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Financial Conduct Authority
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Sent via email: cp26-30@fca.org.uk

Dear Priya,

Response to FCA CP26/30: Questions 7 (on back-reporting) and 8 (on public reporting of equity swaps)

The International Swaps and Derivatives Association, Inc. (**ISDA**) welcomes the opportunity to respond to the FCA's consultation paper CP26/30. We restrict our answers to those questions with a definite or potential impact on OTC derivatives, ISDA's area of operation and competence.

Executive Summary

ISDA recognises the FCA's objective of providing greater clarity and certainty around back-reporting obligations. However, we have significant concerns that imposing a blanket back-reporting period could create substantial operational burden without a corresponding benefit to market transparency, particularly given the diminishing value of post-trade transparency data over time. We believe that more evidence is needed to demonstrate that the proposed approach represents an appropriate or proportionate balance between the benefits of correcting historical data and the costs imposed on firms.

We therefore recommend that the FCA make no immediate changes to the existing framework and instead undertake further consultation to ensure that any new requirements are proportionate to their intended benefits. This should consider the materiality of reporting issues that should trigger back-reporting, evidence on the scale and typical resolution of such issues, and how historical post-trade transparency data is actually used by market participants. This would enable the development of a more targeted, evidence-based and proportionate framework.

As stated in [our response to Chapter 4 of FCA CP25/20](#) (the discussion paper on equity market structure and the transparency regime), ISDA strongly believes that the underlying premise that there is underreporting of addressable equity trading through the use of equity swaps and other trades creating synthetic exposure to equities is fundamentally flawed. We do not consider there to be any circumstances under which reporting for public transparency should be extended to cover equity swaps. We note that

About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 78 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on [LinkedIn](#) and [YouTube](#).

CP26/30 acknowledges the practical challenges of crafting such a regime and observe that the price of an equity swap is rarely able to be directly correlated to that of the underlying equity.

Question 7: Do you agree with our proposal on back-reporting? If not, what would be your preferred approach?

ISDA recognises that the FCA's intention in proposing a back-reporting period is to replace an open-ended obligation with a time bound one, and that by doing so likely believes it would be reducing burden for industry. We also recognise that there is ambiguity at present, and that greater clarity may be beneficial. However, we have significant concerns that imposing a blanket time window would be disproportionate and risk creating additional burden.

We note that paragraph 4.40 of CP26/30 implies that aligning the back-reporting period for post-trade transparency with that of transaction reporting is desirable as an end in itself. We believe this is a false equivalence, and that there is no inherent logic to aligning the two back-reporting periods.

Many firms use different parts of their technology stack for post-trade transparency reporting and transaction reporting. This can be for multiple reasons. For example, post-transparency is obviously a real time obligation, while transaction reporting is T+1; and the reportable data for post-trade transparency is much less extensive than that required under transaction reporting, and so may be able to be reported from upstream data sources closer to execution systems. Therefore, if there is an assumption that consistency of back-reporting periods across transparency and transaction reporting would be beneficial due to enabling greater consistency of technology implementation, that is unlikely to be the case.

Instead, we are advised strongly by our members that correcting historical post-trade transparency data over an extended look-back period would impose a significant operational burden, which would appear to run counter to the FCA's objective of simplifying and reducing regulatory burden.

ISDA also notes that the FCA acknowledges (also in paragraph 4.40) that the information content of post-trade transparency diminishes quickly after execution, so this additional burden would provide limited benefit to the regime's price discovery objective. We note further that the FCA itself states in paragraph 4.35 that *"A regulatory framework setting the requirements for back-reporting should strike the right balance between ensuring that the market has access to all the relevant information about executed transactions and that the regulatory costs on firms are proportionate to the benefits delivered."* We consider that a rigorous assessment of the relative impact and utility is necessary to accurately determine what that balance should be.

Paragraph 4.40 states further that the FCA *"thinks that there is still value in ensuring that firms have a more complete picture of how liquidity in an asset class has evolved over time."* ISDA notes that given transparency for OTC derivatives (which are our remit) is

focused on the most liquid of these instruments, instances of low materiality of incorrect reports and failure to report will not influence that picture to any meaningful extent. We therefore question the need to back-report in such cases if they are not identified and corrected immediately as part of normal operational processes. In our view, the scenarios that are of relevance are where significant numbers of trades are reported incorrectly or not reported at all.

In paragraph 4.39, the FCA notes that it considered various approaches, including the possibility of quantitative and/or qualitative criteria on when back-reporting should be required, but discarded that as impractical and potentially increasing costs. We believe there should be further analysis of this option, and strongly recommend that the FCA consults further on whether providing quantitative and/or qualitative criteria would be preferable to market participants, and if so, what those criteria should be. For example, what should the level of materiality be to justify back-reporting while ensuring proportionality; and whether it would be preferable for those criteria to automatically trigger a back-reporting requirement or instead require the reporting party to discuss the issue with the FCA.

We also note that while there is no evidence currently in the public domain regarding the extent of any material issues with post-trade transparency that would justify the imposition of a blanket back-reporting period, such evidence should be readily available from APAs and the FCA's own supervisory records. That evidence should also provide a clear indication of the statistical distribution of resolution of post-trade transparency reporting issues, which would help analysis of what back-reporting period would capture the bulk of issues.

ISDA also notes that there is currently no clear indication of what lookback period provides genuine utility for market analysis of historical price and liquidity development. We urge the FCA to consult market participants that consume historical data to understand how they use this data, which again would assist analysis of how far back correction of material instances of incorrect reports and failure to report would provide meaningful benefit to those consumers.

ISDA therefore strongly believes that the FCA should make no changes in respect of back-reporting immediately. Instead, it should consult further on aspects such as:

- What quantitative and/or qualitative criteria should be applied to establish whether back-reporting should be required (e.g., the level of materiality in terms of scale, and the case of incorrect reporting, the level of inaccuracy)
- What the action should be if those criteria are reached
- The extent of back-reporting issues, and the typical resolution timeframe for such issues
- How historical post-trade transparency data is used, and what observation period is typical for consumers of this data

We note that these questions, aimed at reporting parties, APAs and consumers of historical post-trade transparency data, could be included in an upcoming Quarterly Consultation Paper.

We strongly believe that as there is no urgent need to make changes, the correct approach is to review thoroughly and develop an effective and proportionate framework, with a balance struck between ensuring that the market has access to all the relevant information about executed transactions and that the regulatory costs on firms are proportionate to the benefits delivered.

As and when the eventual back-reporting requirement is established, ISDA makes the following technical observations.

As proposed in CP26/30, firms should not have to:

- back-report any transaction that is not in scope of transparency at the point at which the obligation to back-report arises; nor to
- back-report trades where their APA is not technically capable of accepting the trade for publication because the required content or format of the information has changed over time, whether arising from regulatory changes or from changes in industry standards. However, as argued below, this in itself is not sufficient.

Perhaps counterintuitively, we believe that firms should be able to enrich data to align a trade report with the new reporting standards applicable at the time the trade is back-reported. We believe the FCA is attempting to be helpful with its proposal that firms should not be expected to do this, but in fact the contrary is true, which can be demonstrated through the following examples:

1. Post-trade transparency flags are typically not stored as trade facts but are rather generated as part of the reporting process. As certain flags such as SIZE and ILQD have been discontinued, firms are likely to have decommissioned the capability to generate these flags. If they must be included on back reports of trades executed prior to 1 December 2025, this would mean either reintroducing and maintaining the capability to generate such flags, while also implementing new functionality to determine when these flags should be included on a report vs when they should not; or being forced to rely on ad hoc (and quite possibly manual) enrichment processes to stamp the flags onto back reports.
2. Where trades were executed before 1 December 2025 but reported after that date, members have advised that APAs rejected trade reports containing new fields such as “Effective date of the contract”, we understand because of their interpretation of the FCA’s intended supervisory approach for the transition from the old to the new regime. This required firms to maintain parallel sets of reporting specifications and schema, which is complex and onerous.

It may be that the FCA believes that issue #2 is addressed by the provision in paragraph 4.42 that the FCA would not expect firms to back-report trades *“where their APA is not technically capable of accepting the trade for publication because the required content or*

format of the information has changed over time, whether arising from regulatory changes or from changes in industry standards". However, if that is the intention, this is at best ambiguous and at worst contradictory. It also does not address the apparent need to report historical fields and flags. It would also place the onus on APAs to make interpretative decisions about what they should support and what they should not.

Question of 33 of CP23/32 asked in the context of trades executed before 1 December 2025 but reported after that date: *"Do you agree with how we intend to supervise the change from the current regime to the new one? If not, please explain why."* The approach proposed and subsequently adopted under PS24/14 was that such trades should be reported *"under the requirements of the current transparency regime with regard to fields or flags and the length of the deferral"*, with the market interpreting "current" as meaning the regime prior to 1 December 2025.

In its response, ISDA advocated for all transactions being reported in line with the new requirements regardless of when they were executed, as a simpler, cleaner approach imposing less burden on market participants. We believe this continues to apply in this scenario and urge the FCA to, instead of its proposal, adopt an approach that requires trades to be back-reported using the fields and flags in operation at the time of the back-reporting activity.

Finally, ISDA agrees that back-reporting should occur outside normal market hours, except in instances where a transaction was executed on the same day the reporting firm identifies the obligation to back-report. We agree that it is prudent not to require firms to report large amounts of data during market hours when it is not relevant to price formation and see no benefit (but rather, additional complexity) in adopting a different approach for small numbers of transactions.

Question 8: If public reporting were extended to cover certain equity swap activity, in what circumstances should this apply, and how should any such regime be designed to capture relevant addressable liquidity in a way that is legally clear, operationally workable and useful for market participants?

ISDA strongly believes that there are no circumstances in which public reporting should be extended to cover equity swap transparency. We disagree with the underlying premise that this activity somehow masks the true level of trading in the underlying equity.

We reiterate the point we made in [our response to Questions 12-14 of CP25/20](#), that it is incorrect that the trading of shares that underpin an equity swap is unreported. Where an equity broker internalises part of an order against its own inventory, the trades that initially placed those shares into its inventory would have been reported, at the correct market price. Reporting synthetic activity, rather than providing a truer picture of market depth, would give a false impression of market depth and likely lead to investor concern that reported trading activity is being boosted. This could create precisely the opposite effect to that intended, by adversely impacting investor confidence.

Paragraph 4.48 of CP26/30 states that in the FCA's view, *"there is a basis for considering whether public reporting should be extended to capture certain transfers of economic interest in shares that are sufficiently equivalent to transactions in the underlying share for transparency purposes"*.

ISDA notes that while certain equity swaps may provide economic exposure similar to ownership of the underlying shares, similarity of economic exposure does not necessarily make a swap transaction equivalent to a transaction in the underlying share for transparency purposes. The objective of the equity transparency regime is to provide information regarding transactions in shares and executable liquidity in the underlying market, whereas reporting synthetic exposures would primarily provide information regarding derivative activity and would not necessarily provide meaningful information regarding available liquidity or trading opportunities in the underlying shares.

To this point, as we stated in our response to CP25/20, reporting the price of an equity swap would not be reflective of the price of the underlying equity. The difference in the price reflects the costs, risks and balance sheet implications of providing synthetic exposure, and includes factors such as funding cost, expected dividends, stock borrowing and securities lending costs, counterparty credit risk, margin and collateral requirements, capital requirements and tax effects.

Therefore, reporting the price of an equity swap as if it was the price of the underlying equity would be misleading for the purposes of equity price formation.

The alternative under equity transparency would be to require firms to reverse engineer the price of the underlying equity at the point of execution, which would be an extremely significant implementation and operational burden. Equally problematic would be the prospect of reporting either the Initial Price and/or Final Price of the equity swap, which would equally present significant operational complexity associated with the extraction of those values, and would involve significant systems development and operational change.

If the intention would be to extend the scope of derivatives transparency to include equity swaps, we note that several of the same factors that cause the price of an equity swap to diverge from the price of the underlying equity, in particular counterparty credit risk, also cause wide variation of pricing dependent on counterparty. We note further that PS24/14 reduced the scope of transparency for OTC derivatives to a subset of financial instruments subject to mandatory central clearing, largely in recognition that transparency provided on non-cleared transactions was of little use for the purposes of price formation. Paragraph 3.16 of PS24/14 states:

"We stated [in CP23/32] that the transparency regime should focus on derivatives that are cleared, given that pricing information for cleared transactions is comparable across execution venues, including those executed bilaterally OTC."

It is therefore difficult to see how reporting of equity swaps could provide meaningful information for the purposes of equity price formation.



CP26/30 acknowledges the complexity of crafting such a regime, noting that “it is not clear... that, in practice, rules could be designed with sufficient precision and certainty and avoid unintended consequences, such as duplicative reporting of the execution and hedging of the same substantive transaction”.

ISDA contends that this is not possible, and that any attempt to do so would entail extremely significant costs and effort for little or no benefit, running contrary to the FCA’s objective of simplifying and reducing regulatory burden.

Finally, ISDA is aware of a view among issuers that including equity swaps in the scope of transparency would allow them visibility of those investors that have synthetic exposure to their shares. We note that this view is fundamentally incorrect, as post-trade transparency is of course anonymised, and does not indicate the counterparties to a transaction. It is not in ISDA’s remit to comment on whether it would be desirable to enable issuers to have such visibility, but if so, it would seem more logical to address through reforms to the share register.

Thank you for the opportunity to comment, and we remain at your disposal if you require any additional information.

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