

Inside Reference Data

SmartStream Hopes Collaborative SI Utility Can Solve MiFID II Dilemma

Reference data and post-trade automation technology provider is meeting with banks in an effort to solve systematic internalizer conundrum.



Peter Moss, SmartStream

In 2007, the Markets in Financial Instruments Directive (MiFID) opened the door for banks to act as systematic internalizers (SIs), allowing them to carry out client orders internally against their own capital. MiFID II, which comes into force on Jan. 3, 2018, broadens the definition of an SI so that any investment firm that deals on its own account by executing client orders outside a regulated market or multilateral trading facility in an organized, regular and material basis is considered to be an SI.

Firms must be able to identify which counterparties are SIs in order to be MiFID II compliant, because that identification determines which party has the obligation to carry out post-trade reporting.

The challenge is that the European Securities and Markets Authority (ESMA) has announced that it will neither provide a list of SIs before Jan. 3, nor centralize and publish international securities identification numbers (ISINs) for SI relationships before the end of 2018. Firms will therefore have no chance to fully test their new reports ahead of the MiFID II deadline.

“That’s a great example of a fairly fundamental gap around the processes of regulation,” says Peter Moss, chief executive officer of SmartStream Technologies’ Reference Data Utility.

This leaves two options, says Moss. “One is [that] everybody reports and you get a lot of overreporting, which I think goes against the whole principle of reporting,” he says. The other option is the utility that SmartStream is currently showing to SIs in an attempt “to gauge interest levels around providing the data, consolidating on our platform, and trying to make it available to the industry,” he says.

The utility has already been built in partnership with existing clients—including an Approved Publication Arrangement—that have signed up for SmartStream’s MiFID II services, and all are registering their data, he says. However, Moss says the group is “relatively small,” and the company has concluded that the existing pool “is just a partial fix.”

“The ideal solution would be for all SIs to just register their interest in the same way, consolidate their data, and make it available to the market. That’s what we’re trying to do,” he says.

SmartStream is meeting with firms “to determine the level of appetite to contribute SI data,” and as no inventory of official or potential SIs has been provided by ESMA, the vendor is simply starting with Europe’s biggest brokers and then working its way down the list, according to Moss.

“There is a big debate still about how many SIs there will be,” he says, adding that only 35 or so firms have registered with ESMA or obtained an International Organization for Standardization (ISO) code. “There are a lot of organizations still trying to work out whether they want to be an SI or not. Our estimation is there’s going to be about 70 to 80 [SIs registered].”

Moss says he has spoken to around 50 firms that believe they will be SIs. “Based on conversations I’ve had with them over the last nine months, I believe they would be very interested in [a shared SI utility],” he says. “There is also a huge appetite on the buy side. [They are] keen to know whether their core broker relationships are set up so the instruments they’re trading are being handled by an SI. If they know they’re trading with an SI, life would be a lot simpler for them.”

If sufficient appetite for the utility exists, Moss says, SmartStream could turn it into a product and introduce it to the market in a matter of weeks. The goal would be to have something that would allow SIs to register their interest from the end of November 2017 onward, he adds.