ECB Bond Market Contact Group

Update on the impact of MiFID II/R on EU Bond Markets

Prepared for the ECB BMCG Meeting 9 October 2018

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Summary Observations:

- **Transparency**: limited impact of new market data on EU bond market liquidity observed *so far*.
- **Execution Quality Report**: limited use of new execution report data observed *so far*.
- Slight execution channel shift from voice to electronic for Bonds, driven by embedded incentives within MiFID II reinforcing longstanding trend.
- Requirements largely fully implemented. Processes, infrastructure, and re-allocation of resources expected to evolve in response to MiFID II changes over time.

MiFID II Transparency & Best Execution Report Data Overview:

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<th><strong>MiFID II Goals</strong></th>
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<td><strong>BEST EX DATA</strong></td>
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<td>Compare execution quality across trading venues, systematic internalisers, and liquidity providers.</td>
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<th><strong>Challenges Observed to Date</strong></th>
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<td><strong>TRANSPARENCY DATA</strong></td>
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<td>Improved transparency to:</td>
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<td>- aid price discovery process.</td>
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<td>- enhance liquidity.</td>
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<td>- create competitive level playing field for market participants.</td>
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- Data fragmentation and lack of consolidated tape provider.  
- Complexity of publication deferral regime.  
- Notable fees for access to real-time market data.  
- Underlying reference data challenges. Data sharing exercises not fully developed.  
- Cross border nature of OTC markets and application across regions.  
- Wide variety of publication formats and styles for RTS 27 "Execution Quality" report.  
- Huge quantity of complex data published.  
- Varying levels of data consistency and quality across similar execution venues.  

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Extensive resource and data consumption exercise to overcome current challenges and extract value from Transparency and Execution Report Data

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1 = Per MiFID II/R RTS 2 and RTS 27 Recital
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Deeper Dive into MiFID II Transparency Data

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Illustrative Example of Observed Challenges of MiFID II Bond Market Data:

1. Product classification
   - Hellenic Republic 3% Feb 2040 - Liquid
   - 10yr German Bund - Iliquid

2. Publication Fragmentation
   - Tradeweb APA
   - NEX APA
   - Bloomberg APA
   - Nasdaq APA
   - TradeECHO APA
   - Trax APA
   - BME APA
   - Deutsche Borse APA

3. Publication deferral differences across jurisdictions
   - Trade details published T+2 days under ‘standard deferral regime’
   - Full Trade Details Published T+4 weeks under ‘enhanced deferral regime’

4. Data quality anomalies for ESMA EU-wide bond market data
   - 5yr Liquid Gilt has no EU wide volume or turnover
   - Italy CCT Dec 2022 has highest turnover in EU

Complexity will take time to navigate. Infrastructure and mechanisms to access and interpret the data take time to bed in

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1 – ISIN = GR0138012787. Source of product classification: ESMA FITRS (Financial Instruments Transparency System) Database; 2 – ISIN = DE0001102440 Source: ESMA FITRS. 3 – per Data Reporting Service Providers in ESMA’s register 4 – supplementary deferral regime can differ across NCA’s. FIX RTS 2 Tree illustrates: https://www.fixtrading.org/packages/rts2/; 5 – Source: ESMA SI Calculations, ISIN = GB00BD0PCK97, ISIN = IT0005137614
Overcoming Challenges and Future Expectations:

Usability and quality of new market data generally expected to improve over time. Usability will be aided by the following:

- CTP (Consolidated Tape Provider) and/or complete APA aggregator to reduce fragmentation.
- Competition reducing market data costs.
- Industry solutions emerge to current reporting challenges – e.g. SI registry database.
- Improved understanding of reporting regimes and data publication.

Additional key influencing items on usefulness of MiFID II market data:

- Brexit deal and application of MiFID II in the UK vs EU-27.
- Appropriate calibration of future “liquidity” and size (LIS, SSTI) thresholds.
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