



Update on the impact of regulation on euro area bond markets: MiFID2 and MiFIR

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ECB BMCG meeting, 10 October 2017

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Systematic Internaliser

Systematic Internaliser Summary

- A Systematic Internaliser (SI) under MiFID 2 is an “investment firm which, on an organised, frequent, systematic and substantial basis, deals on own account by executing client orders outside a multilateral trading venue”.
- SI’s have certain obligations – notably to provide pre-trade transparency and deliver on post trade reporting requirements for eligible off-venue trades with non-SIs. (By contrast, in trades without an SI no pre-trade transparency applies, and post trade reporting falls to the seller/receiver.)
- SI status can be acquired voluntarily via opt up from 1 January 2018, and/or will be mandatorily imposed on the largest dealers in each product from September 2018.

Systematic Internaliser Requirements

- Technology mechanisms to provide pre-trade transparency and deliver on post trade reporting requirements will need to be finalised and in place for 3rd January.
- For Day 2, it will be necessary to perform the SI assessment calculation based on previous 6 months worth of data.
- SI quotes will be made available in a machine and human readable format.
- Barclays anticipates having ongoing dialogue with its client base in relation to SI status.

Trading Strategy

Venue Connectivity and Readiness

- Dependency on venue platforms to be MiFID II compliant and operationally ready, with gateways to be in place with sufficient time to complete internal technology builds.
- If venues deliver late, risk of backend development work in Q4.
- Possibility regulatory text could be interpreted differently across the venues, leading to inconsistent technology deliverables per venue.

Onboarding Of Critical Data Onto Venues

- All MiFID Trading Venues (Regulated Markets, MTFs and OTFs) will need to gather additional information from Barclays in order to comply with the enhanced record keeping and regulatory reporting obligations.
- Similarly, a dependency on the venues to ensure rulebooks and user guides are available in sufficient time to upload required company and individual information.

Third Country Requirements

- Pending key decisions for which third countries will be granted equivalence – e.g. US SEFs.
- Ongoing guidance still being received in relation to the required level of reporting obligations, both pre and post trade, in these countries.
- Important to interpret any amendments to the obligations quickly, to avoid materially impacting timeframes of scheduled infrastructure builds and ensure consistent marketwide reporting.

Client Considerations

Client Outreach

- A number of client outreaches to take place prior to go-live date, some of which require a two-way consent.
- Imperative to manage ongoing client engagement and gauge feedback on key MiFID points towards end of the year and into 2018.

Research Unbundling

- Profound changes to the structure and framework of providing research.
- Process to be created to evaluate materials and services that are produced, distributed and consumed, which require in depth detail to validate what information should be invoiced.
- Has necessitated numerous client outreaches and pricing discussions, in addition to locking down standards, procedures and controls and an effective client invoice & payments process.

Product Governance

- Considerable effort required to implement a product golden source, target market suitability framework, third party manufacturing/distribution contract structure.
- Again, key to ensure the right level of governance and controls are in place to fully support the requirements.

Assisted Trade Reporting

- Barclays will support assisted trade reporting requirements. Initial outreaches have taken place to understand client demand.

Operational Readiness

Technology Dependencies

- High degree of technology build required to support the multiple MiFID II workstreams.
- Due to several variable factors impacting the build requirements (ongoing clarification of the Regs themselves, delayed availability of connectivity to external platforms), there is a risk these could lead to delayed delivery of build in Q4.
- Lead time also required to finalise controls, produce procedures and train users of this new functionality.

Day 1 Go-Live

- To work with clients and provide the necessary engagement to help facilitate the transition over Day 1 go-live.
- List of FAQs and related answers produced for clients to leverage.
- To have all impacted Traders/Salespersons fully trained on the Regs and system/procedural/control updates.
- Plan to have appropriate support framework in place for Day 1 go-live on 3rd January.
- On floor presence to manage any related queries, technology issues or uncertainties during go-live.

Day 2 Considerations

- To work with and support clients beyond initial go-live date and into Day 2.
- Essential to have a framework in place to allow for easy response to unexpected outcomes or adverse trending post go-live.
- High likelihood of additional technology development required in 2018, continuing need to respond to developments in the marketplace.

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