**EDMA Europe Position Statement**

**Clock Synchronisation**

The Electronic Debt Markets Association – Europe (EDMA) has had concerns about clock synchronisation requirements. Further to the publication of ESMA’s recent *Guidelines on transaction reporting, order record keeping and clock synchronisation* (10th October 2016), we believe that our concerns have largely been addressed. Below is a summary of the issues and our interpretation of the ESMA guidelines. EDMA will continue to engage directly with their participants and with the Investment Association (IA) to raise awareness about the clock sync requirements.

To recap, whilst EDMA members[[1]](#footnote-1) are making plans to comply with the requirements for trading venues under article 50(1) MiFID II, they were becoming increasingly aware that this was an area of concern for the buy-side. Part of the issue stems from the fact that buy-side firms are direct participants of the type of electronic platforms operated by EDMA members. This contrasts with, for example, cash equities and futures exchanges where the buy-side typically accesses these platforms through a broker. Therefore, the concerns were more acute for institutional client to dealer RFQ platforms that are common in fixed income markets.

Since then, EDMA members have engaged with the IA and a number of individual buy-side firms to explore the exact nature of the concerns and how these might be addressed. This culminated in a roundtable for IA member firms hosted by EDMA members and the IA. This roundtable took place shortly before the publication of ESMA’s guidelines. Since then, we have reviewed and discussed these guidelines and believe they address the main concerns. These relate to both the level of granularity of timestamp when trading on an RFQ system and the means of synching to UTC.

Granularity of timestamp when trading on an RFQ system

For members or participants of trading venues, the required granularity depends on the “type of trading activity”. For activity on an RFQ system, Table 2 of the Annex to RTS 25 provides that this should be 1 second for “activity on request for quote systems where the response requires human intervention or where the systems does not allow algorithmic trading”. As recently clarified by the ESMA guidelines, firms must sync to 1 second level of granularity even when trading off-venue.

EDMA members and their buy-side participants were concerned about how the language in Table 2 should be interpreted, as EDMA members do allow algo trading on their venues. For example, a dealer may have an auto-pricing engine that allows it to respond to RFQs. If activity does not fall within the RFQ description in Table 2, it appears to require timestamping at a more granular level (1 millisecond). Whilst syncing to 1 second does entail cost for the buy-side, this is significantly increased if the required level of granularity is less than 1 second. If buy-side firms were required to sync to a more granular level for their RFQ activity on trading venues compared with trading off-venue, it could result in a disincentive to continue trading on those regulated venues. This would clearly run counter to the regulatory aim of ensuring that trading “is carried out as far as possible on organised venues” that are “appropriately regulated” (recital 6 MiFIR).

RFQ is a negotiation that involves a series of predetermined steps (from launch of an RFQ by a buy-side client, to dealers providing quotes, to the requesting client reviewing prices and deciding whether to trade or not). EDMA members were of the view that even if an RFQ trading venue permits algo trading this should not result in all participants of that venue having to adhere to 1 millisecond level of granularity, unless that firm’s own trading activity does not involve human intervention. It was felt by EDMA members, the IA and IA member firms that interpreting RTS 25 as being specific to the trading activity of the individual firm on the venue would be more proportionate and would meet MiFID II’s aims of ensuring that regulators have an accurate picture of trading activity. Given this, we were pleased to see that ESMA had taken industry concerns into consideration in its guidelines. In particular:

“A member or participant of a Trading Venue is not required to follow the same time-stamping requirements that apply to the Trading Venue of which it is a member or participant. The member or participant should only time-stamp according to the requirements that apply to its Firm’s trading activity under Article 50 of MiFID II.” (Page 282)

For RFQ systems, we interpret this as meaning that a buy-side participant should sync to the required level of granularity based on its own trading activity irrespective of whether the trading venue otherwise allows algo trading.

Means to sync to UTC

Where timestamping is required to 1 second level of granularity it is possible to achieve this by using a reputable internet source. Whilst the recent ESMA guidelines focus on synching to UTC using GPS (which is necessary if the required level of granularity is less than 1 second) we believe that they do not preclude using an internet source provided the requirements of RTS 25 are met, including the requirement to establish a system of traceability to UTC. This should be possible.

As mentioned above, the cost difference between synching to UTC using an internet source compared with GPS is significant (with the cost of using GPS being potentially in the tens of thousand pounds per firm, if not more). It is not just cost considerations; the installation of GPS equipment may require leaseholder permission, which may cause real non-monetary issues for buy-side firms. Participants of trading venues operated by EDMA members include a wide range of buy-side firms, including small asset managers who trade infrequently. It is important that the clock sync requirements and costs are proportionate.

Raising awareness

As a final point, whilst EDMA members and the IA have engaged with a number of buy-side firms, this is still only a small proportion of those who will be affected by the clock sync requirements. This group tends to be larger asset managers who are active in regulatory forums. The IA will be using their smaller asset management group to raise awareness, as will EDMA members directly with their participants. This process will be helped by the clarity that can now be given about both the required level of granularity when trading on an RFQ system and the means by which firms can sync to UTC.

**About EDMA Europe**

Electronic Debt Markets Association represents the interests of companies whose primary business is the operation of regulated electronic fixed income multilateral trading facilities in Europe (regulated markets and/or trading venues) and act as a source of consultation between the members in their roles as operators of such venues in order to project collective views on regulatory, compliance and market structure topics for the benefit of the electronic fixed income markets

1. BrokerTec, MTS, MarketAxess and Tradeweb [↑](#footnote-ref-1)