

# Updates from EMEA Working Group

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## Best Execution



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## The Scope





# Best Execution affects every investment firm and every instrument

Under MiFID II, Best Execution requirements apply to investment firms in relation to client orders for **all financial instruments** executed on:

- Instruments subject to TOTV
  - Trading venues (including OTFs)
  - Systematic internalisers
- Instruments not-subject to the trading obligation
  - Market Makers
  - Other liquidity providers



## Best Ex Global Implications

Intent is to ensure end investors can fully assess;

- the quality of execution obtained – **irrespective of the venue (third country) or product (OTC)**
- the effectiveness of the monitoring carried out by investment firms in relation to execution venues used, including ***“entities that perform a similar function to those performed by any of the foregoing in a third country”***.

Requires **continual review of execution performance** via;

- Establishing, Implementing and Publication of Best Ex policy
- Improved governance and controls to demonstrate Best Ex
- Reporting and disclosure requirements due April 2018
- Performance Monitoring on a regular basis – ex ante & ex poste



# Best Ex Includes Fixed Income

## OTC

- Firms expected to check for fairness of price
- Checks must be undertaken on a systematic basis embedded in policies
- Records /monitoring of best ex

## TCA

- Lack of standardisation in FICC products
- Strip out instruments where TCA is possible
- Liquid equities – liquid instruments
- Time-stamping in non exchange environment must be in-synch with exchange environment – voice / IB
- OTF and MTF



## **Best Execution Working Group Objective:**

**Creation of standard practices through consensus interpretations across the industry to complete best execution reporting requirements efficiently and accurately**



## RTS 27 – What FIX Covers

**RTS 27** – *the specific content, format and periodicity of data relating to the quality of execution, taking into account the type of venue and instrument concerned*

- Entity types included under Execution Venue
- Quality of Execution Provided
- Frequency of Reporting – reports in the public domain for minimum of two years
- Scope & Resolution of Reporting by Instrument
- Complete Tables based on
  - Trading Model
  - Asset Class Specific Variations by Trading Model
- Clarifications on Edge Case Scenarios or Trading Models not yet included in RTS



## RTS 28 – What FIX Covers

**RTS 28** – *the content and format of information to be published by investment firms on an annual basis, for each class of financial instrument, the **top five execution venues** in terms of trading volumes and information on the quality of execution obtained*

- Scenarios where RTS report is required
- Frequency of Reporting - reports in the public domain for minimum of two years
- Scope & Resolution of Reporting by Instrument
- Complete Tables based on
  - Trading Model
  - Asset Class Specific Variations by Trading Model
  - Includes Passive /Aggressive
- Clarifications on Edge Case Scenarios or Trading Models not yet included in RTS





## Art. 65 – What FIX Covers

**Under MiFID Delegated Directive Article 65.6 – the data to be published by investment firms on the identity of the *top five brokers* in terms of trading volumes *where it transmitted orders to* and information on the quality of execution obtained**

- Scenarios where Art 65 report is required – level of individual firm, not aggregated to group level
- Frequency of Reporting
- Scope & Resolution of Reporting by Instrument
- Complete Tables based on Asset Class Specific Variations by Trading Model
- Excludes Passive/Aggressive



## Scope of Reporting - Equities



- When Buy-Side firm uses a Sell-Side firm to get access to liquidity.
- Sell-Side may act in a matched principal capacity trading OTC, or hold or take a position or take order and place it on a RM/MTF (if it qualifies).
- **Buy-Side transmitting an order must produce a report under Article 65.6** identifying Sell-Side Firm 1 as one of the Top 5 brokers
- **Sell-Side must generate an RTS 28 report**, identifying itself, as well Trading Venues, as one of the Top 5 Execution Venues (if it qualifies).
- **As Sell-Side firm is providing liquidity to Buy-Side, trading OTC on an ad-hoc and infrequent basis and only not as an SI, in an instrument which is subject to a Trading obligation, the Sell-Side does NOT produce an RTS 27 report.**
- Where the Sell-side firm uses its own SI, it is acting as an execution venue and should produce an RTS 27 report
- **The Trading Venue** must generate an RTS 27 report



## Scope of Reporting - Bonds



- Buy-Side firm uses a D2C (Direct to Counterparty) Trading Venue to access Sell-Side liquidity from multiple providers.
- Buy-Side firm sends an RFQ to the Trading Venue which distributes the request to multiple Sell-Side firms. The trade is then executed once electronically confirmed via FIX Message.
- **Buy-Side must generate an RTS 28 report, identifying the Trading Venues** as one of the Top 5 Execution Venues (if it qualifies).
- As the Sell-Side 1 firm is providing liquidity on the Trading Venue and is not the Execution Venue, the Sell-Side firm does not produce an RTS 27 Report.
- **The Trading Venue must generate an RTS 27 report.**



## Scope of Reporting - Derivatives



- Buy-Side firm uses a D2C Trading Venue to access Sell-Side firm liquidity.
- Buy-Side firm sends an RFQ to the Trading Venue which distributes the request to multiple Sell-Side firms. Buy-Side executes against the best price on the Trading Venue.
- **Buy-Side** must generate an RTS 28 report, identifying the Trading Venues as one of the Top 5 Execution Venues (if it qualifies).
- **Sell-Side 1 Firm** does not include this flow in its RTS 28 report as it is not dealing directly with client orders.
- As the firm is providing liquidity on the Trading Venue and is not the Execution Venue, the **Trading Venue** must generate an RTS 27 report.

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## The Reports





## Best Execution Reporting (RTS 27)

Execution venues including trading venues, systematic internalisers, market makers, and other liquidity providers are required to publish reports on a quarterly basis related to quality of executions for each market segment and each financial instrument.

- RTS 27 describes periodic reports to include details like\*:
  - Information on execution venue and financial instrument (Article 3)
    - Name and type of execution venue
    - Country of location
    - Date of trading day
    - Name and financial instrument identifier
  - Price – daily and intra-day information (Article 4)
    - Daily information includes simple average transaction price, highest and lowest executed price.
  - Costs (Article 5)
    - Component costs, such as execution fees, fees for submission of orders and market data access fees
    - Rebates or discounts
    - Any non-monetary benefits
    - Any taxes or levies
    - Link to a website for more information



## Continued...

- Likelihood of Execution (Article 6)
  - Number and median size of orders or RFQs (Request for Quotes) received
  - Number and value of transactions executed
  - Median transaction size
- Additional Information for continuous auction order book and continuous quote driven execution venues (Article 7)
  - Best bid and offer price and corresponding volumes
  - Book depth for 3 price increments
  - Mean and median time elapsed between acceptance of an aggressive order or quote and execution
  - Average speed of execution
  - Average quote presence in percentage
- Additional information for request for quotes execution venues (Article 8)
  - Mean and median amount of time elapsed between acceptance of a quote and execution
  - Mean and median amount of time elapsed between a RFQ and provision of any corresponding quotes.

\* Not a complete list of attributes



## FIX Approach

- MarketDataStatisticsReport(DP) – Conveys actual statistics over a reported period of time, currently used by Deutsche Boerse
- MarketDefinition(BU) – Conveys the current set of fees

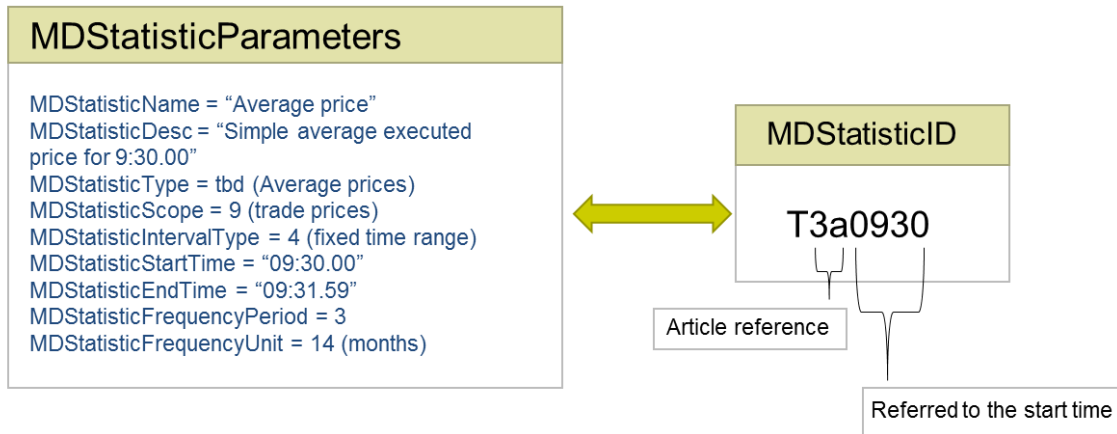
RTS 27 Article	FIX message/component
Article 3(1) - Market Information	MarketDataStatisticsReport(DP)
Article 3 (2) - Instrument Identifier	Instrument block
Article 4 (a) - Price Information: Intra-Day	MarketDataStatisticsReport(DP)
Article 4 (b) - Price Information: Daily	MarketDataStatisticsReport(DP)
Article 5 - Cost information by instrument	MarketDefinition(BU)/ MarketDataStatisticsReport(DP)
Article 6 - Likelihood of Execution by instrument (daily)	MarketDataStatisticsReport(DP)
Article 7 - Likelihood of Execution - continuous auction order book and quote driven execution venues	MarketDataStatisticsReport(DP)
Article 7 - (2)/(3)	MarketDataStatisticsReport(DP)
Article 8 - Additional information for request for quote execution venues	MarketDataStatisticsReport(DP)





## Proposed workflow for MDStatisticsReport

- We recommend at least one message per day i.e. at least 90 messages per quarter
- Define parameters in the component ‘MDStatisticParameters’ with assigned unique IDs for each set. For Ex:



- Actual statistical values will reference the previously defined parameter sets via the unique IDs

MDStatisticID = "T3a0930"  
 MDStatisticTime = <time of calculation>  
 MDStatisticValue = <average price>  
 MDStatisticValueType = 1 (absolute)



# Usage Examples

Number of orders or RFQs received	Best bid price at 9:30, 11:30	Mean time between request and provision of quotes
<p>MDStatisticName = "Count of orders/RFQs"            MDStatisticDesc = "Number of orders or request for quotes received"            MDStatisticType = 1 (Count)            MDStatisticScope = tbd (Orders and RFQs)            MDStatisticIntervalType = 3 (fixed date range)            MDStatisticFrequencyPeriod = 3            MDStatisticFrequencyUnit = 14 (months)            -----            MDStatisticID = "T6a"</p>	<p>MDStatisticName = "Best Bid price"            MDStatisticDesc = "Best bid price for 9:30.00"            MDStatisticType = 19 (Exchange best)            MDStatisticScope = 1 (Bid prices)            MDStatisticIntervalType = 0 (real time)            MarketDepth=1            MDStatisticFrequencyPeriod = 3            MDStatisticFrequencyUnit = 14 (months)            -----            MDStatisticID = "T7a"</p>	<p>MDStatisticName = "Mean time elapsed"            MDStatisticDesc = "Mean time between RFQ and provision of quotes"            MDStatisticType = tbd (Average duration)            MDStatisticScope = tbd (Request for quotes)            MDStatisticSubScope = tbd (Open)            MDStatisticIntervalType = 3 (Fixed date range)            MDStatisticFrequencyPeriod = 3            MDStatisticFrequencyUnit = 14 (months)            -----            MDStatisticID = "T9d"</p>
<p>TradeDate(75)=&lt;date1&gt;            MDStatisticID = "T6a"            MDStatisticValue = &lt;count&gt;            MDStatisticValueType = 1 (absolute)</p>	<p>MDStatisticID = "T7a"            MDStatisticTime=&lt;date&gt;&lt;9:30&gt;            MDStatisticValue = &lt;price&gt;            MDStatisticValueType = 1 (absolute)</p>	<p>TradeDate(75)=&lt;date1&gt;            MDStatisticID = "T9d"            MDStatisticValue = &lt;Average duration value&gt;            MDStatisticValueType = 1 (absolute)            MDStatisticValueUnit = 3 (Milliseconds)</p>
<p>TradeDate(75)=&lt;date2&gt;            MDStatisticID = "T6a"            MDStatisticValue = &lt;count&gt;            MDStatisticValueType = 1 (absolute)</p>	<p>MDStatisticID = "T7a"            MDStatisticTime=&lt;date&gt;&lt;11:30&gt;            MDStatisticValue = &lt;price&gt;            MDStatisticValueType = 1 (absolute)</p>	<p>TradeDate(75)=&lt;date2&gt;            MDStatisticID = "T9d"            MDStatisticValue = &lt;Average duration value&gt;            MDStatisticValueType = 1 (absolute)            MDStatisticValueUnit = 3 (Milliseconds)</p>



## FIX – Gap analysis

- No new FIX messages
- Updated existing FIX messages/components:
  - Added MiscFeesGrp in MarketDefinition(BU)
  - Added following existing FIX fields in MDStatisticsReport component block:
    - MDOriOriginType(1024)
    - TradSesMethod(338)
    - MDFeedType(1022)
    - ExposureDuration(1629)
    - ExposureDurationUnit(1916)
    - AggressorIndicator(1057)
- Introduced three new fields:
  - MDValueTier(TBD) - added to MDStatisticsReport
  - MDStatisticPartyRole(TBD) - added to MDStatisticsReport
  - MiscFeeDesc (TBD) - added to MiscFeesGrp
- Introduced new valid values for following existing tags:
  - MiscFeeType(139)
  - TradSesMethod(338)
  - MDStatisticType(2456)
  - MDStatisticScope(2457)
  - MDStatisticSubScope(2458)
  - MDStatisticRatioType(2472)



# RTS 28 Reports

## Sell Side or Buy Side with direct access to venue inc.SI

Class of Instrument (1)	Equities				
Notification if <1 average trade per business day in the previous year (2)	N				
Top five execution venues ranked in terms of trading volumes (descending order) (3)	Proportion of volume traded as a percentage of total in that class (4)	Proportion of orders executed as percentage of total in that class (5)	Percentage of passive orders (6)	Percentage of aggressive orders (7)	Percentage of directed orders (8)
BCXE	16.3%	21.3%	14.2%	48.9%	0.3%
XLON	12.1%	4.2%	5%	11%	0%
XLDN	8.9%	6.5%	28%	62.9%	0%
TRQX	8.2%	6.4%	21.3%	49.1%	0%
XFRA	6.3%	7.1%	14.9%	52.7%	0.1%



## Art 65.6

### Sell Side or Buy Side onward routing to another MiFID firm for execution

Class of Instrument (1)	Equities		
Notification if <1 average trade per business day in the previous year (2)	N		
Top five execution venues ranked in terms of trading volumes (descending order) (3)	Proportion of volume traded as a percentage of total in that class (4)	Proportion of orders executed as percentage of total in that class (5)	Percentage of directed orders (6)
Broker 1 (LEI)	16.5%	14.3%	0%
Broker 2 (LEI)	14.1%	4.2%	0.5%
Broker 3 (LEI)	12.2%	6.5%	0%
Broker 4 (LEI)	11.6%	6.4%	0%
Broker 5 (LEI)	10.8%	7.1%	0.0%



## RTS 28 using MTF or OTF

Class of Instrument (1)	Debt Instrument: Bonds		
Notification if <1 average trade per business day in the previous year (2)	N		
Top five execution venues ranked in terms of trading volumes (descending order) (3)	Proportion of volume traded as a percentage of total in that class (4)	Proportion of orders executed as percentage of total in that class (5)	Percentage of directed orders (6)
JPMorgan	10.5%	9.3%	0%
Deutsche Bank	8.2%	4.2%	0.5%
Credit Suisse	8.1%	8.5%	0%
Goldman Sachs	7.8%	5.4%	0%
RBS	6.9%	7.1%	0.0%



## Where We Are Now

Interim draft (v30) has been sent to European regulators for feedback

Issues outstanding for clarification:

- Whether proprietary trades will incur Best Ex (CESR 07-320 Four Fold Test)
- How Indicative quotes should be included
- Branches passing orders to another legal entity will have to submit Art. 65.6
- Execution Venue or the Broker when routing bond orders
- LEI or MIC - LEI to confirm identity of broker OTC, MIC as venue, including SI
- Specifics:
  - Table 3 – Price Information Intra Day – all trades= total value vs single trades = price + size; price transacted after 9:30 T+2 mins – all trades or 1<sup>st</sup> singular trade
  - RTS 28 - what currency and what FX rate should be used to normalise?



# Your Working Groups need YOU!