



ELFA calls for enhancement of liquidity conditions in the European high yield debt market

A 'Qualified Exchange' protocol should be established to set improved standards for UCITS eligible securities

London, UK, 3 June 2020 – The European Leveraged Finance Association (ELFA), a trade association comprised of European leveraged finance investors from over 30 institutional fixed income managers, including investment advisors, insurance companies, and pension funds, today announces the publication of an ELFA Insights Series report in which ELFA argues that European regulators need to do more to enhance liquidity conditions in the European high yield debt market.

Over the past 18 months, the European asset management industry has provided a number of instances in which open-ended investment funds offering daily liquidity have been caught out by their ownership of illiquid assets. The ensuing debate about the suitability of certain assets or asset classes for daily-dealing funds has brought high yield debt into the conversation.

This report argues that more can be done to create and enhance the pre-conditions for European high yield bond market liquidity thereby improving sub-investment grade securities' suitability for daily dealing funds. At the same time it asserts that it is imperative that the loopholes that allow illiquid assets to pose as liquid securities are closed.

The paper proposes the concept of a Qualified Exchange listing, whereby only high yield bonds listed under this protocol would be eligible for UCITS funds. The listing rules would include and not be limited to the following criteria: minimum size of issue; minimum number of holders post re-offering; at least three years of audited financial history; mandatory minimum earnings financial disclosure requirements; minimum level of disclosure for insider transactions; prompt releases of earnings following the end of a reporting period, etc.

ELFA supports a re-examination of UCITS rules to ensure that exchange-listed transferable securities and money market instruments are truly liquid while allowing and refining the definition of the 10% illiquid bucket to the benefit of high yield fund investors. At the same time ELFA continues to advocate more transparent and thorough public financial and covenant disclosure in the firm belief that this will create a more liquid high yield bond market.

Sabrina Fox, Executive Adviser, comments: "It is clear that the current situation is inadequate for liquidity conditions in the European high yield debt market. Regulatory action, and adherence to best practices in transparency and disclosure by high yield issuers, would go a long way to improving high yield bond liquidity."

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About ELFA: The European Leveraged Finance Association (ELFA) is a professional trade association comprised of European leveraged finance investors from over 30 institutional fixed income managers, including investment advisors, insurance companies, and pension funds. ELFA seeks to support the growth and resilience of the leveraged finance market while acting as the voice of its investor community by promoting transparency and facilitating engagement among European leveraged finance market participants. For more information please visit the ELFA website: www.elfainvestors.com.

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