

MiFID - Markets in Financial Instruments Directive

Consequences for data management

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The Markets in Financial Instruments Directive (MiFID) - the new EU regulatory framework for the investment services industry - is focusing on an EU wide market transparency and protection for the retail investors. It has a strong impact on all areas of the securities industry including data management.

What is MiFID?

The Markets in Financial Instruments Directive (MiFID) is the new regulatory framework from the European Commission for the European Financial Markets (Directive 2004/39/EC).

It is a replacement of the Investment Services Directive (ISD), which has been in place since 1993. MiFID focuses on two paramount objectives – market transparency and protection for the retail investor. Therefore, a single passport across the EU should be implemented in order to establish a single world-class financial marketplace within the EU. Investment firms that will have been authorized to operate within one regulatory jurisdiction in Europe will do so across all EU jurisdictions. Thus, there should not be at a disadvantage by disagreeing regulatory standards between those jurisdictions anymore.

The end result would be an environment where investors and institutions can transact freely across borders under the same terms and conditions that prevail in their home state. Issuers would have access to more liquid and deeper markets, and 'hidden liquidity' would be shown to all participants.

MiFID contains more than 70 articles that will influence exchanges, banks, brokers, pension and asset managers, issuers, investment service providers, and regulators operating in the EU. Firms outside the EU will also need to consider the competitive impact, since the new rules are designed to be attractive to investors worldwide.

MiFID's scope and level of detail are much greater than its predecessor covering a far wider range of instruments and increasing the extent of regulatory harmonization. The majority of these obligations apply to all financial instruments including equities, bonds, money market instruments, FX, and all types of derivative (in the initial phase some obligations are limited to equities).

It also encompasses an expanded range of execution venues than its predecessor, and has created the terms "Multi-lateral Trading Facility" (MTF) and "Systematic Internalizer" (SI) to cover the activities of institutions that effectively act like exchanges. Banks across the EU will further be able to trade shares internally and off an exchange respectively but will be required to publish the prices of intended trades to the rest of the market beforehand.

MiFID came into action in November 1, 2007.

Key Issues

The impact of MiFID will vary between firms, between lines of business, and between member states, depending on how well the companies are already prepared and on the current national market practice.

An investment firm in a specific regulatory jurisdiction may already be close to complying with certain elements of the directive whereas firms in other EU regulatory jurisdictions may not. Therefore, the effort to comply with the requirements of MiFID for each type of investment firm and financial marketplace will vary in differing regulatory jurisdictions.

The key issues concerning MiFID are as follows:

Client classification

- Classification into retail, professional and eligible counterparty (ECP) is needed.
- Higher levels of obligation will be imposed on firms doing business with professional clients. Firms will have to comply with business conduct rules when providing investment advice to ECPs.
- Clients may fall into separate categories in respect of different products or services

Pre- and post-trade transparency

- These obligations are restricted initially to equities only. However, later on it might be extended to the other asset classes.
- Categorises pre- and post-trade regimes into:
 - Regulated Markets (RMs)
 - Multilateral Trading Facilities (MTFs)
 - OTC
- MiFID will introduce pre-trade transparency for trades below specified size thresholds and for trades that take place outside the order book.
- A new transparency modus is introduced for investment firms, which are systematic internalisers (investment firms, which on an organized, frequent and systematic basis deal on their own account by executing client orders outside an RM or MTS). Systematic Internalisers must provide firm bids or offer as quoted: 'liquid' shares on a continuous basis. Depending on certain waivers their quotes must represent a binding price for trades that are up to certain thresholds (standard markets sizes).
- The scope of MiFID links pre- and post-trade under the guidelines of "Best Execution".

Best execution

- Firms' best-execution obligations are to ensure the best possible deal for their clients, taking into consideration not just price (like today), but

other factors such as cost, speed, and the likelihood of execution and settlement.

- Firms are required to establish and implement an order execution policy to allow them to obtain best execution.
- Investment firms will need to monitor the effectiveness of its chosen execution venues to achieve best execution opposed to any alternatives at least to an annual basis. Investment firms will be required to advise their customers of any material changes to their execution venues.

Client order handling

- Based on the "Best Execution" obligation, there are new requirements to tell clients at which venue or venues a firm will execute the trade and obtain the best result for its customer. The "Best Execution" obligation is only applicable to firms that have the contractual or agency obligations to its clients, regardless of whether the order is executed directly or indirectly.

Reporting to clients

- The client must receive from the investment firm adequate reports on the service provided to its customers. These reports include the costs associated with the transactions and services undertaken on behalf of the client.
- This will result in the increase in trade reporting obligations for equities in the first instance.

Transaction reporting

- MiFID transaction reporting requirements will shift the reporting emphasis to the competent authority of the home/host state of the firm, not to the competent authority of the regulated market on which the instrument is traded.
- This obligation will apply whether such transactions were or were not carried out on a regulated market.

Conflict of interests

- Firms must have effective systems and controls to prevent conflicts adversely affecting clients' interests and to ensure that these interests will not suffer, and that adequate arrangements are in place. Clients must be notified of conflicts.

Conduct of business

- There are extensive changes in this area. Firms are required to conduct a full suitability test on clients when they are providing investment advice or portfolio management.

Impacts on Data Management

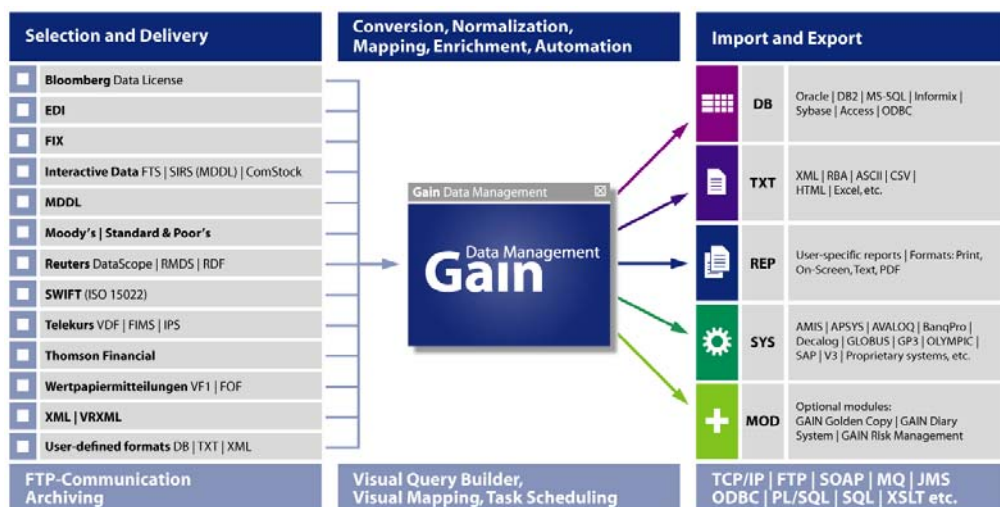
- The need for regulators to share the transaction reporting data required by MiFID will drive the specification of a common standard for instrument and entity reference data. But none of these issues are new – the industry has slowly been trying to address these issues for some years now. The difference with MiFID is that there is now a deadline. CESR’s TTF recommends the use of third party suppliers for reference data. The trade associations, the Reference Data User Group (RDUG), and ISITC Europe have formed specific working groups to assist and influence the choice of standard identifiers.
- MiFID results in a significant growth in the volume of information generated from exchanges and systematic internalisers. Market participants will have to maintain much more data long-term for compliance purposes.
- Because of the growing need for reference data as already seen in the past few years, data management has received a further boost through MiFID (e.g. revised documentation and classification data).
- Some examples of necessary information:
 - Best Trading Venue
 - Competent Authority
 - Share admitted to trading on Regulated Markets
 - Shares are “liquid” in context of MiFID
 - Publication Waivers
 - Free float published by CESR
 - Complex / Non complex instrument
 - IBEI Company Number

Standardized Solution: GAIN Data Management

[GAIN Data Management](#) is an all-in-one data management platform that enables you to access and process messages for the world's leading back-office and real-time data feeds in an automated way. GAIN Data Management eases the day-to-day data management considerably because of its automation, routing, reporting, and onscreen display features.

To process data from data feed providers automatically, GAIN Data Management takes responsibility for the following steps which are also used for processing of MiFID data:

- Request | Download
- Communication | Data Conversion | Archiving
- FTP Client | Automation | Task Scheduling
- Metadata | Mutation Management
- Mapping | Reformatting
- Workflow Management
- Cleansing | Exception Handling | Reconciliation
- Security Master File | Golden Copy Management
- Ready-made Reporting of MiFID data
- Export into target applications



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For further information please refer to:

- AIM Software: www.aimssoftware.com
- GAIN Data Management: <http://www.aimssoftware.com/products/gain-reference-data-management>

About AIM Software

Established in 1998, AIM Software (www.aimssoftware.com) is one of the leading providers of reference data management and risk management solutions for financial markets, with offices in Austria, Switzerland, the US, Hong Kong and Japan. AIM Software is active in the major financial centres based on its service and support partner network and supports more than 100 references in 15 countries. Supported by the company's expertise in the areas of reference data management, risk management and financial instrument pricing, the creation of future proof software solutions is the cornerstone of AIM Software's business mission. For further information, please visit <http://www.aimssoftware.com>.

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