

Revised UK Post-trade Transparency Model for Bonds

IA / AFME Joint Proposal for FCA

6th March 2024

The below tables and associated notes represent the agreed position and joint proposals to the FCA of the Investment Association (IA) and the Association for Financial Markets in Europe (AFME) for a revised post-trade transparency regime for bonds traded in the UK. The proposals draw on what we jointly believe to be the best elements from each of Models 1 and 2 as proposed by the FCA in CP 23/32 and thereby represent the optimal solution for the structure and associated trade size thresholds of the new regime.

Sovereign Bond Grouping				Deferral Buckets		
Calibration Criteria				Deferral Buckets		
Bond Type	Issuer Country	Issue Size	Maturity Band	Immediate Price & Volume	T+2 Price & Volume	4 weeks Price & Volume (with Caps on Vol Publication)
Sovereign & Public Bonds	UK, US, Germany, France & Italy	>£2 Bln	0 - 5 Yrs	<£15 Mln	£15-50 Mln	>£50 Mln (Cap at £500 Mln)
			5+ - 15 Yrs	<£10 Mln	£10-25 Mln	>£25 Mln (Cap at £250 Mln)
			15+ Yrs	<£5 Mln	£5-10 Mln	>£10 Mln (Cap at £100 Mln)
	All other instruments [^]	>£2 Bln	<£1 Mln	£1-5 Mln	>£5 Mln (Cap at £25 Mln)	
		<£2 Bln	<£1 Mln	£1-2.5 Mln	>£2.5 Mln (Cap at £10 Mln)	
[^] 'All other instruments' to include ALL Inflation Linked, FRNs, STRIPS & Bills regardless of issuer country. Also to include, specifically, US Treasury 'off-the-runs'						

Corporate Bond Grouping				Deferral Buckets		
Calibration Criteria				Deferral Buckets		
Bond Type	Currency	Issue Size	IG / HY	Immediate Price & Volume	T+2 Price & Volume	4 weeks Price & Volume (with Caps on Vol Publication)
Corps, Covereds, Converts & 'Other'	GBP, EUR & USD	>£500 Mln	IG	<£1 Mln	£1-£5 Mln	>£5 Mln (Cap at £25 Mln)
			HY		£1-£2.5 Mln	>£2.5 Mln (Cap at £10 Mln)
	All other instruments			<£500k	£500k-£2.5 Mln	>£2.5mm (Cap at £10 Mln)

Important notes and caveats:

- 1) **Sovereigns - country grouping:** It should be noted that within this grouping there is a significant difference in natural liquidity between different countries.
- 2) **Sovereigns – 'All other instruments' bucket and 'off-the-runs':** It will be noted that we propose including, specifically, US Treasury market 'off-the-run' bonds in the 'All other instruments' bucket. This is because there is:
 - a. a more marked differential in liquidity between 'on' and 'off'-the-run bonds in the US Treasury market than in other major sovereign bond markets and

- b. there exists a robust and clear definition of 'on-the-run' bonds in the US Treasury market that doesn't exist in such a clear way in other markets.

However, should the FCA be able to define a similarly robust methodology that could be used for the other liquid country markets cited in the above table, we would recommend that 'off-the-run' bonds in these markets also be included in the 'All other instruments' segment. AFME and the IA would be happy to consult further with the FCA on this point.

- 3) **Sovereigns – 'All other instruments' bucket split in 2:** It will be further noted that we recommend splitting the 'All other instruments' bucket into 2 separate segments, defined by an issue size threshold of $> / < \text{£2 Bln}$. There are strong concerns from our mutual members about the breadth of security types currently within this 1 bucket – issue types as diverse as Spanish Bonos and Dutch State Loans (Netherlands Gov bonds) on the one hand and local currency EM sovereign bonds (e.g. Nigeria gov. bonds) on the other. Our view is that having such diverse security types in the same bucket makes appropriate treatment for each extremely challenging and there are concerns over the potential effect on the trading of local currency EM sovereign bonds in the UK market. We feel that a £2 bln issue size split should confine the majority of these local currency bonds to a less liquid bucket and allow for the differentiation that we view as being required. It would have the added advantage of allocating to this less liquid bucket some of the least liquid securities from smaller EU countries.

The IA and AFME would welcome the opportunity to jointly present these proposals to the FCA in order to fully explain the thinking and rationale behind the construction of these alternative proposals. We remain at the disposal of the FCA to do so at their earliest convenience.