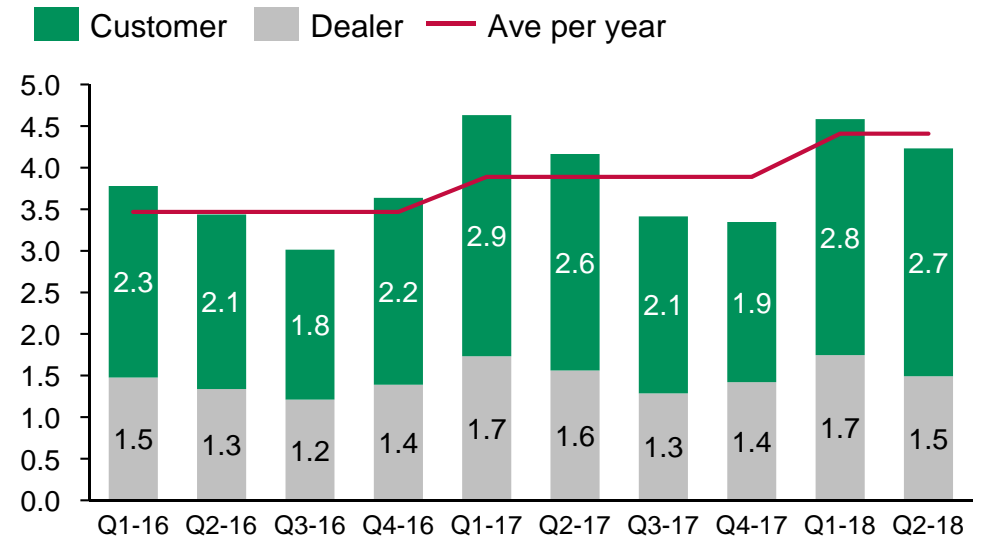
# Lower Turnover in the European Sovereign Bond Markets

## Turnover ratios of European government bonds



Source: AFME Government Bond Data Report 2018 Q2

## Eurozone aggregated sovereign bond market turnover (€bn)

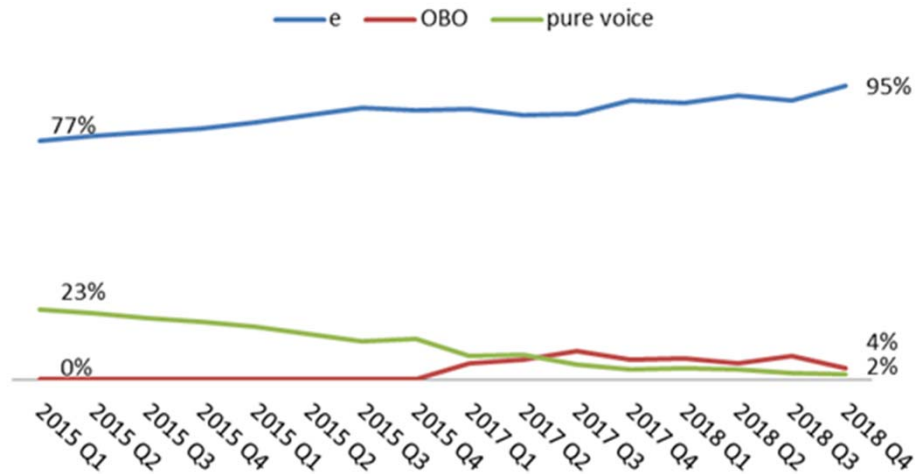


Source: Economic and Financial Committee of EU

- The 2008 crisis has had the largest impact on turnover, only finding a floor in 2016
- Changes in regulation have also impacted turnover, albeit slightly
- Unsurprisingly, there has been a larger pool of liquidity in core markets vs peripherals
- The market has been somewhat cyclical, driven by specific macro events (various elections)

# Electronification of the European Sovereign Bond Markets

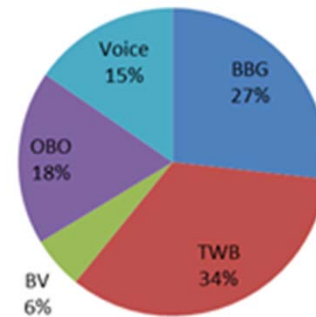
Evolution of BNPP e-traded EuroGovies (# of tickets)



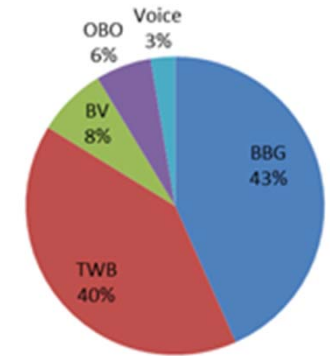
Source: BNPP

Breakdown of the EuroGovies market (2018ytd)

BONDS MARKET 10Y EQ



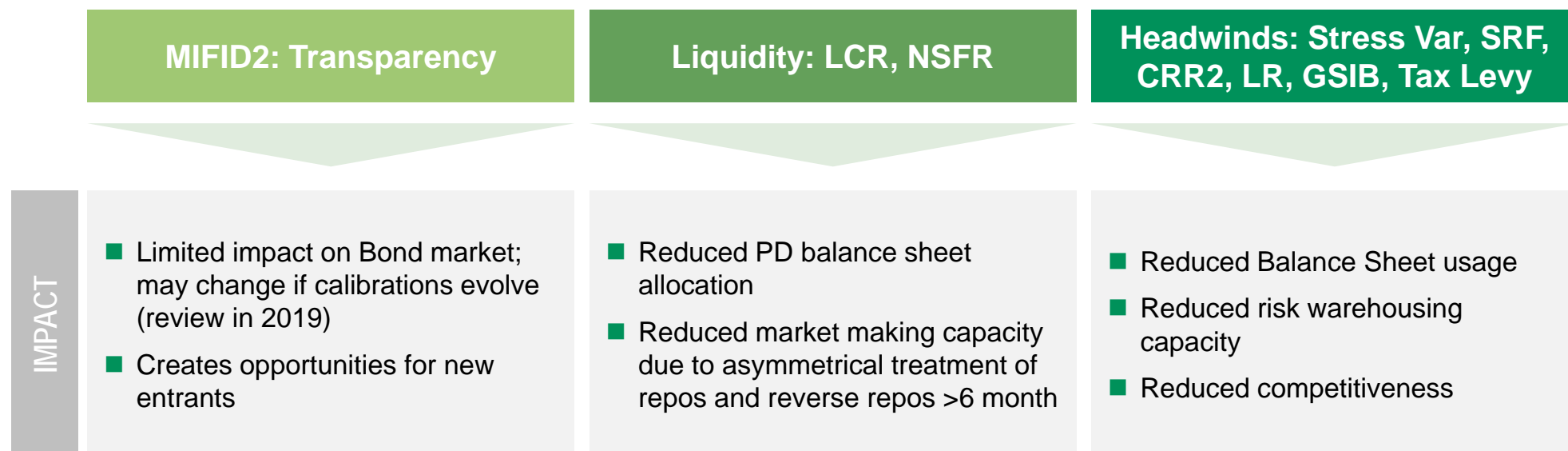
BONDS MARKET TICKETS



Source: BNPP, Tradeweb, Bloomberg, BondVision

- **Electronification of the bond market has been accelerated by new regulations (MiFID II, etc.) and the need for PDs to align business models due to continued margin compression**
- **In additions, increased cost of balance sheet and tighter margins are making PDs less likely to hold inventory**

# Changing regulatory framework for the European primary dealer business model



- **The European sovereign bond market has, so far, adapted well to the new regulatory environment**
  - However, warehousing positions have become more costly and less profitable for primary dealers, potentially driving out smaller players
  - Liquidity has become more concentrated around planned auctions

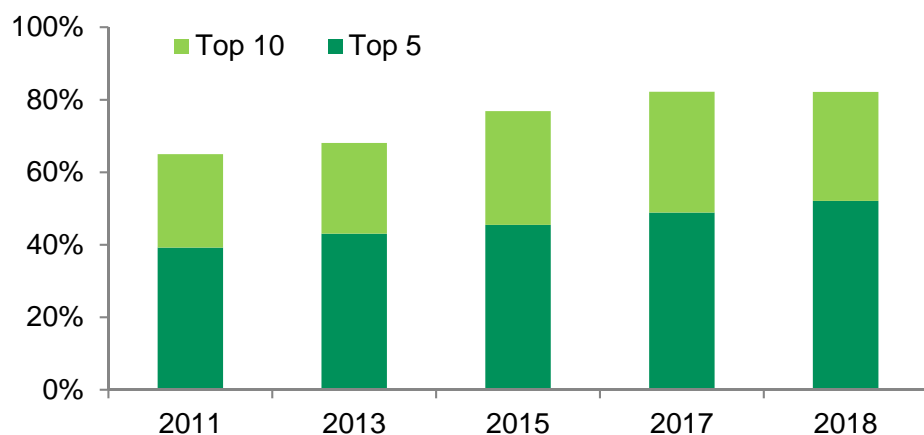
# Evolution of European Primary Dealers

## Ranking of top 5 primary dealers: 2006 vs. 2017-2018

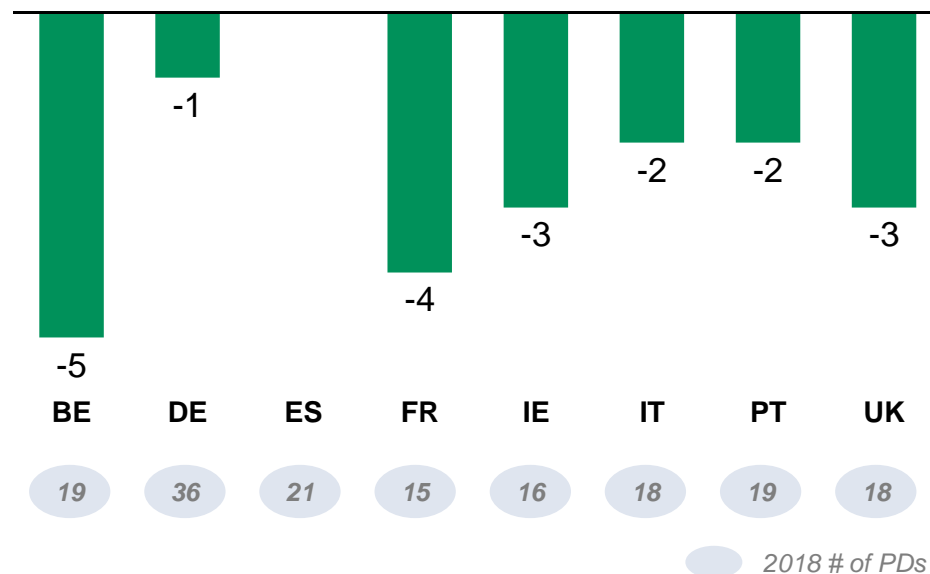
Domestic		EU	US	Asia
<b>Italy</b>		<b>France</b>		
<b>2006</b>	<b>2018</b>	<b>2006</b>	<b>2017</b>	
Barclays	JPM	BNPP	BNPP	
SG	Banca IMI	Barclays	HSBC	
DB	Unicredit	SG	JPM	
UBS	MPS	DB	SG	
UniCredit	Barclays	HSBC	CA	
<b>Spain</b>		<b>Germany</b>		
<b>2006</b>	<b>2018</b>	<b>2006</b>	<b>2018</b>	
Barclays	HSBC	DB	BNPP	
BBVA	BBVA	MS	Commerzbank	
CA	JPM	RBS	HSBC	
Santander	Barclays	GS	Danske	
SG	Citi	SG	CA	

Source: BNPP, National DMOs

## Top 5 & Top 10 in OAT Secondary Turnover



## Changes in number of primary dealers since 2010



Source: BNPP, National DMOs

- Domestic primary dealers have become more dominant in their markets except Spain
- Most European countries have seen a decrease in the number of primary dealers vs 2010
- There has been more concentration of volumes among the top dealers

# The Bulk of the Sovereign Financing still done via Auctions

- 89% of Eurozone Sovereign has been done via auctions in 2018, versus 85% in the last 5 years
- Strong start of the year 2019 with 40% of syndications in Total Sovereign issued in Jan versus 34% in Jan 2018
- Smaller countries do more syndications (10y new benchmarks)
- Last syndicated deal for Germany: New 30 year inflation-linked security in 2015

	2018 Total Supply	Syndications EUR	Syndications %	2018 Number of Syndications
Germany	145	0	0%	0
France	195	8	4%	2
Italy*	238	19	8%	1 + 2 BTP Italia
Spain	132	27	20%	4
Portugal	16	7	44%	1 + 2 floaters
Ireland	14	4	28%	2
Holland**	24	6	25%	1
Belgium	34	10	28%	2
Austria	18	7	40%	1
Finland	10	6	60%	2
Slovenia	2	1	50%	1
<b>Total</b>	<b>827</b>	<b>94</b>	<b>11%</b>	<b>22</b>

\* including BTP Italia

\*\* : DDA

All sources: BNP Paribas, DMOs



# The Primary Market Harmonisation

- All DMOs announce a yearly issuance programme at the end of the previous year
- A joined issuance calendar is published on a common website (quarterly basis) ([http://europa.eu/efc/sub\\_committee/index\\_en.htm](http://europa.eu/efc/sub_committee/index_en.htm))
- Issuance is well spread over the week with sometimes overlaps that the market can handle

## Method & Auctions Systems

	Single-Price auction	Multi-Price auction	Hybrid auction
Bloomberg Auction System	Finland Portugal UK (Linkers) Ireland	Belgium UK (Conventional)	-
In-house Auction System	Italy	France Austria	Germany Spain

Source: BNPP, National DMOs

- Different auctions systems & different procedures (methodology single/multi price)
- Specific case of Germany – Bund Auction Group – more similar to the US system than the rest of the Eurozone
- No direct clients participation to auctions in the Eurozone unlike in the US





# The Primary Dealership System: What Changes?

---

- **Primary dealership system still prevails in the eurozone and DMOs will continue to rely on banks to place their debt**
- **Foods for thought**
  - **More harmonisation in the system .... toward the Eurobond?**
  - **How increase clients participation to auction?**
    - **Via primary dealers?**
    - **With a system more similar to the US one with direct Clients Participation**
    - **But it would imply a change in the PDship system for Eurozone countries (fair treatment of all players)**



# EGBs: A Primary Dealership Secure System

- Primary dealers are priority partners with Treasuries for the management of the State's debt and treasury.
- Primary dealers are appointed to buy promote and distribute sovereign debts
- The selection is based on objective (market share in primary market (auctions only) and animation of secondary market) and qualitative criteria. Differences between countries exist but same principle
- **Primary Dealers Obligations**

Active participation to auctions

Market-making - Contribution to the efficiency of the secondary market (greater liquidity – min bid-offer spreads - Investors best interest - Best execution)

Quotation on electronic markets – comparative ranking (Two way price Minimum size Tight bid-offer spreads)

Advisory services and research activity to contribute to the management of the public debt

Organizational structure (administrative, accounting & risk control)

- **Primary Dealers Rewards**

Non-Competitive Bids after the auction (France :25% - Italy 10% to 25%. From the T+ 1 to 5 days after the auction)

Access to information (borrowing needs, new issues, new financial instruments....)

Syndications Mandates

**The system of primary dealerships is essential to security, stability and liquidity of the EGBs market**



# Disclaimer

---

The information and opinions contained in this report have been obtained from, or are based on, public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. This report does not constitute an offer or solicitation to buy or sell any securities or other investment. Information and opinions contained in the report are published for the assistance of recipients, but are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, are subject to change without notice and not intended to provide the sole basis of any evaluation of the instruments discussed herein. Any reference to past performance should not be taken as an indication of future performance. To the fullest extent permitted by law, no BNP Paribas group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report. All estimates and opinions included in this report are made as of the date of this report. Unless otherwise indicated in this report there is no intention to update this report. BNP Paribas SA and its affiliates (collectively "BNP Paribas") may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this report or derivatives thereon. BNP Paribas may have a financial interest in any issuer or person mentioned in this report, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon. Prices, yields and other similar information included in this report are included for information purposes. Numerous factors will affect market pricing and there is no certainty that transactions could be executed at these prices. BNP Paribas, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this report. BNP Paribas may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this report. BNP Paribas may be a party to an agreement with any person relating to the production of this report. BNP Paribas, may to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis on which it was based, before its publication. BNP Paribas may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this report. Any person mentioned in this report may have been provided with sections of this report prior to its publication in order to verify its factual accuracy.

BNP Paribas is incorporated in France with limited liability. Registered Office 16 Boulevard des Italiens, 75009 Paris.

This report was produced by a BNP Paribas group company. This report is for the use of intended recipients and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BNP Paribas. By accepting this document you agree to be bound by the foregoing limitations.

Certain countries within the European Economic Area:

This report is solely prepared for professional clients. It is not intended for retail clients and should not be passed on to any such persons. This report has been approved for publication in the United Kingdom by BNP Paribas London Branch. BNP Paribas London Branch is authorised and supervised by the Autorité de Contrôle Prudentiel and authorised and subject to limited regulation by the Financial Services Authority. Details of the extent of our authorisation and regulation by the Financial Services Authority are available from us on request.

This report has been approved for publication in France by BNP Paribas SA, incorporated in France with Limited Liability and is authorised by the Autorité de Contrôle Prudentiel (ACP) and regulated by the Autorité des Marchés Financiers (AMF) whose head office is 16, Boulevard des Italiens 75009 Paris, France.

This report is being distributed in Germany either by BNP Paribas London Branch or by BNP Paribas Niederlassung Frankfurt am Main, a branch of BNP Paribas S.A. whose head office is in Paris, France. BNP Paribas S.A. – Niederlassung Frankfurt am Main, Europa Allee 12, 60327 Frankfurt is authorised and supervised by the Autorité de Contrôle Prudentiel and it is authorised and subject to limited regulation by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

United States: This report is being distributed to US persons by BNP Paribas Securities Corp., or by a subsidiary or affiliate of BNP Paribas that is not registered as a US broker-dealer to US major institutional investors only. BNP Paribas Securities Corp., a subsidiary of BNP Paribas, is a broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority and other principal exchanges. BNP Paribas Securities Corp. accepts responsibility for the content of a report prepared by another non-U.S. affiliate only when distributed to U.S. persons by BNP Paribas Securities Corp.

Japan: This report is being distributed to Japanese based firms by BNP Paribas Securities (Japan) Limited or by a subsidiary or affiliate of BNP Paribas not registered as a financial instruments firm in Japan, to certain financial institutions defined by article 17-3, item 1 of the Financial Instruments and Exchange Law Enforcement Order. BNP Paribas Securities (Japan) Limited is a financial instruments firm registered according to the Financial Instruments and Exchange Law of Japan and a member of the Japan Securities Dealers Association and the Financial Futures Association of Japan. BNP Paribas Securities (Japan) Limited accepts responsibility for the content of a report prepared by another non-Japan affiliate only when distributed to Japanese based firms by BNP Paribas Securities (Japan) Limited. Some of the foreign securities stated on this report are not disclosed according to the Financial Instruments and Exchange Law of Japan.

Hong Kong: This report is being distributed in Hong Kong by BNP Paribas Hong Kong Branch, a branch of BNP Paribas whose head office is in Paris, France. BNP Paribas Hong Kong Branch is registered as a Licensed Bank under the Banking Ordinance and regulated by the Hong Kong Monetary Authority. BNP Paribas Hong Kong Branch is also a Registered Institution regulated by the Securities and Futures Commission for the conduct of Regulated Activity Types 1, 4 and 6 under the Securities and Futures Ordinance.

