



HM Treasury Wholesale Markets Review

July 2021



As part of its **'New chapter for financial services'**, HM Treasury (HMT) is looking to 'champion efficient and competitive' markets by reviewing the UK's wholesale capital markets regime, on-shored through MiFID II and MiFIR. Now the UK has left the EU, HMT also sees the opportunity to tailor the rules more closely to the UK market.

The proposals are detailed and wide-ranging. Many are in line with what market participants have [told](#) KPMG they would like to see changed in the regulations. However, given the complexity of wholesale markets regulation, there could be extensive implications.

Market participants with business in the EU as well as the UK will also want to keep in mind the European Commission's MiFID II review due in the next few months. ESMA's reviews have indicated likely proposals. Any significant differences in the proposals will further complicate the operating environment.

Scope and timetable

The detailed proposals in HMT's paper mainly focus on the trading obligations, transparency, market data, market structure and commodities regimes contained within UK MiFID II / MiFIR.

"this package of reforms seeks to create a simpler and less prescriptive regime in the most cost-effective way"

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Market conduct issues, especially obligations around investor protection, are not addressed in detail. However, the consultation does seek views on the correct balance between investor protection and retail access. It also asks for feedback on wider issues such as how the government can support the wholesale markets move towards a low carbon economy.

The consultation closes on 24 September. Proposals could involve changes to primary and secondary legislation, when parliamentary time allows, and FCA rules and guidance – to be consulted on in H2 2021 onwards.

Highlights



Equity markets: Increasing choice around methods of execution and venues



Market data: Enabling better access so participants can identify best available prices



Fixed income and derivatives markets: Significantly recalibrating the transparency regime



Commodities: Fundamentally reviewing the regime to ensure that market activity is not unnecessarily restricted



Trading venues & systematic internalisers: Clarifying the regulatory perimeter and governing conditions

Summary of key proposals

Trading obligations

- Delete the share trading obligation.
- Align the derivatives trading obligation (DTO) and the EMIR clearing obligation. *This would bring the UK into line with the EU.*
- Exempt all post-trade risk reduction services from the DTO.

Pre-trade transparency

- Removal of the double volume cap regime.
- Change the scope of the pre-and post trade transparency regime for OTC derivative transactions from whether the instrument is 'traded on trading venue' (ToTV) to whether a transaction is centrally cleared.
- Limit the scope to systems such as electronic order books and periodic auctions. *There have been industry calls for complete removal of the pre-trade transparency regime.*

Post-trade transparency

- Simplify the number of deferrals available for post-trade transparency but retain both volume based (LIS) and liquidity factors for eligibility determination. *This is divergent with ESMA's proposal.*
- Seeks views on whether there are better identifiers (e.g. UPI) than ISINs for derivatives, particularly swaps.

Market Data

- Supports the development of a consolidated tape, especially for fixed income data.
- Seeks views on whether it should be a private sector tape or have public sector involvement.

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Commodities regime

Ensure that market activity is not unnecessarily restricted:

- Revoke the requirement for position limits to be applied to all exchange traded contracts.
- Transfer the setting of position controls from the FCA to trading venues.
- Change to a pragmatic rather than quantitative evaluation of the ancillary activities exemption from the regime. *This is likely to be welcomed. However, unregulated firms that fall just outside the perimeter would then need to understand how to interact with the FCA.*

Market Structure

Clarify the regulatory perimeter and conditions governing trading venues and Systematic Internalisers (SIs):

- A new class of trading venue with regulatory requirements tailored for SMEs with a sub-£50m market capitalisation.
- FCA to produce guidance about how venues should operate and communicate during outages.
- Allowing a firm to operate an SI and an organised trading facility (OTF) within the same legal entity.
- Changing the definition of SI to be based on qualitative criteria rather than the time consuming quarterly calculations.
- For reporting purposes, SIs to be determined at entity level instead of an instrument-by-instrument basis

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