

# Committee on the Global Financial System

## CGFS Papers

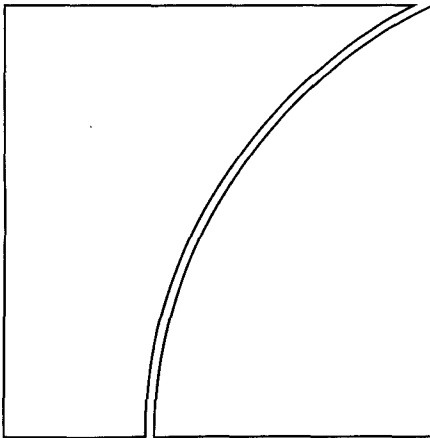
No 52

### Market-making and proprietary trading: industry trends, drivers and policy implications

Report submitted by a Study Group established by the  
Committee on the Global Financial System

The Group was chaired by Denis Beau (Bank of France)

November 2014



JEL Classification: D47, G12, G15



BANK FOR INTERNATIONAL SETTLEMENTS

# Contents

Executive summary .....	1
1. Introduction .....	4
2. The economics of market-making .....	4
2.1 The role of market-makers in bond markets .....	5
2.2 The provision of market-making services .....	6
2.3 Market-making versus proprietary trading .....	9
3. Trends in market-making and proprietary trading .....	11
3.1 Assessing trends in bond market liquidity .....	11
3.2 Supply of immediacy services .....	16
3.3 Demand for immediacy services .....	19
3.4 Movement towards electronic trading .....	21
4. Drivers of the observed trends .....	23
4.1 Market-driven adjustments to market-making services .....	24
4.2 Regulatory changes and their potential effects .....	26
5. Market implications .....	29
5.1 Cost of trading and issuing debt .....	29
5.2 Market liquidity and robustness .....	30
6. Policy implications .....	35
6.1 Assessing liquidity risks and enhancing market robustness .....	36
6.2 Possible backstop options .....	38
References .....	41
Appendix 1: Study Group mandate .....	45
Appendix 2: Overview of regulatory definitions .....	47
Appendix 3: Measuring trends in market-making and proprietary trading .....	52
Appendix 4: Surveying market-makers on the expected impact of regulation .....	54
Members of the Study Group .....	57