**Staff Q3 2015 report on corporate bond market liquidity**


## Summary

This report[1] describes developments in the liquidity and functioning of corporate bond markets from July 1, 2015, through September 30, 2015. In this update, we use the same measures of liquidity used in the previous reports for both primary and secondary market conditions. The main findings are:

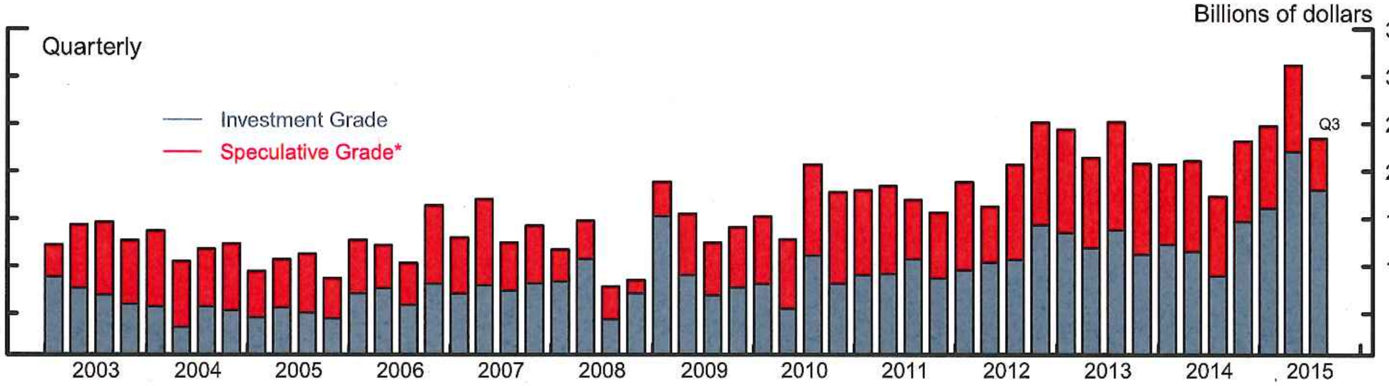
1) Liquidity in the primary market – as indicated by the pace of primary corporate bond issuance – continued to be robust in the United States, on balance, despite some market volatility in late August reportedly related to concerns about global growth. Yields on investment-grade corporate bonds have changed little since the time of the last report, while yields on speculative-grade corporate bonds rose notably. During the quarter, a large portion of speculative-grade issuance was earmarked for the funding of M&A activity.
2) Measures of secondary bond market liquidity – the ease and cost with which investors can buy and sell corporate bonds – deteriorated a bit during the summer, but the effects on market functioning and pricing appear to have been limited and short-lived. The average daily trading volume for both investment- and speculative-grade bonds was volatile during the days of the sharpest increase in market volatility in late August, but fluctuated thereafter around a level typical for the past five years. Similarly, despite a


[1] This report has been agreed to by the staff of the Office of the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission, and the Commodity Futures Trading Commission (collectively referred to as the Agencies). The Agencies have expressed no view regarding the analysis, findings, or conclusions contained in this report.

temporary increase, average effective bid-ask spreads for both investment- and speculative-grade bonds remained at levels similar to the pre-crisis level, suggesting healthy secondary market trading liquidity. The average size of very large secondary-market trades – trades that are at least $1 million in face value – remained stable for both investment- and speculative-grade bonds, although the fraction of trades with large face value increased slightly for speculative-grade bonds. In addition, dealers' inventories of corporate bonds were roughly unchanged in the second quarter of 2015 (latest data available).

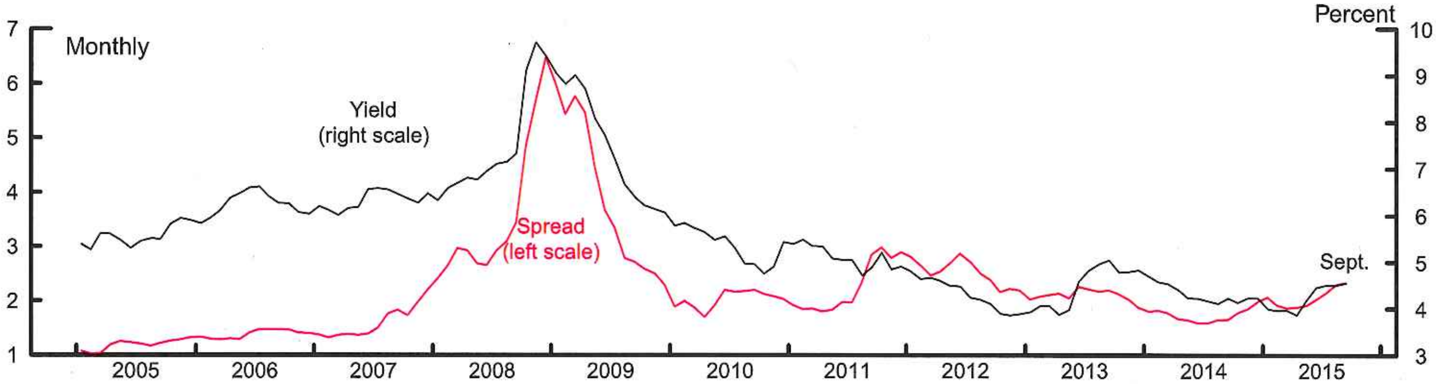
## Corporate Bond Liquidity Monitor
## Exhibit 1

### Gross Issuance of Nonfinancial Corporate Bonds



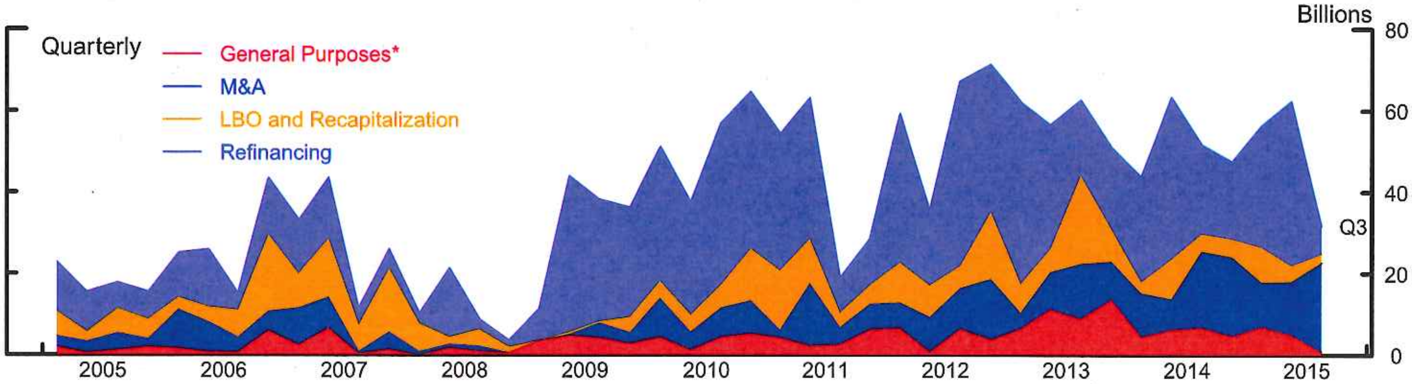

*Includes unrated bonds.
Source: Mergent.

### Ten-Year BBB Bond Yield and Spread to Treasury*




*Esimated from curve fit to Merrill Lynch bond yields. Treasury yields from smoothed yield curve estimated from off-the-run securities.
Source: Staff Calculations

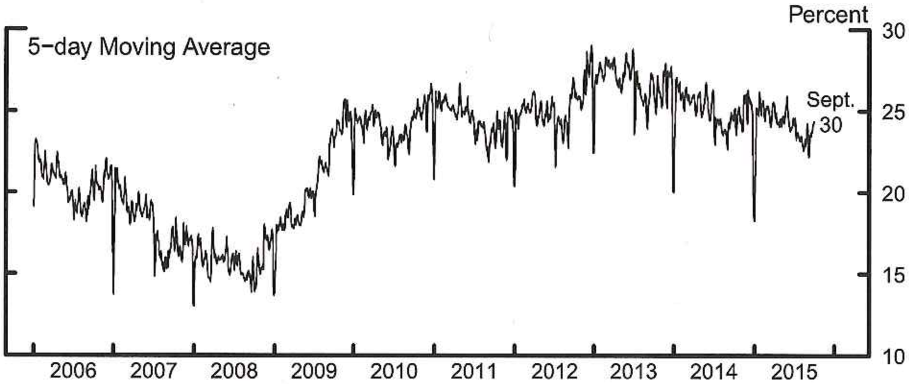
### Use of Proceeds for Speculative Grade Issues*

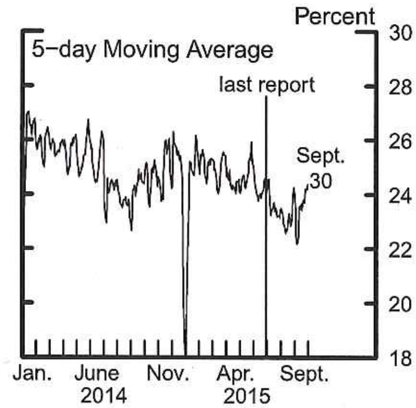



* General Purposes includes capital expenditures and other purposes not included in the designated breakdown.
Source: Standard and Poor's

## Corporate Bond Liquidity Monitor
## Exhibit 2

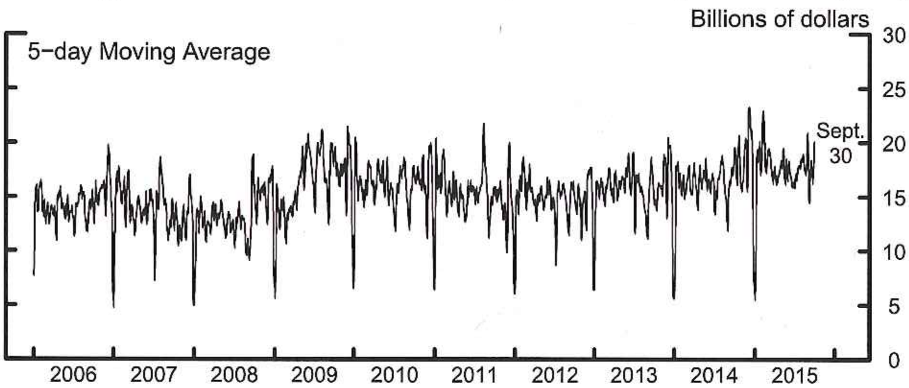
### Number of Traded Bonds as a Fraction of Total Disseminated*

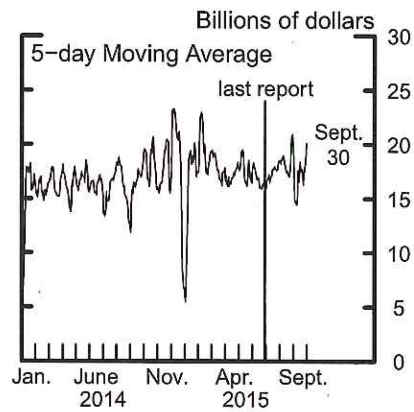



*Only trades of bonds that have been issued for 60 days or more at the time of trading are included. Exclduing 144a bonds.
Source: FINRA, Mergent, Moody's DRD

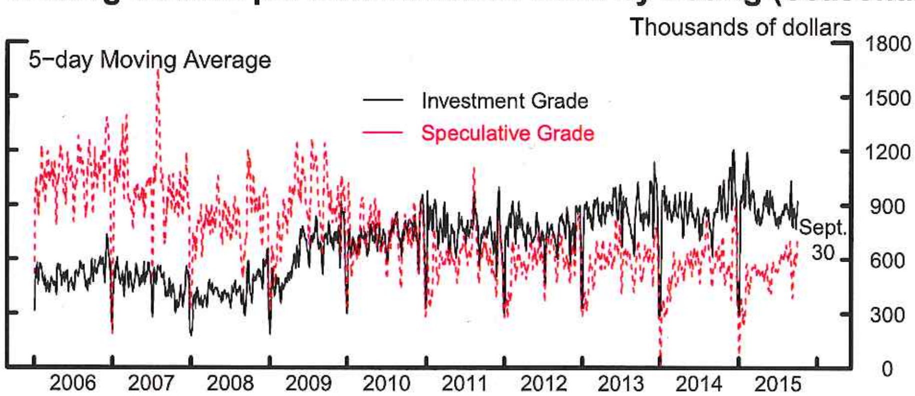
### Trading Volume for All Disseminated Bonds (Seasonally Adjusted)*

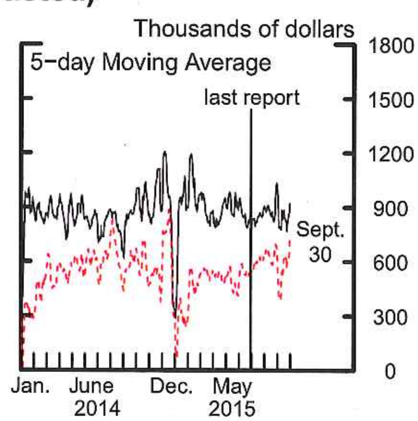



*Only trades of bonds that have been issued for 60 days or more at the time of trading are included. Exclduing 144a bonds.
Source: FINRA, Mergent, Moody's DRD

### Trading Volume per Disseminated Bond by Rating (Seasonally Adjusted)*

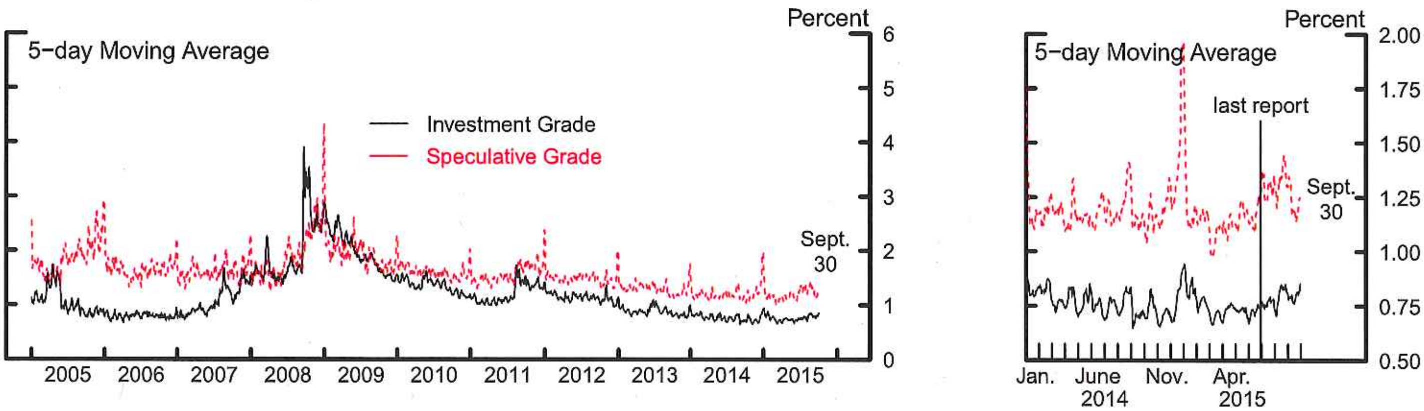


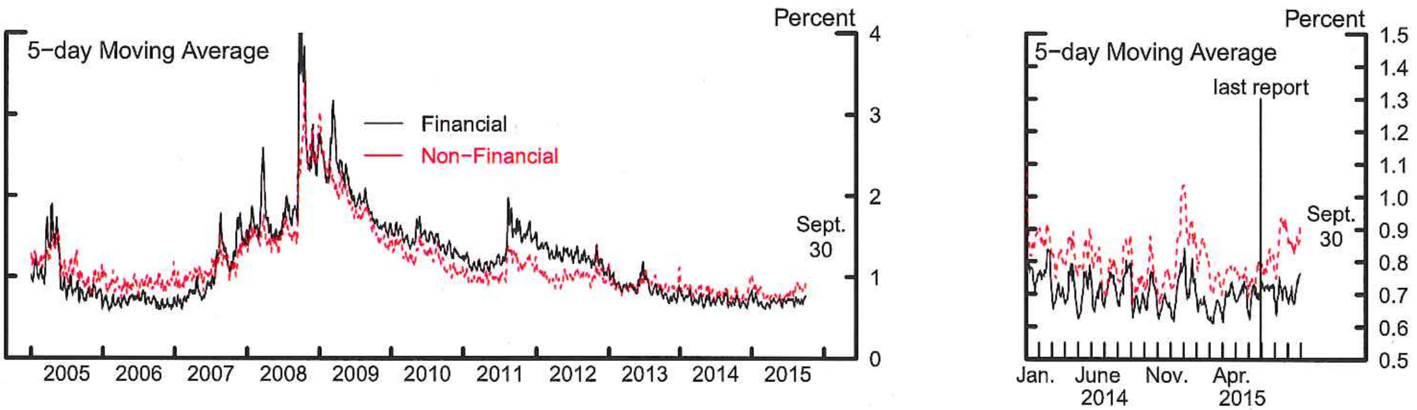

*Only trades of bonds that have been issued for 60 days or more at the time of trading are included. Exclduing 144a bonds.
Source: FINRA, Mergent, Moody's DRD

## Corporate Bond Liquidity Monitor
## Exhibit 3

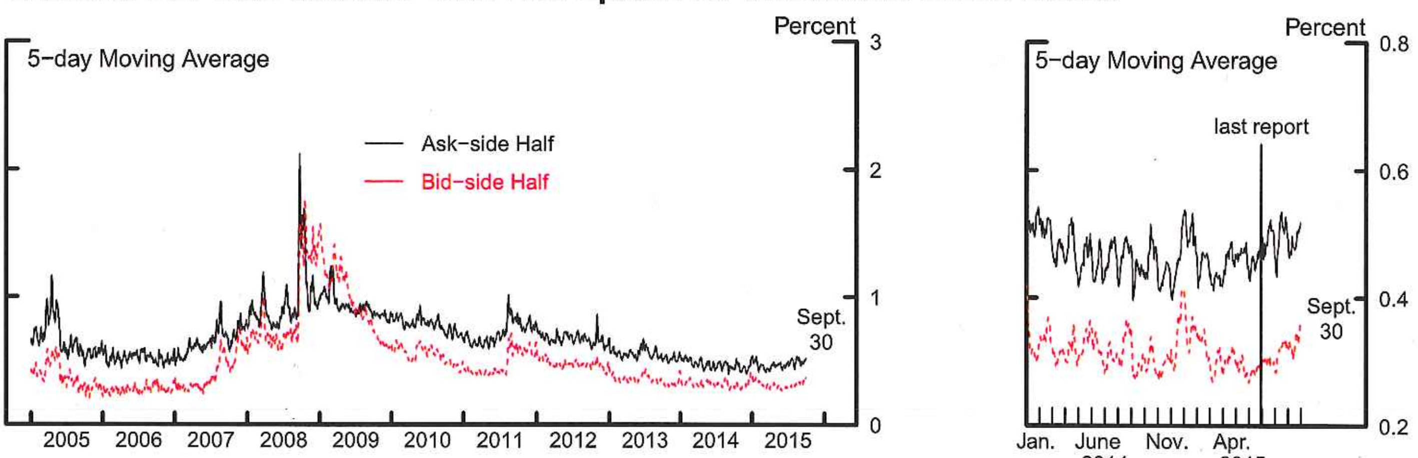
### Effective Bid–Ask Spread for All Bonds*




### Effective Bid–Ask Spread for Investment Grade Bonds




### Effective Bid–side and Ask–side Half Spread for Investment Grade Bonds

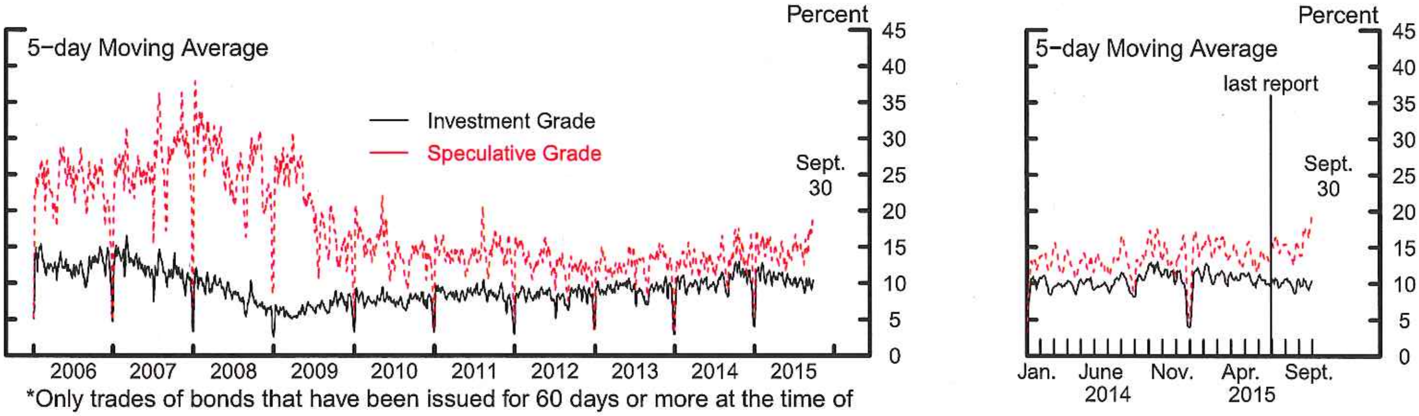



*All measures are computed for non–defaulted bonds on the secondary market that have traded at least 10 times between 10:30am and 3:30pm. Excluding 144a bonds.

Effective Bid–Ask spread is the difference between weighted average dealer bid prices and ask prices.

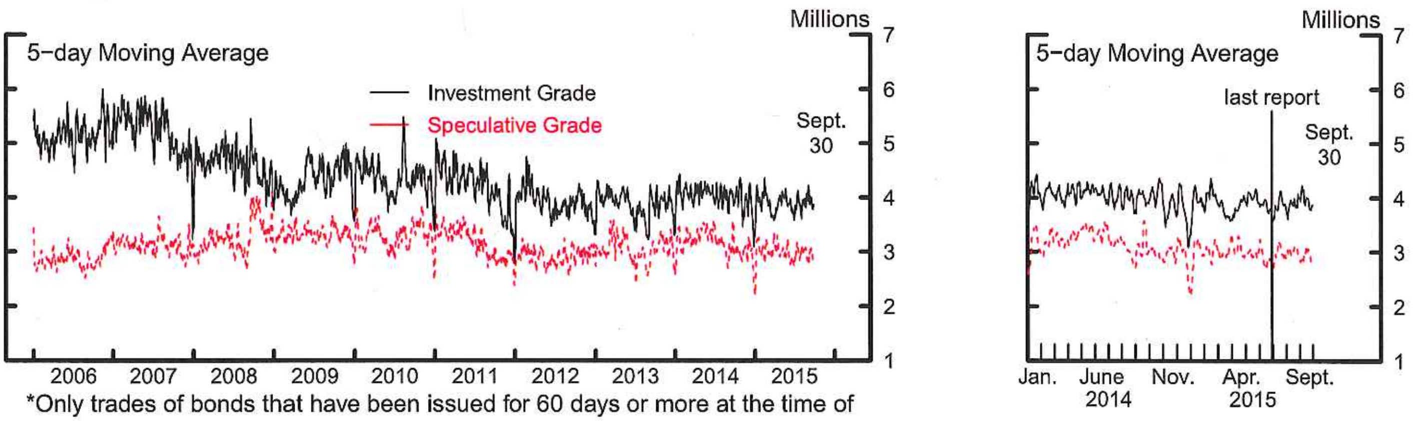
## Corporate Bond Liquidity Monitor
## Exhibit 4

### Percentage of Trades Greater than 1 Million in Par Value*



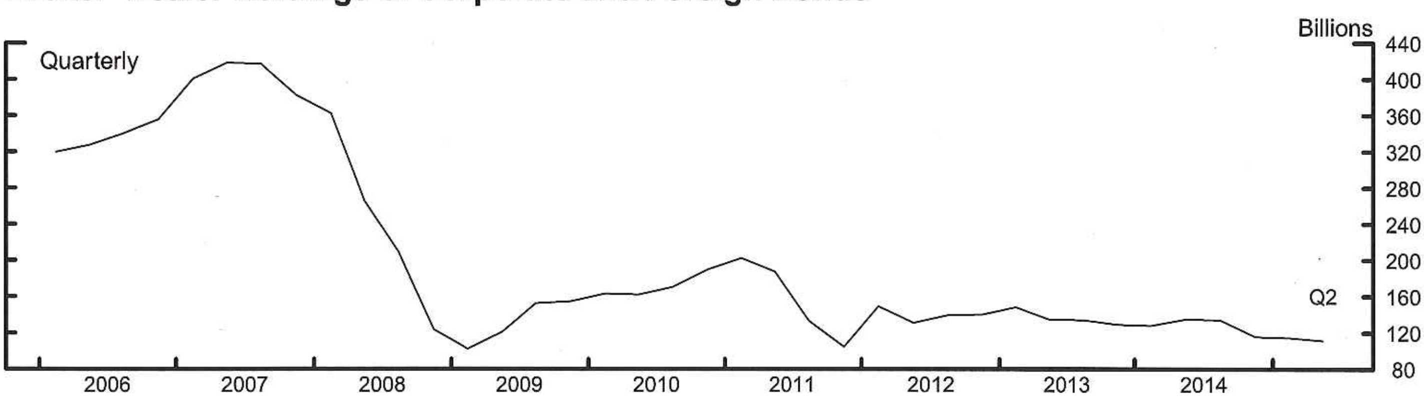

*Only trades of bonds that have been issued for 60 days or more at the time of trading are included. Exclduing 144a bonds.
Source: FINRA, Mergent, Moody's DRD

### Average Size of Trades that are Greater than 1 Million in Par Value*




*Only trades of bonds that have been issued for 60 days or more at the time of trading are included. Exclduing 144a bonds.
Source: FINRA, Mergent, Moody's DRD

### Broker−Dealer Holdings of Corporate and Foreign Bonds*




*Series FL663063005.Q is plotted.
Source: Federal Reserve Flow of Funds Account.