The Depository Trust & Clearing Corporation

THE IMPACT OF MiFID II AND MiFIR ON POST-TRADE PROCESSES

OVERVIEW

The upcoming revision to the Markets in Financial Instruments directive (MiFID II) will alter the post-trade landscape for a range of financial market participants.

MiFID II will have a significant impact on how firms trade and report in the EU. Even global firms that choose to trade with firms within the EU will be affected.

From brokers and investment managers to custodian banks and hedge funds, affected firms will be faced with the challenge of adapting their middle and back-office activities to comply with changes required to post-trade processing by January 2018. For example, many firms will now have to modify their tools and processes to prepare for significant new reporting requirements around post-trade transparency.

IMPACT ON THE POST-TRADE PROCESS

For many firms, MiFID II will affect several key areas of the post-trade process:

- **Derivatives trading**

  The derivatives market will experience a seismic shift as MiFID II will require more over-the-counter (OTC) trading shifting over to formal trading venues. New reporting requirements will also be enforced for asset managers to help reduce speculative trading in commodity derivatives markets.

- **Adoption of Legal Entity Identifier (LEI)**

  MiFID II will introduce the concept of ‘no LEI, no trade’. From 2018, firms subject to MiFID II transaction reporting obligations cannot execute a trade on behalf of a client who is eligible for an LEI and does not have one. MiFID II will require parties involved in all financial instrument transactions to include the entity’s LEI when reporting to the competent authority. This will include issuers, investment firms and their clients, participants of trading venues and their clients, as well as brokers.

  Investment firms will be required to obtain LEIs for their clients before providing services which would trigger reporting obligations. Trading will be obligated to ensure that clients are being identified using “validated, issued and duly renewed legal entity identifiers”, and that their operational processes can adequately ensure data quality.

- **Unbundling of research costs**

  The implementation of MiFID II will require all sell-side research to be individually priced and thus affect full price transparency. Investment firms will be required to set and assess research budgets and MiFID II states that that payment must be direct, out of the firm’s own resources, without any undue delay.

  Research payment fees may still be passed onto the underlying funds of the investment manager and potentially bundled with execution fees. In order to continue doing this the investment firm must put in place a Research Payment Account (RPA) on a fund by fund basis.

  The RPA will contain strict stipulations regarding the agreed amount of research that will be paid for, the amount to be assessed on a regular basis and be marked as an explicit cost to the underlying fund.

  Clients can choose to either:

  - Maintain the inclusion of research amounts on individual trades
  - Exclude research from the trades and operate a reconciliation process.

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ENABLING COMPLIANCE WITH MiFID II AND MiFIR

GTR

Derivatives Trading: GTR enables clients to meet their MiFIR (the regulation accompanying MiFID II based on transaction reporting) reporting obligations as required by MiFID II. The existing GTR allows one submission to satisfy a trade with multi-jurisdiction reporting obligations. Partnering with UnaVista, the existing model will simply be extended from EMIR reporting to also cater for MiFIR.

By adding MiFIR as a reporting obligation on existing submissions and adding the new required fields, transaction reports will be routed and validated at UnaVista (a registered ARM) for MiFIR transaction reporting.

For more information, visit dtcc.com/gtr

GMEI®

Adopting LEI's: DTCC's Global Markets Entity Identifier utility (GMEI® utility), a Global Legal Entity Identifier Foundation (GLEIF) accredited Local Operating Unit (LOU), is designed to provide a single, universal standard identifier to any organization or firm involved in a financial transaction internationally, thereby helping them to meet their MiFID II transaction reporting obligations.

For more information or to register, visit gmeiutility.org

OMGEO ALERT®

Adopting LEI's: Omgeo ALERT® contains a field to allow Investment firms to add the LEI of their clients and share this with their broker counter-parts. The LEI can also be enriched to Omgeo CTM to help with reporting obligations.

For more information, visit dtcc.com/alert

OMGEO CTM®

Unbundling Research Costs: Omgeo CTM® will add a new commission type for research costs to support the population of both a discrete segregated research amount as well as an execution commission amount.

For more information, visit dtcc.com/ctm

PREPARE TODAY FOR MiFID II AND MiFIR

DTCC is working with clients across the financial markets to help them understand and prepare for MiFID II and MiFIR.

To find out more about how our solutions can help firms to get ahead of the curve before MiFID II and MiFIR takes effect, please email us at **solutions@dtcc.com** or visit us on the web at **www.dtcc.com/xxx (TBC)**