



**ICSA**

INTERNATIONAL COUNCIL of SECURITIES ASSOCIATIONS

## IOSCO CONSULTATION

### *Regulatory Reporting and Public Transparency in the Secondary Corporate Bond Markets*



ICSA is the global organization of securities industry associations. Founded in 1988, ICSA provides a forum for member associations to understand developments, exchange views, and collaborate with authorities and regulators for better global capital markets.

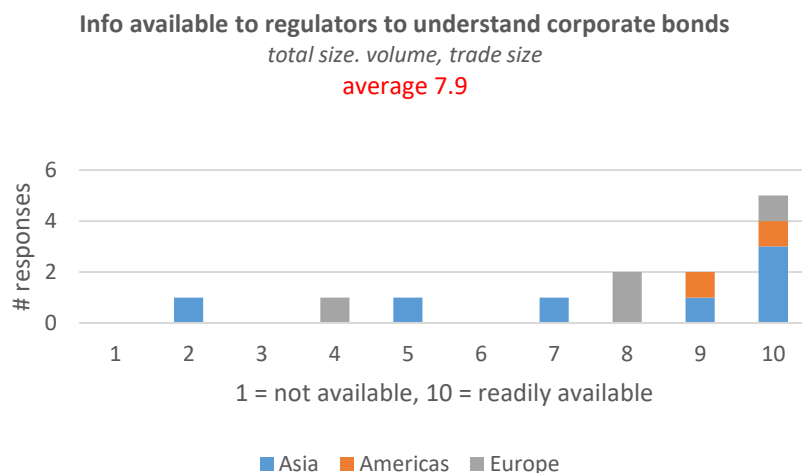
([www.icsa.global](http://www.icsa.global)).

In September 2017, ICSA surveyed its global membership using questions based on the seven recommendations in the IOSCO consultation report.

ICSA's diversity in terms of geography, market types and sizes, and economies is reflected in the broad range of responses. European input is focused on the transition to MiFID II.

#### 1) Information available to regulatory authorities to understand corporate bond markets

##### a) To what extent is current and accurate information available on your total corporate bond market?

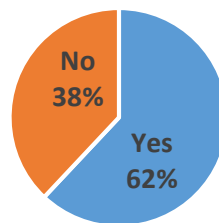


Members are basically confident that regulators have access to current and accurate information (total size, volume, trade size, bond type, OTC vs. exchange traded) on corporate bond markets

One large association observed that information is available to regulators and institutional participants from various sources (including dealer banks), but more challenging for retail to access and aggregate.

b) Are initiatives underway to provide more information on your total bond market?

Are initiatives underway to provide more information on your total corporate bond market?



MiFID II introduces CTP's (Consolidated Tape Providers), although they are not scheduled to be available for bonds until 2019. In the meantime, APA's (Approved Publication Arrangement) will publish their own trade data when MiFID II goes live. The CTP will eventually consolidate this data into one source, but so far no CTP providers have been announced.

## 2) Regulator access to frameworks/methodologies of regulatory reporting and transparency in other jurisdictions

To what extent do regulators in other jurisdictions have access to the framework and methodology of regulatory reporting and transparency in your jurisdiction?

Some members felt that this was a question best addressed by regulators.

In **Europe**, much of the data produced under MiFID II will be publicly available and under what is hopefully a common framework (discussions are still taking place regarding the deferral regimes in each jurisdiction).

In **Turkey**, the framework and methodology of regulatory reporting and transparency in Turkey are readily available to the international community both in English and Turkish.

**Canada** has implemented a separate framework for regulatory reporting and public transparency of its corporate debt markets. The methodologies for both frameworks are publicly available via Notices published by IIROC and/or the Canadian Securities Administrators. The dealer requirements for regulatory reporting are detailed in [IIROC Rule 2800C](#). Canada's transparency framework for corporate debt markets is detailed in [CSA Notice 21-318](#).

**Australian** Securities & Investments Commission (ASIC) data collection is a transparent process and information is exchanged with peer regulators under existing MOU arrangements.

### 3) Regulator access to pre-trade information

#### a) To what extent are pre-trade regulatory reporting requirements increasing since the Global Financial Crisis?

In **Europe**, MiFID II introduces the concept of pre-trade reporting when it goes live on 3 January 2018. The extent will depend on the implementation of the exemption to the pre-trade transparency requirement (four-year phasing-in). Europe is moving from virtually no pre-trade to limited pre-trade information (based on a small subset of liquid bonds, in market standard size).

**Canadian** regulators have decided to focus on the collection of post-trade information only. Corporate debt pre-trade information is not currently mandated from Canadian regulators.

In **Korea**, pre-trade regulatory reporting was increased in 2007 immediately before the Global Financial Crisis.

Market participants in **Australia** do not support pre-trade transparency, viewing it as a significant hindrance to the functioning of the market. On-boarding, KYC, and AML would be confidential and proprietary information.

In **New Zealand**, there are no new pre-trade reporting requirements, but greater interest from regulators.

There is no pre-trade reporting regulatory reporting in **U.S.** OTC bond markets, although it is being contemplated. There appears to be limited support for a pre-trade regime at this time.

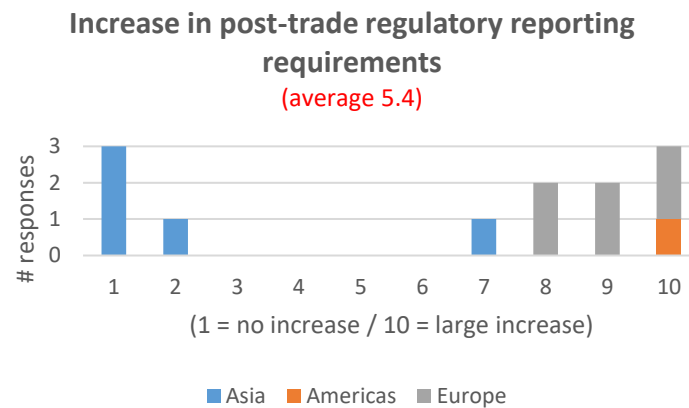
#### b) To what extent could pre-trade regulatory reporting requirements be made more efficient?

As MiFID II is not yet implemented it is too early to answer, but it is essential to ensure against regulatory arbitrage and maintain a balance between transparency and liquidity while taking into account specifics of different markets.

One respondent noted that it is questionable as to whether pre-trade transparency adds any value for bond markets, particularly for less liquid markets such as corporates. If anything, greater transparency could have a detrimental impact on liquidity and could increase market risk for both market-makers and investors.

#### 4) Regulator access to post-trade information

a) To what extent have post-trade regulatory reporting requirements increased since the Global Financial Crisis?



European members report large increases in post-trade regulatory reporting requirements, while some associations in Asia report limited changes due to having put in place adequate reporting pre-crisis.

In **Korea**, regulatory reporting requirements were reinforced significantly in 2002 and 2005.

The **JSDA** is discussing expansion of items to be disclosed in accordance with the IOSCO consultation. Post-GFC, JSDA initiated the collection of traded prices of corporate bonds from member firms.

In **Australia**, data is collected from the clearing house. The view of AFMA members is that new transaction reporting requirements would introduce additional cost burdens without clear benefits.

In **New Zealand**, the NZFMA collects and distributes daily market closing rates from its members. Evidence suggests this has boosted liquidity and participation. Additional information can be provided on a requested basis. The Central Bank (as Clearer) collects and makes available instrument trading information on an ad hoc basis.

**Thailand** experienced limited effects from the Global Financial Crisis and did not conclude that new post-trade transparency measures were necessary.

The majority of outstanding bonds in Turkey are traded at Borsa Istanbul, **Turkey** sole's stock exchange. Transactions on remaining bonds (traded OTC) are reported to Borsa Istanbul in detail.

In 2015 **Canada** implemented a mandated framework for post-trade reporting of all debt security transactions. The framework provides Canadian regulators with detailed information on all debt trades executed through a Canadian investment dealer, including trades conducted through an ATS, Inter-dealer bond broker or on an exchange. Trade details include: time of execution, ISIN/CUSIP, trade size, price, yield, counterparty type, and benchmark bond. Dealers must report trade details by 2pm on T+1.

Canada launched its debt market surveillance system in November 2015. The system is administered by the Investment Industry Regulatory Organization of Canada (IIROC). Other Canadian regulators, including the central bank and securities commissions, can be granted access to data compiled in the surveillance system. The system captures post-trade information on all government and corporate bonds traded by Canadian investment dealers. Through this system, regulators can see full trade sizes and prices. Dealers are also required to: indicate if the trade was executed on an exchange, ATS or OTC. The system captures ISIN/CUSIP information for each corporate debt transacted, which allows regulators to determine the bond type. Dealers are required to indicate counterparty type such as client, ATS, Inter-dealer broker. Client trades are further broken down to indicate if they were “retail” or “institutional” clients. LEI information is currently optional. Credit Rating information is currently not a requirement of the debt surveillance system. There is no information provided in regards to total size outstanding.

In the **U.S.**, some trade data is not available immediately, such as trade size for blocks (which will become available after 6-months instead of 18-months).

b) To what extent could post-trade regulatory reporting requirements be made more efficient?

While MiFID II is yet to be implemented in **Europe**, regulators should ensure that the treatment of waivers (pre -trade) and deferrals (post-trade) should not differ significantly across jurisdictions. This could potentially cause liquidity fragmentation depending on type of deferral.

Also, requiring 60+ different reporting fields is not efficient. The probability for mismatches and reconciliation queries are likely to increase significantly. There are questions as to the value of some of the data.

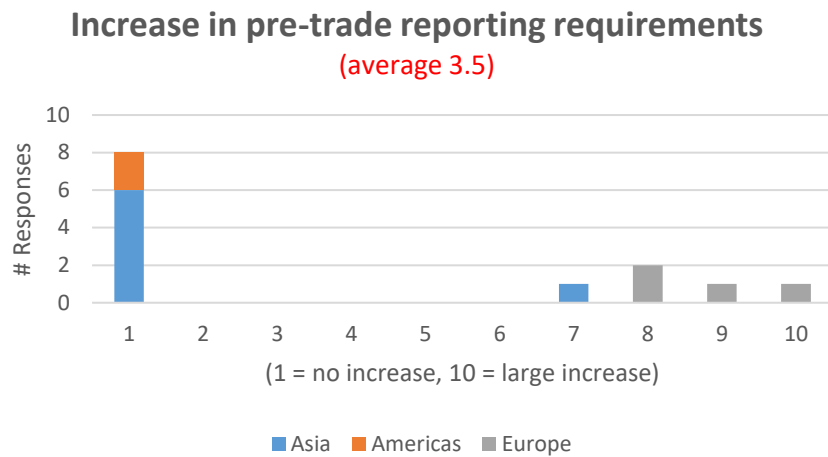
**Thailand** is engaged in an initiative to provide more financial ratio data on bond issuers.

**Canada's** post-trade regulatory reporting requirements were developed in consultation with the industry are generally viewed as efficient. A dedicated secure electronic portal has been established between the reporting dealers and IIROC for communicating trade details. IIROC has provided flexibility to the dealers on what kind of format they can use for compiling their reports, with special consideration given to smaller dealers executing few corporate debt transactions. However, the current trade reporting framework requires 30 data elements to be captured and reported for each transaction. It is uncertain what purpose some of these data elements serve. Reducing the number of data elements could allow dealers to complete their reports on a timelier basis. No Depth of Order Book is currently collected by regulators.

In the **U.S.**, discussions are taking place on refining the block trade reporting regime.

## 5) Regulatory requirements for public pre-trade information

a) To what extent are pre-trade public reporting requirements increasing since the Global Financial Crisis?



Again, **Europe** reports a significant increase in requirements.

b) Are pre-trade public reporting requirements since the Global Financial Crisis calibrated properly?

Under MiFID II, using the IBIA (Instrument by Instrument Approach) instead of COFIA (Class of instruments Approach) is welcomed by the market. However, it remains to be seen whether there will still be misclassifications. New Issues are of particular concern, as depending on when they are issued they could be classed as liquid for up to 5 ½ months.

To the extent that around 95% of bonds are expected to be classified as illiquid (and so out of scope) one could argue that the requirements are relatively well calibrated. However, challenges will arise in the coming years with the phasing in of greater pre-trade transparency.

c) To what extent could any additional well-calibrated pre-trade public reporting requirements further enhance liquidity in a cost effective manner?

In **Europe**, members urge that efforts focus on the most liquid securities and smaller trade sizes. Concerns remain in relation to less liquid instruments where more transparency would likely be counterproductive.

The view of IIAAC members is that market forces in **Canada**, including the proliferation of electronic trading and availability of market data from private sector providers, have contributed greatly to pre-trade transparency. The introduction of pre-trade public reporting is not seen as providing meaningful benefits to market efficiency.

In **Australia**, there is concern as to whether “well-calibrated pre-trade public reporting requirements” and “enhance(d) liquidity” could be achieved “in a cost effective manner”. The sharing of Price and Depth of Orders with clients in OTC market could conflict with insider information regulations.

As mentioned previously, there is no broad support for a pre-trade regime in the **U.S.**

## 6) Regulatory requirements for public post-trade information

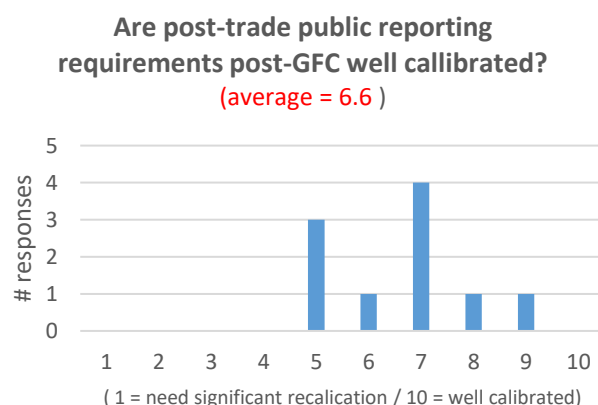
### a) To what extent are post-trade public reporting requirements increasing since the Global Financial Crisis?

MiFID II post-trade regulation will require post-trade reporting within fifteen minutes, decreasing to five minutes in 2020. Price information is likely to help price discovery and investor confidence. However, there are concerns with respect to volume/trade sizes being made public, and the timing of release. For bond markets (particularly less liquid corporate bonds) revealing size data too soon could be damaging to market liquidity and functioning.

A new transparency provider for **Canadian** corporate debt markets was appointed in 2016 (IIROC) in conjunction with the new transparency framework developed by the Canadian Securities Administrators. Unlike the prior public transparency framework, the new public reporting requirements capture all corporate debt securities and all investment dealers transacting in those securities. However, the prior system reported trade details in near real-time (hourly) whereas the new system reports details publicly on T+2.

In the **U.S.**, additional information is now required on Alternative Trading System trades with affiliates.

### b) Are post-trade public reporting requirements since the Global Financial Crisis calibrated properly?



MiFID II recognises the need to phase-in some of the transparency requirements applicable to bonds (over 4 years and dependent on a yearly assessment of any impact of the current threshold level and future impact of a move to the next threshold) in order to add an

additional layer of security against any unforeseen impact of the new regime on liquidity. Some are concerned that National Competent Authorities (NCAs) have discretion over how they apply post-trade reporting deferrals, seeing this as inefficient and likely to fragment bond market liquidity across the region.

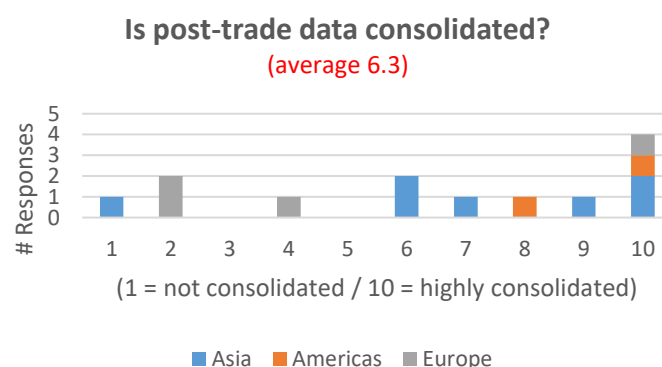
A public consultation process was followed by **Canadian** regulators when designing the new public transparency system for corporate debt. This provided market participants the opportunity to help calibrate the public reporting requirements prior to its implementation. Several recommendations put forth by the investment dealer community were incorporated into the final framework. These included a size cap on trade volumes and delay in dissemination of the data. The current size caps (\$2million) and dissemination delay (T+2) have support as a proper calibration for the broadest subset of Canadian corporate debt traded. However, for certain, less liquid securities, further calibration may be required, such as increased delay in dissemination.

Canadian regulators have not provided any details surrounding the extent to which the new public transparency system is being accessed or utilized by Canadian market participants. Anecdotal evidence suggests awareness and use of the system by retail and institutional investors may be less than expected. Any impact the public reporting requirements may be having on enhancing liquidity are likely, therefore, minimal. The biggest driver of market liquidity continues to be the dealers' willingness to make markets in corporate debt securities.

In the **U.S.**, there is support for changes to block trading reporting in both timing delays and size masking.

## 7) Consolidation of post-trade data

### a) To what extent is post-trade data in your market consolidated?



### b) Are initiatives underway to further consolidate post-trade data in your market?

The EC/ESMA approach does not include a consolidated (ideally publicly owned) source of market data (similar to TRACE). ESMA may have some enforcement powers to create such a source, but not for at least two years.



In **Turkey**, post-trade data on transactions in both the stock market and over the counter are consolidated and readily available to public at Borsa Istanbul's website at no cost.

In **Canada**, IIROC publishes quarterly statistics showing industry trade volumes on a consolidated basis. An initiative is underway at IIROC to improve the quality of the data it collects for compiling these reports, for example by ensuring that corporate debt securities are categorized correctly. The new reports will also be expanded to capture consolidated post-trade data from all investment dealers (whereas the current reports only capture trade data from dealers designated as Government Securities Distributors). IIROC's intention is also to increase the frequency of these reports from quarterly to monthly.

## Summary

- A full range of initiatives to improve post-trade regulatory and public reporting have been implemented around the world.
- Regulators enacted different transparency regimes depending on characteristics of their market and the impacts of the Global Financial Crisis.
- Pre-trade transparency remains a European focus, with the results of MiFID II implementation to be watched closely. A careful phase-in and re-calibration of requirements as necessary is very important.
- When designing transparency regimes, regulators should focus on the question: *"Who is supposed to benefit?"* Simply equating greater market transparency with more liquid and efficient markets could lead to the reverse. Maximum input from market users (investors, issuers, and liquidity providers) as to how transparency helps or hinders them is highly desirable.

October 2017

## Survey Respondents

**Australia:** Australian Financial Markets Association (AFMA)

**Canada:** Investment Industry Association of Canada (IIAC)

**Denmark:** Danish Securities Dealers Association (DSDA)

**France:** Association française des marchés financiers (AMAFI)

**India:** Bombay Stock Exchange Brokers' Forum (BBF)

**Japan:** Japan Securities Dealers Association (JSDA)

**Korea:** Korea Financial Investment Association (KOFIA)

**New Zealand:** New Zealand Financial Markets association (NZFMA)

**Thailand:** Association of Thai Securities Companies (ASCO)

**Turkey:** Turkish Capital Markets Association (TCMA)

**USA:** Securities Industry and Financial Markets Association (SIFMA)

**Europe:** Association for Financial Markets in Europe (AFME)

**International:** International Capital Market Association (ICMA)