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# Briefing note

## *Final Report on Draft RTS on package orders for which there is a liquid market* published by ESMA on 28 February 2017

Following the consultation paper (CP) published on 10 November 2016, ESMA has submitted a final report *on the revised draft RTS establishing a methodology for determining whether there is a liquid market for package orders as a whole*. ESMA opted for a qualitative approach based on *general* and *asset-specific* criteria for derivatives (interest rate; equity; credit; commodity).

This briefing note provides a summary of key points that are likely to impact cash bond market liquidity indirectly, albeit not directly. For ease of reference, the number of each paragraph quoted from the ESMA report is indicated below.

**General criteria:**

**25.-31.** For a package order to be considered standardised and liquid, components have to meet *cumulatively* the following criteria:

- All of the components of the package order are available for trading on the same trading venue;
- All the components are subject to the clearing obligation under EMIR or under Article 29 of MiFIR.

***In addition:***

- **38.** Finally, ESMA agrees that - for the time being - **cross-asset class packages should not be considered to have a liquid market as a whole** in this context. While ESMA concurs with the views of some respondents that some cross-asset class packages such as certain spread overs (a **package composed of an interest rate swap and a sovereign bond**) could be considered to have a liquid market, ESMA opted for a cautious approach. Therefore, the draft RTS excludes cross-asset class from having a liquid market as a whole.

***Systematic internalisers:***

- **13.** The empowerment of the draft RTS **does not include providing further specification on the SI obligation for package orders**. In the CP, **ESMA proposed to apply the SI obligations at the package order level where an investment firm is an SI in at least one component instrument of the package order.**
- **14.** About half of the respondents agreed with ESMA's proposal, while the **other half of respondents disagreed and considered that the SI obligations should only apply where an investment firm is an SI in all components of the package.**
- **15. ESMA intends to provide guidance on the application of the SI obligations for package orders via Q&As.**

**<u>Asset-specific criteria:</u>**

***Interest Rate Derivatives:***

- **40./41.** ESMA proposed in the consultation that the liquid market as a whole for package orders composed of interest rate derivatives would be assessed **on the basis of whether it has a maximum of three components, the notional currency is EUR, USD or GBP and all derivative components have an unbroken tenor of 2,3,4,5,6,7,8,9,10 or 30 years +/- 5 days**. Having carefully considered the views put forward and the suggested tenors, **ESMA has decided to add 12, 15 and 20 years to the list of tenors**.
- **46.** Last but not least, ESMA considered it appropriate to include in the list of liquid packages **bond futures rolls**. Those packages were already included in the list of examples in the CP to which most respondents agreed, but was not yet included in the draft RTS annexed to the CP. Given the support of respondents that these packages are liquid as a whole, **ESMA added bond future rolls to the criteria specified in Article 3 of the revised draft RTS.**

***Credit Derivatives:***

- **52.** For the asset class of credit derivatives, ESMA proposed in the consultation to **only consider as liquid those package orders where all the derivative components of the package order have the same underlying index**, the notional currency of the components is in EUR, USD or GBP and the package order moves from the latest off-the-run index series into the current on-the-run index series.
- **56.** ESMA considered it appropriate to maintain the current approach but introduced the following additional criteria as suggested by respondents: (i) **all components shall be denominated in the same currency, and (ii) the roll is limited to CDS indices with a tenor of five years. Finally, GBP was excluded from the list of currencies** in which the components shall be denominated.

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