

## EDMA Response to FCA Consultation Paper (CP23/32) Improving Transparency for Bond and Derivative Markets

### Introduction

EDMA appreciates the FCA's thorough, iterative and extensive analysis and development of proposals which aim to improve the transparency regime for bond and derivative markets. We welcome the opportunity to comment and continue constructive discussions on this topic.

EDMA are concerned the FCA are not planning to completely remove the pre-trade transparency regime for RFQ systems as proposed in the Wholesale Markets Review. EDMA also see an increased imbalance between instruments traded on a trading venue and those traded outside a trading venue in the FCA's proposals. In addition, the proposals for trading venues to set their own deferrals and threshold regimes and separately the use of UPI in OTC derivatives have respectively unintended consequences and cost concerns. Finally, the use of credit ratings in the categorisation of corporate bonds holds operational cost issues for trading venues unless a 'golden source' is freely available. We elaborate on these issues in the respective answers below.

### Rating scale:

- Strongly Agree
- Somewhat Agree
- Neither Agree nor Disagree
- Somewhat Disagree
- Strongly Disagree
- Not responding (questions have been removed from our response)

### Responses to the FCA's questions

**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?

#### Strongly Agree

EDMA agrees with the FCA's proposal to maintain the current scope of the transparency regime for bonds based on whether they are traded on a trading venue.

EDMA would further state that the transparency regime for instruments traded on a trading venue should be maintained in the same way as for executions occurring on trading venue as those executed outside a trading venue.

**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.

#### Strongly Agree

Yes, EDMA agrees that the transparency regime should focus on the classes of derivatives subject to the clearing obligation.

**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.

**Somewhat Agree**

Yes, EDMA agrees that FRAs, basis swaps and OIS and Fixed-to-Float swaps with reference index other than EURIBOR, SONIA, SOFR, €STR and FedFunds should be excluded from the list of Category 1 instruments.

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

**Somewhat Agree**

Yes, EDMA agrees that iTraxx Europe Main and iTraxx Europe Crossover should be included in Category 1 instruments.

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

**Somewhat Agree**

Yes, EDMA agrees swaps should be bucketed by tenor.

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

**Strongly Disagree**

EDMA believes that pre-trade transparency for RFQ systems should be removed completely rather than having to rely on a waiver.

- 1) EDMA notes that the Wholesale Markets Review concluded that the pre-trade transparency regime for RFQ systems should be 'removed completely'. EDMA does not understand why the FCA have adopted a 'remove via a waiver' approach and what reasoning lies behind that approach.
- 2) EDMA notes that the 'remove via a waiver' approach further negatively impacts the level playing field as between trading venues and OTC trading. There is also a level playing field issue created within Category 1 instruments where RFQ system operators have to maintain a waiver regime whereas investment firms do not.
- 3) EDMA is aware the FCA's remit includes the promotion of the international competitiveness of UK financial markets. In that context EDMA likes to point out that the EU is abolishing pre-trade transparency for RFQ trading systems without waiver applications being required.
- 4) The waiver approach will require trading venues to carry needless technology preparations. EDMA members' technology costs will be needlessly higher due to the need to implement the new waivers and maintain them. EDMA is unaware of any benefits from taking the approach proposed by the FCA.

With regard to pre-trade transparency for RFQ and voice systems, the FCA should formalise the WMR proposal, whereby:

*'5.11 The government proposed recalibrating the pre-trade transparency regime for fixed income and derivative markets by limiting the scope of the regime to systems such as electronic order books and periodic auctions.*

*5.12 The vast majority of respondents suggested going further by **removing the pre-trade transparency regime completely**. However, most recognised that maintaining it for the limited number of systems that already*

*operate under full transparency, such as order books in respect of derivative transactions, would not have any significant impact while addressing the main burden for firms.'*

(HMT Wholesale Markets Review Consultation Response)

**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.

**Strongly Agree**

EDMA agrees with the FCA's proposed approach to the dissemination of information on a trade-by-trade basis.

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

**Somewhat Agree**

Yes, the FCA should consider having a separate group for inflation-linked Sovereign bonds.

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

**Somewhat Disagree**

EDMA largely agrees with the FCA's proposed use of investment grade designation as part of the post-trade transparency regime for corporate bonds. However, EDMA members do not believe it is practical for trading venues to source credit ratings from over 33 credit rating agencies specified in the on-shored version of [Annex III of Commission Implementing Regulation \(EU\) 2016/1799](#). This will represent a significant cost for trading venues to purchase, consume, and maintain credit ratings from all the credit rating agencies.

EDMA asks instead for the FCA to make available a single 'golden source' of credit ratings for the purpose of the corporate bond transparency determinations. We note that the FCA currently has access to the required credit ratings in the FCA's [Public Ratings Database](#) pursuant to the Credit Rating Agencies Regulation which could be used for this purpose.

EDMA acknowledges that the likelihood of a corporate bond being rated CQS3 and CQS4 by different rating agencies may well be very low but, in order to comply fully with regulations, trading venues would still need to consume ratings from all 33+ agencies to be fully compliant. Absent a publicly available golden source, trading venues' costs would increase through a need to source all credit ratings. It may also establish inappropriate 'race to the bottom' motivations.

EDMA largely agrees with the FCA's proposed definition of investment grade bonds. However, we have concerns over the identification of credit rating given there are around 33 credit rating agencies operating over the relevant bond universe.

EDMA would strongly suggest that the FCA request the PRA to make known the rating the PRA uses such that the industry can operate to a single 'golden source' of credit rating to make corporate bond transparency determinations. Absent a publicly available golden source trading venues' costs would increase through a need to source all credit ratings. It may also establish inappropriate 'race to the bottom' motivations.

EDMA would also like to understand how, the not insignificant number of, unrated bonds would be handled in terms of Category 1 groupings?

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

**Yes**

Yes, EDMA notes three issues detailed below:

1) An imbalance between instruments traded on a trading venue and those traded outside a trading venue for no clear policy objective

EDMA would like to highlight the unlevel playing field of post-trade transparency in Category 2 instruments. We would like to better understand the policy objective behind exempting investment firms from post-trade transparency obligations in instruments that may also be offered for trading on regulated trading venues. Post-trade transparency obligations across trades on trading venues and trades executed outside a trading venue promotes liquidity. In turn, such liquidity fosters central clearing, enhancing the robustness and safety of derivatives markets. Exempting investment firms from transparency obligations of trades executed on systematic internalisers or OTC bilateral may run counter to the objective of encouraging more trading activity to take place on transparent and regulated trading venues.

There is also a not insignificant level playing field issue within the treatment of Category 1 instruments. RFQ operators must operate a waiver regime whereas investment firms do not have this obligation.

2) Trading venues setting their own thresholds

We also seek clarification and proposed resolutions for the issue of trading venues setting their own deferral and threshold regimes in Category 2 instruments. We acknowledge that individual operators of trading venues may consult with their members and participants the appropriate calibration of transparency and the factors set out in MAR 11.3.4R(1) to (5) for Category 2 instruments traded on their venue. However, the unintended consequence of self-determination may include three scenarios:

- a) "Race-to-the-bottom" long deferrals / high thresholds.
- b) Where Category 2 instruments are offered on competing trading venues, these venues may have to compromise transparency for commercial and competitive interests.
- c) Publication differences and their related impact on the CT.

EDMA would also appreciate clarification regarding the deferral application of package transactions consisting of both Category 1 and 2 instrument components.

3) Removal of pre-trade transparency through a waiver process for RFQ systems instead of its complete removal

As already noted, we believe the FCA should formalise the WMR proposal:

*'5.11 The government proposed recalibrating the pre-trade transparency regime for fixed income and derivative markets by limiting the scope of the regime to systems such as electronic order books and periodic auctions.*

*5.12 The vast majority of respondents suggested going further by removing the pre-trade transparency regime completely. However, most recognised*

*that maintaining it for the limited number of systems that already operate under full transparency, such as order books in respect of derivative transactions, would not have any significant impact while addressing the main burden for firms.'*

(HMT Wholesale Markets Review Consultation Response)

EDMA further notes that the Table in the draft rules that dictates what a particular system must report no longer lists RFQ systems. So, if an RFQ system no longer benefits from a waiver, what would it report?

**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.

### **Somewhat Agree**

Whilst EDMA agrees with the FCA's proposal to introduce the new field "unique product identifier" we would draw the FCA's attention to the increased cost consequences for trading venues. Please refer to our answer to Q46 below.

**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.

### **Somewhat Agree**

EDMA agrees with the FCA's proposal to limit the use of UPI to OTC derivatives.

However, EDMA does not believe the UPI is fit for purpose in OTC derivatives due to missing instrument tenor. A move towards publication of key attributes could provide more meaningful transparency (asset class, sub-asset class, currency, tenor, fixed and float leg characteristics, price, spread, etc.).

**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.

### **Somewhat Agree**

EDMA supports the addition of effective date, maturity date, spread, upfront payment and CCP LEI. These (pricing relevant) fields help users to better understand, compare and aggregate derivatives' trade publications.

These steps will help to a) align the global mandate of the use of UPIs and b) prepare for the removal of the "daily ISIN glut" in derivatives.

**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.

### **Yes**

Yes, it would have a very high impact, at least temporarily as trading venues will get charged significant fees for the use of both ISINs and UPIs.

Ref: <https://www.anna-dsb.com/fees-rules-2023/>

EDMA members have to pay (power user) DSB fees for ISIN and UPI. Further development and implementation costs will occur if Tables 2 and 3 of RTS Annex II get amended according to the UPI+ proposals.

There will now be two sets of fees for trading venues; ISIN and UPI. ISIN's use for OTC derivative identification needs to be phased out completely as soon as possible.

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

### **Somewhat Agree**

EDMA generally agrees with the proposed changes. However, there are a few points to which we wish to draw your attention.

We note that the list of 'current' exceptions does not cater for all instances where the market convention may deviate from a price expressed as a percentage of par. As an example, there are many corporate and government bonds that trade in Units where the price is expressed in monetary terms. As such, EDMA would caution the FCA against implying that the FCA's exceptions list is exhaustive; rather, EDMA would suggest the FCA list examples of exemption but also make clear data contributors are also permitted to seek to use appropriate market conventions for reporting the price.

We would also request further information on what is meant by "corporate bonds with a spread with future benchmark" as this is not a familiar convention to EDMA members for corporate bonds.

For corporate bonds, reporting the price as a yield spread to a government bond requires additional information (such as the benchmark bond and price being used and/or the final percentage of par price of the corporate bond) for the consumer of the data to be able to compare trade reports in the same security reported in percentage of par terms.

EDMA members do not agree with the guidance provided in 8.39 on how to "calculate" a bond notional amount (excluding ETCs/ETNs). It is common to trade bonds on notional amount. Trade communications do not relate to a "number of instruments" which is subsequently multiplied by the "nominal value of its unit". This is further aggravated by notoriously bad data quality of FIRDS field "Nominal value per unit/minimum traded value".

**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.

### **Strongly Agree**

Yes, EDMA supports the FCA's intentions described in 8.38, particularly with respect to price dissemination of CDS, other instruments and the related harmonisation with RTS 22 transaction reporting. We agree that the FCA should work closely with the industry to develop guidance on the reporting of prices under post-trade transparency. Our members would willingly participate in any future discussions to develop and evaluate any future proposals.

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

**Yes**

EDMA appreciates the FCA's thorough, iterative and extensive analysis and development of proposals which aim to improve the transparency regime for bond and derivative markets. We welcome the opportunity to comment and continue constructive discussions on this topic.

EDMA are concerned the FCA are not planning to completely remove the pre-trade transparency regime for RFQ systems as proposed in the Wholesale Markets Review. EDMA also see an increased imbalance between instruments traded on a trading venue and those traded outside a trading venue in the FCA's proposals. In addition, the proposals for trading venues to set their own deferrals and threshold regimes and separately the use of UPI in OTC derivatives have respectively unintended consequences and cost concerns. Finally, the use of credit ratings in the categorisation of corporate bonds holds operational cost issues for trading venues unless a 'golden source' is freely available. We elaborate on these issues in the respective answers above.

## March 2024

## About EDMA

Electronic Debt Markets Association represents the common interests of companies whose primary business is the operation of regulated electronic fixed income trading venues (multilateral trading facilities and regulated markets) in Europe. EDMA seeks to foster and promote liquid, transparent, safe and fair markets and act as the voice and a source of consultation between the members in their roles as operators of such venues. EDMA projects collective views on regulatory matters and market structure topics to governments, policy makers and regulators for the benefit of the electronic fixed income markets. Our 6 members are: BGC Fenics, Bloomberg, BrokerTec, MarketAxess, MTS and Tradeweb. More information at [www.edmae.org](http://www.edmae.org)

