ICMA response to the FCA Consultation paper CP25/20

on the SI regime for bonds and derivatives

10 September, 2025

Introduction:

ICMA welcomes the opportunity to respond to the FCA CP25/20: The SI regime for bonds and derivatives including Discussion Paper on equity markets.

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 over 620 member firms in nearly 70 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.

ICMA's response to this consultation was provided from a bond market perspective and therefore only in relation to Questions 1-3. ICMA's response was provided with members of its MiFID Working Group.

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Question 1: Do you agree with our proposal to remove the SI regime for bonds, derivatives, structured finance products and emission allowances?

ICMA response:

ICMA welcomes the FCA proposal and agrees to remove the SI regime for bonds, derivatives, structured finance products and emission allowances.

However, it is worth highlighting that, although the proposal succeeds in limiting the obligations of systematic internaliser to the new glossary term of *equity systematic internaliser,* the systematic internaliser definition still technically applies to non-equities in FSMA and the FCA glossary of definitions. ICMA would therefore like to suggest that the FCA may, where possible

on their side, amend the systematic internaliser definition by using their new equity transparency instrument definition, to reduce the scope of the SI definition to only equity instruments:

Please see below ICMA's proposed amendments of the (amended) systematic internaliser definition in the FCA Handbook (highlighted in *green*):

"For these purposes:

A. dealing takes place on an 'organised, frequent, systematic and substantial' basis where it is:
   i. carried on in accordance with rules and procedures in an automated technical system, such as an electronic execution system, which is assigned to that purpose;
   ii. available to counterparties on a continuous or regular basis; and
   iii. held out as being carried on by way of business, in a manner consistent with article 3(2)(a) of the Business Order in respect of the relevant *equity transparency* ~~financial~~ instrument."

The above would help to remove any ambiguity as to whether firms still have to determine if they are an SI in non-equity instruments, even though there are no resultant obligations.

We would also assume that there is no longer a notification requirement for non-equity instruments, given the deletion of MiFIR Article 18, which implies that the definition of an SI does not apply anymore to non-equity instruments, and an opt-in (for an SI on non-equity instruments) is not possible. It would be very helpful if the FCA could provide clarification on this and let us know whether our assumptions are correct.

Furthermore, we would like to seek clarification on whether the FCA would intend to do a blanket clear out of all entries in the SI register pertaining to non-equity instruments at a certain date, and would like to encourage the FCA to do so, as this appears to ICMA as the most straightforward solution, as technically a firm would no longer be able to notify when they "cease to have that status", and thus remove the need for firms to explicitly de-register as an SI with the FCA. It would be great if the FCA could provide some information on whether this process could work and also what the timing of de-registration would be. In terms of timeline, we understand so far as per paragraph 1.15 of this CP, that the FCA will "finalise the changes on the SI regime for bonds and derivatives [...] in a policy statement in Q4, 2025". We also understand from the previous Discussion Paper on "The Future of the SI regime" under PS24/14 paragraph 2.40, that the legislative change to the SI definition will come into force on 1 December 2025. In addition to this information, any further information about the timing of de-registration would be very helpful.

Question 2: Do you agree with our proposal to remove the prohibition on an SI operating an OTF?

ICMA response:

ICMA would like to refer to its previous response to Question 5 of PS24/14 where we stated:

"The removal of MAR5A.3.1 (please note, the correct article should be MAR5A.3.1, not MAR 5.3.1A (3) which we believe is a typo under above Q5) would not have any consequences in ICMA's view. The reason being that it has no relevance whether a firm is an SI or not. Instead, the conflict of interest would exist between running a multilateral system and trading on a bilateral basis (*note: text highlighted in blue has been slightly revised from original response)*, as highlighted by the FCA under paragraphs 9.22 (as well as paragraphs 9.14 and 9.15) of this PS. The construct of an SI is irrespective of OTFs, and other areas of law are covering the conflict of interest between running an OTF and trading on a bilateral basis (*note: text highlighted in blue has been slightly revised from original response)*, (see MiFID Article 18(3) and (4)) and FCA Handbook: 5A.4.1 (6) and (7)). A SI in this context does not have a specific meaning and therefore it has no relevance whether a firm that is engaged in bilateral trading is an SI or not. From a bond market perspective, we do not see any conflict of interest between OTFs and SIs. Therefore, in reference to paragraphs 9.21 and 9.22 of this Discussion Paper, in the context of bond markets, we do not foresee any changes in market structure on the bond side, and neither any risk that firms would seek to operate an SI in the same legal entity as an OTF."

On the basis of this previous response provided to the Discussion Paper under PS24/14, ICMA agrees with the FCA proposal in this CP to remove the prohibition on an SI operating an OTF.

Question 3: Do you agree with our proposed amendment to MAR 5.3.1AR(4) to remove the ban on matched principal trading by MTF operators?

ICMA response:

ICMA agrees with the proposed amendment to remove the ban on matched principal trading by MTF operators.

Further to the above, ICMA would like to mention that clarity would also be needed in regard to how much capital an MTF would need to keep according to MIFIDPRU, if the MTF were to run matched funding in the same legal entity, as currently, as per ICMA's understanding, there are requirements set only for the following scenarios:

- Investment firms running matched principal trading need to follow MIFIDPRU 4.4.1
- Investment firms running matched principal trading in the course of operating an OTF need to follow MiFIDPRU 4.4.2 (except 4.4.2(2))
- MTFs (who are currently not allowed to run matched principal trading), and OTFs (who are not running matched principal trading) should follow MiFIDPRU 4.4.3

In addition to the above, MIFIDPRU may be revisited more comprehensively to ensure that the removal of the MTF/matched principal trading ban can fulfil the aim to improve the competitiveness of MTFs, and to account for the two new types of investment firms in the future market (e.g. MTFs running matched principal trading as discussed under this question, as well as an OTF running SI business, as discussed under Q2).

Q4: Do you agree with our proposal to allow trading venues operating under the reference price waiver to source the mid-price from a wider set of trading venues?

ICMA response:

N/A (as relates to equity markets)

Q5: Do you agree with our proposal to reformulate the reference price waiver so that it is applicable to an order, rather than a system so that it would be possible to place mid-price, dark orders on lit order book?

ICMA response:

N/A (as relates to equity markets)
