Stephen McGoldrick
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

10 January 2025

Sent via email : PS24-14@fca.org.uk

Dear Stephen,

Response to FCA PS24/14 – The Future of the SI Regime

The International Swaps and Derivatives Association, Inc. (ISDA) and the Global Foreign Exchange Division (GFXD) of the Global Financial Markets Association (GFMA), together 'the Associations', welcome the opportunity to respond to the FCA's PS24/14.

Overview and summary

Thank you for the opportunity to respond to the discussion on the future of the SI regime. We support the proposal that firms are no longer required to identify themselves as SIs in respect of trading in derivatives. We have only answered the questions that are relevant to ISDA and GFXD.

Q3) Does the SI flag on post-trade transparency reports 'SINT' provide useful information? Please explain your answer.

The Associations do not believe that the SINT flag provides useful information for derivatives for the following reasons:

a) SINT does not always mean that the trade has been executed with a true liquidity provider, as there is no differentiation for SIs who meet the definition and those who choose to opt-in.

b) Market participants do not make use of the SINT flag: i.e. they do not look at it or find it useful for any analysis.

ISDA and GXFD members are content to use the flag XOFF.

We would note that, for OTC derivatives, the bifurcation of different types of firms in the off-venue space will not add any value to a risk price that is not necessarily available to all market participants anyway. As OTC derivatives are generally priced with specific counterparty criteria included as they are trade on risk, they are generally not considered prices that could be achieved by any counterparty in this market at any point in time.

Q4) If firms trading bonds and derivatives OTC no longer had to identify themselves as SIs, do you think there is a case for adding new trade flags to post-trade reports to help identify addressable liquidity? If so, please explain your proposal for an additional flag.

No, we do not believe any new flags are required. They would not be perceived by market participants as having purpose or value.

Q5) What do you think might be the consequences if the restrictions in MAR 5.3.1A(3) no longer applied? Please explain your answer.

In so far as the Associations wish to comment on this, appetite from SIs to register OTFs is likely to be limited given their different business and operational models.

It is unclear whether even under the existing regime, the restrictions in MAR 5.3.1 (3) are meaningful or add any value because the term "SI" describes both large liquidity providers and also any firm dealing on own account off venue that has opted into being an SI (and may have done so in the past to assist its clients with post-trade reporting).

Rather than creating specific requirements limiting interaction with OTFs for "SIs", all firms dealing on their own account off venue should be subject to the same restrictions. Our members support the UK Finance suggestion that there is no need to create additional new restrictions replacing MAR 5A.3.1 as best execution requirements and conflicts of interest requirements already apply to SIs (and other investment firms) and OTFs and provide adequate protection. In addition, venues are subject to non-discriminatory access requirements which should ensure that an OTF would not give preferential (e.g. cheaper) access to its platform to any SI (or indeed to any other investment firm).

Q6) If the restrictions in MAR 5.3.1A(3) no longer applied, would it be necessary to apply new limitations?

We do not believe it would be necessary to apply new limitations (see the answer to Question 5 above). As indicated above, we consider that existing best execution requirements and the requirements on conflicts of interest management are sufficient.

Q7) Do you think that the inclusion of 'SINT' in contract notes provides any meaningful information for retail clients? Please explain your answer.

To the extent that this is relevant to the Associations, we do not believe that SINT provides any meaningful information for derivatives. Article 59 reports are firm specific, directly arising from the firm's transactions with the client, and are generally used as a form of trade confirmation. In this regard, the client already knows the executing firm that has sent them the trade confirmation. Therefore, including the MIC code is similar information which does not add any value to clients receiving these confirmations.

Q8) Do you think that there will be any implications for best execution if in respect of bonds and derivatives firms are no longer identified as SIs?

As UK Finance has responded, the removal of identification of derivative SIs would not have significant implications for best execution, as market participants can obtain relevant information about liquidity and price formation without identifying that a trade has taken place on an SI. In any event, as indicated in paragraphs 9.26-9.27 of FCA PS24/14, RFQ trades do not require best execution (irrespective of whether those are SI trades or not), meaning that there should be no adverse implications on best execution if SIs in derivatives no longer had to identify themselves.

Thank you for the opportunity to comment and we remain at your disposal for further engagement.

Contacts:

Fiona Taylor, Head of UK Public Policy, ftaylor@isda.org

Andrew Bayley, Senior Director, Data and Reporting, abayley@isda.org

Andrew Harvey, Managing Director, GFXD Europe at GFMA, aharvey@eu.gfma.org

About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 77 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on LinkedIn and YouTube.

About the GFXD

The Global Foreign Exchange Division (GFXD) of the Global Financial Markets Association (GFMA) was formed in co-operation with the Association for Financial Markets in Europe (AFME), the Securities Industry and Financial Markets Association (SIFMA) and the Asia

Securities Industry and Financial Markets Association (ASIFMA). Its members comprise 25[1] global foreign exchange (FX) market participants, collectively representing the majority of the FX inter-dealer market[2]. Both the GFXD and its members are committed to ensuring a robust, open and fair marketplace and welcome the opportunity for continued dialogue with global regulators

[1] Bank of America, Bank of New York Mellon, Barclays, BBVA, BNP Paribas, Citi, Credit Agricole, Deutsche Bank, Goldman Sachs, HSBC, ING, JP Morgan, Lloyds, Mizuho, Morgan Stanley, MUFG, NatWest Markets, Nomura, Northern Trust, RBC, Standard Chartered Bank, State Street, UBS, US Bank and Wells Fargo

[2] According to a Euromoney survey.