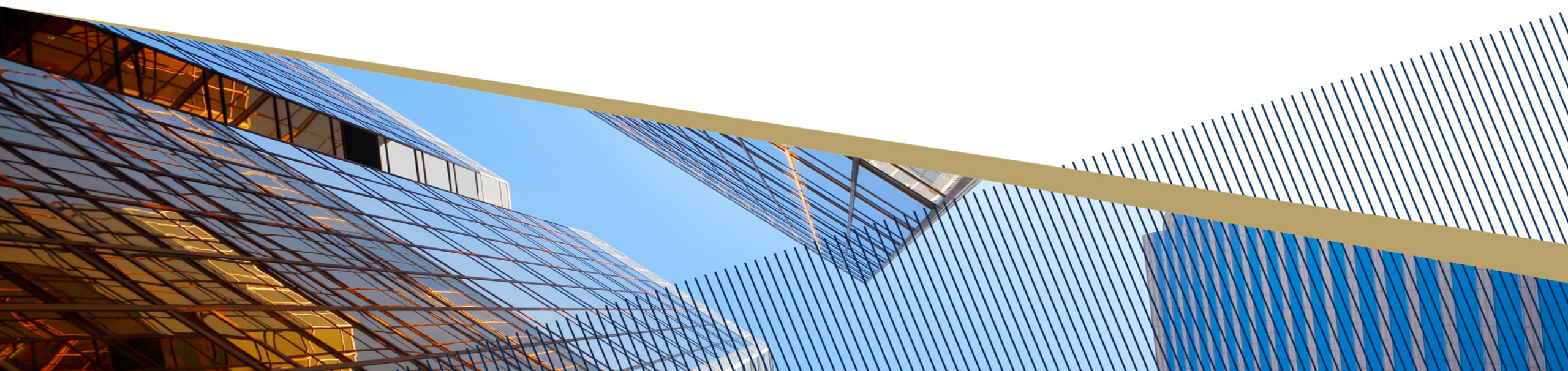


MiFID II/R

Practical implications for the Asia fixed income market

Asia Securities Forum

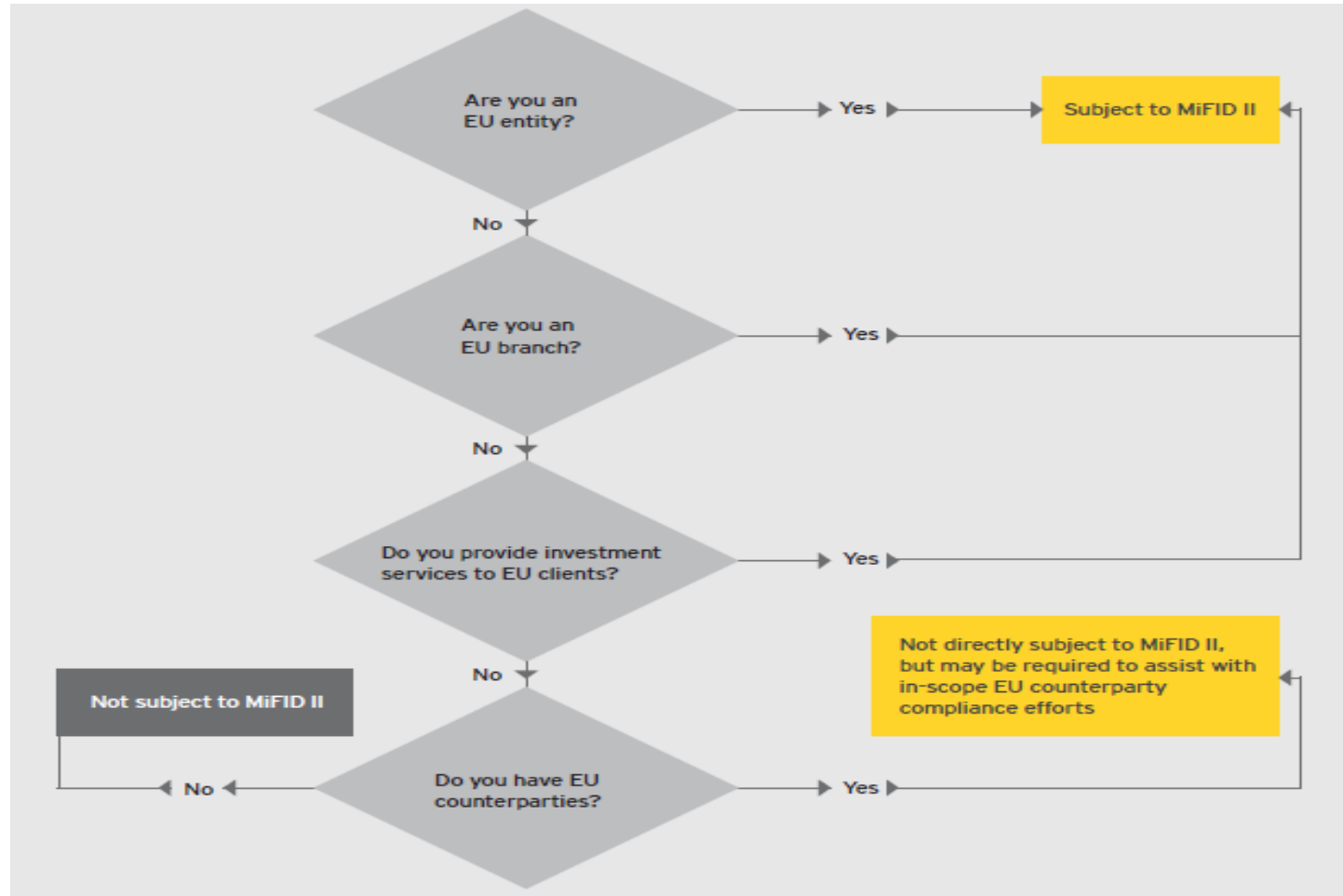
Tokyo, November 2017



Key objectives of MiFID II/R

- **Key objectives of MiFID II:** Improve the functioning of financial markets making them more efficient, resilient and transparent.
- **Key objectives of fixed income transparency obligations under MiFID II:**
 - Create a price discovery mechanism in fixed income markets
 - Move fixed income trading practices (currently over the counter [OTC]) onto trading venues, such as *Regulated Markets* (RMs), *Organised Trading Facilities* (OTFs) and *Multilateral Trading Facilities* (MTFs)
 - Extend transparency obligations into the OTC space
 - Whilst not a trading venue in the classic sense of the term, the *Systematic Internaliser* (SI) regime (an investment firm that deals on its own account by executing client orders outside a trading venue) ensures the internalisation of order flow by investment firms, does not undermine the efficiency of price formation on RMs, MTFs and OTFs
 - Increase available reference data for fixed income instruments
- **MiFID II/R is scheduled to take effect from January 3 2018**

Does MiFID II/R impact you?



The new market structure paradigm

- **Regulated Market (RM)**

A multilateral system operated by and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments.

- **Multilateral Trading Facility (MTF)**

A multilateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments.

- **Organized Trading Facility (OTF)**

A multilateral system which is not an RM or an MTF and in which multiple third-party buying and selling interests in bonds, structured finance products, and derivatives. Unlike RMs and MTFs, operators of OTFs will have discretion as to how to execute orders, subject to pre-trade transparency and best execution obligations.

- **Systematic Internaliser (SI)**

An investment firm that deal on its own account by executing client orders outside a trading venue.

- ❖ *RMs and MTFs are not allowed to execute client orders against proprietary capital, or to engage in matched principal trading.*
- ❖ *OTFs may deal on own account other than matched principal trading only with regard to illiquid sovereign debt instruments.*
- ❖ *OTFs and SIs cannot exist within the same legal entity, nor connect to enable orders or quotes to interact.*

Transparency regime

- **Pre-trade requirements**: extended to non-equities (including bonds, structured finance products, emission allowances and derivatives) which means RMs, MTF and OTFs are required to publish current bid and offer prices and depth of trading interest at those prices in electronic form (at least above SSTI – i.e. block size) and to the public
- **Pre-trade transparency** waivers available for (i) large in scale (LIS) orders; (ii) actionable indications of interest in RFQ and voice systems above size-specific to instrument (SSTI) threshold; and (iii) illiquid instruments. Thresholds to be set by ESMA.
- **Post-trade reporting requirements** near-real time (within 15mins) to the public by venue or via APA.

Best execution reporting

- **RTS 27:** Data to be published by execution venues on the quality of execution of transactions
 - **Who:** Trading venues, systematic internalisers (SIs), and execution venues (including market makers and other liquidity providers)
 - **What:** report (publicly available in machine-readable electronic format) that includes details about price, costs, speed, and likelihood of execution for individual financial instruments
 - **When:** information quarterly and no later than three months after the end of each quarter, as follows:
 - 1 Jan to 31 Mar: by 30 Jun
 - 1 Apr to 30 Jun: by 30 Sep
 - 1 Jul to 30 Sep: by 31 Dec
 - 1 Oct to 31 Dec: by 31 Mar

- **RTS 28:** Annual publication by investment firms of information on the identity of execution venues and on the quality of execution
 - **Who:** investment firms who execute client orders
 - **What:** for each class of financial instrument, top five execution venues in terms of trading volumes where those firms executed client orders in the preceding year, as well as information on the quality of the execution obtained, and
 - **When:** annual basis

LEIs

- **No LEI, No Trade**
- **Rationale:** identification of parties involved in each transaction regardless of who reports to regulators – enable regulators to better assess systemic risk
- **When:** Implementation on 3 January 2018
- **Requirements:**
 - All entities trading with European counterparties across all asset classes must obtain LEI
 - LEIs must be stored in reporting systems
 - Maintenance procedures must be in place to ensure renewal of LEIs

Useful links to the regulation

Level 1:

[Markets in Financial Instruments \(MiFID II\) - Directive 2014/65/EU](#)

[Markets in Financial Instruments \(MiFIR\) - Regulation \(EU\) No 600/2014](#)

Level 2:

[Overview and state of play of RTS and ITS relating to MiFID/MiFIR](#)

[ESMA – Policy activities related to MiFID \(II\) and MiFIR](#)

[RTS 2: Transparency requirements for trading venues and investment firms in respect of bonds, structured finance products, emission allowances and derivatives](#)

[Annex to RTS 2](#)

[RTS 27: Best Execution – Reporting criteria](#)

[Annex to RTS 27](#)

[RTS 28: Best Execution – Quality of execution](#)

[Annex to RTS 28](#)

Useful links to the regulation

Level 3:

MiFID (II) - Investor Protection:

[Q&A on MiFID \(II\) and Investor Protection](#)

Level 3:

MiFID (II) MiFIR and Secondary Markets:

[Q&A on MiFID II and MiFIR transparency topics](#)

[Q&A on MiFIR data reporting](#)

[Q&A on MiFID II and MiFIR market structures topics](#)

[MiFID II Transitional Transparency Calculation](#)

[FAQs on MiFID II - Interim Transparency Calculations](#)

Notes & Briefings:

[ESMA Briefing - MiFID II technical data reporting requirements](#) - 16 January 2017 (ESMA00-6-265)

[ESMA Note on MIFID/MIFIR implementation: Delays in the go-live date of certain MIFID provisions](#) - 17 November 2015 (ESMA/2015/1514)

ICMA contacts for MiFID II/R

Asia-Pacific

Mushtaq Kapasi	mushtaq.kapasi@icmagroup.org	+852 2531 6590
Ricco Zhang	ricco.zhang@icmagroup.org	+852 2531 6591

Secondary Markets

Liz Callaghan	liz.callaghan@icmagroup.org	+44(0)20 7213 0313
Gabriel Callsen	gabriel.callsen@icmagroup.org	+44(0)20 7213 0334
Andy Hill	andy.hill@icmagroup.org	+44(0)20 7213 0315

Asset Management

Patrik Karlsson	patrik.karlsson@icmagroup.org	+44(0)20 7213 0339
Bogdan Pop	bogdan.pop@icmagroup.org	+44(0)20 7213 0312

Primary

Ruari Ewing	ruari.ewing@icmagroup.org	+44(0)20 7213 0316
--------------------	--	--------------------

This presentation is provided for information purposes only and should not be relied upon as legal, financial, or other professional advice. While the information contained herein is taken from sources believed to be reliable, ICMA does not represent or warrant that it is accurate or complete and neither ICMA nor its employees shall have any liability arising from or relating to the use of this publication or its contents.

© International Capital Market Association (ICMA), Zurich, 2017. All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means without permission from ICMA.