Information regarding MiFID II and MiFIR

Madrid, February 17th, 2017
GENERAL VISION

TRANSPARENCY

MARKET MICROSTRUCTURE

TRANSACTION REPORTING AND ORDER RECORD KEEPING

BEST EXECUTION

EQUITY DERIVATIVES AND FIXED INCOME

ACCESS TO MARKET TRADING MONITORING ALGORITHMIC TRADING MARKET MAKING
MARKET ACCESS

- Conformance Test
- Due Diligence to the Market Members
- Testing of the Trading System
- Algorithms
- Direct Electronic Access
- Homologation Process
- Annual Revision
- Testing Environment Available
- Certificate for the Market Member
- 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

<table>
<thead>
<tr>
<th>Normal Market Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• MIFID II NEW MARKET MAKER SCHEME</td>
</tr>
<tr>
<td>• PRESENCE PARAMETERS IN THE MARKET</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stress Market Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• SYSTEM OF INCENTIVES</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Special Market Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• NO QUOTING OBLIGATIONS</td>
</tr>
</tbody>
</table>
## EQUITY

## BEST EXECUTION

Data for IBEX 35® by venue

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

<table>
<thead>
<tr>
<th>Mercado</th>
<th>Horquilla 1ª posición (bps)</th>
<th>Liquidez 1ª posición (€)</th>
<th>BBO 1ª posición</th>
<th>Liquidez 10 bps (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Spread at touch (bps)</td>
<td>Book at touch (€)</td>
<td>BBO at touch</td>
<td>Book depth 10 bps (€)</td>
</tr>
<tr>
<td>BME</td>
<td>4,86</td>
<td>69.678</td>
<td>14,9%</td>
<td>222.618</td>
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<tr>
<td>Chi-X</td>
<td>5,59</td>
<td>37.194</td>
<td>12,1%</td>
<td>100.785</td>
</tr>
<tr>
<td>Bats</td>
<td>8,63</td>
<td>23.571</td>
<td>2,2%</td>
<td>50.356</td>
</tr>
</tbody>
</table>
### Data for TEF by venue

<table>
<thead>
<tr>
<th>Security</th>
<th>Market</th>
<th>Spread 25k (bps)</th>
<th># Niveles para 25k</th>
<th>Book levels for 25k</th>
<th>BB0 25k</th>
<th>Liquidez 10 bps (€)</th>
<th>Book depth 10bps (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEF</td>
<td>BME</td>
<td>3.88</td>
<td>1.86</td>
<td>51.3%</td>
<td>382.941</td>
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<td></td>
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<tr>
<td>TEF</td>
<td>Chi-X</td>
<td>4.50</td>
<td>2.18</td>
<td>39.9%</td>
<td>195.836</td>
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<tr>
<td>TEF</td>
<td>Bats</td>
<td>7.24</td>
<td>2.15</td>
<td>3.8%</td>
<td>121.213</td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Security</th>
<th>Market</th>
<th>Spread at touch (bps)</th>
<th>Liquidez 1ª posición (€)</th>
<th>BBO 1ª posición</th>
<th>Estabiliza apertura (min)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEF</td>
<td>BME</td>
<td>2.73</td>
<td>54.020</td>
<td>21.2%</td>
<td>6.2</td>
</tr>
<tr>
<td>TEF</td>
<td>Chi-X</td>
<td>2.98</td>
<td>30.481</td>
<td>17.9%</td>
<td>18.2</td>
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<tr>
<td>TEF</td>
<td>Bats</td>
<td>5.26</td>
<td>30.107</td>
<td>2.0%</td>
<td>50.6</td>
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</table>
Dª. CLOTILDE SALMERÓN
MEFF Managing Director
DERIVATIVES ARE INCLUDED IN THE MiFID II REGULATION

EXCHANGE TRADED DERIVATIVES THEY ARE CONSIDERED LIQUID, SUBJECT TO TRANSPARENCY AND MARKET MAKERS REQUIREMENTS
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

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 AVAILABLE 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

MEMBERS DUE TO THEIR ACTIVITY MUST BECOME OTF

ALTERNATIVE TO THE BLOCK MARKET

KEEP CURRENT TRADING OF MEFF MEMBERS
MEFF: IMPACTS AND CHANGES

RFQ TRADING SYSTEM

- 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

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

- 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

EXCEPTIONAL MARKET CONDITIONS
- NO QUOTING OBLIGATION
MEFF: IMPACTS AND CHANGES

BEST EXECUTION

AVERAGE SPREAD SINGLE STOCK FUTURES

<table>
<thead>
<tr>
<th></th>
<th>MEFF</th>
<th>EUREX</th>
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</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td></td>
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</tr>
<tr>
<td>TEF</td>
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<tr>
<td>SAN</td>
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<tr>
<td>IBE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBVA</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 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
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.
Current forms of negotiation

Platforms trading
- Members
- Public debt: SENA, SEND
- Private Debt: SEND, MARF

Bilateral trading
- Members
- Clients
- Public and Private Debt
- Settlement

Fixed income market

OTC
January 2018
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.

![Pie chart showing distribution of liquid vs. non-liquid bonds.]

- Non-liquid bonds: 97%
- Liquid bonds: 3%
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.
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

Public debt
- Order book
  - SENAF
- RFQ
  - AIAF RFQ

Private Debt
- Order book Bilateral
  - SEND
- RFQ
  - MARF

Debt of Governments
- Members

Settlement
## BME: Complying with MiFID II

### Summary

<table>
<thead>
<tr>
<th></th>
<th>Equities</th>
<th>Derivatives</th>
<th>Fixed Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-transparency</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Post-transparency</td>
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<td>●</td>
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<td>Waivers</td>
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<tr>
<td>Algorithmic Trading</td>
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<td>Market Making</td>
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<td>Best execution</td>
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<tr>
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<tr>
<td>Information to ESMA</td>
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<td>●</td>
</tr>
<tr>
<td>RFQ / Blocks</td>
<td>●</td>
<td>●</td>
<td>●</td>
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