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## Regulatory Update

# MiFID II – Changing face of FX market structure

*Vincenzo Dimase - FX Market Development Manager, Europe West*

14 May, 2016



**THOMSON REUTERS**

# AGENDA

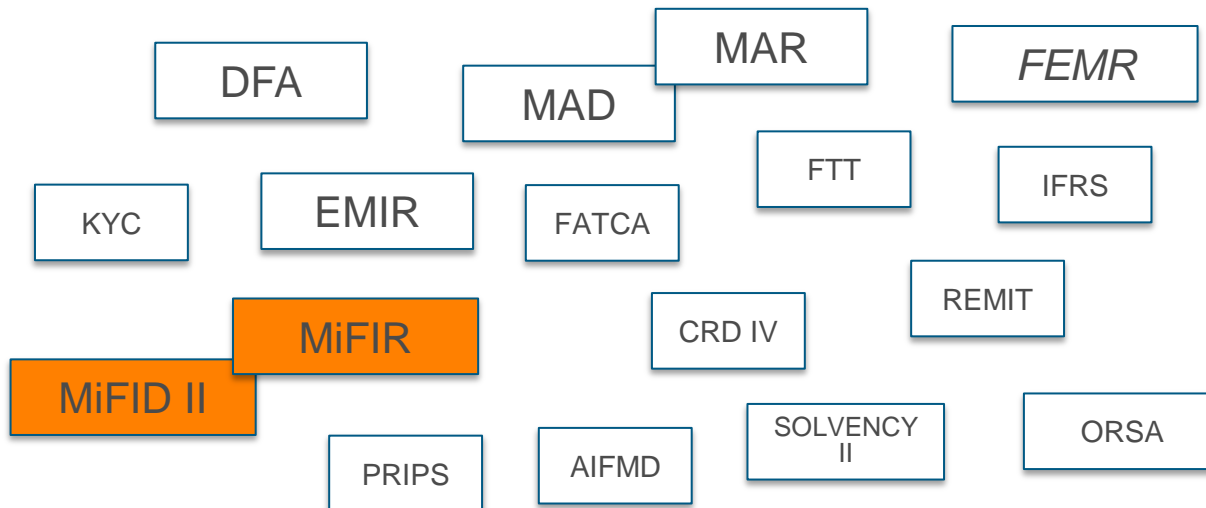
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- MiFID II & MiFIR high level definition & timeline
- Impact of MiFID II on FX market structure
  - Trading Venues
  - Transparency
  - Data
- Final Considerations
  - Open Issues
  - Thomson Reuters response

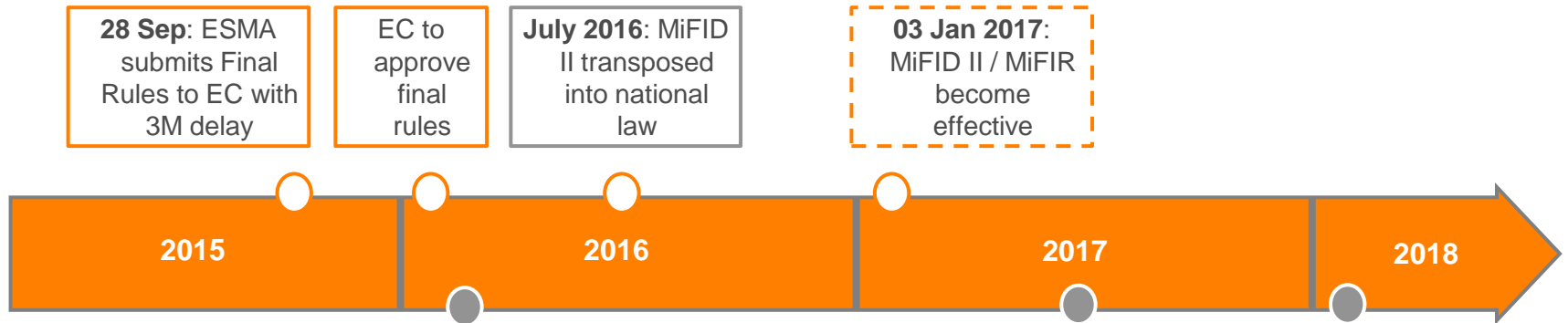
# G20 Commitment



The G20's proposed reforms aim to *reduce counterparty risk, operational risk and systemic risk within the financial markets, and in particular, OTC derivatives markets.*"



# MiFID II Timeline



**10 Feb :** MiFID II delay was officially communicated

**July 2017**  
MiFID II transposed into national law

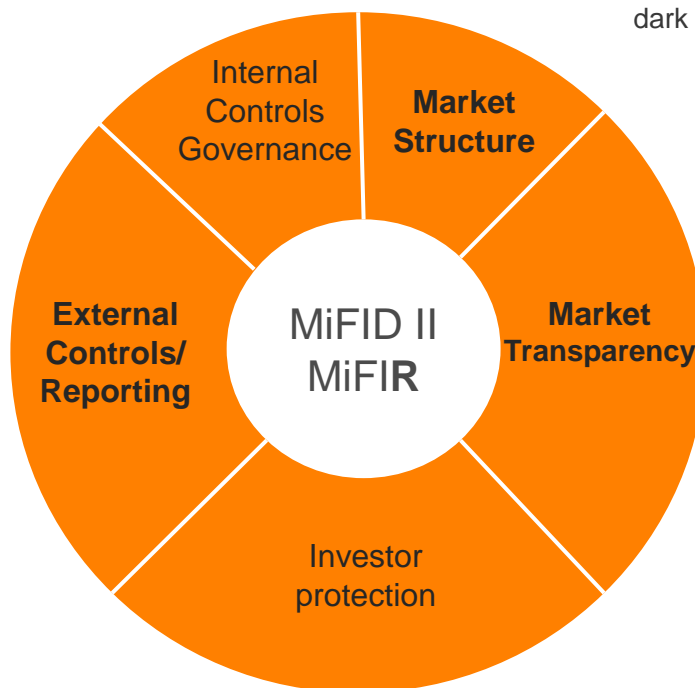
**02 Jan 2018**  
MiFID II / MiFIR become effective

- MiFID II/MiFIR entered into force on **July 2<sup>nd</sup>, 2014**
  - Final Rules submitted to the EC on 28<sup>th</sup> Sept (following a 3m delay)
  - MiFID to be transposed into national laws by July 3<sup>rd</sup>, 2016 (concurrent process)
  - Law becomes effective (30 months after entry into force): **January 3<sup>rd</sup>, 2017**.... Likely to move to Jan 2<sup>nd</sup> 2018
- ✓ MiFID II to become effective as of **JANUARY 2018** / Awaiting RTSs & DAs
- ✓ National Transposition of MiFID II moved to **July 2017**.

# MiFID II The Pillars

- ❑ Organizational Requirements (skills)
- ❑ Remuneration Policy
- ❑.....

- ❑ Significant portion of OTC products to move to RM, MTF or OTF
- ❑ Treatment of single and multi dealer platforms: dark pools: algo-trading provisions



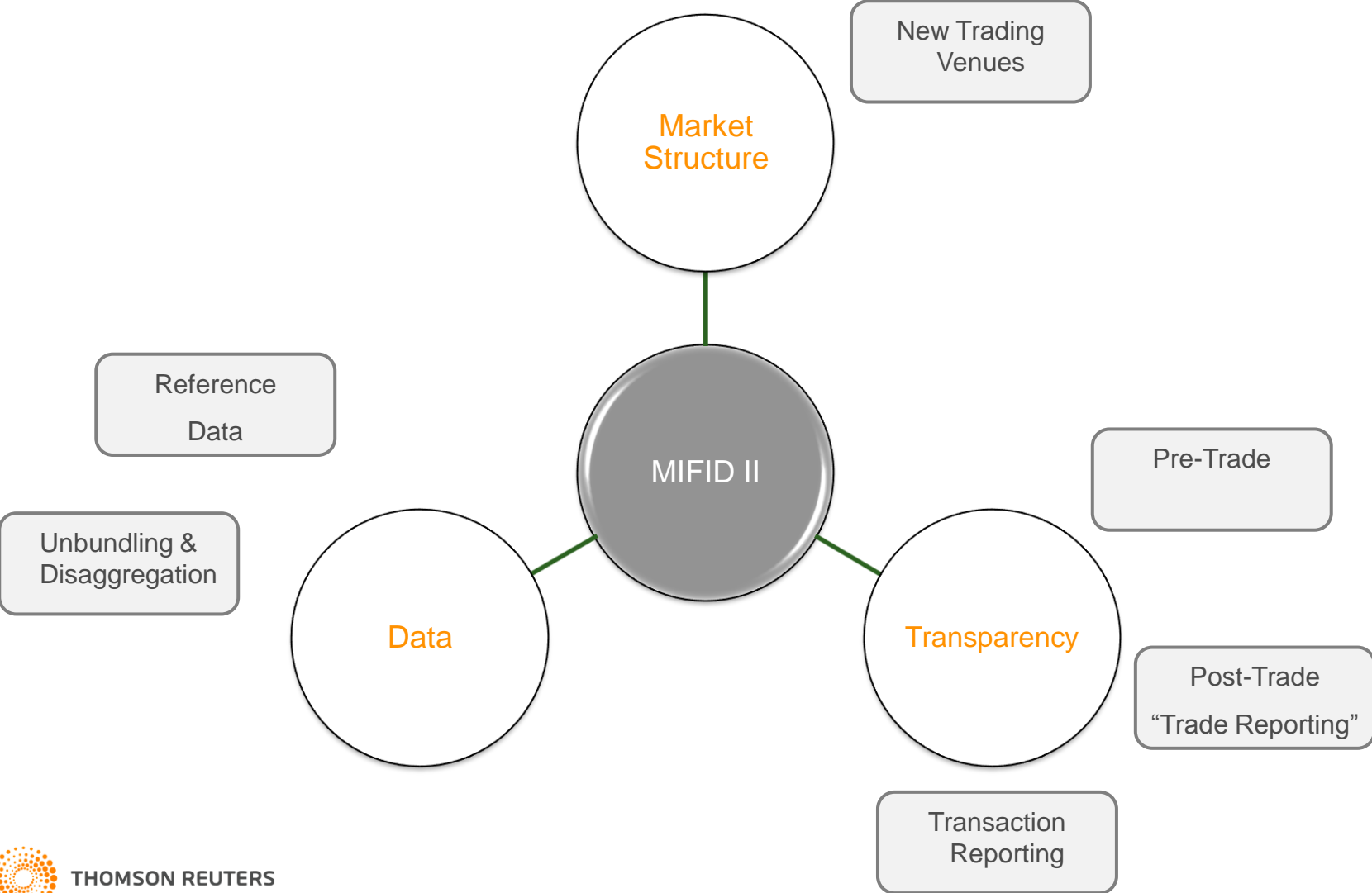
- ❑ Transaction archiving (5y) and reporting imposed on RMs, MTFs, and OTFs.
- ❑ New rules on quality of information , advice and services provided to clients & on Best execution

- ❑ Extension of Equity pre & post –trade transparency to non-equities
- ❑ Trading venues and Sis required to make info available to the public pre trade: Quotes, RFQs and orders.

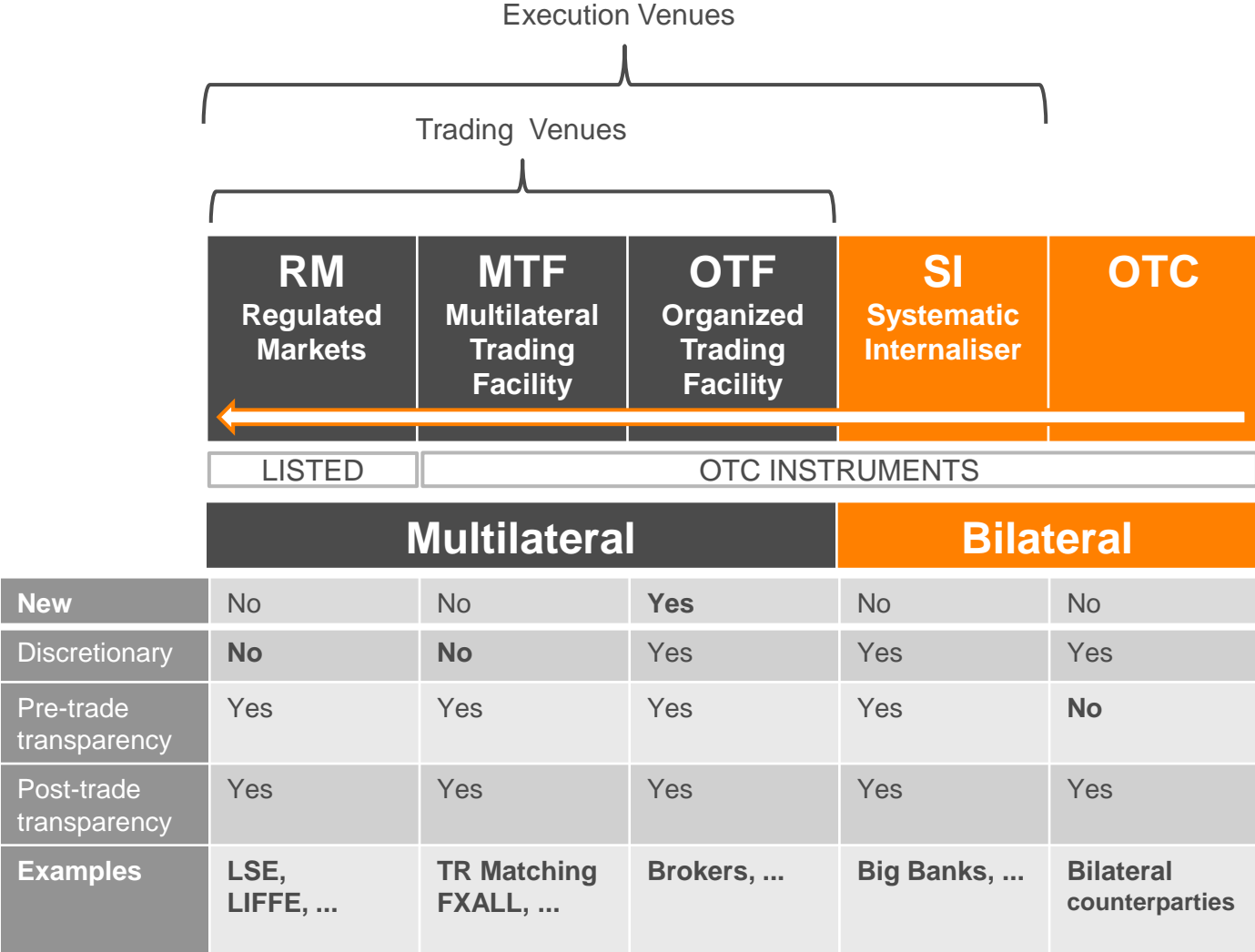
- ❑ Extension of MiFID investor protection regime to a wider range of firms & financial services/products
- ❑ Specific requirements on PRIIPS
- ❑ New rules on quality of information , advice and services provided to clients & on Best execution
- ❑ Enhanced Info for clients
- ❑ Inducements & Independent Advice

# MiFID II Today Agenda – Focus on FX

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# MiFID II Market Structure



# MiFID II OTC & SI connection

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**SI** : an investment firm which, on an organized, frequent systematic and substantial basis, deals on own account by executing client orders outside an RM, MTF or OTF without operating a multilateral system.

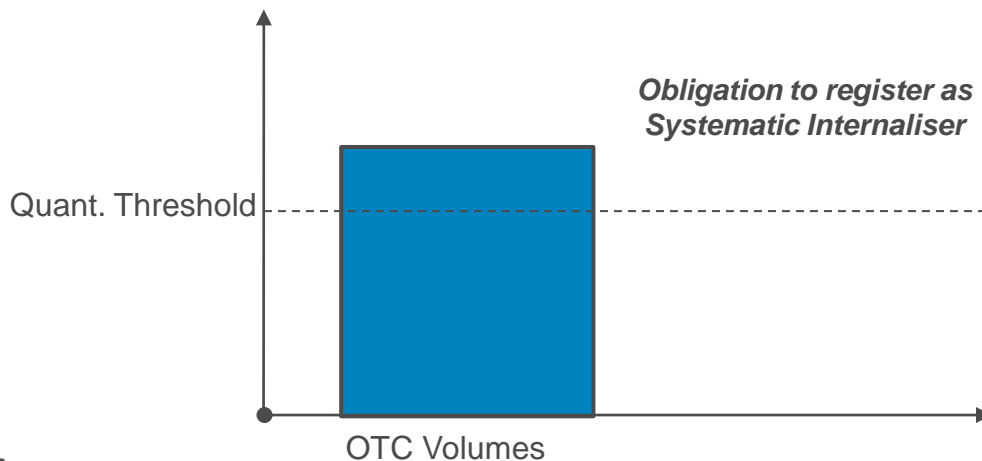
**Firms executing client orders on own account (principal) will need to register as an SI if they breach quantitative threshold.** Analysis done on quarterly basis, based on last 6month activity. Thresholds are set on the definition if “Frequent, systematic and substantial basis”.

**FREQUENT & SYSTEMATIC**: number of transactions a firm undertakes in an instrument/class.

**SUBSTANTIAL**: volume (notional or turnover) that the firm undertakes and will consider

- a) Size of Trading in that instrument as a proportion of the firm’s total trading activity
- b) Size of trading in that instrument as a proportion of total EU trading in that instrument

Registering as SI will require the firm to comply with MiFID transparency and organization requirements.

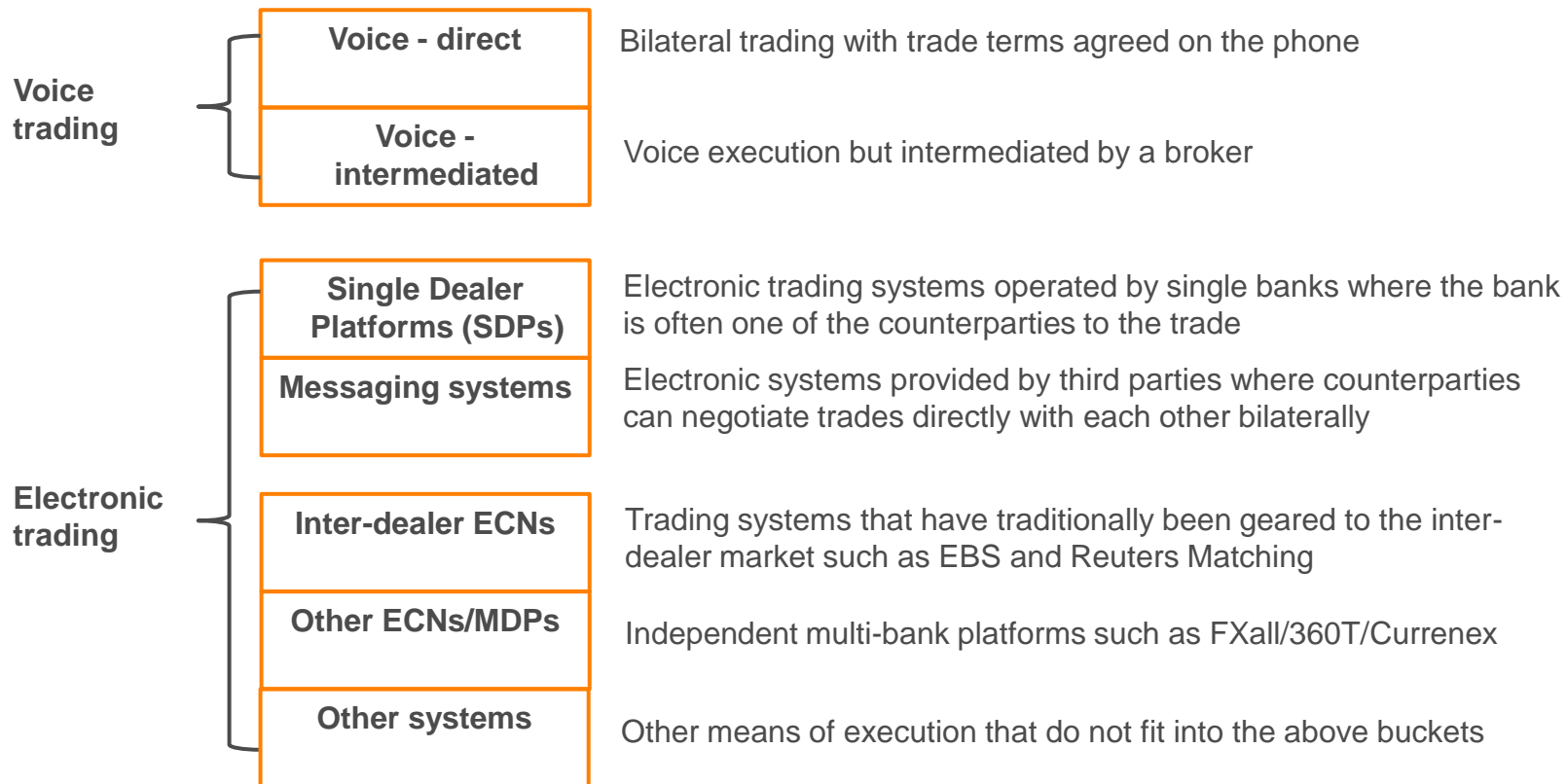




# MIFID II Trading structure in FX

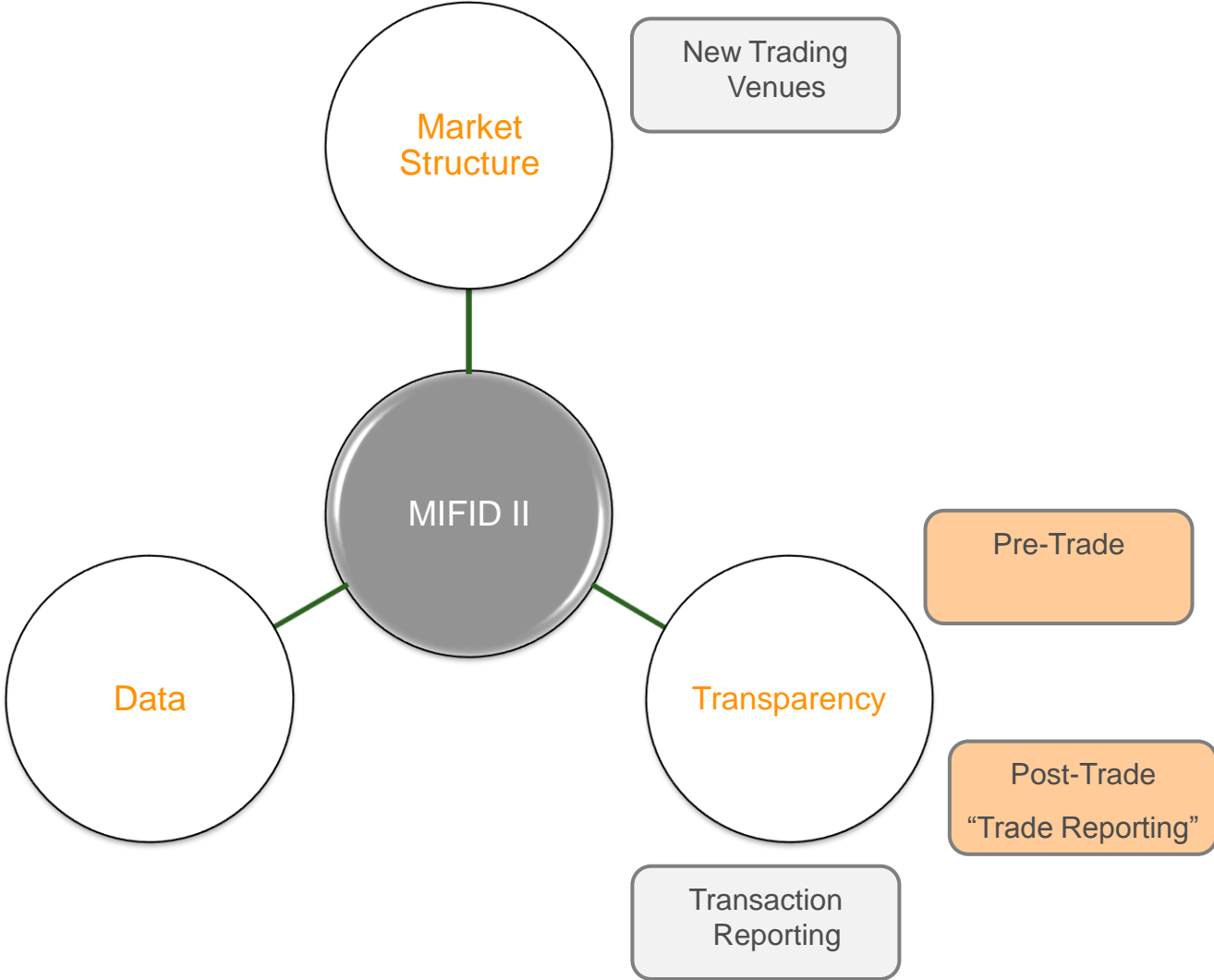
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## So What Could This Mean For Existing Platforms in FX?



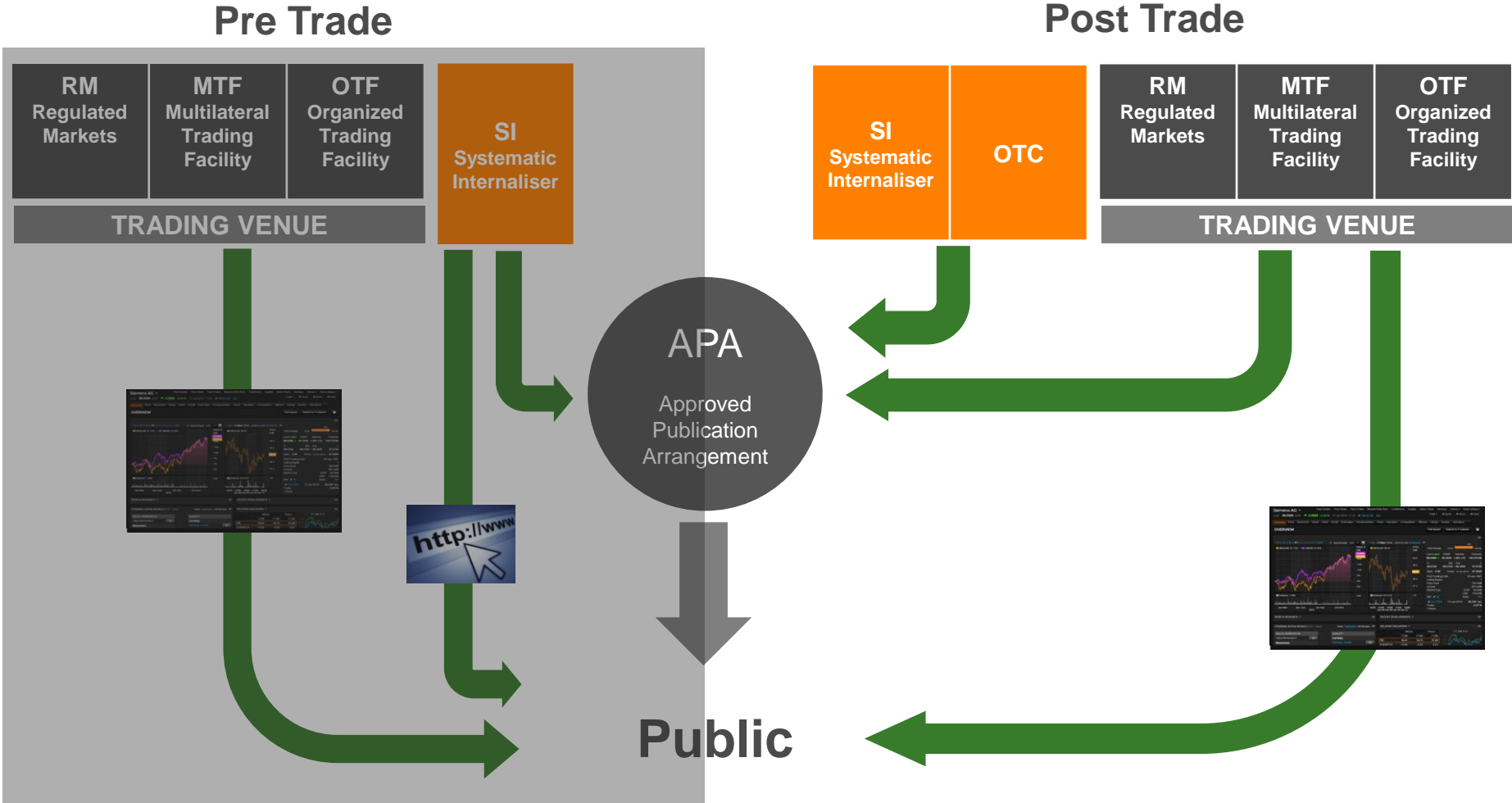
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# MiFID II Transparency in FX

- ESMA deemed illiquid all FX instruments => No Pre Trade Transparency



# MiFID II Post Trade Transparency - When

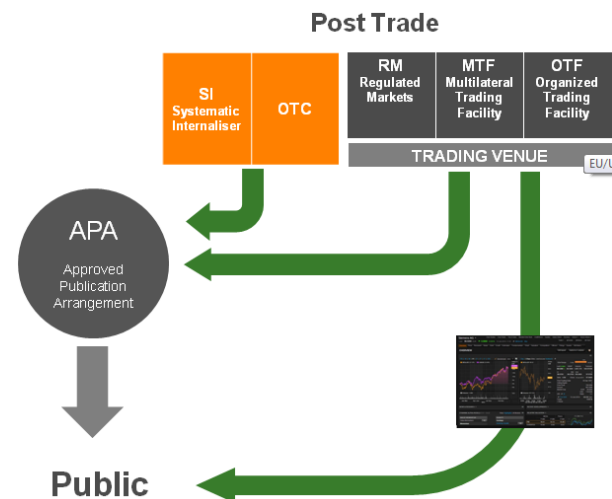
## FX derivatives – TRADE REPORTING

All trades, amendments and cancels must be published by the trading venue or via an APA – Approved Publication Arrangement :

- “Real time” reporting (within 15 minutes of execution)
  - In 2020, real time = within 5 min of execution

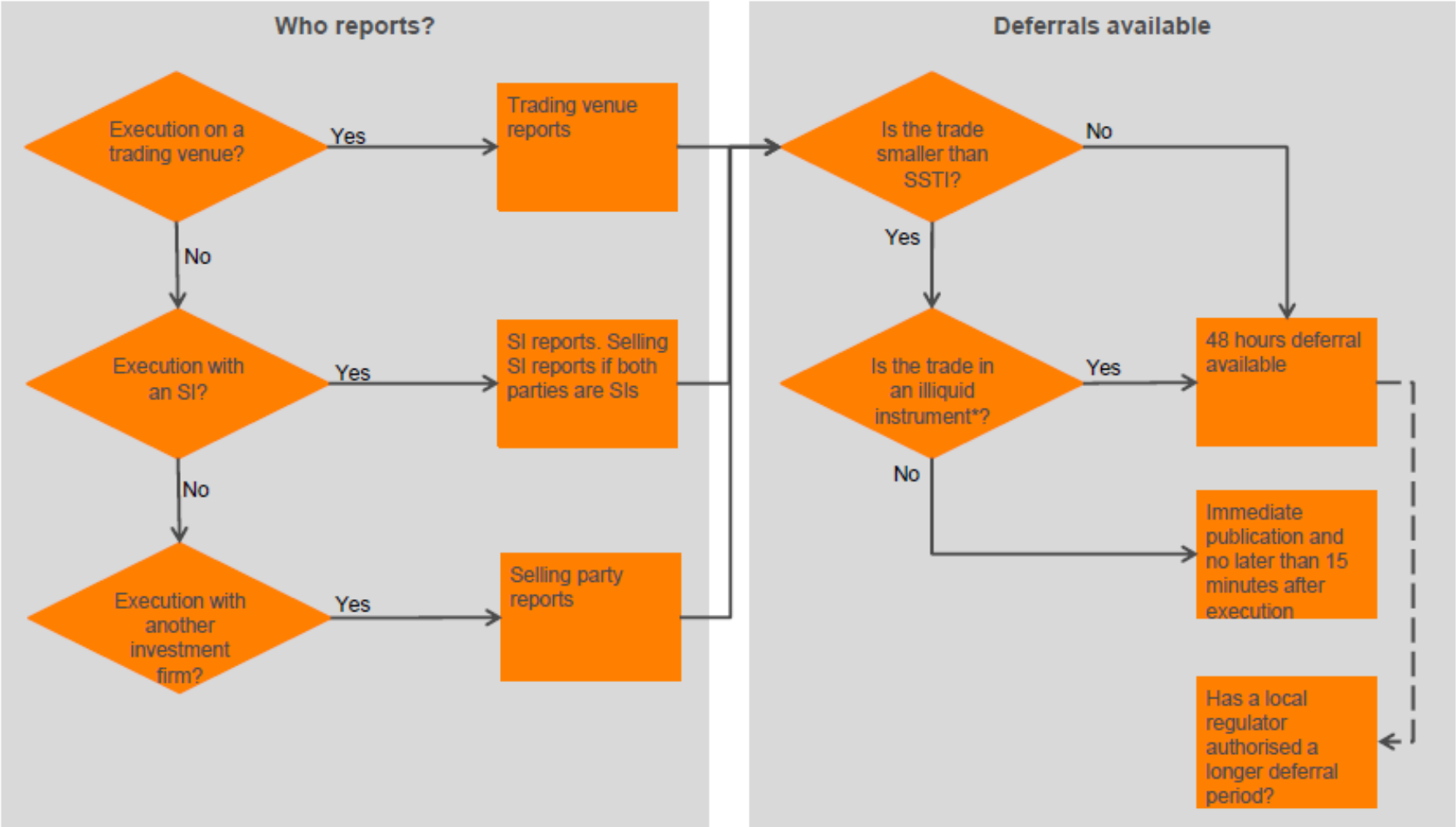
- Delayed publication (48 hours) permitted for:

- Transactions greater than Large in Size Threshold (LIS)
- **Instruments where there is no liquid market (FX)**
- Transactions greater than the Size Specific to the Instrument Threshold (SSTI)



# MiFID II Post Trade Transparency – Who Reports?

## TRADE REPORTING



# MiFID II Trade & Transaction Reporting

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## EMIR & MiFID II/ MiFIR REPORTING

- EMIR Trade Reporting obligation not to be confused with MiFID II Trade Reporting obligation (linked to Post Trade transparency rules);
- EMIR Trade Reporting obligation coexists with and does not replace MiFID II Transaction Reporting

MiFID II  
Detecting  
Market  
Abuse

**TRADE REPORTING**, Public, Real Time, APA ( Post Trade Transparency)

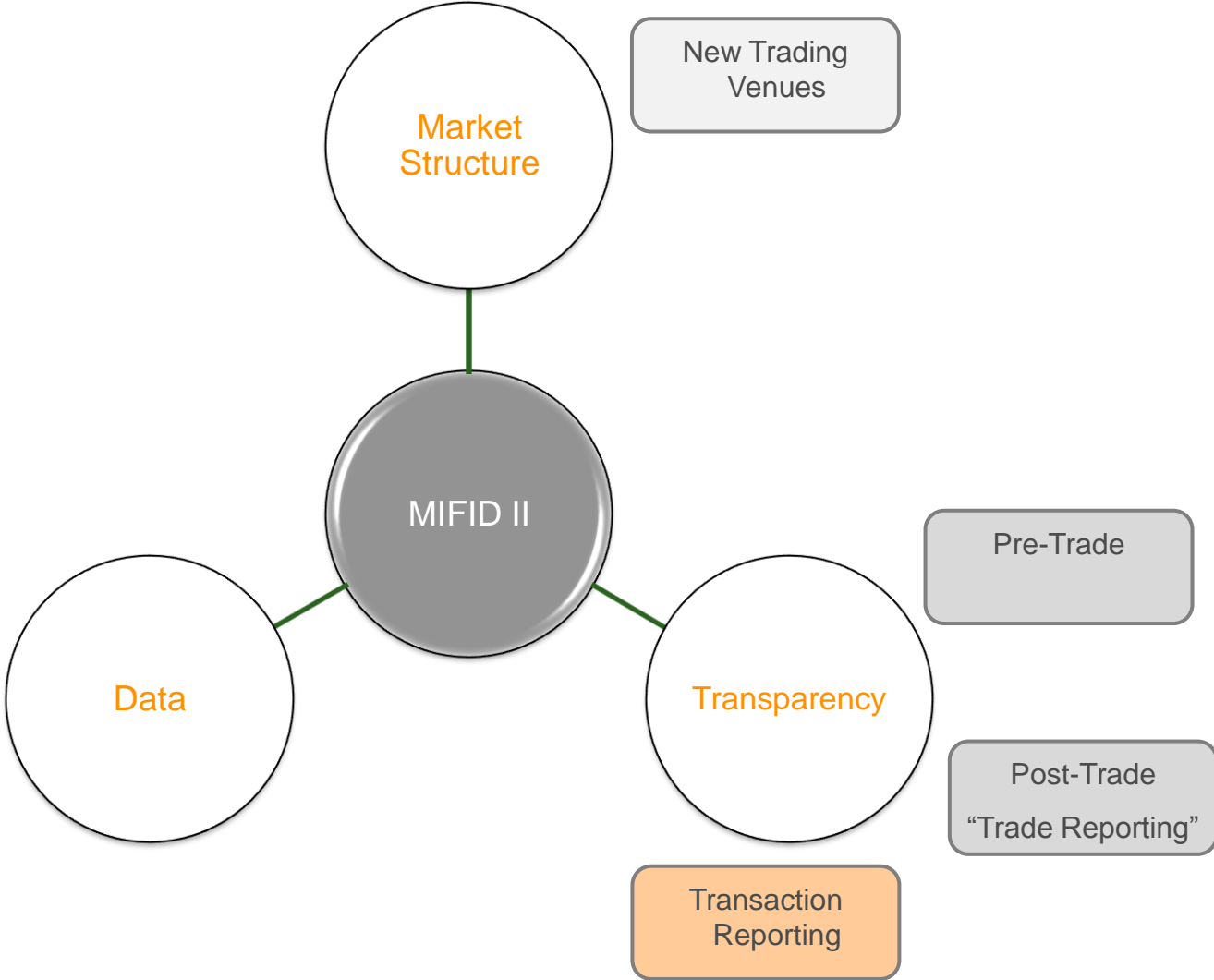
**TRANSACTION REPORTING**, Non Public, T+1, Authorities (direct or ARM)

EMIR  
Monitoring  
Systemic  
Risk

**TRADE REPORTING**, Non Public, T+1, Qual. Trade Repositories ( i.e. DTCC)

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# MiFID II Transaction Reporting

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## TRANSACTION REPORTING

Article 26 (1) MiFIR requires investment firms executing transactions in financial instruments to report to the national competent authorities ( **NCAs**) details of those transactions . This will enable NCAs activity to detect and investigate potential scenarios of market abuse and monitor how markets are functioning.

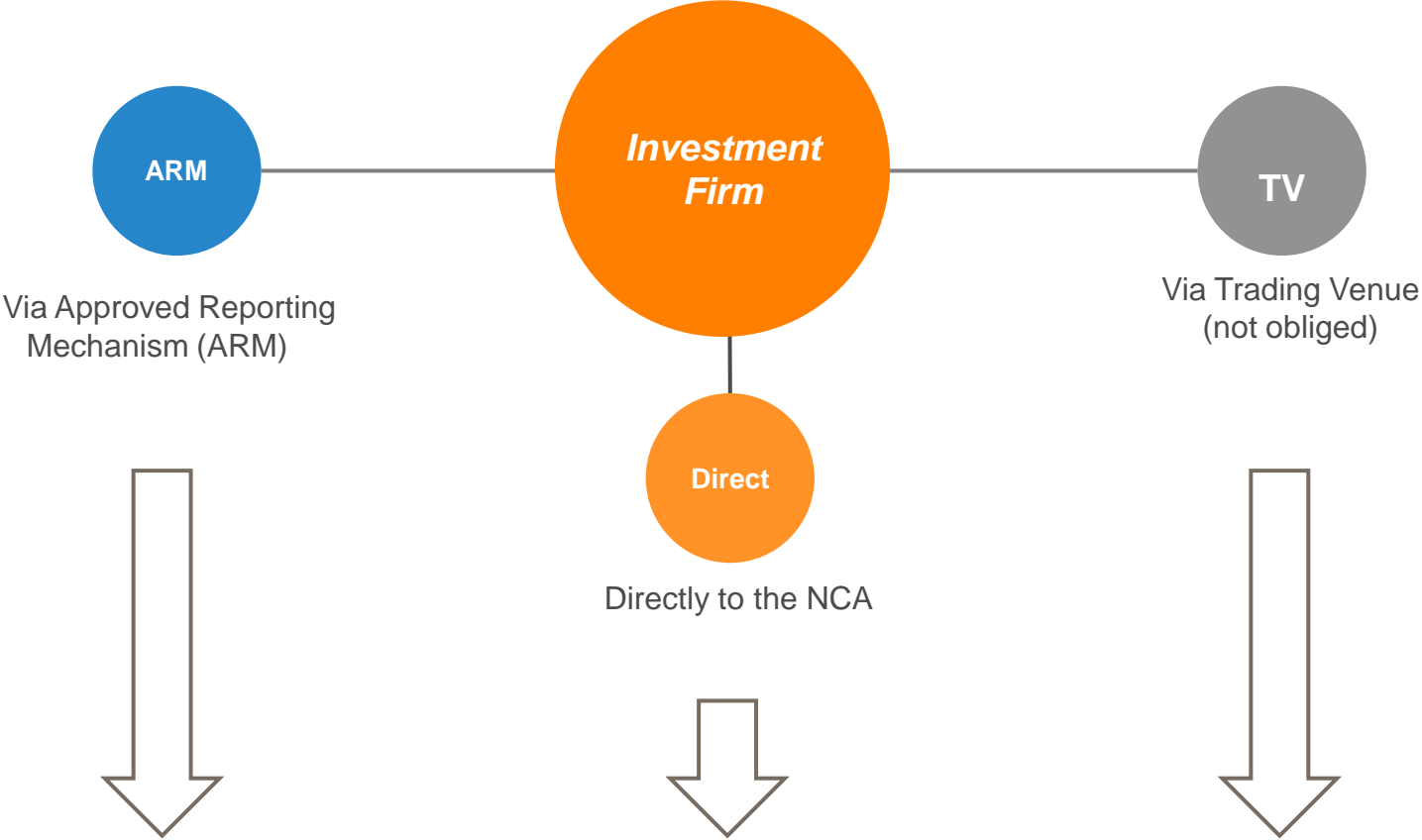


- **WHEN:** Transaction reporting to be completed no later than following working day : **T+1**
- **WHO:** Investment Firms, who are also required to keep over-reporting to a minimum and ensure accuracy, confidentiality & security of data (IF and TV) = Methods & arrangements
- **WHICH INSTRUMENTS:** RTS (22) list ( Cash Equities, Bonds, Indexes & Equity, FX, IR and commodity Derivatives ( OTC & ETD) + Financial Instruments whose underlying is directly or indirectly traded on a TV.
- **FORMAT:** Electronic and Machine readable (Common XML format & ISO 20022 methodology).



# MiFID II Transaction Reporting

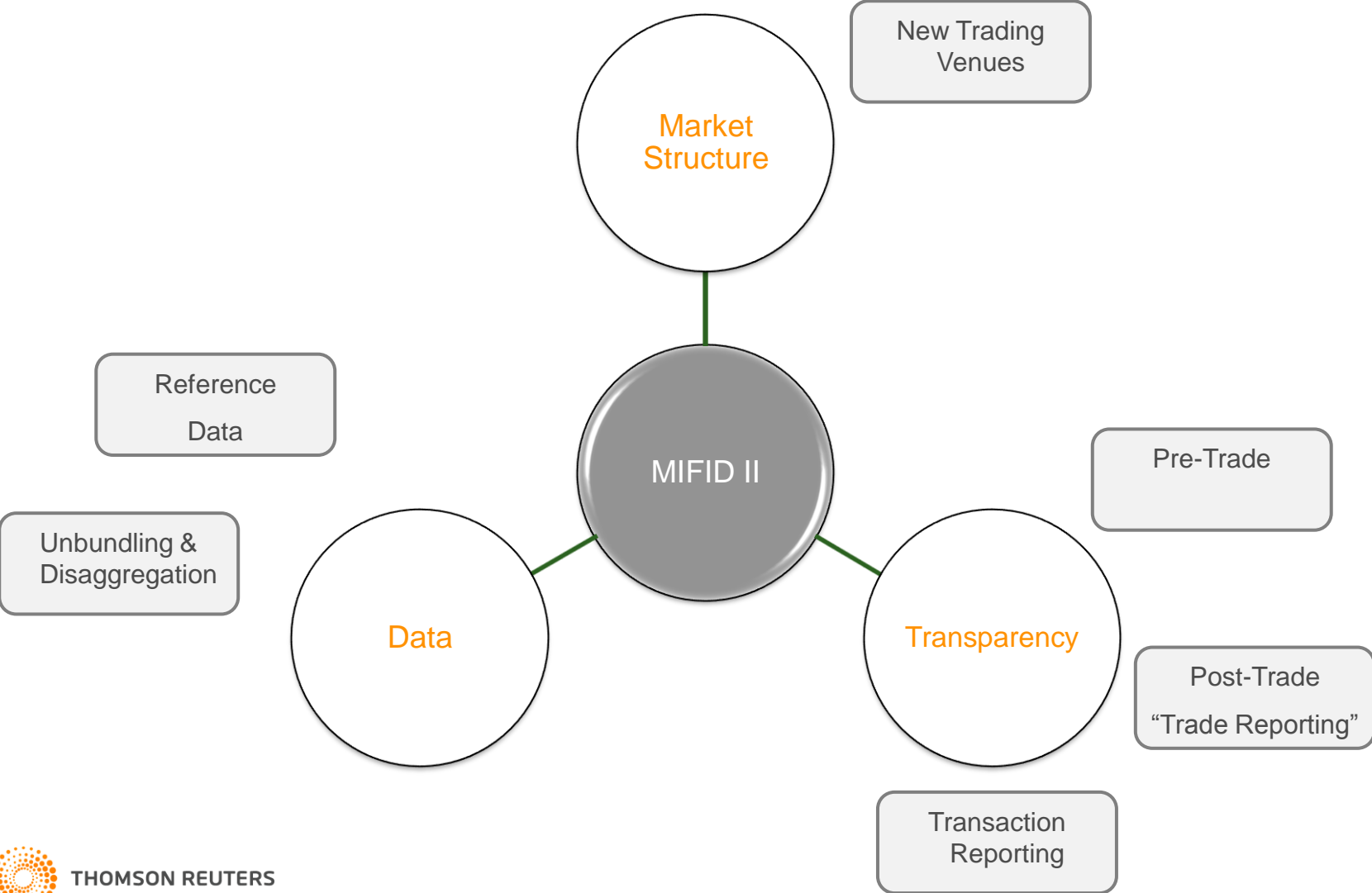
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**National Competent Authorities (NCAs) – FCA, CONSOB, ...**

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# MiFID II Data & other hot topics

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- **REFERENCE DATA**

- **Inclusion of new instrument level fields to support clients with regulatory requirements**
  - MiFID II eligibility, Liquidity indicators, waivers and deferrals
  - Trading Obligations, ...

- **UNBUNDLING & DISAGGREGATION**

- Unbundling: Pre-Trade & Post Trade
- Disaggregation: 4 levels & on request; Currency, Country of Issue, ...
- Data Cost: Reasonable Commercial Basis (RCB) definition

- **BEST EXECUTION REPORTING**

- **Trading Venue** :Quarterly
- **Investment Firm** : Yearly on top 5 exec venues

# MiFID II Open Issues

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- **SIMBOLOGY**

- ISIN codes creation on the fly for FX Derivatives (costs & operational implications)
- Global Identifiers ( UTI-USI) - IOSCO

- **REGULATORY DIVERGENCE EU-US JURISDICTIONS**

- CCP Recognition (**agreement reached in february 2016**)
- SEF-MTF Equivalence: no contradictions but differences (RFQto3)



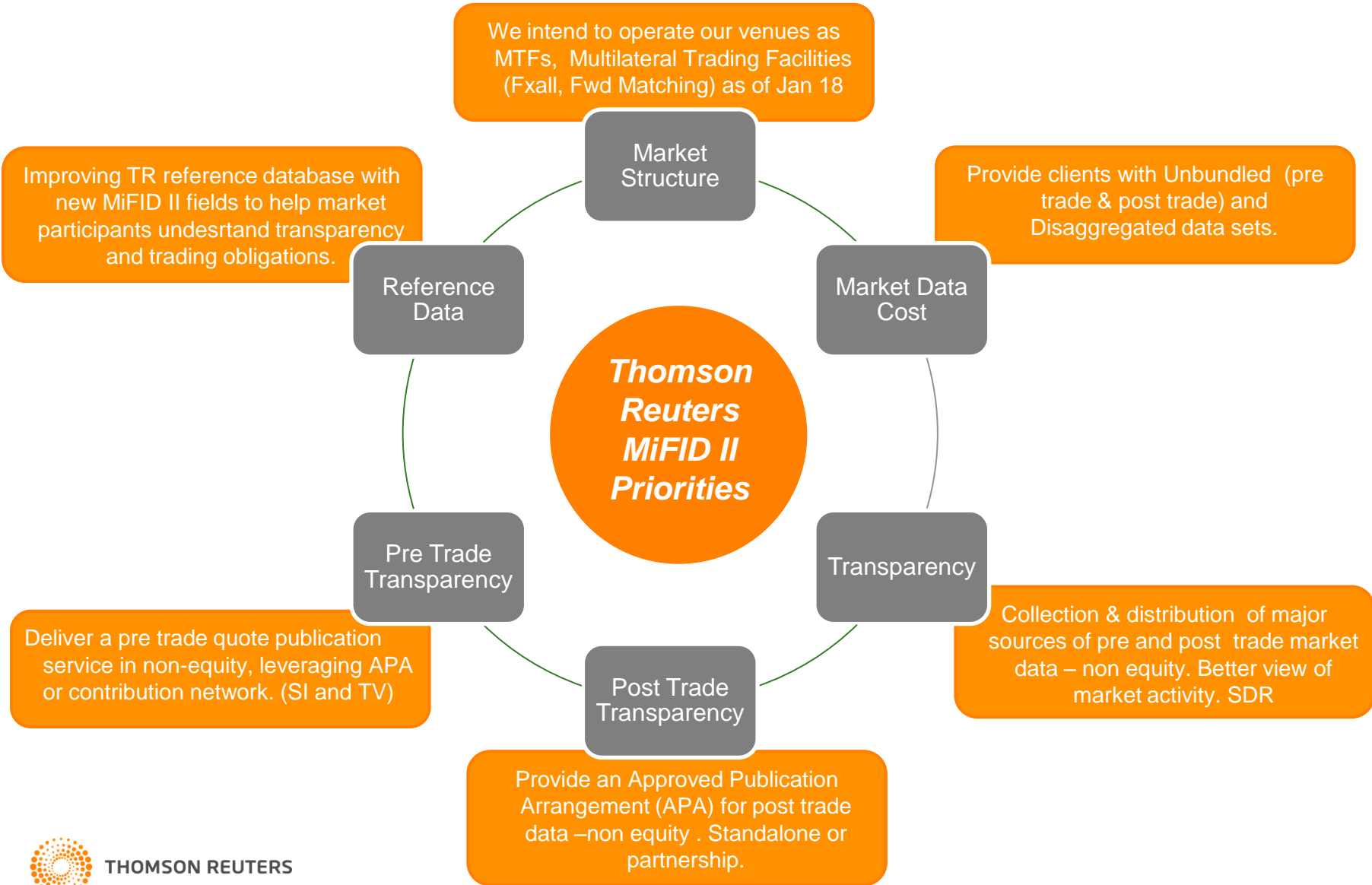
- **OTC-SI Threshold Calculator:** denominator value = Traded Volumes @ EU level.

...Analysis done on quarterly basis, based on last 6month activity. Thresholds are set on the definition if “Frequent, systematic and substantial basis”.

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- **SUBSTANTIAL:** volume (notional or turnover) that the firm undertakes and will consider
  - a) Size of Trading in that instrument as a proportion of the firm’s total trading activity
  - b) Size of trading in that instrument as a proportion of **total EU trading in that instrument**

# MiFID II Thomson Reuters Response

visit [www.mifidii.com](http://www.mifidii.com)





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