EFAMA

European Fund and Asset Management Association

EFAMA's REPLY TO ESMA'S CONSULTATION ON RTS 2 ANNUAL REVIEW

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Rue Marie-Thérèse 11 | B-1000 Bruxelles
T +32 2 513 39 69 | info@efama.org | www.efama.org
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1. Questions

Q1: Do you agree with ESMA's proposal to move to stage 3 for the determination of the liquidity assessment of bonds? Please explain.

EFAMA believes that it is too early to move to stage 3 for the determination of the liquidity assessment of bonds, due to the following factors:

1. The current database is not representing the total bond population. Comparing 650 "liquid" bonds with a bond population of 200k bonds is not meaningful.
2. The speed of change from stage 2 to stage 3 is too fast. The market has lived with stage 2 liquidity assessments for only a few months. A few months of data cannot provide a firm basis for a move to stage 3.
3. If the market moves to stage 3, we are very close to implementation of stage 4 (2 trade per day). A better understanding of the data is necessary before moving in that direction.
4. There are missing elements in the data analysis, for example by not taking into account <u>new issue</u> bonds which are defined liquid as soon as >1bn for Government, Corporate and Covered bonds.
5. Furthermore, there are missing element in the move analysis – when moving from stage 2 to stage 3, ESMA does not address that this move also involves changing the threshold for new issue for Corporate and Covered bonds from 1bn to 500m.
6. We disagree with the conclusions in the market structure analysis in paragraphs 40 and 41. To the contrary we believe there was strong evidence of liquidity support from bond market makers during Covid-19.
7. We do not feel that key stakeholders' views have been sufficiently reflected on this topic. Instead, we see a pre-eminence of the view from the exchanges who do not participate in the bond markets.

There is already much real-time transparency today, mainly on new issues bonds. We recommend (1) setting up the bond tape and (2) to analyse further the transparency data, bond population and market structure. Only thereafter, any decision should be made on whether deferrals need to be adjusted.

Q2: Do you agree with ESMA's proposal not to move to stage 2 for the determination of the pre-trade SSTI thresholds for all non-equity instruments except bonds? Please explain.

Q3: Do you agree with ESMA's proposal to move to stage 3 for the determination of the pre-trade SSTI thresholds for bonds (except ETCs and ETNs)? Please explain.