

Notes of ICMA “Early Days” MiFID II Discussion Meeting – 1 February 2018

Attendees: ICMA MiFID II Working Group members
ICMA Platform Working Group members
ICMA: Liz Callaghan (Chair), Andy Hill, Gabriel Callsen

Question & Answer session:

I. Sharing experiences

a) How have volumes been?

Participants commented that volumes in the first weeks of January had been robust. The first two weeks were quieter, which seems unrelated to MiFID II but is rather a seasonal effect. Overall, trading activity appeared to be business as usual, which was helped by a large issuance calendar. It was also noted that trading on venues had increased.

b) What have been the most common questions/complaints from (i) buy-side; and (ii) sell-side?

- (i) SI status: Participants pointed out that questions around the SI status have been raised frequently. However, this was expected due to the lack of a consolidated SI database on an instrument level.
- (ii) Reference data: Questions related to reference data, such as MIC codes, a type of identifier for trading venues, were also more common.
- (iii) Timestamp of execution for OTC trades & move-to-venue trades¹: Overall, a majority of participants pointed out that there was a lack of common understanding in the market around OTC trades moved to a venue, sometimes referred to as “processed” or “negotiated” trades. Each trading venue has its own rulebook which sets out how bilateral OTC discussions can be formalised on venue trades, depending for example on LIS or SSTI thresholds. One participant said that after concluding a bilateral trade via chat, the broker requested the trade be executed on venue which had not been agreed beforehand.

Participants suggested that (1) an industry effort should be undertaken to promote standardisation of these types of transactions and formalise best practice; (2) further education is needed, eg when is a trade “done”?; (3)-In light of the derivatives trading obligation (DTO), best practice for the technical aspects in coordination with relevant parties and other trade associations should be developed.

¹ ESMA released a [Q&A update](#) addressing pre-arranged/negotiated transactions for non-equity instruments on 7 February 2018.

c) Has there been a noticeable increase in trading costs? Yes/No. If yes, what is the cause of the increase in trading costs?

The purpose is not to discuss trading costs of individual firms, but rather general market trends. It was pointed out by participants that “things” that used to be free are no longer free. Participants noted that the cost of implementation and ongoing cost of compliance had increased, and the cost of overall trading will continue to increase in the coming months and years.

d) Has there been a noticeable increase in ‘move to venue’ trades over January?

Participants noted that there had been an increase in trades initiated bilaterally OTC, and subsequently executed on-venue. However, it is too early to quantify the exact levels of increase.

e) What are your highest priorities for the coming weeks? E.g. changing priorities/new priorities.

One participant noted that making use of the substantial amount of data that will become available in the coming months is one priority, notably for price discovery and liquidity sourcing. However, the quality of data is poor in its early-stage MiFID II current state, but it is anticipated that the quality will improve. Another priority is further differentiation of low-touch and high-touch business, with a view to automating the execution of small sizes, and focusing on the execution of block trades instead.

f) From both a sell-side and buy-side perspective, what have been the notable impacts of the Systematic Internaliser (SI) regime for bonds?

One participant noted that there hadn’t been any impact of the SI regime. Another participant pointed out that the number of SIs in ESMA’s register based in continental Europe was much lower (20-25) than expected, particularly in comparison to the number of London-based SIs. Given that around two years ago, there were over 100 dealers willing to make markets for VW bonds, for example, this was surprising. Even more so considering it was easy to opt-in to be an SI from a marketing perspective (ie to provide reporting services to clients). In this participant’s view, there is a missing pool of liquidity providers who are yet to register either as SI or trading venue status. It was also commented that the impact of the SI regime is greater for derivatives than for cash bonds.

II. Data

a) What is your understanding of ‘publicly available data’? How should it be retrieved/viewed and by whom? What are your views on APAs’ electronic formats for pre- and post- trade transparency?

One participant noted that post-trade data from one trading venue is publicly available in a csv-file on the venue’s website. Another one pointed out that there were no minimum requirements in terms of format which explains why data formats vary from APA to APA. One APA had opted for a search function by ISIN and a downloadable file.

Participants concluded that there were differing interpretations of what “machine-readable” means. Another participant said that it was a matter of striking a balance between the objective to increase transparency and provide information in a machine-readable format, which makes more sense for live-data feeds than for data released after 15 minutes.

The lack of standardised formats was compounded by the lack of a consolidated tape provider. One participant said that the availability of transparency data was on the agenda of MEPs and regulators. It was suggested that the development of best practice by the industry or *minimum* common standards for displaying pre- and post-trade data would be beneficial for the industry, otherwise regulators may be prompted to intervene if they consider that there is a wider issue in the market.

b) What is your experience of creating and using ISINs for cash bonds and OTC derivatives? Are trading costs increasing due to new data requirements under MiFID II?

It was noted that creating ISINs is not so much of an issue for cash bonds, but for OTC derivatives.

Participants pointed out that fees for using ANNA-DSB's services for creating ISINs had recently increased, which appears to affect some users [OTFs] more than others. It was noted that ANNA-DSB operates on a cost-recovery basis. Due to a lower than expected number of users and other factors, fees had been increased as a result, which was announced in a [press release](#) in January.

The names of the subscribing trading venues are currently not published. However, it was pointed out that each trading venue is required to have an agreement with ANNA-DSB. For firms operating multiple venues, such as OTFs, it means having separate agreements and paying separate fees for each venue.

The fee model for 2018 will be under consultation in due course.

Participants also said that product templates for non-standard products such as highly exotic derivatives were not yet available. Currently, product templates have been published for over 78 products, but templates for exotic derivatives were still under development. Timelines are provided publicly on a regular basis.

Participants noted that further issues remain. In particular: For 10-year interest rate swaps; forward starting swaps - starting and maturity dates, physical and cash settlements and the use of CFI codes for swaps. To promote consistency, it was proposed to improve communication and information sharing between ANNA-DSB and the industry, notably with regard to technical issues. For example, the case of different ISINs or CFI codes used for the same product. One participant suggested trade associations should collaborate with a view to presenting a set of unresolved issues to ANNA-DSB. Again, Liz Callaghan said any comments or suggestions along this line would need to be emailed to her separately.

III. Rule interpretation

a) Are there differing interpretations of ESMA requirements by trading venues?

ICMA, like other trade associations, had received numerous questions from members in regard to the interpretation of ESMA requirements by trading venues and regulators.

One participant said that, generally, there were different interpretations of ESMA requirements not only by trading venues, but also by the buy-side and the sell-side. Additionally, discrepancies in terms of interpreting MiFID II provisions exist between jurisdictions within the EU. However, not being able to compare across the industry increases the risk of regulatory intervention. It was therefore suggested to have a 'baseline standardisation' in terms of data attributes and develop minimum requirements.

Outside the data discussion, trading venues have been discussing issues specific to their platforms in other fora. Feedback through this ICMA forum was therefore welcome.

Also, it was noted that in other jurisdictions market participants had received very little guidance by their regulators. It had become apparent from the various ICMA MiFID II workshops held across Europe that there were significant differences in the interpretations of MiFID II provisions.

b) How is the liquid bond list determined? Is it effective and consolidated?

Participants pointed out that there were significant discrepancies between the list of liquid/illiquid bonds issued by ESMA [803 liquid bonds] and the list of one trading venue in particular which appears to class over 4000 instruments as liquid. It was noted that ESMA's list excluded new issues and that the total

number of bonds would therefore be higher. However, the number of over 4000 seemed to be too high, according to participants.

c) Where would you say more clarity is required from ESMA?

Participants suggested that more clarity from ESMA would be beneficial in relation to the following points:

- (i) A list of instruments that are Traded-on-a-trading-venue (TOTV), provided by ESMA.
- (ii) The application of the derivatives trading obligation (DTO) to package trades.
- (iii) The cross-border scope of trade and transaction reporting, notably for entities with global operations.

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