

Stockholm, 24 November 2020

SWEDISH SECURITIES MARKETS ASSOCIATION – RECOMMENDATION REGARDING TRANSPARENCY ON THE SWEDISH BOND MARKET

1. INTRODUCTION

Swedish Securities Markets Association

The Swedish Securities Markets Association (the Association) is a trade organization representing Swedish investment firms and branches of foreign investment firms conducting business on the securities markets in Sweden. The mission of the Association is to promote sustainable and competitive Swedish securities markets.

The Association's objective is to work for the common interests of its members, e.g. by providing input to legislators and authorities when developing new rules and regulations related to the securities markets, and by having an ongoing dialogue with infrastructure providers such as trading venues and central securities depositaries.

In order to contribute to efficient securities markets, the Association has developed self-regulation in the form of standard agreements and recommendations, which is available on the Association's website.¹ The Association's self-regulation is not legally binding but often acquire the status of good market practice through the common usage.

FI's supervisory report and assignment

The Swedish Financial Supervisory Authority (FI) has, in a supervisory report published during the fall 2019², expressed the view that the transparency on the Swedish bond market has decreased since the implementation of the harmonized EU-framework under

* This is an unofficial translation. In case of inconsistencies, the Swedish version shall prevail.

¹ www.svenskvardepappersmarknad.se/en

² FI Supervision nr 15 "New rules led to a reduction in supervision on the Swedish bond markets"
<https://fi.se/en/published/reports/supervision-reports/2019/fi-supervision-15-decreased-transparency-in-bond-trading/>

MiFID II/MiFIR.³ Among the factors contributing to this development are poor data quality, fragmented publication and long deferral periods. In its supervisory report, FI expresses that an industry initiative to increase transparency on the Swedish bond market would be welcome.

On 9 September 2020, FI arranged a roundtable with a number of different market participants to discuss the resilience and functioning of the corporate bond market in Sweden. FI communicated that they, as a minimum, wanted to see a return to the level of transparency that applied before MiFID II/MiFIR. Following the roundtable, FI gave the Association the assignment to quickly investigate how transparency on the Swedish bond market could be improved.⁴

Guiding principles

At a board meeting on 28 September 2020, the Association's board of directors decided to support the development of a self-regulation regarding transparency on the Swedish bond market, which will apply in addition to the mandatory rules in MiFID II/MiFIR. The development of such self-regulation should, according to the board of directors, be based on a number of guiding principles:

The transparency on the bond market should be balanced. The advantages of publishing information regarding executed transactions quickly (facilitating price formation and valuation) must be weighed against the risk that a too extensive level of transparency could make it more difficult and risky for investment firms to execute client orders against their own balance sheet (trading on own account), which in turn could have a negative impact on market liquidity.

It is a prerequisite that as many actors as possible should apply the self-regulation; partly because only a high level of adherence will improve price information; partly because it is important for a well-functioning Swedish securities market that investment firms can compete on equal terms. There is otherwise a risk that firms which do not apply the self-regulation would get competitive advantages.

One aim should be that the self-regulation is simple and flexible, in particular as the review of the mandatory MiFID regulation is ongoing at the EU-level and the Association's recommendation could become outdated or need to be revised within a few years.

The development of a new transparency-regime will require IT-development and it is therefore important that all parties – members of the Association, non-members, as well as service providers – are given enough time to implement the recommendation.

³ Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/ (MiFID II) and regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (MiFIR).

⁴ <https://fi.se/sv/publicerat/nyheter/2020/fi-vill-se-okad-transparens-pa-foretagsobligationsmarknaden>

Dialogue with external stakeholders

FI has underlined that other stakeholders than the members of the Association should be involved in the work to increase transparency on the Swedish bond market and that relevant authorities should take part in the process. During the drafting of the recommendation, the Association has taken active steps to inform and collect the views of different market participants, authorities and the legislator.⁵

Based on FI's assignment, the above-mentioned guiding principles and the views expressed by external stakeholders and the Association's members, the board of directors has on 24 November 2020 adopted the attached recommendation (Recommendation).

The Recommendation is intended to apply from 1 July 2021.

⁵ Competition Authority, Ministry of Finance, Financial Supervisory Authority, Riksbanken (Sweden's Central Bank), Riksgälden (Sweden's National Debt Office), IFF, Swedish Bankers' Association, Swedish Investment Fund Association, Insurance Sweden, Nasdaq, Kommuninvest.

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RECOMMENDATION REGARDING TRANSPARENCY ON THE SWEDISH BOND MARKET

1. Definitions

In this recommendation regarding transparency on the Swedish bond market (Recommendation) terms and expressions have, unless stated otherwise, the same meaning as in the Swedish Securities Market Act (SFS 2007:528) and MiFID II/MiFIR.¹

Comment: A consistent application of the Recommendation requires that terms are interpreted in the same way.

In order to clarify how the Recommendation relates to the Swedish transparency rules that applied before MiFID II/MiFIR, reference is made to “FI’s old regulation” which refers to Chapter 7 of The Swedish Financial Supervisory Authority’s (FI) regulations (FFFS 2007:17) governing operations on trading venues.

2. Which firms are included?

The Recommendation is aimed at Swedish investment firms and the corresponding foreign firms active on the Swedish securities markets when executing orders in the financial instruments covered by item 3 (Investment Firms).

Comment: The Recommendation is aimed at all Swedish investment firms and the corresponding foreign firms that execute transactions on the Swedish bond market. It is a prerequisite for good price formation and competition on the Swedish securities market that all firms apply the Recommendation.

¹ Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/ (MiFID II) and regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (MiFIR).

3. Which financial instruments are included?

The Recommendation applies to debt instruments in Swedish kronor (SEK), with ISIN SE, and admitted to trading on a regulated market in Sweden or traded on a trading venue in Sweden.

The Recommendation also applies to futures and option contracts related to debt instruments covered by the first paragraph and which are admitted to trading on a regulated market in Sweden or traded on a trading venue in Sweden.

Comment: The scope of the Recommendation is to a large extent the same as in FI's old regulation. It includes, inter alia, sovereign bonds, covered bonds and bonds issued by municipalities provided they are admitted to trading on a regulated market in Sweden or traded on a trading venue in Sweden. The Recommendation also includes futures and option contracts related to such debt instruments.

Bonds in another currency than SEK or that do not have a Swedish ISIN-number or are only admitted to trading on a regulated market or traded on a trading venue outside Sweden, fall outside the scope of the Recommendation. Transactions in such instruments should only be published in accordance with the mandatory rules in MiFID II/MiFIR.

4. Which transactions are included?

The Recommendation includes transactions that are executed
- on a trading venue within the EES or on an equivalent venue outside the EES and,
- Over the Counter (OTC), i.e. outside the trading venue within the EES or an equivalent venue outside the EES

Comment: The Recommendation covers both transactions executed on a trading venue and OTC, provided that the Investment Firm is subject to the publication requirements, see item 8. The term trading venue includes regulated markets, MTFs and OTFs.

For Investment Firms, the scope of the Recommendation is more extensive than under FI's old regulations, which limited the publication requirement to OTC trading and required that trading venues published transactions carried out on such venues.

5. Which information is included?

The Recommendation includes the following information:
- a weighted price average with regard to traded volume during the business day,
- the highest transaction price during the business day,
- the lowest transaction price during the business day, and
- the total volume of all transactions during the business day.

Comments: The requirements are identical to FI's old regulations.

6. Time of publication?

Information should be published on an aggregated level no later than [19.00] CET² on the same business day as the transaction and should include transactions executed until 17.00 CET.

Comments: According to the Recommendation, publication should take place on the day when the transaction was executed, after the markets have closed. This is a difference compared to FI's old regulation which required transactions to be published no later than 09.00 CET on the following business day (T+1).

Investment firms should report the information listed in item 5 of this Recommendation regarding transactions executed before 17.00 CET on the same business day to the Service Provider. Transactions executed after 17.00 CET should be published on the following business day.

7. Conditions for deferred publication

As an exemption to item 6, an Investment Firm which trades on its own account may defer publication of a single transaction in corporate bonds that exceed 50 million SEK.

When the publication is deferred, the transaction should be published no later than seven business days after the business day when the transaction was executed.

Transactions where the Investment Firm does not trade on its own account are not covered by the deferred publication-rule and should be published in accordance with item 6. The same applies where the firm has closed the position during the business day.

Comments: Prior to MiFID II/MiFIR, FI allowed deferred publication of a single transaction in corporate bonds exceeding SEK 50 million during 10 business days.³ In this Recommendation, the deferral period has been reduced to seven business days.

In case of deferred publication, the transaction should be published no later than seven business days after the day when the transaction was executed. The publication should be made separately, i.e. the deferred transaction should not be included in the

² The exact publication time will be set out in the agreement with the Service Provider.

³ <https://www.fi.se/contentassets/241cdfc81cdd4103ba2db71073eff98f/pm-ftgobl-14-8178n.pdf>

aggregated publication of transactions executed on the same day in accordance with item 6.

Deferred publication aims at providing Investment Firms enough time to handle the market risk when trading on their own account and the Recommendation therefore limits the possibility to defer publication to those types of transactions. The right to defer publication does not apply to agency transactions or transactions that the Investment Firm has closed during the same business day.

8. Who is required to publish?

Where an Investment Firm enters into a transaction with an entity that does not apply the Recommendation, it is the Investment Firm which is responsible for publishing the transaction in accordance with this Recommendation.

Where two Investment Firms that apply the Recommendation enter into a transaction with each other, it should be the Investment Firm acting as the seller which should publish the transaction.

Notwithstanding the above, the parties may agree which firm should publish the transaction according to this Recommendation.

Comment: The Recommendation follows the main rule in MiFID II/MiFIR that in case of transactions between two Investment Firms, it is the seller that is required to publish the transaction.⁴

For practical reasons, it should also be possible to agree which firm should be responsible for the publication, which should be documented separately.

9. Where should publication take place?

The publication should take place through the service provider with which the Association has signed a framework agreement ("Service Provider").

The information should be published at an aggregated level per ISIN-number and be available at the Service Provider's website.

Comments: The publication arrangement reflects the situation which applied in Sweden before the implementation of MiFID II/MiFIR. By appointing only one service provider

⁴ See Article 7.5 och 7.6 of the Commission Delegated Regulation (EU) 2017/583 of 14 July 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on transparency requirements for trading venues and investment firms in respect of bonds, structured finance products, emission allowances and derivatives (RTS 2).

*/UNOFFICIAL TRANSLATION/ **

that publishes the information in accordance with the Recommendation, the intention is to avoid fragmented price information.

It is the intention that the Association, through its limited liability company, will enter into a framework agreement with a Service Provider which will enter into separate service agreements with each Investment Firm.
