

Multiple Trading Venues:
A pillar of your
Best Execution?

A Hatstand White Paper

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Executive Summary

This White Paper highlights the main issues associated with one aspect of implementing MiFID (Markets in Financial Instruments Directive): multiple trading venues. The End of Concentration Rules will result in organisations being able to choose where to execute a trade from multiple trading venues.

MiFID and the FSA transposition both state that the criteria to choose a trading venue must from an integral part of any Best Execution Policy. We have therefore begun this paper with a short summary of Best Execution. This is not intended to be a complete Best Execution Policy; our reference is limited to selecting trading venues and the criteria upon which these decisions may be based.

Following an initial overview of the changes in Best Execution principles included in the Introduction, this paper expands upon:

- Definition of a trading venue
- Trading on more than one venue
- Venue selection

We conclude with a brief summary of the impact and implementation issues that multiple venues will create within the operations of a financial institution.

Introduction

The Markets in Financial Instruments Directive (MiFID) is at the heart of the European Union Financial Services Action Plan (FSAP) to create a single market in financial services within the EU; one where firms can conduct business across borders without restrictions from national regulators.

MiFID will enable investment firms to conduct business on an EU-wide basis while raising and harmonising the level of protection afforded to investors. Rules forcing trading activity to be carried out in a particular way or place are swept aside and replaced with a blueprint for open competition between trading venues. Alongside these measures are rules to provide the market place and investors with a higher and more consistent level of transparency; both in terms of prices available for trading and trades that have been completed.

The concept of 'Best Execution' is also transformed. It moves away from a simple 'best price' towards 'best possible outcome at lowest possible costs'.

Institutions helping clients trade in the financial instruments covered by the directives must have a 'Best Execution' Policy, processes to implement that policy and a system to monitor compliance with them. These policies have to be prepared for each instrument and need to be made available to clients. Clients need to proactively approve them.

The Directive clearly states that the issues to be addressed in the Best Execution Policy must be:

- the number of trading venues available; and
- the criteria to choose where to place the trade.

Guidelines to establish these criteria are: price; likelihood of the trade having a successful outcome; and overall costs. In other words: quote, liquidity and fees.

The concept of having a multiplicity of venues to trade financial instruments is a major change in the overall investment process. Until now, a regulated exchange where an instrument is listed would see all the trades of that instrument in that jurisdiction. Unless that specific instrument had multiple listings, all transactions would go through that exchange. No matter where in the world they had originated, a chain of brokers would lead to an execution in that exchange.

Things will change post-MiFID Implementation. In the long term, these changes in the market may potentially be so significant that several commentators have referred to MiFID as 'Big Bang 2'.

This White Paper will discuss the different types of trading venues – a market set to witness significant growth and development over the short to mid-term – and possible selection criteria. Most importantly, it will examine ways in which market participants can achieve a strategic and technical lead over their peers in an increasingly competitive environment.

Definition of a Trading Venue

MiFID describes three types of venue where a trade in a financial instrument may take place:

- 👤 Regulated Markets (RMs)
- 👤 Multilateral Trading Facilities (MTFs)
- 👤 Systematic Internalisers (SIs)

Regulated Market (RM)

MiFID Title I, Article 4 (14): *‘Regulated Market’ means a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments – in the system and in accordance with its non-discretionary rules – in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with the provisions of title III ‘*

Title III Articles 36 to 47 discuss the terms for authorisation as a Regulated Market and the duties of a Regulated Market. It also states that *“Member States shall require that regulated markets have clear and transparent rules regarding the admission of financial instruments to trading”* [Title III, Article 40].

A Regulated Market is the only place where financial instruments can be listed. A Regulated Market will therefore retain its exclusivity in monitoring prospectuses, trade and financial disclosures (from the listed company) and market abuse.

Multilateral Trading Facility (MTF)

MiFID Title I, Article 4 (15): *“A Multilateral Trading Facility (MTF) means a multilateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments – in the system and in accordance with non-discretionary rules – in a way that results in a contract in accordance with the provision of Title II’.*

This system brings together multiple parties (for example, retail investors or other investment firms) that are interested in buying and selling financial instruments and enables them to do so. These systems can be crossing networks or matching engines operated by an investment firm or a market operator. The instruments may include shares, bonds or derivatives. The MTF operator is required to allow the interests of the buyers and sellers to interact, enabling trades to come about without unfairly intervening in the interaction of the interests. The description of an MTF excludes bilateral systems where an investment firm enters into one side of a transaction effected using the system. It does this on its own account and not as a riskless counterparty between the buyer and the seller.

Systematic Internaliser (SI)

MiFID Title I, Article 4 (7) “*Systematic internaliser*’ means an investment firm which on an organised, frequent and systematic basis, deals on its own account by executing client orders outside a regulated market or an MTF.”

An investment firm can be an SI on one specific instrument only (for example, shares in one company). The liquidity level required to be an SI and other related issues are briefly discussed later.

Practical consequences

In simple terms, a Regulated Market is the LSE (or LIFFE, DeutscheBörse etc), an MTF is a platform where trades can be executed (e.g. Chi-X or Instinet) and a Systematic Internaliser could be a large stockbroker that trades shares directly between clients (this oversimplifies matters and does not consider all the reporting and disclosure duties that ‘trading venues’ have).

In reality, where an organisation trades through a broker, a firm’s choice of venue equates to their broker selection and ultimately, the broker’s choice of trading venue. Furthermore, as a client of that broker, a firm must be aware of their broker’s criteria in selecting venues. A firm’s broker selection policy – the rules determining who and how to trade with – must be consistent with their criteria to choose venues; i.e. their Best Execution Policy.

The Big Question is: “Why complicate things?”.

MiFID represents a significant business opportunity for organisations that act quickly to establish new markets and business relationships. In fact, once the transition towards a MiFID-compliant world has been completed in the majority of the EU, things will be much simpler than they are now.

- There will be no regulated exchange with a ‘de facto’ monopoly of trading for a certain financial instrument in a certain jurisdiction.
- Competition will bring down the cost of trading.
- It will be easier to trade in instruments listed in other countries within the EU. This will expand the ‘liquidity pool’ of most instruments and should make life easier for investors.

Trading on more than one venue

Before determining selection criteria, a firm needs to understand the different trading venues available to them.

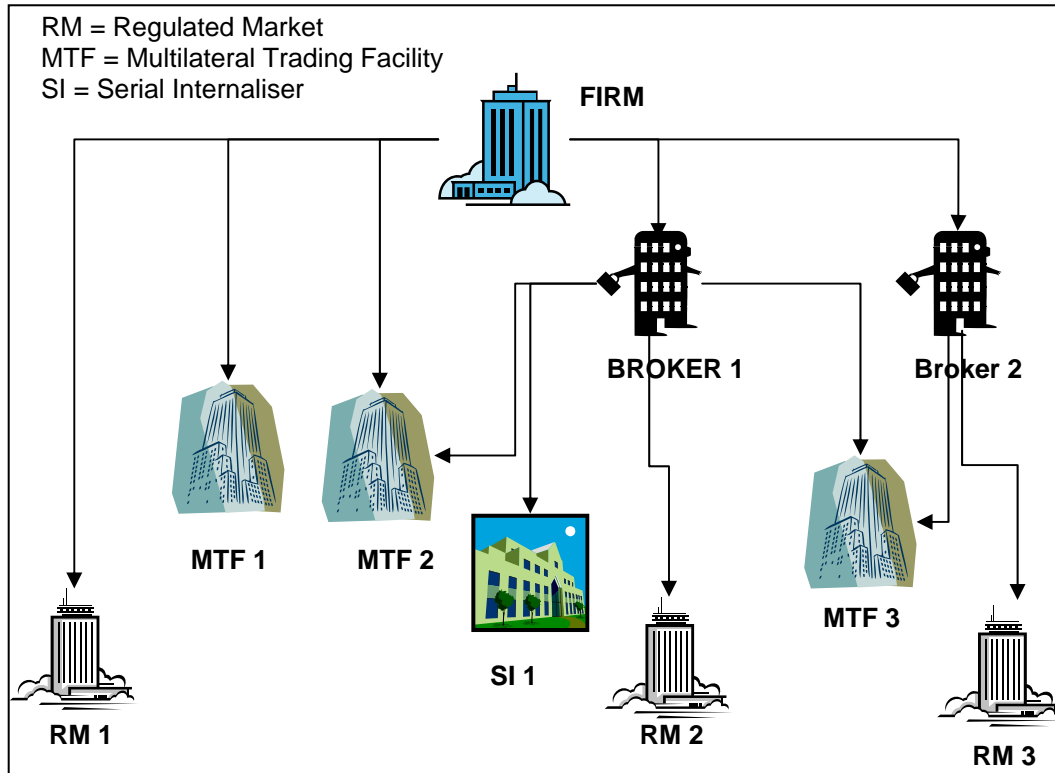


Figure 1 – Possible Trading Venues

In the situation above, the FIRM has direct or indirect access to three Regulated Markets (possibly in three different countries), three Multilateral Trading Facilities (two directly and one indirectly) and indirectly, one Systematic Internaliser.

As yet, no “Directory of Trading Venues” has been published. The FSA will maintain a list of Systematic Internalisers. However, SIs will not be obliged to disclose in which securities they deal, and therefore the list may not be of practical use. Therefore, to understand each venue, firms will need to undertake fundamental research. This may be through the market, data vendors (although limited to those with whom they are familiar), stockbrokers and other financial service organisations.

A trading venue could be available but it may not be suitable, for liquidity, timing or settlement reasons. Alternatively, it may be more suitable to trade on that venue via intermediaries. In the situation illustrated in Figure 1, for example, market data for RM3 may not be readily available in the market where the FIRM is based. However, BROKER 2 – a specialist in that market – makes a point of subscribing to a source for that data and consolidates this internally with information coming from MTFs (more on this later). It would therefore make sense to trade on RM3 via BROKER 2 rather than directly. This could be supported with market data from BROKER 2 in a format easily integrated with the FIRM’s other market and reference data.

MiFID is set to greatly increase the volume of price and trade data firms must ingest and process. It's also set to splinter the sources of this data. The information needed on a given instrument will no longer be found on just one exchange, but spread across different venues.

In some jurisdictions, firms must publish their trades on a particular exchange. Under MiFID, that restraint will be lifted; firms will be able to choose with whom they publish information. The result is likely to be a much more diverse and fragmented information marketplace.

Against this background, how can an organisation obtain sufficient price and trade data in one place?

It's both a technical and a business challenge. Under MiFID, trading venues will be required to publish pre and post-trade data transparency reports (this will be discussed in more detail later). These reports will form the basis of information upon which trading decisions will be taken. However, the detail and quality of that information will be significantly out of step with that currently available from market data feeds.

Some market data suppliers, such as Reuters and the LSE (Proquote), are developing and offering solutions to data fragmentation. Ultimately, it will be an individual firm's responsibility to ensure it has all the data from all the venues. Potentially, this could involve carrying out internal, independent consolidation of data. This exercise not only raises question marks over accuracy, but also over time (latency). In reality, it would be very difficult to include a specific venue in any Best Execution Policy if sufficient market data were not available. Since venue selection requires regular review, one could conceivably start with a number of venues for which market data were readily available and consolidate this with other venues as information developed. To react swiftly to market dynamics and new business opportunities, firms will need to create a solid trading systems infrastructure. This infrastructure should enable them to achieve rapid connection to new venues as they arise and the management of new data structures, without disruption or delay.

How would this scenario differ for SIs, brokers and other intermediaries?

As an intermediary between firm and trading venue, a broker should not provide its own market data but it may have to provide quotes, costs and an indication of liquidity. Using the diagram in Figure 1, BROKER 2 should provide market information for RM 3 to the FIRM if the FIRM cannot source them itself. This provision can be a continuous feed or 'information on request', depending upon the relationship between the BROKER and the FIRM and the frequency of trades.

Systematic Internalisers, as experienced counterparties, will be obliged to publish firm quotes in liquid securities¹ and maintain those quotes on a regular and continuous basis during normal business hours. It is extremely unlikely that in the early stages of MiFID compliance, data from SIs will be included in any systematic supply of consolidated market data; it will be up to specific firms to arrange supply and consolidation of that information internally.

¹ Article 22 of Level 2 MiFID implementation regulation states: "A share admitted to trading on a regulated market shall be considered to have a liquid market if the share is traded daily with a free float not less than EUR 500 Million, and one of the following conditions is satisfied: (a) the average daily number of transactions in the share is not less than 500, (b) the average daily turnover for the share is not less than EUR 2 Million." There is no specific mention of 'Systematic Internaliser' in this rule, but the overall definition of liquidity should still apply.

Alternatively, firms will need their Best Execution Policy to ensure availability of relevant data to traders, as well as clear criteria in terms of selection of an SI as a venue for a specific trade.

So where does that leave the FIRM and SI1?

SI1 must provide quotes to BROKER 1 for the liquid securities they trade and only those. It will also provide any other information relevant to BROKER 1 Best Execution. An institution can be a Systematic Internaliser for only a few securities and this could be a 'dynamic choice'. Therefore, the information provided should reflect any change in the 'range' of securities available for trade.

Venue Selection and Best Execution Policy

A company's Best Execution Policy will dictate the level of information required to make decisions. As introduced earlier on, guidelines to establish these criteria are based upon three key elements: quote, liquidity and fees. The quote and fees involved will determine the overall costs involved in the transaction.

Liquidity

Liquidity is an indicator of how likely it is for the trade to reach a successful completion in a reasonable time frame. Liquidity can be inferred from the transparency reports (this will be discussed later) a trading venue has to provide. Once again, it is important to consolidate the information coming from the various sources. Realistically, a trader would expect some quick indication of which venue is the most liquid. Again, market data suppliers can provide this service or a firm can create an internal system. This would need to collate the data, sort venues in order of liquidity based upon past trades and provide rapid, continuously updated information to the trader as to the most liquid venue for the trade.

Cost

The costs ultimately passed on to the client are an integral part of the total price of the execution. In a 'Buy' trade, the real price is the Quote plus the Unit Cost (equally on a 'Sell' trade the reverse applies: Price minus Cost).

All this information could be gathered from the pre and post-trade transparency report, so the connection between institution and trading venue should be uninterrupted. This connection could be direct or mediated by a market data supplier. However, the latency between the 'time of change' of any data and the time when this change is made available to the front office is critical². One of the challenges in any MiFID implementation will be an IT system that minimises this latency. Multiply this issue for every financial instrument traded, and any possible venue where it may take place; the result is a major IT issue (and potential cost) towards achieving MiFID compliance.

Within Europe, the FSA has published a proposal for the creation of Trade Data Monitors ("TDM") to validate and facilitate the consolidation of fragmented information. The FSA would set the standards (e.g. fair access and pricing) for such TDMs and for data originators (to prevent double counting) and monitor that those standards are met. This proposal has not been taken up by any other European Regulator. It is, therefore, extremely unlikely that it will see the light of the day before 1st November. Hence, the requirement to create an IT system to perform some, or indeed all of these consolidations internally, will most likely still stand.

² The onus to make trade data public as close to real time as possible and in any event not later than three minutes post trade, is on the trading venue. In an electronic environment, this could mean the time they are made available to the 'entry point' of the systems of those who receive their feeds. The internal latency between the time the feed is received and the time updated information is made available to the front desk depends upon the internal systems and any possible processing (e.g. collation). This will require a strict level of detailed co-ordination amongst feeds to ensure that only information with consistent time stamps is collated and that no multiple counting of trades takes place.

Summary

Selecting trading venues is a constant and dynamic process. Both the Directive and the Transposition by the FSA specifically state that the list of venues has to be reviewed regularly. In the early stages of MiFID Implementation, this review should happen fairly frequently to allow for changes in the market such as new Data Aggregators, new trading venues, etc.

In summary, a firm's Best Execution Policy should drive both the selection and choice, based upon some pragmatic guidelines:

- 📌 **Availability of market data:** Unless a firm has a substantial and dedicated IT resource, it is unlikely to be viable (in terms of time or cost) to include market data outside of that already supplied by existing vendors or services.
- 📌 **Liquidity:** One of the guiding principles of Best Execution is the "likelihood of a successful trade". Illiquid venues make the trade less likely and hence these should be low priority.
- 📌 **Ease of execution:** Availability of electronic trading, similar trading hours, differences in time zone³ and anything else that may facilitate a trade or minimise the possibility of errors.
- 📌 **Costs/inducements:** The price (or quote) is naturally a key element in the process. Equally, any inducements will become part of the execution price and will have to be assessed against competing venues for the best quote/cost mix.

Interestingly, if a firm trades through brokers (or other forms of intermediary), the choice of broker should follow the same criteria for choice of venue. However, when selecting a broker, an organisation should ideally select one that provides trading reports to the FSA⁴. If a firm deals OTCs through that broker, it will need to establish who is going to report that trade (see the rules for post-trade transparency for OTCs in the next section).

So what impact will the creation of multiple trading venues have on the day-to-day activities of the front office trading operation?

The answer will depend upon Best Execution Policy, a key element of which will be venue selection. Front office software may have to include a decision support system to facilitate this process. A fully automated venue selection system is impractical; in reality, traders will need to override this system under certain circumstances. However, the system must provide a means of justifying such overrides to ensure Best Execution Policy is met and will need to deliver proof of that decision quickly and easily for some time after the trade has been executed. Operationally, this is not significant; practically it will depend on how efficient the IT support to trading is.

³ Differences in time zone may lead to differences in "trading day" for trades that are either booked or executed at the "edges" of business hours of the venue or of the investment firm.

⁴ If your broker reports to the FSA, you have no obligation to include the trades executed through that broker in your trading report (technically speaking, those trades would be reported twice).

Transparency Reports and other duties of Trading Venues

MiFID introduces comprehensive pre and post-trade transparency regimes for RMs, MTFs and SIs. As outlined, the information in these reports will form the core of cost and liquidity reference data upon which venue selection decisions will be based.

SIs will have to publish pre-trade transparency for each liquid share for which they are an SI⁵. RMs and MTFs will be obliged to publish a pre-trade report for every share traded in their markets. Post-trade transparency will include any share that has been admitted to trading in any EU Regulated Market. The EU Directive clearly specifies that pre and post-trade transparency reports will only affect trading in shares. However, country regulators may extend the scope of pre and post-trade transparency to other financial instruments.

Pre-trade transparency obligations for SIs imply publishing a firm quote (or quotes) up to a Standard Market Size for all liquid shares for which they are an SI.

- ☛ Quotes can be one-sided, but they must include size and price.
- ☛ Quotes must be published and maintained in real time.
- ☛ A record of each quote published must be maintained for a minimum period of 12 months.

Pre-trade transparency obligations for RMs and MTFs vary according to the system. Order-driven systems will have to publish the five best bid & offer prices, showing aggregate orders and number of shares at each price level. They also have to publish two-way quotes for all market makers, showing prices and volumes. Periodic Auction Systems will have to publish the price at which the system would best satisfy its trading algorithm and the volume that would potentially be executable at that price. Other systems will need to publish as appropriate to the nature of the system.

- ☛ RMs and MTFs must publish details of trades in relevant instruments executed within their systems.
- ☛ SIs must publish the details of trades in relevant instruments executed OTC and they can use the code "SI" for the venue (see Table 1).
- ☛ Information included in the post-trade transparency report is detailed in "Table 2 - Mandatory Fields for inclusion in Transparency Report" on page 4.

It is possible to apply to the FSA for waivers⁶ to transparency reports for *"systems that are based on trading methodology in which the price is determined in accordance with a reference price generated by another system, where that reference price is widely published and is regarded generally by market participants as a reliable reference price"* and for other specific type of trades.

⁵ See Footnote 1 page 8 for the definition of liquidity

⁶ See http://www.fsa.gov.uk/pubs/policy/ps07_02.pdf paper on implementing MiFID published in February 2007

Type of Trading Venue	Pre-Trade Transparency	Post-Trade Transparency
Regulated Market	All instruments traded	Details of trades in relevant instruments executed within their systems
Multilateral Trading Facility	All instruments traded	Details of trades in relevant instruments executed within their systems
Systematic Internaliser	Only liquid shares	Details of trades in relevant instruments executed OTC

Table 1 – Summary of pre and post-trade transparency reporting obligations

The publication of post-trade transparency must be made public⁷ close to real time⁸, and in any event within three minutes. In the case of portfolio transactions, this obligation applies in respect of each constituent transaction, taking into account the time taken to allocate prices to individual shares. Exceptions are made for transactions taking place outside of normal venue trading hours when publication must be made prior to the start of the next trading day.

RMs, MTFs, SIs and investment firms trading OTC must also follow certain guidelines when making pre-trade and post-trade information public:

- 👤 All reasonable steps must be taken to ensure that the information to be published is reliable; monitoring it continuously for errors and correcting these as soon as they are detected;
- 👤 They should facilitate consolidation of the data with similar data from other sources; and;
- 👤 The information must be made available to the public on a non-discriminatory, commercial basis at reasonable cost.

⁷ The definition of 'made public' is : "... pre and post trade information shall be considered to be made public or available to the public if it is made available generally through one of the following to investors located in the Community: (a) the facilities of a regulated market or an MTF, (b) the facilities of a third party, (c) proprietary arrangements. "

⁸ The definition of 'as close to real time' is " Information which is required to be made available as close to real time as possible should be made available as close to instantaneously as technically possible, assuming a reasonable level of efficiency and of expenditure on systems on the part of the institution concerned. The information should only be published close to the three minute maximum limit in exceptional cases where the systems available do not allow for a publication in a shorter period of time".

Mandatory Fields for Inclusion in Transparency Reports	
Field	Description/Notes
Trading Day	
Trading Time	
Instrument Identification	It shall consist of: <ul style="list-style-type: none"> • a unique code to be decided by the competent authority to which the report is made identifying the financial instrument which is the subject of the transaction; and • if the financial instrument in question does not have a unique identification code, the report must include the name of the instrument or, in the case of a derivative contract, the characteristics of the contract.
Unit Price	The price per security or derivative contract, excluding commissions and (where relevant) accrued interest. In the case of a debt instrument, the price may be expressed either in terms of currency or as a percentage
Price Notation	The currency in which the price is expressed. If, in the case of a bond or other form of securitised debt, the price is expressed as a percentage, that percentage should be included.
Quantity	The number of units or the nominal value of bonds or the number of derivative contracts included in the transaction.
Venue Identification	Identification of the trading venue or OTC (a Systematic Internaliser can simply use SI).
Note (1)	An indication that the exchange of instruments is determined by factors other than the current market valuation, where applicable.
Note (2)	An indication that the trade was a negotiated trade, where applicable.
Note (3)	Any amendments to previously disclosed information, where applicable.

Table 2 – Mandatory Fields for inclusion in Transparency Reports

When the transaction is executed outside the rules of a Regulated Market or an MTF⁹, one of the following investment firms shall, by agreement between the parties, arrange to make the information public (in order of priority):

- (a) the investment firm that sells the instrument concerned, or
- (b) the investment firm that acts on behalf of or arranges the transaction for the seller; or
- (c) the investment firm that acts on behalf of or arranges the transaction for the buyer; or
- (d) the investment firm that buys the share concerned.

⁹ Common sense implies that this should also apply to transactions executed in markets located in countries that do not report to regulators within the overall wide jurisdiction of MiFID. However, this has never been specifically mentioned in any transposition papers from the FSA or any response to questions in consultation papers from CESR.

Specifically, the obligation to facilitate consolidation means that:

- Consolidation must be possible without the need for human intervention (in order to meet real time obligations).
- Industry must try to agree standard identifiers for instruments, execution venues, etc.
- Standards for data content must also be addressed (e.g. how dates and times are represented, etc.).

What are the practical consequences for consolidation?

In the first instance, the impact of Transparency obligations, the abolition of Concentration Rules and the requirement for Best Execution will result in an increase in the volume of market data. Publishing data to 'static' websites will be insufficient, since it will not facilitate consolidation (not to mention potential performance and security issues). Finally, proprietary protocols and message standards currently used by many RMs for data publishing will probably be insufficient; they make no active effort to facilitate consolidation with other data sources and hence would not meet the firm's obligations.

In the medium to long term, commercial Data Aggregators will provide the solution. In the short term, consolidation issues may drive the choice of trading venues unless a firm is prepared to make a substantial IT investment in internal consolidation software.

Major Implementation Issues

The changes¹⁰ involved in moving from the current business model to MiFID Implementation can be grouped into three main categories:

- 👤 **Data**
- 👤 **Systems & Processes**
- 👤 **Contractual Reviews**

Data

The fragmentation of market information will necessitate a comprehensive and accurate consolidation of data. Firms will need to review data suppliers, assessing them for accuracy, coverage and latency. Even if existing data suppliers already carry out some consolidation, a firm's traders need consistent, detailed information across *all* instruments. Potentially, this may result in a firm still needing to undertake some consolidation to a certain level. Assuming this is possible with the resources available, any latency issues may result in the trading operation becoming seconds, or even minutes behind the market. In reality, this would be unacceptable for any financial services firm operating within a real-time, competitive trading environment.

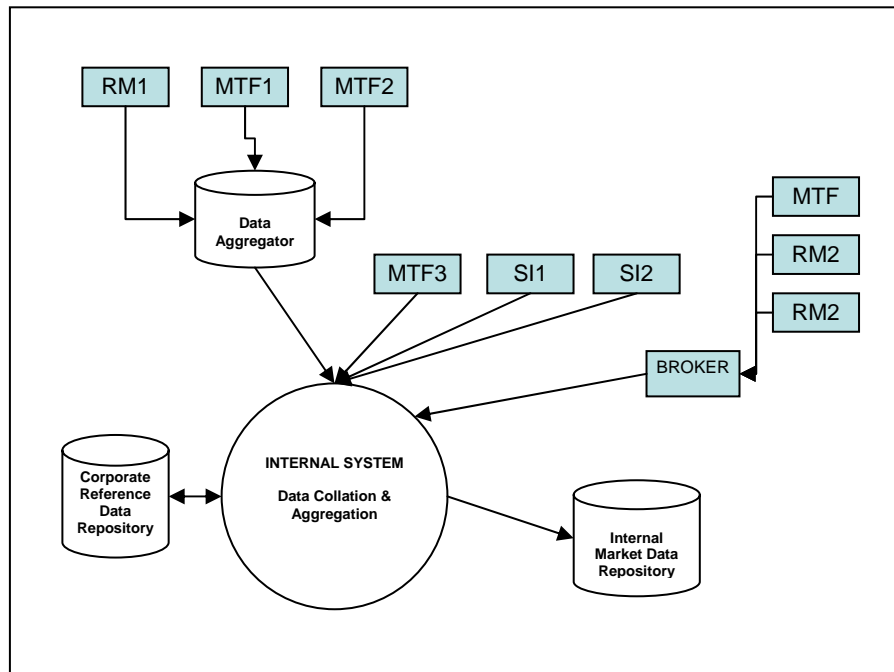


Figure 2 – Integrating Market Data from different sources

MiFID, in general, and more specifically in terms of the multiplicity of trading venues, creates new classes of Reference Data; all firms will need to conduct an overall review across all Reference Data.

¹⁰ We only discuss changes prompted by the introduction of multiple trade venues in the system. Any other changes or any other MiFID implementation requirements are not discussed here.

Systems and Processes

For many firms, MiFID will generate significant changes to front office systems. The creation of multiple venues generates multiple quotes and multiple execution possibilities. Front office systems will need to include this information and the possibility of selecting venues where the trade will be executed.

The level of change to IT trading support will depend upon an individual firm's specific systems. However, most firms will need to ensure that any trade-related information processed will always carry the venue identifier.

Over the mid-term, the EU will witness the creation of many new market operators (MTFs, Data Aggregators, SIs). A firm's overall operational and technology model must have sufficient capacity and flexibility to include them as these changes occur.

Contractual Reviews

Where firms trade via a broker, under MiFID this is classified as their "trading venue". However, that broker will have its own Execution Policy that will dictate the choice of venues available to them. A firm must ensure that *both* Best Execution Policies (the firm and the broker) are consistent. Just as importantly, the firm using the broker must be aware of their broker's criteria to select venues (and consistency with their own policy) and where the broker reports to, since this will affect the firm's own trading reports¹¹.

Firms may have to review contracts with data suppliers. If a firm carries out consolidation internally, it may require information on latency and origin to ensure it does not create a false consolidated timeline, as well as other pitfalls such as multiple counting of the same trade.

¹¹ If the broker reports to the FSA, a firm will not be required to report those specific trades since they were already reported.

Conclusion

When things change it is important to separate what will happen during transition from what will happen in the long term. The transition towards using multiple trading venues and the early stages of MiFID Implementation need to be carefully managed. There are substantial conceptual differences and significant practical implications to consider. The End of Concentration Rules means that Regulated Markets will cease to have a monopoly of trading in one jurisdiction; they will retain only the monitoring of the listing process (and therefore dictate prospectuses, disclosure requirements and monitor market abuse). However, the process to reach a quote will be radically transformed. Liquid instruments will continue to have broadly similar quotes in most trading venues. Less liquid instruments, however, will generate a wider range.

The changes in Best Execution away from simply best price towards best possible result at lowest possible cost will favour those trading venues that enable institutions to achieve compliance by facilitating easier, cheaper execution of trades, together with an incentive to attract liquidity in order to boost trading volumes. In all likelihood, this will result in execution systems designed to integrate directly with the front office and the provision of data to vendors willing and able to collate the information. In the short term, this implies expensive changes to systems and modification to operations and processes. Some of these may go beyond the minimum amount of work required to achieve basic compliance of MiFID. While the FSA has made clear there will be an initial period post 1st November when some slippages in achieving compliance will be tolerated, lack of a plan with execution in progress will be viewed quite differently. There is, however, significant mileage to be gained by achieving strategic compliance.

MiFID represents an opportunity for firms to consider how they wish to conduct business across Europe in the future and offers a chance to create an integrated, highly efficient business model to deliver maximum business advantage. For firms, the key benefits will include:

- The opportunity to access markets in other member states within a common framework and to carry out cross-border business effectively and on a level competitive playing field.
- Reduced costs in conducting cross-border financial services business within Europe.
- Improved accessibility of capital and enhance the allocation of capital across the whole of the European Union.

About the Author

Silvano Stagni is a Change Director and Strategist with extensive experience in regulated service projects including hands-on experience of managing the change process required to bring in new regulations and/or new technology, with a specific expertise in cross-border and cross-jurisdiction issues.

Silvano has initiated, managed, executed and deployed training programmes on reference data, operational risk, Basel II and Sarbanes-Oxley including the definition of cross-border regulations and anti-fraud systems for Mondex, the electronic currency experiment in the late nineties. Silvano is an expert in MiFID matters for European and International financial service businesses.

Silvano has advised financial institutions on changes brought in by new regulations and has also contributed white papers for regulatory and monetary issues behind electronic currency to regulators in Asia and Europe. He has published several articles (both online and printed magazines) and contributed to many white papers and books.

About Hatstand

Companies from the smallest hedge fund to customers including Merrill Lynch, Morgan Stanley, Deutsche Bank and UBS have come to Hatstand for two main reasons. First, our exclusive focus on the financial sector and no other industry. Second, the extreme care we have taken to build a talented pool of senior professionals with not only solid technical skills but with direct experience of the broader IT function and a sound understanding of the client's business. We call this three-dimensional expertise our 3D-IT – encompassing IT skill, IT function and business knowledge – which all our consultants share and which other IT-consultancies fail to match.

Hatstand began with a specific focus on the electronic trading environment and has subsequently extended its consultancy to wider financial services IT, encompassing Regulatory/MiFID, Electronic Trading, Technology Management, Credit Derivatives and the provision of temporary or permanent IT resource.

We don't believe implementing MiFID should be onerous or costly. By understanding the broader context, we manage risk effectively and control costs. Hatstand's approach to MiFID is based upon aligning mandatory changes with existing change programmes. Regulatory requirements and market opportunities can be clustered into functional groups. We provide the structure and processes to maintain "business as usual" and ensure a smooth transition from current methodologies and systems to MiFID Implementation.

Hatstand's suite of MiFID services can be delivered as a full programme management service or as functional or technical resources.

STAGE 1:	STAGE 2:	STAGE 3:	STAGE 4:
Gap & Impact Analysis	System Selection & Implementation	Testing & Compliance Certification	Training & Support
SERVICES - offered as a full programme or as modular resources:			
Business analysis	Fast data feed handlers	System testing	User training
Risk Analysis	Compliant order management systems	Documentation	System management
Planning	Smart trading engines	Quality management	Service management planning
Business Process Re-engineering	Updated market infrastructures	MiFID Certification	System support
Business Continuity Planning	Enhanced CRM & client reporting systems	System & process audits	Business As Usual support

Why Hatstand?

Each consultant combines technical skill with business and market knowledge, to deliver improved performance and reduced risk in the following areas:

- We exclusively specialise in financial services technology, including a particular strength within electronic trading.
- We deploy only senior, well-qualified financial IT consultants with genuine experience in a given specialisation.
- We provide expertise at lower price points than our large, cost-heavy competitors.
- We understand latest best practice in areas such as credit derivatives, exchange connectivity and direct market access, and we offer this knowledge to clients at the least possible risk to them.

For further information or assistance, please contact:

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