



# Inside Reference Data

March 2016

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## MiFIR

Special Report



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## Editor's Letter



# All About the Identifiers

The greatest impact of Europe's Markets in Financial Instruments Regulation (MiFIR), once it eventually comes into effect in 2018 (for a take on the delay, see a Q&A with Chris Pickles on page 18), is expected to be increased centralization of data in firms and a greater focus on the quality of data relevant to compliance with the rules, according to industry executives who took part in the

Virtual Roundtable in this report (page 8).

At the same time, they point to the assignment and standardization of identifiers as a big challenge that must be addressed and managed in order to be ready for 2018. HSBC's Chris Johnson points to the likelihood of a 'no LEI [legal entity identifier], no trade' rule for MiFIR reporting, and a separate identifier, the ISIN, that will be used for over-the-counter derivatives reporting under the regulation.

Yet, as SIX Financial Information's Jacob Gertel observes, the AII, MIC, CFI and FISN identifiers still carry importance. AII, the Alternative Industry Identifier, in particular, is aimed specifically at derivatives, which makes one wonder whether there is something incomplete about ISINs for the purposes of MiFIR compliance.

If the LEI remains the main identifier for MiFIR compliance, the industry may not have done enough to prepare. David Nowell of UnaVista, which is part of the London Stock Exchange Group, says he has not yet seen "any major increase in the number of LEI applications ahead of MiFIR." Regardless, if firms have not obtained LEIs by 2018, "trading venues and regulators will make sure that entities have it," adds Gertel.

Yours sincerely,

A handwritten signature in black ink that reads "Michael Shashoua". The signature is fluid and cursive.

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## News Review

### ESMA Gains Support for MiFIR Data Repository

Progress is being made on the central repository of reference data initiated by the European Securities and Markets Authority (ESMA) in 2015, says Kostantinos Botopoulos, chair of ESMA's Market Integrity Standing Committee.

The Instrument Reference Data Project is intended to collect data directly from some 300 trading venues across the European Union. The database will offer firms and national competent authorities (NCAs) centralized access to all data for financial instruments traded on regulated markets or Markets in Financial Instruments Regulation venues. ESMA

will collect the data and then perform and publish liquidity calculations.

Commentators have previously told *Inside Reference Data* there were concerns that such a project would lack credibility if major NCAs, such as the UK, did not support it. But these are now on board, said Botopoulos. "Now we are 27. Eleven new countries have just entered the centralized schema. The big fish are coming in—the UK, Germany and Italy. They were initially reluctant, but now they have seen the advantages of a supervised system."

Joanna Wright

### UnaVista, DTCC Partner on MiFIR Reporting

UnaVista and the Depository Trust & Clearing Corporation (DTCC) have announced the creation of a partnership to simplify reporting under MiFID II and MiFIR for DTCC clients. Reporting clients can now pass along their existing connection with the DTCC for validation and reporting by UnaVista.

The partnership speaks to the broader issue of fragmentation in the reporting environment, says Andrew Douglas, CEO of the Global Trade Repository for Europe at the DTCC. "Service providers like the DTCC and UnaVista can leverage

rather than duplicate existing infrastructure to cut operational costs when supporting clients' regulatory reporting, which in turn reduces the cost of compliance to end-users," says Douglas.

UnaVista and the DTCC chose to focus on the core business of reporting rather than build new infrastructure. "I hope this sends signals to other infrastructures—not only in Europe, but globally—that partnerships can ultimately reduce costs and increase operational efficiencies," adds Douglas.

Joanna Wright

## Implementation of Torstone Ledger Sets Stage for MiFIR Compliance Apps

Dutch market-maker Optiver has implemented Inferno SL, the sub-ledger module of London-based vendor Torstone Technology's Inferno post-trade securities and derivatives-processing system. The implementation sets a precedent for Torstone to market Inferno SL for MiFIR compliance, according to Torstone CEO Brian Collings.

Amsterdam-based Optiver signed a multi-year contract for the module following a proof-of-concept phase as the high-frequency-trading firm looks to support its European business and future growth plans.

Inferno SL provides a full double-entry, multi-currency, multi-entity sub-ledger environment that generates trial balance, profit and loss, and a full suite of financial reports.

The primary factor in favor of Optiver's ultimate roll-out of Inferno SL during the proof-of-concept stage was support for its high-frequency-trading operations, which meant the module had to successfully handle a flow of 1.2 million transactions per hour while also supporting any future growth in volumes.

*John Brazier*

## Sapient Adds MiFIR Data to Reporting System

Business technology and consulting services provider Sapient has updated its Compliance Management and Reporting System (CMRS) platform's internal data dictionaries to encompass MiFIR's requirements, says Peter Meechan, director of business consulting at the company.

CMRS connects to firms' trading and risk management systems, collecting and normalizing data before reporting it to relevant trade repositories, Approved Reporting Mechanisms and approved publication arrangements.

## LSEG, Boat Services Partner on MiFID II Reporting

The London Stock Exchange Group plans to scale up its transaction reporting capabilities under MiFID II, partnering with Boat Regulatory Services to offer a "one-stop shop" to customers. The partnership aims to develop a single, multi-asset, pan-European trade reporting solution to help with real-time reporting obligations under the directive.

Boat and LSEG aim to have the service ready by Q3 2016. Members already connected to the LSE can use their existing infrastructure to connect to the service.

# Regrouping for a Renewed MiFIR Compliance Effort

*Inside Reference Data* gathers together leading data management professionals to discuss issues raised by the Markets in Financial Instruments Regulation

**Of the types of information necessary for MiFIR compliance—such as identifiers, instrument classification data and transaction reporting—what is proving most challenging to manage?**

**Amrita Sawhney, risk analytics manager, Deloitte:** The scope of data now required is a substantial challenge. For example, transaction reporting has expanded to cover instruments traded on multilateral trading facilities (MTFs) and organized trading facilities (OTFs). Given the lack of a central reference facility, some firms are taking a 'blanket approach' to manage the evolving market structure landscape and to determine which instruments fall into the scope of reporting requirements. The complexity and scale of the reporting required can also be a challenge, as data may not currently

exist within the organization. As a result, new processes, affecting the business and upstream systems, may need to be developed. This could include having unique trader IDs, short-selling flags or execution time for voice, to name just a few examples.

**Chris Johnson, head of product management, market data services, HSBC Securities Services:** The legal entity identifier (LEI), or ISO 17442, is the most challenging new information requirement because it is expected that there will be a 'no LEI, no trade' requirement for MiFIR transaction reporting. Each relevant entity must create its own LEI and renew it annually. So the creation of the data field is beyond the direct control of financial firms and data vendors. It is



possible that once firms have obtained the necessary LEIs, to meet their regulatory reporting obligation they might also have to monitor whether each LEI is active and has not lapsed. This is because LEIs will lapse unless they are renewed annually. So although the LEI is publicly available (once the entity has paid), there will be operational overheads to integrating and maintaining it within each firm's systems. The ISIN (ISO 6166) also poses significant challenges because it is expected to be extended to cover OTC derivatives for MiFIR transaction reporting purposes. OTC derivatives operate differently from securities and futures and options, involving very high volumes, so the issuance model needs to be worked through very carefully. The Classification of Financial Instruments (CFI), or ISO 10962, is a classification code as opposed to an identifier, and coverage and quality levels need to be checked.

**David Nowell**, head of regulatory compliance and industry relations, UnaVista, London Stock Exchange Group: MiFIR reporting is very much an evolution from the current MiFID reporting requirements. While the main driver behind MiFIR reporting remains the same—to enable the national competent authorities (NCAs) to detect and investigate potential instances of market abuse—it is clear that regulators are demanding more informa-



## London Stock Exchange Group



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tion in order to do a better job. Instrument identification and client identification are absolutely vital to the regulators' efforts. They have made it clear in the regulatory technical standards (RTSs) that the ISIN will be the sole instrument identifier used in a transaction report. They have made it equally clear that LEIs will be the sole identifier for organizations and that individuals—whether as clients, decision-makers or traders—must be identified with a national identifier such as the National Insurance number in the case of UK nationals.

**Jacob Gertel**, senior project manager, legal and compliance data, SIX Financial Information: The MiFIR regulatory framework requires a detailed instrument classification and transaction reporting in which the various identifiers—the ISIN, the Market Identification Code (MIC), the

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CFI, the Financial Instrument Short Name (FISN) and the LEI—are key factors for ensuring appropriate reporting. All of these identifiers are highly important, but the biggest challenge for the financial industry is the European Securities and Markets Authority (ESMA) requirement that the only instrument identifier to be used is the ISIN, including for OTC and commodity derivatives.

This is a challenge for the industry because, at the moment, the identifier used for the identification of instrument derivatives is the Alternative Industry Identifier (AII). The National Numbering Agencies (NNAs) are now required to ensure that ISINs are available for all instrument types, including OTCs. The creation of new MICs (ISO 10383) for new trading venues such as organized trading facilities (OTFs) and the global CFI (ISO 10962) standard also pose challenges.

**How does the nature of identifier, instrument or transaction data make it easy or difficult to collect and manage any of these types of data for MiFIR reporting purposes?**

**Sawhney:** Data can be difficult to collect and manage for several reasons. The required data may not currently exist, and there is no inventory baseline of all reportable instruments. The list is highly likely to change on an ongoing basis, and this can require flexibility to be built into reporting processes. Regarding the use of personal data for transaction reporting, this may be complicated due to data protection requirements, particularly where data is being shared between countries, or between branch and home offices. Finally, current technology can present issues. For instance, accurately recording execution time for voice transactions has some known limitations. When using the information to report on a T+1 basis, it may be difficult to mine this information in a timely manner and this may impact front-office processes.

**Johnson:** Identifiers and instrument data should be straightforward to collect only where the relevant entity or asset is already well established in the existing investment process. But MiFIR introduces several new types of entity, such as executing entity, submitting entity, buyer, seller and transmitting firm that might not

have required a LEI previously. And firms that invest in unlisted assets won't necessarily have sourced ISINs for them before.

Firms could take early steps to test the availability of these key data fields well in advance of January 2018 by producing a list of their investible assets and all of the current known entities that will require LEIs, and perform a coverage check at the earliest stage possible. This would act as an early warning as to the extent of data gaps. Then firms could use the remaining time before January 2018 to close the gaps. For the gaps in LEI availability, firms will need to contact the relevant entities and explain that they must create their LEIs well in advance. For ISIN gaps, firms will need to contact their data vendors, and possibly the relevant numbering agencies directly, to request that the missing ISINs are originated as needed and set up in-house maintenance procedures where necessary.

**Nowell:** Parts of the industry have been alarmed by ESMA's choice of the ISIN as the sole instrument identifier for use in transaction reports, but ISINs are well suited to this role. NNAs already assign ISINs to derivatives and can do so on a real-time basis ahead of trading. ISINs will also be required for OTC derivatives that are traded on OTFs and systematic internalizers. Whilst the concept of assigning ISINs to these OTC instruments is a

relatively new one, precedents are already established and working groups are operating to ensure these procedures will be in place well ahead of implementation. Cost will not be an issue as NNAs only operate on a cost-recovery basis and ISINs come free in most areas. There are also significant advantages in using an ISIN, as ESMA has made it clear that none of the 15 reference data fields within the reporting template need to be populated if an ISIN has been used to identify the instrument.

Identifying organizations in a report should not represent a problem. It is simple and easy to get an LEI from local operating units. Our only advice is not to leave it too late, as there will be an inevitable last-minute rush.

Identifying individuals (whether clients, decision-makers or traders within a firm) is potentially far more troublesome. Firms need to ensure all this information is available in their reporting systems. Potentially more problematic are the accompanying data protection issues.

**Gertel:** Any unique identifier helps to ensure a smooth mapping process to the data universe. The trading venues in the EU are amending their feeds according to MiFID II/MiFIR RTS 14 – draft regulatory technical standards on data disaggregation. Under RTS 14, the trading venues are required to ensure pre-trade and

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post-trade transparency data by disaggregating the data from their feeds into asset classes. Data feeds need to be amended accordingly and a clear identifier like ISIN helps ensure high-quality mapping and, ultimately, higher data quality.

### **Will MiFIR be useful or effective in addressing its stated aim—investor protection? Why, or why not?**

**Sawhney:** In part, this depends on how creatively firms implement the requirements. Greater market transparency should be created. However, this may also impact liquidity, potentially putting investors in a weaker position. Product intervention powers at a European level should, in theory, support investor protection. But again, this will depend on how actively regulators monitor products to be able to identify emerging risks, rather than being reactive. A drawback here could be intervening once there is a known problem and investors have already suffered.

**Gertel:** The MiFIR regulatory framework will be a useful tool in improving investor protection not only in the EU but also worldwide. Financial intermediaries are required to provide investors (mainly retail) with mandatory information as part of the advisory process. This information allows investors to make a decision appropriate to their risk appetite and investment perspective. Financial advisors are

required to conduct suitability checks for such investors and provide them with a standardized key investor information document that will allow them to compare alternative products. Furthermore, financial intermediaries are required to disclose all costs related to the investments in full, including retrocession fees.

### **What will the first impact of MiFIR be for data operations in 2018, when it is now scheduled to take effect?**

**Sawhney:** Theoretically, there should be an increase in the centralization of data within a firm, including the creation of golden sources. This may be used to comply with a range of regulations, increasing accuracy of regulatory reporting and effective management of data. However, in practice the complexity of data within firms is significant given legacy systems, pre-existing data quality issues and previous “quick fix” solutions implemented for other obligations (such as EMIR and Dodd-Frank). Further, data not previously used for regulatory purposes will require extensive remediation and appropriate control mechanisms to ensure data remains fit for purpose after go-live.

**Johnson:** Transaction reporting will commence in January 2018 but a great deal of preparation will be needed in 2016 and 2017 to ensure that the reporting data is available. Additional data fields will

be required for trading venues' transaction reporting, such as issuer LEIs and FISNs (ISO 18774), for which low coverage levels have been experienced to-date. Most data fields for MiFIR transaction reporting relate to data, which is under the control of the reporting firm. My responses here relate specifically to the common market-wide data fields that have external dependencies for firms to source.

**Nowell:** The biggest impact will be through a renewed focus on the quality and supply of reference data to the regulators. The complicated arrangement of data sharing, aggregation and quality checks envisaged by the regulators depends entirely on the timely and accurate provision of product reference data by venues and systematic internalizers. ESMA intends to collect, cleanse and republish that data to all affected regulators so they can use it in conjunction with transaction reports. Failure to do so will hamper the regulators' ability to share and police the reported data, and hinder their attempts at aggregation. As a result, we expect regulators will go to great lengths to ensure timely and accurate provision of reference data by the industry and will devote a considerable amount of their supervisory cycles in policing reference data quality.

**Gertel:** Since MiFIR covers all asset classes, the first impact is likely to be the huge

amount of data reported from trading venues to local regulators, and later to ESMA. According to RTS 14, data disaggregation in the feeds will be "live" and it will be interesting to see if all records will have the appropriate identifiers, such as ISIN, CFI, LEI and MIC.

Exchanges and trading venues tell us they will be ready well in advance of January 2018, which will give the entire industry—including ESMA—the time to introduce the appropriate processes and get the IT infrastructure in place. This will allow them to run a so-called "test phase," so any corrections that are required can be made before January 2018.



*Amrita Sawhney,  
Deloitte*

**Does MiFIR truly overlap with other new European regulation, and will that ease firms' compliance burdens?**

**Sawhney:** The timing of MiFIR makes it difficult for firms to benefit from true leverage across European regulation. The ability to use cross-regulatory synergies will depend on how previous regulatory solutions have been implemented. There is some overlap between fields required for reporting under EMIR and MiFIR. But in some cases, the required data is slightly different. There are additional data requirements under MiFIR. Further, where a securities financ-

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*Chris Johnson,  
HSBC Securities  
Services*

ing transaction is reported pursuant to the SFTR regulation by any party, it should not be reported under MiFIR, leading to complexity needing to be built into reporting logic.

**Johnson:** There is some direct overlap of data content required for transaction reporting across MiFID II/MiFIR, Solvency II, EMIR and AIFMD, though as things stand this is limited to the LEI, ISIN, country and currency. Other new data fields are thematically similar, such as asset classifications like the CFI, CIC and UPI. There could be convergence over time. There is potential for joined-up centralized data solutions for regulatory data in order to deliver consistency and achieve efficiencies.

**Nowell:** There certainly appears to be a large overlap between the MiFIR and EMIR reporting requirements. For example, there is a big overlap in the instrument set that needs to be reported. Each regime has a T+1 reporting requirement and each reporting regime has a large number of similar-sounding fields. In addition, both reporting regimes represent a significant overhead on firms, so they ought to explore potential synergies between the two regimes to ease

the compliance burden. ESMA and the European Commission recognize this overlap and seek to address it. Firms can potentially waive their MiFIR transaction reporting obligations if they have submitted reports to trade repositories that contain all the required information for transaction reporting purposes. The trade repository can then submit the information as a transaction report to the correct competent authority as a MiFIR Approved Reporting Mechanism (ARM).

Whilst there are obvious overlaps between the regimes, there are also a number of differences stemming from the fact that there are two distinct drivers behind the two reporting regimes; MiFIR reporting is primarily driven by market abuse detection, whilst EMIR is driven by the identification of systemic risk. As a result, there are several differences in both the fields and the standards for the two reporting regimes. Despite this, ESMA has publically stated that it is “committed to align to the extent possible, the MiFIR reporting with the standards for reporting to Trade Repositories under EMIR.” Whilst the fields and data standards may appear different now, we expect convergence to common standards where possible.

**Gertel:** Other regulations, like UCITS, AIFMD and rules for packaged retail and insurance-based investment products

(PRIIPs), are obviously closely related to the topic of MiFIR, and investor protection in particular. To be compliant under the investor protection requirements, an institution has to make sure it has the processes and controls in place throughout the retail investor advisory process, as well as ensuring that a key investor information document can be provided if required and that the client investment profile is updated using an adequate customer relationship management system.

Implementing these regulatory requirements is a challenge, but once all the processes are put in place, along with comprehensive monitoring processes, the requirements will be regarded as standard business practice. It will probably be similar to the journey the industry had with Basel II and tax transparency (Fatca and the Common Reporting Standard).

**Are LEI registrations happening fast enough or in sufficient numbers to properly support MiFIR compliance?**

**Sawhney:** This is a big challenge for firms. There is unease that when dealing with non-European Economic Area counterparts, the availability of LEIs will be a challenge. There is a risk that some firms may need to turn away business where the counterparty or client is unable to provide one.

**Johnson:** The 415,000 LEIs that had been registered as of the end of January 2016

were generated primarily by derivatives transaction reporting for Dodd-Frank and EMIR. MiFIR will extend the scope to new types of entity, some of which might not yet be aware of the need to obtain their own LEI. MiFIR will require extensive outreach and communication to reach all relevant entities. This communication process needs to start very soon; firms should not assume that others will solve the data gaps on their behalf.

**Nowell:** We have not seen any major increase in the number of LEI applications ahead of MiFIR. But we have spoken with many clients who are beginning to grasp the significance of the work needed to ensure that they and their clients have the required LEIs in place for reporting. As part of this, we have reached out to trade associations and the Financial Conduct Authority to ensure that people are aware of the issue and the consequential timelines.

**Gertel:** The number of LEIs is growing, and all issuers of financial instruments, trading venues and CCPs will have the LEI as it is a key requirement under MiFIR.

By January 2018, issuers and other entities will have the LEI in order to comply with the regulation. If they don't apply for it themselves, then trading venues and regulators will make sure that entities have it.

## Sponsored Statement

# From Obligation to Opportunity: Regulatory Reporting Insight

With the long-expected extension of the Markets in Financial Instruments Regulation (MiFIR) transaction reporting timeline all but confirmed, investment firms have been urged by regulators not to take their foot off the gas. Many are now using the extra time to hone their delivery plans and vendor selection programs and can now take the time to draft detailed requirements and survey the vendor landscape to pick the best technologies and most aligned providers. Most firms realize that MiFIR increases the scale of transaction reporting capabilities, and one-stop-shop vendors who can support both the European Market Infrastructure Regulation (EMIR) and MiFIR, along with other jurisdictions such as the US, Asia and Switzerland, are top of the list.

Market-leading firms have added another dimension to their vendor search. The vast amount of data supplied through various trade and transaction reporting regimes contains a wealth of information and insight about the firm—the very same information that regulators use to monitor the firms. While regulatory reporting is seen as a burden by many, some firms are taking this

opportunity to see what value and insight can be mined from the data they provide to the reporting vendors—turning their regulatory obligation into an opportunity to be more efficient, gain market insight and focus on relevant issues.

## Market Abuse Regulation Surveillance

Many regulatory reporting vendors provide basic management reporting that tells the reporting firms what their trading volumes were or how many rejections they had over time. This is a useful and important part of the regulatory controls and procedures that the national competent authorities expect firms to have to manage their reporting processes. Leading vendors, such as UnaVista, are taking this a major step further, providing Market Abuse Regulation (MAR)-driven market surveillance capabilities based on the reported data. While transaction reporting-based surveillance (which is mostly T+1) will never replace complex, installed and integrated surveillance systems used by big brokers, it can provide basic insider trading and market manipulation detection tools for medium-





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sized and small firms. Firms can then use the data and infrastructure they have built for MiFIR to satisfy MAR without investing in another vendor, system, data sources and dedicated resources.

### Active Monitoring

While hosted surveillance capabilities might check market abuse boxes, vendors can do more. For example, allow firm-specific alerts and thresholds that can proactively notify the firm if their reporting pattern indicates something is out of line. These proactive alerts do not necessarily indicate a compliance issue, but simply track changes and/or issues in the underlying business activity. Because they are proactive and user configurable, firms can set their own thresholds and granularity to ensure they get the exact level of monitoring and details they need. For example, a 'late reporting percentage alert' can be set either at 10% for firms who take their reporting timeliness loosely or at 99.99% for firms who never miss their reporting timelines. Outliers in patterns such as 'buy/sell indicator' ratio or 'principal vs. agent' ratio can indicate that something has changed in the business, allowing for proactive investigation and response.

### Peer-to-Peer Analysis

The ultimate insight from the transaction reporting data comes from leveraging the power of the reporting community. If



*Tom Wiczorek,  
UnaVista,  
LSE Group*

participating firms allow their data to be used in an anonymous fashion, the larger vendors can provide a multitude of market intelligence and peer-to-peer analytics. Leading vendors understand the KPIs that matter to the regulators

and can provide firms with their relative ranking compared to the rest of the reporting population. To give even more insight, the reporting population can be split into categories so firms can understand both the quality of their reporting and how they may appear to the regulators compared to their immediate peers and competitors. This way, an investment bank can compare itself to other investment banks and retail brokers to other retail brokers, providing rare compliance and competitive insight.

Using the 'must deliver' infrastructure necessary for ongoing regulatory reporting obligations as a source of insight, oversight and comparison allows leading firms to gain business value from their regulatory reporting infrastructure. The extra time given for MiFIR allows the vendors to develop and calibrate the tools and infrastructure to deliver that impact at a scale and robustness needed to support the market.

*Tom Wiczorek, Head of Product  
Management, UnaVista, LSE Group*

# Big Changes for MiFIR

Chris Pickles, co-chair of the FIX Trading Community's Reference Data Subgroup, shares his insights on the probable effects of the delay to MiFID implementation



Chris Pickles

## What will the ramifications of MiFID II's postponement be for MiFIR?

There are still questions about details that firms are just realizing they need to ask regulators—they hadn't realized the impact of moves such as the European Securities and Markets Authority's (ESMA) publication of reference data free of charge. Firms need to work out the interrelationships of MiFID II and MiFIR with the Alternative Investment Fund Managers Directive and Solvency II, as well as the UK's Market Abuse Regulation. The postponement gives all segments time to work out what it means for their business models and to make changes.

## Was delaying MiFID II compliance until January 2018 justified?

The postponement was very much justified due to the need for greater clarity on issues that MiFID II addresses. Some of the directions proposed under MiFIR and the draft technical specifications involve significant change for thousands of investment firms internationally. Take

the proposed requirement to use ISINs to identify exchange-traded derivatives, when ESMA had previously made it clear that it recognized that ISINs were rarely used for derivatives. Changing central data management systems for universal banks that operate internationally is no minor task. So many other investment firm systems depend on those central data management systems.

## What caused the postponement?

The release of the final version of ESMA's proposed technical specifications. If market participants think changes are still necessary, they must express that to the commission and the European Parliament, rather than to ESMA. Market participants did so, and as a result, the parliament considered the readiness of ESMA's report processing systems for implementing MiFID II, along with issues about reference data and instrument identification. It's better to allow more time so market participants and regulators get it right.

# Worry-free compliance is based on know-how and data



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