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FAQs - PS24-14 Improving Transparency for Bond & Derivative Markets



FAQ: PS24/14: Improving transparency for bond and derivatives markets

What are the new bond grouping factors for determining Large in Scale (LIS) thresholds and deferrals?

The Financial Conduct Authority (FCA) has implemented revised bond grouping factors for sovereign and corporate bonds to improve the calibration of LIS thresholds and deferrals.

For **sovereign bonds**, the factors are:

Issuer: Sovereign bonds issued by the UK, France, Germany, Italy, USA, and Spain (excluding inflation-linked bonds and STRIPS) are grouped together. All other sovereign bonds are in a separate group.

Issue Size: Sovereign bonds are divided into two groups based on their issue size: those with an issue size greater than or equal to £2 billion, and those with an issue size less than £2 billion.

Maturity: Sovereign bonds are categorized into three maturity buckets: less than or equal to 5 years, greater than 5 years and less than or equal to 15 years, and greater than 15 years.

For **corporate bonds**, the factors are:

Currency: Bonds issued in GBP, EUR, and USD are categorized together, while all other currencies fall into a separate group.

Issue Size: Similar to sovereign bonds, there are two groups: those with an issue size greater than or equal to £500 million, and those with an issue size less than £500 million.

Issuer Rating: Bonds are grouped based on their credit rating: Investment Grade (IG) and High Yield (HY).

What are the LIS thresholds and deferral periods for different bond categories?

The LIS thresholds and deferral periods vary depending on the bond category:

Sovereign Bonds

Sovereign and Other public bonds

Issuer	Issue Size	Maturity	Instrument Count	Trade Value	Trade Count
UK, France, Germany, Italy, USA	> £1bn	<5yr	10%	18%	9%
		5-15yr	15%	42%	31%
		> 15yr	11%	32%	51%
All other instruments			64%	8%	9%
Total			100%	100%	100%

Corporate, Covered, Convertible & Other bonds

Currencies	Issue Size	Issuer Rating	Instrument Count	Turnover	Trade Count
USD/EUR/GBP	> €0.5bn	IG	45%	73%	61%
All other instruments			55%	27%	39%
Total			100%	100%	100%

Source: FINBOURNE Technology

How are LIS thresholds and deferrals determined for interest rate swaps?

The FCA employs a similar approach to determine LIS thresholds and deferrals for interest rate swaps, considering factors like:

Maturity Group: Swaps are grouped into maturity buckets based on their sensitivity to interest rate risk.

Average Daily Notional Traded: This metric helps assess the capacity of liquidity providers to hedge their positions effectively.

Average Daily Number of Trades: This factor reflects market activity and liquidity.

Pre-Trade Information Availability: The FCA considers the availability of actionable indications of interest from order books or quote-driven systems.

Size Distribution of Trades: Analysing the size distribution of trades helps determine appropriate thresholds.

Transparency Objective: The FCA aims to achieve real-time reporting for a significant majority of trades.

What are the implications of removing the pre-trade transparency obligations for Systematic Internalisers (SIs) in bonds and derivatives?

The FCA is considering the future of the SI regime for bonds and derivatives, especially given the removal of pre-trade transparency obligations. Key considerations include:

Relevance of SI Status: Without pre-trade transparency obligations, the necessity of firms identifying as SIs for bonds and derivatives is questioned.

Impact on Post-Trade Transparency: Removing the "SINT" flag from post-trade transparency reports might reduce the ability to analyze trades from consistent liquidity providers separately from occasional providers.

Alternative Trade Flags: The FCA is exploring the potential introduction of new trade flags to help identify addressable liquidity if the SI regime is discontinued.

Best Execution Obligations: The fundamental obligation for firms to assess execution quality when choosing execution venues as part of their best execution arrangements would remain unchanged.

What changes are being made to the reporting requirements for portfolio trades?

A new 'PORT' flag will be introduced to identify portfolio transactions, defined as trades involving five or more different financial instruments executed simultaneously by the same client as a single lot against a specific reference price.

If a transaction meets the criteria for both a package transaction ('TPAC' flag) and a portfolio transaction, the 'TPAC' flag should be used. This helps differentiate portfolio trades from other types of transactions and acknowledges the potential price discrepancies between individual bonds in a portfolio trade and their market prices.

What are the key updates to trade reporting fields and flags?

Several updates are being implemented to enhance the quality and clarity of trade reporting data:

Fields:

Price: For bonds, the 'Price' field should be populated with a price expressed as a percentage, using the 'PERC' notation in the 'Price Notation' field.

Notional Amount: Specific guidelines are provided for populating the 'Notional Amount' field for various financial instruments.

Instrument Identification Code: The use of UPI and ISIN codes is clarified for different financial instruments.

Notional Currency: It is recommended to use ISO 4217 currency codes for major currencies in the 'Notional Currency' field.

Flags:

New Portfolio Transaction Flag ('PORT'): This flag identifies portfolio trades.

Removal of Certain Flags: Flags like 'ACTX', 'NPFT', 'ILQD', and 'SIZE' are removed due to redundancy or lack of relevance.

Retention of 'VOLO' and 'FULV' Flags: These flags are retained to indicate volume omission and full details, respectively.

What are the FCA's plans for future review and potential changes to the trade reporting regime?

The FCA plans to conduct a post-implementation review to assess the effectiveness of the new transparency rules. During this review, the FCA will consider:

Potential for Increased Use of 'TPAC' and 'PORT' Flags to Mask

Reporting: The FCA will analyse whether these flags are being misused to obscure reporting obligations.

Introducing a Flag to Indicate Buyer or Seller: The FCA will evaluate the potential benefit of adding a flag to identify the buyer and seller in a trade.

Non-Standard Settlement Periods: This aspect will be addressed in conjunction with the industry-led Technical Group focusing on T+1 settlement.

Adding, Modifying, or Deleting Flags: The FCA will consider further adjustments to the flag system based on the review's findings and stakeholder feedback.

Where can I find the complete list of large in scale thresholds for various interest rate swaps?

The complete list of large in scale thresholds for EURIBOR, ESTR, SOFR and Fed Funds is provided in Annex 1 of the FCA policy statement "

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