



Izba Domów Maklerskich



MIFID II and MAR:

Effectively Handling the Upcoming Regulatory Wave

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Bukowina – March 7th, 2015

Presentation Summary

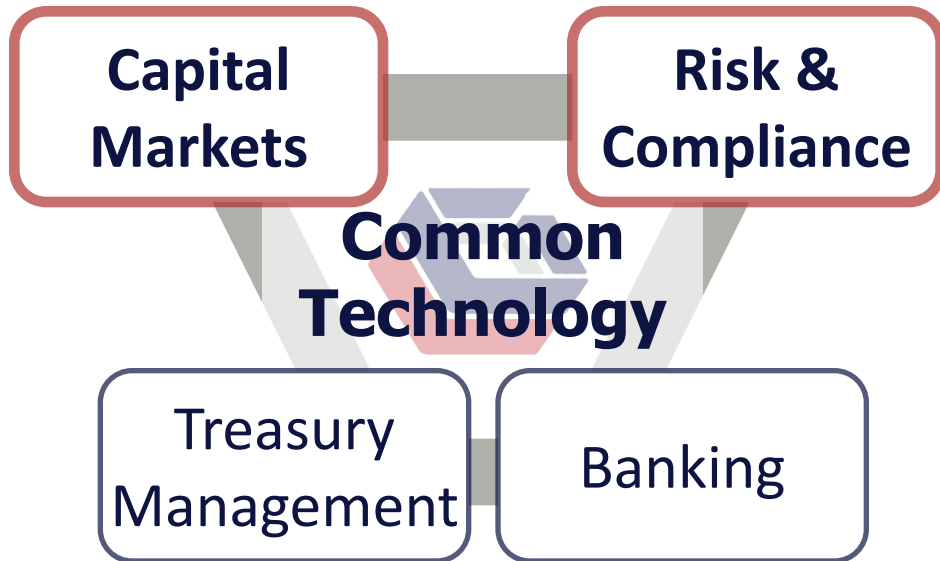
- ❑ Introducing MAD and MiFID: lesson learned
- ❑ MiFID & MAR revision: what lies ahead
- ❑ Final Remarks

LIST's Business

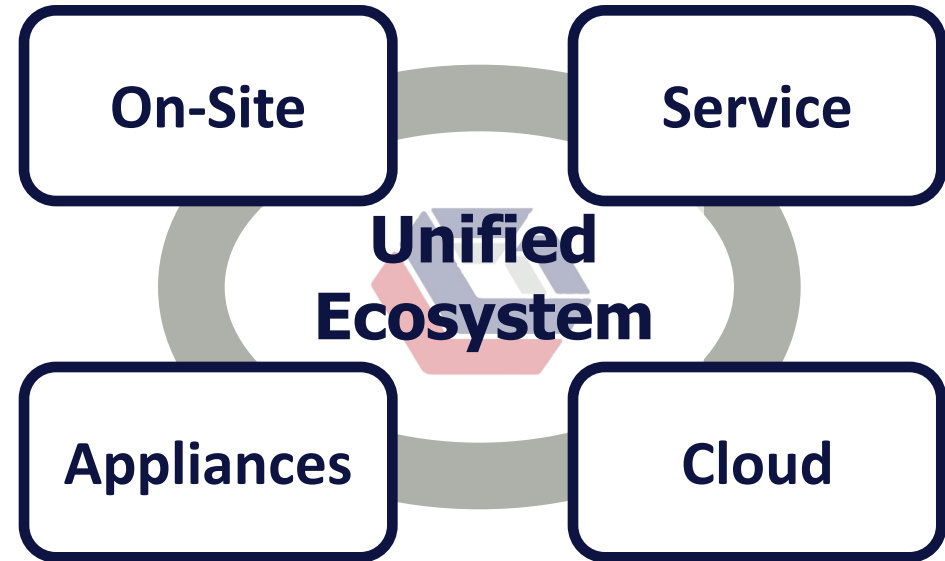


LIST develops innovative, high performance IT solutions dedicated to the **Financial Industry**

A Product-Oriented Company



Different Distribution Models



List Innovation Fabric



Physics Dep. University of Trieste – ICTP

➤ Ph.D. Programme (FSE)



Computer Sci. Dep. – CNR Pisa

➤ Big Data Master programme

QUANT Lab

**Scuola Normale Superiore
Pisa**

- Quantitative Finance
- Market Microstructure
- Statistical Inference

INNOVATION



**R&D & Operations
Divisions**

- Software Engineering
- Product development & packaging



**Computer Science Dep.
University of Pisa**

- HW & SW integration
- High performance architectures for financial stream processing

MiFID: Markets in Financial Instruments Directive

Directive **2004/39/EC** adopted by the European Parliament and Council on April 21st 2004. **MiFID** Came into force on **November 1st, 2007**: a 7 year process.

Main Objectives (**across the EU**):

- Protect investors (retail & professional)
- Promote market integrity and efficiency
- Foster competition among venues
- Strengthen the market players governance process

USA: Regulation National Markets System (**Reg NMS**). Adopted in 2005, came into force during 2007.

MiFID I Highlight

Reformed market structure:

- End of concentration rule
- Regulated Markets, Multilateral Trading Facilities, Systematic Internalizers
- Coordination among National Competent Authorities

Investor Protection:

- Rules for investment services & advice (categorization, information, ...)
- Best execution
- Strengthened “passport” to provide investment services across EU

Market integrity & efficiency:

- Pre-trade & post trade transparency
- Trade Reporting

MAD: Market Abuse Directive

Directive **2003/06/EC** adopted by the European Parliament and Council on January 28th 2003. **MAD** transposition into Member States legislation during **2005**.

Main Objective:

- Preventing market abuse in order to preserve the smooth functioning of European Union financial markets.

Further updates:

- Directive **2003/124/EC**: definition of privileged information and market manipulation definition and
- Directive **2003/125/EC**: financial advisory activity and conflict of interest
- Regulation **2273/2003**: buy back waivers
- Directive **2004/72/EC**: extension to commodity derivatives

MAD I Highlight

Insider Dealing:

- Use information which is not publicly available

Market manipulation:

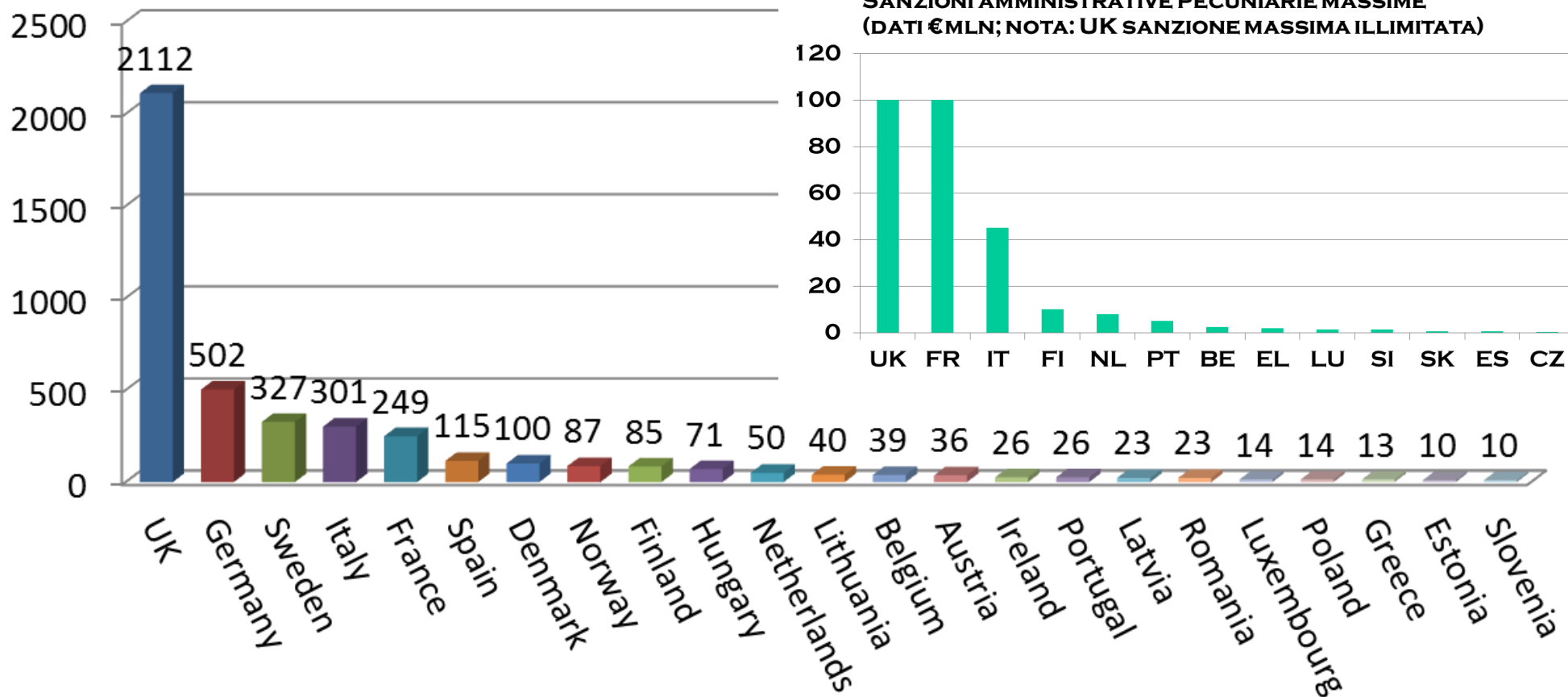
- Distort prices by using specific trading patterns
- Predefined set of abusive patterns

Information manipulation:

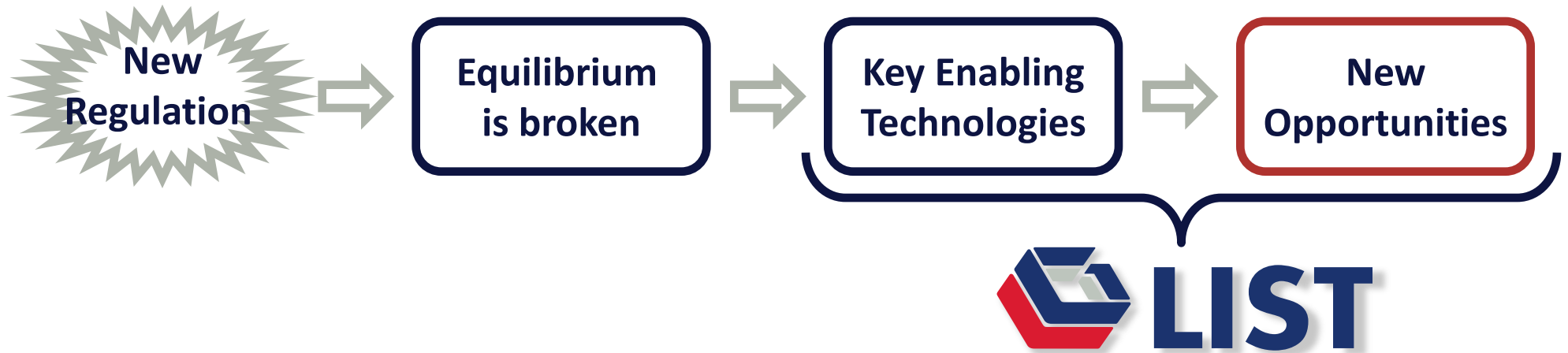
- Disseminate false or misleading information

MAD Notifications

Total notifications 2013 (all sources)



Impact of New Regulation



Technology can:

- support the implementation **new business models**
- **reduce** the regulatory impact on **costs, organization, infrastructures, ...**

MiFID:

- Aggregation
- Dynamic Best Execution
- Electronic Internalization

MAD:

- Algorithmic detection system

LIST's Solution for Brokerage Houses

FT-MBP: brokerage platform

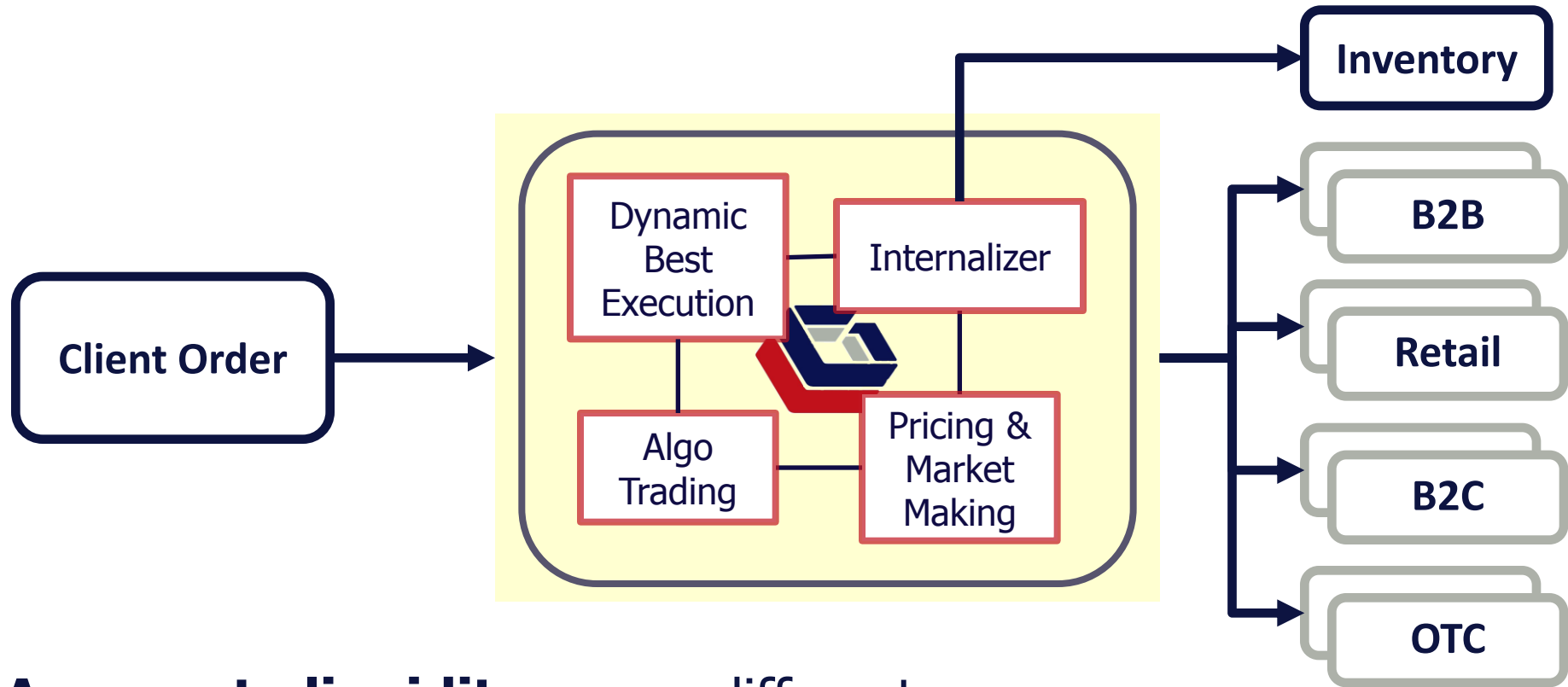
- ✓ multi-venue, multi-asset, multi-source (**aggregation**)
- ✓ Manual & algorithmic execution
- ✓ OEMS (FIX & FIX)
- ✓ **Smart Order Routing**
- ✓ Best Execution
- ✓ **Internalization engine**
- ✓ **Monitoring & reporting**
- ✓ Market Making
- ✓ **Algorithmic Trading**

LookOut: surveillance system

- ✓ High performance
- ✓ Large library of detection agents & reports
- ✓ Easily customizable (localization, new agents)

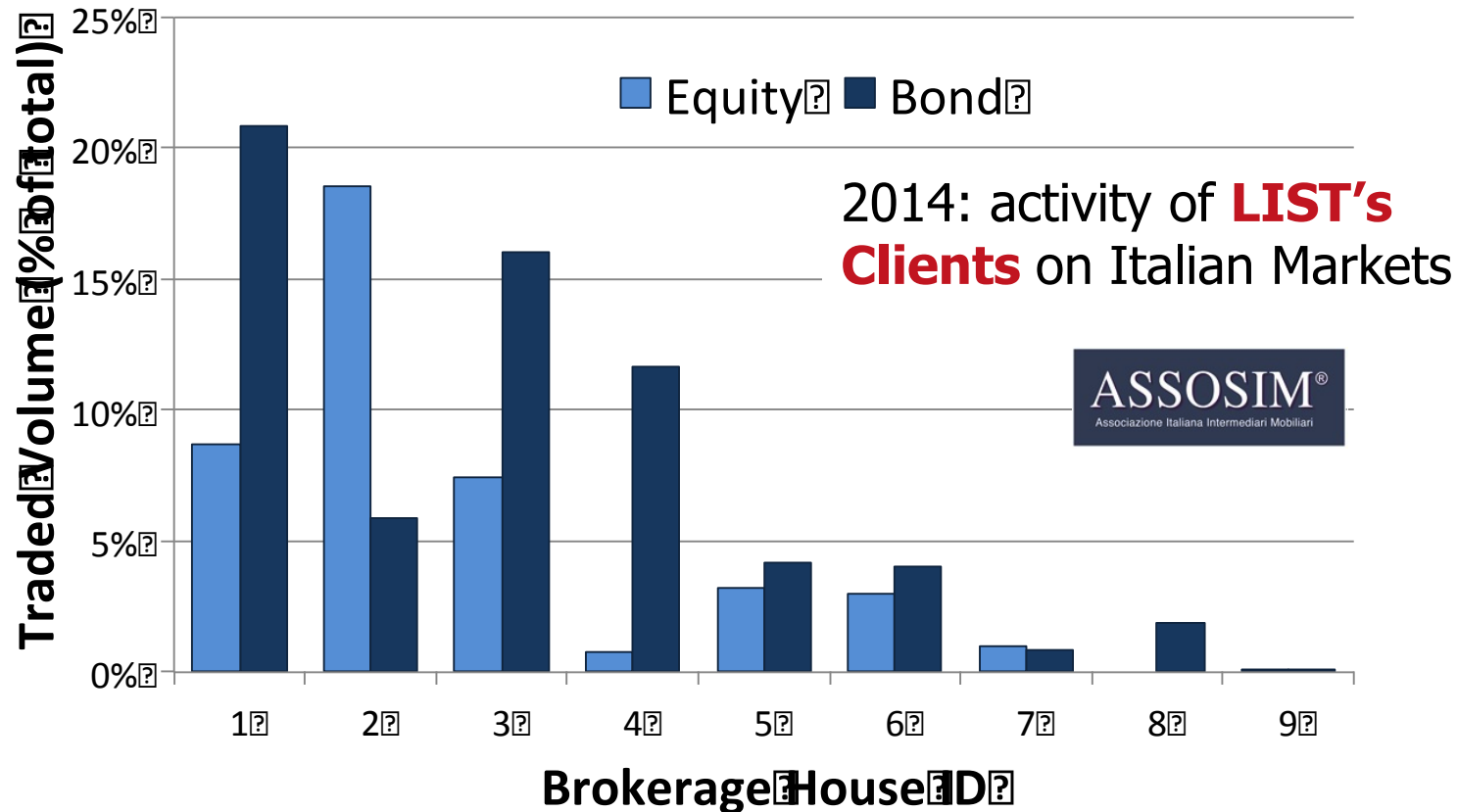


Internalization & Best Execution



- **Aggregate liquidity** across different venues
- Automatically **execute best prices**
- Tap into your inventory (**Internalization**)

LIST & Brokerage



Percentage of **total volumes traded through LIST's solutions (Brokerage)**:

Equity: 8/10 -> 43%

Bond: 6/10 -> 66%

Future-proof Surveillance System

LookOut

Cost Effective:

- Leverages on tens on MAD-compliant **installations across Europe**
- Easy to implement and maintain (**detection agents**)
- **Reduced footprint** on existing infrastructure (staff & hardware – cloud option)
- Simplifies compliance workflow

High Performances (algorithmic engine):

- Processes daily transactions in **minutes**
- The **analysis** can be **launched several** times during the day

MAR ready:

- Can **process orders as well as executed trades**
- Detection agents apply to **different trading venues** and for **different asset classes**

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The Need to Reform MiFID and MAD

In 2010, EC started the review of MiFID I and MAD:

- Incorporate **market developments**:
 - unintended consequences (e.g. market fragmentation)
 - scarce compliance with the Directive spirit
 - extended crisis effects
 - technological innovations
 - financial innovations
- Implement **G20 commitments** to market transparency (OTC)
- **Single Rule Book: minimize discretion** for Member states across Financial Services Directives.
- Update and synchronize MAD to MiFID II:
 - include developments on RM, MTF & OTF

Regulation shall be binding in its entirety and directly applicable in all Member States

Revised MiFID Structure

MiFIR

Regulation (EU) No 600/2014

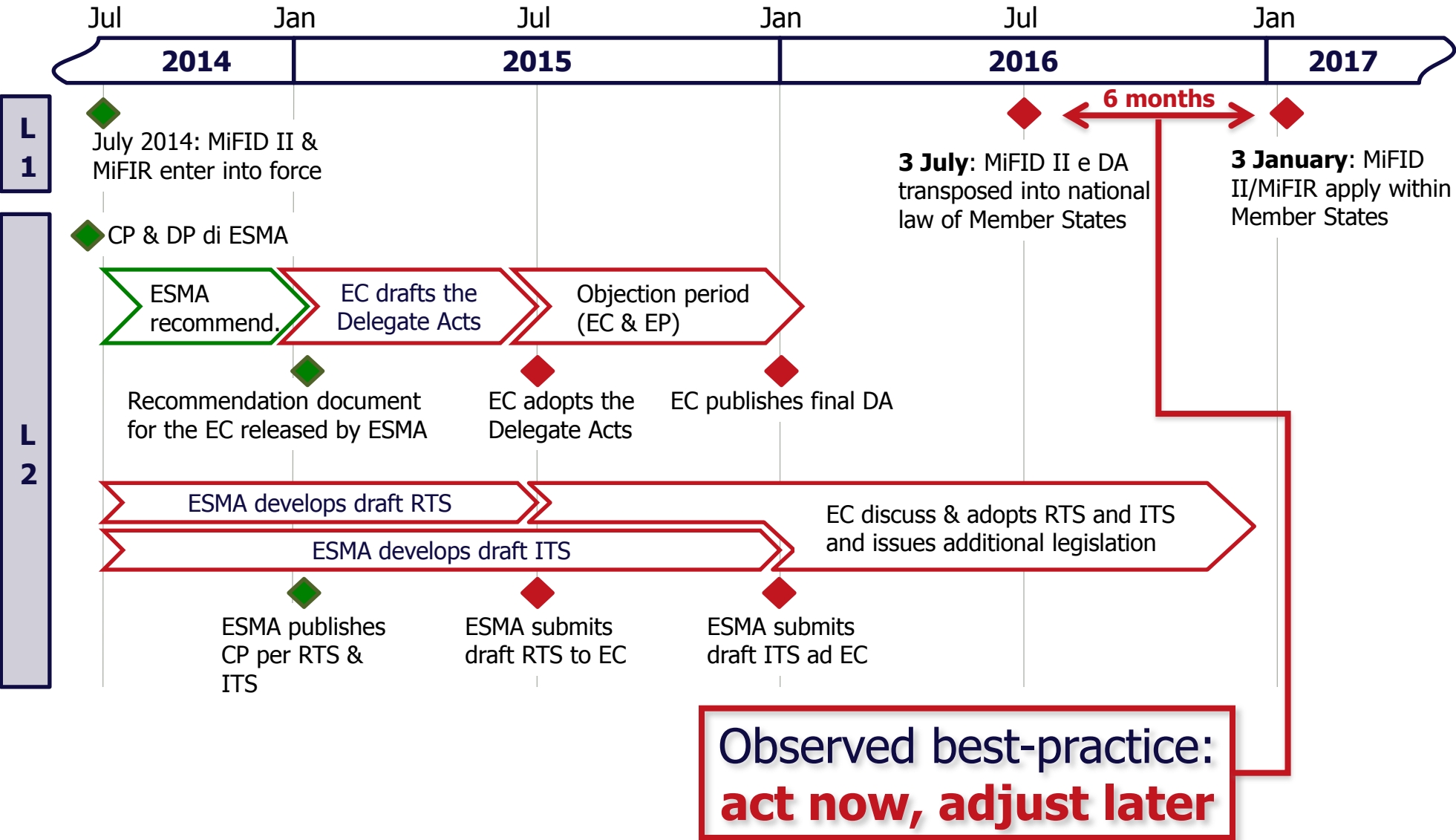
- *Pre & post*-trade transparency
- Transaction reporting (all asset classes)
- Internalizer and OTF
- Removal of barriers to access to CCPs
- Mandatory trading of OTC derivatives and equities on trading venues
- Provision of services by 3rd country firms without a branch

MiFID II

Directive 2014/65/EU

- Provision of investment services
- Scope of exemptions from directive
- Organisational and business requirements for investment firms and venues
- Authorisation and ongoing obligations for providers of data services
- Rules applicable to 3rd country firms operating via a branch
- Commodity derivative position limits and reporting
- Powers available to NCAs

MiFID/MiFIR Timeline



Instruments subject to regulation are expanded:

- **equity-like:** ETF, certificates, depositary receipts & similar instruments
- **non-equity:** bonds, derivatives, structured finance products and emission allowances
- **OTC** trades: trading obligation & reporting

Trade transparency and reporting rules are strengthened:

- obligations & waivers calibrated by instrument type
- additional fields in the reported record, including client ID
- Approved Publication Arrangement, Approved Reporting Mechanism, Consolidated Tape Provider

Organisational requirements for Investment Firms:

- **Record keeping:** extended obligations
- **Algo trading & HFT:** monitoring, pre trade controls & security requirements
- **Direct electronic access:** Direct Market Access, Sponsored Access
- **Market Making:** obligations to become market maker & associated requirements

Best Execution:

- Strengthened **cost disclosure** requirements to the retail clients
- Single-venue BEX policies allowed if satisfy the *overarching best execution requirement*
- Monitor & demonstrate best execution

Internalizers:

- *investment firm which, on an organised, frequent systematic and substantial basis, deals on own account when executing client orders outside a regulated market, an MTF or an OTF without operating a multilateral system*
- SI regime extended to equity like & non equity, but SI is not a Trading Venue (TV)
- Quantitative thresholds (w.r.t. total traded volumes of the IF or the Union) + Opt In

OTF – Organized Trading Facility:

- New TV type dedicated to **Non-Equity** instruments: *a multilateral system which is not a regulated market or an MTF and in which multiple third-party buying and selling interests....*
- Trades cannot be executed against the prop capital of the market operator
- Orders are carried out on a discretionary basis

Revised MAD Structure

MAR

Regulation (EU) No 596/2014

Repeals MAD

- Application scope (extended)
- Exemptions
- Insider dealing
- Unlawful disclosure of information
- Market Manipulation
- Disclosure requirements
- Coordination of Controlling Authorities across Europe
- Administrative measures and sanction

N-MAD

Directive 2014/57/EU

- Include market abuse into criminal law
- Define criminal sanctions

3 Jul 2016 MAR and implementing acts will apply; deadline for transposition of MAD II into national law

3 Jan 2017 MAR provisions apply concerning organised trading facilities ...

Instruments subject to regulation are expanded:

- Instruments traded on MTF & OTF
- Emission allowances
- Instruments traded OTC whose price depends on or has an effect on the price of instruments traded on a TV:
 - Credit derivatives and commodities
- Abusive behaviours that may impact benchmarks

Privileged information & insider dealing:

- more specific definition (in line with MAD)
- Using privileged information not to trade (cancel orders)
- Recommend another person to engage into insider dealing

Cross Instrument

Market manipulation:

- The MAD approach by examples is substantially confirmed
 - trade based manipulation
 - information based manipulation
 - benchmark manipulation
- New patterns specific for HFT trading are included
- **Orders are explicitly included** (in addition to trades)
- Market Sounding
- **Attempting to engage** in market manipulation

Such an attempt may include situations where the activity is started but is not completed, for example as a result of failed technology or an instruction to trade which is not acted upon

Prevention & detection of market abuse:

- Record keeping for 5 years (trades, orders, market data, etc.)
- Arrangement for market operators and investment firms operating a TV
- **Obligation to signal abuse 2 weeks after reasonable suspicion arises (L2 Consultation Paper)**

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The Regulatory Wave



- Changes to the market structure
- Transparency requirements
- Stronger requirements to monitor and control trading activity
- Strengthened reporting requirements
- **Stronger enforcement from the NCAs: Single Rule Book**

Cost or Opportunity?

Changes to the compliance infrastructure are required & investments will be needed

but

change = opportunity

Technology helps:

- **minimizing the costs** of new regulation implementation
- **maximizing the ROI**, by implementing new business models

LIST Polska

2007

Distributing Partner

April 2010

LIST Polska is
incorporated

2015

Products in production

- ✓ Brokerage Platforms
- ✓ Market Making Platform
- ✓ Surveillance Systems

Subsidiary activity

- Operation Support
- Training
- Business development



Ready for your future