

FX Week

fxweek.com

The global business of foreign exchange

November 13 2017 v.28 n.45

Market participants start testing Mifid II systems

Firms are starting to test their systems for compliance with the second Markets in Financial Instruments Directive (Mifid II) as the January 3 deadline fast approaches, but some believe they are only two-thirds of the way into their preparations for the sweeping European regulation as it relates to their currency business.

During a webinar hosted by *FX Week* on November 7, Rainer Bunz, head of foreign exchange and banknotes at Raiffeisen Bank International, said the priority over the next few weeks was to test the systems to ensure connectivity and other components are in place before the deadline.

RBI is active in 14 countries, seven of which are caught under Mifid II, including Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania and Slovakia.

“We are not 100% ready, but I think we are on a good way to be[ing] prepared for January 3,” Bunz said. “It is still a long way to go and we also have to be active for the coming weeks.”

Foreign exchange instruments that fall under Mifid II include currency options, deliverable and non-deliverable FX forwards and swaps, FX options and other currency derivatives outside spot.

A live poll conducted during the webinar showed 39% of the attendees felt they were 75% ready for Mifid II from a foreign exchange perspective, while 27% felt they were half ready. Only 18% indicated complete readiness.

“I think they are consistent with a lot of the firms we interact with in the market. We think even past January 3, and maybe even for some time to come, people will probably perceive they are only 75% done, maybe indefinitely,” said Harpal Sandhu, chief executive of Integral.

“The reason that is coming up is the interpretation of the regulations varies from firm

to firm; they vary from branch to branch within large multinational firms. To some extent, we think regulators will give people feedback within the first six months and immediately afterward, as they take a look at the ways that people have gone about implementing, based on their respective interpretations,” he added.

Sandhu said there are a wide variety of workflow implementations and decisions that people will take in deciding what roles they are going to play within certain of their branches, and within particular currencies.

“We sort of have to be flexible to support that,” he says. “We think these numbers will be sub-100% done for some time.”

Feeling confident

While market participants vary in their interpretation of the Mifid II rules, they are currently making their best efforts to bring their businesses and operations into compliance until regulators begin to add more scrutiny to their capabilities following the deadline.

“This was one of the biggest difficulties in the beginning – to get to the right interpretation and make the right assumptions for a robust implementation,” Bunz said.

“We saw there was no uniform interpretation of all the regulation. For that reason we do a flexible approach where we define some general guidelines,” he continued.

“Nevertheless, every region had its own interpretation and is responsible for the final decision [on] how they try to be Mifid II-compliant. During that process, it was also important that you have enough resources on the tech side,” Bunz added.

During its multilateral trading facility (MTFs) application process, Integral benefitted from the opportunity of seeing the different interpretations and approaches its customers took to the rules.

“What gives us the most confidence is that, as [a] platform that is also cloud-based, we run everything inside data centres. We have worked very hard at essentially being comprehensive in terms of connectivity to all of the other regulatory venues that market participants will use in the new year,” Sandhu said.

He said that as people’s interpretations change over time, it is merely a configuration exercise to accommodate them.

Don’t suffer in silence

Despite the intense groundwork, market participants believe they will eventually reap benefits from the changes brought on by Mifid II, especially the use of multilateral trading facilities.

Some 57% of audience members polled said they expect to benefit from easy compliance with reporting and data-capture requirements.

Another 21% of the audience said the burden surrounding pre- and post-trade transparency could be alleviated. An equal percentage of respondents said they will not trade on an MTF.

Sandhu, who said the changes will make people more competitive in the market, believes participants will get through the testing in the final two-month home stretch and systems will go live soon.

“Things won’t be perfect, but they will be very, very close. Whatever isn’t exactly right will be iterated on and cleaned up very early in the New Year,” he said.

“I think we will all be quite proud of how it has gone. I think people will really engage in the first quarter and second quarter to take on the next series of challenges, and to see how these successes can be used as a competitive advantage to really service customers,” Sandhu added. ▣

Laura Matthews