



# making sense of MiFID II

PMQs  
By Anne Plested

## **What will MiFID II do with transaction reporting rules?**

Transaction reporting under MiFID is there to enable supervisors to monitor the activities of investment firms and ensure compliance with MiFID and to monitor for abuses under the Market Abuse Directive (MAD). The ongoing review of MAD, which is taking place more or less in parallel with the MiFID review, will consequently drive some changes to MiFID. There is also a push to align transaction reporting across Europe, improve efficiency and reduce costs by seeking to eliminate double reporting.

## **Will the scope of transaction reporting be extended?**

Yes, it is likely that the rules for transaction reporting will be extended to include a whole lot more transactions - namely transactions in instruments admitted for trading on an MTF or an OTF (currently only those admitted to trading on a Regulated Market are covered), and in depositary receipts and commodity derivatives. So, transactions in some instrument types will become reportable for the first time.

Other proposed changes state that RMs, MTFs, SIs and OTFs will now be obliged to report the transactions of non-authorized members or participants. There is also a new obligation on RMs, MTFs, SIs and OTFs to store order data in a manner accessible to supervisors and for at least 5 years.

With technical binding standards due to be imposed by the European Securities and Markets Authority (ESMA) perhaps there will be changes to data content, message formats and standardisation across Europe.

There is even a proposal for the introduction of direct transaction reporting to a central ESMA database accessible to competent authorities across Europe. EU market participants would all transaction report to ESMA, as opposed to their respective local supervisory authorities (the FSA in the UK, for example).

## **Don't be fooled - this is NOT just a back office thing!**

In the UK, transaction reporting is typically a function of a back office settlement and reporting system. However, if the data that needs to be submitted changes, we need to look at the impact in the front office. For example, if a unique European client identifier is added to the picture then for retail brokers this would mean capturing this data - as part of their Money Laundering checks and procedures - and passing it with the order, potentially all the way through their execution and allocation business flow, to the back office for transaction reporting purposes.

Client-side transaction reporting, introduced with MiFID in 2007, included a unique client identifier which in the UK was adopted as either using a FSA reference number (FRN), a BIC or a firm's own internal client identifier. Any change to include a unique National/European client investor identifier will have an impact on everyone down the line. There is no such identifier in Europe, specifically in the UK where national identity cards have never been adopted. So perhaps there will be an EU-wide client id database? Or should this be extended to include US clients? You can imagine the politics of this one could be very interesting!



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The proposal says that transaction reports are to include a means of identifying the person who has made the investment decision (client id) and the trader who executes the transaction (trader id). Any changes to transaction reporting requirements could alter the way orders are sent to the market and have an end-to-end impact on European workflow across trading platforms.

There may also be an impact on trade aggregation with the possibility that a single aggregated trade, sent to the back office, may no longer have enough information on it to satisfy any new transaction reporting rules.

Potentially this could impact all end-to-end European order flow!

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