International
Capital
Market
Association

ICMA

Briefing note

ESMA publication of interim transparency calculations for non-equity instruments (excluding bonds) under MiFID II

published on 3 July 2017

The European Securities and Markets Authority (ESMA) has published provisional transparency calculations under MiFID II and issued related FAQs on liquidity thresholds for all non-equity instruments except for bonds. This includes in particular large in scale (LIS) sizes compared to normal market size and the size specific to the instrument (SSTI).

The publication of LIS and SSTI thresholds per bond type, planned for 3 July 2017, has been delayed as ESMA needs to perform an additional quality review of the information submitted by third parties for this exercise. **These interim calculations for bonds will be published in August 2017**.

Below is a summary of key points and liquidity assessments of credit derivatives, ETC/ETN bond types, and interest rate derivatives.

Background

(i) RTS 2 on transparency requirements for non-equity instruments establishes that, **6 months prior to the date of application of MiFIR, competent authorities shall publish information on the liquidity classification** of financial instruments and the sizes **large in scale (LIS) compared to normal market size** and the **size specific to the instrument (SSTI)**.

(ii) **Competent authorities within the European Economic Area,** with the exception of Poland, **have delegated to ESMA the computation of transparency calculations** including the transitional transparency calculations (TTC).

(iii) ESMA stated that ISO 17442 Legal Entity Identifiers (LEIs) are not provided for some reference entities for single name CDS and issuers of the underlying bond for interest rate derivatives. However, it was reiterated that the LEI will become a required mandatory identifier for such entities under the Commission Delegated Regulation (EU) 2017/585 RTS 23 and RTS 2 from 3 January 2018.

General [A.]

(i) Under MiFID II/MiFIR, transparency calculations are required both for the transition from MiFID I to MiFID II/MiFIR as well as on an ongoing basis once MiFID II/MiFIR applies. [A.1.]

(ii) ESMA staff performed the transitional transparency calculations (TTC) using data related to 2016 trading activity provided by trading venues. [A.1.] **The reference period covers 3 July 2016 to 2 January 2017** (both dates included). [B.3.]

(iii) MiFID II/MiFIR introduces transparency requirements for bonds, structured finance products, emission allowances and derivatives. [A.2.]

(iv) Competent authorities are granted the authority **to waive the obligation for market operators and investment firms operating a trading venue to make public pre-trade information** for non-equity instruments for which there is **not a liquid market**. [A.2.]

(v) Furthermore, transactions in non-equity instruments for which there is not a liquid market may also benefit from **deferred publication**. [A.2.]

(vi) **Asset-class, sub-asset class and sub-classes:** RTS 2 under MiFID II defines several non-equity asset classes, e.g. bonds, credit derivatives. **However, calculations are required per sub-asset class to which each financial instrument belongs.** For the purpose of the determination of the classes of financial instruments considered not to have a liquid market, sub-asset classes are further segmented into sub-classes according the segmentation criteria as displayed in Annex III of RTS 2. [A.3.]

(vii) **RTS 2 under MiFID II stipulates the size of transactions which are LIS and the SSTI** for which **post-trade transparency may be deferred** and further specifies the deferred publication at the discretion of the competent authorities under Article 11(3). [A.4.]

Availability of data provided by ESMA [B. and D.]

(i) Information on particular equity instruments or bonds: The published transitional transparency calculations do not contain information for equity/ETF/bonds as accordingly to the transitional provisions in RTS 1 and RTS 2 […] **Liquidity assessments of individual bonds will be published by 01/12/2017**. [B.2.]

(ii) There could be several reasons **why an ISIN/sub-class is not available** in the transitional transparency calculation files [B.3.]:

   a. The TTC files only display those ISINs/sub-classes that are deemed liquid.
   b. The particular ISIN/sub-classes were not traded during 3 July 2016 to 2 January 2017.
   c. ISINs were not requested for each sub-class.
   d. The ISIN of the underlying instrument was modified (e.g. a split of an equity).

(iii) ESMA has calculated the liquidity of instruments subject to pre- and post- trade transparency requirements. **As a result of the liquidity assessment, some asset classes turned out to be overall illiquid (e.g. SFP) or have no liquid instrument (e.g. C10 derivatives).** For the other 8 remaining classes, the thresholds were calculated and stored in individual files. [D.2.]

Selected financial instruments deemed liquid

(i) Credit derivatives:

   a. Credit Default Swap Indices: **Series 26 with 5-year terms** of iTraxx Europe, iTraxx Crossover, and iTraxx Senior Financials.

   Note: The roll dates for each index are March 20th and September 20th. The latest series (S27) is considered the most actively traded or liquid. Conversely, S26 is no longer deemed "on-the-run" from a market perspective, and nor will S27 once it will be succeeded by S28.

   b. Single Name Credit Default Swaps: Deemed liquid for **8 reference entities** all with **terms of less than 3 years**.

(ii) Exchange-traded commodity and note (ETC/ETN) bond types: 72 are considered liquid.

(iii) Interest rate derivatives: Comprising 21 bond futures/forwards; 20 interest rate futures and forward rate agreements; 7 interest rate options; 4 bond options; and 4 fixed-to-float swaps.

Prepared by:
Gabriel Callsen, ICMA, July 2017