

Marketability of debt

Q 2-04. How is the marketability of sovereign debt securities provided?

The regulatory structure of securities markets in general is built around self-regulating organizations, such as exchanges and securities dealers associations, as a supplement to the government regulatory authorities. The regulatory responsibilities of government securities markets often are assigned to more than one government agency. Thus, in some countries the supervision over a primary dealers' arrangement and the issuance process (auctions, for example) is handled by the treasury or jointly by the treasury and the central bank, the regulation of the secondary market by a security regulator (which often is a separate government agency), and the oversight of the settlement arrangements by the central bank.

Q 2-04.01. Do rules governing security exchanges affect the debt process?

In general, government securities are traded in only a few cases on organized exchanges. Hence, the use of exchanges or similar self-regulating organizations for regulation of the bond market is limited.

Q 2-04.02. Who generally regulates the bond market?

It is common to have market oversight and regulation provided directly by the securities market regulator, the central bank, or, in cases where primary dealers are used, by the minister of finance or the public debt-management agency. The authorities also often regulate the relationship between intermediaries and their clients, mainly to ensure best execution of trades.

Q 2-04.03. Have changes in the form of the securities being traded affected the oversight of the market?

The form of the security being traded will determine how oversight will be implemented. Sovereign debt markets are constrained by the "mechanism" through which the securities are held and accounted for. Oversight has had to adapt to the transition of securities trading, particularly for sovereign debt, to assets issued in book-entry form.

With electronic technology, the issuance, account maintenance, and recording and tracking of transactions in such securities have become computerized. More importantly, there has developed an interactive duality in the accounting for the funds and for the securities. The law may constrain the system of holding book-entries through banks and securities firms by restricting who can have funds accounts at the central bank. As a result, the relationships among the parties have

changed. There is, in general, no one-to-one interface between investor and issuer. That relationship has been supplanted by an indirect holding system, one in which the linkage between the owner and the sovereign is through one or more intermediaries.

Q 2-04.04. In what way have market development issues driven sovereign debt legal issues?

Although this phenomenon is not confined to state debt issues, there has been in some countries the establishment of central depository systems and of clearing corporations to reduce the trafficking volume of transactions in such obligations. These developments have reduced the costs and the risk exposure incident to the buying and selling of securities. The cost of this efficiency, however, has been increased responsibility that has fallen on depositories and clearing corporations. To the extent that the legal concerns have become sublimated in the technology, they have become more complicated. The law, at least in the U.S., has developed to rationalize the indirect holding system, but some legal issues remain unresolved.