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MiFID II Discussion Points

October 3, 2017

MiFID II Transparency Requirements

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Increased Transparency

- Pre- and post-trade transparency requirements apply to non-equity instruments, including bonds, traded on organized markets or trading facilities[1]

- Requirement is for 15 minute post-trade transparency, unless granted a deferral Criteria for deferral include:
  - Transaction size above a large-in-scale threshold
  - Transaction above a size specific to the instrument and the counterparty is taking principal risk
  - Instrument is considered illiquid

Deferrals are up to the local authority

(1) Trading facilities include multi-lateral trading facilities (MTFs) and organized trading facilities (OTF). Some requirements also apply to trades conducted outside trading venues.

Application to Canadian Bonds on Different Venues

EU Trading Venues

- Canadian bonds traded on European trading venues may be captured under post-trade transparency requirements, but could be eligible for deferral if the trading volumes are small (subject to approval from local authorities)

Non-EU Trading Venues

- Post-trade transparency requirements apply to non-EU trading platforms with EU participants, unless an exemption is granted
- Non-EU trading venues must meet the following criteria for exemption:
  - Operate a multilateral system
  - Authorized in accordance with legal & supervisory framework of third-country
  - Supervision & enforcement by a competent authority (full IOSCO member)
  - Third-country transparency regime in place (transparency as soon as possible or based on clearly defined deferrals)
- EU participants must apply to ESMA for exemption

References: Commission Delegated Regulation (EU) 2017|583, Article 11, para 1; table 2.1; Determining third-country trading venues for the purpose of transparency under MiFID II / MiFIR; Questions and Answers on MiFID II and MIFIR transparency topics

MiFID II Research Requirements

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Unbundling of Investment Research

- MiFID II requires the separation of investment research costs from trade execution fees
- Dealers that operate globally can either adopt two distinct payment mechanisms or move to a single global model for the payment of research
  - It is important to note that in order to fully conform to a global model amendments to US regulations will be required(1)
- Asset managers that operate globally with soft dollar accounts will have to determine how to reconcile practice in the EU with the rest of the world

MiFID II will have implications for how investment research is consumed, paid for and valued

Notes: (1) SEC rules stipulate that brokers cannot receive direct payments for research unless they are formally registered as investment advisors