

MiFIR Review :

Balancing Bond transparency and liquidity

10th November 2022

ECB Bond Market Contact Group

MiFIR Review – current state of council discussions on post-trade transparency

- Entering **final stages**, next council meeting is 21st Nov expected to be the last negotiations on some topics before passing to the attaches.
- A clear desire for the current Czech presidency to close out some items before the transition to the next presidency (Sweden) at the end of the year.
- Bond Post-trade transparency has been a much negotiated and contentious issue
 - Original proposals halved the maximum allowed deferral time from T+2 price, 4 weeks vol deferral and no longer allows weekly aggregation for Corporate bonds.
 - **Proposals not based on detailed or extensive analysis** (no impact assessment undertaken by the EU Commission)
 - Issue compounded by the desire of EU authorities to **hardwire maximum deferral times into Level one legislative text**

What is AFME advocating for?

Given there is downward pressure on length of deferrals which does not appear to be backed by any data analysis AFME are calling for;

- MiFIR Level One legislation to offer **flexibility** around deferral timeframes allowing for increased or decreased transparency, where justified by data. MiFIR will not be reviewed again for some time.
- As part of Level Two technical standards ESMA to analyse complete and accurate data to determine the calibration thresholds and buckets
- Establish an industry stakeholder group to assist ESMA with the calibrations

AFME members hold significant concerns that without this process being undertaken, and consequently appropriate price and volume deferrals being implemented, there exists a material risk to the ability of liquidity providers to facilitate liquidity and risk transfer to the same extent as they have been able to in the past.

Let the data do the talking

Where's the evidence? AFME Data driven analysis

- AFME worked with Consolidated Tape candidate (Finbourne) using their post trade data looking at 1.2M trades from around 5,500 most actively traded securities, to publish a 'first of its kind' paper analysing trade risk offset times in the **Corporate bond market**.

We found that

- The smaller the trade size and the more liquid the instrument, the less risk is associated with rapid dissemination of price and volume information
- A small size trade bucket less than €500K can be reported close to real-time, increasing transparency from **8% of trades to 67%**

But

- For trades larger than **EUR 1 million**, it takes on average **6 business days to 'trade out'** of positions. For trades over **EUR 5 million** it takes on average **19 days to trade out**
- Larger trades (i.e. > EUR 20 million) took longer than 4 weeks to trade out of the risk

Source: AFME/Finbourne [MiFIR 2021 Corporate Bond Trade Data Analysis and Risk Offset Impact Quantification](#)

AFME Data driven analysis

Corporate bonds

Table 2: **Effect of Various Thresholds on Bond 'Trade Out' Time (business days)**

Description	ADV (€) per ISIN (median)	Average of trades over					
		€1m		€5m		€20m	
		Average trade size (€)	# days	Average trade size (€)	# days	Average trade size (€)	# days
Corporate bond data set	654,940	4.2m	6	12.4m	19	47.3m	72
<i>of which IG</i>	657,268	4.5m	7	12.6m	19	46.8m	71
<i>of which HY</i>	654,201	3.3m	5	11.5m	18	50.9m	78
Over €1bn	1,481,865	4.6m	3	12.0m	8	38.3m	26
Under €1bn	600,015	4.1m	7	12.6m	21	50.7m	84

What about Sovereign bonds?

- Significant flexibility for the trading of sovereign bonds remains, with member states being able to allow extended deferrals for volume of individual transactions or the deferral of publication of details for transactions in an aggregated form for 6 months

But

- **Non-EU issued sovereign bonds** currently proposed to be **subject to the same timeframe as corporate bonds** no indefinite aggregation and maximum vol deferral for 8 weeks.
- AFME/Finbourne data analysis extended to Sovereigns covering €8.4tn of (gross) volume, almost 1.8m transaction records and over 8,200 distinct bonds/ISINs.
- Whilst **real time** post-trade reporting was higher at **76%** of trades, trade out times vary significantly for various issue and trade size categories, ranging from a few minutes to well over a year depending on the issue and trade size category. As a result, the data clearly supports real-time and EOD reporting for several categories of trades, but also that certain deferrals should be significantly longer than four weeks.

Data analysis

Sovereign bonds

Table 9: EU Data Set Trade Out times for issue sizes </> €5bn vs €10 bn

		Average of trades																	
	ADV per ISIN	<€6.5m		€6.5–20m		€20–50m		€50–100m		€100–250m		€250–500m		€500–750m		€750m–1bn		€1bn+	
		Average trade size (€m)	# days	Average trade size (€m)	# days	Average trade size (€m)	# days	Average trade size (€m)	# days	Average trade size (€m)	# days	Average trade size (€m)	# days	Average trade size (€m)	# days	Average trade size (€m)	# days	Average trade size (€m)	# days
Sovereign bond data set	3,792,794	1.1	<1	10.2	3	30.8	8	66.8	18	139.5	37	334.0	88	573.3	151	879.4	232	2,140.1	564
of which EU	3,578,737	.8	<1	10.8	3	29.5	8	63.3	17	130.8	37	302.2	84	522.1	146	907.9	254	3,340.3	933
Over €5bn	13,644,009	.8	<1	10.6	1	29.5	2	63.3	5	129.9	10	313.2	23	523.0	38	889.8	65	3,902.0	286
Under €5bn	974,745	.8	1	11.2	12	29.5	30	63.6	65	135.0	138	284.8	292	517.6	531	962.3	987	1,767.4	1,813
Over €10bn	18,542,736	.8	<1	10.5	<1	29.7	2	63.3	3	130.5	7	313.5	17	518.9	28	889.9	48	4,438.7	239
Under €10bn	1,575,979	.8	<1	11.1	7	29.3	19	63.5	40	131.3	83	291.9	185	528.5	335	962.3	611	2,351.7	1,492

Questions?



The Association for Financial Markets in Europe advocates stable, competitive and sustainable European financial markets that support economic growth and benefit society.

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