



## Information regarding MiFID II and MiFIR

Madrid, February 17th, 2017



IEAF | FEF  
INSTITUTO ESPAÑOL DE  
ANALISTAS FINANCIEROS  
FUNDACIÓN DE  
ESTUDIOS FINANCIEROS

BME X  
BOLSAS Y MERCADOS ESPAÑOLES

# GENERAL VISION

Ms. BEATRIZ ALONSO-MAJAGRANZAS  
EQUITY DIRECTOR

# GENERAL VISION

TRANSPARENCY



EQUITY  
DERIVATIVES AND  
FIXED INCOME

MARKET  
MICROSTRUCTURE



ACCESS TO MARKET  
TRADING MONITORING  
ALGORITHMIC TRADING  
MARKET MAKING

TRANSACTION REPORTING AND ORDER RECORD  
KEEPING

BEST EXECUTION

# MARKET ACCESS

CONFORMANCE TEST



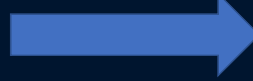
HOMOLOGATION  
PROCESS

DUE DILIGENCE TO THE  
MARKET MEMBERS



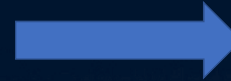
ANNUAL REVISION

TESTING OF THE  
TRADING SYSTEM



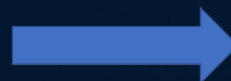
TESTING ENVIRONMENT  
AVAILABLE

ALGORITHMS



CERTIFICATE FOR THE  
MARKET MEMBER

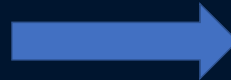
DIRECT ELECTRONIC  
ACCESS



REQUIREMENTS  
PUBLISHED

# TRADING MONITORING OF THE MARKET MEMBERS

PREVENTION OF THE DISORDERLY MARKET CONDITIONS



LIMIT TO THE NUMBER OF ORDERS PER SECOND  
VOLATILITY MANAGEMENT MECHANISMS  
PRE TRADING CONTROLS  
KILL BUTTON

HFT



USE OF MESSAGES

MARKET MAKERS



MARKET MAKER CONDITION

# MICROSTRUCTURE

## OTHER ASPECTS:

- INCLUSION OF LEI CODE FOR ISSUERS AND MARKET MEMBERS
- TICK SIZE (EQ)
- OTR
- CLOCK SYNCHRONIZATION
- IDENTIFICATION OF ALGORITHMIC TRADING AND DEA

# TRADE COMMUNICATIONS AND ORDER REGISTRY

ADAPTATION OF THE CURRENT TRANSACTION REPORTING SERVICE TO MIFID II REQUIREMENTS  
NEW REQUIREMENT OF ORDER RECORD KEEPING

AIM TO MINIMIZE THE IMPACT IN THE INFORMATION OF THE ORDERS

FIX PROTOCOL:  
NEW FIELDS IN THE ORDER

REQUIRES ADITIONAL INFORMATION FROM THE MARKET MEMBERS

EXTERNAL SYSTEM FOR SENDING FILES VIA SFTP

# CALENDAR



TECHNICAL ADAPTATIONS: CHANGES IN THE MARKET MESSAGES



LEGAL ADAPTATIONS: UPDATE OF THE MARKET RULES.

## EXPECTED CALENDAR OF IMPLEMENTATION:

February 2017: FIX specifications published

June 2017: Testing environment available

January 2018: Implemented



# EQUITY

## TRANSPARENCY

### TRANSPARENCY PRE TRADING

#### NEW FUNCTIONALITIES:

- COMBINED BLOCKS
- HIDDEN ORDER
- MID PRICE ORDER
- VWAP ORDER

#### ADAPTATION OF EXISTING FUNCTIONALITIES:

- BLOCKS
- ICEBERG ORDERS

### TRANSPARENCY POST TRADING

- NO CHANGES

# EQUITY

## ALGORITHMIC TRADING AND MARKET MAKING

### NORMAL MARKET CONDITIONS

- MIFID II NEW MARKET MAKER SCHEME
- PRESENCE PARAMETERS IN THE MARKET

### STRESS MARKET CONDITIONS

- SYSTEM OF INCENTIVES

### SPECIAL MARKET CONDITIONS

- NO QUOTING OBLIGATIONS



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# EQUITY

## BEST EXECUTION

Data for IBEX 35<sup>®</sup> by venue

Mercado	Horquilla 25k (bps)	# Niveles para 25k	BB0 25k	Estabiliza apertura (min)
<i>Market</i>	<i>Spread 25k (bps)</i>	<i>Book levels for 25k</i>	<i>BBO 25k</i>	<i>Stabilize price at opening (min)</i>
BME	6,53	1,76	51,9%	5,8
Chi-X	10,50	2,33	33,4%	14,3
Bats	25,19	3,10	3,8%	45,4

Mercado	Horquilla 1ª posición (bps)	Liquidez 1ª posición (€)	BB0 1ª posición	Liquidez 10 bps (€)
<i>Market</i>	<i>Spread at touch (bps)</i>	<i>Book at touch (€)</i>	<i>BBO at touch</i>	<i>Book depth 10bps (€)</i>
BME	4,86	69.678	14,9%	222.618
Chi-X	5,59	37.194	12,1%	100.785
Bats	8,63	23.571	2,2%	50.356

# EQUITY

## BEST EXECUTION

Data for TEF by venue

Valor	Mercado	Horquilla 25k (bps)	# Niveles para 25k	BBO 25k	Liquidez 10 bps (€)
Security	Market	Spread 25k (bps)	Book levels for 25k	BBO 25k	Book depth 10bps (€)
TEF	BME	3,88	1,86	51,3%	382.941
TEF	Chi-X	4,50	2,18	39,9%	195.836
TEF	Bats	7,24	2,15	3,8%	121.213

Valor	Mercado	Horquilla 1ª posición (bps)	Liquidez 1ª posición (€)	BBO 1ª posición	Estabiliza apertura (min)
Security	Market	Spread at touch (bps)	Book at touch (€)	BBO at touch	Stabilize price at opening (min)
TEF	BME	2,73	54.020	21,2%	6,2
TEF	Chi-X	2,98	30.481	17,9%	18,2
TEF	Bats	5,26	30.107	2,0%	50,6

# MEFF

D<sup>a</sup>. CLOTILDE SALMERÓN  
MEFF Managing Director



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# MEFF

- ✓ **DERIVATIVES ARE INCLUDED IN THE MiFID II REGULATION**
- ✓ **EXCHANGE TRADED DERIVATIVES → THEY ARE CONSIDERED LIQUID, SUBJECT TO TRANSPARENCY AND MARKET MAKERS REQUIREMENTS**

# MEFF

## ✓ PRE-TRADE TRANSPARENCY REQUIREMENTS

THE TYPE OF TRADING SYSTEM WILL ESTABLISH THE TRANSPARENCY LEVEL.

Continue auction trading, voice systems, RFQ, Hybrid Systems

- ORDER BOOK
- BLOCK TRADES

## ✓ POST-TRADE TRANSPARENCY

**REQUIREMENTS** → PUBLICATION OF TRADES DETAILS AS CLOSE TO REAL TIME AS POSSIBLE

↓  
New fields, New Flags

# MEFF: IMPACTS AND CHANGES

## PRE AND POST TRADE TRANSPARENCY

**WAIVERS**



**PRE TRADE**  
WEIVERS THAT ALLOW TO  
REDUCE TRANSPARENCY  
REQUIREMENTS

LIS-Large in Scale  
SSTI- Size Specific to the Instrument  
PACKAGE ORDERS- Pending ESMA  
definition

**POST TRADE.**  
D+2 DELAY IN PUBLICATION

LIS-Large in Scale  
SSTI- Size Specific to the Instrument  
PACKAGE TRANSACTIONS



# MEFF: IMPACTS AND CHANGES

## PRE TRADE TRANSPARENCY

- ✓ **ORDER BOOK** → PUBLICATION OF FIVE BEST BIDS AND ASKS, ORDERS ACCUMULATED AT EACH PRICE AND VOLUMES AVAILABLES AT EACH PRICE
- ✓ **BLOCK TRADES** → MEFF WILL SET MINIMUM VOLUME FOR BLOCK TRADES TO THE THRESHOLD ESTABLISHED BY ESMA

# MEFF: IMPACTS AND CHANGES

## PRE TRADE TRANSPARENCY

### RFQ SYSTEM

OTC ALTERNATIVE

ALTERNATIVE TO THE  
BLOCK MARKET

MEMBERS DUE TO THEIR  
ACTIVITY MUST BECOME  
OTF

KEEP CURRENT TRADING OF  
MEFF MEMBERS

# MEFF: IMPACTS AND CHANGES

## RFQ TRADING SYSTEM

### MIFID II

- PRE-TRADE TRANSPARENCY REQUIREMENTS.
  - >LIS waiver
  - >LIS and <SSTI Publication of the weighted average price once the request can be traded
  - <SSTI Publication of every price and volume once the request can be traded

### RFQ

- REQUESTING MEMBER OR BROKER WILL BE THE ONLY ONE ENTITLED TO EXECUTE THE PROVIDED QUOTES AS RESULT OF INTEREST REQUEST

### MIEMBROS DE MEFF

- OTC OPERATING MEMBERS → RFQ Transparency compliance with no necessity of complying with OTF requirements
- IT MAKES POSSIBLE TO SEND AN INTEREST TO THE WHOLE MARKET OR TO A GROUP OF MEMBERS/BROKERS

# MEFF: IMPACTS AND CHANGES

## POST TRADE TRANSPARENCY

- ✓ **DEFERRAL DEPENDING ON VOLUME AND PACKAGE TRANSACTION** → OPTIONAL USE OF TRADE DELAY PUBLICATION IN D+2

### IMPLICATIONS FOR MEFF:

- TRADE IS NOT PUBLISHED IN REAL TIME
- ACCUMULATED VOLUME IS PUBLISHED AT THE END OF THE SESSION
- TRADE DETAILS WILL BE PUBLISHED IN D+2

# MEFF: IMPACTS AND CHANGES

## MARKET MAKERS MICROSTRUCTURE

### NEW MARKET MAKER STATUS



MEFF WILL MONITOR AND SIGN AN AGREEMENT WITH THOSE MEMBERS THAT COMPLY WITH MiFID II CONDITIONS

- ✓ CURRENT INCENTIVES SYSTEM WILL BE MAINTAINED, COEXISTING OR AS A PART OF A UNIQUE AGREEMENT
- ✓ MEFF WILL PUBLISH MARKET MEMBERS AGREEMENT CONDITIONS AND INCENTIVE SYSTEM, AS WELL AS EXCEPCIONAL CIRCUMSTANCES CONDITIONS

# MEFF: IMPACTS AND CHANGES

## MARKET MAKERS MICROSTRUCTURE

NORMAL  
MARKET  
CONDITIONS

- MiFID II NEW MARKET MAKER AGREEMENT
- MEFF INCENTIVES SYSTEM

STRESSFUL  
MARKET  
CONDITIONS

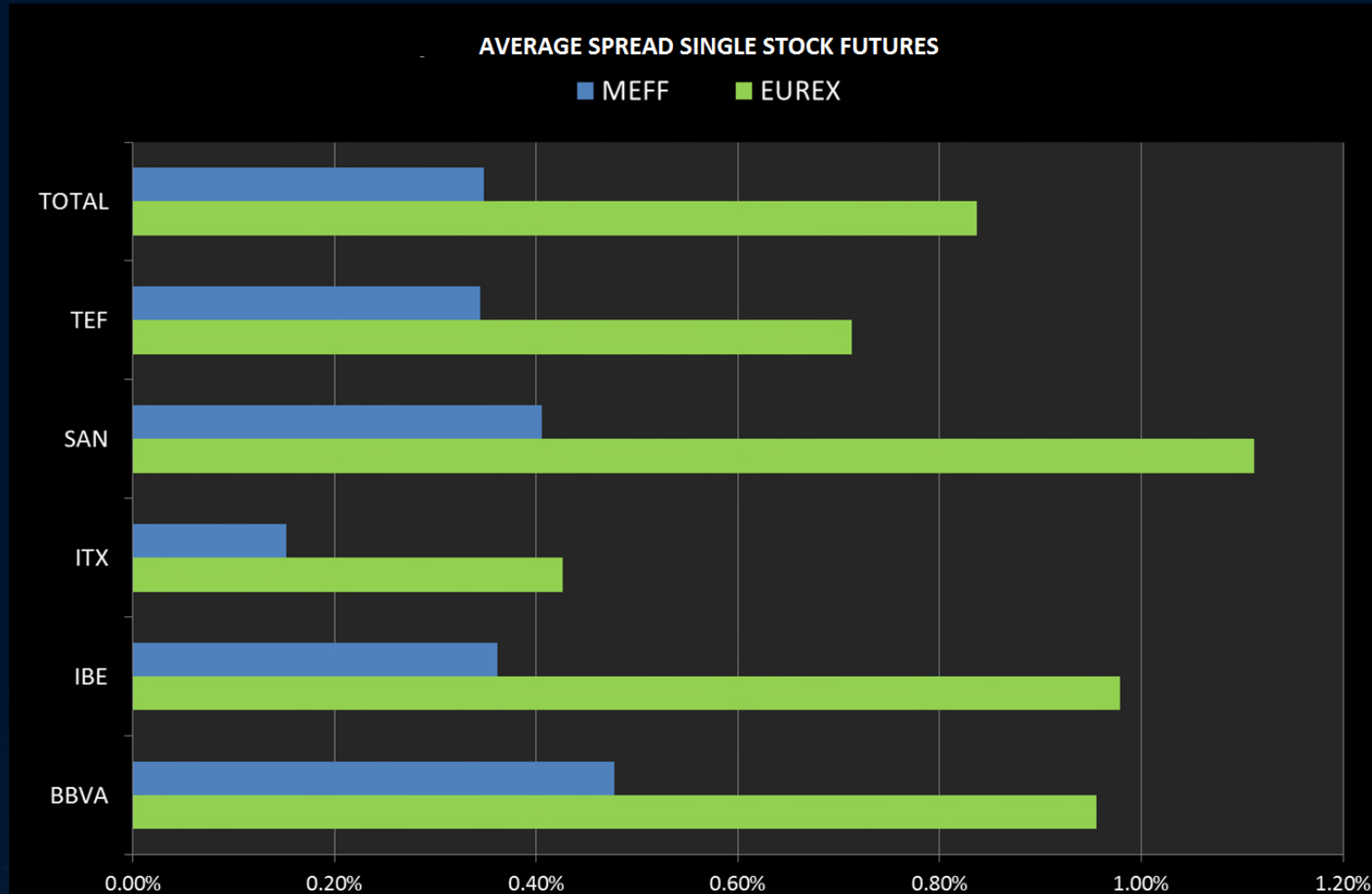
- MiFID II NEW MARKET MAKER AGREEMENT
- MEFF INCENTIVES SYSTEM

EXCEPCIONAL  
MARKET  
CONDITIONS

- NO QUOTING OBLIGATION

# MEFF: IMPACTS AND CHANGES

## BEST EXECUTION



Data source: Bloomberg. Average spreads calculated for the period 19.Dec.16 to 9.Feb.17 with the most liquid contract for every market Sample every 5 seconds from 09:00:30 to 17:30:00. In those samples with no spread a spread of 2% has been considered..

# MEFF: IMPACTS AND CHANGES

## COMMODITY DERIVATIVES

- ✓ NON FINANCIAL ENTITIES → ANCILLARY ACTIVITY TO THE PRINCIPAL ACTIVITY WILL BE ABLE TO REQUEST A WAIVER Art 20(1)(j) MIFID
- ✓ POSITION LIMITS → ESTABLISHED AND MONITORED BY COMPETENT AUTHORITY
- ✓ POSITION REPORTS → REGULATED MARKETS WILL SEND A WEEKLY REPORT TO ITS COMPETENT AUTHORITY



# Fixed income market

Mr. JULIO ALCÁNTARA  
Managing Director  
AIAF Fixed Income Market

# Fixed income market

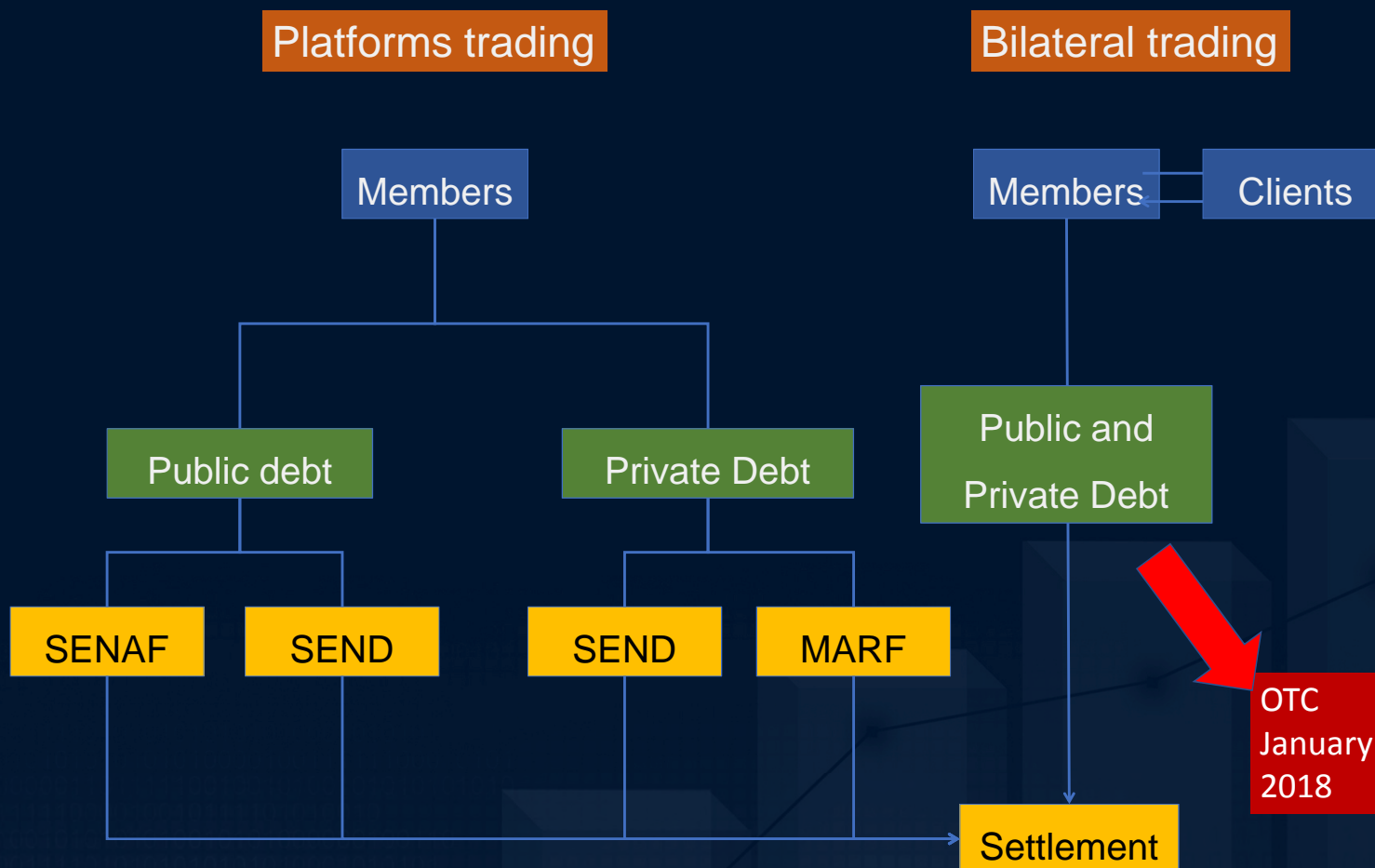
## Current forms of negotiation



- Most of the negotiation takes place bilaterally.
- Both the Public Debt market and AIAF publish volumes and prices at the close of the session.
- From January 2018 this activity will be OTC.

# Fixed income market

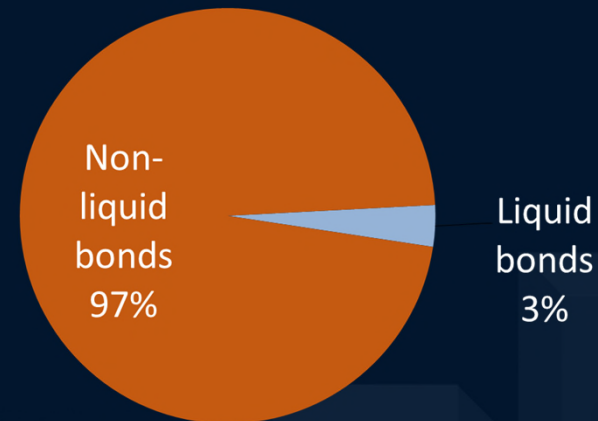
## Current forms of negotiation



# Fixed income market

## New requirements MiFID II

- Implantation of transparency rules for fixed income.
- Impulse to trade in venues.
- Classification of liquid and non-liquid bonds.
- "Best execution" in client operations.
- Listing obligations for Systematic Internalisers.



# Fixed income market

## Systematic Internalisers in fixed income

- IS qualification when OTC transactions are carried out with your clients and certain volumes are reached.
- In non-liquid bonds, at least (on average) one transaction per week and more than 1% of the total traded in the EU.
- Obligation to offer quotes on all bonds of the same class as the issuer and on all other issuers of the same group (including vehicles).
- High technological costs and operational risk.
- The solution provided by BME would avoid these risks.

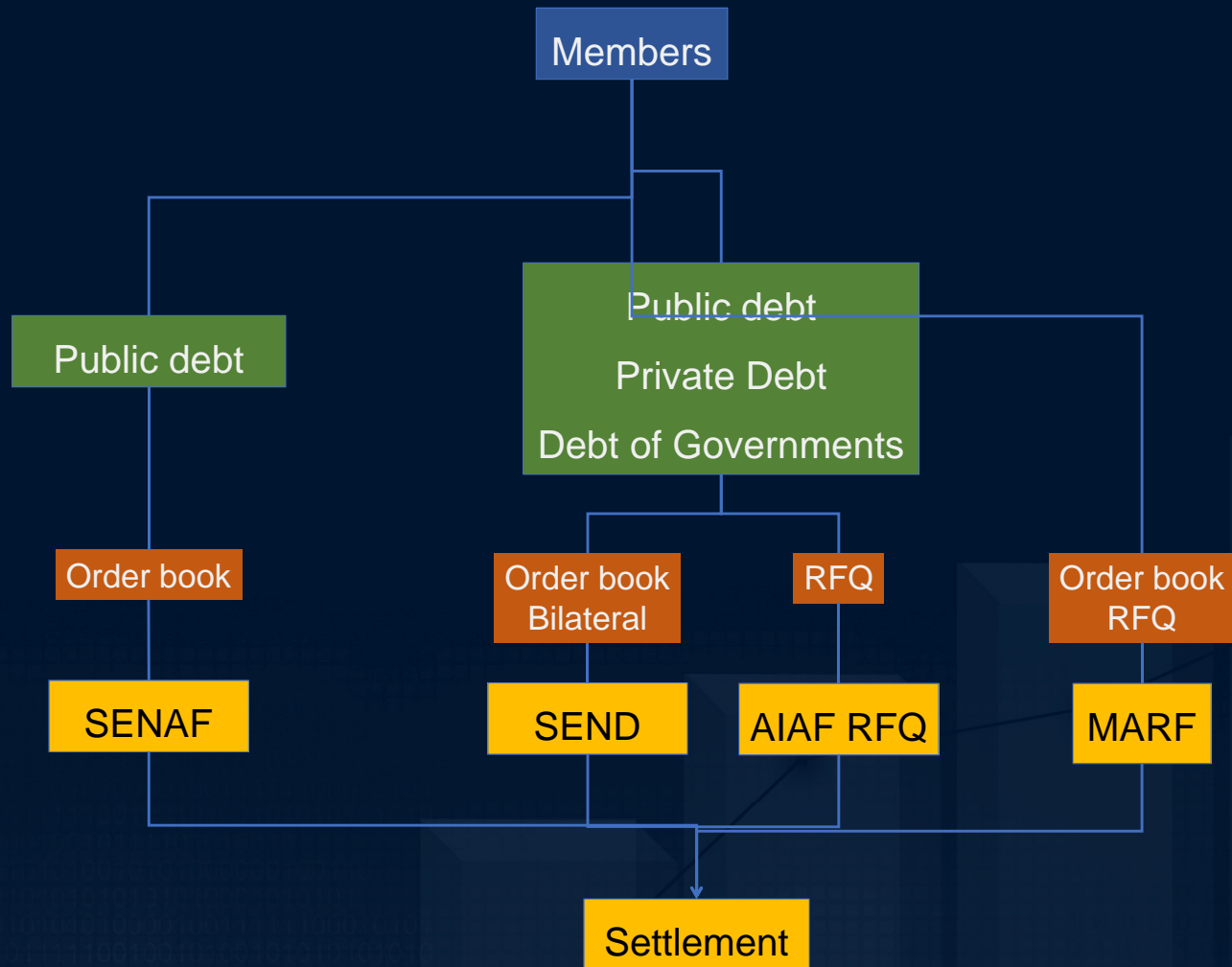
# Fixed income market

## New Market Structure

- Absorption of bilateral operations, avoiding its OTC rating.
- New RFQ contracting system.
- Expansion of the range of assets in the platforms.
- Inclusion of debt of European governments and bonds listed in other markets.
- Strict compliance of pre and post-transparency according to the typology of the assets and size of the transactions.
- The admission of new Market Members is facilitated.

# Fixed income market

## New forms of negotiation



# BME: Complying with MiFID II

## Summary

	Equities	Derivatives	Fixed Income
Pre-transparency	●	●	●
Post-transparency	●	●	●
Waivers	●	●	●
Algorithmic Trading	●	●	●
Market Making	●	●	●
Best execution	●	●	●
Transaction Reporting	●	●	●
Record keeping	●	●	●
Information to ESMA	●	●	●
RFQ / Blocks	●	●	●