

MIFID II – PREPARING FOR FUNDAMENTAL CHANGE

The revision of the Markets in Financial Instruments Directive (MiFID II), now due for implementation on January 3rd 2018, represents a fundamental change for financial markets across a multitude of areas, requiring not only major implementation effort, but also a re-assessment of business models.

The original MiFID led to a major shift in the cash equity markets, and MiFID II's impact will be even more pronounced.

As a result of the expanded asset class coverage, structural market reform and its applicability for firms previously exempted, MiFID II will dramatically change almost the entire marketplace as we know it today, with far-reaching impacts on everyone engaged in the dealing and the processing of financial instruments. No business or operating model – especially in the over-the-counter (OTC) space – is likely to remain untouched. In particular, MiFID II will not only completely change the way almost all OTC products are priced, traded and reported, but will also bring further changes to the exchange-traded equity market.

The high level goals of this regulation are:

- Increased transparency of markets
- A shift in trading towards more structured marketplaces
- Lower cost market data
- Improved best execution
- Orderly trading behaviour within markets
- More explicit costs of trading and investing

IMPACT

A wide range of market participants, including brokers, dealers, trading venues, hedge funds, asset managers, and global corporations will be impacted by MiFID II to varying degrees. Depending on the scope of their operations, market participants will have to:

- Report trades to their local regulator
- Trade certain derivatives on regulated trading venues
- Publish quotes and post-trade information for trading activity across most asset classes
- Perform more extensive testing of their trading algorithms
- Produce annual reports to assess the quality of executions on the trading venues they use most often
- Make separate payments for dealing commissions and broker research
- Comply with position limits and reporting obligations on commodity derivatives

It's also important to note that while this directive is driven by European regulators, it will nonetheless have a global impact. The capital markets are increasingly global, so it's impossible to contain regulation within geographic boundaries. When Asian and American firms do business with European customers, MiFID II will necessarily impact those interactions.

AN OVERVIEW OF MIFID II

- Aims to achieve more efficient, resilient and transparent financial markets to strengthen investor protection, through shifting OTC trading to organised multilateral regulated trading platforms.

- Market Structure
- Transparency
- Investor protection
- Client segmentation
- Non EU institutions
- Effective market data usage



- Entire financial market players (buy side & sell side) including liquidity platforms, data vendors and other service providers.

- January 2018

THOMSON REUTERS SOLUTIONS

MiFID II introduces requirements to enhance some of Thomson Reuters offerings, particularly trading solutions, to be compliant. To that end, we intend to operate FXall, our independent electronic foreign exchange trading platform, as a Multilateral Trading Facility (MTF), along with Forwards Matching which is already operated as an MTF under MiFID.

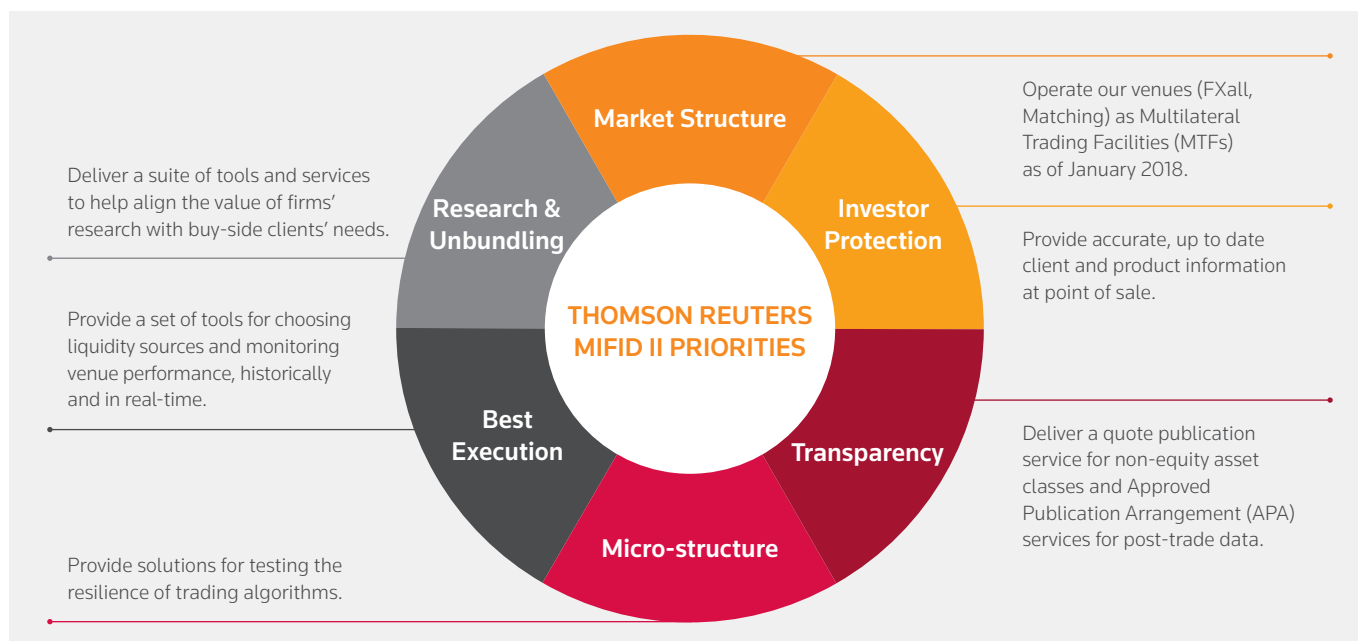
However, the directive also provides a significant opportunity to partner with you and deliver tailored solutions that help you maintain your business and reduce regulatory pain. We are committed to a number of initiatives that will shape these solutions. For example, trading venues and investment firms have obligations to publish details of executed trades in real time. These transactions are required to be published via an Approved Publication Arrangement (APA), or via a trading venue, and we plan to provide an APA service. In addition, quotes in bond, SFP and certain derivative markets must be published and we will provide services to help meet these requirements.

Overall, there will be a vast increase in market data and its availability. Thomson Reuters will source, cleanse and structure this

to make it possible for you to understand exactly where the liquidity is in these markets. We have specific expertise in this area; we currently source data from swaps and derivatives repositories (SDRs) and have built a product in Eikon, our flagship desktop solution, called SDR View, which aggregates and displays trade data.

There will also be a significant volume of additional reference data required by the market. Trading venues and investment firms will need to determine which instruments and trades are subject to these reporting requirements and the timeframe for publication. Specifically, market participants will need to understand whether financial instruments are classified as liquid or illiquid, and whether they are subject to any reporting waivers or deferrals. Thomson Reuters will provide the required reference data fields to enable clients to make these determinations.

In addition to these new solutions, we will continue evaluate additional opportunities to help market participants address business challenges that arise from these market changes. For example, we are actively engaged with the market around potential solutions to improve the valuation and consumption of research services.



SUMMARY

MiFID II will command significant changes in business and operating models, systems, data, people and processes. As a result, a fundamental transformation will emerge. Thomson Reuters has the content, the technology and the expertise to help you meet this challenge, as well as take advantage of the market opportunities and potential for competitive advantage that the regulation undoubtedly offers.

We would welcome the opportunity to discuss how we may be able to help address your specific MiFID II requirements. Please contact your account manager, call us on: **+44 (0)207 542 1200** or email us at: **europa.salesenquiries@thomsonreuters.com**

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