ICMA response to the FCA Discussion Paper on

The Future of the SI regime

10 January, 2025

Introduction:

ICMA welcomes the opportunity to respond to the FCA Discussion Paper on the Future of the SI regime within the Policy Statement 24/14 for Improving transparency for bond and derivatives markets.

ICMA promotes well-functioning cross-border capital markets, which are essential to fund sustainable economic growth. It is a not-for-profit membership association with offices in Zurich, London, Paris, Brussels and Hong Kong, serving over 620 member firms in nearly 70 jurisdictions globally. Its members include private and public sector issuers, banks and securities dealers, asset and fund managers, insurance companies, law firms, capital market infrastructure providers and central banks. ICMA provides industry-driven standards and recommendations, prioritising three core fixed income market areas: primary, secondary and repo and collateral, with cross-cutting themes of sustainable finance and FinTech and digitalisation. ICMA works with regulatory and governmental authorities, helping to ensure that financial regulation supports stable and efficient capital markets.

ICMA provided this response solely from a bond market perspective and with members of its MiFID Working Group.

Q1: Do you think the current transparency regime for SIs is effectively contributing to the price formation process for equities? Please explain your answer.

ICMA response:

N/A (*as this question is related to equity markets)*

Q2: Are there specific changes that you think should be made to the threshold under which the pre-trade transparency regime applies to SIs and the minimum quote size for SIs? Please explain your answer.

ICMA response:

NA (*as this question is related to equity markets)*

Q3: Does the SI flag on post-trade transparency reports 'SINT' provide useful information? Please explain your answer.

ICMA response:

ICMA's view is that there is no specifically useful information attached to "SINT" versus "XOFF" in terms of liquidity provision. Referring to paragraph 9.13 of this Discussion Paper, the flag "SINT" does not offer any additional value for the purpose of trade analysis. In some cases, systematic internalisers who opt in may not even be larger "liquidity providers", hence the flag "SINT" does not necessarily mean that there is provision of liquidity associated to this flag. The move from a quantitative to a qualitative approach will further enhance this statement as without the quantitative assessment, the definition of SI will be determined to a lesser extent by how "big" a firm is.

Furthermore, and looking at it "the other way around", in bond markets, in some subsegments (*such as EM credit or illiquid corporate bond classes*), liquidity might be provided rather by smaller firms (focusing on certain subsegments/niches of the bond markets), which are not an SI, so again, the provision of liquidity is not connected to whether a firm is an SI or not.

More generally speaking, ICMA is of the view that the term "liquidity provider" is derived from the equity markets and has less relevance in the context of bond markets where the flag "SINT" does not offer value in identifying the provision of liquidity.

Q4: If firms trading bonds and derivatives OTC no longer had to identify themselves as SIs do you think there is a case for adding any new trade flags to post-trade reports to help identify addressable liquidity? If so, please explain your proposal for an additional flag.

ICMA response:

ICMA members do not see the need to add new flags as trades can simply be flagged as “XOFF” (see also response to Question 3)

Q5: What do you think might be the consequences if the restrictions in MAR 5.3.1A (3) no longer applied? Please explain your answer.

ICMA response:

The removal of MAR5A.3.1 (*please note, the correct article should be MAR5A.3.1, not MAR 5.3.1A (3) which we believe is a typo under above Q5*) would not have any consequences in ICMA’s view. The reason being that it has no relevance whether a firm is an SI or not. Instead, the conflict of interest would exist between running a multilateral system and running a bilateral system, as highlighted by the FCA under paragraphs 9.22 (as well as paragraphs 9.14 and 9.15) of this PS. The construct of an SI is irrespective of OTFs, and other areas of law are covering the conflict of interest between running an OTF and running a bilateral system *(see MiFID Article 18(3) and (4)) and FCA Handbook: 5A.4.1 (6) and (7))*. A SI in this context does not have a specific meaning and therefore it has no relevance whether a firm that is engaged in bilateral trading is a SI or not.

From a bond market perspective, we do not see any conflict of interest between OTFs and SIs.

Therefore, in reference to paragraphs 9.21 and 9.22 of this Discussion Paper, in the context of bond markets, we do not foresee any changes in market structure on the bond side, and neither any risk that firms would seek to operate an SI in the same legal entity as an OTF.

Q6: If the restrictions in MAR 5.3.1A (3) no longer applied, would it be necessary to apply new limitations?

ICMA response:

ICMA members do not think that is necessary to apply new limitations, in line with our response to Q5.

Q7: Do you think that the inclusion of ‘SINT’ in contract notes provides any meaningful information for retail clients? Please explain your answer.

ICMA response:

ICMA’s response is provided solely in the context of bond markets. From a bond market perspective, and in line with our response to Question 3, the inclusion of “SINT” does not provide any meaningful information for retail clients, in the same way it does not any meaningful

information to institutional clients. ICMA members do not see any use of “SINT” in the context of transaction reporting. ICMA members are therefore in support to use “XOFF” as described under 9.23.

Q8: Do you think that there will be any implications for best execution if in respect of bonds and derivatives firms are no longer identified as SIs?

ICMA response:

ICMA agrees to the points stated by the FCA in paragraphs 9.25-9.27 of this PS, especially what is stated in paragraph 9.25 which is that “the use of the term ‘SI’ is not integral to the definition of execution venue in that it also includes ‘other liquidity providers'”, that “The fundamental obligation to assess execution quality in deciding on the venues to rely on as part of best execution arrangements would remain,” and, as stated in paragraph 9.27: “Therefore, if firms are no longer required to identify themselves as SIs in respect of trading in bonds and derivatives that should not affect an assessment of whether a client is relying on the firm in respect of a quote it provides.”

Therefore, in response to Q8, in ICMA’s view there are **no** implications for best execution if in respect of bonds, firms are no longer identified as SIs. Again, as stated before, ICMA can only comment from a bond market perspective.

Q9: Do you think that SI users have access to adequate information to assess the role that SIs play in helping the clients to meet their best execution obligations? If not, how best do you think the information gap should be addressed?

ICMA response:

In line with our response to Question 8, ICMA members see no relevance in whether a firm is a SI or not in that regard and would refer again to what the FCA states in paragraph 9.25 as follows: “The use of the term ‘SI’ is not integral to the definition of execution venue in that it also includes ‘other liquidity providers’.” Furthermore, and as referred to in paragraph 9.28 of this CP, it is expected that the consolidated tape for bonds should help to improve the availability of market data also in the context of best execution.