



# MiFID II / MiFIR

## Additional functional aspects of non-release topics

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5 October 2017

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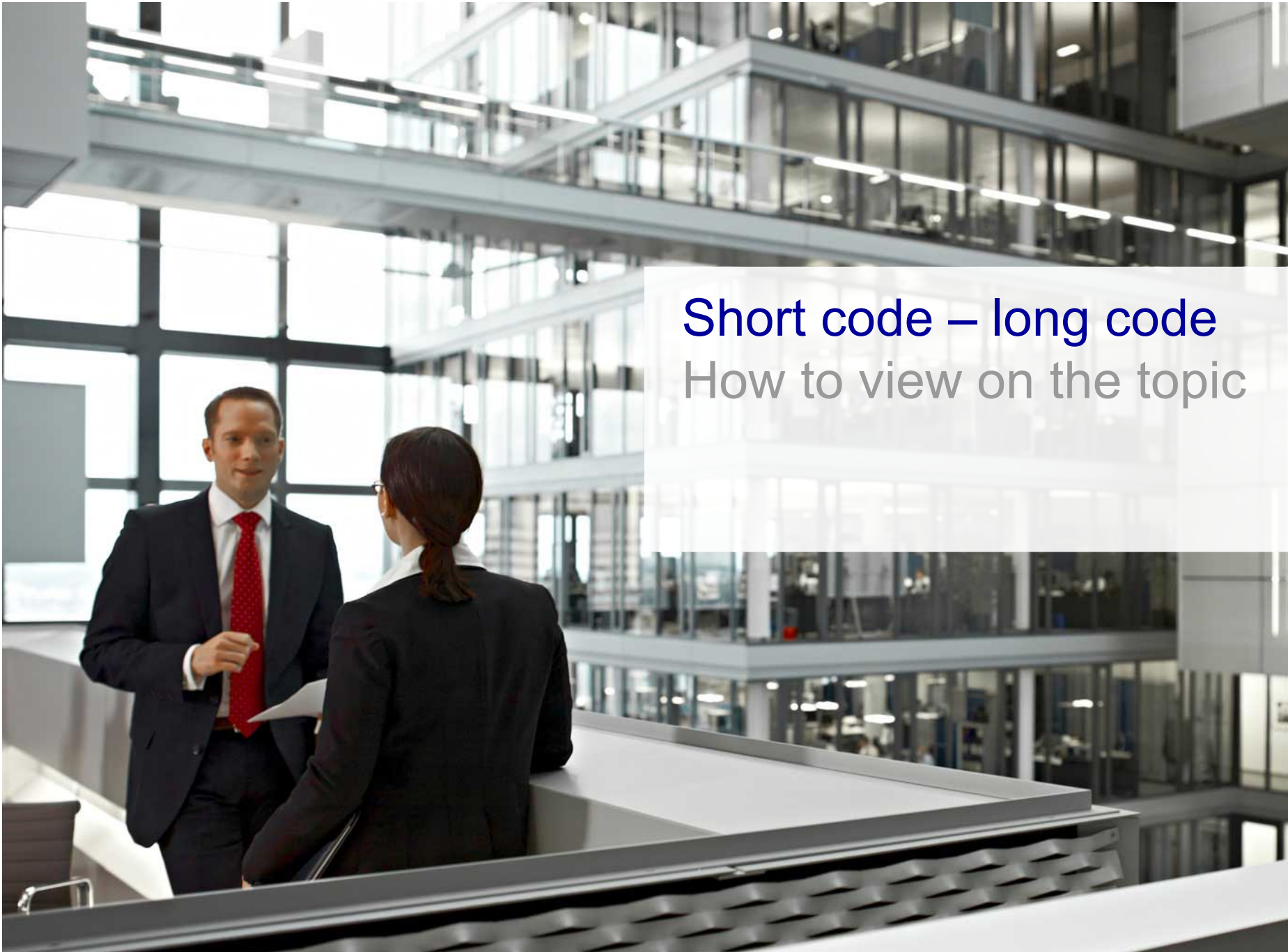
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Short code – long code

How to view on the topic

## Short codes

### Legal background

§ Under article 25(2) of Regulation (EU) No 600/2014, Eurex shall keep the relevant data at the disposal of the competent authority to identify the client of the trading participant of the trading venue and of natural persons responsible for the execution and investment decision within the trading participant.

- The client is a legal entity.  The LEI code of the client
- The client is a natural person.  The NationalID of the client
- The order is aggregated.  AGGR
- The order is a pending allocation.  PNAL
- The order execution was instructed by the client.  NORE (formerly CLIENT)



# Member section file uploads

## Using the technical user ID for client identification files and algo ID certification

Deutsche Version Login as: NIDFR00004 Logoff

**Technical Connection** Admissions & User IDs Invoices & Fee Reports Eurex Resources

My Profile    Inbox (0)    Contacts    Help

**Client Identification Upload**

Please enter the relevant MIC, your Member ID of your company, select the environment and upload a CSV file.

After the upload you will receive an email, if the format of the file is OK and successfully uploaded.

The email address has been defined when creating the relevant Download Agent.

Another validation about the content of the file is made by StatistiX who will provide you an error report on your Common Report Engine.

Market Identification Code (MIC):

Member ID:

Environment:

CSV file:

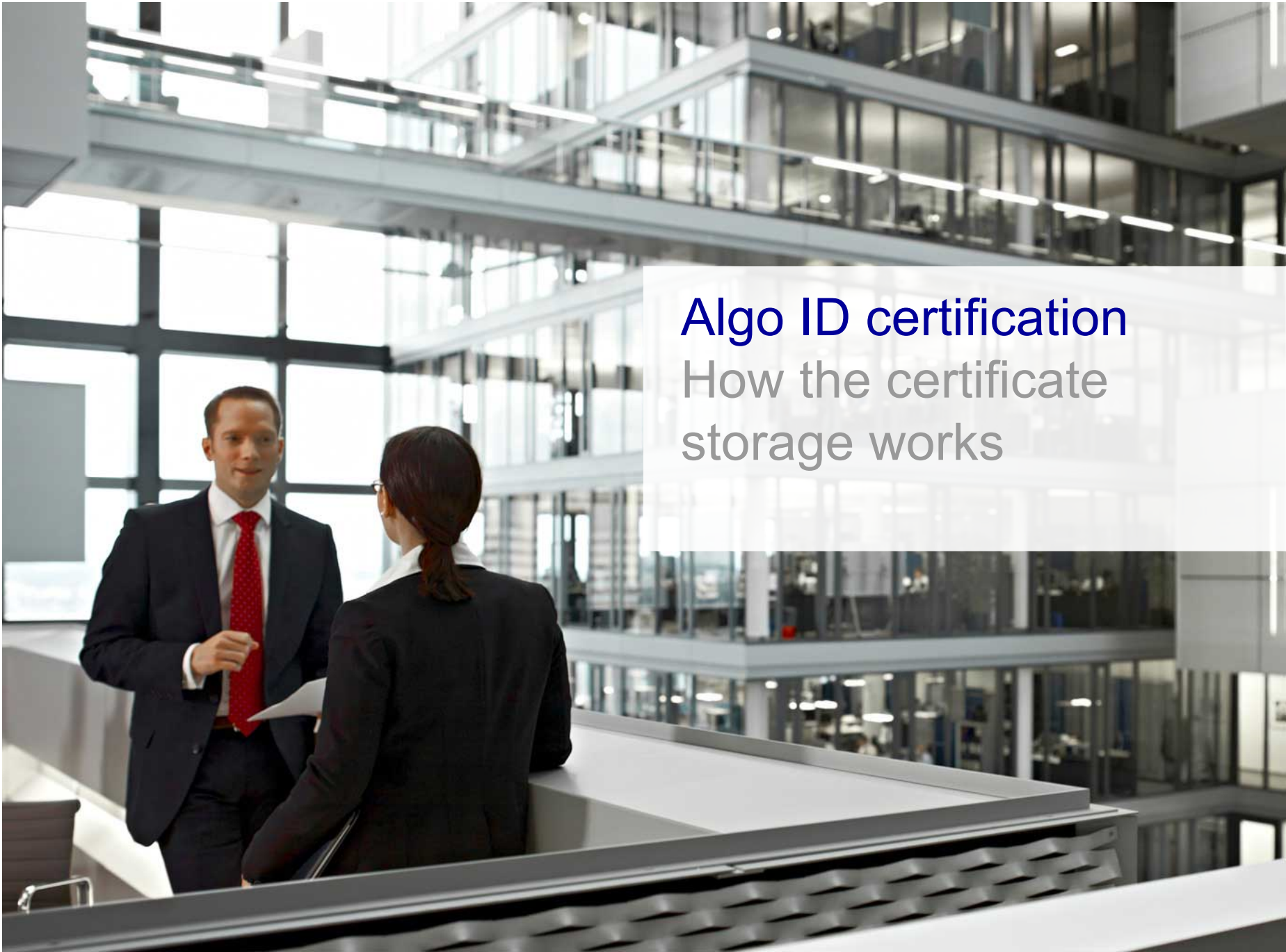
Response: -

**Technical Connection**  
 Membership  
 Incident Tickets  
 Requests & Configuration  
 Monitors and Statistics  
 Connection Monitors  
 Roundtrip Statistics Values  
 Roundtrip Statistics  
 TCP/IP Roundtrip Statistics  
 Realtime Backend Event Log  
 Broadcast Latency Report  
 X-Chart  
 Downloads  
 Analysis Tools  
 Reference Files  
**Uploads**  
 Client Identification Upload  
 ALGO HFT Upload

## Used file format for short codes

Same file format used for the web service and the SFTP service

Mandatory	Field name	Field length	Field type	Valid values	Example content
Yes	ParticipantID	5 characters	Uppercase letters	*List of participant IDs*	XXXML
Yes	MIC	4 characters	Alphanumeric	*MIC according to ISO 10383*	XEUR
Yes	StatusIndicator	1 character	Uppercase letter	N (for new) M (for modification) D (for deletion)	N
Yes	ValidFrom_Date	10 characters	Alphanumeric	Date format	2017-01-02
Yes	ShortCodeID	8 bytes	Numeric	0 to 18,446,744,073,709,551,614	12345678
No	ClassificationRule	1 character	Uppercase letter	L (for LEI) N (for National ID) empty	N
Conditional mandatory	NationalID_ CountryCode	2 character	Capital alpha values	Country code according to ISO 3166-1 alpha 2	CZ
Conditional mandatory	NationalID_Priority	1 character	Numeric	1 2 3	3
Yes	ClientLongValue	35 character	Alphanumeric	[0...9] [A...Z] [a...z] [#] or LEI according to ISO 17442	K5PHMP50J  5299009D9BIL4D4UHT93



## Algo ID certification

How the certificate storage works

## Used file format for algo ID

Same file format used for the web service and the SFTP service

Mandatory	Field name	Field length	Field type	Valid values	Example content
Yes	UploadDate	10 characters	Alphanumeric	Date format	2017-01-02
Yes	ValidFrom	10 characters	Alphanumeric	Date format	2017-01-02
Yes	AlgoID	8 bytes	Numeric	0 to 18,446,744,073,709,551,614	1234567890123456789
Yes	ResponsibleID	80 characters	Alphanumeric	E-mail addresses	<u>max.mustermann@example.com</u>



## Short code file upload

Using the web service to upload

**Participant, MIC, Status, Validfrom, Shortcode, Classification, Nationalidcode, Nationalidpriority, Clientlong**

TESTFR, XETR, N, 2017-06-27, 123456789012345, L, CZ, 3, K5PHMP50J

TESTR, XETR, N, 2017-06-27, 123456789012346, L, CZ, 3, K5PHMP50J

**UploadDate, ValidDate, AlgoID, LogonID**

2017-09-04, 2017-09-04, 12345678, tim.mustermann@testbank.com

Technical Connection

Membership

Incident Tickets

Requests & Configuration

Monitors and Statistics

Connection Monitors

Roundtrip Statistics Values

Roundtrip Statistics

TCP/IP Roundtrip Statistics

Realtime Backend Event Log

Broadcast Latency Report

X-Chart

Downloads

Analysis Tools

Reference Files

Uploads

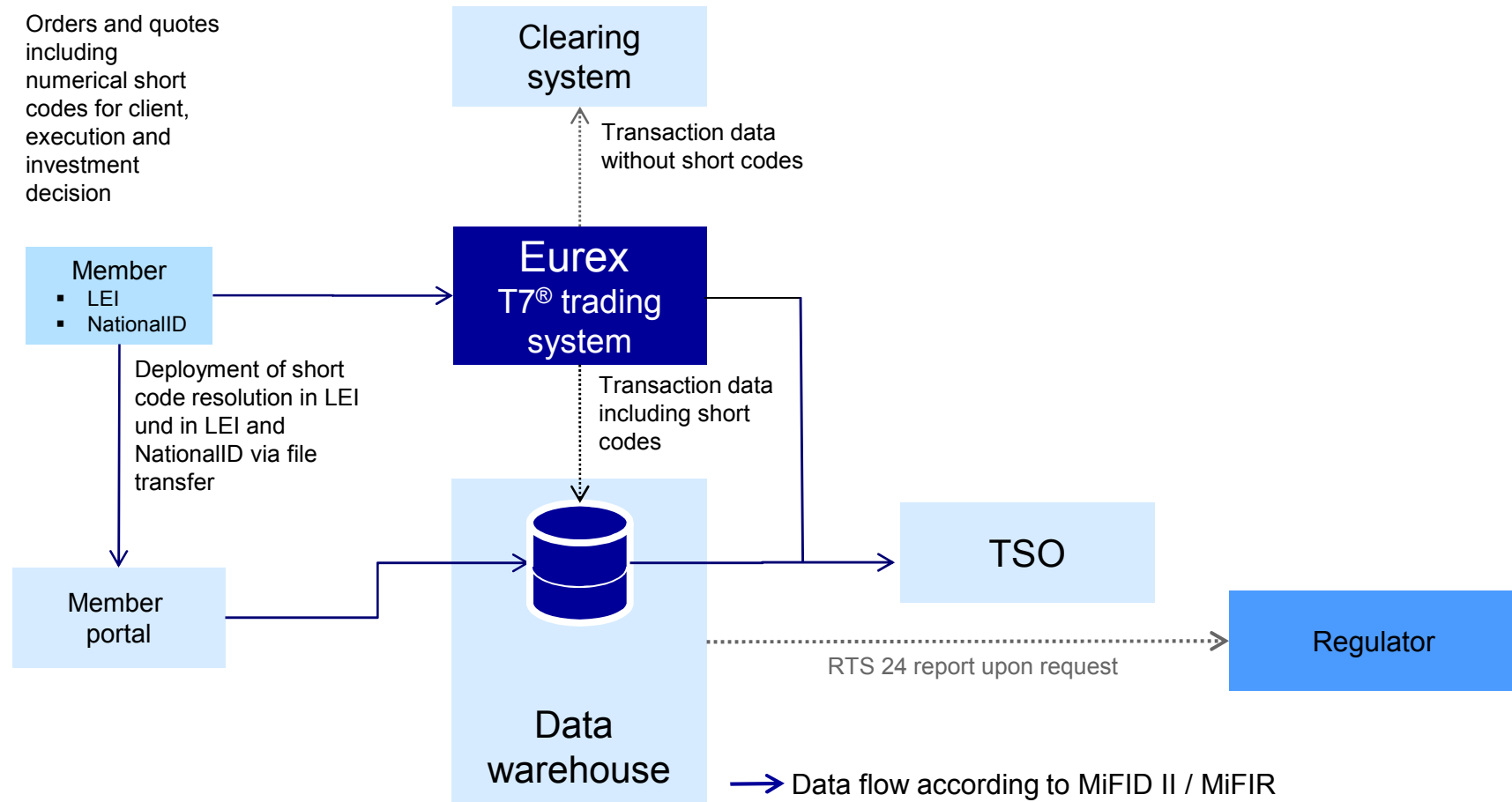
Client Identification Upload

ALGO HFT Upload

Market Identification Code (MIC):	<input type="text" value="XETR"/>
Member ID:	<input type="text" value="TESTFR"/>
Environment:	<input type="text" value="Simulation"/>
CSV file:	<input type="text" value="file2.csv"/> <input type="button" value="Browse..."/>
<input type="button" value="Upload"/>	
Response:	<pre>{"messageCode":0,"processedLines":1797,"~unique-id~":"0","messages":[] ,"class":"com.dbag.upload.service.dto.ResponseUploadService"}</pre>

## Data flow for file uploads (short codes and algo ID)

Short codes only used for regulatory reporting



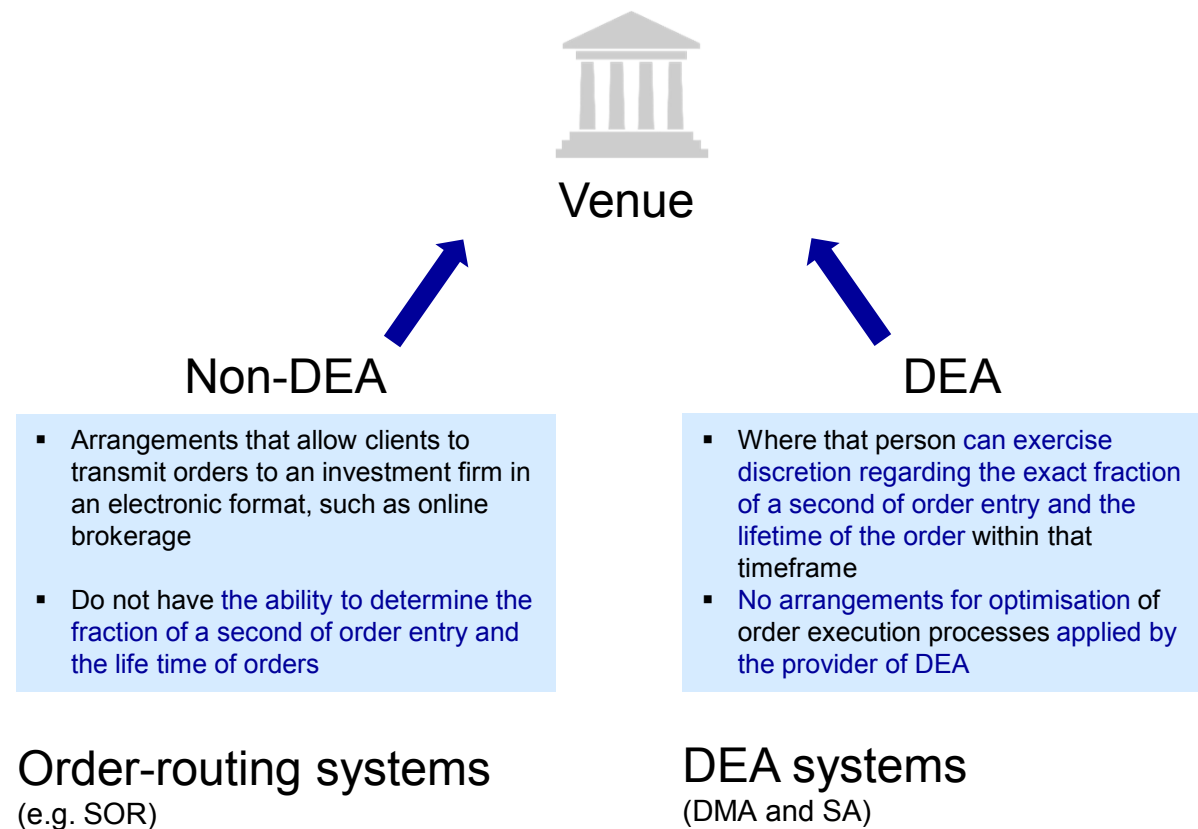


## ORS and DEA

How Deutsche Börse  
Group copes with MiFID II /  
MiFIR

## Electronic access definition under MiFID II / MiFIR

DEA is only one possible way to electronically access venues and comprises Direct Market Access (DMA) and Sponsored Access (SA).



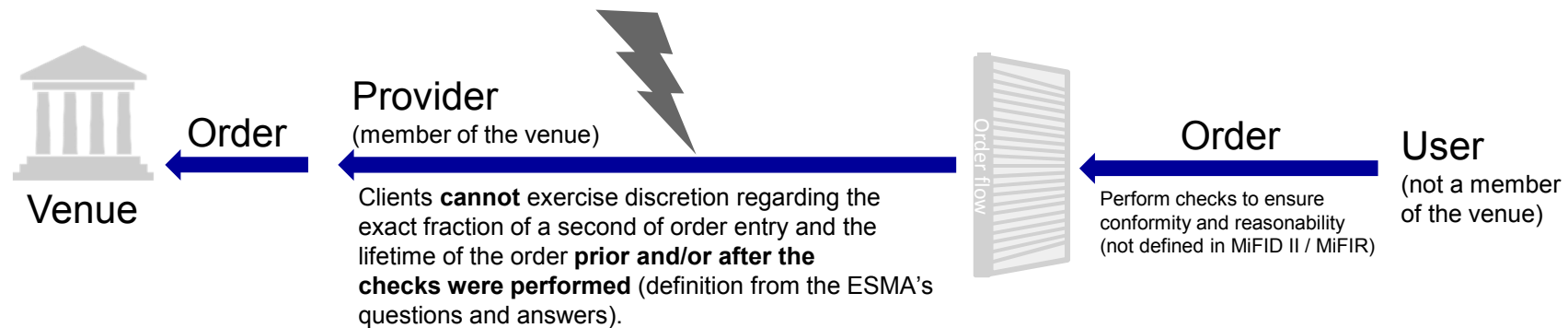
Commission Delegated Regulation (EU) No 2017/565 Recital (25)

Therefore, arrangements where client orders are intermediated through electronic means by members or participants of a trading venue such as online brokerage and arrangements where clients have direct electronic access to a trading venue should be distinguished.





## Order Routing Systems (ORS) under MiFID II / MiFIR



- The provider has the right to change an order parameter **without further notice** (optimisation of execution).

or

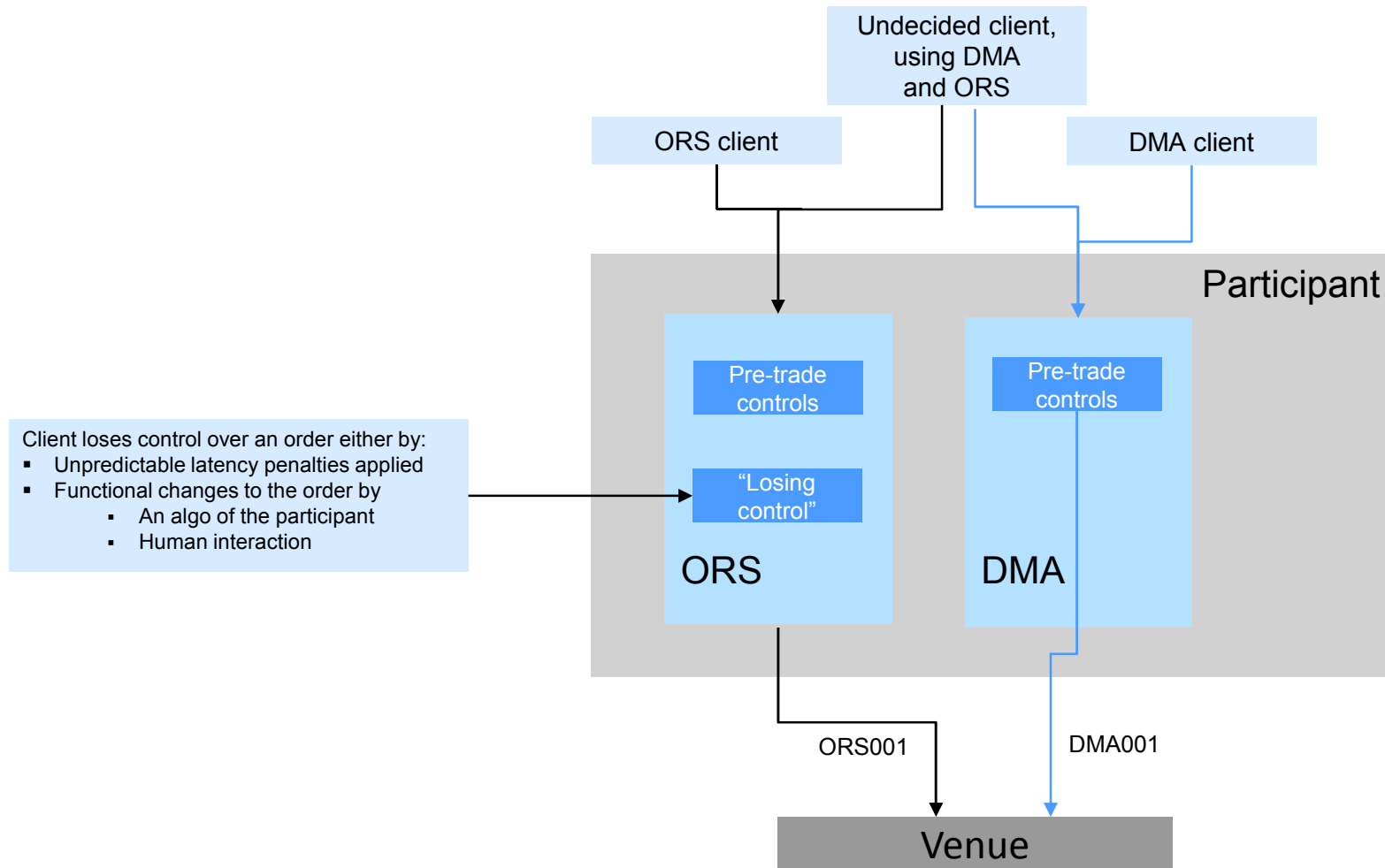
- The order can be delayed (**adding an unpredictable latency penalty**).

Technology (infrastructure) used to transfer the order:

- Owned and controlled by the provider
- Supervised by an admitted trader

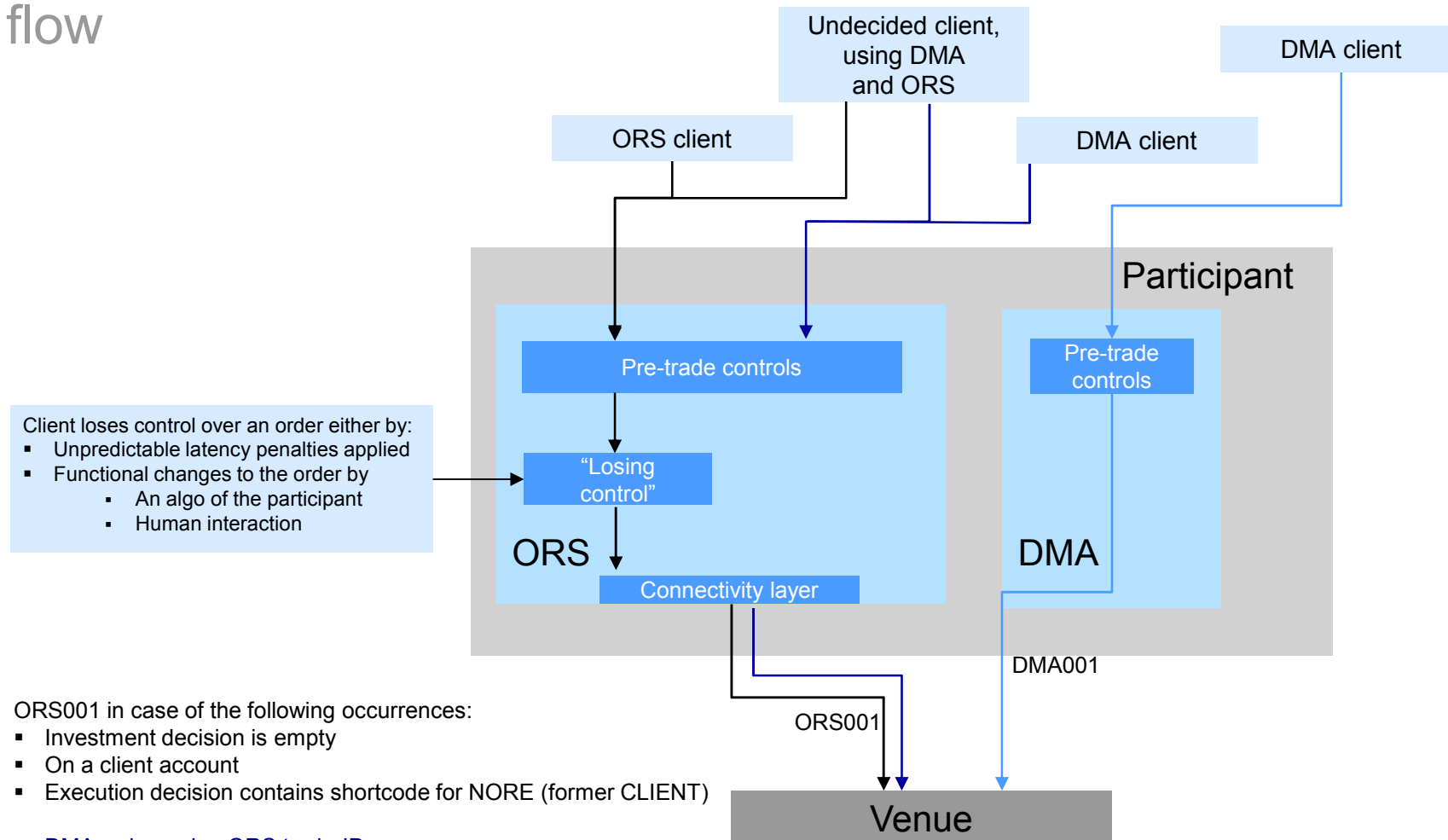
## Set-up scenario I

Using different trader IDs to distinguish order flow



## Set-up scenario II

Using different trader IDs or order attributes to distinguish order flow



Client loses control over an order either by:

- Unpredictable latency penalties applied
- Functional changes to the order by
  - An algo of the participant
  - Human interaction

ORS001 in case of the following occurrences:

- Investment decision is empty
- On a client account
- Execution decision contains shortcode for NORE (former CLIENT)

- DMA order, using ORS traderID
- DMA order, using DMA traderID
- ORS order, not DMA, using the ORS traderID





## Third-country firms

Access to our venues in  
the future under MiFID II /  
MiFIR

## By MiFID II / MiFIR application on 3 January 2018, the scope of trading activities requiring authorisation will be extended.

### Key facts

#### Authorisation requirements

- MiFID II defines the scope of activities which require authorisation.
- Activities requiring authorisation for firms dealing on own account include: membership of exchanges, being market makers or applying high-frequency trading strategies<sup>1)</sup>
- There are a few exemptions from the MiFID II requirements, e.g. for funds regulated under the AIFM-D or the UCITS regulation.<sup>2)</sup>

#### Impact on third-country firms

- Starting from 3 January 2018, third-country firms (TCF) will have three options to continue doing business in the European Economic Area (EEA), depending on their business model:
  - Use of MiFID II / MiFIR equivalence regime (and related transitional periods)
  - Establishment of a branch in the EEA
  - Establishment of a legal entity in the EEA

#### Equivalence regime

- MiFIR introduces an equivalence regime which allows TCFs to continue doing business in the EEA without the need to establish a branch, depending on their business model.
- Between the application of MiFID II / MiFIR and equivalence decisions of EU COM, MiFIR introduces transitional periods for TCFs.
- Transitional periods allow TCFs to continue business in the EEA until three years after the European Commission (EU COM) has made an equivalence determination with regards to a third country.
- Details on how to proceed until EU COM decides and of the design as well as potential prerequisites for transitional periods are left to the single member states.<sup>3)</sup>

1) Other activities requiring authorisation are dealing on own account when executing client orders and having direct electronic access to EU trading venue.

2) Exemptions apply to insurance undertakings (Article 2 (1)(a) MiFID II), collective investment undertakings and pension funds (Article 2(1)(i) MiFID II); persons involved in commodity derivatives trading satisfying the criteria under Article 2(1)(j) MiFID II.

3) German approach is outlined on following slide; other EEA countries follow different approaches, i.e. the UK and the Netherlands with "overseas person" exemption.

# Depending on the business model, MiFID II / MiFIR foresee different options for continuing doing business in the EEA.

		Minimum requirement to continue business		
		Set-up of EEA branch <sup>3)</sup>	Transitional period / equivalence	No requirement
High-level business activities	Dealing on own account <sup>1)</sup>	(✓)	✓	
	Client business EU clients <sup>2)</sup>	(✓)	✓	
	Client business EU retail clients	✓		
	Client business Non-EEA clients			✓

**Please note**

- This illustration reflects Eurex understanding and is no legal guidance.
- Options to continue business in EEA may heavily depend on the concrete business model.
- Market participants should conduct a careful strategic review of their organisational set-up together with the requirements of their business model.

1) Branch or legal entity may need to be set up in case of negative equivalence determination.

2) Offering services to eligible counterparties and professional clients within the meaning of Section I of Annex II of MiFID II may allow operating under transitional periods / equivalence.

3) Please note that the set-up of a branch will not allow for passporting; illustration only outlines minimum requirements.

## German transposition law of MiFID II implements possibilities for exemptions and transitional periods for TCFs

### German exemptions

- § 2(5) German Banking Act (KWG) grants BaFin the authority to exempt TCFs from various provisions of the KWG, including the authorisation requirement; exemptions can only be granted on a case-by-case basis.
- Prerequisite is the submission of a complete application for exemption to BaFin; BaFin will assess applications and based on the assessment approve or reject an exemption.
- More information can be found on:  
[https://www.bafin.de/SharedDocs/Veroeffentlichungen/DE/Anlage/170918\\_Anlage\\_Erlaubnispflicht\\_grenzueberschreitendeGe.html](https://www.bafin.de/SharedDocs/Veroeffentlichungen/DE/Anlage/170918_Anlage_Erlaubnispflicht_grenzueberschreitendeGe.html)
- Furthermore, §64v(8) KWG establishes a temporary exemption for TCFs dealing on own account, which become subject to authorisation requirements due to the extension of the scope of activities which require authorisation.

### German transitional periods for TCFs

- §64v(8) KWG allows BaFin to temporarily exempt particular TCFs which are dealing on own account in Germany from the MiFID II requirements.
- Prerequisite is that TCFs submit a complete application for exemption to BaFin by 2 July 2018; if a complete application was submitted, the exemption in accordance with §2(5) KWG is temporarily granted.
- The temporary exemption, which is effectively a transitional period, will last from 3 January 2018 until the EU COM has made an equivalence determination regarding the particular jurisdiction of a TCF and ESMA has decided about registering these firms in the register for third-country firms.
- Completeness of applications will be determined by BaFin.

### German treatment of EEA firms

- EEA firms which intend to be authorised in Germany will be provisionally authorised by BaFin based on German transposition law of MiFID II (2nd FinanzmarktG\*).
- Prerequisite is that EEA firms submit a complete application for authorisation to BaFin by 2 July 2018.
- If a complete application was submitted, EEA firms will be provisionally authorised from 3 January 2018 until BaFin has decided about the authorisation; passporting to other EEA countries will be possible.
- After receiving a complete application for authorisation, BaFin has up to six months to decide to approve or reject an application for authorisation; completeness will be determined by BaFin.
- BaFin already accepts applications for authorisation; finalisation of application will be an interactive process between BaFin and the applicant.

\* Finanzmarktnovellierungsgesetz (amending Financial Market Regulations)

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