The Depository Trust & Clearing Corporation

THE IMPACT OF MiFID II ON POST-TRADE PROCESSES

OVERVIEW

The upcoming revision to the Markets in Financial Instruments directive (MiFID II) will alter the post-trade landscape for a range of financial market participants.

MiFID II will have a significant impact on how firms trade and report in the EU. Even global firms that choose to trade with firms within the EU will be affected. Many firms will be faced with the challenge of adapting their middle and back-office activities to comply with changes required to post-trade processing by January 2018.

IMPACT ON THE POST-TRADE PROCESS

For many firms, MiFID II will affect several key areas of the post-trade process including:

- **Adoption of Legal Entity Identifier (LEI)**

  MiFID II will introduce the concept of 'no LEI, no trade'. From 2018, Investment Management firms subject to MiFID II transaction reporting obligations should not execute a trade on behalf of their clients who are eligible for an LEI and do not have one. MiFID II will require parties involved in all financial instrument transactions to include the entity's LEI when reporting to the competent authority. Additionally MIFID II mandates dual-sided reporting and therefore mandates Investment Managers to report, for the first time, equity and fixed-income trades. The regulation covers issuers, investment firms and their clients, participants of trading venues and their clients, as well as brokers. Brokers will need to include the Investment Manager's LEI in their reporting and Investment Managers must include an LEI for their underlying clients

  Investment firms will be required to obtain LEIs from their clients before providing services which would trigger reporting obligations. Investment firms will be obligated to ensure that clients are being identified using "validated, issued and duly renewed legal entity identifiers" and that their operational processes can adequately ensure data quality.

- **Unbundling of research costs**

  The implementation of MiFID II will require all sell-side research to be individually priced and thus affect full price transparency. Investment firms will be required to set and assess research budgets and MiFID II states that payment must be direct, out of the firm's own resources, without any undue delay.

  Research payment fees may still be passed onto the underlying funds of the investment manager and potentially bundled with execution fees. In order to continue doing this the investment firm must put in place a Research Payment Account (RPA) on a fund by fund basis.

  The RPA will contain strict stipulations regarding the agreed amount of research that will be paid for, the amount to be assessed on a regular basis and be marked as an explicit cost to the underlying fund.

  Clients can choose to either:

  - Maintain the inclusion of research amounts on individual trades - the Research Payment Account ("RPA") model as an alternative to the existing CSA model
  - Separately pay for research ("the P+L model") and exclude the costs from the trade confirmation process.

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ENABLING COMPLIANCE WITH MiFID II

GMEI®

Adopting LEI's: GMEI® Utility, a Global Legal Entity Identifier Foundation (GLEIF) accredited Local Operating Unit (LOU), is designed to provide a single, universal standard identifier to any organization or firm involved in a financial transaction internationally, thereby helping them to meet their MiFID II transaction reporting obligations.

For more information or to register, visit gmeiutility.org

Business Entity Data (BED) B.V., a wholly-owned subsidiary of DTCC, owns and operates the (GMEI utility) legal entity identifier (LEI) solution in the federated Global LEI System (GLEIS).

ALERT®

Adopting LEI's: ALERT® contains a field to allow Investment firms to add the LEI of their clients and share this with their broker counterparts. The LEI can also be enriched to CTM to help with reporting obligations.

For more information, visit dtcc.com/alert

INSTITUTIONAL TRADE MATCHING

Adopting LEI's & Unbundling Research Costs: The CTM™ platform supports LEI's and the provision and exchange of other reporting information. It will also add a new commission type for research costs to support the population of both a discrete segregated research amount as well as an execution commission amount.

CTM will compare the two counterparties' totals when matching. If one side maintains a single bundled value and their counterparty provides two discrete values this will not impact matching as long as both sides agree to either include or exclude research on trades.

The OASYS™ and TradeSuite ID™ services can support and provide guidance on the population of both a discrete segregated research amount as well as an execution commission using the existing fields.

For more information, visit
dtcc.com/ctm
dtcc.com/oasys
dtcc.com/tradesuiteid

PREPARE TODAY FOR MiFID II

DTCC is working with clients across the financial markets to help them understand and prepare for MiFID II.

To find out more about how our solutions can help firms to get ahead of the curve before MiFID II takes effect, please email us at **solutions@dtcc.com** or visit us on the web at **www.dtcc.com/mifidii**

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