Norges Bank
Investment
Management

Financial Conduct Authority
12 Endeavour Square
London E20 1JN
UK

Date: 6th March 2024
Your ref.: CP23/32

Att: Stephen McGoldrick

Improving transparency for bond and derivatives markets

Norges Bank Investment Management (NBIM) appreciates the opportunity to respond to consultation paper CP23/32 on improving transparency for bond and derivatives markets. The response we provide is based on our experience as an active participant in UK markets.

NBIM is the investment management division of the Norwegian Central Bank ("Norges Bank") and is responsible for investing the Norwegian Government Pension Fund Global in a globally diversified manner. NBIM held assets valued at NOK 15 764 billion as of 31 December 2023, of which GBP 78 billion was in UK equities and bonds of UK issuers.

As a long-term investor NBIM has an interest in well-functioning financial markets that facilitates the efficient allocation of capital and promotes long-term economic growth and thus in a regulatory environment for trading in financial instruments that facilitates such an outcome.

On bond market post-trade transparency

NBIM supports the steps the FCA propose to improve the post-trade transparency for bonds traded in the UK market. We agree with the premise that the current the regime provides for overly long publication deferrals for some instruments and does so in an overly complicated way which prevents meaningful use of the data to inform trading decisions and the monitoring of best execution.

We note that the academic literature suggests that empirical evidence from regulatory interventions that have increased transparency identifies benefits to markets from greater disclosure and specifically supports the claim that greater transparency leads to more liquidity and increased competition among dealers. We expect that the overall efficiency gains from improved transparency in UK bond markets should be meaningful also for large institutional investors.

Improved market transparency and better dissemination of market data constitute a challenge to current trade practices and the traditional liquidity provisioning that dealers engage in using their own balance sheet and risk capacity. We agree that some deferral of trade data might be required to facilitate continued liquidity provisioning by these market incumbents and to avoid unnecessary market disruption due to regulatory change. The deferrals proposed by the FCA should however be adequate

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to deny market actors the ability to systematically trade against liquidity providers in a timely and profitable manner. We would also question if the potential existence of very large trades that are not adequately protected by the proposed deferrals (under the **first model)** should be considered more important for the overall efficacy of the market structure than the implementation of a well-functioning and all-encompassing transparency regime.

The implementation of the transparency regime and the introduction of a functioning consolidated tape as presented in CP23/33 will facilitate the evolution of liquidity provisioning, trading venues and trading protocols in the bond market and benefit the UK position as a leading, competitive and efficient international marketplace for trading in bonds.

Specific consultation questions

We agree with the suggested scope for post-trade reporting of bond trades (traded on a trading venue), and the prioritisation of prompt dissemination of price information and the principle of trade-by-trade information dissemination as opposed to any data aggregation. (Questions 1, 10 and 11).

We clearly prefer the ***first model*** for Large in Scale post-trade transparency deferrals. Importantly this alternative excludes any cap on trade reporting. Such caps would subtract from full final information dissemination and deny market participants a final and full view of the market. (Questions 14).

We agree with the factors and definitions proposed to calibrate the transparency regime, i.e. the list of issuers used to group Sovereign bonds and the currencies used to stratify the Corporate, Covered and Convertible group. We acknowledge that inflation linked bonds, also those issued by the issuers of the more liquid Sovereign bonds, are less liquid than ordinary bonds, and could therefore be grouped with all other instruments under the Sovereign category. (Questions 15-20)

We support the proposed thresholds for bond transparency in option 1, and specifically the solution that the bracket first level of deferral is subject to a 15-minute price deferral and a T+3 volume masking that would serve to give adequate protection in this bracket. (Question 21)

Yours sincerely,

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