



MiFID
by Crédit Agricole CIB

Transparency, Best Execution & Emerging Market Structure Trends

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Scope of actors involved

▶ **All EEA financial market players**

- Trading venues
- Corporate and investment banks
- Private and retail banks
- Brokers
- Portfolio managers
- Non-Financial Counterparties (NFC) (under certain limited conditions)
- HFT firms

▶ **EEA data service providers**

- APAs, ARMs, CTPs

Scope of services

▶ **Financial services and activities:**

- RTO
- Execution of client orders
- Dealing on own account
- Portfolio management
- Investment advice
- Underwriting & placing
- Operation on an MTF or an OTF

▶ **Ancillary services such as:**

- Advice on capital structure
- FX services linked to investment services
- Investment research

Scope of products

▶ **Equities** (cash and all derivatives)

▶ **Non-equities such as :**

- Money-market instruments
- Bonds
- Interest rate derivatives
- FX derivatives (except FX forwards « Means of Payment » with NFCs)
- ABSs and ABCPs
- Securitised derivatives such as structured EMTNs
- Commodity derivative
- Securities Financing Transactions – repo and sec lending - (SFTs)

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► Wide extraterritorial impact :

1. Application within the EEA whatever the location of the counterparty
2. Application of a number of provisions in non-EEA branches of MiFID firms whatever the location of the counterparty
3. Indirect impacts for non-EEA subs. of MiFID firms trading with non-EEA clients and application of third country regime for non-EEA firms trading with EEA clients

Trading Venues (TVs)

Bring together multiple buying and selling interests in financial instruments

New

Regulated Markets (RM)

Non-discretionary rules in respect of listed financial instruments

MTFs

- Non-discretionary rule
- No matched principal trading
- No client orders execution against proprietary capital

Organised Trading Facilities (OTFs)

- Discretionary policy
- Matched principal trading authorized
- Many brokers will be captured)

Bilateral Trading (SI and OTC)

Bring together buying & selling interests in financial instruments where dealers deal in principle when facing clients

Systematic internalisers (SIs)

- Trading frequently and substantially on own account when executing client orders ToTV instruments
- SI on one instrument = SI on the class of the instrument

OTC non SI

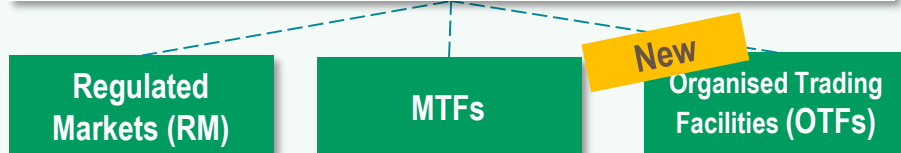
Firm not an SI (below the frequency and substantiality thresholds) but trading ToTV instruments

Pure OTC

Firm trading not ToTV instruments such as tailor-made products

Trading Venues (TVs)

Bring together multiple buying and selling interests in financial instruments



▶ Key obligations :

	RM	MTFs	OTFs
Pre-trade transparency (with possible waivers)	✓	✓	✓
Execution of quoted price	-	-	-
Post-trade transparency (with possible deferrals)	✓	✓	✓
Best execution (when applicable)	-	-	✓
Execution quality reporting	✓	✓	✓
Transaction reporting (for non-MiF firms)	✓	✓	✓

Bilateral Trading (SI and OTC)

Bring together buying & selling interests in financial instruments where dealers deal in principle when facing clients



▶ Key obligations :

	SI	OTC non-SI	Pure OTC
Pre-trade transparency (with possible waivers)	✓	-	-
Execution of quoted price	✓	-	-
Post-trade transparency (with possible delay)	✓	✓ (seller)	-
Best execution (when applicable)	✓	✓	✓
Execution quality reporting	✓	✓	✓
Transaction reporting	✓	✓	✓



Trading Venues (TVs)

Bring together multiple buying and selling interests in financial instruments



▶ Extraterritoriality challenges:

1. EEA Equivalence of non-EEA execution venues?
2. Attractiveness of / Access to Trading Venues for non-EEA market participants?
3. Access to non-EEA execution venues (i.e. non-MTF) for EEA market participants?

Bilateral Trading (SI and OTC)

Bring together buying & selling interests in financial instruments where dealers deal in principle when facing clients



▶ Extraterritoriality challenges:

1. Being MiFID2 compliant when trading with non-EEA clients
2. Being an SI within non-EEA branches of MiFID2 firms
3. Competitive disadvantage with non-MiFID2 competitors

TRANSPARENCY

Pre-Post-trade Transparency (1)

		TVs	SIs	OTC
Mandatory	Vanilla IRS Index CDS with FC / NFC+	✓	✗	✗
	Equities	✓	✓ ← ToTV*	
Optional	Others E.g. bonds, other derivatives, all derivatives with NFC	✓	✓ ← ToTV*	✓ ← ToTV*
		Pre + post-trade transparency	Pre + post-trade transparency	ONLY Post trade transparency

Key features

- ToTV:** admitted to trading on an EU trading venue for shares and bonds. OTC derivatives will have to share exactly the same characteristics as derivatives admitted to trading on a trading venue
- Pre-trade:** bid-offer & depth of interest (TVs) or firm quote + execution for other clients based on commercial policy (SI)
- Post-trade :** **Trading date and time;** Type of execution/publication venue (APA); Instrument identification (ISINs or others) Price; Venue of execution; **Price notation; Price Currency; Notional amount; Notional currency;** Publication Date and Time; Venue of publication (name of APA); Transaction Identification Code; flag whether the transaction will have to be cleared
- Potential waiver / deferral for:**
 - ✓ Not **LIQUID** instruments
 - ✓ Transactions above Size Specific To the Instrument (**SSTI**)



Liquid bonds

1. ISIN by ISIN approach
2. 80% of days traded over the past 6 months
3. 100K€ average daily notional amount over the past 6 months
4. 15 (2018) to (probably) 10 (2019), 7 (2020) and 2 (2021) trades per day on average over the past 6 months

Bonds just admitted to trading or first traded on a trading venue considered as liquid for 2.5 to 5.5 months where issuance size \geq 1bn€

SSTI

- A transaction is above Size Specific To the Instrument (SSTI) if it is equal to or larger than the minimum size of determined based on:
 - A trade / volume percentile and / or
 - A floor
- **SSTI pre-trade** (defines pre-trade transparency obligations):
 - **Bonds:** 30th trade percentile, floored at 200 or 300K€ depending on the liquidity
- **SSTI post-trade** (defines post-trade transparency obligations): 80th trade percentile



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- SSTI for bonds have just been set by ESMA :

	SSTI pre-trade (€)	SSTI post-trade (€)
Corporate Bond	300,000	1,500,000
Convertible Bond	500,000	2,000,000
Public Bond	400,000	5,500,000
Covered Bond	300,000	3,000,000
Sovereign Bond	700,000	10,000,000
Other bonds	300,000	4,000,000

Source : <https://www.esma.europa.eu/policy-activities/mifid-ii-and-mifir/mifid-ii-transitional-transparency-calculation>



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- The number of liquid ISINs is likely to be very limited :

	Liquid bond in % of ISINs	Liquid bond in % of trade
Corporate bonds	1% (549 ISINs)	55%
Convertible bonds	3% (6 ISINs)	91%
Public bonds	1% (11 ISINs)	31%
Covered bonds	1% (55 ISINs)	33%
Sovereign Bond	12% (488 ISINs)	95%
Total	2% (1,109 ISINs)	79%

Source : page 12 https://www.esma.europa.eu/sites/default/files/library/2016-666_opinion_on_draft_rts_2.pdf

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Required from TV, SI, market makers & liquidity providers, on a quarterly basis **for each financial instrument and each trading day**

General information	<ul style="list-style-type: none"> Market segment name and identifier Location of our competent authority Date of the trading day Nature, number and average duration of any outage, within normal trading period, that interrupted trading across all instruments available to trade Nature, number, and average duration of any scheduled auctions within normal trading period Number of failed transactions & percentage on total f transactions Name of financial instrument and identifier or written description Instrument classification and currency 	Price	<ul style="list-style-type: none"> Simple average price of all transactions < SSTI executed in the 2mn after 9.30, 11.30, 13.30 and 15.30 + total value of executed trades Simple average and volume-weighted average transaction price Lowest & highest executed price
Quote driven Trading Systems	<ul style="list-style-type: none"> Mean time elapsed between acceptance and execution Median time elapsed between acceptance and execution Mean time elapsed between request and provision of any corresponding quotes Median time elapsed between request and provision of any corresponding quotes 	Continuous quotes driven execution venues	<ul style="list-style-type: none"> Best bid and offer price and corresponding volumes + book depth for 3 price increments Average of effective spreads, volumes and spreads at best bid and offer and of book depth for 3 price increments Number of cancellations and modification at best bid and offer Mean and median time elapsed between acceptance for a quote and the subsequent execution Average speed of execution for unmodified passive orders at best bid& offer Number of Fill or Kill orders that failed Number of Immediate or Cancel orders that got zero fill Number and value of transactions that were executed on the trading venue that are LIS Number and value of transactions that were executed on the trading venue above SSTI but below LIS except for orders that are held in an order management facility of the trading venue Number and average duration of trading interruptions as the result of any volatility auction or circuit breaker which occurred within the venue's normal trading period Nature, number and average duration of any trading suspension that occurred as a result of a decision by the venue within the venue's normal trading period
Likelihood of execution	<ul style="list-style-type: none"> Number of received orders and RFQs Number and value of executed transactions Number of orders and RFQs cancelled / withdrawn or modified Median transaction size + Median size of all RFQs Number of designated market makers 		

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