

24 September 2021

## **FIA EPTA response to the HM Treasury Consultation Paper on the Wholesale Markets Review**

The FIA European Principal Traders Association (FIA EPTA) appreciates the opportunity to provide feedback to the HM Treasury Consultation Paper regarding the Wholesale Markets Review.

FIA EPTA represents 30 independent European Principal Trading Firms (PTFs) which deal on own account, using their own money for their own risk, to provide liquidity and immediate risk-transfer in exchange-traded and centrally-cleared markets for a wide range of financial instruments, including shares, options, futures, bonds and ETFs. Our members are independent market makers and providers of liquidity and risk transfer for exchanges and end-investors across Europe, including the UK. FIA EPTA's members are based in the Czech Republic, Germany, Ireland, The Netherlands and the UK (70% of our members having been licensed by the FCA).

FIA EPTA members appreciate HM Treasury's consideration of our comments and stand ready to provide any further input as required.

### **Chapter 2: Trading Venues**

#### ***Q1. Where do you think the regulatory perimeter for trading venues needs to be clarified?***

FIA EPTA agrees that the breadth of the current definition of a 'multilateral system' has created ambiguity about the regulatory perimeter which should be clarified. This has been particularly acute for brokers arranging transactions over the phone (so called "voice brokers") and technology firms innovating new ways of bringing together buying and selling interests.

Given the ever-evolving nature of trading technology we agree that clarification by way of FCA guidance, rather than a narrow and intransigent definition set out in law, is preferable. The guidance should clarify the characteristics, functions and tasks that separate trading venues from other communication arrangements and ensure equitable and non-discriminatory access. FIA EPTA would encourage the Treasury and the FCA to engage in industry consultation before any draft guidelines are finalised and come into effect.

**Q2. Do you think it would be more appropriate for changes to be made to the definition of a multilateral system in legislation, or for the application of the existing definition to be clarified through FCA guidance?**

Clarity on the breadth and scope of the definition of a multilateral system should be provided by way of FCA guidance.

This guidance should, in particular, clarify:

- i) What constitutes 'interaction' in a system;
- ii) Whether execution taking place outside of the system excludes it from the regulatory perimeter;
- iii) Whether arranging transactions over the phone constitutes operating a 'system or facility';
- iv) Whether multiple, bilateral communications are collectively multilateral;
- v) Whether systems where there is no genuine trading execution should be excluded from the regulatory perimeter;<sup>1</sup>
- vi) Whether the nature and scale of the 'system or facility' impacts the requirement for authorisation as a trading venue;
- vii) Examples of systems not previously regulated which should apply for authorisation.

**(Q3: n/a)**

**Q4. Should the current restrictions on the operation of an SI within the same legal entity of an OTF be retained?**

No. There is little real-world positive effect to housing the SI and OTF in separate legal entities. In fact, it creates needless administrative burden and cost on investment firms without the benefit of addressing potential conflicts of interest. We consider that appropriate internal controls and disclosures are the most effective way of managing conflicts of interest.

**Q5. If you answered no to question 4: Should new rules and disclosures be introduced to address the specific conflicts that MTFs and OTFs would be exposed to when providing MPT or operating an SI?**

Yes. FIA EPTA considers that the FCA should set out what rules and disclosures investment firms should be subject to, so as to mitigate potential conflicts of interest with these activities. The FCA should also engage supervisory resource to firms who undertake these activities.

**(Q6-16: n/a)**

**Q17. Do you believe that regulatory or industry guidance about how venues should operate and what they should communicate during an outage would be useful?**

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<sup>1</sup> We note Recital 8 of MiFIR, which sets out that in order to make financial markets "more transparent and efficient and to level the playing field between various venues offering multilateral trading services it is necessary to introduce a new trading venue category of organised trading facility (OTF) for bonds, structured finance products, emissions allowances and derivatives and to ensure that it is appropriately regulated and applies non-discriminatory rules regarding access to the facility. That new category (...) **should not include facilities where there is no genuine trade execution or arranging taking place in the system**, such as bulletin boards used for advertising buying and selling interests, other entities aggregating or pooling potential buying or selling interests, electronic post-trade confirmation services, or portfolio compression, which reduces non-market risks in existing derivatives portfolios without changing the market risk of the portfolios."

(The below response to Question 17 has been developed jointly with AFME and reflects the common view of both AFME and FIA EPTA).

### **Continuation of trading**

During outages at incumbent exchanges, trading should continue on the alternative available MTFs. However, incumbent exchanges have proven to be a single point of failure largely due to the inefficient and inconsistent handling of such outages.

The current shortcomings in the industry surrounding communication and expectation are what primarily inhibit resilience. These should be the areas of focus. Because the expectations of how an outage will play out (and the way that other participants will respond) are usually unclear, the natural response is to 'wait and watch'. This is particularly so where the length of an outage could range from a few minutes to the rest of the day. The result is a self-fulfilling expectation that trading will halt entirely during a primary market trading outage.

To break this self-fulfilling expectation, we believe that industry participants across the board should adopt Communicate-First principles to identify and respond to outages effectively. Within this, we would emphasise that an agreed minimum time between notification of a venue re-opening and actually re-opening is a crucial element of influencing participant's behaviour.

Whilst AFME and FIA EPTA members view the intraday price formation process as being distributed between available venues, primary market call-auctions are a clear exception during which price-formation is temporarily centralised. Currently, when a primary market re-starts following an outage, it is standard procedure to re-start the market with a call auction. At this point a majority of market participants will want to realign their trading activities with that call auction. Whilst there is no order-protection rule in the UK, many sizeable participants acting for clients will nevertheless implement similar routing decisions 'de-facto' to meet investor protection requirements. Absent a specific technical status to broadcast that a primary market is not functioning, any decision to disregard data from the primary market must be made, and reversed, manually. For this reason, venues which have suffered an outage should open in a manner which avoids dependency on the primary opening and causes minimal disruption to trading.

### ***We believe this requires three principal developments:***

1. Development of outage playbooks by venues.
2. Development of a central venue-status communications platform that allows market participants to view in one place the *published* status of relevant trading venues, and, crucially, to communicate anonymously about the *observed* health of the venues.
3. Development of minimum standards for outage communication channels from venues to participants once an outage is identified. This should be as standardised as possible and can potentially also utilise the envisioned central status platform.

Regulatory guidance around allowed participation by participants in the communications platform and expected timelines for venues to implement minimum outage communications standards can be useful to support the swift and consistent adoption by all relevant parties.

Policymakers and regulators should also consider further market structure reforms that minimise single points of failure and lessen dependencies on any one exchange. Secondary trading venues that can handle material trading volumes and critical functions including closing auctions, as well as independent sources of consolidated market data, can further promote market resiliency and stability.

## **Outage playbook**

AFME and FIA EPTA members agree that industry should work, together with the UK authorities, to formulate a playbook which will ensure the resilience of equities markets during major outages.

***We believe this playbook should encompass a number of components and principles:***

- Accurate and timely identification of outages by participants and trading venues.
- An orderly halt to trading on the affected venue halt and redirection of trading to alternate venues.
- Reliable and standardised broadcast of details surrounding the outage, order status, planned resolution and re-opening by the trading venue.
- A minimum time between participants being notified of a venue re-opening and trading on that venue re-commencing.
- Orderly restart of the affected trading venue and resumption of trading, with specific scenarios dependent upon the timing and nature of the outage.

Continuation of trading requires simply improved process and communications, not any adoption of specific alternative opening trading phases; though in the case of the closing auction and settlement price determination the problem requires more consideration to ensure consistent adoption across the industry of a mechanism to deliver realistic prices.

## **Central venue status communications platform**

AFME and FIA EPTA propose that a central venue status communications platform be developed as an industry-wide initiative. Good communications from trading venues are heavily reliant on a venue to be first aware that it is experiencing technical difficulties and to be incentivised to notify participants. In practice, market participants are often the first to notice issues with connectivity, market data, or order flow at a venue. Presently, there is no standardised and commercially secure way in which participants can communicate amongst themselves to alert others of potential outages and identify if the issue is internal to the participant's systems or a broad venue issue. To solve this, AFME and FIA EPTA consider that a secure venue-status communications platform could provide a centralised tool to more identify outages quickly and to maintain continuity of trading.

This platform should be simple and secure in its design and we envision a step-wise, iterative approach to its development. In the future, such a platform could form a valuable single central hub whereby any participants or other stakeholders could obtain information about the health of trading venues. However, to get to that state would be a large project and in some ways parallel or duplicate efforts and tools that trading venues already maintain. Therefore, we propose beginning with a simple platform with the goal of offering market participants a

multilateral place to communicate anonymously about trading venue issues and health, and only after its proven adoption possibly expanding its function.

***The platform should have the following features:***

- Secure and validated; users should be bona-fide participants, venues, or relevant stakeholders in a place to offer actual insight into venue health.
- Monitorable by regulators; to ensure no market abuse occurs.
- Anonymous to each other; users should not need to balance any reputational issues against open communication.
- Multilateral: all users should be able to view and participate in the discussions.
- Simple to implement; ideally leveraging existing widely adopted industry communications platforms.
- Built with an awareness of the potential broader functions in the future.

As stated earlier, we believe that a simple communications platform can allow market participants and venues to far more rapidly and efficiently identify outages or technical failures at trading venues. Following this identification, trading venues would take up the responsibility for communicating information about the outage, order book/execution status, and planned resolution. To keep the platform initially simple to implement, we envision this second stage of communication to occur through existing venue channels, subject to minimum standards as described below. That said, we do believe that with time, the envisioned communications platform can potentially become a central point of venue communication.

**Minimum standards for venue outage communication**

AFME and FIA EPTA have both previously put out some proposals for minimum standards of communication that we would like to see adopted by trading venues across the industry. We still believe that the adoption of these standards would go a long way toward improving the resilience of (EU/UK) markets in an outage situation. Regulatory guidance around expected participation and timelines can be useful to support the swift and consistent adoption by all relevant parties of the standards developed jointly.

We propose the following minimum standards:

***Pre-established procedures***

- A crisis management team should be established at each trading venue. This crisis management team would be responsible for communications around outages to all stakeholders as well as maintaining the venue's crisis playbook.
- All trading venues should develop and publish a playbook for what will occur if or when an outage takes place.
  - The playbook should clearly identify the mechanisms and locations (websites, protocols) for dissemination of information to stakeholders regarding the outage.
  - It should be clear what information these channels will include and in what format.
  - In addition, there should be protocols for identifying, diagnosing and resolving issues and halting and restarting trading including a minimum notification time.

- Playbooks should outline different scenarios in which exchanges will or will not re-open and establish clear procedures for re-opening.
- Trading venues should also define a procedure to determine the market closing price in the event where the market cannot reopen.

#### ***During the outage***

- Trading venues must be proactive and clear in their communications, giving stakeholders as much detail as is known, as soon as it is known, without speculation.
- Ideally, communications regarding market status should also be in a machine-readable format, available on exchange connectivity and market data protocols, so that trading systems can automatically incorporate these notifications into their procedures, where relevant.
- All communication regarding the ongoing health of a venue's trading system and details about possible outages should also be made publicly available to all interested parties and hosted in a central location, for instance on a defined webpage.
- These communications should be updated on a fixed schedule, for instance every 15 minutes, giving a status update, even if the update is "no update".

#### ***Status of orders***

- At a minimum, any market statuses, instrument prices, outstanding order statuses, and trade feeds published by trading venues on their execution or market data feeds must be accurate and consistent during an outage, and not lead participants to believe the venue is operating in a normal state. A special outage or closed status can aid this.
- This market data notification regarding status is essential for the market to know without doubt that there is a technical issue on the market, which can in turn trigger participants' automatic redundancy plans and allow participants to decide whether or not to continue trading elsewhere.
- Trading venues should make public the specific time stamps at the point at which orders were cleared and/or rejected and which trades were considered valid. This should be done as soon as is feasible.

#### ***Reopening***

- Any planned re-opening times should be published on this central location. Re-opening times should be communicated clearly to the market at least 20 minutes prior to opening and re-open on a "round" time increment (e.g., on the hour or half hour).
- Trading venues should consult with participants on whether to re-open to ensure there are no outstanding issues which might be further exacerbated by the market re-open.
- When a venue restarts it should open in a manner which avoids dependency on the primary opening and causes minimal disruption to trading.

#### ***After an outage***

- Trading venues should provide all stakeholders and members with a comprehensive post-mortem analysis and follow-up points after any major incident, which should include disclosure of the root cause and the steps taken to rectify and prevent recurrence.
- Outages will happen. Venues should be judged on how well they handle those outages.

**Q18. Do you have views on a fail-safe mechanism to ensure that the market has access to the key closing benchmarks during an outage in a primary exchange? What role do you see UK authorities playing to deliver this?**

*(The below response to Question 18 has been developed jointly with AFME and reflects the common view of both AFME and FIA EPTA).*

Yes, AFME and FIA EPTA believe that the industry (participants and venues) and regulators should continue to work together to ensure that there is always a closing-price generating auction that the majority if not all market participants can access for both trading and settlement as well as utilise for benchmark calculation and derivatives settlement where relevant.

We do not yet have a clear view on whether this should occur on a secondary venue or an alternative 'failsafe' channel within the primary venue, although depending on the link of the failsafe channel at the primary venue, a separate channel will be preferred. We welcome further discussion amongst industry stakeholders and venues on the matter to come to a concrete proposal.

Regulators can play a role in ensuring that individual business interests can be transcended in the name of better systemic resilience by participating in and facilitating this dialogue. Furthermore, regulators can aid the discussion by setting expectations for timelines of both agreement and implementation of the agreed mechanism by the industry at large. Following implementation regulators should also play a role by ensuring that the mechanism as agreed remains functional and operative.

UK authorities could, therefore, make provisions that require primary markets to recognise, as the official closing reference price, an industry agreed alternate closing reference price in the event that a market outage has prevented the establishment of a closing reference price in the usual manner.

**Q19. What other steps do you think UK authorities could take to ensure market resiliency in the event of an outage?**

*(The below response to Question 19 has been developed jointly with AFME and reflects the common view of both AFME and FIA EPTA).*

AFME and FIA EPTA propose the removal or amendment of Article 15(2), RTS 7 which refers to exchanges' requirement to "ensure that trading can be resumed **within or close to two hours** of a disruptive incident". This is counterproductive as it creates an incentive to resume trading at an arbitrary point in time even if there are still system issues, while in the interim discouraging shifting continuous trading to an alternative venue. It is also ignoring the nature of outages which dictate that a venue will be unable to control whether it can resume orderly trading within that timeframe.

Reviewing and updating regulatory provisions as regards reference prices: Certain changes introduced by MiFID II have increased the likelihood that trading will not migrate to other venues where the "main" market (i.e., the market where the instrument is admitted to trading) is not operating. These concentrate financial markets' reliance on individual venues (exacerbating or contributing to disorderly markets), inhibit investors' ability to manage their investments and

prevent the migration of activity to other markets (where it could safely otherwise take place in an orderly manner).

- A) We believe that the definition of the most relevant market in terms of liquidity (Article 4, RTS 1) should be amended and its use reviewed. This definition is important as it currently drives the reference price for the reference price waiver, provides a reference price for SI quoting (Article 10 RTS 1) and is relied on for the material market definition to determine the venue that communicates announcements on trading halts (Article 1 RTS 12).
- B) In calculating the most relevant market in terms of liquidity, the opening and closing auction turnover should be excluded from the calculation (as are other forms of trading such as negotiated and large in scale transactions). These are quasi-monopolistic trading phases which do not take place on other venues and so decrease the likelihood that a market other than the main market will be the most relevant market. It prevents like-for-like comparison of the continuous trading phase (that happens on multiple markets).
- C) There is no reason that reference price waiver (Art 4(1)(a) of MiFIR) should rely on the most relevant market in terms of liquidity. Such reliance increases dependencies in the market and prevents the orderly migration of trading. It should revert to a definition similar to the one that existed in MiFID I (e.g., a price that is “widely published and is regarded generally by market participants as a reliable reference price”).
- D) SIs should be able to formulate their quotes on the basis of prices other than that most relevant market where that market is not in operation. An amendment should be made to Article 10 of RTS 1 to permit this (e.g., by adding “unless the most relevant market in terms of liquidity is not operating or not operating in an orderly fashion, in which cases the SI may use other reference prices that it determines reflect prevailing market conditions”).

## Chapter 3: Systematic Internalisers (SIs)

### General comment:

We would like to highlight that FIA EPTA’s responses in the following section on SIs are subject to the overarching market structure and have been provided assuming that the Share Trading Obligation (STO) remains in place, restricting the circumstances under which OTC activity can be carried out. As indicated in our response to question 34, we would not support a complete removal of the STO which we would expect to bring the return of numerous broker-operated automated multilateral crossing networks. Were the STO to be completely removed, we would support further review of the SI regime in that context as the relevance and focus of some of the below responses may change.

### **Q20. Do you agree that the definition for SIs should be based on qualitative criteria?**

Yes, FIA EPTA would support a change to allow firms to make a qualitative assessment of their own trading activities to self-determine whether the business that they undertake constitutes systematic internalisation. Moving away from quantitative requirements would reduce the burden of often unnecessary calculations and reduce the opportunity for unintended consequences such as the inclusion of technical and intercompany trades in the SI regime.

Additionally, we see merit in maintaining the ability for firms to opt-in to the SI regime, regardless of whether or not they meet any stated criteria.

(Q21: n/a)



**If you answered yes to question 20:**

**Q22. Do you think that regulatory guidance should be used to support the definition in legislation?**

Given how well established and widely used the SI regime is in the UK, we do not believe further clarifying guidance is required at this time.

As a separate initiative, we also support efforts to remove noise from post-trade reporting requirements by introducing additional identifiers to distinguish between certain non-price-forming activity and to provide clarity on the type of activity acceptable to be reported as OTC rather than SI for firms that opt into the SI regime.

**Q23. Do you currently opt-in to the SI regime?**

Yes, some FIA EPTA member firms opt-in to the SI regime.

**Q24. Should SIs be determined at entity level instead of on an instrument by instrument basis, for reporting purposes?**

For the purposes of post-trade reporting, FIA EPTA would advocate a change to allow the existing trade reporting hierarchy to be overridden by bilateral agreement between trading parties. This would completely remove any ambiguity on a case-by-case basis as to where the responsibility and regulatory obligation for undertaking trade reporting resides.

In the absence of the preferred solution of bilateral agreement, we support moving away from an ISIN-by-ISIN approach to SI determination for the purposes of post-trade reporting, however would prefer an asset-class level determination for consistency with how firms currently opt into the SI regime and to limit the risks described in the response to Question 25 below.

**Q25. What would be the risks and benefits of adopting such an approach?**

In the absence of a golden-source for the determination of SI status, the current trade reporting hierarchy introduces ambiguity regarding both who should report and in which capacity (OTC or SI). Both issues could be addressed by bilateral agreement confirming responsibility and regulatory obligation for trade reporting as well as the capacity in which each party intends to act (SI or OTC).

FIA EPTA believes that it is important that activity being reported and flagged as being SI genuinely relates to price-forming SI activity and does not merely represent a rebranding of other riskless OTC trading activities for convenience purposes.

There is a risk that moving to a broader categorisation of SIs by determining SI status at the legal entity level as suggested in Question 24, could result in an incremental increase of trades being reported as being on SI (when compared with the status quo) without any actual change in the underlying trading activity.

Conversely, there is a risk that if SI classification for the purposes of trade reporting is made at an entity or asset-class level then genuine SI activity could be mis-represented as OTC. For example, where Firm A is not acting as an SI in a particular trade but are an SI in the asset class (or entity level) and are selling against a genuine SI (Firm B), Firm A may assume the responsibility for trade reporting and report as OTC. It is, therefore, essential that trade reports reflect the capacity in which the trade was done (on an SI in the case of this example), not simply the categorisation of the entity undertaking the trade report.

To avoid such complications, FIA EPTA would support the ability for bilateral agreements to supersede the trade reporting hierarchy.

**Q26. Do you agree with the government's proposal to allow SIs to execute at the midpoint for all trades, provided the executed price is within the SI's quoted price?**

FIA EPTA advocates for a consistent application of the LIS regime and associated available execution prices for European stocks between the UK and the EEA.

**Q27. Do you think any other changes are needed to increase the effectiveness of the SI regime?**

FIA EPTA believes there is scope to materially increase the minimum quoting obligation that applies to SIs in liquid instruments and that this should happen via a review of both the SMS thresholds for liquid shares alongside appropriate adjustments to the current 10% of SMS requirement for a public quote.

Additionally, we support a strengthening of the Share Trading Obligation with regard to undertaking multilateral activity to ensure that SI activity is genuine bilateral risk capital commitment as opposed to de-facto riskless multilateral trading between client-driven swap-hedge activity and other client orders.

## Chapter 4 Equity Markets

**Q28. Do you think that the DVC should be deleted?**

FIA EPTA members agree that the DVC mechanism in its current form has not achieved the aim of pushing equity trading onto lit venues since its introduction. However, in its favour we do observe that the DVCs have limited the volume of trading occurring without any form of pre-trade transparency and FIA EPTA members believe there is value in continuing to limit dark trading. Therefore, our members do not think that the volume capping mechanism should be deleted, however we do consider that the system can be simplified and made more efficient compared to the current mechanism.

FIA EPTA members' experience is aligned with the research that shows that banning dark pools has resulted in volume moving into hybrid, quasi-dark trading mechanisms and when this happens that it is unlikely that volumes will return to transparent public markets. However, steps have been taken and, in the EU continue to be taken, to increase the level of pre-trade transparency in these alternative trading mechanisms such as frequent batch auctions. Also, this trading occurs on regulated venues and so is subject to regulatory oversight.

MiFID II aimed to strengthen transparency and this should in our view remain a key objective of UK legislation. Pre-trade transparency is essential for ensuring effective liquidity aggregation that enables best execution. FIA EPTA members, also, do not believe that regulatory fragmentation as regards equity transparency requirements across European markets is useful to end investors as this will create unnecessary complexity for investors trading in both the UK and EU jurisdictions. In addition, FIA EPTA members are concerned that the full removal of the DVC would effectively result in a return of broker crossing networks (BCNs), reducing choice for end-investors and limiting competition and innovation in trade execution.

Separately, it is unclear to our members how retaining the ability for the FCA to limit dark trading without the DVC could result in increased stability and predictability in the trading of equity instruments, as doing this on an ad hoc, less prescriptive manner would introduce significant

uncertainty. FIA EPTA members consider that maintaining a transparent mechanism to limit dark trading would provide more clarity and confidence to the market.

Hence, FIA EPTA members firmly believe that a volume capping mechanism should be retained. However, we also consider it should be simplified and amended to only have a single over-all volume cap i.e., by eliminating the cap at the individual trading venue level.

**Q29. Do you think alternative incentives are needed to encourage lit trading?**

FIA EPTA members generally consider that further efforts need to be made to encourage lit trading but that these need to be carefully thought out and considered to avoid unintended outcomes. To date, efforts to increase on-venue lit trading via regulatory intervention and rule-making have been mixed with both the STO and DVC largely resulting in OTC and dark volume shifting to other execution mechanisms while increasing market complexity. FIA EPTA members note that this increased complexity has further concentrated daily end-investor flows at an increasingly small group of investment banks and brokers who can afford to invest and maintain the competitive trading algorithms and smart order routers needed to deliver best execution in such a complex trading environment. This concentration, combined with other factors that result in the trading of UK shares skewing towards synthetic execution (rather than direct trading in the physical shares) by en- investors (both retail and intuitional) leads to significant opportunities for these dominant firms to internalise trading (via an SI or otherwise) resulting in less end-investor flow reaching the public lit markets and consequently weakening efficient price formation.

Ultimately, the best method for helping support lit trading activity would be in our view to increase the overall level of trading and holding of UK shares both through attracting more companies to go public and raise capital on UK markets while ensuring end investors are incentivised (or at least not disincentivised or restricted) to invest in UK equities.

On a more micro-structural level, it is FIA EPTA members' opinion that strengthening the best execution requirements would encourage lit trading. Investment firms applying routing or internalisation decisions should strictly adhere to Best Execution rules. Currently, there are a number of retail brokers which engage single venue routing to retail focused-exchanges where this retail flow does not contribute to the actual price finding mechanism on the main exchanges and it is quite easy for single market makers in a non-competitive environment to price-improve the incumbent exchanges. However, this 'improvement' gives a false impression of the real execution quality of such exchanges.

FIA EPTA members also consider that the use of the Negotiate Trade (NT) waiver needs to be carefully reviewed as it seems this waiver is being widely used to support systematic OTC trading and crossing activity that is subsequently brought onto exchange via the NT waiver that is not within the scope or intent behind the waiver's design.

**Q30. Should reference price systems be able to match orders at the mid-point within the current bid and offer of any UK or non-UK trading venue that offers the best bid or offer, to aid best execution?**

FIA EPTA considers that trading venues should be permitted to match orders under the reference price waiver at the mid-point of the most relevant market (within or outside the UK) or at the mid-point of a consolidated best bid and offer taken from a published list of reference trading venues.

**Q31. Do you consider SIs quotes useful?**

FIA EPTA strongly believes in the principle that systematic internalisation should be identifiable by continuing to require firms undertaking the relevant activity to register as SIs and adhere to the SI obligations such as the streaming of SI quotes. Furthermore, we would support efforts to make SI quotes more meaningful.

It is, however, important to recognise that SIs are a bilateral trading mechanism. SIs are in general tailoring their quoting activity towards particular clients or groups of clients based on a multitude of risk management factors. As such, a generic firm quote (which by definition must be available to all clients of the SI) will only ever be of limited value and information.

**Q32. Do you think that the ability of SIs to execute clients' orders at mid-point would incentivise SIs to provide meaningful quotes?**

FIA EPTA considers there is some scope for this to act as an incentive to increase quote size and this may well be the case, although an increase is likely to be modest and may come at the expense of the SI quoting a wider spread.

(Q33: n/a)

**Q34. Do you think that the share trading obligation (STO) should be removed?**

No, FIA EPTA considers the share trading obligation should be retained. Similar to our answer to Question 28, our members' opinion is that removing the STO would be a step backwards and away from the aim of strengthening the public markets.

FIA EPTA members support the STO as a mechanism to ensure that the trading of shares and equity-like instruments takes place, to the greatest extent, in an organised trading environment which is subject to public and transparent rules and calibrated transparency requirements. FIA EPTA members consider that optimising market transparency for shares is essential for facilitating efficient price formation and enabling best execution in a competitive order execution market. All of this benefits end-investors by enabling trading interest to effectively interact, reducing search and trading costs.

We recognise that the STO has, unfortunately, become a politicised tool employed for other purposes than for which it was ever intended or designed. However, our members continue to firmly believe that the fundamental aim of the obligation is sound and beneficial for end-users. Uncontained dark and bilateral trading hurts the price formation process by operating an unlevel playing field. By steering flow away from the public market, this takes away the ability for all market participants to react to this trading interest and adjust their public quotes/orders. While evidence is sometimes cited that best price can be achieved by trading in the dark, it should be kept in mind that this is in comparison with the top of book at the time of execution. As lit book participants have no knowledge of the trading interest, the counterparty to the dark trade has a competitive advantage and so naturally can offer the best price. However, that investor could well have achieved a better price had all market participants been able to interact with it.

Currently, the UK STO covers all shares which are traded on a trading venue in the UK which includes a range of shares, including EEA ISINs, and, under the TTP, UK firms have been permitted to meet that obligation by trading on EU trading venues and SIs. Notwithstanding the lack of an equivalence decision, this in conjunction with the EU's decision to limit the EU STO to EEA ISINs (which are not denominated in GBP) has provided a level playing field of sorts for UK firms and EU investment firms.

The elimination of the UK STO would create a competitive advantage for UK investment firms (and their UK and non-EU clients), who would then be able to trade both UK and EEA shares in the dark in an unrestricted manner, and our members' concern is that this could result in a backlash as the EU would look to eliminate this advantage. For example, steps could be taken to potentially remove the permission for EEA shares to be admitted to trading on UK venues similar to the measures adopted by Switzerland.

By contrast, FIA EPTA members would prefer a situation where UK, EEA and Swiss shares would be covered by a broad mutual equivalence framework enabling firms to trade across the broader European region without unnecessary barriers and fragmentation and would strongly encourage UK, EU/EEA and Swiss public authorities and governments to work towards a position of such broad mutual equivalence, at least for the narrow area of share trading. Ultimately, the current fragmentation and complexity only hurts investors and makes UK, EEA and Swiss equity markets a less attractive place to raise capital and invest when compared with other global markets.

FIA EPTA members believe that an open transparent environment where all market participants can contribute to the price formation process is in the best interest of end investors. As long as the LIS waiver (which our members believe should be reverted to their relevant levels) remains in place to protect market participants from adverse market movement following the execution of large orders, members believe dark trading should be limited.

**Q35. Do you think that the requirements for algorithmic liquidity providers and trading venues to enter into binding market making agreements should be removed?**

Yes. FIA EPTA agrees that the MiFID II market making requirements have had limited impacts on enhancing market quality and imposed unnecessary cost and burdens on both algorithmic trading firms and trading venues and should be removed. This assessment applies to equity markets and exchange-traded derivatives markets equally in all asset classes including commodity, interest rate and equity derivatives.

We consider that trading venues, as market operators, are in the best position to maintain and design incentive schemes (which should then be non-obligatory) to optimise the liquidity profile of relevant market segments. These incentive schemes enable trading venues to facilitate the provision of liquidity in products in which liquidity is diffuse because of its characteristics and to increase liquidity in new and nascent futures contracts which in time may evolve into the benchmarks of the future or which may form part of a broader complex of related contracts.

Therefore, FIA EPTA welcomes HMT's proposal to remove the MiFID II market making requirements for both investment firms and trading venues. This will reduce unnecessary compliance burdens and costs for firms and trading venues.

**(Q36: n/a)**

**Q37. Do you think the scope of the tick size regime needs to be recalibrated for overseas shares to ensure that firms can trade at the best prices in the UK?**

Yes, EPTA members agree that the scope of the tick size regime needs to be recalibrated so that trading venues can follow the tick sizes applicable in the relevant primary market of a share where that share does not have its primary market in the UK.

**Q38. Do you think trading venues are better placed to establish tick sizes for new shares until sufficiently robust data is available?**

Yes, EPTA members agree that trading venues are best placed to establish the tick sizes for new shares until sufficient robust data is available.

**Q39. What are the potential benefits and risks of delegating the setting of tick sizes, in general, to trading venues? What safeguards would be needed to avoid arbitrage issues?**

Our members believe the risks associated with delegating the setting of tick sizes to trading venues outweigh the potential benefits and, in order to avoid arbitrage issues, the setting of tick sizes should remain with the FCA. It is important that market participants have a recognised, transparent tick size regime that is predictable and prescribed.

(Q40: n/a)

## Chapter 5 Fixed Income and Derivatives Markets

**Q41. Do you agree that the scope of the DTO should be revised to bring it in line with the scope of the CO following the changes introduced by the EMIR REFIT? What risks/ benefits do you see with this approach?**

Yes, FIA EPTA agrees but we also recommend performing a regular review of the EMIR thresholds in order to ensure that too much trading activity is not being exempted from the CO and DTO.

**Q43. If you answered yes to question 42:**

**a) Do you think that there should also be an aligned exemption from the EMIR clearing obligation for trades resulting from post-trade risk reduction services?**

No, providing a broad exemption from the CO would introduce too many risks (unlike the DTO). A broad exemption would materially reduce costs associated with trading uncleared derivatives and could allow risk to migrate away from CCPs. We note that no other jurisdiction has granted a broad exemption from the CO for PTRRS.

**b) What conditions do you think should be met for the exemption to be applicable?**

We suggest requiring that cleared derivatives cannot be included and each amended derivative must be entered into for the sole purpose of reducing operational or counterparty risk.

(Q44: n/a)

**Q45. Do you think that the current transparency requirements support price formation and open, competitive and fair markets? Please separate your answers by fixed income (please treat sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (please distinguish between OTC and exchange-traded derivatives (ETDs) where relevant).**

No, FIE EPTA considers that the current framework has not increased transparency for UK financial market participants. Too many in-scope transactions are being granted waivers and deferrals, and too many off-venue transactions are not being considered in-scope at all.

**Q46. Do you think that using ToTV is a useful criterion for determining the scope of transparency requirements for non-equity instruments, and in particular OTC derivatives? Please separate your**

**answers by fixed income (please treat sovereign bonds, high-yield bonds and investment grade bonds separately) and derivatives (please distinguish between exchange traded and OTC derivatives).**

No, and in FIA EPTA's view particularly in the OTC derivatives asset class where it is estimated that approximately 95% of off-venue trading activity in interest rate OTC derivatives is not considered ToTV. In other asset classes, ToTV can still prove challenging to monitor and implement on a daily basis.

**Q47. If you answered no to question 46: Do you think the concept of ToTV should be removed for OTC derivatives, and the scope of the transparency regime determined on the basis of whether the instrument is cleared? If so, what definition of 'cleared' should be used?**

Yes, FIA EPTA supports removing the ToTV concept across all asset classes. However, we are concerned about the proposal to link OTC derivatives transparency to the CO. This would exclude too many instruments from transparency in our view and would be inconsistent with the approach adopted in the US, where all instruments are subject to post-trade transparency regardless of liquidity status.

In addition, linking transparency and clearing could mean that the same instrument is treated differently based on the identity of the counterparties to the trade (i.e., whether they are subject to the CO or not), which would be unappealing outcome from a market competition standpoint.

**Q48. Do you think there is another option to determine the scope of the fixed income and derivatives transparency regime? Please separate your answers by fixed income (please treat sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (please distinguish between exchange traded and OTC derivatives).**

Yes, FIA EPTA recommends applying the transparency regime to all instruments and using the available waivers and deferrals to ensure the results are appropriately calibrated. For example, the presence of a waiver and a deferral for illiquid instruments suggests a clear intent to apply the transparency framework to more than just liquid instruments.

(Q49: n/a)

**Q50. What changes do you think are needed to enable liquidity calculations to work effectively? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds) and derivatives (ETDs and OTC derivatives).**

FIA EPTA recommends performing a more holistic assessment based on both quantitative and qualitative criteria. The quantitative criteria should be based on the current assessment process for the CO and DTO.

**Q51. Do you think it would be preferable to move away from regular liquidity calculations towards a mix of qualitative and quantitative criteria? For example, on a sectoral basis? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).**

Yes, for example, all OTC derivatives subject to the CO should automatically be considered liquid for transparency purposes.

**Q52. How do you currently use pre-trade transparency? Is pre-trade information on bonds and derivatives valuable? Please differentiate between fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives), and each trading method (for example RFQ, and order book).**

Having pre-trade transparency in fixed income and derivatives is very valuable and allows for increased liquidity and more efficient pricing, as investors will have more knowledge of trading interest in advance of placing orders and consequently will have more confidence to trade. Market participants are provided with information regarding current market prices and can better assess execution quality.

FIA EPTA observes that many market participants and trading venues have found ways to circumvent transparency requirements and market quality has suffered as a result.

Additionally, for orderbook trading in exchanges traded derivatives (ETDs), FIA EPTA members believe that the calibration of the pre-trade transparency waivers should be created as to allow for more pre-trade transparency and that, as long as hedging risks can be appropriately minimised, increased pre-trade transparency will not have a negative impact on ETD markets.

***Q53. Is there a case for removing MiFID II pre-trade transparency requirements for any asset class? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).***

We strongly believe there is no case for removing such transparency thresholds. It is FIA EPTA's view that they are a crucial piece of market structure that has a long term benefit to the market. Broadly speaking, the pre-trade LIS thresholds introduced by MIFID II are too low and do not accurately reflect the liquidity present in the market.

Further, it is FIA EPTA's view that there should be a standardisation in the method of determining LIS thresholds for non-equity instruments. FIA EPTA considers that standardisation for derivatives as well as fixed income instruments would make them more tradable and comparable, removing unnecessary obscuring factors. For example, under MIFID II the model used for determining the LIS threshold value for fixed income options is substantially different to the approach taken for index and equity options.

Orders that are below on-screen liquidity levels, as set out per the below proposal, should be traded in a central limit order book (CLOB), therefore, transparency levels should be set above those thresholds. Such a change will result in enhanced transparency and create a true on-screen liquidity pool resulting in greater competition and better pricing for end investors.

FIA EPTA used the following measures to quantify the liquidity available in the orderbook for the purposes of this analysis:

- a) Minimum quote size;
- b) Aggregation of the minimum quote sizes;
- c) The maximum onscreen trade size executed.

Looking at each of these in turn:

- In FIA EPTA's view, the minimum quote size should be the absolute lower bound below which no trades should be able to avail of a pre-trade transparency waiver. These minimum quote sizes are set independently by exchanges with feedback from market participants and our members believe they are a fair indicator of the level of liquidity that an individual market maker is prepared to show. It is counter-intuitive that the LIS



threshold can be lower than an exchange’s minimum quote size and avail of a pre-transparency waiver.

- The below table shows the number of options on ICE where that exchange’s minimum quote size exceeds the ESMA LIS threshold. The number of names in excess of this threshold demonstrate that the existing LIS thresholds are not reflective of actual liquidity available in the orderbook. For example, under the current regime the minimum quote size for more all equity option names option names traded on ICE exceeds the current LIS threshold.
- The second measure is the aggregation of the minimum quote sizes across all market makers in the orderbook. Aggregation is more representative of available liquidity for each instrument in the orderbook than the minimum quote size as it represents all available liquidity as displayed by market makers. For ICE on single stock options, the available liquidity for all equity option names exceeds the current LIS thresholds. It is clear that the current LIS thresholds do not capture a significant amount of the available liquidity for the vast majority of the products included in the below analysis.
- The third measure we view as a key relevant reflection of liquidity is the maximum screen trade size. As this measure reflects a trade size that can be absorbed by an orderly regulated market, arguably only orders above this size should be large in scale. A LIS threshold calibrated to this level would represent a very robust level of transparency. The last column below shows that the maximum screen trade size for both equity and index options exceed the current LIS threshold.

ICE	Total unique ISIN's	Min Quote size > LIS Threshold	Screen Liquidity > LIS Threshold	Max Screen trade > LIS Threshold
Stock options	71*	71	71	71
Index options	2	0	Number of MM not provided	2

\*71 names analysed where max trade data was available

**Q54. If you answered yes to question 53: Do you think that RFQ, bilateral negotiations and indications of interest provide sufficient information for markets to function effectively? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).**

FIA EPTA considers that MTF platforms offering RFQ functionality provide a valuable method for clients/counterparties to execute in fixed income products. They allow clients/counterparties to put multiple market makers and liquidity providers in competition with each other helping clients/counterparties to achieve competitive pricing/best execution.

In this context, however, and as we point out elsewhere, it is important that the post-trade reporting of these trades happens as close to real time as possible (and in any event within 15 minutes) to ensure that all market participants have access to the same information. This issue is not limited to RFQ platforms but is an issue in fixed income generally where the determination of a bond’s liquidity and the availability of waivers and deferrals has meant there is a significant lack of meaningful post-trade reporting.

It is also important that platforms make it clear where a liquidity provider is streaming an indication of interest rather than a firm, executable price so there is no ambiguity. With only indicative quotes available, clients must contact liquidity providers individually in order to receive an executable price, which limits their ability to place liquidity providers in competition.

As a result, a baseline level of pre-trade transparency is necessary and we set out some possible solutions to this point in our response to Question 57 below.

**(Q55-56: n/a)**

**Q57. Do you have any other comments on the pre-trade transparency regime?**

For minimum thresholds for pre-trade transparency, this should in FIA EPTA's view apply to all ETDs. In circumstances where there is an exchange listing for a non-standard option (i.e., a so-called "flex option") this should not mean there are lower levels of pre-trade transparency vs. the standard listing.

There have been occurrences where certain venues have allowed for lower levels of transparency for flex options due to their non-standard nature. This has led to trading participants making slight adjustments to options contracts details such as a small change to the strike or expiration time/date and as a result were able to circumvent transparency disclosures under the exchanges flex rules. The same transparency rules for the standard options should apply and this should apply across derivatives on that ISIN.

Alongside this where there are certain mechanisms for the execution of pre-arranged trades which are below certain transparency levels these mechanisms should allow for transparent visibility of the orders so that they can be put in competition to ensure best execution for the end user.

In addition, regulators could consider other efforts to incentivize the use of firm pricing in fixed income markets, such as ensuring firm prices are differentiated from indicative prices on trading venues and require full interaction between trading protocols, such that market participants are always made aware of a more competitive firm price that is available on the venue.

Finally, FIA EPTA strongly believes that non-discriminatory access requirements should be enforced in a consistent manner across all trading venues and that the ongoing practice of post-trade name give-up should be prohibited for anonymously executed transactions.

**(Q58: n/a)**

**Q59. Which asset classes should deferrals apply to? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).**

Post-trade transparency is critical for a number of reasons. It allows market participants to perform accurate transaction cost analysis and best execution assessments, and enables liquidity providers to more accurately price and provide liquidity.

Comprehensive real-time data enables market participants to more confidently assess current market dynamics, which increases investor confidence and is particularly important during times of market volatility. In addition, real-time data reduces existing information asymmetries, where certain market participants may have greater knowledge regarding ongoing trading activity than other investors.

Levelling the playing field with respect to access to information regarding ongoing trading activity helps investors hold liquidity providers accountable and promotes overall market competition. In addition, post-trade transparency allows for the production of more general market research and commentary that will benefit all investors.

As a result, post-trade transparency must be real-time; deferrals should be limited in scope if needed at all, with one clear size-based deferral only. We support completely removing the illiquid deferral (as the deferral inhibits natural growth and interest in the instrument). We note that post-trade transparency frameworks in the US do not include a deferral based on a liquidity assessment.

As a general matter, FIA EPTA believes that a uniform approach can be adopted across asset classes. However, it is FIA EPTAs view that there is no place for post trade deferrals for ETD. Deferrals significantly reduce transparency in the market and as a result increase costs for end users when seeking liquidity.

**Q60. Do you agree that the deferral regime would benefit from being simplified?**

Yes, FIA EPTA considers there are far too many permutations at the moment, both in terms of the number of available deferrals and the various deferral lengths. We support greatly simplifying the regime in order to effectively deliver post-trade transparency to market participants.

We believe the simplest change would be to not allow trade deferrals for ETDs. By increasing transparency, it will create fairer and more transparent market.

**Q61. What do you think the optimum deferral length is? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).**

Based on market experience with the long-standing post-trade transparency regimes in the US, 15 minutes is an appropriate length of deferral for large-size transactions. We note that, in recent US consultations both in bonds and derivatives, market participants overwhelmingly supported maintain this deferral length.

FIA EPTA would also suggest revisiting the indefinite deferral currently granted to sovereign bonds, as while we recognize the special importance of these markets, aggregate data fails to deliver meaningful transparency and post-trade transparency has been universally shown to improve liquidity conditions and reduce transaction costs.

In reality from our experience as market makers the market impact of these large orders happen in around a 15-minute window. A deferral time in days is far too long and allows for participants to hide trades which is to the detriment of the whole market as this lack of transparency has a substantial impact on liquidity provision.

**Q62 What are your views on the government's proposal to delete the SSTI, package order, and EFP deferrals? Do you think it would lead to more meaningful transparency? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).**

FIA EPTA agrees for all asset classes – this a good first step to reduce the number of transactions eligible for a deferral. We would suggest that, in a given asset class, no more than 33% of total notional volume should be eligible for a deferral.

**Q63. Do you think volume masking and/or aggregation helps to encourage real time publication? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).**

Yes – volume masking supports requiring real-time (or near real-time) publication for all asset classes. With volume masking, liquidity providers are not exposed to undue risk and are still able to effectively hedge even after the deferral window has expired since the market does not know the full-size of the large trade.

Aggregation is currently being used a substitute for real-time transaction publication and fails to provide meaningful information to market participants. While it can show general trends at a high level, aggregated information does not facilitate assessments of execution quality or assist clients in holding their liquidity providers more accountable.

**Q64. What are the risks and benefits of allowing trading venues to calculate LIS thresholds for ETD post-trade reporting?**

The risk of allowing venues to calibrate is that they could look to set arbitrary low levels of transparency to try and cater for specific firm's business model which could be at the detriment to the wider market.

We note that it is important to ensure third-country trading venues are subject to comparable transparency requirements to those ultimately finalized by the UK.

(Q65-81: n/a)

## Chapter 7 Market Data

**Q82. Do you agree that the government should take action to encourage the development of a CT?**

FIA EPTA has consistently advocated for improving transparency in financial markets as this increases competition and market liquidity by levelling the playing field with respect to access to information. We strongly support, therefore, the creation of a UK consolidated tape that provides investors with a comprehensive view of the market. Specifically, we believe a post-trade, real-time consolidated tape would provide significant added value to the market and to end-investors by providing a high-quality consolidated view of the venues, volumes and prices at which equities or non-equities instruments trade.

FIA EPTA believes a consolidated tape will democratise access to market data and allow small investors to have the same, low-cost access to comparable information as large investors. This

should contribute to creating a more integrated UK capital market, allowing investors to obtain a full picture of the trading volumes of a product listed across multiple exchanges. A consolidated tape should, by increasing confidence in intraday pricing, encourage more trading on public and transparent markets throughout the entirety of the trading day.

We therefore strongly support the government's intention to encourage the development of a consolidated tape in the UK.

**Q83. Do you think a fixed income tape should be prioritised?**

FIA EPTA recommends prioritising the development of a real-time, post trade consolidated tape for both equities and non-equities in parallel. We do not see any practical impediment to proceeding with developing tapes for both non-equities (fixed income and derivatives) and equities in tandem.

**Q84. Do you think that it would be beneficial for a fixed income CT to include post-trade data only, or would there be value in a tape covering pre-trade data too?**

Yes. Post-trade data only is likely the most practical and realistic form a fixed income CT would take. We believe this would be sufficient to provide a worthwhile increase in transparency, particularly for opaque instruments such as bonds and OTC derivatives.

(Q85: n/a)

**Q86. Is it valuable for an equity CT to include pre- and post-trade data?**

FIA EPTA is advocating for a post-trade CT for equities. We believe such a CT will be a tool for investors and professionals alike to monitor executions and transaction costs. We see it being used primarily for best execution, transaction cost, and portfolio composition analysis as well as for regulatory compliance, but we do not underestimate the importance of properly sequenced, last traded price information for trading purposes. In this sense, we believe the post-trade CT may have value for informing pre-trade routing decisions for some investors.

Some commentators have suggested that a CTP will experience inevitable latency in collecting and consolidating data from multiple sources and thus will always compete with (and may lose out to) real-time data feeds provided directly from trading venues. FIA EPTA does not believe these two things are in competition as we believe the CTP has a very different use case from real-time direct data feeds.

A post-trade CT would provide significant added value to the market by providing a high-quality consolidated view regarding the venues, volumes and prices at which equities or other instruments were traded. Nevertheless, we envision a CT will first and foremost be used for evaluation of post-trade best execution. Other use cases may include benchmarking, portfolio construction, market abuse monitoring, accurate sizing of market in each security, valuation and accurately determining addressable liquidity.

For trade execution, pre-trade market data has more merit than a post-trade tape. We, therefore, do not view a post-trade CT to be in competition with the direct data products provided by exchanges; rather, a CT would be complementary to such. Professional investing market participants and intermediaries, in particular those that are latency sensitive, will continue to require low-latency, real-time pre-trade data.

However, even a post-trade CT will add value to participants in making informed business decisions with respect to execution, in particular for non-professional investors, provided it is as close to real time as possible.

**Q87. Is there any value in a delayed data CT for equity markets?**

FIA EPTA favours a CTP which provides consolidated post-trade data in a timely manner. This allows participants to invest in improving data quality; and make it viable to use post-trade data to view the liquidity landscape for the same (type of) instrument traded across fragmented venues. While not every principal trading firm or other market participant would be interested to use such service to the same extent (or at all), the CT would bring best execution closer to investors: they can verify and monitor this better by having access to an effective CT. A real-time post-trade CTP provides a neutral and reliable source of the current market price, giving investors' confidence to trade and supporting best execution.

While a delayed data CT for equities may have some value in achieving best execution, compliance or market abuse monitoring the goal of the provider should be to provide the data as close to real time as possible in the first instance.

**Q88 Should the government amend legislation to enable a market-led private sector CT to develop, or do you think UK authorities should be actively involved in creating a CT?**

FIA EPTA supports a market-led private sector CT in line with the reasoning outlined by the government in the consultation paper. Such a CTP should be appropriately supervised by the FCA.

**Q89. What are the legislative barriers for a private sector-led CT to emerge? Do you agree with the legislative changes identified above? Are there additional changes that UK authorities should be considering?**

FIA EPTA supports most of the changes identified by HMT in the consultation paper. The most critical are requiring mandatory contribution from trading venues and APAs and further streamlining the deferrals for non-equities instruments. At the moment, far too many non-equities transactions are eligible for lengthy deferrals of 4 weeks, which would render a CT of little practical value. In order to provide a value-add to investors, the CT must be comprehensive (covering both on-venue and off-venue activity) and real-time (with limited deferrals). Please see our responses to Chapter 5 of this consultation regarding the necessary changes to the underlying post-trade transparency framework for non-equities.

However, FIA EPTA does not support the lowering of coverage requirements (100% for equities and 80% for fixed income). These targets should be achievable by the CTP if trading venues and APAs are obliged to submit their data to a CT, as is proposed.

**Q90. Do you see any risks with removing the obligation for CTs to provide data for free after 15 minutes?**

No, FIA EPTA supports the removal of this obligation for CTPs.

**Q91. What are the potential advantages and disadvantages of multiple private sector CTs for each asset class?**

FIA EPTA does not see an issue with allowing different providers to supply a CT in a different asset class. However, each asset class should have a maximum of one provider i.e. a single tape for each class.

Allowing this practice to occur may increase the likelihood of multiple CTs in different asset classes being developed in tandem. However, allowing competing CTs in the same asset class should be prohibited given the potential for data distortion and/or information arbitrage. A single golden source per asset class is the preferred option.

**(Q92-105: n/a)**