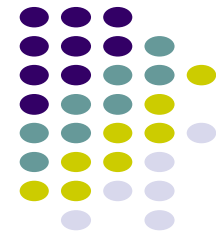


Data & Regulation



EMEA Trading Conference 2018

Jim Kaye, Director & Co-Chair of the Global Steering Committee,
FIX Trading Community, Managing Director, **Bank of America**
Merrill Lynch



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FIX TRADING
COMMUNITY™
INDUSTRY-DRIVEN • INDEPENDENT • NEUTRAL

GPDR





Overview

- **General Data Protection Regulation.**
- Comes into effect 25th May.
- A reaction to the rise of 'big data', and response to significant data breaches (e.g. TalkTalk, Equifax).
- Aims to strengthen and normalise data protection regulation across the EU.
- Fines for non compliance up to the greater of 4% of annual global revenue or 20mn EUR.



What It Does

- Defines 'personal data' (e.g. email addresses, photos), noting this applies to both professional and personal lives.
- Definition of data controllers (organisations that store or use personal data), and data protection officers (only required above a certain size).
- Requirement to safeguard personal data e.g. through encryption or use of tokens, and hold as little as possible.
- Provides scenarios under which personal data may be retained/used with consent requirements for some.
- Creates the 'right of access' (i.e. you can ask to see the data being held about you).
- Creates the 'right of erasure' (i.e. you can demand, in certain circumstances, that be erased).



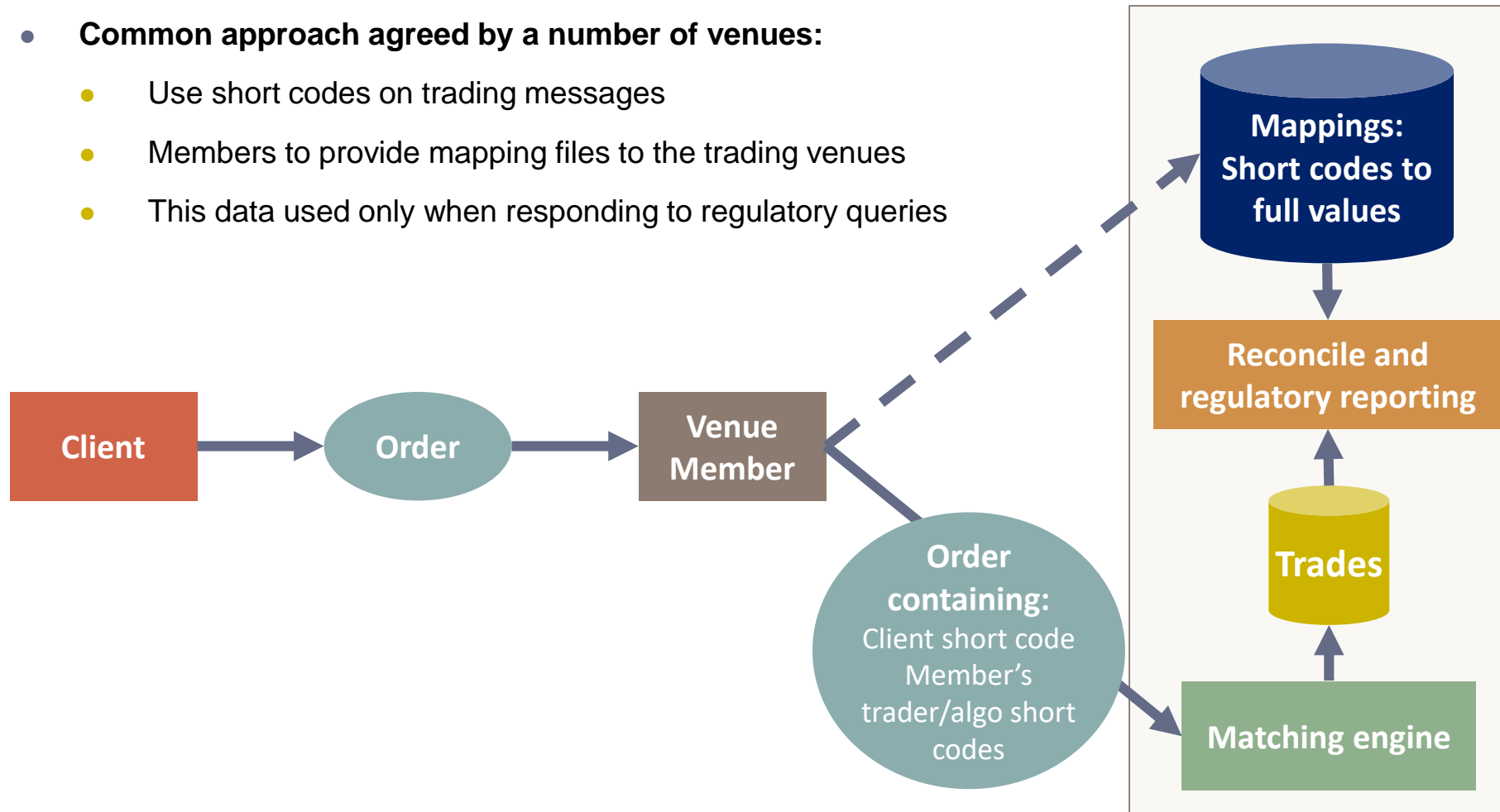
Perceived Conflicts with MiFID/MAR

- MiFID II and MAR concern **transparency** and **traceability**.
- GDPR concerns privacy and minimal data retention.
- The two can co-exist given an appropriate implementation.
 - Secure/encrypted data storage and transmission.
 - Use of tokens.
- MiFID II/MAR and personal data usage.
 - Order record keeping (storage, transmission to venues).
 - Transaction reporting (storage, transmission to regulators).
 - Article 59 reporting.
 - Documentation.



Use of Tokens - Trading Venue Record Keeping

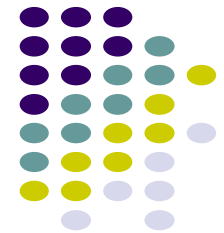
- Trading venues have record keeping obligations
- This includes some ‘personal’ information (“national ids”)
- Common approach agreed by a number of venues:
 - Use short codes on trading messages
 - Members to provide mapping files to the trading venues
 - This data used only when responding to regulatory queries



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Pre- and Post-Trade Transparency





Post-Trade Transparency – Scope

- Territorial scope for trading on venues
 - EU venues – reported by the venue
 - Non-EU venues – considered reported by the venue **only if** ‘comparable’
- Territorial scope for trading OTC
 - At least one of the parties is a MiFID investment firm – reported by the firm
 - Applies also to non-EU branches (but not non-EU subsidiaries)
- Variance of implementation for non-EU activity
- FCA round table end March



Post-Trade Transparency – Handling of Give-ups

- Does 'give-up' apply to swap hedges between PB/EBs?
- ISDA analysis on scenarios and implications:
 - Yes → no post-trade transparency
 - No → post-trade transparency required with TNCP flag
 - No → post-trade transparency required without TNCP flag
- Brokers taking different views pending clarification from regulators
- Industry groups (e.g. ISDA) in discussion with ESMA

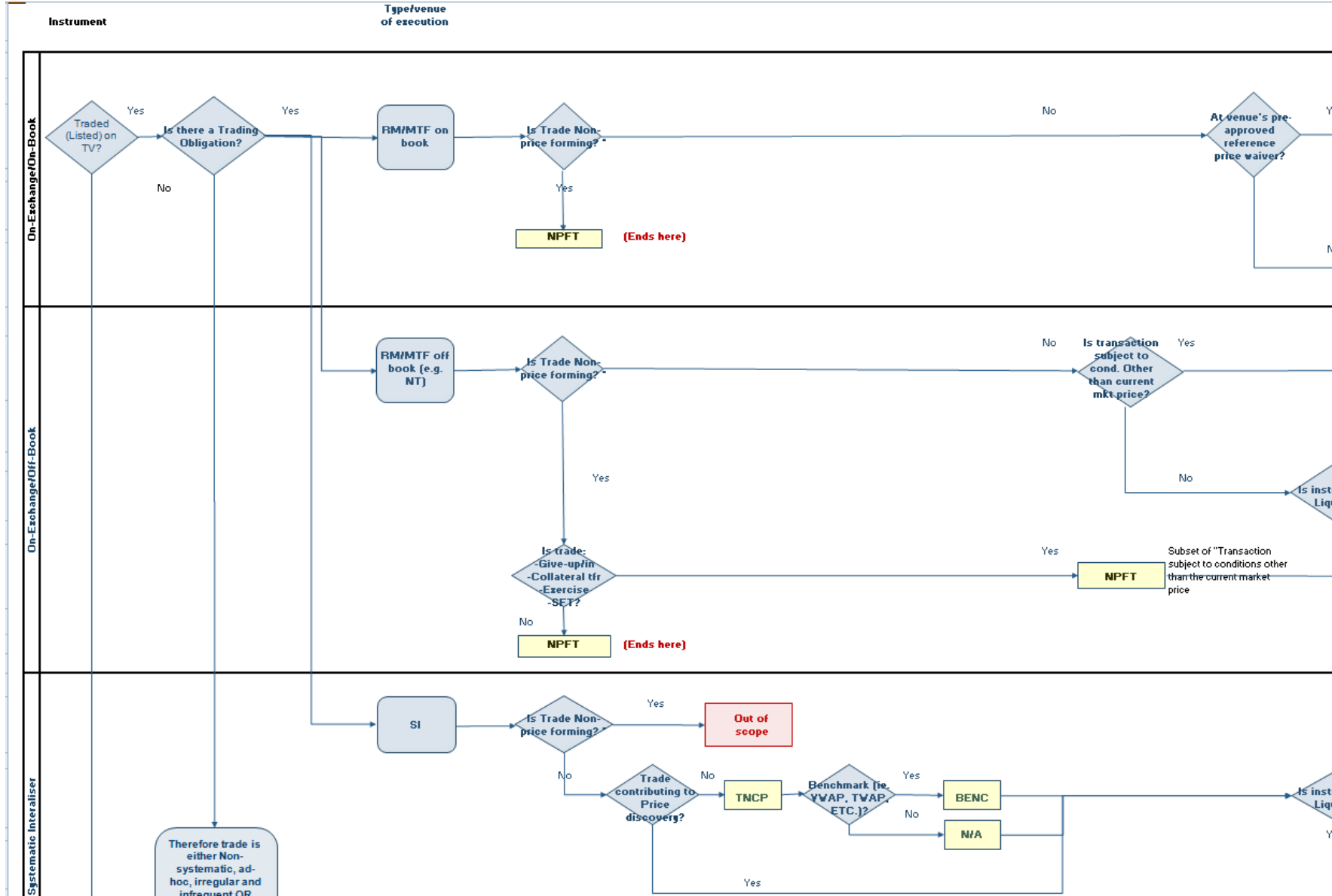


Post-Trade Transparency – SI Activity

- Flagging of non-price-forming off-venue activity:
 - As SI (SINT)
 - As OTC (XOFF)
 - With/without TNCP flag
- Variance of implementation across broker community (and APA capabilities).
- FIX Transparency WG reconvened to address this issue.
 - Polling contributors, APAs and data distributors on their capabilities.
- Data currently provides an ambiguous/misleading view of liquidity (specifically addressable liquidity).
- Need a common definition of ‘addressable liquidity’ and build to it.



Don't Forget These...





European Consolidated Tape

- Compare US consolidated tape
 - Utility model managed by Consolidated Tape Association, approved by SEC
 - Underlying data much cheaper than in Europe
- Possibility of public procurement process should the industry not come up with a commercial CTP.
- Issues with underlying instrument reference data.
- Needs to have all TVs and APAs, regardless of materiality
 - Market data costs a significant barrier
 - Implementation effort
- A CTP at MiFID instrument (ISIN) level unlikely to be very useful (differences in trading hours, market models, trading currencies etc.).
- Some venue services exist but limited standardisation.
- Result = No common view of trading in the EU.



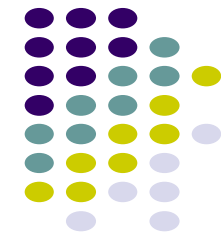
Pre-Trade Data

- Still perceived as expensive (compared with, say, US market).
- No obvious downward impact on pricing arising from MiFID II
 - Some venues have increased prices for feeds consumed by SIs.
 - Another has increased prices for feeds consumed by MTFs.
- Can you use SI data on its own?
 - Continuous trading top of book, closing prices.
 - Combine, compare, discard outliers.
 - Where do you get the data from?
- Availability of 15 minute delayed free feeds.
 - Limited availability, particularly on direct feeds.
 - Some data providers only publishing for a short period after the 15 mins.

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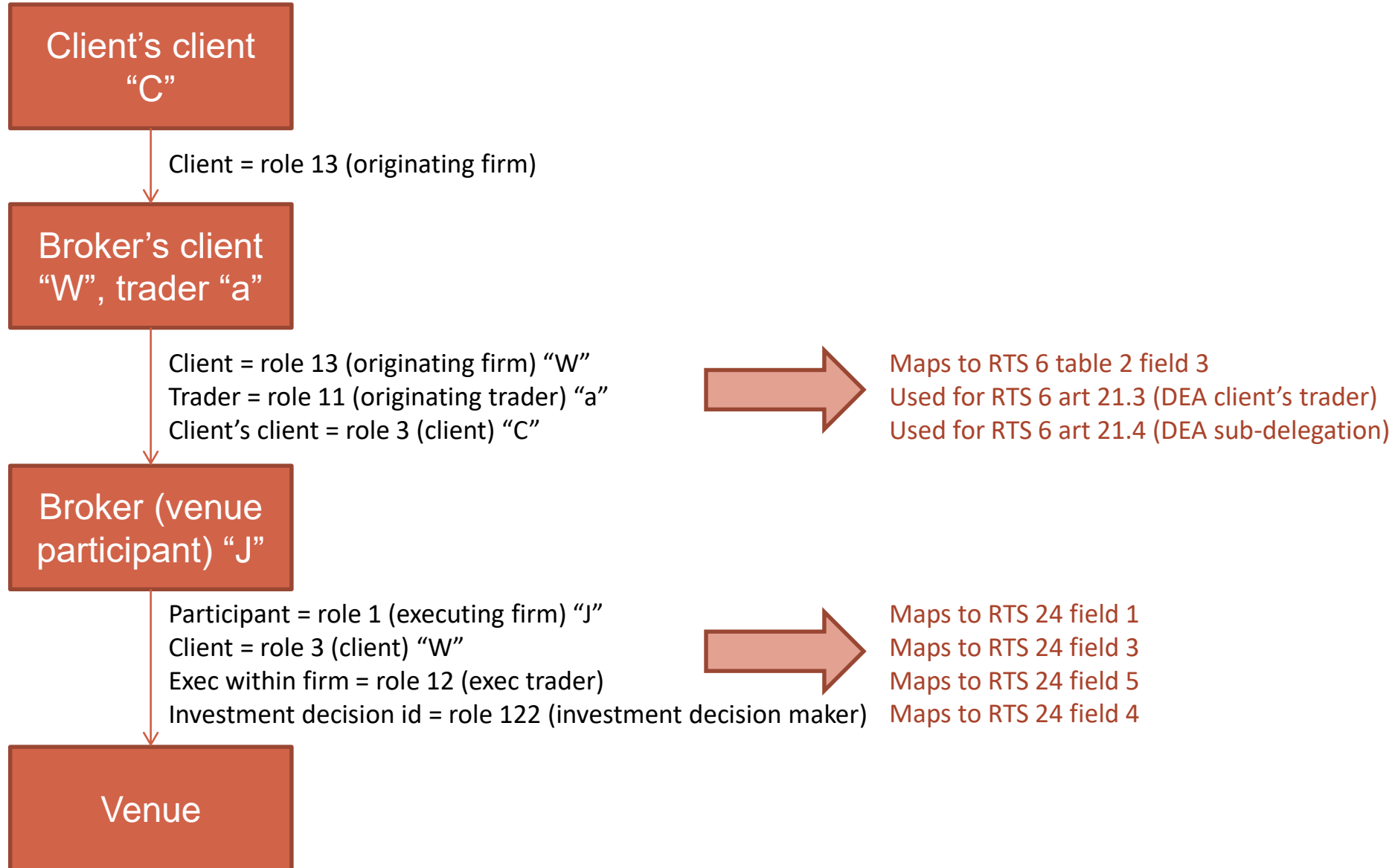


Counterparty Identification





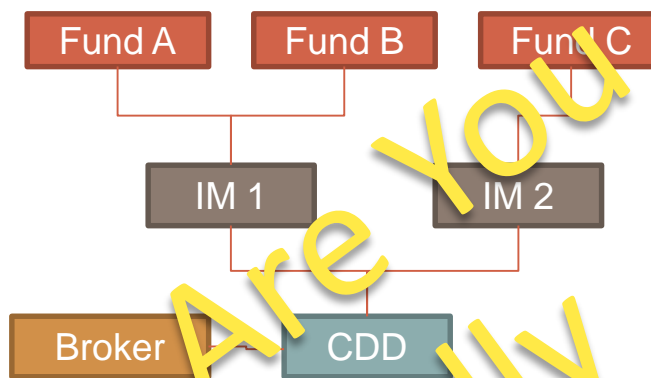
Party Time



**Model 1**

Dealing desk as separate legal entity to the IMs

Broker's client is the CDD legal entity

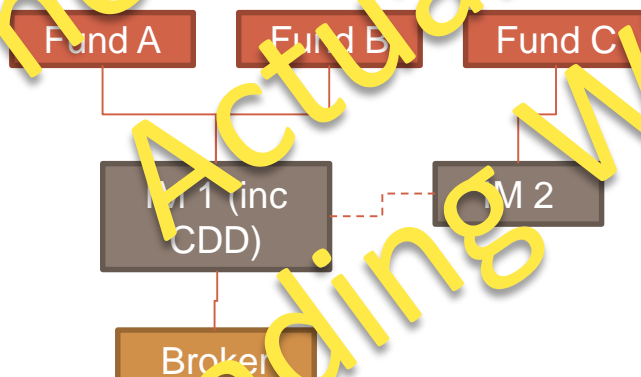
**Transaction reports:**

Who	What
Broker	Broker vs. market etc.
Broker	Broker vs. CDD
CDD	Broker vs. INTC
CDD	INTC vs. IM 1
CDD	INTC vs. IM 2
IM 1	IM 1 vs. INTC
IM 1	INTC vs. Fund A
IM 1	INTC vs. Fund B
IM 2	CDD vs. Fund C

Model 2

Dealing desk is part of the same legal entity as **one** of the IMs

Broker's client is IM 1

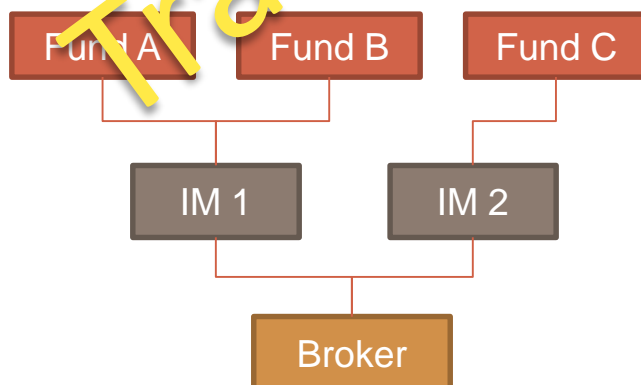
**Transaction reports:**

Who	What
Broker	Broker vs. market etc.
Broker	Broker vs. IM 1
IM 1	Broker vs. INTC
IM 1	INTC vs. Fund A
IM 1	INTC vs. Fund B
IM 1	INTC vs. IM2 (for Fund C's portion)
IM 2	IM 1 vs. Fund C

Model 3

Dealing desk activity contained within both IMs ("dual hatted"), orders being aggregated for trading (either by the dealing desk OR the broker)

Broker has two clients so order will be flagged to venue as AGGR or PNAL.

**Transaction reports:**

Who	What
Broker	Broker vs. market etc.
Broker	Broker vs. IM 1
Broker	Broker vs. IM 2
IM 1	Broker vs. INTC
IM 1	INTC vs. Fund A
IM 1	INTC vs. Fund B
IM 2	Broker vs. Fund C

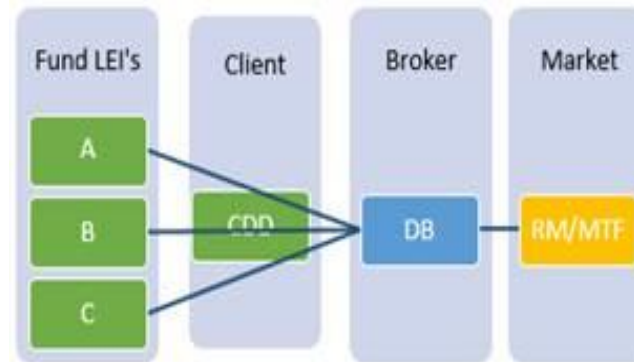
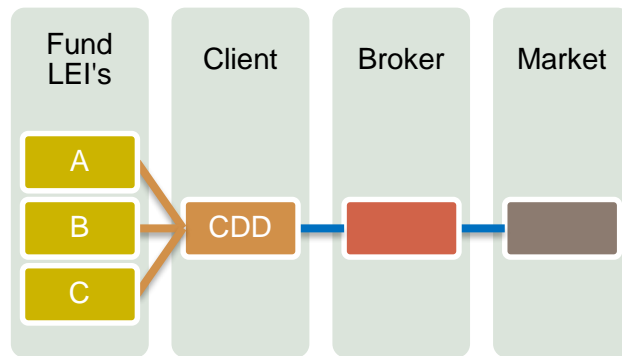


The Age of the Order-Giving Entity

- Separation of dealing into a separate entity not uncommon.
- Some differences of approach...
- Broker transaction reports...

...the CDD as the order-giving entity

...the funds (or IAs) as order-giving entities



- Different approaches for different asset classes, different clients, different brokers...
- FIX Order Record Keeping WG engaged in this issue.

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Finally...





Instrument Data

- The issues:
 - No golden source.
 - Limited adherence to tick size regime.
 - Ambiguous logic for converting LIS/SMS into tradable quantities.
 - General concerns with data quality/completeness.
 - A major obstacle to many of the key policy objectives of MiFID.