

FIX Trading Community Post-trade Working Group

FIX TRADING
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A Perspective on Commission Unbundling under MiFID II

12th April 2017





Agenda

- Quick review of the regulatory position as currently understood
- Buy-side obligations
- Post-trade workflow proposal from the FTC Post-trade Working Group working with the FTC MiFID II committee



UK FCA view

- **We expect the level 3 text from the FCA for the UK market in June 2017**

What we believe the FCA is targetting:

- CSA can be used to fund a Research Payment Account (RPA)
- Brokers must safeguard assets – FCA expect a step-change in the management of commissions
- Brokers can be RPAs
- UCITS and AIFMD funds are in scope
- FICC in scope



AMF (France) view

- CSA can be used to fund a Research Payment Account (RPA)
- Brokers can be RPAs
- UCITS and AIFMD funds are out of scope
- FICC not mentioned
- Corporate can be paid for using client funds



SEC

- Unlikely to introduce an RPA-style mechanism any time soon
- US brokers are not able to receive cash payments for research
- Safe Harbour rules allow:
 - corporate access spend
 - Market Data and other services that are not eligible in Europe



Issues to consider

- Funding model
 - From P&L
 - Accounting model
 - Transactional (CSA-like)
- Research Evaluation
 - Limitations with existing broker voting methods
 - Account for usage and consumption
 - Account for paid research
- Regulatory reporting of research valuation and budgeting
 - Ex-ante: Research budget + Estimated Research Charge
 - Ex-post: Actual Research Charge + spending breakdown
- Monitoring consumption and funding levels

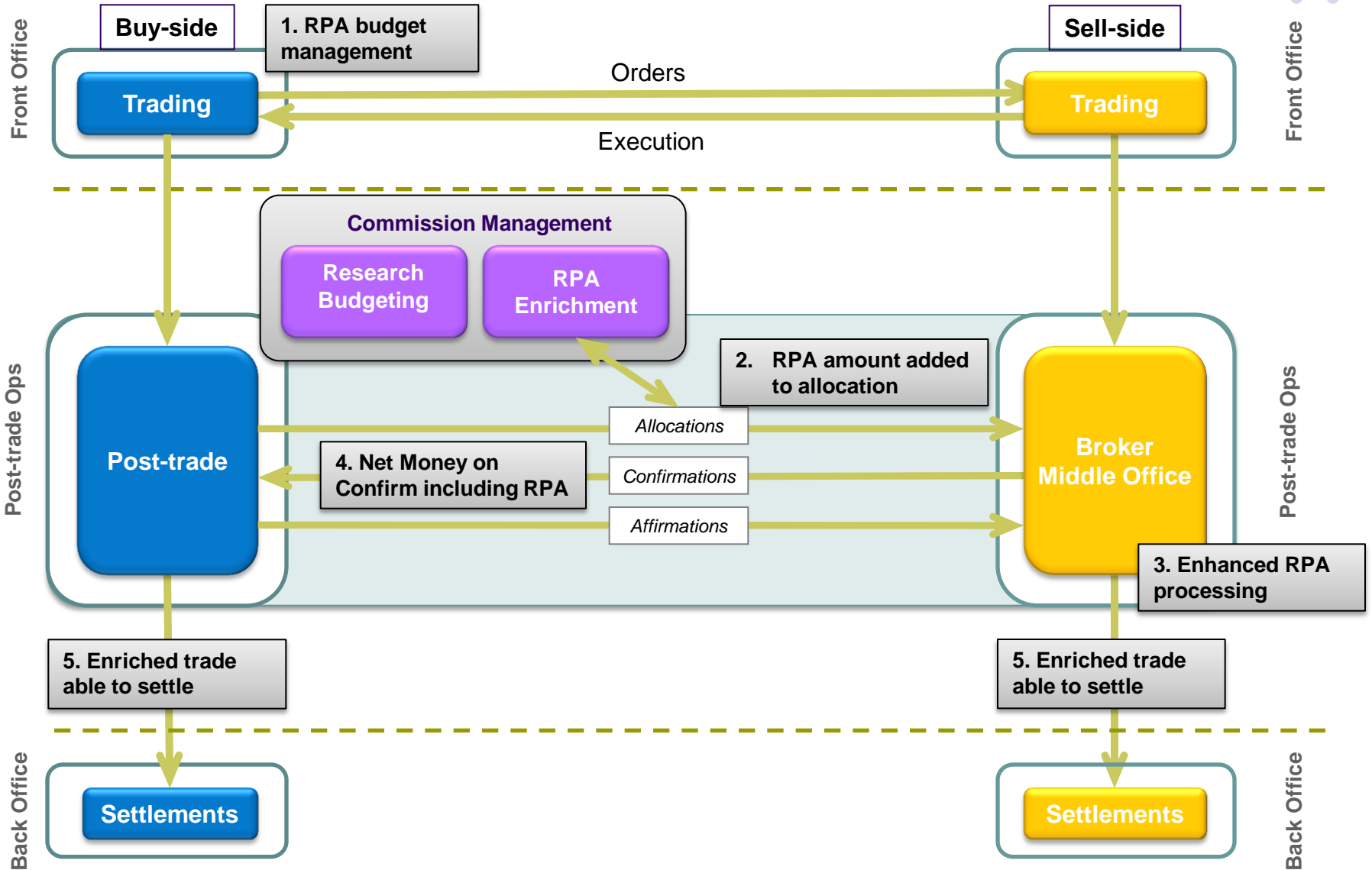


Industry direction of travel

- Pre-trade
 - Trend towards an Execution-only commission rate at order time
 - Exception in Scandinavia where the local buy-side have a execution/research split at order time
- Post-trade
 - Two commission values per allocation
 - No research commission at block level
 - Broker will not be able to accurately calculate the research payment value if the buy-side implements up-to-date budgeting and funding capability
 - Broker absorbs the stated RPA value, and restates that amount on the confirmation
 - The confirmed Settlement Consideration includes the RPA value, in order that the payment is part of the transaction



Enhanced RPA workflow





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