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CESR
The Committee of European Securities Regulators

Submitted via www.cesr.eu

CESR Technical Advice to the European Commission in the Context of the MiFID Review: Non-equity markets transparency

London, June 4th, 2010

Dear Sirs,

Markit welcomes the publication of CESR's Consultation Paper on its *Technical Advice to the European Commission in the Context of the MiFID Review: Non-equity markets transparency* and we appreciate the opportunity to provide you with our views on this topic.

Markit is a financial information services company with over 1,500 employees in Europe, North America and Asia Pacific. More than 1,500 institutions use our independent services to value financial instruments, manage risk, improve operational efficiency and meet regulatory requirements.

We provide market participants and the public with price transparency on a wide range of financial instruments, including corporate bonds, ABS and CDOs, CDS, and derivatives in other asset classes, with a focus on products that trade in the over-the-counter (OTC) markets. Major market makers and buy-side institutions use Markit's various valuation services to assist them in the process of price discovery and mark-to-market. In addition to our valuation services for non-equity products, Markit owns Markit BOAT, the MiFID-compliant trade reporting platform, and we have gathered extensive experience in the area of pre- and post-trade transparency for European equities.

We feel well positioned to comment on issues related to pre- and post-trade transparency in non-equity markets and we hope you will find our comments helpful.

Executive Summary

Take the specifics of asset classes and products into account

- This consultation deals with a vast range of products across asset classes, characterised by different market structures and varying degrees of liquidity. Whilst most of these products tend to be less actively traded than shares, there should be differentiation both between asset classes and between product sub-segments within those products.

Consolidated and effective pre-trade transparency is available for a number of OTC products

- The provision of bid/offer runs by market makers combined with the availability of a parsing engine can provide effective and consolidated pre-trade transparency for many OTC traded products.
- This form of pre-trade transparency is available mainly to those active institutional market participants that receive bid/offer runs from market makers; it will cover the more liquid product categories such as bonds and CDS, and within those, it will often be limited in significant value to the more liquid names and maturities. Its availability will also vary by the day as well as by the hour of the day, whilst the nature of the quotes will depend on the asset class and product.
- Such pre-trade transparency does not represent executable pricing, but rather indications of the willingness to trade. Given the relative limited liquidity of many of these instruments it is difficult to imagine an enforced price making regime that provides an improved level of transparency.

Measure liquidity on a more granular basis to avoid unintended consequences

- When designing a post-trade transparency regime for OTC traded products, it is critically important to carefully define the scope, delays and caps for reporting in order to avoid a significant negative impact on liquidity. We believe that a proposed regime simply based on trade size can be improved by using a more granular approach of measuring liquidity on a product level.
- Whilst average trading volumes or trade frequency can help to measure liquidity for more actively traded OTC products, the use of proxies such as issuance size and maturity for bonds or observable measures such as bid/offer spreads or the number of market makers might be appropriate for others.
- The more granular MiFID-based approach to measure liquidity for European equities may be appropriate for non-equity products. Further discussions with stakeholders and impact studies should help to decide on an appropriate way of implementing this objective, particularly where there is significant risk of unintended consequences.

Limit reporting to the relevant fields

- The reported fields should reflect the purpose of the post-trade regime, which is to provide transparency of traded prices and volumes. Trade data should be enhanced by a homogeneous use and publication of trade flags and condition codes.
- Reference data fields such as rating or yield are typically provided by market data vendors as enrichment to the trade reports. This constitutes the most efficient way of providing this type of information and is in line with the current cash equities trade reporting practices.

Pre- and Post Trade Transparency in General

Question 1: Existing sources of pre- and post-trade information

Markit operates a number of services that provide pre- and post-trade pricing transparency respectively for cash and derivatives products across the various asset classes. Please find below a short overview of those services that seem the most relevant for the purposes of your consultation.

Post-Trade Transparency

Markit offers multi-contributor valuation services for a variety of financial products. Our valuation services are based on end-of-day book-of-record contributions from multiple market makers and other contributors to which we apply a number of cleansing algorithms. Whilst these valuation services are available on a non-discriminatory basis at a reasonable commercial cost to all market participants as well as to all other interested parties, we also provide a range of information to the public and to various industry initiatives free of charge.

- Corporate Bonds

    - Markit's valuation service for bonds currently covers more than 3,300 European corporate bonds, whilst our evaluated bond valuation service, which is based on a number of inputs including transactional prices, provides valuations for more than 13,000 European corporate, financial, and covered bonds. Furthermore, our Markit iBoxx bond indices provide asset managers with benchmark indices and bond valuations on over 3,200 EUR and GBP denominated bonds.

    - Given our role as a leading provider of independent valuation services, we also contribute a significant number of our bond and bond index valuations free of charge to industry initiatives such as www.investinginbondseurope.org that are designed to increase the level of transparency in the marketplace.

- ABS and CDOs

    - Markit has been offering a valuation service for European ABS and CDOs since 2005. We currently provide daily valuations for more than 4,300 structured finance bonds based on end-of-day book-of-record contributions from all relevant market makers.

    - Similar to corporate bonds, we also contribute a significant number of our ABS and CDO valuations free of charge to industry initiatives designed to increase the level of pricing transparency for structured finance products.

- Credit Default Swaps (CDS)

    - Our CDS valuation service started in 2002. We currently provide daily end-of-day valuations and spreads across the relevant maturities, currencies, and documentation clauses for more than 3,100 Reference Entity tiers globally.

    - In addition we also operate the CDS transparency webpage www.markit.com/cds that displays CDS spread levels for the most liquid single names and CDS indices free of charge.

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Pre-Trade Transparency

Markit operates Markit Quotes, one of the parsing engines that are mentioned in your consultation as a source of pre-trade transparency.

Parsing services enable their users to view bid and offer quotes for various OTC traded instruments, which typically includes CDS, bonds, structured finance products, and leveraged loans. The services are based on clients forwarding the pre-trade pricing information that they receive from the market makers through various communication channels. The content of the messages is then analysed and instruments identified in order to then re-assemble bids and offers in the most user friendly fashion. The displayed pricing information is similar to an open order book for exchange traded products, where bids and offers are shown in a consolidated fashion, although many of the quotes for OTC-traded products have more of an indicative nature.

Every day we currently receive, parse, and display to Markit Quotes users an average of:

- Around 40,000 unique quotes for more than 6,500 European bonds,
- More than 20,000 unique quotes for 500 European CDS names, and
- Around 300 quotes for approximately 70 European structured finance products.

Corporate Bonds

Question 3: In your view, would it be more appropriate, in certain circumstances, to consider certain covered bonds as structured finance products rather than corporate bonds for transparency purposes?

Although the collateral profiles of covered bonds might have similarities with those of some structured finance products, the structure, nature, and investor base of these bonds are largely different. A differing structure not only affects the payment schedule which will typically be a simple bullet for covered bonds, but also the credit quality and the credit enhancement. Given their features, investors sometimes use covered bonds as an alternative to government bonds and would spend much less time on analysing their collateral pool or their structural features.

In the context of pre- and post-trade transparency, covered bonds should likely not be treated as structured finance products but more closely viewed as "corporate bonds".

Pre-Trade Transparency (Questions 4 – 8)

Markit Quotes receives, parses, and displays on average 40,000 unique quotes for more than 6,500 European bonds every day. Markit Quotes typically displays information on the bond, the bid and/or offer price, the counterparty that provided it, the time the quote was sent, and, where available, the notional amount the quote is based upon. On that basis, it appears that the regular collection of dealer runs for actively traded European bonds, coupled with the availability of parsing services, can provide pre-trade information for these bonds to market participants in an efficient and consolidated fashion.

The ability to make good use of a parsing service depends on the extent to which the user actually receives pricing runs from the market makers as well as on their quality. The following points are therefore relevant:

- Active institutional market participants will normally have access to the majority of bond pricing runs from market makers, though this may not be equally true for all smaller institutions or retail clients.

- Regular quotes are provided for the more actively traded bonds while they are rarely sent for highly illiquid ones.

- The availability of quotes will vary from day to day and will also depend on the hour of the day. For example, a much higher number of quotes will be seen on active days than on typically quiet days, e.g. in mid December. Also, market makers tend to send their regular comprehensive pricing runs at the beginning of the European and the US trading session, while the frequency of quotes sent in between these times is lower.

- The quality and nature of the quotes that are provided by market makers will vary both by product and by counterparty. Whilst the quotes that are sent will mostly be labelled as "indicative", many of them are provided on the general understanding that they could be traded upon within a certain time period after the quote was sent.

Post-Trade Transparency

Question 9: Do you think that notional value would be a meaningful piece of information to be made accessible to market participants? Is there any other information that would be relevant to the market?

A useful proxy for the fields that should be considered for reporting as part of any post-trade transparency regime for European bonds are those required for European equities, and would consist of:

- Bond identifier
- Price
- Notional amount
- Date and time of the transaction

We do not believe that the cash amount of the transaction, the yield or the rating should be reported as part of a post-trade transparency regime. None of these items forms part of the trade and all of them are available through other means or can be derived, and their reporting would significantly increase the cost of reporting as well as the potential for error.

It is worth noting that this kind of information tends to be treated as reference data and as such is typically provided by market data vendors as enrichment to the trade report published by the publication arrangement before it is displayed to the public. This mechanism is most efficient as it not only ensures consistency but also the accurate and timely management of corporate actions and other updates to static data. It also avoids the need for reference data redistribution licences by each broker and publication arrangement, and is consistent with the current equities MiFID regime and its supporting operations.

Whilst we believe that the reporting of the notional amount of the bond transaction may be of value, we do not see value in reporting a cash value. For example, if a transaction in €1mm notional of a bond takes place at a price of 102.50, the notional value of €1mm should be reported in addition to the price of 102.50. In contrast, we do not think that reporting of the cash equivalent amount of €1.025mm, or of let's say €1.037mm if one included the accrued interest, would be useful.

Finally, we believe that, through the implementation of appropriate reporting standards, addressable liquidity can be separated from other transactions. Further discussions with all stakeholders in the European bond markets will therefore be required before any regime is implemented to determine what constitutes addressable liquidity and how it could be identified.

Questions 10 and 11: What is your view on CESR's initial proposal for the calibration of a post-trade transparency regime for bonds? Are there any other criteria that should be taken into account?

Simplicity is certainly a benefit of a regime that uses just trade size to create buckets for reporting purposes, though we believe it may create some drawbacks and unintended consequences.

The proposed regime appears to fail to acknowledge that products that are part of the same broad category, such as "corporate bonds", can display vastly different liquidity characteristics and typical trading sizes. As these factors are closely related to the time required for market makers to hedge positions that they enter into, neglecting individual product liquidity may reduce the willingness of market makers to take risk and provide liquidity, particularly in the less liquid segments of the market such as high yield bonds.

A post-trade transparency regime should consider individual product liquidity in a more granular fashion when grouping products into buckets for reporting purposes. We believe that there are a number of ways this could be achieved for European bonds:

- For corporate bonds, there should be distinction between Investment Grade and High Yield bonds. The same applies for different currencies, as the typical trading size in £-denominated bonds will be lower than the one in the €-denominated market.

- In addition, liquidity can be taken into account on an individual product level. This would be consistent with the MiFID post-trade transparency regime for European equities where the size of the individual trade in relation to the average turnover of these shares will determine the time delay of the reporting. Whilst we agree that given their typically low trade frequency the concept of average trading volumes might not be appropriate for all OTC traded non-equity products, we believe that corporate bonds might be an area where the use of average trading volumes and/or trade frequency might be applicable.

- In addition or as an alternative, liquidity proxies such as the notional issue amount of the bond may be considered in a manner similar to the approach chosen in other areas such as the construction of bond indices. Also, directly observed liquidity indicators such as bid/offer spreads and/or the number of market makers to measure liquidity may be used on an individual product level.

The regime for European equities under MFID does consider relative liquidity and we believe this should be the case in the area of non-equity products as well.

V. STRUCTURED FINANCE PRODUCTS (ABS AND CDOS)

Questions 13 to 16, 20 and 21: On the basis of your experience, have you perceived a lack of pre-trade transparency in terms of access to and the content of pre-trade information available in the market for ABS? Is pre-trade transparency information readily available to all potential market participants? Is pre-trade information currently available in the ABS market consolidated and effectively disseminated to those market participants who make use of it? Which potential benefits and drawbacks of a pre-trade transparency regime do you see for the ABS market? If you see drawbacks, please explain how these might be mitigated.

Parsing services such as Markit Quotes are also available for structured finance products to all interested institutions on a non-discriminatory basis for the purposes of price discovery and mark-to-market. With both dealer quotes and Bids-wanted-in-Competition (BWIC) responses for structured products feeding into the parsed data, we believe that users of parsing services can view pre-trade bid/offer pricing indications for ABS in a fairly efficient and consolidated fashion. However, whilst a sizeable number of quotes are provided for US ABS (more than 2,500 quotes for more than 600 instruments on average per day) the coverage for European structured finance bonds is more limited with an average of around 300 unique quotes referencing approximately 70 instruments per day.

We believe the following observations are worth consideration:

- A parsing engine for structured finance products will be an effective pre-trade price discovery and consolidation tool for those users that receive the majority of pricing runs from the market makers. This should be given for those institutional market participants that are active in structured finance products, whilst it might not be the case for smaller institutions or retail investors.

- As European Structured Finance bonds generally do not trade frequently, the amount of pricing data available will generally be rather limited compared to more liquid products.

- Finally, given their less liquid nature, it is less likely for quotes on structured finance products to actually be "live" and "tradable". They are more accurately viewed as "good indications" that are sent with the objective to generate client feedback and interest.

In addition to parsed pricing information, some less specific pre-trade information is also available via several vendors that offer pricing and valuation services, including evaluated pricing, multi-contributor valuations, and cash-flow models, as well as ratings services, deal structures being outlined in deal offering circulars, and the availability of ongoing deal, bond and collateral performance information. Much of the data taken in by various vendors is publicly available, though in inconsistent formats due to the sheer number of varied, multi-national market participants. Value is added due to the format in which it is presented and complexity of aggregation. The aggregation and consolidation of data is much more difficult in this asset class due to the complexity of deals and the amount of detail that is needed to be provided on each. Markit, along with sell-side and buy-side participants, puts a great deal of effort into normalising and storing such information consistently for greater ease of use.

Question 17: Which key components should a pre-trade transparency framework for ABS have? Which pre-trade information should be disclosed?

A pre-trade transparency framework for Structured Finance bonds should enable investors to assess each of the key attributes of a Structured Finance transaction. These are principally the collateral, the deal structure, the involved parties and the valuation. Each of these areas requires sufficient detail of available information to be able to form an opinion as to the merits and risk they present. For example, collateral composition and performance are vital to gain an understanding of likely future performance. Stratifications of portfolios by loan type, geography, delinquencies, losses, and borrower characteristics are all important pieces of information required to be assessed prior to trading.

Understanding the appropriate valuation of an ABS transaction requires all of the above background information and then involves a relative assessment of one deal compared to another based on observable valuation points. Investors will typically run numerous scenarios to determine possible returns from an ABS and then discount these cash-flows based upon the comparable prices of related securities as well of more general credit market conditions, funding costs and capital and liquidity requirements.

In general we feel that defining the framework for a complete pre-trade transparency regime is a complex exercise in its own right and we would welcome the opportunity to expand our thoughts further if this would be of benefit.

Questions 18, 19 and 22: On the basis of your experience, have you perceived a lack of pre-trade transparency in terms of access to and the content of pre-trade information available in the market for CDOs? Is pre-trade transparency information readily available to all potential market participants? Which key components should a pre-trade transparency framework for CDOs have? Which pre-trade information should be disclosed?

CDO information is markedly more difficult to gain access to unless one happens to be an actual investor in the deal. Third party vendors have limited access to data in this space for this reason, and we see a clear difference between how much data is made available on average between CDOs and generic ABS. Pre-trade transparency information is not always available to data vendors.

Questions 23 and 24: Which of these criteria to determine the first phase of the phased approach do you consider most relevant? Are there other criteria which should be taken into account? Do you have specific ideas on which kind of ABS and which kind of CDOs should be covered by the first phase?

We believe that only the most liquid structured finance bonds would be appropriate for any initial phase of a post-trade transparency regime. The criteria to determine which products should be eligible for the initial stage should be largely indicative of their liquidity, and the following characteristics are relevant as liquidity proxies:

- Tranche issuance size
- Rating
- Asset class
- Maturity

Given their relative liquidity, we would expect bonds such as AAA-rated UK RMBS to be amongst those that could be used to trial a post-trade transparency regime. In contrast, we are of the view that CDOs in general should be excluded from post-trade transparency given their low liquidity and lack of standardisation. However, we would refer to our previous comments with regard to greater granularity of post-trade reporting and would suggest that, with more liquidity-based disclosure rules, the need to prioritise by asset class should become redundant.

Question 25: Do you consider that it would be appropriate to use the same framework for post trade transparency for corporate bonds and structured finance products?

A post-trade transparency regime should take into account the liquidity of the respective products when defining its scope and should use delays and caps for reporting to mitigate any negative impact that additional transparency can have on liquidity. We think that such a framework is appropriate for most products, including corporate bonds and structured finance products.

Despite some similarities between corporate bonds and structured finance instruments such as standardised identifiers and certain static bond information being made available, we believe that the two product groups are intrinsically quite different and should therefore be treated as such under any potential post-trade transparency regime. Specifics with respect to the reporting of price and volume availability as well as reporting delays, and on which tranches and asset classes it is made available, should be considered separately per asset class and for each relevant subset.

The proposed post-trade transparency regime that defines delays and caps for reporting based simply on the transaction size could negatively impact liquidity significantly. The regime could be improved by using a more granular approach which would take the liquidity of individual products within each segment into account. Given that such a regime has been implemented for European equities, we do not see a valid reason why this should not be equally the case for non-equities products.

Question 26: If so, do you agree that the same calibration parameters should be used for structured finance products as for corporate bonds? Or do you think different size and time thresholds should apply? Please indicate whether your response is relevant for both ABS and CDOs.

Different thresholds for post-trade reporting purposes should apply not only when comparing structured finance to corporate bonds, but also when comparing one type of structured product to another. Note for example that a Dutch RMBS is very different to its Spanish corollary, while a UK Non-Conforming RMBS is very different to its Buy-to-Let or Prime counterparts.

In tranched products, varying bond issuance sizes and structures within the same deal are relevant. AAA-rated bonds are mostly larger tranches though there may be several different AAA-notes within the same deal, while most lower-rated bonds will host smaller tranche sizes that will also require a different threshold. It might make sense to use a threshold linked to the trading frequency in addition to the tranche issuance size.

The proposed post-trade transparency regime that defines delays and caps for reporting based simply on the transaction size has the potential to negatively impact liquidity. The regime could be significantly improved by using a more granular approach which takes into account the liquidity of individual products within each segment. Given that such a regime has been implemented for European equities, we do not see any reason why this should not be equally the case in the area of non-equities products.

Credit Default Swaps (CDS)

Questions 27 - 31: Existing Pre-Trade Transparency for CDS

The Markit Quotes parsing service for European CDS currently receives on average more than 20,000 unique quotes referencing around 500 European names for more than 1,900 unique combinations of maturities, currencies, or documentation clauses every day. We are of the opinion that the regular collection of dealer runs, coupled with the existence of several parsing services that display these quotes to their users, can provide pre-trade information for all actively traded and relevant CDS to active market participants both in an efficient and consolidated fashion.

Similar issues to the ones mentioned for corporate bonds should be considered also for CDS:

- Quotes parsing services are effective price discovery tools mainly for those institutional investors that are active market participants and therefore receive a significant set of quotes runs from market makers,

- The coverage and accuracy of pre-trade transparency in CDS ultimately depends on the number and the quality of the quotes that are being sent by the market makers, and

- Quotes runs for CDS will typically only cover the more liquid names for the most liquid maturities. On average, currently 75% of the CDS prices that we receive in Markit Quotes will reference the most liquid 5 year maturity while only 25% are provided across all other maturities combined.

Post Trade Transparency for CDS

Questions 32 and 33: What should be the potential calibration parameters for sovereign, index, and single name CDS?

As mentioned above, the proposed post-trade transparency regime that distinguishes only by trade size within one asset class looks attractive at the surface given its simplicity. However, no matter what the actual reporting requirements, delays, and caps will be, we believe that the liquidity of specific products should be taken into account in a more granular fashion in order to avoid significant negative unintended consequences and limit any potential negative impact on liquidity.

We agree that the average transaction size of a CDS will often be correlated with its liquidity and could therefore be used as one factor to distinguish between products of different liquidity. For both sovereign and index CDS for example, the typical ticket size will surpass those of single name CDS, a difference which should be recognised by using different thresholds and delays for these three segments of the CDS market. However, any potential post-trade transparency regime needs to be more granular than that and should recognise differences in liquidity on an individual product level in order to reduce any potential negative impact on liquidity:

- In the area of single name CDS, the typical transaction size for high yield names will typically be significantly smaller than that for High Grade names. It seems appropriate to recognise this fundamental difference in liquidity through the use of different thresholds and/or the delays for any post-trade transparency regime.

- Within the subsectors of the CDS market, liquidity of individual names could be measured based on the average trading volumes over a certain time period based on DTCC/MarkitSERV statistics, similar to what is currently being applied for European equities.

- Finally, any post-trade transparency regime for CDS should also take differences between maturities into account. From a liquidity provider's perspective, the risk of entering into a transaction with a 10 year maturity is a multiple of that of entering into a trade with a 1 year maturity with equal notional in the same name. Whilst it might not be feasible to recognise the exact differences in risk between different maturities, some proxies should be used in order to reflect this fact.

In addition, we do have some comments related to the information that you propose to be published as part of a post-trade transparency regime for CDS:

- It is not entirely clear what meaning and relevance the "Issuer Name" has for CDS. In our view, the most relevant information to report is the Reference Entity. Whilst one could potentially also report the Reference Obligation, we believe that it would not add significant value.

- The "Rating" is neither part of the trade nor does it seem to be a particularly useful piece of information in this context. Reporting of such an additional field would also cause additional work and increase the potential for errors whilst we would not expect it to create any significant additional value. Such information tends to be treated as reference data and as such it is typically provided by Market Data Vendors as enrichment to the trade report published by the publication arrangement before it is displayed to the public. This mechanism is most efficient as it not only ensures consistency but also the accurate and timely management of corporate actions and other updates to static data. It also avoids the need for reference data redistribution licences by each broker and publication arrangement, and, last but not least, would be consistent with the current equities MiFID regime and its supporting operations.

- Finally similar to post-trade reporting for equities, addressable liquidity should be separated from other transactions such as compression, curve trades, index arbitrage, or delta exchanges. Further discussions with all stakeholders will be required to determine what constitutes addressable liquidity and how it could be identified.

Other OTC Derivatives

Existing pre-trade transparency (Questions 34-38)

OTC derivatives in other asset classes are characterised by the fact that they exist in an almost infinite number of variations and the trade frequency for the majority of each uniquely defined product is very low. For these reasons, quotes type parsing engines have not yet been successfully applied to OTC derivatives beyond CDS.

This issue would equally apply to any other organised way of increasing pre-trade transparency for non-credit OTC derivatives, i.e. it would be impossible to determine for what set of instruments out of an almost infinite number of variations for which to create pre-trade transparency and how this could be achieved.

Question 42: Which potential benefits and drawbacks of a post-trade transparency regime for a) interest rate derivatives, b) equity derivatives, c) commodity derivatives and d) FOREX derivatives do you see? If you see drawbacks, please explain how these might be mitigated.

Given the extremely large number of variations of OTC derivative products that exist, not only in the different asset classes, but also for the different product groups within those, the publication of any post-trade information will generally have limited value for most of them. This is largely based on the following challenges:

- To clearly identify what OTC derivatives product has actually been traded and make sense of the traded price, one would need access to a large number of transaction details, with a level of detail that is likely to surpass what could be justified from a confidentiality perspective, what is technically feasible for reporting entities, and digestible by recipients of the information.

- Even if the issues around the amount of detail of the reported transactions could be addressed in a sensible fashion, the specific product that has traded will in most cases not match the products that other market participants will either hold or would be interested in trading.

In addition to these practical challenges, there is a trade off between the degree of post-trade transparency and efficient price formation, market functioning, and liquidity, a risk that is more pronounced for less liquid products such as OTC derivatives.

Question 43: Which are the key components (e.g. qualitative or quantitative criteria) which should be taken into consideration when designing such a post-trade transparency framework?

Whilst we agree that the clearing eligibility of OTC derivatives depends on the level of their standardisation and liquidity, we do not think that clearing eligibility should be the major factor that is used to determine the scope of a post-trade transparency regime. We believe that there are a number of reasons why optimising the scope of any post-trade transparency regime separately from the scope of the clearing requirement would be beneficial:

- In many instances the use of clearing eligibility to define the scope for post-trade transparency will result in a scope that is too wide and may harm liquidity. For example, most plain-vanilla interest rate derivatives can be centrally cleared, while almost all of these cleared trades will differ in some of their details. For interest rate derivatives, one should therefore take extra care to ensure that the anonymity of counterparties is secured, which will probably result in a scope for post-trade transparency that is smaller than the one for clearing.

- In contrast, for CDS, given the name specific risk, the smaller number of market participants, and lower liquidity, it is possible that a portion of the single name market might not be readily clearable. In addition, for CDS referencing sovereigns or market makers, their name specific characteristics might prevent these CDS from being offered for central clearing despite being liquid. It is for these groups of CDS names for example that post-trade transparency might be appropriate despite the fact that they might not be centrally clearable.

These examples highlight that it might make sense for the scope of any post-trade transparency regime to be optimised independently from the scope for clearing. We would recommend designing any post-trade transparency regime based on the following factors:

- Standardisation and liquidity of the asset class and the specific product

- Size of the trade, or, to be more exact, the risk of the trade, which will be based on a combination of both size and maturity of the transaction

- Secure the anonymity of counterparties to a transaction

- Take the potential impact of transparency on liquidity into account, e.g. through conducting impact studies, and determine how potential unintended consequences can be avoided

Question 44: Do you think that a post-transparency regime could have some additional valuable externalities in terms of valuation, risk measurement and management, comparability and other uses in price discovering process on related underlying reference instruments?

We are of the opinion that, given the heterogeneity of OTC derivatives products, the usefulness of publishing any transactional details may at best have some limited value. This view is based on the following reasons:

- In contrast to fungible products such as bonds where an ISIN number will be sufficient to clearly identify the instrument, for OTC derivatives one needs to have access to a potentially very large number of trade details in order to truly understand what product has actually traded. Just knowing that it was a "5 year interest rate swap" will be of limited value if these products trade in a very large number of variations, all at different prices.

- For OTC derivatives transactions, the credit quality of the counterparty will have an impact on pricing. The same OTC derivative product can easily trade at very different prices depending on the counterparty of the trade.

- Finally, there is a distinction between addressable liquidity and those transactions that are generated on the back of other activities, such as compression, option exercises, etc. Discussions with stakeholders and the creation of harmonised standards should be required in this respect before any post-trade transparency requirements are introduced.

Once all of the above issues have been understood and addressed, a transparency regime will be able to be developed. Even then, however, the nature of the OTC market is that the specific OTC product traded will rarely match the details of the products that market participants have exposure to and want to value.

The need to harmonise reporting requirements

Following the implementation of the MiFID post-trade transparency requirements, European equity data has been described as inaccurate, unreliable and not facilitating consolidation. This experience has shown that the aggregation of data without a single common denominator is unlikely to create useful and meaningful transparency.

A lot of work is currently under way by regulators and market participants alike to enhance the quality of post-trade data for European equities, to then consolidate it in order to create useful transparency to both institutional and retail investors. This extends from establishing reference data standards which would ensure correct price and volume publication, to implementing trade flags and prescribing use cases on trade reporting scenarios.

When calibrating the extension of MiFID to other asset classes, one should therefore consider the implementation of consistent, unambiguous and uncomplicated standards for reporting from the beginning. To ensure success of any additional transparency requirements at the outset, principles should be established in dialogue with all stakeholders and should be flexible enough to evolve with future market change.

We hope that are comments are useful for you. Please do not hesitate to contact us if you require any additional information or if you want to discuss.

Kind regards

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