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MiFID II Updates for 2018

As time approaches the MiFID II deadline, we review and update our previous MiFID II whitepaper

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Introduction

Following on from our whitepaper at the beginning of the year it is timely to give an update. This update should be read in conjunction with our original whitepaper and follows this update, see page 10 onwards.

All firms should have moved beyond the project definition and implementation stage. The testing phase should be teasing out a few forgotten items and revealing some wrinkles that need ironing out. While not a checklist, this whitepaper refers to a few areas that have prompted some questions and provide a few much needed guides.

MiFID II Timeline 2018

30 Nov 2017

Deadline for ESMA to review waivers (Bonds/derivatives)

3 Jan 2018

(New Deadlines): Delegated acts to apply within Member States. MiFID2/MIFIR requirements apply

Apr 2018

Firms to submit first RTS28 Reports

30 Jun 2018

First batch of RTS27 Reports to be published by venues for the period 1 January 2018 to 31 March 2018

1 Aug 2018

Deadline for ESMA to publish information on the total number and the volume of transactions executed in the European Union covering the period from 3 January 2018 to 30 June 2018

1 Sep 2018

Deadline for firms to undertake their first assessment and, where appropriate, comply with the SI obligations (including notifying their National Competent Authority)

Best Execution

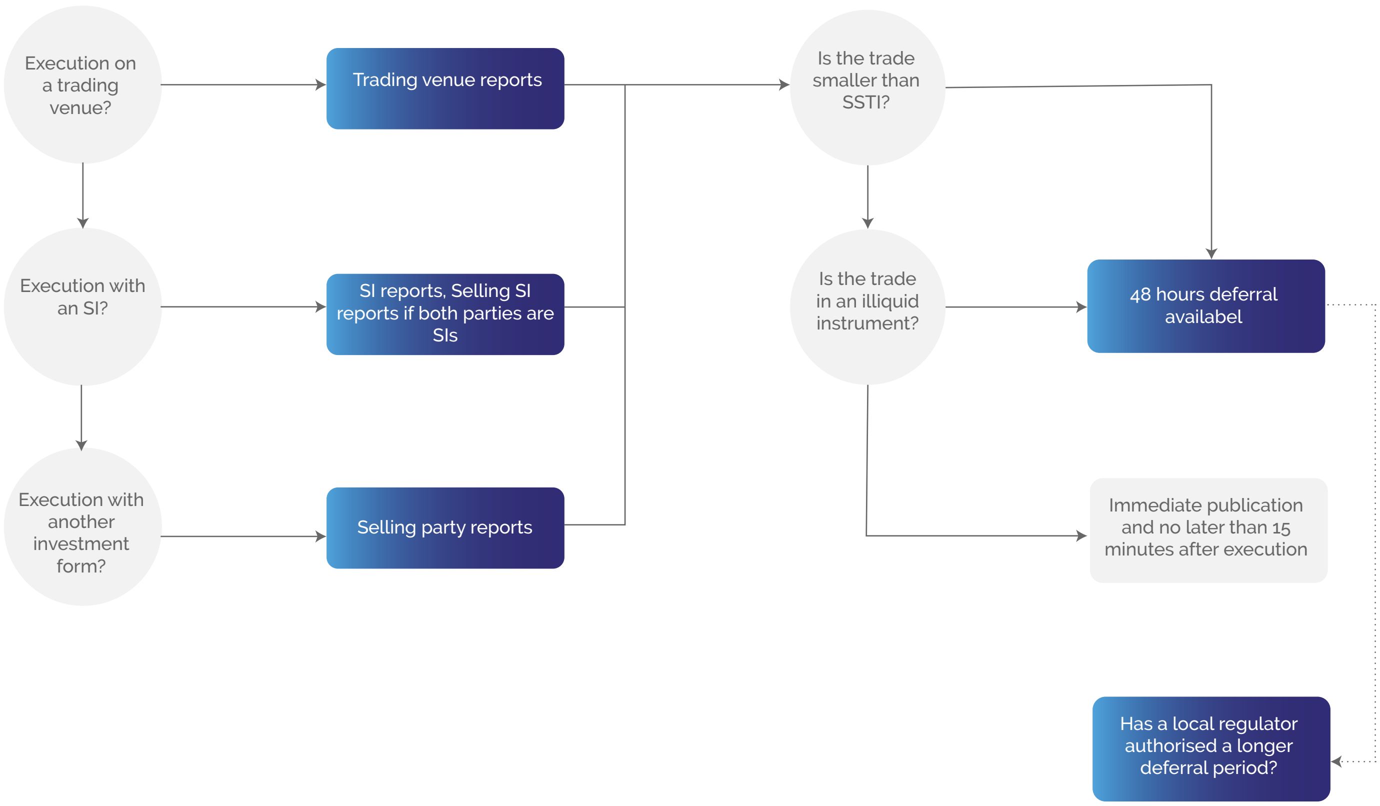
We all know that venues and SI's have to produce quarterly reports on Execution Quality. Firms also have extensive responsibilities in this regard as well including annual reports of the top five venues. Therefore, you need to be ready to collect the data required for the report.

The building block of Best Execution is the firm's Execution Policy. It continues to surprise us that conversations take place regarding technological solutions for Best Execution before this key document has been written!

Do I need to report?

	Transaction Reporting	Trade Reporting	Best Execution
EU firm	Required	Required	Required
Non-EU firm with EU branch	Required	Required	Required
Non-EU firm EU domiciled fund	Not required	Not required	Required
Monetary investment in EU asset Manager	Not required	Not required	Not required
Non-EU form executing in EU	Not required	Need to provide LEI	Not required

When do I need to report?



ISINS LEI's UTI's

International Securities Identification Numbers (ISIN) are required for OTC derivatives – a service only recently launched by the Global Association of National Numbering Agencies (ANNA) Derivatives Service Bureau (DSB). EMIR mandates the use of the Legal Entity Identifier (LEI) and the Unique Trade Identifier (UTI), which is common to both parties to a trade, for reporting to a trade repository. You need to get this right or you will be dealing with a reconciliation headache. You really need to be testing now your straight through processes and making sure you have automated access to these important data sets without exceptions.

The focus by regulators in the post MiFID II world will be transparency, investment protection and avoiding market abuse. Regulatory principles will continue to evolve and once data is at hand, we can expect significant changes and possibly MiFID II consultations by the end of 2018. The ability to accommodate new data sources will accordingly be a pre-requisite as well as accommodating any changes to, or additional reporting requirements. A holistic DataMart for reporting, integrated with other bank systems, is paramount for success. An end to end data processing model utilising full STP will reduce the ultimate cost of deploying a MiFID II solution and make compliance with other initiatives such as the Market Abuse Regimes that much easier. Consideration as to how the whole project can streamline processes and yield a true competitive edge should not be overlooked. Also, remember the GDPR headache to come!

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MiFID II
STAY AHEAD (2017)

Insight into Mifid II and how best to adapt your business operations to the changes

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What you need to know

The first month of 2017 starts the countdown to the implementation of MiFID II and associated regulations. As the finer details emerge (including some Q&As from ESMA over the festive break around best execution and transaction reporting) we await publication in the official journal, making it feel like the starting gun has been well and truly fired. The extra year's grace to full implementation suddenly seems a very short period as the sands of time counting down to 'go live' rapidly slip away.

Given the extension already granted to January 2018 (from January 2017) the noises from national regulators and ESMA are very much along the lines of heightened scrutiny and audits being conducted shortly after the go live date. Control frameworks will be examined for weaknesses and attention will be given to the accuracy of the reporting. The days of "if in doubt report" seem to be well behind us and will not be tolerated going forwards. The option to just extract data from front office systems and report it, will not work in this environment. Validation and end-to-end reconciliations with data enhancement will be the buzz words in this new era.

The complex MiFID II process has now almost completed its consultation stage and a date of 3rd July has been set as a deadline for the new rules to be issued. However, you cannot view MiFID II in isolation given the changes taking place in capital liquidity, market making and the balance sheet as well as market structure and execution models. Technological change is being driven by all these factors with the demands of MiFID II around best execution and transparency being especially important for firms that execute their trades on their own books.

One of the problems firms face is adapting existing technology to meet the required standards for regulatory reporting and compliance with the new regulations. For many this is due to time constraints even though it is perfectly obvious that a sticking plaster approach to the issue will end up being a much more expensive solution in the long run.

A more holistic approach would be to build a layer above existing technology, which, in a modular fashion, plugs the technologies' regulatory gaps. This allows this new regulatory platform to be the core investment going forward and to become the regulatory reporting platform for all of a firm's external and internal reporting needs. It can also resolve issues such as best execution and the plethora of other requirements.

System integration is also critical to the regulatory reporter compliance challenge. It must be architected in such a way that does not just connect the systems but unites them so a holistic environment is created. This environment will allow systems that are built to just handle post trade events to be able to handle pre-trade reporting as well. A single messaging delivery platform will help streamline communication with efficiencies in validating and confirming data. Also it will enable efficient import of data from third party data providers to a single source for identifiers and ISINs by way of example.

In addition, regulators are looking for more transparency in the client relationship. The reporting engine needs to be coupled with a comprehensive contact management system that can hold a unified view of the client information. The information will be interrogated from various sources and held in a manner that is fit for the purpose of reporting on both an EMIR (around 20 lines of data) and MiFID II (around 65 to 85 lines) basis and cope with the tweaks that will surely be coming.

A holistic solution with dashboards for the front office, compliance, risk and audit functions needs to be complemented with real time text/email alerts when certain breaches occur. Given the shifting nature of regulatory change this approach to the problem also allows for better navigation of changes when they are required. It is easier to adjust 'built for purpose' platforms rather than having to do a whole new project each time a new requirement is identified. A very real example of this is in FX reporting with FX currently being illiquid and with no ISINs assigned. This will potentially change quickly after the go live for MiFID II with FX probably being declared a liquid asset class. Firms will need to adapt to this change on, most likely, a tight timeline, and a holistic regulatory reporter would allow this to be done cheaply and quickly without painful changes to core systems.

Another area that needs careful consideration is with respect to clock synchronisation. Given the requirement to capture to the microsecond, you need to retain the ability to move to finer increments going forward. This then needs to be synchronised to market data for trade reconstruction, surveillance and best execution. Time stamps should be recorded in audit text fields or in a manner that enables quick retrieval. Also, for pre-trade reporting, new sources of data such as benchmarks need to be planned for. This gives added value to an integrated post-trade workflow - especially given the market abuse requirements and the need for quick identification of suspicious activities and support for subsequent investigation.

Allied to all this data reporting, MiFID II/MiFIR Article 15, chapter 7, RTS22 has made mandatory the front to back reconciliation of transactions traded by the front office and reported to the regulators. For many firms this will need to be a multiple-times-a-year exercise and the consequences of inaccuracies will be expensive in the form of fines. Many existing reconciliation systems may well struggle with the additional complexity, which will be compounded if multiple instances exist each with their own logic. Given the complexity involved, a common DataMart will be hugely beneficial in meeting this requirement.

Added to all these processes is the thorny issue of best execution. According to the latest guidelines this process is not applied to every single client order, but firms will need to verify their efforts on an 'on-going basis'. According to ESMA firms must verify 'their execution arrangements work well throughout different stages of the order execution process'. In addition, firms should take 'appropriate remedial actions if any deficiencies are detected' and prove they have taken 'all sufficient steps'. This is a change from the MiFID I wording of 'all reasonable steps' (which only impacted equities) and sets a much higher bar to compliance. With this, firms will need to take into account price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order. A common framework will definitely assist in meeting these exacting requirements.

Alongside best execution firms need to establish and implement an order execution policy, which allows the best result for the client to be obtained. This execution policy must be transparently disclosed to the client and the client's consent must be obtained. The policy must also explain clearly, 'in sufficient detail and in an easy to understand way' how a firm will execute orders for the client. This increased transparency to clients must be backed up with specific performance metrics and made available to the client. Also firms must 'monitor the effectiveness of their order execution arrangements and execution policy in order to identify and, where appropriate, correct any deficiencies' and do this on a 'regular basis'. This will require new detailed monitoring processes to be established and implemented with reporting capabilities on not just deals done but on all price enquiries. Again a common framework once established will reap huge benefits going forward.

The Solution

siena Regulatory Reporter was developed as a holistic solution, which comes with a contact manager, a DataMart and all the tools required to meet the MiFID II requirements for regulatory reporting and ensures compliance with other areas such as trade transparency, best execution, etc. It was designed so that you can keep existing systems and workflow processes and utilise the modularity of the solution to plug any identified gaps. It thus sits as an integration layer that makes all existing technology and processes MiFID II compliant utilising APIs to interrogate your systems such as front office, middle office, back office, CRMs, risk & compliance and third party data sources.
With **siena** Regulatory Reporting, you can comply with regulation by addressing:

- Client oversight;
- Appropriateness and control;
- Pre-trade compliance;
- Record keeping and telephony;
- Trade and order handling;
- Post trade disclosure;
- Best execution;
- Client reporting;
- Market data reporting;
- Transaction/trade reporting;
- Systematic internalisation

Client Oversight

siena's Contact Manager tool ties together all the deals transacted for a client, all their interactions with the institution (known as 'Contacts') along with the documents and notes for those interactions. The Contact Manager can record notes and raise several deals and orders that will be automatically linked to the contact. By bringing together these existing functions, the Contact Manager becomes a central overview of your customers and the individuals / organisations mandated to act on their behalf.

Appropriateness & Control

siena is built around trading rules designed to ensure the appropriateness of instruments for a particular group of clients or a single client. Its highly flexible business rules can be applied by counterparty, trading group, amount bands, channel, asset class, currency, tenor or time zone. As well as real-time connectivity to existing AML & KYC systems, **siena** provides pre-deal credit checking, latency controls, profit checking and fat finger protections.

Pre-trade Compliance

siena provides up-front information, warnings and reports in-line with MiFID II requirements, including transparency, best execution warnings, latency reporting and waivers:

- The **siena** Gateway is ready to stream any price or rate for any instrument to any number of venues both internal to the bank and externally to MTFs to provide full pricing transparency.
- Best Execution alerts are triggered when a client attempts to trade on a price that is beyond the acceptable tolerance range when compared against a prevailing market neutral benchmark mid-rate.
- Best Execution data, currency benchmark rates etc. are stored with every order and deal, market neutral benchmarks are acquired using ready-to-deploy adaptors to providers such as NewchangeFX.
- Latency Reporting is available to highlight the latency issues and price variances between Quote/ Rejection and final execution.

Record keeping & Telephony

siena provides full quote history, comprehensive notes and a call management system API to ensure decisions, quotes, events, voice trades and tickets are fully referenceable. All deals, orders, quotes and system actions in **siena** are UTC time stamped and associated with the relevant **siena** user, and all peer-to-peer and direct chat are exported and available for search. This enables **siena** users to get on with the business of the day, knowing their activities are transparent.

Trade & Order Handling

Trade & Order Handling
siena is designed to accept feeds from external systems. When connected to external systems **siena** can operate in a primary / secondary role for specific instruments and the order workflow can be driven either by **siena** or the external system. All messages can be configured to "ACK/NACK" with external systems to ensure message synchronisation. If your organisation uses a message hub, **siena** can monitor the hub for transactions and process them. **siena** adaptors allow for the normalisation of trade and order data and from all order, trading and messaging platforms into one common format for storage, reporting and processing.

Post Trade Disclosure

siena supports the requirement for non-equity deals to be available within 15 minutes. This figure will reduce to 5 minutes in 2020. To support regulatory reporting and investigation requirements Views and Reports and new Data Categories are provided in the

siena Relational Gateway for;
Customer segmentation reporting

- Instrument taxonomy reporting
- Best Execution reporting
- Pre and post execution rate/ quote latency reporting
- Venue latency
- Fully traceable dealer chat
- All notes taken
- Client communications leading to deals

To re-affirm that best practice occurred on an executed trade, post trade benchmarks are recorded at pre-set intervals or your custom range following the order and trade execution. At any time a deal and its history can be reconstructed using the wealth of information held in the **siena** Relational Gateway.

All relevant data will be available for a definable period of time - typically 7 years.

Best Execution

siena supports best execution policy by ensuring benchmark rates, prices and volatilities are added to all deals and orders across all instrument classes based on the user-definable benchmark source. Additionally, benchmarking data is stored against each deal/order for all lifecycle events including but not limited to Option Exercise, Assignment & Expiry and Order actions.

Details of all costs and charges incurred on a deal by the counterparty are recorded and available in the siena Relational Gateway module alongside the default values for these. All costs/charges and fees are reportable in the regulatory reporting currency. The margins applied to the deal (if known) are available in the **siena** Relational Gateway module along with all the default margins that would have applied at the point of execution/exercise (if they have been made available to **siena)**.

Client Reporting

As well as all of the Trading information available in **siena**, the solution has a comprehensive range of views, reports and data, to support client reporting requirements. These include data such as LEIs and other forms of ID, including Passport Number, Country/Jurisdiction, First Name(s), Surname(s), DOB, Country, Post Code and National ID Number. All this data can be used in client reporting to identi-fy the client and generate a UTI from the LEI or any of the other unique identifies if the LEI is not available.

Market Data Reporting

The **siena** instrument catalogue contains data that can be reported on for each of the categories required and used to generate Term Sheets if required. siena provides regulatory reporting support for any number of other deals/order types using its customisable templates.

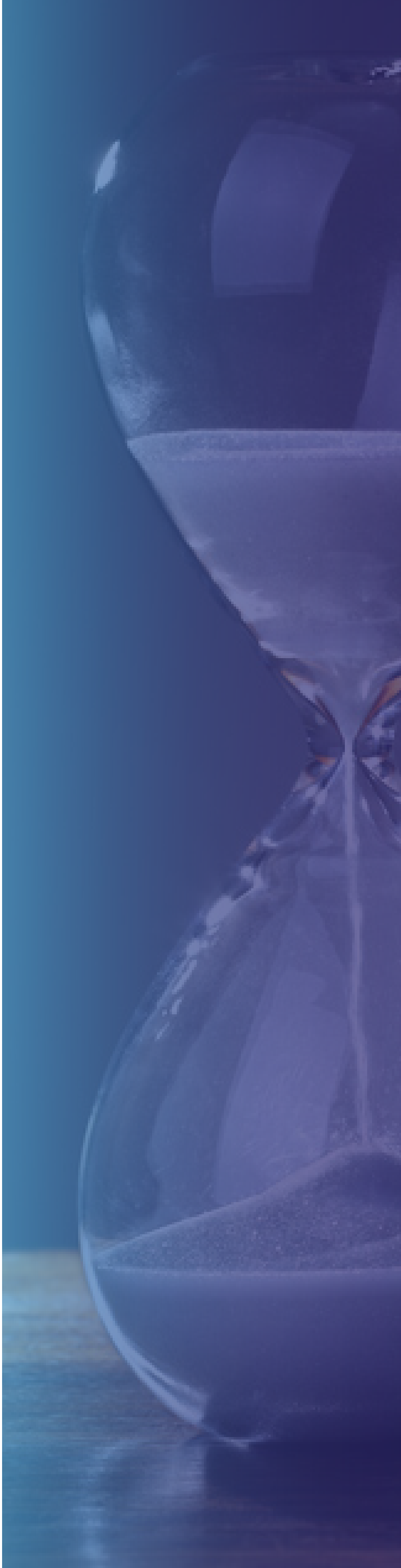
Transaction & Trade Reporting

siena's ready-to-deploy adaptors provide connections to trade repositories such as DTCC and UnaVista. siena adaptors provide multiple ways to submit trade records to the repository service to provide maximum flexibility based on technology and volume consideration. Order and Trade reporting waivers are supported for all customer, deal and order types - including block trades - and are enacted during reporting.

Systemic Internalisation

siena empowers compliance teams monitoring your SI status by allowing reporting over at least 6 months of trading activity from all venues connected. siena supports;

- SI status monitoring data
- Comprehensive pre-trade transparency
- Term Sheet generation data
- Best execution
- Waivers
- Latency reporting



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About eurobase

Eurobase is a leading international software and services provider of banking solutions. Established in 1988 and with customers in over 25 countries, we have gained extensive knowledge of the financial service markets.
Our aim is to be recognised as thought leaders in the sectors we operate, and to deliver innovative solutions that provide real business value to our customers.
We pride ourselves on our personal approach, ensuring we deliver the support and flexibility our customers need and the service they expect.
Our customers have long and lasting partnerships with Eurobase and all will verify our approach to doing business and commitment to product investment - delivering ongoing value above and beyond our initial engagements.

For more information visit://www.eurobase.com