Finance for Europe

Association for Financial Markets in Europe

FCA CP on Improving transparency for bond and derivatives markets

AFME Response to FCA Consultation Paper CP23/32[1]

6 March 2024

Question Responses

No	Question
1	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?
Response	
Yes. This is a wide scope of securities, the implementation of which we believe will 1) contribute to optimising the levels of post-trade transparency across cash fixed income markets traded in the UK and 2) support the effectiveness and commercial viability of the forthcoming Consolidated Tape. We note however, that the wider the scope of the regime the more nuanced, detailed and granular the transparency regime structure will need to be, as also noted by the FCA in section 3.7 of the CP. This is in order to facilitate appropriate trade publication calibrations and associated deferral timeframes so as to avoid information leakage that might give rise to undue risk for market making firms.	

No	Question	Derivatives
2	Do you agree that the transparency regime should focus on the classes of derivatives subject to the clearing obligation? If not, please explain why.	
Response		
N/A		

No	Question	Derivatives
3	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?	
Response		
N/A		

No	Question	Derivatives
4	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.	
Response		
N/A		

[1] AFME response focuses on the transparency regime for bonds. Questions related to the transparency regime for derivatives have been marked accordingly and AFME will not be responding to them.

No	Question	Derivatives
5	Do you agree with including iTraxx Europe Main and iTraxx Europe Crossover as Category 1 instruments? If not, please explain why.	
Response		
N/A		

No	Question	Derivatives
6	Do you agree with our proposal to bucket swaps by tenors? If not, please explain why.	
Response		
N/A		

No	Question	Derivatives
7	Do you agree with our proposal to include spot and forward starting swaps within the same tenor bucket? If not, please explain why.	
Response		
N/A		

No	Question	Derivatives
8	Do you agree with our proposed scope of Category 1 instruments for OTC derivatives? If not, please explain why.	
Response		
N/A		

No	Question
9	Do you agree with our proposals for, and waivers of, pre-trade transparency? If not, please explain why.
Response	
We agree that pre-trade transparency requirements for systematic internalisers (SI)s should be discontinued, principally for the reasons articulated in the Wholesale Markets Review (WMR), as they appear on page 4 of the CP, as well as those laid out by the FCA in sections 2.29, 3.10 to 3.16 and 5.3 of the CP. However, we note a potential conflict between sections 4.9 & 5.3 of the CP on the one hand, whose intent appears to be to remove this requirement for investment firms trading by voice or electronic RFQ, and section 9.19 which states that the FCA are not amending Article 18 or UK MiFIR, pertinent to pre-trade transparency requirements for non-equity SIs. Separately, it is our understanding that HMT will issue commencement regulations and bring into effect a new article 18 MiFIR (as amended by FSMA 2023) that will give the FCA the option but not the obligation to impose rules on systematic internalisers requiring pre-trade transparency for fixed income instruments and derivatives. Further, we understand that the FCA does not plan to use its new power to make rules under the new Article 18 (though the FCA will keep this under review) and consequently systematic internalisers will not be subject to pre-trade transparency rules for these instruments once the new article	

18 comes into effect (we understand this will be at the same time as the other changes being made to the transparency regime contemplated by this consultation. This would be consistent with the draft rules proposed in this CP which, to the best of our understanding, do not include any rules for SIs on pre-trade transparency. Hence, further detailed clarification / confirmation on this point would be helpful. Furthermore, we note a potential conflict between sections 3.14-3.16 of the CP and the table in the proposed MAR 11.2.3R which as it is in Annex 6 of CP could enable pre-trade reporting for voice and RFQ systems. However, as indicated in the WMR, pre-trade transparency should not apply in those cases and therefore, FCA should draft MAR 11.2.3R in a way that will make clear the exemption of voice and RFQ systems from the scope of pre-trade transparency. AFME members believe that pre-trade transparency should be limited only to central limit orderbook (CLOB) mechanisms on trading venues. This is also consistent with the latest developments on the EU side.

No	Question
10	Do you support our objective of enhancing price formation by prioritising the prompt dissemination of price information? If not, please explain why.
Response	
As a general principle, we believe that wherever possible and where not superseded by other, more important considerations that would result in damaging market liquidity, the aim should be to align the publication of price and volume data. Partly, this is to facilitate greater ease in the analysis process of post-trade data and for a greater degree of simplicity in the overall structure, but also to consider market impacting scenarios. In this regard it is important to consider the impact of prioritizing price when it comes to large and very large trades. These trades will typically be executed at a price marginally outside the prevailing market prices for standard market size. This margin to the prevailing market price reflects the greater market risk being assumed by the risk price provider and, consequently, the larger the outsize trade the larger the margin required to reflect the additional risk being assumed. De facto therefore, a material inference on the trade size and, critically, the risk that has been assumed by the risk price provider in such circumstances, can be made from publication of the price field alone. In such circumstances, overly early publication of price information on a large trade would ultimately impair liquidity provision as any residual position existing at that point in time would be transparent to the market (and the market would know from volumes recently traded as well as price action whether the market maker still holds a position). The FCA make reference to this dynamic in section 5.11 under the Volume deferral bullet point and it is AFME's firm belief that this dynamic very much exists and, by extension, that significantly more sensitive treatment should be afforded to publication of details for large and very large trades. It is also key to highlight that there is no protection offered by a 15 minute deferral, this has the same impact as real time reporting– especially for corporate and less liquid sovereign bonds. It is for this reason that we would recommend amending the treatment of trades that qualify for short deferrals under the Model 1 structures from T+15 minutes for price and T+3 days for volume to a common T+2 publication for both price and volume. Both of these above points have been taken into consideration in the AFME/IA joint proposal. Please see Annex 1.	

It should also be noted that the focus for levels of transparency should be on the number of trades rather than volumes, as the volume level will always be skewed with the increase in trade size across the deferral buckets.

No	Question
11	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.
Response	
Yes. The purpose of the trade aggregation (and potential subsequent disaggregation) construct, as noted by the FCA in section 5.11, is to give some degree of protection to liquidity providers from undue risk. However, as also noted by the FCA, the negative impact of trade aggregation on both the price formation process and also, maybe more importantly, on the effective analysis of post-trade market data by all market participants is substantial. Therefore on balance, with the fundamentally important proviso that sufficient protection from undue risk for liquidity providers is afforded by a different type of deferral, AFME believe that the negative impacts of the aggregation construct outweigh the protection benefits and that other deferral constructs should be employed. Therefore, trade-by-trade information with limited details is preferrable to aggregation.	

No	Question
12	Should package trades be granted a minimum of a 15-minute reporting deferral to allow for the complexity of booking such trades?
Response	
Yes a reporting delay for operational reasons (which should not be considered as a deferral) should be granted for manually negotiated complex trades that would otherwise be subject to real time publication, which should be for a minimum of 15 minutes where needed. This should allow some room for recognition that some trades are more complex, including package trades, and may require additional time for reporting. We stress that this delay need only be applied where operationally necessary, and not where trades can be booked and reported without such operational hurdles. In other words, there should be no deferral for package or other potentially complex trades, simply a recognition that it may take slightly longer to report such transactions.	

No	Question
13	Are there types of transactions other than packages that should benefit from a deferral irrespective of their sizes?
Response	
Yes. The recognition that a real-time booking and reporting requirement for some trades cannot be met (and therefore should benefit from a reporting delay) would also be valid for more complex transactions with multiple elements. Examples of these would be portfolio trades and certain hedge trades commonly transacted in the form of government bonds associated with new bond issues. These hedge trades are consequently time-stamped/booked as of primary pricing. As the hedge price is part of the new issue package of pricing, the	

hedge price is communicated to the market once the overall pricing message has been prepared by the syndicate bank following the pricing call. The message is then checked and agreed by the rest of the syndicate banks before it is sent out to the banks' sales teams. The time of execution is given on the message, but it is often more than 15 minutes before investors will receive that from their sales representative. Post-trade processing of what can potentially include hundreds of switches begins after primary pricing and can continue for some time (minutes/hours). These types of complex booking structures should be afforded a reporting delay of a minimum of 15 minutes.

No	Question
14	Which of the two models do you think can give better calibration of deferrals for bonds and derivatives?
Response	
AFME believe that there are pros and cons to each of Models 1 and 2, several of which are cited by the FCA within the CP. Therefore, our members' considered view is that, while each of the models therefore has its strengths, neither, as articulated in the CP, represents the optimal structure. We believe that the proposed combinations of granularity of deferral buckets (i.e. number of distinct deferral timelines) and deferral timelines themselves in the FCA models are sub-optimal, especially in the case of the corporate bond grouping and less liquid sovereign bond grouping. AFME members have specific concerns with the proposed treatment, in both Models 1 & 2, of larger than 'market standard' size trades in less-liquid securities. In essence, we believe that deferral timelines proposed for these trade types are insufficient in length and, if implemented as proposed, could result in undue risk for market makers. As a specific example, we don't understand the rationale for allowing for 4 week deferral protection for 25% of trades in the sovereign bond 'All other instruments' segment and 12% of all trades in the sovereign bond Model 1 structure (see Table 11 in CP) when, by contrast, this same degree of protection is only afforded to 1% of trades in both the 'All other instruments' as well as all trade segments in the corporate bond Model 1 structure. We are also of the view that a 15 minute price deferral does not offer any protection, particularly for corporate bonds and less liquid sovereign bonds. As a consequence of the above misgivings, AFME members have worked closely with members of the Investment Association over the past several weeks in an effort to jointly develop a framework and structure that would provide a more optimal and desirable solution. Accordingly, we jointly propose a hybrid model for the calibration of deferrals for bonds that combines specific characteristics and elements from each of the two models included in the CP 23/32 and will lead to an overall better outcome than either of those two models individually. We suggest a hybrid model that includes two LIS thresholds and specific caps on the transaction volume that is published after a 4 week deferral (i.e. a mix between the two FCA models.), and also replaces Model 1's middle tier of deferrals (price reported at 15 minutes and volume reported on T+3), with the reporting of price and volume at T+2. We believe this hybrid approach is better suited to the twin objectives of optimising timely transparency as well as facilitating the adequate protection of investors and liquidity providers from the very real risks associated with overly prompt dissemination of sensitive information for very large trades.	

Our jointly proposed model is presented below and in Annex 1

AFME/IA joint proposal

Sovereign Bond Grouping						
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						
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 > / < £2 billion. 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 billion 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.

No	Question
15	Do you agree with the factors used in grouping bonds?
Response	
AFME agree with the factors and criteria used in the grouping of bonds. However, we have concerns about the lack of granularity in the currently proposed treatment of trades falling into the 'All other instruments' segment, especially in the sovereign bond model. As currently proposed by the FCA, this segment of trades in both sovereign bond models 1 & 2 would incorporate instruments with very different liquidity profiles, such as Spanish Bonos and Dutch State Loans (Netherlands Gov bonds) on the one hand and local currency EM sovereign bonds on the other. Clearly, having instruments with such diverse liquidity profiles in the same bucket makes appropriate treatment for each extremely challenging and there are major concerns over the potential effect on the trading of local currency EM sovereign bonds in London under this proposed structure. We feel that a £2 billion issue size split should allocate the majority of the less liquid local currency bonds to a less liquid bucket and allow for the required differentiation in treatment. It will have the added advantage of also allocating to this less liquid bucket some of the less liquid securities from smaller EU countries. Again, please see the joint AFME / IA proposed model in Annex 1 for further details.	

No	Question

16	Do you agree with the list of issuers used to group Sovereign and Other public bonds?
Response	
Yes. AFME recognise that the FCA have captured the relevant major sovereign issuers traded in the UK in the more liquid bucket which account for c. 70% of trades and 80% of volume, as cited in section 6.12 of the CP. We note, however, that because of this wide coverage there exists within the segment a wide range of liquidity profiles between the bonds captured. Furthermore, each issuer country will issue bonds that have vastly differing liquidity profiles such as FRNS, index linked, STRIPS, bills and off the run bonds. These instruments require different treatment to avoid negative impacts to liquidity. In line with the AFME/ IA proposals these should be classed under all other instruments. More consideration needs to be given to Supranational issuers in general and which segments they should fall into. For example, we assume that the 'issuer country' will be determined by the location of the headquarters of the institution concerned. Therefore, as currently articulated, the liquid segment would include issuers such as the World Bank (IBRD - headquartered in Washington D.C., USA) but not others such as the EIB (headquartered in Luxembourg) or the European Commission (NGEU bonds) which would seem anomalous.	

No	Question
17	Should we consider having a separate group for certain types of sovereign bonds, e.g. inflation-linked Sovereign bonds?
Response	
Yes. Owing to the very markedly lower liquidity of some instrument types with the sovereign bond universe, we believe that certain types should be included within the 'All other instruments' segment of the table. To be more specific, these would include all Inflation-linked, FRN, STRIPS and Bills, regardless of the country of issuance. Additionally, our joint proposal with the IA calls for, specifically, US Treasury 'off-the-runs' also to be included in the 'All other instruments' segment. 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 would be happy to consult further and in more detail with the FCA on this point.	

No	Question
18	Do you agree with the list of currencies used to group Corporate, Covered, Convertible & Other bonds?
Response	
Yes. This achieves the desired outcome in its exclusion of securities denominated in currencies that are peripheral to the bulk of trading activity in London (and hence, mostly, highly illiquid) whilst retaining in	

scope for more ambitious transparency treatment a very large proportion of trading activity in the UK (98% of trades).

No	Question
19	Do you agree with the levels indicated as thresholds for issue size and setting the three maturity groups for Sovereign and Other Public Bonds?
Response	
We agree with some elements, but not others. In line with our proposal developed jointly with the IA, AFME believe that the threshold level for sovereign bonds should be set at £2 billion rather than the £1 billion currently proposed. Additionally, we believe that the 'All other instruments' segment of the sovereign bond table should be split, also using this £2 billion issue size differentiator. The principal objective here is to allocate different treatment for (for example) Spanish Bonos, Dutch State Loans and EM local currency bonds which, under current FCA proposals, would sit in the same segment (as noted in our response to Question 15.) We believe that a £2 billion issue size split should allocate the majority of the less liquid local currency bonds to a less liquid bucket and allow for the required differentiation in treatment. On the second part of the question, yes, AFME is in full agreement with the proposed maturity band segmentation as articulated in the FCA's proposed models.	

No	Question
20	Do you agree with our proposed definition of investment grade bonds?
Response	
Yes.	

No	Question
21	Do you agree with our proposed thresholds for bonds transparency in Option 1?
Response	
As articulated in our response to Question 14 above, AFME believe there are pros and cons to each of Models 1 and 2 represented in the CP. However, we do not believe that either of the 2 models present the optimal solution and that a better approach would be to combine elements of each one. For reasons stated in our responses to Questions 10 and 14 above, we therefore propose a hybrid model that includes two LIS thresholds and specific caps on the transaction volume that is published after a 4 week deferral (i.e. a blend of the two FCA models.) We believe this hybrid approach is better suited to the twin objectives of optimising timely transparency as well as facilitating the adequate protection of investors and liquidity providers from the very real risks associated with overly prompt dissemination of sensitive information for very large trades. The specifics of our proposal can be found in Annex 1.	

No	Question
22	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?
Response	

Please see response to Question 21 above.

No	Question
23	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?
Response	
Please see response to Question 21 above.	

No	Question
24	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?
Response	
Whilst we disagree with the publication of all prices by EOD, in the event that a volume capping methodology is ultimately employed, either as per our joint AFME/IA proposal (detailed in Annex 1) or the FCA's proposed Model 2 structure, we believe it is important that the full trade details, including the actual traded size, is released to the market at some point in the future. The purpose of ultimate full disclosure is to allow for unhindered 'back-analysis' of the data which is a fundamental use case of post-trade data publication and one that we anticipate growing further in importance upon go-live of the Consolidated Tape. To be clear, the importance of this full data disclosure to the market does not in any way supersede the importance of implementing the volume capping mechanism in the first instance which is intended to protect against undue risk and the proper functioning of the market in very large trades.	

No	Question	Derivatives
25	Do you agree with the approach and methodology used to set the thresholds and the length of deferrals?	
Response		
N/A		

No	Question	Derivatives
26	Do you agree with the proposed deferrals and associated thresholds in the 2 models?	
Response		
N/A		

No	Question	Derivatives
27	Do you agree with the approach and methodology used to set the thresholds and the length of deferrals?	
Response		
N/A		

No	Question	Derivatives
28	Do you agree with the proposed deferrals and associated thresholds?	
Response		
N/A		

No	Question	Derivatives
29	Do you agree that the same thresholds shall apply to benchmark tenors and broken dates?	
Response		
N/A		

No	Question	Derivatives
30	Which model do you think better calibrates transparency and the protection of liquidity for large trades? Please explain.	
Response		
N/A		

No	Question	Derivatives
31	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.	
Response		
N/A		

No	Question
32	Do you agree with our proposed approach of implementation followed by review and potential revision?
Response	
Yes, AFME believe that this is absolutely the best approach. However, we suggest that 18-24 months is a more realistic timeframe on which to base a review. We would, however, comment that it would be far preferable, from the perspectives of both the continued effective functioning of the market as well as confidence in the revised regime, to initially err on the side of caution and then incrementally set more aggressive deferral timelines and trade size thresholds, rather than vice versa.	

No	Question
33	Do you agree with how we intend to supervise the change from the current regime to the new one? If not, please explain why.
Response	
Yes.	

No	Question

34	Are there other issues that we should have regard to in relation to the change to the new transparency regime?
Response	
AFME members are concerned about the lack of harmonisation that can be caused due to trading venues being able to determine their own compliance with the transparency framework for Category 2 instruments. In particular, AFME support the GFMA position that states for the wholesale FX market, the proposed inclusion of FX products in the Category 2 instruments and the imposition of pre-trade data reporting requirements as well as post-trade transparency requirements developed by each trading venue individually on the basis of its own market activity, will cause divergence in the transparency framework applied by the different trading venues. This can cause a negative market effect as it will unnecessarily increase cost, unpredictability and complexity and will have implications to liquidity in the relevant market (in which the UK has managed to maintain a leading role) without delivering any clear benefit and despite the fact that this market is already well-functioning, and there is an effective level of cross-jurisdictional alignment of regulatory obligations. In addition, AFME are also concerned about the risk of considerable discrepancies in the transparency framework between Category 1 and Category 2 instruments. Category 2 should be limited to ETDs only, however, if OTC derivatives were to continue to be included the deferral timeframes to be applied to Category 2 instruments should at least be at the level applying to Category 1 instruments and in no case should be lower than that. Therefore, the maximum deferral time for Category 2 instruments should not be less than the corresponding maximum deferral granted for Category 1 instruments.	

No	**Question**
35	Do you agree with maintaining the exemption for inter-funds transfers in Article 12?
Response	
Yes. As these are non-price forming trades and there will be no real value of relevant data, we agree with maintaining the exemption.	

No	**Question**
36	Do you agree with the new definition of inter-funds transfers?
Response	
AFME will not be answering this question.	

No	**Question**
37	Do you agree with our proposed amendment of the exemption from post-trade reporting for give-ups and give-ins?
Response	
Yes, give-ups and give-ins should be exempted as they are not price-forming trades and therefore, should be exempted from post-trade transparency.	

No	**Question**

38	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?
Response	
We think that the definition for give-up and give-in transactions is sufficient to determine the scope of exempted trades, and therefore no additional guidance would be required at the moment.	

No	**Question**
39	Do you agree with the deletion of point d) from Article 12 of MiFID RTS 2? If not, please explain why.
Response	
Yes, on the basis that this deletion is solely intended to remove duplication with Article 2(5)(b) RTS 22.	

No	**Question**
40	Do you agree with introducing an exemption for inter-affiliate trades?
Response	
Yes. These are non-price forming trades and therefore should be exempted.	

No	**Question**
41	Do you agree with our proposed definition of inter-affiliate trades?
Response	
Yes	

No	**Question**
42	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.
Response	
This AFME response is agnostic on the derivatives approach, but for bonds we would agree with an approach that would ensure the use of ISIN as the sole identifier for bond transparency.	

No	**Question**	**Derivatives**
43	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.	
Response		
N/A		

No	**Question**	**Derivatives**
44	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.	

Response
N/A

No	Question	Derivatives
45	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.	
Response		
N/A		

No	Question	Derivatives
46	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.	
Response		
N/A		

No	Question
47	Do you agree with the proposed changes to the 'price' field and related reporting fields? If not, please explain why.
Response	
Yes. AFME members are aligned with the FIX community. For the 'price' field for bonds, AFME members are of the view that, regardless of any market convention, a percentage value should be used in all cases where it is possible in order to allow consistency in expressing price. However, for the limited cases where long-established market convention would require an exemption to the above, the use of market convention could be followed. To this effect, AFME members would welcome clarity and guidance from the FCA on determining 'market convention' in a consistent way across all market participants and the examples currently mentioned by the FCA in par. 8.36 of the CP can be a useful starting point. With regard to the 'notional amount' field, we agree with the FCA's view that this should be the only field to be used to express quantity for bonds.	

No	Question
48	What are your views about the introduction of a 'price conditions' field?
Response	
AFME agree, this will help reduce errors by ensuring that text and numeric values are separated from each other.	

No	Question
49	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.
Response	

Yes. Any detailed guidance that addresses the current issue of different interpretations across the market of the formats etc. required for reporting fields would greatly help data quality output issues. From our data analysis carried out for the purposes of informing our work on post-trade transparency recommendations and for our response to this CP, it has become clear that these differences of interpretation are a significant cause of the current problem of poor data quality.

No	Question
50	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.
Response	
Although AFME generally agree with the revised Table 4 of Annex II of RTS2, we understand that there were difficulties for APAs when making similar changes in the EU and integrating securitised derivatives into ETCs and ETNs bond types. Securitised derivatives ought not to be treated as listed derivatives and given the constraints from the operating model of some of the APAs to measure securitised derivatives together with ETCs and ETNs, we would support having the option to treat those instruments separately when measuring the volume of transactions.	

No	Question **Derivatives**
51	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.
Response	
N/A	

No	Question **Derivatives**
52	Do you agree with our proposal to delete the field 'Transaction to be cleared'? If not, please explain why.
Response	
N/A	

No	Question
53	What are your views about the introduction of a portfolio trade transactions flag 'PORT'?
Response	
AFME members agree with the introduction of a PORT flag.	

No	Question
54	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.
Response	

Yes, we agree with the proposed deletion. Further, AFME members point out that there might be a need to introduce, amend or remove flags in the future on the basis of experience from applying the new transparency framework and relevant market structure considerations.

No	Question
55	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.
Response	
Yes. As mentioned in our response to question 54 above, an appropriate level of flexibility in amending flags in the future in cases where that would be justified would be very much welcomed.	

No	Question
56	Are there any other flags that we should consider introducing, removing or amending?
Response	
Adjustments to flags should be subject to the outcomes of review and business needs. In support of the AFME/IA joint proposal, we propose a VCAP flag to indicate where the volume has been capped for trades over a specific threshold.	

No	Question
57	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.
Response	
Yes, we agree with insertion of LEI & UPI.	

No	Question
58	Do you agree with our proposal to delete Annex IV of RTS 2 in its entirety? If not, please explain why.
Response	
Yes, this data is duplicated in FIRDS.	

No	Question
59	Do you agree with our proposed glossary definition and PERG guidance? If not, please explain why.
Response	
AFME are fully supportive of the UK Finance response to this question which states that the changes proposed by the consultation paper could result in a change in the number of firms that are SIs. Our members note that there is very clear guidance which distinguishes SI trading from the trading venue perimeter, and would request that the FCA clarifies that the same guidance and principles will continue to apply to firms that cease to be SIs as a result of the changes to the SI definition proposed in the new rules, ensuring that such firms are not inadvertently brought into the trading venue perimeter.	

We also agree with the UK Finance view that the proposed SI test in the consultation paper is too broad, and their consequent clarification of the wording in the PERG guidance to make it clearer that whether or not a firm carries on SI activity would depend on how its relevant off-venue trading compares to the overall size of the market in the relevant asset class (rather than on how the individual firm's own off venue trading compares to its total (on and off-venue) trading in the relevant asset class). We also note that following our changes to the SI definition and the PERG guidance, it may be better for the FCA to rephrase question 10a in PERG to broadly refer to the SI definition rather than just the 'by way of business' limb of the SI definition. Please also refer to Annex 2 that includes the drafting suggestions by UK Finance for the SI definition and related PERG guidance which AFME also support.

No	Question
60	Are there any further comments you wish us to consider while finalising these proposals? If so, please include here.
Response	
AFME members would welcome any further clarity from the FCA around the implementation timelines of the various changes to the transparency regime. In particular, predictability on the practical implementation of the various elements of the transparency regime as well as the offering of reasonable implementation timeframes are prerequisites for a successful transition to the new framework. In terms of caps on disclosure of volume for very large trades, the FCA should further consult with the industry on how long the cap should be in place before trade by trade information is released to the market.	

Annex 1 – Joint AFME / IA model for the calibration of deferrals for bonds

Sovereign Bond Grouping

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

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 > / < £2 billion. 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 billion 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.

Annex 2 - Drafting suggestions for SI definition and related PERG guidance

We have marked up the FCA's proposed glossary definition and PERG guidance in alignment with the UK Finance to reflect our response to Question 59 of FCA CP 23/32. Proposed amendments are shown in blacklining.

1 Glossary definition

"*systematic internaliser*" means:

an *investment firm* which:

a. is *dealing on own account* when executing client orders outside a *UK RIE*, *UK MTF* or *UK OTF* without operating a *multilateral system*; and

b. either:

  (i) does so on an organised, frequent, systematic and substantial basis; or

  (ii) has chosen to opt-in to the systematic internaliser regime.

For these purposes:

(A) 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~~a system or facility, such as but not limited to an electronic execution system, which is assigned to that purpose; and

  (ii) carried out by a *market maker*[2] providing liquidity to market participants on a bilateral basis outside of a *trading venue*[3] in the relevant class of *financial instrument*; and

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[2] We propose using the definition of "market maker" which is used for COBS purposes, see Glossary definition of "market maker": "…(2) (in COBS **and for the purposes of the Glossary definition of "systematic internaliser" and related PERG guidance**) a person who holds himself or herself 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." This definition would need to be amended by the FCA (as indicated) so that it will apply for the purposes of the SI definition.

[3] "Trading venue" is defined in the Glossary as: "(1) (except in FINMAR 74) a *regulated market*, an *EU regulated market*, an *MTF* or an *OTF*…". The Glossary definitions of MTF and OTF capture UK and third-country MTFs / OTFs. The Glossary definition of "regulated market" captures third-country regulated markets only for the purposes of certain Handbook provisions, as follows (and so it would need to be amended by the FCA):

"(1) a regulated market which is a *UK RIE*.

(2) (in addition, in INSPRU, IPRU(INS), SYSC 3.4, COBS 2.2B and for the purposes of Principle 12 and PRIN 2A **and the Glossary definition of "systematic internaliser" and related PERG guidance** only) a market situated outside the United Kingdom which is characterised by the fact that:

(a) it meets comparable requirements to those set out in (1); and

(b) the *financial instruments* dealt in are of a quality comparable to those in a *regulated market* in the United Kingdom.

…"

(iii) available to counterparties on a continuous or regular basis; and

(iv) 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 class of *financial instrument*.

(B) [deleted]

2 PERG guidance

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 class of *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 class of *financial instrument*; or
- the firm does not advertise such activity to clients, including by broadcasting offers to deal in the relevant class of *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~~systematically;
- whether it is carried out by a *market maker* providing liquidity to market participants on a bilateral basis outside of a *trading venue*[3] in the relevant class of *financial instrument*;
- the monetary value of the activity; and
- its comparative significance in terms of revenue by reference to the overall size of the market for the relevant class of *financial instrument*.

This definition would therefore need to be amended by the FCA so that third-country regulated markets are also captured for the purposes of the Glossary definition of "systematic internaliser", as indicated above.

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*.