

We propose bringing certain SOFR OIS derivatives under our DTO. We also committed to this work in our Handbook Notice 108.

We propose to amend UK RTS on the trading obligation for certain derivatives (onshored Commission Delegated Regulation (EU) 2017/2417) using our powers under Article 32(5) UK MiFIR and section 138P FSMA. Our draft amendments can be found in Appendix 1.

Article 32(2) UK MiFIR specifies that in order for the DTO to take effect the class of derivatives must meet both of the following criteria:

- the venue test: it must be admitted to trading or traded on at least one relevant trading venue
- the liquidity test: there must be sufficient third-party buying and selling interest in the class of derivatives so that it is considered sufficiently liquid to trade only on the relevant trading venues

We propose our changes to come into force 3 months after the publication of our policy statement. We believe that this should allow market participants sufficient time to implement system changes required in order to meet the revised DTO.

Table 2: proposed additions to the scope of the DTO

Trade start type	Spot (T+2)	IMM (next 2 IMM dates)
Optionality	No	No
Tenor	2,3,4,5,6,7,10,12,15,20,30Y	1,2,3,4,5,6,7,10,12,15,20, 30Y
Notional type	Fixed Notional	Fixed Notional
Fixed leg		
Payment frequency	Annual	Annual
Day count convention	Actual/360	Actual/360
Floating leg		
Reset frequency	Annual	Annual
Day count convention	Actual/360	Actual/360

Under this proposal, we have brought within scope the 12-year benchmark SOFR product. However, as demonstrated during our analysis, this product is not as widely traded as other benchmark tenors we are proposing to bring within scope of the DTO. We also observe that it is a benchmark tenor for which no ICE swap rate is published. We therefore seek stakeholders' views as to whether it would be appropriate to bring 12-year SOFR products in the scope of the DTO. We note that the CFTC, in its MAT determination, has made the 12-year SOFR product subject to its trade execution requirement for spot starting swaps and IMM swaps with a par fixed rate, but not for IMM swaps with a standard coupon fixed rate.

Question 1: Do you agree with the liquidity analysis set out above? If not, please explain why and provide supporting data where possible.

Yes, we agree with the analysis, although it may have helped to add a measure of risk (VAR) traded as well as the considerations around notionals and trade-ticket quantities. Relative considerations as comparisons to “home markets” could also have been illustrated, however in terms of the objectives of this consultation it is certainly sufficient.

Question 2: Do you agree with our proposal to bring into scope the stated SOFR derivative products? If not, please explain why and provide supporting data where possible. In particular, do you have views as to whether 12-year SOFR products should be brought into scope?

Yes, we agree with the proposals, but remain mindful of the absence of SOFR referencing derivative products [OIS & SPS] currently in the ESMA [Public Register for the Trading Obligation for derivatives under MiFIR](#). Clearly should dual obligations exist in the DTO between any pair of countries, then the requisite deferential exclusions should also be made to ensure that counterparties do not need to fulfill more than a single trading requirement.

We support the inclusion of the 12-year SOFR products, but only because that accords with the treatment in the home market and therefore appoints appropriate deference and makes the application of systems as well as market expectations more straightforward.

Question 3: Do you agree with the implementation timeframe, for the amendment of the scope of the DTO to enter into effect 3 months after the publication of our policy statement? If not, please explain what transition period is needed and why.

Whilst recognising that this requirement places most of the operational implementation upon market participants rather than venues, from the standpoint of MTFs and OTFs we would concur with the timeframes, largely because this simply replicates the UK DCO.

PTRR Services

Question 4: Do you agree with the descriptions provided for portfolio compression, portfolio rebalancing, and basis risk optimisation? If not, why not?

Yes, we agree, and appreciate the fact that they are widely drawn.

Question 5: Do you agree that eligible post-trade risk reduction services should not be subject to the best execution, the obligation to seek authorisation as a trading venue, and the derivatives trading obligation? If not, please explain why.

Yes, we agree, and consider that these exemptions would be considered to be the market standard. We would also confirm the points made by the FCA in 4.35 that PTRR services are non-price forming and therefore welcome explicit directions considering the exclusion from transparency and from any future derivative consolidated tape should that be proposed.

Question 6: Do you agree with the three characteristics identified to determine eligible post-trade risk reduction services? If not, please explain why.

Yes, we agree.

We note that the concept is underpinned by the term, “*non-market risks in derivatives portfolios*,” which is neither defined here, nor cross referenced into other risk categories such as those set out in a market participant firm’s ICAAP, ICARA or SREP.

Question 7: Are there any additional characteristics we should consider including for “eligible post-trade risk reduction services”? If yes, please explain which characteristics and why.

No. The inclusion of any further characteristics could only have the impact of erecting barriers to risk-reduction, which would be an obverse outcome to the stated principles.

Question 8: Do you agree portfolio compression, portfolio rebalancing and basis risk optimisation are eligible post-trade risk reduction services? If not, please explain why.

Yes, we fully agree with the broadest approach, so long as the outcomes for the reset risk are non-contentious, clearly understood and able to be booked, CCP Cleared and managed by all of the market participants.

Question 9: Do you agree with the conditions included for providers of eligible risk reduction services to fulfil for the definition of an eligible agreement if using the exemptions in Article 31 UK MiFIR? If not, please explain why.

Yes, we agree with the substance and the scope of the “eligible agreement” as proposed to be maintained herewith.

Question 10: Do you agree with the condition that providers of post trade risk reduction services shall maintain complete and accurate records of all risk reduction exercises they organise or participate in, and for such records to be made promptly available to the FCA upon request? If not, please explain why.

Yes, we agree.

Question 11: Do you agree with maintaining a form of public disclosure for PTRR services? If not, please explain why.

Yes, we agree.

We note that this constitutes good practice and appears not to disincentivise participation in PTRR over the experience gained to date.

Question 12: Do you agree with the information required to be disclosed under the proposed condition of public disclosure by providers of PTRR services? If not, please explain why? Please include any additional information you consider necessary for inclusion in our public disclosure requirement.

Yes, we agree. Noting the limitations to numbers of transactions and notional volumes; it may be helpful to market participants if the information were also required to be disclosed in terms of risk parameters, i.e. as duration specific units of DV01 and VAR, as well as publication in machine readable formats.

Question 13: Do you agree with our proposal to introduce a notification requirement for firms operating a PTRR service as laid out above? If not, please explain why.

Yes, we agree.

Question 14: Do you agree with our proposed implementation timeline for the changes in Handbook to apply to risk reduction services? If not, please explain why. Please include any additional factors you would like us to consider.

Yes, we agree.

FCA Powers

Question 15: Do you agree that we should use our UK MiFIR Article 28a power of direction to achieve an outcome equivalent to that achieved by the TTP as outlined above? If not, please explain why.

Yes, we agree.