



# Are you ready for the Systematic Internaliser Regime?

Webcast

Thursday, 7 December 2017

## Speakers

### **Moderator:**

- Brie Lam, Director, Regulatory and Compliance Services, IHS Markit
- Peter Gratwick, Executive Director, J.P. Morgan
- James Roberts, Director, European Public Policy, International Swaps and Derivatives Association (ISDA)
- Doug Shaw, Counsel, Linklaters

## Agenda

- Background on Trade Reporting and the Systematic Internaliser (SI) Regime Under MiFID II
- Panelist Discussion on the SI Regime
  - > Regulatory context
  - > Challenges of the Regime: A Dealer's Perspective
- Overview of the IHS Markit Systematic Internaliser Registry
- Questions from Audience Participants

# Background on Trade Reporting and the Systematic Internaliser (SI) Regime under MiFID II

## How does the Systematic Internaliser regime impact trade reporting?

- MiFID II mandates real-time trade reporting for all instruments deemed Traded on a Trading Venue (ToTV) to an Approved Publication Arrangement (APA). When such instruments are traded off venue, the two counterparties must determine which party is responsible for conducting trade reporting.
  - > Terminology review: ToTV, off venue, APA
- One, and only one, of the two counterparties report the trade, within one minute for equities and similar instruments, within 15 minutes for everything else.
  - > Discussion: Overreporting and underreporting
- A counterparty's Systematic Internaliser (SI) status for an instrument transacted is an input into determining which party is responsible for trade reporting (detailed example to follow).

# What is a Systematic Internaliser?

## Definition and SI Assessment


- Systematic Internalisers are investment firms which, on an organised, frequent, systematic and substantial basis, deal on own account when executing client orders outside a regulated market, an MTF or an OTF.

## The Assessment:

- The frequent and systematic basis will be measured by the number of OTC trades in the financial instrument carried out by the investment firm on own account when executing client orders.
- The substantial basis will be measured either by the size of the OTC trading on own account in relation to the total trading of the investment firm in a specific financial instrument or by the size of the OTC trading carried out by the investment firm in relation to the total trading in the European Union in a specific financial instrument.
- Initial assessment takes place on 1<sup>st</sup> September 2018
- Voluntary opt-in to the Systematic Internaliser regime, and all of its associated obligations, begins 3<sup>rd</sup> January 2018

## Illustration of Trade Reporting Impact

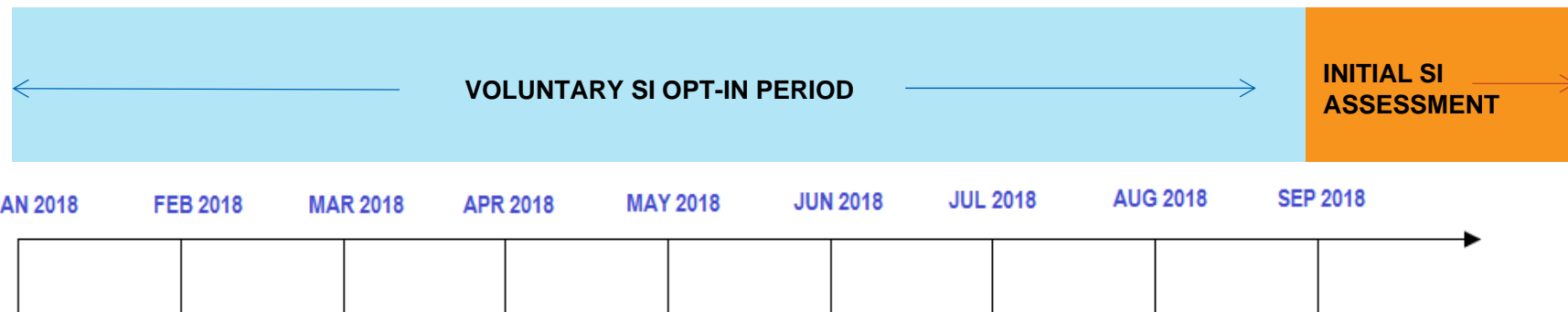
- An illustration of how SI status impacts which counterparty to a trade is expected to conduct trade reporting appears below.

Transaction	Is the Trade Executed on a Trading Venue?	Is Dealer an SI for the Instrument Transacted?	Trade Reporting Time Limit	Which Party is Responsible for the Trade Reporting to an APA?
<b>Investment Manager XYZ</b> sells (writes) a call option on the EURO STOXX 50 index to <b>Dealer ABC*</b>  <small>*Both are MiFID investment firms</small>	Yes	Not applicable	Within 15 minutes	Scenario 1: <b>The Trading Venue</b> reports under its obligation as a trading venue
	No	Yes		Scenario 2: <b>Dealer ABC</b> reports, as it is the Systematic Internalisers obligation
	No	No		Scenario 3: <b>Investment Manager XYZ</b> reports, as it is the seller's obligation when the buyer is a not a Systematic Internaliser for the instrument transacted

- The challenge: knowing what product set(s) a dealer is an SI for, in order to determine whether it is the dealer who reports, or the investment manager in this case. A publicly available registry does not exist and the data is not static.

# Timeline

## Key Dates around the SI regime under MiFID II (Source: ESMA)



3 January 2018 to 30 June 2018: Collection of information by ESMA on the total number and the volume of transactions executed in the European Union for initial SI assessment

3 January 2018: MiFID II Adherence date including compliance with SI obligations under MiFID II for investment firms that opt-in.

1 August 2018: ESMA will publish information on the total number and the volume of transactions executed in the European Union for the first time by 1 August 2018, covering the period from 3 January 2018 to 30 June 2018.

1 September 2018: investment firms must undertake their first assessment by and, where appropriate, comply with the SI obligations (including notifying their National Competent Authority) by 1 September 2018.

- Trade reporting requirements under MiFID II begin 3<sup>rd</sup> January 2018
- SI Opt-in Period (3<sup>rd</sup> January 2018 through 1<sup>st</sup> September 2018) vs Initial Assessment (1<sup>st</sup> Sep 2018), quarterly thereafter
- Evolution of the SI population following 1<sup>st</sup> September 2018 Initial Assessment



# Trading off venue?

## Counterparty SI Status: Impact

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- It determines whether you or your counterparty are the party responsible for real time trade reporting to an APA
- It is a reportable field for transaction reporting to an ARM
- Investment firms need to know
  - ✓ Their counterparty's SI status for the instrument transacted off venue
  - ✓ That SI counterparty's MIC Code

## Preparation Steps for Off Venue Trading Post 3<sup>rd</sup> January 2018

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- Select an APA and ARM for trade and transaction reporting, respectively
- Determine where you will be sourcing your counterparties' SI statuses as how you will be maintaining that information as it evolves
  - Self-maintenance
  - Vendor solution
- Test reporting feeds with the selected APA/ARM

# Q&A discussion around the Systematic Internaliser Regime

# Overview of the IHS Markit Systematic Internaliser Registry

## Industry Gap

- Product-level SI Registry

Transaction	Is the Trade Executed on a Trading Venue?	Is Dealer an SI for the Instrument Transacted?	Trade Reporting Time Limit	Which Party is Responsible for the Trade Reporting to an APA?
<b>Investment Manager XYZ</b> sells (writes) a call option on the EURO STOXX 50 index to <b>Dealer ABC*</b>  <small>*Both are MiFID investment firms</small>	Yes	Not applicable	Within 15 minutes	Scenario 1: <b>The Trading Venue</b> reports under its obligation as a trading venue
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### The IHS Markit Systematic Internaliser Registry

- Derivatives
- Bonds
- Equity & Equity-like Instruments

## Designed in Conjunction with ISDA

- Offered in conjunction with ISDA
  - Why ISDA Amend for SI Status Dissemination?
    - ✓ ISDA and IHS Markit: partners since 2010
    - ✓ Established user-base amongst the dealer and buy-side community
    - ✓ Messaging through existing channels (MiFID II working groups, global conferences)

# Leveraging an Existing Regulatory and Compliance Hub between IHS Markit and ISDA

ISDA<sup>Amend</sup>  
powered by  
 IHS Markit

ISDA 1.0

Dodd Frank Protocol 1&2

Cross Border Representation

CFTC Initial Margin Segregation

Canadian Representation Letter

EMIR Clearing & Categorization

Australia Reporting and Clearing

ISDA 2.0

Self Disclosure Letter

Variation Margin Protocol

Jurisdictional Modular Protocol

Hong Kong Clearing Classification

10,000+

Buyside customers

150+

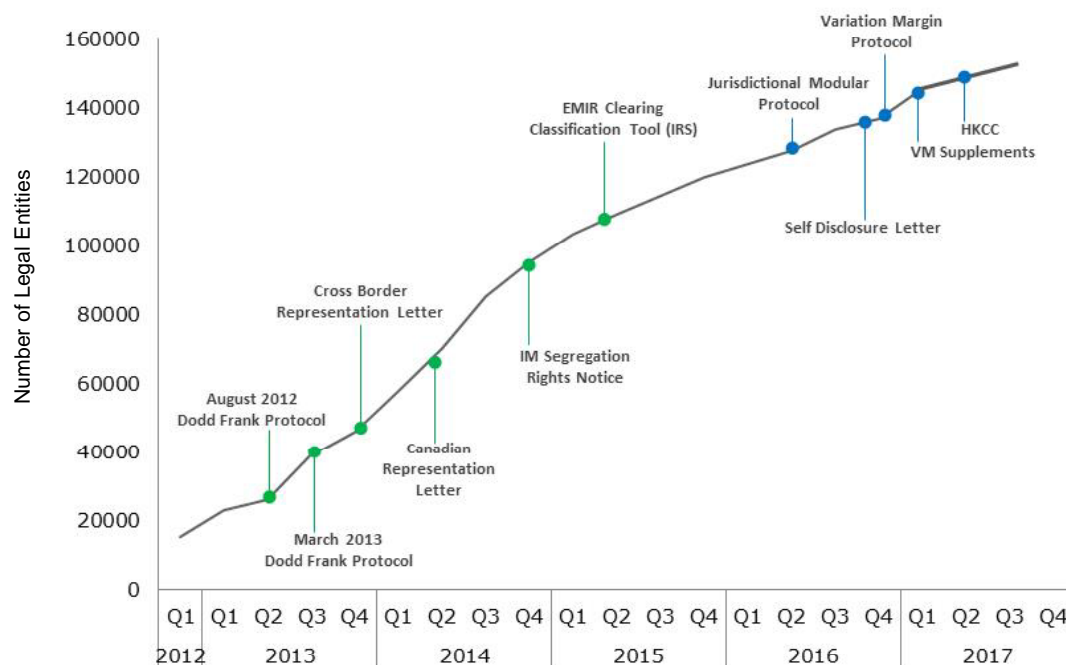
Sellside customers

27,000+

Users

145k+

Legal entities



# IHS Markit Systematic Internaliser Solution


Equities vs Non-Equities	Asset Class	Sub Asset Class
Equities	Shares	Current offering allows for SI Status indication at the levels displayed at left
	ETFs	
	Depository receipts	
	Certificates	Candidate for future release: ISIN-level linkage
	Other equity-like financial instruments	
Non-Equities – Derivatives	EXAMPLE:  Equity Derivatives	Swaps
		Portfolio Swaps
		Stock index options
		Stock index futures/ forwards
		Stock options
		Stock futures/ forwards
		Stock dividend options
		Stock dividend futures/ forwards
		Dividend index options
		Dividend index futures/ forwards
		Volatility index options
		Volatility index futures/ forwards
		ETF options
		ETF futures/ forwards
		Other Equity Derivatives

## IHS Markit Systematic Internaliser Solution

Equities vs Non-Equities	Asset Class	Sub Asset Class
Non-Equities	Bonds	<p>Current offering allows for both:</p> <ol style="list-style-type: none"> <li>Bond Type level indication across all issuers (“All Sovereign bonds across all sovereign issuers”)</li> </ol> <p>Bond Type levels:</p> <ul style="list-style-type: none"> <li>- Sovereign Bond</li> <li>- Other Public Bond</li> <li>- Convertible Bond</li> <li>- Covered Bond</li> <li>- Corporate Bond</li> <li>- Other Bond</li> </ul> <ol style="list-style-type: none"> <li>Explicit Bond Issuer – Bond Type level SI Status indication (“All corporate bonds issued by BMW Finance NV”), or</li> </ol> <p>Candidate for future release: ISIN-level linkage</p>
	Structured finance products	--
	ETCs	--
	ETNs	--
	Emission allowances	--



# Navigation

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 IHS Markit
Counterparty Manager | Welk

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Counterparty Documents
Request Document Access
Batch Download Documents
Outreach360 for MiFID II **New!**
  
**Gain Permission**
  
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Edit Team
  
**Reports**
  
Dealer Team
Unverified Entities
Buyside Clients List

**Pending Tasks**
  
Click on task number to view details
  
**Regulatory**
  
0 ISDA Amend DF Protocol 1.0
0 ISDA Amend DF Protocol 2.0
0 ISDA Amend Cross Border Representation
0 CFTC Initial Margin Segregation
0 Canadian Representation Letter 1
0 ISDA Amend 2.0
0 **Systematic Internaliser Status**
  
**Onboard Counterparty Entity**
  
0 Request For Amendment
04/Dec/2017 00:00
  
**Validation**
  
0 KYC Services
04/Dec/2017 00:00
  
**Contact Us**
  
**Sales & Customer Support**
  
UK +44 (0) 20 7260 2100
US +1 212 488 4040
EU +44 00800 6275 4800
Asia +65 6922 4210
Email: mcomsupport@markit.com

**New Launch!**
  
[Systematic Internaliser \*\*New!\*\*](#)
[Systematic Internaliser User Guide \*\*New!\*\*](#)
  
**Outreach360**
  
[ISDA Amend 2.0 - Uncleared Margin Rules](#)
[ISDA Amend 2.0 - Self Disclosure Australia](#)
[ISDA Amend 2.0 - Self Disclosure Hong Kong](#)
[ISDA Amend 2.0 - Self Disclosure Singapore](#)
[ISDA Amend 2.0 - Hong Kong Clearing Classification](#)
  
**Steps for Onboarding with Counterparty**
  
1. View Onboarding request
2. Gain Permission to Counterparty Documents
3. Download validated KYC Profile
4. Gain Permission to Regulatory Information

Login to Counterparty Manager

Click into the Systematic Internaliser Status module

Download Dealer SI Status Full or Delta Reports

Download the Bond Aggregate Data Report

Filter to View S.I.s per product area

## Filter to View S.I.s per Product Area: Full Report

Entities denoted within the green rectangles above are Systematic Internalisers for non deliverable forwards (NDFs), provided on a ***pre-trade basis***, updated daily

Institution	Entity True Legal Name	Entity LEI	Asset Class - Foreign Exchange Derivatives	Asset Class - Foreign Exchange Derivatives Opt-in Last Updated Date	Foreign Exchange Derivatives - Non-deliverable forward (NDF)	Foreign Exchange Derivatives - Non-deliverable forward (NDF) Opt-in Last Updated Date	Foreign Exchange Derivatives - Deliverable forward (DF)	Foreign Exchange Derivatives - Deliverable forward (DF) Opt-in Last Updated Date
JCP Bank	JCP Bank Entity 9	134436MR786353456786	Yes	18-Sep-17				
JCP Bank	JCP bank Entity 18	6783GKGIH4444344464	Yes	17-Sep-17				
BB Bank	BB UK Branch	7853BKFJD45433335434	Yes	17-Sep-17				
AIK Securities plc	London Branch	7853BHDJF45433335434						
Kingston Bank Ltd	London Branch	7853BHDJF45433335434						
Bank New	Bank New Entity 1	2544354545MR22246539			Yes	5-Jan-18		
GG Bank	GG Bank Entity 1	343434KJH45KDSJ44363			Yes	28-Dec-17		

Systematic Internalisers for all Foreign Exchange Derivatives at the Asset Class level

Login to Counterparty Manager

Click into the Systematic Internaliser Status module

Download Full or Delta Reports

Download the Bond Aggregate Data Report

Filter to View S.I.s per product area

# Dealer Input: Entity Level Information

[< SI Status Dashboard](#)
[Edit Entity Details](#)

## AMZ Bank Entity 010

MEI:








LEI: 896547JYGGCDGFD26564

Client Identifier: EN10

**\* \* ENTITIES PROVIDING BRANCH-LEVEL INFORMATION IN RESPECT OF THEIR SYSTEMATIC INTERNALISER STATUS ON THE SI TOOL ARE RESPONSIBLE FOR DETERMINING WHETHER EACH SUCH BRANCH IS A SYSTEMATIC INTERNALISER FOR THE PURPOSES OF MIFID II. A GLOSSARY OF DEFINED TERMS IS AVAILABLE HERE:** 

SI Status Selection

[+ Add New Branch](#) [+ Select Existing Branch](#)
[Cancel](#) [Save](#)

SI Status Selection for quarter beginning on 	*	03 Jan 2018
Operating as an EEA Firm? 	*	Yes ▼
Operating as an EEA branch of a non-EEA entity? 	*	No ▼
Is a Non-exempted MIFID Investment Firm? 	*	Yes ▼
BIC Code 		ASCBSEDXXX
MIC Code 	*	QURY
Authority 	*	Financial Services Authority (FSA) ▼

[+ Add Asset Class](#)

# Dealer Input: SI Status by Asset/Sub-Asset Class

Financial Services



Counterparty Manager

Is a Non-exempted MIFID Investment Firm? ⓘ	* Yes ▼
BIC Code ⓘ	ASCBSEDCBD
MIC Code ⓘ	* QURY
Authority ⓘ	* Financial Services Authority (FSA) ▼

+ Add Asset Class

Collapse All		Opt-In ⓘ	Date Last Updated
-	Asset class ⓘ	* <input type="checkbox"/> Foreign Exchange Derivatives ⓘ ▼	05-Dec-2017 23:23:49 🗑
+ Add Sub Asset Class			
	Sub Asset Class ⓘ	<input checked="" type="checkbox"/> Deliverable forward (DF) ▼	05-Dec-2017 23:23:49 🗑
	Sub Asset Class ⓘ	<input checked="" type="checkbox"/> Non-Deliverable FX options (NDO) ▼	05-Dec-2017 23:23:49 🗑
	Sub Asset Class ⓘ	<input checked="" type="checkbox"/> ▼	🗑
Opt-In ⓘ			
		Non-deliverable forward (NDF)	Date Last Updated
		Deliverable FX options (DO)	
		Non-Deliverable FX swaps (NDS)	
		Deliverable FX swaps (DS)	
		FX futures	
+	Asset class ⓘ	* Bonds	05-Dec-2017 23:23:49 🗑
Opt-In ⓘ			
-	Asset class ⓘ	* <input type="checkbox"/> Equity Derivatives ⓘ ▼	🗑
+ Add Sub Asset Class			
	Sub Asset Class ⓘ	<input checked="" type="checkbox"/> ▼	🗑

## Contact us:

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