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## Press release

### New EU sovereign bond trading data underlines need for careful post-trade deferrals calibration

**Banks call for refocusing of MiFIR transparency to support Capital Markets Union aims**

13 October 2022

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The Association for Financial Markets in Europe (AFME) and FINBOURNE Technology have today published the second in a series of new reports, which analyses **EU sovereign and public bond trading data** consolidated from numerous sources for the period of March to December 2021. This report follows an earlier [April 2022 report](#) which focused on the **corporate bond trading landscape**.

The new data from this report demonstrates the following principal findings:

- 1) **There is a high degree of trade transparency in EU sovereign bond markets, especially when compared to corporate bond markets**, with a significant majority of EU government bond trades (76%) currently being made real-time transparent (compared to 8% of corporate bond trades). However, the **quality of the sovereign data set is materially worse** than the corporate bond data set due to a high level of distortion caused by the inconsistent use of some flags, among other issues. This needs to be addressed by ESMA.
- 2) **The majority (60%) of government bond-related trades on EU venues are non-EU bonds** from the US, UK and other countries. Notably, Table 1 shows the trading volume of US Treasuries is nearly the same as for all EU issuers (circa 40% of total volumes). This means it is currently hard to have a clear view of the trading of EU-based issuers with the large amount of trading in the EU by non-EU issuers clouding the picture. AFME believes improvements could be made, for example, by narrowing the scope of MiFIR trade reporting to only cover EU-issuers, which would then be the basis on which deferrals should be calibrated. This would be similar in some respects to the US TRACE system, which focuses only on securities issued in the US. This re-focus would further support an EU fixed income consolidated tape focused on EU markets.

**Adam Farkas, Chief Executive of AFME**, said: *"This second data analysis from AFME and FINBOURNE Technology reiterates the importance of an accurately calibrated deferral regime for EU sovereign bonds. This would help grow the EU fixed income market by focusing on opportunities to further increase transparency where appropriate, while carefully calibrating deferrals to avoid causing undue risk for market makers, which could negatively impact the amount of liquidity that they are able to provide."*

*"In order to further improve transparency, AFME believes MiFIR reporting of sovereign and public bond trading activity should be analysed by ESMA to confirm precisely through data analysis where increased transparency will not damage market liquidity."*

**Thomas McHugh, CEO and Co-Founder, at FINBOURNE Technology**, said: *"Once again, we're delighted to work with the AFME team and its working group members to support their evidence-driven approach to policy formulation. The analysis for this paper required an extremely granular approach to transaction records, made possible by our Modern Financial Data Stack. We hope, that by constructing this data, we can jointly deliver the transparency needed, to clarify some of the key issues impacting the creation of a consolidated tape. As always, our core principle is to liberate, simplify and connect data and this paper goes some way to showing the benefits of a single consolidated view of transactions to inform market participants, regulators and EU authorities."*

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The report provides extensive data on sovereign bond risk position trade-out times (i.e. the time it takes to move the risk off the bank's balance sheet). This data demonstrates a wide range of times depending on issuers, trade sizes and issue sizes, ranging from very short to very long. This shows that larger and illiquid transactions require carefully calibrated and, in some instances, relatively long, deferral periods to ensure optimal market liquidity (as otherwise liquidity providers can be unduly placed at risk). These larger and illiquid trades comprise a small percentage of the number of trades, but a much larger percentage of volume. Likewise, the data shows that trade-out times for other trades can be very short, justifying no or short deferrals in those instances.

The AFME paper analyses approximately 1.8 million post-trade records on 8,200 distinct sovereign and public bonds. From the data set studied, AFME and FINBOURNE Technology find that different deferral periods need to be applied based on the trade size and issuance volume, among other key characteristics. Applying an incorrectly calibrated 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.

#### **Key findings:**

- Tables 3 and 4 show that **currently 'real time' reporting on EU sovereigns/public bonds is higher than that for corporates** – respectively 76% versus 8% by number of trades, and 37% vs 16% by volume.
- As was the case in the April 2022 corporate bond study, this report confirms that **trade out times for sovereigns/public bonds are significantly longer for small issuance sizes and larger trade sizes**. Trade out times vary significantly for various issue and trade size categories, ranging from a few minutes to well over a year depending on the issue and trade size category. As a result, the data supports real-time and End of Day (EOD) reporting for some categories of trades, but also shows certain deferrals for larger trades should be significantly longer than four weeks.
- The vast majority of trades (92%) in the combined sovereign/public bond category relate to direct sovereign issuance from Debt Management Offices (DMOs) rather than non-sovereign public entities. Sovereign trading volume is over twice the size of corporate bond trading. the report also provides trading volume from each EU issuer country.

This data analysis supports AFME's consistent position that deferral times should be calibrated by ESMA, only after analysis of actual trade data collected from the fixed income consolidated tape.

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#### **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)

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### **About FINBOURNE Technology**

At FINBOURNE, we offer a new and interoperable approach to data management, achieving value within a faster time to market. Our Modern Financial Data Stack empowers investment data processes and drives operational growth for emerging hedge funds to established global institutions. Leveraging SaaS technology and a secure cloud infrastructure, we liberate, simplify and connect data, making it accessible and usable across the investment chain. Ultimately, we restore control and confidence, so you know what you own and how much its worth at any given point in time. [www.finbourne.com](http://www.finbourne.com)

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