

ISITC Europe



Annual Conference – 18 November 2011

ISITC Europe



Graeme Austin

ISITC Europe - Chief Executive Officer

The Chatham House Rule

"When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed".

The Rule is invoked at ISITC meetings to encourage openness and the sharing of information.

Agenda

 **09:00 - Opening Remarks**

09:15 - Opening Keynote – The future of MiFID
Dr. David Doyle

09:45 - PANEL: Operational impact of regulations

10:45 - Refreshments and networking

11:05 - PANEL: Legal Entity Identification - Sponsored by London Market Systems

12:05 - Membership Survey

12:35 - Lunch and networking

Special Briefing: Classification of OTC Financial Products (*Please register at the break*)

13:35 - PANEL: On the road to T2S

14:35 - ISITC North America update - Live video link

15:05 - Refreshments and networking

15:35 - PANEL: Confirmation and Matching

16:35 - Closing Keynote – “Providing leadership in a regulatory warzone”
Squadron Leader Andrew W. Lamb (RAF)

16:55 - Closing Remarks

17:00 - *Conference end*

17:01 – 19:00 Drinks and Refreshments - Sponsored by CityIQ

ISITC Europe



Opening Remarks

Graeme Austin



ISITC Europe

Opening Remarks

Prepared by:
Graeme Austin, Barrie Senior

ISITC Europe Annual Conference
18 November 2011



A Year in Brief

- **Tough financial times for member firms**
 - Difficult for volunteers to give up their time
 - Ongoing regulatory change
- **Business units proved cumbersome construct**
 - More units than working groups
- **Working groups**
 - Regulation
 - Local and Central Matching
 - T+2
 - T2S
 - Marketing (support group)



Latest News

- **Leadership Group elections**
 - Eddie Casie, Chad Giussani
 - Graeme Austin, Terry Gibson, Dick Hales and Paul Wiltshire
- **PR**
 - Aspectus PR
 - Media coverage
- **Financial health**



Next Steps

- **Working groups**
 - Driven by membership
 - Interest in LEI
- **Web site**
 - Stop gap solution to technical problems
 - Became a 'permanent' fixture
 - Revamp in 2012
- **Constitution**
 - Unclear in places
 - Recommendations for alterations in Q1 2012

ISITC Europe



The future of MiFID

Dr. David Doyle



The future of MiFID

A Brussels perspective

Dr. David P. Doyle
EU Policy Adviser – Financial Services Regulation

November 2011

A charged EU Agenda since the financial crisis

- Regulate both capital markets and market actors

38 separate pieces of draft legislation

- Filling-in the gaps where European or national regulation is insufficient or incomplete
- Expansion of scope of regulation: all financial institutions, intermediaries (transactional and advisory actors) and financial instruments.
- More focus on Pan-EU centralised authorisation and supervision, with “implementing powers” vested in 3 authorities: ESMA, EBA & EIOPA
- Less directives and more regulations – assures faster implementation and less scope for gold plating and divergent interpretation
- Stronger powers for EU Commission (“delegated powers”)
- Stronger powers for EU Parliament (Lisbon Treaty): life-cycle review and approval of draft legislation
- Built-in “sun-set clauses” to review EU laws after 3-5 years
- Brussels: Perception persists that the financial crisis is not over and that debt financing for the SME sector is dwindling
- Remuneration and bonuses
- Pan-EU Supervisory Mechanisms
- Hedge Funds & Private Equity
- OTC Derivatives, Short-selling
- Solvency II – Insurance
- Responsible Lending & Borrowing
- **Packaged Retail Investment Products (PRIIPs)**
- **MiFID II**
- UCITs IV
- Capital Requirements Directive IV
- Credit Rating Agencies
- **Market Abuse updated rules**
- **Insurance Mediation Directive (IMD)**
- Living wills for banks
- Pensions
- Corporate governance in financial institutions & listed companies

MiFID proposals

Focus on setting new or adjusting existing regulatory requirements – common rule book – for:

- Broker crossing networks.
- Pre-trade transparency waivers.
- Fragmentation/consolidation of trading data: removal of obstacles.
- Post-trade transparency and extension to non-equities.
- Best execution: policies and arrangements.

Commission examined regulatory measures, including:

- Requirements relating to the recording of orders received or transmitted by telephone conversations and electronic communications.
- Execution quality data.
- MiFID complex vs. non-complex financial instruments for the purposes of the Directive's appropriateness requirements.
- Definition of personal recommendation.
- Supervision of tied agents and related issues.
- MiFID options and discretions.
- Non-equity markets transparency.
- Client Categorisation.

More robust MiFID thrust – taking no chances!

- The MiFID legislative package comes in two parts:
 - **A *Regulation* (MiFIR)**

Creates requirements in relation to the disclosure of trade transparency data to the public and transaction data to competent authorities, the authorisation and ongoing obligations applicable to providers of data services, the mandatory trading of derivatives on organised venues, and specific supervisory actions regarding financial instruments and positions in derivatives.
 - **A *Directive* (MiFID)**

Amends specific requirements regarding the provision of investment services, the scope of exemptions from the current Directive, organisational and conduct of business requirements for investment firms, organisational requirements for trading venues, powers available to competent authorities, sanctions, and rules applicable to 3rd country firms.
- EU Commission determined to apply “safety first” principles and leave nothing to chance.
- EU Commission introducing new elements into MiFID as Regulations, rather than Directives, thus more stringent and prescriptive rule-making with limited opportunity for “gold plating” divergent interpretation and late transposition of EU legislation by national regulators and/or governments.
- MiFID II will dovetail other related EU legislative initiatives, i.e., Market Abuse Directive, PRIIPs, Insurance Mediation Directive, etc.



...and the key justifications for strengthening and extending MiFID?

- market fragmentation arising from greater competition has made the trading environment more complex, especially in terms of collection of trade data.
- market and technological developments have outpaced various provisions in MiFID, ie. transparent level playing-field between trading venues and investment firms risks has been undermined.
- the financial crisis has exposed weaknesses in the regulation of non-equity instruments, traded mostly between professional investors.
- previously held assumptions that minimal transparency, oversight and investor protection in relation to this trading is more conducive to market efficiency no longer hold.
- rapid innovation and growing complexity in financial instruments underline the importance of up-to-date, high levels of investor protection, i.e., ETFs, derivatives, etc

MiFID proposals - Changes in Market Structure

Introduction of a new category of trading facility: organized trading facility (**OTF**) - a trading facility not falling within one of the following existing categories:

- Regulated Market (**RM**)
 - Multilateral Trading Facility (**MTF**)
 - Systematic Internaliser (**SI**)
-
- Likely to embrace broker-crossing networks, inter-dealer broker systems and systems trading clearing-eligible derivatives.
 - Outside of the scope: facilities on which no trade execution or arranging takes place, ie, order routing systems, and direct trades between counterparties on an ad hoc basis, ie, OTC transactions.
 - OTF operators prohibited from executing trades against proprietary capital.
 - Investment firms executing client orders on an organized and regular basis against proprietary capital outside an RM, MTF or OTF considered as SIs
 - Creation of new sub-category of trading market: SME growth markets, enabling MTFs to register to operate in this sector

MiFID proposals – Building in safeguards

- Algorithmic and HTF traders subject to registration and regulation – provide regulators with details of their trading strategies
- Limits placed on the number of orders per transaction and how far trading venues can go to attract order flow
- Provide appropriate liquidity throughout the normal trading day.
- Brokerage firms offering sponsored access to markets and execution venues for HFTs will be required to have enhanced risk controls in place.
- Require algorithmic traders to have specific RISK CONTROLS:
 - appropriate trading thresholds and limits in place
 - mitigation measures against systems misuse for the purposes of market abuse
 - devise a business continuity plan.

MiFID proposals - Pre- and Post-Trade Transparency

- **The pre-trade transparency rules:** platforms to publish on a continuous basis (close to real time) current orders and quotes pertaining to shares admitted to trading on an RM.
- **The post-trade reporting rules:**
 - trading venues required to make post-trade information available, without charge, 15 minutes after the execution of a transaction
 - firms must make public trades all executed outside organized trading venues, via an authorized approved publication arrangement.
- Consolidated tape rules: to show prices and volume of transactions in equity instruments (possible extension to non-equity instruments following a review within two years), to capture post-trade data on an EU-wide basis.
- Scope widened to include commodity derivatives traders - tightening and/or removal of current exemptions.
- EU Emissions Trading System (**ETS**) included in the scope: spot carbon trading

MiFID II - a distinct Single Rule Book approach to protecting investors

What has changed?

Escalation of Scope of MiFID I to include fixed income, OTC derivatives and commodities

More actors: all banks, investment firms, certain non-financial institutions, intermediaries, tied-agents, independent financial advisers,

Introduction of maximum harmonisation' framework with little or no scope for derogations, gaps, re-interpretations, or Member State gold-plating.

Investor Protection is taken to a new level of authorisation, supervision and enforcement under MiFID II.

“European consumers deserve better. They need reassurance that their savings, investments or insurance policies are protected no matter where in Europe they are based” (Commissioner Barnier, 2010).



Enhancement of the investor protection framework

New Rules:

- When investment firm and its services provides investment advice, information must specify whether the advice is:
 - provided on an independent basis
 - whether it is based on a broad or on a more restricted analysis of the market
 - accompanied by an indication whether the investment firm will provide the client with the on-going assessment of the suitability of the financial instruments recommended to clients.
- When the investment firm informs the client that investment advice is provided on an independent basis, the firm
 - is required to assess a sufficiently large number of financial instruments available on the market.
 - ensures that the financial instruments are diversified with regard to their type and issuers or product providers and should not be limited to financial instruments issued or provided by entities having close links with the investment firm
 - is banned from accepting or receiving fees, commissions or any monetary benefits paid or provided by any third party or a person acting on behalf of a third party in relation to the provision of the service to clients.
 - when providing portfolio management the investment firm is banned from accepting or receiving fees, commissions or any monetary benefits paid or provided by any third party etc.



Conditions under which Execution Only rules will survive

- Services that can be provided as **execution only** include the following financial instruments:
 - **shares** admitted to trading on a regulated market or on an equivalent third-country market, or on a multilateral trading facility, where these are shares in companies, but excludes shares in non-UCITS collective investment undertakings and shares that “embed a derivative”
 - bonds** or other forms of securitised debt, admitted to trading on a regulated market or on an equivalent third country market or on a multilateral trading facility, excluding those that embed a derivative or incorporate a structure which makes it difficult for the client to understand the risk involved
 - money market instruments**, bonds or other forms of securitised debt (excluding those bonds or securitised debt that embed a derivative), or incorporate a structure which makes it difficult for the client to understand the risk involved
 - shares or units in UCITS** and excluding structured UCITS
 - other **non-complex financial instruments**
- Execution only services **prohibited** for the ancillary service: advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings;



Contact

Dr. David P. Doyle

EU Policy Adviser – Financial Services

Email: dpdoyle@free.fr

Tel: +33-628-69-40-40

Fax: +33-957755844

ISITC Europe

Panel Session



Operational impact of regulations

Panel Session

Operational impact of regulations

Chair: Dr. Anthony Kirby

(Director of regulatory and risk management practice, Ernst & Young)

- **Henry Raschen** (Head of Market Strategy, HSBC)
- **Bob Fuller** (Director, Fixnetix)
- **Richard Young** (Head of Regulatory Affairs, SWIFT)
- **David Ewings**
(Senior Manager Distribution Special Projects, Threadneedle Asset)

Which constituency will be impacted to the greatest extent by the combination of the regulations to come in terms of operational change?

① Asset mgrs/hedge funds



② Investment banks/prime brokers



③ Custodians/fund administrators



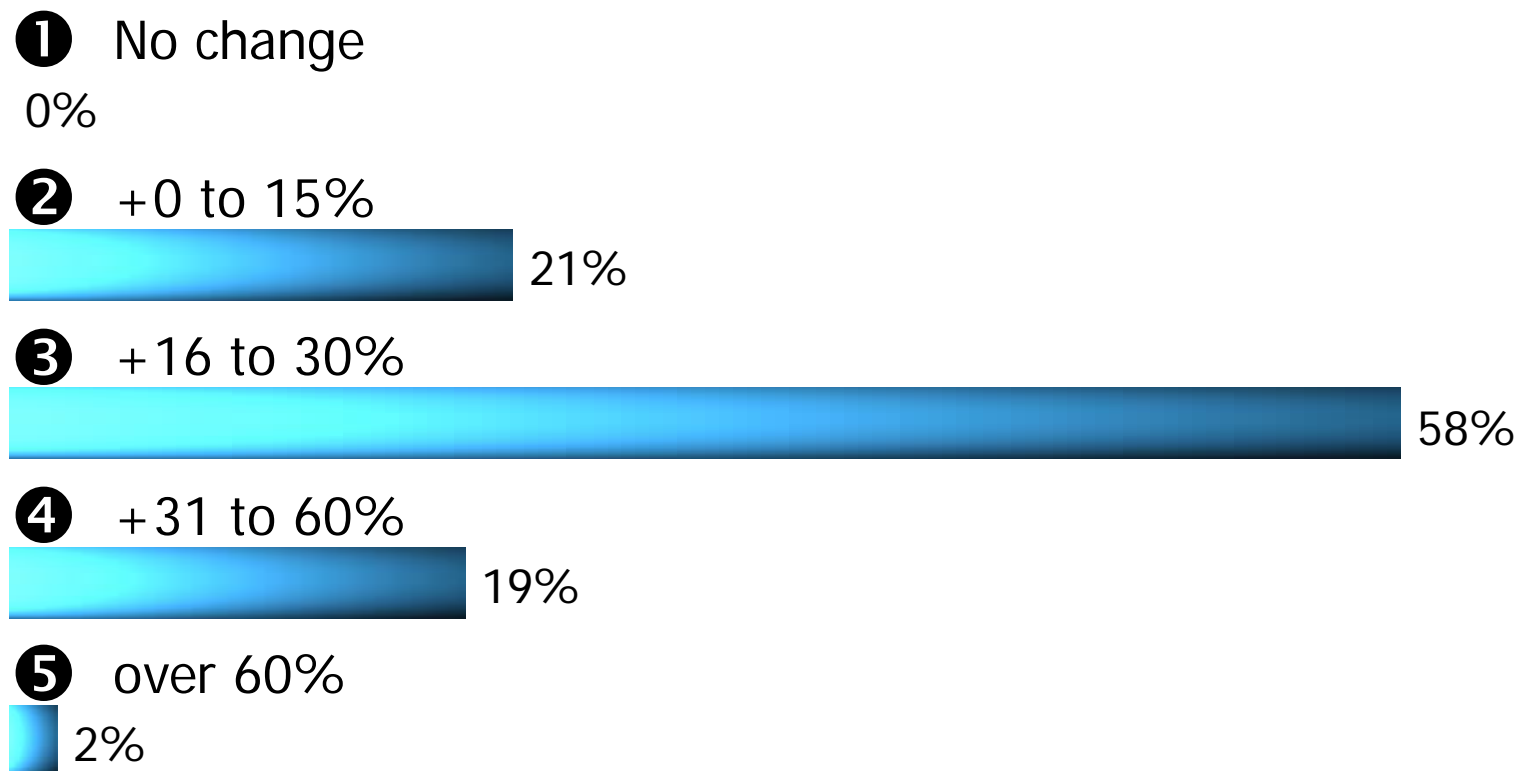
④ Market infrastructures/CCPs



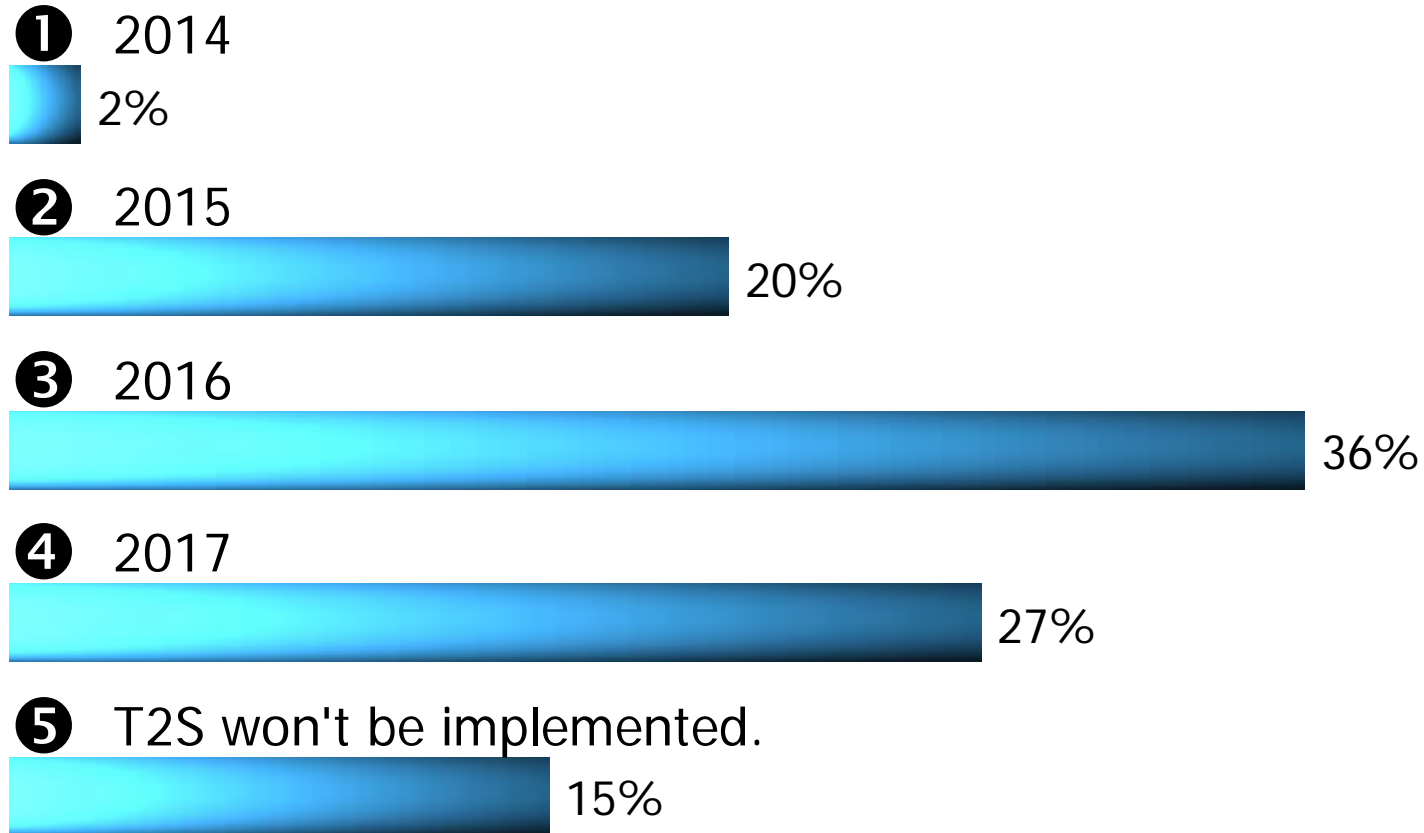
⑤ Other



The cost of operations/IT will need to rise by the following to pay for systems, controls, reporting and data improvements to meet the 'big ships' regulatory requirements spanning FATCA, Basel III, MiFID II, EMIR and Solvency II over the coming 3 years will be:



T2S will be implemented across all of Europe by:



ISITC Europe



Refreshments and networking

Agenda



09:00 - Opening Remarks

09:15 - Opening Keynote

Dr. David Doyle

09:45 - PANEL: Operational impact of regulations

10:45 - Refreshments and networking

 11:05 - **PANEL: Legal Entity Identification - Sponsored by London Market Systems**

12:05 - Membership Survey

12:35 - Lunch and networking

Special Briefing: Classification of OTC Financial Products (*Please register in the break*)

13:35 - PANEL: On the road to T2S

14:35 - ISITC North America update - Live video link

15:05 - Refreshments and networking

15:35 - PANEL: Confirmation and Matching

16:35 - Closing Keynote – “Providing leadership in a regulatory warzone”

Squadron Leader Andrew W. Lamb (RAF)

16:55 - Closing Remarks

17:00 - *Conference end*

17:01 – 19:00 Drinks and Refreshments



XENOMORPH®

ISITC Europe

Panel Session



Legal Entity Identification

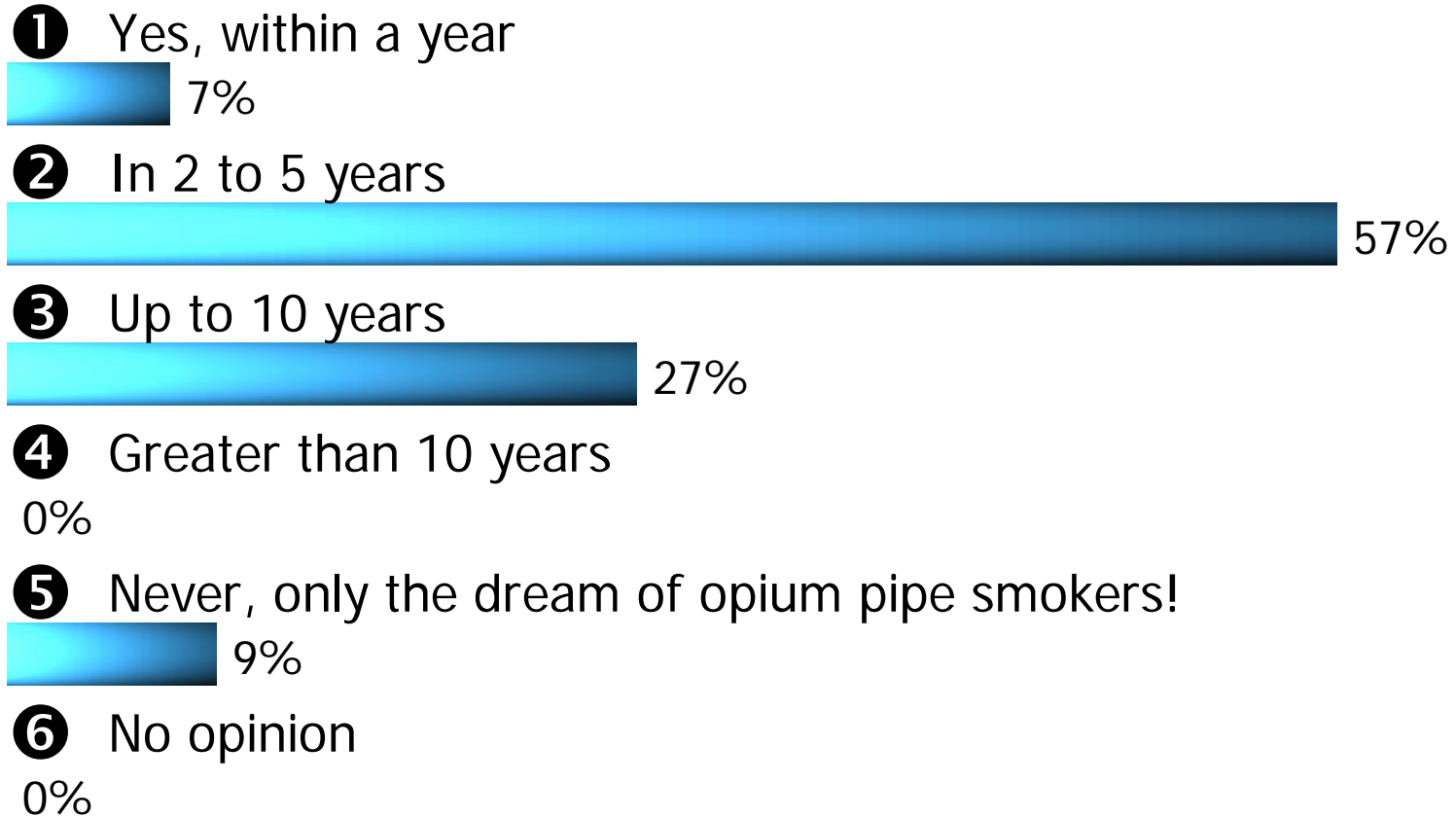
Panel Session

Legal Entity Identification

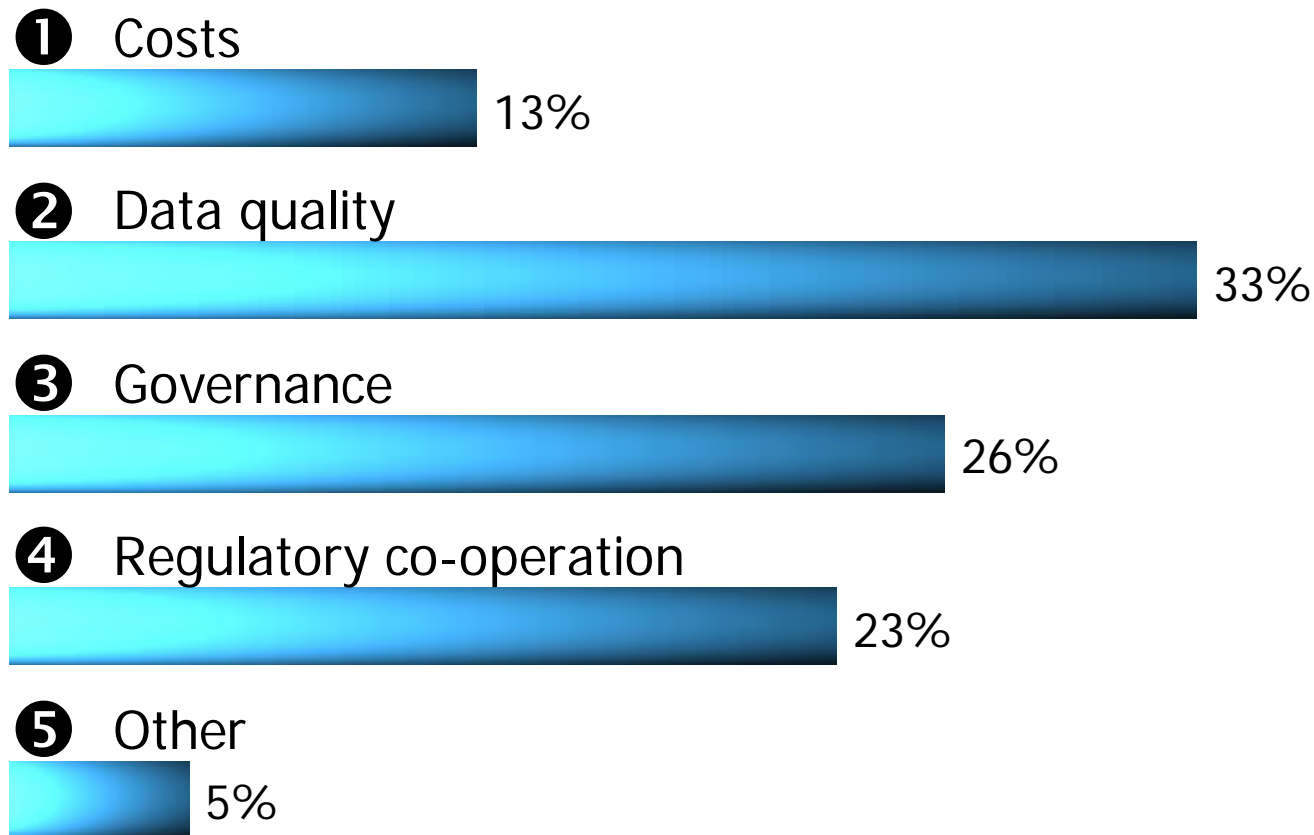
Chair: Tine Thoresen (Incisive Media)

- **Stephen Burton** (Director Post Trade Division, AFME)
- **Tony Freeman** (Executive Director: Industry Relations, Omgeo)
- **Mike Bennett** (Head of Semantic and Standards, EDM Council)

Is a globally acceptable business entity identifier achievable?



What will be the biggest challenge in terms of an LEI implementation process?



If yes, how does the scope of your internal entity identifier compare to the proposed LEI?

1 Broader



2 Narrower



3 The same



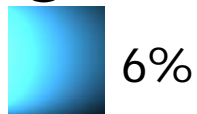
Do you feel that there a need for a trade association, like ISITC Europe, to document market practice?



1 Yes



2 No



3 I don't know



ISITC Europe



Membership Survey

Paul Wiltshire (CityIQ)

Agenda

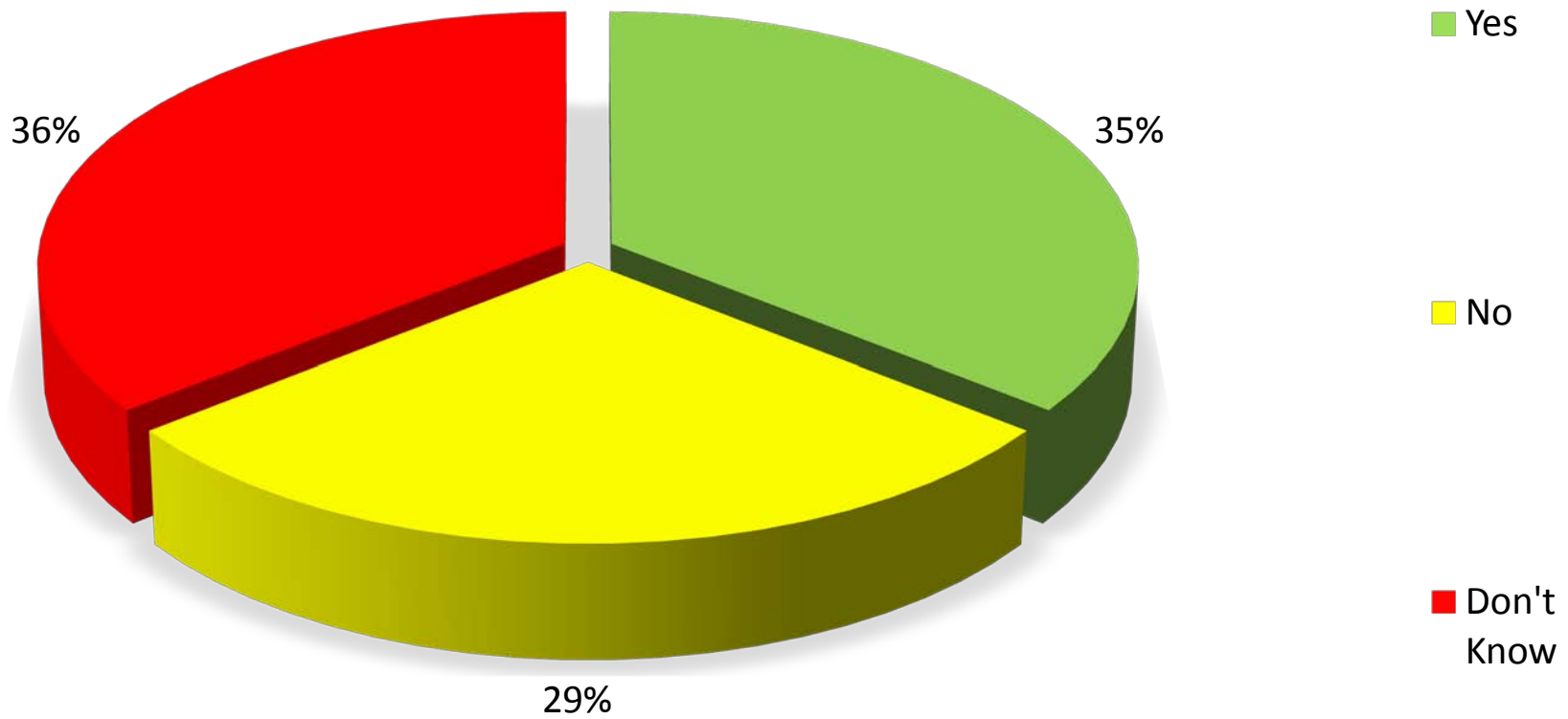


- Why we did the survey?
- Survey Dimensions
- Key Findings
- Next Steps

Survey Dimensions



Are you ISITC Members?



About ISITC

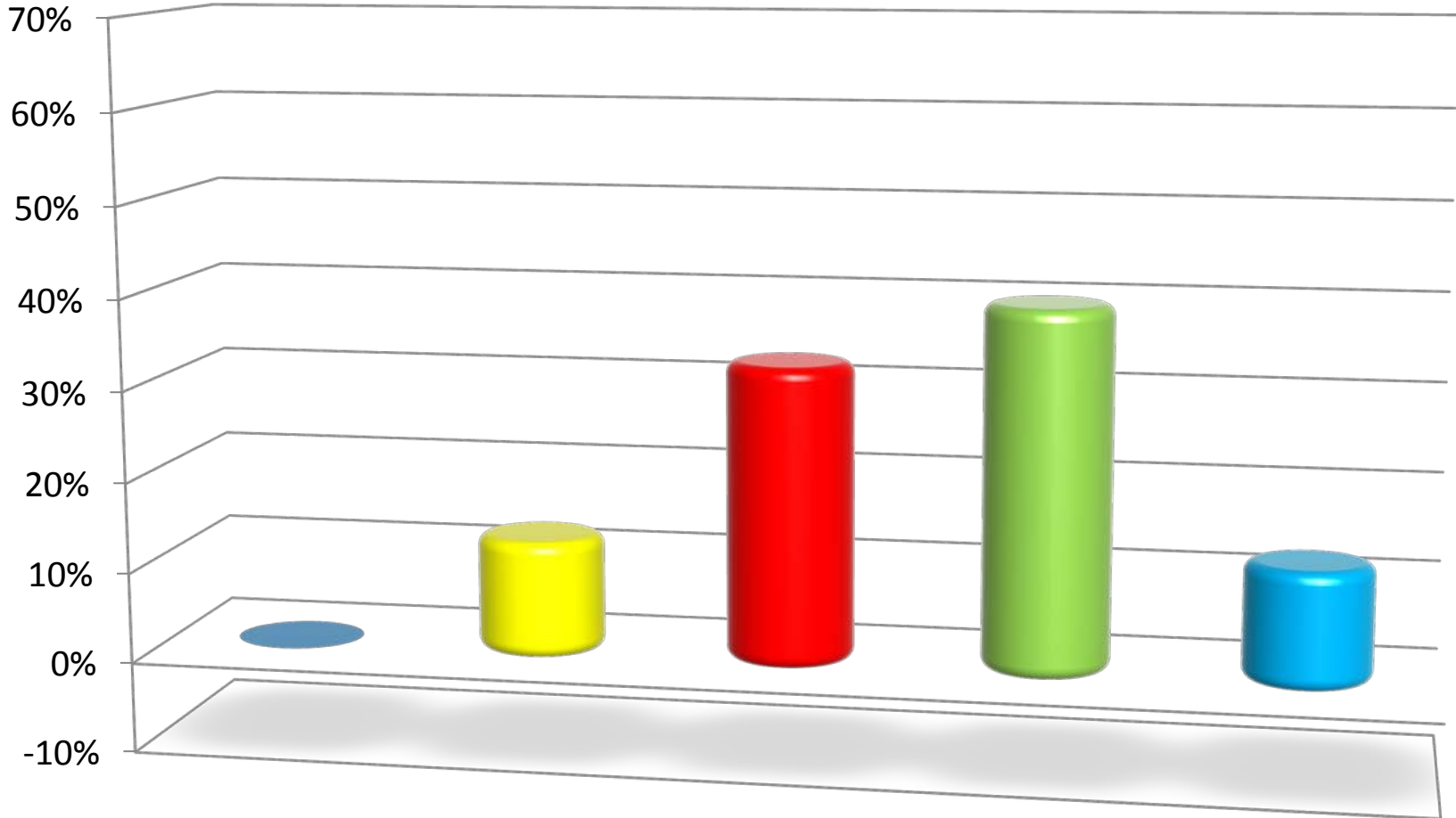


Why are we members of ISITC?



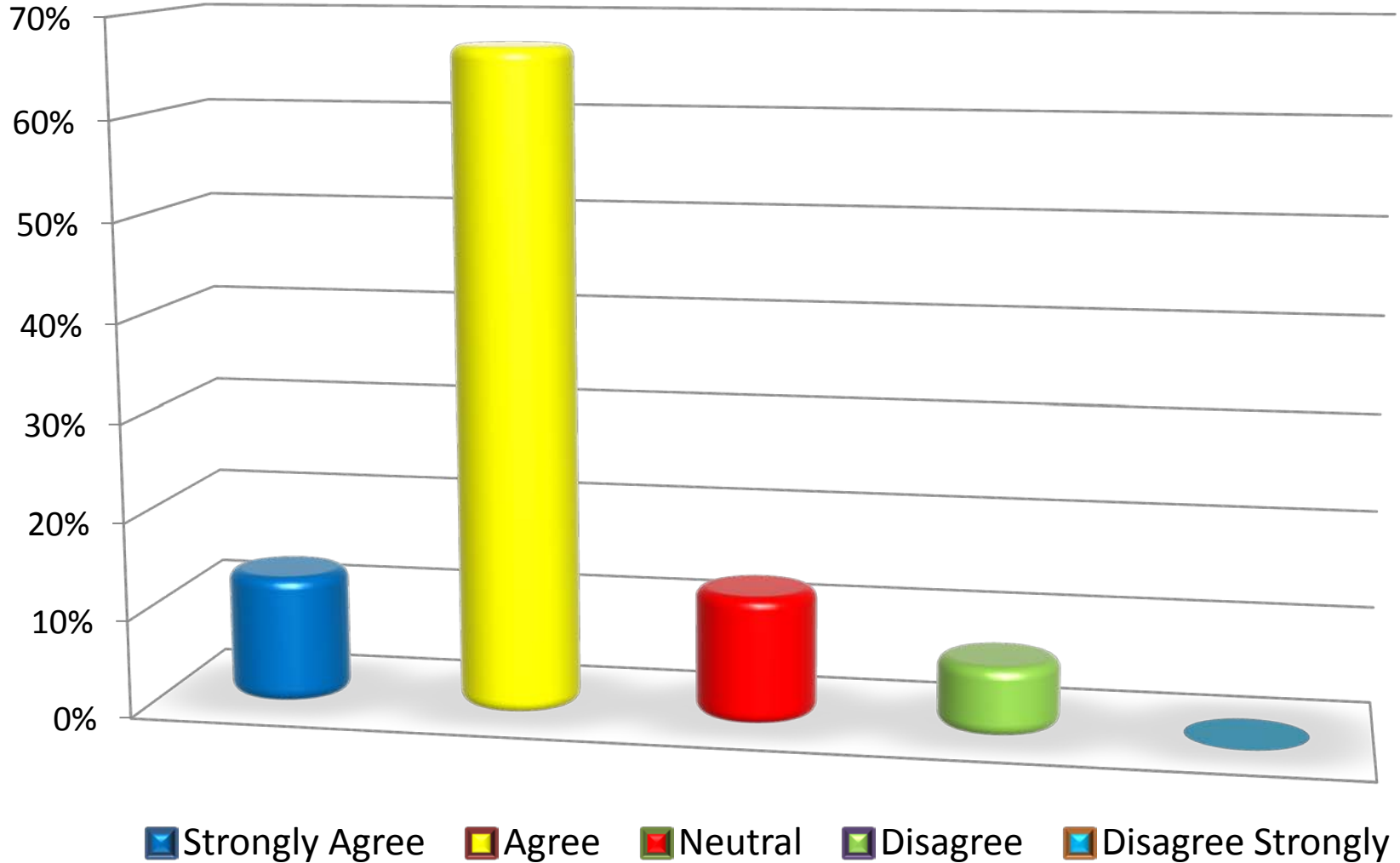
- A good source of information
- Access to Industry participants
- Facilitating the exposure of employees to industry issues through educational and conference events with minimal or no cost.
- ISITC provides a unique forum for all parties with interests in post-trade processing
- It is a means of finding out what is happening in the wider market place.
- It offers great marketing opportunities.
- Staying abreast of industry topics
- We need to keep abreast of industry changes and developments

ISITC should consider name changing its name

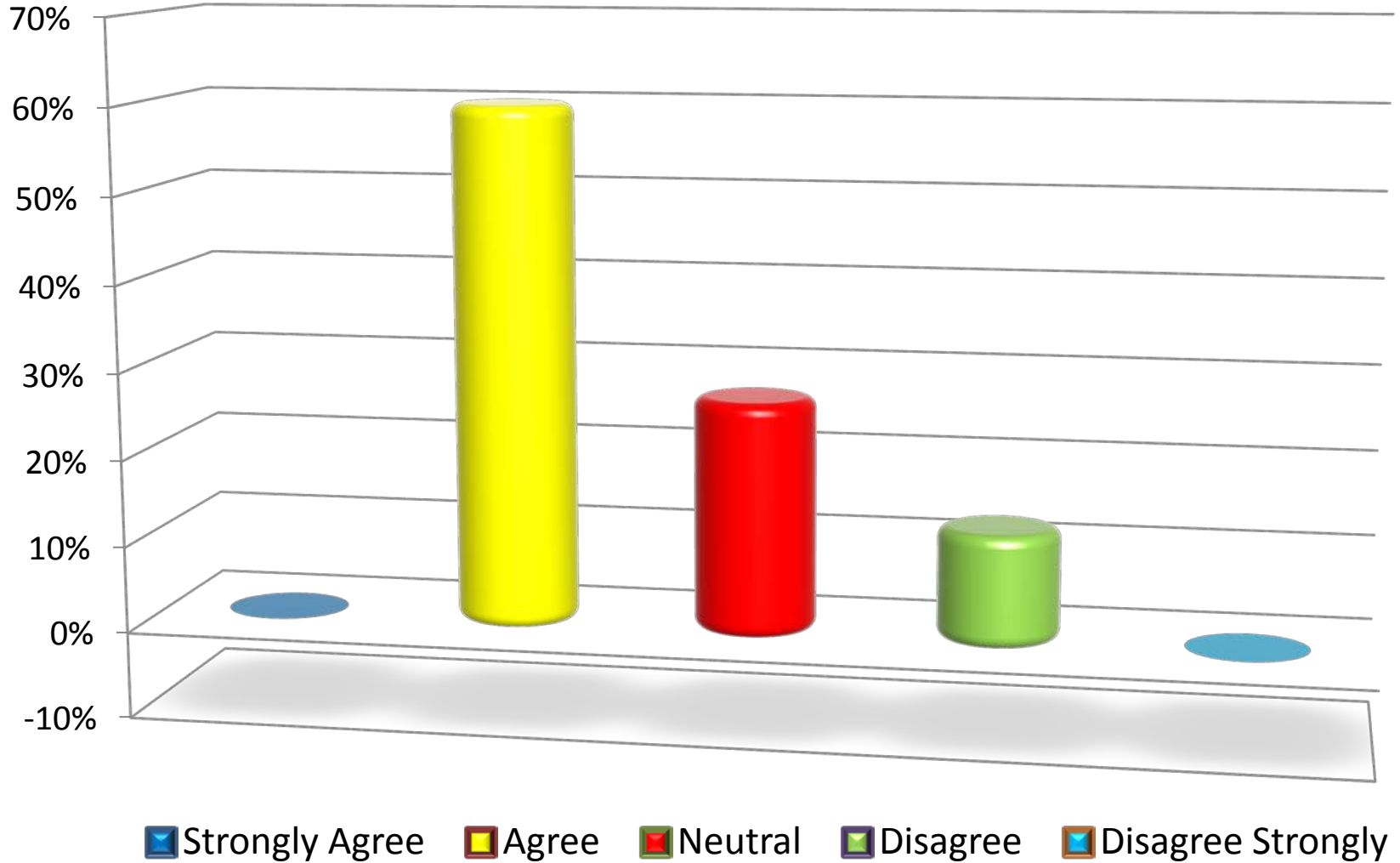


Strongly Agree Agree Neutral Disagree Disagree Strongly

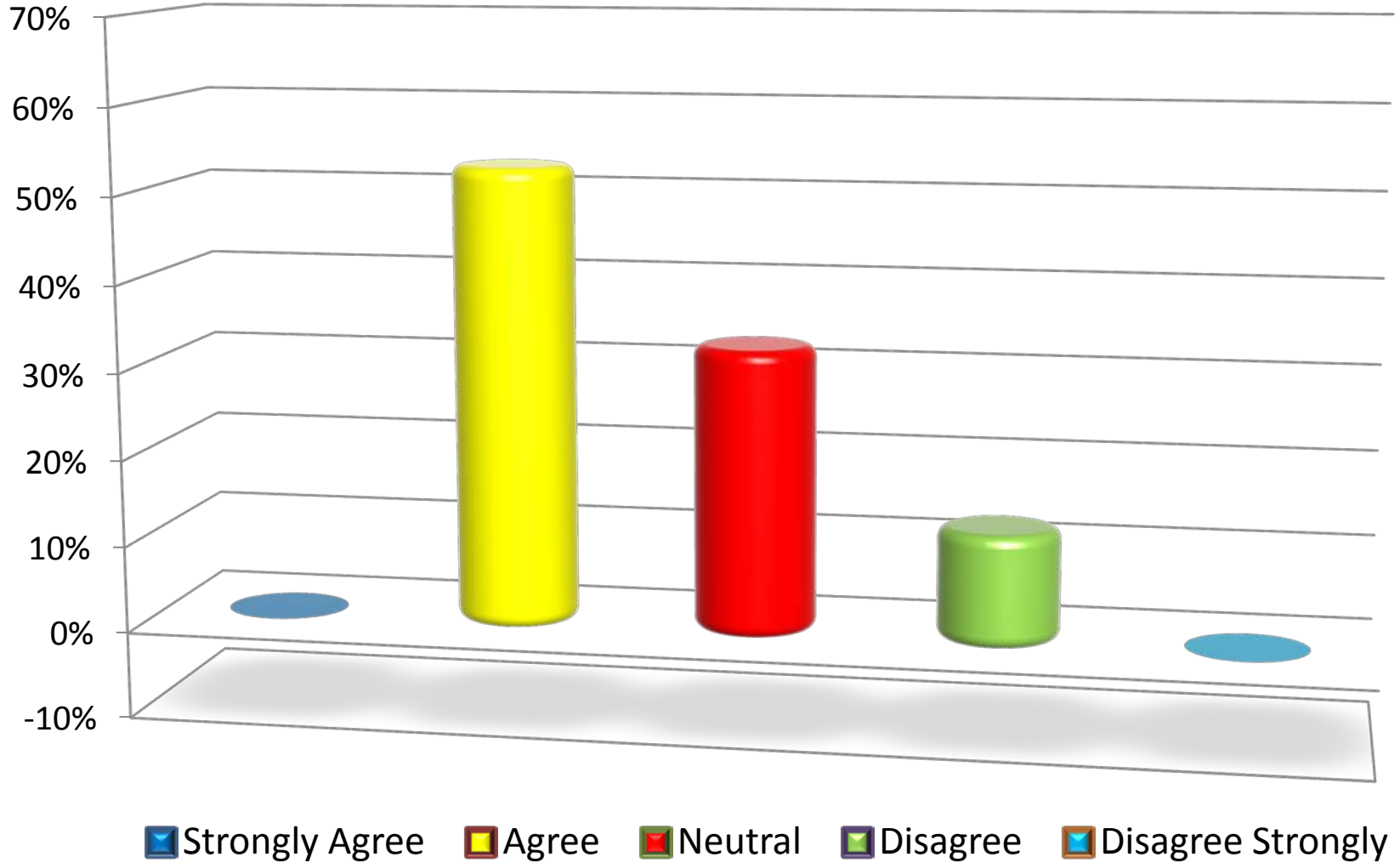
ISITC has a good reputation



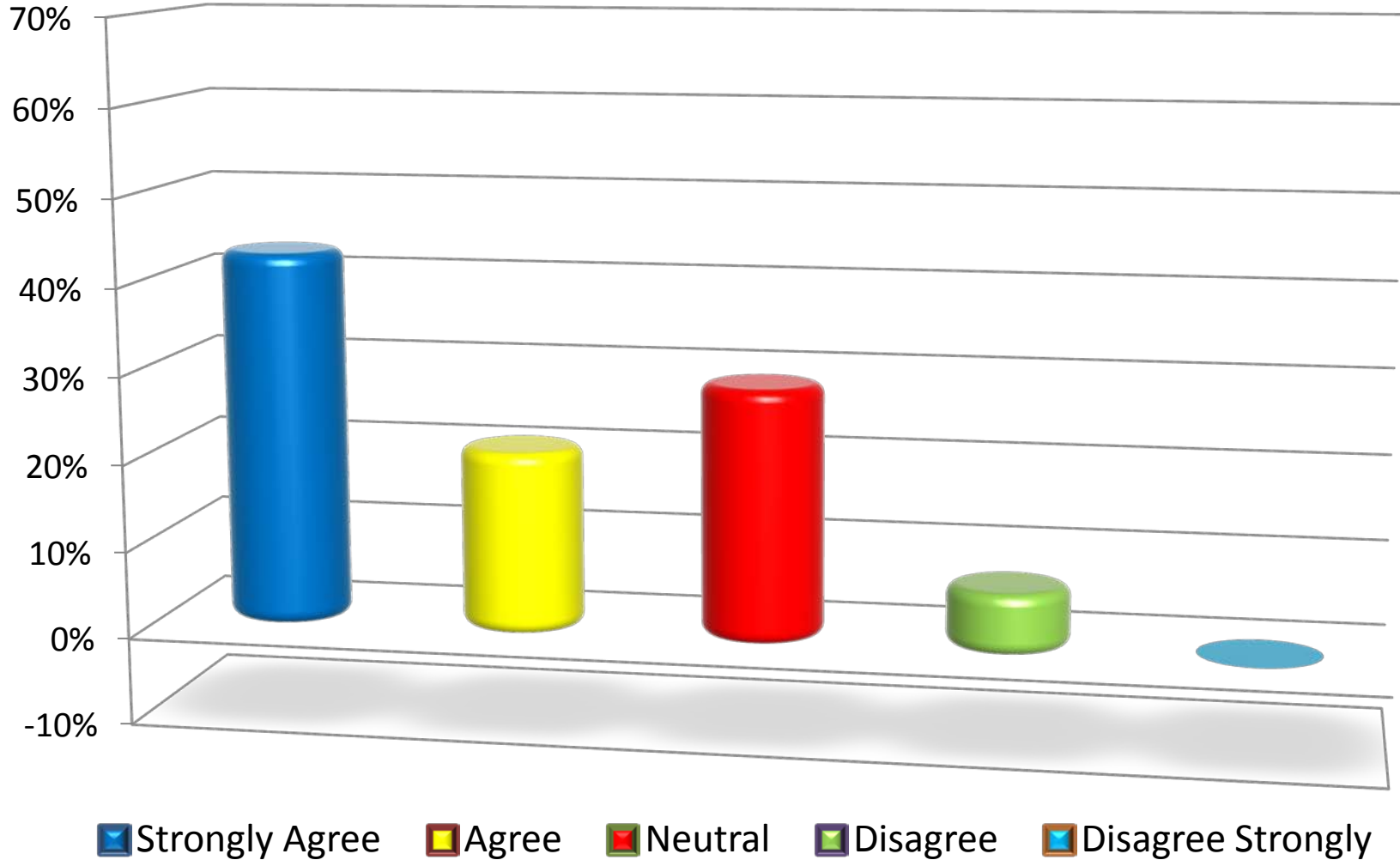
ISITC has a clear remit



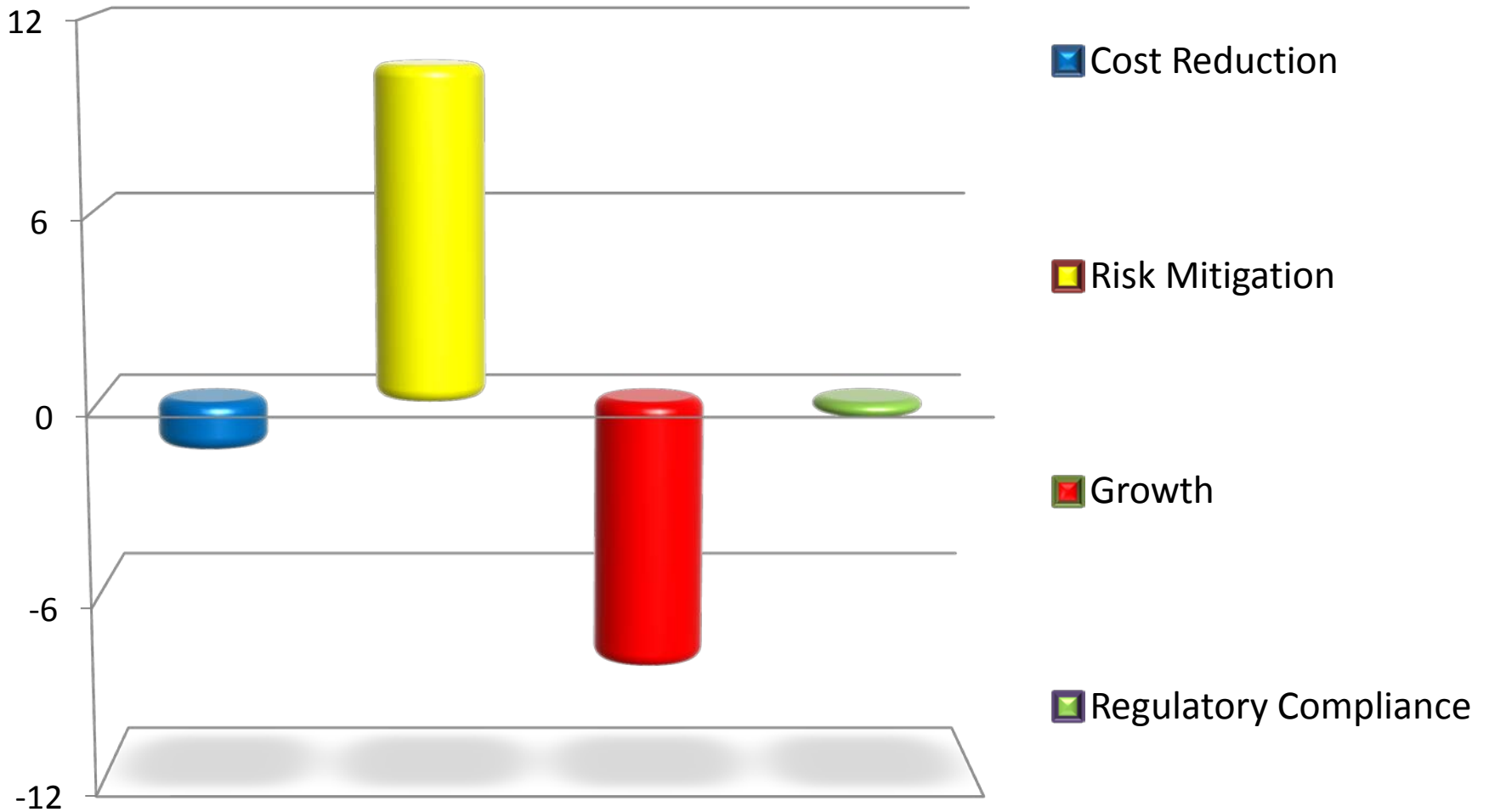
ISITC communicates well



ISITC website need updating



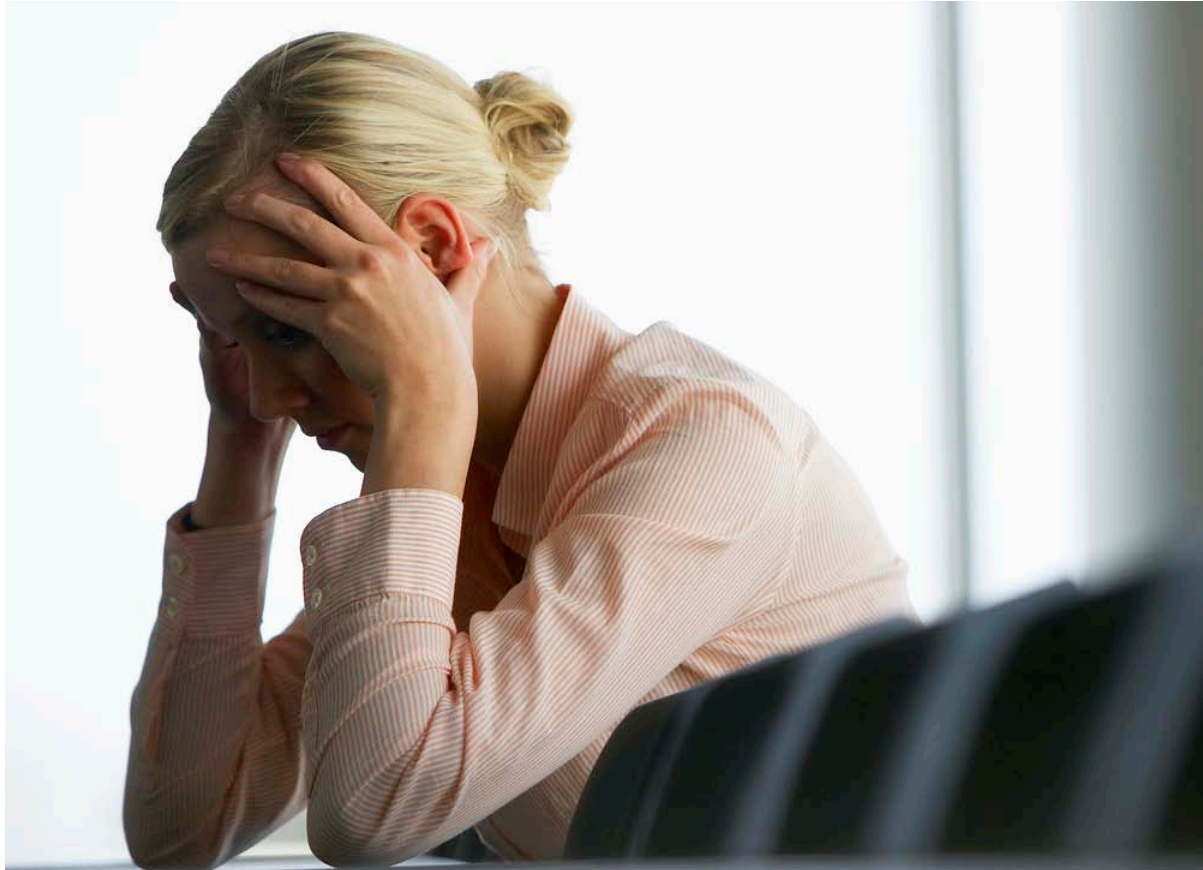
Business Drivers



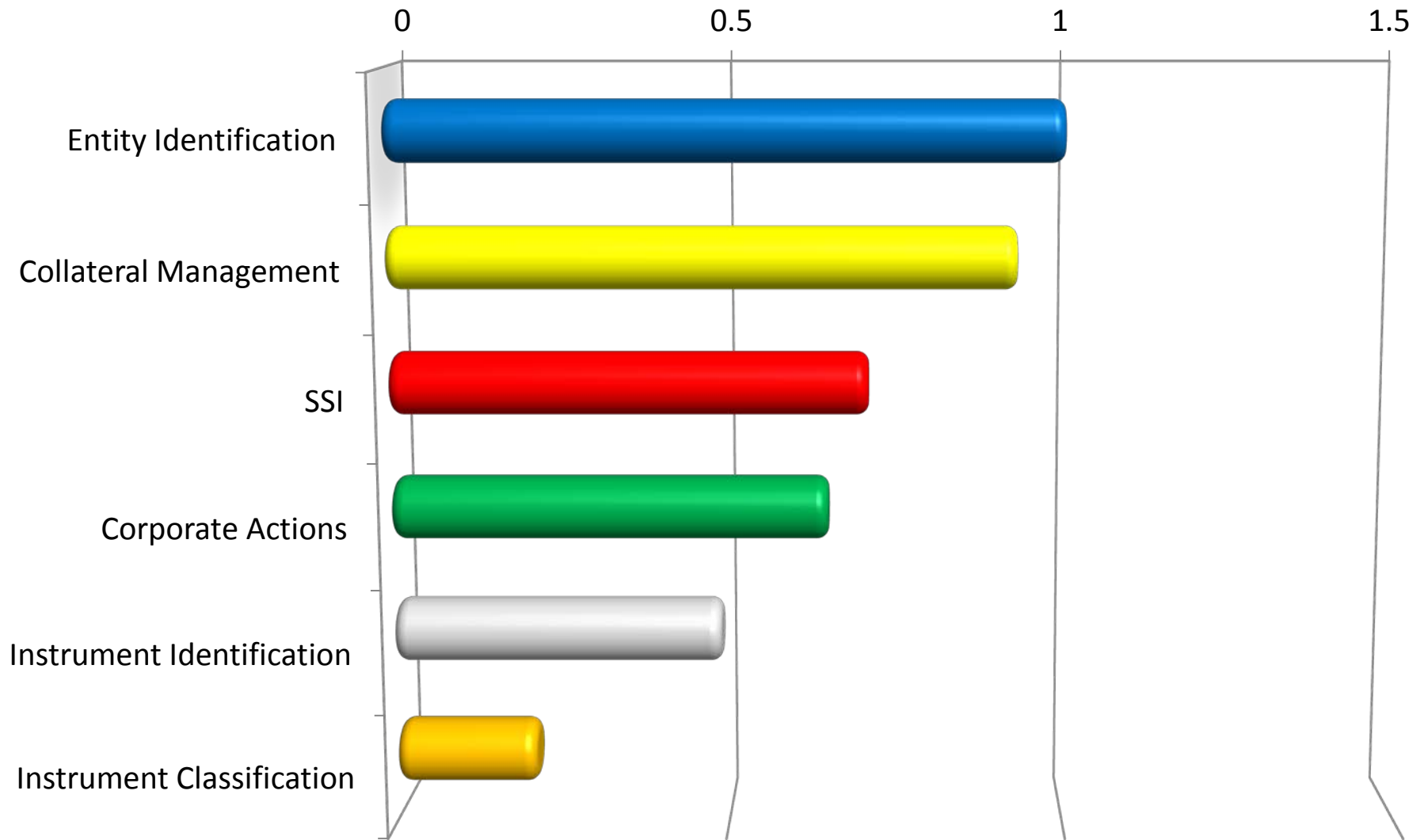
Other topics

- Awareness
- Engagement
- ISO20022 – Corporate Actions
- Partnering
- Quarterly Meetings
- Multiple Industry Identifiers
- Architecture & Technology Issues

Areas of Concern



Areas of Concern



Next Steps



What does ISITC stand for?



1 International Standard for Institutional Trade Communication

43%

2 Industry Standard for Institutional Trade Communication Committee

30%

3 International Standard for International Trade Confirmations

20%

4 Not really sure

7%

Would moving some quarterly meetings to Canary Wharf make it more or less likely that you would attend?

1 More Likely



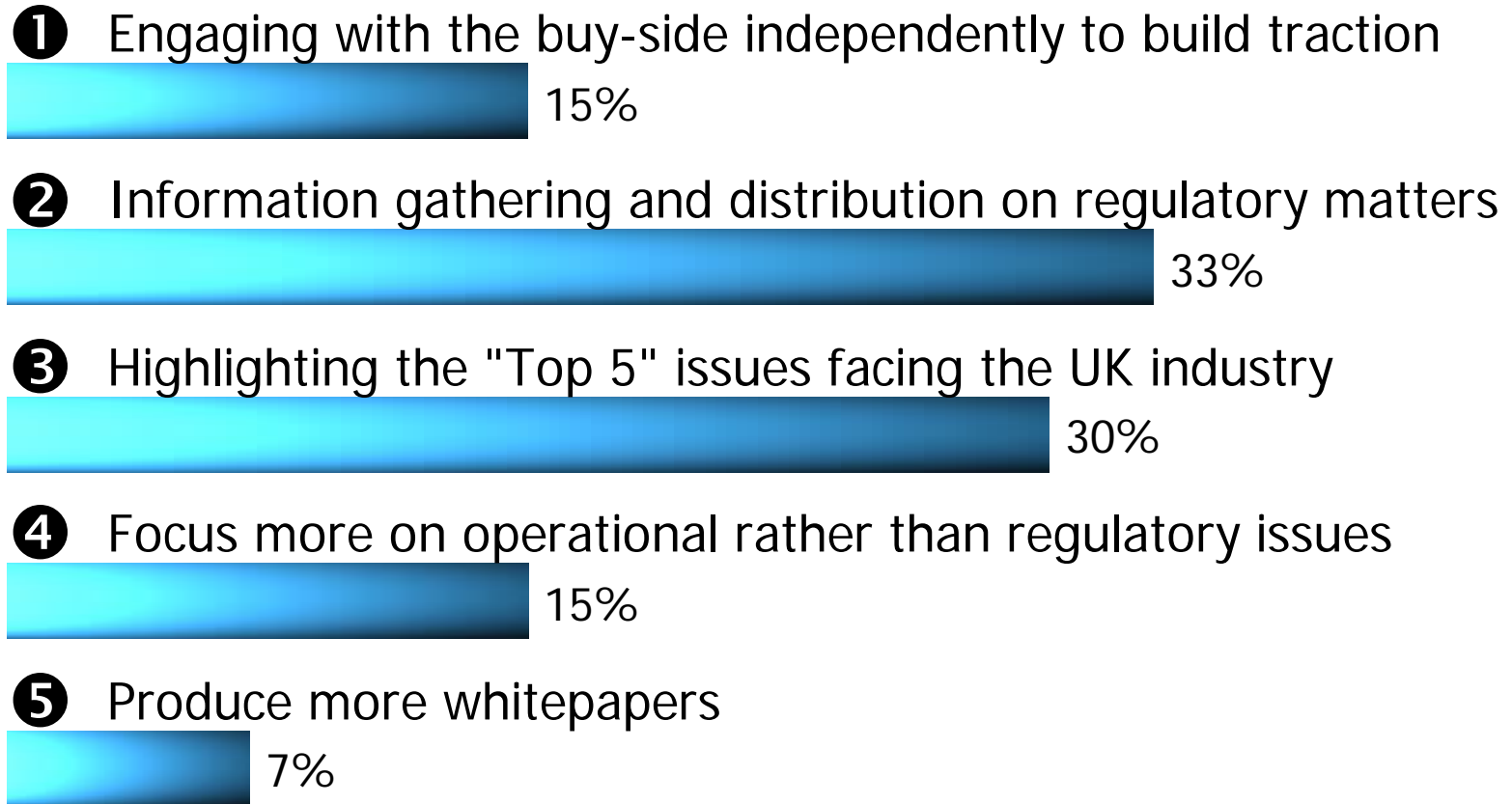
2 Less Likely



3 No difference



Where can ISITC add most value in the next twelve months?



Are you ready for lunch?



1 Yes



2 Not Yet



ISITC Europe



Lunch and networking

Agenda



09:00 - Opening Remarks

09:15 - Opening Keynote

Dr. David Doyle

09:45 - PANEL: Operational impact of regulations

10:45 - Refreshments and networking

11:05 - PANEL: Legal Entity Identification

12:05 - Membership Survey

12:35 - Lunch and networking

Special Briefing: Classification of OTC Financial Products

13:35 - PANEL: On the road to T2S

14:35 - ISITC North America update - Live video link

15:05 - Refreshments and networking

15:35 - PANEL: Confirmation and Matching

16:35 - Closing Keynote – “Providing leadership in a regulatory warzone”

Squadron Leader Andrew W. Lamb (RAF)

16:55 - Closing Remarks

17:00 - *Conference end*

17:01 – 19:00 Drinks and Refreshments



XENOMORPH®

ISITC Europe



Welcome Back

Agenda



09:00 - Opening Remarks

09:15 - Opening Keynote

Dr. David Doyle

09:45 - PANEL: Operational impact of regulations

10:45 - Refreshments and networking

11:05 - PANEL: Legal Entity Identification

12:05 - Membership Survey

12:35 - Lunch and networking

 13:35 - PANEL: On the road to T2S

14:35 - ISITC North America update - Live video link

15:05 - Refreshments and networking

15:35 - PANEL: Confirmation and Matching

16:35 - Closing Keynote – “Providing leadership in a regulatory warzone”

Squadron Leader Andrew W. Lamb (RAF)

16:55 - Closing Remarks

17:00 - *Conference end*

17:01 - Drinks and Refreshments

19:00 - Event end



XENOMORPH[®]

ISITC Europe

Panel Session



PANEL: On the road to T2S

Panel Session

On the road to T2S

Chair: Tony Freeman (Executive Director: Industry Relations, Omgeo)

- **John Gubert** (External adviser to Unicredit Global Securities Services)
- **Hugh Sachs-Simpson** (Adviser to the T2S Project, ECB)
- **Ben Parker** (EMEA Head of Network Management, UBS IB)



ISITC Europe



ISITC North America update

Jan Snitzer

(First Vice Chair / Chair from 2012, ISITC North America)

ISITC Europe



Refreshments and networking

Agenda



09:00 - Opening Remarks

09:15 - Opening Keynote

Dr. David Doyle

09:45 - PANEL: Operational impact of regulations

10:45 - Refreshments and networking

11:05 - PANEL: Legal Entity Identification

12:05 - Membership Survey

12:35 - Lunch and networking

13:35 - PANEL: On the road to T2S

14:35 - ISITC North America update – Live video link

15:05 - Refreshments and networking

 15:35 - **PANEL: Confirmation and Matching**

16:35 - Closing Keynote – “Providing leadership in a regulatory warzone”

Squadron Leader Andrew W. Lamb (RAF)

16:55 - Closing Remarks

17:00 - *Conference end*

17:01 - Drinks and Refreshments

19:00 - Event end



XENOMORPH®

ISITC Europe

Panel Session



PANEL: Confirmation and Matching

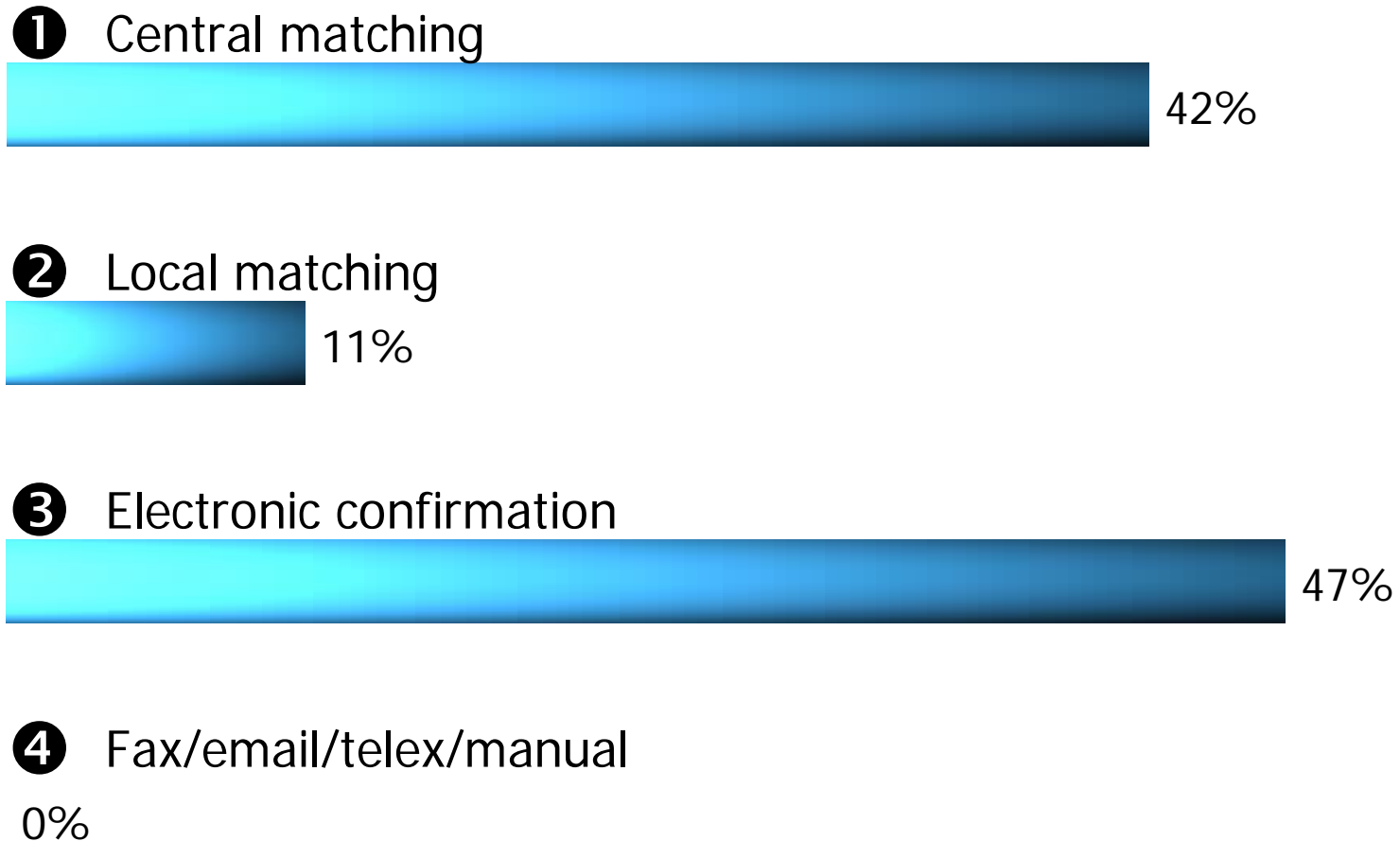
Panel Session

Confirmation and Matching

Chair: Graeme Austin (CEO: ISITC Europe)

- **Leigh Walters** (Executive Director, Global Sales & EMEA, Omgeo)
- **Terry Gibson** (Global Head of Strategy: Investment Services, Fiserv)
- **Chris Schaefer** (Senior Consultant, CityIQ)

Which system do you think is best (for your firm)?



Do the recent issues at, for example, UBS and MFG reinforce the need for automation of all processes and improved controls?

1 Yes for others, but not in my firm



2 Yes for others and also in my firm



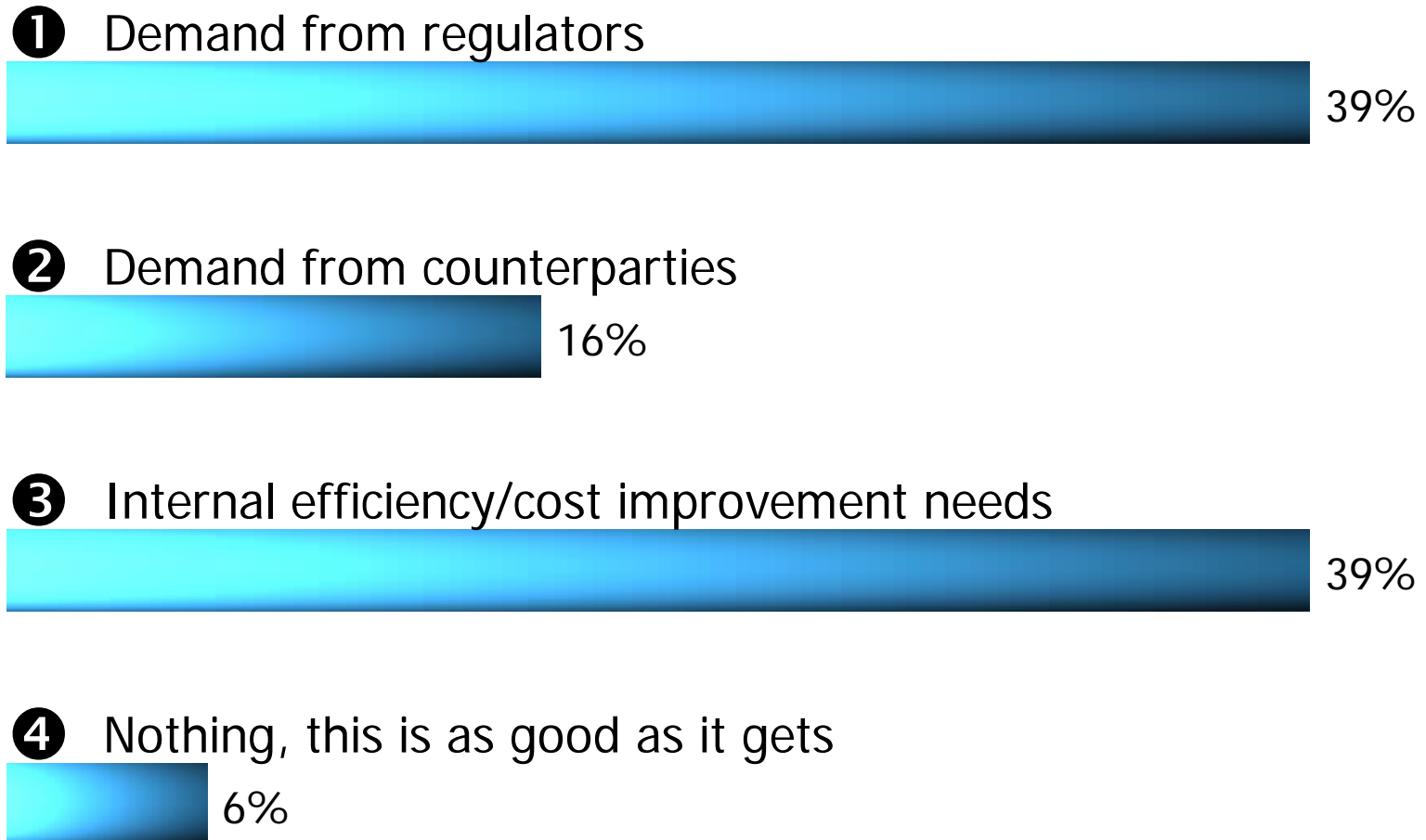
3 No for others nor in my firm

0%

4 No for others but it does for my firm



What will drive improvement most?



ISITC Europe



Providing leadership in a regulatory warzone

Squadron Leader Andrew W. Lamb (RAF)

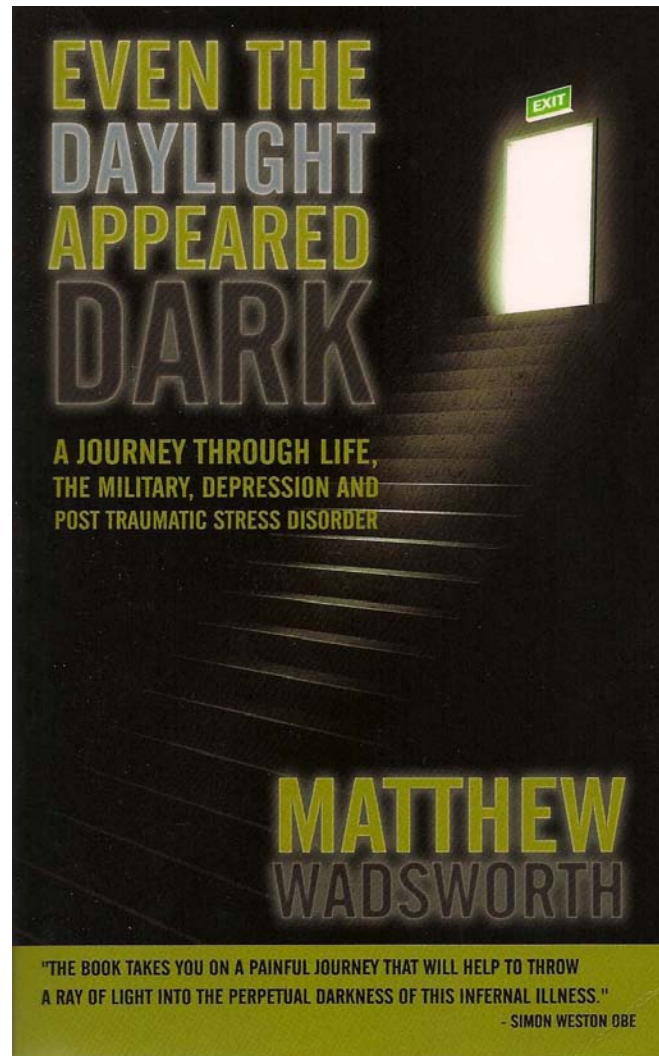
Providing Leadership in a Regulatory warzone

-

How the experience of working
on the field of battle relates to
working in the city.

Sqn Ldr Andy Lamb RAF

www.talking2minds



ISITC Europe



Closing Remarks

Graeme Austin

Agenda

09:00 - Opening Remarks

09:15 - Opening Keynote

Dr. David Doyle

09:45 - PANEL: Operational impact of regulations

10:45 - Refreshments and networking

11:05 - PANEL: Legal Entity Identification - Sponsored by London Market Systems

12:05 - Membership Survey

12:35 - Lunch and networking

13:35 - PANEL: On the road to T2S

14:35 - ISITC North America update - Live video link

15:05 - Refreshments and networking

15:35 - PANEL: Confirmation and Matching

16:35 - Closing Keynote – “Providing leadership in a regulatory warzone”

Squadron Leader Andrew W. Lamb (RAF)

16:55 - Closing Remarks

17:00 - *Conference end*

 17:01 - Drinks and Refreshments - Sponsored by CityIQ

19:00 - Event end



ISITC Europe



Annual Conference – 18 November 2011