ICMA response to the UK FCA Consultation CP23/32: Improving transparency for bond and derivatives markets

FCA CP 23/32
March 6, 2024

https://www.fca.org.uk/publication/consultation/cp23-32.pdf

Executive summary

ICMA welcomes the opportunity to comment on the FCA's proposals for improving transparency for bond markets. As The FCA will know, ICMA has long advocated for the introduction of a Consolidated Tape for bonds in Europe, supported by a well-designed and suitably calibrated deferral framework aimed at optimizing the scope of real-time post-trade transparency while also providing protection for market participants. Furthermore, ICMA has strongly argued that the design and calibration of the deferral framework be based on data.

ICMA and its members also believe that a bond transparency regime should strike a balance between recognizing the diversity of underlying market structures, dynamics, and liquidity profiles of different bond sub-classes and segments, and a need for relative simplicity in order to facilitate successful and consistent application.

ICMA recognizes that in its proposals, the FCA has sought to achieve these objectives. We hope that the suggestions and proposals provided in its response are helpful in finalizing the design and application of the UK's bond transparency framework, helping to reinforce the UK's position as a leading, competitive, global financial centre.

ICMA also realizes that with the introduction of significantly increased post-trade transparency for the bond markets runs the risk of a 'liquidity shock' as dealers adjust to greater information symmetry. ICMA believes that while most behavioural change is likely to be short-term, there are concerns that the changes could have negative structural impacts on certain parts of the market or with respect to some transactions, so potentially increasing the risks and costs borne by investors. It is with this in mind that it puts forward the case for a number of modifications to the FCA proposal with respect to groupings, thresholds, and deferrals. All of these recommendations are informed by data and analysis, which ICMA includes in the Annex to this response.

ICMA would finally note that, similar to the introduction of bond market transparency in the US, this is a journey. Working closely with the industry and based on regular review, with careful analysis of trading data and market liquidity conditions, the FCA should, over time, look to refine and recalibrate the transparency framework, shedding more light where it is warranted, and providing greater protection where it is needed. ICMA would like to consider itself a partner to the FCA on its voyage.

This response was prepared by ICMA's MiFID/R Working Group (MWG) which consists of a broad range of members representing sell-side and buy-side investment firms active in the international bond markets, as well as trading venues, data providers, and potential candidates to be consolidated tape providers. Working Group members include market infrastructure specialists as well as fixed income traders.

ICMA would welcome the opportunity to discuss with the FCA the points and proposals made in this response, as well as the analysis underpinning ICMA's recommendations.

ICMA promotes well-functioning cross-border capital markets, which are essential to fund sustainable economic growth. It is a not-for-profit membership association with offices in Zurich, London, Paris, Brussels, and Hong Kong, serving around 620 members in 67 jurisdictions globally. Its members include private and public sector issuers, banks and securities dealers, asset and fund managers, insurance companies, law firms, capital market infrastructure providers and central banks. ICMA provides industry-driven standards and recommendations, prioritising three core fixed income market areas: primary, secondary and repo and collateral, with cross-cutting themes of sustainable finance and FinTech and digitalisation. ICMA works with regulatory and governmental authorities, helping to ensure that financial regulation supports stable and efficient capital markets.

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Scope (Chapter 4)

Q1: 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?

ICMA members agree with the FCA's proposal to maintain the current scope.

Framework for waivers and deferrals (Chapter 5)

Q9: Do you agree with our proposals for, and waivers of, pre-trade transparency? If not, please explain why.

ICMA members are concerned by the inconsistency between paragraphs 5.4 and 5.5, which respectively propose the removal of pre-trade requirements for RFQ and voice trading systems and the introduction of a new waivers for "negotiated orders". The latter runs of risk of interpretative ambiguity, particularly as market structure and trading protocols continue to evolve. ICMA members would therefore strongly argue for the deletion of 5.5 and clarification of the full removal of pre-trade requirements with the exception of orders placed in a Central Limit Order Book (CLOB).

ICMA notes that this would be consistent with the revised EU treatment of pre-trade requirements for bonds and is therefore also a consideration from a jurisdictional competition perspective.

ICMA would also point to the Wholesale Market Review which concluded that: *"The current framework is also based on an inaccurate assumption that transparency, especially pre-trade, plays the same role in fixed income and derivatives markets as it does in equities."* [1]

Q10: Do you support our objective of enhancing price formation by prioritising the prompt dissemination of price information? If not, please explain why.

ICMA members support this objective, to the extent that the timing and details of the dissemination do not create undue risk to the parties to the underlying transaction.

Q11: 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.

ICMA members, broadly, do not support the indefinite aggregation of post-trade data. While there may be some benefit in aggregating certain trades, particularly those in very large size, rules around how such

[1] See: https://assets.publishing.service.gov.uk/media/60dc9322e90e07717d1cb1a7/WMR_condoc_FINAL_OFFICIAL_SENSITIVE_.pdf, Para 5.15

trades are aggregated would need to be specified by the FCA, in close consultation with market participants.

Q12: Should package trades be granted a minimum of a 15-minute reporting deferral to allow for the complexity of booking such trades?

ICMA members would point to the FCA Handbook noting that this is more a technical "delay" due to the complex handling of package trades, rather than a "deferral". ICMA members would further suggest that while this 15-minute delay is helpful, package trades, as well as other complex transactions, should be reported as soon as is practicably possible (with the exception of trades subject to deferrals), which might be shorter or longer than 15 minutes.

Q13: Are there types of transactions other than packages that should benefit from a deferral irrespective of their sizes?

The recognition that some trades may take longer to report could also be valid for more complex transactions with multiple elements. These should not be penalized in the event of a reasonable delay.

It should also be recognized that the relative importance of reporting latency is different across markets. For example, immediacy of reporting is less critical in the case of corporate bonds compared to high frequency traded instruments such as equities.

Q14: Which of the two models do you think can give better calibration of deferrals for bonds and derivatives?

With respect to bonds, ICMA members prefer Model 1, which more closely resembles the model previously proposed by ICMA and that being adopted in the EU bond transparency regime.

Based on ICMA's analysis of market data, which can be found in the Annex to this response, members have concluded that with some modifications, including the introduction of a finite volume cap for the very largest (sovereign bond) trades, Model 1 has the potential to provide the better calibration of deferrals, ensuring the maximum amount of real time transparency, while protecting the parties to larger and more market-sensitive trades.

ICMA's proposed refinements to Model 1 are presented here, with the underlying justification provided in the responses to the subsequent questions.

Sovereign and Other public bonds

Issuer	Amount outstanding	Maturity	Price and size in real time	Price and size T+2	Price and size 4 weeks
UK, France, Germany, Italy, USA	>£5bn	<5yr	<£10m	£10m≤£50m	≥£50m (cap at £100m)
		5-15yr	<£10m	£10m≤£25m	≥£25m (cap at £100m)
		>15yr	<£5m	£5m≤£10m	≥£10m (cap at £50m)
All other sovereign and public bonds			<£2m	£2m≤£5m	≥£5m (cap at £50m)

Corporate, Covered, Convertible & Other bonds

Currency	Issuer Rating	Amount outstanding	Price and size in real time	Price and size T+2	Price and size 4 weeks
GBP, EUR & USD	IG	>£500m	<£1m	£1m≤£5m	≥£5m
All other instruments			<£500k	£500k≤£2.5m	≥£2.5m

ICMA estimates of percentage of EU bond market captured in each bucket:

Sovereign and Other public bonds

Issuer	Amount outstanding	Maturity	Price and size in real time	Price and size T+2	Price and size 4 weeks	> than proposed cap
UK, France, Germany, Italy, USA	>£5bn	<5yr	90% of trades 40.5% of volumes	8.9% of trades 38.8% of volume	0.8% of trades 11.7% of volume	0.2% of trades 9% of volume
		5-15yr	89.9% of trades 39% of volume	6.2% of trades 21.3% of volume	3.7% of trades 34.1% of volume	0.2% of trades 5.6% of volume
		>15yr	86.3% of trades 30.9% of volume	5.9% of trades 12.7% of volume	7.4% of trades 45.5% of volume	0.4% of trades 10.8% of volume
All other sovereign and public bonds			68.6% of trades 8.7% of volume	14.6% of trades 14.6% of volume	16.2% of trades 64% of volume	0.6% of trades 12.7% of volume

Corporate, Covered, Convertible & Other bonds

Currency	Issuer Rating	Amount outstanding	Price and size in real time	Price and size T+2	Price and size 4 weeks
GBP, EUR & USD	IG	>£500m	87.2% of trades 25.4% of volume	10.4% of trades 35.4% of volume	2.4% of trades 39.2% of volume

All other instruments	71.7% of trades 14.7% of volume	22% of trades 33.8% of volume	6.3% of trades 51.5% of volume

Real-time transparency and calibration of deferrals (Chapter 6)

Q15: Do you agree with the factors used in grouping bonds?

ICMA members broadly agree with the factors used in grouping bonds.

Corporate bonds

ICMA modeling on the impact of endogenous features of corporate bonds on liquidity, unsurprisingly, shows that time since issuance is the most important factor, with bonds being at their most liquid for the first six weeks post-issuance, before liquidity rapidly evaporates. This is illustrated in Figure 1 in the Data Annex.

Of course, ICMA members agree that this is not a practical feature in itself for calibrating liquidity thresholds and would skew the regime toward new issuances. ICMA believes that the objective of the transparency regime should be to provide as much real-time transparency as possible across all bonds, while applying appropriate deferrals for the more market sensitive trades.

From ICMA's modeling, outstanding issuance size is the next most important bond feature in determining relative liquidity (using average daily volume as the measure for liquidity and controlling for issuance size to compare like-for-like). ICMA therefore agrees with outstanding issuance as a meaningful factor. The importance, and linear nature, of this correlation is illustrated in Figures 3.

ICMA would also point out that it is important to distinguish between *outstanding issuance* and *issuance size*. The latter is generally taken to be the original issue amount (in notional value) of a bond. However, it is quite common for the outstanding issuance size to change over time, as the result of taps (increasing the amount outstanding) and calls or puts (reducing the amount outstanding). The amount outstanding is therefore the pertinent factor (and not the original amount issued).

While currency provides mixed results in terms of statistical significance, as well as the direction of correlation, ICMA would agree with the FCA's proposal of grouping USD, EUR, and GBP together. Based on MiFIR/D post-trade data, ICMA estimates that these currencies alone account for 96% of the total traded notional volume of corporate bonds in Europe (UK and EU combined).

Currency	Notional Value (€mn equivalent)	%
EUR	1,542,012.1	56%
USD	916,255.9	33%
GBP	183,753.6	7%
OTH	22,507.5	1%
SEK	20,312.6	1%
NOK	18,409.2	1%
CHF	13,967.7	1%
AUD	13,224.9	0%
CAD	7,026.8	0%
JPY	1,009.7	0%
DKK	334.3	0%
NZD	55.8	0%

Source: European Secondary Bond Market Data: H1 2023, ICMA

ICMA's modeling does not make a convincing case for using credit rating as a factor. However, it is broadly recognized that High Yield (HY) as a distinct asset class had a very different underlying market structure compared to Investment Grade (IG) including a different investor base. Furthermore, from the data we can see that average and median trades sizes for HY are smaller than IG (see Figures 7 and 8). ICMA therefore supports the distinction between IG and HY.

ICMA also looked at the relationship between liquidity and time to maturity for corporate bonds (See Figure 2). While the data suggests that some parts of the maturity curve are more liquid than others, we found the relationship too complex (more likely to be exponential than linear) to use as a basis for calibrating deferrals.

Sovereign bonds

While ICMA has not modeled for the relationship between the endogenous features of sovereign bonds and liquidity, it recognizes that there are a number of potentially important factors that need to be considered. These include: the overall size of the market based on the issuer; the outstanding amount of a specific issue; time since issuance; maturity; on-the-run vs off-the-run; and futures deliverability.

ICMA did however, look at trade size distributions as well as average daily volumes based on the maturity buckets proposed by the FCA (see Figures 10 to 16). ICMA also looked at the relative liquidity (in terms of average daily volume) of on-the-run and off-the-run sovereign bond issues and observed a significant difference, with off-the run issues being far less liquid (see Figure 14).

ICMA has used these observations to propose changes to the size thresholds for sovereign bond deferrals which we believe better reflect the true liquidity of the market.

With a view to simplicity, ICMA would also agree with grouping sovereign bonds by the largest issuers with the most actively traded underlying market.

ICMA would further agree with outstanding issue size and time left to maturity as relevant features in assessing relative liquidity.

Q16: Do you agree with the list of issuers used to group Sovereign and Other public bonds?

As per its response to Q15, ICMA and its members agree with the list of issuers used to group Sovereign bonds, based on the fact that these account for more than 80% of the total traded notional value of sovereign bonds in Europe (combining UK and EU).

ICMA members did consider the case for including other sovereign issuers with those proposed by the FCA. However, based on both absolute and relative market size and traded volumes, members concluded that, on balance, it would be advisable to proceed on the basis of grouping the five issuers as proposed by the FCA for now, with a view to possibly expanding this issuer group (say, to include Spain) at a future point.

Issuer Country	Notional Value (€bn)	%
UNITED STATES	9,839.65	37.12%
ITALY	4,368.38	16.48%
GERMANY	3,858.90	14.56%
FRANCE	2,646.28	9.98%
UNITED KINGDOM	2,553.38	9.63%
SPAIN	1,198.82	4.52%
NETHERLANDS	577.22	2.18%
BELGIUM	569.71	2.15%

Source: European Secondary Bond Market Data: H1 2023, ICMA

ICMA members would also point out that even within this grouping, there is the scope for meaningful dislocations in terms of liquidity, which could equally justify a narrowing of included sovereign issuers.[2]

ICMA also looked at the trade size distributions for supranational bonds (see Figures 17 to 20). Based on this analysis, ICMA members concluded that these should not be grouped together with sovereign bonds, also noting very different liquidity profiles between these bind classes. Furthermore, many supranational issuers do not necessarily fall into the same issuer country as the groupings used to

[2] ICMA would refer to its March 2024 report: *Liquidity and resilience in the core European sovereign bond markets*

calibrate sovereign bond deferrals. ICMA therefore proposes that for now at least, supranational, and other public bonds that are not pure sovereign bonds, be placed in the *All other instruments* bucket.

Based on the proposal that only pure sovereign issuance be included in the first bucket for *Sovereign and Other public bonds*, it would seem appropriate to increase the corresponding *outstanding issue size* threshold for this bucket to reflect better the underlying market (See Figure 21). ICMA therefore proposes changing this to >£5bn.

Q17: Should we consider having a separate group for certain types of sovereign bonds, e.g. inflation-linked Sovereign bonds?

ICMA members have expressed concern about the inclusion of less liquid sovereign bond classes, in particular Inflation-linked bonds and coupon strips. Our analysis shows that these do not trade nearly as frequently as the vanilla sovereign bonds of the underlying issuer and can be highly sensitive information leakage.

Based on average daily volumes of inflation-linked bonds, as well as median trade sizes, ICMA concludes that these types of bonds should not be subject to the same degree of real-time transparency as pure sovereign bonds. ICMA therefore proposed that inflation-linked bonds, coupon strips, and any other sovereign-type bonds other than pure, vanilla, sovereign bonds, be placed in the *All other instruments* bucket.

Also, with respect to the "*All other instruments*" bucket under Sovereign and Other public bonds, we would note that the "*All other instruments*" bucket is currently very broad, including bonds with a range of currencies, issue sizes and liquidity profiles. For this reason, the sizes in the transparency framework proposed are not suitable for various bonds in this bucket.

Q18: Do you agree with the list of currencies used to group Corporate, Covered, Convertible & Other bonds?

As per its response to the Q15, ICMA members agree with list of currencies used to group corporate bonds.

Q19: Do you agree with the levels indicated as thresholds for issue size and setting the three maturity groups for Sovereign and Other Public Bonds?

As explained in the response to Q16, ICMA and its members believe that a larger outstanding issuance size threshold is appropriate in the case of the determining the first bucket, particularly in light of ICMA's proposal that this only contain pure sovereign bonds (with the exception of those identified in the response to Q17). Based on the observed distribution of outstanding issuance size for the five proposed sovereign issuers, ICMA proposes a threshold of >£5bn.

ICMA members agree that in the case of (pure) sovereign bonds, there is a case for applying different deferral thresholds along the maturity curve. This is partly due to different liquidity conditions, particularly for much longer maturities, but also to reflect the relative price sensitivity to maturity, and therefore the underlying risk of market participants. ICMA believes that the maturity groups proposed by the FCA strike a balance between recognizing the importance of calibrating deferrals along the curve and relative simplicity.

However, further analysis of average daily volumes in these groupings, as well as trade size distribution, suggests that the size thresholds proposed by the FCA may be too aggressive, and ICMA proposes the below calibrations which members believe will afford better protection for liquidity providers, while also providing a high degree of real-time transparency.

ICMA also proposes two further refinements to the Proposed Model 1 with respect to Sovereign and Other public bonds.

Firstly, in the case of the first deferral type (*Price: 15 mins / Size: T+3*), ICMA members note that the publication of the price alone provides more than enough information so as to compromise the best intentions of this deferral. By comparing the published price with where the market was being quoted 15 minutes ago, it is relatively easy to infer: whether the trade is a (principal) risk trade; the direction of the trade (is the liquidity provider long or short); and the relative size (ie is it closer to the lower or upper threshold). ICMA therefore proposes revising this deferral to T+2 for both price and size.

Secondly, in the case of the extremely small subset of extremely large trades, which make take months, rather than weeks, for liquidity providers to trade out of, ICMA proposes the application of a volume cap borrowing from Model 2). It is important that the volume cap should be finite, and ICMA proposes that the full details of the trade be made publicly available in due course (the maximum timeline of which to be determined, based on further consultation).

In calibrating the caps, ICMA looked at the thin tail of the last decile of trade sizes that would fall into each of the four 4-week deferral buckets (based on historical trade data) as well as looking at the ADV for each of these (see Figures 15 and 25). Accordingly, the caps would apply to only a very small subset of transactions (between 0.4% and 0.6% of total transactions). Members also raised the fact that this was particularly important for the *All other sovereign and public bonds category*, given the diversity of bond types and markets that would fall into this bucket, including some very illiquid segments such as local currency Emerging Market bonds.

Many ICMA members are concerned that without adopting these proposals, there is a very serious risk that sovereign bond secondary trading, particularly with respect to EU sovereign issuers, migrate to the EU. However, some are not supportive of a volume cap, particularly for the most liquid sovereign bonds.

Issuer	Amount outstanding	Maturity	Price and size in real time	Price and size T+2	Price and size 4 weeks
UK, France, Germany, Italy, USA	>£5bn	<5yr	<£10m	£10m≤£50m	≥£50m (cap at £100m)
		5-15yr	<£10m	£10m≤£25m	≥£25m (cap at £100m)
		>15yr	<£5m	£5m≤£10m	≥£10m (cap at £50m)

All other sovereign and public bonds	<£2m	£2m≤£5m	≥£5m (cap at £50m)

Sovereign and Other public bonds

Finally, some members expressed concern that with respect to US Treasuries, the UK transparency regime could afford more transparency than that being provided by TRACE, also noting that US Treasuries are the most actively traded bond class in the UK/EU. The TRACE framework also recognizes the distinction between on-the-run and off-the-run issues with respect to their relative liquidity. However, other members felt that it was important to have a consistent approach with respect to the most actively traded sovereign bonds, regardless of issuer, so long as the calibration did not harm trading in these, including US Treasuries.

Q20: Do you agree with our proposed definition of IG bonds?

ICMA and its members agree that this should be a standardized, unambiguous definition that is publicly available.

However, while the proposed definition it is an established methodology (used in banks' IMs), apparently there is a degree of discretion, particularly around unrated bonds. But perhaps a bigger concern is for the data providers who do not have access to the full range of CRAs and worry about having to pay for this.

ICMA members propose two options for ensuring the usability of an IG definition in the transparency calibration:

(i) Ideally what members would like is easy access to a golden source of IG/non-IG ISINs. This would be provided by the FCA based on its Public Ratings Database.

(ii) Alternatively, they would prefer a simpler ratings methodology, such as that used by the BoE for its Corporate Bond Purchases Programme.[3]
(a) has a long-term credit rating from at least two of S&P, Moody's and Fitch;
(b) is not rated below BBB- / Baa3 by any of S&P, Moody's and Fitch; and
(c) if rated BBB- / Baa3 by any of S&P, Moody's and Fitch is not on negative watch from such rating agency.

Q21: Do you agree with our proposed thresholds for bonds transparency in Option 1?

Corporate bonds

[3] See: https://www.cadwalader.com/resources/clients-friends-memos/bank-of-england-asset-purchase-facility---a-panacea-for-the-uk-corporate-credit-markets

ICMA members believe that the proposed outstanding issuance threshold and LIS thresholds should be modified. Based on observations of trade size and average daily volumes, ICMA members propose two refinements to the deferral calibration.

Firstly, with respect to the first deferral bucket, ICMA proposes the same alignment of price and size as that proposed for sovereign bonds, for exactly the same reason (see response to Q19).

Secondly, ICMA believes that the size thresholds need to be calibrated lower to reflect the true underlying liquidity of the market. The proposed thresholds are provided in the below box.

With respect to the proposed maximum 4-week deferral for the largest trades, while it may take more than 4 weeks to trade out of larger positions, based on historical average daily volumes, ICMA members believe that the public dissemination of trade details at this point would not be relied upon by the market to take a counter position, with the possible exception of extremely large trades.

Corporate, Covered, Convertible & Other bonds

Currency	Issuer Rating	Amount outstanding	Price and size in real time	Price and size T+2	Price and size 4 weeks
GBP, EUR & USD	IG	>£500m	<£1m	£1m≤£5m	≥£5m
All other instruments			<£500k	£500k≤£2.5m	≥£2.5m

Q22: 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?

ICMA does not endorse the Option 2 approach with respect to bonds.

Q23: 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?

ICMA does not endorse the Option 2 approach with respect to bonds.

Q24: 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?

ICMA does not endorse the Option 2 approach with respect to bonds.

<u>Exemptions from post-trade reporting</u> (Chapter 7)

Q35: Do you agree with maintaining the exemption for inter-funds transfers in Article 12? Yes

Yes, ICMA agrees to maintaining the exemption for inter-funds transfers in Article 12

Q36: Do you agree with the new definition of inter-funds transfers?

ICMA welcomes consistency with the FCA's Policy Statement on Improving Equity Secondary Markets (PS23/4), therefore ICMA agrees to the proposed definition.

Q40: Do you agree with introducing an exemption for inter-affiliate trades?

Yes, ICMA agrees with introducing an exemption for inter-affiliate trades.

Q41: Do you agree with our proposed definition of inter-affiliate trades?

In line with our response to Q36, ICMA welcomes consistency with the definition under the *FCA's Policy Statement on Improving Equity Secondary Markets (PS23/4).* ICMA notes that this is the same as the definition introduced in UK RTS 1 via the Equities Secondary Market PS, so it makes sense that this is consistent. Any deviation between the two regimes would raise the question of whether the scope was somehow intended to be different.

Content of post-trade information: fields and flags (Chapter 8)

Q42: 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.

From ICMA's perspective, looking at this solely in the context of bond markets (and not derivatives, equity or any other markets), the ISIN is the only relevant identification code, hence ICMA welcomes the FCA's proposal to remove the trade reporting field "Instrument identification code type".

Q47: Do you agree with the proposed changes to the 'price' field and related reporting fields? If not, please explain why.

In general, ICMA agrees to the FCA's rationale for changes to the 'price' field and related reporting fields. For consistency price should always be expressed in percentage format, regardless of any market convention.

The proposed changes look to be implementable and an improvement on the current system.

Q48: What are your views about the introduction of a 'price conditions' field?

ICMA is supportive of a separate 'price conditions' field. This will ensure that text values are separated from numeric values.

Q49: 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.

ICMA is fully supportive of ongoing engagement and consultation with the industry to ensure the successful calibration and optimal outcome of the UK transparency regime.

Q50: 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.

ICMA agrees to amendments of Table 4.

Q53: What are your views about the introduction of a portfolio trade transactions flag 'PORT'?

ICMA was of the view that there should be no change or addition of flags when initially proposed by ESMA in Consultation Paper on RTS1 and RTS2 Review dated July 2021. However, given that the flag has been added in the EU now (as per the ESMA response to European Commission opinion dated December 2022) it would seem important to have consistency with the EU.

Furthermore, portfolio trades are economically distinct from package trades, and could provide useful information, particularly for buy-side investment firms.

However, ICMA would also support the FCA proposal made in 8.62 of the CP that the 'TPAC' flag should be used instead of 'PORT' in the case of a trade qualifying as both a package trade and a portfolio trade.

Q54: 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 SSTI transaction 'SIZE' flags? If not, please explain why and the uses of each flag.

In general, ICMA agrees with the FCA's proposal to delete flags that are redundant or do not offer any meaningful value. ICMA is aware that increasing the number of flags also increases the opportunity for and likelihood of error.

However, ICMA would also recommend remaining open to the introduction of new flags as well as the modification of existing flags, as and when appropriate. For example, it may, at some point, be helpful to distinguish between Category 1 and Category 2 transactions. Another possible example is in the case of buy-ins, which are often executed at off-market prices, and should not be considered as price formative.

Q55: 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.

Please see our response to Q54.

Q56: Are there any other flags that we should consider introducing, removing or amending?

If size caps are to feature in the deferral framework, then it will be necessary to include a flag for transactions where the cap is to be applied.

An additional field for consideration could be the inclusion of intended settlement date (ISD), in the case of this not being standard. This could potentially provide two benefits. Firstly, in the very few instances where trades are not subject to standard settlement, and in particular those with much longer settlement, the ISD is required to calculate accurately data points such as yield or spread. Secondly, and particularly in light of the widely expected shortening of the settlement cycle in the UK and EU, it may be helpful to view potential impacts such as a resistance to apply this move in certain market segments, or a migration from venue trading to voice in order to facilitate longer settlement.

Q58: Do you agree with our proposal to delete Annex IV of RTS 2 in its entirety? If not, please explain why.

ICMA is supportive of this proposal.

<u>Definition of systematic internaliser (SI)</u> (Chapter 9)

Q59: Do you agree with our proposed glossary definition and PERG guidance? If not, please explain why.

ICMA proposes the following modification to the proposed definition:

Dealing takes place on an 'organised, frequent, systematic, and substantial' basis where it is:

i. Carried on in line with rules and procedures in a system or a facility, such as but not limited to, an electronic execution system, which is assigned to that purpose; and
ii. The system or facility is a market-maker and designed to provide liquidity to the market; and
iii. Available to counterparties on a regular or continuous basis; and
iv. Held out as being carried on by way of business, in a manner consistent with Article 3 of the Business Order in respect of the relevant financial instrument. On this point, firms may refer to our new proposed guidance in PERG 13.2 Q10a for guidance on meaning.

ICMA's main rationale to the proposed changes is that the system or a facility does not necessarily need to be 'automated' or 'technical' to be a SI, as long as it meets the other qualifiers in the definition. For instance, the SI trade could be a (non-automated) voice call.

We do not support (materially) increasing the current number of SIs. We have therefore made the qualifiers above cumulative, by adding the word 'and' between the bullet points. In other words, to qualify as a SI, the system/facility would need to comply with *all* the points above, from i to iv.

We do not believe this amended definition would cause any issues in other asset classes.

Q60: Are there any further comments you wish us to consider while finalising these proposals? If so, please include here.

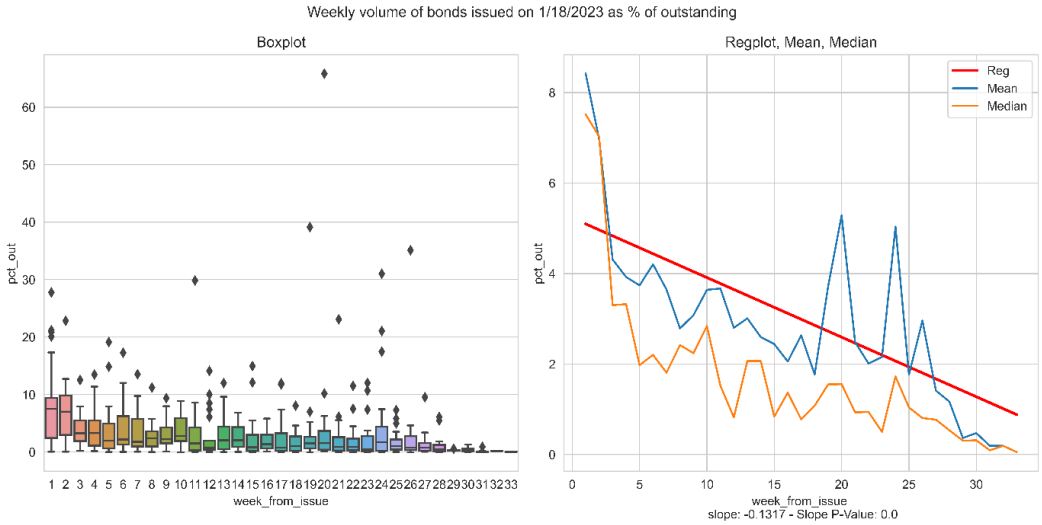
With respect to package trades that include both Category 1 and Category 2 instruments, ICMA members propose that the FCA provide guidance as to the appropriate deferral application. ICMA would further propose that this be calibrated with respect to the Category 2 instrument, and therefore a deferral be applied that is longer than the maximum deferral based on the Category 1 instrument.

Finally, members raised further thoughts around potential crossover points between bonds and derivatives which could affect bond market liquidity. In connection with package trades, specifically ASW package trading including both bond and derivative trades, ICMA would propose the rounding of derivatives dates to the nearest annual or liquid bucket date, which would help mitigate the risk to bond liquidity. To give an example: In case a bond/swap package that was traded was large for bonds, but not for swaps, and the swap transaction was therefore made transparent sooner than bonds, it could be inferred from the swap transaction and date of the swap that there has been a large bond trade.

Data Annex

Several datasets were used to compile the below analysis. Trading data was obtained by Propellant.digital, whose software has been used to consolidate public MiFID II/R data. Supplementary reference data such as outstanding issuance sizes, issuance and maturity dates etc, has been sourced via Bloomberg and Dealogic.

Figure 1: Corporate bonds: correlation between notional traded as a percentage of outstanding (pct_out) and time since issuance



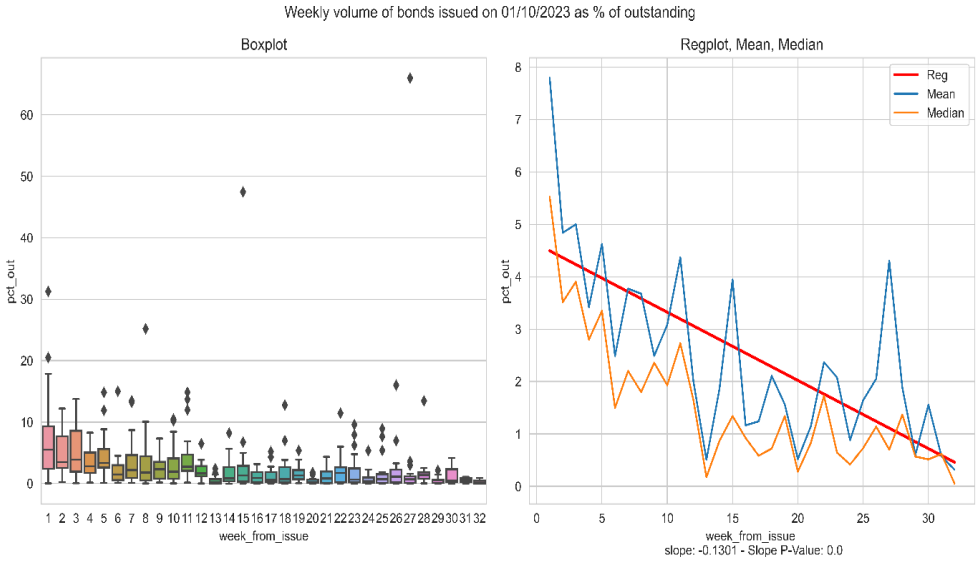


Figure 2: Corporate bonds: correlation between notional traded daily per ISIN (sum by day)and time since issuance

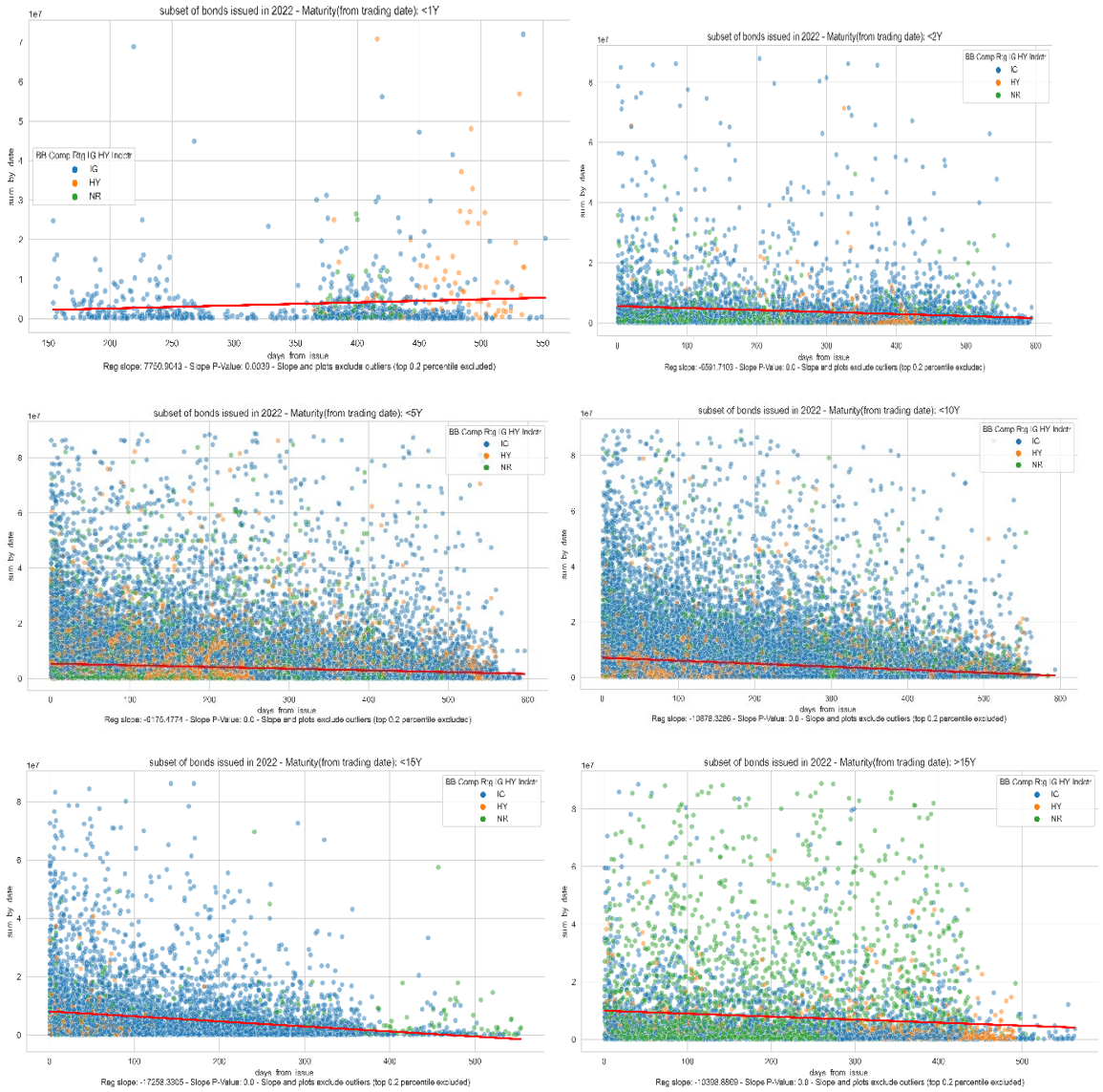


Figure 3a: Corporate bonds: correlation between liquidity (total notional traded weekly per ISIN or "sum_by_day") and outstanding issuance

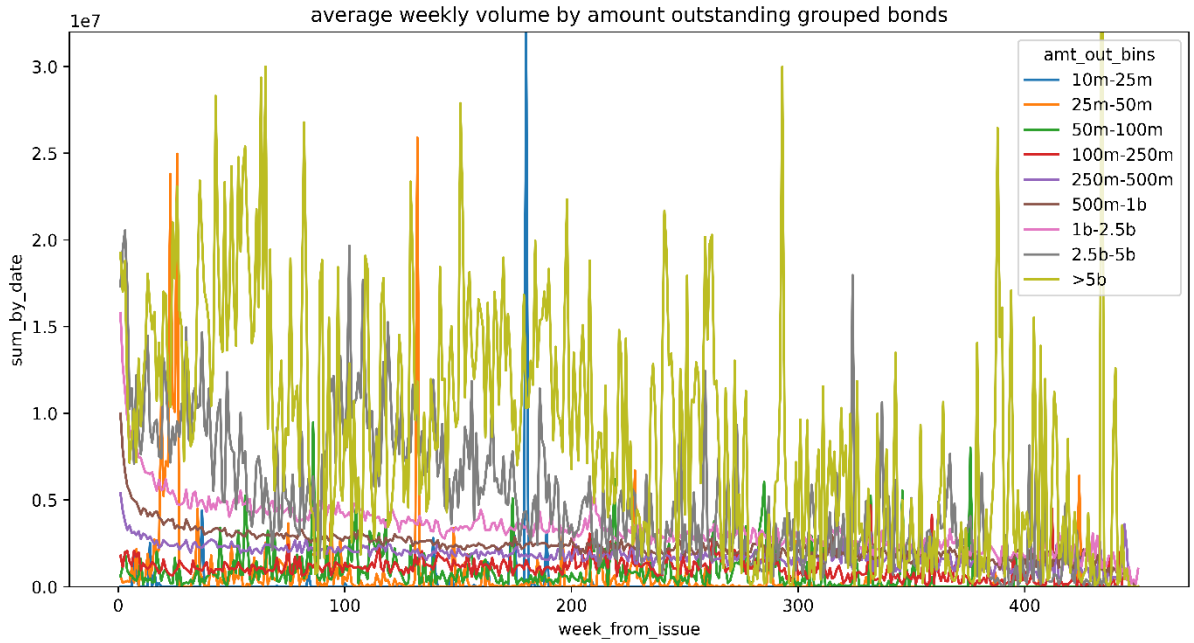


Figure 3b: Corporate bonds: intercept and slope, between liquidity (total notional traded weekly per ISIN or "sum_by_day") and time since issuance (week_from_issue) grouped by outstanding issuance

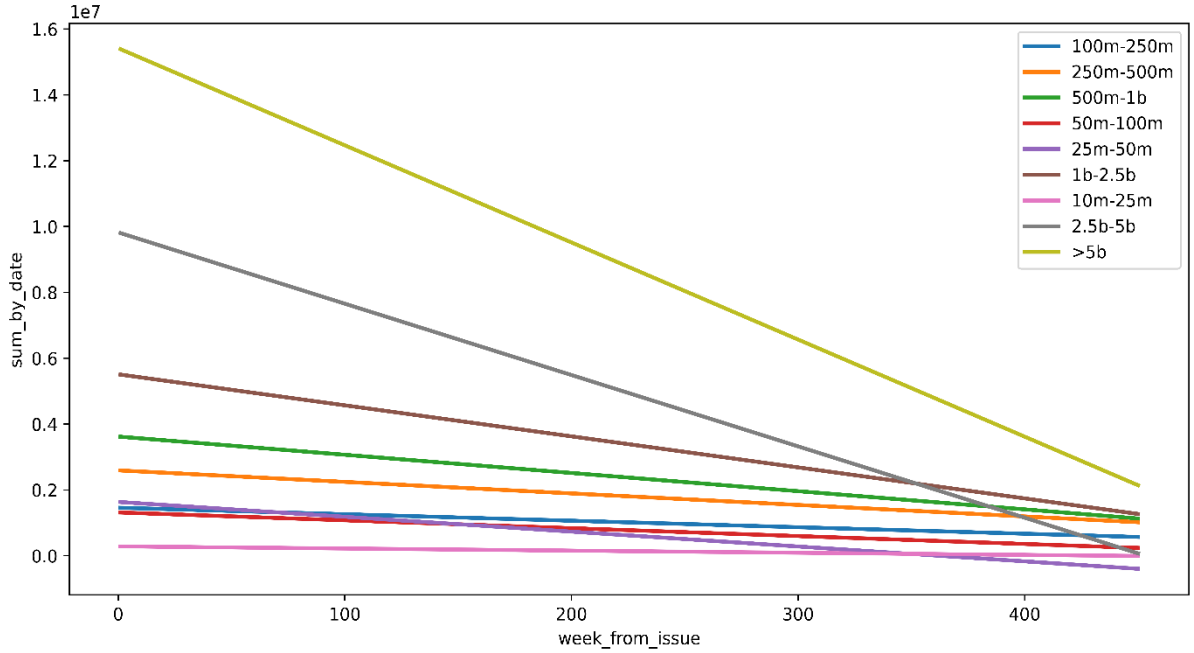
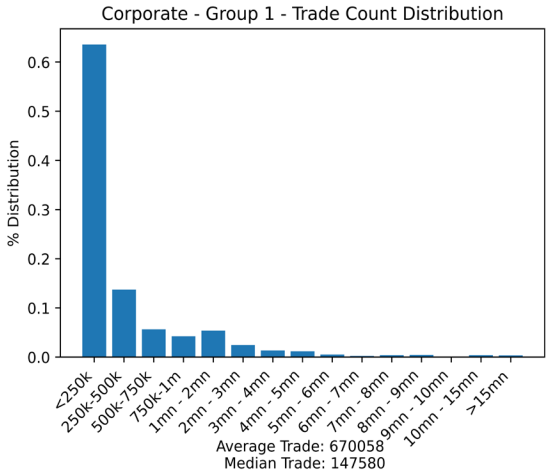


Figure 4: Corporate bonds - ICMA liquidity scoring based on endogenous features

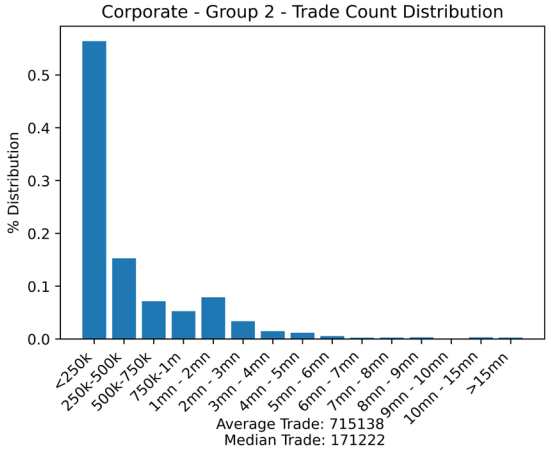
Variable	*Criteria*	*Score*
Week from Issuance	*≤5*	*3*
	>5 and ≤20	*2*
	>20	*1*
	No data	*0*
Time to Maturity	*≤ 2 years*	*3*
	>2 years and ≤ 15 years	*2*
	>15 years	*1*
	No data	*0*
Amount Outstanding (EUR)	*≥ 2.5 Bn*	*3*
	≥500 Mn and <2.5 Bn	*2*
	< 500 Mn	*1*
	No data	*0*

Figure 5: Corporate bonds – trade count distribution (IG / >£500m / USD, EUR, GBP) [all figures GBP]



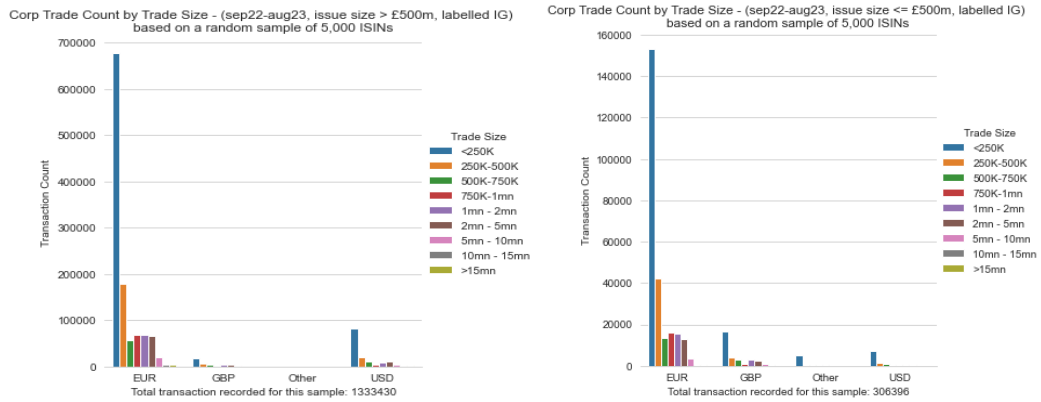
size_gbp_bins	Transaction Count	Distribution %	Cumulative Distribution %
<250k	1869654	63.6%	63.6%
250k-500k	403887	13.7%	77.3%
500k-750k	166228	5.7%	83.0%
750k-1m	124165	4.2%	87.2%
1mn - 2mn	157961	5.4%	92.6%
2mn - 3mn	72657	2.5%	95.0%
3mn - 4mn	40110	1.4%	96.4%
4mn - 5mn	34677	1.2%	97.6%
5mn - 6mn	15077	0.5%	98.1%
6mn - 7mn	7110	0.2%	98.3%
7mn - 8mn	11448	0.4%	98.7%
8mn - 9mn	13322	0.5%	99.2%
9mn - 10mn	2503	0.1%	99.3%
10mn - 15mn	11589	0.4%	99.6%
>15mn	10321	0.4%	100.0%

Figure 6: Corporate bonds – trade count distribution (All other instruments) [all figures GBP]



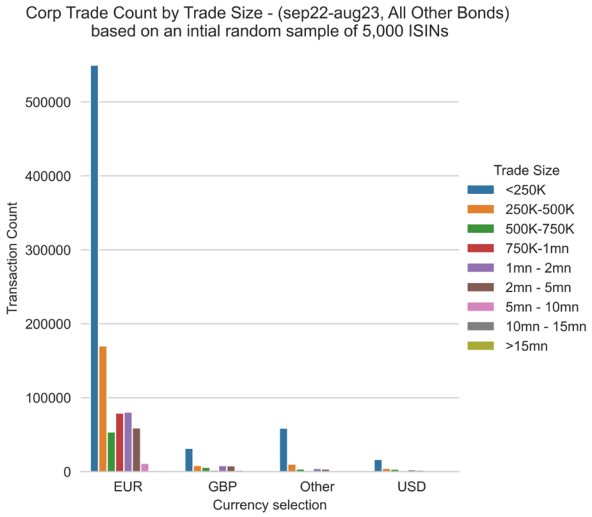
size_gbp_bins	Transaction Count	Distribution %	Cumulative Distribution %
<250k	2043111	56%	56%
250k-500k	553262	15%	72%
500k-750k	258571	7%	79%
750k-1m	190876	5%	84%
1mn - 2mn	285550	8%	92%
2mn - 3mn	121808	3%	95%
3mn - 4mn	53800	1%	97%
4mn - 5mn	42810	1%	98%
5mn - 6mn	20072	1%	99%
6mn - 7mn	8655	0%	99%
7mn - 8mn	9220	0%	99%
8mn - 9mn	11101	0%	99%
9mn - 10mn	2740	0%	99%
10mn - 15mn	11101	0%	100%
>15mn	9362	0%	100%

Figure 7: Corporate bond trade size distribution (IG)



	IG (EUR,GBP,USD)		IG (Other Currencies)	HY
	issue size >£500mn	**issue size <=£500mn**	**Any issue Size**	**Any currency & issue Size**
Total Transactions	1.3 mn	299.7k	11.9k	884.7K
Total Notional traded (in £)	1.2 tn	208 bn	20.7 bn	726.6 bn

Figure 8: Corporate bond trade size distribution (All other instruments)



	All Other bonds (Transactions count)				All Other bonds (Cumulative % of transactions)			
Trade size bin	**EUR**	**GBP**	**Other**	**USD**	**EUR**	**GBP**	**Other**	**USD**
<250K	550013	31847	59107	16880	54.5%	46.5%	67.5%	53.8%
250K-500K	170219	8640	10346	4672	71.4%	59.1%	79.4%	68.7%
500K-750K	53915	6083	3803	3458	76.7%	68.0%	83.7%	79.8%
750K-1mn	79529	2229	1823	666	84.6%	71.3%	85.8%	81.9%
1mn - 2mn	80777	8506	4539	2990	92.6%	83.7%	91.0%	91.4%
2mn - 5mn	59404	8165	3801	2161	98.5%	95.6%	95.3%	98.3%
5mn - 10mn	11432	2323	1651	396	99.6%	99.0%	97.2%	99.6%
10mn - 15mn	1939	447	1006	74	99.8%	99.7%	98.3%	99.8%
>15mn	1838	231	1446	58	100.0%	100.0%	100.0%	100.0%

Figure 9: Corporate bond average daily volumes (IG / >£500m / USD, GBP, EUR)

	IG, Issue Size >£500 mn. USD. GBP. EUR	ALL OTHER
average ADV(5) per isin	GBP 4.0 mn	GBP 2.7 mn
ADV(5) Standard Deviation	GBP 1.6 mn	GBP 976 k

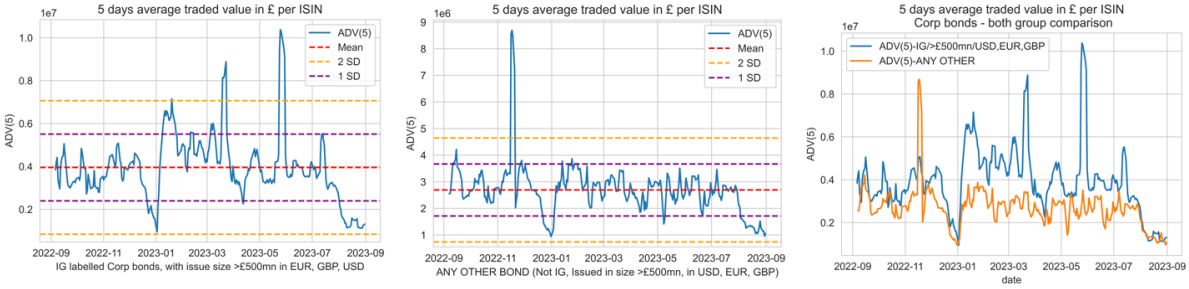
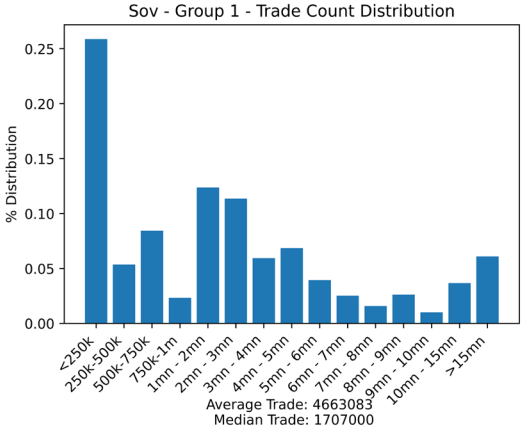
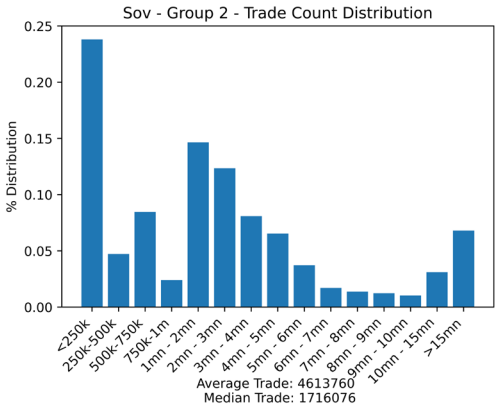


Figure 10: Sovereign bonds – trade size distribution (<5y) [all figures GBP]



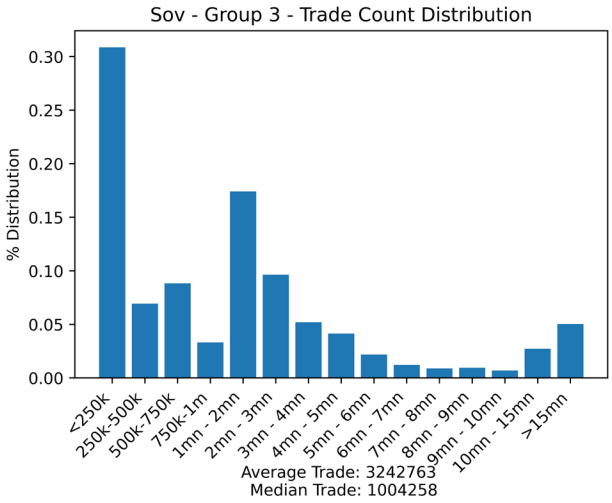
size_gbp_bins	Transaction Count	Distribution %	Cumulative Distribution %
<250k	1142490	26%	26%
250k-500k	236771	5%	31%
500k-750k	372577	8%	40%
750k-1m	102937	2%	42%
1mn - 2mn	545832	12%	54%
2mn - 3mn	501526	11%	66%
3mn - 4mn	262187	6%	72%
4mn - 5mn	302160	7%	79%
5mn - 6mn	173932	4%	82%
6mn - 7mn	111188	3%	85%
7mn - 8mn	69857	2%	87%
8mn - 9mn	115743	3%	89%
9mn - 10mn	44509	1%	90%
10mn - 15mn	162108	4%	94%
>15mn	269227	6%	100%

Figure 11: Sovereign bonds – trade size distribution (5-15yr) [all figures GBP]



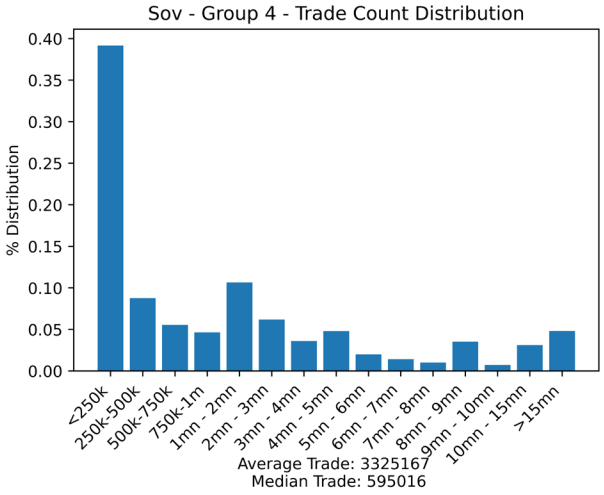
size_gbp_bins	Transaction Count	Distribution %	Cumulative Distribution %
<250k	729261	24%	24%
250k-500k	144427	5%	29%
500k-750k	259307	8%	37%
750k-1m	73470	2%	39%
1mn - 2mn	448871	15%	54%
2mn - 3mn	378050	12%	66%
3mn - 4mn	247599	8%	74%
4mn - 5mn	200316	7%	81%
5mn - 6mn	114171	4%	85%
6mn - 7mn	52166	2%	86%
7mn - 8mn	42115	1%	88%
8mn - 9mn	37915	1%	89%
9mn - 10mn	31534	1%	90%
10mn - 15mn	95105	3%	93%
>15mn	208479	7%	100%

Figure 12: Sovereign bonds – trade size distribution (>15yr) [all figures GBP]



size_gbp_bins	Transaction Count	Distribution %	Cumulative Distribution %
<250k	484364	31%	31%
250k-500k	108791	7%	38%
500k-750k	138497	9%	47%
750k-1m	52089	3%	50%
1mn - 2mn	273281	17%	67%
2mn - 3mn	151126	10%	77%
3mn - 4mn	81593	5%	82%
4mn - 5mn	64903	4%	86%
5mn - 6mn	34169	2%	89%
6mn - 7mn	19039	1%	90%
7mn - 8mn	13936	1%	91%
8mn - 9mn	14812	1%	92%
9mn - 10mn	10885	1%	92%
10mn - 15mn	42722	3%	95%
>15mn	78895	5%	100%

Figure 13: Sovereign bonds – trade size distribution (All other instruments) [all figures GBP]



size_gbp_bins	Transaction Count	Distribution %	Cumulative Distribution %
<250k	669780	39%	39%
250k-500k	149858	9%	48%
500k-750k	94622	6%	53%
750k-1m	79420	5%	58%
1mn - 2mn	182084	11%	69%
2mn - 3mn	105981	6%	75%
3mn - 4mn	61637	4%	79%
4mn - 5mn	82125	5%	83%
5mn - 6mn	34189	2%	85%
6mn - 7mn	24276	1%	87%
7mn - 8mn	17472	1%	88%
8mn - 9mn	60339	4%	91%
9mn - 10mn	12560	1%	92%
10mn - 15mn	53360	3%	95%
>15mn	82254	5%	100%

Figure 14: Sovereign bonds: on-the-run ADV vs off-the-run ADV

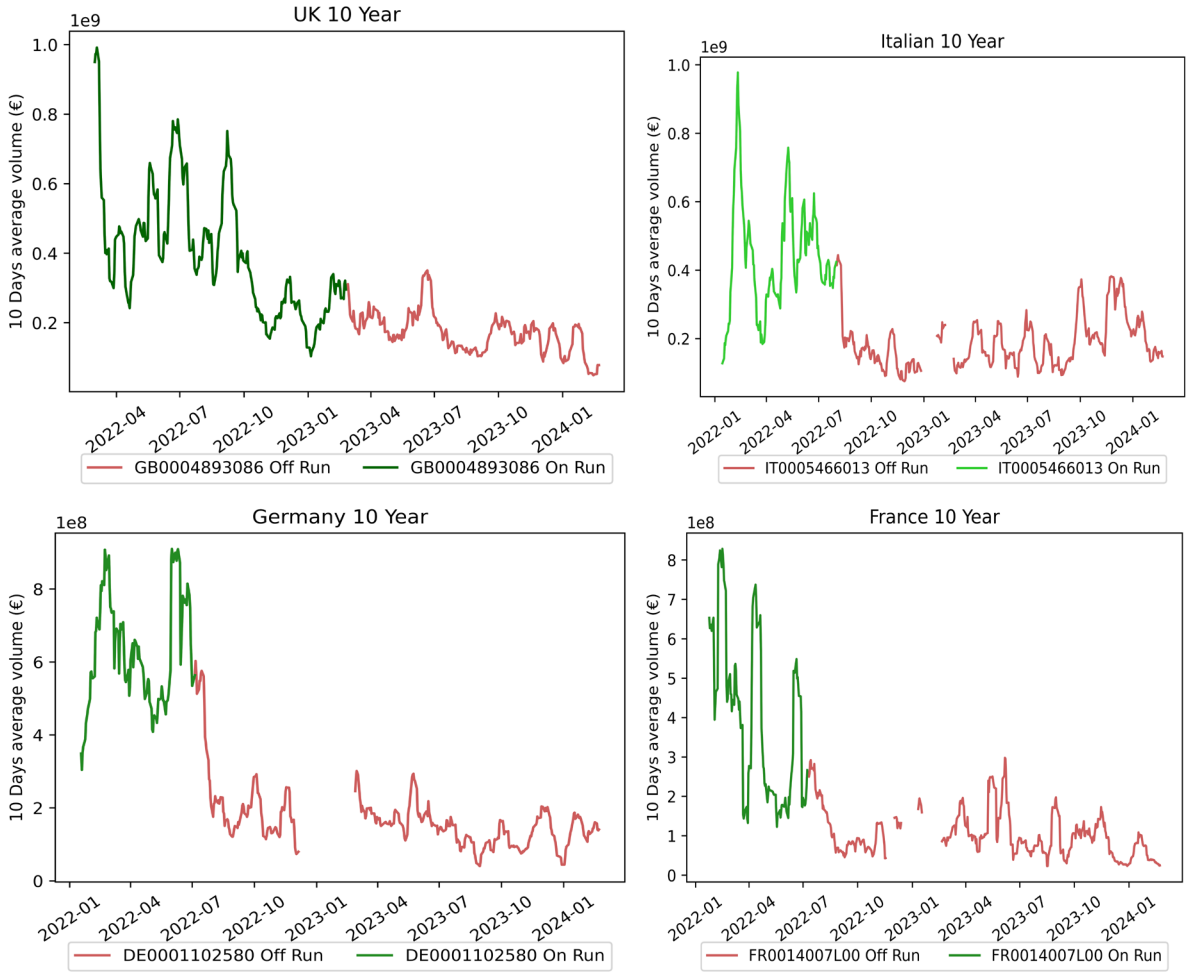


Figure 15: Sovereign bond average daily volumes

	Issue size > GBP 1bn								
	group of 5 <5yr	group of 5 5-15yr	group of 5 >15yr	ES <5yr	ES 5-15yr	ES >15yr	Other <5yr	Other 5-15yr	Other >15yr
number of unique isin in 2023	872	490	248	54	38	14	308	354	97
total notional traded in 2023	GBP 20.6 tn	GBP 19.2 tn	GBP 5.1 tn	GBP 717.3 bn	GBP 1.2 tn	GBP 240.4 bn	GBP 1.3 tn	GBP 1.9 tn	GBP 487.4 bn
average ADV(5) per isin	GBP 190.8 mn	GBP 303.4 mn	GBP 109.7 mn	GBP 88.6 mn	GBP 186.1 mn	GBP 73.9 mn	GBP 34.5 mn	GBP 37.4 mn	GBP 29.2 mn
ADV(5) Standard Deviation	GBP 34.3 mn	GBP 51.1 mn	GBP 20.4 mn	GBP 28.8 mn	GBP 68,7 mn	GBP 22.3 mn	GBP 7.5 mn	GBP 8.6 mn	GBP 9.4 mn
	Issue size < GBP 1bn								
	group of 5 <5yr	group of 5 5-15yr	group of 5 >15yr	ES <5yr	ES 5-15yr	ES >15yr	Other <5yr	Other 5-15yr	Other >15yr
number of unique isin in 2023	28	35	12	0	3	2	139	91	27
total notional traded in 2023	GBP 2 bn	GBP 1.9 bn	GBP 429.1 mn	0	GBP 204.3 mn	GBP 58.9 mn	GBP 17.3 bn	GBP 23.7 bn	GBP 6.4 bn
average ADV(5) per isin	GBP 3.1 mn	GBP 6 mn	GBP 3 mn	0	GBP 4.4 mn	GBP 1.5 mn	GBP 4.1 mn	GBP 4.4 mn	GBP 3.2 mn
ADV(5) Standard Deviation	GBP 2.7 mn	GBP 9.5 mn	GBP 3.5 mn	0	GBP 4.3 mn	GBP 1.7 mn	GBP 2.3 mn	GBP 1.5 mn	GBP 1.7 mn

Figure 16: Sovereign bonds – average daily volumes (Group of 5 / >1bn)

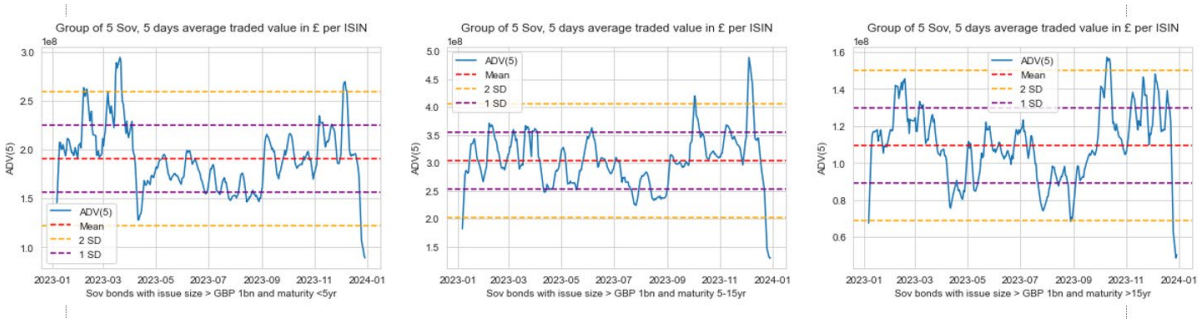
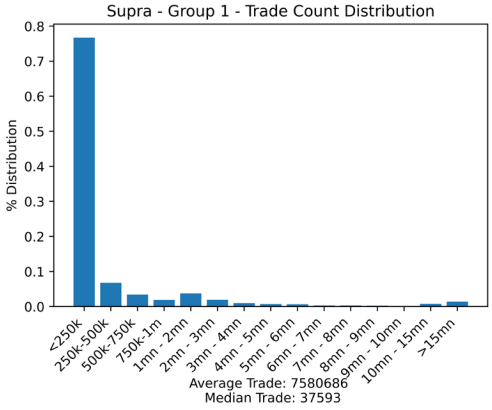
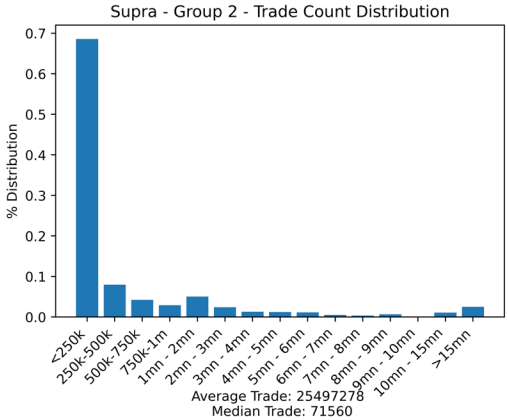


Figure 17: Supras – trade size distribution (Group of 5 / <5yr) [all figures GBP]



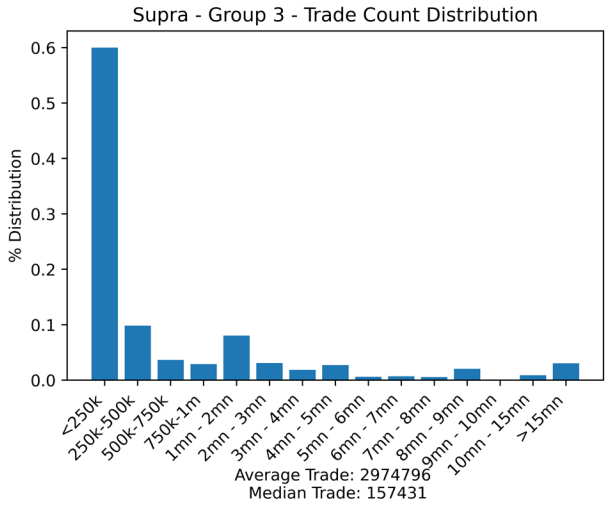
size_gbp_bins	Transaction Count	Distribution %	Cumulative Distribution %
<250k	26074	77%	77%
250k-500k	2297	7%	83%
500k-750k	1156	3%	87%
750k-1m	641	2%	89%
1mn - 2mn	1285	4%	93%
2mn - 3mn	654	2%	94%
3mn - 4mn	336	1%	95%
4mn - 5mn	239	1%	96%
5mn - 6mn	220	1%	97%
6mn - 7mn	103	0%	97%
7mn - 8mn	97	0%	97%
8mn - 9mn	86	0%	98%
9mn - 10mn	54	0%	98%
10mn - 15mn	265	1%	99%
>15mn	472	1%	100%

Figure 18: Supras – trade size distribution (Group of 5 / 5-15yr) [all figures GBP]



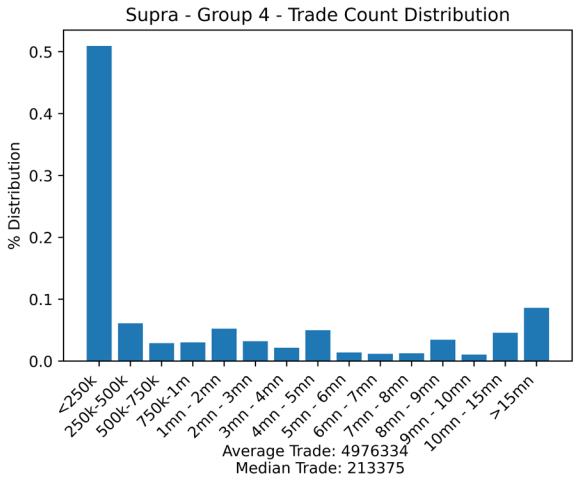
size_gbp_bins	Transaction Count	Distribution %	Cumulative Distribution %
<250k	9453	69%	69%
250k-500k	1100	8%	77%
500k-750k	582	4%	81%
750k-1m	399	3%	84%
1mn - 2mn	696	5%	89%
2mn - 3mn	328	2%	91%
3mn - 4mn	179	1%	92%
4mn - 5mn	169	1%	94%
5mn - 6mn	158	1%	95%
6mn - 7mn	71	1%	95%
7mn - 8mn	48	0%	96%
8mn - 9mn	92	1%	96%
9mn - 10mn	16	0%	96%
10mn - 15mn	151	1%	98%
>15mn	342	2%	100%

Figure 19: Supras – trade size distribution (Group of 5 / >15yr) [all figures GBP]



size_gbp_bins	Transaction Count	Distribution %	Cumulative Distribution %
<250k	1299	60%	60%
250k-500k	213	10%	70%
500k-750k	79	4%	73%
750k-1m	63	3%	76%
1mn - 2mn	174	8%	84%
2mn - 3mn	67	3%	88%
3mn - 4mn	40	2%	89%
4mn - 5mn	59	3%	92%
5mn - 6mn	13	1%	93%
6mn - 7mn	15	1%	93%
7mn - 8mn	12	1%	94%
8mn - 9mn	44	2%	96%
9mn - 10mn	2	0%	96%
10mn - 15mn	19	1%	97%
>15mn	66	3%	100%

Figure 20: Supras – trade size distribution (All other instruments) [all figures GBP]



size_gbp_bins	Transaction Count	Distribution %	Cumulative Distribution %
<250k	119643	51%	51%
250k-500k	14331	6%	57%
500k-750k	6780	3%	60%
750k-1m	7066	3%	63%
1mn - 2mn	12284	5%	68%
2mn - 3mn	7549	3%	71%
3mn - 4mn	5029	2%	74%
4mn - 5mn	11713	5%	79%
5mn - 6mn	3280	1%	80%
6mn - 7mn	2749	1%	81%
7mn - 8mn	2950	1%	82%
8mn - 9mn	8079	3%	86%
9mn - 10mn	2470	1%	87%
10mn - 15mn	10732	5%	91%
>15mn	20205	9%	100%

Figure 21: Sovereign bonds – outstanding issuance (Group of 5)

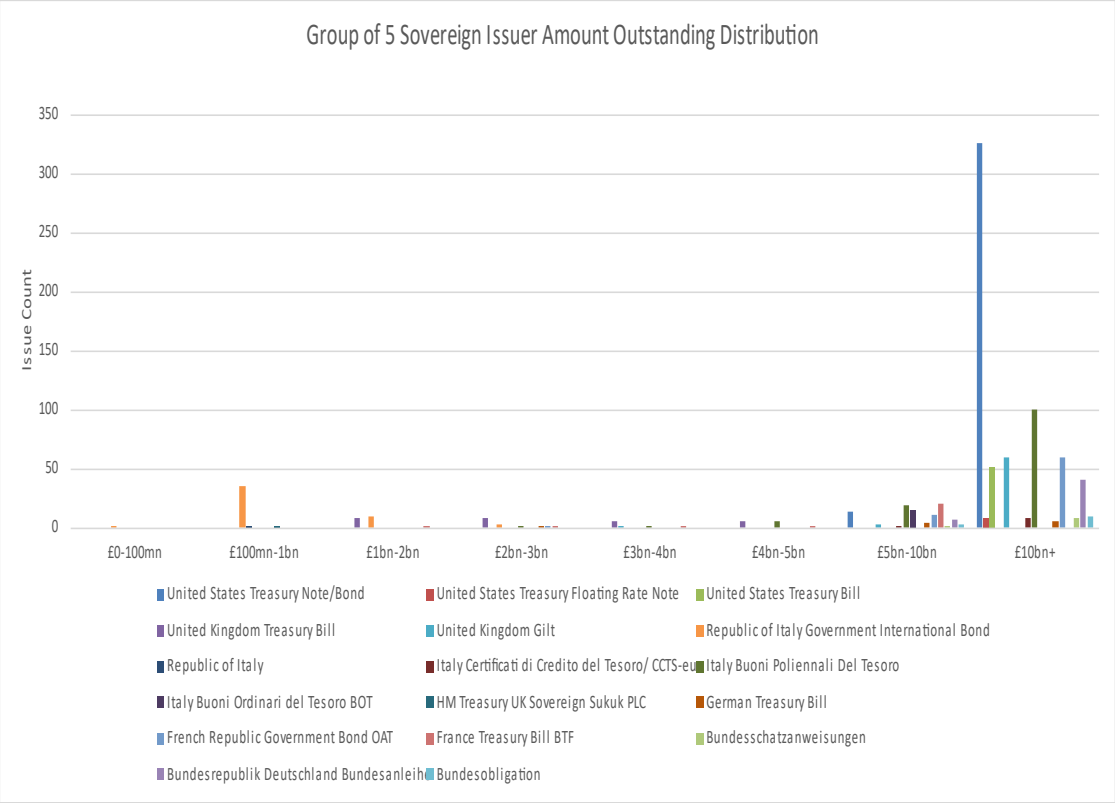


Figure 22: Inflation linked bonds (Group of 5 ex-US)

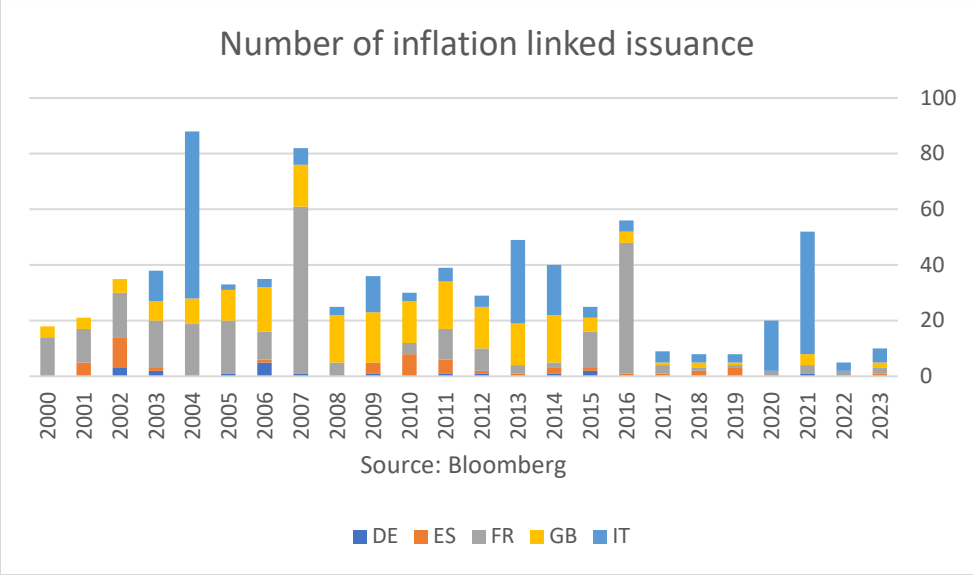


Figure 23: Inflation linked bonds – average weekly volumes

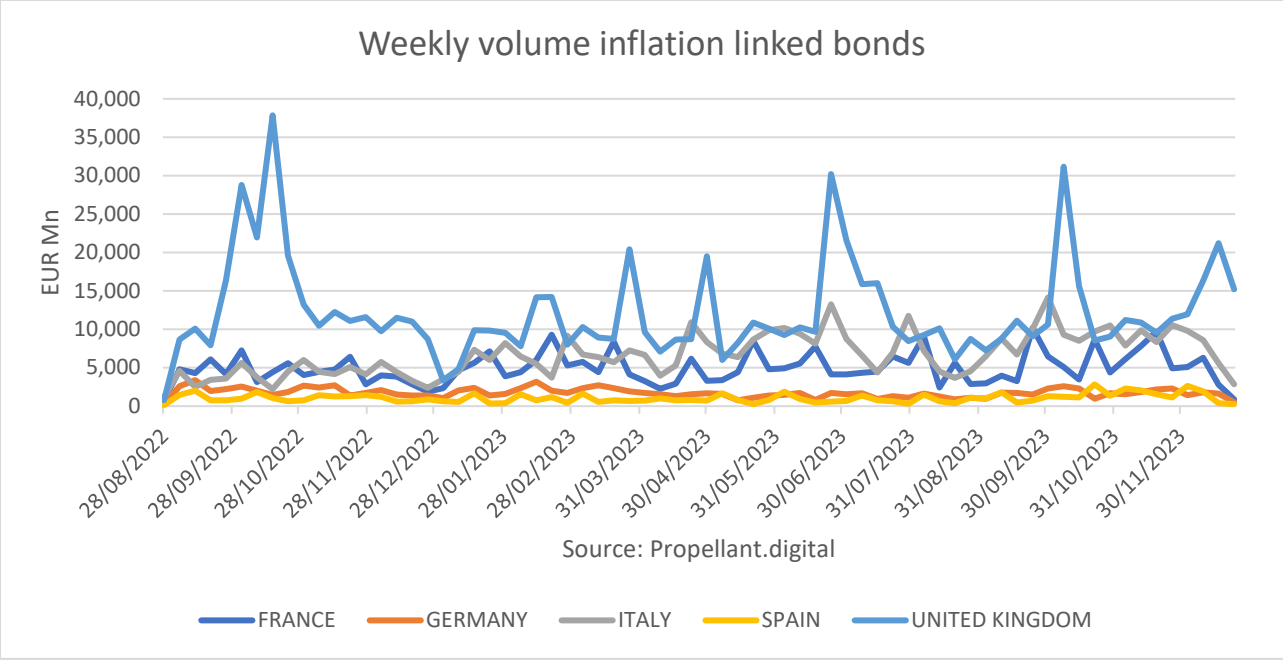


Figure 24: Inflation linked bonds – weekly median trade size

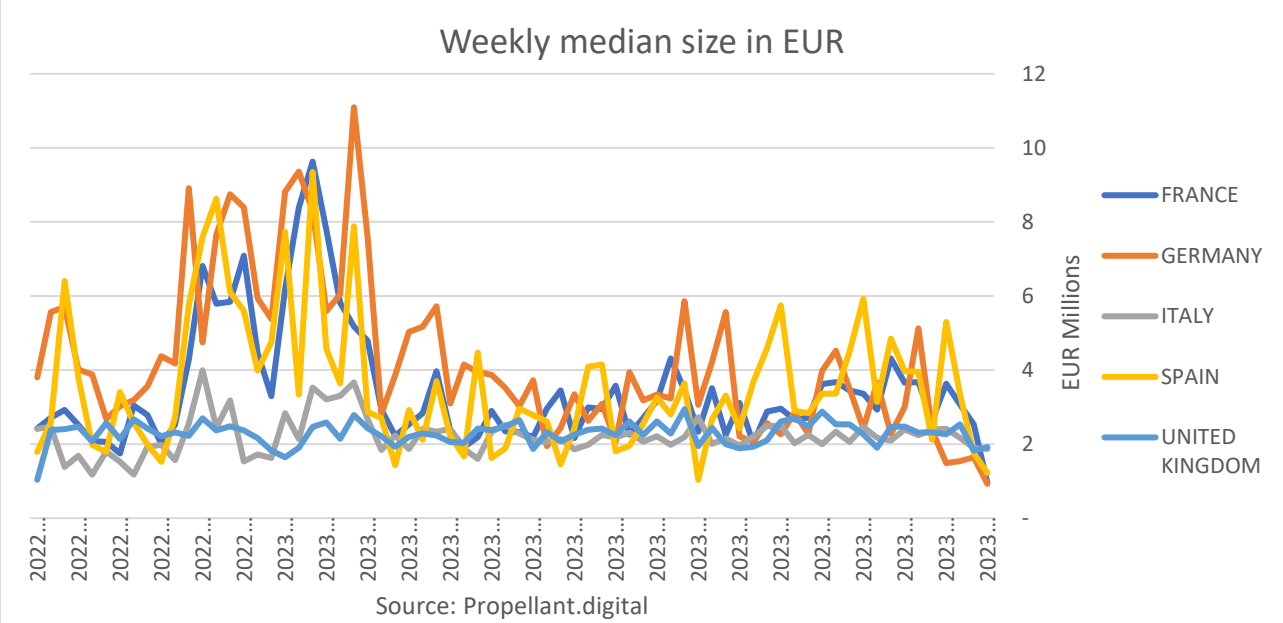


Figure 25: Sovereign bonds: percentile distribution of trade sizes for 2023 (any outlier ≥ 10 bn GBP has been removed)

Percentile	group 1	group 2	group 3	group 4
100.0	9,191,661,586	7,356,490,261	3,615,255,182	1,707,000,000
99.9	140,827,500	126,454,936	85,350,000	85,350,000
99.8	98,863,466	91,441,709	63,125,596	67,853,250
99.7	81,479,198	76,815,000	52,504,090	57,357,329
99.6	71,484,631	67,874,767	46,072,251	50,015,100
99.5	60,964,286	60,209,956	42,079,125	44,563,629
99.0	36,782,451	41,983,039	29,425,961	31,494,150
98.5	25,012,067	30,541,396	22,673,744	23,204,160
98.0	18,698,161	23,898,000	19,204,950	19,332,099
97.5	15,387,163	19,374,450	16,158,457	17,020,979
97.0	12,802,500	15,172,547	13,758,297	13,656,000
96.5	11,170,868	11,965,468	11,778,300	12,426,960
96.0	10,242,000	10,075,568	10,116,395	11,095,500
95.5	10,002,578	8,535,000	8,761,026	10,242,000
95.0	8,535,000	7,880,892	7,701,937	10,242,000
94.0	8,535,000	6,454,260	5,639,929	8,535,000
93.0	8,535,000	5,974,500	5,058,198	8,535,000
92.0	7,681,500	5,121,000	4,334,317	8,535,000
91.0	6,828,000	5,058,198	4,267,500	8,535,000
90.0	5,974,500	4,413,894	4,011,450	8,535,000

Note that the 100.0 row acts as a filter, capturing likely error prints.

Figure 26: Corporate bonds: percentile distribution of trade sizes for 2023 (any outlier ≥ 10 bn GBP has been removed)

Percentile	group 1	group 2
100.0	168,585,674	170,971,614
99.9	25,683,375	25,683,375
99.8	18,834,475	17,122,250
99.7	17,122,250	14,040,245
99.6	14,639,524	12,156,798
99.5	12,841,688	10,677,518
99.0	8,561,125	7,693,354
98.5	7,379,008	5,992,788
98.0	5,903,206	4,982,575
97.5	4,794,230	4,280,563
97.0	4,280,563	4,268,270
96.5	4,194,951	3,689,504
96.0	3,689,504	3,424,450
95.5	3,424,450	3,082,005
95.0	2,996,394	2,867,977
94.0	2,568,338	2,568,338
93.0	2,140,281	2,213,702
92.0	1,755,031	2,012,720
91.0	1,712,225	1,712,225
90.0	1,475,802	1,712,225

Note that the 100.0 row acts as a filter, capturing likely error prints.

Figure 27: Estimate of percentage of EU bond market captured in each bucket based on ICMA proposals

Sovereign and Other public bonds

Issuer	Amount outstanding	Maturity	Price and size in real time	Price and size T+2	Price and size 4 weeks	> than proposed cap
UK, France, Germany, Italy, USA	>£5bn	<5yr	90% of trades 40.5% of volumes	8.9% of trades 38.8% of volume	0.8% of trades 11.7% of volume	0.2% of trades 9% of volume
		5-15yr	89.9% of trades 39% of volume	6.2% of trades 21.3% of volume	3.7% of trades 34.1% of volume	0.2% of trades 5.6% of volume
		>15yr	86.3% of trades 30.9% of volume	5.9% of trades 12.7% of volume	7.4% of trades 45.5% of volume	0.4% of trades 10.8% of volume
All other sovereign and public bonds			68.6% of trades 8.7% of volume	14.6% of trades 14.6% of volume	16.2% of trades 64% of volume	0.6% of trades 12.7% of volume

Corporate, Covered, Convertible & Other bonds

Currency	Issuer Rating	Amount outstanding	Price and size in real time	Price and size T+2	Price and size 4 weeks
GBP, EUR & USD	IG	>£500m	87.2% of trades 25.4% of volume	10.4% of trades 35.4% of volume	2.4% of trades 39.2% of volume
All other instruments			71.7% of trades 14.7% of volume	22% of trades 33.8% of volume	6.3% of trades 51.5% of volume