FINANCIAL CONDUCT AUTHORITY

Policy Statement

PS25/2

Policy Statement on the derivatives trading obligation and post-trade risk reduction services

April 2025

This relates to

Consultation Paper 24/14 which is available on our website at www.fca.org.uk/publications

Email:
cp24-14@fca.org.uk

All our publications are available to download from www.fca.org.uk.

Request an alternative format

Please complete this form if you require this content in an alternative format.

Or call 0207 066 1000

Sign up for our **news and publications alerts**

See all our latest press releases, consultations and speeches.

Contents

Chapter 1

Summary

1.1 This policy statement (PS) provides a summary of the feedback received to our consultation and how we responded to the feedback. It also includes our final rules on the classes of SOFR OIS (secured overnight financing rate overnight index swaps) subject to the derivatives trading obligation (DTO) and the framework for post-trade risk reduction services which allows investment firms to benefit from various exclusions, including the exemptions from the DTO, best execution and the transparency requirements. The original proposals were published in CP24/14: Consultation on the derivatives trading obligation and post-trade risk reduction services on 26 July 2024.

Who this affects

1.2 This Policy Statement and final rules will primarily be of interest to:

- Providers of post-trade risk reduction services (PTRRS)
- Trading venues which admit to trading or trade derivatives
- Investment firms and banks dealing in derivatives

1.3 Our rules will also interest Approved Publication Arrangements (APAs), central counterparties (CCPs), law firms, consultancies and their related trade associations.

The wider context of this policy statement

Our consultation

1.4 The Financial Services and Markets Act 2023 (FSMA 2023) amended parts of UK MiFIR to give us the necessary powers to deliver the reforms set out in the Wholesale Markets Review (WMR).

1.5 In July 2024, as part of the WMR we published the Consultation Paper (CP) 24/14 on our proposed changes to the scope of the DTO and the framework for exemptions from the DTO for post-trade risk reduction services (PTRRS).

1.6 In our consultation we proposed to:

1. amend the scope of the DTO by including specified classes of OIS based on SOFR;
2. establish a new framework to allow transactions executed through PTRRS to benefit from certain exemptions, including from the DTO; and
3. use our power of direction to modify the DTO.

1.7 Respondents supported the proposals in our consultation across the three subject areas.

1.8 We received unanimous support on how we intended to exercise our power of direction to modify the DTO to replace the direction made under the temporary transitional powers (TTP). Following consultation, we published our final direction in November 2024; it entered into force directly upon expiry of the TTP direction on 31 December 2024.

1.9 This policy statement covers the two other proposals in our consultation: the inclusion of SOFR OIS to the DTO and the regulatory regime applicable to PTRRS.

How it links to our objectives

1.10 Our new rules aim to advance market integrity, mitigate systemic risk and protect against market abuse. They will also promote the stability and resilience of the UK's OTC derivatives market.

1.11 Bringing certain classes of SOFR OIS in scope of the DTO will advance market integrity through improvements in transparency and greater oversight by trading venues, which should protect against market abuse. We expect our new regime on PTRRS to reduce systemic risk by supporting greater adoption of risk reduction services which aim to reduce counterparty and operational risk.

1.12 We also expect our rules to promote our secondary international competitiveness and growth objective by enabling UK-based firms to offer and participate in innovative and efficient PTRRS while complying with proportionate regulatory costs. A more proportionate regulatory regime will enhance the attractiveness of the UK for international businesses and investors, thereby facilitating long-term and sustainable growth. We have also considered the feedback received to the consultation and finalised our rules in alignment with international standards as laid out in our response to the changes on the scope of the DTO in Chapter 2.

What we are changing

1.13 The UK Markets in Financial Instruments Directive (UK MiFID) is the collection of laws that regulate the buying, selling and organised trading of financial instruments. The rules are derived from European Union (EU) legislation that took effect in November 2007 and were revised in January 2018 (MiFID II).

1.14 One of the objectives of MiFID II was to address the deficiencies in the OTC derivatives market structure which emerged during the financial crisis, to bring more trading to regulated trading venues, thereby improving the resiliency of trading in OTC derivatives, increasing market transparency, investor protection and access to liquidity. Improving transparency was one of the shared principles to strengthen the financial system as confirmed by the G20 Leaders' statement.[1] The DTO is an implementation of the G20 commitment made at the Pittsburgh Summit to improve OTC derivatives markets, with a view to increasing transparency, mitigating systemic risk and protecting against market abuse.

1 Declaration on Strengthening the Financial System, Statement issued by the G20 Leaders in London on 2 April 2009.

1.15 Our decision to expand the DTO to certain classes of SOFR OIS reflects the transition, in the UK and in other jurisdictions, from swaps based on London Inter-bank Offered Rate (LIBOR) to those based on risk-free rates (RFR). Our analysis in the consultation showed that liquidity in SOFR OIS is high and stable. It is also comparable to other classes of derivatives which are already in scope of the DTO. Including SOFR OIS in the DTO would increase the benefits from on-venue trading and align with our G20 commitment.

1.16 When we consulted in CP23/32 on improving transparency for bond and derivatives markets, we proposed a new regime of post-trade transparency requirements for OTC derivatives. The consultation did not address the reporting of transactions resulting from risk reduction services.

1.17 Given the non-price forming nature of the transactions resulting from PTRRS, including them in scope of post-trade transparency creates unnecessary noise and complicates the use of market data. Our new rules aim to address this by exempting firms from certain requirements, such as the obligation to report to the public the transactions that arise in connection with the use of PTRR services.

Outcome we are seeking

1.18 In line with the G20 mandate, expanding the scope of the DTO to include SOFR OIS will support greater financial stability. More transparent markets are associated with greater market stability in times of markets stress. End users like pension funds, asset managers and non-financial corporations, benefit from the trading mandate through greater transparency and competition between liquidity providers when the derivatives are sufficiently liquid, and the transparency requirements are calibrated appropriately. The application of international standards also increases confidence in UK markets and promotes greater participation which supports the UK's international competitiveness.

1.19 The ability of UK firms subject to the DTO to discharge their obligation on US venues – the market with most of the liquidity for SOFR – means that UK firms will continue to have access to the deepest pool of liquidity once our determination is in force.

1.20 The final rules on risk reduction services will improve the quality of the information available to market participants. The removal of non-price forming transactions, that arise through PTRRS, from inclusion to post-trade transparency will allow market participants to be able to better identify addressable liquidity.

Measuring success

1.21 To measure our success, we will:

- Continue to review relevant market data on liquidity to assess the success of our proposal to include SOFR OIS under the DTO. We will consider our policy to be successful where amending the DTO improves liquidity and transparency in the relevant SOFR OIS derivatives.

- Monitor whether our new rules to risk reduction services support the use of those services by market participants and the extent to which they reduce operational and counterparty risk and enhance the overall operation of markets. We will also consider whether the exemptions improve the content of post-trade information for OTC derivatives. We will measure this through feedback from PTRRS providers, firms and trade associations.

Summary of feedback and our response

1.22 We received broad support to our consultation proposals. Two main issues have been flagged by respondents. The first is about the strength of the liquidity of a certain tenor of SOFR OIS which was included amongst those proposed to be in scope of the DTO. The second is about our proposed implementation timelines.

1.23 We will be proceeding with adding all tenors we consulted on to the scope of the DTO, subject to a technical amendment on the 12-year tenor to ensure greater international alignment with the scope of the trading obligation in the US. On timelines, we will be proceeding as consulted, with our rules on the DTO and post-trade risk reduction services coming into force 3 months after publication of this policy statement.

Equality and diversity considerations

1.24 We have considered the equality and diversity issues that may arise from the rules in this Policy Statement.

1.25 Overall, we do not consider that the new rules materially impact any of the groups with protected characteristics under the Equality Act 2010.

Next steps

1.26 Providers of eligible risk reduction services must notify us with the details required in MAR 12.6 (See Appendix 2) prior to providing the service(s) for the first time. Further information, including how to notify, can be found in Chapter 3.

Chapter 2

Our response to feedback on changes to the classes of derivatives subject to the derivatives trading obligation

Introduction

2.1 The DTO is the implementation of the G20 commitment made at the 2009 Pittsburgh Summit to improve OTC derivatives markets. It aims to increase transparency, mitigate systemic risk and protect against market abuse.

2.2 The DTO requires that the trading of standardised and liquid OTC derivatives be concluded only on eligible trading venues (TVs). Our Register lists the derivatives which are subject to the DTO.

2.3 In CP24/14 we explained the conditions for a derivative or classes of derivatives to be added to the DTO. This includes that they must be: (i) subject to the derivatives clearing obligation (CO); (ii) admitted to trading on at least one UK trading venue; and (iii) sufficiently liquid to trade only on those venues. Once these conditions are satisfied, we can consider whether a derivative or a class of derivatives should be subject to the DTO and make technical standards to this effect.

2.4 A class of derivatives, or a subset thereof, is deemed sufficiently liquid on the basis of the criteria specified in Article 32 and RTS 4. We are required under Article 32(5) to amend, suspend or revoke existing RTS if there is a material change in these criteria.

2.5 Once a class of derivatives is in scope of the DTO, transactions within that class can only be concluded on regulated trading venues or third country trading venues that are considered to be equivalent for these purposes.

2.6 Following the results of our liquidity analysis, which used EMIR data covering the period of January 2023 to December 2023, we proposed to bring certain classes of SOFR OIS under our DTO. Our draft amendments are included in Annex A of the CP.

Liquidity analysis

2.7 We assessed the liquidity of SOFR OIS against the criteria set in UK MiFIR and UK RTS 4 to be satisfied that there is sufficient third-party buying and selling interest.

2.8 In doing so, we carried out our assessment over a period of sufficient length to ensure that market liquidity is consistently resilient and that the analyses are not distorted by seasonality. In line with RTS 4, we have not set fixed thresholds to assess liquidity

(e.g., a specific level for the average frequency of trades). Instead, we compared liquidity of SOFR OIS against the derivatives already in scope noting that no single liquidity measure is determinative on its own but should be considered alongside other measures.

2.9 The available evidence from the MAT (made available to trade) determinations[2] and the need to have regard to international consistency suggested we consider the same subset of derivatives for our liquidity analysis as that applicable in the CFTC's trading mandate. This includes the following SOFR OIS benchmark tenors: 1, 2, 3, 4, 5, 6, 7, 10, 12, 15, 20 and 30 years.

2.10 The liquidity analysis in our consultation (paragraphs 3.27 to 3.48) showed that the number of days where transactions occurred, the total and daily average number of transactions and volume executed over the course of 2023 is consistent with high and sustained liquidity. Looking at those metrics we considered that SOFR OIS is sufficiently liquid to be brought in scope of our trading obligation. A summary of our findings is laid out below.

Findings of the liquidity analysis on SOFR OIS in CP24/14

2.11 Despite some tenors being less liquid than others, the evidence from the average daily number of trades showed that liquidity in SOFR swaps is robust and comparable with that of derivatives already within the scope of the DTO (albeit as expected, given the higher sensitivity to interest rate risk, longer dated tenors have a smaller daily turnover, CP Figures 6 and 7).

2.12 In considering the number and type of market participants and their ability to source liquidity from multiple trading venues and liquidity providers, we found that the number of active market participants was high across all products. The UK EMIR data showed there is between 300 and 500 market participants dealing in SOFR OIS, depending on the specific class of derivatives. This compares with approximately 280 market participants in SONIA swaps for the IMM class, and approximately 870 in SONIA swaps and 530 in EURIBOR swaps for the spot starting class. A wide range of different types of firms trade SOFR OIS including large broker-dealers, smaller investment firms, buy-side investors, proprietary trading firms and corporates.

2.13 In the consultation, we said that SOFR swaps are available to trade on multiple UK trading venues. Section 2.1 of our DTO Register lists more than 16 UK trading venues for which OIS products can be traded. In addition to UK trading venues, UK market participants also have access to overseas trading venues that are deemed equivalent for the purposes of the DTO.

2.14 We also considered the daily publication of the USD SOFR 1100 ICE Swap Rate settings by ICE Benchmark Administration as evidence that the SOFR swaps are characterised by a level of liquidity comparable to swaps already subject to DTO requirements.

2 A MAT determination subjects the swap to the mandatory trade execution requirement under the CEA and the CFTC rules. Meaning, in absence of an exception or exemption, swaps subject to the mandatory trade execution requirement must be executed on a SEF or DCM.

Consultation proposal on adding SOFR OIS to the DTO

2.15 Following our liquidity analysis, we proposed to impose the DTO for SOFR OIS to trade start type spot starting and IMM (next 2 IMM dates) with tenors of 1, 2, 3, 4, 5, 6, 7, 10, 12, 15, 20 and 30 years.

2.16 We proposed that our changes to come into force 3 months after the publication of our policy statement. The changes proposed in the CP are summarised in Table 1 below.

Table 1: additions to the scope of the DTO.

Trade start type	Spot (T+2)	IMM (next 2 IMM dates)
Optionality	No	No
Tenor	2,3,4,5,6,7,10,12,15,20,30Y	1,2,3,4,5,6,7,10,12,15,20,30Y
Notional type	Fixed Notional	Fixed Notional
Fixed leg		
Payment frequency	Annual	Annual
Day count convention	Actual/360	Actual/360
Floating leg		
Reset frequency	Annual	Annual
Day count convention	Actual/360	Actual/360

2.17 We proposed to bring within scope the 12-year benchmark SOFR product despite it showing less liquidity than other benchmark tenors in our analysis.

2.18 We noted no ICE swap rate is published for the 12-year benchmark tenor and asked whether it would be appropriate to bring it in the scope of the DTO.

2.19 We also acknowledged that the CFTC, in its MAT determination, made the 12-year SOFR product subject to its trade execution requirement only for spot starting swaps and IMM swaps with a par fixed rate, but not for IMM swaps with a standard coupon fixed rate.

2.20 In CP24/14 we asked:

Question 1: **Do you agree with the liquidity analysis set out above? If not, please explain why and provide supporting data where possible.**

Question 2: **Do you agree with our proposal to bring into scope the stated SOFR derivative products? If not, please explain why and provide supporting data where possible. In particular, do you have views as to whether 12-year SOFR products should be brought into scope?**

Question 3: **Do you agree with the implementation timeframe, for the amendment of the scope of the DTO to enter into effect 3 months after the publication of our policy statement? If not, please explain what transition period is needed and why.**

Feedback received

2.21 Respondents to the consultation supported our liquidity analysis and agreed with our proposal to bring the specified classes of SOFR OIS in scope of the DTO. However, some raised concerns about the inclusion of the 12-year tenor in the DTO noting its lower level of liquidity in comparison to the other listed tenors. The absence of a USD SOFR 1100 ICE Swap Rate published for 12-year SOFR OIS was raised to support this point.

2.22 Another respondent highlighted that the 12-year tenor has less trades than the 3-month and 6-month tenors – both of which, are not subject to the DTO.

2.23 In noting that the 12-year products may sit on the edge of the scope of the DTO, one respondent suggested that should the liquidity analysis, at a later date, provide evidence that there has been sufficient increase in the liquidity of the 12-year tenor in so much as it is included in the ICE Swap Rate or be akin to the liquidity of an in-scope tenor, then the FCA should consider bringing it in to scope.

2.24 Those who expressed concerns over the 12-year tenor said that if the 12-year SOFR OIS is subject to the DTO, then it should only be for the same specific types that are in scope of the CFTC's MAT determination, i.e. the DTO for 12-year should only include spot starting swaps and IMM swaps with a par fixed rate but not for IMM swaps with a standard coupon rate.

2.25 In relation to our proposed implementation timeline, some respondents suggested an extension for the changes to the DTO to come into effect 6 months following publication of the policy statement.

2.26 It was suggested that this extension would accommodate the need for firms to adjust their relevant internal and external trading and control systems in accordance with the new scope.

Our response

We recognise that 12-year SOFR OIS is relatively less liquid than other tenors for the same class of derivative. However, we propose to proceed with including it under our DTO for the following reasons:

1. The specific tenor displays liquidity that is still comparable to that available for SONIA OIS, which is subject to our DTO since 20 December 2021 (see CP figures 7 and 8 showing EMIR data covering the period of 2023).

We have also confirmed using an updated EMIR data set for the period covering the second half of 2024 to ensure that liquidity has not changed significantly since the publishing of our consultation. The updated EMIR data confirms the liquidity analysis carried out in the consultation in that liquidity in the proposed SOFR tenors remains stable and robust. The data also shows no evidence that liquidity in the 12-year SOFR tenor has fundamentally changed. Our post-consultation engagement with some respondents and wider stakeholders, including members of our advisory committee on secondary markets, confirm that the 12-year tenor is sufficiently liquid to be brought into scope. The evidence gathered includes the availability of dealers' quotes for 12-year SOFR OIS to clients on trading venues.

2. During our consultation for changes to the bond and derivatives transparency regime (PS24/14) market participants supported real time transparency for all tenors of SOFR OIS up to 30 years, including 12-year OIS.
3. Access to eligible US trading venues in accordance with the Treasury regulations should ensure that if there are episodic periods of reduced liquidity on UK trading venues, UK firms can still access the largest available pool of liquidity (the US).

We agree with respondents that the 12-year tenor should only be brought into scope to the extent that it mirrors the CFTC determination which covers the most liquid sub-class of 12-year SOFR OIS. This will ensure international consistency. Our post-consultation engagement confirms and strongly encourages the alignment of trading mandates wherever possible and note that this lowers compliance costs for firms operating across multiple jurisdictions.

We will therefore proceed to add to the scope of the DTO the SOFR OIS classes of derivatives as proposed in the consultation, subject to the 12-year SOFR product only being in scope for spot starting swaps and IMM swaps with a par fixed rate, and not for IMM swaps with a standard coupon fixed rate.

We have carefully considered respondents feedback on the points raised in relation to the implementation timeline. However, we do not consider that we have received sufficient evidence that 3 months is not adequate to implement necessary changes to bring SOFR in scope of the DTO.

We considered the following factors:

1. When we brought SONIA OIS in scope of the DTO in 2021, firms were able to meet the change in scope in around 2 months. We published our policy statement on 15 October 2021 and the new scope entered into force on 20 December 2021.
2. Market participants already have broad access to trading venues that offer SOFR OIS.

3. In July 2023, the CFTC approved a MAT determination filing covering certain OIS linked to SOFR and SONIA rates. Market participants were given 30 days to implement the MAT determination.
4. Market participants received a little over 2 months between confirmation from the Bank of England in their PS and final rules on 24 August 2022 for inclusion of SOFR OIS in the clearing obligation by 31 October 2022.[3]

We have considered the position of smaller firms and believe that with reasonable effort the 3-month timeline is also achievable for them.

For these reasons we are maintaining the original implementation timeline. SOFR OIS will therefore be subject to the DTO from 30 June 2025.

3 BANK STANDARDS INSTRUMENT: THE TECHNICAL STANDARDS (CLEARING OBLIGATION) INSTRUMENT 2022. Available at https://www.bankofengland.co.uk/-/media/boe/files/paper/2022/bank-standard-instrument-the-technical-standards-clearing-obligation-no3-instrument-2022.pdf

Chapter 3

Our response to feedback on exemptions for post-trade risk reduction services

Introduction

3.1 Post-trade risk reduction services (PTRRS) are services that enable counterparties to reduce or manage their exposure to risks that arise from their derivatives portfolios, like counterparty and operational risk, without altering their market risk. They are provided to investment firms such as broker-dealers and their clients by third-party firms that are not counterparties to derivatives positions in the portfolios. Some of those services result in the cancellations of existing positions while others require the establishment of new, market-risk neutral positions.

3.2 Under MiFIR, trades concluded as part of portfolio compression are exempted from the DTO, best execution and pre- and post-trade transparency (provided the volumes of transactions and the time at which they were concluded is made public). The provision of portfolio compression is also exempted from the obligation for any multilateral system to seek authorisation as a trading venue. The purpose of the exemptions is to remove undue barriers that could prevent the use of services which support the reduction of systemic risk.

3.3 Portfolio compression is not the only risk reduction service used by firms. Since MiFID II entered into force in January 2018, post-trade risk reduction services have become more widely used by market participants. There are currently three types of PTRR services: portfolio compression, portfolio rebalancing and basis risk optimisation. Under the current rules, only transactions arising out of portfolio compression benefit from relief from the requirements above.

3.4 The WMR consultation asked whether transactions arising from other types of PTRRS should be treated in the same way as those from portfolio compression. Respondents were in favour of expanding the exemptions to other risk reduction services, provided that appropriate conditions were set in place for the exemptions to apply. Market participants agreed that transactions that originate from risk reduction services are non-price forming and so having them comply with requirements such as the trading mandate or transparency requirements would not improve the functioning of the market.

3.5 The Financial Services and Markets Act 2023 gave us the rule-making power to make such changes to the rules on PTRRS. In CP24/14 we consulted on the new rules framework to apply to each of the three types of risk reduction services.

Types of risk reduction services

3.6 In CP24/14 we described the characteristics of the PTRRS commonly in use today: portfolio compression, portfolio rebalancing and basis risk optimisation.

3.7 We found this necessary to provide clarity on the scope of the exemptions because there were only a few publicly available reports which describe the methodology behind these PTRRS.

3.8 In CP24/14 we asked:

Question 4: **Do you agree with the descriptions provided for portfolio compression, portfolio rebalancing, and basis risk optimisation? If not, why not?**

Feedback received

3.9 All respondents agreed with the proposed description for portfolio compression.

3.10 For portfolio rebalancing, respondents noted that rebalancing can involve amending or terminating existing transactions, and not just establishing new transactions as had been described in CP24/14 (i.e., it is possible to rebalance counterparty risk either by only introducing new transactions, or by a combination of terminating existing transactions and creating new transactions, i.e., risk-replacement transactions, as can be done in compression). It was suggested that like compression, portfolio rebalancing should also be described as not materially affecting the market risk of the portfolio.

3.11 For basis risk optimisation, respondents suggested that the description of the service should refer more broadly to derivatives instead of just swaps as the former covers a wider range (including swaps, forward and options) making it work better across all the products currently optimised.

Our response

Following the additional detail provided to us on the methodology of portfolio rebalancing, we agree that like compression, portfolio rebalancing does not materially affect the market risk of the portfolio. We also remind that in line with our rules, new article 31(1) sets out two legislative parameters. This includes that risk reduction services must not give rise to price forming transactions and must be provided for the purpose of reducing non-market risks in derivatives portfolios. Further detail on the legislative framework and characteristics of risk reduction services is included below.

We also agree with the suggestion for the methodology of basis risk optimisation to reference derivatives as this works better across the products currently optimised.

Legislative framework

3.12 Schedule 2 to FSMA 2023 revoked Article 31 MiFIR on portfolio compression (and the articles made under it: Articles 17 and 18 of the MiFIR Delegated Regulation (Commission Delegated Regulation (EU) 2017/567)) and replaced it with a new Article 31 on risk reduction services.

3.13 New article 31(1) of UK MiFIR provides a definition of risk reduction service and empowers us to disapply certain obligations in relation to activities and transactions – as specified by us – that are carried out as part of a risk reduction service or by persons that provide such services. We can exercise such power only where it advances one or more of our statutory objectives.

3.14 Under Article 31, we can:

1. disapply some or all the relevant obligations, where different obligations can be disapplied for different risk reduction services;
2. describe the characteristics of risk reduction services that can benefit from the exemptions; and
3. set the conditions that firms benefitting from an exemption shall comply with.

Disapplication of the relevant obligations

3.15 In CP24/14, we proposed that eligible PTRRS shall not be subject to:

1. the best execution obligation in section 11.2A of the Conduct of Business sourcebook
2. the obligation in rule 5AA.1.1R in the Market Conduct sourcebook to operate a multilateral system as a multilateral trading facility (MTF) or an organised trading facility (OTF), if you are a firm with a Part 4A permission
3. the DTO imposed by Article 28 MiFIR

3.16 We noted that best execution aims to protect investors by ensuring their orders are executed fairly, promptly and at the best available price. Positions that are submitted to risk reduction services, and their related transactions, are not transactions that result from the execution of an order and are not intended to achieve the best possible price, to minimise cost or maximise the speed and likelihood of execution. We said that that maintaining a best execution obligation would not be compatible with their intended purpose.

3.17 The obligation in rule 5AA.1.1 in our Market Conduct sourcebook requires that where a firm operates a multilateral system from an establishment based in the UK, it must operate it as an MTF or OTF. We noted that, while multiple participants interact under the systems operated by a risk reduction service provider, interaction is different from that occurring on a trading venue. This is because firms using PTRR services do not compete on the basis of price, volume or time of transactions as they do on trading venues. The application of trading venue requirements, such as those related to transparency, electronic trading, circuit breakers and suspension would not be meaningful to the operation of risk reduction services.

3.18 We also highlighted that the trading obligation imposed by Article 28 of UK MiFIR is primarily aimed at improving transparency to enhance price formation and strengthen market integrity. The transactions which emerge from PTRR services are non-price forming and therefore, do not support the price discovery process.

3.19 In CP24/14 we asked:

Question 5: **Do you agree that eligible post-trade risk reduction services should not be subject to the best execution, the obligation to seek authorisation as a trading venue, and the derivatives trading obligation? If not, please explain why.**

Feedback received

3.20 We received unanimous agreement from respondents that eligible post-trade risk reduction services should not be subject to the best execution obligation, the obligation to seek authorisation as a trading venue, and the DTO.

3.21 Respondents said that the inclusion of transactions that arise from PTRRS to the DTO and to the transparency regime would only add unnecessary noise to the information that is reported to the public. Removing these obligations would also remove barriers to a wider range of market participants using PTRRS.

3.22 In supporting the points made in the consultation, one respondent welcomes explicit directions considering the exclusion from transparency and from any future derivative consolidated tape (should that be proposed in the future).

3.23 Some respondents supported establishing a similar exemption from the derivatives clearing obligation for trades resulting from PTRRS and recommended aligning it with that for the DTO.

Our response

We agree with the points raised by respondents in relation to PTRRS and the DTO/relevant obligations within our remit. In relation to the transparency requirements for PTRRS, we note our confirmation in PS24/14 (in paragraph 4.11) that the administrative trades resulting from PTRRS are exempt from the OTC derivatives pre-trade transparency requirements. On the point raised in relation to exemptions for such transactions from any future derivatives consolidated tape; in line with MAR 9.2B.33 and 9.2B.34, and as raised in CP23/15: the scope of the consolidated tape is based only on the information which has been made public in accordance with articles 10 and 21 MiFIR. Transactions arising from PTRRS will therefore not be in scope of any future consolidated tape as both of the aforementioned requirements will not apply under our new rules on PTRRS. On the point raised in relation to an aligned exemption from the clearing obligation, we have been working closely with the Bank to keep them informed of our policy decisions.

Characteristics of eligible risk reduction services

3.24 Revised article 31 MiFIR requires risk reduction services to have two characteristics. First, they must not give rise to price forming transactions. Secondly, they must be provided for the purpose of reducing non-market risks in derivatives portfolios.

3.25 In CP24/14, we proposed to include three additional characteristics that an eligible PTRRS should have. These include that the PTRRS:

1. it is provided by a firm that is not party to a transaction resulting from the service;
2. it is operated on the basis of non-discretionary rules set in advance by the operator that are based on specified parameters; and
3. results in a single set of transactions that bind all the participants

3.26 We noted that all the characteristics are shared by the three types of PTRRS. We also said that our rules would ensure that the exemptions only apply to those activities that are unable to meet the obligations they are exempted from while making the regime flexible enough to recognise new risk reduction services that may emerge in the future.

3.27 On requiring the service to be performed by a third-party provider, we considered this necessary to ensure the integrity of the service and the absence of conflicts of interest. If risk reduction services were activities able to be conducted bilaterally then this could result in circumvention of the DTO by participants structuring transactions under the guise of a PTRRS. We, therefore, also believe this characteristic prevents undermining the purpose of the DTO.

3.28 We outlined that to determine overall risk reduction opportunities and fairness in the provision of the service, we found it necessary to require the rules determining the risk reduction outcomes to be non-discretionary, transparent and reflect the risk parameters that they intend to minimise.

3.29 Risk reduction exercises are binding on an all-or-nothing basis across all participants. This removes the possibility for market participants to choose which trades they agree to execute and enhances the integrity and efficiency of the process.

3.30 We said that we would deem portfolio compression, portfolio rebalancing, and basis risk optimisation eligible post-trade risk reduction services given we consider all three to have met the five characteristics.

3.31 In CP24/14 we asked:

Question 6: **Do you agree with the three characteristics identified to determine eligible post-trade risk reduction services? If not, please explain why.**

Question 7: **Are there any additional characteristics we should consider including for "eligible post-trade risk reduction services"? If yes, please explain which characteristics and why.**

Question 8: **Do you agree portfolio compression, portfolio rebalancing and basis risk optimisation are eligible post-trade risk reduction services? If not, please explain why.**

Feedback received

3.32 We received unanimous agreement on the characteristics proposed to determine eligible post-trade risk reduction service.

3.33 However, one point was raised in relation to characteristic (1) above on the service being provided by a third-party provider. This included a suggestion to allow additional flexibility noting the possibility that a future PTRRS could leverage an agency model where the provider is counterparty on a pair of back-to-back trades prior to clearing, at which point they would be netted to leave no position for the PTRRS provider.

3.34 We did not receive any suggestion to include additional characteristics.

3.35 It was raised that PTRRS are continuously being developed and improved, and it should be expected that the demand for new types of risk reduction services will arise. It is therefore important to strike the right balance between having a definition which is clear and specific to provide relief only to risk-reduction services but it also sufficient flexible to allow for further innovation and improvements over time.

3.36 We received unanimous agreement that portfolio compression, portfolio rebalancing and basis risk optimisation are eligible post-trade risk reduction services.

Our response

We do not agree with the suggestion to allow for additional flexibility for PTRRS providers to be counterparty on a pair of back-to-back trades (i.e., removing the need for the service to be provided to firms by a third-party provider). We will maintain this requirement as originally drafted on the basis that it is in line with international best practices and safeguards against potential conflicts of interest as highlighted in paragraph 3.27 above. We agree with the other points raised by respondents, including the importance of striking a balance with the framework to allow it to cater to the development of future PTRRS. The characteristics are laid out in MAR 12.4 (Appendix 2 of this PS).

Conditions to be applied to risk reduction services

3.37 Article 17 of the MiFIR Delegated Regulation sets out the conditions to be fulfilled by firms providing portfolio compression for the transactions concluded under their systems if using the exemptions. It covers the need for firms providing portfolio compression to have agreements in place with users of the service in relation to the legal effects of portfolio compression and the time at which those effects become legally binding.

3.38 Article 31(3) UK MiFIR required firms providing portfolio compression to keep complete and accurate records of all compression exercises which they organise or participate in.

3.39 Given the importance for risk reduction services to be based on clear and transparent terms and for risk parameters to be known in advance by users, we proposed in CP24/14 to broadly maintain the conditions listed in Article 17 within our rules on PTRRS, but to amend them so they can cater for all eligible risk reduction services. These are incorporated within our rules under the definition of an "eligible agreement". We proposed in CP24/14 that PTRRS benefitting from the exemptions must carry out the PTRRS exercise in accordance with this definition.

3.40 We also proposed to maintain the obligation for firms providing risk reduction services to keep complete and accurate records of all risk reduction exercises which they organise or participate in, and for such records to be made promptly available to us upon request. This ensures that the use of risk reduction services is compatible with our market integrity objective by maintaining adequate supervision of the activity.

3.41 In CP24/14 we asked:

Question 9: **Do you agree with the conditions included for providers of eligible risk reduction services to fulfil for the definition of an eligible agreement if using the exemptions in Article 31 UK MiFIR? If not, please explain why.**

Question 10: **Do you agree with the condition that providers of post-trade risk reduction services shall maintain complete and accurate records of all risk reduction exercises they organise or participate in, and for such records to be made promptly available to the FCA upon request? If not, please explain why.**

Feedback received

3.42 We received unanimous support on the condition for providers of eligible risk reduction services to carry out the service as an eligible agreement.

3.43 Technical comments were raised on the draft definition of an eligible agreement (in Annex A of the CP). These amendments were to ensure the language used is suitable to all risk reduction services.

3.44 Other suggestions included amending the language to broaden the flexibility of the definition. For example, to replace "risk tolerances" with "parameters".

3.45 On the final condition in relation to record-keeping by providers of PTRRS – one respondent raised concern over unintended consequences of making compliance with such an obligation a condition that must be satisfied for a PTRRS to be eligible for the listed exemptions. For example, an investment firm, could find itself in breach of a relevant obligation because the PTRRS provider had not complied with the record-keeping requirements. This breach would be beyond the control of the investment firm while exposing it to the risk of breach of the DTO.

Our response

We welcome the suggested changes to the language used in the draft definition of an eligible agreement. We agree with the suggested changes to certain clauses to allow them to be better suited to all PTRRS (for example, this has been done to the language used in clause (b) and (c) (iii) in Annex A). However, on the suggestion to replace "risk tolerances" with "parameters", we maintain the clauses as proposed because they use the same terminology as that in the Article 17 of the MiFIR Delegated Regulation. We also note that the latter suggestion is not necessary for the purpose of making the clauses better suited to all PTRRS but only to broaden the flexibility of the definition.

We note "where applicable" is added to certain clauses to acknowledge them as a requirement which may only be suited to one service rather than applicable to all.

We have carefully considered the concern raised in relation to the record-keeping condition. We have decided to exclude the fulfilment of MAR 12.5 from the definition of an eligible post-trade risk reduction service. This means that the conditions applicable to providers of PTRRS – such as the record keeping requirement – are separate from the eligibility to use the exemptions. We found that the same concern raised in relation to record-keeping could be applied to the other conditions placed only on the providers of PTRRS. We have therefore removed MAR 12.5 from being a part of the conditions for firms benefitting from the exemptions available to users of PTRRS. Instead, MAR 12.5 remains only as conditions on providers of PTRRS. This amendment ensures that any breach by the provider of MAR 12.5 will not automatically put the firms using their service in breach as well.

3.46 In CP24/14 we also said that Article 31(1) UK MiFIR exempts portfolio compression from the pre- and post-trade transparency requirements applicable to trading venues and investment firms when concluding transactions in derivatives. Article 31(2) however, imposes a public disclosure requirement with Article 18 of the MiFIR Delegated Regulation specifying what this information should be.

3.47 This includes the list of derivatives submitted to portfolio compression, the derivatives that are changed or terminated and those replacing them, and the notional amount that is compressed. In accordance with the two interlinked articles, we flagged that they require such information to be made public through an APA, which is the same publication arrangements used to report transactions by investment firms.

3.48 In contrast, revised article 31 UK MiFIR deletes the existing provisions and does not cover the transparency requirements that should apply to transactions that are part of a specified risk reduction service but allows us to impose conditions in relation to risk reduction services.

3.49 We noted understanding in the consultation that the absence of a specific flag for risk reduction services, complicates the ability of market participants to identify trades that originate from portfolio compression, or other types of PTRR services, from other transactions. We also recognised that the reporting of risk reduction transactions in the same way as any other transaction imposes a cost on their users which is not justified given the value of the information disclosed.

3.50 We therefore proposed that we disapply the transparency requirements to transactions that arise from PTRRS rather than require them to be reported with a flag.

3.51 While transactions concluded as part of a risk reduction service are not price forming, we said that market participants should continue to have access to certain information about the risk that is submitted and the outcomes that result from the risk reduction services provided. Such information would more easily allow firms and regulators to understand the scale of risk reduction services as well as their trends. We therefore proposed to amend the provisions in Article 18 to apply the disclosure requirement specified by that article to all risk reduction services benefitting from the exemption.

3.52 In line with the existing requirements for portfolio compression, we proposed to require providers of risk reduction services to publish – no later than the close of the following business day after a PTRRS exercise is complete – the essential information about the transactions resulting from a risk reduction exercise.

3.53 For portfolio compression, this includes the following information:

a. total number of transactions and aggregate volume submitted for compression
b. total number of transactions and aggregate volume of derivatives terminated or modified

3.54 For other risk reduction services, we proposed that the disclosure includes:

a. the total number of new derivative transactions
b. the value of these transactions expressed in terms of aggregate volume

3.55 In contrast to the current publication arrangements, we did not propose to maintain the obligation to publish through an APA. While some firms may want to continue to use the arrangements provided by APAs, we see no reason to mandate their use given that the content and frequency of the information is different from those of market transactions.

3.56 We noted that the benefit of such an approach is that it would minimise undue costs on firms where the use of APAs is deemed disproportionate to the benefit that the information provides to the public.

3.57 In CP24/14 we asked:

Question 11: **Do you agree with maintaining a form of public disclosure for PTRR services? If not, please explain why.**

Question 12: **Do you agree with the information required to be disclosed under the proposed condition of public disclosure by providers of PTRR services? If not, please explain why? Please include any additional information you consider necessary for inclusion in our public disclosure requirement.**

Feedback received

3.58 We received unanimous agreement from respondents in relation to maintaining a form of public disclosure for PTRRS with one respondent noting that the PTRRS provider should be allowed to leverage its public website to fulfil this requirement.

3.59 We received unanimous agreement about the content of the information required to be published by PTRRS providers.

3.60 Noting limitations to information on numbers of transactions and notional volumes, it was added that it might be helpful to market participants if it were also required to be disclosed in terms of risk parameters (i.e., as duration specific units of DV01 (dollar value per 1 basis point change in interest rate) and VAR (value-at-risk), as well as publication in machine readable formats).

Our response

We do not prescribe the way in which providers of PTRRS should fulfil their obligation to make public the information set out in MAR 12.5.2. This may include the use of a website. Given type of information (i.e., volume and frequency of the data), we do not consider it necessary to mandate that such data be required to be in machine readability. We do also not consider it necessary to mandate that the information disclosed be in terms of risk parameters.

3.61 To better monitor the new PTRRS regime, we proposed to require firms providing risk reduction services to notify us of their intention to rely on the exemptions. The notification therefore requires a description of the services provided to evidence them as eligible post-trade risk reduction services, and will need to be updated when there is a change in the types of services provided. The notification would allow us to monitor the use of PTTRS and related exemptions.

3.62 In CP24/14 we asked:

Question 13: **Do you agree with our proposal to introduce a notification requirement for firms operating a PTRR service as laid out above? If not, please explain why.**

Feedback received

3.63 We received unanimous agreement from respondents in relation to the introduction of a notification requirement for firms operating a PTRRS as laid out above.

3.64 Some respondents asked us to accept notifications as soon as practicable after the publication of the PS and final rules as some firms may prefer to notify earlier than waiting for the implementation time to pass.

Our response

We have set up the notification requirement as included in MAR 12.6 (Appendix 2) and as proposed on in the consultation. Providers of PTRRS must, prior to providing for the first time a PTRRS, notify us of the intention to rely upon the exemption in MAR 12.2.1R and MAR 12.3.1R. We believe that the introduction of the notification requirement allows us to better supervise determinations of PTRRS in relation to our rules. We agree on the point regarding accepting early notifications. We will therefore be accepting notifications from PTRRS providers from the day following the publication of this PS.

3.65 In the consultation, we recognise that some of the changes proposed have implications for firms' systems. We want to ensure an orderly adoption of possibility of benefitting from the exemptions and for firms to have adequate arrangements for the publication of the information about risk reduction services concluded under their systems. We, therefore, proposed our changes to come into force 3 months after the publication of our policy statement.

3.66 In CP24/14 we asked:

Question 14: **Do you agree with our proposed implementation timeline for the changes in Handbook to apply to risk reduction services? If not, please explain why. Please include any additional factors you would like us to consider.**

Feedback received

3.67 We received agreement on our proposed implementation timeline although some respondents suggested an extension to 6 months to allow firms currently using PTRRS to implement system changes to exclude trades resulting from the services from their post-trade transparency reporting (currently required as optimisation and rebalancing are not yet part of the PTRRS framework).

Our response

We have carefully considered the feedback. We do not consider extending the implementation timeline is possible or necessary, nor do we consider the respondents to have provided sufficient evidence to warrant such an extension. We note that The Treasury has made their statutory instrument, which repeals various provisions in MiFIR to give effect to our new rule-making powers granted by FSMA 2023. This includes repealing the current provisions on PTRRS by 30 June 2025. Allowing 6 months, without amending the commencement date, brings us into a period where no relief for PTRRS transactions is available, including abruptly ending the one currently available for portfolio compression.

Chapter 4

Our response to feedback on FCA power to suspend or modify the derivatives trading obligation

Introduction

4.1 In CP24/14 we set out how we intended to suspend or modify the DTO using a new power inserted into Article 28a of UK MiFIR by FSMA 2023. The exercise of the power, which aims to advance our market integrity objective, is subject to the Treasury's consent.

4.2 We said that a direction made under this power would replace the then-current direction which had been made under the Temporary Transitional Power (TTP).

4.3 The TTP gave UK regulators the temporary power to delay the application of, or otherwise modify, regulated firms' regulatory obligations in relation to financial services, where their obligations had changed as a result of the amendments made to EU legislation through the onshoring process.

4.4 In December 2020, we published a statement about our intention to use the powers under the TTP to modify the application of the UK DTO, and a Transitional Direction for the DTO with supporting guidance. The purpose of the direction was – in absence of mutual equivalence between the UK and EU – to avoid disruption for market participants caught by a conflict of law between the EU and UK DTOs, in particular UK branches of EU firms.

4.5 In CP24/14 we proposed to exercise our new power of direction in consideration of our previous review of the TTP approach in March 2021 which showed no disruptions in derivatives trading occurred thanks to the modification of the DTO under the TTP framework. We also noted that, since then, we have not observed market or regulatory developments that justify a change in our current approach.

4.6 In CP24/14 we said that the new direction should continue to allow firms subject to the UK DTO, trading with, or on behalf of, EU clients subject to the EU DTO, to transact or execute those trades on EU venues, providing they meet certain conditions.

4.7 We proposed that the same conditions set out in the transitional direction shall continue to apply. This includes that firms must take reasonable steps to be satisfied the client does not have arrangements in place to execute the trade on a trading venue to which both the UK and EU have granted equivalence.

4.8 We noted that in comparison to the transitional direction, the new direction would be amended so that it would only apply to transactions in classes of derivatives subject to the DTO in both the UK and in the EU since disruption may arise for those classes of derivatives. This is because as a result of transition from Libor to risk-free rates, instruments such as swaps based on GBP and USD Libor were not part of the UK or EU any trading obligations.

4.9 In CP24/14 we asked:

Question 15: **Do you agree that we should use our UK MiFIR Article 28a power of direction to achieve an outcome equivalent to that achieved by the TTP as outlined above? If not, please explain why.**

Feedback received

4.10 We received strong support to our proposal to use our power of direction.

Our response

In November 2024, The Treasury consented to our new direction modifying the DTO, which we published on our website. This replaced the Temporary Transitional Power (TTP) directly upon its expiry on 31 December 2024. The new direction remains in force until 30 June 2025 as currently drafted. If there is no change in the conditions that justify the use of the direction, we can renew it for another six months, and every six months afterwards, provided we publish a statement explaining why the direction continues to prevent disruption to financial markets and advances one or more of our operational objectives.

Chapter 5

Cost benefit analysis on the derivatives trading obligation and post-trade risk reduction services

5.1 In CP24/14, we presented CBAs of the expected costs and benefits associated with the policy proposals set out in the consultation.

5.2 For our proposed changes to the scope of the DTO, the benefits we identified at paragraph 72 included efficiency gains, improved liquidity, and lower trading costs. We also noted the proposals could lead to further benefits including increased returns for investors and better risk hedging and help with mitigating systemic risk through standardisation of contracts and bringing greater transparency to trades.

5.3 For our changes to the rules on PTRRS, the benefits we identified at paragraph 32 included lower operational costs and operational risk as a result of decreased complexity in positions, and lower IM (initial margins) and regulatory capitals costs as a result of smaller net positions.

5.4 In respect to costs on changes to the scope of the DTO, we noted that in addition to compliance costs for familiarisation and IT/systems costs, indirect costs can arise due to increased market transparency resulting in liquidity withdrawal of some participants, or the costs of market transparency may be borne by informed participants i.e., large dealers and market makers (IOSCO, 2011).

5.5 In respect to costs on changes to the rules on PTRRS, we noted that in addition to compliance costs for familiarisation and IT/systems costs, indirect costs may arise for firms using PTRRS in that they may incur additional costs from using additional PTRRS. However, we noted that their participation in additional PTRRS is voluntary and will likely only be done where the benefits outweigh the costs of the service.

5.6 Respondents to the consultation did not make any specific comments on the cost and benefit estimates set out in the CBAs or give us any additional evidence on their costs that would change our analyses.

5.7 We did receive comments on the policy that are potentially relevant for the CBA. These were comments on the classes of derivatives we proposed to bring into scope to the DTO and on our proposed implementation timeline for the new rules to take effect (both in relation to the scope of the DTO and the PTRRS framework).

5.8 The changes we are making to the scope of the DTO in that our classes of derivatives subject to the DTO will align with those already subject to the US trading mandate likely minimise compliance costs for firms operating in both jurisdictions. We do not think these changes materially affect the costs and benefits set out in the CBA.

5.9 Some respondents suggested an extension for the changes to the DTO to come into effect as firms to adjust their relevant internal and external trading and control systems in accordance with the new scope. By implication, for these firms the shorter timeframe we proposed will increase costs for these firms. We do not believe that higher costs for some firms alter our overall costs estimates as there will be other firms with lower costs. Consequently, we believe the costs we estimated in the CBA remain appropriate.

Annex 1

List of non-confidential respondents

Alternative Investment Management Association (AIMA)

European Venues and Intermediaries Association (EVIA)

Investment Association (IA)

International Swaps and Derivatives Association (ISDA)

OSTTRA

UK Finance

Annex 2

Abbreviations used in this paper

Abbreviation	Description
APAs	Approved publication arrangements
CBA	Cost benefit analysis
CFTC	Commodity Futures Trading Commission
CO	Clearing obligation
COBS	Conduct of Business Sourcebook
DTO	Derivatives trading obligation
DV01	Dollar value of 1 basis point
EMIR	European Market Infrastructure Regulation
ETD	Exchange traded derivatives
EU	European Union
EURIBOR	Euro Interback Offered Rate
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000
IOSCO	International Organisation of Securities Commissions
IRD	Interest rate derivatives
LIBOR	London Inter-Bank Offered Rate
MAR	Market Conduct Sourcebook
MAT	Made available to trade
MiFID II	Second Markets in Financial Instruments Regulation
MiFIR	Markets in Financial Instruments Regulation

Abbreviation	Description
MTF	Multilateral trading facility
OIS	Overnight index swap
OTC	Over-the-counter
OTF	Organised trading facility
PS	Policy statement
PTRRS	Post-trade risk reduction services
RFR	Risk-free rate
RTS	Regulatory Technical Standard
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
Treasury Regulations	The Markets in Financial Instruments (Equivalence) (United States of America) (Commodity Futures Trading Commission) Regulations 2024
TTP	Temporary Transitional Power
TVs	Trading venues
UK MiFIR	Onshored Regulation (EU) No 600/2014 on Markets in Financial Instruments Regulation
WMR	Wholesale Markets Review

Appendix 1

Made rules and technical standards (legal instrument)

TECHNICAL STANDARDS (MARKETS IN FINANCIAL INSTRUMENTS REGULATION) (DERIVATIVES TRADING OBLIGATION AND TRANSPARENCY) (AMENDMENT) INSTRUMENT 2025

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the powers and related provisions in or under:

(1) article 32(1) of 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; and

(2) the following sections of the Financial Services and Markets Act 2000 ("the Act") as amended by the Financial Regulators' Powers (Technical Standards etc.) (Amendment etc) (EU Exit) Regulations 2018:

(a) section 138P (Technical standards);
(b) section 138Q (Standards instruments);
(c) section 138S (Application of Chapters 1 and 2); and
(d) section 137T (General supplementary powers).

B. The provisions referred to above are specified for the purpose of section 138Q(2) (Standards instruments) of the Act.

Pre-conditions to making

C. The FCA has consulted the Prudential Regulation Authority and the Bank of England as appropriate in accordance with section 138P of the Act.

D. A draft of this instrument has been approved by the Treasury in accordance with section 138R of the Act.

E. The FCA published a draft of this instrument in accordance with section 138I(1)(b) of the Act, accompanied by the information required by section 138I(2). The FCA had regard to representations made in response to the public consultation.

Modifications

F. The following technical standard, which is part of UK law by virtue of the European Union (Withdrawal) Act 2018 is amended in accordance with the Annex to this instrument.

Commission Delegated Regulation (EU) 2017/2417 of 17 November 2017 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 the trading obligation for certain derivatives.

Commencement

G. This instrument comes into force on 30 June 2025.

Citation

H. This instrument may be cited as the Technical Standards (Markets in Financial Instruments Regulation) (Derivatives Trading Obligation and Transparency) (Amendment) Instrument 2025.

By order of the Board
27 March 2025

In this Annex, underlining indicates new text and striking through indicates deleted text.

Annex

Commission Delegated Regulation (EU) 2017/2417 of 17 November 2017 supplementing Regulation (EU) 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on the trading obligation for certain derivatives

…

Article -1

Interpretation

In this Regulation, where a term is defined in article 2 of Regulation 600/2014/EU, as amended by the Markets in Financial Instruments (Amendment) (EU Exit) Regulations 2018, that definition shall apply for the purposes of this Regulation.

For the purposes of this Regulation, 'IMM' means the International Monetary Market operated by companies within the CME Group Inc.

Article 1

Derivatives subject to the trading obligation

The derivatives set out in the Annex shall be subject to the trading obligation referred to in Article 28 of Regulation (EU) No 600/2014.

A derivative referred to in Table 1 ~~and~~, Table 5 and Table 6 of the Annex shall be deemed to have a tenor of 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12, 15, 20, 25 or 30 years where the period of time between the date at which the obligations under that contract come into effect and the termination date of that contract equals one of those periods of time, plus or minus 5 days.

…

ANNEX

Derivatives subject to the trading obligation

…

Table 5 Overnight indexed swaps denominated in GBP

Overnight indexed swaps – ~~GPB~~ GBP SONIA

~~**Floating leg**~~		
Settlement currency	…	…
…		

Table 6 Overnight indexed swaps denominated in USD

Settlement currency	USD	USD	USD
Trade start type	Spot (T+2)	IMM (next 2 IMM dates)	IMM (next 2 IMM dates)
Optionality	No	No	No
Tenor	2,3,4,5,6,7,10,12,15,20,30Y	1,2,3,4,5,6,7,10,12,15,20,30Y	1,2,3,4,5,7,10,15,20,30Y
Notional type	Fixed Notional	Fixed Notional	Fixed Notional
Fixed rate	Par	Par	Standard coupon
Fixed leg			
Payment frequency	Annual	Annual	Annual
Day count convention	Actual/360	Actual/360	Actual/360
Floating leg			
Reset frequency	Annual	Annual	Annual

Day count convention	Actual/360	Actual/360	Actual/360

Appendix 2

Made rules (legal instrument)

MARKETS IN FINANCIAL INSTRUMENTS REGULATION (POST-TRADE RISK REDUCTION SERVICES RULES) (AMENDMENT) INSTRUMENT 2025

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the powers and related provisions in or under:

(1) article 31 (Risk reduction services) of 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; and

(2) the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(a) section 137A (The FCA's general rules);
(b) section 137T (General supplementary powers);
(c) section 139A (Power of the FCA to give guidance); and
(d) section 300H (Rules relating to investment exchanges and data reporting service providers).

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 30 June 2025.

Interpretation

D. In this instrument, any reference to any provision of assimilated direct legislation is a reference to it as it forms part of assimilated law.

Amendments to the Handbook

E. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
General Provisions sourcebook (GEN)	Annex B
Market Conduct sourcebook (MAR)	Annex C

Notes

F. In the Annexes to this instrument, the notes (indicated by "*Editor's note*:") are included for the convenience of readers, but do not form part of the legislative text.

Citation

G. This instrument may be cited as the Markets in Financial Instruments Regulation (Post-trade Risk Reduction Services Rules) (Amendment) Instrument 2025.

By order of the Board
27 March 2025

Annex A

Amendments to the Glossary of definitions

Insert the following new definitions in the appropriate alphabetical position. The text is all new and not underlined.

eligible agreement an agreement between a *post-trade risk reduction service provider* and a market participant:

(a) that identifies the point in time that a *PTRRS* becomes legally binding;

(b) that includes legal documentation describing how *derivatives* or positions submitted for inclusion in the *PTRRS* are terminated, replaced or modified, as applicable; and

(c) in relation to which, prior to entry into force, the *post-trade risk reduction service provider*:

(i) identifies the risk tolerance of a participant, including, where relevant, specific limits for counterparty risk, market risk and cash payment tolerance;

(ii) agrees with the participants that the risk limits referred to in (i) will be incorporated into the *PTRRS* exercise;

(iii) may grant additional time, when requested, to the participants to add *derivatives* or positions eligible for termination, reduction or modification, as applicable, in order to:

(A) adjust the *PTRRS* to the risk tolerance set under (i); and

(B) maximise the efficiency of the *PTRRS*; and

(iv) links the *derivatives* submitted for the *PTRRS* and provides to each participant a proposal including the following information, where applicable:

(A) the identification of the counterparties affected;

(B) the related change to the combined notional value of the *derivatives*;

(C) the variation of the combined notional amount compared to the risk tolerance specified; and

(D) new *derivatives* transactions referrable to risk tolerances submitted by participants.

eligible post-trade risk reduction service	a *post-trade risk reduction service* which meets the criteria in *MAR* 12.4.
financial counterparty	(in accordance with article 28(1A) of *MiFIR*) has the same meaning as in article 2(8) of *EMIR*.
non-financial counterparty	(in accordance with article 28(1A) of *MiFIR*) has the same meaning as in article 2(9) of *EMIR*.
portfolio compression	(in accordance with article 2(1)(47) of *MiFIR*) a risk reduction service in which 2 or more counterparties wholly or partially terminate some or all of the *derivatives* submitted by those counterparties for inclusion in the portfolio compression and replace the terminated *derivatives* with another *derivative* whose combined notional value is less than the combined notional value of the terminated *derivatives*.
post-trade risk reduction service	a post-trade service provided to 2 or more counterparties to *derivatives* transactions: (a) for the purpose of reducing non-market risks in *derivatives* portfolios (including, for example, *portfolio compression*); and (b) that does not give rise to any transactions contributing to the price discovery process.
post-trade risk reduction service provider	a *person* who provides a *post-trade risk reduction service*.
PTRRS	a *post-trade risk reduction service*.
relevant financial counterparty	(in accordance with article 28(1A) of *MiFIR*) a *financial counterparty* subject to the clearing obligation referred to in article 4 of *EMIR*.
relevant non-financial counterparty	(in accordance with article 28(1A) of *MiFIR*) a *non-financial counterparty* when subject to the clearing obligation in article 4 of *EMIR* in respect of *derivative* contracts pertaining to a particular asset class.
relevant obligations	(in accordance with article 31(6) of *MiFIR*) the obligations imposed by: (a) *COBS* 11.2A; (b) *MAR* 5AA.1.1R; and (c) article 28 of *MiFIR*.

transparency obligations	the obligations imposed by and under articles 8, 10, 18 and 21 of *MiFIR*.

Annex B

Amendments to General Provisions sourcebook (GEN)

In this Annex, underlining indicates new text.

Sch 4 Powers exercised

…

Sch 4.3 G

The following additional powers have been exercised by the *FCA* to make the *rules* in *GEN*:
…
Article 78(10) of *EMIR*
Article 31 of *MiFIR*

…

Annex C

Amendments to the Market Conduct sourcebook (MAR)

Insert the following new chapter, MAR 12, after MAR 11 (Transparency rules for transparency instruments). The text is all new and is not underlined.

[*Editor's note*: MAR 11 is inserted by the Markets in Financial Instruments (Non-Equity Transparency Rules) Instrument 2024 (FCA 2024/38).]

12 Post-trade risk reduction services

12.1 Purpose and application

Purpose

12.1.1 G The purpose of this chapter is to specify the *eligible post-trade risk reduction services* giving rise to exemptions to one or more *relevant obligations* and *transparency obligations*.

12.1.2 G The *rules* in this chapter also set out applicable conditions for activities or transactions carried out as part of a *post-trade risk reduction service* to be exempt from one or more of the *relevant obligations* or *transparency obligations*.

Application

12.1.3 R This chapter applies to:

(1) *post-trade risk reduction service providers*;

(2) *relevant financial counterparties*;

(3) *relevant non-financial counterparties*;

(4) *third country investment firms*;

(5) *firms* subject to *COBS* 11.2A; and

(6) *transparency investment firms* and *trading venue operators* subject to *transparency obligations*.

12.2 Exemption from the relevant obligations

12.2.1 R A *relevant obligation* does not apply in respect of a transaction carried out as part of an *eligible post-trade risk reduction service*.

12.3 Exemption from transparency obligations

12.3.1 R The *transparency obligations* do not apply in respect of a transaction carried out as part of an *eligible post-trade risk reduction service*.

12.4 Characteristics of an eligible post-trade risk reduction service

12.4.1 R A *PTRRS* meets the criteria for the purposes of *MAR* 12.2 and *MAR* 12.3 where it:

(1) is provided by a *post-trade risk reduction service provider* which is not:

(a) affiliated to the market participants to whom the service is provided; and

(b) a party to a transaction resulting from the *PTRRS*;

(2) is operated on the basis of non-discretionary rules set in advance by the *post-trade risk reduction service provider* that are based on specified parameters; and

(3) results in a transaction that binds all the participants.

12.5 Applicable conditions for a post-trade risk reduction service provider to be exempt from the relevant obligations and transparency obligations

12.5.1 R A *post-trade risk reduction service provider* must perform a *PTRRS* in accordance with an *eligible agreement*.

12.5.2 R (1) A *post-trade risk reduction service provider* must make public in relation to its service of *portfolio compression*:

(a) the total number of transactions and aggregate volume submitted for compression; and

(b) the total number of transactions and aggregate volume of *derivatives* terminated or modified.

(2) A *post-trade risk reduction service provider* must make public in relation to its *PTRRS*, other than *portfolio compression*:

(a) the total number of new *derivatives* transactions; and

(b) the value of these transactions expressed in terms of aggregate volume.

(3) A *post-trade risk reduction service provider* must make public the information in (1) and (2) no later than the close of the following *business day* after a risk reduction has been completed.

12.5.3 R A *post-trade risk reduction service provider* must maintain complete and accurate records of all the *PTRRS* which they organise or participate in and make the records available to the *FCA* promptly upon request.

12.6 Notification requirement

12.6.1 R A *person* must, prior to providing a *PTRRS* for the first time, notify the *FCA* of:

(1) its intention to rely upon the exemption in *MAR* 12.2.1R and *MAR* 12.3.1R;

(2) the details of each type of *eligible post-trade risk reduction service* that it provides; and

(3) a variation in the type of *eligible post-trade risk reduction service* it provides.

12.6.2 R A *post-trade risk reduction service provider* must notify the *FCA* prior to ceasing to provide an *eligible post-trade risk reduction service*.

12.6.3 G A notification under *MAR* 12.6.1R and *MAR* 12.6.2R should be by way of electronic mail to an address for the *firm's* usual supervisory contact or online submission via the *FCA's* website at www.fca.org.uk, in accordance with *SUP* 15.7.5AR.

FINANCIAL CONDUCT AUTHORITY

12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk

Pub ref: 02-008398

All our publications are available to download from www.fca.org.uk.

Request an alternative format

Please complete this form if you require this content in an alternative format.

Or call 0207 066 1000

Sign up for our **news and publications alerts**