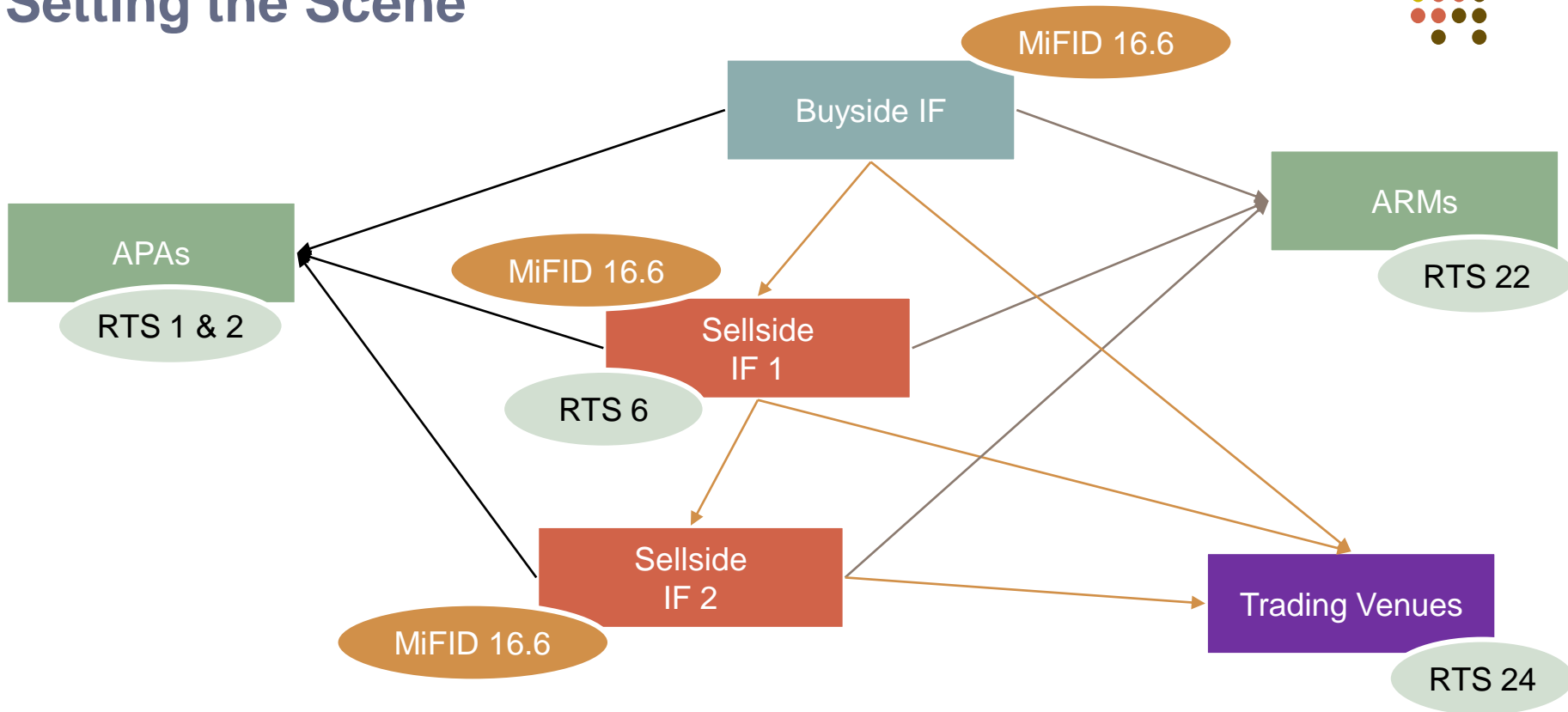# MiFID II Presentation

**Jim Kaye,** Director & Co-Chair of the Global Steering Committee, FIX Trading Community, Director of Execution Services, **Bank of America Merrill Lynch**
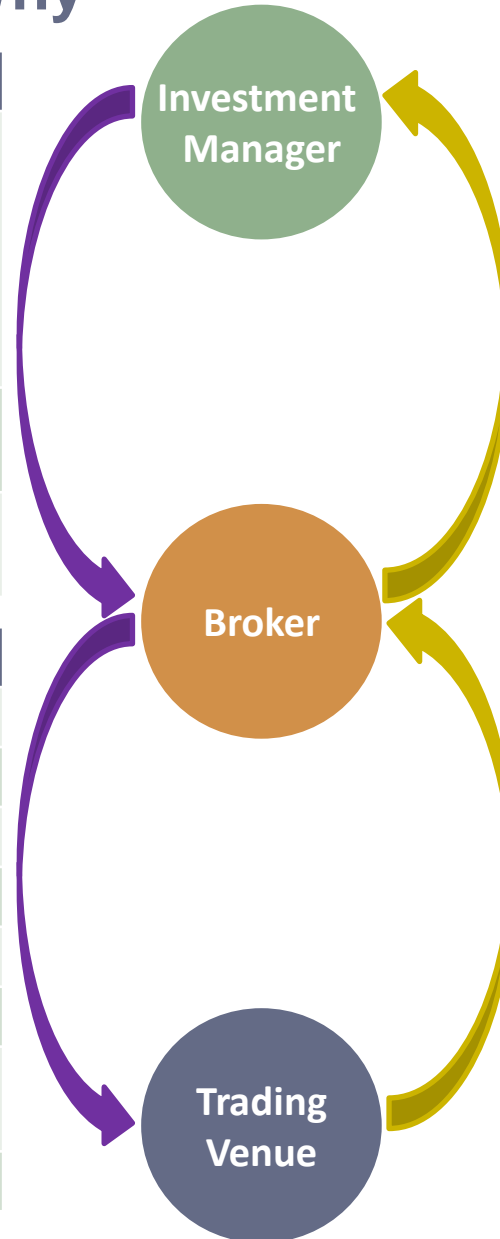
# Setting the Scene



- **We need to ensure that everybody involved in the trade flow...**
  - **Has sufficient data to meet their own record keeping obligations**
  - **Has sufficient data to meet their own regulatory reporting obligations**
  - **Provides sufficient data up/down stream to allow other parties to meet their obligations**

2

# Who Needs What & Why

| What | Why |
|------|-----|
| Sell indicator:<br>▪ Long<br>▪ Short<br>▪ Short exempt<br>▪ 'Undisclosed' | Broker transaction reporting |
| SI indicator | Trade reporting ("who reports") |
| Aggregated order | Sending to venues, transaction reporting |

| For venue record keeping |
|---|
| Order capacity |
| Client identifier |
| Submitting firm |
| Non-executing broker |
| Investment decision id |
| Exec within firm id |
| Flags (DEA, algo, commodity deriv, liquidity provision) |
| Aggregated order (AGGR) |

**Investment Manager**

**Broker**

**Trading Venue**

| What | Why |
|------|-----|
| Trade capacity | IM transaction reporting |
| Trade report indicator | Trade reporting ("who reports") |
| SI indicator | Trade reporting ("who reports") |
| Exec venue identifier | IM transaction reporting |
| OTC trade flags | IM transaction/trade reporting |
| Timestamps (up to µs) | IM transaction/trade reporting |

| For member transaction reporting |
|---|
| Trade capacity |
| Transaction id |
| Waiver flags |
| Timestamps (up to µs) |

3

# Trading Venue Record Keeping

- **Trading venues have record keeping obligations**

- **This includes some 'personal' information ("national ids")**

- **Common approach agreed by a number of venues:**

  - Use short codes on trading messages

  - Members to provide mapping files to the trading venues

  - This data used only when responding to regulatory queries
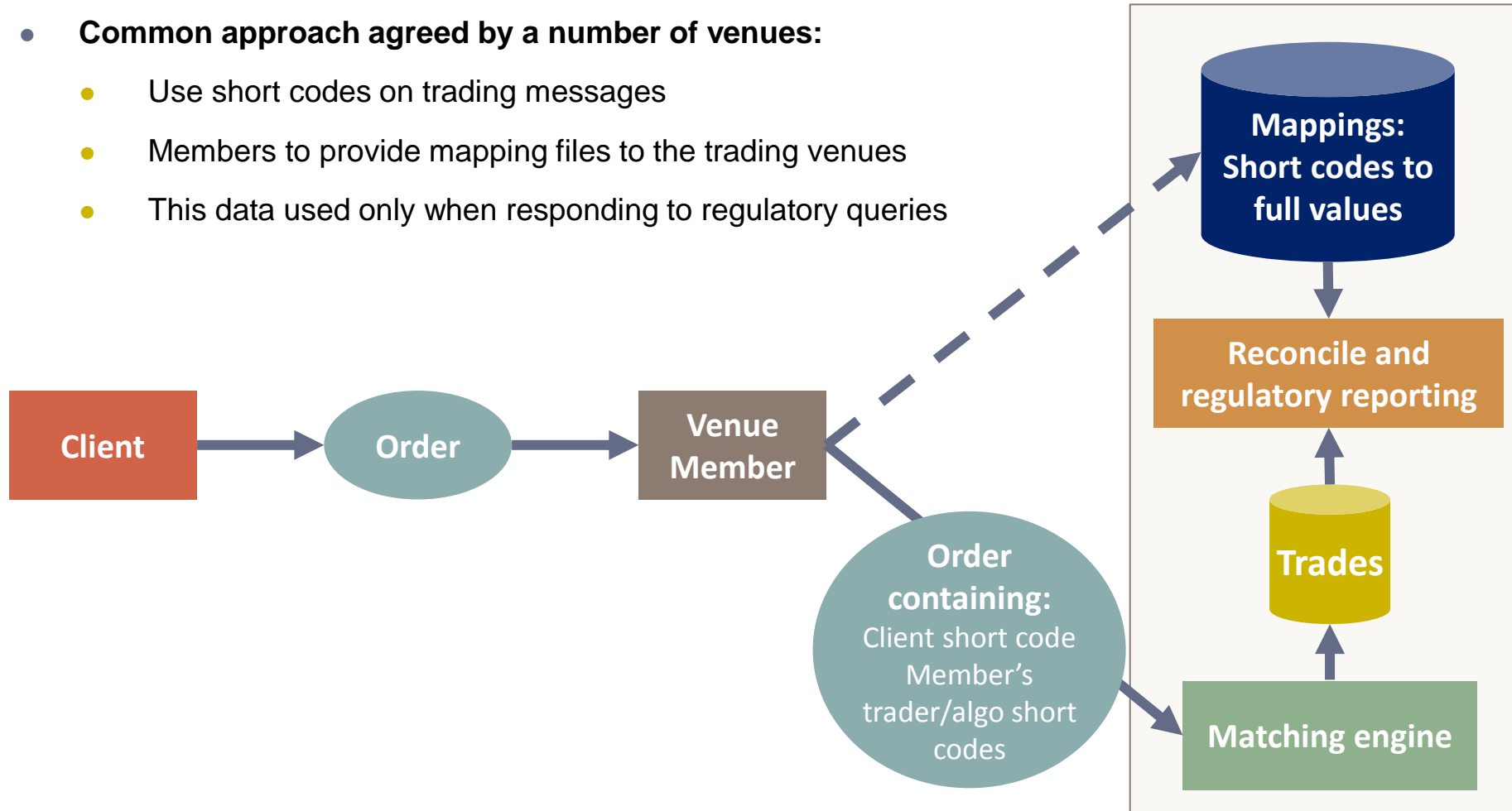
# Short Sell Identification

*"An investment firm shall determine, on a best efforts basis, the short sales transactions in which its client is the seller"*                                    *(RTS 22 article 11)*

| MiFID Value | Description | FIX Value (Side 54) |
|---|---|---|
| **SELL** | No short sell | 2 Sell |
| **SESH** | Short sale with no exemption | 5 Sell short |
| **SSEX** | Short sale with exemption | 6 Sell short exempt |
| **UNDI** | Information not available | H Undisclosed sell |

**Three options:**
A) **Full short sale marking (no UNDI)**
B) **No short sale marking, everything UNDI (new FIX value)**
C) **No short sale marking, everything 'sell' (existing FIX value but 'wrong meaning')**

# Trading Instructions and Consents

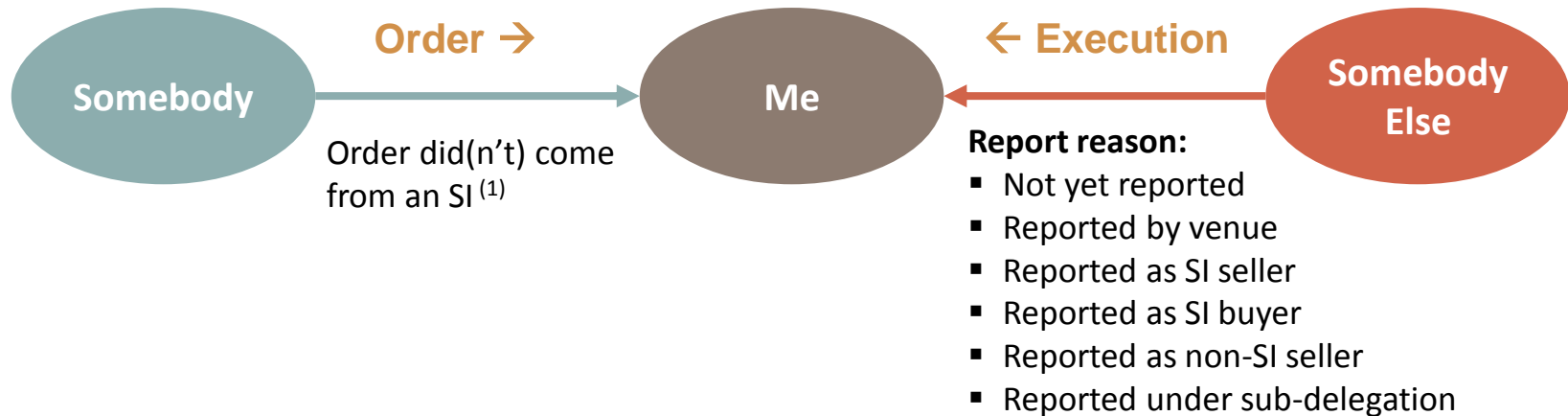**Where Can This Order Be Traded?**

- New field ExDestinationType(tbd)

    - 0 = No trading venue restriction

    - 1 = Can be traded only on a trading venue

    - 2 = Can be traded only on a Systematic Internaliser (SI)

    - 3 = Can be traded on a trading venue or Systematic Internaliser (SI)

# Trade Reporting – Who, What & When

## Who

- Venue → SI → Seller (with no duplication)

| | | |
|---|---|---|
| **Somebody** | **Order →**<br>Order did(n't) come from an SI [1] | **Me** |

**← Execution**

**Somebody Else**

**Report reason:**
- Not yet reported
- Reported by venue
- Reported as SI seller
- Reported as SI buyer
- Reported as non-SI seller
- Reported under sub-delegation

## What

- Trade facts including venue of execution (venue MIC, XOFF, SINT), trade id
- Publication date/time (note can be derived by the APA)

## When

- Deferral = own account + large in scale + deferral requested + deferral permitted

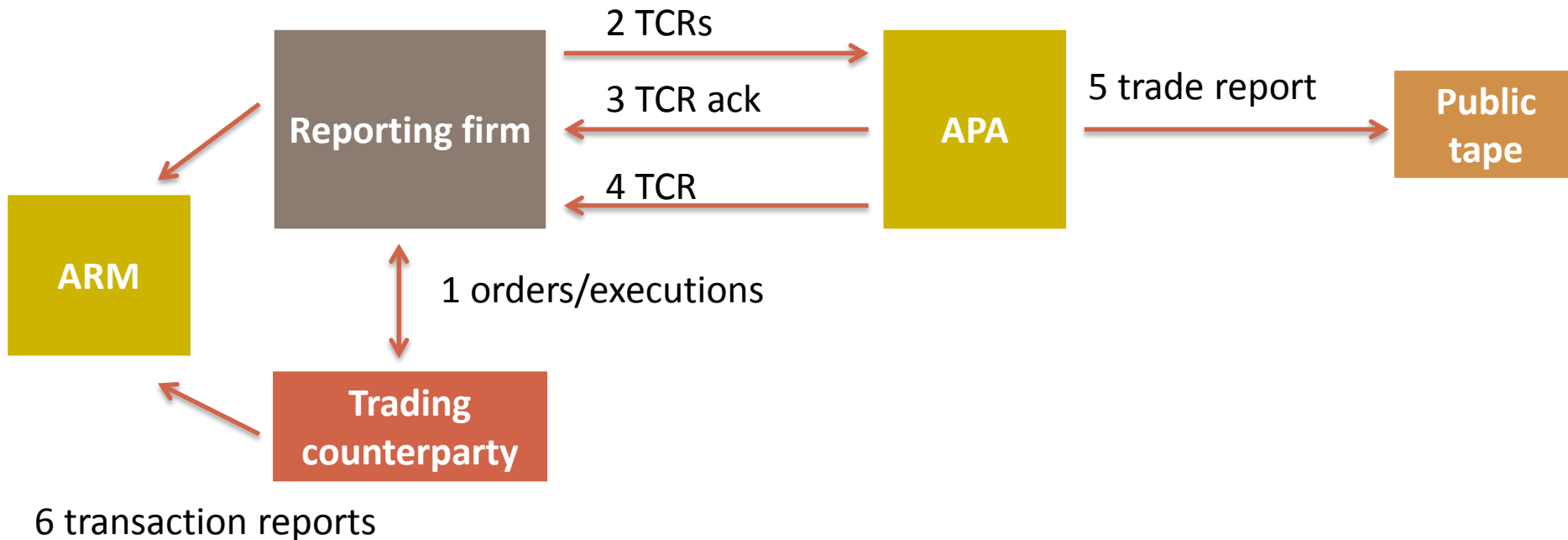## Other trade reporting details required on transaction reports

- Pre-trade waiver flags (market-side reports where trading on trading venues)
- OTC flags (transaction reports for off-venue trading) – includes the deferral flag

# Trade Reporting – Data Sourcing & Workflow

**Who Produces What**

- Core trade facts (including execution time) – the reporting firm

- Deferral request – the reporting firm

- Transaction id – the APA

- Publication time and venue – the APA

- Trade flags – varies...

# Trade Reporting – "Who Reports" – The Tags

| Data element | Full FIX Details | FIX 4.x Details* |
|---|---|---|
| "Order came from an SI" | New OrderAttributeGrp component containing three fields, NoOrderAttributes(2593), OrderAttributeType(2594) and OrderAttributeValue(2595) with values:<br>OrderAttributeType(2594)=5 (Systematic internaliser order)<br>OrderAttributeValue(2595)="Y" | 8015 OrderAttributeTypes - flattened version of OrderAttribute component |
| Trade report indicator | New TradeReportingIndicator field (2524) with values:<br>0 = Trade has not (yet) been reported<br>1 = Trade has been reported by a trading venue as an "on-book" trade<br>2 = Trade has been reported as a "systematic internalizer" seller trade<br>3 = Trade has been reported as a "systematic internalizer" buyer trade<br>4 = Trade has been reported as a "non-systematic internalizer" seller trader<br>5 = Trade has been reported under a sub-delegation arrangement by an investment firm to a reporting facility (e.g. APA) on behalf of another investment firm | n/a (as full details) |
| Sub-delegated reporting | OrderAttributeType(2594)=<tbd> (All executions for the order are to be reported to an APA)<br>OrderAttributeValue(2595)=<APA ID> | n/a (as full details) |

*To be used by implementations that cannot accommodate later tag numbers in earlier FIX versions, or repeating groups.

# Meet The Trade Flags – Venue Flags

| Data element | Full FIX Details | FIX 4.x Details |
|---|---|---|
| RFPT ref price waiver flag | New TrdRegPublicationGrp component with fields TrdRegPublicationType(2669) = 0 (Pre-trade transparency waiver) TrdRegPublicationReason(2670) = 3 (No public price preceding order as public reference price was used for matching orders) | 8013 TrdRegPublicationReasons - flattened version of TradeRegPublicationGrp component |
| NLIQ NT flag | New TrdRegPublicationGrp component with fields TrdRegPublicationType(2669) = 0 (Pre-trade transparency waiver) TrdRegPublicationReason(2670) = 0 (No preceding order in book as transaction price set within average spread of a liquid instrument) | 8013 TrdRegPublicationReasons - flattened version of TradeRegPublicationGrp component |
| OILQ NT flag | New TrdRegPublicationGrp component with fields TrdRegPublicationType(2669) = 0 (Pre-trade transparency waiver) TrdRegPublicationReason(2670) = 1 (No preceding order in book as transaction price depends on system-set reference price for an illiquid Instrument) | 8013 TrdRegPublicationReasons - flattened version of TradeRegPublicationGrp component |
| PRIC NT flag | New TrdRegPublicationGrp component with fields TrdRegPublicationType(2669) = 0 (Pre-trade transparency waiver) TrdRegPublicationReason(2670) = 2 (No preceding order in book as transaction price is subject to conditions other than current market price) | 8013 TrdRegPublicationReasons - flattened version of TradeRegPublicationGrp component |

# Meet The Trade Flags – Off-Venue Flags

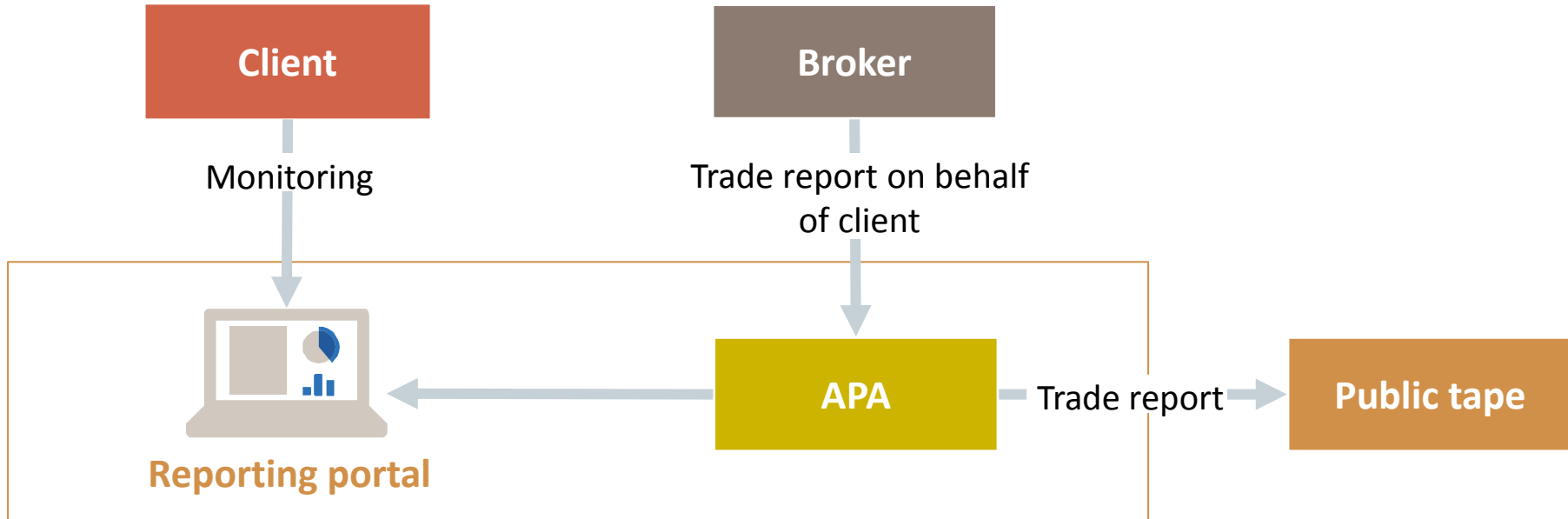| Data element | Full FIX Details | FIX 4.x Details |
|---|---|---|
| BENC flag | SecondaryTrdType(855) - existing field from 4.4, being added to execution reports<br>64 -> Benchmark | n/a (as full details) |
| SDIV flag | TradePriceConditionGrp component - existing from 4.4, being added to execution reports<br>TradePriceCondition(1839) = 13 (Special dividend) | 8014 TradePriceConditions - flattened version of TradePriceConditions component |
| TNCP flag | TradePriceConditionGrp component - existing from 4.4, being added to execution reports<br>TradePriceCondition(1839) = 16 (Trade exempted from trading obligation) | 8014 TradePriceConditions - flattened version of TradePriceConditions component |
| ACTX flag | TrdSubType(829) - existing field from 4.4, being added to execution reports<br>37 -> Crossed trade | n/a (as full details) |
| RPRI SI flag | TradePriceConditionGrp component - existing from 4.4, being added to execution reports<br>TradePriceCondition(1839) = 14 (Price improvement) | 8014 TradePriceConditions - flattened version of TradePriceConditions component |
| ILQD SI flag (as per RTS 1) | New TrdRegPublicationGrp component with fields TrdRegPublicationType(2669) = 1 (Post-trade deferral)<br>TrdRegPublicationReason(2670) = 4 (No public price quoted as order size is above standard market size") | 8013 TrdRegPublicationReasons - flattened version of TradeRegPublicationGrp component |
| ILQD deferral flag (as per RTS 2) | New TrdRegPublicationGrp component with fields TrdRegPublicationType(2669) = 1 (Post-trade deferral)<br>TrdRegPublicationReason(2670) = 7 (Deferral due to "Illiquid instrument") | 8013 TrdRegPublicationReasons - flattened version of TradeRegPublicationGrp component |
| SIZE SI flag (as per RTS 1) | New TrdRegPublicationGrp component with fields TrdRegPublicationType(2669) = 1 (Post-trade deferral)<br>TrdRegPublicationReason(2670) = 5 (No public price quoted as order is above standard market size) | 8013 TrdRegPublicationReasons - flattened version of TradeRegPublicationGrp component |
| SIZE deferral flag (as per RTS 2) | New TrdRegPublicationGrp component with fields TrdRegPublicationType(2669) = 1 (Post-trade deferral)<br>TrdRegPublicationReason(2670) = 8 (Deferral due to "Size specific") | 8013 TrdRegPublicationReasons - flattened version of TradeRegPublicationGrp component |
| TPAC flag | TrdType(828) - existing field from 5.0<br>65 -> Package trade | n/a (as full details) |
| XFPH flag | TrdType(828) - existing field from 5.0<br>2 -> Exchange for physical | n/a (as full details) |
| LRGS deferral flag | New TrdRegPublicationGrp component with fields TrdRegPublicationType(2669) = 1 (Post-trade deferral)<br>TrdRegPublicationReason(2670) = 6 (Deferral due to "Large in scale") | 8013 TrdRegPublicationReasons - flattened version of TradeRegPublicationGrp component |

# Meet The Trade Flags – Supplementary Deferral

| Data element | Full FIX Details | FIX 4.x Details |
|---|---|---|
| LMTF deferral flag | RegulatoryReportType(1934)=11 (Limited details trade) | n/a (as full details) |
| FULF deferral flag | RegulatoryReportType(1934)=17 (Full Details of Earlier "Limited Details Trade") | n/a (as full details) |
| DATF deferral flag | RegulatoryReportType(1934)=12 (Daily aggregated trade) | n/a (as full details) |
| FULA deferral flag | RegulatoryReportType(1934)=18 (Full Details of Earlier "Daily Aggregated Trade") | n/a (as full details) |
| VOLO deferral flag | RegulatoryReportType(1934)=13 (Volume omission trade) | n/a (as full details) |
| FULV deferral flag | RegulatoryReportType(1934)=19 (Full Details of Earlier "Volume Omission Trade") | n/a (as full details) |
| FWAF deferral flag | RegulatoryReportType(1934)=14 (Four weeks aggregation trade) | n/a (as full details) |
| FULJ deferral flag | RegulatoryReportType(1934)=20 (Full Details of Earlier "Four weeks aggregation Trade") | n/a (as full details) |
| IDAF deferral flag | RegulatoryReportType(1934)=15 (Indefinite aggregation trade) | n/a (as full details) |
| VOLW deferral flag | RegulatoryReportType(1934)=16 (Volume Omission Trade, Eligible for Subsequent Enrichment in Aggregated Form | n/a (as full details) |
| COAF deferral flag | RegulatoryReportType(1934)=21 (Full Details in Aggregated Form of Earlier "Volume Omission Trade, Eligible for Subsequent Enrichment in Aggregated Form") | n/a (as full details) |

# "Assisted" Trade Reporting (aka "Sub-delegation")

```
Client  ──Monitoring──▶  [Reporting portal: laptop]  ◀──  APA  ──Trade report──▶  Public tape
Broker  ──Trade report on behalf of client──▶  APA
```

**How it works**

- Investment manager has a commercial relationship with an APA
- Broker provides trade reports to the APA
- Broker flags the trades as having been reported on behalf of the client
- Investment manager retains responsibility for the trade reports

**Benefits?**

- Avoids the need to pass certain execution fields to the investment manager (e.g. OTC flags)

# Use of FIX Tag 29 (LastCapacity) under MiFID II

- From MiFID II Transparency Working Group

| Value & Description | Explanatory Guidance |
|---|---|
| 1 (agent) | ▪ An execution on a public market or from an external party (e.g. broker) conducted on an agency basis<br>▪ For MiFID II, this will be used to represent 'AOTC' capacity |
| 2 (cross as agent) | ▪ An execution between two clients of the executing firm, taking place within the firm, and conducted on an agency basis<br>▪ For MiFID II, this will be used to represent 'AOTC' capacity |
| 3 (cross as principal) | ▪ An execution on a public market or from an external party (e.g. broker) conducted on a matched principal basis in line with the MiFID definition of 'MTCH' capacity |
| 4 (principal) | ▪ An execution where the executing firm is committing capital (e.g. a risk fill or change in price on fills obtained from markets or external parties)<br>▪ Where the FIX execution message is being used to communicate an indicative price and quantity (for example when being used by the executing firm to write a swap), regardless of the source of liquidity<br>▪ For MiFID II, this will be used to represent 'DEAL' capacity |
| 5 (riskless principal) | ▪ An execution on a public market or from an external party (e.g. broker) conducted on a riskless principal basis<br>▪ For MiFID II, this will be used to represent 'DEAL' capacity |

# Dealing Capacity

| Tag 30 Value | Current Capacity or Trading Style | MiFID II Capacity | Tag 29 | Broker's Client-Side Transaction Report |
|---|---|---|---|---|
| **Non DEA** → Internal | Agency | AOTC | 2 | Every Market Fill |
| | Principal | DEAL | 4 | Every Client Fill |
| | Riskless Principal | DEAL | 5 | Every Client Fill |
| | Riskless Principal | MTCH | 3 | Every Market Fill |
| **Non DEA** → Venue/3rd party | Agency | AOTC | 1 | Every Market Fill |
| | Principal | DEAL | 4 | Every Client Fill |
| | Riskless Principal | DEAL | 5 | Every Client Fill |
| | Riskless Principal | MTCH | 3 | Every Market Fill |
| **DEA** → Venue | Agency | AOTC | 1 | Every Market Fill |
| | Riskless Principal | MTCH | 3 | Every Market Fill |

# Transaction Reporting & Execution Reporting

**The Rules**

- Market side reports from investment managers correlate with brokers' client side reports.

- MTCH, or AOTC (where not using the internal counterparty – report each fill individually.

- DEAL - reporting is at the level of 'client fill' which would generally be an average price execution at the level of the client's order.

- The broker will report their client-side report either using venue XOFF or their SI MIC.


**The Requirements**

- Brokers to pass dealing capacity up to their client to ensure the correct level of transaction reporting (i.e. individual fill vs. client fill).

- When dealing in DEAL capacity, brokers to distinguish between notices of execution and the 'client fill'.

- Brokers to provide the 'reporting MIC' as used in the transaction report 'venue' field, i.e. XOFF or an SI MIC.

- Brokers to provide OTC trade flags to the client for their transaction report..

# Transaction Reporting & Execution Reporting

**MTCH and AOTC (minus the internal counterparty)**

- This will be identified using FIX tag 29 LastCapacity:

    - 29=1 AOTC (trading on venues or other brokers)

    - 29=2 AOTC (agency crosses)

    - 29=3 MTCH

- Any execution with 29=1, 2 or 3 should be considered to be transaction reportable with a venue of XOFF and with no OTC trade flags.

**DEAL**

- Identified using FIX tag 29 LastCapacity:

    - 29=4 DEAL (principal)

    - 29=5 DEAL (riskless principal)

- Ignore FIX execution reports with order status 'part fill' for the purposes of transaction reporting.

- Any FIX execution report that puts the order into a terminal state for the current trading day (i.e. DFD, filled, cancelled) is to be considered transaction reportable. This message will be expected to include the reporting MIC and any relevant OTC trade flags.

# Work In Progress...

**Trade Reporting**

- 'On behalf of' for 'assisted' trade reporting.

- Finalising the 'RTS trees'.

**Transaction Reporting**

- Reporting MIC.

- Understanding of when to use an SI MIC vs. XOFF.

- AOTC with internal counterparty.

- Real world scenarios...

# Get Involved, Stay Involved

**We Need Help To...**

- Validate the work.

- Communicate to the right people.

- Identify/work through scenarios.

**The Tools...**

- FIX website.

- Discussion forums.

- The working groups.

# GET ON WITH IT

# Disclaimer