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## **Consultation Paper – The trading obligation for derivatives under MiFIR**

Dear Sir/Madam,

IHS Markit is pleased to submit the following comments to the European Securities and Markets Authority (“ESMA”) in response to its Consultation Paper (“CP”) on the trading obligation for derivatives under MiFIR (“TO”).

IHS Markit<sup>1</sup> (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 80 percent of the Fortune Global 500 and the world’s leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

IHS Markit’s derivatives processing platforms are widely used by market participants, Trading Venues (“TVs”) and brokers to increase operational efficiency, reduce cost, and ensure legal certainty. Globally over 2,000 firms use the various IHS Markit trade processing platforms that process, on average, 90,000 derivative transaction processing events per day. IHS Markit’s trade processing platforms form an important element of derivatives workflows, particularly in the credit, interest rate, equity, and foreign exchange asset classes. In September 2015, IHS Markit acquired DealHub<sup>2</sup>, enhancing its trade processing offerings in the foreign exchange (“FX”) asset class, including regulatory reporting.

IHS Markit’s trade processing platforms also facilitate firms’ compliance with several regulatory requirements across jurisdictions. Specifically, the MarkitSERV platforms facilitate the electronic confirmation of a significant portion of derivatives transactions worldwide, submit them for

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<sup>1</sup> See [www.ihsmarkit.com](http://www.ihsmarkit.com) for more details

<sup>2</sup> Markit Completes Acquisition of DealHub, Sept. 4, 2015,

<http://www.businesswire.com/news/home/20150904005095/en/Markit-Completes-Acquisition-DealHub>

clearing to 16 clearinghouses globally, including meeting straight-through processing (“STP”) requirements to transmit trades from trading venues to central counterparties (“CCPs”). The platform also reports OTC derivative transaction details for many counterparties to trade repositories (“TRs”) in the United States, Canada, Europe, Japan, Hong Kong, Singapore, and Australia, as well as reporting OTC derivative transaction on behalf of the G15 banks to a TR on a voluntary basis as a part of an OTC Derivatives Regulators’ Forum (“ODRF”) initiative.

Through its derivatives trade processing platform, IHS Markit has a unique perspective across all types of participants in the OTC derivatives markets that operate across regulatory regimes. We share in common with ESMA the common goal of stable, fair and liquid OTC derivatives markets, and welcome the opportunity to respond to the CP.

## Comments

IHS Markit commends ESMA’s work recalibrating the derivatives TO based on the feedback provided by the industry. We particularly welcome:

- (i) That ESMA has included trade data from Multilateral Trading Facilities (“MTFs”) to supplement data from TRs. We believe trade data sourced from the point of origin would be useful for liquidity analysis given the lack of granularity and possible duplications of trade data sourced from TRs;
- (ii) ESMA’s decision to remove all cleared trades from the dataset to exclude duplicated records. Inclusions of cleared trades would have no doubt created a mirage of greater liquidity in less liquid products and resulted in a disproportionate derivatives TO; and
- (iii) The conclusion that only interest rate swaps (“IRS”) sub-classes with at least 3 liquid benchmarks should be considered subject to the derivatives TO, resulting in the exclusion of IRS contracts in SEK and self-compounding overnight index swaps (“OIS”) contracts.
- (iv) The removal of IRS’ denominated in JPY because primary trading activity of IRS’ in JPY is outside the EEA.

However, we believe that some further adjustments to the proposals as set out in the CP would better achieve ESMA’s goals to promote liquidity across OTC derivatives markets.

Research has shown<sup>3</sup> that liquid financial instruments become more liquid when subject to centralized trading and transparency but illiquid instruments become less liquid. We outline this in greater detail in our response to the DP<sup>4</sup>. Less liquid OTC derivative instruments require off-venue trading to enhance price formation and liquidity. This is because the additional transparency associated with on-venue trading for an OTC derivative alerts market participants that transactions have occurred, leaving the liquidity provider to these

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<sup>3</sup> See e.g., Predatory Trading, Markus K. Brunnermeier and Lasse Heje Pedersen, The Journal of Finance, Aug. 2005, at 1824-1825, available at [http://pages.stern.nyu.edu/~lpederse/papers/predatory\\_trading.pdf](http://pages.stern.nyu.edu/~lpederse/papers/predatory_trading.pdf)

<sup>4</sup> Please see comments section on Page 2-3 in our response to the DP:

<http://www.markit.com/Company/RegulatoryResponsesFile?CMSID=ddc9a784d7af492e871901b404eaf83c>

transactions susceptible to predatory trading from the few firms able to provide a hedge to the liquidity provider. Predatory trading deters liquidity providers from meeting end user demand for hedging transactions, effectively raising the cost for market users to reduce commercial risks.

We therefore welcome ESMA's efforts to conduct a robust liquidity analysis to identify illiquid products that have a high risk of predatory trading and keep them outside the scope of the derivatives TO. The liquidity analysis should be appropriately calibrated and based on historical price forming transactions<sup>5</sup>. MIFID II transaction reporting will provide ESMA with better liquidity data<sup>6</sup> which will allow ESMA to conduct superior liquidity analysis. ESMA will therefore be able to reconsider the derivatives TO with a greater depth of understanding when this data becomes available. In the meanwhile, we strongly believe that ESMA should limit the scope of the current derivatives TO regime to derivatives sub-classes where the liquidity is unequivocally demonstrated.

Appropriate application of the derivatives TO should increase liquidity in liquid contracts without decreasing liquidity in less liquid instruments, and so avoiding the negative impacts described above. We believe that incorporating the following recommendations would help ESMA in achieving this:

- (i) ESMA's approach in relying on a holistic liquidity assessment is welcome and would be similar to the *de facto* approach taken in the US. However, we believe that ESMA should not disregard quantitative thresholds. Satisfying these thresholds should be a necessary but not sufficient<sup>7</sup> criteria for a class of derivatives to be considered liquid. This would ensure transparency, consistency and fairness in the determination of the derivatives TO;
- (ii) ESMA should use the enhanced data set which includes trade data from MTFs to determine the number of TVs on which an instrument is traded voluntarily before these instruments are subject to the derivatives TO.

A particular class of derivatives should be voluntarily traded on at least three unaffiliated TVs before it is considered for the derivatives TO. This would ensure competition among TVs (a key objective of MIFID II<sup>8</sup>), lower transaction costs, and promote greater choice of technology and execution methodologies. Moreover, this would avoid the risk that TVs would be incentivised to list derivative sub-classes with

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<sup>5</sup> Certain post-trade events (e.g. terminations, novations) are price forming but should be excluded from liquidity analysis because these cannot be traded on a venue

<sup>6</sup> For example, pre-allocation information is not available to ESMA from the TRs. Under the MiFID II transaction reporting regime ESMA will have access to pre-allocation data, which will reflect true market liquidity.

<sup>7</sup> This is due to the "purpose" and "quality" of EMIR data which in both cases will tend to substantially overstate liquidity. It is important to base these decisions on actual rather than perceived liquidity. There are many examples including but not limited to; post allocation data, post prime brokerage data, and novation data (rather than execution data).

<sup>8</sup> MiFIR Recital 28 requires that the derivatives TO should "allow for efficient competition between eligible trading venues. Therefore those trading venues should not be able to claim exclusive rights in relation to any derivatives subject to that trading obligation preventing other trading venues from offering trading in those financial instruments."

the objective of forcing trading activity onto their particular venue at the expense of broader market liquidity;

- (iii) ESMA's proposal on sub-classes specification should include fields that are more granular to exclude less liquid derivative sub-classes. To this extent, we believe that:
- a. The data field Notional Type should be added in the sub-class specification which will allow for the exclusion of illiquid IRS such as variable notional swaps ("VNS") and swaps with embedded optionality (e.g. callable and extendable swaps) from the derivatives TO;
  - b. Additional key data fields such as Floating leg payment frequency should be included in the sub-classes specification for derivatives that are subject to the derivatives TO; and
  - c. ESMA should align the list of attributes in the derivatives sub-classes with those under the CFTC Made Available to Trade (MAT) regime<sup>9</sup>. IRS sub-classes specification should therefore include fixed and floating payment Business Days<sup>10</sup> and fixed and floating payment Business Day Convention<sup>11</sup>.
- (iv) The derivatives TO should be suspended when there is a suspension of the Clearing Obligation ("CO").<sup>12</sup>

ESMA's proposals would mean that the derivatives TO would apply to market and product segments which are illiquid. Therefore, we believe it would be important to ensure that the derivatives TO does *not apply* where:

- (i) A transaction is part of a package transaction unless all the components are subject to the derivatives TO and the package itself would be deemed illiquid under the MiFID II transparency regime;
- (ii) The size of a transaction is greater than the pre-trade large in scale ("LIS") threshold for the particular sub-class of derivatives;
- (iii) The trades are not executed with benchmark tenors since liquidity is confined to trades with benchmark tenors. Including trades that are executed +/- 5 calendar days of the benchmark dates for the purpose of liquidity determination may, however, be appropriate;
- (iv) Derivatives for which the primary trading activity is conducted outside the EU, unless those derivatives are already subject to derivatives TO in the primary jurisdiction and they are liquid in Europe. This would avoid regulatory arbitrage in those classes of derivatives; and

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<sup>9</sup> <http://www.cftc.gov/idc/groups/public/@otherif/documents/file/swapsmadeavailablechart.pdf>

<sup>10</sup> These are holiday calendars, e.g. Target, London, New York etc.

<sup>11</sup> Vanilla EUR, GBP and USD IRS are typically modified following.

<sup>12</sup> Under MiFIR Article 32(4) ESMA has the ability to consider classes of derivatives for which no CCP has been authorised or which is not admitted to trading on any trading venue. However, ESMA has not considered any derivative classes which are not subject to CO in this CP and the Discussion Paper published in 2016.

- (v) The quantitative thresholds for liquidity determination are not satisfied (e.g., number of trades per day, number of market participants/TVs etc.). The sub-classes where these thresholds are not satisfied are explored in detail in our response to Q5-10 and in Annex I & II.

Finally, we believe that there should be an appropriate phase-in of the derivatives TO in order to avoid subjecting smaller counterparties to disproportionate burden and operational bottlenecks.

### **Detailed responses to specific questions in the CP:**

***Q 1: Do you agree with ESMA's assessment and proposed way forward for the criteria assessing the number and types of active market participants? If not, please explain your position and how you would integrate these elements into the liquidity test***

IHS Markit agrees with 50 being a minimum threshold for the number of market participants in a particular class of derivatives. However, this should be a necessary but not sufficient condition for a class of derivatives to be subject to the derivatives TO.

Moreover, the data sourced from TRs is at the post-allocation level, as acknowledged by ESMA.<sup>13</sup> There may be many allocations associated with a single price forming transaction and therefore both the number of transactions and the number of participants are inflated in the data set used for liquidity analysis. Therefore, we recommend that derivatives sub-classes that only marginally satisfy the quantitative liquidity thresholds should be excluded from the derivatives TO. ESMA should wait for data to become available from MiFID II transaction reports<sup>14</sup> which will contain pre-allocation transaction data.

We agree with and support the amendments made by ESMA for the liquidity analysis that underpins the derivatives TO and in particular:

- i. ESMA's decision to supplement the TR data set with trade data from MTFs for assessing liquidity should help ESMA to have a derivatives TO sub-class specification with a higher level of granularity. However, as only three MTFs responded to ESMA's data request and the MTF data is only a small percentage of the combined data set, we believe that the data sourced from MTFs should not be relied upon in isolation to imply liquidity.
- ii. ESMA's proposals that limits the derivatives TO only to classes with at least three liquid benchmark tenor points to reduce the operational burden of the derivatives TO for these classes of derivatives.
- iii. We agree with the exclusion of forward starting swaps from the derivatives TO because they are illiquid.

IHS Markit would also like to comment on the below points for consideration:

#### **a. Benchmark Tenors for IRS**

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<sup>13</sup> Para. 31

<sup>14</sup> Under MiFIR Article 26

We question the proposal to require benchmark tenors +/-5 days of IRS denominated in EUR, GBP and USD to be subject to the derivatives TO. We agree that while it is acceptable to include +/-5 days of the benchmark when assessing liquidity, there is typically significantly less liquidity for trades with a tenor of +/- 5 days off a benchmark tenor than for trades in benchmark tenors<sup>15</sup>. We believe that it is not appropriate to subject such instruments to the derivatives TO, especially since establishing the parameters of such trades typically requires voice negotiation which is not always available on TVs.

**b. Number and type of market participants**

We agree with ESMA's assertion that it should use a more "flexible approach that allows for some deviation where this is supported by other liquidity criteria"<sup>16</sup>, particularly in cases where derivatives sub-classes show very different liquidity characteristics. However, we believe that ESMA should maintain the quantitative thresholds as the minimum criteria for a class of derivatives to be considered liquid. This would ensure illiquid instruments are not included in the derivatives TO.

**c. Package Transactions**

We agree with ESMA's reliance on a "holistic liquidity assessment [which] takes into account the various liquidity criteria"<sup>17</sup>. We recommend that ESMA apply such an approach to package transactions and exclude them from the derivatives TO until it has access to information on the liquidity of specific package trades through MiFID II transaction reports. However, should ESMA decide to include package transactions in the derivatives TO, we believe that only packages where all components are subject to the derivatives TO and the package itself is deemed liquid under the MiFID II transparency regime should be included in the derivatives TO. This is because liquidity for the package is at best comparable to the liquidity of the least liquid component of the package transaction.

In addition, each sub-class within a class of derivatives should only be considered for liquidity determination based on outright transaction volumes and not where they are traded as a component of a package. However, we understand that the data from TRs reported under EMIR does not offer this distinction but data sourced from MiFID II transaction reports should distinguish components of a package trade from standalone IRS transactions. Therefore, we would recommend that ESMA is more cautious in applying the derivatives TO to less liquid IRS tenors e.g. 6Y, 8Y, 12Y for all currencies considered in the CP since these tenors are mainly part of package transactions.

**d. Admitted to trading criteria**

We believe that the criterion of "admitted to trading" is not a sufficient test of liquidity and that ESMA should only consider TVs where actual trading is taking place. ESMA should also be careful when considering TVs which provide continuous "streaming of prices" as this is not an

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<sup>15</sup> Off-benchmark IRS require bespoke pricing from liquidity providers to manage fixing risk

<sup>16</sup> Para. 63

<sup>17</sup> Para. 56

indication of actual liquidity. ESMA would risk calibrating liquidity incorrectly should it consider admitted to trading on a venue as sufficient criteria.

**e. Number of Trading Venues**

We believe that applying a TO to a class of derivatives that only trades on one or two venues creates risks that ESMA should avoid, for example:

- i. An opportunity for venues to abuse their dominant position and increase trading fees which would be passed onto commercial end users, increasing transaction costs and reducing their ability to efficiently hedge real economy risks. An inappropriate derivatives TO would also increase barriers to entry and could limit the competition and innovation in markets. MiFIR requires that the derivatives TO “should allow for efficient competition between eligible trading venues.”<sup>18</sup>
- ii. A single dominant venue would limit market participants’ choice of technology and execution methodologies. These should be encouraged to promote broad participation and therefore more liquid markets.
- iii. Trading venues would be incentivised to list derivative sub-classes if it means that these derivatives would be considered for the derivatives TO in order to increase their prospects of gaining a large share of market liquidity and at the expense of market liquidity as a whole.

For the reasons outlined above we believe that ESMA should set a minimum threshold of three unaffiliated trading venues to ensure that trading venues are not able to create a dominant market position. Moreover, if a class of derivative subject to the derivatives TO is delisted from a TV such that it then only trades on one or two TVs then ESMA should review the derivatives TO for that class of derivatives.

**f. Average size/frequency of trades**

We agree with ESMA’s position on number of market makers and ratio of market participants to average size/frequency of trades.

***Q2: Do you agree with the revised proposal not to exempt post-trade LIS transactions? If not, please explain and present your proposal***

In certain trading environments<sup>19</sup> there is information leakage when an order is placed on a TV. This would be particularly damaging for on-venue transactions with a notional above pre-trade LIS<sup>20</sup>. This information leakage creates an opportunity for predatory trading inhibiting the ability of liquidity providers to hedge transactions with end users. Therefore, we believe

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<sup>18</sup> MiFIR, Recital 28.

<sup>19</sup>Such as trading systems based on Request For Quotes (RFQs)

<sup>20</sup>Under RTS 2 (Transparency for non-equity) under MiFID II/MiFIR pre-trade LIS threshold is usually less than post-trade LIS threshold.

that ESMA should exempt transactions above both pre-trade and post-trade LIS transactions from the derivatives TO.

**Q 3: Do you agree with this proposal? If not, please explain why and provide an alternative proposal for ESMA to populate and maintain the register.**

We understand ESMA's intent to create and maintain a register of TVs (MTFs, OTFs) for each class of derivatives that are available for trading on TVs. However, to ensure that this information is useful and not misleading it would need to:

- (i) include the granular product specifications mandated by ESMA,
- (ii) include all European and third country venues that has been granted equivalence by the European Commission and
- (iii) be kept up to date and accurate no later than a T+1 basis.

If ESMA is unable to satisfy these conditions we recommend that the market should continue to rely on information published directly by TVs on derivatives that are available for trading on their platform.

**Q 4: Do you agree with this proposal? Would you add other parameters e.g. day count convention of the floating leg, notional type (constant vs. variable), fixed rate type (MAC vs. MAC)? If yes, please explain why and provide the parameters.**

We agree with the parameters that have been included by ESMA, namely:

- i) Floating rate index and its term
- ii) Trade date start type
- iii) Payment frequency fixed leg
- iv) Day count convention fixed leg
- v) Reset frequency floating leg

However, we believe that the following additional parameters should be included:

- a. **Floating leg payment frequency** - ESMA has included fixed leg payment frequency in the list of parameters that needs to be taken into account but not the floating leg payment frequency. We believe that floating leg payment frequency is a key component of an IRS and therefore should be added to the list of attributes. This would enable differentiation between compounding<sup>21</sup> or averaging IRS<sup>22</sup> and the plain vanilla IRS which have different liquidity characteristics.
- b. **Notional Type (to exclude VNS)** - We believe that IRS transactions with variable notional<sup>23</sup> should not be considered for the liquidity determination and therefore should not be

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<sup>21</sup>For a definition see: <http://www.investment-and-finance.net/derivatives/c/compounding-swap.html>

<sup>22</sup>For a definition see: <http://www.investment-and-finance.net/derivatives/a/average-rate-swap.html>

<sup>23</sup>For a definition see: <http://www.investment-and-finance.net/derivatives/v/variable-notional-swap.html>



subject to the derivatives TO. VNS include amortising, accreting and roller-coaster swaps. These are usually structured to match specific cash flows for hedging purposes and are therefore illiquid by definition. The transaction data suggests that only a few hundred VNS were traded globally in each of EUR, GBP, and USD over an 18 month period<sup>24</sup>. Therefore, we believe that notional type should be included in the list of parameters to facilitate the exclusion of VNS.

- c. **Embedded optionality** - We believe that data on IRS with embedded optionality, for example, callable swaps<sup>25</sup> or extendable swaps<sup>26</sup> should not be considered for the liquidity determination of IRS and therefore should not be subject to the derivatives TO. IRS' with embedded optionality are usually structured to match specific cash flows for hedging purposes and are therefore illiquid by definition. We observed that very few IRS' with embedded optionality were traded globally in each of EUR, GBP and USD over an 18 month period.<sup>27</sup> Therefore, we believe that embedded optionality should be included in the list of parameters to facilitate the exclusion of IRS that exhibit such characteristics. This would also harmonise with the CFTC MAT rules as trades with embedded optionality are exempt from that requirement.
- d. **Floating leg day count fraction** - ESMA has included fixed leg day count fraction in the list of parameters that needs to be taken into account but not the floating leg day count fraction. Our data shows that IRS' with different day count fraction on the fixed leg have different liquidity characteristics. Therefore, we believe that floating leg day count fraction is also an important attribute that will allow ESMA to distinguish between liquid and illiquid contracts.

ESMA has stated that the data sourced from TRs does not include the floating leg day count fraction<sup>28</sup> but this attribute is typically a key economic field for an IRS and IHS Markit reports this data to TRs under EMIR on behalf of firms with a reporting obligation. We note that in ESMA's latest EMIR validation rules for the revised RTS and ITS<sup>29</sup> there is no requirement for reporting entities to submit Floating leg Day count fraction to TRs. We recommend that ESMA should consider revising the validation rules to include this field so that it can be used in the list of parameters to determine the applicability of the derivatives TO.

***Q 5: For each Case, specify if you agree with the proposal of qualifying the sub-classes as liquid for the purpose of the trading obligation and if not, please explain why and provide an alternative proposal.***

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<sup>24</sup>This observation is based on data from trades conducted between Jan 2016 and June 2017.

<sup>25</sup>For a definition see: <http://www.investment-and-finance.net/derivatives/c/callable-swap.html>

<sup>26</sup>For a definition see: <http://www.investment-and-finance.net/derivatives/e/extendable-swap.html>

<sup>27</sup>This observation is based on data from trades conducted between Jan 2016 and June 2017.

<sup>28</sup>Para. 124

<sup>29</sup> <https://www.esma.europa.eu/press-news/esma-news/esma-updates-emir-qa-and-validation-rules>

For the analysis in Q5 - Q10 we have used data sourced from IHS Markit's derivatives processing business (MarkitSERV) between Jan 2016 – June 2017. These have been summarized in Annex I and II.

- a. **Case A1**<sup>30</sup> - Consider the following sub-class with specification:

*EUR, spot starting, Euribor 3m, Fixed Leg Payment Frequency Annual, Floating Leg Reset Frequency Quarterly and Fixed Rate Day Count Fraction 30/360 or ACT/360*

The trade data sourced from IHS Markit's derivatives processing business shows that the tenors 15Y, 20Y, and 30Y are significantly less liquid than other tenors which passed ESMA's liquidity test (2Y, 3Y, 4Y, 5Y, 6Y, 7Y, and 10Y) for sub-classes with fixed rate day count fraction as 30/360. We also note that even the most liquid tenors (3Y, 4Y, 5Y and 10Y) that passed ESMA's liquidity test according to our data trade only slightly above 10 times a day.<sup>31</sup>We therefore believe that ESMA should exempt all tenors of this sub-class including tenors 3Y, 4Y, 5Y and 10Y from the derivatives TO on the date of application and reassess liquidity in these contracts when trade data from MiFID II transaction reports becomes available.

Similarly for sub-classes with fixed rate day count fraction ACT/360, the new trade volume<sup>32</sup> for all tenors proposed for the derivatives TO (2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 15Y, 20Y and 30Y) is between one and five trades per day. Among these tenors the trades with tenors 6Y, 7Y, 15Y, 20Y and 30Y are the least liquid (trading between one and two times a day). Therefore all sub-classes considered in Case A1 and having fixed rate day count fraction as ACT/360 are illiquid and should not be subject to the derivatives TO.

- b. **Case A2**<sup>33</sup> - Consider the following sub-class with specification:

*EUR, spot starting, Euribor 6m, Fixed Leg Payment Frequency Annual, Floating Leg Reset Frequency Semi-annual and Fixed Rate Day Count Fraction 30/360 or ACT/360*

We agree that sub-classes that have a fixed rate day count fraction of 30/360 are traded more than 10 times a day at each tenor point (2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 8Y, 9Y, 10Y, 12Y, 15Y, 20Y and 30Y) with the 5Y, 10Y and 30Y tenors being the most liquid. The 6Y, 8Y, and 12Y tenors are the least liquid on a standalone basis since they are mostly part of package transactions and therefore ESMA should reconsider the proposal to subject sub-classes with these tenors (6Y, 8Y, and 12Y) to the derivatives TO.

However, for fixed rate day count fraction ACT/360 we note that aggregate new trade volume across all tenors (2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 15Y, 20Y and 30Y) is less than 1 trade per day which indicates that all sub-classes with fixed rate day count fraction of ACT/360 are highly illiquid<sup>34</sup>.

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<sup>30</sup>Page 36 of the CP

<sup>31</sup>This observation is based on data from trades conducted between Jan 2016 and June 2017.

<sup>32</sup>This is considering transactions between Jan 2016 to June 2017.

<sup>33</sup>Page 36 of the CP

<sup>34</sup>This observation is based on data from trades conducted between Jan 2016 and June 2017.

**Q 6: Would you also consider any of these possible sub-classes as liquid? Which other combinations of fixed leg payment frequency and floating leg reset frequency specifically would you consider to be sufficiently liquid?**

We believe that the following sets of sub-classes do not exist and therefore it is not logical to have derivatives TO for these sub-classes (Case A3 & A4):

- i) EUR, spot starting, Euribor 3m with a floating leg reset frequency of semi-annual
- ii) EUR, spot starting, Euribor 6m with a floating leg reset frequency of quarterly

Below we have outlined the liquidity of certain sub-classes:

- a. **Case A3<sup>35</sup>** - We believe that the sub-class with the specification:

*EUR, spot starting, Euribor 3m, Fixed Leg Payment Frequency Semi-Annual, Floating Leg Reset Frequency Quarterly and Fixed Rate Day Count Fraction 30/360 or ACT/360*

is illiquid. The trade data from IHS Markit's trade processing business suggest that this sub-class was traded less than 100 times across an 18 month period starting Jan 2016 which indicates that contracts in this sub-class are highly illiquid and fail the ESMA liquidity test of a minimum 10 trades per day. We believe that ESMA should therefore exempt this sub-class from the derivatives TO.

- b. **Case A4<sup>36</sup>** - We believe that the sub-class with the specification

*EUR, spot starting, Euribor 6m, Fixed Leg Payment Frequency Semi-Annual, Floating Leg Reset Frequency Semi-Annual and Fixed Rate Day Count Fraction 30/360 or ACT/360*

is illiquid. The trade data from IHS Markit's trade processing business suggest that this sub-class was traded less than 300 times across an 18 month period starting Jan 2016 which indicates that contracts in this sub-class are highly illiquid and fail the ESMA liquidity test of a minimum 10 trades per day. We believe that ESMA should therefore exempt this sub-class from the derivatives TO.

**Q 7: For each Case, specify if you agree with the proposal of qualifying the sub-classes as liquid for the purpose of the trading obligation and if not, please explain why and provide an alternative proposal.**

- a. **Case C1<sup>37</sup>** - Consider the following sub-class with specification:

*USD, spot starting, Libor 3m, Fixed Leg Payment Frequency Semi-Annual, Floating Leg Reset Frequency Quarterly and Fixed Rate Day Count Fraction 30/360 or ACT/360*

We believe that in the above sub-class all contracts listed with a fixed rate day count fraction of 30/360 are liquid. However, aggregate new trade volume<sup>38</sup> of all tenors with

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<sup>35</sup>Page 37

<sup>36</sup>Page 37

<sup>37</sup>Page 40

fixed rate day count fraction as ACT/360 (Tenors 2Y, 3Y, 4Y, 5Y, 7Y, 10Y and 30Y) is less than 2 trades per week across an 18 month period which indicates that contracts in this sub-class is highly illiquid and fails the ESMA liquidity test of a minimum 10 trades per day. We believe that ESMA should therefore exempt this sub-class from the derivatives TO.

- b. **Case C2**<sup>39</sup> - Consider the following sub-class with specification:

*USD, IMM, Libor 3m, Fixed Leg Payment Frequency Semi-Annual, Floating Leg Reset Frequency Quarterly and Fixed Rate Day Count Fraction 30/360 or ACT/360*

Within this sub-class we believe that all tenor points are illiquid. IMM contracts are typically traded by certain client types and we believe that this sub-class primarily trades outside Europe. We believe that ESMA should monitor liquidity in this sub-class when trade data from MiFID II transaction reports becomes available.

- c. **Case C3**<sup>40</sup> - Consider the following sub-class with specification:

*USD, spot starting, Libor 3m, Fixed Leg Payment Frequency Annual, Floating Leg Reset Frequency Quarterly and Fixed Rate Day Count Fraction ACT/360*

Within this sub-class we believe that average new trade volume for contracts with tenors 4Y, 7Y, and 30Y is significantly less than one trade per day and that for contracts with tenors 2Y, 3Y, 5Y and 10Y is significantly less than two trades per day<sup>41</sup> which indicates that all contracts in this sub-class are highly illiquid and fail the ESMA liquidity test of a minimum 10 trades per day. We believe that ESMA should therefore exempt this sub-class from the derivatives TO.

- d. **Case C3**<sup>42</sup> - Consider the following sub-class with specification:

*USD, spot starting, Libor 3m, Fixed Leg Payment Frequency Annual, Floating Leg Reset Frequency Quarterly and Fixed Rate Day Count Fraction 30/360*

Within this sub-class we believe that aggregate new trade volume for all tenors (2Y, 3Y, 4Y, 5Y, 7Y, 10Y and 30Y) is less than one trade per week in total<sup>43</sup> which indicates that all contracts in this sub-class are highly illiquid and fail the ESMA liquidity test of a minimum 10 trades per day. We believe that ESMA should therefore exempt this sub-class from the derivatives TO.

- e. **Case C4**<sup>44</sup> - Consider the following sub-class with specification:

*USD, IMM, Libor 3m, Fixed Leg Payment Frequency Annual, Floating Leg Reset Frequency Quarterly and Fixed Rate Day Count Fraction 30/360 or ACT/360*

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<sup>38</sup>Based on trade data from IHS Markit's trade processing business.

<sup>39</sup>Page 40

<sup>40</sup>Page 40

<sup>41</sup>Based on trade data from IHS Markit's trade processing business across 18 months starting Jan 2016.

<sup>42</sup>Page 40

<sup>43</sup>Based on trade data from IHS Markit's trade processing business across 18 months starting Jan 2016.

<sup>44</sup>Page 40

Within this sub-class we believe that all tenor points are illiquid. IMM contracts are typically traded by certain client types and we believe that that this sub-class primarily trades outside Europe. We believe that ESMA should monitor liquidity in this sub-class when trade data from MiFID II transaction reports becomes available.

**Q 8: Would you also consider any of these possible sub-classes as liquid? Which other combinations of fixed leg payment frequency and floating leg reset frequency specifically would you consider to be sufficiently liquid?**

We believe that the following sets of sub-classes do not exist and therefore it is not logical to have a derivatives TO for these sub-classes (Case A3 & A4):

- i) USD, spot starting or IMM, Libor 3m with a floating leg reset frequency of semi-annual
- ii) USD, spot starting or IMM, Libor 6m with a floating leg reset frequency of quarterly

Below we have outlined the liquidity of certain sub-classes:

**a. Case C5<sup>45</sup>** - Consider the sub-classes with the following specifications:

*i) USD, spot starting, Libor 3m, Fixed Leg Payment Frequency Semi-Annual, Floating Leg Reset Frequency Quarterly and Fixed Rate Day Count Fraction 30/360*

ESMA has suggested additional tenors of 6Y, 12Y, 15Y, and 20Y be added for this IRS sub-classes in order to align the derivatives TO in Europe with the US CFTC MAT requirement. However, we note<sup>46</sup> that these tenors (6Y, 12Y, 15Y, and 20Y) are significantly less liquid than the tenors 2Y, 3Y, 4Y, 5Y, 7Y, 10Y and 30Y<sup>47</sup>. Therefore, we would recommend against including these in the derivatives TO at this stage given IRS contracts in USD is less liquid in Europe than in the US and that the EU derivatives TO should focus on the more liquid tenor points.

*ii) USD, spot starting, Libor 3m, Fixed Leg Payment Frequency Semi-Annual, Floating Leg Reset Frequency Quarterly and Fixed Rate Day Count Fraction ACT/360.*

ESMA has asked for the views of market participants to add tenors 6Y, 12Y, 15Y and 20Y so as to avoid “inconsistent trading mandates at a global level”<sup>48</sup>. In our response to question 7, we demonstrated that tenors 2Y, 3Y, 4Y, 5Y, 7Y, 10Y, and 30Y are illiquid<sup>49</sup> and therefore by extension tenors 6Y, 12Y, 15Y, and 20Y are illiquid as well and hence should not be subject to the derivatives TO. We support alignment with the CFTC MAT regime only in cases where there is sufficient liquidity in these contracts in the EU.

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<sup>45</sup>Page 41

<sup>46</sup>Based on trade data from IHS Markit’s trade processing business across 18 months starting Jan 2016

<sup>47</sup>These are proposed by ESMA to be subject to the derivatives TO on the basis of liquidity analysis

<sup>48</sup>Para 141

<sup>49</sup>Please see response to Q7, section (b) and (c)

*iii) USD, spot starting, Libor 3m, Fixed Leg Payment Frequency Annual, Floating Leg Reset Frequency Quarterly and Fixed Rate Day Count Fraction 30/360.*

In our response to question 7, Case C3 with Fixed rate day count fraction 30/360, we demonstrated that tenors 2Y, 3Y, 4Y, 5Y, 7Y, 10Y, and 30Y are illiquid<sup>50</sup> and therefore, by extension, tenors 6Y, 12Y, 15Y, and 20Y are also illiquid. ESMA should therefore not subject these contracts to the derivatives TO. We support alignment with the CFTC MAT regime only in cases where there is sufficient liquidity in these contracts in the EU.

*iv) USD, spot starting, Libor 3m, Fixed Leg Payment Frequency Annual, Floating Leg Reset Frequency Quarterly and Fixed Rate Day Count Fraction ACT /360.*

In our response to question 7, Case C3 with Fixed rate day count fraction ACT/360, we demonstrated that tenors 2Y, 3Y, 4Y, 5Y, 7Y, 10Y, and 30Y are illiquid<sup>51</sup> and therefore, by extension, tenors 6Y, 12Y, 15Y, and 20Y are also illiquid. ESMA should therefore not subject these contracts to the derivatives TO. We support alignment with the CFTC MAT regime only in cases where there is sufficient liquidity in these contracts in the EU.

**b. Case C6<sup>52</sup>** - Consider the sub-classes with the following specifications:

*i) USD, spot starting, Libor 6m, Fixed Leg Payment Frequency Semi-Annual, Floating Leg Reset Frequency Semi-Annual and Fixed Rate Day Count Fraction 30/360*

The tenors in this sub-class (2y, 3y, 4y, 5y, 6y, 7y, 10y, 12y, 15y, 20y, 30y) are aligned with the CFTC MAT<sup>53</sup> requirement in the US. However, aggregate new trade volume across all tenors in this sub-class is approximately 1 trade per day.<sup>54</sup> This indicates that that all contracts in this sub-class are highly illiquid and fail the ESMA liquidity test of a minimum 10 trades per day. We believe that ESMA should therefore exempt this sub-class from the derivatives TO.

*ii) USD, spot starting, Libor 6m, Fixed Leg Payment Frequency Semi-Annual, Floating Leg Reset Frequency Semi-Annual and Fixed Rate Day Count Fraction ACT/360*

The tenors in this sub-class (2y, 3y, 4y, 5y, 6y, 7y, 10y, 12y, 15y, 20y, 30y) are aligned with the CFTC MAT requirement in the US. However, aggregate new trade volume across all tenors in this sub-class is significantly less than 1 trade per day.<sup>55</sup> This indicates that that all contracts in this sub-class are highly illiquid and fail the ESMA liquidity test of a minimum 10 trades per day. We believe that ESMA should therefore exempt this sub-class from the derivatives TO.

*iii) USD, spot starting, Libor 6m, Fixed Leg Payment Frequency Annual, Floating Leg Reset Frequency Semi-Annual and Fixed Rate Day Count Fraction 30/360*

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<sup>50</sup>Please see response to Q7, section (b) and (c)

<sup>51</sup>Please see response to Q7, section (b) and (c)

<sup>52</sup>Page 41

<sup>53</sup><http://www.cftc.gov/idc/groups/public/@otherif/documents/file/swapsmadeavailablechart.pdf>

<sup>54</sup>Based on trade data from IHS Markit's trade processing business across 18 months starting Jan 2016

<sup>55</sup>Based on trade data from IHS Markit's trade processing business across 18 months starting Jan 2016

The tenors in this sub-class (2y, 3y, 4y, 5y, 6y, 7y, 10y, 12y, 15y, 20y, 30y) are aligned with the CFTC MAT requirement in the US. However, aggregate new trade volume across all tenors in this sub-class is 5 trades in total.<sup>56</sup> This indicates that that all contracts in this sub-class are highly illiquid and fail the ESMA liquidity test of a minimum 10 trades per day. We believe that ESMA should therefore exempt this sub-class from the derivatives TO.

*iv) USD, spot starting, Libor 6m, Fixed Leg Payment Frequency Annual, Floating Leg Reset Frequency Semi-Annual and Fixed Rate Day Count Fraction ACT/360*

The tenors in this sub-class (2y, 3y, 4y, 5y, 6y, 7y, 10y, 12y, 15y, 20y, 30y) are aligned with the CFTC MAT requirement in the US. However, aggregate new trade volume across all tenors in this sub-class is on average 2 trades per day.<sup>57</sup> This indicates that that all contracts in this sub-class are highly illiquid and fail the ESMA liquidity test of a minimum 10 trades per day. We believe that ESMA should therefore exempt this sub-class from the derivatives TO.

- c. **Case C7/8** -It is not clear why ESMA has included IMM IRS for the derivatives TO in addition to spot starting IRS. The volume of IMM, as ESMA acknowledges, is rather low in Europe<sup>58</sup>. IMM dates vary by currency but are typically start, roll and end on the third Wednesday of the applicable month. So the date can vary from 15th to 21st of the applicable month which could exceed the +/- 5 days rule. But more importantly given the low volume of IMM trades in Europe we would recommend excluding IMM trades from the derivatives TO on the date of application. ESMA should review the data available from MiFID II transaction reports before making a liquidity determination IMM contracts in Europe.

**Q 9: For each case, specify if you agree with the proposal of qualifying the sub-classes as liquid for the purpose of the trading obligation and if not, please explain why and provide an alternative proposal.**

- a. **Case D1**<sup>59</sup>

*GBP, spot starting, Libor 6m, Fixed Leg Payment Frequency Semi-Annual, Floating Leg Reset Frequency Semi-Annual and Fixed Rate Day Count Fraction ACT/365F*

ESMA has included additional tenors of 3Y, 4Y, 6Y, 7Y, 15Y and 20Y in case D1 on the basis of “feedback from stakeholders that supports adding a number of additional tenors”.<sup>60</sup> However, the trade data that is analysed by ESMA does not support the inclusion of these three sub-classes. As stated earlier in our response we believe that the derivatives TO should be mandated only for classes of derivatives where liquidity has been established using trade data and based on minimum thresholds established by ESMA.

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<sup>56</sup>Based on trade data from IHS Markit’s trade processing business across 18 months starting Jan 2016

<sup>57</sup>Based on trade data from IHS Markit’s trade processing business across 18 months starting Jan 2016

<sup>58</sup> Para 39

<sup>59</sup>Page 44

<sup>60</sup> Para 143

Furthermore, we believe that new trade volume for all these additional tenors is substantially less than 10 trades per day<sup>61</sup> with the 6Y tenor having fewer than three trades per day on average which is illiquid. We further note that the 2Y contract also traded substantially less than 10 times a day.<sup>62</sup>

**b. Case D2<sup>63</sup>**

*GBP, spot starting, Libor 3m, Fixed Leg Payment Frequency Quarterly, Floating Leg Reset Frequency Quarterly and Fixed Rate Day Count Fraction ACT/365F*

ESMA has proposed to include all contracts in this sub-class based on feedback from shareholders “that there is sufficient streaming of (indicative) prices to consider them liquid”<sup>64</sup>. We believe that “sufficient streaming of prices” is not necessarily indicative of liquidity in derivatives sub-classes. Moreover, ESMA is mandated to consider liquidity based on number of executed transactions. Transaction data sourced from IHS Markit’s data processing business indicates that aggregate new trade volume across all tenors in this sub-class (2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 15Y, 20Y and 30Y) is less than 10 trades per day. Therefore each tenor point is highly illiquid. We believe that ESMA should therefore exempt this sub-class from the derivatives TO.

**Q 10: Would you also consider the possible sub-classes here below as liquid? Which other combinations of fixed leg payment frequency and floating leg reset frequency specifically would you consider to be sufficiently liquid?**

We believe that the following sets of sub-classes do not exist and therefore it is not logical to have derivatives TO for these sub-classes (Case D3 & D4):

- i) GBP, spot starting, Libor 6m with a Floating leg reset frequency of quarterly
- ii) GBP, spot starting, Libor 3m with a Floating leg reset frequency of Semi-annual

**a. Case D3<sup>65</sup> - Consider the following sub-class:**

*GBP, spot starting, Libor 6m, Fixed Leg Payment Frequency Quarterly, Floating Leg Reset Frequency Semi-Annual and Fixed Rate Day Count Fraction ACT/365F*

We note that the aggregate new trade volume across all tenors (2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 15Y, 20Y and 30Y) is 2 trades across a period of 18 months.<sup>66</sup>This indicates that that all contracts in this sub-class are highly illiquid and fails the ESMA liquidity test of a

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<sup>61</sup>Based on trade data from IHS Markit’s trade processing business across 18 months starting Jan 2016

<sup>62</sup>This is considering transactions between Jan 2016 to June 2017.

<sup>63</sup> Page 44

<sup>64</sup>Para. 144

<sup>65</sup>Page. 45

<sup>66</sup>Based on trade data from IHS Markit’s trade processing business across 18 months starting Jan 2016



minimum 10 trades per day. We believe that ESMA should therefore exempt this sub-class from the derivatives TO.

- b. **Case D4**<sup>67</sup> - Consider the following sub-class:

*GBP, spot starting, Libor 3m, Fixed Leg Payment Frequency Semi-Annual, Floating Leg Reset Frequency Quarterly and Fixed Rate Day Count Fraction ACT/365F*

We note that the aggregate new trade volume across all tenors (2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 15Y, 20Y and 30Y) is less than 3.5 trades per day.<sup>68</sup> This indicates that all contracts in this sub-class are highly illiquid and fails the ESMA liquidity test of a minimum 10 trades per day. We believe that ESMA should therefore exempt this sub-class from the derivatives TO.

***Q 11: Do you agree with this proposal? If not, please explain why and provide an alternative proposal***

Yes, we agree with this proposal.

***Q 12: Do you agree with this proposal? If not, please explain why and provide an alternative proposal.***

Historical data suggests that off-the-run indices are illiquid and we therefore believe that it should not be subject to the derivatives TO. IHS Markit has observed that liquidity falls sharply after the roll of an index.<sup>69</sup>

For example, the iTraxx Main EUR 5Y Series 25 experienced a drop of almost 75% in terms of number of trades after the roll to iTraxx Main EUR 5Y Series 26. Similarly, the iTraxx Crossover EUR 5Y Series 25 experienced a drop of almost 80% in terms of number of trades after the roll to iTraxx Crossover EUR 5Y Series 26.

***Q 13: Do you agree to the proposed timeline? If not, please explain why and present your proposal.***

We agree with ESMA's intention to phase-in the derivatives TO by category of market participants. However, we believe that the proposed application dates of the derivatives TO will be burdensome for the industry and, in particular, for the smaller market participants given that the derivatives TO would take effect on the same day as the CO. Smaller non-financial market participants, who are infrequent users of derivatives, do not have the necessary infrastructure to implement the CO and derivatives TO on the same date.<sup>70</sup>

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<sup>67</sup>Page. 45

<sup>68</sup>Based on trade data from IHS Markit's trade processing business across 18 months starting Jan 2016

<sup>69</sup>It is observed that trading activity sharply reduces one week after the roll of the index

<sup>70</sup>The derivatives TO for Category 3 and Category 4 firms applies on the same date as the CO. Table2, Page 47.

We understand that EU policy makers strongly favour that the start date of the derivatives TO is 3<sup>rd</sup> Jan 2018. However, we believe that this would be extremely burdensome for the industry for the following reasons:

- i) It is now clear that the rules on the derivatives TO will not be finalised until the last quarter of 2017. Market participants would have to wait for the final rules before they embark on the technological and infrastructure projects needed to support the derivatives TO. It is unlikely that they would be able to implement these in the short time window between Q4 2017 and 3<sup>rd</sup> Jan 2018. Furthermore, it is not uncommon to have firm wide code-freezes at the end of a calendar year which will further impact the ability of the industry to implement the derivatives TO.
- ii) We understand that the European Commission is having discussions around the equivalence of non-EEA TVs with the relevant jurisdictions but there is lack of clarity around the timing of equivalence determinations. We believe that the derivatives TO should be implemented only if equivalence determinations have been made for TVs in key jurisdictions such as US, Hong-Kong, Singapore, Japan and Australia.

For the reasons mentioned above we believe that the derivatives TO should be implemented no earlier than 6 months after the equivalence decisions between the EU and other key non-EEA jurisdictions mentioned above is finalised.

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We hope that our above comments are helpful. We would be more than happy to elaborate or further discuss any of the points addressed above in more detail. If you have any questions, please do not hesitate to contact us (Harsh Agarwal at [harsh.agarwal@ihsmarkit.com](mailto:harsh.agarwal@ihsmarkit.com)).

Yours sincerely,

***Harsh Agarwal***

Harsh Agarwal  
Regulatory Affairs  
IHS Markit

## ANNEX I

**This section contains a summary of the responses to Q 5 – Q 10. The responses are based of liquidity analysis conducted by IHS Markit with trade data sourced from IHS Markit’s derivatives processing business.**

Contract Specification							IHS Markit liquidity analysis		
Question reference from CP	Case/Trade Start Type/Settlement Currency	Floating reference rate with term	Fixed leg payment frequency	Fixed rate day count fraction	Floating leg reset frequency	Benchmark tenors +/- 5 days	Illiquid contracts	Number of trades globally (Jan 2016 – June 2017) tpd = times per business day	Additional comments
Q.5	A1/Spot starting (t+2)/EUR	Euribor 3M	Annual	30/360	Quarterly	2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 15Y, 20Y, 30Y	Benchmark tenors: 2Y, 7Y, 15Y, 20Y and 30Y	15Y, 20Y, and 30Y <5 tpd 2Y, 7Yr <10 tpd 3Y, 4Y <12 tpd 5Y and 10Y ~15 tpd	Benchmark tenors 15Y, 20Y, 30Y are added by ESMA based on feedback from stakeholders. TO should be mandated only where liquidity is established by trade data. Liquidity in this sub asset class is limited and ESMA should consider whether to subject any tenors to the TO
Q.5	A1/Spot starting (t+2)/EUR	Euribor 3M	Annual	ACT/360	Quarterly	2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 15Y, 20Y, 30Y	All Benchmark tenors	Between 1-5 tpd	Benchmark tenors 15Y, 20Y, 30Y are added by ESMA based on feedback from stakeholders. TO should be mandated only where liquidity is established by trade data.
Q.5	A2/Spot starting (t+2)/EUR	Euribor 6M	Annual	30/360	Semi-annual	2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 8Y, 9Y 10Y, 12Y, 15, 20Y, 30Y	Benchmark tenors – 6Y, 8Y and 12Y	6Y, 8Y and 12Y <20 tpd	The tenors 6Y, 8Y and 12Y are mainly part of package transactions and hence they are likely illiquid as outright transactions
Q.5	A2/Spot starting (t+2)/EUR	Euribor 6M	Annual	ACT/360	Semi-annual	2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 8Y, 9Y 10Y, 12Y, 15, 20Y, 30Y	All Benchmark tenors	Less than 1 tpd in aggregate across all tenor points	All tenors are highly illiquid
Q.6	A3/Spot starting (t+2)/EUR	Euribor 3M	Semi-annual	30/360 & ACT/360	Quarterly		All contracts	Less than 100 trades in total	All tenors are highly illiquid
Q.6	A4/Spot starting (t+2)/EUR	Euribor 6M	Semi-annual	30/360&ACT/360	Semi-annual		All contracts	Less than 300 trades in total	All tenors are highly illiquid
Q.7	C1/Spot starting (t+2)/USD	Libor 3M	Semi-annual	ACT/360	Quarterly	2Y, 3Y, 4Y, 5Y, 7Y, 10Y, 30Y	All Benchmark tenors	Less than 2 trades per week	All tenors are highly illiquid. All Benchmark tenors in the same sub-class with Fixed rate Day count fraction as 30/360 is liquid

Contract Specification							IHS Markit liquidity analysis		
Question reference from CP	Case/Trade Start Type/Settlement Currency	Floating reference rate with term	Fixed leg payment frequency	Fixed rate day count	Floating leg reset frequency	Benchmark tenors +/- 5 days	Illiquid contracts	Number of trades	Additional comments
Q.7	C1/Spot starting (t+2)/USD	Libor 3M	Semi-annual	30/360	Quarterly	2Y, 3Y, 4Y, 5Y, 7Y, 10Y, 30Y	All Benchmark tenors are liquid		
Q.7	C2/IMM/USD	Libor 3M	Semi-annual	30/360 & ACT/360	Quarterly	5Y, 6Y, 30Y	All Benchmark tenors	Not available	We believe liquidity in most of these contracts is in the US.
Q.7	C3/Spot starting (t+2)/USD	Libor 3M	Annual	ACT/360	Quarterly	2Y, 3Y, 4Y, 5Y, 7Y, 10Y, 30Y	All Benchmark tenors	<10 tpd for all tenors	All tenors are highly illiquid
Q.7	C3/Spot starting (t+2)/USD	Libor 3M	Annual	30/360	Quarterly	2Y, 3Y, 4Y, 5Y, 7Y, 10Y, 30Y	All Benchmark tenors	< 1 trade per week in aggregate across all tenors	All tenors are highly illiquid
Q.7	C4/IMM/USD	Libor 3M	Annual	30/360 & ACT/360	Quarterly	5Y, 6Y, 30Y	All Benchmark tenors	Not available	We believe liquidity in most of these contracts is in the US.
Q.8	C5/Spot starting (t+2)/USD	Libor 3M	Semi-annual	30/360	Quarterly	2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 12Y, 15Y, 20Y, 30Y	6Y, 12Y, 15Y, 20Y	6Y, 12Y, 15Y and 20Y <20 tpd	ESMA has included these contracts to align with US CFTC MAT. We believe liquidity in most of these contracts is in the US.
Q.8	C5/Spot starting (t+2)/USD	Libor 3M	Semi-annual	ACT/360	Quarterly	2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 12Y, 15Y, 20Y, 30Y	6Y, 12Y, 15Y, 20Y	6Y, 12Y, 15Y and 20Y <20 tpd	ESMA has included these contracts to align with US CFTC MAT. We believe liquidity in most of these contracts is in the US.
Q.8	C5/Spot starting (t+2)/USD	Libor 3M	Annual	ACT/360	Quarterly	2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 12Y, 15Y, 20Y, 30Y	All Benchmark tenors but specifically 6Y, 12Y, 15Y, 20Y	6Y < 2 tpd 12Y, 15Y, 20Y <1 tpd	ESMA has included these contracts to align with US CFTC MAT. All tenors are highly illiquid
Q.8	C5/Spot starting (t+2)/USD	Libor 3M	Annual	30/360	Quarterly	2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 12Y, 15Y, 20Y, 30Y	All Benchmark tenors but specifically 6Y, 12Y, 15Y, 20Y	< 1 trade per week in aggregate across all tenors	ESMA has included these contracts to align with US CFTC MAT. We believe liquidity of these contracts in EU is not sufficient.
Q.8	C6/Spot starting (t+2)/USD	Libor 6M	Semi-annual	30/360	Semi-annual	2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 12Y, 15Y, 20Y, 30Y	All Benchmark tenors	~ 1 tpd in aggregate across all tenors	All tenors are highly illiquid

Contract Specification							IHS Markit liquidity analysis		
Question reference from CP	Case/Trade Start Type/Settle ment Currency	Floating reference rate with term	Fixed leg payment frequency	Fixed rate day count	Floating leg reset frequency	Benchmark tenors +/- 5 days	Illiquid contracts	Number of trades	Additional comments
Q.8	C6/Spot starting (t+2)/USD	Libor 6M	Semi-annual	ACT/360	Semi-annual	2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 12Y, 15Y, 20Y, 30Y	All Benchmark tenors	~ 1 trade per week in aggregate across all tenors	All tenors are highly illiquid
Q.8	C6/Spot starting (t+2)/USD	Libor 6M	Annual	30/360	Semi-annual	2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 12Y, 15Y, 20Y, 30Y	All Benchmark tenors	Aggregate volume is 5 trades	All tenors are highly illiquid
Q.8	C6/Spot starting (t+2)/USD	Libor 6M	Annual	ACT/360	Semi-annual	2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 12Y, 15Y, 20Y, 30Y	All Benchmark tenors	Aggregate volume is ~2 trades per day	All tenors are highly illiquid
Q.8	C7 /IMM/USD	Libor 3M	Semi-annual/Annual	30/360 and ACT/360	Quarterly/Semi-Annual	2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 12Y, 15Y, 20Y, 30Y	All Benchmark tenors	Not available	ESMA acknowledges that volume of IMM is rather low in Europe. IMM dates vary by currency but are typically start, roll and end on the third Wednesday of the applicable month. So the date can vary from 15th to 21st of the applicable month which could exceed the +/- 5 days rule
Q.8	C8 /IMM/USD	Libor 6M	Semi-annual/Annual	30/360 and ACT/360	Quarterly/Semi-Annual	2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 12Y, 15Y, 20Y, 30Y	All Benchmark tenors	Not available	
Q.9	D1/Spot starting (t+0)/GBP	Libor 6M	Semi-annual	ACT/365F	Semi-annual	2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 15Y, 20Y, 30Y	2Y, 3Y, 4Y, 6Y, 7Y, 15Y and 20Y	<< 10 tpd for all additional tenors. 6Y <3 tpd	All additional tenors are illiquid

Contract Specification							IHS Markit liquidity analysis		
Question reference from CP	Case/Trade Start Type/Settle ment Currency	Floating reference rate with term	Fixed leg payment frequency	Fixed rate day count	Floating leg reset frequency	Benchmark tenors +/- 5 days	Illiquid contracts	Number of trades	Additional comments
Q.9	D2/Spot starting (t+0)/GBP	Libor 3M	Quarterly	ACT/365F	Quarterly	2Y, 3Y, 4Y, 5Y, 6Y, 7Y, 10Y, 15Y, 20Y, 30Y	All Benchmark tenors	Less than 10 trade per day in aggregate across all tenor points	We believe that “sufficient streaming of prices” is not necessarily indicative of liquidity in these derivatives sub-class. All additional tenors are highly illiquid
Q.10	D3/Spot starting (t+0)/GBP	Libor 6M	Quarterly	ACT/365F	Semi-Annual		All Benchmark tenors	Aggregate volume is 2 trades	All tenors are highly illiquid
Q.10	D4/Spot starting (t+0)/GBP	Libor 3M	Semi-Annual	ACT/365F	Quarterly		All Benchmark tenors	Aggregate volume is less than 3.5 trades per day across all tenor points	All tenors are highly illiquid

## ANNEX II

**This annex contains the list of derivatives sub-classes which do not make sense as the “designated maturity” or “term” of the floating reference rate with term should match the floating leg reset frequency. We believe they have been included in error and should therefore should not be subject to the TO.**

<b>Question reference from CP</b>	<b>Case/Trade Start Type/Settlement Currency</b>	<b>Floating reference rate with term</b>	<b>Fixed leg payment frequency</b>	<b>Fixed rate day count</b>	<b>Floating leg reset frequency</b>
Q.6	A3/Spot starting (t+2)/EUR	Euribor <b>3M</b>	Semi-annual/Annual	ACT/360 or 30/360	<b>Semi-annual</b>
Q.6	A4/Spot starting (t+2)/EUR	Euribor <b>6M</b>	Semi-annual/Annual	ACT/360 or 30/360	<b>Quarterly</b>
Q.8	C5/Spot starting (t+2)/USD	Libor <b>3M</b>	Semi-annual/Annual	ACT/360 or 30/360	<b>Semi-annual</b>
Q.8	C7/IMM/USD	Libor <b>3M</b>	Semi-annual/Annual	ACT/360 or 30/360	<b>Semi-annual</b>
Q.8	C6/Spot starting (t+2)/USD	Libor <b>6M</b>	Semi-annual/Annual	ACT/360 or 30/360	<b>Quarterly</b>
Q.8	C8/IMM/USD	Libor <b>6M</b>	Semi-annual/Annual	ACT/360 or 30/360	<b>Quarterly</b>
Q.10	D3/Spot starting (t+0)/GBP	Libor <b>6m</b>	Quarterly/Semi-annual	ACT/365F	<b>Quarterly</b>
Q.10	D4/Spot starting (t+0)/GBP	Libor <b>3m</b>	Quarterly/Semi-annual	ACT/365F	<b>Semi-annual</b>

