BlackRock

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Wholesale Markets Review
Securities and Markets, Financial Services Group
HM Treasury
Horse Guards Road
SW1A 2HQ

Submitted via email to: WholesaleMarkets.Review@hmtreasury.gov.uk

RE: Wholesale Markets Review: Consultation

BlackRock[1] is pleased to have the opportunity to respond to the Wholesale Markets Review consultation, issued by HM Treasury.

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We welcome the opportunity to comment on the issues raised by this consultation paper and will continue to contribute to the thinking of HM Treasury on any issues that may assist in the delivery of a wholesale markets regime which truly works for end-investors..

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

Executive summary

We approach capital markets regulation as the representatives of end-investors – pension funds, insurance companies, and individual savers. We generally interact with markets through brokers and other intermediaries, rather than as a direct participant. But as our clients' fiduciaries, our focus is to promote capital markets that consistently deliver value and meet the expectations of savers and investors.

We support the approach taken by the UK Government that seeks to promote capital markets regulation that lowers overall regulatory burdens while maintaining high international standards and continues to put the UK's capital markets at the forefront of innovation and technological change. These are desirable outcomes aligned with our fiduciary purpose.

Our views on the proposals raised in this consultation document are based on what we see as the fundamental principles of successful capital markets policy, which we believe should guide HM Treasury as it takes forwards these proposals, and in developing capital markets policy more generally:

- **Focus on the depth, resilience, and transparency of UK capital markets.** Markets with these features reduce costs and uncertainty for investors and other market participants, to the ultimate benefit of end-investors supplying their capital to fund the economy.

- **Set proportionate regulation to improve end-investor outcomes.** The UK government has rightly stated its intention to maintain the high standards of regulation that underpin the country's reputation as a leading centre for capital market actvity. Today, the UK has the opportunity to tailor its rulebook in a way that fits its own market more comfortably and lowers the overall cost of doing business, while still maintaining these high standards.

- **Minimise unjustifiable regulatory divergence and market fragmentation.** We welcome statements from the UK government and regulatory agencies that underline their support for open markets and competition. We also encourage an approach to regulation that is aligned with international standards and avoids creating undue cost for cross-border firms and their clients without delivering improvements for either markets or end-investors.

With these principles in mind, we are mostly supportive of the set of proposals made by HM Treasury as part of the Wholesale Markets Review, in particular:

Trading venues

- *The trading venue perimeter*: platforms that match multiple buy and sell orders from clients against one another should be regulated appropriately, but this regulation should not extend to technologies that only facilitate communication or exchange of data, such as execution management systems. We would support FCA guidance to clarify the perimeter.

- *SME markets*: we do not see the need for further changes to company disclosure requirements, beyond those envisaged in the recent Listings Review, and believe the creation of a new trading venue for smaller companies is neither necessary nor desirable. Instead, we look to the development of the Long-term Assets Fund (LTAF) structure as one means of supplying companies with capital through different phases of growth.

- *Outages:* it is critical for market participants to be able to rely on clear information and processes in the event of an outage. We stress the potential utility of a market-wide consolidated tape as a reference point in such events, and as a means of improving resilience.

Systematic Internalisers

- *Midpoint crossing:* midpoint crossing saves costs for both parties to a transaction, ultimately benefitting end-investors. The tick size regime should be focused on preventing economically insignificant price competition for order flows, not midpoint crossing.

Equity markets

- *Double Volume Cap:* we agree the double volume cap should not be carried forward in the UK's regulatory framework. 'Lit' and 'dark' trading venues are suited to different order types, and we question the assumption that 'lit' trading is a *priori* preferable in all situations.

- *Share trading obligation:* we agree the share trading obligation should not be carried forward in the UK's regulatory framework; and support the FCA's stance that best execution for clients should be the guiding principle for where market participants decide to execute trades.

Fixed Income and Derivatives markets

- *Derivatives trading obligation:* we support the alignment of the EMIR clearing obligation and the MiFID derivatives trading obligation, the exemption of post-trade risk-reduction services, and the proposal for the FCA to be able to modify the application of the DTO.

- *Transparency:* we believe pre-trade transparency obligations should apply only to instruments whose market structure is suited to them (i.e. instruments trading on central limit order books, therefore excluding fixed income and derivative instruments); with post-trade transparency applied to all asset classes, subject to well-calibrated deferrals.

Market data

- *Consolidated tape:* we believe the government should take action to encourage the development of a real-time consolidated tape across fixed income, equity (including exchange-traded funds), and (in time) derivatives. This will mean mandating the appropriate governance, commercial arrangements, and technical standards; changes to legislation for mandatory contribution and formatting of data; as well as regulatory oversight of the rulebook and guidelines for operating a consolidated tape. To have its full impact, a consolidated tape should be comprehensive, real-time, and – for equity markets – cover both pre- and post-trade information.

- *Other changes to data:* we see the need for a regulatory mandate that all market data should be licensed at enterprise level by investors at an enterprise level for their internal use in the ordinary course of business. The fact that trading data supplied by individual venues is unique and non-substitutable has allowed data licensing agreements to become increasingly complex and onerous, leaving many market participants with ever-increasing costs and operational risk.

Cross-cutting issues

- *Technology:* the UK's continued ability to capitalise on new technologies has thus far depended on being able to attract the right skills and talent from across the world. We therefore underscore the importance of an open immigration regime that is comprehensive with regards to access, geographic coverage, and in terms of skills and income levels accepted.

- *Green Finance:* we commend HM Treasury's intention to carefully consider how best to deploy a taxonomy for economic activities; and how to develop sustainable investment product labels to guide consumers. On the taxonomy, we stress the importance of global consistency and cooperation; of careful thought being given to why and how a taxonomy will be used before it is applied directly to the financial sector; and that to fully support the net zero transition a taxonomy should assign 'shades' of green to different economic activities rather than taking a dichotomous approach to what is or is not 'green'. On product labels, we stress the importance of any categories created reflecting what end-investors need and are demanding; and that proposals are rigorously tested on existing fund ranges before implementation.

- *Retail investors:* we note the strong benefits derived by UK retail investors from their continued access to a broad range of funds offered from both the UK and the EU; and strongly encourage HM Treasury to avoid any measures that would fragment the market for funds, or that would restrict UK investors' access to funds domiciled abroad. The Long-term Assets Fund (LTAF) has the potential to open up a new area of the capital markets to retail investors, and we encourage steps to make it available through both DC pension schemes and other appropriate platforms.

Taken together, and if executed correctly, these measures should lead to capital markets regulation that maintains the high standards the UK is reputed for while improving outcomes for end-investors.

That said, we believe **the most impactful step HM Treasury could take to this end is lending its full support to the development of a consolidated tape** across equity, fixed income, and – in time – derivatives. A consolidated tape would represent a meaningful addition to the UK's capital market ecosystem – as opposed to incremental gains through improved application of existing regulations – and in turn would improve market transparency, liquidity and resilience, improving outcomes for end-investors and ultimately underpinning the confidence to invest through the UK's capital markets.

Responses to questions

Trading Venues

The trading venue perimeter

1. ***Where do you think the regulatory perimeter for trading venues needs to be clarified?***

A clear perimeter is necessary. There is a need for appropriate regulation of platforms that match multiple buy and sell orders from clients against one another. However, the perimeter should not extend to technology that does little more than facilitate communication or exchange of data without formally facilitating multilateral transactions between multiple buyers and sellers. In order to avoid stifling innovation, platforms such as execution management systems (EMS) that aggregate fixed income quotes, and which do not have trading venue functionality (i.e. an MTF or OTF) should be regulated proportionately, in line with their restricted functionality, and should not be subject to the same regulatory parameters as exists for mainstream trading venues, such as stock exchanges.

2. ***Do you think it would be more appropriate for changes to be made to the definition of a multilateral system in legislation, or for the application of the existing definition to be clarified through FCA guidance?***

FCA guidance seems a more appropriate approach to regulating these platforms, given the need to keep pace with innovations in the marketplace. Any guidance should take account of the distinction outlined in response to question 1.

Operating conditions for MTFs and OTFs

3. ***Should the current restrictions on matched principal trading by an MTF be retained?***

4. ***Should the current restrictions on the operation of an SI within the same legal entity of an OTF be retained?***

5. ***If you answered no to question 4: Should new rules and disclosures be introduced to address the specific conflicts that MTFs and OTFs would be exposed to when providing MPT or operating an SI?***

Questions 3, 4, and 5 are answered together here. We agree it is important that conflicts of interest are properly managed, but do not feel there is a strong need for change to the existing ruleset.

6. ***Do you think that OTFs should be allowed to execute transactions in packages involving derivatives and equities under their rules and systems?***

7. ***What would be the risks and benefits of allowing this approach?***

Questions 6 and 7 are answered together here. On balance we agree that there is no reason to restrict OTFs from executing packages involving derivatives and equities, and removing it would simplify existing market structure.

SME Markets

8. ***Do you agree that the existing regulatory requirements for disclosure at admission to trading (for MTFs and SME Growth Markets) are disproportionate for small-sized issuers?***

9. ***What principles and/or types of information should be considered when developing requirements for disclosure at issuance to ensure requirements are proportionate?***

10. ***How far should these be determined by the venue operator versus regulation, and what other features may provide proportionate assurances around the quality of issuers admitted to a venue (e.g. role of advisors in process)?***

11. ***Would the creation of a new category of trading venue be an appropriate means to facilitate access to public markets for very small firms? What size of firms would be appropriate for a new trading venue?***

12. ***If you answered no to question 11: Would the facilitation of the creation of new market segments be a more suitable intervention?***

13. ***If you answered yes to question 11 or 12: What should the market cap of companies that can trade on the new trading venue and/or segment be?***

14. ***Do you believe intermittent rather than continuous trading would increase liquidity?***

15. ***Do you think that additional measures, such as new funds structure are needed to stimulate institutional investors to invest in SMEs?***

16. ***What, if any, further forms of investor protection do you deem appropriate for this proposed new category of trading venue?***

Questions 8-16 are answered together here.

We do not agree that further changes to disclosure requirements are necessary, and the creation of a new trading venue for smaller companies is neither necessary nor desirable.

The recent UK Listings Review posed a series of important questions on how to encourage more companies to list themselves on UK public markets. While there are some measures the Government could take to make the prospect of listing in the UK more attractive for smaller companies – for example changes to free float requirements, and temporarily permitting the use of dual class share structures – we are not of the opinion that less burdensome disclosure requirements or creating new categories of trading venue will be additive.

At present, the UK has several listings segments companies are able to use: premium, standard, and AIM (SME growth market). Anecdotal evidence suggests the different requirements for each section have resulted in a perceived hierarchy between their constituent companies, with high regard in which the premium segment is held causing reputational disadvantages for the others. For this reason, creating a new category of trading venue and / or making further changes to disclosure requirements is unlikely to address the problem HMT has identified. Indeed, there are some instances where, under existing AIM rules, companies which have a market capitalisation equivalent to many

FTSE 100 companies are held entirely different corporate governance standards and should – we believe – be subject to further requirements.[2]

That said, we recognise the importance of promoting a vibrant public market in the UK, and ensuring companies that require capital are able to access it. However, the traditional concept of companies accessing successive rounds of capital on a 'funding escalator', starting from early seed capital and culminating in an initial public offering, does not always hold true today and is not an appropriate or desirable model for all companies – or, indeed, their investors.[3]

While the obligations and responsibilities that come with a public listing can encourage some companies to stay private, this is not the only factor in their decision: private companies may value the ability to retain a greater degree of control over the company, or to deal with the same investor(s) through different phases of growth – and indeed investors are increasingly interested in remaining invested throughout these phases as well.

This suggests the need to facilitate 'crossover investment' of this kind through investment vehicles suited to both private and public assets, that can be marketed to end-investors with a long-term horizon. The Long-term Assets Fund (LTAF) structure being developed by HM Treasury in conjunction with the FCA is one such vehicle. This underscores the importance of getting the LTAF framework right, and – in line with the efforts of the Productive Finance Working Group – ensuring that long-term investors such as DC pension schemes and buy-and-hold retail are able to access it effectively.[4]

Outages

17. ***Do you believe that regulatory or industry guidance about how venues should operate and what they should communicate during an outage would be useful?***

Yes. It is critical for market continuity and resilience that participants have access to clear information about how outages are managed, and can rely on a pre-set process to manage their own operations should they occur. Consistency across venues in their approach to managing outages would deliver further reliability and resilience. The development of a consolidated tape, discussed below, would also provide a reference point for the market and improve resiliency in the event of an outage.

18. ***Do you have views on a fail-safe mechanism to ensure that the market has access to the key closing benchmarks during an outage in a primary exchange? What role do you see UK authorities playing to deliver this?***

19. ***What other steps do you think UK authorities could take to ensure market resiliency in the event of an outage?***

Questions 18 and 19 are answered together here. We agree that finding a way for the primary venue to carry out the closing auction in the event of an outage would be the most desirable means of establishing market resiliency. Arranging for alternative venues to step in seems a sensible alternative.

[2] For further discussion, see our response to the HM Treasury's UK Listings Regime Review.
[3] For further discussion, see BlackRock, *Putting the capital in the European Capital Markets Union*, p.12-13: 'A company-oriented vision for capital raising in Europe'.
[4] For further discussion of the appropriate tax and regulatory framework for the LTAF, see our response to HMT's Review of the UK funds regime, and the FCA's consultation paper on the LTAF framework.

However, HMT rightly note the importance of appropriate data, and market-wide recognition of the official reference price in the event of an outage: in our view, this underscores the importance of delivering a consolidated tape and reliable access to market data across the industry, covered in questions 82 – 92. Developing a consolidated tape would facilitate the use of alternative (non-primary) venues as a fall-back during an outage.

Systematic Internalisers (SIs)

Definition of Systematic internalisers

20. ***Do you agree that the definition for SIs should be based on qualitative criteria?***

We do not object to this proposal if it yields more efficiency, and produces better outcomes for end-investors, in the regulation of the UK's market structure. While BlackRock does not operate any SIs, this proposal would appear to lower their overall regulatory burden without damaging standards or market quality.

21. ***If you answered no to question 20: Do you think the definition should be amended in another way?***

Not applicable.

22. ***If you answered yes to question 20: Do you think that regulatory guidance should be used to support the definition in legislation?***

Yes, guidance can provide a more flexible approach to regulation as market structure continues to innovate and evolve. This could take the form of formal supplementary guidance from the relevant competent authority and/or in the form of Q&A where there is a need to respond quickly.

23. ***Do you currently opt-in to the SI regime?***

Not applicable.

Reporting

24. ***Should SIs be determined at entity level instead of on an instrument by instrument basis, for reporting purposes?***

25. ***What would be the risks and benefits of adopting such an approach?***

Questions 24 and 25 are answered together here. This proposal seems to be a more straightforward and less burdensome approach to SI reporting. That said, we recommend HMT assess the potential cost to changing firms' reporting infrastructures in order to comply with any change from the current rule set and definitions, and confirm that these are outweighed by overall benefits.

Midpoint crossing

26. ***Do you agree with the government's proposal to allow SIs to execute at the midpoint for all trades, provided the executed price is within the SI's quoted price?***

Crossing at midpoint should be allowed within the tick size regime, as it is cost-saving for both parties to a transaction, and thereby promotes better outcomes for end-investors.

The tick size regime should be viewed as a means of preventing economically insignificant price competition for order flow, but should not prevent midpoint crossing.

While we agree that midpoint trades should fall within the SI's quoted prices, they should not be restricted to quote size. When a transaction is crossed at midpoint both parties are liquidity takers in equal measure. Neither party is being held to a one-sided quote, and so we see no reason for restricting the size of midpoint crossing. It promotes better outcomes for both investors.

27. ***Do you think any other changes are needed to increase the effectiveness of the SI regime?***

No comment.

Equity Markets

Double Volume Cap

28. ***Do you think that the DVC should be deleted?***

29. ***Do you think alternative incentives are needed to encourage lit trading?***

Questions 28 and 29 are answered together. Yes, we agree that the double volume cap (DVC) should not be carried forward in the UK's regulatory framework.

Venues with pre-trade transparency ('lit' venues) and without it ('dark' venues) both contribute to liquidity provision, which improves outcomes for end-investors, and are ultimately suited to different types of orders.

We question the underlying assumption that trading on 'lit' venues is preferable in any situation. Instead, capital markets regulation should focus on policies that will generate the best outcomes for end-investors in terms of improving liquidity and lowering costs. Legitimate concerns around the lack of transparency on 'dark' venues are best addressed by developing a comprehensive consolidated tape, to which such venues should be required to contribute.

Reference price waiver

30. ***Should reference price systems be able to match orders at the mid-point within the current bid and offer of any UK or non-UK trading venue that offers the best bid or offer, to aid best execution?***

Yes. This approach means that the most liquid market can be referenced which, in turn, allows for more appropriate reference prices and better outcomes for market participants.

SIs

31. ***Do you consider SIs quotes useful?***

No. SI quotes provide little informational value and there is no infrastructure for consuming them and bringing the many SI quotes together into one framework.

32. ***Do you think that the ability of SIs to execute clients' orders at mid-point would incentivise SIs to provide meaningful quotes?***

While we support midpoint execution in general, and in SIs, we do not think that this will increase quote size in a meaningful way. SI quotes are intended as firm one-sided bid and ask quotes that investors can hold the SI to. Midpoint crossing activity, however, allows both parties to execute at midpoint where both parties are taking liquidity in equal measure. For that reason, and per question 26, we do not think that midpoint crossing should be restricted to the best bid or ask's quote size and we also do not think that it will incentivize larger quote sizes; bid and ask quotes are smaller because they constitute one-sided risk that investors can hold an SI to.

We believe that it is important that SI trades should get captured in a consolidated tape. An integration of SI's into a consolidated tape's infrastructure is the best way to incentivize transparency and meaningful quotes, assuming there are appropriate deferrals.

33. ***If you answered yes to question 32: What incentives could UK authorities introduce to encourage you to report more trades, while maintaining fair competition with market operators?***

Long term, we believe the best way of incentivising larger SI quotes is via a pre-trade consolidated tape, whereby SI quotes (aside from those of larger size) would be in competition with quotes provided by other trading venues.

Share Trading Obligation

34. ***Do you think that the STO should be removed?***

Yes. At present the STO creates the potential for trades to be executed away from an equity's primary listing or largest liquidity pool, which is likely to result in higher trading costs due to reduced market depth, ultimately to the detriment of execution quality and end-investor outcomes. We strongly support the approach set out by the FCA in November 2020, which set out the principle that firms should execute trades at venues where they can get best execution for themselves (if trading their own book) or their clients.[5]

Market making strategy for algorithmic trading

35. ***Do you think that the requirements for algorithmic liquidity providers and trading venues to enter into binding market making agreements should be removed?***

No comment.

36. ***What would be the impact of such a removal for you and/ or the market you operate in?***

No comment.

Tick sizes

37. ***Do you think the scope of the tick size regime needs to be recalibrated for overseas shares to ensure that firms can trade at the best prices in the UK?***

We share HM Treasury's analysis that the tick size regime, as currently formulated, could result in needlessly large price increments for overseas shares, and would support a recalibration.

[5] See FCA, '[FCA sets out its approach to the share trading obligation](#)', November 2020.

38. Do you think trading venues are better placed to establish tick sizes for new shares until sufficiently robust data is available?

We share HM Treasury's analysis. However, we think it is important that there is sufficient regulatory oversight and approval over this process so that trading venues cannot compete against each other via economically insignificant price increments.

39. What are the potential benefits and risks of delegating the setting of tick sizes, in general, to trading venues? What safeguards would be needed to avoid arbitrage issues?

The purpose of the tick size regime is to prevent venues from competing for order flow based on economically insignificant competition in price increments. This risk will likely need to continue to be managed with FCA oversight, however this does not necessarily need to extend to the FCA itself setting price increments – overall the benefits of this proposal outweigh the risks.

40. Are there any other parts of the equity regime that you think could be operated more effectively by the market, while upholding high standards?

No comment.

Fixed Income and Derivatives Markets

Aligning the Derivatives Trading Obligation and EMIR clearing obligation

41. Do you agree that the scope of the DTO should be revised to bring it in line with the scope of the CO following the changes introduced by the EMIR REFIT? What risks/ benefits do you see with this approach?

Yes. EMIR REFIT added a risk-based justification for a clearing requirement based on thresholds. The derivative activity of small financial and non-financial counterparties falls below these thresholds, meaning there is no risk-based justification for these entities to trade in-scope products on-venue. The divergence of CO and DTO was not intended and, for practical reasons, should be aligned.

Exemptions from the Derivatives Trading Obligation

42. Do you think that all post-trade risk reduction services should be exempt from the DTO?

Yes. Post-trade risk reduction services are an important risk management tool for many market participants. It would be of market-wide benefit, and help to reduce systemic risk, for these services to be exempt from the DTO in cases where they are non-price-forming.

43. If you answered yes to question 42:

a. Do you think that there should also be an aligned exemption from the EMIR clearing obligation for trades resulting from post-trade risk reduction services?

Yes. If post-trade reduction services are exempt from the DTO, the same should apply for the CO on the basis the trades are market risk neutral.

b. What conditions do you think should be met for the exemption to be applicable?

No comment.

Derivatives Trading Obligation: FCA powers

44. Do you think the FCA should be given the power to modify or suspend the DTO quickly under certain circumstances, on a permanent rather than temporary basis?

Yes. It would be sensible for the FCA to be able to exercise such powers to manage the risk of market disruption and / or fragmented liquidity. Events such as the impact of COVID on financial markets in March 2020 are a good example of where relaxation of the DTO may have helped to restore liquidity. Equally, temporary relaxation powers would provide a useful tool for managing market-wide technical outages.

Scope of fixed income and derivatives transparency

45. Do you think that the current transparency requirements support price formation and open, competitive and fair markets? Please separate your answers by fixed income (please treat sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (please distinguish between OTC and exchange-traded derivatives (ETDs) where relevant).

We agree with HMT's assessment that the present rules do not sufficiently recognise that the appropriateness of pre-trade transparency requirements is contingent on the market structure of the given instrument. In general, we believe that *pre-trade* transparency requirements should apply only to instruments which trade on central limit order books (CLOBs), and by extension should not apply to fixed income and most derivative markets. On the other hand, we believe that *post-trade* transparency should be required for all instruments, with appropriate calibrations.

46. Do you think that using ToTV is a useful criterion for determining the scope of transparency requirements for non-equity instruments, and in particular OTC derivatives? Please separate your answers by fixed income (please treat sovereign bonds, high-yield bonds and investment grade bonds separately) and derivatives (please distinguish between exchange treaded and OTC derivatives).

At the outset of MiFID II there was, as HMT note, some ambiguity about exactly which instruments were captured by the ToTV criterion, and we agree it is not a useful concept. However, given that firms' reporting obligations under that framework were contingent on whether or not a particular instrument was ToTV, it has been necessary for firms to identify the relevant trades and report them accordingly. As such, our observation is that at present the ToTV concept works well for the vast majority of transactions, and therefore the the adoption of a simpler concept than ToTV would likely be outweighed by the operational costs of making such a change.

47. If you answered no to question 46: Do you think the concept of ToTV should be removed for OTC derivatives, and the scope of the transparency regime determined on the basis of whether the instrument is cleared? If so, what definition of 'cleared' should be used?

We do not believe that shifting from a ToTV-based reporting obligation to a clearing-based definition will yield any benefit in terms of either easing regulatory burdens for the market, nor will it significantly improve the quality of data produced.

48. ***Do you think there is another option to determine the scope of the fixed income and derivatives transparency regime? Please separate your answers by fixed income (please treat sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (please distinguish between exchange traded and OTC derivatives).***

See question 45. We would support a transparency regime whereby pre-trade transparency obligations are limited to instruments whose market structure is suited to it (i.e. instruments trading on CLOBs).

With a more limited pre-trade transparency regime, the need for a ToTV concept would be reduced. Instead, post-trade transparency could be applied to all instruments within an asset class as long as it was subject to well-calibrated deferrals to limit the risk of information leakage damaging broker liquidity provision.

However, as outlined in questions 46 and 47, the benefits of reduced complexity should be weighed against the costs incurred in making large-scale changes to firms' existing reporting infrastructure.

49. ***What instruments do you think should be in scope of the fixed income and derivatives transparency regime? Please consider fixed income (please treat sovereign bonds, high-yield bonds and investment-grade bonds separately) ETCs, ETNs, structured finance products, emission allowances and derivatives (please distinguish between exchange traded and OTC derivatives).***

See questions 45, 48, and 53. In general, fixed income and derivatives should be in-scope for post-trade transparency, and none should be in scope for pre-trade transparency. Our views on this are underpinned by the general principle that instruments that do not trade on CLOBs or similar mechanisms should not be subject to pre-trade transparency because (unlike i.e. exchange-traded equities) pre-trade transparency is not in-built to their trading mechanism and revealing quotes is likely to damage liquidity provision.

It is important to note that our views set out here refer specifically to pre-trade transparency obligations as set out in MiFID, and not the concept of pre-trade information altogether. For example, investors currently have access to composite pricing data streams that help inform investors before they transact, and could therefore be considered 'pre-trade'; while firms also receive bilateral information and quotes from counterparties, e.g. committed quotes, which remain valuable and would lead to a reduction in market liquidity were disclosure to be required.

Liquid market determination

50. ***What changes do you think are needed to enable liquidity calculations to work effectively? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds) and derivatives (ETDs and OTC derivatives).***

We agree that the liquidity calculations are cumbersome and of limited benefit. However if, per HMT's proposal under question 53, fixed income and derivatives markets were not subject to pre-trade transparency, the criticality of a liquidity calculation concept would be greatly reduced, and in turn support simplification of liquidity calculations.

51. ***Do you think it would be preferable to move away from regular liquidity calculations towards a mix of qualitative and quantitative criteria? For example, on a sectoral basis? Please separate your answers by fixed income (sovereign***

bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).

Notwithstanding our answer to question 51, moving to a qualitative approach would be preferable.

Pre-trade transparency

52. ***How do you currently use pre-trade transparency? Is pre-trade information on bonds and derivatives valuable? Please differentiate between fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives), and each trading method (for example RFQ, and order book).***

See question 49. It is important to distinguish the MiFID pre-trade transparency obligations from more general pre-trade information made available to market participants.

We do not make use of MiFID pre-trade data, but do make use of market solutions such as composite pricing or internal pre-trade analytics. In part this is due to the fact that – as the consultation document observes – MiFID pre-trade data is difficult to turn into actionable information given the wide range of deferrals, waivers, and conditions placed on its disclosure (notwithstanding the obstacle of scraping the published data, which is out-of-date when released on relevant websites). As a result, the data is incomplete, inconsistent, and not timely.

53. ***Is there a case for removing MiFID II pre-trade transparency requirements for any asset class? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).***

Yes. As noted in previous questions, the characteristics of trading mechanisms used for many bonds and OTC derivatives means that pre-transparency is neither needed nor used. Specifically, these are instruments that do not trade on CLOBs or Frequent Batch Auctions (FBAs), and would therefore potentially be at risk of having liquidity provision damaged if pre-trade quotes were made transparent, a risk that was recognised in MiFID by developing a range of waivers and deferrals.

We believe all fixed income and derivatives that do not trade on CLOBs and FBAs could be excluded from pre-trade transparency obligations without damaging market quality. Indeed, there is no common infrastructure or feed for investors to access this data, and therefore low risk of depriving market participants of vital information. As noted above, excluding these instruments from pre-trade transparency obligations could be complemented with expansion of post-trade transparency, ideally via a consolidated tape.

54. ***If you answered yes to question 53: Do you think that RFQ, bilateral negotiations and indications of interest provide sufficient information for markets to function effectively? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).***

Yes, we believe this is the case for all instruments in question.

55. ***How do you use pre-trade quotes streamed by SIs? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).***

Market solutions such as composite pricing or internal analytics are generally sufficient. As noted above, the limitations of MiFID pre-trade transparency reporting, such as that done for SI quotes, mean that they do not add value to our processes nor benefit to end-investors. While we support appropriate transparency and data availability for all instruments, it is not appropriate to require SIs to publish firm quotes to the entire market – as doing so would undermine their ability to provide liquidity.

56. For SIs, what impact do you think removing pre-trade transparency requirements would have on your business? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).

We do not believe this would have any impact on our business. However, strengthening post-trade transparency would be very valuable for us and many other market participants.

57. Do you have any other comments on the pre-trade transparency regime?

No comment.

Post-trade transparency

58. How do you currently use deferrals? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment grade bonds separately) and derivatives (ETDs and OTC derivatives).

Our observation is that generally industry participants responsible for disclosing data use deferrals as specified in the regulation, although anecdotal data suggests that there are some inconsistencies in application, likely stemming from the complexity of the system.

59. Which asset classes should deferrals apply to? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).

For post-trade data, deferrals should apply for all asset classes. However, these should be calibrated to specific instruments, rather than taking a one-size-fits-all approach. For example, less liquid instruments should have longer deferrals; and deferrals should vary dependent on whether price transparency or volume transparency is being deferred – with the latter needing a longer deferral period (although they should not be deferred indefinitely).

60. Do you agree that the deferral regime would benefit from being simplified?

Yes, we strongly agree.

61. What do you think the optimum deferral length is? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).

See question 59. The optimum length is instrument-dependent and requires empirical analysis. However, volume masking should not continue indefinitely, and it is unlikely that deferral beyond two weeks would ever be necessary.

62. What are your views on the government's proposal to delete the SSTI, package order, and EFP deferrals? Do you think it would lead to more meaningful transparency? Please separate your answers by fixed income (sovereign bonds,

high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).

We support this proposal for all fixed income instruments.

63. ***Do you think volume masking and/or aggregation helps to encourage real time publication? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).***

Yes, we are in favour of well-calibrated volume-masking that balances the need for transparency with the need to protect liquidity provision to market participants. See answers to questions 59-62.

64. ***What are the risks and benefits of allowing trading venues to calculate LIS thresholds for ETD post-trade reporting?***

No comment.

<u>Market data</u>

Consolidated Tape

82. ***Do you agree that the government should take action to encourage the development of a CT?***

Yes. A full private sector initiative has yet to emerge due to the costs and regulatory barriers currently associated with setting up a comprehensive consolidated tape solution. Most significantly, given current practises in licensing data (see Q92), and issues with inconsistent formatting and disclosure of data, it has proved practically and commercially difficult for a private sector solution to emerge without further support from or intervention by government.

Establishing a consolidated tape is likely to require a mandate from UK authorities – covering what the appropriate governance, commercial, and technical standards should be – to be incorporated into the UK's on-shored MiFID framework. We believe changes to legislation will require new provisions on the mandatory contribution and formatting of data that will be aggregated by a consolidated tape, and UK regulators will need to set and oversee the rulebook and guidelines for operating a consolidated tape.

If you answered yes to question 82:

83. ***Do you think a fixed income tape should be prioritised?***

We do not necessarily see the need to prioritise fixed income over equity, or vice-versa, as these market structures are very different, meaning the technology and infrastructural requirements for consolidated tapes will be different, too. Both have clear utility for markets, and we are not aware of a reason why both could not be pursued in parallel.

84. ***Do you think that it would be beneficial for a fixed income CT to include post-trade data only, or would there be value in a tape covering pre-trade data too?***

As noted in previous questions, we believe pre-trade transparency obligations are not appropriate for securities that are not traded on CLOBs and support HMT's proposal to dis-apply them. For this reason, we recommend focusing on post-trade data for fixed

income, with careful consideration given to how deferrals and waivers should be calibrated. Post-trade transparency will give investors more confidence in prices and volumes, ultimately promoting more electronic execution and market innovation. While a pre-trade tape would be appropriate and valuable for equity markets, we do not see the same need for fixed income markets, due to their particular market structure.

85. Is there any value in a delayed data CT for fixed income markets?

The use cases and benefits of delayed data are more limited than for real-time: the utility of delayed data will tend to be limited to retrospective exercises such as portfolio monitoring, compliance, and regulatory review. Real-time data is necessary if a fixed income tape is going to be additive to trading decisions, and in turn end-investor outcomes. We recommend taking an ambitious approach and pushing for a real-time solution.

86. Is it valuable for an equity CT to include pre- and post-trade data?

Yes. UK market participants currently do not have a single, comprehensive, real-time source of market data – which limits their ability to accurately answer basic questions such as 'what is the price of the stock?' and 'how much is being traded?'. In the absence of this, market participants who require this information collate the information from disparate and often inconsistent data sources, and encounter significant cost and complexity in doing so. A comprehensive tape will aid portfolio management and trading decision-making, to the ultimate benefit of end-investors. From a market-wide perspective, a single, authoritative source of data will also promote resiliency by giving market participants a reliable reference price to refer to in the event of outages or operating events. Unlike fixed income markets, an equity consolidated tape should include both pre-trade and post-trade data.

87. Is there any value in a delayed data CT for equity markets?

See Q85. There is very limited additional value in a delayed consolidated tape, given its greatly diminished use cases, and for equity markets a delayed tape would not make a meaningful change to the status quo with respect to market data availability. Real-time data is essential.

88. Should the government amend legislation to enable a market-led private sector CT to develop, or do you think UK authorities should be actively involved in creating a CT?

See Q82. We do not see UK authority involvement in the process as mutually exclusive to private sector provision of a consolidated tape. There are practical barriers to setting up a consolidated tape that it will require government intervention to resolve, and we see the need for a mandate from UK authorities to set the parameters for what should be included in a tape, and guidelines on how it should be run.

89. What are the legislative barriers for a private sector-led CT to emerge? Do you agree with the legislative changes identified above? Are there additional changes that UK authorities should be considering?

See Q82, 88, and 92. We agree that mandatory submission from trading venues will be necessary for any consolidated tape to fulfil its mandate. However additional intervention will be needed to ensure that data licensed to the consolidated tape is done on a non-complex and reasonable basis, and that licensing terms do not prevent the tape provider from distributing data to clients in a straightforward and commercially viable manner.

90. Do you see any risks with removing the obligation for CTs to provide data for free after 15 minutes?

We believe a consolidated tape should be commercially viable, and that necessary deferrals should be put in place to that end (i.e., there should be an incentive for market participants to purchase the tape). However, this needs to be made consistent with the fact that the current obligation for market data vendors to publish data for free after 15 minutes is beneficial to non-professional and retail investors. As such, removing the obligation for a CT to make data available for free after 15 minutes is likely to further disadvantage this class of investors vis-à-vis other classes.

91. What are the potential advantages and disadvantages of multiple private-sector CTs for each asset class?

We do not see any benefit in multiple tapes for each asset class. A consolidated tape is, in effect, a utility for markets, and – if all were operated in a fashion we think to be appropriate, as outlined in the questions above – multiple tapes would be providing an identical service, with little room to differentiate on price or product offering.

Other changes to data

92. Do you have any suggestions on further areas that UK authorities should be considering when making changes to market data, especially in relation to requirements that are set out in legislation?

As indicated under Q82, a critical obstacle to the development of a consolidated tape is the complex and costly data licensing terms currently prevalent in the marketplace. Data licensing agreements are often complex, with subscribers asked to pay for data on the basis of both individual use cases, and for each individual user within an organisation.

The fact that trading data from individual venues is unique and non-substitutable has, in our view, allowed data licensing agreements to become increasingly detailed and onerous. Firms receiving market data therefore face significant complexity in managing ongoing variation in their licensing agreements, incurring operational costs and risks. They also often bear the cost of complex audits of their licenses, imposed by data providers through ex-post fees.

We believe the solution to this problem is to mandate that all market data can be licensed at enterprise level by for firms' internal use in the ordinary course of business. Enterprise licensing (as opposed to the current model of per user or per use case licensing) enables users to fully realize the value of market data within their organization by eliminating the possibility of additional fees or reporting requirements being incurred for new use cases defined by market data providers.

We see ensuring enterprise-level licensing as in important step to ensuring a consolidated tape can operate effectively: both in terms of the providers' ability to license data from trading venues, and to distribute that data in consolidated form to other market participants.

Reporting

Overlapping reporting requirements

93. Where do the current regulatory reporting regimes for wholesale markets contain duplicative reporting requirements?

The reporting regime MiFIR and EMIR for derivatives do overlap in the sense that the same derivative trades must be reported for both regimes. That said, the focus and purpose of both regimes is different, and as such, we do not feel it is necessary for the regimes to be streamlined or consolidated.

94. ***Is intervention needed to mitigate against duplicative reporting for firms undertaking SFTs with members of the European System of Central Banks?***

No comment.

Investor protection reports

95. ***Do you think the 10% loss reporting rules for portfolios and contingent liability transactions offer effective investor protection? If not, how do you think the rules in this area should be revised?***

We do not believe that the 10% loss reporting rules for portfolios and contingent liability transactions have meaningfully strengthened investor protection.

These reports apply to a variety of different investment products and instruments. As such, believe a more tailored approach, underpinned by a more detailed assessment of product features and characteristics, is required.

For discretionary portfolio management, we expect there to be discussion with and disclosure to clients of expected investment time and performance horizons, and how to respond to volatile market conditions. Proactive communication with clients in this regard can help to prevent from clients selling their investments at an inopportune moment, and generate greater trust and confidence in investing; whereas a loss report can act as a prompt to sell. Moreover, a loss report is not particularly relevant for end-investors in these services given the widespread availability of up-to-date performance reporting for all types of clients.

For leveraged and contingent liability investments, which have the potential for losses to rise significantly and quickly, loss reports may be more appropriate, especially where they are sold to clients on an unadvised basis. That said, these reports should not replace other steps to ensure investors fully appreciate the risks they are taking before purchasing such instruments, understand potential losses, and are appraised of market conditions.

96. ***Do you think electronic communication should become the default means of communication for disclosures and reporting to retail clients, and, if so, what protections are needed for retail clients around such a change?***

Many financial services firms already structure their services around digital communications and reporting, giving clients the ability to opt into alternative (i.e. paper-based) communication methods that better suit their needs – and we believe that electronic communication will become the default going forwards, while maintaining the paper option.

However much of the regulatory framework for financial services products has been designed on the basis of paper-based disclosures, and conceives of digital disclosure as an add-on, rather than primary, means of communication.

We believe the regulatory environment must adapt to the increasingly digital way firms service their clients. As well as digitising documents sent to clients, it would be beneficial for regulatory disclosures to incorporate intuitive and interactive digital tools in order to increase client engagement and education on core concepts such as cost, performance, and risk. Allowing clients to select between different formats of disclosure most conducive

to their ability to understand the information– while maintaining the same core data across all disclosures – would also be beneficial.

Ultimately, paper-based disclosures (even if sent in, for example, .pdf format) should be viewed as a legal record of clients final decisions, rather than as a tool to guide them in their initial decision-making process.

97. Are there any other changes to the conduct rules in the MiFID delegated regulation that you think could be made to reduce costs whilst continuing to offer meaningful investor protection?

No comment.

98. Do you think other changes are needed to ensure that the reporting regime correctly balances investor protection and transparency?

No comment.

Financial instrument identifiers

99. Have you experienced any issues with the utilisation of ISINs as identifiers?

100. Do you have any suggestions on how the use of identifiers could be improved?

No comment for questions 99 or 100.

Cross-cutting issues

Technology

101. What further steps can UK authorities take to enable firms to take advantage of technological innovation in capital markets?

Part of the UK's success in financial services – including its ability to innovate and capitalise on new technologies – has thus far depended on being able to attract the right skills and talent from across the world.

An open immigration regime should therefore be comprehensive with regards to access, geographic coverage, and in terms of skills and income levels accepted. This includes avoiding quotas and a labour market testing requirement under the Skilled Worker visa category, as well as the development and expansion of technology to further streamline visa processing. It will allow financial services firms – who are increasingly competing for individuals with technology skills – to quickly identify and establish long-term plans to retain talent at all levels, develop a diverse workplace, and deploy it in a multinational operation.

In addition, the government should further address the treatment of applications under the EU Settlement Scheme in light of COVID-19, including interpretive guidance that provides flexibility for individuals who spent time outside of the UK during the pandemic, as well as those who were not able to enter the UK before the end of 2020.

Green Finance

102. What further steps can UK authorities take to support the wholesale markets sector as we move towards a low carbon economy?

The UK government has set out an ambitious net zero target and ten-point plan for a green industrial revolution. It has already made contributions to the wholesale markets sector by issuing green gilts, but to further support the sector in the transition to net zero, investors – both end-investors and market participants – require accurate information on assets and investment products.

The UK is already leading the way on this by mainstreaming the Taskforce on Climate-Related Financial Disclosures (TCFD) across the economy. In doing this, we encourage a focus on ensuring these disclosures are applied to issuers of financial instruments in the first instance, as they are the entities who access wholesale markets for capital, and about whom investors require information as the make decisions on the journey to net zero.

We commend HM Treasury's intention to carefully consider how best to deploy a taxonomy for economic activities; and develop sustainable investment product labels to guide consumers.

On the taxonomy, we stress the importance of global consistency and cooperation. Wholesale markets are global, and so any taxonomy must be a common point of reference across jurisdictions: conflicting definitions and divergence will be unhelpful. Careful thought should be also given to why and how a taxonomy will be used before it is applied directly to the financial sector through regulation or disclosure requirements – not least because of serious data availability challenges associated with mapping any taxonomy directly onto assets and investment portfolios. However, we believe that to fully support the transition a taxonomy should assign 'shades' of green to different economic activities, to identify where different industries and sectors are during the transition and facilitate engagement – rather than taking a dichotomous approach to what is or is not 'green'.

On product labels, we note the importance of taking a consumer-first, market-driven approach to development – such that the final labels reflect what end-investors need and are demanding and can achieve their desired effect. Moreover, any labels should be rigorously tested on existing fund ranges before implementation to ensure they provide consumers with meaningful and understandable choices.

Retail investors

103. How do companies harness retail investment whilst ensuring investor protection?

104. How do companies take advantage of the globalisation of information to reach investors?

105. Is there a role for UK authorities to play to facilitate retail access to capital markets, while continuing to offer high standards of investor protection?

Questions 103-105 are answered together here.

Regulation of investor disclosures should reflect the fact that, the investment management industry is moving away from selling individual investment products, and towards providing holistic investment solutions designed to meet clients' overall financial goals, services which are in turn increasingly provided in a digital context. It is important therefore that disclosure and reporting is done primarily at the portfolio level rather than at the level of the underlying building blocks. This extends to more effective risk presentations for longer term investments held within a portfolio, where focus should be on risk over time rather than on volatility at a point in time. Finally, the current focus on ensuring consumers' Environmental Social Governance (ESG) preferences are correctly

represented in products they purchase through appropriate labelling needs a considered approach, as noted under Q102.

Furthermore, retail investor access to capital markets is often facilitated by the investment funds industry. At present, UK retail investors enjoy continued access to a broad range of funds offered from both the UK and the EU. The benefit of access to a market of this breadth and depth is a wide range of investment choices, and economies of scale driving down costs and improving overall value for money for investors. We strongly encourage HM Treasury to avoid any measure that would fragment the market for funds, or that would restrict UK investors' access to funds domiciled abroad, thus incurring both ongoing and transitional costs for end-savers.

However, the Long-term Assets Fund (LTAF) proposal has the potential to open up a new area of the capital markets to retail investors. As well as making these investments available to a broad section of society via DC pension schemes, we believe an appropriate level of access to the LTAF should also be made available to suitable retail investors through other platforms, and would encourage that the FCA's final framework facilitates this.[6]

Conclusion

We appreciate the opportunity to address and comment on the issues raised by the consultation paper and will continue to work with HM Treasury on any specific issues which may assist in the ongoing reform of wholesale markets policy.

[6] See our response to the FCA's consultation paper on the LTAF framework.