IRSG | INTERNATIONAL REGULATORY STRATEGY GROUP

TRADING TRANSPARENCY AND MARKET LIQUIDITY IN THE MIFID2/MIFIR PROPOSALS: COMMENTS FROM THE IRSG ON REGULATION THAT SERVES CLIENT NEEDS

Introduction

The International Regulatory Strategy Group (IRSG) is a practitioner-led body comprising leading UK-based figures from the financial and professional services industry. It aims to contribute to the shaping of the international regulatory regime, at global, regional and national levels, so that it promotes open, competitive and fair capital markets globally, supporting sustainable economic growth. It is an advisory body both to the City of London Corporation, and to TheCityUK. The IRSG MiFID Working Group represents a balanced view; the group being comprised of buy and sell side interests, exchanges, market data providers and the stock-broking community. The group has drafted this paper to inform discussions among the EU authorities: in trilogue on the MIFID 2/ MIFIR Level 1 text; and subsequently on Level 2 measures and ESMA regulatory technical standards.

a.) <u>TRANSPARENCY IN NON-EQUITY MARKETS</u>

IRSG Position on Proposals

We agree that an increase in pre- and/or post-trade transparency in some segments of the non-equity markets could deliver benefits to market participants and the public. However, any newly introduced transparency regime should be carefully calibrated so that its costs do not outweigh its potential benefits.

Pre-trade transparency:

- We believe that any requirements for firms to provide pre-trade transparency should be sufficiently flexible to reflect the individual situation and the specifics of the market segment/instrument. We agree that Systemic internalisers (SIs) and Investment Firms should not be obliged to publish firm quotes, execute clients' orders or give access to their quotes above standard market size (equity) or the size specified for the individual instrument (liquidity threshold for non-equity instruments) that would expose them to undue risk.

- We agree that SIs and Investment Firms should be enabled to decide, on the basis of their commercial policy and in an objective non-discriminatory way, which clients, or categories thereof, they provide with access to their quotes. We also agree that they should be permitted to refuse to enter into or to discontinue business relationships with clients on the basis of commercial considerations such as the client credit status, the counterparty risk and the final settlement of the transaction.

Post-trade transparency:

- The publication of the details of transactions in non-equity instruments would generally be required by competent authorities (CAs) "as close to real-time as is technically possible". However, we welcome that CAs will be able to authorize deferred publication, or the omission of some transaction details, or both, based on the type or size of the transactions, i.e. for "large in scale" transactions or instruments for which there is not a liquid market. We believe that such determinations should be performed by product category and should be based upon several relevant factors. They should be updated on a regular basis as well as ad hoc where needed.

- MiFIR Articles 5, 9, 19, and 20 set out the calibration of post-trade transparency requirements for equity and non-equity markets according to the type of the trading system with details to be set out in Level 2 measures. We believe that the proposed approach where these requirements would be the same regardless of the form of execution is appropriate as it allows the calibration to be based on the liquidity of the instrument or category of instrument.

b.) DATA CONSOLIDATION

Summary

A necessary first step for the delivery of a consolidated tape is to enhance the quality, granularity and consistency of post trade data. We suggest that:

- Either now or at the latest within a short defined time period after entry into force of MiFID (e.g. no more than 3-6 months), ESMA should propose harmonised data standards, based on the work already carried out by CESR/ESMA and the Market Model Typology (MMT) project. The MMT is a data model and cross reference table which maps trade flags across securities exchanges, MTFs and OTC reporting venues.

- ESMA should then require adoption of these standards by all market participants (trading venues, vendors, buy and sell side) for trading on venues and OTC. Such an approach would effectively "quality-mark" the quality and consistency of post trade data and enable its consolidation and delivery through a multiple or single Consolidated Tape Provider (CTP) model. This approach would be necessary regardless of which CTP model was adopted.

IRSG Position on Proposals

- We agree that the provision of consolidated post-trade data of a high quality and at a reasonable cost is important for investors but has yet to be achieved for European equities.

- We support the proposals to enhance data quality, granularity and consistency, including the introduction of the Approved Publication Arrangement (APA) regime. A lot of work has been undertaken by the exchanges, MTF's, market data vendors and trade reporting venues to develop the Market Model Typology (MMT), building on the approach in the CESR (now ESMA) technical advice provided to the Commission in late 2010 on data quality standards required to facilitate accurate data consolidation. This data model has now been completed and these venues are moving to implement this as a first step to allowing production of the ECT. However, ESMA now needs to urgently engage and mandate that EU investment firms implement a similar MMT regime in respect of their required reporting of OTC business, so as to ensure that the trade reporting regime is complete.

- The following are required from ESMA: (1) agreed definitions for the sell side as to which leg(s) of a trade are to be defined as reportable 'accessible liquidity', (2) definitive rules on which party to an OTC trade is required to report in order to avoid errors and duplication; and (3) a commitment from firms to map any internal codes within their respective organisations to the MMT in order to facilitate the inclusion of OTC data alongside existing high quality order book data.

- Regardless of the model that may be adopted for the CTP, whoever acts in the roles of APA and consolidator will have to apply an industry wide set of standards if the data is to be in any way capable of meaningful consolidation; the actions required from ESMA will deliver this set of standards and should, in our view, be implemented with high priority within the first 3 – 6 months of MiFID coming into force.

- Data should be subject to reasonable costs, based on broad and flexible principles that deliver a price level and structure that meets market participants' needs.

- Given the diversity and complexity of non-equity products the introduction of a consolidated post-trade tape for these asset classes represents an even bigger challenge, and it cannot simply be a wholesale extension of the data regime designed for equities. We welcome the intention to phase the implementation of a non-equities product by 2 years to take advantage of the experience gained from the introduction of a CTP for equities.