

Post-Trade Transparency Requirements for MTFs

Current policy guidance by CESR on pre- and
post-trade transparency of equity and non-equity

Post-Trade Transparency Requirements for MTFs

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Post-Trade Transparency Requirements for MTFs

I. Post-Trade Transparency Standards

1. Legal basics

Article 30 para. 1 MiFID:

„Member States shall, at least, require that investment firms and market operators operating an MTF make public the price, volume and time of the transactions executed under its systems in respect of shares which are admitted to trading on a regulated market. Member States shall require that details of all such transactions be made public, on a reasonable commercial basis, as close to real-time as possible.“

Article 27 para. 1 of Regulation No 1287/2006 requires publication on a continuous basis during normal trading hours of the following parameters:

- **Trading day**
- **Trading time**
- **Instrument identification**
- **Unit price**
- **Price notation**
- **Quantity**
- **Venue identification.**

Post-Trade Transparency Requirements for MTFs

1. Post-Trade Transparency Standards

2. Up-to-date policy discussions by CESR to amend existing framework (Technical Advice not yet published)

a) Mapping vs. Common Protocol

CESR envisages 2 Options in order to achieve more harmonisation with the aim of enhancement of post-trade transparency data quality:

Option 1: The idea of this option is to have a mapping of protocols from different trading venues that will result in standardised information for the end-user; each trading venue would be able to keep its own protocol → less changes, less developing costs; quality of outcome maybe questionable

Option 2: Common harmonised protocol that is uniform for all trading venues and data vendors and is exactly according to the standards prescribed by CESR/ESMA

→ More ambitious and more costly; better prospects for true harmonisation and improved data quality, preferred by most regulators

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2. Up-to-date policy discussions by CESR to ammend existing framework

b) Harmonised standards for parameters of publication

Trading day = ISO 8601 standard: 8 character numeric code

Trading time = ISO 8601: 6 character numeric code

Instrument identification = ISO 6166: ISIN: 12 character alpha-numeric code

Unit price = ISO 4217: Major Currency, see c)

Price notation = ISO 4217: 3 character alpha currency code

Quantity = integer numbers

Venue identification = MIC for RMs/MTFs; BIC for SI; „BCS“ for Broker Crossing System; „OTC“ for Over the Counter

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2. Up-to-date policy discussions by CESR to ammend existing framework

c) Major vs. Minor Currency

Major Currency = € or Pound Sterling

Minor Currency = Cent or Pence

Problem: Market practice in UK to quote in minor currency; up til now acceptance of this practice for London based stocks, for example Vodafone at Xetra international is quoted in pence.

Adoption of quotation in Major Currency would increase pan-European harmonisation, but due to existing market practice in UK give room for potential errors

→ therefore cost-benefit-analysis necessary

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2. Up-to-date policy discussions by CESR to ammend existing framework

d) Flagging of typical transactions

Aim: Identifying transactions in which price is influenced by other factors than the current market valuation.

Scope: Firstly only OTC transactions, but extension to transactions on RMs/MTFs planned → minimum set of standard-flags for on-order-book-trading to be developed

Flags:

„B“ for Benchmark = price derived from specific benchmark, e.g. VWAP

„X“ for Cross Trade = matching of two client orders by intermediary

„T“ for Technical Trade = non-addressable liquidity or no influence on price formation, e.g. creation/redemption of ETFs, exchange for physical

→ Further guidance to be developed by CESR-Industry process.

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2. Up-to-date policy discussions by CESR to ammend existing framework

e) Identification of dark trading

- **Examples of dark trading: Trading under pre-trade transparency waivers or through Broker Crossing Systems**
- **Dark Trading on the rise, but generally undesirable for regulators; also no contribution to price formation**
- **Generally flagging of transactions as „D“ under reference price waiver and large in scale waiver, „N“ under negotiated trade waiver**
- **Iceberg orders: Parts of an Iceberg order (peaks) executed when disclosed to the order book considered as „lit“.**

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2. Up-to-date policy discussions by CESR to ammend existing framework

e) Unique Transaction Identifier

- **New recommendation by CESR to require a Unique Transaction Identifier (UTI) in order to identify each individual transaction**
- **Aim: Enhance quality of post-trade transparency data, especially with regard to cancellations and ammendments**
- **UTI has to be in conjunction with flagging of cancellations and ammendments as „C“ resp. „A“ (update within 1 minute)**
- **UTI has to identify trading venue (RM or MTF) or Approved Publication Arrangements (APA)**
- **No indentification of parties in order to hamper potentially harmful arbitraging → legitimate need to conceal own positions**

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II. Transparency Requirements for non-equity markets

1. Current scope of MiFID and the need for adjustments

- **Article 30 para 1. MiFID obliges to observe post-trade transparency „in respect of shares“**
- **Likewise Article 27 para. 1 of Commission Regulation No. 1287/2006 requires post-trade-transparency only „with regard to transactions in respect of shares“**
- **Extension of transparency requirements to other asset classes possible for Member States according to Recital 46 MiFID: „ A Member State may decide to apply the pre- and post-trade transparency requirements laid down in this Directive to financial instruments other than shares.“**
- **Further analysis by CESR in the wake of the financial crisis concluded that additional post-trade information would be beneficial to the market**
- **Details in CESR publication „CESR Technical Advice to the European Commission in the Context of the MiFID Review: Non-equity Markets Transparency“: <http://www.cesr-eu.org/popup2.php?id=7005>**

Post-Trade Transparency Requirements for MTFs

II. Transparency Requirements for non-equity markets

2. Post-Trade Transparency for Corporate Bonds

- **Scope of transparency regime: corporate bonds (including covered bonds) and public (government/sovereign) bonds with maturity of at least 12 months**
- **Following calibration:**

Transaction size (net value)	Information to be published	Timing of publication
Below €1 million	Price and volume of transaction	As close to real time as possible
Between €1 million and € 5 million	Price and volume of transaction	End of trading day
Above €5 million	Price but no volume (but with an indication that the transaction has exceeded the €5 million threshold)	End of trading day

Post-Trade Transparency Requirements for MTFs

II. Transparency Requirements for non-equity markets

2. Post-Trade Transparency for Corporate Bonds

- **Problem: Liquidity of individual bonds not taken into account because of currently insufficient data; after period of 12 months post-implementation review planned with potential adjustments**
- **Interpretation of requirement „as close to real time as possible“: 15 minutes due to lower trading frequency in bond universe compared to equities**
- **Recommendation to publish in addition notional value of bond**

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3. Post-Trade Transparency for Structured Finance Products

- **Scope: Asset Backed Securities (ABS) and Collateralised Debt Obligations (CDOs)**
- **Phased approach: Start with most liquid instruments; factors to consider: Rating of instrument, issuance size, frequency of secondary trading**
- **Phase 1: Covering instruments rated at least BBB or A (2 options)**
- **Phase 2: Covering the rest of the instruments for which a prospectus has been published or which are admitted to trading on RM/MTF**

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3. Post-Trade Transparency for Structured Finance Products

•Calibration of transparency regime: based on transaction size, not liquidity

Option 1:

Transaction size (net value)	Information to be published	Timing of publication
Below €5 million	Price and volume of transaction	End of trading day
Above €5 million	Price but no volume (but with an indication that the transaction has exceeded the €5 million threshold)	End of trading day

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3. Post-Trade Transparency for Structured Finance Products

- Calibration of transparency regime

Option 2:

Transaction size (net value)	Information to be published	Timing of publication
Below €5 million	Price and volume of transaction	End of trading day after the transaction (T+1)
Above €5 million	Price but no volume (but with an indication that the transaction has exceeded the €5 million threshold)	End of trading day after the transaction (T+1)

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4. Post-Trade Transparency for Credit Default Swaps (CDS)

Single name CDS: Option 1

Transaction size (net value)	Information to be published	Timing of publication
Below €2 million	Price and volume of transaction	As close to real time as possible
Between €2 million and €5 million	Price and volume of transaction	End of trading day
Above €5 million	Price but no volume	End of trading day

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4. Post-Trade Transparency for Credit Default Swaps (CDS)

Single name CDS: Option 2

Transaction size (net value)	Information to be published	Timing of publication
Below €5 million	Price and volume of transaction	As close to real time as possible
Between €5 million and €10 million	Price and volume of transaction	End of trading day
Above €10 million	Price but no volume	End of trading day

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4. Post-Trade Transparency for Credit Default Swaps (CDS)

Index CDS

Transaction size (net value)	Information to be published	Timing of publication
Below €10 million	Price and volume of transaction	As close to real time as possible
Between €10 million and €25 million	Price and volume of transaction	End of trading day
Above €25 million	Price but no volume	End of trading day

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4. Post-Trade Transparency for Credit Default Swaps (CDS)

Sovereign CDS: Option 1

Transaction size (net value)	Information to be published	Timing of publication
Below €2 million	Price and volume of transaction	As close to real time as possible
Between €2 million and €7 million	Price and volume of transaction	End of trading day
Above €7 million	Price but no volume	End of trading day

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4. Post-Trade Transparency for Credit Default Swaps (CDS)

Sovereign CDS: Option 2

Transaction size (net value)	Information to be published	Timing of publication
Below €10 million	Price and volume of transaction	As close to real time as possible
Between €10 million and €25 million	Price and volume of transaction	End of trading day
Above €25 million	Price but no volume	End of trading day

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5. Post-Trade Transparency for Derivatives

- **Due to heterogeneity of this population (interest rate derivatives, equity derivatives, commodity derivatives and forex derivatives) further analysis for proper calibration of transparency regime needed**
- **Recommendation by CESR is development of harmonised post-trade transparency regime for all derivatives**

Post-Trade Transparency Requirements for MTFs

III. Standardisation and exchange trading of OTC derivatives

1. G20 requirement according to European Commission Communication dated October 20, 2009:

„The G20 agreed that all standardised OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate. In the EU, this implies ensuring that eligible trades for exchange-trading take place on organised trading venues, as defined by MiFID.“

- **CESR Consultation paper - Standardisation and exchange trading of OTC derivatives: <http://www.cesr-eu.org/popup2.php?id=6987>**

Post-Trade Transparency Requirements for MTFs

2. Standardisation

- **No electronic confirmation or standardisation up to 100 % of the universe to be mandated**
- **However, ambitious targets for industry to be set by ESMA regarding increased legal, operational and product standardisation and electronic confirmation**
- **ESMA to monitor and make progress transparent; in case of shortfalls regulatory intervention to be taken**

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3. Exchange Trading

- **Exchange Trading of 100% of the population not to be mandated, but ambitious targets to be set by ESMA in close collaboration with the industry**
- **ESMA to determine contracts eligible for exchange trading; preconditions are sufficient standardisation and sufficient liquidity**
- **Assessment of current level of trading on RM/MTF, then increase of existing level**
- **Bespoke contracts for non-financials not covered**
- **Publication of targets and progress by ESMA**

Post-Trade Transparency Requirements for MTFs

4. Determination of „organised trading venue“

- Possible minimum characteristics: multilaterality, pre- and post-trade transparency, easy and non-discriminatory market access, non-discretionary and transparent rules, objective criteria for efficient execution of orders, authorisation, regulation and monitoring by competent authorities, operational resilience and surveillance of compliance with the organised trading venue's rules
- RMs and MTFs fulfill above mentioned criteria
- Extension of exchange trading to alternative venues?
 - Pro: Might cover more instruments
 - Con: Potential lowering of trading standard