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FAQs on MiFID II - Interim Transparency Calculations

Scope:
This document aims at gathering Frequently Asked Questions (FAQs) and answers regarding the publication of the MiFID II Transitional Transparency Calculations (TTC) for all non-equity instruments in accordance with RTS 2 regulatory technical standards on transparency requirements in respect of bonds, structured finance products, emission allowances and derivatives under MiFIR.

Legal basis

- For further information on the Markets in Financial Instruments Directive II: MiFID II
- For further information on the Markets in Financial Instruments Regulation: MiFIR
- For further information on the Regulatory Technical standards: RTS 1 and RTS 2
- For further information please consult the website of ESMA

A. TOPIC – General information

A.1. What are the MiFID II Transitional Transparency Calculations (TTC)?

MiFID II/MiFIR requires performing various transparency calculations in relation to trading of equity and all non-equity instruments. Those calculations will have to be performed both for the transition from MiFID I to MiFID II/MiFIR as well as on an ongoing basis once MiFID II/MiFIR applies. National Competent Authorities (NCAs) are responsible for performing the transparency calculations under MiFID II/MiFIR, both for transitional purposes as well as the ongoing calculations.

ESMA was requested to coordinate the exercise in the transitional phase for the delegating NCAs. ESMA staff performed the transitional transparency calculations using data related to 2016 trading activity provided by trading venues.

The scope of the TTC is the computations required for RTS 2. The data was used for the assessment of liquidity and for the calculation of large-in-scale (LIS) and size-specific to the instrument (SSTI) thresholds for pre-trade and post-trade transparency purposes.

A.2. What are the implications of being a liquid or non-liquid instruments?

MiFID II/MiFIR introduces transparency requirements for bonds, structured finance products, emission allowances and derivatives with powers for competent authorities (NCAs) to waive the obligation for market operators and investment firms operating a trading venue to make public pre-trade information for non-equity instruments for which there is not a liquid market. Furthermore, transactions in non-equity instruments for which there is not a liquid market may also benefit from deferred publication.

A.3. What are asset-class, sub-asset class and sub-classes?

RTS 2 under MiFID II defines several non-equity asset classes, e.g. bonds, commodity derivatives, credit derivatives, equity derivatives. However, the scope of the TTC is the computations required for RTS 2 according to the sub-asset class to which each financial instrument belongs. Therefore, additional reference data was used to determine the sub-asset class. For the purpose of the determination of the classes of financial instruments considered not to have a liquid market, sub-asset classes are further segmented into sub-classes according the segmentation criteria as displayed in Annex III of RTS 2.

A.4. What do LIS and SSTI mean?

RTS 2 under MiFID II stipulates the size of transactions which are large in scale (LIS) and the size-specific to the instrument (SSTI) for which pre-trade transparency may be waived and post-trade transparency may be deferred and further specifies the deferred publication at the discretion of the competent authorities under Article 11(3) MiFIR. This information is displayed in euros except for emission allowances and derivatives thereof for which they are expressed in tons of carbon dioxide.

A.5. Shall I already trade under the transparency requirements described in the interim transparency calculations?

No, the new transparency requirements will be applicable starting on 3 January 2018.

A.6. Until when will the outcomes of the TTC be valid?

The following dates are applicable:

1. The outcomes of the TTC are applied from 03 January 2018 until 31 May 2019 for **derivatives and bonds with respect to LIS and SSTI thresholds**. The next version of the calculations is planned to be published on 30 April 2019 (already by the IT system and not as part of the transitional calculations). The application period of those updated figures will be 01 June 2019 – 31 May 2020. The frequency of the updates is 1 year.

2. The outcomes of the TTC are applied from 03 January 2018 until 15 May 2018 for **bonds with respect to liquidity indicators**. The next version of liquidity determination for bonds will be published on 01 May 2018. Those updated figures will be applicable during 16 May 2018 – 15 August 2018. The frequency of the updates will be 1 quarter.

3. The outcomes of the TTC are applied from 03 January 2018 until 31 March 2019 for **equity instruments**. The next version of the calculations will be on 01 March 2019. The application period of those updated figures will be 01 April 2019 – 31 March 2020. The frequency of the updates will be 1 year.

B. TOPIC – Data availability

B.1. Why can I not find information on a particular equity instrument or bond in the files?

The published TTC do not contain information for equity/ETF/bonds as accordingly to the transitional provisions in RTS 1 and RTS 2, interim transparency calculations for equity and ETFs shall be published by 06/12/2017. Liquidity assessment of individual bonds will be published by 01/12/2017.

B.2. Why can I not find a specific ISIN/sub-class in the TTC files?

There could be several reasons why an ISIN/sub-class is not available in TTC files: (I) The TTC files only display those ISINs/sub-classes that are deemed liquid. (II) The particular ISIN/sub-classes was not traded during the reference period, namely from 3 July 2016 to 2 January 2017 (both dates included). (III) ISINs were not requested for each sub-class. (IV) The ISIN of the underlying instrument was modified (e.g. a split of an equity).

For example, ISINs of derivative contracts are not available, whereas the ISINs of their underlyings may in fact be available. In that case, please use the information on the underlying instrument of the derivative and other characteristics of the derivative to find the applicable information for the sub-class to which the particular derivative belongs to.

For further details on the segmentation criteria, please refer to Annex III of RTS 2.

B.3. Why there is no data available (marked with NA) for some fields included in the TTC files?

The fields included in the tables refer to the segmentation criteria at which the whole asset class was subject to (please refer to Annex III of RTS 2). For this reason, some fields, that do not apply for that specific sub-class, were populated with NA.

C. TOPIC – Files structure

C.1. How are the TTC files structured?

The TTC files are structured according to asset classes for all non-equity instruments in line with Annex III of RTS 2. Only asset classes with at least one liquid sub-class are published.

D. TOPIC – File content

D.1. What data are included in the TTC Files?

The TTC files contain reference data (e.g., notional currency, time-to-maturity bucket, etc.) and the calculated large-in-scale (LIS) and size-specific to the instrument (SSTI) thresholds for pre-trade and post-trade transparency purposes per sub-class when they have been classified as liquid. In particular, for Equity Derivatives part I, where all sub-asset classes are considered to have a liquid market, the thresholds that will apply for the instruments that cannot be found in the file, are those applicable to the smallest average daily notional amount (ADNA) band of the sub-asset class to which the equity derivative belongs (RTS 2 Article 13(14)).

Only for those instruments for which data has been received, SSTI/LIS pre-and post-trade thresholds have been calculated and included in those tables. There are some additional liquidity criterion for which data has not been received, but their liquidity is interconnected with the liquidity assessment of other instruments. The affected sub-asset classes are as follows:

Credit derivatives - CDS index options

A CDS index option whose underlying CDS index is a sub-class determined to have a liquid market and whose time to maturity bucket is 0-6 months is considered to have a liquid market. The applicable threshold values are the ones specified in Article 13(2)(a) and 13(3)(a) in accordance with Article 13(11).

CFD - Equity CFDs

An equity CFD sub-class is considered to have a liquid market if the underlying is an equity security for which there is a liquid market as determined in accordance with Article 2(1)(17)(b) of Regulation (EU) No 600/2014. The applicable threshold values for liquid equity CFD sub-classes are the ones specified in Article 13(2)(a) and 13(3)(a) in accordance with Article 13(11).

CFD - Bond CFDs

A bond CFD sub-class is considered to have a liquid market if the underlying is a bond or bond future for which there is a liquid market as determined in accordance with Articles 6 and 8(1)(b).The applicable threshold values for liquid bond CFD sub classes are the ones specified in Article 13(2)(a) and 13(3)(a) in accordance with Article 13(11).

CFD - CFDs on an equity future/forward

A CFD on an equity future/forward sub-class is considered to have a liquid market if the underlying is an equity future/forward for which there is a liquid market as determined in accordance with Articles 6 and 8(1)(b). The applicable threshold values for liquid CFD on an equity future/forward sub-classes are the ones specified in Article 13(2)(a) and 13(3)(a) in accordance with Article 13(11).

CFD - CFDs on an equity option

A CFD on an equity option sub-class is considered to have a liquid market if the underlying is an equity option for which there is a liquid market as determined in accordance with Articles 6 and 8(1)(b). The applicable threshold values for liquid CFD on an equity option sub-classes are the ones specified in Article 13(2)(a) and 13(3)(a) in accordance with Article 13(11).

Interest rate derivatives - Fixed-to-Float 'single currency swaps' and futures/forwards on Fixed-to-Float 'single currency swaps'

A future/forward on Fixed-to-Float 'single currency swap' is considered to have a liquid market if the underlying is a Fixed-to-Float 'single currency swap' for which there is a liquid market. The applicable threshold values are those provided for the related Fixed-to-Float 'single currency swap'.

For additional information, please refer to RTS 2.

All other instruments are assessed as illiquid, and their corresponding thresholds can be found in Annex III of RTS 2.

D.2. Why do not all asset classes specified in RTS 2, have a downloadable TTC file?

ESMA has calculated the liquidity of instruments subject to pre- and post-trade transparency requirements. As a result of the liquidity assessment, some asset classes turned out to be overall illiquid (e.g. SFP) or have no liquid instrument (e.g. C10 derivatives). In addition, ESMA only performed the exercise in the transitional phase for the delegating NCAs. For the other 8 remaining classes, the thresholds were calculated and stored in individual files.

D.3. Why have the originally published TTC results for the asset class Credit Derivatives been modified?

After publication of the TTC results on 03 July 2017, a TV communicated to ESMA that they had detected an error in their submitted information for the asset class Credit Derivatives. The TV subsequently resubmitted corrected data on the same date.

ESMA proceeded to review the computations with the newly provided information. The impact of this error is that out of the 11 originally published Credit Default Swaps (CDS) sub-classes, 9 sub-classes should be considered illiquid. The published file therefore contains information for only two remaining sub-classes with adjusted LIS and SSTI thresholds.

D.4. Why have the originally published TTC results for the asset class Equity Derivatives I been modified?

After publication of the TTC results on 03 July 2017, ESMA was notified on a data quality issue for the asset class Equity Derivatives I. TVs provided to ESMA the ISINs of underlying dividends instead of the requested information, the ISINs of the shares that pay the underlying dividends. The TVs that provided this information were informed by ESMA and resubmitted corrected data.

In addition, ESMA was informed that several reported ISINs were related to the same underlying, due to corporate actions, affecting the computed TTC. ESMA has corrected this to the best extent possible.

Finally, ESMA also corrected an error generated by a misclassification of a TV of an ETF option as a stock option.

ESMA proceeded to review the computations with the newly provided information. The impact of this error is that out of the number of liquid sub-classes in Equity Derivatives I is reduced from the 2,161 originally published to 2,106 sub-classes.

D.5. What is the meaning of two ISINs, separated by pipes, reported as ISIN of the underlying instrument for Equity Derivatives I?

Whenever two or more ISINs are provided, separated by a pipe, it means that the underlying refers to a basket of shares. In line with Table 6.1, Annex III of RTS 2, the underlying of stock options and stock futures/forwards may be a share or a basket of shares resulting from a corporate action.