

# MiFID II


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Assessing MiFID II impacts for  
Corporate & Investment Banks

**Aurexia** (  
CONSULTING


STRATEGY & MANAGEMENT CONSULTING  
PARIS • LONDON • LUXEMBOURG • ASIA

- This presentation is an introduction to our study on MiFID II and related opportunities within the following areas of expertise:
  - Capital Markets
- We are available to present you our study:




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# MiFID II at a glance

Regulation that completes transparency requirement in OTC Market

## Objective

Improving the competitiveness of EU financial markets through :

- The creation of a single market for business and investment services
- The implementation of a high level of harmonized protection for European investors

## MIF1, a regulation quickly obsolete

1. Weak fundamental principles
2. Appearance of shadow areas (Dark pools) following market trends
3. Need to take into account the impact of the financial crisis and to align European regulation on the commitments made by G20 in Pittsburgh in 2009

## MIF2 Evolutions

- Expansion of the legislation to new instruments (non equities)
- Creation of a new trading platform (Organized Trading Facility) for a better supervision of the OTC derivatives
- Increasing exchange transparency through pre-trade and post-trade reportings
- Protection through the control of remuneration for independent advice and an increase in transparency of the «best execution» policies following the development of market platforms
- Development of the compliance role and the risk function, through the establishment of additional controls on specific areas and key tools

## Industry impacts



# Key Concepts

Understand major MiFID II streams

## Market infrastructure

- Organized Trading Facility (OTF): new matching system and new scope
- Over The Counter (OTC): Few allowed OTC trades

## Systematic internaliser

- The scope of this type of trading venues will include the equity like instruments and non-equities
- The IS status being more strongly defined, the concerned stakeholders will have to ask an SI agreement

## Pre-trade transparency

- Data Quality Improvement
- Real-Time Publication of Buyers/Sellers prices and volumes
- Requirements to trade on Organized and Regulated platforms

## Post-trade transparency

- Real-Time publication of volumes and prices by Executions Platforms and Investment Firms
- Investors: publication via APA and CTP
- Authorities: reporting via ARM, homemade reporting possibility

## Research costs

- Introduction of the establishment of a “research budget”
- The customer knowledge on the budget affected to his portfolio (ex-ante and ex-post)
- Control of the customer benefits gain with the affected research costs

## Commodity Derivatives

- Position Limit Regime
- Reporting Obligation

## Investors protection

- Product Governance
- Conflict of Interests Prevention
- Client Transparency
- Product intervention

## Best execution

- Annual publication of the first 5 execution platforms for each class of financial instruments it must include: price, cost, speed and likelihood of execution
- Clarification of the Best Execution policy

# MiFID II Impacts

Impacts revealed by studies on MiFID II

## Business impacts



- **Best Execution:** Level 2 measures, propose areas for improvement of best execution policies developed by investment service providers
- **Substantial use of HFT and Algorithmics:** The HFT definition under MiFID II is based on the concept of "Message intraday high rates"
- **Impacts on price formation:** ESMA will define which financial instruments should be traded in its suitable trading systems
- **Research costs:** introduction of an exhaustive list of non-monetary benefits that can be considered minor and are therefore acceptable in accordance with of MiFID II
- **Systematic internalisers:** They could take a new place among the European trading venues

## Process impacts



- **Pre-Trade:** There is an increase transparency of costs charged to the clients. For the order management, there is a need to evaluate a client before providing a recommendation
- **Execution and Trading:** As for the Pre-trade transparency, the disclosure of supply and demand in the order book as close as real time as possible, is mandatory. On the trade execution there are new obligations regarding the instruments/trading venues and Algorithms HTF
- **Post-Trade:** Transactions should be reported along with specific information to the national competent authority and a need to record verbal and electronics conversations that results on a transaction

## Systems impacts



- **Continuous auction order book trading system:** Continuous auction with no human intervention and an algorithm matching based on best price
- **Quote-driven trading system:** Firm quotes are continuously available to participants. Thus, a size balanced needs of clients & market maker risk exposure
- **Periodic auction trading system:** Same as continuous auction system which is suitable for bond issuance
- **Request-for-quote system:** Quotes provided upon request
- **Voice trading system:** Transactions arranged by voice negotiation

## Compliance impacts

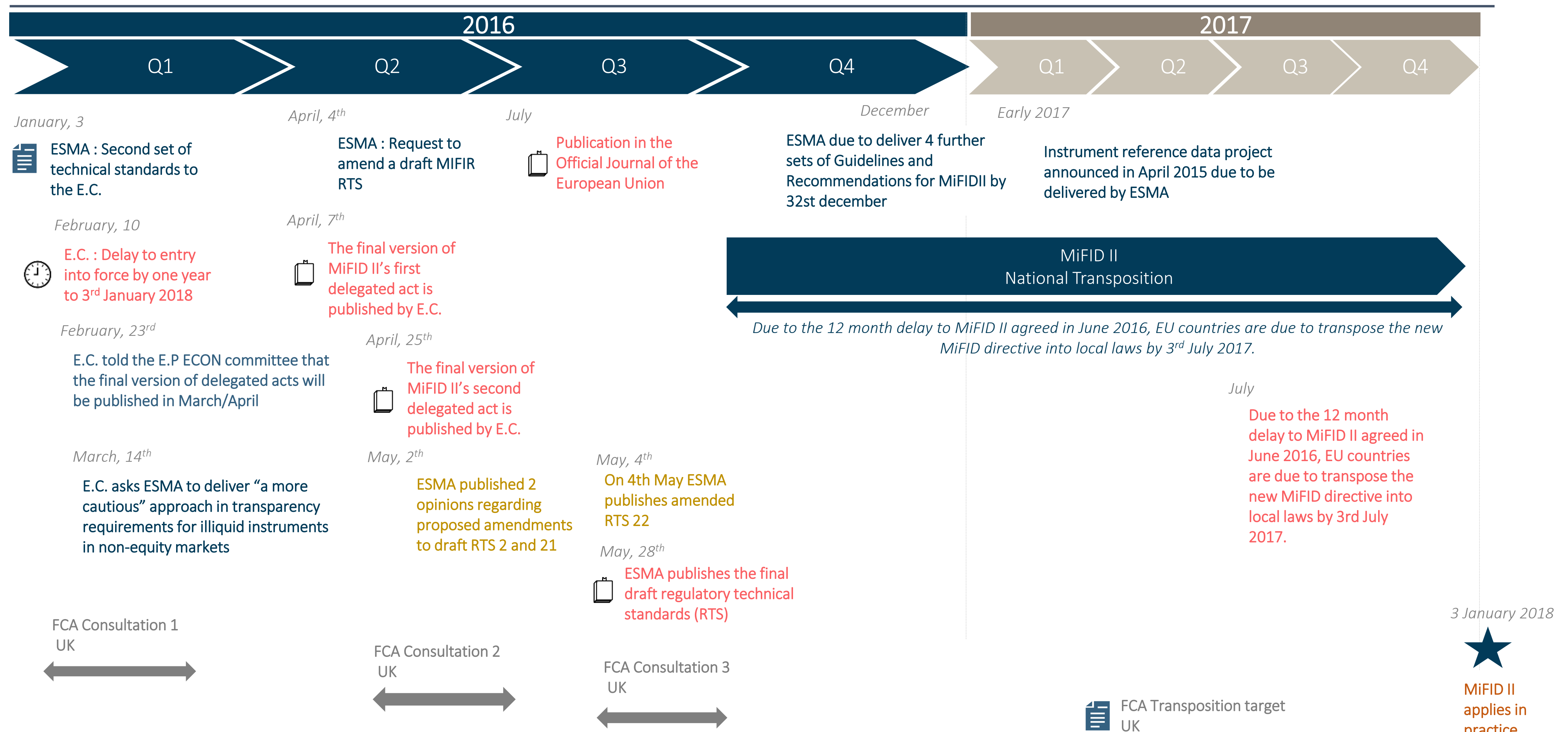


- **In terms of authority:** appointment and replacement of the head of compliance by the governing body
- **In terms of reporting:** the compliance department must have the opportunity to transmit on a timely basis some reportings directly to the governing body each time it has detected a significant risk of failure of the institution
- **Management of complaints:** the compliance department should play a role in the supervision of procedures for processing claims and should consider the past history as a relevant source of information in the context of its overall control responsibility



# MiFID II Program

Regulatory timeline



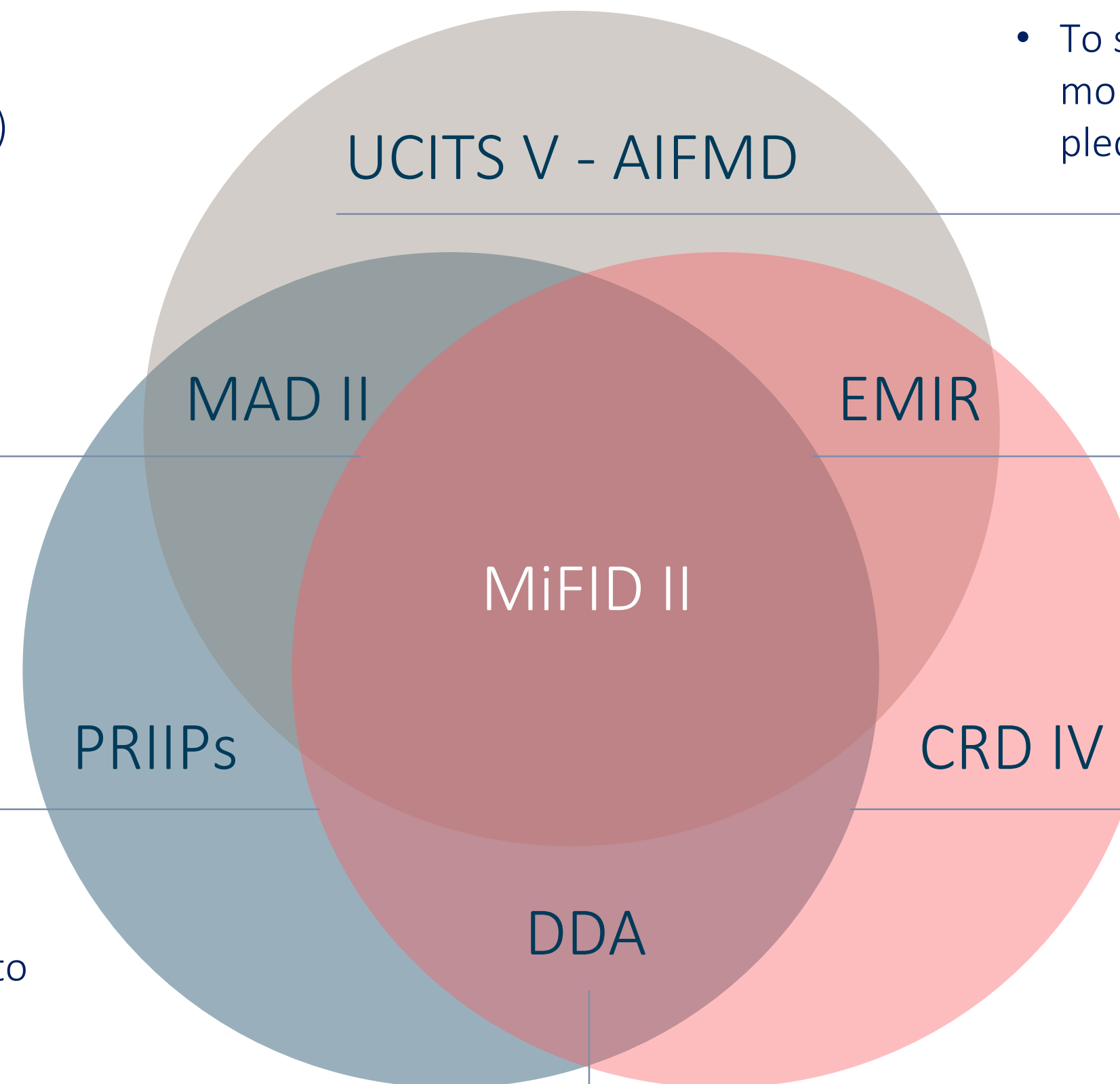
MiFID II/MIFIR was adopted by the European Parliament on 15 April 2014 and will apply on **3 January 2018** (EC proposed a one year delay and the EP voted early in June to support the one year postponement)

# How to mutualize efforts

## Interactions with other regulations

- MAD covered products' range extended in order to acknowledge MiFID II evolutions, especially in regards to new OTC derivatives platform exchange (OTF)
- MAD is reviewed in parallel of MiFID II but it will be effective before MiFID II. This point should be taken into account, when implementing these directives

- More regulation regarding employees compensation
- To strengthen investors' protection with more warranty regarding customers' pledged assets in case of default



- More transparency in OTC derivatives exchanges
- Potential Mutual reporting requirements

- PRIIPs' objective to improve transactions transparency for retail investors
- Issues regarding investors' profile design to financial products or interests conflicts themes are also covered under PRIIPs directive

- MiFID II requires Investment Firms to assess if they need to adopt CRD IV guidelines first

- Application of the principles of investors protection concerning insurance products
- Retrocessions of Life Insurance products are not being questioned unlike MIF II for discretionary asset management

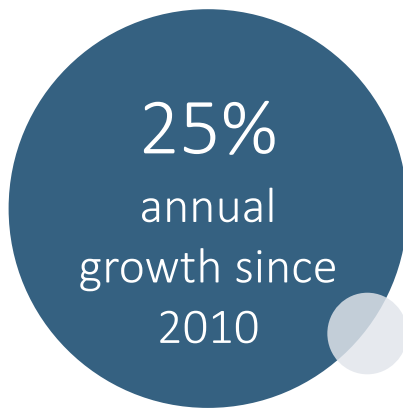
# A consultancy solely focused on financial services

## OUR STORY

Aurexia was founded in Paris in 2006 on the belief that the financial services industry needed more than pure management consulting skills from its service providers.

Coming from leading consultancies, Aurexia founders supplemented deep domain knowledge with pragmatism and practicality to partner with clients in the delivery of key transformation programmes. This approach has led to Aurexia partnering with the top 5 investment banks in Europe.

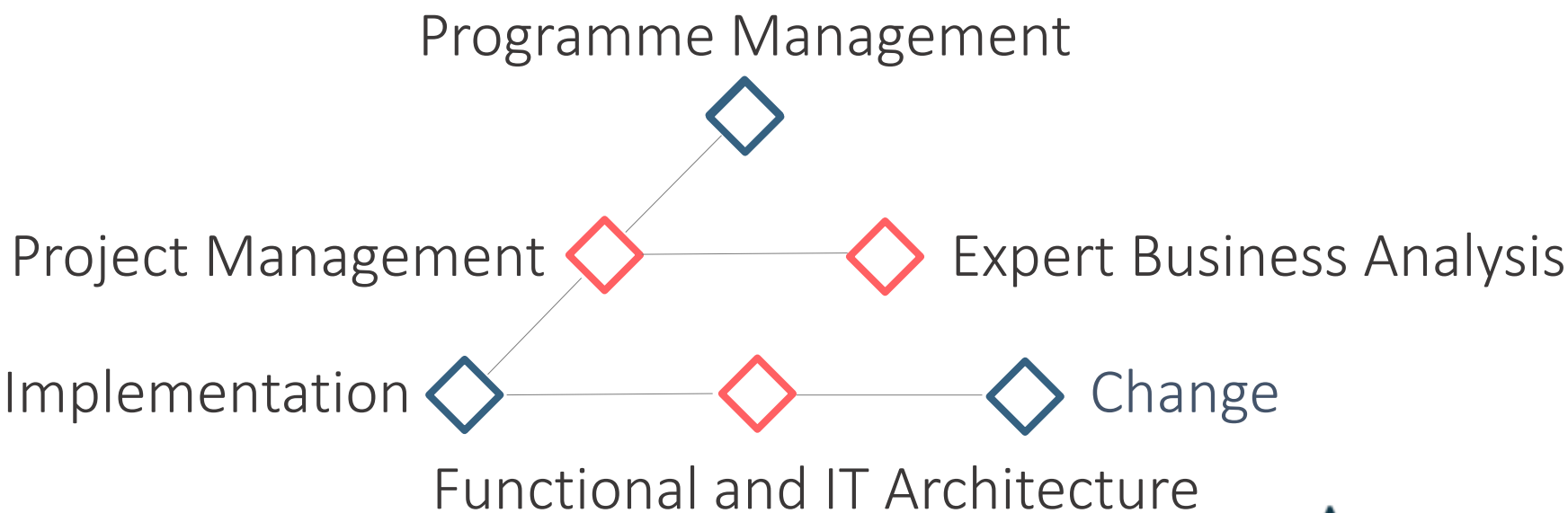
Aurexia has matured in to a global consultancy opening its London office in 2014, followed by Luxembourg in 2015 and Asia (Singapore and Hong Kong) in 2016. This strategic growth has allowed Aurexia to be better positioned to support historical clients’ needs and broaden its client base to more industry leaders.



## BUSINESS AREAS WE COVER IN LONDON



## WHAT WE DO





# Aurexia consultants at the core of our business

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## OUR PEOPLE

What makes Aurexia special is a unique blend of industry expertise, a solution oriented mind-set and best in class transformation skills. Aurexia consultants are decisive in scoping, launching and implementing their clients' projects. They all possess the necessary soft skills to integrate into client teams delivering as a single unit.

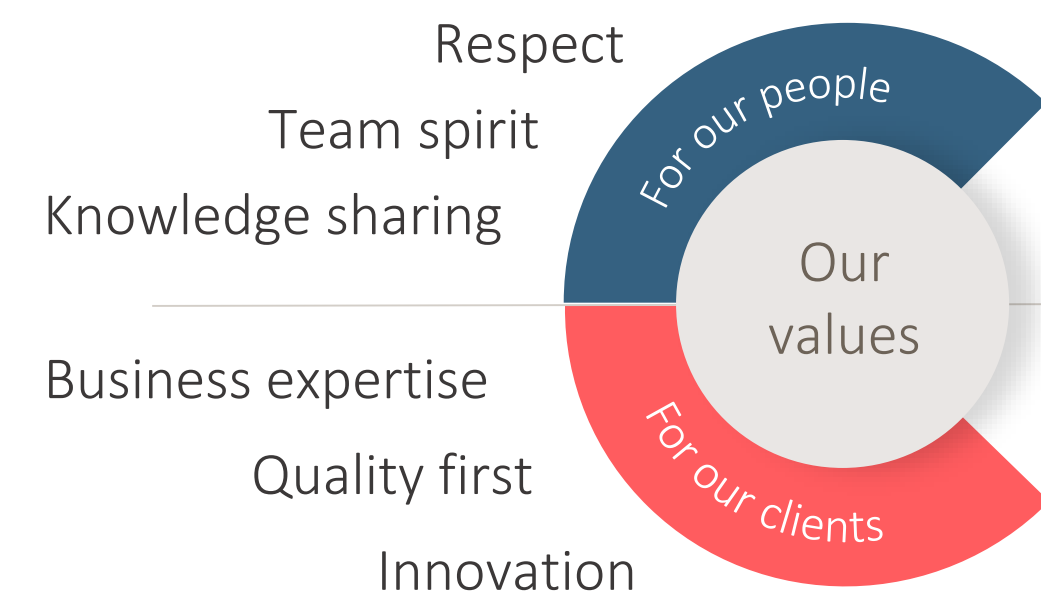


We have built an internal framework that ensures each Aurexia consultant has a forward looking vision of our industry challenges and opportunities. Throughout their career at Aurexia, consultants actively participate in the company's industry review and thought leadership.

## OUR CULTURE

We support and encourage an entrepreneurial outlook and independent thinking. Aurexia is not about hierarchy and organisational charts, we believe in a flat structure empowering all employees to feel that this is their firm to own and run. This leads to plenty of opportunities for cross learning, working on projects that make a real contribution to client success and personal development.

## OUR VALUES



# Aurexia Institute

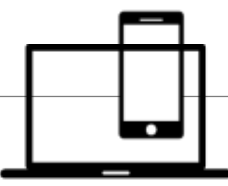


The Aurexia Institute is our focal point for study and analysis of the latest issues, challenges and opportunities within our industry. Detailed research combined with industry leading knowledge from our consultants, clients and affiliates allows us to produce thought provoking insight across the financial service spectrum which we communicate through a variety of channels.

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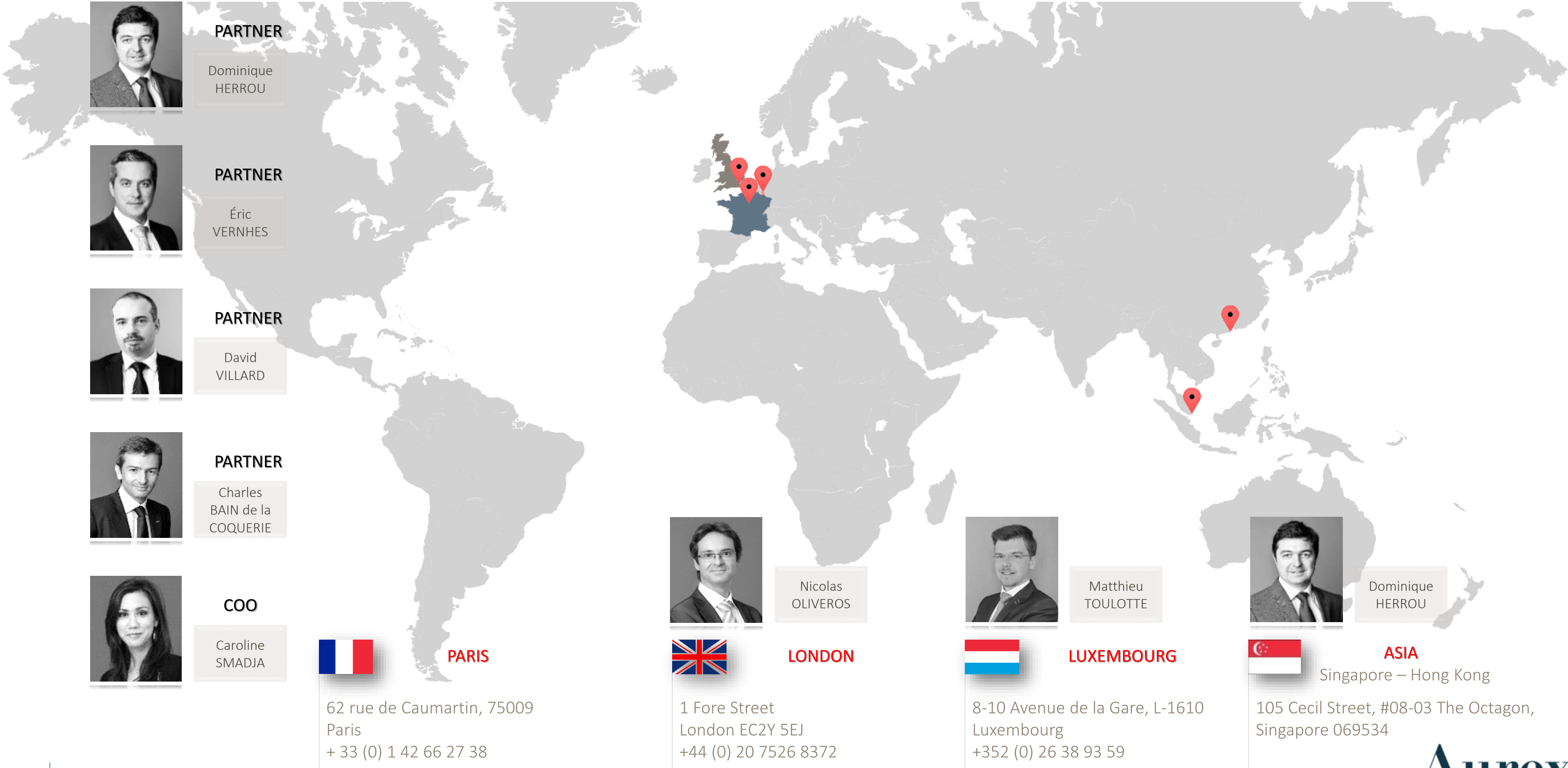


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# Our Offices



A world map with a light gray background. Red location pins are placed in Paris, London, Luxembourg, and Asia. Below the map, four office locations are detailed with portraits, names, titles, flags, and contact information.

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