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## Press release

### **AFME/Finbourne study demonstrates need for longer deferrals for large and illiquid trades and shows transparency could be significantly improved for majority of smaller fixed income trades**

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The Association for Financial Markets in Europe (AFME) has today published a first of its kind study consolidating fixed income trading data from numerous sources for the period of March to December 2021. This shows that the majority of fixed income trades could be made transparent in near real-time, but also finds there is a clear need for a longer deferral period for the publication of larger or illiquid trades. Data provided by FINBOURNE Technology for this study demonstrates that an inadequate deferral calibration - as currently proposed by the European Commission - could have potentially significant negative implications for market liquidity.

In 2021, as part of the Markets in Financial Instruments Regulation (MiFIR) review, the Commission set out changes to bond market transparency which included harmonising the deferral regime and shortening post-trade publication delays.

The AFME paper analyses recent European fixed income trade data from around 5500 of the most frequently traded securities. The analysis focuses on the corporate bond landscape (rather than government bonds) to identify which types of trades could be subject to near real-time price and volume transparency, and which types of trades should be subject to deferrals.

From the data set studied, AFME and Finbourne find that different deferral periods need to be applied based on the trade size and issuance volume, among other characteristics. Applying the Commission's proposed deferral regime to all trades, especially those larger in size or illiquid, risks exposing liquidity providers to potential undue risks, which could negatively impact the amount of liquidity/pricing that market makers are able to provide.

**Adam Farkas, Chief Executive of AFME**, said: *"This report demonstrates both the value of having a high quality, consolidated view of bond trading in the EU and the potentially significant implications of inadequate deferral calibration. Current proposals to reduce the amount of time that post-trading information can be deferred from publication could have a negative impact on liquidity for corporate bonds. This is especially true for large transactions or trades in bonds that are less liquid, as this would force liquidity providers to disclose their books to the market before they have unwound or hedged their positions, resulting in negative outcomes for investors and a direct hit to liquidity provision. In turn, this could impact the availability and pricing of funding for EU corporates in primary debt markets, which is counterintuitive and not in line with the goals of the Capital Markets Union. Even the Commission proposals implicitly recognise that there can be downsides to publishing trade information too quickly because sovereign bonds will benefit from lengthy publication deferral periods."*

*"AFME is therefore calling on the co-legislators to ensure that corporate bonds are not treated less favourably than government bonds and to avoid hardwiring the proposed price and volume deferral calibration into primary legislation. A wider range of deferral periods calibrated to the realities of the fixed income market as demonstrated in this report is needed instead."*

#### **Association for Financial Markets in Europe**

**London Office:** 39<sup>th</sup> Floor, 25 Canada Square, London E14 5LQ, United Kingdom T: +44 (0)20 3828 2700

**Brussels Office:** Rue de la Loi 82, 1040 Brussels, Belgium T: +32 (0)2 788 3971

**Frankfurt Office:** Neue Mainzer Straße 75, 60311 Frankfurt am Main, Germany T: +49 (0)69 153 258 963

[www.afme.eu](http://www.afme.eu)

**Thomas McHugh, CEO and Co-Founder, at FINBOURNE Technology**, said: *“We are pleased to contribute data analysis to AFME’s study and support the formulation of evidence-based policy. Combining our data management expertise and publicly available MiFID transaction records, we have been able to aggregate over one million transaction records for this study. This includes, linking transactions to ESMA’s FIRDS database, normalising the divergent formats, and scenario-testing at a granular (ISIN by ISIN) level. Our belief is that by making the data fully transparent, we will help the market to address key issues that have hindered the successful development of a consolidated tape to date.”*

**Key findings:**

- **Small trades (of less than EUR 500k) account for the majority (c. 70%) of the overall number of trades in the data set and can support being reported in near real-time.** Therefore, making these small transactions transparent will significantly improve transparency by almost 10 fold, increasing from 8% of transactions currently being reported real-time to almost 70% of transactions becoming real-time transparent.
- **The smaller the trade size and the more liquid the instrument, the less risk is associated with rapid dissemination of price and volume information** for liquidity providers, with the ‘trade out’ (i.e. moving the risk off the bank’s balance sheet) being less than 1 day for liquidity providers.
- However, this 70% reflects 13% of market volume. Therefore these transactions represent a much smaller percentage of market volume than of the number of trades.
- **Larger transactions (of more than EUR 500k) reflect a relatively small percentage of total transactions, accounting for c. 30% of total transactions but a much larger share of market volume.** The data set demonstrates that the larger the transaction, the longer it takes to ‘trade out’ and clear the market. For trades larger than EUR 1 million, it takes on average 6 business days to ‘trade out’ of positions. For trades over EUR 5 million it takes on average 19 days to trade out, while larger trades take even longer.
- The deferral regime should have a conceptual link between trade size categories (i.e. real-time transparency), bond liquidity and deferral periods (i.e. for a regime with a higher trade size, or deemed illiquid the deferral period should be longer);
- **Investors who will benefit most from increased transparency are smaller,** less sophisticated investors whose trading activity will be concentrated in smaller sized trades.
- At the same time, **longer deferrals for the small number of large transactions should limit the risk of liquidity reduction in the market for institutional investors.**

AFME therefore opposes a hardwiring of price and volume deferral calibration in primary legislation (as is currently proposed). Since each fixed income asset class will include a significant number of illiquid bonds, AFME urges the co-legislators to adopt a range of deferral periods, going beyond the Commission’s proposal for maximum deferral period for prices (by the end of the day) and volume (within two weeks). ESMA will then be able to calibrate the details of which bonds should go into the various deferral categories, which should be based off detailed and high-quality data .

– Ends –

### Notes to Editors:

- About market makers in the fixed income market:  
In markets that are less liquid, such as the fixed income market, market makers play a crucial role in providing liquidity to the market. Market makers facilitate transactions by taking risk on to their balance sheet and provide 'immediacy' of execution to their clients, therefore facilitating liquidity in the market. Typically, when a market maker trades, especially in large size or in an illiquid instrument, they take on a position which incurs market risk. If the level of risk increases above an acceptable level, it is likely to negatively impact the amount of liquidity/pricing the market makers are able to provide.

### **AFME Contact**

Rebecca Hansford  
Head of Media Relations  
[Rebecca.hansford@afme.eu](mailto:Rebecca.hansford@afme.eu)  
+44 (0)20 3828 2693

### **About AFME**

AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: [www.afme.eu](http://www.afme.eu). Follow us on Twitter [@AFME\\_EU](https://twitter.com/AFME_EU)

### **Finbourne Contact**

Mittal Shah  
Head of External Communications  
[Mittal.shah@finbourne.com](mailto:Mittal.shah@finbourne.com)  
+44 0204 534 4105

### **About FINBOURNE Technology**

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