IMPROVING EQUITY SECONDARY MARKETS

FCA : CP22/12

FIX TRADING COMMUNITY RESPONSE

15TH SEPTEMBER 2022

Post Trade Transparency

Question 1: Do you agree with maintaining the exemption for inter-funds transfers in Article 13?

No Response

Question 2: Do you agree with the new definition of inter-funds transfers?

No Response

Question 3: Do you agree with amending the exemption from post-trade reporting for give-ups and give-ins?

It was agreed that whilst, as a standards body, we do not have a view, it is important to note that it is the view of our members that the clear segregation of this activity is important to transparency. This objective can be achieved equally well using a dedicated flag or by removing these trades from transparency.

Question 4: Do you think guidance to further clarify the types of give-ups and give-ins that can benefit from the exemption from post-trade transparency is required, and, if so, what issues do you think it should cover?

We believe the definitions provided are satisfactory and that no further guidance is necessary.

Question 5: Do you agree with introducing an exemption for inter-affiliate trades?

It was agreed that whilst, as a standards body, we do not have a view, it is important to note that it is the view of our members that the clear segregation of this activity is important to transparency. This objective can be achieved equally well using a dedicated flag or by removing these trades from transparency.

Question 6: Do you agree with our proposed definition of inter-affiliate trades?

'Inter-affiliate transaction' means a transaction between entities within the same group carried out exclusively as part of centralised booking for intra-group risk management purposes.

Whilst the members were generally comfortable with the definition as described, it was felt that use of the term "centralised booking" added potential confusion and it would be recommended that the term be removed from the definition, as follows:

'Inter-affiliate transaction' means a transaction between entities within the same group carried out exclusively for intra-group risk management purposes.

Question 7: Do you agree with the deletion of point d) from Article 13? If not please explain why.

No response

Question 8: Do you agree with the proposal to introduce a deferral for all transactions within scope of Article 13 of RTS 1? If not, please explain why.

It was agreed that whilst, as a standards body, we do not have a view, it is important to note that it is the view of our members that the clear segregation of this activity is important to transparency. These trades, where subject to post-trade transparency, already have a trade flag which allows them to be identified without relying on deferral.

Question 9: Do you agree with our proposals to align the definitions of non-price forming trades in Articles 2, 6 and 13? If not, please explain why.

We are supportive of simplifying post-trade transparency through alignment of definitions within RTS 1.

Question 10: Do you agree with our proposal to amend the definition of benchmark transaction to include transactions that reference to the market closing price? If not, please explain why.

It was noted that the current RTS 1 definition of a benchmark trade is that using a price that is calculated over multiple time instances according to a given benchmark. This proposal, however, introduces a new type of benchmark which is specific to a point in time. This would result in the same flag having different definitions for UK and EU activity which will be confusing to data consumers.

We therefore recommend that should this proposal be adopted, point in time activity should be given its own distinct flag.

Q11: Do you agree with the deletion of the SI related flags "SIZE" and "ILQD" and "RPRI"? If not, please explain why by distinguishing your current use of each flag.

No response.

Question 12: Do you agree with the deletion of the agency cross flag "ACTX", the duplicate trade flag "DUPL" and the algorithmic trade flag "ALGO"? If not, please explain the value these flags offer, how providing practical examples. 47 CP22/12 Annex 2 Financial Conduct Authority Improving Equity Secondary Markets

We do not have an opinion on this matter, other than to point out that through our own analysis, we believe DUPL not to be used by the industry.

Question 13: Do you agree with the proposal of identifying "benchmark", "portfolio" and "contingent" trades with one single flag, "TNCP"? If not, please explain why and set out your preferred approach.

We are concerned with the proposal to consolidate these flags for the following reasons:

1. Loss of granularity, noting different treatment of BENC, PORT and CONT from a perspective of addressable liquidity.
2. Divergence from ESMA definitions (i.e., the same flag meaning different things in different jurisdictions).
3. Increased implementation costs.

Question 14: Do you agree with our proposal to aggregate the three negotiated transactions flags into one single flag, "NETW"? If not, please explain why.

We are concerned with the proposal to consolidate these flags for the following reasons:

1. Loss of granularity, noting different treatment of NLIQ, OILQ and PRIC from a perspective of addressable liquidity.
2. Increased implementation costs including catering for divergence with EU requirements.

Question 15: Are there any other flags that we should consider removing, amending or adding?

Through work undertaken by our Equities Consolidated Tape Working Group, we have identified two other flags that we believe would be beneficial to post-trade transparency:

- A flag to identify negotiated trades above large in scale (to allow them to be distinguishable from 'on book' large in scale trades where venues do not use separate segment MICs) – we proposed 'NTLS' for this.
- Traded potentially reported more than once due to overlapping regulatory reporting rules in different jurisdictions – we proposed 'XBDT' for this.

Question 16: Do our proposals to modify the flags for trade reporting impact your systems for transaction reporting? If yes, could you describe how and what problems maintaining the flags for transaction reporting would cause?

We cannot comment on specific implementation considerations but do want to raise a point regarding the use of RTS 1 trade flags in RTS 22 flags 61 and 63, specifically noting that some of the proposals in this consultation would appear to need to be reflected in RTS 22 should there be a desire to preserve the current level of conformity between the two.

Question 17: Do you agree with the proposed changes to the reporting fields? If not, please explain why.

We are supportive of both separating PNDG into its own field (and hence not using PNDG in what should be a numeric field) as well as the use of ISO 4217 currency codes. We note ESMA's proposal to create a NOAP flag for trades with no applicable price, though we do not believe this to be required in order to identify such trades (being identifiable through an absence of both Price and Price Condition). We would like to point out that this divergence in requirements will raise implementation costs.

To ensure we understand the proposal completely, we believe the intention is to use these two fields as follows:

- Trade with pending price: Price field empty, Price conditions field 'PNDG'
- Trade with no applicable price: Price field empty, Price conditions field empty
- All other trades: Price field populated, Price conditions field empty

Question 18: Are there other changes that you suggest we should make to the fields of reported transactions?

Nothing identified at this time.

Designated Reporting Regime

Question 19: Do you agree with our proposal to create a regime where firms will be able to opt in as designated reporters at an entity level? Please explain your answer.

We will leave the discussion regarding this to our members to opine directly. However, we have some comments relating to design and implementation that we recommend be considered:

Efficient operation of the markets is driven by good data standards and ensuring that there is a single 'golden' source of the data (whether the designation be at legal entity, asset class or sub asset class) is considered vital.

Failure to make this available to the market will embed the current challenges that are experienced with SI designation.

Therefore, we would ask that you consider the following:

- Clear identification of assignment of instruments to asset classes or sub-asset classes if applicable.
- There should be identifiable data source(s) with full coverage.
- The timing of the availability of the data. It is noted that most of our members tend to reset their systems at or around 3am UK time.
- The frequency of the availability of the data to the market, e.g., daily or weekly.

- The ability for Designated Reporters to opt in or out (for example a firm ceasing to trade).
- The required logic for chains of transactions to avoid duplicate reporting. We note we defined a solution for this for SI Reporting as part of our MiFID II analysis.

Due to the importance of 'Golden Source Data', the FIX Trading community created a document to provide the market with an identification of the authoritative sources of data required for MiFID II/MiFIR reporting. This was originally written as part of FIX's MiFID II analysis and is currently being extended globally. We can provide a copy on request.

Question 20: Do you agree that the FCA should maintain the register of designated reporters for firms to determine who reports OTC trades? Please explain your answer.

We have no position on this but, please refer to our comments in question 19 for important considerations regardless of the route taken.

Implementation of changes to post-trade transparency

Question 21: Do you agree with the proposed implementation timetable? If not please explain your answer.

A number of members have noted some implementation considerations that are relevant and would like to take the opportunity to bring to your attention. Firms require significant time to analyse and implement changes and where multiple groups of our members are involved through the trading process, the analysis can not always be carried out concurrently. Our members have specifically noted:

- Changes to reporting formats (and, in particular, trade flags) require changes to relevant technical standards (e.g. MMT, FIX Protocol). Such changes carry a minimum lead time of up to 3 months from the point at which the RTS changes have been finalised.
- In addition, the industry has adopted a working practice of giving 3 months' notice for any changes relating to market data publication (this includes both pre-trade and post-trade transparency).
- Where a change requires changes to market data publication and makes use of industry technical standards (e.g. the proposed changes to the post-trade transparency trade flags), a 6 month lead time would therefore apply for the standards alone.
- The above does not factor in implementation timelines at individual firms, and though some preparatory work may be possible from the point the RTS text is finalized, any detailed planning, analysis and computer system changes cannot typically start until technical standards are finalized.

We note that it is often appropriate to implement changes in a phased manner and suggest that implementation timelines allow for firms to make certain changes ahead of any final deadline. Addition of new trade flags (e.g. PORT, CONT) would fall under this category, whereas implementation of the designated reporter regime would not.

Waivers from pre-trade transparency

Question 22: Do you agree with the proposal to change the definition of the MRMTL to allow trading venues to derive the price from a non-UK venue provided that the price is transparent, robust and offers the best execution result?

No response

Question 23: Do you agree with the proposal to change the definition of the MRMTL for the purpose of the tick size regime?

We have no opinion on the proposal but wish to ensure that the resultant data requirements are simple and unambiguous.

Question 24: Do you agree with the proposal to delegate the decision to set a minimum size threshold for reserve and other orders to trading venues using the OMF waivers? Please explain why.

We have no opinion on the proposal but wish to ensure that the resultant data requirements are simple and unambiguous.

Tick Size

Question 25: Do you agree with the proposal to allow trading venues to adopt the minimum tick size of the primary market located overseas when that tick size is smaller than the one determined based on calculations using data from UK venues? Please explain your views. 48 CP22/12 Annex 2 Financial Conduct Authority Improving Equity Secondary Markets

We have no opinion on the proposal but wish to ensure that the resultant data requirements are simple and unambiguous.

Improving market-wide resilience during outages

Question 26: Do you agree with the above proposals to be included in the FCA/industry guidance for trading venues? If not, please explain why.

We feel it is beyond our remit to comment on trading venue proposals iv) and v). For the remainder, we comment as follows:

Trading venue i) – monitoring & flagging

Guidance for monitoring and the identification/flagging of issues is very important. We recognize that different trading venues have different market models and technology platforms, hence guidance cannot be overly prescriptive. However, we believe that the following key points should be addressed by such guidance, with implementation details left to the venue operators:

First, a clear definition of an 'outage', with our recommendation being an impairment of any aspect of the functionality, performance, availability or resilience of infrastructure involved in any part of the trading process (including participant connectivity, market data, reference data, post-trade feeds and of course the trading platform itself). When an outage is communicated, its impact (in terms of which of these is impacted, and in what way) should be clearly stated. It should be noted that some 'outages' may only become apparent some time after an incident has happened (for example an issue with a post-trade feed that only becomes apparent at the end of the trading day). Outages do not need to happen in real time.

Second, once an 'outage' has been detected, its scope must be clearly identified. For example, if only specific participants or instruments are impacted, this should also form part of any communication (without, in the former case, identifying the participants).

Third, guidance must cater for the possibility that an outage is so severe as to limit the ability for the trading venue to communicate details of the outage electronically.

Trading venue ii) – communication

We have identified a number of requirements for outage communication in terms of:

- The trigger for communication
- The communication mechanism

- The content of messages
- Timing and frequency of non-event driven updates
- Target audience

Triggers for communications would include:

- The identification that the venue is aware of a problem but is not in a position to provide specific details
- The venue has identified the scope and nature of the outage and is able to provide this information to its participants
- The venue has identified the cause and defined a remediation plan
- The venue is communicating how the market will be brought back into a regular trading state (e.g., restarting order book trading with an auction, whether open orders will be purged or not).
- The outage is over and normal business has resumed.

It was also noted that a periodic update should be provided even if there has been no change in status.

It was further suggested that it be made as easy as possible for firms to obtain the full communication history for an outage, e.g., having the full history on a single page when using a website, and through use of a common identifier on electronic messages and in the subject of email communications.

Methods of communication should include:

- Machine-readable messaging, using free and open standards (noting that the FIX Protocol contains some capabilities in this regard, and we are willing to work on producing these standards).
- Human-readable emails, based on similar free and open standards.
- Human-readable content on venue websites, also based on free and open standards.

  The content and frequency of all three media should be the same.

Content should include:

- The identifier for the venue (the more granular of operator or segment MIC as appropriate, noting that venues may operate different market segments on separate technology platforms).
- Status (in line with the 'communication triggers' above).
- Severity (to distinguish between a total failure of the impacted service vs. a detrimental capability).
- Impacted capability (e.g., trading, market data, connectivity, post-trade).
- Scope (in terms of specific instruments, instrument ranges, participants, specific venue features), noting that this must be provided in a manner that does not require access to additional reference data to decode (e.g., 'Instruments on partition 3').
- For market resumption communication, the time at which the market is planned to restart.
- A textual description to provide additional detail, noting this should supplement, not replace, the codified attributes described here. For market resumption communication, this should include supplementary details (e.g., if the market is to restart with an auction, this fact plus the duration of the auction).

Audience

- Outage communications should be made available to anybody (including the public), not just venue participants (it is assumed that this comment refers to mechanisms such as venue websites, and not a requirement that venues provide electronic messaging connectivity to the public).
- It is expected that venue participants may wish to forward electronic outage communication messages to their clients.
- It was noted that venues might need to send messages to each other, particularly where there is some dependency between them (e.g., on market data for reference prices).

Trading venue iii) – playbook

We note that many trading venues have playbooks, and that FESE host a number of their members' playbooks on their website. We also note that a common template is being considered for EU markets, and suggest that this be reviewed and, if possible, used for UK-based venues.

Question 27: Are there other areas we need to consider for the guidance?

We have nothing to add beyond our response to Question 26.

Question 28: Is the current arrangement for an alternative closing price on the primary market appropriate?

No response

Question 29: Is an alternative closing auction needed?

No response

Question 30: Do you agree with the above proposals to be included in the FCA/industry guidance for market participants? If not, please explain why.

We feel it is beyond our remit to comment on market participant proposals ii) and iii). For the remainder, we comment as follows:

Market participants i) – pre-outages

Our only comment is on the first statement regarding the need for market participants to be well-informed about trading venue communication channels and protocols. Given market participants generally connect to many trading venues, having a consistent approach to the structure and content of playbooks, a simple and direct way to access them, and a standardized approach to communications (including the use of free and open standards to facilitate machine-readable electronic communication) are all essential.

Question 31: Are there other areas we need to consider for the guidance?

We have nothing to add beyond our response to Question 30.