European Central Bank
DG Market Infrastructure and Payments
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RE: Market consultation on a potential Eurosystem initiative regarding a European mechanism for the issuance and initial distribution of debt securities in the European Union

Norges Bank Investment Management ("NBIM") appreciates the initiative by the Eurosystem and the European Central Bank ("ECB") to open the consultation on the functioning of the European debt securities market. As an active participant in primary and secondary debt markets we take this opportunity to share with the ECB our broad views on this topic.

NBIM is the investment management division of the Norwegian Central Bank ("Norges Bank") and is responsible for investing the Government Pension Fund Global, with assets valued at EUR 924 billion at the end of Q1 2019. Fixed-income investments accounted for 28% of the fund: EUR denominated fixed-income assets at the end of Q1 2019 were valued at EUR 67 billion. We have a vested interest in having a regulatory environment that yields well-functioning markets in financial instruments that allow the efficient allocation of capital and risk and facilitate long-term growth.

The current state of the debt securities market

The debt securities market helps governments, international organisations, and corporates to raise finance from a broad pool of investors using instruments such as treasury bills, bonds, commercial papers, and negotiable certificate of deposits, among others. Its role has grown since the financial crisis of 2008 with a shift from bank loans to debt securities driving global outstanding amounts of domestic and international debt securities in excess of USD 100 trillion at end-2018.[1]

Although debt issuance procedures can vary considerably across types of issuers and jurisdictions, in recent years, the increasingly integrated global financial markets have led to some degree of harmonisation in issuance procedures and operations, in particular for government bonds in OECD countries.[2] A gradual convergence in general procedures and

[1] See the latest Bank for International Settlement (BIS) debt securities statistics.

[2] See Blommestein H.J (2009), New Challenges in the Use of Government Debt Issuance Procedures, Techniques and Policies in OECD Markets, OECD Financial Market Trends, 1: 1-12.

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policies for the issuance of government debt also took place in Europe triggered by the introduction of the Euro in 1999.

However, based on our experience as an active market participant, the European debt securities market continues to be fairly fragmented and decentralised with the location of issuance playing a crucial role. The regionalisation of European bond markets means that investors face multiple non-interoperable processes and considerable operational complexity when accessing these markets (Question 1). For example, from an operational point of view there are delays in the flow of information between the different actors, such as investors, brokers, and custodian banks. This lengthens the settlement cycle and increases the operational and credit risk, especially for investors who trade across EU countries.

NBIM view on the ECB harmonisation initiative of the EU debt securities market

Considering these inefficiencies, we welcome the ECB's initiative for a harmonised issuance and distribution of euro debt instruments in the EU. The development and effectiveness of a well-functioning debt securities market requires certain common elements. Key features include openness to the global capital pool, attractiveness to institutional investors, efficiency in issuing methods, and a streamlined and sound clearance and settlement system.[3]

NBIM believes that the proposed new service by the ECB, which aims to provide a single centralised neutral pan-European process for debt securities issuance, will help to enhance the current ecosystem (Question 2e).

While the technical details of the proposed service, with the working title "European Distribution of Debt Instruments (EDDI)", are yet to be determined, we would like to provide general comments on the high-level description.

We support the efforts on harmonisation covering the entire transaction chain, using a streamlined electronic workflow and allowing for connectivity to multiple technologies. As an example, investors should be able to input orders directly using either the EDDI toolkit, syndicate banks or third-party systems (Questions 3a-3c, and 5a). Harmonisation efforts should cover standards and market conventions to a practicable level to ensure a transparent and fair allocation process. These standards and conventions include the timetable of the issuance and the duration of the book building, among others.

The establishment of a European market infrastructure service by a public entity like the ECB can provide the necessary coordination for such a large-scale initiative, ensure neutrality and pan-European reach. Such an infrastructure is likely to act as a catalyst for broader harmonisation. Its proposed modular nature is positive not only because its users will have the option to interact with the components that fit their business needs best, but also because it is expected to encourage the development of additional industry services, hence benefiting innovation (Question 5b). In order to create a level playing field, the new service should be

[3] See Schinasi, Garry J. and R. Todd Smith (1998), "Fixed-Income Markets in the United States, Europe and Japan: Some Lessons for Emerging Markets," IMF Working Paper WP/98/173 (December).

open to a wide range of issuers of debt in Euro or other currencies, CSDs and international investors, who fulfil the criteria defined by EDDI (Questions 5c-5g).

The benefits from a central European service for debt securities (Questions 6a-6b)

The proposed service enables a more simplified, efficient and cost-effective centralised issuance process. We expect this to increase participation by domestic and international institutional investors in the EU debt securities market. Increased participation by professional investors is likely to enhance liquidity and price efficiency, which in turn has the potential to encourage a larger diversity of issuances. The simplified and harmonised issuance process is also expected to reduce intermediation costs. Overall, we expect investors to benefit from a wider investment range, a deeper and more price-efficient market, and lower costs.

Although it is outside the scope of the current consultation, the standardisation and harmonisation of the pre-issuance and post-trade procedures could also stimulate discussion around the topic of product standardisation.

Finally, it is likely there is a positive spillover to secondary markets' liquidity and price-discovery through the increase in the number of debt instruments and the broadening of the investor base in the primary debt markets.

Conclusion

We welcome the initiative of the Eurosystem to explore the possibility to support a harmonised issuance and distribution of euro debt instruments in the EU. NBIM supports regulation and innovations that advance the well-functioning of financial markets and ensures efficient trading, sufficient natural market liquidity, and a broad investment universe. Although the technical details of this initiative are yet to be determined, the high-level principles of the proposed framework suggest that it has the potential to improve the functioning of the EU debt securities market, enhance the current ecosystem and benefit both issuers and investors.

We appreciate your willingness to consider our perspective and we remain at your disposal should you wish to discuss these matters further.

Yours sincerely

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