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ECMI Survey on MiFID “Real” Implementation: Preliminary Results

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(contribution from Bashir Assi and Diego Valiante gratefully acknowledged)

The MiFID Metamorphosis

- MiFID was not really welcomed at its birth...
- ...started to be seen as an opportunity in 2006-2007...
- ...was implemented in the midst of the financial crisis...
- ...and is now largely seen as a success!

Objective & Methodology

Qualitative study on “real” implementation of MiFID after 2 years

Better understanding of :

- Application of MiFID legal requirements across the EEA;
- Equity markets landscape after MiFID;
- Market participants’ views on MiFID.

Questionnaires submitted to **86** “selected” market participants

Market participants have been divided in **5** groups:

1. Regulatory authorities
2. Regulated markets
3. Multilateral Trading Facilities (MTFs)
4. Investment firms (SIs, CNs, investment banks, commercial banks, etc)
5. Data vendors

Research Targets

Focus on 3 pillars:

- **Conduct of business**
 - Best execution, Suitability and appropriateness, Conflicts of interest, Transaction reporting, Record keeping, Safeguards and depositing, Compliance, etc.
- **Trading Venues and Execution**
 - Status quo of competition, waivers, etc.
- **Transparency**
 - Quality of data and reporting
 - Standardisation of data

Research Questions

Conduct of business:

- Is best execution achieved? How do fragmentation and data reporting affect it?
- Are the suitability and appropriateness tests applied in practice?
- Did firms adopt a comprehensive policy and organizational arrangements to deal with potential conflicts of interest?
- Do firms have a compliance officer? Do they assure its independence?

Trading Venues and Transparency:

- What are the major changes in equity trading markets?
- How did the MiFID classifications of trading venues work? And what are the main characteristics of new trading venues and their overall impact?
- Do main market participants use/apply waivers? Which waiver is more attractive/practical? How does the current interpretation and use of waivers affect the price discovery and efficient order execution?

Reporting and Data Quality:

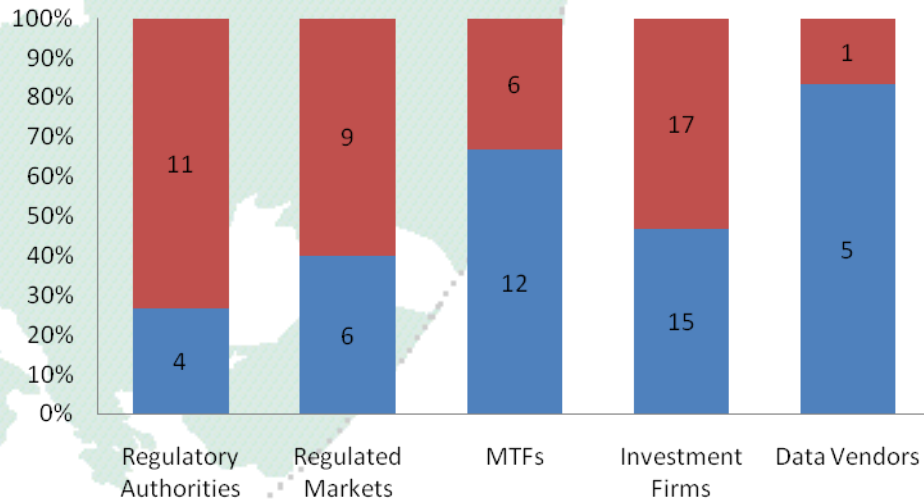
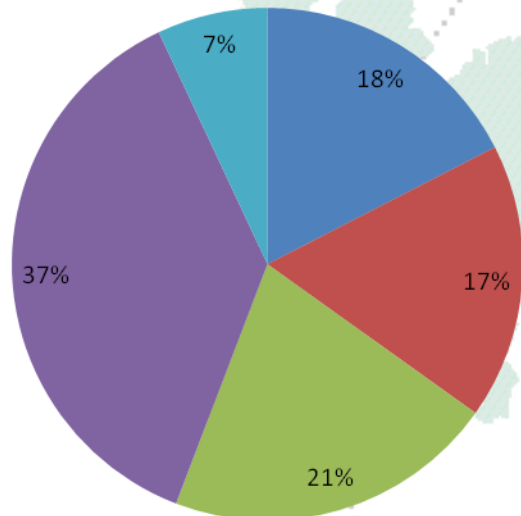
- What is the effect of MiFID on data quality, provision and consolidation? Is the quality and quantity of data provided by market data sources and vendors good enough?
- Is access to market data provided on a non-discriminatory basis? And under what terms?
- Is the level of standardization of reporting adequate?
- Are reporting requirements implemented in practice? Do firms report enough information and on a frequent basis to competent authorities in order to allow them efficiently monitoring markets activities?

Survey Participants

42 Responses out of **86 (49%)** → other responses are expected

- **Regulatory Authorities:** 4 out of 15 (**26%**)
- **Regulated Markets:** 6 out of 15 (**40%**)
- **MTFs:** 12 out of 18 (**67%**)
- **Investment Firms:** 15 out of 32 (**47%**)
- **Data Vendors:** 5 out of 6 (**83%**)


Contacted Institutions (n=86)



■ Regulatory Authorities ■ Regulated Markets ■ MTFs ■ Investment Firms ■ Data Vendors

■ Surveyed ■ Refusals or delayed

Respondent Institutions


- 
- BaFin- Bundesanstalt für Finanzdienstleistungsaufsicht
 - CNMV- Comision Nacional del Mercado de Valores
 - FI- Finansinspektionen
 - Finantsinspektsioon
 - Athens Stock Exchange
 - Borsa Italiana
 - OSLO Bors
 - Prague Stock Exchange
 - London Stock Exchange
 - Warsaw Stock Exchange
 - BATS Europe
 - Block Cross
 - Burgundy
 - CHI-X Europe
 - Equiduct Systems
 - ICAP Electronic Brokerage
 - ICAP Energy Instinet
 - Nasdaq OMX Europe
 - Instinet
 - Nordic MTF
 - SmartPool
 - Turquoise
 - APG
 - Banco Santander
 - CA Cheureux
 - CA Calyon Citadel
 - Citibank
 - Commerzbank
 - Danske Bank
 - Deutsche Bank
 - Fortis NL (and ABN Amro Bank)
 - Goldman Sachs International
 - HSBC Private Bank
 - JP Morgan Chase Securities
 - Schroders
 - Unicredit
 - BBVA
 - Bloomberg
 - Fidessa
 - Interactive Data Corporation
 - Markit
 - Thomson-Reuters

Regulatory Authorities

Only 4 responses

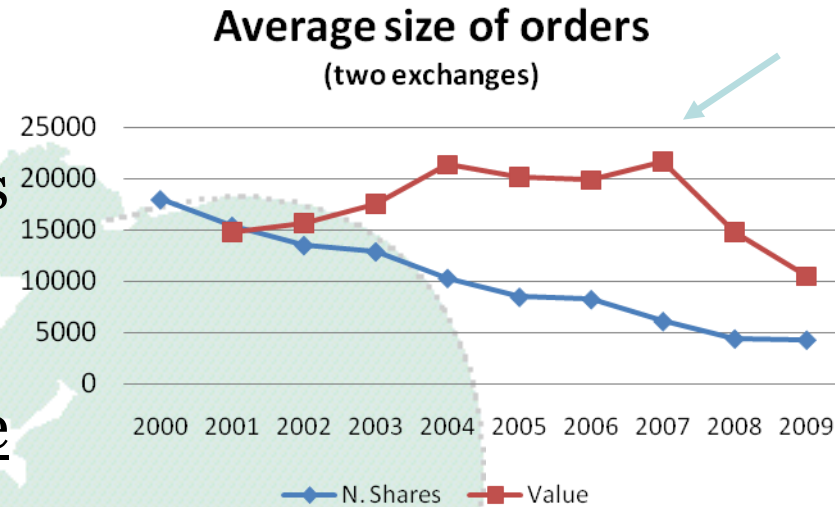
- **Conflicts of interest policy** → few changes in Post-MiFID (non-harmonised procedures across Europe) → complex and costly application for firms
- **Suitability and appropriateness** → fully applied!
- **Best execution** → applied but monitoring is costly → investment firms barely look at other parameters than price and costs!
- **Transaction Reporting** → poor quality and quantity → in other countries OTC reporting only post-MiFID (e.g. Germany)
- **Competition** → consensus on a positive change post-MiFID

Data Vendors

- 40% does not cover all trading venues
 - Radical change with MiFID → Consolidated view
 - Quotes → pre-trade transparency → **feasible**
 - Historical orders (tape) → post-trade transparency → **costly and inaccurate**
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- **Poor quality** (granularity, double counting, etc)
 - **High costs** (exchanges ask higher fees than pre-MiFID)
 - **Lack of standardisation** (proprietary identifiers and formats, etc) → wide consensus to use a common format!
 - **Delays** (e. g. 2 hours from Markit BOAT)
- Overall impact of MiFID → positive for newcomers (new spaces)! → negative for incumbents (more costs)!

Regulated Markets

- **67%** does not use a common data format
- Few experience with dark books
- **50%** provides also data from other platforms
- General drop in the average size of orders (aligned with MTFs)



- **Competition** → unfair advantages between trading venues

Level Playing Field

- **Transparency** → poor quality of post-trade reporting (divergent views on pre-trade transparency)

Multilateral Trading Facilities

- **75%/67%** of respondent MTFs have a lit/dark book (42% have both) → but dark is a small fraction
- Different **data formats** across platforms (Fix, Itch, Pitch, etc) → only one respondent MTF uses more than one format!
- **25%** receives data also from other market operators
- **75%** uses waivers (LISO waiver rarely applies!)
- Average size of orders is stable since their establishment
- **Competition** → positive impact of MiFID but poor implementation (e.g. Spain)
- **Transparency** → poor quality of OTC data is a barrier to needed consolidated data solutions

Investment Firms

- Wide application of conduct of business rules (1 respondent does not apply suitability and appropriateness test at all!)
- **46%** of compliance officers has a remuneration linked to the performance of the firm
- **69%** of investment firms execute and match orders → **46%** does it many times per day → **30%** expressly under SMS → Systematic Internalisers?
- **62%** has a smart order routing system to execute orders
- Data services post-MiFID → **72%** sees irrelevant or negative changes
- **Best execution** → static execution policies → need for consolidated tape (or quote)
- **Competition**
 - Bundling services may harm competition as long as are not replicable by competitors or foreclose new entries
 - Loyalty rebates for proprietary trading → unfair harm for agency brokers?

Conclusions (1)

- Consensus on the positive overall effect of MiFID on businesses and European securities markets (MiFID metamorphosis)
- Two main issues:
 - Market data (competition and BestEx)
 - Pre-trade transparency

Conclusions (2)

- Revision of waivers → helping classification of all trading venues
- Static execution policies → best execution is badly applied (Equiduct study)
- Increase of data costs and deterioration of data services (lack of uniform standards, granularity, delays, etc)
- Consolidated data (quote and/or tape) solutions to improve best execution and stimulate fair competition → EBBO is feasible
- Better and more transparency for OTC trades
- Need for more coherent and uniform implementation and enforcement across the EEA in order to reduce transaction costs
- General feeling that **more clarity is needed** from market participants and regulators!



Thank you!

More details in the forthcoming ECMI survey:

www.eurocapitalmarkets.org

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