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European Securities and Markets Authority
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By online submission

1st August 2014

Dear Rodrigo,

ESMA Consultation Paper and Discussion Paper on MiFID II/MiFIR (Ref: ESMA /214/549, ESMA/2014/548 – 22nd May 2014)

Tradeweb Europe Limited ("Tradeweb") welcomes this opportunity to comment on the discussion and consultation papers, and to provide input to ESMA's work in this regard.

Since 1998, the global Tradeweb group has offered an electronic trading system for institutional fixed income and derivative investors. Tradeweb has been authorised and regulated by the UK FCA as the operator of an MTF since the implementation of MiFID 1. Our system has played an important role in providing greater transparency, improving efficiency, and reducing risk in the trading of fixed income securities, derivatives and ETFs. In this regard, we are supportive of the policy aims of MiFID II/MiFIR to encourage trading in these instruments to take place on organised venues subject to appropriate transparency, and to meet the G20 commitment that all standardised OTC derivatives contracts should be traded on exchanges or electronic platforms, where appropriate.

With our background and experience in providing regulated electronic trading venues to market professionals, Tradeweb believes that it can provide ESMA with a valuable perspective on the proposed regulatory measures. We have provided our responses to the detailed questions in the Consultation Paper and Discussion Paper, but also welcome the opportunity to make the following thematic comments:

Flexibility

The new MiFIR transparency regime represents a significant change for European fixed income, derivative and ETF markets, and encompasses a number of interconnected factors, which must be considered as a whole, in particular, the liquidity determination and the calibration of the associated size thresholds. Where these thresholds are set will be critical to the functioning of the new regime and whether an appropriate balance has been struck between transparency and liquidity. We consider that allowing greater flexibility in trading protocols will mitigate some of the risk associated with where the exact thresholds are set.

The nature of the financial instrument being traded and the type of market participants will drive the decision about the most appropriate trading system to use, and we operate a number of trading protocols that seek to meet these needs. We fully support a level playing field approach, although this should not mandate a one-size fits all outcome; there should be appropriate calibration to allow a range of trading systems to operate. We would be concerned if overly prescriptive descriptions of the different types of trading systems hinder the ability of venues to offer new functionalities within those systems to meet the specific needs of users. Where consistent with the regulations, competition, as a driver of efficiency, should be fostered. We would also be concerned if an overly prescriptive approach inadvertently created loopholes or the opportunity for arbitrage.

Request-driven systems exist to enable an efficient market in instruments where trading is infrequent, episodic, and/or at size and so ill-suited to an order-driven environment. We have some concerns about the proposed information that should be made public in RFQ systems below the size specific to the instrument, and so have set out some potential alternatives which we believe would provide more useful pre-trade transparency information to market participants, consistent with the requirements, and would alleviate the issue that we have identified. We would note that this concern is also relevant for ETFs. At present, the majority of trading volume in ETFs takes place outside of exchanges. We operate an RFQ system to facilitate electronic, organised trading for ETFs in institutional size. However, ETFs fall within the MiFID II/MiFIR regime for equity and equity-like instruments and so do not appear to qualify for the non-equities waiver for RFQ systems.

More broadly, given the scope of the changes under MiFID II/MiFIR, we consider there may be merit in setting the thresholds with a narrower remit for the first year in order that the functioning of the regime can be reviewed after, for example, one year, with a clear aim to widen the remit if there has been no detrimental impact on liquidity and efficient market functioning. We would be very happy to provide additional data about trading activity on our venue to the extent that this supplements the data that ESMA currently has available and is useful in the calibration of the thresholds.

Level playing field

We fully support the aim of ensuring a level playing field between trading venues and the wider market, and that like activities should be regulated in a similar way. In this regard, we support an approach that takes into account the type of trading system being operated rather than whether the operator is an RM, MTF or OTF. We do, however, consider that there may still be some potential for arbitrage in certain cases. For example, as the operator of an electronic platform, we are able to make public pre- and post-trade transparency information instantaneously. Whilst we appreciate that certain manual processes will take longer, we would be concerned if backstop delays are used routinely to delay the publication of transparency information, and believe that greater automation of processes should be the ultimate goal.

Proportionality

Given the scope of MiFID financial instruments and the range of trading systems covered by the rules, we appreciate it is a difficult balancing act between having sufficiently granular rules and ensuring those rules are appropriate in all cases. Generally, we would note that a number of requirements are more relevant to order-driven systems and the types of risks that might arise in those systems. Request-driven systems do not lend themselves to the type of high frequency or latency sensitive trading issues that may be more common in order-driven environments, and so we would urge ESMA to ensure that the framing and implementation of these rules takes into account these differences.

If you have any questions concerning this letter or indeed our responses to the questions, please feel free to contact me, Simon Maisey (Simon.Maisey@tradeweb.com / +44 (0)20 7776 3265) or Anna Westbury (Anna.Westbury@tradeweb.com / +44 (0)20 7776 3273). We welcome the opportunity to discuss these issues further with ESMA staff and members of the ESMA working groups.

Yours sincerely,

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