Stephen Berger

Managing Director, Global Head of Government & Regulatory Policy, Citadel

Achieving post-trade transparency in the EU non-equity markets

MiFID II laudably aimed to shine light on the historically opaque non-equity markets, including for both bonds and OTC derivatives. Regrettably, the post-trade transparency framework is not working as intended and has yet to deliver concrete benefits for investors. As the EU proceeds with the MiFID II review, addressing implementation shortcomings and establishing post-trade consolidated tapes for non-equities are necessary course corrections that will materially benefit EU investors, capital markets, and the broader economy.

Benefits of Post-Trade Transparency

Post-trade transparency, in the form of real-time public reporting of transaction prices and sizes, yields significant benefits. Myriad academic studies demonstrate that increased post-trade transparency in non-equity markets narrows bid-ask spreads and enhances liquidity. First, real-time public reporting empowers investors to accurately assess execution quality, demand accountability from liquidity providers, and obtain best execution. Second, real-time public reporting removes information asymmetries and allows all liquidity providers to better manage risk, and in turn, more confidently quote prices, commit capital, and warehouse risk across all market conditions. Third, real-time public reporting makes markets more resilient, especially in times of stress, by ensuring that new information is efficiently assimilated and reflected in current price levels.

Addressing Implementation Shortcomings in the MiFID II Post-Trade Transparency Regime

Unfortunately, to date, the accessibility and timeliness of the scarce EU non-equity post-trade transparency data that does exist is poor. First, very few off-venue transactions are subject to post-trade transparency requirements. For example, only approximately 5% of off-venue trading activity in OTC derivatives is currently subject to post-trade transparency requirements. Second, across bonds and OTC derivatives, even for on-venue transactions, four-week deferrals from public reporting are the norm, not the exception, primarily due to inaccurate liquidity assessments or excessively low size thresholds for trade deferrals. Finally, trading venues and APAs are not publishing post-trade transparency data free of charge after 15 minutes, as is required. Each of these shortcomings can be remedied and doing so will help set the MiFID II transparency regime back on course.

Establishing EU Post-Trade Consolidated Tapes for Non-Equities

In parallel with addressing the above issues, establishing real-time post-trade consolidated tapes for non-equities will ensure that EU investors can efficiently access and benefit from transparency data. The US post-trade consolidated tapes in each of the corporate bond, municipal bond, mortgage-backed securities, and OTC derivatives markets provide empirical evidence of both the value and viability of implementing post-trade consolidated tapes for non-equities. These consolidated tapes are each comprehensive, require mandatory contribution, disseminate information immediately upon receipt (both freely to the public via websites and via real-time data feeds at a reasonable cost), and feature targeted and limited deferral regimes for larger size block trades.

Conclusion

The MiFID II review process provides a critical opportunity to remedy identified implementation shortcomings and to establish post-trade consolidated tapes that together will put the MiFID II post-trade transparency regime for non-equities back on track, strengthening EU financial markets and improving conditions for investors.