



Out of the wings and into the limelight

Peter Moss, CEO of The SmartStream Reference Data Utility (RDU), looks at the reference data challenge posed by MiFID II/MiFIR.

The financial industry is bracing itself for the introduction, early next year, of MiFID II/MiFIR. Under the incoming rules, reference data will play a part of increased importance. There are a number of reasons underlying this development.

MiFID II/MiFIR extends regulatory focus from shares to a much wider range of instruments. It also brings in new product registration obligations, plus an extensive suite of reporting requirements covering pre-trade price transparency, post-trade and transaction reporting. Critically, much of the incoming regulation pertaining to transparency and reporting will require decisions to be made at individual instrument level, using decision trees and information relating specifically to each financial product. It will make access to accurate, targeted reference data more vital than ever.

Firstly, the upcoming rules will oblige financial institutions to inform their National Competent Authority (NCA) of any new product they wish to trade. The NCA, in turn, will forward

information to the European Securities and Markets Authority (ESMA) for publication. Products will need to be registered with financial authorities, along with all relevant reference data. Additionally, before any new instrument can be traded, it will need to set be up – with the associated reference data – in a company's security master.

Pre-trade price transparency is likely to prove another pain point for the industry and particularly for systematic internalisers. Regulated markets (RM), multilateral trading facilities (MTF), organised trading facilities (OTF) and systematic internalisers (SI) will be covered by the new pre-trade price transparency provisions. They will have to advertise prices in advance and then guarantee to trade at that price, unless a waiver can be shown to apply. Reference data will be needed to prove that a waiver should operate. The trading venues (RM, MTF and OTF) have always advertised prices quite transparently – systematic internalisers have not. Systematic internalisers could be in for a tough time as they are

going to need large quantities of reference data in order to provide a mechanism for pre-trade price transparency. Accessing all the relevant information could prove hugely testing.

Implementing the post-trade reporting provisions set out by MiFID II/MiFIR may cause firms other reference data-related headaches. For a start, trades will have to be published within fifteen minutes of a transaction occurring. A set of instrument reference data will be needed to define the trade, while reference data will be necessary to determine which party should report the trade, as well as to establish whether reporting should be deferred.

Finally, transactions will have to be reported to authorities within twenty-four hours of them taking place. Firms will need to provide a host of detailed information – primarily counterparty data in addition to the details of what was traded.

So how will firms meet their reporting obligations? The author believes that almost all organisations will use an approved publication

arrangement (APA) and an approved reporting mechanism (ARM). Systematic internalisers will need access to reference data directly as well, in order to handle their broader obligations. This can be sourced directly, through vendors or from a utility like The SmartStream Reference Data Utility (RDU). Firms accessing reference data directly need to be confident that their internal teams can deliver. Those using a data vendor or a utility need to carefully track time to market, too.

Fulfilling MiFID II/MiFIR requirements will oblige firms to gather information from multiple sources, including trading venues and a number of regulatory bodies such as ESMA, the Association of National Numbering Agencies (ANNA) and the Global Legal Identifier Foundation (GLEIF). There is, however, some difficulty concerning the data to be supplied by certain regulatory authorities.

It is, unfortunately, not yet clear what form the data to be provided by ESMA and ANNA is going to take nor when, exactly, this information is likely to become available. Neither is it entirely apparent as to where certain details should be obtained from. For example, if companies want to find out which systematic internalisers are dealing in a specific ISIN, to whom should they turn? Will ESMA publish this information or will another body do so? We still do not know. These and other unanswered questions mean that a very fluid

situation is likely to persist until the end of the year.

Not surprisingly, the lack of clarity as to how ESMA and ANNA data may eventually be clarified and published is a cause for anxiety among financial institutions. Firms are especially worried that delays in data availability might lead to a hurried final phase of implementation late in 2017.

And financial institutions are right to be concerned. While regulators may be lenient for the first six months of 2018 – provided they see that best endeavours have been made – they do have the power to stop firms from trading and it is possible, therefore, that after an initial period of grace, they will put these powers into action, should they see institutions failing to comply with MiFID II/MiFIR obligations.

A financial utility which specialises in processing reference data, such as the RDU, can assist companies to meet the demands of MiFID II/MiFIR. The RDU normalises and aggregates information from multiple sources, e.g. trading venues and data vendors. It removes much of the “heavy lifting work” associated with processing the subtleties and complexities of huge volumes of raw data, simplifying and enriching where necessary, in order to create easily digestible sets of data.

The RDU is also ideally suited to tackling the type of large files likely to be published by regulatory authorities. ESMA

data may well be supplied in a raw form and require significant enrichment before it can become usable and the files published by ESMA could also turn out to be extremely large in size – with millions of instruments – potentially making processing work even more arduous. Furthermore, the data may need to be supplemented by data from additional sources such as trading calendars and ISIN/SI mappings.

For systematic internalisers in particular, which will need quantities of focussed data relating specifically to the set of instruments they have chosen to make a market in, access to the sort of highly targeted reference data the RDU can provide should prove critical. The service provided by the utility can also relieve them of a weighty processing burden.

MiFID II/MiFIR looks set, in conclusion, to bring plenty of change. The RDU can, the author believes, play a pivotal role in helping companies to meet their obligations. Solely dedicated to processing reference data, and employing industry best practice, the RDU provides an alternative to in-house development or to third party vendor solutions. Importantly, as a utility, it has the potential to save scores of individual institutions from replicating the same effort, providing firms across the industry with a cost-effective means of responding to the reference data demands generated by MiFID II and MiFIR. ■