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The Science of Finance

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日本銀行 金融高度化センター ワークショップ

「市場流動性の諸問題 —各種市場の流動性指標の活用に向けて—」

## 本邦社債およびCDS市場における流動性指標

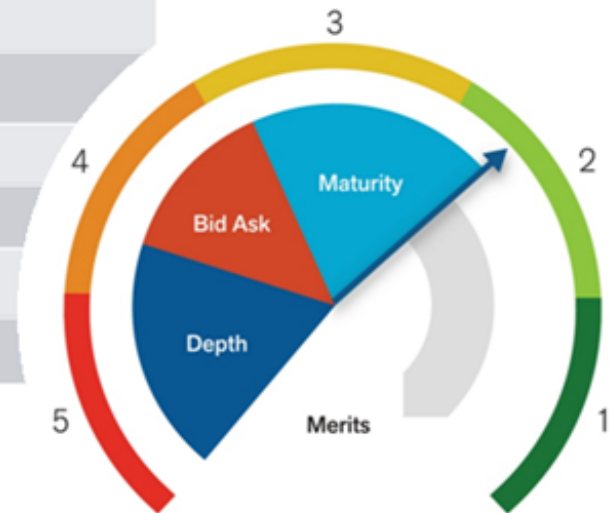
Liquidity Benchmark in Japanese Corporate Bond and CDS Markets

14 May 2014

## Liquidity Scores

Below measures provide for Markit's proprietary Liquidity Score and provide added details around observed transparency per bond price

Metric	Evaluated Bonds
Number of pricing sources	✓
Number of dealer quotes*	✓
Number of dealers quoting	✓
Weighting for single vs double sided quotes	✓
Bid/Offer Spread	✓
Maturity	✓
Shadow Liquidity	✓



\*Quotes count provided to all clients, though not used in calculation

# Using liquidity to validate prices

Higher liquidity scores will provide greater confidence that the price levels are reflective of the market.

## Sharp Corporation

ISIN	Coup	Maturit	Ccy	Price	Yield	ASW	Z Spre	UpdateDT	Li	Ra
JP335960	0.846	16/9/2014	JPY	99.7639	1.44		125.57	5:00:00 PM	1	
JP335960	1.141	16/9/2016	JPY	97.7951	2.09	183.17	187.30	5:00:00 PM	2	
JP335960	2.068	19/3/2019	JPY	93.7368	3.47	299.51	312.62	5:00:00 PM	2	
JP335960	1.604	13/9/2019	JPY	91.7153	3.29	275.96	291.75	5:00:00 PM	2	

Detailed Quote | **Liquidity Score** | Ratings

**SHARP 0.846 16/9/2014** JP335960A999

Ccy	JPY	Fuel1	Quotes
Seniority	Sr	Fuel2	
Sector	Consumer Goods	Fuel3	
AveragePriceBASpread	0.52778	Fuel4	
MeritQuotesCount	14	Fuel5	
Basis (Actual/IMM)		Liquidity Score : 1	Mid

**Liquidity Score**

SHARP 0.846 16/9/2014 JP335960A999

**Liquidity Score: 1**

Depth Merit	22/24		#Quotes Dealers	4
Bid/Ask Merit	3/4		Bid Ask Calc Type	Price
Maturity Merit	4/4		Shadow Liquidity	No
			Quotes Count	14
			Ccy	JPY
			Sector	Consumer Goods
			Seniority	Sr
			Fuel 1	Quotes
			Fuel 2	
			Fuel 3	
			Fuel 4	

# Using liquidity to validate prices

Lower liquidity scores allow clients to provide wider tolerance levels for price deviations for IPV.

## Japan Finance Organization for Municipalities

ISIN	Coup	Maturit	Ccy	Price	Yiel	ASW	Z Spr	UpdateDT	L	R
JP328620A44	1.5	25/4/2014	JPY	100.0039	0.07		-0.74	5:00:00 PM	5	
JP328620A45	1.5	26/5/2014	JPY	100.1282	0.07		-3.51	5:00:00 PM	5	
XS019319857	4.5	27/5/2014	EUR	100.3880	0.26		0.44	5:00:00 PM	3	
JP328620A49	1.71	20/6/2014	JPY	100.2606	0.08		-3.42	5:00:00 PM	4	
JP328620C46	1.6	20/6/2014	JPY	100.2411	0.07		-4.90	5:00:00 PM	4	
JP328620D46	1.77	20/6/2014	JPY	100.2702	0.08		-3.42	5:00:00 PM	4	
JP328620A47	1.8	25/7/2014	JPY	100.4371	0.07		-6.88	5:00:00 PM	4	

Detailed Quote | **Liquidity Score** | Ratings

**JFOFM 1.5 25/4/2014** **JP328620A444**

Ccy: JPY      Fuel1: Bond Agency  
 Seniority: Sr      Fuel2:  
 Sector: Government      Fuel3:  
 AveragePriceBASpread: 0.00041      Fuel4:  
 MeritQuotesCount:      Fuel5:  
 Basis (Actual/IMM): Liquidity Score : 5 Mid

**Liquidity Score**

**JFOFM 1.5 25/4/2014** **JP328620A444**

Liquidity Score : 5

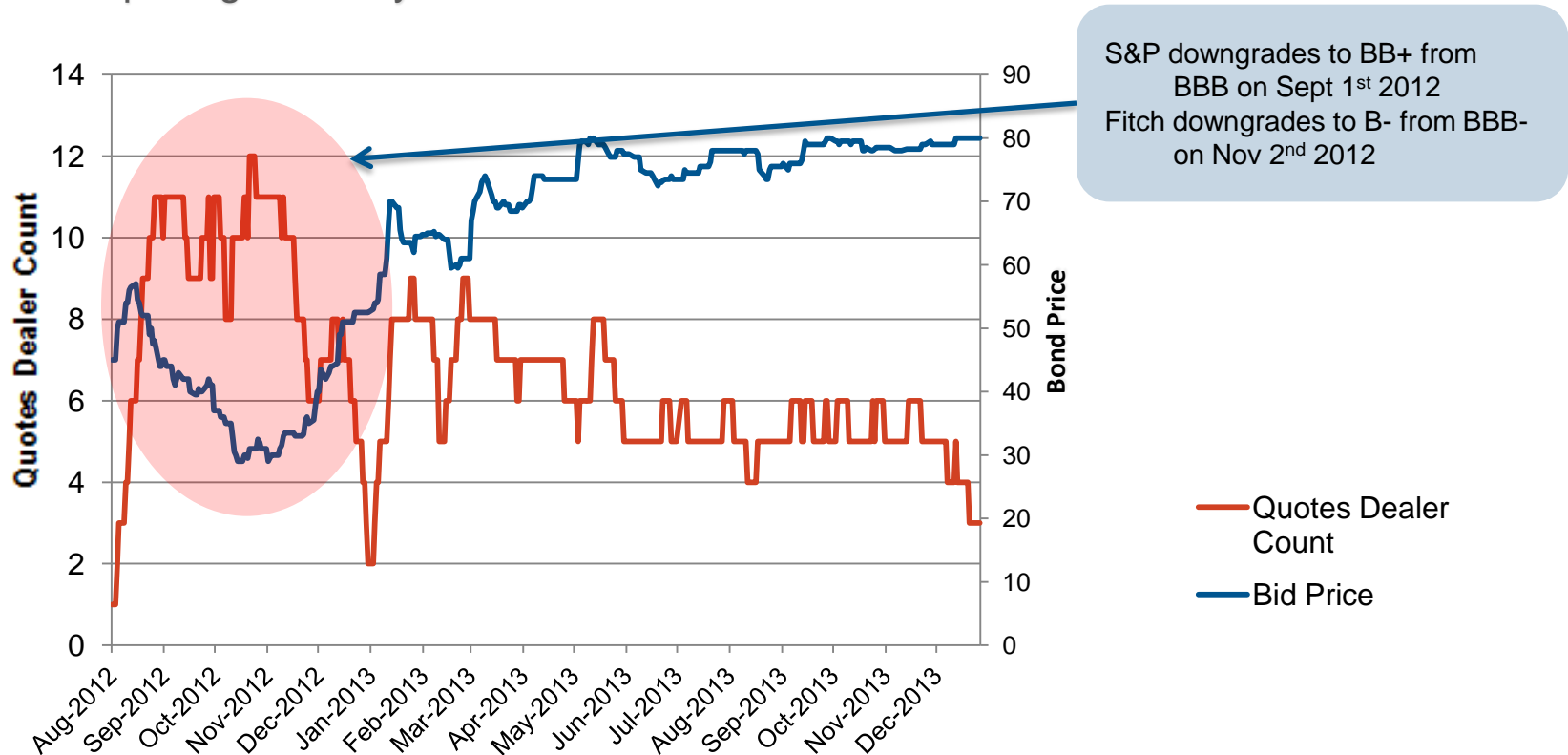
Depth Merit 0/24  
Bid/Ask Merit 3/4  
Maturity Merit 4/4

**#Quotes Dealers** 0  
**Bid Ask Calc Type** Spread  
**Shadow Liquidity** No  
**Quotes Count**  
**Ccy** JPY  
**Sector** Government  
**Seniority** Sr  
**Fuel 1** Bond Agency  
**Fuel 2**  
**Fuel 3**  
**Fuel 4**

## Sharp Corporation ratings downgrade

### Liquidity provides extra confidence on pricing validity.

For JP335960C995, during rating downgrades, increased quoting depth provided extra confidence in pricing accuracy



## Bond Liquidity over Time

Dealer depth dries up in Japanese bonds during times of distress/volatility.

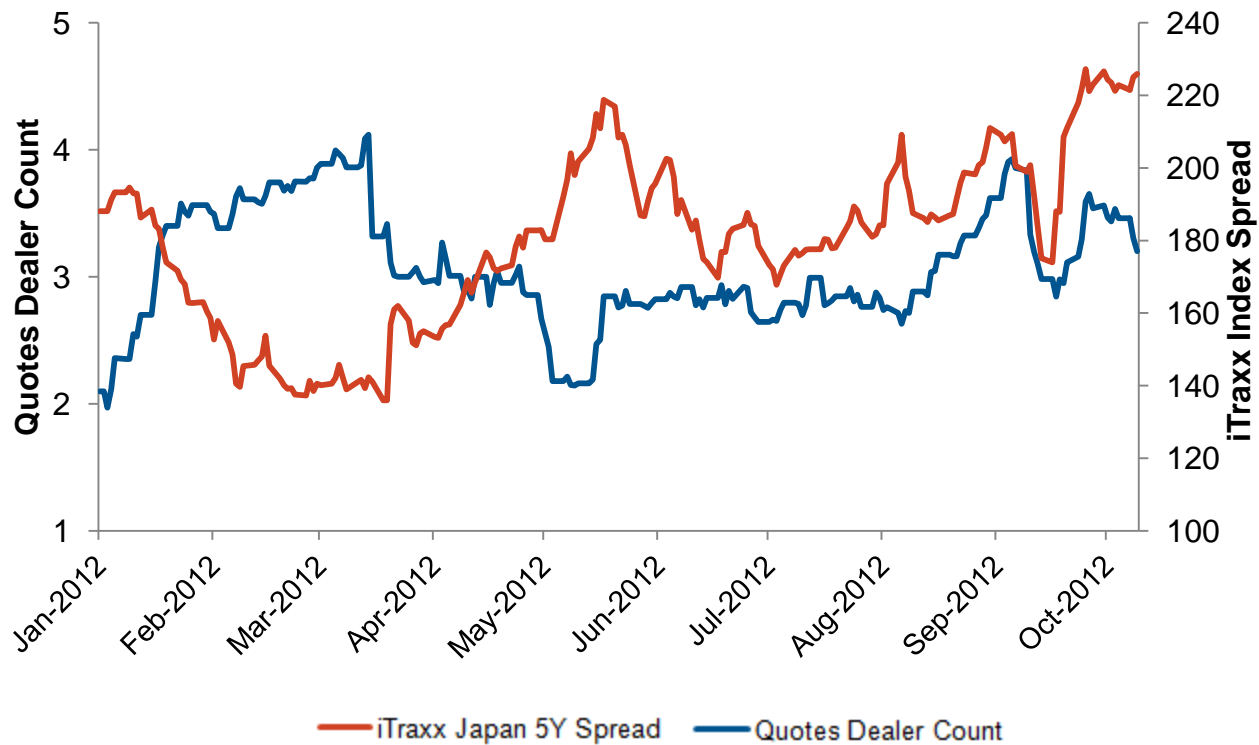
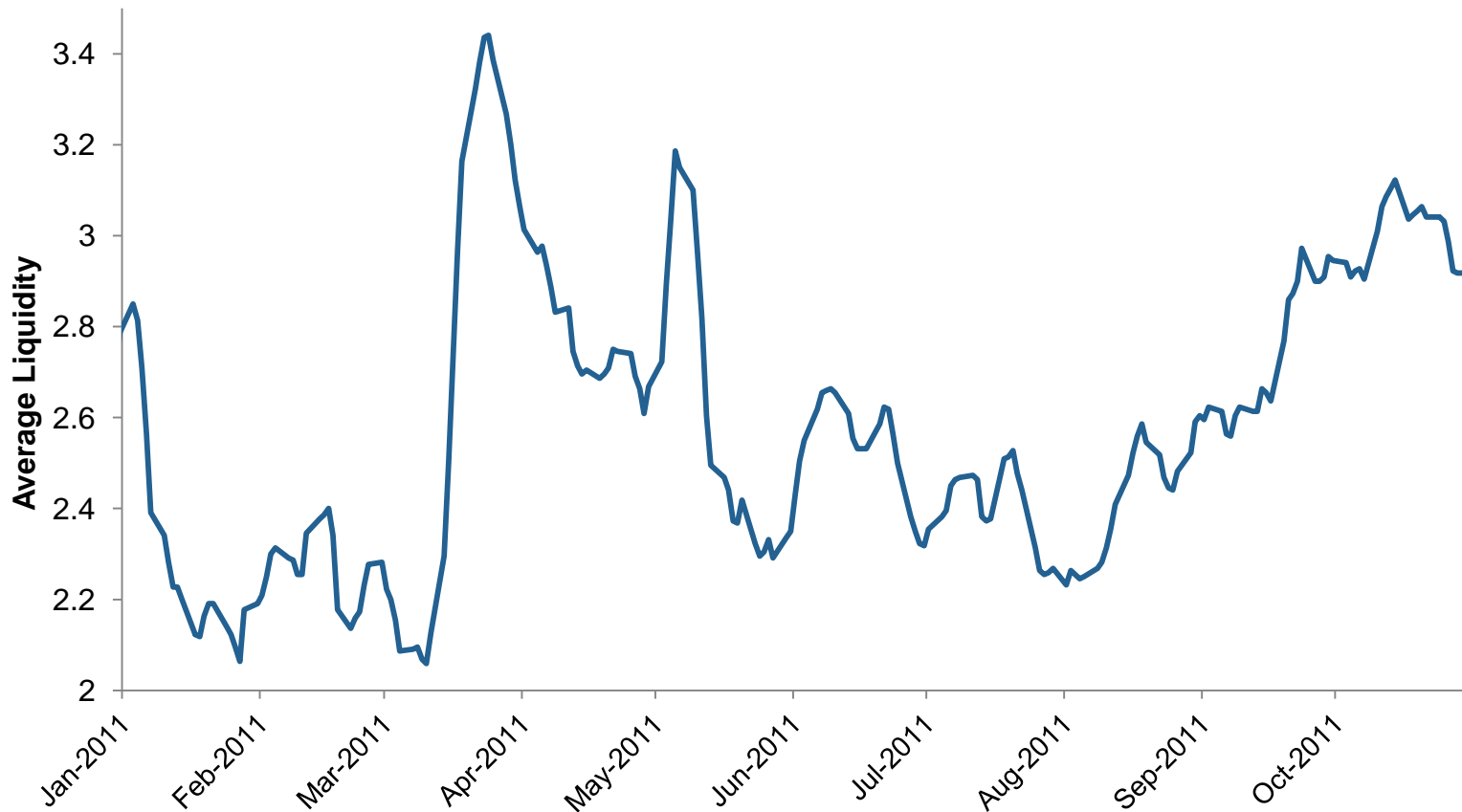
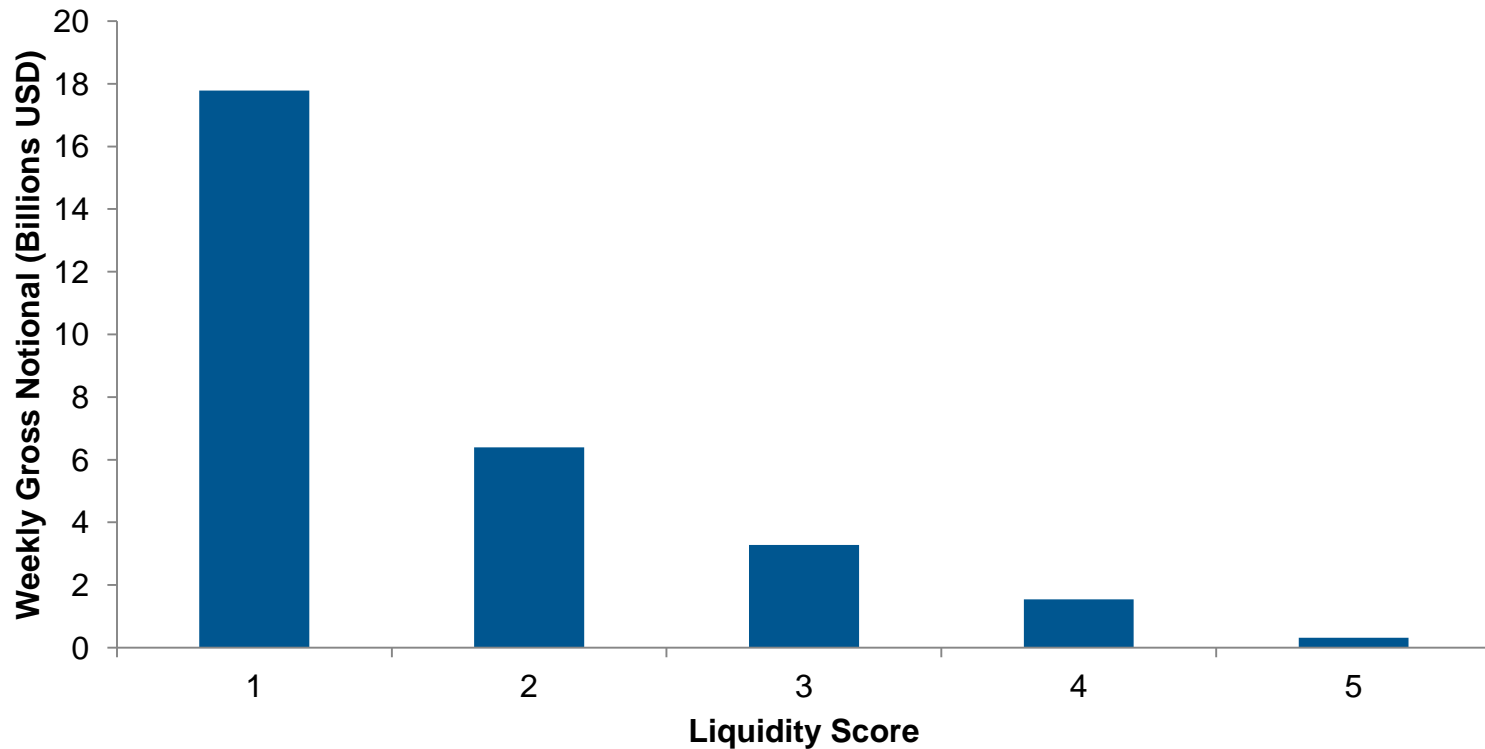


Chart above shows average dealer depth of bonds being quoted in the market over time. Bond universe sampled are bonds issued by Japanese Companies.

Liquidity dries up during the March 2011 earthquake.



Aligning Markit's Liquidity Score with the weekly gross notional CDS trades.







Thank you.

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surfaces information  
enables transparency  
builds platforms  
provides access  
scales volume  
extends networks  
& transforms business.

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