

MarketAxess and Trax Respond on MiFID II: Rules mainly positive, but proposed pre-trade transparency requirements for less frequently traded bonds risk impairment in liquidity

London - Thursday 7 August, 2014. In response to ESMA's request for comments on its MiFID II/MiFIR Consultation and Discussion Papers, MarketAxess and Trax have outlined their views on the proposed rules.

Jim Rucker, Global Head of Operations Services, said: "We support the introduction of MiFID II and MiFIR, and believe the incoming rules are predominantly positive for the market. Our responses to the proposals are based on our knowledge and insights into market structure for less liquid instruments, particularly corporate bonds. We believe that increased transparency is good for the market but are strongly of the view that, for less liquid instruments, the rules must be thoughtfully developed so as to avoid negatively impacting critical market liquidity."

The responses from MarketAxess and Trax focused on the following key areas of the Papers:

Pre-trade transparency

"MarketAxess understands that pre-trade transparency can support efficient functioning of markets in instruments that trade on a very frequent basis. Nevertheless we caution against the use of pre-trade transparency in markets that trade infrequently. In particular, we believe pre-trade transparency for instruments that trade infrequently risks reduced liquidity and worse execution prices."

MarketAxess proposed that to support increased transparency, without materially damaging fixed income liquidity:

- | The MiFIR liquid markets definition should require cash fixed income instruments to trade at a minimum of multiple times per day (per ESMA Scenario 6) and be set at a level that would capture approximately two thirds of fixed income trading volume.
- | The 'size specific to instrument' pre-trade waiver should be calibrated for markets that use voice and RFQ trading systems, differentiate between retail and institutional participants and take into account liquidity provider risk exposure. The waivers should be set above specified thresholds that would capture approximately half of fixed income trades.
- | ESMA should be sensitive to the nuances of the request-for-quote model, which has proven to be the most effective protocol in less liquid markets, when applying pre-trade transparency requirements. This includes respecting the balance of information that should be made public. We recommend pre-trade transparency should only require publication of the average response, where a minimum number of executable quotes are received.

Transparency across trading venues

"In cash fixed income, parity of transparency requirements across different trading venues and Systematic Internalisers (SIs) is required so that participants are not incentivised to favour one means of execution over another on the basis of transparency requirements. The market participants and risks applicable to trading venues and SIs are comparable, and frequently the same."

Definition of liquidity

"Two approaches have been proposed by ESMA to define liquid markets under MiFIR: The Class of Financial Instruments Approach (COFIA) and the Instrument by Instrument Approach (IBIA). MarketAxess believes that the Class of Financial Instruments Approach (COFIA) with infrequent (i.e. annual) assessment of instruments classified as liquid / illiquid should be used. This approach supports an accurate, stable and reliable framework. More frequent assessment of liquid markets (e.g. monthly or quarterly) under the alternative IBIA risks creating inconsistencies, which institutions may choose to capitalize on."

Provision of data

"MarketAxess believes overly prescriptive requirements on trading venues, Approved Publication Arrangements (APAs) or

Consolidated Tape Providers (CTPs) acting as data providers will lead to inefficiencies. While it is clearly important that buyers of data have sufficient information for their decision making, highly prescriptive requirements risk higher costs for providers and as a result increased prices for consumers of data."

Branch reporting

MarketAxess and Trax believe that the current MiFID approach to branch reporting should be maintained, as changes to home versus host reporting are unlikely to address problems of nil reporting or double reporting. Misreporting is typically the result of operational inefficiencies. Changing the current approach will necessitate a high degree of cost and complexity as some major branches operating in London have systems which are wholly distinct from those in the Head Office and do not interface directly with home state regulatory authorities. We believe that these changes will have high costs but will not result in improvements in reporting quality.

For more details on these responses or to speak with a MarketAxess executive, please contact:

Paul Bowhay
Cognito Media
+44 (207) 426 9417
marketaxess@cognitomedia.com

Florencia Panizza
MarketAxess
+1 212 813 6029
fpanizza@marketaxess.com

About MarketAxess

MarketAxess operates a leading electronic trading platform that enables fixed-income market participants to efficiently trade corporate bonds and other types of fixed-income instruments using MarketAxess' patented trading technology. Over 1,000 institutional investor and broker-dealer firms are active users of the MarketAxess trading platform, accessing global liquidity in U.S. high-grade corporate bonds, emerging markets and high-yield bonds, European bonds, U.S. agency bonds, credit default swaps and other fixed-income securities. MarketAxess SEF Corporation has received temporary registration from the U.S. Commodity Futures Trading Commission to operate a swap execution facility. MarketAxess also offers a number of trading-related products and services, including: market data to assist clients with trading decisions; connectivity solutions that facilitate straight-through processing; technology services to optimize trading environments; and execution services for exchange-traded fund managers and other clients. Through its Trax[®] division, MarketAxess also offers a range of pre- and post-trade services, including trade matching, regulatory transaction reporting and market and reference data, across a range of fixed-income products. Trax is the trading name of Xtrakter Ltd., a MarketAxess group company.

MarketAxess maintains its headquarters in New York and has offices in London, Boston, Chicago, Los Angeles, Salt Lake City, São Paulo and Singapore. For more information, please visit www.marketaxess.com.