

# MIFID II / MIFIR

## state of play



ECB – OMG Meeting Frankfurt

Jurius-Georg Dillmann

Frankfurt, 12th December 17

Welcome to  
**UniCredit**  
Business Integrated Solutions

# AGENDA

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- "Regulatory Reporting Roadmap" and development
- Regulatory overview MIFIDII / MIFIR
- MIFIDII / MIFIR Transaction Reporting – Target Operating Model UniCredit
- MIFIDII / MIFIR challenges



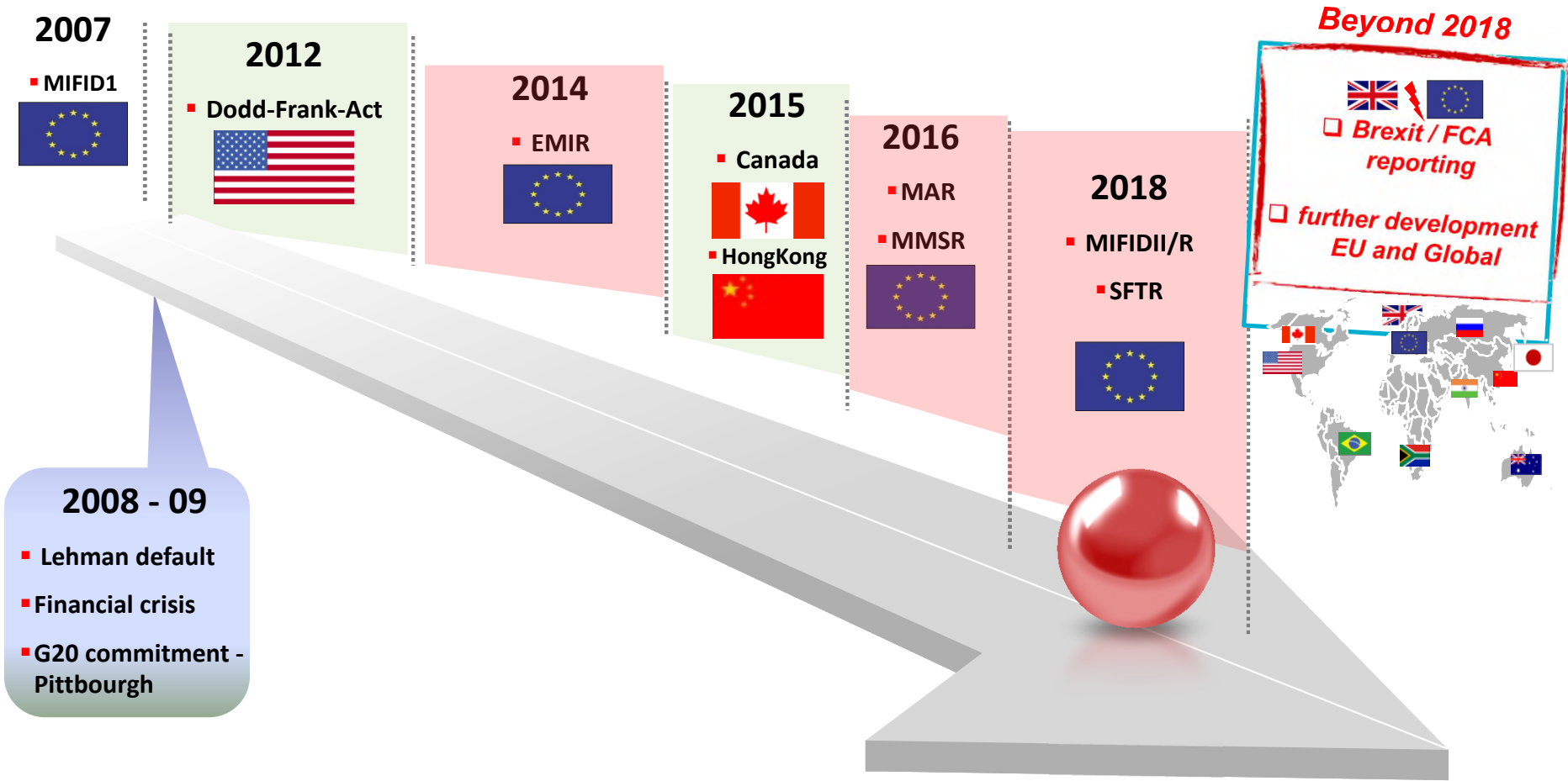


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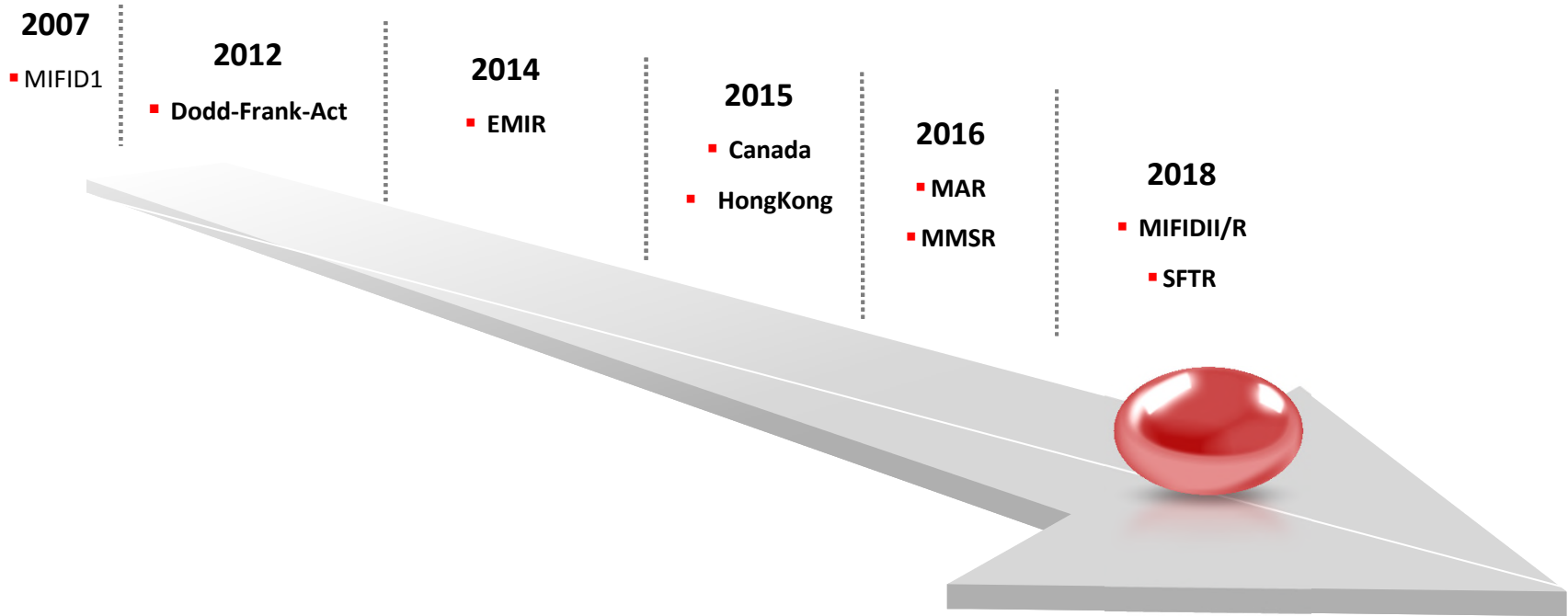
# "Global Roadmap of Regulatory Reporting"

- global journey



# "Global Roadmap of Regulatory Reporting"

- impact on organization, processes and technology



**Increasing of complexity for reporting since 2008.  
Combination of efficient processes, solid technology and skills are key.**



# MiFD2 / MiFIR further expands the regulatory reporting scope

Major regulation with impact on financial sector

EU Regulation	MIFID II/ MIFIR	EMIR	MAR
Reporting approach	"one sided" submission	"dual sided" reporting	internal monitoring – single trades
Reporting mechanism	ARM – ESMA / NCA	(EU TR) - ESMA / NCA	internal monitoring – NCA
Technical format	XML / ISO 20022	CSV      XML/ISO 20022	XML / ISO 20022

Reportable products	MiFID I	MiFID II/MIFIR	EMIR	MAR
	Replaced by MiFID II	2018	2014	2016
Equity Shares	✓	✓	✗	✓
Bonds	✓	✓	✗	✓
Bonds Forward	✓	✓	✓	✓
Future, Options	✓	✓	✓	✓
CFDs, Certificates, Warrants on Equity/ Bonds	✓	✓	✗	✓
Foreign exchange Spot	✗	✗	✗	✓
Foreign exchange Forward	✗	✓	✓	✓
Commodities / CO2	✗	✓	✓	✓
Funds / Units in collective investment scheme	✗	✗	✗	✓
Loan	✗	✗	✗	✗
Commercial paper	✗	✓	✗	✓
OTC derivatives (Rates, Credit, Equity)	✗	✓	✓	✓





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# MIFID II / MIFIR

- EU regulation will enter into force on 3rd January 2018

## Regulatory Background

- MiFIDII / MIFIR is an European regulatory framework with a deep impact on processes and systems of affected investment firms and will enter into force on 3rd January 2018.
- Combined with EMIR (EU Market Infrastructure Regulation) MIFIDII/MIFIR is the European response to the G20 commitments in Pittsburgh in 2009

## MiFID2 / MIFIR key requirements

- The adaptations required from investment firms resulting changes in regulatory framework which can be clustered into two main areas:

### Markets area

- Market venues
- Systematic Internalisation
- Pre-/Post- Trade Transparency
- Transaction Reporting
- Best Execution
- Commodities
- Electronic trading systems

### Investor protection area

- Financial instrument scope
- Product Governance
- Suitability & Appropriateness
- Inducements
- Independent Advice
- Client disclosure
- Telephone Recording







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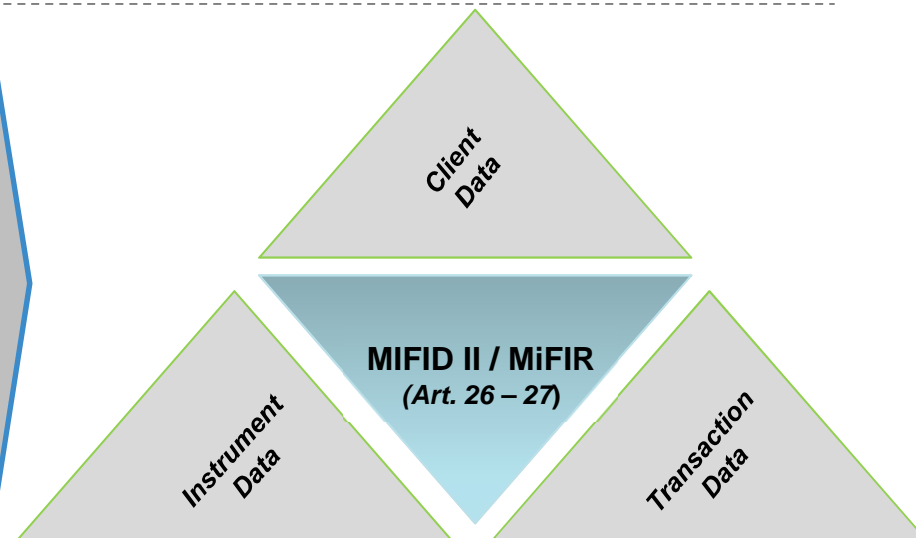
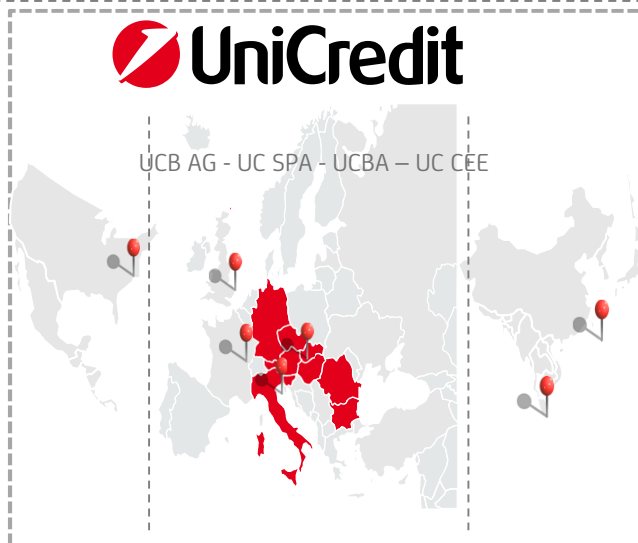


# MIFID II / MiFIR

-regulatory context and "Transaction Reporting" requirements

Category	Requirement
<b>Transaction reporting under MiFID II/ MiFIR</b>	<ul style="list-style-type: none"> <li>■ Obligation for market operators, investment firms and firms operating trading venues to report to the National Competent Authorities a set of information related to each trade executed on a market (by own account or for client)</li> <li>■ Reporting under new regulatory framework to start 3<sup>rd</sup> January 2018</li> </ul>
<b>How Transaction reporting works</b>	<ul style="list-style-type: none"> <li>■ Scope of data required for reporting needs to be consolidated from multiple data sources within the bank/group, incl. trade data, client data, instrument data (from Market application and commercial banking as well)</li> <li>■ Transaction reports are reported to ESMA/National Competent Authorities (NCA) at T+1</li> <li>■ Reports are to be submitted via an Approved Reporting Mechanism (ARM) or directly to NCA</li> </ul>

Legal entities involved and required data for submission

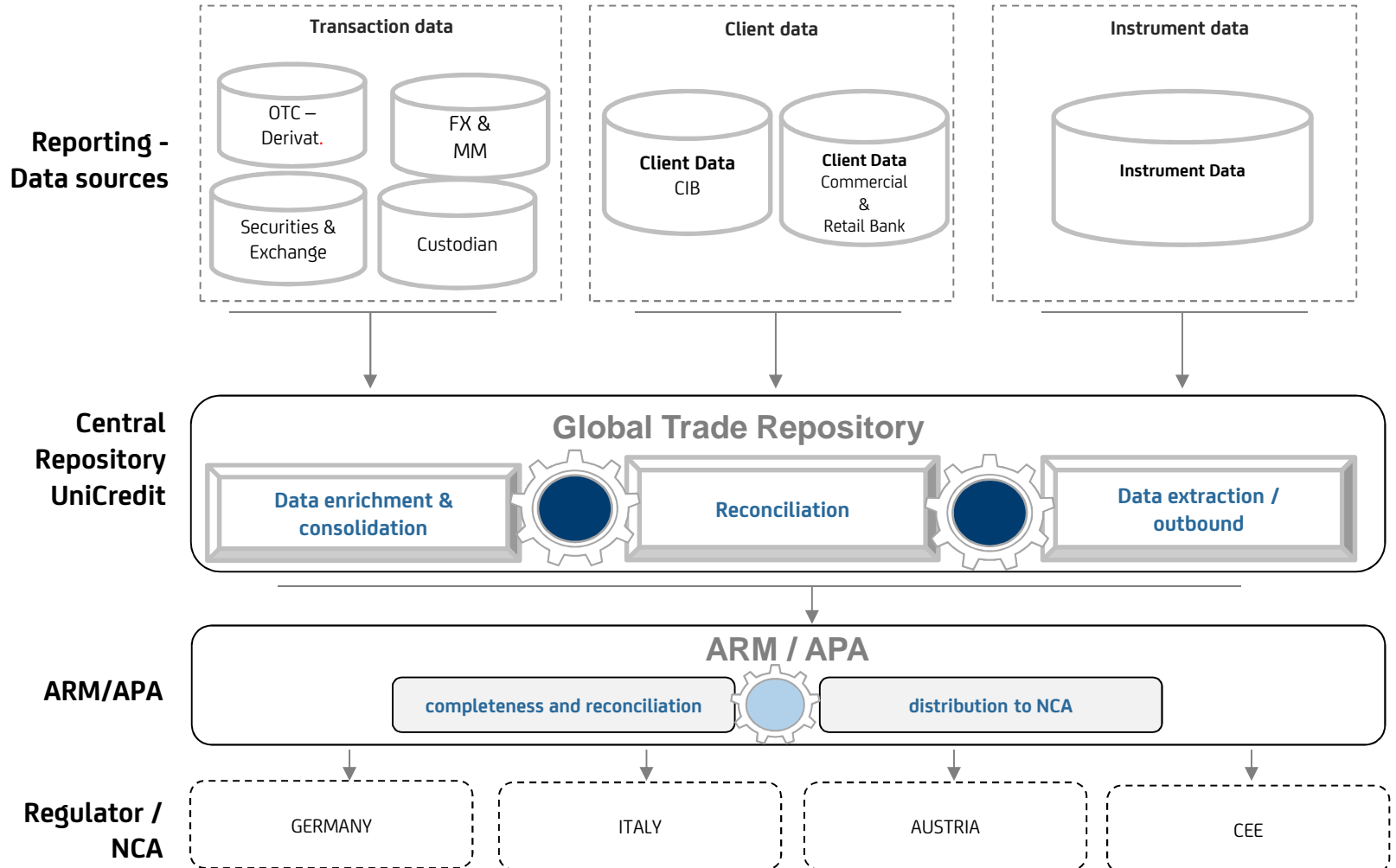


# MIFID II / R

- UniCredit group solution / Target IT

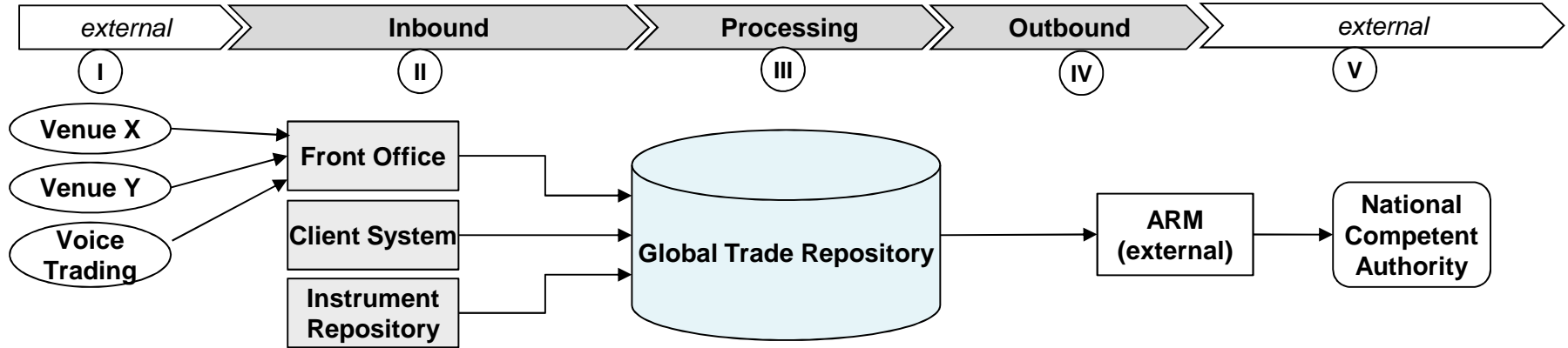


Topic



# MIFID II/ R Transaction Reporting

- Data flow for transaction reporting



## Reporting details

- data set of 65 fields containing client data, trade details and instrument data
- one sided report
- data to be provided T+1
- technical standard ISO 20022 required (UNIFI – Universal Financial Industry Message Scheme)
- report to be submit via ARM to ESMA / NCA





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# MIFID II / MIFIR introduces challenges to the industry in different areas

Different areas impacted in the market

Areas of impact	Challenges
Regulatory environment	Regulatory arbitrage within the EU
	Regulatory arbitrage outside the EU
	LEI management
Market evolution	TOTV Definition
	Venues
	CFI codes
Operations	Intraday workflows
	External service providers



# MiFID2 / MIFIR introduces challenges to the industry in different areas

## Area (1 of 3): Regulatory environment

Areas of impact	Challenges	
<b>Regulatory environment</b>	Regulatory arbitrage within the EU	<ul style="list-style-type: none"> <li>▪ Different interpretations of MIFIDII/MIFIR rules across NCAs affect competition (handling of missing LEI)</li> <li>▪ Differences between EU countries in regard to "data privacy" disturb harmonization of processes (e.g. Austria, Germany, Italy etc.)</li> </ul>
	Regulatory arbitrage outside the EU	<ul style="list-style-type: none"> <li>▪ Stronger MiFID2/MIFIR rules put EU firms at a possible disadvantage increasing the attraction for investors to trade outside EU</li> <li>▪ Rules for Trading Obligation, Systematic Internalisers and reporting duties are more softer in US and Asia compared to the current EU frameworks</li> <li>▪ ESMA requirement to have LEI for every trade is enforced more leniently outside Europe ("NO LEI NO Trade" – cause big disorder in EU market)</li> </ul>
	LEI Management	<ul style="list-style-type: none"> <li>▪ High number of outstanding LEI in the market</li> <li>▪ Impacting full value chain and processes for onboarding of new clients, sales commercial activity to reporting</li> <li>▪ Upgrade of several systems in the markets chain in order to process this information to each NCA (Client system, documentation)</li> <li>▪ Additional activities for obtaining, maintaining and adjusting client data (alerts, expiry monitoring, etc.) with potential impact on business activity and operational risk</li> </ul>



# MiFID2 / MIFIR introduces challenges to the industry in different areas

## Area (2 of 3): Market evolution

Areas of impact	Challenges	
Market evolution	TOTV Definition	<ul style="list-style-type: none"> <li>▪ Lack of clarity from ESMA till October 2017 on definition of TOTV and matching criteria</li> <li>▪ Inter-dependencies with Trading Obligation MiFID requirements</li> <li>▪ Uncertainty between market participants on progress and timelines of new MTFs and OTFs starting January 2018</li> <li>▪ In the OTC derivatives environment ISIN registration is currently in implementation with risks to the timeline anticipated by ANNA</li> <li>▪ Iterative approach of upgrading venue connectivity and propagation of relevant data (incl. ISIN, CFI, etc.) for OTC derivatives required</li> </ul>
	Venues (MTF / OTF)	<ul style="list-style-type: none"> <li>▪ Venues gateways upgrades to incorporate MIFIR required information planned in late 2017</li> <li>▪ Regulation enforces standardization on information propagated by Venues to banks for market negotiated transactions</li> <li>▪ Dependency to ANNA development and adoption of additional fields (incl. timestamp, waiver flags, etc.)</li> </ul>
	CFI codes	<ul style="list-style-type: none"> <li>▪ No presence of a detailed best practice for CFI generation for OTC derivatives</li> <li>▪ Complexity to update markets systems with a new product categorization</li> <li>▪ Information for CFI generation for a product are very granular requiring further enhancements the E2E markets chain</li> </ul>





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## Area (3 of 3): Operations

Areas of impact	Challenges	
Operations	Intraday workflows	<ul style="list-style-type: none"><li>▪ Necessity of defining new intra-day workflows in order to manage corrections out of ARM validations</li><li>▪ Harmonization of processes and governance of regulatory reporting necessary (MiFID 2, EMIR, SFTR, etc.)</li><li>▪ Trading and sales processes and infrastructure require adaptations to fulfil specific reporting requirements (e.g. decision maker details)</li></ul>
	External service providers	<ul style="list-style-type: none"><li>▪ As new entities recently regulated by ESMA, ARM and APA providers are struggling with establishing readiness impacting timelines of banks they service</li><li>▪ Operating models between Investment firms, ARM/APA providers and NCAs will require a refinement phase until operational level of quality can be achieved</li></ul>



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**Thank you very much**

ευχαριστώ πολύ

