When of trades, traders and issuers. figure 3:

whencomparing corporate bonds (including financial ones) with sovereign bonds, wefind that they differ in various aspects. The issue size is, on average, smaller for corporate bonds than sovereign bonds; while sovereign bonds aremostly larger than £1 billion, corporate bonds are mostly issued at sizesbetween £100 million and £1 billion. They also differ in terms of ratingquality, with corporate bonds having lower ratings on average.

Issuers ofcorporate bonds are mostly financial institutions, followed by utilities andother capital-intensive industries and a same corporate issuer will usuallyissue various bonds with different characteristics (maturities, currencies, coupon structures, etc.). While about half of the sovereign bonds in the sampleare zero coupon bonds, most corporate bonds are floating rate bonds. Corporatebonds are also traded less frequently; some government bonds are tradedregularly more than 1, 000 times per month, while even the most actively tradedcorporate bonds rarely trade more than 1, 000 times per month. The largesttrades are most frequently executed off exchange. Trade sizes varysubstantially across and within asset classes with the largest trades occurringin sovereign bonds. These descriptivestatistics emphasize how segmented the bond market is; any change totransparency requirements in this market could have a large impact on at leasta subset of trades, traders and issuers.

Figure 3: Aggregate number of tradesand volume by month and issuer type Government bonds andbonds issued by financial institutions are the most actively traded instruments. The largest total volumes traded are in sovereign bonds, indicating that thetrade sizes of sovereign bonds are considerably larger than those for othertypes of bonds on average. This

finding seems to be driven by few large trades, since the median trade sizes are comparable across bond types for most of thesample period. Interestingly, monthly volumes of government bonds roughlydoubled during our sample period, possibly reflecting increased issuance ofgovernment debt and investors' avoidance of more risky investments since thestart of the financial crisis. About 10% of the bonds trade only once in the whole sampleperiod, 50% of them trade less than 50 times and less than 15% trade more than1000 times. However, there is a high dispersion within each bond type. Tradingis highly concentrated in a small number of bonds.

Around 20% of alltransactions in the dataset were carried out in about 20 highly-ratedgovernment bonds, 50% of all trades took place in less than 35 instruments andless than 1, 000 instruments were responsible. For about 90% of alltransactions. Most traded government and financial bonds traded on averageabout 6, 500 and 1, 200 times per month, respectively. Corporate non-financialbonds are traded most frequently in the first month after issuance. Different to equities, many investors hold bonds untilmaturity and, therefore, do not trade the bonds.

Another explanation is thatsome credit default swaps (CDS) could be more liquid and easier to locate thanthe underlying reference bond so traders could use them as substitutes. Firmsand sovereigns also issue many different types of bonds, not all of which aretraded actively. In general, trading frequencies vary over the lifetime of abond, with most active trading taking place directly after issuance. Figure 2: Number of bonds by issuerating Most UK-listed government bonds are highly rated whilecorporate non-financial bonds seem to be more frequently, both in absolute andrelative terms, in the middle of the investment grade segment. In the financialand corporate non-financial bond sectors, medium rated bonds are the mostactively traded in absolute terms. For corporate non-financial bonds, thisresult follows from the fact that most of these bonds are medium rated. Incontrast, most of the financial bonds are highly rated but most of the tradingis done on medium-rated bonds. So, when analyzing the trading on relativeterms, normalized by the relative number of bonds in each category, the primesovereign bonds are the most actively traded followed by the medium andspeculative grades of financial and corporate non-financial bonds Figure 1: Number of trades bycurrency (as % of total) GBP 39.

5% Euros 29. 5% US Dollar 22. 1% Other 8. 9% < £1m 3. 1% Fixed rate 41.

4% £1m – £10m 13. 6% Floating rate 33. 1% £10m – £100m 30. 5% Index linked 12. 7% £100m – £1bn 44. 9% Zero coupon 11.

1% > 1bn 7. 9% Convertible 1. 7% Financial 79% UK 63. 2% Corporate non-financial 8. 3% USA 9. 3 % Sovereign 6. 4% Netherlands 3. 4 % Supranational 2.

5% Australia 2. 6 % Sub-sovereign 1. 9% Sweden 2. 5 % Agency 1.

8% Other 19 % Table 1: Number of UK-listed bonds byissuer type, residence of the issuer, issue size bond type and currency By number ofbonds, the majority of the UK-listed bonds are issued by financial institutions. Sovereign bonds and corporate non-financial bonds comprise less than 20% of allbonds in the dataset. More than half of the bonds have an issue size of £100million or above.

Also, most bonds have fixed rates (41%), followed by asignificant proportion with floating rates (33%). The UK bond markets are veryinternational with around 37% of all bonds being issued by firms that areresident outside the UK and more than 60% of UK bonds being issued in foreigncurrency. Thisanalysis is based on a subset of a unique dataset, ‘ Sabre II’, held at the FCA. Our subset consists of the UK-listed bond transaction reports. Firms arerequired by regulation (MiFID and the FCA Handbook) to report certain detailsof their executed transactions involving ‘ any financial instrument admitted totrading on a regulated market or prescribed market (whether or not thetransaction was carried out on such market) or OTC derivatives the value ofwhich is derived from or is otherwise dependent on an equity or debt relatedfinancial instrument. There are around 140 thousand different bonds in SabreII. These include all UK bonds admitted to trading in any EEA regulated orprescribed market that were traded during the period.

It also includes EEAnon-UK bonds and some non-EEA listed bonds traded by UK regulated firms. The Bank forInternational Settlement statistics show that the amounts outstanding on theglobal bond market increased from US$60 trillion in 2005 to US$100 trillion in2012-13, an increase of above 65%. The UK is one of the largest centers forissuance and trading of international bonds. The City UK (2012) estimated thatin 2012 London accounted for 3% of the issuance, 13% of the amount outstandingand 70% of the secondary market turnover in international bonds. On average, the bonds that make up our national debt need to be repaid within 15 years.

With government spending so far out of control, interest on the national debtwill cost over £42 billion this year. There are no UK regulatory requirementson transparency for over-the-counter trading in bonds today, MiFID II willinclude a pre- and post-trade transparency regime for nonequity instrumentsadmitted for trading on European Economic Area (EEA) trading venues. The BritishGovernment borrows money by selling bonds, known as ' gilts'.

These bonds aresold at regular auctions held by the UK Debt Management Office (DMO), on behalfof Her Majesty's Treasury. The term gilt is short for ' gilt-edged security' andis a reference to their perceived safety as an investment. The Government hasnever failed to make a repayment on a gilt. When a gilt is sold, the Governmentguarantees to pay the holder a fixed interest payment every six month until thematurity date, at which point the full value of the bond is repaid. Theproceeds from a gilt sale are then spent by the Government and the value of thegilt is added to our national debt.

The bondmarkets allocate financial resources to firms and governments. There isdiversity in the UK bond markets, with big differences between marketparticipants, the way they trade and the risks of trading differentinstruments. While most bonds are only traded sporadically, some bonds areliquid and trade frequently at different venues. However, their liquidityprofile varies widely during their lifetime.

Most transactions in the UK-listedbonds are carried out off-exchange. Trading costs depend on transaction size, credit risk profile and maturity.