MiFID II: To Go-Live And Beyond

Delivering MiFID II compliance, avoiding regulatory entropy and building plans for Brexit.

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About The Author

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Leading Citihub Consulting's regulatory practice, Bob is a senior trading systems and regulatory technologist with more than 20 years' experience in blue chip investment banking institutions. His career has spanned a variety of business facing technology roles with a strong e-trading and regulatory focus.

Citihub Consulting's MiFID II practice now supports seven active clients covering fifteen active engagements with projects as diverse as research unbundling, wealth management and algo trading obligations.
As we enter the final six months before MiFID II goes live, most firms are busy executing programmes of work to achieve compliance. However, few will achieve 100% compliance by go-live and most are consequently prioritising activities. With the focus clearly set on compliance, Citihub Consulting believes that it is time to begin evaluating and planning for the period after the 3rd of January 2018 - both in the context of MiFID II but also the United Kingdom’s exit from the European Union. In this paper, we consider three areas and recommend that decision makers should plan for continued investment and resourcing in MiFID II post go-live:

1. Closing of compliance gaps as quickly as possible and the completion of supporting workstreams;

2. Implementing control frameworks and strategies for minimising the risk of regulatory entropy;

3. The close correlation between MiFID II and Brexit planning projects.
The Final Approach: 6 Months To Go-Live

MiFID II goes live on the 3rd of January 2018. As all MiFID II programme managers know, this very public deadline is proceeded by a succession of interim deadlines covering internal systems changes, venue upgrades, and data collection for post go-live regulatory reporting. Clients must register legal entity identifiers and some re-papering may be necessary before transaction reporting or order submission at trading venues can begin. Sell side firms must fully prepare and test HFT applications and complete market making registrations. For some buy side firms, it might, depending on trading patterns as indicated in the latest ESMA QA on DEA and HFT, be necessary to register as an investment firm. Across the industry the impact of missing deadlines will be fines and public admonishment, and may also impact the services a firm may offer (for example if a manufacturer cannot meet cost and charging obligations then the distributor must withdraw the products).

A MiFID II compliance programme will most likely have many workstreams with tightly coupled interdependencies, and be reliant on time-pressured delivery resources that are shared with other projects. To achieve the right outcome, Citihub Consulting recommends centralised command and control based on a single plan of deadlines and with all dependencies (internal and external) built into a single enterprise roadmap. Independent execution of workstreams increases the risk of missing deadlines or creating pinch points elsewhere.

For firms that will not achieve 100% compliance by the 18th of January 2018 deadline, difficult decisions must be made to determine priorities in such a way as to minimise risk and potential impact. A single roadmap will help programme managers communicate compliance gaps to stakeholders and secure their sign off/acceptance.

In recent months, Citihub Consulting has observed that, as the focus shifts from planning and into development and testing, workstreams are often under resourced or under-skilled. Some firms have made excellent use of commodity development and testing resources managed by a small team of MiFID II SMEs. This approach has the clear benefit that it is easier to retain a small number of experts with ‘in demand’ skills rather than building dependencies on large numbers of development and testing resources or expecting them to acquire deep MiFID II skills.
Post Go-Live Projects

In the period after go-live, firms should consider the necessary steps to close gaps and start building a framework for ongoing compliance with MiFID II. Funding and resourcing should be maintained at a level to complete activities that were de-prioritised. Examples could include:

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<th>MiFID II Post Go-Live Programme Completion Projects</th>
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<td><strong>Area</strong></td>
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<td>Traceability Completion</td>
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<td>Initial Periodic Reports</td>
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<td>Post Trade Costs and Charges Data Capture</td>
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Regulatory Entropy – Prevention Strategies

Post go-live, it is crucial that new projects and BAU activities do not result in the creation of new compliance gaps. Citihub Consulting recommends proactive compliance monitoring and traceability (see prior section) to minimise the impact of regulator investigations, and to enable the business to focus on revenue generating activities.

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<th>Focus Areas To Prevent And Control Regulatory Entropy Post MiFID II Go-Live:</th>
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<td><strong>Control Framework</strong></td>
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| **Monitoring** | New business monitoring must ensure SI obligations are met, or that these new activities do not increase obligations that were not applicable at go-live. A specific MiFID II category of monitoring should be added to all impacted teams. Monitoring examples include:
  - HFT monitoring to ensure activities do not trip the firm into new obligations. Given the recent ESMA Q&A on microstructure, it may be necessary for firms to monitor their clients’ DEA flows and alert clients when these trigger HFT obligations;
  - Liquidity providers must monitor activities to ensure they operate within schemes and agreements;
  - Monitoring of incidents to determine which must be reported to competent authorities;
  - Alerting of time signal interruptions or failures;
  - Ensuring new technology infrastructure does not impact clock synchronisation solutions (this could be as simple as an emergency fix installing an out of compliance network switch). |
| **Data Quality** | Data is so vital to meeting a firm’s MiFID II obligations that new mechanisms for dealing with data incidents and quality issues will be instant regulatory issues. Firms must reclassify their data catalogues to tag MiFID II data elements (see Citihub Consulting’s MiFID II Dictionary as an aid to this). There must be a control mechanism that ensures changes to MiFID II tagged elements are given specific testing and are implemented through well-defined release procedures. For example, incorrect counterparty data could result in providing inaccurate trade reports. Firms may need a complete overhaul of data incident resolution SLAs; improved alerting mechanisms and even in sourcing of services. |
MiFID II And Brexit Readiness

Early in 2016, many MiFID II programme managers were awaiting the outcome of the UK’s Brexit referendum before mobilising execution activities. Some now face the difficult challenge of delivering both MiFID II compliance and the business restructuring activities required to continue operations in the (increasingly likely) event that the UK loses passporting rights. Cithub Consulting has previously outlined why MiFID II will continue to be important in the post-Brexit world. It is our belief that MiFID II programmes are best placed to form the foundations of Brexit scenario planning: MiFID II SMEs have deep knowledge of the organisation, record keeping, flows and microstructural obligations that will reduce duplication of effort and deliver optimal Brexit strategies.

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<th>Focus Areas And Overlapping Areas Of Scope For MiFID II And Brexit Preparation</th>
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Summary

• With less than six months until the implementation deadline, firms may find it necessary to re-plan and reprioritise. We recommend centralised command and control, and risk weighted planning of project objectives.

• Programme managers must ensure that stakeholders are fully informed about potential compliance gaps and the risks of deadlines that may be missed. We recommend a single (enterprise wide) roadmap as a tool for effective communication.

• The industry is resource constrained and this pressure will increase in the coming months. We recommend building (and retaining) a small team of MiFID II SMEs that can manage commodity development and test resources so as to provide sufficient capacity, minimise the risk generated by dependencies on business aligned individuals, and to contain implementation cost.

• Now is the time that MiFID II programme managers and compliance leaders should build the business case for post-implementation projects. We recommend retaining the core MiFID II team until compliance gaps are closed and an effective operating model and supporting controls – that fully mitigate the risk of regulatory entropy - are in place.

• Brexit outcomes are unknown. However, most firms are planning the transition of some activities to mainland Europe and are scenario planning for others. We recommend that MiFID II programme teams should be viewed as a foundational part of any Brexit initiative in order to leverage knowledge that covers organisational and legal entity structures, business units and instruments, record keeping arrangements, flows and microstructural obligations.
About Citihub Consulting

Citihub Consulting is a global, independent IT advisory firm with deep domain expertise across every layer of the technology stack – from business applications and data platforms down to core infrastructure. From IT strategy, architecture and solution development, through to cost optimisation, risk assessment and implementation – our trusted experts deliver the right results for your business.

For us consultancy is personal. We have a relentless commitment to great execution, integrity and client success. We aim to redefine perceptions of our industry and our commitment to delivering the right results for our clients has never changed, even as the business has grown consistently over the last decades.

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