Understanding the business landscape post MiFID II

June 2018

pwc

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1 Heart of the matter

Introduction

The global financial crisis of 2008 forced bank and financial market regulators across the globe to examine the existing regulatory framework and tighten it so as to pre-empt another meltdown. The financial services sector has seen a wide variety of regulatory changes ever since.

New regulations and standards have been introduced, and many existing regulations were amended extensively to not only increase their scope but also fill the gaps that were uncovered. One such large-scale regulatory change which has been the key talking point across the capital markets for the last couple of years is MiFID II. The original MiFID, which became effective in November 2007,[1] was intended as the cornerstone of an ambitious and wide-ranging project to create a level playing field for firms to compete in the European Union's (EU) financial markets and to ensure a consistent level of consumer protection across the EU. However, increased fragmentation in markets and data, the pace of technological change, innovation in financial instruments and markets, combined with calls for reforms following the 2008 financial crisis, led to a complete overhaul of MiFID and the introduction of MiFID II.[2]

MiFID II is EU's response to address:

- Calls for radical reforms in the financial services industry after the 2008 financial crisis;
- The increasing pace of technology change, including the rise of automated trading and growth in new market structures;
- Increased data fragmentation, an unexpected result of MiFID.

MiFID II focus areas

1. Best execution
2. Transparency
3. Transaction reporting
4. Cost and charges
5. Markets structure
6. Product governance
7. Record keeping
8. Client reporting
9. Research

1 Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC.

2 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (recast)

MiFID II covers a wide range of initiatives which will have far-reaching impacts. Some of these are:
On-exchange trading of standardised derivatives
Enhanced governance for trading venues
Stricter regulations around commodity derivatives
Increased transparency for markets, regulators and clients
Consolidation of market data
New investor protection requirements
Substantive enhancement of regulations of algorithmic and high-frequency trading
New framework for non-EEA firms to access European markets

MiFID II: Drivers

Although MiFID II is a European regulation, its impact will be felt globally as it defines a new framework for institutions trading European products anywhere in the world.

Since its implementation in November 2007, MiFID has been the cornerstone of capital markets regulation in Europe. However, since its inception, not all benefits have been fed down to the end investor as envisaged. MiFID II is aiming to address the shortcomings of the original MiFID release and has been amended with measures as a result of the lessons learned from the financial crisis. The figure below highlights the key themes and purpose of MiFID II.

MiFID II: Drivers

Market structure

- Create a level playing field among trading venues – RMs, MFTs and OTFs.
- Extend the regime for systematic internalisers.
- Introduce the regime for small- and medium-sized enterprise growth markets.

Research

- Establish a price for research and charge clients separately for those services.

Investor protection

- Improve governance and organisational requirements for firms; strengthen conduct of business rules that cover firms' relationships with all categories of clients.
- Introduce new powers to supervisors at both the national and European level.

Transparency

- Extend the transparency regime to equity-like and non-equity instruments (including derivatives) and to instruments advertised or traded on MTFs and OTFs.

2 An in-depth discussion

MiFID II is an all-encompassing regulation that aims to improve transparency across financial markets while keeping in mind the best interests of clients, who remain the centre of focus.

In this paper, we focus on select areas while emphasising the aims of the ESMA and its corresponding impact on the industry.

Market structure: Enhanced governance for trading venues

MiFID II provides for a more rigorous regulatory oversight of trading venues and brokers. It sets out more onerous transparency requirements for the fixed-income markets that are more closely aligned with the current equity obligations. The expectation is that more fixed-income trading will move to electronic trading platforms and away from voice trading, thus bringing about greater transparency in fixed-income markets and ultimately narrowing bid and offer spreads.

Additional data needs to be shared with the venues.

Trading of standardised derivatives is expected to move to venues.

Regulator viewpoint

A few deficiencies of the MiFID regime for trading venues that MiFID II intends to address are:

- MTFs appeared to have a competitive advantage over RMs as they had a relatively lighter regulatory burden.
- MiFID was not able to achieve its intended outcome of a SI regime as only a few firms registered as SIs.
- Trading models such as dark pools and broker crossing networks were not covered under MiFID.

With MiFID II, the regulators intend to put a greater regulatory burden on trading venues who would now need enhanced governance, systems and controls to be in place in order to meet their regulatory obligations. Trading venues will also have more intensive regulatory reporting requirements.

A new category of trading venues—OTF—will be created to allow interaction of multiple third parties buying and selling interests in non-equities.

The scope of SIs has been expanded to non-equity instruments. There is expected to be a significant increase in the number of SIs as new objective criteria have been introduced to determine when a firm is an SI. This is expected to lead to non-SI firms becoming SIs for the first time.

Industry viewpoint

While the transition to MiFID II has been challenging initially, investors will ultimately have more information available to make better investment decisions. There are a number of technical issues that the industry is still trying to resolve, including setting a standard for voice trade timestamps, obtaining ISIN for OTC trades in real time, developing a standard for costs and charges reporting and determining which counterparties will be deemed as SIs.

It is believed that, overall, markets will quickly adjust to the new requirements. In addition, with the more practical methodology ultimately adopted by the ESMA related to the transparency of fixed-income investments, it's believed that liquidity will continue to be available in the markets and the new rules will create limited disruption to normal business activities.

More stringent reporting and record-keeping obligations for the trading venues mean they would require more information from the market participants. Over the last year, trading venues have been busy upgrading their technology infrastructure to meet the regulatory obligations and re-paper their clients. Market participants have been asked to provide additional data, including additional trader details, to the trading venues. The enhanced obligations are expected to bring in more accountability for the trades executed.

Trading of standardised derivatives is expected to move on-exchange. MiFID II requires that certain standardised derivatives which have sufficient liquidity be mandatorily traded on exchanges or electronic trading platforms. This will encourage the derivatives trading to move from OTC trades to trading on exchange venues. This will aid transparency in the derivatives market. Trading on exchange venues will also reduce the reporting burden for the counterparties (as the venues will be responsible for reporting).

Research

The MiFID II Delegated Directive recognises that third-party research is an important input for investment firms. The provision of investment research is set to change dramatically in Europe under MiFID II. The traditional business model of brokers providing bundled research and execution services to asset managers will end as firms are now required to price their execution services and research separately. Investment banks and other research providers will have to establish a price for research and charge clients separately for those services. Asset managers will have to develop research budgets and determine how to allocate the costs of research.

Regulator viewpoint

- A firm should be able to clearly evidence and demonstrate its approach to setting and managing a budget for a given group of client accounts and that using the budget in the best interests of its clients.
- A firm should also describe its approach in a written research policy provided to its clients.
- Regular assessment of the quality of research and its ability to contribute to the investment process.
- To remove potential conflicts of interest between asset managers and their clients when transacting with brokers.
- To deliver a more transparent, competitive and efficient market for research.

Industry viewpoint

As part of the investor protection framework within MIFID II, firms consuming research need to make explicit payments for investment research in order to demonstrate that they are not being induced to trade. This will impose significant challenges for the industry as buy-side firms may decide to opt to not consume research completely or might decide to consolidate dealing with a few sell-side firms in lieu of additional research cost.

Sell-side firms will need to develop pricing models for their research and will have to ensure that they have adequate controls in place so that research is not shared with clients who have not signed up to receive it. Asset managers will have to ensure that they have necessary controls in place to block unsolicited research. Firms have spent a considerable amount of time negotiating over the research price and putting research agreements in place. Firms will also be required to invest time in training their sales team on the commentary that can get classified as research.

Firms will re-evaluate the research relevant to them as research consumption will drive up their costs. This is an opportunity for research publishers to differentiate themselves and increase revenue.

The industry has been fragmented in terms of deciding whether to pay for research using the research payment account (which is funded by charging clients for research) or from its own profit and loss (P&L) account. While a few big players have decided to charge their clients for research, a majority of asset managers have decided to pay for the same from their own P&L. Many asset managers feel that it would be simpler and fairer to cover the cost of research themselves. In due course, the more the market gets used to fund managers paying for research from their own P&L, the more it is going to get harder for others not to do so. This move is expected to put further pressure on profit margins for fund houses, probably ensuring that portfolio managers only consume research they need (contrary to the current practice where many fund managers receive hundreds of pieces of research a day).

Transparency

The pre-trade and post-trade transparency obligations under MiFID II are intended to increase market transparency by making public pre-trade quotes and post-trade trade details within a stipulated timeframe.

Market transparency is expected to drive fair pricing for the customers, resulting in thinner margins for the banks

Regulator viewpoint

The existing MiFID transparency regime, which only relates to shares admitted to trading on RMs, will be extended to encompass other equity-like and non-equity instruments. It will also be expanded to cover instruments traded or advertised through MTFs and OTFs (regardless of whether they are admitted to trading on RMs).

Waivers/deferrals: National competent authorities (NCAs) will continue to be able to waive pre-trade transparency/defer post-trade transparency obligations subject to certain criteria (for instance, for orders that are large in scale compared with normal market size, instruments that are illiquid) through approval from the ESMA. However, the ESMA will continue to monitor the impact of these waivers on market transparency. In some cases, waivers would be subject to a volume cap mechanism from the regulator to ensure overall transparency within market.

Industry viewpoint

In order to meet market transparency obligations, firms will need to capture all firm quotes and publish the same to the markets for instruments where the firm is an SI in real time. Firms will also need to on-board external APA partners to publish their market data. Trade data would need to be recorded trade reconstruction, if required. One of the major challenges for the firms has been to agree with the external vendor partners on the functionalities that they will provide. As an example, some of the vendors had earlier committed to providing the functionality to determine whether or not a firm meets the SI requirements. However, they were later unable to deliver the same. Some firms have built the entire pre-trade/post-trade reporting engine in-house and only used APA for publication. While building an in-house rules engine can be costly, it ensures that the firm is in better control of its MiFID II compliance plan and reduces dependency on external parties. To guard the industry against undue transparency NCAs may waive/defer the transparency obligations for non-equity instruments in specific scenarios.

Firm quotes will become available in the market along with the investment firm's name. Sales/traders will need to be aware about the quotes that can get published. This is expected to drive fairer pricing to clients. This could also result in thinner margins due to increased transparency in the market. In order to discharge their clients of any regulatory reporting obligations, investment firms decided to opt in as SIs and hence take on the reporting obligations themselves. It was widely speculated that firms that don't opt in to be SIs will lose clients as the clients would not want to have any reporting obligations on themselves.

Investor protection

In order to improve on investor outcome and to safeguard investors against mis-selling, regulators gave investor protection paramount importance by imposing steep fines. Also, as part of best execution, an investment firm is required to take all sufficient steps for the best possible result for the client based on price, speed, costs, size and any other consideration relevant to execution. In case of best execution for retail clients, the price of the investment will always be of paramount importance, but in case of a professional client, there may be circumstances where other factors are more important than price.

Regulator viewpoint

To protect retail and professional investors, ESMA advocates good conduct from firms that sell financial instruments or advise investors. Firms must treat their customers in a fair and transparent way. Investors' interests should be at the centre of business models and corporate culture.

This means investment firms must match the client's investment profile with suitable products. Under MiFID II rules, firms must assess their clients' needs, objectives, knowledge and experience, risk appetite and ability to bear loss during the advisory process.

Only suitable products may be offered during the advisory process and institutions must put rigorous processes in place to accurately profile their clients. Otherwise, firms risk non-compliance with MiFID II rules governing product suitability and investor protection.

Additional disclosures to clients to ensure that clients can make well-informed decisions; increased internal monitoring to ensure best execution for clients.

Industry viewpoint

There are a number of things firms need to do to ensure investor protection.

Recording of telephone calls and emails: The records must be kept for five years but, if requested by an NCA, they may be kept for up to seven years.

Best execution: Firms will need to publish quality of execution and top five execution venue reports, including summary of analysis and conclusion drawn while providing best execution to the clients on the public website. Both buy-side and sell-side firms would consume this available market data and could make some strategic decisions on their business model to offer/receive best execution.

Information for clients: MiFID II will require communications with clients to be fair, clear and not misleading. It has also proposed standardised formats (including specified forms of tables) for the disclosure of costs and charges to clients. Costs will need to be aggregated to show the overall costs and their cumulative effect on the return of the investment. Costs will also need to be itemised where requested by the client. Industry is expecting NCAs to share guidelines on the calculation of transaction-level cost to ensure consistency in reporting to clients by firms.

Product governance: Firms that design financial products will be subject to enhanced requirements, including a process for pre-sale internal approvals, a requirement to identify the target market for the product, the type of client for whom the product is intended (e.g. retail and/or professional), and to assess all relevant risks.

Conflicts of interest: Firms will have to ensure that remuneration and third-party inducements do not create conflicts of interest with their duties towards their clients. Disclosures of conflicts of interest to clients will need to be sufficiently detailed to enable the clients to take informed decisions and are means of last resort. Firms will also be required to periodically review their conflict policies and address deficiencies.

Inducements: Independent advisers and portfolio managers will be prohibited from accepting and retaining inducements (including fees, commissions, or monetary or non-monetary benefits) from third parties, other than 'minor non-monetary benefits'.

Cross-selling: Where firms offer an investment service together with another product or service as part of a package, they will need to inform the client whether it is possible to buy the different components separately, and provide evidence on the costs and charges of each component. Where the risks resulting from the package are different from those of the separate products, the firm will need to provide an adequate description of the different components and the way in which their interaction modifies the risks.

3 What does this mean for your business?

Realignment of your business model

Investment firms will need to monitor the products that they manufacture and/or distribute very closely. It is a firm's responsibility to identify the appropriate target market for a product and understand clients' knowledge and risk-taking abilities to determine if a product is appropriate for a client or not. Investment firms will also be required to update their term sheets to ensure that they contain all relevant product-related information.

New agreements with trading venues have led to multiple rounds of negotiations and reviews of venue rule books. Due to the increased focus on reporting on market participants, firms will have to realign their existing models to ensure that clients' requirements are met and that the models continue to operate in the existing way.

> *Investment firms will have more accountability for the products that they manufacture and/or distribute.*
>
> *There will be a potential realignment of costs and charges as clients might request for a breakdown of the same.*

Investment firms would now be required to make disclosures about their costs and charges. Clients have a right to ask for a breakdown of costs and charges and hence businesses might have to re-look at their costs and re-strategise their business model.

MiFID II requires investment firms to unbundle their research and execution costs. It also requires portfolio managers to pay separately for the research that they consume. Firms would need to have research agreements in place and set up controls so as to ensure that they don't send out research to non-paying clients. Portfolio managers will need to decide their strategy for paying for research—either from research payment accounts which are funded by a charge to their clients or from their own P&L.

Extensive data management

As MiFID II touches across multiple topics, firms have to think of ways in which data can be integrated with their existing data management systems to ensure compliance across MiFID II topics. Inconsistent quality of data and non-reliable data has led to detrimental effects on transparency, investor protection and market efficiency in the past.

Pillars of best execution

- Cost
- Speed
- Likelihood of execution
- Price

In order for firms to meet the requirements of MiFID II, they would need to monitor and assess the orders they execute to ensure that they meet the best execution obligations in terms of price, cost, speed, likelihood of execution and settlement, and size, nature and characteristics of the clients and their orders.

Firms should have adequate controls in place to consume and analyse data to ensure that they meet their regulatory obligations of providing best execution to their clients. Adequate infrastructure to monitor the best execution parameters will also give firms a competitive edge. This could also mean the use of data analytics tools and products by different firms.

> *Quality of data will be of utmost importance to the investment firms as it will not only be required to meet the firm's regulatory obligations but also to take strategic decisions*
>
> *Retention and easy availability of data might require some firms to evaluate their record-keeping arrangements.*

Investment firms are required to centrally maintain records of all their underwriting and placing operations. Although it is a common practice in the industry to maintain records of all allocations to the individual investor clients and keep a record of all orders received, MiFID II now requires additional disclosure requirements related to advice on corporate finance strategy in the context of underwriting and placing. Firms would also need to maintain records of communication between sales and traders and they would also need to ensure that all business communications happen over recorded lines and that all the records are stored. In addition, investment firms would need to ensure that they maintain records of their data points and logic for reports so that they can reconstruct a trade, if requested for by the regulator. Firms would also need to maintain a record of RFQs/quotes.

The trading venues require investment firms to share more data with them in order for the venues to meet their MiFID II obligations. As a result, firms have had to develop strategies to share trader's personal details with the venues, ensuring that the privacy of traders is not compromised and the personal data is handled carefully.

Clearly, it presents a strong case to adopt a holistic approach in terms of defining data management strategies to store and utilise such a vast amount of data.

The firms would need additional instruments, venues and counterparty reference data. Instrument identification codes would become critical and firms would need to ensure that they have an appropriate strategy in place for sourcing and storing them. MiFID II firms will be required to identify clients using their LEI codes and the same needs to be included in transaction reports sent to the regulator. Post a six-month grace period, firms will not be able to trade with clients who don't have LEI codes—that is, there will be a hard block on trading with clients without an LEI code.

Prudent investor protection policy

Firms need to disclose to their clients the different costs and charges involved in execution of a trade on a trade-by-trade basis. This requires analysis of data at a granular level. Firms, up until now, did not have the required infrastructure to store and process such granular data. In the absence of clear regulatory guidance on the calculation of costs and charges, investment firms have been struggling to define a calculation method for their internal costs and charges. While some firms have gone ahead and over-disclosed to clients, others have made limited disclosures. An inconsistent method of cost and charges calculation across firms leads to the production of inconsistent information, which doesn't serve the desired purpose of providing transparency to clients. Firms will soon need to reassess their calculation methodology and ensure that they present the information in a way which is transparent to their clients. In the current scenario, like-for-like comparison is still difficult, but disclosures on costs and charges have been an 'eye-opener', with investors already realising that they may have been paying a third more in transaction costs than previously thought.

Burden due to compliance costs

An area under MiFID II which is expected to increase the burden of compliance is the handling of clients' complaints. Firms need to have internal processes in place to acknowledge complaints received and keep their clients informed about the status of their complaints. Once a complaint has been resolved, the investment firm will need to keep records and undertake steps to resolve the complaint. In order to efficiently meet its complaints and handling obligations, investment firms might need to have an additional complaints handling officer, who might sit within the compliance function. Firms should also look at creating management information reports related to complaints handling so that the senior management is aware of not only the effectiveness of the firm's complaints handling framework but also major pain points for the clients.

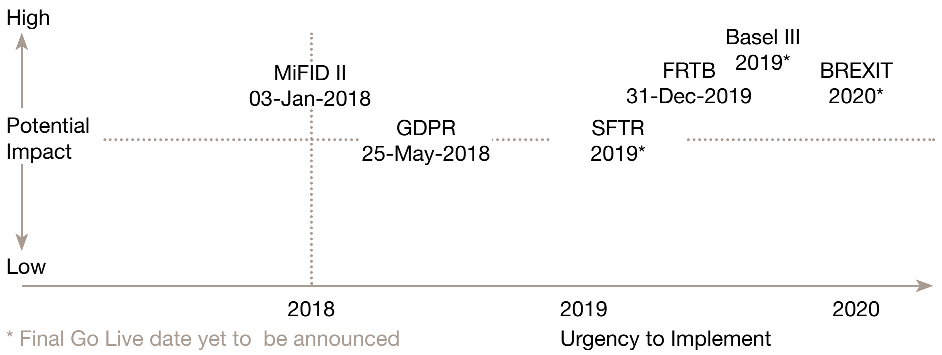
There is a greater focus on continuous monitoring and surveillance. Firms would need to ensure that they have a requisite level of controls in place so as to detect any non-compliance at an early stage. The internal compliance team will be expected to conduct more ad hoc checks so as to ensure that the business is complying with the regulation. The ad hoc checks would need to be conducted at a more granular level and any findings of breaches would need to be escalated to the regulator, if required. Firms would also need to ensure that they can easily provide data to the regulator, if requested.

4

Our suggestions

Data management policy and framework

There will be many data points across various regulations that would be required for regulatory reporting and other purposes. It is important for firms to have proper data governance and architecture in place to allow them to leverage data points across regulations and ensure consistency and correctness.



* Final Go Live date yet to be announced

There are more than 150 data points or attributes used for MiFID II reporting alone, either as part of a reportable field or as part of the reporting decision-making process. With the growing volume of data along with the complexity and uncertainty that the upcoming regulations bring, it is imperative that firms have a robust data management strategy in place. A quick look at the upcoming regulation makes the case of a unified data management strategy even stronger.

An unprecedented volume of regulatory reforms are expected to be released over the next few years.

Firms would have to continue to comply with all the upcoming regulations, which need to be carefully thought through to provide a harmonised data strategy. Or else, with every regulation, new data attributes would be added to the existing infrastructure, leading to duplication of efforts and strain on technology infrastructure and processes. Organisations need to create a data management policy that will define the fundamental principles for data within an organisation. The purpose would be to improve the completeness, accuracy, integrity and timeliness of data used. It should contribute to simplifying the technology infrastructure, improving cost efficiency and reducing operational risk. A typical data management framework should have the following features:

Data governance model: Organisations need to create an unambiguous data ownership model by appointing data custodians, data stewards and data owners and define the standard operating procedures. Day-to-day responsibilities like maintenance, improvement of data quality and data governance, in accordance with the standards, should be well defined for of each stakeholder.

Data management standards: These are the rules and requirements that need to be met for data ownership and data architecture, process, control and governance. The data management standards should ensure that an organisation has trusted sources of data and that it has controls to mitigate risk due to poor data quality. A standardised enterprise-wide data catalogue and dictionary is key to a robust data management standard.

Data governance committee: This committee will be responsible for monitoring if the governance model is being adhered to. Any issues and escalations would be addressed by the committee. The committee will hold the pen to add or amend the data management standards.

Identification of new opportunities and alternative revenue streams

With regulators making it mandatory to charge a significant amount to clients for any research work, firms can now look at various possible ways to consider and include research as a full-fledged line of business and look for ways to include this as a revenue stream. The regulation has already de-coupled research as a segregated offering and top research provider firms are closely monitoring the situation.

Third-party firms will have significant revenue opportunities that they can realise by providing ancillary services to the investment firms. These third-party players can become strategic partners for the investment firms in the long run.

There is a strong scope for new players to enter and disrupt the arena, especially that of equity research. However, it is already an evolved market and comprises strong players who are pioneers in advising clients with niche reports and research work. So, any foray into this area will require new participants to factor in prevalent competition and conduct a thorough study around market forces.

Firms will also be required to report data on the best execution methods. These reports will have to be made available in the public domain. This creates a strong case where firms can look to compare their data against that of their competitors and spot opportunities for growth and improvements internally. Additionally, firms can consume the best execution reports of their competitions to carry out a comparative study on factors such as price, cost, speed, and likelihood of execution and settlement. This study can be leveraged as a marketing tool and can be showcased to clients to show them how their firm fares in comparison to their competition. The study can also be used to attract more business opportunities.

Further, to encourage firms to disclose costs and charges incurred for a transaction, MiFID II has presented firms with a unique chance to attract clients by demonstrating cost-effective offerings. There is a fair chance that clients can be drawn to firms that offer low-cost services. Alternatively, firms can also be in a position to demand a premium for any top-notch service, thereby contributing to the overall revenue of the firm. This creates an open playing field with rapid evolution to the existing norms of the business.

Innovation through analytics and real-time MIS

Coupled with effective data management, if firms can leverage analytics tools, the information gathered under regulatory norms can help them identify strong and weak business processes. For example, a clear linkage to client preference can be established by looking at order type data for clients. A report on comparison of costs and charges data with the revenue that firm has generated can present a good understanding of cost-efficient business processes.

Looking beyond regulatory asks, firms can also perform competitive analysis using the huge amount of publicly available data. For example, ISINs need to be reported as part of instrument data reporting, transaction reporting, pre-trade and post-trade transparency reporting, best execution reporting and client reporting. All the ISINs that are created and reported across the industry are then captured in the ESMA Financial Instruments Reference Database (FIRDS) and are available in the public domain. Careful analysis of the FIRDS data can tell which investment firms have traded, ordered or quoted which instruments on a daily basis. This can be a key metric to perform competitive analysis.

Independent agencies could be hired by investment firms who would use this data and provide meaningful interpretations to investment firms.

Firms should utilise tools to create real-time dashboards, charts and informative views and reports. For example, while adhering to the MiFID II guideline for management reporting, firms can use the opportunity to create strong data-driven dashboards that can cover the impact on product P&L on a daily basis.

Firms can differentiate themselves from their competitors by using analytics and providing better services which are tailored to their customers' preferences.

MIC[3]	Number of ISINs created in January 2018	Percentage	Market name
ORG1	67,547	5.49	ORG1– SI
ORG2	43,313	3.52	ORG2– SI
ORG3	43,313	3.52	ORG3– SI
ORG4	42,036	3.42	ORG4– SI
ORG5	26,549	2.16	ORG5– SI
ORG6	21,253	1.73	ORG6– SI
ORG7	8,234	0.67	ORG7– SI
ORG8	7,596	0.62	ORG8– SI
ORG9	888	0.07	ORG9– SI
Total	**260,729**	**21.19**	

3 FIRDS data analysis on week 4 of MiFID II. For detailed list https://www.anna-dsb.com/2018/02/01/firds-data-analysis-week-4-mifid-ii/

Collaboration with RegTech

A series of new rules and regulations have been introduced by regulators in the financial services industry. The sector has already witnessed a sharp upsurge in compliance costs incurred by firms.

Investment firms can seek partnerships with RegTech firms to reduce their compliance cost and for smoother implementation of regulatory changes.

In such a dynamic regulatory landscape, partnership with RegTech companies can be a viable option as these companies not only bring in much-needed expertise to implement these regulations, but also help keep a strong control on compliance costs.

Some of the probable use cases are captured in the section below:

Opportunities	Use case
Front office controls	Automation of trading controls
Client onboarding	Support KYC processes from identification to source of funds
Regulatory reporting tool	Develop dynamic configurable reports Data remediation and reconciliation
Regulatory change management	Read and interpret regulatory changes Workflow management tools

With the new market structure in place, more and more instruments, including exotic products, would start being venue traded, leading to greater transparency. The obligation is now on financial institutions to act in the best interest of their clients and protect investor interest in the market. Though the regulation has had a wide-scale impact, the financial services ecosystem would slowly adapt to the changes introduced by MiFID II. Business models would be re-evaluated and new opportunities would be explored to stay relevant. Firms would innovate through the use of RegTech, analytics, real-time MIS and prudent data management policies as the new MiFID II rules take time to play out.

Glossary

MiFID – Markets in Financial Instruments Directive

ESMA – European Securities and Markets Authority

MTF – Multilateral trading facility

OTF – Organised trading facilities

SI – Systematic internaliser

RM – Regulated markets

ISIN – International securities identification number

FIRDS – Financial instruments reference data system

OTC – Over the counter

LEI – Legal entity identifier

RFQ – Request for quote

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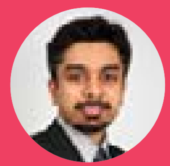

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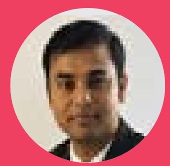

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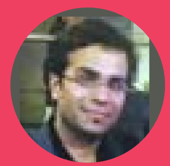

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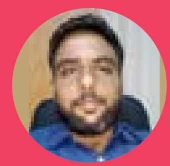

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Data Classification: DC0

HS/June2018-13326