FINAL, SENT 14:00 CET, 14/12/2016 via email

To:
Peter Kažimír, Minister for Finance, Slovak Republic, Presidency of the Council of the European Union
Valdis Dombrovskis, Vice-President, European Commission
Roberto Gualtieri MEP, Chair, Economic and Monetary Affairs Committee, European Parliament
Petr Ježek MEP, Economic and Monetary Affairs Committee, European Parliament

Cc:
DG Financial Stability, Financial Services and Capital Markets Union, European Commission:
Olivier Guersent, Director General; Tilman Lueder, Head of Unit, Securities Markets
European Parliament: Tom Vandenkendelaere MEP; Neena Gill MEP; Kay Swinburne MEP

14th November 2016

Dear Sirs,

We, the undersigned and the stakeholders and members we represent have come together as a group of investors, infrastructure, advisers and issuers to highlight an important common priority: To ensure that meaningful change to the current prospectus regime for bond issuance is delivered that meets the objective of the regulation to remove what the Commission correctly describe as "one of the identified barriers to secondary liquidity on European bond markets" – the €100K minimum denomination for wholesale issuance. We believe that this can be done in a way which meets the legitimate interests of both appropriate investor protection and avoids additional burdens. In particular, we support the European Parliament compromise proposal, whereby a dual regime is maintained but based on a differentiation between public offers made to qualified investor versus non-qualified investors. We believe that this would deliver a workable solution for all stakeholders, eliminating any potential disruption.

As it currently stands asset managers, managing funds on behalf of their institutional and retail clients, face significant challenges when allocating bonds across a number of funds due to the minimum denomination size. This has not only had an impact on their diversification options but has implications on investment mangers' fiduciary duty of care to their clients and ability to treat their clients fairly. Fund managers typically aggregate orders in the new issue process (for efficiency and to safeguard against information leakage). But if a manager gets a fill that is less than originally bid, fund-level allocation in a fair manner is often unnecessarily burdensome due to the minimum €100k denomination.

The minimum denomination also creates concentration risk for smaller funds as only larger funds are able to subsume a minimum size of €100k, creating an un-level playing field between funds. This is acknowledged in the US, where the minimum denomination size is typically US$1,000. The removal of the minimum €100k denomination will also benefit issuers through a more diversified investor base and greater liquidity, potentially lowering their cost of capital. Lower denominations will allow discretionary fund managers to make realistic assessments of the merits of particular bonds for the portfolios they manage and to invest where appropriate. It will also allow market makers to support liquidity whilst reducing demands on their balance sheets and improve settlement efficiencies (as the ECB has argued).

We support the goal of achieving agreement on the Prospectus Regulation as soon as possible. However the need to ensure a political deal in a timely fashion should not be allowed to proceed without a sustained effort to deliver a solution that works for all stakeholders on the €100k minimum denomination issue. We feel strongly that a default back to the existing system would represent a missed opportunity to deliver meaningful change. We sincerely urge you to adopt an approach based on the European Parliament proposal, which we believe is consistent with your policy goals and the interests of the Single Market and ordinary investors and the intentions underlying capital markets union.

We are at your disposal to partner with you in making this change a reality. Please grasp the opportunity.

Yours Sincerely,

European Fund and Asset Management Association: Peter de Proft, Director General
London Stock Exchange Group: Xavier Rolet, CEO
Wealth Management Association: John Barrass, Deputy CEO
Nasdaq: Lauri Rosendahl, President of Nasdaq Stockholm Ab and Nasdaq Nordic
Order Book for Retail Bond Issuers Group: Harry Hyman, Chairman
Killik and Co: Paul Killik, Partner, Senior Executive Officer