EURONEXT

MEMO

MiFID Refit – Euronext Position on Non-Equity Transparency

MiFID II Objectives

1. A key objective of MiFID II was to increase transparency for non-equity securities which Euronext fully supports; however, it is clear from our analysis that the requirements set out in MiFID II to increase transparency for non-equity have not yet achieved their objectives. This is acknowledged by ESMA in its consultation document which states '*the level of pre-trade transparency in non-equity markets remains limited following the application of MiFID II*' and '*the overall level of real-time post-trade transparency appears to be very limited*'.

2. While the reasons differ per asset classes, an overall conclusion is that **the transparency regime for non-equity is, at points, overly complex and at the same time not properly tailored to the different types of instruments.** Therefore, we welcome the review on transparency for non-equity as we believe it is timely to assess the current regulatory framework and suggest more needs to be done to ensure transparency is improved. Trading is generally very fragmented across the EU with a significant amount of trading activity done OTC with extremely limited transparency. We urge ESMA to support initiatives that would shift a significant share of trading to transparent and multilateral trading venues that would benefit the market as a whole and enhance visibility for investors.

3. This paper sets out our main recommendations on improving the transparency regime for non-equity.

Pre-trade transparency regime

4. The pre-trade transparency regime needs to be simplified and made more coherent for the market. Therefore, we **support the proposal to remove the SSTI waiver** and to **recalibrate the methodology to determine LIS thresholds** where appropriate, including the lowering of the LIS threshold for certain security types, such as bonds and financial derivatives.

5. With respect to equity derivatives, we do believe that there are two points where some flexibility could benefit the hedging needs of trading participants:

   - Some flexibility to **lower minimum thresholds in high volatile market conditions** would allow facilitate hedging. We suggest to halve the existing minimum sizes in these cases.

   - Whatever the market conditions**, the liquidity criteria to set the minimum volumes thresholds could be fine-tuned** depending on strike price or maturity. Based on witnessed discrepancies in the distribution of liquidity, we recommend to lower the LIS threshold for deep In-/Out-of-The-Money (Strike price > ±10% of the opening price) and long-dated options (maturity > 12 months).

6. Measures with respect to pre-trade thresholds should be accompanied by **removing the SSTI-concept for the Systematic Internaliser (SI) quoting obligation** and replacing it by a reference to a high percentage of the LIS threshold.

7. We agree with ESMA's proposal to require SIs to make available data free of charge 15 minutes after its publication as it is essential that SI data is available to investors, and that SIs are subject to the same obligations as trading venues.

Post-trade transparency regime

8. We share ESMA's views on the need to create a less complex post-trade transparency regime. While **we agree with the removal of the SSTI deferral, it is important to retain the Large in Scale deferrals** for all non-equity, and the illiquid deferral for bonds.

9. In relation to the time period for deferral, we suggest that if the deferral is for too long, e.g. beyond 2 days, then it is of no use to market participants except for compliance purposes. Therefore it is preferable for the delay period to be shortened for some of the deferrals e.g. the 4 week deferral needs to be shortened considerably.

10. Our recommendation is that there needs to be a less complex regime; however, we do not recommend a full harmonisation across all markets, but rather a more simplified framework.

Liquidity calculation for bonds

11. To enhance transparency, we believe that the **criteria for assessing the liquidity of bonds needs to change** so as to increase the number of bonds that are deemed liquid and therefore subject to the transparency requirements. We are of the view that this is one of the key changes that must be made in order to fundamentally improve transparency in bonds.

12. We also would suggest **further differentiating the types of bonds** for the purpose of the transparency calculations, and exclude bonds that do not trade. In order to better understand the impact of the thresholds included in MiFID II, simulations with different transparency thresholds should be conducted.

13. In addition, a **full assessment of the underlying data should be performed**, and the data adjusted when required (before running new transparency calculations).

14. Lastly, we support **the move to stage 2 for the liquidity assessment of bonds**. However, we think it is only a small step in the direction of increasing transparency for bonds markets, and as referenced above, more fundamental changes need to also be considered. Therefore we would advocate for a broader review of RTS 2 on the methodology used to perform the transparency calculations as we believe this is necessary in order to deliver on the objective of increasing transparency in the bond market.

Data quality for bonds

15. Euronext agrees it is crucial that the quality of data has to improve, and in particular the correct flagging of trades is essential to increase the quality of post-trade transparency.

16. However, in relation to data submitted to the FIRDS/FITRS databases, there are a number of issues that need to be considered further by ESMA in order to improve the data for non-equity. In relation to the data that trading venues are required to submit, there have been numerous issues since these requirements came into force. Certain issues still have not been fully resolved, in particular we would highlight the issues around incorrect assignment of CFIs by national numbering agencies (NNAs), updating CFIs post-listing, and also the fact that some NNAs, mainly non-EU ones, simply

do not assign CFI or FISN codes at all. This gives rise to numerous issues that cannot be resolved by trading venues but significantly impact their ability to comply with the data submission requirements.

17. We urge ESMA to look into this further and work with ANNA (the Association for National Numbering Agencies) on addressing this issue in order to improve the accuracy of bond data.