FINANCIAL CONDUCT AUTHORITY

Consultation Paper

CP23/32***

Improving transparency for bond and derivatives markets

December 2023

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You can send them to us using the form on our website.

Or in writing to:

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Chapter 1

Summary

Why we are consulting

1.1 We are consulting on proposals to improve the transparency regime for bond and derivative markets. We are also proposing guidance on the definition of a systematic internaliser (SI) for all financial instruments.

1.2 This CP is part of the Wholesale Markets Review (WMR), the review of UK wholesale financial markets we have been conducting with the Treasury since 2021. It also supports the FCA's commitment to strengthen the UK's position in wholesale markets, as outlined in our Business Plan.

1.3 The WMR previously concluded that the current transparency regime for bond and derivatives markets had not delivered meaningful transparency and had limited impact on price formation while imposing a high cost to industry. It proposed to recalibrate the regime to improve transparency and tailor the requirements to reflect the specific nature of bond and derivative markets.

1.4 The proposals in this consultation aim to deal with the following issues identified in the WMR:

- **Scope** – the scope of the current transparency regime is very broad. It covers any bond or derivative admitted to trading or traded on a trading venue (ToTV). Once an instrument is ToTV, investment firms – including SIs – must comply with the transparency regime when dealing over-the-counter (OTC). While we support the principle that transactions on trading venues should be subject to appropriate transparency, extending transparency to OTC markets has proved problematic. The current scope mandates transparency for financial instruments with varying degrees of standardisation and levels of liquidity, including bespoke derivatives which cannot sustain meaningful transparency. It also includes financial instruments for which no market failure or harm had been identified, such as exchange traded derivatives (ETDs) like futures and listed options which were characterised by high levels of transparency before the second Markets in Financial Instruments Directive (MiFID II) was introduced.
- **Transparency calculations** – because of the broad scope, UK Markets in Financial Instruments Regulations (MiFIR) requires us to perform many calculations to separate liquid from illiquid financial instruments. The calculations provide exemptions from real-time transparency to illiquid bonds and derivatives to protect liquidity providers. While we support protecting liquidity providers, the calculations result in a low level of transparency for most of the instruments in scope, including those for which greater transparency would in fact improve market integrity and price formation. By being based on rules that do not permit us to use our discretion or judgment, the transparency calculations do not allow us to

factor in a broader set of considerations and to calibrate the regime based on the specific features of each market.

- **Operational costs –** to perform the transparency calculations we maintain the Financial Instruments Transparency System (FITRS), which ingests market data, performs calculations, and publishes the results on a regular basis. The input market data is sourced from trading venues and Approved Publication Arrangements (APAs) that are required to submit to us quantitative trading and reference data daily. To comply with pre-and post-trade transparency requirements, firms must access and ingest the results of our calculations from FITRS. Given the outcomes of the transparency calculations, this is disproportionately costly for firms and for the FCA.
- **Pre-trade transparency –** the calibration of pre-trade transparency does not adequately cater for the trading modalities prevalent in some bond and derivatives markets, where transactions are often the result of negotiation. For example, the current requirements cover voice and request for quote (RFQ) trading systems on the basis of the assumption that those systems can sustain public transparency, while the evidence suggests the contrary. The system of waivers provided by UK MiFIR to adjust for this issue achieves the objective of protecting liquidity in an unnecessarily complicated way.
- **Post-trade regime –** the regime provides for overly long publication deferrals for some instruments and does so in an overly complicated way which prevents meaningful use of the data to inform trading decisions and the monitoring of best execution. It delivers too little transparency for some of the most liquid instruments, for which more timely disclosure would benefit market participants and overall market liquidity.
- **Data reporting –** the quality and timeliness of post-trade data reported to the public is variable and poor for some asset classes, especially OTC derivatives. This reduces the usability of post-trade transparency data and the effectiveness of the price discovery process.
- **Systematic internalisers –** the current definition of a SI is an investment firm that on an organised, frequent, systemic and substantial basis, deals on own account when executing client orders outside a regulated market, UK multilateral trading facility (MTF) or UK organised trading facility (OTF) without operating a multilateral system and which either satisfies certain quantitative requirements or chooses to opt into the regime. This definition requires firms to carry out data intensive quantitative calculations on a regular basis.

1.5 In line with the government's broader objective to return responsibility for designing and implementing firm-facing regulatory requirements to the regulators, it is the government's intention that the Financial Conduct Authority (FCA) be responsible for recalibrating the scope of the bond and derivative transparency regime and setting the firm-facing requirements. We are consulting now because the Financial Services and Markets Act 2023 (FSMA 2023 – gives us rulemaking powers to make these proposed changes. We have engaged extensively with market participants on these proposals, both as part of the WMR and subsequently.

1.6 In our Regulatory Initiatives Grid, the FCA committed to consult on proposed changes to the bond and derivative transparency regime in Q4 2023.

What we want to change

1.7 Our proposals aim to deal with the issues included in the WMR and other issues that have been identified in discussions with market participants. In particular:

- We specify the classes of financial instruments for which there is a strong policy case for minimum harmonised transparency requirements applicable to trading venues and to investment firms dealing OTC. The asset classes for which we specify these requirements are sovereign bonds, corporate bonds and certain derivatives subject to the clearing obligation. For those financial instruments we propose to set large in scale (LIS) thresholds above which orders can benefit from pre-trade transparency waivers and trades can benefit from post-trade transparency deferrals.
- Investment firms dealing in instruments which we have not specified will not be required to report their transactions to the public. For trading venues, we set the expectation that adequate pre-and post-trade transparency is provided and set the standards and criteria they should have regard to when calibrating transparency. For Recognised Investment Exchanges (RIEs), our supervisory approach to transparency will reflect the high standards that apply to them in relation to ETDs such as futures and listed options.
- We are rebalancing the relative importance between pre-and post-trade transparency, with greater emphasis on the quality and timelines of the latter. We propose a simpler and more timely post-trade regime based on shorter deferrals for bonds and OTC derivatives while ensuring that liquidity providers are sufficiently protected against undue risk.
- We propose to expand on the definition of a SI in UK MiFIR. The proposed new definition of a SI is based on qualitative criteria which aim to balance clarity for investment firms to decide if they are SIs with the need for the definition to flexibly apply to different markets and business models. We are also proposing guidance in Perimeter Guidance Material (PERG) to help with interpretation of the new definition.

1.8 We are also taking this opportunity to consult on moving the requirements relating to the data publication obligations of trading venues and SIs into our Handbook. We do not propose to make any substantive changes to these requirements.

Measuring success

1.9 The outcome we seek is more proportionate and better calibrated transparency for bond and derivative markets, with requirements tailored to different asset classes and market structures. We aim to deliver:

- Greater transparency, in terms of timeliness and content of the information, for those financial instruments which would benefit most from increased disclosures.
- A lower cost of complying with the transparency regime for trading venues and investment firms. We also expect that by discontinuing FCA FITRS we would make a better use of our supervisory resources.

- Adequate protection to market makers when providing liquidity to clients.
- More valuable post-trade data to support the creation of a consolidated tape (CT) bonds in the UK.

1.10 We expect that our proposed changes will ultimately benefit price formation and increase market participation and confidence in the market. They are intended to advance our strategic commitment to strengthen the UK's position in global wholesale markets.

1.11 We propose to provide to firms an implementation period after finalisation of our rules. Considering the time needed to implement previous changes to the transparency regime, we believe that one year would give market participants adequate time to make the necessary systems changes to comply with the new transparency regime.

1.12 We intend to review the effect of the new regime based on the first 6 months of application of the new rules. We will undertake quantitative analysis (wherever possible) and consider using surveys of market participants to measure whether we have achieved the desired outcomes. We will also consider the establishment of a CT for bonds as consistent with the evidence of a transparency regime for bonds that is proportionate and supports liquidity for end users.

Who this applies to

1.13 The proposals in this consultation will apply to:

- trading venues which admit to trading or trade bonds and derivatives
- investment firms dealing in bonds and derivatives
- UK branches of overseas firms undertaking investment services and activities
- SIs in all types of financial instrument

1.14 Our proposals will also interest firms interested in becoming a consolidated tape provider (CTP), APAs who publish trade reports for bonds and derivatives, central counterparties (CCP), asset management firms, law firms, market data and analytics firms, consultancies, retail investors and their related trade associations.

Next steps

1.15 We want to know what you think of our proposals in this CP.

1.16 Please send your comments to us by 6 March 2024, using the options in the 'How to respond' section above. Unless you have indicated that your response and the fact that you have responded are confidential, we will not treat them as such.

1.17 In addition to making substantive changes to the transparency regime, we are also using our new powers under FSMA 2023 to bring all the relevant requirements into our Handbook, mostly in a new a chapter (MAR11). This is in line with the objective of bringing all firm-facing requirements under our remit and should help firms in complying with the

new transparency regime. We will work closely with the Treasury to make sure there is a smooth and effective change from the existing transparency regime in miscellaneous legislation including UK MiFIR, the MiFID Org Regulation and MiFID RTS 2 to a new single streamlined source of regulation in MAR 11 of our Market Conduct Sourcebook. This will involve the synchronised commencement of the new transparency framework in amended UK MiFIR, as contained in Schedule 2 to FSMA 2023. Further simplification of the current complex regulatory structure will involve the revocation of various provisions in the MiFID Org Regulation together with MiFID RTS 2, in its entirety, as proposed in the draft standards instrument in the Appendix to this consultation.

Chapter 2

The wider context

Legislative framework

2.1 **MiFID II –** The UK Markets in Financial Instruments Directive (UK MiFID) is the collection of laws that regulate the buying, selling and organised trading of financial instruments. The rules are derived from European Union (EU) legislation that took effect in November 2007 and were revised in January 2018 (MiFID II).

2.2 To improve the transparency and resiliency of trading in OTC derivatives, protect against market abuse, and strengthen Europe's financial markets, MiFID II extended the scope of the transparency regime-which originally applied only to shares-to include bonds, exchange traded notes (ETNs), exchange traded commodities (ETCs), structured finance products (SFPs), emission allowances and derivatives. In line with the Group of 20 (G20) commitment, it also introduced the Derivatives Trading Obligation (DTO) to bring more derivatives trading onto regulated venues with the aim of increasing transparency and market integrity.

2.3 **G20 commitments –** At the Pittsburgh Summit in September 2009, the G20 pledged to improve OTC derivatives markets, with a view to increasing transparency, mitigating systemic risk and protecting against market abuse. The G20 stated that all standardised OTC derivative contracts should be traded on exchanges or electronic trading platforms and cleared through CCPs by end-2012, where appropriate. OTC derivative contracts should be reported to trade repositories, and non-centrally cleared contracts should be subject to higher capital requirements. The changes proposed in the consultation are relevant for our G20 commitment as trading of some specified products, including when under the rules of regulated venues, must be subject to adequate transparency.

2.4 **Onshoring of MiFIR and RTS 2 –** The European Union Withdrawal Act 2018 repealed the European Communities Act 1972 and incorporated EU regulations into UK law. The Act also gives a power for UK ministers to remedy, via statutory instrument, any perceived deficiencies in EU law due to withdrawal. The Markets in Financial Instruments (Amendment) (EU Exit) Regulations 2018 subsequently amended those deficiencies and gave the Treasury the power to write delegated acts and the FCA the power to write binding technical standards, including those relating to transparency requirements. In our Supervisory Statement on the operation of the MiFID markets regime after the end of the EU withdrawal transition period, we explained how we would operate the pre-and post-trade transparency regime for the secondary trading of financial instruments after the end of the EU withdrawal transition period.

2.5 **FSMA 2023 –** Schedule 2 to FSMA 2023 replaces the existing provisions of UK MiFIR relating to transparency for bonds, SFPs, emission allowances and derivatives with provisions giving us the power to make transparency rules in respect of such instruments. Such rules must be for the purposes of furthering efficient price formation

and the fair evaluation of financial assets. We intend to use these new powers to make new rules about transparency. As part of this process, we propose to revoke MiFID RTS 2.

Arrangements in other jurisdictions

2.6 In the **United States**, the Financial Industry Regulatory Authority (FINRA) launched in 2002 the Trade Reporting and Compliance Engine (TRACE) system for the publication of OTC trade reports in bonds. TRACE now covers a wide range of corporate and other bonds.

2.7 All broker – dealers who are FINRA – members are required to report trades in certain bonds in line with rules set by FINRA and approved by the Securities and Exchange Commission (SEC). These transactions are then published by FINRA through TRACE.

2.8 TRACE does not provide pre-trade transparency. FINRA publishes in real-time individual trade-specific data for United States Doller (USD)-denominated corporate bonds. There are exemptions for trades where the par value exceeds $5 million for investment-grade bonds and $1 million for high-yield bonds. The initial publication will indicate that the trade exceeded the relevant threshold, but the exact size of the trade will only be reported six months later. Under TRACE, there is no additional criteria that considers whether there is a liquid market in the relevant financial instruments, though it only applies to a pre-defined list of bonds issued in US dollars.

2.9 A centralised trading requirement was introduced in the US for swaps in 2014 via the Dodd-Frank Act, which required that any trade in a sufficiently liquid interest rate swap (IRS) contract involving a US counterparty must take place on a swap execution facility (SEF). SEFs are multilateral trading venues, featuring open limit order book and RFQ functionalities. In addition to centralised trading, Dodd-Frank, as implemented by Commodity Futures Trading Commission (CFTC) rules, sets standards and requirements related to real-time reporting and the public availability of swap transaction and pricing data.

2.10 The framework governing the transparency regime in the **EU** is very similar to that which currently applies in the UK, which is described in detail in Chapter 3. But, post-Brexit, the EU review of MiFID has resulted in several changes in relation to the transparency regime.

2.11 This includes the removal of pre-trade transparency requirements for RFQ and voice systems, as well as for non-equity SIs, and the introduction of separate pre-trade transparency regimes for different types of instruments, such as bonds, SFPs and emission allowances, derivatives and package orders.

2.12 The current scope of transparency for derivatives based on admission to trading (ToTV) is expected to be replaced with a new scope of OTC derivatives transparency based on predefined characteristics of the derivatives, including those derivatives which are under the scope of the clearing obligation. The review also aimed at increasing harmonisation of the post-trade transparency regime by setting simpler and common EU-wide deferrals.

Academic research on transparency

2.13 The academic research on pre-and post-trade transparency mainly focuses on US markets. In particular, on the corporate bond market following the introduction of TRACE and on the swap market following the introduction of transparency and the trading mandate under Dodd-Frank. But, we believe that the evidence of the US is relevant for our work.

2.14 Using TRACE data, Edwards et al. find that transaction costs are lower for bonds subject to transparency when the TRACE system starts to publish their prices. The results suggest that public traders would significantly benefit if bond prices were made more transparent.

2.15 Benos, et al. find that centralised trading, which drives competition between dealers and, importantly for our purposes, is associated with greater transparency, led to a reduction in execution costs and an increase in overall market liquidity.

2.16 In a separate study, Benos, E., Gurrola-Pérez, P. and Alderighi, S. argue that encouraging larger parts of the bond market to move onto more transparent trading platforms would likely improve bond market functioning and benefit the wider financial system. In making this argument they say that recent improvements in pre-and post-trade bond market transparency have led to demonstrable improvements in execution costs, by forcing dealers to offer more competitive prices.

2.17 Overall, the academic literature suggests that empirical evidence from regulatory interventions that have increased transparency identifies benefits to markets from greater disclosure. Specifically, it supports the claim that greater transparency leads to more liquidity, increased competition among dealers, and improved access to better prices by less sophisticated investors. However, the precise benefits from increased transparency (and to whom those benefits accrue) depend on the institutional context, i.e. the way transparency is calibrated, and on the market to which it applies.

How it links to our objectives

Market integrity

2.18 Proposed changes to the bond and derivative transparency regime will aid price formation by improving the quality and timeliness of transparency information available to firms participating in secondary markets and end users. We expect that our changes will support best execution.

2.19 By improving market participants' understanding of the liquidity in bond and derivative markets, we expect to strengthen market participants' confidence in the integrity of those markets which should increase participation and market liquidity, both in normal times and in stressed market conditions.

2.20 Where improvements in the transparency regime translate in greater liquidity for bonds, we expect a positive impact on the cost of capital for issuers and in the attractiveness of UK markets for issuers.

2.21 Any improvement in market participants' understanding of the pricing and liquidity in bond and derivative markets, including during periods of high volatility, will enable market participants to better estimate market depth and cost of unwinding their positions. This may improve their ability to manage liquidity risks.

Consumer protection

2.22 Existing bond market transparency data does not give full coverage of addressable liquidity in the market.

2.23 Improving bond and derivative transparency will improve consumer protection by allowing investors to access all available liquidity at the best possible price. It will also allow investors to better assess the quality of execution outcomes, particularly by improving the consistency of reporting between trading venues.

2.24 Greater transparency will also encourage greater participation in financial markets through a clearer understanding of liquidity, thereby protecting those consumers' interests.

Treasury Remit Letter and Secondary International Competitiveness and Growth Objective

2.25 FSMA 2023 implements the outcomes of the Treasury's Future Regulatory Framework (FRF) Review and makes important updates to the UK's framework for financial services to reflect the UK's new position outside of the EU. FSMA 2023 also introduces a new secondary international competitiveness and growth objective for the FCA.

2.26 The need to comply with the objective was reflected in our new remit letter, received 9 December 2022, to which we must have regard. We have considered here the likely effects of these proposals on competitiveness and growth.

2.27 The new secondary objective is as follows:

> When discharging its general functions the FCA must, so far as reasonably possible, act in a way which, as a secondary objective, advances the competitiveness and growth objective.
>
> The competitiveness and growth objective is: facilitating, subject to aligning with relevant international standards –
>
> **a.** the international competitiveness of the economy of the United Kingdom (including in particular the financial services sector), and
> **b.** its growth in the medium to long term.

2.28 When considering the design of the framework, we have had regard to other overlapping regulatory initiatives and attempted to minimise undue costs to firms – for example, allowing a period of familiarisation with changes to the bond transparency regime, aligning the implementation of the changes to transparency with when we expect the UK CT in bonds to start operating and setting the scope of the CT itself consistently with those transparency regime requirements.

2.29 Proposed changes to bond and derivative transparency are intended to minimise unnecessary costs to firms by simplifying the regime and excluding illiquid instruments and non-price-forming trades from transparency requirements. Driving proportionate regulation, by ensuring any cost or restriction imposed is proportionate to the expected benefits, enhances competition and makes the UK a more attractive place for firms to enter or operate, so improving the UK's competitiveness as a financial hub.

2.30 The Wholesale Trade Data Review (WTDR) findings report noted that a well-functioning wholesale market where participants can access good quality trade data at fair and reasonable prices would make the UK, overall, more competitive in the global market. Our work on the bond and derivatives transparency regime aligns with our secondary international competitiveness and growth objective along two key axes:

- It makes sure that our financial services framework takes account of progress in other comparable jurisdictions and avoids unnecessary divergence as the regimes in those jurisdictions are also improved.
- Proposed changes will give more transparency, more immediacy of trade reporting and better quality data in UK financial markets (through consistent reporting of transactions in liquid instruments) while also protecting large liquidity providers, bolstering trust and confidence in our markets and providing incentives for investors to trade within the UK. This, in turn, may increase the size and liquidity of the UK financial markets, which lowers costs and increases productivity. The finance sector can also help efficient business investment in the wider economy, increasing capital formation, investment and desire to do business in the UK, further increasing productivity and growth and making the UK more internationally competitive.

Competition

2.31 Greater transparency will promote effective competition in the interests of consumers by making it clear which market participants hold addressable liquidity, thereby promoting competition between liquidity providers and lowering the costs of transacting for consumers.

2.32 Ensuring that trades are reported consistently between venues will also help to make sure that data can be more easily leveraged by APAs, market data vendors, forthcoming bond CTPs and ultimately, end users.

2.33 Greater transparency over the pool of addressable liquidity for bonds and derivatives will promote competition in the interests of consumers by encouraging greater competition for the buying and selling of those instruments.

Wider effects of this consultation

2.34 Any improvement in risk management or best execution that results from our proposed changes may represent a transfer from informed market participants to those who will now have greater access to higher quality transaction data.

2.35 Dealers subject to greater transparency requirements may be less willing to warehouse inventories because markets will be able to forecast future trades that dealers will undertake to rebalance inventories, and trade against those dealers. This may be of particular concern during periods of high volatility and elevated order flow. Hence, proportionate calibration seeks to protect continued liquidity provision by dealers.

2.36 We have updated the Markets Practitioner Panel – our statutory panel, as required under FSMA 2023 – and the Secondary Markets Advisory Committee (S-MAC) on a regular basis on the progress of our work on bond and derivative transparency. We also gave colleagues at the Treasury, Bank of England and the Prudential Regulation Authority a draft of the CP and the rules we are proposing.

2.37 Annex 2 sets out our analysis of benefits and costs to firms and consumers from our proposals.

Equality and diversity considerations

2.38 We have considered the equality and diversity issues that may arise from the proposals in this CP.

2.39 Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010. We will continue to consider the equality and diversity implications of the proposals during the consultation period, and will revisit them when making the final rules.

2.40 In the meantime, we welcome your input to this consultation on this.

Chapter 3

The current transparency regime

3.1 The pillars of the MiFID II transparency regime are:

- the scope, that is the classes of financial instruments which are subject to transparency
- the level of transparency applicable to trading venues and investment firms dealing in those instruments before (pre-trade) or after (post-trade) execution
- the exemptions from those requirements for certain classes of instruments or types of orders/transactions

3.2 The table below gives a summary of the UK transparency regime.

Table 1: UK MiFIR – Overview of the transparency regime

Scope: bonds, SFPs, derivatives and emission allowances

	Trading Venues	Investment firms (including SIs)
Pre-trade (information about bid and offer prices)	Pre-trade transparency applies depending on the trading system operated. Exemptions in the form of waivers apply to orders that are LIS or in illiquid instruments, orders for the execution of packages, to voice and RFQ systems dealing above certain sizes.	Pre-trade transparency applies to SIs when dealing in liquid financial instruments below certain sizes. The obligation can be waived under the same conditions applicable to trading venues.
Post-trade (information about trades)	Post-trade transparency applies in the same way to trading venues, SIs and other investment firms. The detail of executed transactions (price, volume and several other fields and identifiers) must be published as close to real time as possible. Exemptions from real-time transparency are available in the form of deferrals. Certain transactions can be deferred until 2 days after execution, others until 4 weeks after execution (in some cases the price and size of multiple transactions can be aggregated for a period or permanently).	

Scope

3.3 MiFID II widened the scope of transparency in two ways. The first by expanding the classes of instruments subject to a set of mandatory and harmonised transparency requirements. In practice, any non-equity transferable security (except for money market instruments) or derivative is in scope. That includes bonds, SFPs (e.g. mortgage-backed securities (MBSs)), securitised derivatives, futures and listed options, emission allowances and derivatives thereof and OTC derivatives. Within OTC derivatives, all underlying asset classes are in scope: foreign exchange (FX), credit, commodities, interest rates and equities.

3.4 The second, by creating a new category of trading venue, the OTF, which caters for execution methods and arrangements that historically were operated by interdealer brokers for OTC trading. Given that any instrument that is ToTV is in scope, expanding the perimeter of the trading venue has resulted in more financial instruments being subject to transparency, including those traded episodically and bespoke derivatives for which the prevalent mode of execution is thorough bilateral negotiation.

3.5 Once a financial instrument is in scope, post-trade transparency applies to investment firms dealing OTC, including to transactions executed in uncleared derivatives. Depending on the liquidity of the financial instrument, pre-trade transparency also applies to SIs.

3.6 The result is that RTS 2 covers 84 different sub-asset classes (e.g. single stock futures or IRSs) and a much larger number of very granular sub-classes. For example, there may be hundreds of different sub-classes for IRSs (each being different depending on the structure, reference index and maturity). FITRS shows there are over 7.5 million instruments in scope of transparency at any point in time.

3.7 The wide scope has several consequences. These include the very granular assessment of liquidity which is required, as covered later in this chapter. More fundamentally, the broad scope is not justified by a clear public policy rationale.

3.8 For example, the inclusion of ETDs is not supported by any obvious harm or market failure. Interest rate or commodity futures and listed stock options have historically displayed, in the UK and in other jurisdictions, high levels of transparency based on calibrations set by exchanges and not mandated by regulators.

3.9 While the G20 committed at the Pittsburgh Summit in September 2009 to improve OTC derivatives markets, including by increasing transparency, not all OTC derivatives make an effective contribution to market transparency. According to the Bank for International Settlements, close to 65% of the total notional amount outstanding (and 66% by gross market value) is in IRSs. Our analysis in the next chapter shows that most of the liquidity in those instruments can be found in just 3 currencies and a small number of products.

Pre-trade transparency

3.10 MiFID II requires trading venues to publish information about the price and size of the bid and offer prices broadcast through their systems. Given the effect of pre-trade disclosure, not all trading systems can sustain the same level of transparency.

3.11 RTS 2 adapts that overarching transparency requirement depending on the market model operated. For example, order books must give a very high level of transparency, while the requirement is calibrated differently for quote-driven systems – where market makers give executable quotes to clients – or for RFQ systems where liquidity providers give quotes on demand.

3.12 But, there are circumstances where calibration is not enough to deliver the degree of protection that liquidity providers need when putting their own capital at risk. In those

circumstances UK MiFIR provides for pre-trade waivers which exempt venues from providing pre-trade transparency altogether. The existing waivers allow trading venues to be exempted from pre-trade transparency in relation to:

- financial instruments for which there is not a liquid market, as determined according to RTS 2 and the related transparency calculations
- orders that are LIS
- trading protocols such as RFQ and voice systems operating above a certain size, provided they disclose indicative composite prices derived from quoted prices
- certain orders such as reserve or iceberg orders
- package orders, i.e. orders for the execution of multiple transactions in different financial instruments or underlying assets (e.g. exchange for physical orders common in commodity markets)

3.13 We support the principle of calibrating transparency and the provision of waivers. But, the practical application of the pre-trade transparency regime has shown that it can reduce the quality of execution for investors and impose high compliance costs on firms and us.

3.14 For example, the benefit of pre-trade transparency for voice and RFQ systems is, in our view, outweighed by evidence that liquidity providers will choose to offer worse prices and lower liquidity because of pre-trade disclosure.

3.15 The waiver for voice and RFQ systems, while rightly aimed at mitigating that risk, delivers protection in a complicated way by requiring the publication of indicative composite prices by the trading venue, which have low informational value and impose compliance and operational costs for trading venues. The use of the waiver is also restricted by the minimum sizes determined by the transparency calculations which creates a risk that liquidity can be harmed if the threshold is mis-calibrated.

3.16 In the WMR, the government proposed limiting the scope of pre-trade transparency to systems such as electronic order books and periodic auctions, that currently operate under full transparency. This would mean that trades that are negotiated bilaterally, where pre-trade transparency is difficult to achieve without harming price formation and liquidity provision, would be exempt from pre-trade transparency.

Post-trade transparency and deferrals

3.17 Post-trade transparency is the publication of executed transactions and supports price formation and best execution. Similarly to pre-trade transparency, such publication can increase the risk for liquidity providers while trading out of, or hedging, positions they entered into with their counterparties.

3.18 UK MiFIR requires all executed transactions in instruments within the scope of the transparency regime, regardless of where they are executed and according to which trading systems, to be reported to the public as soon as possible, and in any case within 5 minutes of execution.

3.19 Deferrals are an exemption from the requirement to report in real time where deferring such information is justified by the type of trade and the likely effect of disclosure on the counterparties entering into the trade.

3.20 The deferrals given by UK MiFIR – and calibrated in RTS 2 – apply to:

- transactions that are LIS
- transactions in illiquid financial instruments
- transactions that are larger than the minimum size which would expose liquidity providers to undue risk
- package orders

3.21 Once one of the conditions above apply, the publication of information about a trade can be deferred for a period between 2 days and four weeks. Depending on the type of instrument, information can be published for each individual trade or in an aggregated form with other transactions in the same instrument. Publication of the price and omission of the information about the volume of executed trades is permissible for an extended period of up to 4 weeks.

3.22 Under the current post-trade transparency regime, deferrals for liquid bonds and OTC derivatives that are longer than necessary prevent information from being published when it is most valuable.

3.23 The WMR said that the length and complex assortment of deferrals have compromised transparency objectives. The government proposed several changes to simplify the regime, including removing the size-specific-to-the-instrument (SSTI) deferral. The LIS deferral would stay in place for block trading in liquid instruments, and the illiquid deferral would be retained for instruments that cannot support real-time transparency. This would make sure that firms could trade large blocks or illiquid instruments without undue risk and would not be subject to unnecessary burdens. The government also proposed allowing comprehensive volume-masking to limit market risk while encouraging timely price formation.

3.24 WMR respondents agreed that post-trade transparency has been significantly more helpful than pre-trade transparency in supporting price formation in bond and derivative markets. Most agreed with the government's proposal to simplify the deferral regime and generally supported the proposal to remove the SSTI deferral. Most signalled that any changes to the SSTI would have to be considered alongside a review of the LIS threshold. Some respondents highlighted that changes to the post-trade transparency regime, particularly the shortening of some deferrals, would support the emergence of a CT for bonds.

3.25 Most respondents supported the principle of allowing volume masking to encourage timely disclosure but noted that volume masking is only effective if the scope and length of deferrals are appropriately calibrated. Some also said that volume masking is not needed for some OTC derivatives because they are relatively liquid compared to bonds.

3.26 A few respondents were generally supportive of reverting to pre-MiFID II settings, whereby trading venues calibrate the deferrals for post-trade reporting of ETDs. One

stakeholder raised concerns that this might create unfair competition between trading venues and SIs, and among trading venues themselves.

Liquidity determination and other transparency calculations

3.27 UK MiFIR provides for granular calculations setting out which instruments or classes of financial instruments are sufficiently liquid to sustain full transparency and, for those liquid instruments, the size of the orders and transactions that are sufficiently large to be exempted from pre-trade transparency and benefit from a deferral.

3.28 After EU withdrawal, we set up UK FITRS which collects firm data, performs quarterly and yearly calculations relating to equities, ETFs, equity-like instruments and bonds to decide parameters of the regime, and publishes the results. We perform complex calculations to decide whether an instrument has a liquid market and what constitutes a large trade.

3.29 FCA FITRS does not currently perform calculations in any derivatives. As a consequence, maintaining a transparency regime based on extensive calculations would need us to enhance the existing capabilities of FITRS.

3.30 Although the MiFID II transparency regime intended to accommodate the specific characteristics of equity and bond and derivatives markets, it does not cater to the fundamental differences between and within them. For example, it does not acknowledge that the nature and depth of liquidity is fundamentally different for fixed income and derivative instruments compared to equities.

3.31 The WMR stated that liquidity calculations do not work as effectively for bond and derivative instruments as the regime for equities. For bonds, instruments are often traded episodically. As such, liquidity designations based on historic trading data are not an effective predictor of future trading in that instrument. The WMR proposed that the existing liquidity calculations should be replaced with a qualitative and quantitative assessment to decide the liquid classes of financial instruments. This would use information in a similar way to the information that is currently used to decide which OTC derivatives should be subject to the DTO.

3.32 Respondents to the WMR agreed that current calculations are too complex and do not reflect market liquidity. They also generally agreed with the government's proposed approach. Most respondents suggested that UK authorities consult with industry on the detail of the qualitative and quantitative criteria required.

Post-trade transparency data

3.33 UK MiFIR and RTS 2 set out the requirements for bond and derivatives trades that shall be disclosed to the public following their execution. Trading venues and investment firms must publish information on trades that have been executed and which do not or no longer benefit from a deferral.

3.34 The information to be disclosed include the execution time of a trade, details of the instrument being traded, price and size. They must be made available as close to real time as possible and in any case within 5 minutes of execution. The information must be accompanied, where relevant for the trade, with flags that identify certain characteristics of the trade including whether the trade was non-price forming, whether its reporting had been amended and/or cancelled and whether it had benefitted from a deferral from the requirement for real time publication.

3.35 The WMR noted, with respondents in agreement, that the current use of International Securities Identification Numbers (ISINs) is problematic for OTC derivatives reporting as it prevents easy identification of different contracts sharing the same characteristics within a product. But, ISINs were found to work well for most other instruments.

Chapter 4

Scope of the new regime

Overview

4.1 We are proposing a new transparency regime for bonds and derivatives that seeks to balance high levels of transparency to support price formation and best execution with the need to protect liquidity and the provision of risk capital. We intend to achieve that objective in a less complex and more predictable way compared to the existing framework. We expect the changes would reduce compliance costs for firms.

4.2 We identify the classes of financial instruments ('Category 1' instruments) that would benefit most from increased transparency and for which mandatory transparency should apply in the same way to trading venues and investment firms dealing OTC. For those instruments we set the large-in-scale thresholds above which trading venues can waive pre-trade transparency and trading venues and investment firms can defer post-trade transparency.

4.3 For bonds and derivatives other than those to which the above regime applies ('Category 2' instruments), trading venues will be expected to provide adequate pre- and post-trade transparency in relation to all transactions executed under their systems. Our rules will allow them to calibrate the level of transparency that is appropriate for their markets to seek to ensure fair and orderly trading and efficient price formation. For RIEs, we will supervise our new rules in light of the high standards that we expect them to follow in relation to the trading of futures and other ETDs and we will have particular regard to ensuring that the level of transparency is not reduced.

4.4 Our proposed rules require investment firms to comply with our post-trade transparency requirements when dealing OTC in Category 1 bonds and derivatives. They will not be required to make public trade reports in Category 2 bonds and derivatives.

4.5 We are proposing to specify as Category 1 instruments, bonds traded on UK trading venues and certain OTC derivatives subject to the clearing obligation. All other derivatives, SFPs or emission allowances traded on trading venues are Category 2 instruments.

4.6 We are simplifying the requirements applicable to trading venues in relation to transactions negotiated bilaterally and reported onto trading venues and to the operation of voice and RFQ systems. While we are maintaining the overarching obligation for trading venues to give adequate pre-trade information, we are not forcing those systems to operate above a certain size nor to publish composite indicative prices when dealing above that size. Execution through those systems under a waiver from pre-trade transparency would be permissible if it is at a better price than those advertised through the systems of the trading venue to which the trade is being reported.

4.7 For the Category 1 instruments, we propose high levels of transparency while using exemptions for LIS orders and transactions to protect liquidity and the provision of risk capital.

4.8 We are proposing changes to the information that trading venues and investment firm must give in relation to reportable trades. This includes introducing the use of unique product identifiers (UPIs) for OTC derivatives.

4.9 Table 2 gives a summary of how our proposed transparency regime applies depending on the instrument traded and the execution venue where transactions are executed.

Table 2: Summary of the proposed transparency regime

	Trading venues	Investment firms
Pre-trade	**Category 1 and 2** Pre-trade transparency applies depending on the characteristics of the market model. Waivers available for LIS orders, packages, negotiated transactions. **Category 1** Size of LIS orders set in our Handbook.	**Category 1 and 2** No obligation.
Post-trade	**Category 1** Real-time reporting unless the trade is above the LIS threshold. The size of LIS thresholds and the type and the length of the deferral set under our Handbook.	
	Category 2 Post-trade transparency set by the trading venue in line with criteria in our rules.	**Category 2** No obligation to report.

Category 1 instruments: bonds traded on UK trading venues; certain OTC derivatives subject to the clearing obligation.

Category 2 instruments: a derivative or SFP which is not a Category 1 instrument or an emission allowance/emission allowance derivative.

Instrument Scope

4.10 The current scope of the transparency regime is determined by the financial instruments that are traded on UK trading venues. Once a trading venue lists or trades a new product, the instrument is brought into the transparency regime, including when it is dealt OTC by investment firms. The transparency calculations seek to make sure that public disclosure does not harm liquidity and price formation in instruments that

are traded only episodically. The outcomes of the transparency calculations show that only a minority of classes of financial instruments are sufficiently liquid to sustain full transparency.

4.11 We propose to:

- Identify ex-ante the classes of financial instruments which we consider would benefit most from transparency and for which transparency is supported by a strong public objective. Bonds that are ToTV, and certain OTC derivatives subject to the clearing obligation, will be Category 1 instruments in the transparency regime.
- Separate the scope of the transparency requirements for trading venues from that applicable to firms dealing OTC. Trading venues will continue to provide adequate transparency, pre-and post-trade, for all the instruments they trade. But, for Category 1 instruments, we will set certain transparency requirements (the size of large trades and the length of deferrals) applying to both trading venues and investment firms dealing OTC.

Bonds

4.12 There are currently 81,970 bonds admitted to trading or ToTV. This number is different from the total number used in the calibration of transparency because not all the bonds admitted to trading at any point in time are part of the quarterly calculations and our analysis was based on a subset for which we could source the characteristics of the relevant bonds. While most of the bonds are only episodically traded, some of the most liquid financial instruments outside of equities are bonds, such as sovereign bonds.

4.13 There is a strong public policy interest in maintaining (and further enhancing as proposed in the relevant section(s)) the transparency regime for sovereign and corporate bonds.

4.14 Bonds are an important asset class for a wide range of investors, including asset managers and, to an extent, retail investors. They also constitute a key funding source for governments and corporate issuers. Providing an effective transparency regime would support reducing the cost of capital for them and improving returns for investors.

4.15 The available academic evidence suggests that bond markets and their investors can benefit from increased transparency, in terms of reduced execution costs and increased liquidity.

4.16 While liquidity in bonds varies significantly, bonds are sufficiently standardised to be included in the transparency regime. The WMR and subsequent conversations with industry have revealed a strong support for maintaining the current scope based on ToTV for bonds. Consequently, we propose no changes to the current scope and include all ToTV bonds as Category 1 instruments under our transparency regime.

4.17 We intend to use the calibration of the LIS thresholds and the length of deferrals to factor in the very different liquidity profiles of bonds within the universe of those that are ToTV.

Q1: Do you agree with maintaining the current scope of the transparency regime for bonds based on whether they are ToTV? If not, what do you recommend the scope should be?

OTC derivatives

Products

4.18 Historically uncleared and traded bilaterally, OTC derivatives have been the subject of G20 reforms aimed at strengthening market integrity and financial stability post the financial crisis in 2008. Because of those reforms, all OTC derivatives are reported to regulators through trade repositories. The largest, most liquid and standardised OTC derivatives are subject to clearing mandates, which need certain financial and non-financial counterparties to clear transactions using a CCP. Those that are not subject to a clearing mandate must comply with bilateral margin requirements. A subset of derivatives under clearing mandates are subject to trading mandates, which need execution on regulated trading venues and increased public transparency.

4.19 OTC derivatives cover a wide range of products with different underlying assets or benchmarks (e.g. equities, interest rates, credit, commodities and FX) and different structures (e.g. swaps, options and forwards).

4.20 Interest rate derivatives are by far the most significant class of OTC derivatives. They represent 80% of the total notional amount outstanding. Within the class of interest rate derivatives, swaps are the largest product traded, representing two thirds of the total amount outstanding.

Table 3: Notional amount outstanding as of June 2023

Type of underlying	Notional amount (in billions of US dollars)	As a percentage of total
Foreign exchange	120,250	17%
Interest rates	573,697	80%
– of which FRAs	61,790	7%
– of which swaps	465,910	66%
Equity-linked	7,838	1%
Commodity	2,244	0.4%
Credit derivatives	10,122	1.6%
– of which index CDS	5,618	0.8%
Other derivatives	593	0.1%
Total	**714,744**	

Source: Bank for International Settlements (BIS) – OTC derivatives statistics November 2023

4.21 The jurisdictions that have implemented the G20 commitment have mainly brought IRSs under the clearing obligation, as a reflection of their systemic importance, their greater standardisation and deeper liquidity which makes them more suitable for central clearing.

4.22 The Bank of England is responsible for the clearing obligation in the UK. It maintains a register with the list of products that the relevant counterparties must clear at an eligible CCP. The register includes IRSs, overnight index swaps (OISs), forward rate agreements (FRAs) and index credit default swaps (CDSs). With the exception of FX derivatives, the clearing obligation covers the largest products by notional amount outstanding according to BIS. Some of the most liquid products under the clearing obligation are also subject to our trading mandate.

Table 4: Classes of derivatives subject to the clearing obligation

Type	Reference index	Maturity	Also subject to derivatives trading obligation?
Float-to-Float interest rate swaps	EURIBOR	28 days to 50 years	No
Fixed-to-float interest rate swaps	EURIBOR	28 days to 50 years	Some tenors
	NIBOR	28 days to 10 years	No
	WIBOR	28 days to 10 years	No
	STIBOR	28 days to 15 years	No
Forward rate agreements	EURIBOR	3 days to 3 years	No
	NIBOR	3 days to 2 years	No
	WIBOR	3 days to 2 years	No
	STIBOR	3 days to 3 years	No
Overnight Index Swaps	FedFunds	7 days to 3 years	No
	SONIA	7 days to 50 years	Some tenors
	€STR	7 days to 3 years	No
	TONA	7 days to 30 years	No
	SOFR	7 days to 50 years	No
Credit Default Swaps	iTraxx Europe Main	5 year	Yes
	iTraxx Europe Crossover	5 year	Yes

4.23 In our view, the transparency regime should focus on derivatives that are cleared. Pricing information for cleared transactions is comparable across execution venues including those executed bilaterally OTC. We propose to exclude from Category 1 instruments, derivatives that are not subject to the UK clearing obligation.

4.24 Not all transactions in derivatives subject to the clearing obligation are in fact cleared. The application of the mandate depends on the types of counterparties executing the trade. For example, certain non-financial counterparties and financial counterparties below the clearing threshold are exempted from the clearing obligation. We propose to restrict the transparency regime only to transactions in derivatives between counterparties that are also subject to clearing obligation or would be subject to the clearing obligation if established in the UK.

4.25 We recognise that by using the classes of derivatives subject to the clearing obligation as the starting point for the transparency regime we may exclude other derivatives that may be relevant in size or important from a market integrity perspective.

4.26 For example, FX derivatives represent a meaningful part of the OTC derivatives market (17% of the total amount outstanding) but they are not included in the clearing obligation. Some of them, especially swaps in major currency pairs, are traded frequently and in large volumes. Similarly, single-name CDSs are also not subject to the clearing obligation, even though regulators have questioned whether transparency in the CDS market is adequate.

4.27 We are not, at this stage, proposing including any FX derivatives or single name CDS within the list of Category 1 instruments. However, transparency in relation to the trading of those instruments will apply depending on how trading venues will calibrate pre- and post-trade transparency requirements for them.

4.28 We are interested in views from market participants about whether the level of transparency currently available in the market (on-venue and OTC) is adequate or if it requires regulatory intervention.

Q2: Do you agree that the transparency regime should focus on the classes of derivatives subject to the clearing obligation? If not, please explain why.

Q3: Is the current level of transparency in FX derivatives and single-name CDS adequate? If not, should a subset of them be included as Category 1 instruments?

4.29 While inclusion in the clearing obligation ensures product standardisation and a certain level of liquidity, not all products included in the clearing obligation are equally suitable for transparency and not all are equally critical from a market integrity perspective.

4.30 Partly because of the change from London Inter-Bank Offered Rate (LIBOR) to more robust risk-free rates (RFRs), the market in interest rate derivatives has significantly evolved over the last few years and so has their liquidity profile.

4.31 OISs have become the sole tradable swaps for GBP (Sterling Overnight Index Average (SONIA)) and USD (Secured Overnight Financing Rate (SOFR) and FedFunds) currencies. Even where indices based on interbank offered rates (IBORs) have been maintained like Euro Interbank Offered Rate (EURIBOR), OIS products like euro-based euro short-term rate (€STR) have significantly increased their liquidity. According to International Swaps

and Derivatives Association (ISDA)-Clarus's RFR adoption indicator in November, the entirety of the pound sterling (GBP) swap market is in SONIA. The figure for US dollars (SOFR) is close to 75% (up from 58% in January) while for €STR it is around 35% (up from 21% in January).

4.32 The adoption of RFRs and the corresponding decline in the relevance of IBORs, has had structural consequences on the use of FRAs. FRAs, which are mainly used to hedge the fixing risk related to IBOR-based swaps products, have become progressively less liquid.

4.33 Data and analysis from ISDA show that FRAs now represent a small and declining share of the OTC interest rate derivatives market in the UK and globally, including those jurisdictions like the EU where EURIBOR is still a liquid interbank reference rate. Instead, the OIS based on risk free rates such as SONIA, SOFR and €STR increased in relevance and liquidity and are now the most liquid interest products excluding from futures.

4.34 While in absolute terms liquidity in fixed-to-float swaps has stayed stable in the UK, in relative terms their share of the total volume traded has declined from 23% in Q2 2022 to 13% in Q2 2023 of which two thirds is based on EURIBOR. Similarly, the share of volume traded in FRAs has declined from 20% in Q2 2022 to 8% in Q2 2023 (accompanied with a 30% reduction in the absolute volume traded).

4.35 In contrast, OIS products have increased their market share, from over 50% of notional amount traded to close to 65% between Q2 2022 and the same quarter in 2023 with absolute volume traded almost doubling in the same period.

Chart 1: Traded notional per product

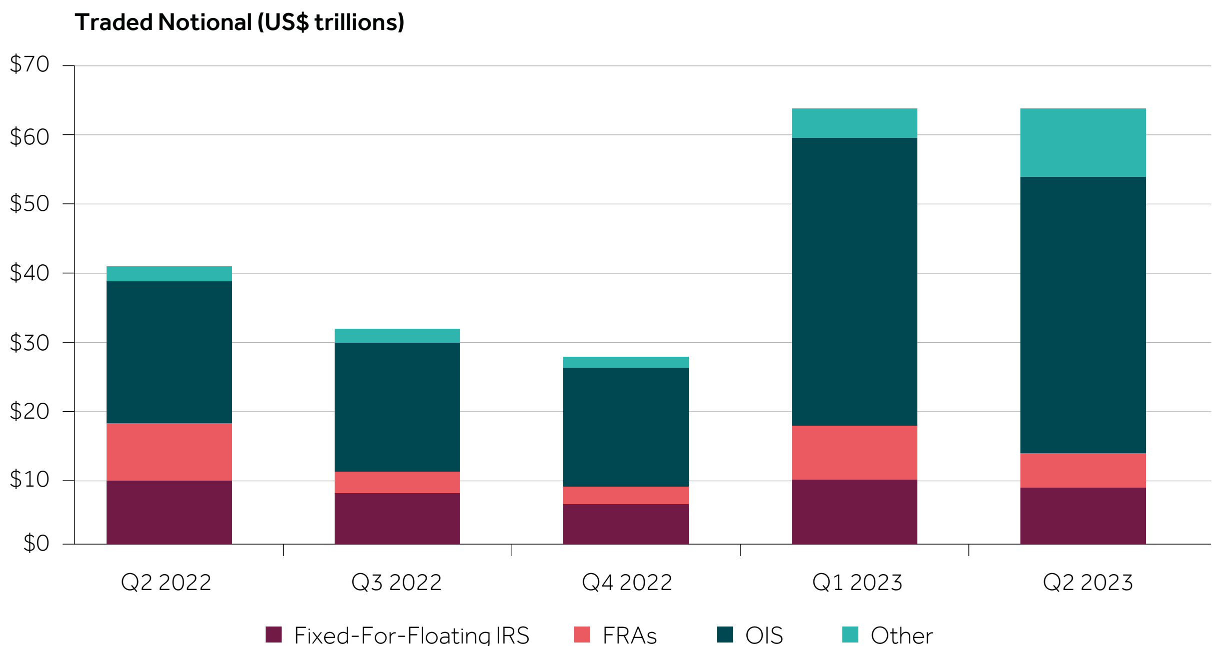
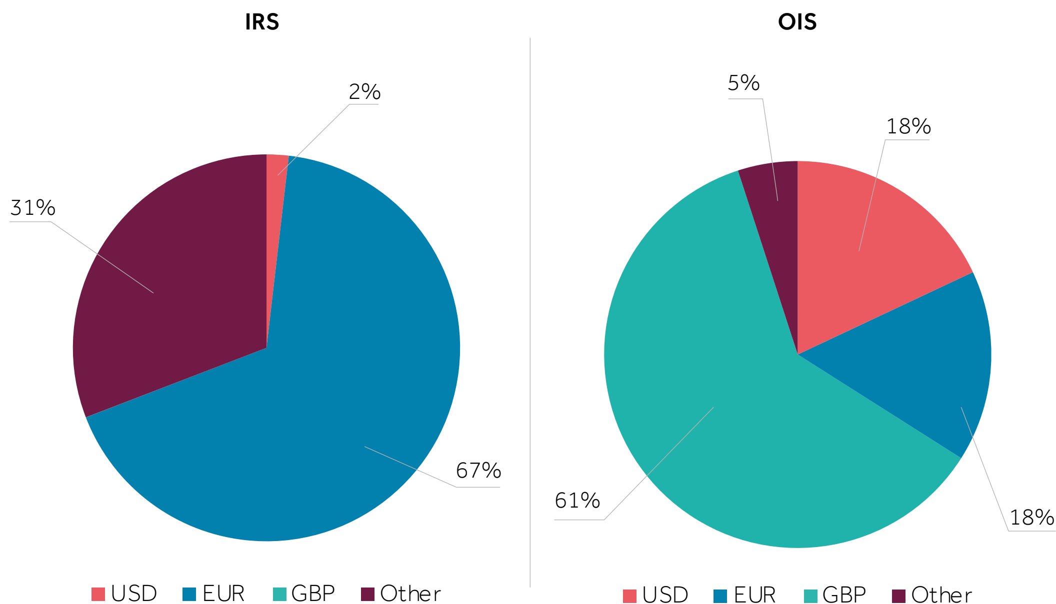


Chart 2: Distribution of IRS and OIS by currency



Source: ISDA

4.36 Overall, the analysis shows that:

- OIS swaps are now the most liquid interest rate OTC derivatives in the UK, of which GBP SONIA, USD SOFR and FedFund and EUR €STR are likely to represent 95% of the liquidity
- Liquidity in fixed-to-float swaps has slightly declined and is mostly concentrated in euro-denominated swaps, predominantly based on EURIBOR

4.37 Considering the evidence above, we propose to exclude FRAs, fixed-to-floating IRSs (other than those based on EURIBOR), basis swaps and OIS based on Japanese Yen (Tokyo Average Overnight Rate (TONA) OIS) from the list of Category 1 instruments.

4.38 For CDS, we intend to include the two indices currently under the Bank's clearing mandate and under our trading mandate, iTraxx Europe Main and iTraxx Europe Crossover with a tenor of 5 years, in the list of Category 1 instruments. They are currently treated as liquid and subject to real-time reporting where a transaction is below the applicable LIS threshold. Those two indices are some of the most liquid available for trading globally, as confirmed by data provided to us by OSTTRA. The daily average turnover of iTraxx Europe Main and iTraxx Europe Crossover was, globally, circa €70bn and €20bn during the second and third quarter of this year, each trading between 600 and 700 times a day

4.39 On the basis of our proposed list of Category 1 instruments, more than 70% of current liquidity in interest rate derivatives would be included. So, transactions in those instruments would be subject, either when executed on-venue or OTC, to real time post-trade transparency unless a deferral applies.

4.40 Transactions in Category 2 instruments would still be subject to post-trade transparency (and pre-trade where applicable) when traded under the rules of a trading venue, but the calibration of the transparency will be left to the venue in line with principles and criteria set by us.

Q4: Do you agree with excluding FRAs, basis swaps and OIS and Fixed-to-Float swaps with reference index other than EURIBOR, SONIA, SOFR, €STR and FedFunds – from the list of Category 1 instruments? If not, please explain why.

Q5: Do you agree with including iTraxx Europe Main and iTraxx Europe Crossover as Category 1 instruments? If not, please explain why.

Tenors

4.41 For each type of instrument, the clearing obligation includes a wide range of tenors, ranging from 7 days to 50 years. We looked at the level of liquidity of the proposed specified classes of OTC derivatives to satisfy ourselves that the relevant derivatives can sustain a high level of transparency across the spectrum of tenors.

4.42 In assessing the liquidity, we have looked at a range of factors and parameters. For example:

- the number and types of UK trading venues dealing in each product and the availability of quotes pre-trade
- the volume and number of transactions during the relevant period and the resiliency of liquidity over time
- other factors including industry feedback

4.43 The criteria above partly draw from those set out in UK MiFIR and MiFID RTS 4 on the DTO. But, under the new transparency regime introduced by FSMA 2023 we are not bound to rigidly follow transparency calculations (which are now only based on number of trades and volume of transactions). We can factor in a broader number of measurements, both qualitative and quantitative.

Number and types of trading venues and availability of quotes pre-trade

4.44 According to ISDA, there is significant on-venue trading in our proposed list of Category 1 instruments. Around 70% of the trades and close to 85% of the volume in IRSs are executed on regulated UK trading venues. There are 58 MTFs and OTFs currently authorised by us that trade derivatives, of which 20 are on our register of the trading obligation as eligible venues for the purposes of SONIA OIS and EURIBOR fixed-to-float IRSs. Some of those platforms operate in the dealer-to-client market, where institutional investors seek liquidity on demand from dealers; others in the interdealer market, where large dealers mainly manage the risk arising from transactions they execute with clients.

4.45 The proposed list of Category 1 instruments includes the most liquid derivatives. Intercontinental Exchange (ICE) benchmark administrator calculates and publishes the ICE Swap Rate® benchmarks based on pre-trade information sourced from electronic order books dealing in meaningful sizes run by trading venues operating in the interdealer market. The settings cover benchmark tenors across the whole spectrum of the

maturities, ranging from 1 year to 30 years for EURIBOR, SONIA and SOFR (excluding 12 year and 25 years for SOFR). Liquidity providers also stream indicative or firm prices on dealer to clients platforms.

Volume and number of transactions and resiliency of liquidity

4.46 We sourced data and analysis from ISDA on the volume and number of transactions executed during the second quarter of this year. The data excludes any trade with a notional amount less than 100,000 notional amount of the relevant currency. It includes transactions in benchmark tenors as well as any date between benchmarks (also known as broken tenors or dates).

4.47 We looked at total number of trades and traded notional across each individual tenor bucket, to seek to make sure that all the tenors are sufficiently liquid.

Table 5: Average daily number of trades and traded notional

Tenor	Fixed-to-Float Interest Rate Swap		Overnight Index Swap							
	Euribor		SONIA		SOFR		FedFunds		€STR	
	Trades	Notional (bn)	Trades	Notional(bn)	Trades	Notional(bn)	Trades	Notional(bn)	Trades	Notional(bn)
7D/28D-3M	4	€6	189	£286	24	$11	24	$65	58	€88
3M-6M	12	€8	11	£3	17	$4	1	$0.2	5	€1
6M-1Y	49	€20	29	£6	50	$9	3	$1	13	€4
1Y-2Y	48	€9	53	£5	64	$8	1	$0.1	22	€3
2Y-5Y	126	€15	165	£12	134	$16	0	$0.01	12	€1
5Y-10Y	193	€16	342	£20	108	$7	Not Applicable		Not Applicable	
10Y-20Y	76	€8	62	£3	20	$1				
20Y-30Y	86	€3	81	£2	56	$2				
30Y-50Y	7	€0.2	22	£0.4	1	$0.01				
Total average	**602**	**€86**	**953**	**£336**	**473**	**$57**	**29**	**$66**	**111**	**€96**

4.48 The available evidence suggests that, according to the criteria set out in paragraph 4.47, all tenors-albeit to varying degrees-of the relevant instruments, with the exception of FedFunds OIS, display sufficient liquidity that warrant being brought in scope of transparency requirements as Category 1 instruments. For FedFunds OIS, it appears that there is limited liquidity for any bucket tenor other than at the shortest end, which is 7 days to 3 months. It also appears that limited liquidity is available for SOFR OIS for the longest maturity bucket (30 years to 50 years). Since our data refers to the second quarter of this year, and the cessation date for USD LIBOR was July, we expect liquidity in SOFR OIS to have increased since then, in line with the increased adoption.

4.49 During the consultation period and before finalising our policy statement, we will update our analysis to ensure that longer-dated SOFR OIS swaps are sufficiently liquid to sustain transparency. For the purpose of this consultation, we are proposing including as Category 1 these products (subject to the clearing obligation) and tenors:

- Fixed-to-float EURIBOR (28 days to 50 years)
- OIS SONIA (7 days to 50 years)
- OIS SOFR (7 days to 50 years)
- OIS €STR (7 days to 3 years)
- OIS FedFunds (7 days to 3 months)

Q6: Do you agree with our proposal to bucket swaps by tenors? If not, please explain why.

Q7: Do you agree with our proposal to include spot and forward starting swaps within the same tenor bucket? If not, please explain why.

Q8: Do you agree with our proposed scope of Category 1 instruments for OTC derivatives? If not, please explain why.

Chapter 5

Framework for waivers and deferrals

Pre-trade transparency and waivers

5.1 In relation to pre-trade transparency, we propose to maintain the current requirement for trading venues to publish on a continuous basis during normal trading hours, adequate information about current bid and offer prices, actionable indications of interest and the depth of trading interests at those prices.

5.2 In our rules we are clarifying that when calibrating pre-trade transparency, trading venues shall have regard to achieving efficient price formation and a fair evaluation of instruments. We think these principles will support high standards of pre-trade disclosure, especially in relation to systems or trading protocols for which our rules do not give detailed requirements.

5.3 We intend to preserve the current detailed pre-trade requirements for systems where interaction is many-to-many or all-to-all, such as limit order book, periodic auctions or quote driven systems. But, we are removing the existing detailed pre-trade requirements for voice and RFQ systems as those requirements are predicated on the assumption that they can operate under a similar level of transparency as other trading protocols. The evidence from our markets and from other markets, such as in the US, where under CFTC rules the requirements for SEFs operating RFQ systems do not need public pre-trade disclosure, is that in most circumstances the public disclosure of quotes or actionable indications of interest is not necessary in the best interest of efficient price discovery and the support of the provision of liquidity.

5.4 Partly because of the removal of the requirements for RFQ and voice trading systems, and partly because of the changes made to the scope of the transparency regime, we propose deleting the waivers for RFQ and voice systems operating above certain transaction sizes (the 'SSTI' waiver) and the waiver for instruments for which there is not a liquid market.

5.5 Instead, we are proposing a new waiver for negotiated orders which includes:

- orders for the execution of packages
- orders for the execution of transactions subject to conditions other than the current market valuation
- orders that are negotiated between counterparties, including RFQs, provided they are executed within the spread reflected in the order book, the quotes of the market makers or other trading system providing transparent actionable indications of interest (where available)

5.6 We propose maintaining the waiver for LIS orders, which will be subject to a threshold we will set for Category 1 instruments and be the same as the one applicable to post-trade deferrals. In our rules we propose criteria that trading venues will have to have regard to when setting LIS thresholds for Category 2 instruments.

Q9: Do you agree with our proposals for, and waivers of, pre-trade transparency? If not, please explain why.

Post-trade transparency and deferrals

5.7 The starting point of the post-trade transparency regime is real-time publication. The immediate dissemination of the price and size of executed transactions supports price efficiency and best execution. Generally, i.e. across different jurisdictions and asset classes, large trades benefit from an exemption from real-time transparency in the form of a deferral. A deferral for large trades protects the liquidity provider from undue risk by giving adequate time to hedge the position.

5.8 When mis-calibrated, deferrals can cause harms. Fair price formation is harmed by withholding details of the deferred trade from publication, as they cannot be factored into the market's estimate of the instrument's value which consequently making it less accurate. Deferrals create asymmetry of information. Counterparties to a trade are at an informational advantage compared to the rest of the market. Deferrals make use of market data more complex, costly and subject to errors. Where deferrals are unnecessarily long, there is a reduction of confidence in the market and of participation by investors which reduces competition and liquidity. Balancing the benefits and harms of transparency is the objective of the calibration of the length of deferrals.

5.9 There are four levers for calibrating the impact of those deferrals:

- the types of deferrals, such as what needs to be published (e.g. price and/or volume)
- the identification of classes of financial instruments sharing similar characteristics (e.g. liquidity, risk profile and trading patterns) to which the same thresholds apply
- the length of the deferrals
- the threshold sizes of trades above which a deferral can be granted

5.10 We cover the types of deferrals below while the section on bonds and derivatives covers our approach to the size of thresholds for LIS transactions and length of deferrals.

Types of deferrals

5.11 There are currently three mechanisms used to defer reporting:

- **Price and size deferral.** Under this type of deferral, no details of a trade are published until the end of the deferral period. This mechanism gives maximum protection to liquidity providers but it correspondingly has the largest negative impact on price formation depending on the length of the deferral.
- **Volume deferral.** Under this type of deferral, all details of the trade, including the price, are published in real-time except the volume, which is disclosed at the end of the deferral period. This mechanism permits the trade to contribute to price formation while affording some protection to liquidity providers. Despite the volume of the trade is not published, the reporting of the price information does inform market participants that the executed trade is larger than the threshold size

(and hence larger than the standard market size). Additionally, some participants believe that observing large deviations from the prevailing market price may reveal information about the size of the trade and so makes volume masking less effective at protecting very large trades.

- **Volume caps.** This is less about the length of the deferral and more about the information disclosed. For example, under CFTC rules for block trades in the form of caps, where transactions above the cap are deferred (for a very short period between 15 minutes and 2 hours) but information about the actual size of the trade is never published (other than by indicating that the transaction is above the cap).
- **Aggregating trades.** Under this type of deferral, the total volume and the volume weighted average price of all the trades executed during a period are published as though they had been a single trade executed at the end of the period. The discrete constituent trades may, or may not, be subsequently disaggregated and reported with their individual execution times, price and size. Aggregation gives some degree of protection for liquidity providers but makes little contribution to price formation. Aggregating trades introduces significant complexity to market data but does not allow assessments of execution quality and the proper use of flags.

5.12 These approaches are not necessarily mutually exclusive. For example, large trades may be required to publish the price but not the volume while larger trades are protected with deferrals for both the price and size.

Our proposed framework

5.13 The current regime provides many combinations in terms of conditions permitting a deferral, types and length of deferrals. Trades that are in large sizes, transactions in illiquid financial instruments and certain types of trades, such as packages, are all eligible for deferrals. Once a transaction is eligible, various types of deferrals are available, from early publication of price with volume masking to full price and size/volume deferral. The lengths of deferrals range from 2 days to 4 weeks after execution. Transactions in sovereign bonds can be aggregated with other similar trades without information on individual components needing to be published.

5.14 UK MiFIR was designed to give significant flexibility to competent authorities to adapt the deferrals to each individual financial instrument and to each market. But, it has delivered a complex system of deferrals that has limited the ability of market participants to make an effective use of post-trade transparency. We are proposing a simpler framework to deferrals where:

- only large trades are eligible (but we also propose short "technical" deferrals for packages);
- post-trade information is not aggregated, neither temporarily nor permanently, but always published on a trade-by-trade basis;
- early publication of price information is prioritised while information on the size of trades can be deferred for an extended period;
- the largest trades benefit from either an extended deferral or permanently where capped.

5.15 We are proposing a common framework to deferrals for bonds and derivatives; however the actual sizes of the threshold and the lengths of deferrals would differ to cater for the different markets they apply to. Within this framework, we are proposing two models that share the common objective of delivering the prompt disclosure of the details of executed transactions – to support price formation – but with a different emphasis about the trade-off between the length of the deferral and the public dissemination of the information of the size of large trades.

5.16 The **first model** is based on two LIS thresholds. Transactions with a notional amount below the first thresholds would be reported in real time in full, i.e. with price and size information. Transactions above the first threshold but below the second would be reported close to real-time (within 15 minutes) but without information about the actual size, which would be fully disclosed at the end of a relatively short deferral. Transactions above the second threshold, would instead benefit from an extended deferral for both the price and the size.

5.17 The **second model** is based on a single LIS threshold but with a cap to the size of executed transactions to protect liquidity providers from undue risk for the largest trades. Transactions below the LIS threshold would be published in real time like under the previous model. All transactions above the LIS threshold would instead be reported with the actual price and size after the deferral period but where the trade is above the cap the post-trade report will only indicate that the execution size is above the cap. This model is akin to the one applying to swaps since 2013 under CFTC rules and to bonds since 2013 under FINRA rules.

5.18 The two models have pros and cons, but both are relatively simple to implement and are predicated on the objective of delivering a high level of transparency in real time or close to real time.

5.19 The characteristic feature of the first model is the protection it provides to the largest trades through a full deferral of price and volume information. It critically rests on the ability of properly calibrating the length of the deferral to make sure that the largest trades receive adequate protection. Given the typical pattern of the distribution of transactions in bonds and derivatives – characterised by a long tail of very large trades – the largest trades might be exposed to undue risk after the end of the deferral period unless very long deferrals are granted to cover those trades.

5.20 The key characteristic of the second model is that it gives protection to very large trades while achieving very high levels of immediacy of price and size information in relation to transactions below the cap. It also protects the anonymity of large transactions which could be compromised by the disclosure of the actual size. This model is also very simple to implement and does not require multiple trade reports (which are instead required under model 1 when information about the price and the volume of a trade follows different deferral periods). The main disadvantages of this type of deferral regime is the lack of actual size information for the largest trades which would not allow market participants to assess the total liquidity available in the market. The practical relevance of the problem depends on where the cap is set. Under model 2, very large trades would still be published to the market after only a short deferral, which may result in some information leakage.

5.21 Arguably, depending on the length of deferrals and the levels of the thresholds, the two models may deliver similar outcomes. And we are cognizant that many other approaches are possible. The actual calibration of the 2 models is presented in the relevant sections for both bonds and derivatives. Here, we are interested in views about the effectiveness of these two models in delivering the right balance between transparency and the protection of liquidity. We are also interested in views about our objective of prioritizing real-time or close to real time dissemination of price information instead of volume.

Q10: Do you support our objective of enhancing price formation by prioritising the prompt dissemination of price information? If not, please explain why.

Q11: Do you agree with our approach based on the dissemination of trade-by-trade information as opposed to aggregation of trades? If not, please explain why.

Q12: Should package trades be granted a minimum of a 15-minute reporting deferral to allow for the complexity of booking such trades?

Q13: Are there types of transactions other than packages that should benefit from a deferral irrespective of their sizes?

Q14: Which of the two models do you think can give better calibration of deferrals for bonds and derivatives?

Chapter 6

Real-time transparency and calibration of deferrals

Bonds

6.1 Currently, transactions in bonds benefit from deferrals when they are treated as illiquid or, if liquid, when they are above certain sizes. There are two problems with the way the liquid market determination is made and the LIS thresholds are calculated.

6.2 The first is that the liquidity assessment is done quarterly on an ISIN-by-ISIN basis. When a bond is determined as liquid according to the data from the previous quarter, it is treated as liquid in the next quarter. The outcomes of the liquidity calculations show that for many bonds, past liquidity is a poor predictor of future liquidity. In the case of sovereign bonds, the issue is particularly significant for bonds from countries that do not trade frequently in the UK.

6.3 On the basis of 2 years of quarterly calculations of liquidity, while 80% of the UK sovereign bonds that are treated as liquid in one quarter stay liquid the next quarter, the ratio declines to 58% for the whole sample of sovereign bonds and it is just 13% of sovereign bonds issued by countries other than from the governments of UK, US, France, Germany and Italy. For the 38 sovereign bonds issued by 13 of the countries which have the lowest level of trading in the UK, none of the bonds determined as liquid in one quarter stayed liquid in the next quarter.

6.4 The second problem is that both the liquid market calculation and the calibration of deferrals use criteria that in some cases are weakly correlated with liquidity. The subset of bonds which are treated as liquid is heterogeneous. Sovereign bonds from the UK, US and larger EU countries may trade hundreds of times a day, and they do so in large sizes. Other bonds that still meet the liquid market definition (e.g. from smaller countries or from countries with a less active public debt issuance market) may trade much less frequently and in small sizes.

6.5 The problems that arise from the lack of differentiation between very liquid and illiquid bonds are compounded by the way LIS thresholds are calculated. The current regime requires us to calculate the thresholds based on a methodology that groups transactions in all sovereign bonds (and the same for corporate and other types of bonds) in a single bucket. The result is that the LIS thresholds are calculated as an average of the trades of all bonds in the same bucket. However, there is significant dispersion of liquidity and different distributions of transactions sizes within the same groups of bonds set out in MiFID RTS 2. The result is that the thresholds are too high for certain less liquid bonds and too low for the most liquid ones. This is harmful to liquidity and transparency.

6.6 We have identified some bond characteristics that, in our view, would allow us to better separate very liquid bonds for which higher transparency requirements can apply, from

less liquid bonds for which longer deferrals would give the necessary protection given their episodic liquidity, which is often focused around credit events.

6.7 While there is no set of characteristics that can fully capture each bond's idiosyncratic liquidity, we think that the characteristics we have identified are relevant drivers of bonds' average traded sizes, and hence valuable input for the calibration of LIS thresholds. The characteristics that we propose to use to identify liquid classes of bonds are:

- type of issuer (i.e. whether the issuer is a sovereign issuer or a corporation)
- country of incorporation of the issuer
- issuance size
- maturity
- currency of issuance
- credit rating

6.8 Some of these characteristics are relevant for both sovereign and corporate bonds while others are only relevant for one class of bonds. The bond issuer type is already part of the calibrations for the determination of LIS thresholds under onshored RTS 2. However, the definition of sovereign issuer does not distinguish by country or country groups and debt issued by large countries is grouped together with any other debt issued by a sovereign issuer. Similarly, while size is used to decide whether a bond is sufficiently liquid at the point of issuance, it plays no role in calibrating the appropriate LIS threshold. None of the other criteria we propose to include in our calibration of LIS thresholds are part of onshored RTS 2.

6.9 For sovereign bonds and other public bonds, we propose to group bonds using:

- issuance size
- country of the issuer
- maturity

6.10 For corporate and other bonds, we propose to group bonds using:

- currency
- issue size
- rating

6.11 We give below evidence about how those characteristics are correlated with liquidity and the average size of transactions.

Country of issuance

6.12 Sovereign bonds issued from UK, US, Germany, France and Italy represent just 25% of the total number of sovereign bonds that are ToTV in the UK by number of instruments. However, their trading represents 70% of the total number of transactions and close to 80% of the turnover. The average daily number of trades and turnover in the UK Gilt (gilt-edged security) market are 4,312 trades and £30.5 bn, respectively. The equivalent numbers for other sovereign bonds (excluding those issued by the US, France, Germany and Italy) are 44 trades and £265 mil per country of issuance.

Table 6: UK market Turnover and Trades by Country of Issuance: average quarterly figures Q3 2021 to Q2 2023

Country of Issuance	Instruments		Trades		Turnover
	Number	%	Number	%	%
UK	228	3	284,966	22	20
Germany	594	8	157,522	12	25
USA	514	7	345,692	27	20
France	316	4	54,793	4	9
Italy	208	3	59,042	5	5
Others	5,602	75	359,997	30	21
Total	**7,462**	**100**	**1,271,012**	**100**	**100**

Source: FCA

Issuance size

6.13 Issuance size is an important driver of liquidity, in the same way as market capitalisation is for shares. About 55% of the sovereign and other public bonds in our data have an issuance size above £1 bn, but they account for 97% of the liquidity. Similarly, 68% of the corporate and other bonds with an issuance size above £500 million account for 86% of the turnover.

Table 7: UK market Turnover and Trades by issuance size: average quarterly figures Q3 2021 to Q2 2023

	Instruments		Trades		Turnover
	Number	%	Number	%	%
Sovereign and other public bonds (>£1 bn)	4,084	55	1,200,135	94	97
Sovereign and other public bonds (<£1 bn)	3,378	45	70,877	6	3
Total	**7,462**	**100**	**1,271,012**	**100**	**100**
Corporate and other bonds (>£0.5 bn)	19,925	68	901,848	84	86
Corporate and other bonds (<£0.5 bn)	9,212	32	165,470	16	14
Total	**29,137**	**100**	**1,067,317**	**100**	**100**

Source:FCA

Maturity

6.14 Bonds with a shorter maturity display larger average traded sizes because the shorter duration exposes the holders of the security to less interest rate risk. For shorter dated bonds, LIS thresholds can be higher compared to other equivalent bonds (by issuer, currency, issuance size) with longer maturities. For example, our data shows that US government bonds with a maturity longer than 10 years trade on average in smaller sizes (£6m) than bonds with a maturity between 1 and 5 years (£18m).

Currency

6.15 The evidence on whether currency is an important driver of liquidity is less robust given that the instruments in our dataset are almost exclusively issued in sterling, US dollar and euro. Collectively, bonds issued in those currencies represent 96% of the volume traded and 98% of the trades.

Credit rating

6.16 For corporate bonds, the bond classifications of investment grade (IG) and high yield (HY) are terms generally used by market participants with a sufficiently consistent interpretation but there can be variations in application dependant on the rating agency and firms (including benchmark providers) using them. But, to use the IG and HY classifications in the context of trade reporting requires a single objective definition independent of the rating agency. The same issue has already been faced for assessment of credit risk for prudential rules. We propose adopting the same solution wherein the proprietary credit scores used by rating agencies are each assigned into a "credit quality step" (CQS). CQSs are numbered, in descending order of credit worthiness, from 1 to 6. For example, the ratings of "Baa" by Moody's Investors Service and "BBB" by S&P Global Ratings Europe are both classified as CQS 3. We propose defining a bond as IG if its issuer has a credit rating falling in CQS 3 or above. Full details of the mappings of proprietary rating schemas into CQSs are set out in the onshored version of Annex III of Commission Implementing Regulation (EU) 2016/1799.

6.17 As with currency, the evidence on correlation between credit rating and liquidity is less clear. IG bonds are slightly more liquid than HY bonds, but the difference may be due to the fact that lower rated corporate bonds may experience episodic liquidity related to credit events rather than stable underlying liquidity.

6.18 We propose to use the bond characteristics above in combination to group bonds as set out in table 8. For sovereign and other public bonds, we use country of issuance, issuance size and maturity bucket. For corporate and other bonds, we use currency, issuance size and rating. The tables below summarise how we propose to group bonds for the purposes of calibrating the LIS thresholds; it includes the number of instruments, the turnover and the number of trades falling in each group as a percentage of the total.

6.19 For example, sovereign bonds issued by UK, US, France, Germany and Italy with an issuance size above £1bn represent 36% of the bonds that are ToTV in the UK but account for over 90% of the liquidity measured by turnover. For corporate and other bonds, the

45% of instruments that are IG, with an issuance size above £500 million and issued in sterling, US dollar or euro account for over 73% of the turnover and 61% of the trades.

Table 8: Grouping of bonds

Sovereign and Other public bonds

Issuer	Issue Size	Maturity	Instrument Count	Trade Value	Trade Count
UK, France, Germany, Italy or USA	>£1bn	<5yr	10%	18%	9%
		5-15yr	15%	42%	31%
		>15yr	11%	32%	51%
All other instruments			64%	8%	9%
Total			**100%**	**100%**	**100%**

Corporate, Covered, Convertible & Other bonds

Currencies	Issue Size	Issuer Rating	Instrument Count	Turnover	Trade Count
USD/EUR/GBP	>£0.5bn	IG	45%	73%	61%
All Other Instruments			55%	27%	39%
Total			**100%**	**100%**	**100%**

Source: FINBOURNE Technology

Q15: Do you agree with the factors used in grouping bonds?

Q16: Do you agree with the list of issuers used to group Sovereign and Other public bonds?

Q17: Should we consider having a separate group for certain types of sovereign bonds, e.g. inflation-linked Sovereign bonds?

Q18: Do you agree with the list of currencies used to group Corporate, Covered, Convertible & Other bonds?

Q19: Do you agree with the levels indicated as thresholds for issue size and setting the three maturity groups for Sovereign and Other Public Bonds?

Q20: Do you agree with our proposed definition of IG bonds?

Calibration of large in scale (LIS) thresholds and deferrals

6.20 Our driver in reviewing the transparency regime for bonds is to have more timely reporting for the most liquid bonds. The grouping of bonds we have proposed in the previous section should allow us to achieve this. For all other bonds, which are likely to cover bonds that are only episodically liquid and that represent only a small minority of transactions and traded volumes, we are proposing lower thresholds.

6.21 We propose thresholds and deferrals that we consider compatible with increased transparency given the liquidity available in the markets, which should give adequate protection to liquidity providers. We are providing quantitative estimates of what level of transparency we would achieve post-implementation. Some of our estimates rely on data that excludes volumes and transactions from aggregated reports, which affects a significant part of the market.

6.22 As discussed in the section titled "Our proposed framework", we propose for consultation two models that mainly differentiate in terms of treatment of very large trades and the trade-off between real-time reporting of price information.

6.23 In setting the size thresholds and the length of the deferrals for both models, we had regard to three factors:

- the liquidity available in the market for the specific class of instruments and the ability of market participants to access that liquidity to hedge their positions during the deferral time
- how our proposed thresholds compare to the distribution of transactions executed in the market in the relevant class and the level of transparency that our thresholds and deferrals would achieve
- feedback from market participants on the likely effect of our proposals on price formation and liquidity

6.24 In relation to the available liquidity, Table 9 gives evidence that the relevant classes of bonds benefit from high and resilient levels of liquidity, on trading venues and OTC. The proposed size thresholds and deferrals should permit liquidity providers to access adequate liquidity to hedge or reduce their risk exposure. For example, UK sovereign bonds trade frequently and in large sizes.

Table 9: Average Daily Turnover

Country	Issue Size	Maturity	Average Daily Turnover (bn)	Lower Threshold as % of ADT
UK	>£1bn	<5yr	£6.9	0.2%
		5-15yr	£14.1	0.1%
		>15yr	£9.5	0.1%
Germany	>£1bn	<5yr	£16.6	0.1%
		5-15yr	£14.3	0.1%
		>15yr	£4.9	0.1%

Country	Issue Size	Maturity	Average Daily Turnover (bn)	Lower Threshold as % of ADT
USA	>£1bn	<5yr	£23.1	0.1%
		5-15yr	£10.9	0.1%
		>15yr	£4.8	0.1%
France	>£1bn	<5yr	£5.8	0.3%
		5-15yr	£5.5	0.2%
		>15yr	£1.2	0.4%
Italy	>£1bn	<5yr	£3.5	0.4%
		5-15yr	£3.5	0.3%
		>15yr	£0.5	0.9%

Source: FCA FITRS

6.25 We present two models for bonds, as described in Tables 10 and 12.

6.26 Model 1 is based on two LIS thresholds for each instrument group, resulting in three classes of transparency: real-time price and size transparency for smaller trades, volume masking for medium sized trades, and full deferral of price and size for the largest trades. For trades between the 2 LIS thresholds a 15-minute deferral would apply after which the price would be reported but not the size. Information on the size would be deferred until the end of the third day after the transaction date (T+3). For trades above the higher threshold, we propose a 4-week deferral for both price and size information. We have set the longer deferral at T+3 as we believe it would give sufficient time, given the threshold sizes, to allow firms to manage their risk during the deferral period.

6.27 Under Model 2, we propose that all trades below a single LIS threshold are published in real-time, while those above the threshold are published by the end of the day. In the latter case this would involve price and size information, although trade size would only be specified up to a cap. Trades above the applicable cap size would only indicate that the trade is above the cap.

Table 10: Model 1: Proposed size thresholds and deferrals

Sovereign and Other public bonds

Issuer	Issue Size	Maturity	Price and size in real time	Price: 15 mins Size: T+3	Price and size 4 weeks
UK, France, Germany, Italy and USA	>£1bn	<5yr	<£15m	£15m≤•<£50m	≥£50m
		5-15yr	<£10m	£10m≤•<£25m	≥£25m
		>15yr	<£5m	£5m≤•<£10m	≥£10m
All other instruments			<£2m	£2m≤•<£4m	≥£4m

Corporate, Covered, Convertible & Other bonds

Currency	Issuer Rating	Issue Size	Price and size in real time	Price: 15 mins Size: T+3	Price and size 4 weeks
GBP, EUR & USD	IG	>£500m	<£1m	£1m≤•<£10m	≥£10m
All other instruments			<£500k	£500k≤•<£5m	≥£5m

Table 11: Model 1: Impact on transparency

Sovereign and Other public bonds

Countries	Issue Size	Maturity	Trades reported in real time		Trades reported within 15 mins		Trades reported after 4 weeks	
			Trades	Volume	Trades	Volume	Trades	Volume
UK, France, Germany, Italy and USA	>£1bn	<5yr	81%	9%	92%	35%	8%	65%
		5yr->15yr	80%	13%	89%	28%	11%	72%
		>15yr	82%	20%	88%	31%	12%	69%
All other instruments			69%	4%	75%	7%	25%	93%
Total			**80%**	**14%**	**88%**	**29%**	**12%**	**71%**

Corporate, Covered, Convertible & Other bonds

Currency	Issue Size	Issuer rating	Trades reported in real time		Trades reported within 15 mins		Trades reported after 4 weeks	
			Trades	Volume	Trades	Volume	Trades	Volume
USD/ EUR/GBP	>£1bn	IG	84%	14%	97%	38%	3%	62%
All other instruments			78%	29%	99%	85%	1%	15%
Total			**79%**	**22%**	**99%**	**64%**	**1%**	**36%**

Source: FINBOURNE Technology

Table 12: Model 2: Proposed size thresholds and deferrals

Sovereign and Other public bonds

Issuer	Issue Size	Maturity	Price and size in real time	Price: EOD Size: EOD
UK, France, Germany, Italy and USA	>£1bn	<5yr	<£15m	≥ £15m (cap at £50m)
		5-15yr	<£10m	≥ £10m (cap at £25m)
		>15yr	<£5m	≥ £5m (cap at £10m)

Sovereign and Other public bonds

All other instruments	<£2m	≥ £2m (cap at £4m)

Corporate, Covered, Convertible & Other bonds

Currency	Issuer Rating	Issue Size	Price and size in real time	Price: EOD Size: EOD
GBP, EUR & USD	IG	>£500m	<£1m	≥ £1m (cap at £10m)
All other instruments			<£500k	≥ £500k (cap at £5m)

Table 13: Model 2: Impact on transparency

Sovereign and Other public bonds

Countries	Issue Size	Maturity	Trades reported in real time		Trades reported by EOD and visible volume		Volume not visible because above the cap
			Trades	Volume	Trades	Volume	
UK, France, Germany, Italy and USA	>£1bn	<5yr	81%	9%	100%	35%	65%
		5yr ->15yr	80%	13%		28%	72%
		>15yr	82%	20%		31%	69%
All other instruments			69%	4%		7%	93%
Total			**80%**	**14%**	**100%**	**29%**	**72%**

Corporate, Covered, Convertible & Other bonds

Currency	Issue Size	Issuer rating	Trades reported in real Time		Trades reported by EOD and visible volume		Volume not visible because above the cap
			Trades	Volume	Trades	Volume	
USD/EUR/ GBP	>£500k	IG	84%	14%	100%	38%	62%
All other instruments			78%	29%		85%	15%
Total			**79%**	**22%**	**100%**	**64%**	**36%**

Source: FINBOURNE Technology

6.28 In relation to the level of our thresholds against the current profile of the transactions in the market and the impact on transparency, our proposed regime for real-time and deferred publications would deliver a high level of transparency. For sovereign bonds, 80% of the transactions would be reported in real time and 14% of the volume, in contrast to about one tenth of those amounts at present. Under Model 1 the total number of trades

for which price would be reported within 15 minutes would be close to 90% accounting for 21% of the volume traded in the market. Under Model 2 100% of trades would be published by the end of the day (albeit with volume capped for very large trades).

6.29 The 2 models share the following common characteristics and outcomes:

- Both models deliver an identical high level of real-time post-trade transparency. Our proposed regime delivers real-time price transparency for between 75% and 92% of the trades, depending on the group, and between 4% and 20% of the volume. Given the long tail of transactions with very large notional amount, this is a smaller portion of the market compared to the number of trades but is still significant for supporting price formation.
- By setting relatively short price reporting timelines (15 minutes or end of day (EOD)) for trades above the lower size thresholds, we are prioritising the benefits of immediacy of price publication over full disclosure of traded volume.

We took into account the liquidity in the market and calibrated the LIS thresholds depending on the average daily liquidity. This is to make sure that the reporting of trades does not harm liquidity provision and that the related hedging can be accommodated by the liquidity available in the market during the deferral period.

6.30 The main difference between the 2 models is the trade-off between immediacy and dissemination of information about the size of large trades. In particular:

- Under Model 1, more trades are reported within 15 minutes than under Model 2. The percentage of trades reported within 15 minutes is approximately 80%.
- Model 2 allows a longer – compared to 15 minutes - deferral for large trades which are reported only by EOD. However, under Model 2 all trades are reported by EOD. The information includes the executed volume and the size but only up to the applicable cap size (which we propose to set at the same level as the upper threshold under Model 1).

6.31 For example, below we contrast the treatment of two trades under Models 1 and 2:

- A £5m trade in a GBP denominated corporate bond with an issuance size above £500k and an issuer with an IG credit rating:

  - under Model 1 the price would be reported within 15 minutes, and the size would be reported 3 days later
  - under Model 2, the same transaction would be reported in full (price and size) at the end of the day

- A £15 m trade in the same instrument,

  - under Model 1 full price and volume information would be reported after 4 weeks
  - under Model 2, the same trade would be published at the end of the day when execution occurs but only price information and size indicating that it is above the cap (i.e. £10ml+)

Q21: Do you agree with our proposed thresholds for bonds transparency in Option 1?

Q22: Do you prefer the Option 2 approach, wherein for trades between the thresholds both price and size are published at EOD rather than after 15 minutes and 3 days respectively?

Q23: Do you prefer the Option 2 approach, wherein for trades above the upper threshold prices only are published at EOD rather than our proposal to publish both price and size after four weeks?

Q24: If all prices are to be published by EOD then when, if at all, do you think the size of trades larger than the upper threshold should be published?

OTC derivatives

6.32 As for bonds, our calibration of the LIS thresholds and the length of deferrals for OTC derivatives prioritizes the prompt disclosure of price information. We are aiming to deliver as much real-time transparency in relation to the price of executed transactions as it can be sustained by the market without harming liquidity.

6.33 There are three parts in our approach to setting the length of deferrals and the related LIS thresholds for OTC derivatives: the bucketing of the tenors, the levels of the thresholds the types and lengths of deferrals.

6.34 **Bucketing of tenors** – for each product, we propose to set and apply the same LIS threshold to any swaps within the maturity buckets we have used for determining which tenors are sufficiently liquid. We intend to apply the same block sizes and deferrals to benchmark or broken tenors. This is in line with the framework under MiFID RTS 2. It is also consistent with what has been done in other jurisdictions, in particular the US where CFTC rules apply the same block sizes to swaps within the same tenor group. As per our assessment of liquidity, we propose to set a maximum of 9 buckets, with the number of buckets for each product depending on the range of tenors set out in the clearing obligation. We think that the proposed buckets strike the right balance between simplicity in the application of the deferrals regime and ensuring the appropriate calibration of the LIS thresholds for swaps with different interest rate risk.

6.35 **Level of the LIS thresholds** – our proposed LIS thresholds take into account several quantitative parameters. We looked at the relationship between different thresholds and the liquidity in the market during the day, as measured by the average daily notional amount traded, to ensure that liquidity providers would have access to enough liquidity to hedge their risk. Alongside this, we considered industry feedback, including that provided by liquidity providers and trading venues. Our calibration also had regard to

the distribution of trades and to what percentage of total market activity – as measured by total number of trades and total traded volume – would be reported in real-time or deferred. We did not use any pre-defined percentage but rather aimed to make sure that a large proportion of the market benefits from full transparency.

6.36 **Types and length of deferrals** – in line with our approach as set out in section 6.25 to 6.30 (Tables 10 to 13), we propose two models sharing the same objective of increasing the prompt dissemination of transactions (real-time, after 15 minutes or by the end of the day) but with different calibrations for larger trades. Model 1 protects larger trades by deferring the dissemination of any information for an extended period of 3 days; Model 2 requires the reporting of all transactions by the end of the day but caps size information permanently.

6.37 Model 1 is based on 2 LIS thresholds. Trades below the lower threshold would be required to report the price and size in real time. Trades above the lower but below the higher LIS threshold would be reported close to real time (within 15 minutes after execution), but the dissemination of information about the size would be reported only by the end of the day. Trades above the second LIS threshold would benefit from an extended deferral for both price and size deferrals, which we propose until the end of the third day after execution.

6.38 Under Model 2, we propose a single LIS threshold. Any trades below the threshold are published in real-time, while those above would be published by EOD with information about the price and volume. The actual volume would be disclosed up to the level of the applicable cap. For trades above that level, the information in the post-trade report would only indicate that the trade is above the cap.

6.39 The tables below summarise the structure of the deferral regime for the 2 models and their impact on transparency. We have included in the draft instrument rules supported by a table in regard to size thresholds and deferrals relating to Model 1. A similar approach could be adopted if we were to proceed with Model 2 with the number of table columns adjusted to reflect the size of a single size threshold.

Table 14: Model 1: LIS thresholds and length of deferrals for SONIA OIS

Maturity bucket (greater than-less than or equal to)	Price and size: real-time	Price: within 15min Size: EOD	Price: T+3 Size: T+3
(7 days-3 months)	<£2,500m	£2,500m≤•<£3,000m	≥£3,000m
(3 months-6 months)	<£350m	£350m≤•<£500m	≥£500m
(6 months-1 year)	<£250m	£250m≤•<£400m	≥£400m
(1 year-2 years)	<£150m	£150m≤•<£200m	≥£200m
(2 years-5 years)	<£100m	£100m≤•<£150m	≥£150m
(5 years-10 years)	<£75m	£75m≤•<£100m	≥£100m
(10 years-20 years)	<£50m	£50m≤•<£75m	≥£75m

Maturity bucket (greater than-less than or equal to)	Price and size: real-time	Price: within 15min Size: EOD	Price: T+3 Size: T+3
(20 years-30 years)	<£25m	£25m≤•<£50m	≥£50m
(30 years-50 years)	<£15m	£15m≤•<£25m	≥£25m

Table 15: Model 1: Impact on transparency

Maturity (greater than–less than or equal)	Trades reported in real time		Trades reported within 15 mins		Trades reported after 4 weeks	
	Trades	Volume	Trades	Volume	Trades	Volume
(7 days-3 months)	90%	71%	95%	82%	5%	18%
(3 months-6 months)	90%	57%	95%	71%	5%	29%
(6 months-1 year)	75%	40%	95%	63%	5%	37%
(1 year-2 years)	85%	51%	95%	69%	5%	31%
(2 years-5 years)	80%	51%	90%	67%	10%	33%
(5 years-10 years)	80%	40%	85%	48%	15%	52%
(10 years-20 years)	75%	34%	80%	42%	20%	58%
(20 years-30 years)	75%	44%	90%	67%	10%	33%
(30 years-50 years)	75%	36%	85%	48%	15%	52%

Table 16: Model 2: LIS thresholds and length of deferrals for SONIA OIS

Maturity bucket (greater than–less than or equal to)	Price and size: real-time	Price: EOD Size: EOD
(7 days-3 months)	<£2,500m	≥£2,500ml (cap at £3,000m)
(3 months-6 months)	<£350m	≥£350m (cap at £500m)
(6 months-1 year)	<£250m	≥£250m (cap at £400m)
(1 year-2 years)	<£150m	≥£150m (cap at £200m)
(2 years-3 years)	<£100m	≥£100m (cap at £150m)
(5 years-10 years)	<£75m	≥£75m (cap at £100m)
(10 years-20 years)	<£50m	≥£50m (cap at £75m)
(20 years-30 years)	<£25m	≥£25m (cap at £50m)
(30 years-50 years)	<£15m	≥£15m (cap at £25m)

Table 17: Model 2: Impact on transparency

Maturity bucket (greater than-less than or equal to)	Trades reported in real time		Trades reported by EOD and visible volume		Volume not visible because above the cap
	Trades	Volume	Trades	Volume	
(7 days-3 months)	90%	71%	100%	82%	18%
(3 months-6 months)	90%	57%		71%	29%
(6 months-1 year)	75%	40%		63%	37%
(1 year-2 years)	85%	51%		69%	31%
(2 years-3 years)	80%	51%		67%	33%
(5 years-10 years)	80%	40%		48%	52%
(10 years-20 years)	75%	34%		42%	58%
(20 years-30 years)	75%	44%		67%	33%
(30 years-50 years)	75%	36%		48%	52%

6.40 The 2 models share a number of common characteristics and outcomes:

- Both deliver high levels of real-time transparency about the price and size of transactions. Our proposed post-trade transparency regime delivers real-time price transparency for between 75% and 90% of the trades, depending on the maturity bucket. Between 34% and 53% of the transactions by volume is reported in real-time. Given the long tail of transactions with very large notional amount, this is a smaller portion of the market compared to the number of trades but we believe it is still significant in supporting price formation. As a comparison, currently only 2 tenor buckets in SONIA OIS are deemed liquid, and hence subject to real-time transparency, the 3 months to 6 months and the 6 months to 1 year.
- Consistent with the different interest risk profiles between swaps in different maturity buckets, the LIS thresholds decline for longer tenors.
- In contrast to the existing framework, firms operating in the market can benefit from a predictable transparency regime with high levels of transparency across the whole maturity curve.
- LIS thresholds and caps are set in the currency the products are traded in, avoiding the complication of converting notional sizes in a common currency.
- We took into account the liquidity in the market and calibrated the LIS thresholds depending on the average daily liquidity. This is to make sure that the reporting of trades does not harm liquidity provisions and that the related hedging can be accommodated for by the liquidity available in the market (including during the deferral period). For most tenors, the size of the LIS thresholds is just a fraction of the available liquidity as shown in the table below for SONIA OIS.

Table 18: SONIA OIS – relationship between LIS thresholds and caps and average daily liquidity

Maturity bucket (greater than-less than or equal to)	Average daily turnover (in £ml)	Lower LIS threshold as a proportion of the ADT	Higher LIS/Cap threshold as a proportion of the ADT
(7 days-3 months)	£286,123	1%	1%
(3 months-6 months)	£3,054	16%	33%
(6 months-1 year)	£5,634	5%	13%
(1 year-2 years)	£5,352	3%	5%
(2 years-3 years)	£11,645	1%	1%
(5 years-10 years)	£19,726	0.4%	1%
(10 years-20 years)	£2,739	2%	3%
(20 years-30 years)	£1,800	1%	3%
(30 years-50 years)	£371	4%	7%

6.41 The main difference between the 2 models is the trade-off between immediacy and dissemination of information of larger trades. In particular:

- Under Model 1, more transactions are reported within 15 minutes from execution (including those reported in real-time) than under model 2. The percentage of trades reported within 15 minutes is between 80% and 95% depending on the maturity bucket.
- Model 2, allows a longer – compared to 15 minutes - deferral for large trades which are reported only by the EOD. However, under Model 2 all transactions are reported by the end of the day. The information includes the executed volume and the size but only up to the applicable cap size (which we propose to set at the same level as the upper threshold under Model 1).
- While under Model 1 two trade prints are required for transactions between the lower and the higher LIS thresholds, Model 2 requires only a single publication.

6.42 Comparing the two models for equivalent trades may assist in assessing the outcomes achieved in terms of transparency and protection of large trades:

- Under Model 1 a £125 ml swap in a 5Y SONIA OIS would be reported within 15 minutes, with only price information but no indication of the size until the end of the day. Under Model 2, the same transaction would be reported in full (price and size) by the end of the day.
- Under the Model 1, a £1 billion trade in the same instrument, would not be published until the end of the third day after execution when full price and volume information would be disclosed. Under Model 2, the same trade would be published at the end of the day disclosing price information while size disclosure indicates only that it is above the cap (i.e. £150ml+).

Q25: Do you agree with the approach and methodology used to set the thresholds and the length of deferrals?

Q26: Do you agree with the proposed deferrals and associated thresholds in the 2 models?

Broken tenors

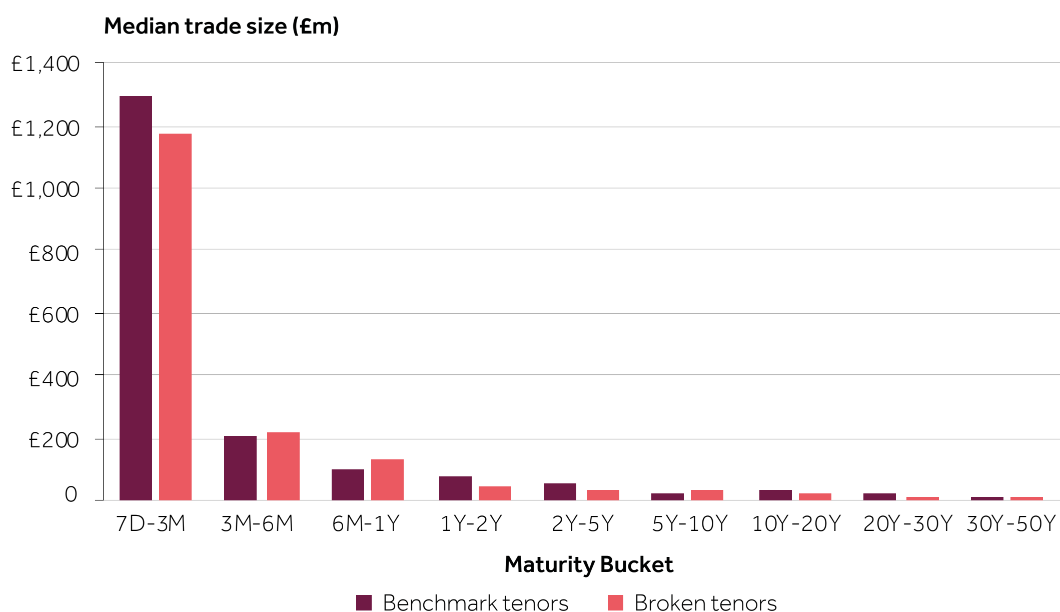
6.43 We are aware that swaps executed at a benchmark tenor, such as a 5-year swap, may – depending on the specific product – have a different liquidity profile to that of broken tenors, i.e. swaps in any non-standard maturity date (for example a 5-year and 21 days swap). Their use and the types of counterparties can also be different compared to benchmark tenors. Swaps in broken tenors are often executed to hedge a specific risk that arises with a client, for example in the context of risk management transactions when a bond is issued.

6.44 Our analysis suggests that liquidity in broken tenors is significant but we understand that some of the transactions in our data which are characterised as broken dates are instead related to standard tenors. The misallocation is likely to affect shorter dated swaps where "benchmark" swaps related to monetary policy committee dates are considered as broken dates in our data. However, looking to longer maturity swaps, we still see significant liquidity in broken dated swaps; for example, they account for 33% of the volume traded and 15% of the trades in SOFR OIS in the 5-year to 10-year maturity bucket.

6.45 Quantitative analysis also suggests that benchmark tenors and broken dates share, within the same maturity bucket, similar distribution of transactions as measured by the median size of trades.

Chart 4 confirms that benchmark and broken tenors have similar standard market sizes (as measured by the median size of transactions).

Chart 3: Median size for SONIA trades by maturity bucket



6.46 The information on transactions in broken tenors can provide value to market participants in terms of the pricing of swaps between benchmarks dates and in understanding overall market liquidity. For those reasons, we propose including swaps with broken dates within the scope of our Category 1 instruments. The approach is also consistent with the one adopted in the US by the CFTC since 2013 and with what currently applies in the UK and EU under MiFID II.

6.47 We recognise that by bringing more products into scope, expanding the coverage in terms of tenors and by shortening the deferrals, there might be a need to give additional protection to liquidity providers and to preserve the anonymity of transactions. The problem arises as full disclosure of the specific maturity of a swap in combination with non-standard notional amounts may jeopardise the anonymity of a swap transactions.

6.48 There are a number of ways in which our rules can mitigate these specific risks. In relation to the information about the notional amount of a swap, we propose allowing the rounding of the notional amount to the nearest whole value. Our Handbook would set out the rounding rules which would be different depending on the notional amount of the swap entered into. This is the approach that currently applies in the US under CFTC's real-time reporting rules.

6.49 A similar mechanism could be devised to mitigate the risk that disclosure of the specific date of a swap may cause. Tenors could be rounded to the nearest week, month or year depending on the maturity of the swap. We are of the view that a flag should accompany such reporting to make sure that market participants understand the liquidity in the market at different tenor points.

6.50 Finally, the Model 2 presented above would also provide significant protection by limiting full disclosure of the specific size of a swap for transactions above the LIS size.

6.51 We are interested in views as to whether the proposals above would adequately mitigate the risks that arise from transparency for broken dates and other transactions that are more bespoke while simultaneously maintaining high levels of transparency and of usability of the data.

Q27: **Do you agree with the approach and methodology used to set the thresholds and the length of deferrals?**

Q28: **Do you agree with the proposed deferrals and associated thresholds?**

Q29: **Do you agree that the same thresholds shall apply to benchmark tenors and broken dates?**

Credit default swaps

6.52 The two CDS indices in scope of the clearing obligation (CO) are the iTraxx Europe Main and the iTraxx Europe Crossover. The ITraxx Europe Main covers 125 IG issuers, while

the iTraxx Europe Crossover 50 sub-IG issuers. Both CDS indices in scope of our trading obligation have a tenor of 5 years. They are also in scope of the DTO, for the on-the-run and first off-the-run series (currently series 40 and 39 respectively).

6.53 iTraxx Europe Main and the iTraxx Europe Crossover are among the most liquid credit default indices alongside CDX.NA.IG and CDX.NA.HY – in terms of number of transactions and volume traded. Give the inclusion in the DTO, we consider them sufficiently liquid for the purposes of transparency. The data available to us, which is global and not just for the UK, confirms that the 2 indices are traded, on average, hundreds of times a day in very large sizes. Given the composition of the underlying firms and publicly available data on trading in the US, we understand a significant amount of the liquidity is in Europe, including the UK

Table 19: iTraxx indices – trades and turnover

	Average daily number of trades	Average daily turnover (in € bn)
iTraxx Europe Main	717	€70
iTraxx Europe Crossover	665	€19

6.54 Despite their inclusion in the DTO, our current calculations based on when we left the EU, do not include any CDS (index or single name) as liquid. The applicable LIS thresholds for the SSTI and LIS are hence €7.5 ml and €10 ml.

6.55 As for interest rate derivatives, we considered the distribution of liquidity (by trades and by volume) against various thresholds, with a view to ensure a meaningful part of the market in the two indices benefits from real-time transparency, while also ensuring that large trades and the firms providing liquidity in them receive adequate protection from real-time disclosure. We set out below the proposed thresholds with an analysis of the impact on the expected level of transparency for each of the two models.

Table 20: Model 1: LIS thresholds and length of deferrals for index CDS

Product	Price and size: real-time	Price: within 15 minutes Size: EOD	Price and size: T+3
iTraxx Europe Main	<£50m	£50m≤•<£70m	≥£70m
iTraxx Europe Crossover	<£15m	£15m≤•<£20m	≥£20m

Table 21: Model 1: outcomes in terms of transparency for index CDS

Product	Trades reported in real time		Trades reported within 15 mins		Trades reported after T+3	
	Trades	Volume	Trades	Volume	Trades	Volume
iTraxx Europe Main	70%	11%	75%	17%	25%	83%
iTraxx Europe Crossover	70%	10%	75%	12%	25%	88%

Table 22: Model 2: LIS thresholds and length of deferrals for index CDS

Product	Price and size: real-time	Price and volume: EOD
iTraxx Europe Main	<£50m	≥£50m (cap at £70 ml)
iTraxx Europe Crossover	<£15m	≥£15m (cap at £20 ml)

Table 23: Model 2: outcomes in terms of transparency for index CDS

Index	Trades reported in real time		Trades reported by EOD and with visible volume		Volume not visible because above the cap
	Trades	Volume			
iTraxx Europe Main	70%	11%	100%	17%	83%
iTraxx Europe Crossover	70%	10%		12%	88%

6.56 As for our analysis on IRSs, the two models deliver a substantial amount of transparency, with 70% of the trades reported in real-time. However, the figures on volume, where the transactions reported in real-time account for only around 10% of the traded volume, suggests that there are very large trades at the far end of the size distribution of trades for those index CDS.

6.57 Model 1 delivers greater transparency close to real-time transparency, where 75% of the trades are reported within 15 minutes (but without information about the volume which is disseminated traded which is reported at the end of the day). As for swaps, Model 2 provides information about the totality of the transactions executed in the

market by the end of the trading day but subject to actual sizes being capped, there is no information for 83% of the actual volume being transacted. Model 1 reports all the trades with the volume by T+3.

Q30: Which model do you think better calibrates transparency and the protection of liquidity for large trades? Please explain

Q31: Do you agree with our proposed LIS thresholds and length of deferrals for index CDS? If not, please explain why

Review of the new transparency regime

6.58 Finding a balanced calibration for the new regime is a matter of judgement based on limited information. For example, while the WMR has revealed a clear consensus that there should be materially less utilisation of deferrals, market participants have varied views on how much less would be optimal. So, there is a risk of miscalibration. Our proposed approach to mitigating this risk is to review the market outcomes relatively quickly once the new regime is in place. On an ongoing basis, we shall be inviting market participants to supply any evidence, anecdotal or quantitative, from the impacts of the revised regime.

6.59 We shall review and interrogate any such evidence as well as performing our own analysis of the outcomes. Within a year of the commencement date of the new regime we shall complete a post implementation review and decide whether to propose a revision to the parameters of the transparency regime.

6.60 We also intend to use the consultation period to gather additional information with a view to ensure that the data used by us to calibrate transparency remains sufficiently robust and reliable.

Q32: Do you agree with our proposed approach of implementation followed by review and potential revision?

Transition to the new transparency regime

6.61 We want to make sure there is an orderly transition from the current transparency regime to the new one. The changes proposed in this CP might impact the treatment of transactions that are executed before the new framework comes into force, but which are due to be made public after the new rules apply. We will expect firms to comply with the new regime only from the point of when it is in force.

6.62 The supervisory approach we intend to take is to allow firms to report transactions executed before the implementation date that are reportable after that date to be reported under the requirements of the current transparency regime with regard to fields or flags and the length of the deferral.

Q33: Do you agree with how we intend to supervise the change from the current regime to the new one? If not, please explain why.

Q34: Are there other issues that we should have regard to in relation to the change to the new transparency regime?

Chapter 7

Exemptions from post-trade reporting

7.1 Timely post-trade transparency is of little use if the information reported is not accurate, complete and standardised, or if it does not reflect actual liquidity market participants can interact with. When reported data is not accurate, relevant or complete, firms are unable to extract information to identify addressable liquidity or to compare execution quality between venues.

7.2 In this chapter, we are consulting on changes that aim to make post-trade transparency more useful by excluding non-price forming transactions that add noise to post-trade reporting and increase the cost of reporting for firms.

Exemptions from post-trade transparency

Introduction

7.3 We have the power to exempt certain transactions from post-trade transparency which, given their nature, do not contribute to the price discovery process. Reporting such transactions to the public not only adds noise to the market but also imposes unnecessary costs on firms who need to publish or use post-trade reports.

7.4 Article 12 of RTS 2 currently lists the types of OTC transactions that are exempt from post-trade transparency:

a. Transactions that are exempted from transaction reporting purposes under Article 2(5) of MiFID RTS 22. These transactions are technical and, while they involve the transfer of ownership of a financial instrument from one counterparty to another, they do not contain relevant information about the pricing or the liquidity of the instrument.
b. Transactions executed by investment management companies that transfer financial instruments from one collective investment to another managed by the same company.
c. Give-up and give-in transactions.
d. Transfers of financial instruments that arise in the context of investment firms complying with margin or collateral requirements or that are part of the default management of a CCP.

7.5 Similar to the changes that were made in Policy Statement 23/4 in relation to shares and equity-like instruments, in our rules, we propose to:

- maintain the exemption under point a) which cross-refers to transactions that are not subject to the transactions reporting regime for the purposes of monitoring against market abuse
- amend point b) on transactions executed by portfolio managers by dealing with deficiencies in our current rules about the scope of the exemption

- amend c) on give-ups by extending the scope
- delete d) which covers transactions that arise in the context of margin or collateral requirements for the purposes of clearing because they are already included under Article 2(5)(b) of MiFID RTS 22
- introduce a new exemption for intra-group transactions

Analysis and proposals

Transactions not subject to the transaction reporting regime

7.6 In our view the exemption from post-trade reporting set out in a) remains appropriate and so we propose to keep the current reference to Article 2(5) of MiFID RTS 22. A full list of the transactions in Article 2(5) of MiFID RTS 22 is in Annex 1.

Inter-funds transfers

7.7 The purpose of the exemption under point b) of Article 12 of MFID RTS 2 was to give relief from post-trade transparency for transactions where a portfolio manager transfers shares or other equity instruments from one collective investment vehicle to another, both managed by the same portfolio manager. The added condition that no other investment firm is party to the transaction is intended to make sure that the transfer is non-price forming, in line with the empowerment underpinning Article 12 that the transfer must occur at conditions other than the current market valuation of the instrument. We understand that the current market practice is to price the transfer at a benchmark price, such as the closing price of the relevant market of the instrument, where available.

7.8 The exemption in point b) does not currently work as intended because investment management companies like UCITS and AIF managers are not subject to trade reporting under UK MiFIR. Instead, investment firms carrying out portfolio management have reporting obligations when dealing in financial instruments. Our proposal is to maintain the intended purpose of the exemption for inter-funds transfers but to make sure that it gives relief to firms that are subject to transparency obligations under UK MiFIR.

7.9 In line with our Policy Statement on Improving Equity Secondary Markets (PS23/4), which dealt with the same issue in relation to shares and other equity-like instruments, we propose this new definition for inter-funds transfers:

> "b) transactions executed by a management company as defined in section 237(2) of FSMA a UK AIFM as defined in the AIFM Regulations an investment firm when providing the investment service of portfolio management, or a third country AIFM as defined in the AIFM Regulations **an investment firm when providing the investment service of portfolio management** which transfers the beneficial ownership of financial instruments from one collective investment undertaking **fund** to another and where no investment firm is a party to the transaction **other than for the sole purpose of providing arrangements for the execution of such non price-forming transactions**;"

Q35: Do you agree with maintaining the exemption for inter-funds transfers in Article 12?

Q36: Do you agree with the new definition of inter-funds transfers?

Give-ups and give-ins

7.10 Give-ups and give-ins are important arrangements that support the orderly and efficient operation of post-trade processes. Such arrangements may often take different forms. In futures markets they typically involve three counterparties; a client, an executing broker and a clearing broker. In a give-up, an executing broker passes a trade executed for a client to the client's clearing broker for the purposes of clearing.

7.11 Give-ups and-ins are exempted from post-trade transparency as they represent post-trade processes that do not give information about the pricing or the liquidity of the relevant financial instrument. Under MiFID RTS 2, the definition of give-up/give-in is: "*a transaction where an investment firm passes a client trade to, or receives a client trade from, another investment firm for the purpose of post-trade processing*".

7.12 Clients use prime brokers to receive a bundle of services such as execution, stock lending, financing and custody. Request for market data (RFMD) is a market practice involving a client, the prime broker of the client and an executing broker. For example, in a RFMD a client, e.g. a buy side firm, wants to gain exposure to a particular share or basket of instruments. The client makes a request to an executing broker, instead of the prime broker, for information about the price and other information about an instrument or basket of instruments with a view to entering into a swap with the prime broker. Upon receiving an RFMD, the executing broker enters the market to buy the instruments or basket of instruments. The instruments are then given up to the prime broker, who in turn sells the swap to the client with the position acquired from the executing broker as a hedge.

7.13 We understand that the structure of a give-up/give-in in a RFMD raises the question about whether they fit the existing definition of give-ups/give-ins. We are of the view that give-ups and give-ins in the context of RFMD should not be reported as they do not give any additional information to that already given by the reporting of the market leg of trades executed by the executing broker.

7.14 Before EU withdrawal, ESMA developed guidance on how give-ups/give-ins related to RFMD should be treated. It said they should be reported and considered as OTC transactions. They should also carry a flag indicating that they are benchmark trades. As we said at the time of Brexit, we have regard to ESMA guidance insofar as it was part of our supervisory approach before Brexit. The guidance helped to improve post-trade transparency, as previously give-ups in the context of an RFMD were often reported as transactions carried out by SIs. But we are now proposing a different approach, because, in our view, it is not appropriate to treat them in the same way as other benchmark trades.

7.15 We agree with market participants who have told us that give-ups and give-ins in the context of RFMD are distinct from benchmark trades and that their reporting does not support the price formation process. We propose to expand the definition of give-up/give-in transactions to include RFMD give-ups where the trade that is passed is used to hedge the prime broker's derivative position with the client.

7.16 We propose this definition of a give-up/give-in transaction:

> "'c) ''give-up transaction' or 'give-in transaction' which is a transaction where an investment firm passes a client trade to, or receives a client trade from, another investment firm for the purpose of post-trade processing, or where an investment firm executing a trade passes it to, **or receives it from, another investment firm for the purpose of hedging the position that it has committed to enter into with a client**;"

7.17 We will also consider developing guidance to further clarify the types of give-ups/give-ins that can be included in the list of trades exempted from post-trade transparency. FCA guidance that benefits from industry best practices gives a flexible and quick tool to keep the interpretation of the Handbook up to date as new types of technical transactions arise.

Q37: Do you agree with our proposed amendment of the exemption from post-trade reporting for give-ups and give-ins?

Q38: Do you think guidance to clarify further the types of give-ups and give-ins that can benefit from the exemption from post-trade transparency is required, and, if so, what issues do you think it should cover?

Central counterparties

7.18 The exemption under point d) of Article 12 of RTS 2 is for transactions that are executed in the context of various obligations to which members of a CCP may be subject. Those transactions relate to margin and collateral requirements or to processes managed by a CCP in the case of the default of a member. The case for maintaining an exemption for those types of trades stays.

7.19 Article 2(5) of RTS 22 includes contracts that arise exclusively for clearing and settlement purposes. To limit unnecessary duplication, we propose to delete point d) as the types of transactions currently covered by it overlap with the list of exemptions in Article 2(5) of MiFID RTS 22, more specifically point b) of Article 2(5) referring to contracts that arise exclusively for clearing and settlement purposes.

7.20 While we propose to make this deletion, we wish to make clear that the deletion is intended to remove a duplication and not to restrict the current use of the exemption. As we said in PS23/4, it should not be read as restricting the use of other types of transactions in Article 2(5) of MiFID RTS 22, such as acquisitions or disposals that are a result of a transfer of collateral under point o) of Article 2(5).

Q39: Do you agree with the deletion of point d) from Article 12 of MiFID RTS 2? If not, please explain why.

Inter-affiliate trades

7.21 Investment firms often execute transactions between entities within the same group that are not carried out at arm's length but that arise exclusively for risk management purposes. The centralisation of transactions in an entity within the group allows for effective risk hedging and limits the fragmentation of exposures across entities. There can also be benefits from consolidating the expertise and the systems and controls in the same place. Those transactions are particularly relevant for UK markets as many investment firms with global operations use London as their hub for booking transactions from overseas subsidiaries.

7.22 These trades do not represent liquidity anyone can interact with nor do they carry relevant information for the pricing of financial instruments. These transactions mirror trades that are already reported when the market leg is executed.

7.23 It is our view that such trades do not add meaningful information to the pricing of a financial instrument or to the understanding of the level of liquidity in the market for that instrument. So, we propose to introduce an exemption from post-trade transparency for such trades when undertaken OTC.

7.24 As done in PS23/4, we propose introducing this exemption and definition for inter-affiliate transactions:

> "e) 'inter-affiliate transaction' which is a transaction between entities within the same group carried out exclusively for intra-group risk management purposes."

7.25 Similarly to give-ups/give-ins, we consider that guidance clarifying the types of inter-affiliate transactions that can benefit from the exemption could help firms in discharging their reporting obligations.

Q40: Do you agree with introducing an exemption for inter-affiliate trades?

Q41: Do you agree with our proposed definition of inter-affiliate trades?

Chapter 8

Content of post-trade information: fields and flags

Introduction

8.1 Under our rules firms need to give a set number of defined fields containing information that allows users of post-trade reports to better understand the types of trades reported and to improve their understanding of the market conditions in the relevant financial instrument. These data are used by a variety of market participants, primarily for the price formation process and to monitor or deliver best execution.

8.2 Table 2 of Annex II of RTS 2 gives the details and the format used by trading venues and investment firms when publishing post-trade transparency reports. We have set out the fields that we are retaining from Table 2 that firms must publish and how they are to do so.

8.3 We want to make sure that the content of the fields being reported are, and stay, relevant for users. This means incorporating fields that traders need to make an informed decision on their trading activity.

8.4 At the same time, we should not need data fields that are redundant or serve no purpose for market participants. This gives rise to the harms of unnecessary cost and burden on the firms that are obliged to report, and additional noise being introduced to the tape of data being reported and used by market participants. This review gives us the opportunity to propose and make these changes.

Analyses and proposals

8.5 We reviewed the data fields that are currently in Table 2 of MiFID RTS 2, assessing them based on their relevance for end users. At the same time, we also considered whether there is any information that would benefit market participants and price formation but is not currently required to be reported.

8.6 As part of this review, we spoke with market participants extensively, including with individual firms, trade associations and users of post-trade transparency trade reporting data.

8.7 As an overview, some market participants raised observations around the quality of post-trade information which creates challenges with aggregating and utilising post-trade data. This is due to the lack of harmonisation in certain fields within the published data feed.

'Instrument identification code type' field

8.8 This field requires firms to indicate the code type that is being used by the firm to identify the financial instrument and consequently report the related field 'Instrument identification code'. As currently stands, the formats that are permissible to be used are: (i) the ISIN code; and (ii) another identifier.

8.9 ISINs are currently required for both the purposes of transparency and transaction reporting. Each instrument subject to the transparency regime is required to be identified by an ISIN when reported to the FCA's Financial Instruments Reference Data System (FIRDS).

8.10 The requirement to give an ISIN can coexist alongside additional instrument identification codes that firms may give when reporting the same trade. This includes our proposal to introduce a new 'UPI' field as discussed in paragraph 8.14. Depending on its adoption over time, it may become the case that for certain instruments, such as OTC derivatives, the use of UPIs supersedes ISINs.

8.11 Given that currently only the ISIN is reported as the identifier of financial instruments and that we don't intend to discontinue their use for derivatives, the "*Instrument identification code **type***" is redundant.

8.12 We propose to:

- remove the 'Instrument identification code type' field
- reaffirm the need to report ISINs in the field 'Instrument identification code'.

8.13 Alternatively, we could maintain the current requirement, whilst introducing the new field for the reporting of UPIs. Subsequently, if UPIs do supersede ISINs, the '*Instrument identification code **type***' field could be adjusted to allow firms to report the type of identifier (ISIN or UPI), depending on the instrument the transaction refers to.

Q42: Do you prefer to remove the trade reporting field 'Instrument identification code type' and to include a requirement for trade reports to report on the field 'Instrument identification code' using only an ISIN code format, or retain the reporting on this field? Please explain your preferred approach.

'Unique product identifier' (UPI) field

8.14 While ISINs give transferable securities a valid identification code, it appears that they are less suitable for other instruments, in particular OTC derivatives such as swaps. This is because they pose problems in identifying similar instruments which for liquidity analysis and best execution purposes it is reasonable to consider as identical. This leads to suboptimal data quality and high costs to market participants.

8.15 For OTC derivatives, new ISINs must be generated every day. This stems from the reference data fields required against the ISIN changing every day, for example a derivative instrument's expiry date. So, a single type of OTC derivative instrument may have multiple ISINs.

8.16 At the same time, it is also possible that the same ISIN is used for different OTC derivative instruments. For example, as 'effective date' is not a required attribute for an IRS, a ten-year swap traded today will have the same ISIN as a five-year forward-starting five-year swap with the same attributes..

8.17 The UPI standard is a potential solution to the shortcomings inherent within the ISIN standard. UPI is described under International Organization for Standardization (ISO) 4914. The reportable fields include those which are relevant for the OTC derivatives asset class including fields identifying option specifications, reference rates and underlying asset specifications.

8.18 UPI is, since October 2020, overseen by a Regulatory Oversight Committee, comprised of global markets regulators, indicating their support for it as an instrument identifier. It is starting to be introduced under regulatory regimes. As part of work with the Bank of England on changes to reporting requirements under UK European Market Infrastructure Regulation (UK EMIR), UK EMIR, PS23/2 requires that for reporting purposes, derivatives that are not: (i) admitted to trading; (ii) ToTV; or (iii) on a SI; need to be identified with UPIs.

8.19 So, UPIs will already be familiar to some market participants dealing with OTC derivatives. This could allow a quicker and less complex adoption of UPIs for trade reporting, reducing the need for firms to commit additional spending and resources on implementing new reporting requirements.

8.20 Where possible, we would look to maintain consistency in our approach to the use of UPIs across the regulatory landscape where OTC derivatives are being reported. These regulations include:

- UK EMIR reporting, as already mentioned
- UK MiFIR transaction reporting, which is currently part of His Majesty's Treasury's (HMT's) Smarter Regulatory Framework process and which we shall be undertaking a review of, with a view to publishing a discussion paper (DP)

8.21 UPI is also being adopted as the identifier of certain financial instruments for regulatory reporting purposes in the USA and jurisdictions in Asia. In the EU, UPI was mandated under EMIR Refit. In November 2023, the European Commission issued a targeted consultation on OTC derivatives identifier for public transparency purposes. Within its consultation, the Commission sought views from respondents about their preference of either a 'UPI+' or 'modified ISIN'. ANNA DSB intends to launch the UPI service from 24 January 2024, following the publication of a CFTC designation order confirming the UPI will be required in recordkeeping and swap data reporting in the US.

8.22 To give a more effective method of identifying certain instruments, we are proposing to introduce UPI for transparency for OTC derivatives.

8.23 While UPIs are expected to support more effective identification of the product being traded, we propose to enhance the UPI code with several further data fields to deal with their limitations as an identifier for transparency purposes. Speaking with market participants, we believe these data fields should include:

- the concept of tenor and effective date (equivalently, effective start date and expiry date)
- spread on the floating leg of IRSs
- upfront payments forming part of CDS transactions
- identification of the clearing house in which the instrument is cleared

8.24 We propose that the reporting of these additional fields be done outside of the UPI framework, instead requiring them to be reported under our standard form of trade reporting requirements. It is not in our power to make changes directly to the ISO 4914 UPI standard. We discuss and make proposals separately on the matter of the 'legal entity identifier (LEI) of clearing house' field below.

8.25 While we are introducing the concept of UPI, we propose that ISINs stay in place as an instrument identifier for trade reports, including for OTC derivatives. ISINs continue to be used and stay relevant for other instruments such as bonds and listed derivatives. Their retention will also allow backwards compatibility.

8.26 As part of our recent amendments to UK EMIR reporting we said that there is benefit to maintaining consistency with UK MiFIR reporting and may consider different approaches to the use of instrument identifiers when UPI structures are fully implemented. In PS23/2 we noted that several respondents wished to see UPI replace other identifiers, while being aware of potential challenges and risks related to its roll out. Respondents flagged the need for caution until the process is successfully completed. While we are not currently proposing to remove the use of ISINs in this CP, we are open to the possibility of phasing them out over time.

8.27 While firms are using and will continue to use UPIs for other purposes, we recognise that requiring UPI to be reported for transparency purposes would introduce costs and systems changes for trading venues and investment firms. Additionally, costs relating to the use of UPI are likely to arise from the accompanying additional data fields enhancing the UPI itself. We would be particularly interested in views about the impact on firms of introducing UPI.

Q43: **Do you agree with our proposal to introduce the new field "Unique product identifier"? If not, please explain why and set out your preferred approach to the identification of derivative instruments.**

Q44: Do you agree with our proposal to set the scope of the use of UPI to OTC derivatives? If not, please describe the scope of instruments to which you would prefer for it to apply.

Q45: Do you agree with our proposal to introduce the additional data fields enhancing the UPI to identify an instrument? If so, please detail what data fields additional to the UPI should be included under the trade reporting requirement.

Q46: Would the introduction of UPI have an impact upon the costs incurred by your firm? If so, please explain how and try to estimate the impact.

'Price' and related fields

8.28 RTS 2 requires, for all financial instruments, the traded price of the transaction excluding, where applicable, commission and accrued interest to be published.

8.29 We have heard from market participants that there are some inconsistencies in the way that the 'price' field is reported. For example, some trade reports are filed as a monetary value, while other trade reports of the same instrument are filed under a different pricing convention, for example on a percentage basis.

8.30 Differences that arise may be due to legacy arrangements and operational preferences within the firms conducting the trade. The lack of consistency makes it more difficult for users of the trade data to understand the market.

8.31 We propose to set out further instructions for the reporting of details of executed trades, focused on the reporting of price. The aim is to improve consistency and standardisation of the reporting, so increasing the data's useability.

8.32 Currently, the 'price' field can be populated with both decimal and alphanumeric values. The latter case is to identify those instances in which the price is pending, and the field would be populated with the text 'PNDG'. For example, in the ETF markets certain transactions are executed at the net asset value which is available only at the end of the day. Market participants have flagged that allowing the same field to be populated with decimal and alphanumerical values increases operational complexity in using the data through automated systems.

8.33 We propose to allow only numerical values to be used to populate the 'price' field. This will be done in conjunction with the introduction of a new 'price conditions' field to be used in those instances where the price is not available but pending. We would be interested to understand from respondents as to whether there would be a user case for such field. This field would be populated with pre-defined text:

- 'PDNG' when price is currently not available but pending
- 'NOAP' where price is not applicable

8.34 In relation to the 'price currency' and 'notional currency' fields, some market participants complained about the lack of harmonisation in the use of the currency code and requested further clarity around its use. Table 2 of Annex II of RTS 2 specifies that this field shall be populated according to the ISO 4217 standards for currency codes. The ISO 4217 standard mandates only major currency codes. But, some trade reports use minor currency codes, e.g. GBX instead of GBP. This increases operational burden on users.

8.35 To give more clarity on how to populate the 'price currency' and 'notional currency' fields, we propose to include reference to major currency in the description of the fields.

8.36 For bonds, we propose this approach to filling out the 'price' field:

- In the first instance, the 'price' field should be populated with a price expressed as a percentage. This would mean that the 'price' field will likely be populated with a figure out of 100. The 'price notation' field shall be populated with the percentage format 'PERC'. We shall also set out this expectation within the description of this field.
- There will be some exceptions to this rule. This is because of long-established market conventions. Where this is the situation, the market convention may be used. Currently, these exceptions include:
  - corporate bonds with a spread with future benchmark
  - a subset of convertible bonds, where the monetary value 'MONE' price notation has historically been used and may continue to be used
- The 'notional amount' field shall be the only field to express quantity.
- We expect that, for bonds, the 'quantity' field shall not be populated. We shall also set out this expectation within the description of this field.

8.37 Apart from the overarching principle of expressing price as a percentage, we shall not set out, within our Handbook, any further prescriptive requirements about the reporting of the 'price' field. This includes, for instance, setting out the reporting requirements for every single asset class and their subsets.

8.38 Instead, we intend to speak with industry participants with view to the development of guidance (by the FCA or by the relevant industry body subject to our confirmation process) on the reporting of prices under post-trade transparency. By not hard coding into our rules,the reporting regime can stay relevant to data users' needs as reporting and market conventions evolve over time while also giving them confidence that the data would be of a consistent and useable format.

8.39 In relation to the 'notional amount' field, we propose to clarify the description of this field and the details to be published. For the various instrument types, we shall set these to be populated:

- For bonds (excluding ETCs and ETNs), the nominal value per unit multiplied by the number of instruments at the time of the transaction.
- For ETCs, ETNs and securitised derivatives, the number of instruments exchanged between the buyers and sellers multiplied by the price of the instrument exchanged for that specific transaction. Equivalently, the price field multiplied by the quantity field.

- For SFPs, the nominal value per unit multiplied by the number of instruments at the time of the transaction.
- For CDSs, the notional amount for which the protection is acquired or disposed of.
- For options, swaptions, swaps other than those in (iv), futures and forwards, the notional amount of the contract.
- For emission allowances, the resulting amount of the quantity at the relevant price set in the contract at the time of the transaction. Equivalently, the price field multiplied by the quantity field.
- For spread bets, the monetary value wagered per point movement in the underlying financial instrument at the time of the transaction.
- For contracts for difference, number of instruments exchanged between the buyers and sellers multiplied by the price of the instrument exchanged for that specific transaction. Equivalently, the price field multiplied by the quantity field.

Q47: Do you agree with the proposed changes to the 'price' field and related reporting fields? If not, please explain why.

Q48: What are your views about the introduction of a 'price conditions' field?

Q49: Do you agree with our proposal that we should work with industry to develop guidance on the reporting of prices under post-trade transparency? If not, please explain why.

Measure of volume

8.40 Table 4 of Annex II of RTS 2 sets out the conventions for the measures of volume for instruments covered within the scope of the RTS. The conventions are used as part of Article 13(8) determining, for post-trade transparency, transactions that are LIS compared to the market size and so may benefit from the application of publication deferral.

8.41 The conventions are also currently used for the purposes of determining the size SSTI threshold. Our proposals for an amended transparency regime dispense with the need to set SSTI. So, this will not be of particular relevance in the future.

8.42 Minor amendments give further clarity on the values to be reported. We think it is desirable to cross reference the conventions for the measures of volume with the field where the measure of volume is reported on, namely the "notional amount" of the traded contract, or "quantity in measurement unit" for instruments related to emissions allowances.

8.43 We propose to refer to the measure of volume of instruments subject to the scope of MiFID RTS 2 as the "notional amount" of the traded contract or "quantity in measurement unit" as per their respective fields, in the list of details for post-trade transparency (Table 2 of Annex II of RTS 2).

8.44 The description and details to be published within this table sets out the details in which this field shall be populated.

> **Q50: Do you agree with our proposal to amend Table 4 of Annex II of RTS 2? If not, please explain why and set out your preferred approach to refer to the measure of volume.**

Table 24: Measure of volume

Type of instrument	Volume
All bonds except ETCs and ETNs and structured finance products	~~Total nominal value of debt instruments traded~~ **Nominal value per unit multiplied by the number of instruments at the time of the transaction**
ETCs and ETNs bond types **and securitised derivatives**	~~Number of units traded~~ **Number of instruments exchanged between the buyers and sellers multiplied by the price of the instrument exchanged for that specific transaction (or, the price field multiplied by the quantity field)**
Structured finance products	**Nominal value per unit multiplied by the number of instruments at the time of the transaction**
~~Securitised derivatives~~	~~Number of units traded~~
Interest rate derivatives	Notional amount of traded contracts
Foreign Exchange Derivatives	Notional amount of traded contracts
Equity derivatives	Notional amount of traded contracts
Commodity derivatives	Notional amount of traded contracts
Credit derivatives	~~Notional amount of traded contracts~~ **Notional amount for which the protection is acquired or disposed of**
Contract for differences	Notional amount of traded contracts
C10 derivatives	~~Notional amount of traded contracts~~ **Resulting amount of the quantity at the relevant price set in the contract at the time of the transaction (or the price field multiplied by the quantity field)**
Emission allowance derivatives	~~Tons of Carbon Dioxide equivalent~~ **Resulting amount of the quantity at the relevant price set in the contract at the time of the transaction (or the price field multiplied by the quantity field)**
Emission allowances	Tons of Carbon Dioxide equivalent

'Legal entity identifier (LEI) of clearing house' field

8.45 For cleared products, differences in prices partly reflect the CCP used to clear them. In line with feedback received from market participants, we are proposing to introduce a

new field with the LEI of the CCP used to clear the transaction. Information about the CCP where the transaction is cleared would help to support price formation and best execution.

8.46 Market participants informed us that the identity of the clearing house that cleared a trade can impact on the pricing and price formation of a given cleared instrument. Prices reported post-trade should be comparable, taking into account the fact that trades may be executed through different CCPs. Where a given trade is not executed through the same CCP, prices may diverge.

8.47 A clearing house can be identified through its LEI, an alphanumeric code with a length of 20 characters. The LEI is based on the ISO 17442 standard developed by the ISO.

8.48 To help with the identification of the clearing house used for a given trade, we propose to create a new field "LEI of clearing house". This field should contain the code used to identify the clearing house clearing the transaction. It should have the format of {LEI}, in line with ISO 17442 with data type of "20 alphanumerical characters".

8.49 With this proposed introduction of the new field 'LEI of clearing house', the currently existing field 'Transaction to be cleared' would become redundant. This field requires either a 'true' or 'false' flag to be reported. The reporting of a LEI in the field 'LEI of clearing house' consequently indicates that the trade has indeed been cleared. Conversely, the lack of a LEI to be reported shall indicate that the trade has not been cleared. We propose that the field 'Transaction to be cleared' be deleted.

Q51: Do you agree with our proposal to introduce the new field "LEI of clearing house"? If not, please explain why and set out your preferred approach to reporting the clearing status of trades.

Q52: Do you agree with our proposal to delete the field 'Transaction to be cleared'? If not, please explain why.

8.50 We summarise below the proposed changes to existing Table 2, Annex II of MiFID RTS 2.

Table 25: Proposed Table 2 of Annex II, list of details for post-trade transparency

Details	Financial instruments	Description / details to be published	Venue type	Format to be populated
Trading date and time	For all financial instruments	Date and time when the transaction was executed. …	RM, MTF, OTF APA, CTP	{DATE_TIME_FORMAT}
~~Instrument identification code type~~	~~For all financial instruments~~	~~Code type used to identify the financial instrument~~	~~RM, MTF, OTF~~ ~~APA, CTP~~	~~'ISIN' ISIN code, where ISIN is available 'OTHR' = other identifier~~

Details	Financial instruments	Description / details to be published	Venue type	Format to be populated
Instrument identification code	For all financial instruments	Code used to identify the financial instrument	RM, MTF, OTF APA, CTP	{ISIN}
Unique product identifier	**For derivatives**	**Code used to identify the financial instrument**	**RM, MTF, OTF APA, CTP**	**{UPI}**
Effective date of the contract	**For derivatives**	**Length of the financial instrument's contract**	**RM, MTF, OTF APA, CTP**	**{DATEFORMAT}**
Maturity date of the contract	**For derivatives**	**Termination date of the financial instrument's contract**	**RM, MTF, OTF APA, CTP**	**{DATEFORMAT}**
Price	For all financial instruments	Traded price of the transaction excluding, where applicable, commission and accrued interest. …	RM, MTF, OTF APA, CTP	{DECIMAL – 18/13} in case the price is expressed as monetary value {DECIMAL – 11/10} in case the price is expressed as percentage or yield ~~'PNDG' in case the price is not available~~ {DECIMAL – 18/17} in case the price is expressed as basis points
Price conditions	**For all financial instruments**	**Where price is currently not available but pending, the value should be "PNDG".**	**RM, MTF, OTF APA, CTP**	**'PDNG' when price is currently not available but pending** **'NOAP' where price is not applicable**
Venue of execution	For all financial instruments	Identification of the venue where the transaction was executed. …	RM, MTF, OTF APA, CTP	{MIC} – trading venues 'SINT' – systematic internaliser

Details	Financial instruments	Description / details to be published	Venue type	Format to be populated
Price notation	For all financial instruments	Indication as to whether the price is expressed in monetary value, in percentage or in yield …	RM, MTF, OTF APA, CTP	'MONE' – Monetary value 'PERC' – Percentage 'YIEL' – Yield 'BAPO' – Basis points
Price currency	For all financial instruments	Currency in which the price is expressed (applicable if the price is expressed as monetary value)	RM, MTF, OTF APA, CTP	{CURRENCYCODE_3}
Notation of the quantity in measurement unit	For commodity derivatives, emission allowance derivatives and emission allowances except in certain cases.	Indication of measurement units in which the quantity in measurement unit is expressed	RM, MTF, OTF APA, CTP	'TOCD' – tons of carbon dioxide equivalent Or {ALPHANUM – 25} otherwise
Quantity in measurement unit	For commodity derivatives, emission allowance derivatives and emission allowances except in certain cases.	The equivalent amount of commodity or emission allowance traded expressed in measurement unit	RM, MTF, OTF APA, CTP	{DECIMAL – 18/17}
Quantity	For all financial instruments except in certain cases.	The number of units of the financial instrument, or the number of derivative contracts in the transaction. **Not to be populated for bonds.**	RM, MTF, OTF APA, CTP	{DECIMAL – 18/17}

Details	Financial instruments	Description / details to be published	Venue type	Format to be populated
Notional amount	For all financial instruments except in certain cases.	Nominal amount or notional amount …	RM, MTF, OTF APA, CTP	{DECIMAL – 18/5}
Notional currency	For all financial instruments except in certain cases.	Currency in which the notional is denominated **This field should use an ISO 4217 currency code for a major currency.**	RM, MTF, OTF APA, CTP	{CURRENCYCODE_3}
Type	For emission allowances and emission allowance derivatives only	This field is only applicable for emission allowances and emission allowance derivatives.	RM, MTF, OTF APA, CTP	'EUAE' – EUA 'CERE' – CER 'ERUE' – ERU 'EUAA' – EUAA 'UKAA' – UKAA 'OTHR' – Other (for derivatives only)
Publication date and time	For all financial instruments	Date and time when the transaction was published by a trading venue or APA. …	RM, MTF, OTF APA, CTP	{DATE_TIME_FORMAT}
Venue of publication	For all financial instruments	Code used to identify the trading venue and APA publishing the transaction.	CTP	Trading venue: {MIC} APA: {MIC} where available. Otherwise, 4 character code as published in the list of data reporting services providers on the FCA's website.
Transaction Identification Code	For all financial instruments	Alphanumerical code assigned by trading venues and APAs and used in any subsequent reference to the specific trade. …	RM, MTF, OTF APA, CTP	{ALPHANUMERICAL–52}

Details	Financial instruments	Description / details to be published	Venue type	Format to be populated
Spread	**For derivatives**	**The spread on the floating leg**	**RM, MTF, OTF** **APA, CTP**	**{DECIMAL – 11/10}**
Upfront payment	**For derivatives**	**The upfront payment exchanged as part of CDS transactions**	**RM, MTF, OTF** **APA, CTP**	**{DECIMAL – 18/13}**
LEI of clearing house	**For derivatives**	**Clearing house which the transaction will be cleared through.**	**RM, MTF, OTF** **APA, CTP**	**{LEI} if cleared**
~~Transaction to be cleared~~	~~For derivatives~~	~~Code to identify whether the transaction will be cleared.~~	~~RM, MTF, OTF~~ ~~APA, CTP~~	~~'true' — transaction to be cleared~~ ~~'false' — transaction not to be cleared~~

Note: for presentation purposes, not all 'description / details to be published' fields are comprehensive. Please refer to the draft Handbook text for the comprehensive version.

Flags

Introduction

8.51 Trades with economic substance take place because of buying and selling interests at prevailing market prices. Trades may also be executed for other reasons, such as for administrative purposes within or between firms. The liquidity arising from such trades is considered non-addressable. Such non-addressable liquidity does not contribute to the price formation process of the instrument in question.

8.52 Flags are used to identify which trades represent addressable liquidity and/or are relevant to the price formation process and so, to help market participants with making informed trading decisions. The nomenclature for the flags regime is currently set out in Table 3 of Annex II of MiFID RTS 2.

Analysis

8.53 An inability to identify a particular trade as not being relevant in terms of price formation or addressable liquidity gives rise to the harm of:

- the price formation process being made ineffective or inefficient by way of considering trades that are not appropriate

- and/or market participants expending time and resources in filtering those trades out without a relevant flag

8.54 We conducted a review considering the possible scenarios and rationales for market participants to conduct a trade. Once we had identified all of these, we mapped each of these scenarios to the trade reporting convention that should be used under each scenario, including reference to the use of flags.

8.55 We have identified certain scenarios where the existing array of flags available do not enable market participants to report trades in an appropriate manner.

- Where counterparties trade a portfolio of bonds as a bundle, with the trade being priced as 'all or nothing'. Such trades are characterised with: (i) the execution of each component being simultaneous and contingent upon the execution of all the other components; and (ii) each component of the trade bearing meaningful economic or financial risk related to all the other components. The use of the package transaction flag 'TPAC' may not appropriately segregate such transactions as the requirement for a trade to be considered as a package transaction includes the interconnectivity of meaningful economic or financial risk between instruments. We understand that this is not typical within the fixed income asset class. This generates the harm of either detrimental information leakage of trades or trades not being disclosed in a timely manner. Also, under the definitions within the MiFID RTS 2, package transactions typically relates to transactions in derivative contracts, rather than bonds.
- Intra-group trades to transfer assets are trades which do not have addressable liquidity. The inclusion of these trades within trade reporting would inflate the volume being traded and give a misleading picture of market liquidity.

8.56 We also conducted a review of existing flags and identified that several add little to no value to market data. In our view, their removal would create cleaner post-trade data while reducing operational costs for reporting firms. These include certain flags which currently indicate the use of a reporting deferral proposed within this CP to be removed thereby making the flags redundant. These are:

- the illiquid instrument transaction flag 'ILQD'
- the post-trade flag for transactions above size specific to the instrument transaction 'SIZE'

8.57 We also identified the flag related to the crossing of client orders by an investment firm, 'ACTX', as not providing meaningful information to post-trade transparency nor contributing to the price formation process. This would be in line with what we did in PS23/4.

8.58 We consider the non-price forming transaction flag 'NPFT' redundant. All types of transactions listed under Article 12 of this Regulation are not within scope of post-trade transparency requirements. They do not contribute to the price formation.

8.59 The flags currently permitted to be used under RTS 2 include a supplementary set for identifying trades which are, or have been, reported under a deferral waiver. Trades benefitting from a report publication waiver may be published with limited details

about the details of the trade. The supplementary flags enable market participants to understand whether those trades are, at a particular time, benefitting from a waiver or that the waiver has elapsed and full details of the trade are published. As part of our proposals within chapter 3 above, we propose removing many deferral types and so the corresponding supplementary deferral flags will become redundant. The only flags we would retain would be those that relate to our proposed updated regime for deferred trades. For all other supplementary deferral flags, they would no longer correspond to any trade type and we propose removing them.

8.60 As part of our consultation, we are also interested in receiving views from respondents about whether there is a need for further new and/or modified flags to enable market participants to identify relevant trades that support the price formation process.

8.61 As part of our review, we have considered the merits and drawbacks of further issues and flags, but currently do not propose making any amendments on these. We would welcome comments from respondents on these specific issues.

Proposals

8.62 To deal with the issue relating to trades of a portfolio of bonds, we could consider introducing a new flag to indicate those types of trades, 'PORT'. This would flag transactions in five or more different financial instruments where those transactions are traded at the same time by the same client and as a single lot against a specific reference price. Where a transaction qualifies as both a package transaction as well as a portfolio transaction, the package transaction flag 'TPAC' should be used, rather than the portfolio transaction flag or using both flags at the same time. We seek stakeholder views on this potential new flag, as well as whether the current reporting conventions gives rise to any lack of clarity when analysing post-trade reporting data with the non-price forming transaction flag 'NPFT'.

8.63 We propose deleting the agency cross 'ACTX', non-price forming transaction flag 'NPFT', illiquid instrument transaction 'ILQD' and post-trade SSTI transaction 'SIZE' flags. As discussed in our analysis, these flags reflect existing transparency obligations which we are amending and the concept of SSTI will stop being used in our rules. As for the 'ACTX' flag, we do not see its use as part of the price formation process, while for the 'NPFT' flag no such trades would be within scope to be reported. So, we believe that these flags can be safely removed without undermining the ability of market participants to perform analysis.

8.64 We propose deleting almost all of the supplementary deferral flags for post-trade transparency since they will become redundant under our proposed amendment of the current transparency regime. The only flags we propose to retain are the flags which relate to permitted publication deferral and the publication of limited details omitting size details of an individual transaction under proposed new MAR 11.4.9R. Under our proposed transparency regime we would retain this deferral. The flags related to this deferral are the:

- volume omission flag 'VOLO'
- full details flag 'FULV'

Q53: What are your views about the introduction of a portfolio trade transactions flag 'PORT'?

Q54: Do you agree with our proposal to delete the agency cross 'ACTX', non-price forming transaction flag 'NPFT', illiquid instrument transaction 'ILQD' and post-trade SSTI transaction 'SIZE' flags? If not, please explain why and the uses of each flag.

Q55: Do you agree with our proposal to delete all of the supplementary deferral flags for post-trade transparency with the exception of the volume omission 'VOLO' and full details 'FULV' flags? If not, please explain why and describe your preferred approach.

Q56: Are there any other flags that we should consider introducing, removing or amending?

Table 26: Proposed Table 3 of Annex II, list of flags for post-trade transparency

Flag	Name of flag	Venue type	Description
BENC	Benchmark transaction flag	RM, MTF, OTF APA, CTP	All kinds of volume weighted average price transactions and all other trades where the price is calculated over multiple time instances according to a given benchmark.
~~ACTX~~	~~Agency cross transaction flag~~	~~APA, CTP~~	~~Transactions where an investment firm has brought together two clients' orders with the purchase and the sale conducted as one transaction and involving the same volume and price.~~
~~NPFT~~	~~Non-price forming transaction flag~~	~~RM, MTF, OTF~~ ~~CTP~~	~~All types of transactions listed under Article 12 of this Regulation and which do not contribute to the price formation.~~

Flag	Name of flag	Venue type	Description
LRGS	Post-trade large in scale transaction flag	RM, MTF, OTF APA, CTP	Transactions executed under the post-trade large in scale deferral.
~~ILQD~~	~~Illiquid instrument transaction flag~~	~~RM, MTF, OTF APA, CTP~~	~~Transactions executed under the deferral for instruments for which there is not a liquid market.~~
~~SIZE~~	~~Post-trade SSTI transaction flag~~	~~RM, MTF, OTF APA, CTP~~	~~Transactions executed under the post-trade size specific to the instrument deferral.~~
TPAC	Package transaction flag	RM, MTF, OTF APA, CTP	Package transactions which are not exchange for physicals as defined in Article 1.
XFPH	Exchange for physicals transaction flag	RM, MTF, OTF APA, CTP	Exchange for physicals as defined in Article 1
CANC	Cancellation flag	RM, MTF, OTF APA, CTP	When a previously published transaction is cancelled.
AMND	Amendment flag	RM, MTF, OTF APA, CTP	When a previously published transaction is amended.

Table 27: Proposed Table 3 of Annex II, list of supplementary deferral flags for post-trade transparency

Flag	Name of flag	Venue type	Description
~~LMTF~~	~~Limited details flag~~	~~RM, MTF, OTF APA, CTP~~	~~First report with publication of limited details~~
~~FULF~~	~~Full details flag~~	~~RM, MTF, OTF APA, CTP~~	~~Transaction for which limited details have been previously published~~
~~DATF~~	~~Daily aggregated transaction flag~~	~~RM, MTF, OTF APA, CTP~~	~~Publication of daily aggregated transaction~~

Flag	Name of flag	Venue type	Description
~~FULA~~	~~Full details flag~~	~~RM, MTF, OTF APA, CTP~~	~~Individual transactions for which aggregated details have been previously published~~
VOLO	Volume omission flag	RM, MTF, OTF APA, CTP	Transaction for which limited details are published
FULV	Full details flag	RM, MTF, OTF APA, CTP	Transaction for which limited details have been previously published
~~FWAF~~	~~Four weeks aggregation flag~~	~~RM, MTF, OTF APA, CTP~~	~~Publication of aggregated transactions~~
~~FULJ~~	~~Full details flag~~	~~RM, MTF, OTF APA, CTP~~	~~Individual transactions which have previously benefited from aggregated publication~~
~~IDAF~~	~~Indefinite aggregation flag~~	~~RM, MTF, OTF APA, CTP~~	~~Transactions for which the publication of several transactions in aggregated form for an indefinite period of time has been allowed~~
~~VOLW~~	~~Volume omission flag~~	~~RM, MTF, OTF APA, CTP~~	~~Transaction for which limited are published and for which the publication of several transactions in aggregated form for an indefinite period of time will be consecutively allowed~~

Flag	Name of flag	Venue type	Description
~~COAF~~	~~Consecutive aggregation flag (post volume omission for sovereign debt instruments)~~	~~RM, MTF, OTF~~ ~~APA, CTP~~	~~Transactions for which limited details have been previously published and for which the publication of several transactions in aggregated form for an indefinite period of time has consecutively been allowed~~

Symbols

Analysis

8.65 Table 1 of Annex II of RTS 2 sets out the formats for which each field shall be reported under for post-trade transparency trade reporting.

8.66 Maintaining consistent formats in trade reporting is vitally important, to enable effective use of the data. Trade reporting is one significant part that contributes to the price formation process. This takes place in real time when markets are open for trading. Any impediment to this, for instance the need for users to clean and reinterpret non-consistent data, would harm price formation. Prices may become unreliable while users attempt to understand which reported trades are and are not relevant in considering addressable liquidity and as a consequence confidence in executing trades may reduce. Cost considerations also exist, with users having to commit time and resources to clean non-consistent data for their use.

8.67 To this end, most of the fields encourage following standards set out by the International Organization for Standardization (ISO), where formats and conventions are well defined and generally accepted.

8.68 For those fields that continue to be reported and that we do not propose to amend, we need to review, for each of these fields, whether the symbols and formats that we need for them to be reported under stay relevant and appropriate. Having conducted such review, we believe they do stay relevant as format conventions for the fields under which trade reports are to be made.

8.69 As part of this consultation, we are proposing several amendments to the content of the fields that we need firms to publish trade reports on. Alongside these proposed amendments, we need to make sure that the symbols and formats that we need firms to report to us would also be relevant for those new or amended fields.

8.70 In our review we are proposing the introduction of two new trade reporting fields. We elaborate on these in the section on post-trade transparency trade reporting above.

8.71 The UPI reporting field is a field that has been introduced into the industry relatively recently, which helps with the identification of instruments, in particular OTC derivatives. Please see further details about this field in paragraph 8.14 above. The UPI was developed by the ISO as an identifier for derivative products in regulatory reporting. The standards are set out under ISO 4914.

8.72 A LEI is a unique identifier for persons that are legal entities or structures including companies, charities and trusts. The obligation for legal entities or structures to get a LEI was endorsed by the G20. A LEI is a code unique to that legal entity or structure. This enables every legal entity or structure that is a party to a relevant financial transaction to be identified in any jurisdiction.

8.73 The LEI is based on the ISO 17442 standard developed by the ISO. It is an alphanumeric code with a length of 20 characters. We are proposing the reporting of 'LEI of clearing house' and for it to use the LEI standard. Please see further details about this field in paragraph 8.45.

Proposals

8.74 To reflect and start the use of 'UPI' and 'LEI of clearing house' as reporting fields, we need to refer to UPI and LEI respectively as symbols and also refer to their ISO standards.

8.75 We are proposing to amend Table 1 of Annex II of RTS 2 to insert:

- {UPI} as a symbol, being defined as a "UPI code as defined in ISO 4914" with data type "12 alphanumerical characters"
- {LEI} as a symbol, being defined as a "Legal entity identifier as defined in ISO 17442" with data type of "20 alphanumerical characters"

Q57: Do you agree with our proposal to amend Table 1 of Annex II of RTS 2? If not, please explain why and set out your preferred approach to the symbol table for the format to be populated for post-trade transparency trade reporting.

Table 28: Proposed amendments to Table 1 of Annex II, symbol table

Symbol	Data type	Definition
…		
{UPI}	12 alphanumerical characters	This field should use an ISO 4914 code
{LEI}	20 alphanumerical characters	This field should use an ISO 17442 code

Reference data to be given for transparency calculations

Analysis

8.76 Annex IV of RTS 2 sets out the data that trading venues shall submit to us whenever an instrument is admitted to trading, first traded on that trading venue or existing details have changed. These reference data include data on details and characteristics of the instruments. These also include several of the reporting fields that are already included in Table 2 of Annex II.

8.77 The purpose of the data submission is for us to be able to perform calculations to decide whether a financial instrument shall be considered as having a liquid or illiquid market and the applicable LIS and SSTI thresholds. The requirement to give reference data is onerous on trading venues.

8.78 As set out in section 4 above, we are proposing changes to the transparency regime that will not need us to perform, on a quarterly or yearly basis, calculations on bonds and derivatives based on a pre-set number of parameters. As a consequence, the requirement for trading venues to give the information to us under Annex IV will stop to be meaningful. We expect the addition of the UPI will allow us to use information published by trading venues and investment firms for the purposes of transparency to monitor liquidity in the relevant asset classes and, where appropriate, to expand or amend the classes of financial instruments in Category 1 and to calibrate their LIS thresholds.

8.79 While we would not have a requirement for the provision of reference data, we intend to retain powers to request information in line with MiFID RTS 3 for the purposes of the transparency regime.

Proposals

8.80 Because of the transparency calculations being discontinued, we propose to delete Annex IV of RTS 2in its entirety.

Q58: Do you agree with our proposal to delete Annex IV of RTS 2 in its entirety? If not, please explain why.

Chapter 9

Definition of systematic internaliser (SI)

Introduction

9.1 SIs are investment firms that execute client orders outside regulated venues, i.e. OTC. An investment firm is considered to be acting as a SI when the scale and size of their dealing activity is sufficiently large to justify the application of pre-trade transparency requirements.

9.2 The status of a firm as a SI was originally determined under MiFID on the basis of qualitative criteria. It applied only to shares admitted to trading on regulated markets. The objective of the SI regime was to make sure that internalisation of order flows by investment firms would be subject to pre-trade transparency to better contribute to price formation. It also sought to create a level playing field between investment firms dealing OTC and regulated venues when competing for order flow. The regime was expanded in 2018 under MiFID II to include fixed income instruments, derivatives (and other equity-like instruments like ETFs). Unlike trading venues, SIs are party to trades and take on risk by using their own capital to give liquidity to clients.

9.3 The definition of SI in our Handbook is an investment firm which:

- on an organised, frequent, systematic and substantial basis, deals on own account when executing client orders outside a regulated market, UK MTF or OTF without operating a multilateral system; and
- either satisfies the criteria set out in articles 12-16 of the MiFID Org Regulation assessed in line with Article 17, or has chosen to opt-in to the SI regime

9.4 The 'frequent' and 'systematic' basis of dealing is to be measured by the number of OTC trades in the relevant financial instrument carried out by the investment firm on own account when executing client orders. The 'substantial' basis is to be measured either by the size of the OTC trading carried out in relation to the total trading of the investment firm in a specific financial instrument, or by the size of OTC trading carried out by the firm in relation to the total trading in the relevant area in a specific financial instrument. The parts of the definition aim to reflect the materiality of the activity in the relevant financial instrument from the perspective of the market as a whole and for the investment firm's own business.

9.5 SIs are currently determined on an instrument-by-instrument basis for shares and bonds and asset class basis for derivatives. MiFID II introduced quantitative thresholds, which are calibrated at different levels for each asset class. The thresholds aim to reflect the levels above which activity can be treated as sufficiently frequent, systematic and substantial for an investment firm to be considered an SI. For example, for bonds the threshold for frequent and systematic is set at 2.5% of the total number of transactions executed in the UK.

9.6 To find out whether they exceed the thresholds, investment firms are expected to perform, on a quarterly basis, calculations covering the previous six-month period for each financial instrument they deal in. When a firm exceeds the relevant thresholds, it must notify the FCA and be registered as an SI. Alternatively, firms may opt to be an SI regardless of the levels of their trading.

9.7 In the WMR, the government recognised that there was strong support to move from a quantitative to qualitative definition and committed to clarify and simplify the definition of SIs to reduce the burden on firms and the cost of compliance. The government stated that this change would be supported by more detailed guidance, developed over time by the FCA. A few respondents noted that they would like to retain the ability to opt into the regime, even if the calculations were removed. But, the support for retaining the ability to opt-in was before we implemented the new designated reported regime delivered in PS23/4, which will come into force in April 2024. Once the new designated reporter regime comes into force, designation as an SI will have no relevance for the purposes of the determination of which investment firm reports transactions post-trade to the public. It will remain relevant for some pre-trade obligations in equities.

Analysis and proposals

9.8 In line with the government's commitment in the WMR Consultation Response, we propose guidance to clarify the new definition of SI. The definition, as amended by FSMA 2023 says:

> (12) "systematic internaliser" means an investment firm which deals on own account when executing client orders outside a UK regulated market, UK MTF or UK OTF without operating a multilateral system and which
>
> **a.** does so on an organised, frequent, systematic and substantial basis, or
> **b.** has chosen to opt in to the systematic internaliser regime;
>
> (12A) for the purposes of point (12), whether dealing is taking place on a basis that is organised, frequent, systematic and substantial is to be determined in accordance with rules made by the FCA

9.9 We note that in neither the WMR nor the explanatory notes accompanying the introduction of the Financial Services and Market Bill, the policy intent is to broaden or narrow down the definition of SI expressed.

9.10 FSMA 2023 gives the FCA power to specify what is meant by 'organised, frequent, systematic and substantial', in the amended definition of an SI. We propose to define these terms in the FCA Glossary and to liaise with the Treasury in relation to revoking the quantitative calculations for SI determination in the MiFID Org Regulation. We also propose including some guidance in PERG to help with interpretation of the definition.

9.11 In our proposed glossary definition, we define dealing as organised, frequent, systematic, and substantial when:

- Carried on in line with rules and procedures in an automated technical system, such as an electronic execution system, which is assigned to that purpose.
- Available to counterparties on a regular or continuous basis.
- Held out as being carried on by way of business, in a manner consistent with Article 3 of the Business Order in respect of the relevant financial instrument. On this point, firms may refer to our new proposed guidance in PERG 13.2 Q10a for guidance on meaning.

9.12 Provisions with a requirement that an SI is an investment firm that deals on its own account, and that firms may opt-in to the regime, will not be affected by these changes. Existing SIs who have notified us of their status and who appear on our register of SIs will not need to notify us again of their SI status under the new definition.

9.13 In developing our glossary definition, we had regard to the MiFID definition that was based on qualitative elements. We are aware of some difficulties with the original MiFID approach such as the requirement for the activity to be carried out in line with 'non-discretionary' rules was unclear and it was of uncertain application. We are not referring to non-discretionary rules in our definition.

9.14 In our proposed PERG guidance we emphasise the importance of whether the activity forms part of the services the firm typically or ordinarily offers to its clients in the relevant instrument.

9.15 Whether or not activity is part of the services the investment firm typically offers to clients such that it constitutes SI activity is ultimately a question of judgement that takes account of several factors. These include the extent to which the activity is conducted or organised separately, the monetary value of the activity, and its comparative significance in terms of revenue by reference to the firm's overall activity in the market for the relevant financial instrument.

9.16 We also make clear that firms will not be carrying on SI activity purely because of some degree of automation in the execution of orders, for example, where such activity is only ancillary to the principal nature of the commercial relationship between the parties, in respect of the relevant financial instrument.

9.17 We also clarify in the proposed guidance that where the firm does not advertise such activity to clients, including by broadcasting offers to deal in the relevant financial instrument, they would not be "holding themselves out" to be carrying on activity as an SI.

9.18 The aim of our proposals is to create guidance about the definition of an SI that can be flexibly applied across asset classes and across different arrangements and business models.

9.19 We are not amending the obligations applicable to SIs which are set out in articles 14 and 18 of UK MiFIR. The changes we are proposing in this consultation will have an

impact on the application of the transparency requirements to investment firms who are SIs (e.g. the concept of liquid market will not be relevant under our new rules). We will review the provisions related to the transparency regime for SIs in due course after this consultation.

Q59: Do you agree with our proposed glossary definition and PERG guidance? If not, please explain why.

Q60: Are there any further comments you wish us to consider while finalising these proposals? If so, please include here.

Annex 1

Questions in this paper

Q1: Do you agree with maintaining the current scope of the transparency regime for bonds based on whether they are traded on a trading venue? If not, what do you recommend the scope should be?

Q2: Do you agree that the transparency regime should focus on the classes of derivatives subject to the clearing obligation? If not, please explain why.

Q3: Is the current level of transparency in FX derivatives and single-name CDS adequate? If not, should a subset of them be included as Category 1 instruments?

Q4: Do you agree with excluding FRAs, basis swaps and OIS and Fixed-to-Float swaps with reference index other than EURIBOR, SONIA, SOFR, €STR and FedFunds – from the list of Category 1 instruments? If not, please explain why..

Q5: Do you agree with including iTraxx Europe Main and iTraxx Europe Crossover as Category 1 instruments? If not, please explain why.

Q6: Do you agree with our proposal to bucket swaps by tenors? If not, please explain why.

Q7: Do you agree with our proposal to include spot and forward starting swaps within the same tenor bucket? If not, please explain why.

Q8: Do you agree with our proposed scope of Category 1 instruments for OTC derivatives? If not, please explain why.

Q9: Do you agree with our proposals for, and waivers of, pre-trade transparency? If not, please explain why.

Q10: Do you support our objective of enhancing price formation by prioritising the prompt dissemination of price information? If not, please explain why.

Q11: Do you agree with our approach based on the dissemination of trade-by-trade information as opposed to aggregation of trades? If not, please explain why.

Q12: Should package trades be granted a minimum of a 15-minute reporting deferral to allow for the complexity of booking such trades?

Q13: Are there types of transactions other than packages that should benefit from a deferral irrespective of their sizes?

Q14: Which of the two models do you think can give better calibration of deferrals for bonds and derivatives?

Q15: Do you agree with the factors used in grouping bonds?

Q16: Do you agree with the list of issuers used to group Sovereign and Other public bonds?

Q17: Should we consider having a separate group for certain types of sovereign bonds, e.g. inflation-linked Sovereign bonds?

Q18: Do you agree with the list of currencies used to group Corporate, Covered, Convertible & Other bonds?

Q19: Do you agree with the levels indicated as thresholds for issue size and setting the three maturity groups for Sovereign and Other Public Bonds?

Q20: Do you agree with our proposed definition of investment grade bonds?

Q21: Do you agree with our proposed thresholds for bonds transparency in Option 1?

Q22: Do you prefer the Option 2 approach, wherein for trades between the thresholds both price and size are published at EOD rather than after 15 minutes and 3 days respectively?

Q23: Do you prefer the Option 2 approach, wherein for trades above the upper threshold prices only are published at EOD rather than our proposal to publish both price and size after four weeks?

Q24: If all prices are to be published by EOD then when, if at all, do you think the size of trades larger than the upper threshold should be published?

Q25: Do you agree with the approach and methodology used to set the thresholds and the length of deferrals?

Q26: Do you agree with the proposed deferrals and associated thresholds in the 2 models?

Q27: Do you agree with the approach and methodology used to set the thresholds and the length of deferrals?

Q28: Do you agree with the proposed deferrals and associated thresholds?

Q29: Do you agree that the same thresholds shall apply to benchmark tenors and broken dates?

Q30: Which model do you think better calibrates transparency and the protection of liquidity for large trades? Please explain.

Q31: Do you agree with our proposed large in scale (LIS) thresholds and length of deferrals for index credit default swaps? If not, please explain why.

Q32: Do you agree with our proposed approach of implementation followed by review and potential revision?

Q33: Do you agree with how we intend to supervise the change from the current regime to the new one? If not, please explain why.

Q34: Are there other issues that we should have regard to in relation to the change to the new transparency regime?

Q35: Do you agree with maintaining the exemption for inter-funds transfers in Article 12?

Q36: Do you agree with the new definition of inter-funds transfers?

Q37: Do you agree with our proposed amendment of the exemption from post-trade reporting for give-ups and give-ins?

Q38: Do you think guidance to clarify further the types of give-ups and give-ins that can benefit from the exemption from post-trade transparency is required, and, if so, what issues do you think it should cover?

Q39: Do you agree with the deletion of point d) from Article 12 of MiFID RTS 2? If not, please explain why.

Q40: Do you agree with introducing an exemption for inter-affiliate trades?

Q41: Do you agree with our proposed definition of inter-affiliate trades?

Q42: Do you prefer to remove the trade reporting field 'Instrument identification code type' and to include a requirement for trade reports to report on the field 'Instrument identification code' using only an ISIN code format, or retain the reporting on this field? Please explain your preferred approach.

Q43: Do you agree with our proposal to introduce the new field "Unique product identifier"? If not, please explain why and set out your preferred approach to the identification of derivative instruments.

Q44: Do you agree with our proposal to set the scope of the use of UPI to OTC derivatives? If not, please describe the scope of instruments to which you would prefer for it to apply.

Q45: Do you agree with our proposal to introduce the additional data fields enhancing the UPI to identify an instrument? If so, please detail what data fields additional to the UPI should be included under the trade reporting requirement.

Q46: Would the introduction of UPI have an impact upon the costs incurred by your firm? If so, please explain how and try to estimate the impact.

Q47: Do you agree with the proposed changes to the 'price' field and related reporting fields? If not, please explain why.

Q48: What are your views about the introduction of a 'price conditions' field?

Q49: Do you agree with our proposal that we should work with industry to develop guidance on the reporting of prices under post-trade transparency? If not, please explain why.

Q50: Do you agree with our proposal to amend Table 4 of Annex II of RTS 2? If not, please explain why and set out your preferred approach to refer to the measure of volume.

Q51: Do you agree with our proposal to introduce the new field "LEI of clearing house"? If not, please explain why and set out your preferred approach to reporting the clearing status of trades.

Q52: Do you agree with our proposal to delete the field 'Transaction to be cleared'? If not, please explain why.

Q53: What are your views about the introduction of a portfolio trade transactions flag 'PORT'?

Q54: Do you agree with our proposal to delete the agency cross 'ACTX', non-price forming transaction flag 'NPFT', illiquid instrument transaction 'ILQD' and post-trade size specific to the instrument transaction 'SIZE' flags? If not, please explain why and the uses of each flag.

Q55: Do you agree with our proposal to delete all of the supplementary deferral flags for post-trade transparency with the exception of the volume omission 'VOLO' and full details 'FULV' flags? If not, please explain why and describe your preferred approach.

Q56: Are there any other flags that we should consider introducing, removing or amending?

Q57: Do you agree with our proposal to amend Table 1 of Annex II of RTS 2? If not, please explain why and set out your preferred approach to the symbol table for the format to be populated for post-trade transparency trade reporting.

Q58: Do you agree with our proposal to delete Annex IV of RTS 2 in its entirety? If not, please explain why.

Q59: Do you agree with our proposed glossary definition and PERG guidance? If not, please explain why.

Q60: Are there any further comments you wish us to consider while finalising these proposals? If so, please include here.

Annex 2

Cost benefit analysis

Introduction

1. The Financial Services and Markets Act 2000 (FSMA 2000), as amended, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'. Section 138S(2)(f) imposes an obligation in relation to technical standards. Section 138S(2)(f) imposes an obligation in relation to technical standards.

2. In this CBA, we assess the impact of our proposals to improve the operation of the transparency regime for bonds and derivatives in the UK (as described in this CP). We provide monetary values for the impacts where possible to do so. When in our opinion, these are not reasonably practicable to estimate, we provide a statement of our opinion and an explanation of it.

3. In this CBA, we also explain how our proposals affect our new secondary competitiveness and growth objective.

The bond and derivatives markets

4. The UK bond market refers to the market where debt securities are bought and sold. Debt securities represent loans made by investors to governments, corporations, or other entities in exchange for periodic interest payments and the return of principal at maturity. Debt instruments traded in this market include government bonds, corporate bonds, municipal bonds, and other fixed-income securities.

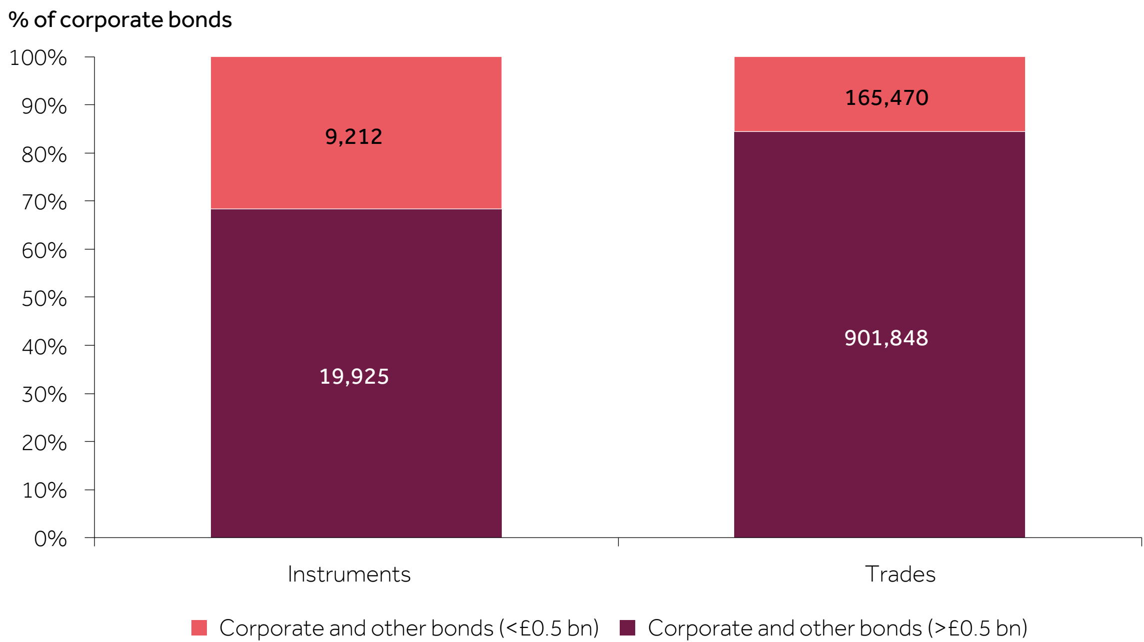
5. The UK derivatives market involves financial instruments whose value is derived from the value of an underlying asset, index, interest rate, or event. Derivatives are used for managing and mitigating risk, speculating on price movements, and achieving specific investment objectives. Common derivatives include futures, options, swaps, and forwards.

6. There are currently 81,970 bonds admitted to trading or traded on a trading venue (ToTV). UK corporate bonds have over £1.57trn notional outstanding[1] (of which £567bn are sterling bonds). In addition, UK Government bonds (gilts) have £2.4trn notional outstanding with £37bn average daily trading volumes in FY 2021/22 period.[2]

1 Sourced from Bloomberg as of 3 August, corporate bonds defined by country of incorporation of issuer (converted to GBP)
2 Debt Management Office gilt market data, https://www.dmo.gov.uk/data/gilt-market/

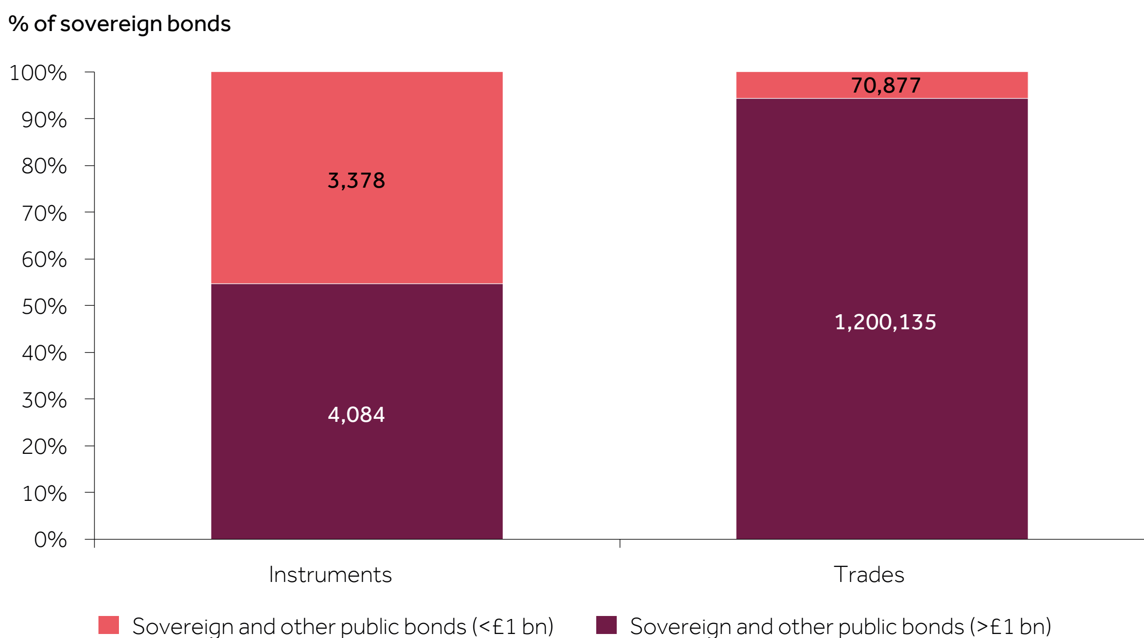
7. Although many of these bonds experience sporadic trading activity, certain bonds, particularly sovereign bonds, rank among the most liquid of financial instruments outside of equities. The size of issuance plays a crucial role in determining liquidity, much like market capitalisation does for stocks. Within our dataset, approximately 55% of sovereign and other public bonds have an issuance size exceeding £1 billion, yet they contribute to 97% of the overall volume. Similarly, for corporate and other bonds with a market capitalisation surpassing £500 million, 68% of them contribute to 86% of the total volume.

Figure 1: Corporate bonds, number of instruments and number of trades, by issuance size



Source – FCA

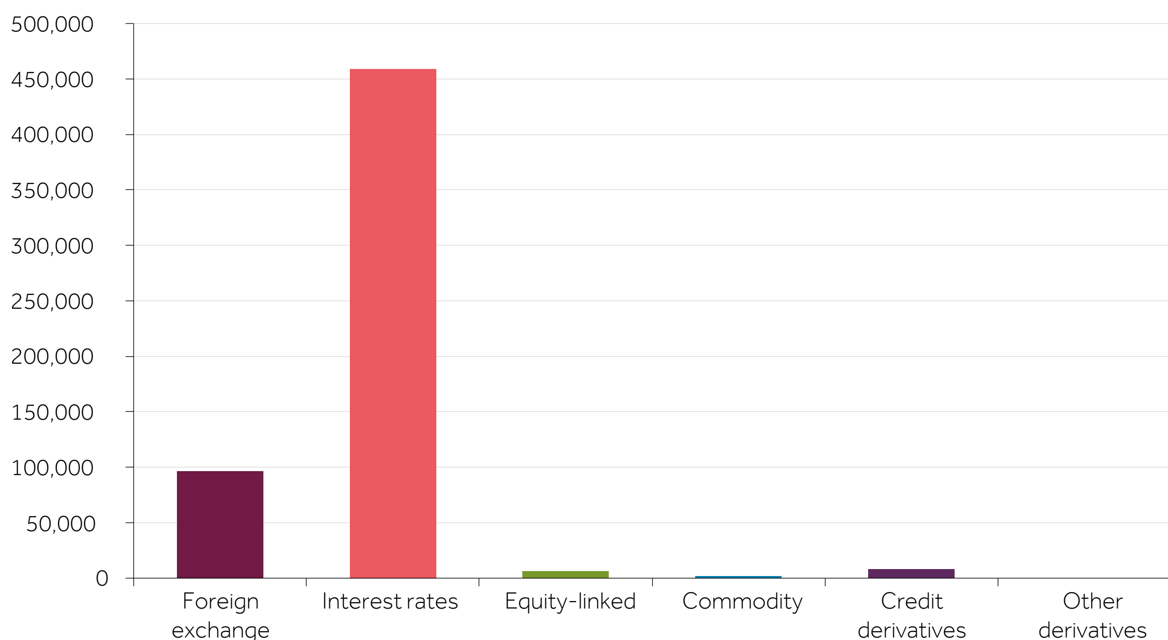
Figure 2: Sovereign bonds, number of instruments and number of trades, by issuance size



Source – FCA

8. Over-the-counter (OTC) derivatives cover a wide range of products with different underlying assets or benchmarks (e.g. equities, interest rates, credit, commodities and FX) and different structures (e.g. swaps, options and forwards). According to BIS, the notional amount outstanding in all OTC derivatives was £569 trillion in November 2023. Interest rate derivatives are by far the most significant class of OTC derivatives. They account for 80% of the total amount outstanding. Within the class of interest rate derivatives, swaps are the largest product traded, representing two thirds of the total amount outstanding.

Figure 3: OTC derivatives notional amount outstanding (in £bn)



Source BIS – OTC derivatives statistics November 2023

9. In the UK the 'clients' using bond markets are predominantly institutional clients: long-only asset managers, pension funds, insurers and hedge funds. They might trade directly or through brokers. Bond markets are predominantly dealer markets (where dealers act as "market makers" by posting prices they would be willing to buy and sell specific securities on their own account). Additionally banks, investment banks and electronic liquidity providers provide liquidity through quote-driven trading based on committing risk capital. Various forms of 'request for quote' (RFQ) are the predominant trading protocol and there is much less electronic trading in bond markets than equity markets.

10. Most bond and derivative trading is divided between dealer-to-client trading venues (MTFs), inter-dealer trading venues (a mix of MTFs and OTFs) and OTC dealer-to-client trading (including SIs). Currently, OTFs, which enable anonymised trading by trading on a matched principal basis, account for most of the dealer-to-dealer trading. Dealer-to-client trading is split roughly equally between MTF and OTC trading. This generally allows dealers to identify their clients and offer bespoke prices which may improve upon those offered on lit venues. However, all trading in bonds that are traded on trading venues is subject to post-trade transparency which includes the application of deferrals.

11. There is a complex ecosphere of different market participants that allow investors to buy and sell bonds and derivatives. The firms and systems involved in providing bond and derivative trading services include:

- Systematic Internalisers (SI) – An investment firm which on an organised, frequent, systematic and substantial basis deals on its own account when executing client orders outside of a regulated market, UK MTF or UK OTF, without operating a multilateral system. Or an investment firm that has chosen to opt-in to the SI regime.
- Organised Trading Facility (OTF) – A multilateral trading system operated by an investment firm, a qualifying credit institution or a market operator in which multiple third party buying and selling interests in bonds, SFPs, emissions allowances or derivatives can interact.
- Multilateral Trading Facility (MTF) – A multilateral system operated by an investment firm, a qualifying credit institution or a market operator that brings together multiple third party buying and selling interests in financial instruments in accordance with non-discretionary rules.

12. Data providers are a key part of the ecosphere as data is crucial for market participants to understand the risks and returns from trading or investing in any particular instrument. Data providers include trading venues, data reporting service providers (DRSPs) in the form of APAs and CTPs. Data can be provided directly by trading venues, or indirectly through third-party providers such as DRSPs in the form of APAs or by a CTP. A CT collates market data, such as prices and volumes associated with trades in a financial market. It aims to provide a comprehensive picture of transactions in a specific asset class, bringing together details of trades executed on trading venues as well as those arranged OTC. We note that we have designed a framework for a single CT in bonds and expect to appoint a CTP to commence operation in the second half of 2025.

13. UK MiFIR requires all executed transactions in instruments within the scope of the transparency regime, to be reported to the public in real-time i.e. as soon as possible, and in any case within 5 minutes of execution. This transparency helps investors understand available liquidity and prices and so supporting price formation and best execution. Deferrals are an exemption from the requirement to report in real time where deferring such information is justified by the type of trade and the likely effect of disclosure on the counterparties entering into the trade. Currently, transactions in bonds benefit from deferrals when the bond is deemed illiquid or, if liquid, when they are above certain sizes.

Problem and rationale for intervention

14. In this section we discuss the harms that our proposals are seeking to address and the underlying drivers (or market failures) that bring about these harms.

The harms

15. Fair price formation and investors' ability to identify addressable liquidity is harmed when transactions are not transparent to the wider market, as they cannot be factored into the

market's estimate of the instrument's value which is consequently made less accurate. The current regime was designed to correct this harm. However, it has proved to be overly complex and fails to deliver timely data. Many trades are deferred or aggregated and never revealed to the market where there would be benefits to do so. For example, about two thirds of the volume of transactions in sovereign bonds are deferred then aggregated for an indefinite period of time, which means that end users can never get a full picture of the market. In other situations, there is too much transparency and liquidity providers suffer from undue risk by not being given adequate time to hedge the position. The poor calibration of the regime and its overly complex design creates the following harms in bond and derivative markets and the wider economy:

- inefficiencies in the current regime
- reduced market liquidity and higher trading costs
- sub-optimal returns for investors
- higher costs of issuing bonds

16. We discuss each of these harms in turn and describe how these harms are interrelated.

Inefficiencies in the current regime

17. The current transparency regime for bonds and derivatives (BDT) following MiFID II (2018) requires the publication of pre-and post-trade information for all the instruments in scope. The current scope covers all instruments that are admitted to trading or traded on a UK trading venue (ToTV henceforth). Currently there are over 80 thousand bonds and over 7.5 million derivatives admitted to trading or ToTV.

18. Once within scope, the regime provides exemptions from publication for certain instruments to ensure that transparency does not harm liquidity. For example, pre-trade publication of larger orders can be waived, and post-trade reports deferred for instruments predicted to be illiquid. To determine liquidity, the current regime relies upon a complex set of calculations to classify financial instruments as either liquid or illiquid with illiquid ones being exempt from pre-trade and real-time post-trade transparency. To support the calculations, we established a system (the Financial Instruments Transparency System (FITRS)) requiring around 120 firms (APAs, RIEs, firms operating an MTF or OTF and SIs) to submit daily files. This is costly for us as well as for firms, particularly smaller ones and new entrants, for which the fixed costs are large relative to the size of business.

19. In addition, the current regime also includes uncleared OTC derivatives where the trades executed by different counterparties have different risk profiles which limits comparability between prices. Consequently, cost is being incurred to provide transparency but no benefit is gained from this transparency.

20. Finally, MiFID II introduced quantitative thresholds, which are calibrated at different levels for each asset class, to determine if an investment firm should be authorised as an SI. When a firm exceeds the relevant thresholds, it must notify the FCA and be registered as an SI. To establish whether they exceed the thresholds, investment firms are expected to perform, on a quarterly basis, calculations covering the previous six-month period for each financial instrument they deal in. These calculations are costly to undertake both for the FCA and for the firms undertaking these calculations.

Reduced market liquidity and higher trading costs

21. Investors trading without complete information on prices may obtain worse prices for their bonds or derivatives than they would if they were better informed. For post-trade transparency, there are issues preventing trading firms from properly using post-trade information. In particular, trade flags do not allow the correct identification of the type of liquidity and ISINs limit firms' ability to correctly identify the traded instrument.

22. Lack of visibility across the market affects investor behaviour. It can deter trading, causing lower levels of liquidity in the bond market, which itself is likely to increase trading costs for investors who do trade. As Cespa, G. and Vives, X. (2023) argue, this lack of transparency can make markets more fragile, widening the gap between the demand for, and supply of liquidity.

23. The higher trading costs arising from a lack of transparency may be particularly prevalent during times of stress in financial markets. Liquidity providers may widen bid-ask spreads, or even exit the market, when stress events increase the uncertainty of the fundamental value of an asset.

24. In addition, there can be too much transparency in some instances. Too much transparency may mean liquidity providers are traded against before they can hedge or exit a position, increasing the costs of providing liquidity.

25. A further consequence of the ToTV scope in relation to pre-trade, is that orders and quotes are subject to public transparency before execution occurs. Transparency is, thus, mandated for all trading protocols including those, such as RFQ or voice trading, based on bilateral negotiation with unique customers. If pre-trade transparency makes those negotiations public, then the parties would be less willing to reveal their trading interests. Again, this will reduce liquidity providers' incentives to provide liquidity and hence increase the costs of trading for investors.

Sub-optimal returns for investors

26. Without a complete picture of the bond and derivative market, investors can only trade on the signals that are presently available to them. Consequently, not only are they trading more / less than they might otherwise do if they had a more complete picture of market activity, but investors are also likely taking on levels of risk that are suboptimal. Investors seeing only some parts of the market build portfolios based on their best efforts but without visibility across the market, they are likely to over or underweight certain bonds or derivatives that could help them build a more efficient portfolio. For example, they may not trade a particular derivative that would more effectively manage risk in their portfolio given the uncertainty about the price and costs of entering into such a contract.

Higher costs of issuing bonds

27. Finally, there is a harm in the form of higher issuance costs in the primary bond market, resulting from the lack of complete timely bond market data. For example, investors lacking access to the data for comparator bonds, needed to effectively evaluate a newly issued bond's price, may be deterred from participating in the primary market. This in turn may force issuers to offer a higher return on their bonds-as suggested by

the work of Brugler, J., Comerton-Forde, C. and Martin, J.S. (2021) – in order to attract investment. This effectively raises the cost of debt capital. Therefore, for issuers, it can have the effect of making unattractive investment opportunities that would otherwise be considered favourably. As such, this harm can affect issuers' decisions today, and their operations in the long term.

The drivers of harm

28. The harms described above arise from the following drivers:

- externalities
- asymmetric information
- market power
- regulatory failure

29. We discuss each of these drivers of harm in turn.

Externalities

30. Real-time publication of the price and size of executed transactions supports price efficiency and best execution. This is because, if investors have full information about addressable liquidity in the market, then they can reduce their search and transaction costs when they trade. They also have a clearer viewer of market prices to inform their investment decisions. However, trading venues do not have an incentive to publish such information. That is, there is a 'public good' aspect to information on transactions and therefore absent regulation there is too little provision of information on executed transactions.

31. With only partial (or no) visibility of bond prices and liquidity, investors, who would otherwise have traded, may be discouraged from buying bonds and issuers may be forced to offer a higher return to attract buyers. This could have the effect of making an expansion project unprofitable for the issuer (as debt costs become too high relative to the expected payoff).

Asymmetric information

32. There is also an asymmetric information problem. Investors looking to trade instruments have less information about prevailing prices and available liquidity than liquidity providers. Dealers who have access to clients' order flow and multiple datasets (through visibility of exchange and OTC trading or with financial means to access data sets) may have a competitive advantage over investors who do not. Smaller firms, or those participating on venues but with no access to the clients' order flow, may suffer from making suboptimal decisions participating in the market. For example, given the informational asymmetry on addressable liquidity and current prices, investors would trade less, invest in a narrower range of assets but also trade at worse prices.

Market power

33. Those who benefit from the informational asymmetries are made up of a small group of larger market participants who benefit from their market power. Whilst bond and

derivative trading markets are more fragmented and opaque than equities trading markets, market power can still arise. With a larger percentage of trades occurring between parties away from venues through OTC trades such as voice negotiation trades, no one platform has a market share on bonds and derivatives comparable to the market share provided in equities by the primary market. Nonetheless, more sophisticated dealers may control information flow on bilateral trades. For example, the less informed party is at an inherent disadvantage in negotiating, as they have less knowledge to accurately price assets or gauge fair value. The asymmetry allows the informed party to extract additional rents. The more sophisticated dealer may also have better order flow management and access to information which could lead to liquidity problems and force less sophisticated dealers out of the market. This leads to a market with lower competition and less competitive pricing, which may lead to higher transaction costs and inequitable market outcomes.

Regulatory failure

34. Finally, there are regulatory failures in the current regime. Some of these regulatory failures directly raise the costs of the regime but without bringing about associated benefits. For example, the costs of the complex calculations required to determine whether a particular instrument falls within the deferral regime. In addition, there are some counterintuitive outcomes in some asset classes, like ETDs, where more liquid instruments have lower block thresholds than illiquid ones. This means greater transparency in less liquid assets. This lowers the liquidity levels in derivatives market, increasing trading costs for investors.

Summary of our proposed intervention and options considered

35. In this section we provide a high-level description on our proposals. We also describe other options that we have considered that we are not pursuing in this consultation.

Our proposals

Proposed transparency regime

36. To improve **post-trade transparency** we are proposing to reform the length of deferral and volume-masking available for trades that meet the post-trade exception requirements (i.e., recalibrating the deferral threshold (amending the LIS threshold and removing the SSTI threshold entirely) and length – which instruments are default to real time transparency, which are 'deferrable' and when 'deferrable' what kind of deferral will that be (volume-masked, aggregated and indefinitely) and for how long.

Post-trade transparency data

37. We would also like to **address issues of data quality** through revising the flags, clarifying valid values and formats for the fields which must be reported by parties to a trade, introducing new reporting fields that would be useful for market participants and

extending the scope of exemptions to the reports of trades that contain non-price forming information which would otherwise generate noise within the reporting.

Definition of systematic internaliser

38. We are also proposing to align the definition of an **SI** with that used in the provisions for MiFID I which meant that any firm which behaves like an SI was be deemed to be an SI. This reverses changes made by MiFID II which assessed whether a firm was SI based on a qualitative assessment to a quantitative one. We are proposing guidance in the PERG to assist with interpretation of the new definition.

Other options considered

39. This section provides a summary of the options we considered and explains our stated preferences to be put forward during consultation. Our preferred options form the basis of our assumptions for the remainder of the CBA.

Do nothing

40. We have compared the proposed option against the do-nothing option. Maintaining the status quo would leave the current failings with the transparency regime unchanged. In designing the proposals, we have sought to balance high level of transparency to support price formation and best execution with the need to protect liquidity and the provision of risk capital. That is, we have sought to reduce the compliance costs of the regime to increase the benefits of liquidity without risking the incentive of liquidity providers to continue to provide liquidity.

Extension of default deferrals

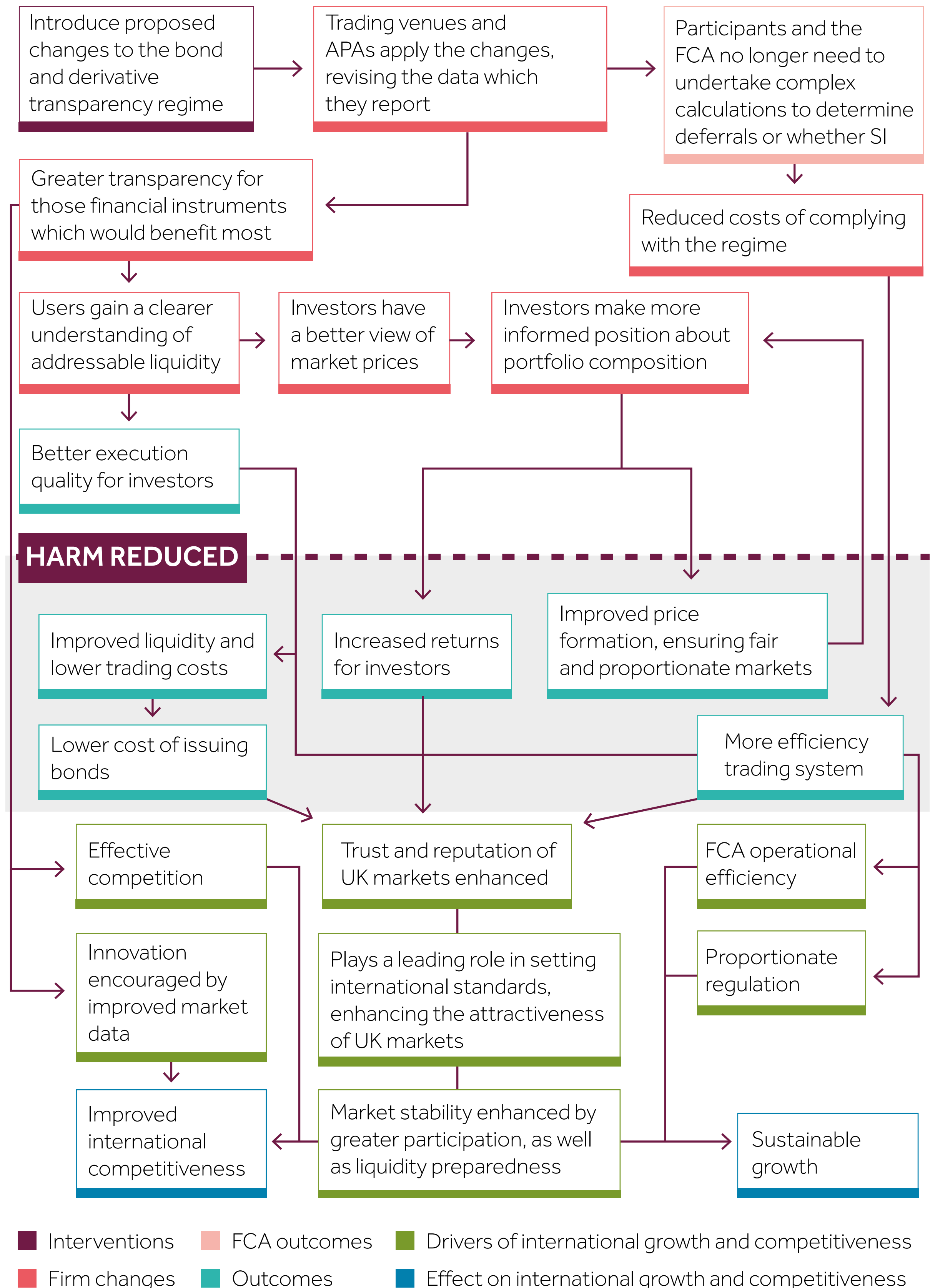
41. We considered proposing an ability for firms to extend default deferrals when they had not reduced their position below the threshold. This proposal would prevent other market participants becoming aware of large positions held that need to be unwound. This would allow firms to extend the deferral when the maximum deferral period expires before the resultant position has been reduced to below deferral threshold size and the deferral has thus underdelivered in terms of protection. The extension of deferrals on such a basis would allow more transparency where it would not harm liquidity providers and therefore the incentive to provide liquidity but restrict it where it would. That is, the regime would be more tailored to specific transactions. However, the variety of business models and booking structures would make it very difficult to establish a single set of deterministic rules. Instead, such an approach would have to be based on setting principles for firms to develop, and register, an internal process to identify such situations and extend the deferral. The feedback from participants persuaded us that the cost of implementation of such a regime would outweigh the benefits of more accurately targeted deferrals so we have not proposed this option..

Causal Chain

42. The causal chain below sets out how we expect our proposals described above will reduce the harm we described earlier. Firstly, the regime increases the transparency for the

bonds and derivatives where greater transparency would benefit instruments that would benefit users without subjecting liquidity providers to undue risk of being traded against. Better informed investors can execute trades at better prices and make more portfolio decisions. This results in a more efficient trading system with lower trading costs and increased returns for investors. In combination, this will support lower capital raising costs for firms (and other entities). Secondly, the overall costs of the regime are reduced as the complex regime currently in place is simplified, reducing the cost of maintaining the regime for firms and the FCA. This results in a more efficient trading system.

Figure 4:Causal Chain



Baseline and key assumptions

43. The costs and benefits of our proposals must be assessed against a baseline. In this section we discuss our assumptions for the baseline. We also explain the key assumptions we made when analysing the costs and benefits of our proposals.

Baseline

44. Absent our proposed intervention, the pre-and post-trade transparency regimes for bonds and derivatives would continue as is. This would include retention of our ability to perform transparency calculations and reliance on the FIRDS/FITRS systems. The baseline assumption we have used in this CBA is that without our proposed intervention, bond market data reporting will be inefficient and ineffective in the price formation process. In turn, this will perpetuate bond market data fragmentation and threaten the viability of the incoming CTP, which will be forced to provide the CT on the basis of the data that currently exists. In the CBA for CP23/15, we noted our assumption that a CTP would not come forward under existing regulatory settings.

45. We also assume that in the baseline various data vendors and financial technology companies continue to provide services and products linked to real time and delayed bond market data.

46. Absent changes to the UK's bond and derivative transparency framework, we assume that the EU would continue to revise its own framework, with implications for our international competitiveness. These changes (or lack thereof in the UK) also have implications for the viability of a CT in the UK and EU, and therefore, the likelihood that CTPs would come forward in the UK.

Key assumptions

47. The FCA discussed its approach to analysing costs and benefits in July 2018 stating that "*When rules are expected to have impacts over an indefinite period of time, it is helpful to aggregate monetary impacts arising over time in net present value terms, over a 10 year period, unless there are good reasons not to (e.g. strong uncertainties in future years, as is often the case with the markets and services in our scope)*". We may need to recalibrate the bond and derivative transparency regime as a result of a post implementation review that we are planning to undertake. However, as we would be changing rules to effect these calibrations, we would need to undertake a CBA for any such changes. We therefore do not consider the costs and benefits of the future changes in this CBA.

48. While the Edinburgh Reforms announcements did not include a specific deadline for developing our proposals on the bond and derivative transparency regime, these changes will need to be applied to facilitate the emergence of a bond CTP, which we intend will have occurred by mid-2025.

49. We rely on our standardised cost model (SCM) for cost estimates in the CBA. In early 2023, the underlying salary and firm size data were updated. The underlying assumptions remain the same as in Annex 1 of our document "How we analyse the costs and benefits of our policies". There may be small discrepancies in the numbers reported in tables due to rounding.

50. We also rely on assumptions in the SCM to categorise affected firms by size. The SCM categorises all regulated firms as large, medium, or small using data from annual FCA fee blocks.

51. Additional assumptions are explained in the relevant sections.

Summary of costs and benefits

52. We set out the costs and benefits of our proposed bond and derivative transparency framework. Where possible we provide quantitative estimates. However, it was not reasonably practicable to quantify all the costs and benefits of our proposal. In such instances, we provide a qualitative discussion.

53. The CBA will balance the expected costs against the anticipated benefits of amending the transparency regime for bonds and derivatives – such as improved efficiency, increased return on investments, lower reporting costs, and ultimately better price formation in these markets.

54. The following table summarises the costs and benefits of our proposals.

Table 1: Summary of costs and benefits

Benefits		
• Efficiency gains • Improved liquidity and lower trading costs • Increased returns on investments • Lower costs of issuing bonds		
Participant	One-off costs	Ongoing impacts and transfers
APAs (Approved Publication Arrangements), RIEs, firms operating an MTF (Multilateral Trading Facility) or OTF (Organised Trading Facility) and SIs	Familiarisation and legal review costs – £730k IT costs – £14.6m Change costs – £1.4m	Potential loss of profits from lower execution revenue (not APAs)

55. We have not estimated the benefits of our proposals. That said, we think there is a good argument that our proposals are net beneficial. For our proposals to break even over a 10-year period, we would need a modest reduction in trading costs. We have calculated the 10-year net present value of the costs to be £3.3m. In comparison, the average daily

trading volume of the gilt market alone was £37bn in 2021/22 financial year period.[3] We note that this is for only a fraction of the traded assets covered the proposals. Consequently, for the policy to breakeven we would need than a one thousandth of a basis point reduction in trading costs. The academic literature on the effect of increased transparency generally finds a positive effect on trading costs from increases in transparency, with identified effects much bigger than the figure in the breakeven analysis.

Benefits

56. In this section we describe the benefits we expect to arise from the implementation of our proposals. The benefits set out here reflect a reduction in harms described in the section on the problem and rationale for our intervention.

57. It is not reasonably practicable to quantify the benefits of the proposals on liquidity, transaction costs and the functioning of the market as the impact of transparency is specific to the type of information made transparent and the characteristics of the market which becomes more transparent. We therefore cannot predict the benefits of our proposed regime. and the following analysis the discussion focuses on the qualitative benefits of the proposed bond and derivative transparency framework.

Efficiency gains

58. We expect firms to reduce their ongoing compliance costs from our proposal changes to the bond and derivative transparency regime. We expect these efficiency gains to be threefold. First because fewer trades will be in scope of pre-trade transparency rules, firms will face lower ongoing costs related to the transparency requirements. Second, OTC dealers will face lower reporting costs in relation to their APAs. Finally, SIs will face lower costs due to streamlined criteria for determining their status as a SI. We don't think these costs savings will be particularly large for firms given that firms have built systems to automate these processes. However, there may be more meaningful savings when IT systems are being upgraded from the reduced complexity implementing the regime.

59. Greater benefits may arise for new entrant firms who no longer have to build such complicated IT systems to meet the requirements of the regime. We do not think we can reasonably estimate these costs savings as we cannot predict how these changes would affect their IT build costs.

60. The FCA will also make small ongoing efficiency gains from being able to descope the FITRS system. We expect the ongoing saving to be small but are unable to precisely estimate the savings as the FITRS is provided by a contractor within a wider set of requirements.

3 Debt Management Office gilt market data, https://www.dmo.gov.uk/data/gilt-market/

Improved liquidity and lower trading costs

61. Our proposals on transparency will increase the amount of information that investors have on addressable liquidity. This increased transparency will reduce search and transaction costs for investors. Investors will therefore be more informed about where and how to trade and will therefore be able to improve the quality of their executions. This is underpinned by academic theory, Duffie et al (2005) demonstrate that investors' bargaining power is improved if they can more easily find other investors or market makers.

62. Academic evidence finds significant benefits in terms of reducing transaction costs for investors from post-trade transparency. For example, Edwards, Harris, and Piwowar (2007) , found that post-trade transparency lowered transaction costs in US corporate bond trades by around 5 basis points. Looking at the European corporate bond market, Biais et al (2006) indicate that greater transparency would reduce adverse selection and search costs, introducing greater competition.

63. There may also be second-order effects of increased transparency. We find evidence that increased transparency improves competition in dealer markets. Green et al (2007) studied the opaque, decentralised municipal bond market in the USA. They demonstrated that this market is characterised by market power for dealers, particularly for small and medium-sized transactions. This market power comes from less sophisticated investors, who face higher mark-ups in a bilateral bargaining market. Firms that currently benefit from information asymmetries may earn lower profits. Bessembinder and Maxwell (2008) studied market participants in US Corporate bond markets, finding that market-making revenue declined due to declining transaction costs for investors.

64. At the same time, we may expect greater transparency and confidence in markets to encourage greater participation in those markets. This would be reinforced by more innovation in analytics and value-added services to help identify trading opportunities and increase trading volumes. Together, these effects would have a further beneficial effect on liquidity.

65. We note that the gains from greater price transparency and the associated increase in transaction costs (increased liquidity) will distribute the total gains to be made in the market across a broader group of participants.

66. Some of the benefits from lower liquidity arrive from transfers as better execution quality derives from lower liquidity provider profits.

Increased returns for investors

67. The direct effect of improved liquidity will also increase the returns to investors. Improved information about prices will enable investors to make more informed decisions about their portfolio composition. The lower transaction costs (described above) will enable investors to adjust their portfolios more quickly and enable them to include more assets within their portfolios. As a result, we would expect investors to be able to earn higher risk-adjusted returns (over and above the direct savings from greater liquidity and lower trading costs).

Lower costs of issuing bonds

68. We expect that lower costs of accessing bond data and the resultant lower trading costs can encourage bond trading and investment that may not otherwise occur. This, in turn, can lower the cost of debt capital for firms, helping to encourage debt issuance in the economy. Brugler, Comerton-Forde, and Martin (2022) show that bond issuance costs are lower due to the mitigation of information asymmetry brought about by TRACE – mandated post-trade transparency in US secondary markets. Furthermore, the benefit may particularly help new and smaller firms, which may have little or no history of bond issuance. The authors estimate that yields on new US bond issuances with fewer than median underwriters or previous issues were between 12 and 21 basis points lower after the introduction of TRACE. We note our proposals here are different to the creation of TRACE, but the effect will be similar on bond issuance costs – more transparency can reduce issuance costs.

Costs

69. Costs from the proposed changes to the bond and derivative transparency framework will vary in nature and level by market participant. Compliance costs will include, depending on the type of firm and interventions: familiarisation and legal review costs; changes to IT systems process; implementation costs. We do not expect significant ongoing compliance costs as our proposals seeks to make the current regime more efficient and effective, rather than imposing wholly new requirement on firms.

70. There are 3 classes of firms that will be affected by our proposed changes:

- Trading venues
- APAs
- SIs

71. In total, we expect that there are 121 firms who are directly impacted by our proposals. The number is derived by taking the subset from the FCA's approved list and excluding entries that are not associated with bonds or derivatives. We then add all relevant APAs.

72. To estimate the costs of implementing the proposals, we relied on the assumptions of the SCM. It categorises all regulated firms as large, medium, or small using data from the annual FCA fee blocks. Manual adjustments based on expert judgment were then applied to the categorisation of firm sizes to improve consistency and accuracy. Based on this approach, 36 firms are classified as large, and 85 firms are classified as medium.

Familiarisation costs

73. We expect firms will incur costs from familiarising themselves with the remedies we are proposing. Familiarisation and legal review costs are estimated based on the assumptions of our SCM. These costs will be incurred by 121 firms that are directly affected by our proposals, with 36 firms classified as large, and 85 firms classified as medium (and no small firms).

74. We anticipate there will be around 100 pages of policy documentation with which firms will need to familiarise themselves. Assuming there are 300 words per page and a reading speed of 100 words per minute, it would take around 5 hours to read the policy documentation. It is further assumed that 20 compliance staff at large firms and 5 compliance staff at medium firms read the document, at an hourly cost of £68 and £63 for large and medium firms respectively.

75. We also expect those affected will undertake a legal review of the new requirements against current practices. Again, we use the SCM to estimate these costs. There will be around 30 pages of legal instrument. We assume the regulatory analysis team consists of 4 legal and compliance staff at a large firm, and 2 at a medium firm. Further, it is assumed that each team member will require 17 hours to conduct the legal review at a large firm, and 13 hours at a medium firm.

76. In total, we expect one-off costs of familiarisation and legal review to be £730,000.

Table 2: Familiarisation and legal analysis costs

	Cost per firm, £	Total cost, £
Large	12,000	430,000
Medium	3,000	290,000
Total	**6,000**	**730,000**

Compliance costs

77. Subject to our final rules, firms will be required to:

- Modify the instruments which fall in scope of the pre-trade transparency regime
- Reform systems and processes for those instruments in scope of the post-trade transparency regime

78. Firms will need to incur one-off costs to implement the proposed policy changes to the bond and transparency regime. To estimate firm implementation costs, we use our SCM. While assumptions in the SCM serve as a good proxy for the one-off costs that firms will incur, they do not necessarily reflect the exact details of the work firms will need to undertake.

79. Firms will also incur one-off IT costs to implement changes to their existing systems. The costs will include IT development costs, i.e., costs relating to adapting existing IT systems and testing them, as well as project implementation costs.

80. We use the SCM to calculate a range of costs for the firms impacted by our proposed changes. Again, based on the size assumptions in the SCM, 36 firms are classified as large, while 85 are medium.

81. For IT development, we calculate one-off costs by assuming the number of total person days needed to deliver the IT project by an overall team consisting of a business

analysis team, design team, programming team, project management team, test team, and senior management. We use assumptions contained in the SCM for the relative proportions of the different sub-teams and their daily salary costs (including overheads) for large and medium firms.

Table 3: Estimate of per firm one-off costs for IT changes

Firm size	Total person days	Average daily salary including overheads, £	One-off cost per firm, £
Large	546	450	£250,000
Medium	156	431	£70,000

82. For regulatory change, we calculate one-off costs by assuming the number of total person days needed to deliver the project by an overall team consisting of a project manager and project team, with additional time added to account for board and executive committee oversight. We use assumptions contained in the SCM for the relative proportions of the different sub-teams and their daily salary costs (including overheads) for large and medium firms.

Table 4: Estimate of per firm one-off costs for regulatory changes

Firm size	Total person days	Average daily salary including overheads, £	One-off cost per firm, £
Large	45	481	20,000
Medium	14	485	10,000

83. We do not expect the proposed changes to require any additional ongoing costs when compared with the baseline scenario. This is because the proposals will not require new processes or systems to be implemented, only to update existing processes and systems. Firms are already expected to comply with current transparency regime, and we are simplifying the regime. Indeed, as we noted above, we expect firms to benefit from ongoing savings from lower compliance costs.

84. We summarise the average (mean) total one-off costs for all firms below. Whilst costs are subject to change, in total, we would estimate costs to industry of around £16.7m.

Table 5: Estimated average total one-off costs for all firms

Cost	Total one-off costs for all firms (£, m)
Familiarisation and legal review	0.7
IT project	14.6

Cost	Total one-off costs for all firms (£, m)
Change project	1.4
Total	**16.7**

Indirect costs

Lower profits for liquidity providers

85. Our proposals will better enable investors to assess the execution quality of their trades. This will reduce the margins of liquidity margins on the trades they make. Hence, they will earn lower profits from providing liquidity on instruments that have increased transparency. We do not think it is reasonably practicable to estimate any loss of profits given the uncertain impact of the size of the benefits of transparency. We note that these lost profits are a transfer from liquidity providers to investors.

86. We note that it is possible that liquidity providers could benefit from the transparency overall as we expect greater amounts of trading to occur as investors have more information about the costs and price of instruments. Liquidity providers will hence earn additional margins on these trades.

Capital losses for liquidity providers

87. In addition, liquidity providers could be monitored by market participants using the post-trade transparency we are proposing and be traded against. This would increase the costs of providing liquidity on certain trades. Bessembinder and Maxwell (2008) found that post trade transparency was a particular issue for illiquid instruments. This effect could reduce liquidity for some instruments in some instances, even though overall our proposals will increase liquidity. Again, we don't think it is reasonably practicable to estimate these costs. We have designed the regime to ensure that the risks to liquidity providers of being traded against and therefore suffering losses from providing liquidity are reduced.

Competitiveness and growth

88. On 29 June 2023 the Financial Services and Markets Bill became law (it is now the FSMA 2023) and gave the FCA a secondary objective to facilitate the international competitiveness of the UK economy (particularly the financial services sector), and its medium to long-term growth, subject to aligning with relevant international standards. We have therefore considered here the likely effects of these proposals on international competitiveness and growth.

89. Our proposals are intended to minimise unnecessary costs to firms by simplifying the regime and excluding illiquid instruments and non-price-forming trades from transparency requirements. Driving proportionate regulation, by ensuring any cost or restriction imposed is proportionate to the benefits expected as a result for the wider

regulatory system, enhances competition and makes the UK a more attractive place for firms to enter or operate, thus improving the UK's competitiveness as a financial hub.

90. The policy proposals presented in this paper align with the core mandate of the new secondary objective, promoting growth in the UK in the medium to long term and international competitiveness of the UK economy. The proposals facilitate the secondary international competitiveness and growth objective in the following ways:

- Operational efficiency. The proposals will reduce the need for the FCA to collect significant amounts of data and undertake the calculations required to determine the instruments in scope for the deferral regime. This will increase the operational efficiency of FCA.
- Proportionate regulation. The proposals will lower the ongoing costs of complying with the regime as firms will no longer need to need to maintain systems to submit and collect data from FCA FITRS and subsequently perform calculations to determine transparency requirements for specific securities. They will also no longer need to undertake calculation to determine whether they are SIs.
- Trust and reputation. Our proposals facilitate growth in the UK by improving the performance of the UK's bond and derivative markets. Increased liquidity, and lower trading costs will make UK markets more attractive to invest in relative to other markets. This will benefit UK growth in 2 ways. Firstly, the direct effect from additional business for firms involved in trading bonds and derivatives. Secondly, more efficient capital markets will ultimately lower the costs of raising finance for investments in the UK.
- Innovation. By increasing the quality of information available to investors and data providers, we might expect more innovative use of data.
- Market stability. We expect our proposals to have a positive impact on financial stability. Firstly, it may allow for greater participation in the market, even during times of stress. Transparency may also facilitate the liquidity preparedness of market participants, as it can help them assess their ability to liquidate assets under stressed conditions. It is important to note, however, that greater transparency could potentially affect dealers' willingness to absorb large flows, which is particularly crucial during periods of stress.
- Competition. Greater transparency will promote effective competition in the interests of consumers by helping investors hold their brokers accountable which will improve the competition for their services and lower the costs of transacting for consumers.
- International markets. It ensures that our financial services framework takes account of progress in other comparable jurisdictions and avoids unnecessary divergence from regimes in those jurisdictions. In addition, our proposals will improve the function of UK bond and derivative markets. The Wholesale Trade Data Review (WTDR) findings report noted that a well-functioning wholesale market where participants can access good quality trade data at fair and reasonable prices would make the UK, overall, more competitive in the global market.

Monitoring and evaluation

91. As we noted in Chapter 1 of this CP, we seek the following outcome for bonds and derivatives markets:

- Greater transparency, in terms of timeliness and content of the information, for a subset of financial instruments which would benefit most from increased disclosures.
- A lower cost of complying with the transparency regime for trading venues and investment firms. We also expect that by discontinuing FCA FITRS we would make a better use of our supervisory resources.
- Adequate protection to market makers when providing liquidity to clients.
- More valuable post-trade data to support the creation of a CT for bonds in the UK.

92. We intend to review the effect of the new regime on the basis of the first 6 months of application of the new rules. We will use quantitative analysis (wherever possible) and also consider using survey to market participants to measure whether we have achieved the desired outcomes..

Annex 3

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. We are consulting on new rules and a standards instrument revoking and amending various technical standards, as such the FCA is required by section 138I(2)(d) FSMA and section 138S FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA, and (c) complies with its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons. References to rules in this section also include requirements in technical standards.

3. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.

4. This Annex explains how our work on bond and derivative transparency contributes towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target).

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of market integrity. They are also relevant to the FCA's consumer protection objective.

8. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because they seek to promote fair price formation, and make transparent the liquidity levels, in the bond and derivative markets. For the purposes of the FCA's strategic objective, "relevant markets" are defined by s. 1F FSMA.

9. We consider these proposals comply with the FCA's secondary objective in advancing competitiveness and growth because improved transparency increases confidence in fair price formation and attracts more participants to execute trades on trading venues located the United Kingdom or bilaterally with UK regulated firms.

10. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s.3B FSMA.

The need to use our resources in the most efficient and economic way

11. The proposals will, if adopted, deliver a transparency regime that costs less for the FCA to support by removing the current requirement for the FCA to collect data, perform calculations on it and then publish the results.

The principle that a burden or restriction should be proportionate to the benefits

12. The consultation reduces the burden on firms by removing the current requirement for trading venues to deliver data to the FCA on a daily basis.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

13. We have set out in the section "Treasury Remit Letter and Secondary International Competitiveness and Growth Objective" how we have had regard to this principle including the government's aim of seeing more competition and innovation in all sectors of the UK's financial industry.

The general principle that consumers should take responsibility for their decisions

14. The proposals do not depart from the general principle that consumers take responsibility for their decisions.

The responsibilities of senior management

15. Our proposals do not specifically relate to the responsibilities of senior management. Nevertheless, we have had regard to this principle and do not consider that our proposals undermine it. The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation.

16. We have had regard to the wide range of providers and users in bond and derivative markets including trading venues, financial counterparties, non-financial counterparties and issuers, as well as the range of products and services these markets provide, with the aim of providing proportionate solutions based on appropriate calibration. Our proposals incorporate proportionality in the application, exemption, scope and thresholds in relation to the proposed transparency requirements.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

17. This consultation sets out our policy rationale for the proposed transparency reporting requirements which support efficient price discovery. Where we exercise our power (given to us in Schedule 2 of FSMA 2023) to suspend transparency requirements or to withdraw any pre-trade transparency waivers, we are required to publish a notice setting out the relevant details.

The principle that we should exercise of our functions as transparently as possible

18. By explaining the rationale for each of our recommendations and the anticipated outcomes the FCA has regard to this principle.

19. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA).

Climate change

20. The FCA has to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target). More efficient bond markets will make it easier for companies to raise finance for a variety of purposes including in support of their transition plans towards net zero.

Expected effect on mutual societies

21. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies compared with other authorised firms. Our proposed rules will apply according to the powers exercised and to whom they are addressed, equally regardless of whether it is a mutual society or another authorised body.

Equality and diversity

22. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation, and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.

23. As part of this, we make sure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraph 2.39 of the CP.

Annex 4

Proposed deferral regime with large in scale thresholds and their impact on transparency

Table 1: Model 1: LIS thresholds and length of deferrals for EURIBOR IRS

Maturity bucket (greater than – less than or equal to)	Price and size: real-time	Price: within 15min Size: EOD	Price: T+3 Size: T+3
(28 days-3 months)	<€1,250m	€1,250m≤•<€1,750m	≥€1,750m
(3 months-6 months)	<€750m	€750m≤•<€1,500m	≥€1,500m
(6 months-1 year)	<€500m	€500m≤•<€1,000m	≥€1,000m
(1 year-2 years)	<€250m	€250m≤•<€750m	≥€750m
(2 years-5 years)	<€150m	€150m≤•<€350m	≥€350m
(5 years-10 years)	<€100m	€100m≤•<€200m	≥€200m
(10 years-20 years)	<€75m	€75m≤•<€150m	≥€150m
(20 years-30 years)	<€50m	€50m≤•<€75m	≥€75m
(30 years-50 years)	<€25m	€25m≤•<€50m	≥€50m

Table 2: Model 1: Impact on transparency

Maturity (greater than – less than or equal)	Trades reported in real time		Trades reported within 15 mins		Trades reported after T+3	
	Trades	Volume	Trades	Volume	Trades	Volume
(28 days-3 months)	50%	14%	67%	29%	33%	71%
(3 months-6 months)	70%	21%	85%	45%	15%	55%
(6 months-1 year)	85%	28%	95%	47%	5%	53%
(1 year-2 years)	80%	31%	95%	46%	5%	54%
(2 years-5 years)	80%	33%	95%	61%	5%	39%
(5 years-10 years)	80%	28%	90%	43%	10%	57%
(10 years-20 years)	67%	14%	85%	30%	15%	70%
(20 years-30 years)	85%	33%	90%	42%	10%	58%
(30 years-50 years)	75%	45%	90%	67%	10%	33%

Table 3: Model 2: LIS thresholds and length of deferrals for EURIBOR IRS

Maturity bucket (greater than – less than or equal to)	Price and size: real-time	Price: EOD Size: EOD
(28 days-3 months)	<€1,250m	≥€1,250m (cap at €1,750m)
(3 months-6 months)	<€750m	≥€750m (cap at €1,500m)
(6 months-1 year)	<€500m	≥€50m (cap at €1,000m)
(1 year-2 years)	<€250m	≥€250m (cap at €750m)
(2 years-5 years)	<€150m	≥€150m (cap at €350m)
(5 years-10 years)	<€100m	≥€100m (cap at €200m)
(10 years-20 years)	<€75m	≥€75m (cap at €150m)
(20 years-30 years)	<€50m	≥€50m (cap at €75m)
(30 years-50 years)	<€25m	≥€25m (cap at €50m)

Table 4: Model 2: Impact on transparency

Maturity bucket (greater than – less than or equal to)	Trades reported in real time		Trades reported by EOD and visible volume		Volume not visible because above the cap
	Trades	Volume	Trades	Volume	
(28 days-3 months)	50%	14%		67%	33%
(3 months-6 months)	70%	21%		85%	15%
(6 months-1 year)	85%	28%		95%	5%
(1 year-2 years)	80%	31%		95%	5%
(2 years-3 years)	80%	33%	100%	95%	5%
(5 years-10 years)	80%	28%		90%	10%
(10 years-20 years)	67%	14%		85%	15%
(20 years-30 years)	85%	33%		90%	10%
(30 years-50 years)	75%	45%		90%	10%

Table 5: Model 1: LIS thresholds and length of deferrals for FEDFUNDS OIS

Maturity bucket (greater than – less than or equal to)	Price and size: real-time	Price: within 15min Size: EOD	Price: T+3 Size: T+3
(7 days-3 months)	<$1,750m	$1,750m≤•<$2,500m	≥$2,500m

Table 6: Model 1: Impact on transparency

Maturity (greater than – less than or equal)	Trades reported in real time Trades reported within 15 mins		Trades reported within 15 mins		Trades reported after T+3	
	Trades	Volume	Trades	Volume	Trades	Volume
(7 days-3 months)	70%	27%	85%	48%	15%	52%

Table 7: Model 2: LIS thresholds and length of deferrals for EURIBOR IRS

Maturity bucket (greater than – less than or equal to)	Price and size: real-time	Price: EOD Size: EOD
(7 days-3 months)	<$1,750m	≥$1'750m (cap at $2,500m)

Table 8: Model 2: Impact on transparency

Maturity bucket (greater than – less than or equal to)	Trades reported in real time		Trades reported by EOD and visible volume		Volume not visible because above the cap
	Trades	Volume	Trades	Volume	
(7 days-3 months)	70%	27%	100%	48%	52%

Table 9: Model 1: LIS thresholds and length of deferrals for €STR OIS

Maturity bucket (greater than – less than or equal to)	Price and size: real-time	Price: within 15min Size: EOD	Price: T+3 Size: T+3
(7 days-3 months)	<€1,500m	€1,500m≤•<€2,000m	≥€2,000m
(3 months-6 months)	<€300m	€300m≤•<€500m	≥€500m
(6 months-1 year)	<€200m	€200m≤•<€350m	≥€350m
(1 year-2 years)	<€100m	€100m≤•<€250m	≥€250m
(2 years-3 years)	<€50m	€50m≤•<€150m	≥€150m

Table 10: Model 1: Impact on transparency

Maturity (greater than – less than or equal)	Trades reported in real time		Trades reported within 15 mins		Trades reported after T+3	
	Trades	Volume	Trades	Volume	Trades	Volume
(7 days-3 months)	80%	54%	85%	62%	15%	38%
(3 months-6 months)	85%	43%	90%	55%	10%	45%
(6 months-1 year)	67%	13%	80%	22%	20%	78%
(1 year-2 years)	75%	29%	90%	54%	10%	46%
(2 years-3 years)	75%	26%	90%	49%	10%	51%

Table 11: Model 2: LIS thresholds and length of deferrals for €STR OIS

Maturity bucket (greater than-less than or equal to)	Price and size: real-time	Price: EOD Size: EOD
(7 days-3 months)	<€1,500m	≥€1'500m (cap at €2,000m)
(3 months-6 months)	<€300m	≥€300m (cap at €500m)
(6 months-1 year)	<€200m	≥€200m (cap at €350m)
(1 year-2 years)	<€100m	≥€100m (cap at €250m)
(2 years-3 years)	<€50m	≥€50m (cap at €150m)

Table 12: Model 2: Impact on transparency

Maturity bucket (greater than – less than or equal to)	Trades reported in real time		Trades reported by EOD and visible volume		Volume not visible because above the cap
	Trades	Volume	Trades	Volume	
(7 days-3 months)	80%	54%		62%	38%
(3 months-6 months)	85%	43%		55%	45%
(6 months-1 year)	67%	13%	100%	22%	78%
(1 year-2 years)	75%	29%		54%	46%
(2 years-3 years)	75%	26%		49%	51%

Table 13: Model 1: LIS thresholds and length of deferrals for SOFR OIS

Maturity bucket (greater than – less than or equal to)	Price and size: real-time	Price: within 15min Size: EOD	Price: T+3 Size: T+3
(7 days-3 months)	<$500m	$500m≤•<$1,000m	≥$1,000m
(3 months-6 months)	<$250m	$250m≤•<$500m	≥$500m
(6 months-1 year)	<$200m	$200m≤•<$350m	≥$350m
(1 year-2 years)	<$150m	$150m≤•<$250m	≥$250m
(2 years-5 years)	<$100m	$100m≤•<$200m	≥$200m
(5 years-10 years)	<$50m	$50m≤•<$100m	≥$100m
(10 years-20 years)	<$25m	$25m≤•<$75m	≥$75m
(20 years-30 years)	<$20m	$20m≤•<$50m	≥$50m
(30 years-50 years)	<$15m	$15m≤•<$30m	≥$30m

Table 14: Model 1: Impact on transparency

Maturity (greater than – less than or equal)	Trades		Trades reported within 15 mins		Trades reported after T+3	
	Trades	Volume	Trades	Volume	Trades	Volume
(7 days-3 months)	75%	31%	90%	50%	10%	50%
(3 months-6 months)	75%	31%	90%	54%	10%	46%
(6 months-1 year)	75%	27%	90%	50%	10%	50%
(1 year-2 years)	85%	39%	90%	48%	10%	52%
(2 years-5 years)	67%	12%	90%	33%	10%	67%
(5 years-10 years)	75%	16%	90%	43%	10%	57%
(10 years-20 years)	75%	12%	90%	28%	10%	72%
(20 years-30 years)	75%	15%	85%	43%	15%	57%
(30 years-50 years)	70%	23%	85%	45%	15%	55%

Table 15: Model 2: LIS thresholds and length of deferrals for SOFR OIS

Maturity bucket (greater than–less than or equal to)	Price and size: real-time	Price: EOD Size: EOD
(7 days-3 months)	<$500m	≥$500m (cap at $1,000m)
(3 months-6 months)	<$250m	≥$250m (cap at $500m)
(6 months-1 year)	<$200m	≥$200m (cap at $350m)
(1 year-2 years)	<$150m	≥$150m (cap at $250m)
(2 years-5 years)	<$100m	≥$100m (cap at $200m)

Maturity bucket (greater than–less than or equal to)	Price and size: real-time	Price: EOD Size: EOD
(5 years- years)	<$50m	≥$50m (cap at $100m)
(10 years-20 years)	<$25m	≥$25m (cap at $75m)
(20 years-30 years)	<$20m	≥$20m (cap at $50m)
(30 years-50 years)	<$15m	≥$15m (cap at $30m)

Table 16: Model 2: Impact on transparency

Maturity bucket (greater than – less than or equal to)	Trades reported in real time		Trades reported by EOD and visible volume		Volume not visible because above the cap
	Trades	Volume	Trades	Volume	
(7 days-3 months)	75%	31%		50%	50%
(3 months-6 months)	75%	31%		54%	46%
(6 months-1 year)	75%	27%		50%	50%
(1 year-2 years)	85%	39%		48%	52%
(2 years-3 years)	67%	12%	100%	33%	67%
(5 years-10 years)	75%	16%		43%	57%
(10 years-20 years)	75%	12%		28%	72%
(20 years-30 years)	75%	15%		43%	57%
(30 years-50 years)	70%	23%		45%	55%

Annex 5

Abbreviations in this document

Abbreviation	Description
APA	Approved publication arrangement
BIS	Bank for International Settlements
CBA	Cost benefit analysis
CCP	Central counterparty
CDS	Credit default swap
CFTC	Commodity Futures Trading Commission
CP	Consultation paper
CT	Consolidated tape
CTP	Consolidated tape provider
CQS	Credit quality step
DP	Discussion paper
DTO	Derivatives Trading Obligation
EOD	End of day
€STR	Euro short-term rate
ETC	Exchange traded commodity
ETD	Exchange traded derivatives
ETN	Exchange traded note
EU	European Union
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
FCA	Financial Conduct Authority
FedFunds	Federal Funds Effective Rate
FINRA	Financial Industry Regulatory Authority
FIRDS	Financial Instruments Reference Data System
FITRS	Financial Instruments Transparency System
FRA	Forward rate agreement
FRF	Future Regulatory Framework
FSMA	Financial Services and Markets Act
FX	Foreign exchange
G20	Group of 20

Abbreviation	Description
GBP	Pound sterling
Gilt	Gilt-edged security
Handbook	FCA Handbook
HMT	His Majesty's Treasury
HY	High yield
ICE	Intercontinental Exchange
IG	Investment grade
IRS	Interest rate swap
ISDA	International Swaps and Derivatives Association
ISIN	International Securities Identification Number
ISO	International Organization for Standardization
LEI	Legal entity identifier
LIBOR	London Inter-Bank Offered Rate
LIS	Large in scale
MAR	Market Conduct Sourcebook
MBS	Mortgage-backed security
MiFID II	The second Markets in Financial Instruments Directive
MiFID RTS 2	UK version of Commission Delegated Regulation (EU) No 2017/583
MiFID RTS 3	UK version of Commission Delegated Regulation No 2017/577
MiFID RTS 4	UK version of Commission Delegated Regulation No 2016/2020
MiFID RTS 22	UK version of Commission Delegated Regulation (EU) 2017/590
MiFIR	Markets in Financial Instruments Regulations
MTF	Multilateral trading facility
NIBOR	Norwegian Interbank Offered Rate
OIS	Overnight index swap
OTC	Over-the-counter
OTF	Organised trading facility
PERG	Perimeter Guidance Manual
PS23/4	Policy Statement on Improving Equity Secondary Markets
RFMD	Request for market data
RFQ	Request for quote
RFR	Risk-free rate
RIE	Recognised investment exchange

Abbreviation	Description
SCM	Standardised cost model
SEC	Securities and Exchange Commission
SEF	Swap execution facility
SFP	Structured Finance Product
SI	Systematic internaliser
S-MAC	Secondary Markets Advisory Committee
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
SSTI	Size specific to the instrument
STIBOR	Stockholm Interbank Offered Rate
TONA	Tokyo Overnight Average Rate
ToTV	Traded on a trading venue
TRACE	Trade Reporting and Compliance Engine
UK EMIR	UK European Market Infrastructure Regulation
UK MiFID	UK Markets in Financial Instruments Directive
UPI	Unique Product Identifier
USD	United States Dollar
WIBOR	Warsaw Interbank Offered Rate
WMR	Wholesale Markets Review
WTDR	Wholesale Trade Data Review

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Annex 6

Draft Handbook text and standards instrument

MARKETS IN FINANCIAL INSTRUMENTS (NON-EQUITY TRANSPARENCY RULES) INSTRUMENT 2024

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the powers and related provisions in or under:

(1) articles 8, 9, 10, 11 and 21 of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012;

(2) the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(a) section 137A (The FCA's general rules);
(b) section 139A (Power of the FCA to give guidance);
(c) section 137T (General supplementary powers); and
(d) section 300H (Rules relating to investment exchanges and data reporting service providers);

(3) regulation 11 of the Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges, Clearing Houses and Central Securities Depositories) Regulations 2001; and

(4) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA's Handbook.

B. The rule-making powers listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Interpretation

D. In this instrument, any reference to any provision of assimilated direct legislation is a reference to it as it forms part of assimilated law.

Amendments to the Handbook

E. The Glossary of definitions is amended in accordance with Annex A to this instrument.

F. The Market Conduct sourcebook (MAR) is amended in accordance with Annex B to this instrument.

Amendments to material outside the Handbook

G. The Perimeter Guidance manual (PERG) is amended in accordance with Annex C to this instrument.

Notes

H. In the Annexes to this instrument, the notes (indicated by "**Note**:" or "*Editor's note*:") are included for the convenience of readers, but do not form part of the legislative text.

Citation

I. This instrument may be cited as the Markets in Financial Instruments (Non-Equity Transparency Rules) Instrument 2024.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

actionable indication of interests	messages from one member or participant to another within a trading system in relation to available trading interest that contains all necessary information to agree on a trade.
aggressive order	an order that has been released in the order book and which initiates trades.
category 1 instrument	a *financial instrument* of a type specified in column B of the table at *MAR* 11 Annex 1R which fulfils the conditions set out in columns C-E (as applicable) of that table.
category 2 instrument	a *derivative*, *structured finance product* or *emission allowance* which is not a *category 1 instrument*.
designated reporter	a *transparency investment firm* that appears on the *FCA's register of designated reporters*.
package transaction	either: (1) a transaction in a *transparency instrument* contingent on the simultaneous execution of a transaction in an equivalent quantity of an underlying physical asset (also known as an 'exchange for physical' (EFP) transaction); or (2) a transaction which involves the execution of 2 or more component transactions in a *transparency instrument*: (a) which is executed by 2 or more counterparties; (b) where each component of the transaction bears meaningful economic or financial risk related to all the other components; and (c) where the execution of each component is simultaneous and contingent upon the execution of all the other components.
per user basis	the charging by *trading venue operators* and *systematic internalisers* for the use of market data according to the use made by the individual end-users of the market data.

post-trade transparency information	information about a transaction as set out in *MAR* 11 Annex 2 Tables 1, 2 and 4, using the applicable flags listed in *MAR* 11 Annex 2 Table 3.
pre-trade transparency information	the information set out in the table in *MAR* 11.2.3R by reference to the *relevant trading system* used.
register of designated reporters	the register maintained by the *FCA* in accordance with Article 12(8) of *MiFID RTS 1*.
relevant organisation	HM Treasury, the Bank of England or the central banks of the following countries: Australia, Austria, Belgium, Brazil, Bulgaria, Canada, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hong Kong, Hungary, Iceland, Ireland, India, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Mexico, Netherlands, Norway, People's Republic of China, Poland, Portugal, Republic of Korea, Romania, Slovakia, Slovenia, Spain, Sweden, Singapore, Switzerland, Turkey and the United States of America.
relevant trading system	a trading system described in the table in *MAR* 11.2.3R.
reserve order	a *limit order* consisting of a disclosed order relating to a portion of the quantity and a non-disclosed order relating to a remainder of the quantity, where the non-disclosed quantity is capable of execution only after its release to the order book as a new order.
transparency firm	a *person* who is either: (1) a *trading venue operator*; or (2) a *transparency investment firm*.
transparency instrument	a *category 1 instrument* or a *category 2 instrument*.
transparency investment firm	a *person* who is either: (1) a *MiFID investment firm*, except a *collective portfolio investment firm*; or (2) a *third country investment firm* subject to *GEN* 2.2.22AR, who *deals on own account* or executes orders on behalf of *clients*.

trading venue operator

(1) a *UK* operator of a *trading venue*;

(2) an *overseas firm* which operates a *trading venue* from an establishment in the *UK*.

Amend the following definitions as shown.

derivative

(1) …

(2) (in *REC*, *MAR* 5, ~~and~~ *MAR* 5A and *MAR* 11) those financial instruments defined in article 2 (1)(24)(c) of *MiFIR* or referred to in paragraphs 4 to 10 of Part 1 of Schedule 2 to the *Regulated Activities Order*.

…

emission allowance

…

(3) (in *MAR* 10 (Commodity derivative position limits and controls and position reporting) and *MAR* 11 (Transparency rules for transparency instruments)) in addition to (1), any derivative of such an allowance, whether falling under paragraph (4) or (10) of Section C of Annex I of *MiFID* Part 1 of Schedule 2 to the *Regulated Activities Order*.

market maker

…

(2) (in *COBS* and *MAR* 11) a *person* who holds ~~himself or herself~~ themselves out on the financial markets on a continuous basis as being willing to deal on own account by buying and selling *financial instruments* against that *person's* proprietary capital at prices defined by that *person*.

…

[*Editor's note*: the definition of 'non-financial entity' takes into account the proposals and legislative changes suggested in the consultation paper 'Reforming the commodity derivatives regulatory framework' (CP23/27) as if they were made final.]

non-financial entity

(in *MAR* 10 and *MAR* 11) a natural or legal person other than a *financial entity*.

systematic internaliser

an *investment firm* which:

(a) ~~on an organised, frequent, systemic and substantial basis, deals on own account~~ is *dealing on own account* when executing client

orders outside a ~~*regulated market*~~ *UK RIE*, *UK MTF* or *UK OTF* without operating a *multilateral system*; and

(b) either:

(i) ~~satisfies the criteria set out in Article 12, 13, 14, 15 or 16 of the *MiFID Org Regulation* assessed, in accordance with Article 17 of that Regulation~~ does so on an organised, frequent, systematic and substantial basis; or

(ii) has chosen to opt-in to the systemic internaliser regime.

For these purposes:

(A) ~~the frequent and systemic basis is to be measured either by the number of OTC trades in the *financial instrument* carried out by the *investment firm* on own account when executing client orders; and~~ Dealing takes place on an 'organised, frequent, systematic and substantial' basis where it is:

(i) carried on in accordance with rules and procedures in an automated technical system, such as an electronic execution system, which is assigned to that purpose;

(ii) available to counterparties on a continuous or regular basis; and

(iii) held out as being carried on by way of business, in a manner consistent with Article 3(2)(a) of the *Business Order* in respect of the relevant *financial instrument*.

(B) ~~the substantial basis is to be measured either by the size of the OTC trading carried out by the *investment firm* in relation to the total trading of the *investment firm* in a specific financial instrument or by the size of the OTC trading carried out by the *investment firm* in relation to the total trading in the relevant area (within the meaning of article 14(5A) of *MiFIR*) in a specific *financial instrument*).~~ [deleted]

[Note: article 2(1)(12) and (12A) of *MiFIR*]

Annex B

Amendments to the Market Conduct sourcebook (MAR)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

5 Multilateral trading facilities (MTFs)

…

5.7 Pre- and post-trade transparency requirements for equity ~~and non- equity~~ instruments: form of waiver and deferral

5.7.1A D A *firm* that makes an application to the *FCA* for a waiver in accordance with ~~articles~~ article 4 ~~or 9~~ of *MiFIR* (in relation to pre-trade transparency for equity ~~or non-equity~~ instruments) must make it in the form set out in *MAR* 5 Annex 1D.

[**Note:** ~~articles~~ article 4 ~~and 9~~ of *MiFIR*~~,~~ and *MiFID RTS 1* ~~and *MiFID RTS 2*~~]

5.7.1C D A *firm* intending to apply to the *FCA* for deferral in accordance with articles 7 or 11 of *MiFIR* in relation to post-trade transparency for equity ~~or non-equity~~ instruments must apply in writing to the *FCA*.

[**Note:** articles 7 and 11 of *MiFIR*~~,~~ and *MiFID RTS 1* ~~and *MiFID RTS 2*~~]

…

MAR 5A.10, MAR 5A.11, MAR 6.1, MAR 6.2 and MAR 6.4A are deleted in their entirety. The deleted text is not shown.

5A.10 Pre-trade transparency requirements for non-equity instruments: form of waiver [deleted]

5A.11 Post-trade transparency requirements for non-equity instruments: form of deferral [deleted]

…

6 Systematic internalisers

6.1 Application [deleted]

6.2 Purpose [deleted]

…

6.4A Quotes in respect of non-equity instruments [deleted]

Amend the following as shown.

Sch 5 Rights of action for damages

…

Sch 5.2 G

Chapter / Appendix	Section / Annex	Paragraph	For Private Person?	Removed	For other person?	
…						
MAR 4 (all *rules*)			Yes	No	No	
MAR 9A (all *rules*)			No		No	
MAR 11 (all *rules*)			No		No	

Insert the following new chapter, MAR 9A (Trade data), after MAR 9 (Data reporting service). The text is all new and is not underlined.

9A Trade data

9A.1 Application

9A.1.1 R This chapter applies to:

(1) a *trading venue operator*; and

(2) a *systematic internaliser*.

9A.2 Trade data requirements

Making trade data available on a reasonable commercial basis

9A.2.1 R (1) A *trading venue operator* must make the information published in accordance with articles 3, 4 and 6 to 11 of *UK MiFIR* available to the public on a reasonable commercial basis and ensure non-discriminatory access to the information.

(2) A *trading venue operator* must make available the information in *MAR* 9A.2.1R(1) free of charge 15 minutes after publication.

(3) *MAR* 9A.2.1R(2) does not apply to a *trading venue operator* when making market data available to the public free of charge.

9A.2.2 R (1) A *systematic internaliser* must ensure that the quotes published in accordance with article 15(1) of *UK MiFIR* are accessible to other market participants on a reasonable commercial basis.

(2) A *systematic internaliser* must ensure that the quotes published pursuant to article 18(1) and (5) of *UK MiFIR* are made public in a manner which is easily accessible to other market participants on a reasonable commercial basis.

(3) *MAR* 9A.2.2R(2) does not apply to a *trading venue operator* when making market data available to the public free of charge.

Providing market data on the basis of cost

9A.2.3 R (1) The price of market data must be based on the cost of producing and disseminating such data and may include a reasonable margin.

(2) The cost of producing and disseminating market data may include an appropriate share of joint costs for other services provided by a *trading venue operator* or a *systematic internaliser*.

Providing market data on a non-discriminatory basis

9A.2.4 R (1) A *trading venue operator* or *systematic internaliser* must make market data available at the same price and on the same terms and conditions to all customers falling within the same category in accordance with published objective criteria.

(2) Any differentials in prices charged to different categories of customers must be proportionate to the value which the market data represents to those customers, taking into account:

(a) the scope and scale of the market data, including the number of *financial instruments* covered and their trading volume; and

(b) the use made by the customer of the market data, including whether it is used for the customer's own trading activities, for resale or for data aggregation.

(3) For the purposes of *MAR* 9A.2.4R(1), a *trading venue operator* or *systematic internaliser* must have scalable capacities in place to ensure that customers obtain timely access to market data at all times on a non-discriminatory basis.

9A.2.5 R (1) A *trading venue operator* or a *systematic internaliser* must:

(a) charge for the use of market data according to the use made by the individual end-users of the market data; and

(b) put arrangements in place to ensure that each individual use of market data is charged only once.

(2) A *trading venue operator* or a *systematic internaliser* may decide not to make market data available on a *per user basis* where to charge on a per user basis is disproportionate to the cost of making that data available, having regard to the scale and scope of the data.

(3) A *trading venue operator* or a *systematic internaliser* must provide grounds for the refusal to make market data available on a *per user basis* and publish those grounds on their webpage.

Unbundling and disaggregating market data

9A.2.6 R A *trading venue operator* or a *systematic internaliser* must:

(1) make market data available without being bundled with other services; and

(2) offer pre-trade and post-trade transparency data separately.

Transparency

9A.2.7 R (1) A *trading venue operator* or a *systematic internaliser* must disclose the price and other terms and conditions for the provision of the market data in a manner which is easily accessible to the public.

(2) The disclosure for the purposes of *MAR* 9A.2.7R(1) must include:

(a) current price lists, including:

(i) fees per display user;

(ii) non-display fees;

(iii) discount policies;

(iv) fees associated with licence conditions;

(v) fees for pre-trade and for post-trade market data;

(vi) fees for other subsets of information, including those required in accordance with *MiFID RTS 14*; and

(vii) other contractual terms and conditions regarding the current price list;

(b) advance disclosure with a minimum of 90 *days'* notice of future price changes;

(c) information on the content of the market data, including:

(i) the number of instruments covered;

(ii) the total turnover of instruments covered;

(iii) pre-trade and post-trade market data ratio;

(iv) information on any data provided in addition to market data; and

(v) the date of the last licence fee adaption for market data provided;

(d) revenue obtained from making market data available and the proportion of that revenue compared with the total revenue of the *trading venue operator* or *systematic internaliser*; and

(e) information on how the price was set, including the cost accounting methodologies used and the specific principles according to which direct and variable joint costs are allocated and fixed joint costs are apportioned, between the production and dissemination of market data and other services provided by the *trading venue operator* or *systematic internaliser*.

Insert the following new chapter, MAR 11 (Transparency rules for transparency instruments), after MAR 10 (Commodity derivative position limits and controls, and position reporting). The text is all new and is not underlined.

11 Transparency rules for transparency instruments

11.1 Purpose and application

Purpose

11.1.1 G The purpose of this chapter is to set out the pre-trade and post-trade transparency *rules* applying to *transparency instruments* made by the *FCA* under Articles 8, 9, 10, 11 and 21 of *MiFIR*. The *transparency instruments* to which this chapter applies are categorised as *category 1 instruments* or *category 2 instruments*.

Application

11.1.2 G (1) This chapter applies to *trading venue operators* and *transparency investment firms* in respect of orders and transactions in *transparency instruments*.

(2) *MAR* 11.2 contains pre-trade transparency requirements. These only apply to *trading venue operators*, in respect of all *transparency instruments*.

(3) *MAR* 11.3 sets out the waivers from the pre-trade transparency requirements. *MAR* 11.3.1R sets out the waivers applying to all *transparency instruments*, and *MAR* 11.3.2R and *MAR* 11.3.3R contain the *rules* for the size waivers applying to *category 1 instruments* and *category 2 instruments*, respectively.

(4) *MAR* 11.4 contains post-trade transparency requirements. These apply to *trading venue operators* in respect of all *transparency instruments* and to *transparency investment firms* in respect of *category 1 instruments* only.

(5) *MAR* 11.5.1R sets out the deferrals applicable to *category 1 instruments* (relevant for all *transparency firms*). *MAR* 11.5.2R sets out the *rules* regarding deferrals for *category 2 instruments* (relevant for *trading venue operators* only).

Exceptions

11.1.3 R This chapter does not apply in respect of the following transactions:

(1) transactions listed in Article 2(5) of *MiFID RTS 22*; or

(2) transactions where the counterparty is a *relevant organisation*, and where:

(a) the transaction is entered into in the performance of monetary, foreign exchange and financial stability policy which the *relevant organistion* is legally empowered to pursue;

(b) the *relevant organisation* has given prior notification to the *transparency firm* that the transaction is exempt; and

(c) the transaction is not entered into by the *relevant organisation* for the performance of an investment operation connected with:

(i) the management of its own funds;

(ii) administrative purposes or for the staff of the member of the *relevant organisation*, including in the capacity of administrator of a pension scheme for its staff; or

(iii) its investment portfolio pursuant to obligations under national law.

Suspension of transparency requirements

11.1.4 G (1) The *FCA* has the power, under Article 9(4) of *MiFIR*, to suspend the pre-trade transparency requirements in *MAR* 11.2, and under Articles 11(3) and 21(8) of *MiFIR*, to suspend post-trade transparency requirements in *MAR* 11.4, either for a particular instrument or class of instruments. The *FCA* may only do this if it considers that it is necessary to do so to advance the *FCA's* integrity objective (as defined in section 1D of the *Act*) and having regard to its consumer protection and competition objectives (under sections 1C and 1D of the *Act*, respectively).

(2) Where the *FCA* decides to use this power, it must publish a notice identifying the relevant *transparency instruments* and specifying the period for which the suspension will have effect. The notice must be published in a manner best calculated to bring it to the attention of *persons* likely to be affected by it.

11.2 Pre-trade transparency (trading venue operators only)

Pre-trade transparency requirement

11.2.1 R A *trading venue operator* must, in respect of *transparency instruments* traded on a *trading venue* it operates, publish on a continuous basis during normal trading hours, adequate information about current bid and offer prices, *actionable indications of interest* and the depth of trading interests at those prices, for the purposes of achieving efficient price formation and fair evaluation of such *transparency instruments*.

11.2.2 R A *trading venue operator* publishes adequate information for the purposes of *MAR* 11.2.1R where it publishes the *pre-trade transparency information* described in the table in *MAR* 11.2.3R.

11.2.3 R Table: Pre-trade transparency information to be published, by reference to type of system

Type of system	Description of system	Information to be published
Continuous auction order book trading system	A system that by means of an order book and a trading algorithm operated without human intervention matches sell orders with buy orders on the basis of	For each *financial instrument*, the aggregate number of orders and the volume they represent at each price level, for at least

	the best available price on a continuous basis.	the 5 best bid and offer price levels.
Quote-driven trading system	A system where transactions are concluded on the basis of firm quotes, including *actionable indications of interest* that are continuously made available to participants, which requires the *market makers* to maintain quotes in a size that balances: • the needs of members and participants to deal in a commercial size; and • the risk to which the *market maker* exposes itself.	For each *financial instrument*, the best bid and offer by price of each *market maker* in that instrument, together with the volumes attaching to those prices. The quotes made public should be those that represent binding commitments to buy and sell the *financial instruments* and that indicate the price and volume of *financial instruments* in which the registered *market makers* are prepared to buy or sell. In exceptional market conditions, however, indicative or one-way prices may be allowed for a limited time.
Periodic auction trading system	A system that matches orders on the basis of a periodic auction and a trading algorithm operated without human intervention.	For each *financial instrument*, the price at which the auction trading system would best satisfy its trading algorithm and the volume that would potentially be executable at that price by participants in that system.
Trading system not covered above	A hybrid system falling into 2 or more of the first 3 rows or a system where the price determination process is of a different nature than that applicable to the types of system	Adequate information as to the level of orders or quotes and of *actionable indications of interest*; in particular, the 5 best bid and offer price levels and/or 2-way quotes, including

	covered by first 3 rows.	*actionable indications of interest* of each *market maker* in the *financial instrument*, if the characteristics of the price discovery mechanism so permit.

11.3 Waivers from pre-trade transparency requirements

Waivers for all transparency instruments

11.3.1 R *MAR* 11.2.2R does not apply in respect of the following orders:

(1) orders relating to a *transparency instrument* held in an order management facility of the *trading venue operator* which:

(a) are intended to be disclosed to the order book operated by the *trading venue operator* and are contingent on objective conditions that are predefined by the system's protocol;

(b) cannot interact with other trading interests prior to disclosure to the order book operated by the *trading venue operator*, except that where a portion of a quantity of an *aggressive order* has executed against the disclosed quantity of a *reserve order* and other disclosed orders in the order book, the non-disclosed quantity of the *reserve order* held in the order management facility is a type of order for which pre-trade disclosure is waived and which can be executed against the remainder of the quantity of the *aggressive order*; and

(c) once disclosed to the order book, interacts with other orders in accordance with the rules applicable to orders of that kind at the time of disclosure; or

(2) orders relating to *transparency instruments* which are negotiated, where any of the following circumstances apply:

(a) the order is part of a *package transaction*;

(b) the order is within, where available, the current volume weighted spread reflected on the order book, the quotes of the *market makers* or other trading system operated by the *trading venue*;

(c) the order is any other order for the execution of transactions that are contingent on technical characteristics which are unrelated to the current market valuation of the particular *transparency instrument*, equivalent to those described in *MAR* 11.1.3R(1).

Size waivers for category 1 instruments

11.3.2 R *MAR* 11.2.2R does not apply to orders relating to a *category 1 instrument* which is larger than the size specified in the column G in the row corresponding to the particular instrument in *MAR* 11 Annex 1R.

Size waivers for category 2 instruments

11.3.3 R (1) *MAR* 11.2.2R does not apply to orders or *actionable indication of interest* relating to a *category 2 instrument* which is larger than the size specified by the *trading venue operator* in accordance with *MAR* 11.3.4R.

(2) A *trading venue operator* must establish, implement and maintain an internal process or rules for determining the size thresholds applicable to those orders or *actionable indications of interest* in *category 2 instruments* under *MAR* 11.3.3R(1) for which it will not publish *pre-trade transparency information*.

(3) A *trading venue operator* must publish in its rulebook the rules or processes it adopts to fulfil *MAR* 11.3.3R(2) before it implements them.

(4) A *trading venue operator* must promptly inform the *FCA* of any significant breaches of its *MAR* 11.3.3R(3) process or rules which give rise to a material risk of price distortions in, or unfair valuations of, *category 2 instruments*.

11.3.4 R In determining the appropriate size thresholds and any other characteristics applicable to those orders or *actionable indications of interest* in *category 2 instruments* for which it will not publish *pre-trade transparency information* under *MAR* 11.3.3R(2), in compliance with the pre-trade transparency requirement in *MAR* 11.2.1R, the *trading venue operator* must have regard to at least the following factors:

(1) the level of liquidity in the *category 2 instrument*, including whether there are ready and willing buyers and sellers on a continuous basis and the number, type and ratio of market participants active in the particular *category 2 instrument*;

(2) any other characteristics of the *category 2 instrument*, including the extent to which it is traded in a standardised or frequent way and the average size of spreads, where available;

(3) any disincentivising effect on those who wish to provide capital or otherwise to facilitate larger trades in the *category 2 instrument*;

(4) any negative effect on the fair and orderly trading of the *category 2 instrument* on the *trading venue* operated by the *trading venue operator*; and

(5) the nature and extent of public information that would assist *firms* to fulfil their best execution obligations in *COBS* 11 to *COBS* 11.2B, including the *MiFID Org Regulation*.

11.3.5 G The waivers in *MAR* 11.3.1R apply in respect of all *transparency instruments* regardless of size. *MAR* 11.3.2R contains the *rules* regarding size waivers for *category 1 instruments* and *MAR* 11.3.3R and 11.3.4R contain the *rules* regarding size waivers for *category 2 instruments*.

11.3.6 R A *trading venue operator* that is planning to use a waiver set out in *MAR* 11.3 must notify the *FCA* of this in advance using the form available at the following webpage [*Editor's note*: link to form].

Withdrawal of waivers

11.3.7 G If the *FCA* considers that any of the waivers in *MAR* 11.3 are being used in a way that deviates from its original purpose or to avoid the pre-trade transparency requirements in *MAR* 11.2, the *FCA* has the power under Article 9(3) of *MiFIR* to withdraw the waiver by giving notice to the relevant *person* who the *FCA* considers to be misusing the waiver.

11.4 Post-trade transparency (all transparency firms)

Application

11.4.1 R (1) The *rules* in *MAR* 11.4 apply in respect of:

(a) transactions in *transparency instruments* executed by a *trading venue operator* on a *trading venue* that it operates; or

(b) transactions in *category 1 instruments* concluded by a *transparency investment firm* acting in that capacity.

(2) The *rules* in *MAR* 11.4 do not apply in respect of the following types of transactions:

(a) a transaction executed by a *transparency investment firm* when providing the investment service of *portfolio management*, which transfers the beneficial ownership of *financial instruments* from one fund to another and where no other *investment firm* is a party to the transaction other than for the sole purpose of providing arrangements for the execution of such non price-forming transactions;

(b) a 'give-up transaction' or 'give-in transaction', which means:

(i) a transaction where a *transparency investment firm* passes a *client* trade to, or receives a client trade from, another *investment firm* for the purpose of post-trade processing; or

(ii) where a *transparency investment firm* executing a trade passes it to, or receives it from, another *investment firm* for the purpose of hedging the position that it has committed to enter into with a *client*; or

(c) inter-affiliate transactions, which means transactions between entities within the same *group* carried out exclusively for intra-group risk management purposes.

Post-trade transparency requirements

11.4.2 R Where *MAR* 11.4.1R applies, a *transparency firm* must publish *post-trade transparency information* about the transaction, as close to real time as is technically possible:

(1) in respect of a *package transaction*, having regard to the need to allocate prices to the relevant instruments; and

(2) in respect of any other transactions, within 5 minutes of the execution of the relevant transaction.

11.4.3 G *Post-trade transparency information* should only be published close to the prescribed maximum time limit in exceptional cases where it is not technically possible or the systems available do not allow for publication in a shorter period. *Transparency firms* should take reasonable steps to ensure their systems can support their *MAR* 11.4.2R obligation to publish as close to real time as possible.

11.4.4 R A *transparency investment firm* must:

(1) where there are 2 matching trades entered at the same time and for the same price with a single party interposed, treat the 2 trades as a single transaction and take all reasonable steps to ensure that the *post-trade transparency information* relating to such trades is published as if they relate to a single transaction; and

(2) publish *post-trade transparency information* once for each transaction, through a single *APA*.

11.4.5 R Where a *transparency firm*:

(1) cancels a previously published trade report containing the *post-trade transparency information*, it must publish a new trade report containing all the details of the original trade report and the cancellation flag specified in *MAR* 11 Annex 2 Table 3;

(2) amends a previously published trade report containing *post-trade transparency information*, it must publish:

(a) a new trade report containing all the details of the original trade report and the cancellation flag specified in *MAR* 11 Annex 2 Table 3; and

(b) a new trade report that contains the correct *post-trade transparency information* and the amendment flag as specified in *MAR* 11 Annex 2 Table 3.

11.4.6 R A *transparency firm* must give access, on reasonable commercial terms and on a non-discriminatory basis, to the arrangements they put in place for the publication of *post-trade transparency information*.

11.4.7 G *Trading venue operators* and *transparency investment firms* which are *systematic internalisers* should refer to *MAR* 9A for the *FCA rules* regarding access to trade data.

Which investment firm reports?

11.4.8 R (1) Where 2 *transparency investment firms* conclude a transaction outside the rules of a *trading venue*, only the *transparency investment firm* that is registered as a *designated reporter* must publish details of the transaction in accordance with *MAR* 11.4.2R.

(2) Where neither *transparency investment firm* party to the transaction is a *designated reporter*, only the *transparency investment firm* acting as the selling firm must publish details of the transaction in accordance with *MAR* 11.4.2R.

(3) Where each *transparency investment firm* party to the transaction is registered as a *designated reporter*, only the *transparency investment firm* acting as the selling firm must publish details of the transaction in accordance with *MAR* 11.4.2R.

11.4.9 R The *transparency investment firm* that acts as the selling firm and is required by *MAR* 11.4.8R(3) to publish the *MAR* 11.4.2R information can fulfil this requirement by arranging for the buyer to publish the relevant details instead.

11.5 Post-trade transparency deferrals

Category 1 instruments – all transparency firms

11.5.1 R (1) A *transparency firm* subject to *MAR* 11.4.2R may defer publication of *post-trade transparency information* for *category 1 instruments* in accordance with the applicable size thresholds and maximum deferral duration periods in the row corresponding to the particular instrument in *MAR* 11 Annex 1R.

(2) Where a transaction fulfils the conditions for an applicable volume deferral in accordance with *MAR* 11.5.1R(1), the *transparency firm* must use the VOLO flag for the first trade report, omitting the

relevant details, and use the FULV flag for the full trade report once it is published.

(3) Where one or more of the components of a *package transaction* fulfils the conditions for an applicable deferral in accordance with *MAR* 11.5.1R(1) and (2), publication of the *post-trade transparency information* about all the components of the *package transaction* may be deferred until the applicable maximum deferral period has lapsed.

Category 2 instruments – trading venue operators only

11.5.2 R (1) A *trading venue operator* may defer the publication of *post-trade transparency information* relating to transactions in *category 2 instruments* where it considers such deferral to be necessary for the purposes of achieving efficient price formation and fair evaluation of such *category 2 instruments*.

(2) A *trading venue operator* must have regard at least to the factors set out in *MAR* 11.3.4R(1) to (5) in considering whether it would be necessary for the purposes of achieving efficient price formation and the fair evaluation of *category 2 instruments* to:

(a) defer the publication of *post-trade transparency information* and, if so, the duration of such deferral; or

(b) apply size thresholds to such transactions and, if so, what the thresholds should be.

(3) A *trading venue operator* must establish, implement and maintain an internal process or rules for determining the applicable deferral size thresholds, durations and type of *post-trade transparency information*, the publication of which it will defer, under *MAR* 11.5.2R(1), in respect of *category 2 instruments*.

(4) A *trading venue operator* must publish in its rulebook the rules or processes it adopts to fulfil *MAR* 11.5.2R(3) before it implements them.

(5) A *trading venue operator* must promptly inform the *FCA* of any significant breaches of its *MAR* 11.5.2R(3) process or rules which give rise to a material risk of price distortions in, or unfair valuations of, *category 2 instruments*.

11 Annex 1 **Category 1 instruments**

R This is the table of *category 1 instruments*.

[*Editor's note*: insert link]

The deferral periods shown in columns H and J end at 9:00am on the next working day following the time periods specified

Column B	Column C	Column D	Column E	Column G	Column H	Column I	Column J
	Grouping			**LiS Threshold 1**	**Deferral 1**	**LiS Threshold 2**	**Deferral 2**
Asset classes	**Factor 1**	**Factor 2**	**Factor 3**				
Bond Type	**Issuer**	**Issue Size**	**Maturity**				
Sovereign and Municipal bonds	UK, France, Germany, Italy or USA	> £1bn	<5yr	£15m	P:15 mins V:T+3	£50m	P+V: 4 weeks
			5-15yr	£10m	P:15 mins V:T+3	£25m	P+V: 4 weeks
			> 15yr	£5m	P:15 mins V:T+3	£10m	P+V: 4 weeks
	All other instrument			£2m	P:15 mins V:T+3	£4m	P+V: 4 weeks
Bond Type / MiFID Asset Class	**Currency**	**Issuer Rating**	**Issue Size**				
Corporate, Covered, Convertible & Other bonds	GBP, EUR & USD	IG	> £500m	£1m	P:15 mins V:T+3	£10m	P+V: 4 weeks
	All other instrument			£500k	P:15 mins V:T+3	£5m	P+V: 4 weeks
Derivative Type / Underlying Type (Having the common attributes set out in note 1)	**Settlement currency**	**Reference index**	**Maturity**				
Fixed-to-Float / XFMC	EUR	EURIBOR	28D-3M	€1,250m	P:15mins V:EoD	€1,750m	P+V: T+3
			3M-6M	€750m	P:15mins V:EoD	€1,500m	P+V: T+3
			6M-1Y	€500m	P:15mins V:EoD	€1,000m	P+V: T+3
			1Y-2Y	€250m	P:15mins V:EoD	€750m	P+V: T+3
			2Y-5Y	€150m	P:15mins V:EoD	€350m	P+V: T+3
			5Y-10Y	€100m	P:15mins V:EoD	€200m	P+V: T+3
			10Y-20Y	€75m	P:15mins V:EoD	€150m	P+V: T+3
			20Y-30Y	€50m	P:15mins V:EoD	€75m	P+V: T+3
			30Y-50Y	€25m	P:15mins V:EoD	€50m	P+V: T+3
OIS / OSSC	USD	FEDFUNDS	7D-3M	$1,750m	P:15mins V:EoD	$2,500m	P+V: T+3
		SOFR	7D-3M	$500m	P:15mins V:EoD	$1,000m	P+V: T+3
			3M-6M	$250m	P:15mins V:EoD	$500m	P+V: T+3
			6M-1Y	$200m	P:15mins V:EoD	$350m	P+V: T+3
			1Y-2Y	$150m	P:15mins V:EoD	$250m	P+V: T+3
			2Y-5Y	$100m	P:15mins V:EoD	$200m	P+V: T+3
			5Y-10Y	$50m	P:15mins V:EoD	$100m	P+V: T+3
			10Y-20Y	$25m	P:15mins V:EoD	$75m	P+V: T+3
			20Y-30Y	$20m	P:15mins V:EoD	$50m	P+V: T+3
			30Y-50Y	$15m	P:15mins V:EoD	$30m	P+V: T+3
	GBP	SONIA	7D-3M	£2500m	P:15mins V:EoD	£3,000m	P+V: T+3
			3M-6M	£500m	P:15mins V:EoD	£1,000m	P+V: T+3
			6M-1Y	£300m	P:15mins V:EoD	£750m	P+V: T+3
			1Y-2Y	£150m	P:15mins V:EoD	£250m	P+V: T+3
			2Y-5Y	£100m	P:15mins V:EoD	£150m	P+V: T+3
			5Y-10Y	£75m	P:15mins V:EoD	£100m	P+V: T+3
			10Y-20Y	£50m	P:15mins V:EoD	£75m	P+V: T+3
			20Y-30Y	£25m	P:15mins V:EoD	£50m	P+V: T+3
			30Y-50Y	£15m	P:15mins V:EoD	£25m	P+V: T+3
	EUR	ESTR	7D-3M	€1,500m	P:15mins V:EoD	€2,000m	P+V: T+3
			3M-6M	€300m	P:15mins V:EoD	€500m	P+V: T+3
			6M-1Y	€200m	P:15mins V:EoD	€350m	P+V: T+3
			1Y-2Y	€100m	P:15mins V:EoD	€250m	P+V: T+3
			2Y-3Y	€50m	P:15mins V:EoD	€150m	P+V: T+3
Derivative Type / Underlying Type (Having the common attributes set out in note 2)	**Settlement currency**	**Reference index**					
SWAP / Index CDS	EUR	iTraxx Europe Main		£50m	EoD	£70m	d
		iTraxx Europe Crossover		£15m	EoD	£20m	P+V: T+3

Note 1

Common Attributes

Settlement currency type	Single currency
Optionality	No
Notional type	Constant or variable
CFI code	SRC(C/D/I/Y)S(C/P)
Asset class of the underlying	INTR
MiFIR identifier	DERV
Contract type	SWAP

Note 2

Common Attributes

CFI code	SCIC(C/S/L)(C/P/A)
Sub-type	Untranched index
Geographical zone	Europe
Maturity	5Y
MiFIR identifier	DERV
Asset class of the underlying	CRDT
Contract type	Swaps
Series	On-the-run and first off-the-run

Definitions of terms

In MAR 11 Annex 1R, the terms in column (1) have the definition in column (2).

(1)	(2)			
CDE	carbon dioxide equivalent.			
convertible bond	an instrument consisting of a bond or a securitised debt instrument with an embedded derivative, such as an option to buy the underlying equity.			
corporate bond	a bond that is issued by:			
	(a)	a Societas Europaea established before IP completion day in accordance with Council Regulation (EC) No 2157/2001; or		
	(b)	a company incorporated in the UK with limited liability or equivalent in third countries.		
covered bond	a bond issued by a credit institution which:			
	(a)	has its registered office in the UK; and		
	(b)	is subject by law to special public supervision designed to protect bondholders and, in particular, protection under which:		
		(i)	sums deriving from the issue of the bond must be invested in conformity with the law in assets;	
		(ii)	during the whole period of validity of the bond, those sums are capable of covering claims attaching to the bond; and	
		(iii)	in the event of failure of the issuer, those sums would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.	
EOD	by the end of the daily trading hours of the relevant trading venue.			
fixed to float/XFMC	a derivative of the type listed in Table 2 of the Public Register for the Clearing Obligation as at 24 April 2023 (available at the following URL: https://www.bankofengland.co.uk/-/media/boe/files/eu-withdrawal/clearing-obligation-public-register.pdf), which is required to be cleared by a CCP in accordance with Article 4(1) and (2) of EMIR. For these purposes, a reference to a 'financial counterparty' also includes a third country investment firm when it carries on MiFID or equivalent third country business from an establishment in the United Kingdom.			
HY	a bond with a credit rating falling within the credit quality steps 3 to 6 (high yield) as set out in the table in Annex III Part 2 of the UK version of Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 laying down implementing technical standards with regard to the			

	mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council, which is UK law by virtue of the EUWA (the CQS Technical Standard).	
IG	a bond with a credit rating falling within the credit quality steps 1-3 (investment grade) as set out in the table in Annex III Part 2 of the CQS Technical Standard.	
municipal bond	a bond issued by any of the following:	
	(a)	in the case of a federal state, a member of that federation;
	(b)	a special purpose vehicle for several states;
	(c)	an international financial institution established by 2 or more states that has the purpose of mobilising funding and providing financial assistance to the benefits of its members where they are experiencing or are threatened by severe financial problems;
	(d)	the European Investment Bank;
	(e)	the International Finance Corporation;
	(f)	the International Monetary Fund; or
	(g)	a public entity which is not an issuer of a sovereign bond as described below.
OIS/OSSC	a derivative of the type listed in Table 4 of the Public Register for the Clearing Obligation as at 24 April 2023 (available at the following URL: https://www.bankofengland.co.uk/-/media/boe/files/eu-withdrawal/clearing-obligation-public-register.pdf), which is required to be cleared by a CCP in accordance with Article 4(1) and (2) of EMIR. For these purposes, a reference to a 'financial counterparty' also includes a third country investment firm when it carries on MiFID or equivalent third country business from an establishment in the United Kingdom.	
other bond	a bond that is not within the descriptions of any of the bond types described in this table.	
sovereign bond	a bond issued by:	
	(a)	the EU;
	(b)	the UK, including a government department, agency or special purpose vehicle of the UK;
	(c)	a state other than the UK, including a government department, agency or special purpose vehicle of the state; or

	(d)	any other sovereign entity not listed in (a) to (c) above.
swap/index CDS	a derivative of the type listed in Table 5 of the Public Register for the Clearing Obligation as at 24 April 2023 (available at the following URL: https://www.bankofengland.co.uk/-/media/boe/files/eu-withdrawal/clearing-obligation-public-register.pdf), which is required to be cleared by a CCP in accordance with Article 4(1) and (2) of EMIR. For these purposes, a reference to a 'financial counterparty' also includes a third country investment firm when it carries on MiFID or equivalent third country business from an establishment in the United Kingdom.	

The following terms have the same meanings as in the FCA Handbook Glossary:

CCP
credit institution
derivative
EMIR
EU
EUWA
IP completion day
UK

11 Annex 2 **Details of transactions to be made available to the public**

R [*Editor's note*: This annex will consist of the 4 tables previously located at Annex II of the UK version of Commission Delegated Regulation (EU) No 2017/583 of 14 July 2016 supplementing MiFIR with regard to regulatory technical standards on transparency requirements for trading venues and investment firms in respect of bonds, structured finance products, emission allowances and derivatives, which is part of UK law by virtue of the European Union (Withdrawal) Act 2018. Where amendments are to be made to the content of the tables, underlining indicates new text and striking through indicates deleted text.]

Table 1: Symbol table for Table 2		
SYMBOL	**DATA TYPE**	**DEFINITION**
…		
{MIC}	…	…
{UPI}	UPI code	This field should use an ISO 4914 code
{LEI}	20 alphanumerical characters	This field should use an ISO 17442 code

Table 2: List of details for the purpose of post-trade transparency				
Details	**Financial instruments**	**Description/ Details to be published**	**Type of execution/ publication venue**	**Format to be populated as defined in Table 1**
Trading date and time	…	…	…	…
~~Instrument identification code type~~	~~For all financial instruments~~	~~Code type used to identify the financial instrument~~	~~RM, MTF, OTF~~ ~~APA~~ ~~CTP~~	~~"ISIN" = ISIN code, where ISIN is available~~

				~~"OTHR" = other identifier~~
Instrument identification code	…	…	…	…
Unique product identifier	For derivatives	Code used to identify the financial instrument	RM, MTF, OTF APA, CTP	{UPI}
Effective date of the contract	For derivatives	Length of the financial instrument's contract	RM, MTF, OTF APA, CTP	{DATEFORMAT}
Maturity date of the contract	For derivatives	Termination date of the financial instrument's contract	RM, MTF, OTF APA, CTP	{DATEFORMAT}
Price	…	…	…	{DECIMAL-18/13} in case the price is expressed as monetary value {DECIMAL-11/10} in case the price is expressed as percentage or yield ~~"PNDG" in case the price is not available~~ {DECIMAL-

				18/17} in case the price is expressed as basis points
Price conditions	For all financial instruments	Where price is currently not available but pending, the value should be ‘PNDG’.	RM, MTF, OTF APA, CTP	‘PDNG’ when price is currently not available but pending. ‘NOAP’ where price is not applicable.
…				
Quantity	For all financial instruments except in ~~the cases described under Article 11(1) letters (a) and (b) of this Regulation~~ certain cases.	The number of units of the financial instrument, or the number of derivative contracts in the transaction. Not to be populated for bonds.	RM, MTF, OTF APA CTP	{DECIMAL-18/17}
…				
Notional currency	For all financial instruments except in ~~the cases described under Article 11(1) letters (a) and (b) of the~~	Currency in which the notional is denominated. This field should use an ISO 4217 currency code for a	RM, MTF, OTF APA CTP	{CURRENCYCODE_3}

	Regulation certain cases.	major currency.		
…				
Transaction Identification Code	…	…	…	…
Spread	For derivatives	The spread on the floating leg.	RM, MTF, OTF APA, CTP	{DECIMAL-11/10}
Upfront payment	For derivatives	The upfront payment exchanged as part of CDS transactions.	RM, MTF, OTF APA, CTP	{DECIMAL-18/13}
LEI of clearing house	For derivatives	Clearing house through which the transaction will be cleared.	RM, MTF, OTF APA, CTP	{LEI} if cleared
Transaction to be cleared	For derivatives	Code to identify whether the transaction will be cleared.	RM, MTF, OTF APA CTP	'true' – transaction to be cleared 'false' – transaction not to be cleared

Table 3: List of flags for the purpose of post-trade transparency				
	Flag	**Name of Flag**	**Type of execution/ publication venue**	**Description**
…				
	"ACTX"	Agency cross transaction flag	APA CTP	Transactions where an investment firm has

				~~brought together two clients' orders with the purchase and the sale conducted as one transaction and involving the same volume and price.~~
	~~"NPFT"~~	~~Non-price forming transaction flag~~	~~RM, MTF, OTF~~ ~~CTP~~	~~All types of transactions listed under Article 12 of this Regulation and which do not contribute to the price formation.~~
…				
	~~"ILQD"~~	~~Illiquid instrument transaction flag~~	~~RM, MTF, OTF~~ ~~APA~~ ~~CTP~~	~~Transactions executed under the deferral for instruments for which there is not a liquid market.~~
	~~"SIZE"~~	~~Post-trade SSTI transaction flag~~	~~RM, MTF, OTF~~ ~~APA~~ ~~CTP~~	~~Transactions executed under the post-trade size specific to the instrument deferral.~~
…				
SUPPLEMENTARY DEFERRAL FLAGS				

~~Article 11(1)(a)(i).~~	~~"LMTF"~~	~~Limited details flag~~	~~RM, MTF, OTF~~ ~~APA~~ ~~CTP~~	~~First report with publication of limited details in accordance with Article 11(1)(a)(i).~~
	~~"FULF"~~	~~Full details flag~~		~~Transaction for which limited details have been previously published in accordance with Article 11(1)(a)(i).~~
~~Article 11(1)(a)(ii).~~	~~"DATF"~~	~~Daily aggregated transaction flag~~	~~RM, MTF, OTF~~ ~~APA~~ ~~CTP~~	~~Publication of daily aggregated transaction in accordance with Article 11(1)(a)(ii).~~
	~~"FULA"~~	~~Full details flag~~		~~Individual transactions for which aggregated details have been previously published in accordance with Article 11(1)(a)(ii).~~
~~Article 11(1)(b)~~ *MAR* 11.5.1R(3)	"VOLO"	Volume omission flag	RM, MTF, OTF APA CTP	Transaction for which limited details are published ~~in accordance with Article 11(1)(b)~~.

	“FULV”	Full details flag	RM, MTF, OTF APA CTP	Transaction for which limited details have been previously published ~~in accordance with Article 11(1)(b)~~.
~~Article 11(1)(c)~~	~~“FWAF”~~	~~Four weeks aggregation flag~~	~~RM, MTF, OTF~~ ~~APA~~ ~~CTP~~	~~Publication of aggregated transactions in accordance with Article 11(1)(c).~~
	~~“FULJ”~~	~~Full details flag~~	~~RM, MTF, OTF~~ ~~APA~~ ~~CTP~~	~~Individual transactions which have previously benefited from aggregated publication in accordance with Article 11(1)(c).~~
~~Article 11(1)(d)~~	~~“IDAF”~~	~~Indefinite aggregation flag~~	~~RM, MTF, OTF~~ ~~APA~~ ~~CTP~~	~~Transactions for which the publication of several transactions in aggregated form for an indefinite period of time has been allowed in accordance with Article 11(1)(d).~~
~~Consecutive use of Article 11(1)(b) and Article~~	~~“VOLW”~~	~~Volume omission flag~~	~~RM, MTF, OTF~~ ~~APA~~	~~Transaction for which limited are published in accordance~~

~~11(2)(c) for sovereign debt instruments~~			~~CTP~~	~~with Article 11(1)(b) and for which the publication of several transactions in aggregated form for an indefinite period of time will be consecutively allowed in accordance with Article 11(2)(c)~~
	~~"COAF"~~	~~Consecutive aggregation flag (post volume omission for sovereign debt instruments)~~	~~RM, MTF, OTF~~ ~~APA~~ ~~CTP~~	~~Transactions for which limited details have been previously published in accordance with Article 11(1)(b) and for which the publication of several transactions in aggregated form for an indefinite period of time has consecutively been allowed in accordance with Article 11(2)(c)~~

Table 4: Measure of volume	
Type of instrument	**Volume**
All bonds except ETCs and ETNs and structured finance products	~~Total nominal~~ Nominal value ~~of debt instruments traded~~ per unit multiplied by the number of

	instruments at the time of the transaction
ETCs and ETNs bond types and securitised derivatives	Number of ~~units traded~~ instruments exchanged between the buyers and sellers multiplied by the price of the instrument exchanged for that specific transaction (or the price field multiplied by the quantity field)
Structured finance products	Nominal value per unit multiplied by the number of instruments at the time of the transaction
~~Securitised derivatives~~	~~Number of units traded~~
…	
Credit derivatives	Notional amount ~~of traded contracts~~ for which the protection is acquired or disposed of
…	
C10 derivatives	~~Notional~~ Resulting amount of ~~traded contracts~~ the quantity at the relevant price set in the contract at the time of the transaction (or the price field multiplied by the quantity field)
Emission allowance derivatives	~~Tons of Carbon Dioxide equivalent~~ Resulting amount of the quantity at the relevant price set in the contract at the time of the transaction (or the price field multiplied by the quantity field)
…	

Amend the following as shown.

TP 1 Transitional Provisions

…

TP 1.2

(1)	(2) Material provision to which transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
…					
6	…	…	…	…	…
7	*MAR* 11	G	In respect of a trade concluded before [commencement date of new rules], the *FCA* will treat anything done by a *transparency firm* for the purposes of complying with Articles 8, 9, 10 or 11 of *MiFIR* and the associated provisions in *RTS 2* as if it were done for the purposes of any equivalent new transparency provision in *MAR* 11 after [commencement date of new rules].	From [commencement date of new rules]	[Commencement date of new rules]
8	*MAR* 11.4.5R(2)	R	Where a *transparency firm* publishes (via an *APA* or otherwise) a trade report before [commencement date of new rules] under Articles 10 or 11 of MiFIR and amends the report after [commencement date of new rules], it may make the new trade report required by *MAR* 11.4.5R(2)(b) either in accordance with *MAR* 11 Annex 2 or by reference to the version of *MiFIR RTS 2* Annex II which was in force immediately before	From [commencement date of new rules]	[Commencement date of new rules]

			[commencement date of new rules].		

Annex C

Amendments to the Perimeter Guidance manual (PERG)

In this Annex, underlining indicates new text and striking through indicates deleted text.

13 Guidance on the scope of the UK provisions which implemented MiFID

…

13.2 General

…

Q10. Is there any change to the "by way of business" test in domestic legislation?

…

Q10a. The Glossary definition of 'systematic internaliser' says that SI activity must be 'held out as being carried on by way of business, in a manner consistent with Article 3(2)(a) of the Business Order'. What does this mean?

The SI activity must be carried out in a manner consistent with the 'by way of business' test applicable to the regulated activity of 'dealing in investments as principal' in Article 14 of the *RAO*. For these purposes, this means that the activity must form a part of the services the *MiFID investment firm* typically or ordinarily offers to clients in the relevant *financial instrument* to be considered SI activity.

A *MiFID investment firm* will not be considered to be carrying on SI activity purely as a result of some degree of automation in the execution of orders – for example, where:

- such activity is only ancillary to the principal nature of the commercial relationship between the parties, in respect of the relevant *financial instrument*; or
- the firm does not advertise such activity to clients, including by broadcasting offers to deal in the relevant *financial instrument*.

In such circumstances, the *MiFID investment firm* would not be 'holding itself out' to be carrying on activity as an SI.

Whether or not activity is a part of the services the *MiFID investment firm* typically or ordinarily offers to clients such that it constitutes SI activity is ultimately a question of judgement that takes account of several factors. These include:

- the extent to which the activity is conducted or organised separately;
- the monetary value of the activity; and

- its comparative significance in terms of revenue by reference to the *firm's* overall activity in the market for the relevant *financial instrument*.

The meaning of 'dealing on own account when executing client orders' for the purposes of the definition of SI remains unchanged and can be found in Article 16a of the *MiFID Org Reg*.

…

13.3 Investment Services and Activities

…

Multilateral system

…

Q24C. What is a multilateral system?

…

Characteristics of a system or facility

A *multilateral system* has the characteristics of a trading system or facility. Recital 7 UK MiFIR clarifies that a trading system or facility includes markets composed of a set of rules and a trading platform, as well as those only functioning on the basis of a set of rules. The rules relate to how multiple third-party trading interests in *financial instruments* are able to interact in the system (see below). The rules could be reflected in contracts and/or operating procedures. As such, a system is technology neutral for these purposes, as shown by the different types of trading systems referred to in Annex I to *MiFID RTS 1*, and ~~Annex I to *MiFID RTS 2*~~ the table in *MAR* 11.2.3R. For guidance on voice broking, please refer to Q24D below.

…

Trading venue perimeter – specific cases

Q24D. Does voice broking involve the operation of a multilateral system?

Voice broking may but need not comprise the operation of a *multilateral system*.

Merely arranging or executing client orders over the telephone does not constitute a *multilateral system*, although it may amount to other investment services such as reception and transmission or execution of orders on behalf of clients.

A trading system or facility could, however, take the form of a voice trading system ~~(as referred to in Annex I *MiFID RTS 2*)~~ or a hybrid system (as referred to in Annex I *MiFID RTS 1* ~~and Annex I *MiFID RTS 2*~~). For example, a firm that operates a platform where trading interests of clients are broadcast to other

users and then engages in voice broking to enable negotiation between these parties would operate a trading system or facility, unless Q24F applies. Voice broking may also be part of a *multilateral system* when operating in conjunction with other modes of execution such as electronic order books operated by that broker.

…

MARKETS IN FINANCIAL INSTRUMENTS (NON-EQUITY TRANSPARENCY TECHNICAL STANDARDS) INSTRUMENT 2024

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the powers and related provisions in or under:

(1) articles 5, 9, 11, 21 and 22 of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012; and

(2) the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(a) section 138P (Technical standards);
(b) section 138Q (Standards instruments);
(c) section 138S (Application of Chapters 1 and 2); and
(d) section 137T (General supplementary powers).

B. The rule-making powers listed above are specified for the purposes of section 138Q(2) (Standards instruments) of the Act.

Pre-conditions to making

C. The FCA has consulted the Prudential Regulation Authority and the Bank of England as appropriate in accordance with section 138P of the Act.

D. A draft of this instrument has been approved by the Treasury in accordance with section 138R of the Act.

Interpretation

E. In this instrument, any reference to any provision of assimilated direct legislation is a reference to it as it forms part of assimilated law.

Modifications

F. The following technical standard is revoked:

Commission Delegated Regulation (EU) 2017/583 of 14 July 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on transparency requirements for trading venues and investment firms in respect of bonds, structured finance products, emission allowances and derivatives

G. The following technical standard is amended in accordance with the Annex to this instrument:

Commission Delegated Regulation (EU) 2017/577 of 13 June 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on the volume cap mechanism and the provision of information for the purposes of transparency and other calculations

Commencement

H. This instrument comes into force on [*date*].

Citation

I. This instrument may be cited as the Markets in Financial Instruments (Non-Equity Transparency Technical Standards) Instrument 2024.

By order of the Board
[*date*]

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Annex

Commission Delegated Regulation (EU) 2017/577 of 13 June 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on the volume cap mechanism and the provision of information for the purposes of transparency and other calculations

Article 1

Subject matter and scope

(1) This Regulation sets out~~,~~ the details of the data requests to be sent by the FCA and the details of the reply to those requests to be sent by trading venues, approved publication arrangements (APAs) and consolidated tape providers (CTPs), for the purposes of calculating and adjusting the pre-trade and post-trade transparency and trading obligation regimes and in particular for the purposes of determining the following factors:

(a) whether equity~~,~~ and equity-like ~~and non-equity~~ financial instruments have a liquid market;

(b) the thresholds for pre-trade transparency waivers for equity~~,~~ and equity-like ~~and non-equity~~ financial instruments;

(c) the thresholds for post-trade transparency deferrals for equity~~,~~ and equity-like ~~and non-equity~~ financial instruments;

(d) when the liquidity of a class of financial instruments falls below a specified threshold; and

(e) ~~whether an investment firm is a systematic internaliser;~~ [deleted]

(f) ~~the standard market size applicable to systematic internalisers dealing in equity and equity-like instruments, and the size specific to the instrument applicable to systematic internalisers dealing in non-equity instruments;~~ [deleted]

(g) ~~for equity and equity-like instruments, the total volume of trading for the previous 12 months and of the percentages of trading carried out under both the negotiated trade and reference price waivers across the UK and on each trading venue in the previous 12 months;~~ [deleted]

(h) whether derivatives are sufficiently liquid for the purposes of implementing the trading obligation for derivatives.

Article 2

Content of the data requests and information to be reported

(1) For the purpose of carrying out calculations that occur at pre-set dates or in pre-defined frequencies, trading venues, APAs and CTPs shall provide the FCA with all the data required to perform the calculations set out in the following Regulations:

(a) Delegated Regulation (EU) 2017/587;

(b) ~~Delegated Regulation (EU) 2017/583;~~ [deleted]

(c) Delegated Regulation (EU) 2017/567; and

(d) Delegated Regulation (EU) 2017/565.

…

Article 3

Frequency of data requests and response times for trading venues, APAs and CTPs

(1) Trading venues, APAs and CTPs shall submit the data referred to in Article 2(1) each day.

(2) Trading venues, APAs and CTPs shall submit the data in response to an ad hoc request as referred to in Article 2(2) within four weeks of receipt of that request unless exceptional circumstances require a response within a shorter time period as specified in the request.

(3) ~~By way of derogation from paragraphs 1 and 2, trading venues and CTPs shall submit data to be used for the purpose of the volume cap mechanism as set out in paragraphs 6 to 9 of Article 6.~~ [deleted]

…

Articles 6 and 8 are deleted in their entirety. The deleted text is not shown.

Article 6

Reporting requirements for trading venues and CTPs for the purpose of the volume cap mechanism [deleted]

Article 8

Reporting requirements for ESMA for the purpose of the volume cap mechanism [deleted]

…

The Annex is deleted in its entirety. The deleted text is not shown.

ANNEX Table 1 Symbol table for Table 2 Table 2 Formats of the report for the purpose of the volume cap mechanism [deleted]

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