

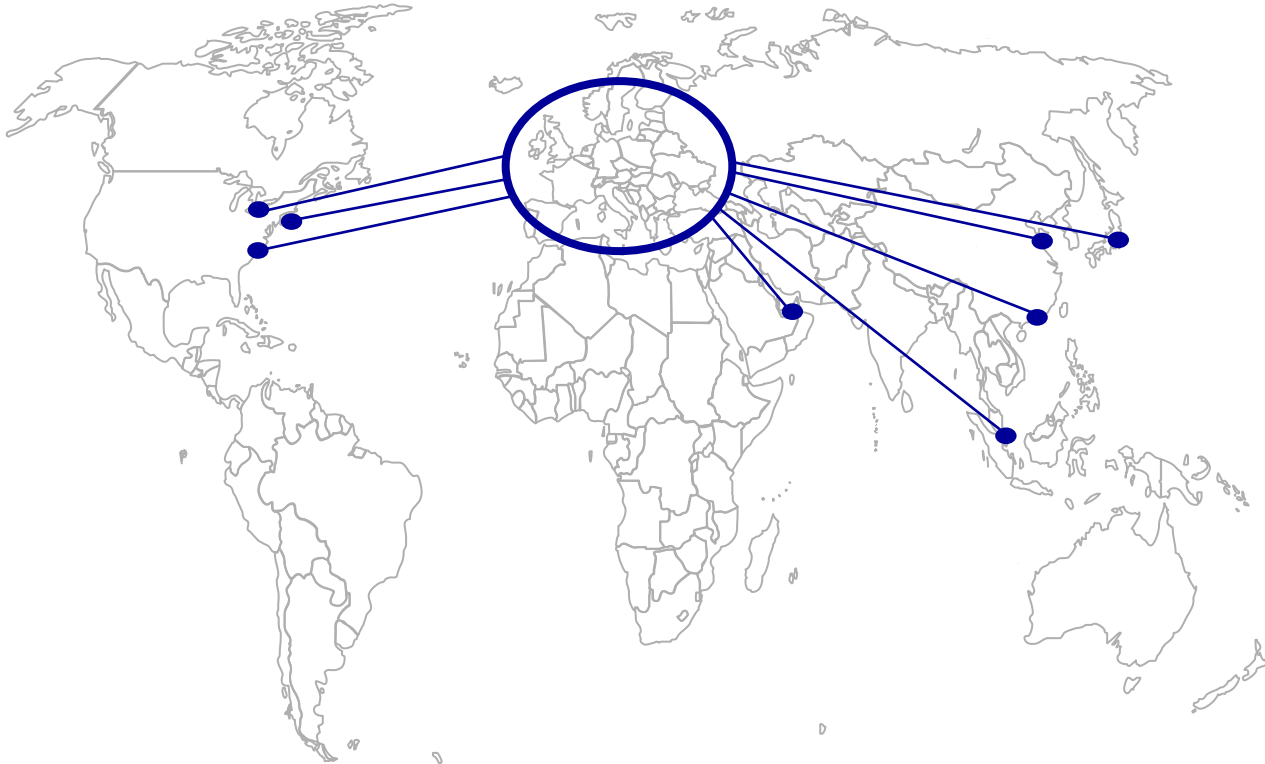
Regulatory Requirements and Transaction Reporting

Welcome to the Kick-off Workshop 8 July 2015!

Deutsche Börse working group MiFID II /MiFIR, Paris



Globally operating provider of financial services: locations of Deutsche Börse Group



13 locations in Europe

Berlin
Brussels
Cork
Frankfurt /
Eschborn
Leipzig
London
Luxembourg
Madrid
Milan
Moscow
Paris
Prague
Zurich

8 locations in Asia / North America

Beijing
Dubai
Hong Kong
Singapore
Tokyo

Chicago
New York
Washington, D.C.

Deutsche Börse Group: exchange organisation and provider of financial services infrastructure with comprehensive product range

Cash / Derivatives market

- Listing
- Connectivity to international trading participants
- Operation of open electronic order books

Clearing

- Verification of trade-related information
- Central counterparty
- Risk management

Post-trading

- Delivery of securities (in exchange for payment)
- Financing services
- Collateral management
- Custody of securities
- Liquidity management
- Related services, e.g. tax, corporate actions

Trading

Clearing

Settlement

Custody

Market data and technology-based services

Data feeds, market data, news services, reference data, reporting services, indices, external IT services, connectivity services, trading infrastructure

Information technology

Internal IT services, software development

Deutsche Börse has extensive transaction reporting know-how

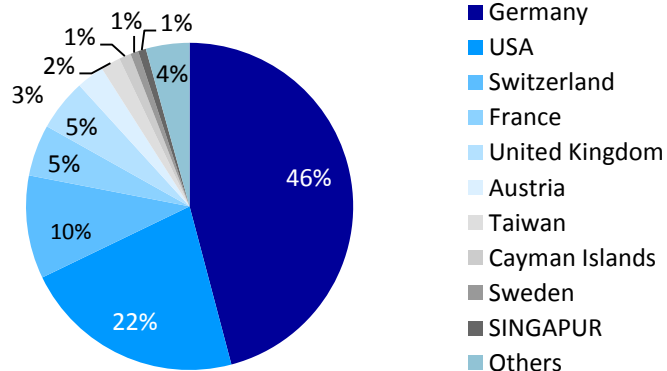
MiFID I

- Compliant with § 9 of the German Securities Trading Act (“WpHG”)
- Following BaFIN requirements
- Compliant with MiFID I for AMF and FCA reporting
- Integrated ‘STP’ approach for trading participants on Xetra and Eurex

EMIR

- Connected to multiple TRs (DTCC and Regis-TR)
- Over 1 mio records processed daily
- Extensive validations means extremely low rejection rates at TRs
- Flexible and low implementation cost

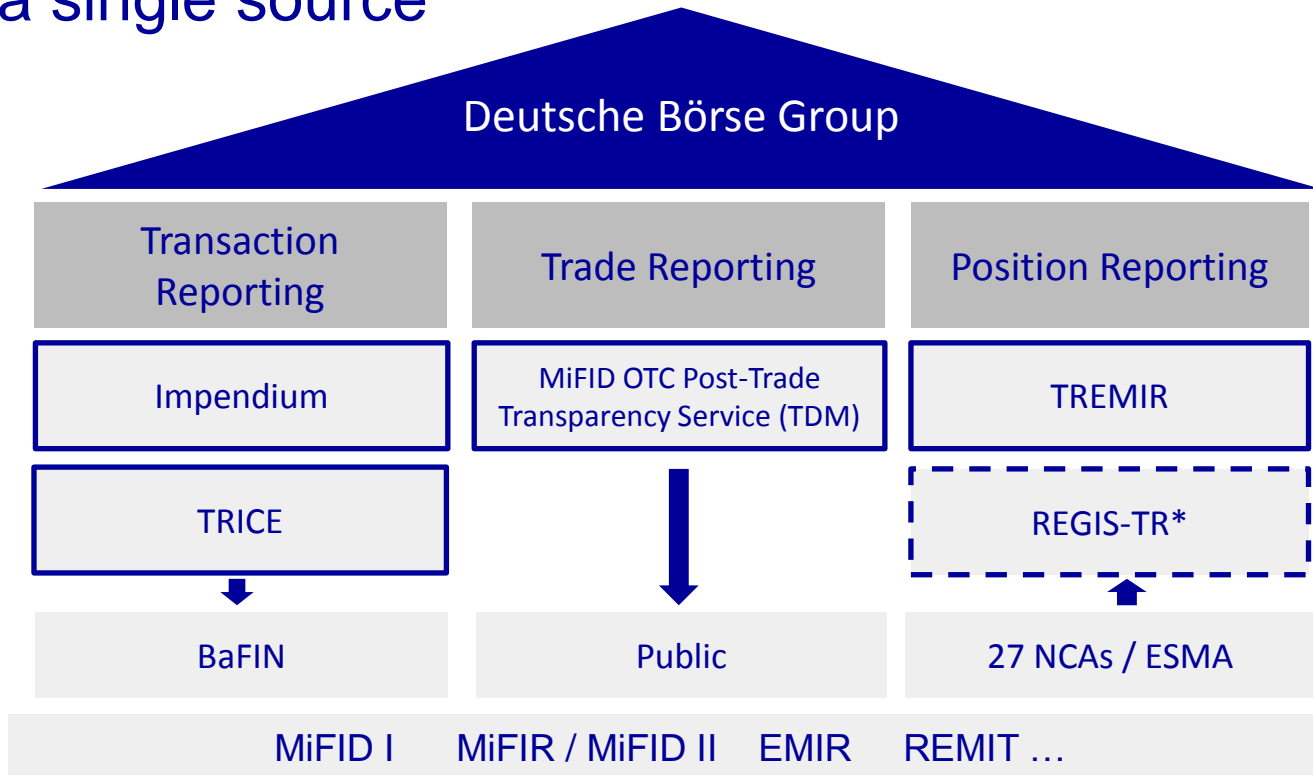
TRICE customers by country



Key Facts

- More than **250** entities are reporting on TRICE
- In 2014, **700 000 000** Reporting records
- Created before MiFID 1 came into force in 1999

Group Deutsche Börse offers regulatory reporting services from a single source



- Long-term experience in providing regulatory services to our customers
- Leveraging existing infrastructure and services of a regulated market
- Scalable, reliable and secure systems
- State-of-the art inhouse IT development

* REGIS-TR is a TR approved under ESMA for EMIR reporting and in the process of being approved as RRM for REMIT reporting under ACER; it is a joint venture of Clearstream Banking Luxembourg and the Spanish Stock Exchange (BME)

Today's agenda

Timing	Sessions	Speaker
10:30	Welcome and introduction Objectives of the working group MiFID II/MiFIR	Stuart Clark, Deutsche Börse Group
10:45 – 12:45	Regulation MiFIR article 26 Transaction Reporting & MiFID II readiness: How to implement your MiFIR reporting obligations in time? <ul style="list-style-type: none"> ▪ Introduction to and interpretation of regulatory requirements ▪ Timelines and challenges for the operational implementation ▪ Practical lessons learnt from the marketplace ▪ Discussion on participant's requirements on regulatory reporting 	Moderator: Stuart Clark, Deutsche Börse Group Hubert Kretschmer, Deutsche Börse Group
1 hour	Lunch break	
13:30 - 14:15	Potential solution mechanisms - what you should be looking out for Discussion on potential MiFID II/MiFIR services	Stuart Clark, Hubert Kretschmer, Deutsche Börse Group
14:15 - 14:45	What we can learn from the EMIR transaction reporting implementation for MiFID? Latest insights on current EMIR transaction reporting developments overlapping with future MiFID developments	Sabine Guip, Deutsche Börse Group
14:45 – 15:00	Discussion round: Q&A and further themes to be addressed and procedures of working group MiFID II/MiFIR Next regular meeting of the working group	Stuart Clark, Deutsche Börse Group

Regulatory Requirements and Transaction Reporting

Kick-off Workshop 8 July 2015

Deutsche Börse working group MiFID II /MiFIR, Paris



Regulatory Requirements Article 26 MiFIR

Sources of law

- Article 26 MiFIR
- Regulatory Technical Standards (RTS)
- MiFID 2 → transposition into national law
- Level 3 guidelines expected in 2016 (e.g. LEI)

Regulatory Requirements Article 26 MiFIR

Why report?

- Enable **regulators to detect and investigate potential instances of market abuse** and monitor the fair and orderly functioning of markets and investment firms' activities.

Regulatory Requirements Article 26 MiFIR

Who has to report?

- **Investment firms (as defined in Article 4.1 (1) of MiFID 2)** authorised under MIFID2.
- Investment firms providing order routing unless they fulfill all conditions for a transmission (RTS 32 Art. 4)
- **Trading venues (as defined in Article 4(1)(24) of MiFID 2)** must report details of transactions which are executed through their systems **by a firm which is not itself subject to the MiFIR transaction reporting regime**

- In MiFID I trading members had to report even if not an investment firm, now the trading venue has to report for them.
- Asset managers: In Germany they are not an investment firm, in the UK they are
- CCPs: In Germany they are an investment firm, in the UK they are not

Regulatory Requirements Article 26 MiFIR

Who has to report?

- **EU branches of EU firms**
EU investment firms report all transactions **to their home state competent authority and indicate the involved branch** (RTS 32 Art. 13)
- **Non-EU branches of EU firms**
Transactions of non-EU branches of EU investment firms also have to be reported to its home state competent authority indicating the involved branch (RTS 32 Art. 13)
- **EU branches of non EU firms**
Commission Q&A provides that **EU branches of non-EU investment firms should not be treated in a more favourable way than EU investment firms**
Still in discussion if reporting requested to each host state competent authority.
Non-EU firms with branches in many EU countries would have to set up a connection to each NCA.

Regulatory Requirements Article 26 MiFIR

When to report?

- **Article 26.1 MiFIR** : Report complete and accurate details of reportable transactions to the competent authority **as quickly as possible, and no later than the close of the following working day.**

Who can report?

- **Article 26.7 MiFIR:** Reports shall be made to the competent authority either **by IF, an ARM acting on behalf, or by the trading venue through whose system the transaction was executed.**

To whom?

- EU investment firms must report to their national (home) competent authority (NCA) also for transactions of their branches (EU and non-EU)
- EU branches of non EU investment firms: report to each branch's **host state competent authority.**

- With MiFID I currently only the UK requires reporting through an ARM
- An ARM approved by its home country NCA can report to all NCAs (European Passport)

Regulatory Requirements Article 26 MiFIR

What to report?



Financial
Instruments

- **Transactions in financial instruments** Article 26.2 MiFIR
 - (a) admitted to trading, traded on a trading venue or where a request for admission has been made
 - (b) where the **underlying** is a financial instrument traded on a trading venue
 - (c) where the underlying is an **index or basket** composed of at least one financial instrument traded on a trading venue
- Irrespective of whether the transaction is carried out on a trading venue
- Trading venue is defined in Art. 4 (24) MiFID II als regulated market, MTF or OTF. (within EU)

Regulatory Requirements Article 26 MiFIR

What to report?



Financial
Instruments

- **New instruments in addition to MiFID I**
 - Financial instruments traded at an MTF other than the German “Freiverkehr” (pure open market securities), Marché Libre Paris or at an OTF
 - Any financial instrument beyond equities and warrants for which a request for admission to trading has been made
 - Financial instruments (e.g. OTC derivatives) with an underlying financial instrument traded on trading venue
 - Financial instruments (e.g. OTC derivatives) where the underlying is a basket or index of which at least one component is traded on a trading venue

Regulatory Requirements Article 26 MiFIR

What to report?



Transactions

A transaction is an acquisition, disposal or modification of a reportable financial instrument (Article 3 of draft RTS 32).

New reportable transactions

- Transmission of orders (unless they fulfill all conditions for a transmission (RTS 32 Art. 4))
- Option exercises
- Primary market transactions
- Securities Financing transactions (as long as not reported according to SFTR)

Not including e.g.:

- SFTs, provided they are subject to reporting under the Securities Financing Transaction Regulation (SFTR)
- contracts arising solely and exclusively for clearing or settlement purposes
- post-trade assignments and novations in derivatives
- portfolio compressions
- internal transfers within the same legal entity (which do not lead to a change in beneficial ownership)
- a change in the composition of an index after a transaction has occurred

- If SFTR is not in force, SFTs need to be reported according to MiFIR.
- ETD transactions cleared in the open offer model have to be reported while OTC clearing does not have to be reported

Regulatory Requirements Article 26 MiFIR

What to report?



Reportable
Information

*Annex 1 of ESMA's draft
RTS 32 specifies the fields
which must be reported.*

Reportable Information – old (Article 26.3 MiFIR)

- Names and numbers of the financial instruments bought or sold
- Quantity, the dates and times of execution and the transaction prices
- Clients on whose behalf the investment firm executed the transaction
- The investment firms concerned

Reportable Information – new (Article 26.3 MiFIR)

- Persons and the computer algorithms responsible for the investment decision and the execution
- Applicable pre-trade transparency waiver
- Identification of short sale in respect of any shares and sovereign debt within the scope of Articles 12, 13 and 17 of the SSR
- OTC post trade transaction type (field 78 RTS 32) according to post trade transparency rules Article 20(3)(a) and Article 21(5)(a) of MiFIR
- Commodity derivative indicator (field 79 RTS 32) to indicate whether the transaction reduces risk in an objectively measurable way in accordance with Article 57 of MiFID2

Regulatory Requirements Article 26 MiFIR

What to report?



Pre-trade
transparency waiver

Draft RTS 32 Article 9:

- The applicable waiver must be identified if
 - The transaction is undertaken under a pre-trade transparency waiver according to article 4 or 9 MiFIR
 - the transaction report relates to a market-facing execution on a trading venue

Trading venues must provide the information about the applicable waivers to trading participants.

Regulatory Requirements Article 26 MiFIR

What to report?



Identifiers

Identification/classification

- ISIN
- Alternative Instrument Identifier
- Instrument classification CFI not applicable for OTC/structured products

Identification of buyer/seller

- For legal entities: LEI only. Article 12 draft RTS 32: Obtain and verify the LEI code prior to providing investment service
- For natural persons:
 - Full first and surname
 - Date of birth
 - Country of residence
 - Post code
 - The ISO country code of the nationality + specific national option (e.g. tax identifier, passport number, birthdate + names) see Annex II of RTS 32

Buyer/seller decision maker

- Natural persons as above
- For formal committees: COM + Committee code; other person taking the primary decision and last in the chain

Regulatory Requirements Article 26 MiFIR

What to report?

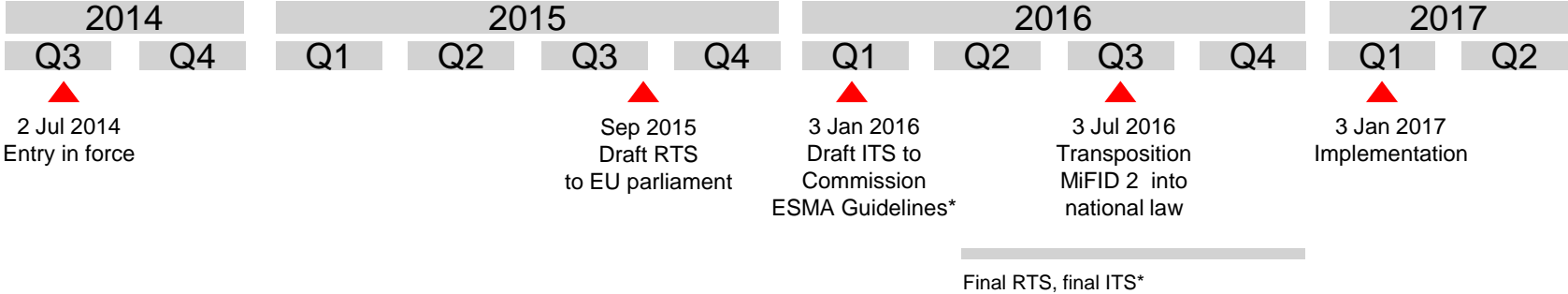


Transaction
reference number

Draft RTS 32 Annex I Field 80:

- „For transactions executed directly on a trading venue, this number shall be generated by trading venues and disseminated to both the buyer and the seller parties who shall persist it in transaction reporting.“
- For derivatives trading venues can re-use the EMIR UTI
- For cash market trades trading venues must define the transaction number
- For all other transactions, **the TRN will be a unique internal identification number**, meaning **reports from different counterparties relating to the same transaction will not be required to contain a matching TRN**

Timeline Regulation



*ITS not relevant for transaction reporting



Thank you!

For more information on the MiFID II/MiFIR working group
please contact us:

Deutsche Börse Group

e-mail us: mifid2_workinggroup@deutsche-boerse.com

www.deutsche-boerse.com/workshop_mifid2

Regulatory Requirements Article 26 MiFIR

What to report?



Matched principal vs.
Principal vs. Agent

Draft RTS 32 Article 1

- ‚Matched principal capacity‘ means dealing on own account (article 4.1.6 MiFID II: trading against proprietary capital) as a facilitator between the buyer and seller where the firm is never exposed to market risk, with both sides executed simultaneously and where the facilitator makes no profit or loss other than a previously disclosed commission, fee or charge
- ‚Principal capacity‘ means all other instances dealing on own account
- ‚Agent capacity‘ means all other instances of dealing

- Matched principal can only occur on OTFs.
- CCP activity may be classified as matched principal, still to be detailed in Level 3.

Regulatory Requirements Article 26 MiFIR – Financial Instruments (1/2)

Financial Instruments pursuant Annex I Section C of MiFID II

1. Transferable securities;
2. Money-market instruments;
3. Units in collective investment undertakings;
4. **Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;**
5. Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event;
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market, a MTF, or an OTF, except for wholesale energy products traded on an OTF that must be physically settled;

Regulatory Requirements Article 26 MiFIR – Financial Instruments (2/2)

Financial Instruments pursuant Annex I Section C of MiFID II

7. Options, futures, swaps, forwards and any other derivative contracts relating to **commodities, that can be physically settled not otherwise mentioned in point 6** of this Section and not being for commercial purposes, which have the characteristics of other derivative financial instruments;
8. Derivative instruments for the transfer of credit risk;
9. Financial contracts for differences;
10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF;
11. Emission allowances consisting of any units recognised for compliance with the requirements of Directive 2003/87/EC (Emissions Trading Scheme).



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GROUP

Art 26 MiFIR Transaction Reporting Implementation

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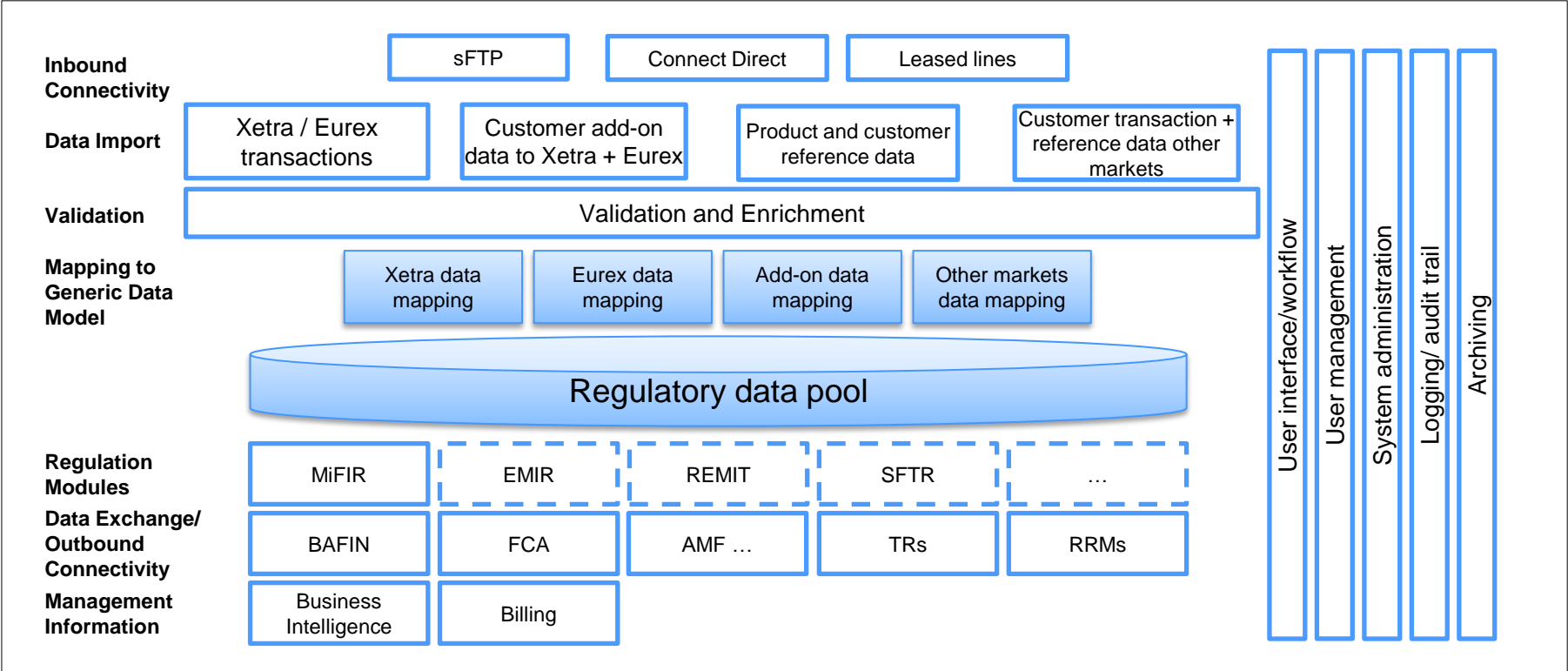
Deutsche Börse working group MiFID II /MiFIR, Paris



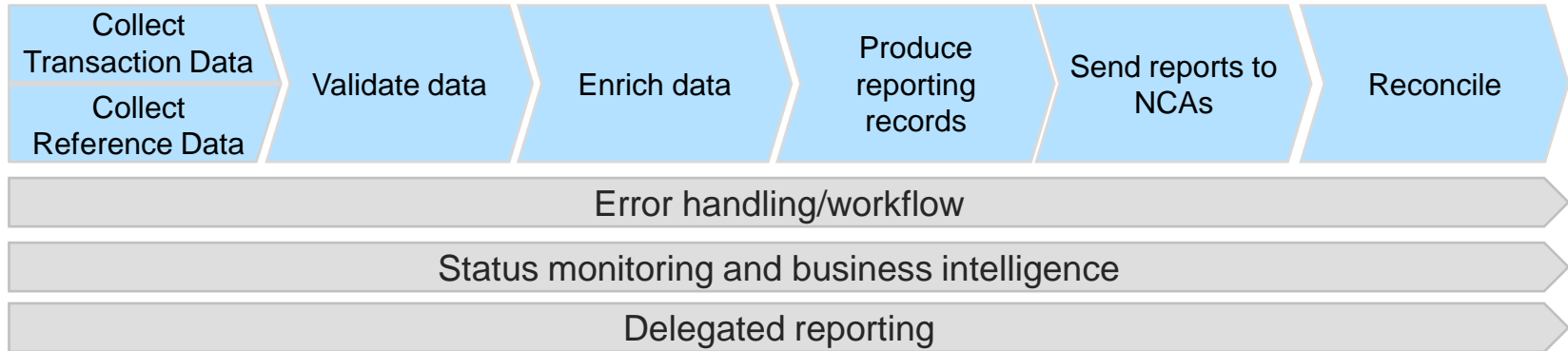
Agenda

- 1 Deutsche Börse's extended regulatory offering**
- 2 Challenges to implement MiFIR transaction reporting
- 3 Next steps

Deutsche Börse plans to extend its regulatory offering to a general transaction reporting platform



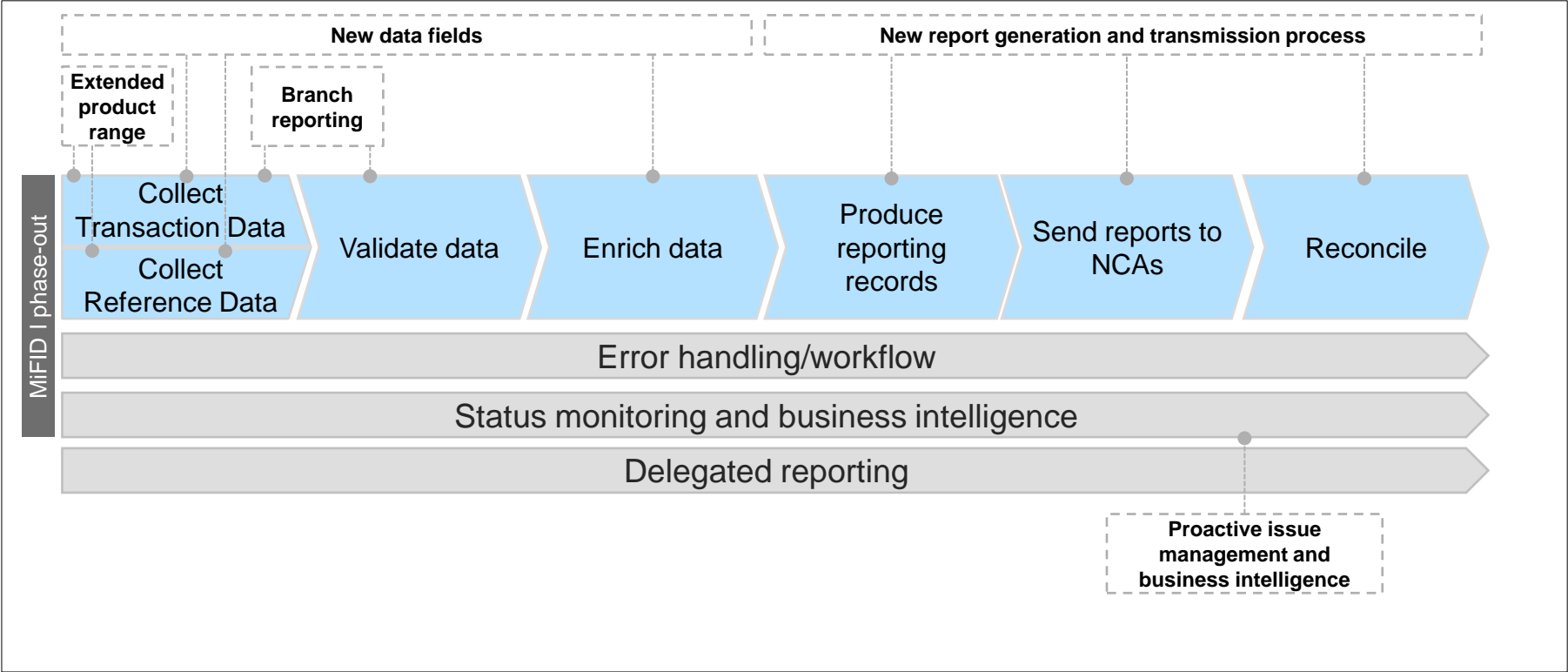
The Deutsche Börse platform will cover the full transaction reporting process for MiFIR and further regulations

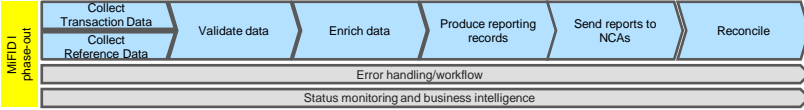


Agenda

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- 2 Challenges to implement MiFIR transaction reporting**
- 3 Next steps

Looking at challenges along the way to implement the MiFIR reporting process





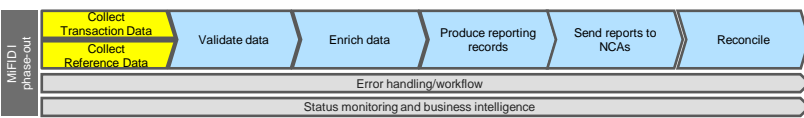
Ensure MiFID I reporting phase-out

Upcoming Change/Initial Status

- According to MiFID II Article 94 MiFID I reporting ceases on 3 January 2017
- Old reporting records need to be available and amended for five years
- NCAs are considering a shortened period to maintain MiFID I

Required action

- Check with NCA how long MiFID I history and amendment ability needs to be maintained
- Check if old system should be kept for analysis/amendment or if data can be migrated to the new MiFID II reporting system



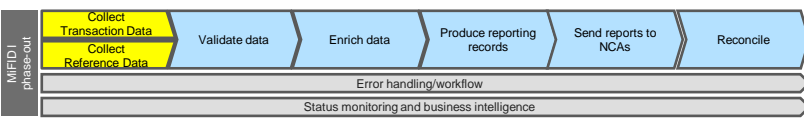
Check impact of extended product range

**Upcoming
Change/Initial
Status**

- New products added to reportable instruments
 - Instruments traded or in admission at an MTF or OTF
 - Other instruments beyond equities and warrants where a request for admission to a trading venue has been made
 - Instruments with an underlying or one of the underlying's components traded on a trading venue

**Required
action**

- Potentially have to connect additional systems (e.g. for OTC equity swaps trading, structured products)
- Constantly monitor if any of your products become admitted for trading or are traded on an exchange, MTF or OTF (e.g. swaps trading platforms, listing of funds)
- Implement fall-back procedures for short-term admissions (e.g. manual entry and possibility to back-report)
- Include MiFIR reporting obligation check in the new product process



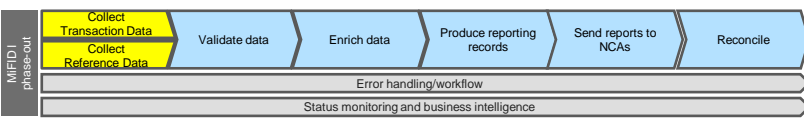
Check branch reporting

Upcoming Change/Initial Status

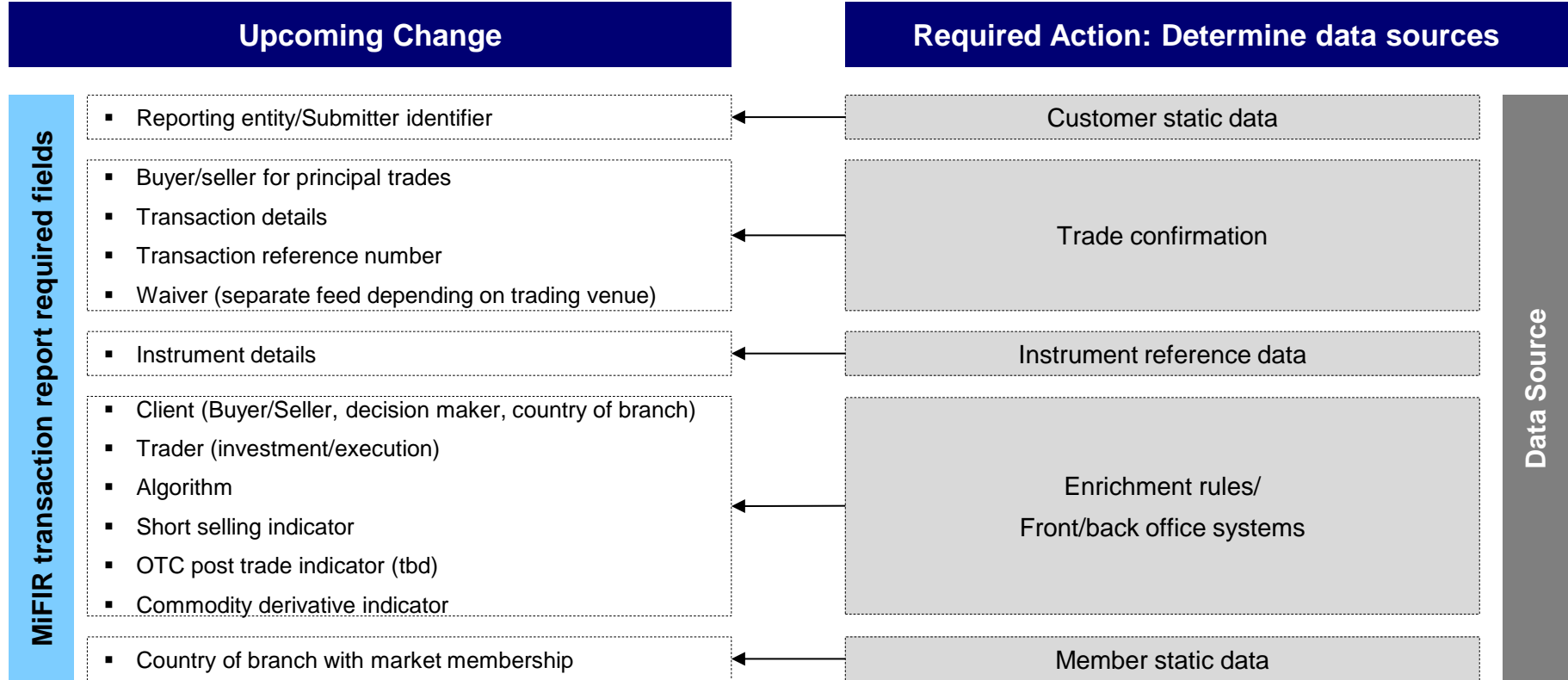
- Head office of EU firms has to report branch transactions to its host NCA with specifying involved branch country
- Branches of non-EU firms have to report to host NCA of the branch

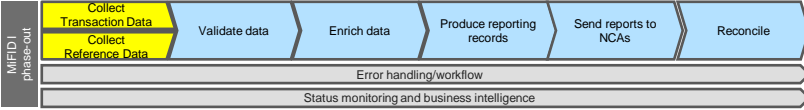
Required action

- EU firms
 - Change branch data flow to go through head office with data of involved branch
- Non-EU firms
 - Verify impacted EU-branches
 - Set-up reporting to host NCA



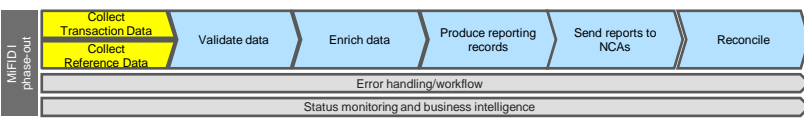
Source new data fields





Source new data fields: Instrument reference data

- Need to know ISIN/AII, CFI code and underlying of reportable instruments
- ESMA will publish a list but does not guarantee completeness or correctness
- If trading on trading venues, you can use trading venue reference data
- For other instruments the data may need to be sourced from data vendors
- Various models for reference data provision to be discussed



Source new data fields: Identification of clients and decision makers requires major reference data collection work

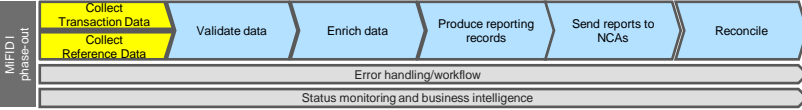
For all clients who are natural persons

- Identify decision makers
- Record nationalities
- Record national identifier/passport number
- Record birth date + current country of residence + post code

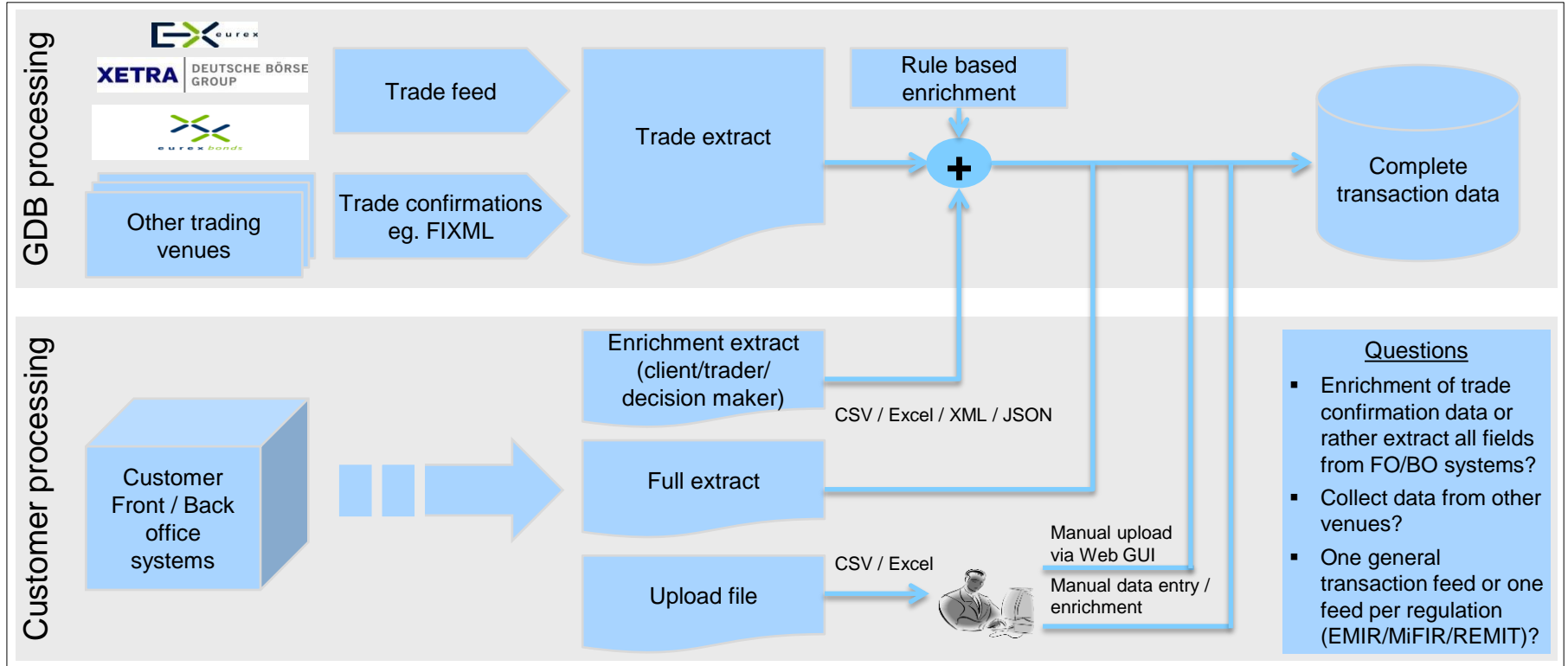
For traders

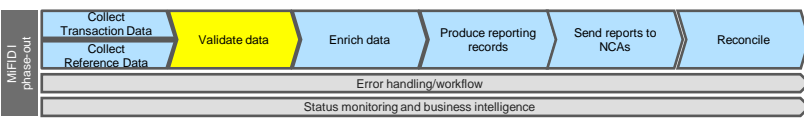
- Record nationalities
- Record national identifier/passport number
- Record committees

Implement procedures to keep data up-to-date



Source new data fields: Transaction data sourcing strategy needs to be determined





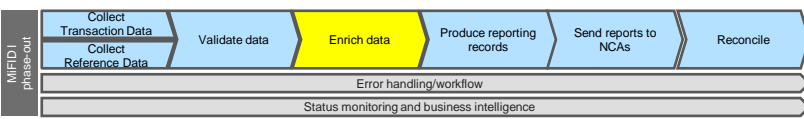
Define new validations

Upcoming Change/Initial Status

- Large number of new data fields
- Mandatory use of LEI for legal entities

Required action

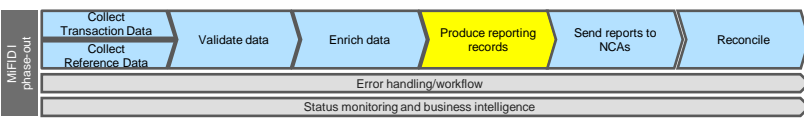
- Collect and verify LEI of all existing clients who are legal entities
- Integrate LEI check into new customer onboarding process
- Implement checks for receipt of reporting data for transmitted orders
- Implement checks for field size, value ranges, logical consistency for all new fields to ensure STP reporting to NCA
- Add warnings e.g. unusual volume, off-market price



Data enrichment rules may ease the data sourcing (examples)



- Allocate trader based on trader id of the exchange
- Allocate trader/decision maker by product group, currency, principal/agent business, exchange, OTC
- Define calendar for temporary replacements
- Allocate based on trader ID and product
- General exclusion of short selling
- General setting: Always risk reducing Yes/No



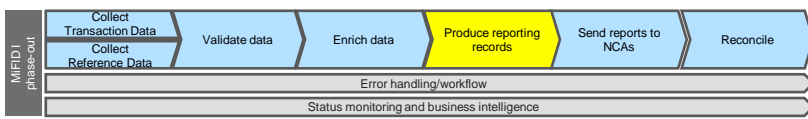
Define report generation and transmission process

**Upcoming
Change/Initial
Status**

- Investment firms can report directly, via an ARM or via the trading venue

**Required
action**

- Check if you want to offer delegated/third party reporting (→ ARM)
- Evaluate reporting yourself or via a third-party provider
- Align interpretation of field contents and regulation with industry experts and regulators
- Alignment with trading venue and CCP reporting
- Clarify different practices among market participants (regulators will reconcile reports)
- Ensure on-going monitoring of regulation and adaptation of processing



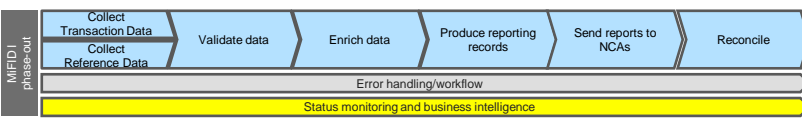
Define report generation and transmission process – include new types of transactions

New types of transactions to be included

- Transmission of orders
- Option exercises
- Primary market transactions
- Securities Financing transactions (as long as not reported according to SFTR)

Transactions to be excluded according to RTS 32 Article 3 (3)

- Contracts arising solely and exclusively for clearing or settlement purposes
- Post-trade assignments and novations in derivatives (e.g. give-ups/take-ups)
- Portfolio compressions
- Internal transfers within the same legal entity (which do not lead to a change in beneficial ownership)
- A change in the composition of an index after a transaction has occurred
- Backloading (not required, according to Article 55 MiFIR reporting starts 3 January 2017)



Reap opportunities for proactive issue management/business intelligence

**Upcoming
Change/Initial
Status**

- Collected transaction reporting data can be analysed for inconsistencies and benchmarking

**Required
action**

- Check opportunities for intelligent data analysis
- Check offerings of third party providers who can compare reporting among participants
- Valuable analysis includes
 - Warnings/Rejection rates over time
 - Warnings/Rejection reasons by quantity
 - Timing of reporting
 - Trades by asset class, country, counterparty group
 - Reconciliation rates by product group, counterparty

Lessons from EMIR and MiFID I reporting

Ongoing change

- Regulation is changing regularly (e.g. twenty new versions of EMIR Q&As from March 2013 to April 2015)

Regulator enforcement

- Regulators are enforcing validations to ensure data quality
- Penalties are increasing with maturity of regulation

Different industry practices

- Industry participants interpret regulation differently leading to reconciliation errors
- Consistent use of common trade identifier by both counterparties to a trade is a challenge

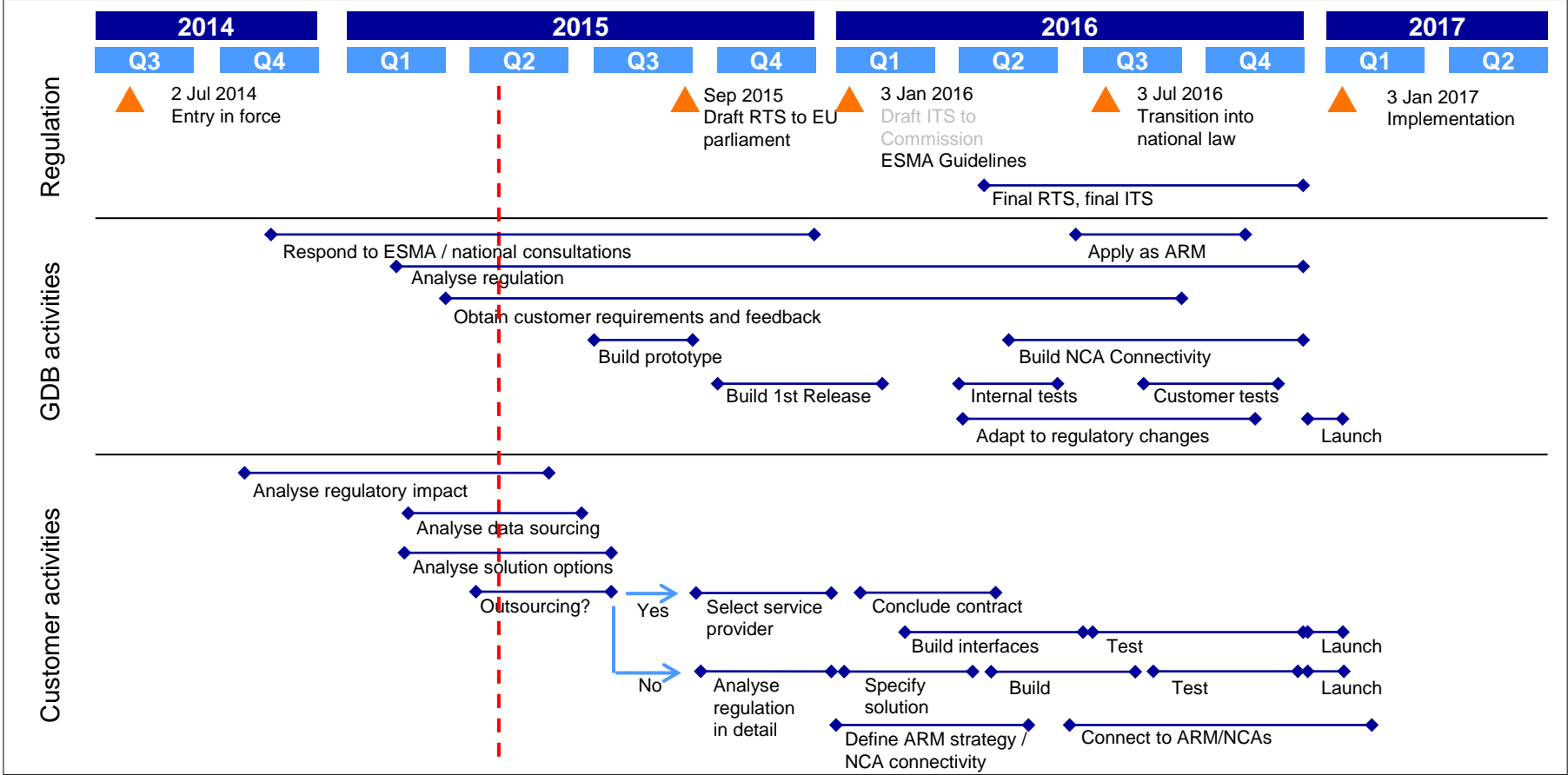
Advantage to have a reliable provider

- Banks building their internal EMIR solution or offering delegated reporting are reconsidering it due to the high ongoing maintenance effort
- Using the right third party provider can shield the investment firm from many regulatory changes and highly reduce the risk of penalties
- Trading venues and CCPs reporting themselves can ensure consistency of their client reporting

Agenda

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- 2 Challenges to implement MiFIR transaction reporting
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MiFIR timeline – Firms need to work on solutions now



Insights of market assessment with 15 “tier 1” customers

Assessment results

- None of the customers is likely to become an ARM, instead they use an external provider
- Customers want to see value for their money
 - Complete validation against the NCA requirements
 - Willingness to outsource “delegated reporting” to external provider
 - Availability of reliable reference data to check e.g. reportable instruments or counterparties
- Customers are in favour of providers offering trade and transaction reporting
- Focus on implementing MiFID II/MiFIR and potentially SFTR until 2017, extension to other regulations later
- Customers want to consolidate their reporting service providers for various regulations after 2017
- Most customers will decide within the next two months about their MiFID II service provider

Do these insights match with the French market?

Next steps

- Check current MiFIR project set-up
- Get involved with industry and working groups
- Select potential providers
- Evaluate outsourcing versus do-it-yourself
- Join our working group / become pilot customer



Thank you!

For more information on the MiFID II/MiFIR working group please contact us:

Deutsche Börse Group

e-mail us: mifid2_workinggroup@deutsche-boerse.com

www.deutsche-boerse.com/workshop_mifid2