[ESMA launches bond liquidity system under MiFID II]

ESMA's assessment of the European bond market for the first quarter of 2018 found 220 bonds (out of 71,000 for which the assessment was executed) to be sufficiently liquid to be subject to MiFID II's real-time transparency requirements. The full list of liquid bonds is available through ESMA's [Financial Instruments Transparency System (FITRS).]

The ESMA liquidity assessment for bonds is based on a quarterly assessment of quantitative liquidity criteria, such as the daily average trading activity (trades and notional amounts) and number of days traded per quarter. The quality of ESMA's assessment depends on the data submitted to ESMA: the data received so far, for 1Q18, is not fully complete for most instruments. These data completeness and quality issues result in a lower number of liquid instruments identified compared to ESMA's earlier transitional transparency calculations.

Background

MiFID II became applicable on 3 January 2018 introducing, amongst others, pre- and post-trade transparency requirements for equity and non-equity instruments, including for bonds. Post-trade, MiFID II requires real-time publication of the price and quantity of trades in liquid bonds. It is possible to defer the publication of post-trade reports if the instrument does not have a liquid market, or if the transaction size is above large-in-scale thresholds (LIS), or above a size specific to the instrument (SSTI).

Next steps

ESMA will update its bond market liquidity assessments quarterly. However, additional data and corrections submitted to ESMA may result in further updates within each quarter, published in FITRS (which shall be applicable the day following publication). The transparency requirements for bonds deemed liquid today will apply from 16 May 2018 to 15 August 2018, the date from which the next quarterly assessment, to be published on 1 August 2018, will become applicable. The transitional liquidity assessment for bond instruments (except ETCs and ETNs) will cease to apply from 16 May 2018.

ESMA, in cooperation with National Competent Authorities, will continue to address the data quality issues mentioned above, in close interaction with reporting entities. In addition, ESMA will work further on making the publication process more robust.

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Press release on MiFID II bond transparency calculations

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Trade, trade and more trade

All we ever seem to talk about is trade. The Remain Lords and MPs turn every debate on Brexit into another debate on trade, so they can peddle their tired soundbites again. The clever ones spread disinformation, and the badly informed ones peddle their misunderstandings as truths.

Today the media will again declare it trade day, as we learn that the Brexit Committee will discuss yet again what will replace our Customs Union membership. Will they prefer a New Customs Partnership, known perhaps appropriately as NCP as if it were a parking lot, or will they prefer Max Fac, maximum facilitation of trade at the borders? I trust they will opt for the latter. NCP means recreating many of the limiting features of our customs union membership. They need to remember that belonging to a customs union has two big drawbacks. It means we pay more for food and other goods that have tariffs on them. It means we can't do trade deals that help us with the rest of the world. The UK with a large service sector usually finds that is ignored by EU trade negotiators.

So what are the myths they peddle? The first is that if we leave the EU with no agreement there will be all sorts of non tariff barriers to our trade. They do not seem to have read the comprehensive and detailed Facilitation of Trade Agreement which the WTO brought into effect last March to deal with any such problem. Both the EU and the UK will be full members of the WTO after March 29 2019, and both will obey these requirements.

Some suggest that the EU would deliberately create queues at Dover for lorries bringing in much needed supplies. Let me reassure them. We will run Dover, and will have every incentive to keep the lorries flowing easily. What if they broke WTO rules and held trucks up at Calais? That would be a perverse thing to do as the majority of the trucks are carrying EU exports to our markets, so why would they want to damage them? If they tried to detain just UK lorries carrying exports to the EU they would be breaking WTO rules against unfair discrimination and in some cases disrupting the supply chains of their businesses needing UK components. Those businesses have legal rights and could take action.

There is an unwillingness to accept that in the 21st century most goods trade is conducted by large businesses acting as or through Authorized Economic Operators. These businesses file an electronic manifest containing all the details about what is on the lorry, where it travelling, what taxes and duties it needs to pay and how the load conforms with rules of origin, health and safety requirements and any other relevant legislation. Busy border posts allow most to proceed unchecked, as they know the details, levy taxes off site and trust the operator. They can of course delay or impound if they have reason to suspect non compliance or criminal activity, as they do today whilst we are still in the customs union. Anti smuggling is mainly conducted by an intelligence led approach. There are already substantial smuggling issues for our border with the EU as there are differential VAT and Excise rates. Adding customs to it does not create any difference in kind to what we are doing already. The TIR system was developed years ago to speed trucks through borders.

It is true that rules of origin do require higher UK proportions in a few cases , especially in some vehicles. This is why the UK government is working with the industry to increase the proportion of UK components in cars assembled here to meet the rules, which is a win for domestic industry.

The underlying big picture truth is free trade provides better living standards. The sooner we liberalise our trade with the rest of the world the better, as the gains could be helpful. It is unlikely the EU will want to impose tariffs on themselves, though they may threaten this if they think there is any lack of negotiating resolve in the UK.

In the latest research using economic models Professor Minford puts the discounted long term gains to the UK of leaving without a deal at £651bn, assuming we went on to a free trade approach.