

# MiFID Forum Plenary Meeting



**30<sup>th</sup> November 2011**

## Agenda

- ❑ MiFID II Overview
  - Chris Pickles, BT Global Banking & Financial Markets – Chair, MiFID Forum
- ❑ Real-time Market Data Subject Group
  - Chair: Tom Davin, Managing Director, SIIA/FISD – facilitated by David Anderson
- ❑ Transaction Reporting & Cross Jurisdiction Subject Group
  - Chair: Alan Jenkins, Jenkins UK Ltd – nominated by ISITC Europe
- ❑ IT Subject Group
  - Chair: Bob Fuller, Fixnetix – nominated by ISITC Europe
- ❑ Best Execution & Trading Subject Group
  - Chair: Dr Anthony Kirby, Ernst & Young – nominated by ISITC Europe

Close by 5pm

# MiFID II – an overview



**Chris Pickles, BT Global Banking & Financial Markets  
30<sup>th</sup> November 2011**

## EU Market in Financial Instruments Directive/Regulation

### □ Principles:

- Best execution – getting the best result for the client
- Transparency in order to achieve Best Execution
- Risk management
- Competition in the interest of investors

### □ Impacts:

- all EU member states + EEA (30 countries)
- all “investment firms” – buy side and sell side
- all exchanges and MTFs
- all clearing houses, central counterparties (CCPs) and central securities depositories (CSDs)
- all data vendors
- all market regulators

## Transparency and availability of information

- Publishing all equity trades post-trade in real time and extended to bonds and derivatives
- Systematic Internalisers publishing real-time pre-trade quotes
- Approved Publication Arrangements (APAs)
- Consolidated Tape Providers (CTPs - plural)

## Competing execution venues

- Regulated Markets (exchanges)
- Multilateral Trading Facility (MTF)
- Organised Trading Facility (OTF)
- Systematic Internaliser (SI)
- Over-the-Counter (OTC)

## Transaction reporting

- National Regulators need to be able to receive transaction reports
- Approved Reporting Mechanisms (ARMs)
- National Regulators need to be able to exchange information with each other
- European Securities and Markets Authority (ESMA)

## Clearing & Settlement

- ❑ Non-discriminatory access across the EU

## Recording

- ❑ All telephone and electronic communications that relate to client orders to be recorded and archived for 3 years

# Real-time Market Data Subject Group



**David Anderson, FISD/Atradia**  
**– on behalf of SIIA/FISD**  
**30<sup>th</sup> November 2011**

## Real-time Market Data Subject Group

- ❑ Andrew Allwright
  - Business Manager, MiFID Solutions
  - Thomson Reuters
  - update on the activities of the **FIX Protocol Trade Data Standardisation Group (TDSG)** of which he is Co-Leader
  
- ❑ Mark Schaedel
  - Senior Vice President, Head of Global Data Products
  - NYSE Euronext
  - update on the **Market Model Typology (MMT)** initiative for which he chairs the steering committee
  
- ❑ Update on ESMA Working Group meeting on Nov 29<sup>th</sup>
- ❑ Proposed follow up RMDSG meeting in London - pm Jan 18<sup>th</sup>
- ❑ Q&A

# Assessment of the MMT Initiative

**Industry Working  
Group Meeting  
Update**

**Nov 2011**

# Market Model Typology Initiative

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## *What is the Market Model Typology (MMT)?*

- A means of establishing a single trade reporting standard across RMs, MTFs and OTC markets allowing data to be effectively consolidated
- A practical solution to the complex challenges and lengthy timelines associated with standards adoption.
- An industry-led standards initiative open to all industry participants

# MMT Leadership

## Data Standards



## Implementation

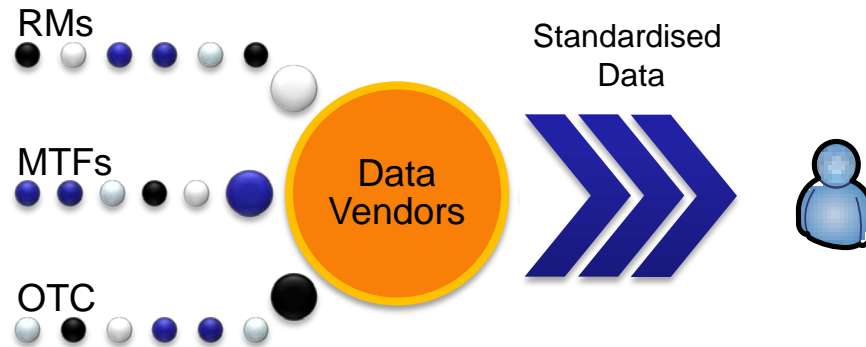
<b>FESE MMT Working Group</b>
BATS Global Markets
Bloomberg
BME Spanish Exchanges
Chi-X Europe
Deutsche Borse
Fidessa
Irish Stock Exchange
LSEG
Markit BOAT
Nasdaq OMX
NYSE Euronext
SIX Swiss Exchange
Thomson Reuters
Wiener Borse/CEEG

<b>FPL Trade Data Standards Committee</b>
BAML
FPL Membership
MMT Steering Committee
MMT Technical Committee



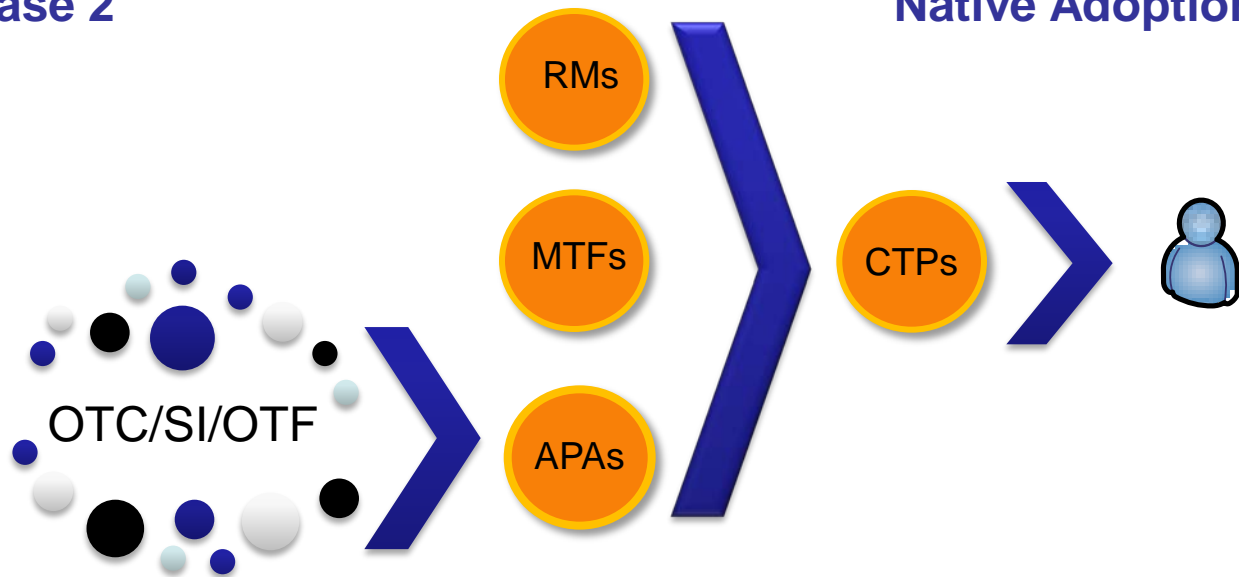
# Applying MMT

## Phase 1



## Data Vendor Translation

## Phase 2



## Native Adoption/MiFID II

# MMT Amendments

MMT's data model is a slight modification of ESMA/CESR's recommendation

CESR Recommended OTC Trade Flags
'B' – Benchmark Trade
'X' – Crossing Trade
'T' – Technical Trade
'D' – Dark Trade
'N' – Negotiated Trade
'G' – Give-up/Give-in
'E' – Ex-cum/Dividend Trade

\* Multiple Types May Apply  
e.g. 'BX' -- VWAP Cross

CESR Reason Codes
'A' – Amendment
'C' – Cancelation

MMT Amended Flags
'B' – Benchmark Trade
'X' – Crossing Trade
'T' – Technical Trade
'D' – Dark Trade
'N' – Negotiated Trade
'G' – Give-up/Give-in
'E' – Ex-cum/Dividend Trade
'F' - Trade with Conditions
'P' – Plain Vanilla (No Conditions)

} **Remove?**

MMT Reason Codes
'A' – Amendment
'C' – Cancelation

# MMT Data Model

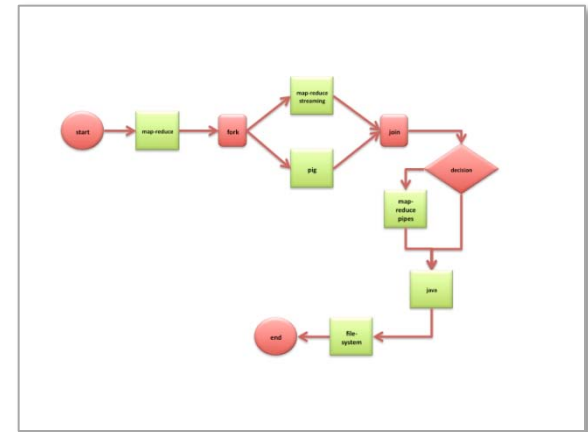
MMT provides enhanced transparency beyond trade flags

Level	Type	Code
<b>1. Market Mechanism</b>	Central Limit Order Book	'1'
	Quote Driven Market	'2'
	Dark Order Book	'3'
	Off Book	'4'
<b>2. Trading Phase</b>	Auction Trading	'1'
	Continuous Trading	'2'
	At Market Close Trading	'3'
	Out of Main Session Trading	'4'
	Trade Reporting (On Exchange)	'5'
	Trade Reporting (Off Exchange)	'6'
	Trade Reporting (Systematic Internaliser)	'7'
<b>3. Trade Type</b>	(See MMT Amended Codes)	'B', 'X', 'N', 'P', 'D', 'T', 'E', 'G', 'A', 'C', 'F'
<b>4. Publication Mode</b>	Immediate	--
	Non-immediate	'1'

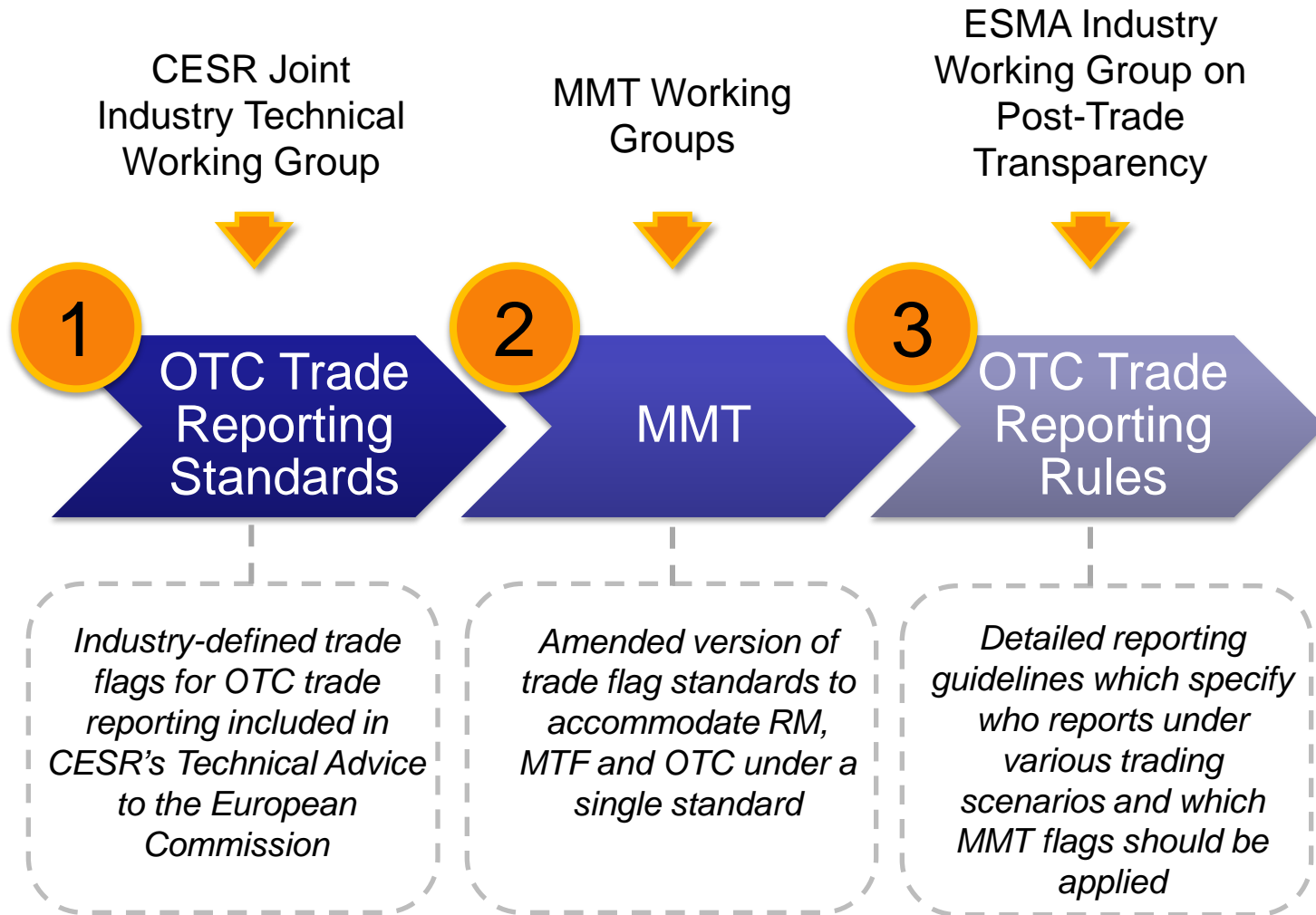
# OTC Trade Reporting Rules

A critical next step is to define and validate the rules for OTC Trade reporting which specify:

- Who reports?
- Which leg(s) of a trade?
- Which MMT flag should be applied?
- What other information should be included?
- When should each trade type be reported?



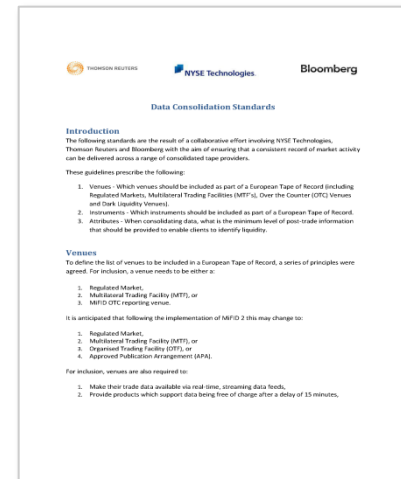
# Data Standards Roadmap



# Trade Data Consolidation Rules

In order to ensure consistency across tapes, we recommend Data Consolidation rules which specify:

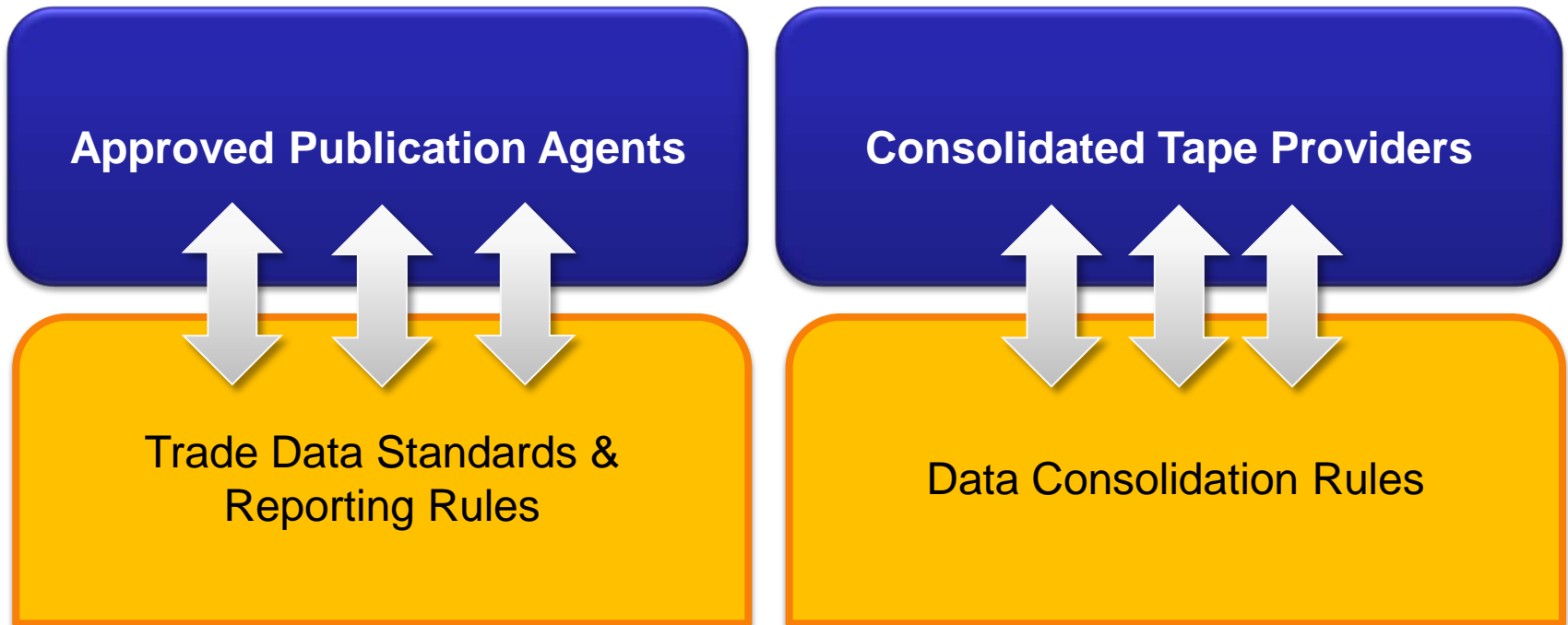
- Which venues are included?
- Which securities are included?
- Which trade types are included?
- How are securities identified?
- How are timestamps treated & aligned?



*A recommendation has been previously drafted by members of the MMT working group*

# Standards Oversight

Proposed regulatory regimes provide the necessary oversight to ensure that standards are consistently applied.



# Future Initiatives

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- Consolidation rules validation
- FIX Protocol Support
- Implementation Guidelines
- Standards Governance & Maintenance

# Transaction Reporting & Cross Jurisdiction Subject Group



**Alan Jenkins, Jenkins UK Ltd – nominated by ISITC Europe  
30<sup>th</sup> November 2011**

# Latest Meeting



3rd meeting, 07.11.11 at Goldman Sachs  
- Alan Hacking, Host

Alan Jenkins, Chair

### 16. What purpose does transaction reporting serve and what measures are being proposed?

Investment firms have to report to competent authorities all their trades in all financial instruments that are admitted to trading on a regulated market. This obligation applies regardless of where the trade takes place. This system of transaction reporting enables supervisors to monitor the activities of investment firms, which helps them to ensure compliance with MiFID, and to monitor for abuses under the Market Abuse Directive (MAD). The proposals contain the following changes:

First, because market supervision is the main reason for transaction reporting, the requirements under MiFID need to mirror the scope of the MAD. This is not fully the case at the moment and the ongoing review of the MAD makes further changes necessary. The Commission proposes to **extend the scope of transaction reporting to all financial instruments**, with the exception of instruments which are not susceptible to or cannot be used for market abuse.

Second, reporting requirements today diverge between Member States, which adds costs for firms and limits the use of trade reports for competent authorities. **By including the reporting requirements in the regulation, the requirements will be further harmonised, notably the information that identifies who is trading and for whom a trade is being executed. Also, the Commission will be empowered to propose technical standards on a common European transaction reporting format and content.**

Finally, for cost and efficiency purposes, double reporting of trades under MiFID and the reporting requirements to trade repositories should be avoided. The Commission proposes that **a trade already reported to a repository would not need to be reported again under MiFID**, provided all the necessary information is thereby available to competent authorities.

(Note: 'trade repositories' as in EMIR)

## Not in MiFID FAQ 20/10/11

Market Operators to store 'order data' for five years  
(cf. Investment firms)

Market Operators to report transactions by non-MiFID firms

All transaction reporting to be done through an ARM

- *but Article 23.6 is inconsistent with this*

Potential 'central system' deferred by two years

- *Article 43.2 confirms this*

Source: Regulation § 3.4.7 (p.10-11)

*Note: 'Regulation' eliminates national discretions,  
e.g. reporting from branches  
– Directive recital 45.*

## MiFID Forum TRSG

### Minutes – Action Items

Identify/classify instruments that can/cannot be used for market abuse, and define what causes the classification

Identify if standards are available or should be developed for Client IDs, Trader IDs and/or Algo IDs

Gather and share information about what ISDA is doing to create new identifiers for derivatives and how this, and the use of ISINs, will impact transaction reporting

Ask the FSA to explain its position on the Level 1 texts

Any Questions ?

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+44 (0)7803 016160

# MiFID Forum IT Subject Group



**Bob Fuller, Fixnetix Ltd – nominated by ISITC Europe  
30<sup>th</sup> November 2011**

## Consequences for markets....

- ▶ MiFID II will potentially impact trading workflows. In particular more trading is likely to become electronic NOT voice.
- ▶ As such most trading systems for non Equity products will need a large overhaul or re write.
- ▶ Certain current market practices such as Agency Broking using the concept of risk less principal may be substantially changed in the regulation, leading to potential changes in participants as well as practices.
- ▶ Mandatory Clearing will bring in a need for fast reliable communications with multiple clearers as non cleared transactions could have a large capital impact.
- ▶ The Buy Side will need to be more involved in the automation as some services may no longer be available from the Sell side in the post MiFID 2 world.

## Consequences for venues....

- ▶ There are likely to be many more venues in many more products leading to significantly increased amount of market data – may be up to 5 to 10 time the current volume!
- ▶ Mandatory clearing may lead to differing prices for the same instrument depending on where/how it is to be cleared. So Clearing becomes a trading decision!
- ▶ The final definition of OTF's (Organised Trading Facilities) will have significant affects on the IT requirements for both venues and customers.
- ▶ The MF Global situation may cause additional legislation to be enacted re client asset segregation. Possibly leading to direct membership of CCP's by the Buy Side.
- ▶ Mutual recognition of Market Structures, trading venues, CCP's and trade repositories may become a significant issue.

## Consequences for IT Suppliers....

- ▶ The lack of detail in the Level 1 regulations will leave a lot of unknowns for IT system developers.
- ▶ This is compounded by the amount of work ESMA is tasked to do on EMIR, MAD as well as MiFID.
- ▶ Some definitions such as the standard market size of current OTC derivatives could have a significant impact on the IT solution required.

## What can we do now....

- ▶ Keep a good watch for all documents on the subject.
- ▶ Keep a watchful eye on the Dodd Frank regulation in the US, as this may help you understand direction of the regulators
- ▶ Keep up to date on [mifid.com](http://mifid.com)
- ▶ Attend the MiFID Forum meetings to keep yourself up to date
- ▶ Get involved in the MiFID Forum meetings.

# MiFID Forum IT Subject Group



**Bob Fuller, Fixnetix Ltd – nominated by ISITC Europe  
30<sup>th</sup> November 2011**

# MiFID Forum Best Execution and Trading (BEaT) Subject Group

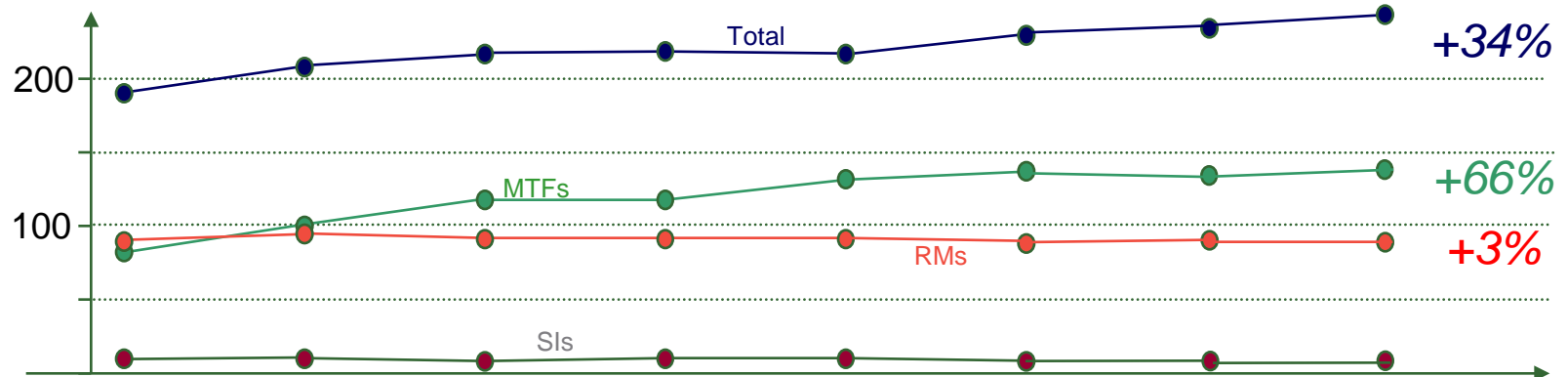


**Tony Kirby**  
**30<sup>th</sup> November 2011**

# MiFID helped spawn MTFs but pace is slowing

- *More choice will mean greater connectivity costs plus the need to manage complexity, with shakeout and consolidation to come across all asset classes....*

	Nov 2007 – MiFID launch	Mar 2008 – Pre-Credit Crunch	Oct 2008 – Post- Lehman view	Feb 2009 – Post-Madoff view	Sep 2009 – Pittsburgh G20	May 2010 – Euro-crisis view	Nov 2010 – Post-Dodd Frank view	Apr 2011 – Commodities Flutter view	Nov 2011- Post-Paris G20 view
<b>Regulated Markets</b>	90 (including regionals)	94 (including regionals)	92 (including regionals)	93 (including regionals)	92 (including regionals)	89 (including regionals)	92 (including regionals)	92 (including regionals)	93 (including regionals)
<b>Electronic/ MTFs</b>	85	100	121	122	130	137	136	141	144
<b>Systematic Internalisers</b>	12	13	10	13	13	10	12	13	14
<b>Total Pre-Trade</b>	<b>187</b>	<b>207</b>	<b>223</b>	<b>228</b>	<b>225</b>	<b>236</b>	<b>240</b>	<b>246</b>	<b>251</b>



Source: CESR/ESMA lists 2007-2011

## Consequences for markets....

- ▶ MiFID II will impact market structures and certain firms have already started researching tick sizes, order to trade ratios and the like
- ▶ Which products are expected to be driven onto MTFs/OTFs versus remaining provisions for OTC-trading?
- ▶ We had circuit-breakers in Europe before; what is the added value of future focus in that area? Are we copying the US direction of travel?
- ▶ Comments from the group to the effect that “much of the regulation seems to be diametrically opposed to how the market exists today; it is hard to avoid the conclusion that trading is seen as a bad thing...”
- ▶ Words such as speculation and dark pools have become pejorative given unfavourable media reporting and the continued perception that the markets are looking to destroy the Euro
- ▶ What about the correlation risk arising from transparency and the concentration risk of the business being concentrated in the hands of fewer players? Isn't this a worse result for end investors?

## Consequences for venues....

- ▶ How are agency brokers treated (or market-makers) under the new classifications?
- ▶ How many OTFs are envisaged? Will OFTs be expected to convert to MTFs and under what thresholds? Is the separation clear, as 12 OTFs are mentioned in the context of BCSs?\*
- ▶ Will there be opportunities to develop aggregators and smart order routers (SORs)
- ▶ What will be the operational costs/risks?
- ▶ Can firms become liquidity providers without first being exchange members? How can the sell-side continue to make money?

## Consequences for trading strategies....

- ▶ What are the consequences for multi- and single-dealer platform providers?
- ▶ Following the results of a conference Nov 14th, it was reported that the European Commission would not recognise riskless principal
- ▶ If riskless principal is not be accepted as riskless, would it be regarded as a SI activity, handled either by instrument type or instrument?
- ▶ Reference to specific order/trade ratios remains in both the Oct 20th proposal text and the accompanying impact assessment document which could be unhelpful for High Frequency Trading (HFT)
- ▶ Is an iceberg order, an algorithmic trading strategy?

## Consequences for non-equities....

- ▶ General belief that can enforce order-driven approaches on markets which are currently quote-driven?
- ▶ The desire for transparency is king but that comes at a price and can be a trade-off against liquidity for certain asset classes and/or under stressed market conditions
- ▶ What is the picture around accelerated disclosure requirements? How feasible is 15 minutes? How workable given CCP novation? What is the experience of TRACE in the US?
- ▶ There seems to have been no regard to any liquidity implications that these changes may have.
- ▶ The definition of Standard Market Size for SI for non-equity instruments may be a challenge....

## Some legal consequences....

- ▶ Identifying the criteria that define “organized trading” for OTFs (akin to the old Art 4.7 criteria that defined Sis ‘*organised*’; ‘*systematic*’ etc.)
- ▶ Prescription arising from the definition of non-complex products in Art 25.3 such as shares, bonds, money market instruments, UCITS or other non-complex products which are excluded from suitability/appropriateness testing
- ▶ Prior express consent is required per Art 27.4 for executions outside a RM, MTF or OTF (which presumes that all venues are so categorised)
- ▶ The open-ended liability from failing to prevent market abuse under MAR Arts 10/11 is troubling
- ▶ Article 17.3 of MiFID II text specifies that algorithms should provide liquidity on regular and ongoing basis despite market conditions. - the word 'continuous' is not defined legally nor bounded
- ▶ What is the legal weight of any obligation to quote on any trading venue?
- ▶ Need trading obligations to be defined more carefully – if these are defined by ESMA or the EC’s ‘Implementing Measures’ and local regulators disagree, what is the legal process to resolve (legally untested)
- ▶ Whether third country access provisions mean that firms need/do not need a local EU entity (subject to recognition of US regulatory regime by ESMA, FSA etc.)?

## Consequences for costs....

- ▶ The MIFID review is estimated to impose one-off compliance costs of between €512 and €732 millions and ongoing costs of between €312 and €586 million\*
- ▶ [This represents one-off and ongoing costs impact of respectively 0.10% to 0.15% and 0.06% to 0.12% of total operating spending of the EU banking]\*
- ▶ JWG argued that ‘good regulation’ should help to protect the investor, foster competition, support innovation, ensure non-discriminatory access, deliver sustainability and be realistic to implement?
- ▶ How many regulators really believe that this is precisely what they are doing!
- ▶ The buy-side is loaded with cost - UCITS, FATCA, Anti-Bribery etc; they (and by extension, the end investors) will have to pay for it all
- ▶ Costs will be passed on by the sell-side until things become uneconomic for the buy-side

## Consequences for standards....

- ▶ The standards piece dropped out of EC/ESMA discussion of non-proprietary EU standards involving FESE, AFME etc and needs to be reinstated
- ▶ The wording around use of non-proprietary standards dropped out of the October 20th EMIR docs and many discussions running about why and getting them back in but suspect more political than actually about the standards piece itself
- ▶ There is a meeting end of November with ESMA including and FPL as the standard identified by the investment roadmap as the industry standard for the pre-trade to pre-settlement part of the trade life cycle will also be at that meeting
- ▶ The standards debate features a desire to understand the issues of all parties at the table

## Practical suggestions?

- ▶ The trilogue process for MiFID II will be Q4 2012 and the timing is such that we will know how the regulators want the industry to clear before they tell the industry how to trade
- ▶ We need impact assessments - we need to express what we do in terms of investors, consumers and the impact on jobs (and the diversity of participants - a sophisticated concept)
- ▶ The sum of the regulations is amorphous and it's hard for individual firms or single industry associations to respond; the latter are seen by the EC as carrying significant lobbying interests
- ▶ We need to collaborate more closely in Europe - e.g. NL pension funds or DE Spezialfonds or pension funds in NL, DK or DE
- ▶ Joining a union or similar body may not be the worst thing that industry groups can do to get heard by the politicians in the current climate, particularly in France or Germany?

# Next Steps...

## Actions:

1. Bob Fuller/AK to circulate the ESMA paper on HFT and FOA MiFID II overview slides
2. Stuart Adams to keep the group apprised on developments within ***fixprotocol.org*** as regards standards under both MiFIR and MiFID II (e.g. standards for identifier of client and trading algorithm or formatting/timing of messaging). Investment Roadmap attached.
3. AK to feed back to the group, the result of engagement with end buy-side groups as necessary and to circulate buy-side views on MiFID II once published 1st December

Done

Done

To Do

## Next Meeting:

The next meeting of the MiFID BEaT WG will take place in late January 2012 at a date, time and venue to be announced.

To Do

# MiFID Forum Best Execution and Trading (BEaT) Subject Group



**Tony Kirby**  
**30<sup>th</sup> November 2011**

# MiFID Forum Plenary Meeting

Any  
questions?



**30<sup>th</sup> November 2011**