MiFID II Briefing on Investment Firms Topics

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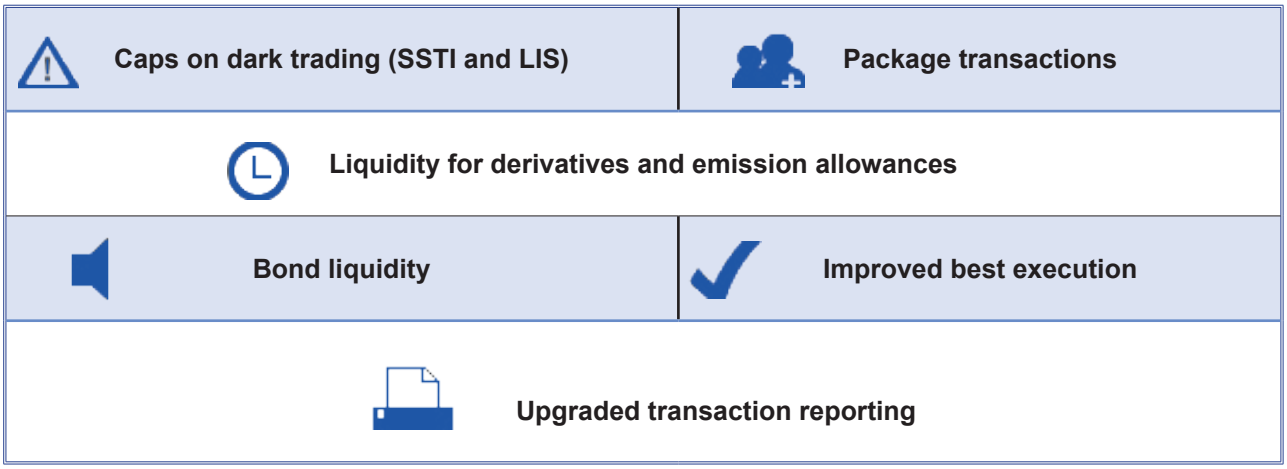

1. Liquidity assessment for derivatives and emission allowances: chapter 2, RTS 2

To provide greater transparency in the non-equities markets so investors are adequately informed about the real level of trading opportunities, ESMA introduces a revamped liquidity assessment. Homogeneous classes of instruments are created by dividing them into asset classes, sub-asset classes and, in most cases, sub-classes. Criteria specifying the basis for segmenting are listed under the most granular level.

Example: bond options, a sub-asset class under the asset class of interest rate derivatives, are segmented into sub-classes based on two criteria: (1) the underlying bond/bond future and (2) time-to-maturity (with pre-defined maturity buckets). So, for example, bond options on corporate bond XYZ with less than 3 months to maturity would comprise one sub-class.

For most classes, liquidity is calculated annually, using average daily notional amount and average daily number of trades, and measured against set thresholds and in some cases additional criteria are used. To maintain current market practice a different approach is proposed for equity derivatives which classifies the majority of equity derivatives as liquid. Furthermore, ESMA proposes all foreign exchange derivatives are deemed illiquid initially and reviewed when more reliable data is available.

2. Liquidity assessment for bonds: chapter 2, RTS 2

Bond liquidity will be calibrated on an instrument by instrument basis (known as IBIA) using three cumulative criteria: average daily notional amount; average daily number of trades, and minimum number of days on which the bond traded over a set period. A bond's liquidity will be re-assessed at the end of every quarter, based on the last 3-month's activity, and newly issued instruments will be deemed to be liquid or illiquid according to their issuance size for the first quarter.

3. SSTI and LIS thresholds for non-equities: chapter 2, RTS 2

To enhance transparency in non-equity markets, ESMA proposes a dynamic methodology for calculating size-specific-to-the-instrument (SSTI) and large-in-scale (LIS) thresholds. Thresholds for liquid instruments will – for most asset classes - be calculated annually as the greater of a trade percentile, a pre-set threshold floor and, for post-trade thresholds only, a volume percentile. For illiquid instruments, the pre-set threshold values will be used. Pre-trade thresholds will be lower than post-trade thresholds.

4. Package transactions: chapter 2, RTS 2

To ensure the smooth functioning of the markets, ESMA clarifies how package transactions - transactions comprising several contingent components - should be treated under MiFID II. Where at least one component of the package is above the LIS or SSTI thresholds, or deemed illiquid, a deferral from post-trade transparency requirements may be granted. ESMA does not have a legal basis on which to propose a corresponding waiver from pre-trade transparency.

5. Transaction reporting: chapter 7, RTS 22

To enhance effective market monitoring and thereby financial safety, MiFID II upgrades the transaction reporting regime. ESMA specifies that transactions and instrument reference data should be reported in accordance with ISO 20022 for consistency and introduces new rules to govern how EEA branches of non-EEA firms should transaction report.

6. Best execution: chapter 9, RTS 28

To improve investor protection by increasing transparency on where investment firms execute client orders and on the execution quality achieved, firms must publish annually details of the top five execution venues for each class of financial instrument and the quality of execution obtained. ESMA sets the classes of financial instruments and how such information should be published.

Implementation timeline