[redacted] (FISMA)

From: [redacted] (MARKT)
Sent: 29 May 2013 10:14
To: MARKT LIST G3
Subject: Meeting with ISDA re pre-trade transparency and block-trades in derivatives

On 28/5-2013, Maite Fabregas, [redacted] and [redacted] met with ISDA regarding pre-trade transparency/block-trades

ISDA offered an overview/data on liquidity development for CDS on indices and Interest rate derivatives, showing that few instruments represent the bulk of all liquidity and that there is significant fluctuation in liquidity (example of liquidity concentration in 5, 10 years and 30 years).

ISDA is concerned that current MIFIR text is not clear about how pre-trade transparency rule will play out with regard to block trades in derivatives. Currently, block trades in futures can be arranged bilaterally off the order book but according to the trading venues rules. There is usually not sufficient residual liquidity to match block trades in a dark order book. They are concerned that the trading obligation under MiFIR would not allow large in scale transactions in OTC derivatives to be arranged bilaterally and subsequently reported to the trading venue. In this regard MIFIR is not clear whether off-order book trades (while still subject to the venue rules) are permissible.

In their view, the option requiring multilateral trading on order book would be harmful to price discovery/market efficiency and allocate all execution risk to the client. They therefore conclude that the bilateral option is appropriate and consistent with the way they characterise the US interpretation of the G-20 commitment (multilateral trading means that trade should be executed on a venue to which multiple actors have access, it is not necessary that each individual trade is executed multilaterally).

ISDA also offered some thoughts on the CFTC rules. In their view, there is risk of uneven level playing field within the US (due to the distinctive treatment of block size and other parameters (request for quote system) between and SEFs and DCMs) and between the US and other jurisdictions (due to the CFTC unwillingness to accept substitutive compliance). They also consider that the block size threshold for SEFS of 67% is blunt and very high.

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