destination MiFID II

client update – Q4 2017

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EURONEXT

MIFID II – AGENDA

- **THIRD COUNTRY ACCESS AND DEA**

- **MIFID II CHANGES**

  - **TECHNICAL CHANGES**

    - Identifying relevant parties to an order (RTS 24)

  - **PROCEDURAL CHANGES**

    - Order to Trade Ratio

    - Tick Sizes

    - Algo testing and declaration policy

  - **MIGRATION STRATEGY**

  - **KEY PUBLICATIONS**

- **MiFID II REPORTING**

  - **SLC MANAGER**

  - **TRANSACTION REPORTING FOR NON-MiFID MEMBERS**

  - **COMMODITY POSITION REPORTING**

- **Q&A**

- **CONTACT DETAILS**

THIRD COUNTRY AND DEA ACCESS

Third Country Access

Pending an EU-wide equivalence decision by the European Commission, third country firms may be able to continue accessing EU markets under national regimes – **each country decides**

France
- In France, the AMF and Treasury have confirmed that clients from non-EEA countries, currently member of Euronext Markets, will be able to remain direct members of Euronext until a status of equivalence has been achieved – pending official publication

Netherlands
- In the Netherlands, the Dutch authorities had already confirmed that the existing arrangements, which allow regulated entities from the US, Switzerland and Australia to trade on Euronext Amsterdam, will be maintained until such time as equivalence decisions are made in respect of these jurisdictions
- A legislative change is due to be implemented in the Netherlands to more closely resemble exemption regimes of the UK and France for third country prop traders.

THIRD COUNTRY AND DEA ACCESS

Direct Electronic Access

- Euronext regulators are awaiting further guidelines from ESMA around DEA from third countries and have indicated that they will align with ESMA standards.
- Euronext will not implement authorisation requirements for DEA clients, except for Sponsored Access
- The risk controls surrounding DEA are incorporated in the Euronext Harmonised Rulebook. Any access granted by a Member to his Clients by way of Direct Electronic Access (including Sponsored Access) must have in place effective systems and controls which ensure:
  - that his Clients cannot exceed pre-set trading and credit thresholds set by the Sponsoring Member;
  - that trading by those Clients is properly monitored; and
  - that appropriate risk controls are in place to prevent trading that could adversely affect the Member's compliance with the Euronext Rule Book, create or contribute to disorderly conditions on a Euronext Market or facilitate conduct that may involve market abuse or attempts at market abuse.;
  - that a policy of the use of kill functionality is defined.

IDENTIFYING RELEVANT PARTIES TO AN ORDER

New order fields

	UTP C		UTP D	Optiq
SHORT CODES	✅	Leveraging existing fields *FreeText*, *FreeText2* and *ClientID* or flat file submission	✅	✅
DEA INDICATOR	✅	Leveraging existing fields or flat file submission	✅	✅
EDF ALGO FLAG	✅	Leveraging existing field *TradingSessionID*	✅	✅
IDF ALGO FLAG	❌	Not requested	✅	✅
TRADING CAPACITY	✅	Mapping supplied to regulators based on Rule80A. No action by Members	✅	✅
LIQUIDITY PROVISION FLAG	❌	Euronext will not deploy a separate LP flag in order entry. Instead, Euronext will require algo traders pursuing market making activities to enter into a Market Making agreement. The members or participants will be authorised in system with the designated dealing capacity via the account type.		

*Please refer to the client specifications, guidelines, technical notes and conformance scripts and guidelines for a complete overview of the MiFID II changes on Euronext Markets

IDENTIFYING RELEVANT PARTIES TO AN ORDER

Frequently asked questions – short codes

- **When will the MiFID II fields and short codes become mandatory?**
Short codes will become as of 3 January 2018.

- **What happens if I do not supply a short code on order entry?**
Euronext will apply technical controls on all MiFID II fields and will reject an order with an error message if mandatory and conditional fields have not been filled as required.

- **What if I submit an incorrect short code on order entry?**
Short codes on orders not yet executed can be corrected via a cancel/replace or modification feature. Short codes on executed orders cannot be corrected.

- **Is *ExecutionDecisionWithinFirm* mandatory? Which value do I use?**
Mandatory field that needs to be populated with the short code corresponding to the National ID, Algorithm ID, or NORE ('3' = client execution decision maker).

- **Is *ClientIdenfitificationShortCode* mandatory? Which value do I use?**
Mandatory field when Account Code is 'Client' or when DEA is flagged. The field needs to be populated with a short code corresponding to LEI, National ID, 'AGGR' ('1' = aggregated orders) or 'PNAL' ('2' = pending allocations).

- **Is *InvestmentDecisionWFirmShortCode* mandatory? Which value do I use?**
Mandatory field when Account Code is 'House', 'Market Maker' or 'Related Party' but becomes optional if DEA is flagged. The field needs to be populated with a short code corresponding to the National ID or Algorithm ID.

- **How will Euronext distinguish between the short codes in UTP-C?**
Members will be required to indicated the CodeType in the short long code mapping file via SLC Manager.

ORDER TO TRADE RATIO

Euronext will calculate the ratio of unexecuted orders to transactions per member and per financial instrument. In the case of no trades, the ratio will be considered equal to the numerator. OTR monitoring will start as of **3 January 2018**.

Cash

- For Equities, ETFs, Bonds and Securitised Derivatives, Euronext will apply an unexecuted order-to-trade ratio of 100:1 per second and a volume ratio of 10,000,000:1 per second.
- For Market Makers and Liquidity Providers, Euronext will double this ratio to 200:1 per second, with a volume ratio of 20,000,000:1 per second.

Derivatives

- For Derivatives, Euronext will apply an unexecuted order-to-trade ratio of 100:1 per second and 10,000:1 contracts per second.
- For Market Makers, Euronext will double this ratio to 200:1 per second and 20,000:1 contracts per second.

Monitoring

- Euronext will monitor participants in order to detect when ratios are breached:
  - The current procedure will be maintained with alerts by Client Coverage Centre on the day after the breach;
  - Euronext will continuously monitor market conditions and may adjust the ratios if necessary;
  - Euronext will not block access to market if ratios are breached.
- No charges will be applied to the ratio. However, for Cash products, different order-to-trade ratios may continue to be used for fee purposes. Please refer to the relevant Euronext fee guides for more information.

TICK SIZES

Equities

- Euronext will determine the tick size as a function of price and liquidity.
- An 'Increase in tick size' means that instruments will move to a less granular tick size.

	Number of stocks	Increase in tick size		Decrease in tick size		No impact	
		Number of stocks	% of stocks	Number of stocks	% of stocks	Number of stocks	% of stocks
Total	1260	880	70%	211	17%	169	13%
Compartment A	288	221	77%	14	5%	53	18%
Compartment B	234	209	89%	11	5%	14	6%
Compartment C	310	195	63%	71	23%	44	14%
Alternext	198	122	62%	53	27%	23	12%
Free market	230	133	58%	62	27%	35	15%

ETFs

- Euronext will determine the tick size for ETFs only as a function of price, as all impacted ETFs have been included in the most liquid category.
- The new tick size policy will only apply to exchange-traded funds listed on Euronext with an equity underlying that is also subject to the new tick size regime.

	Number of ETFs	Increase in tick size		Decrease in tick size		No impact	
		Number of ETFS	% of ETFs	Number of ETFS	% of ETFs	Number of ETFS	% of ETFs
Total	133	69	67%	35	34%	29	28%
Paris	88	52	78%	17	25%	19	28%
Amsterdam	38	15	52%	16	55%	7	24%
Brussels	1	1	100%	0	0%	0	0%
Lisbon	5	1	20%	1	20%	3	60%
London	1	0	0%	1	100%	0	0%

New tick sizes will be enforced on **Tuesday 2 January 2018**

CONFORMANCE

Conformance policy

- **Clients shall be required to have taken and validated conformance testing prior to the deployment** of:
    - a new Euronext trading application,
    - a substantial update of an existing Euronext trading system requiring Client development and testing,
    - a new Client trading application, algorithm or trading strategy, or
    - a substantial update to a Client's trading application, algorithm or trading strategy

- Depending on the scope of changes made to the trading applications as listed above, Clients will be asked to either pass a mandatory or optional conformance test. In addition, a selection of functions or supported types of orders may be excluded if not used by the Client.

- Before taking their conformance tests, Clients are required to thoroughly test the new or upgraded trading application's interaction, basic functionalities and connectivity on the Euronext External User Acceptance (EUA) platform by themselves.

- Conformance testing is not required for the following algorithm components:
    - order initiation,
    - order amendments, or any kind of software which is not generating messages to Euronext applications.

- In case the launch of the trading application in production requires a new order entry session, Clients are required to perform a **Technical Activation Session** ("TAS") after the close of the market on the day prior to the expected first day in production.

ALGO DECLARATION

Algo testing

- To avoid disorderly trading conditions, Euronext requires Members to have undertaken algorithm ("algo") testing for each of their trading algorithms prior to the deployment of:
  - o a **new trading algorithm**; or
  - o a **material change** made to an existing trading algorithm.
- **Euronext members are expected to perform their own algo testing and are required to do so in a 'suitable' test environment**
  - o Conditions to test algos must be equivalent to the production platform in terms of number and nature of Exchanges / platforms, instruments covered, volumes and types of orders received and injected, replay of exceptional events etc
  - o Members may leverage the Euronext EUA platform for such purposes
  - o Members may rely on a vendor to perform algo testing on their behalf
- **Members are required to clearly and thoroughly document their algo testing methodology** by describing:
  - o the test;
  - o the scope;
  - o the occurrences;
  - o and the tools utilised to conduct the tests.
- **Members are required to document their change management policy**. This should include details of:
  - o how a software upgrade is performed in the production environment;
  - o what type of checks are made, by whom and when;
  - o what the mitigation plan is in case of failure; and
  - o how a rollback of the application can be executed.

ALGO DECLARATION

Algo certification and declaration

- Once the Member has fully tested the algo, and documented the testing methodology and change management procedures, the algo is eligible to be deployed and used in the Euronext production environment.

- Upon using the algo in the Euronext production environment, **the Member self-certifies that the algo has been properly tested**.

- Any algorithm interacting with a Euronext platform must be uniquely identified with an Algo ID.

- **Members are required to generate their own short codes**. However, Members deploying an ISV algo may rely on the ISV to generate a short code, using negative integers appointed to the ISV by Euronext CTSG.

- **Members are responsible for the algo declaration** through the submission of a short and long code mapping via SLC Manager.

CONFORMANCE TESTING MIFID II REQUIREMENTS

	CONFORMANCE PERIOD	CONFORMANCE REQUIREMENT
UTP CASH	27 Sep 2017 - 27 Oct 2017	Conformance testing will be **mandatory** for the following: o Members who have migrated to Binary V6 version for Time seconds Granularity. o Members who are using Algorithm for Trading o Members who would like to Input Shortcodes at order entry o Members who support Iceberg orders.
UTP DERIVATIVES	14 Sep 2017 - 27 Oct 2017	All of the MiFID II changes that will be implemented on UTP Derivatives have been made fully available in the Euronext Test Environment and are subject to **mandatory** conformance testing

- Conformance tests for MiFID II requirements on UTP Cash and UTP Derivatives will conclude **27 October**. Clients are expected to have completed and tested the necessary changes by then.

- Testing can be performed **independently** from 09:00 till 17:00 CET. There is no need to book a conformance testing slot with a Euronext CTSG.

- Customers are expected to provide their test results using a **dedicated web form** upon completion, at which point the results will be validated by Euronext and if successful, a **conformance certificate** will be provided via e-mail.

MIGRATION STRATEGY

Cash markets

- The changes impacting **Timestamp Granularity** an **Algo Flagging** will be implemented in production as of **13 November 2017.**

- The Central Order Book (COB) for Euronext Cash Markets will be purged after market close on **Friday 29 December 2017** for all order types and validities.

- New thresholds for Iceberg orders, as well as the new Tick Sizes will be effective as of **Tuesday 2 January 2018**.

- MiFID II short codes will be required as of **Wednesday 3 January 2018**. Euronext will not validate short codes upon order entry or reject orders if short codes have not been declared ahead of trading.

- Members are required to notify Euronext about the preferred method of short code and DEA Indicator submission for the legacy cash environment by **27 October 2017**.

Derivative markets

- The implementation of the MiFID II changes on UTP Derivatives will be available in Production as of **Monday 27 November 2017**

- The Central Order Book (COB) for Euronext Derivative Markets will be purged after market close on **Tuesday 2 January 2018**, for GTC and GTD orders.

- As of **3 January 2018**, Euronext will apply technical controls on all MiFID II fields and will reject an order with an error message if mandatory and conditional fields have not been filled as required. However, Euronext will allow the use of synthetic generic data for clients who are not ready to provide their short codes by this time.

- Euronext will not validate short codes upon order entry or reject orders if short codes have not been declared ahead of trading.

Short and long code mapping, Commodity Position Reporting and non-MiFID Member Reporting are required as of **3 January 2018**

IMPLEMENTATION TIMELINE

	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18
UTP CASH Timestamps and algo flag in Binary & FIX private messages				**EUA** ▼ 13 Nov 17 20 Sep 17 ┃ 27 Oct 17		
EOD TRADE FILE Timestamps and TCS Waiver Indicator				**EUA** ▼ 3 Jan 18 27 Sep 17 ┃ n/a		
SLC Manager flat file Short codes and DEA indicator				**EUA** ▼ 3 Jan 18 15 Nov 17 ┃ 15 Dec 17		
UTP DERIVATIVES Binary & FIX private messages				**EUA** ▼ 27 Nov 17 13 Sep 17 ┃ 27 Oct 17		
ATOM-X				**EUA** ▼ 27 Nov 17 18 Oct 17 ┃ 17 Nov 17		
REPORTING SLC Manager, Commodity Postion Reporting, Non-MiFID Member Reporting				**EUA** ▼ 3 Jan 18 27 Sep 17 ┃ 15 Dec 17		

Core markets (rows: UTP CASH, EOD TRADE FILE, SLC Manager flat file, UTP DERIVATIVES, ATOM-X)

Saturn (row: REPORTING)

EUA ▼ Go Live date
 Date in EUA ┃ Conformance deadline

KEY PUBLICATIONS

Recent publications

✅ Final specifications, guidelines and implementation schedule UTP Cash and UTP Derivatives, LINK

✅ Final specifications, guidelines and implementation schedule Saturn reporting, LINK

✅ Conformance and algo declaration policy, LINK

✅ Tick sizes, LINK

✅ Order to Trade Ratio, LINK

Upcoming publications

○ Migration Guidelines

○ Market Making Agreements, General T&C, Operating Forms

○ Regulatory reporting T&C

○ Final Rulebook, Trading Manual and Trading Procedures

○ Web enhancements: MiFID II checklist, Updated FAQ, RTS22/RTS6 mapping

EURONEXT REPORTING

Saturn

- Used for both mandatory and commercial MiFID II reporting services, including:
  - **Short Long Code (SLC) Manager,** mandatory for all members
  - **Transaction Reporting for Euronext markets,** mandatory for all non-MiFID members, commercial service open to other members
  - **Commodity Position Reporting,** as applicable
  - APA Trade Publication Service, commercial service open to members and non-members
  - ARM Transaction Reporting Service, commercial service open to members and non-members

In this presentation we focus on the mandatory reporting services:

SLC Manager	Non-MiFID Transaction Reporting	Commodity Position Reporting

Saturn
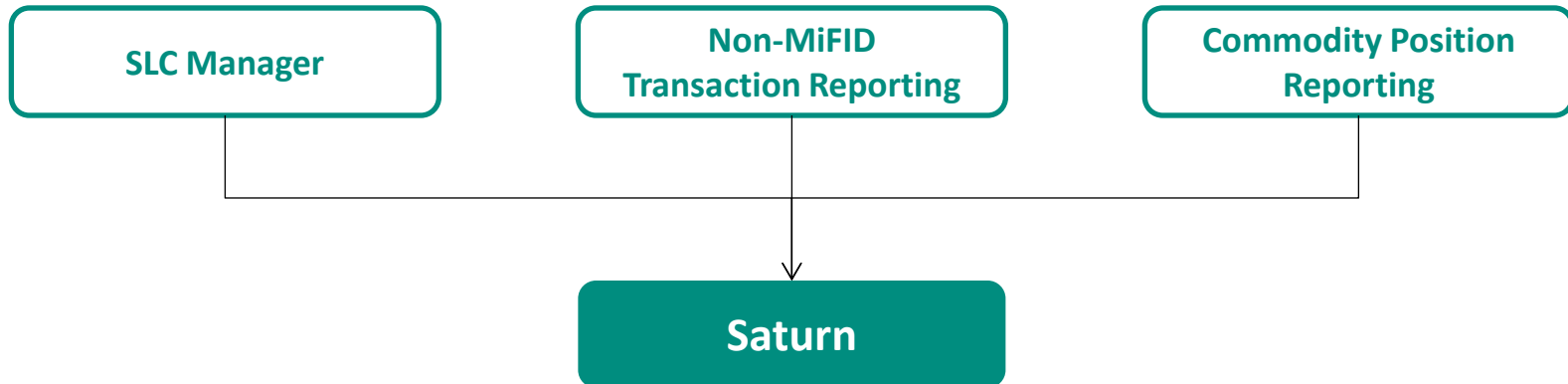
IDENTIFYING RELEVANT PARTIES TO AN ORDER

Frequently asked questions – SLC Manager

- **Why does Euronext require short and long code mapping before 22:30 CET?**

Euronext initiates the internal reconciliation process between order entry data and the short long code combinations provided.

- **What happens if I do not supply a short and long code mapping before the 22:30 CET cut-off on the day of trading?**

You will receive a reminder to provide missing information – process still being defined.

- **What do I submit as long code if the client account has multiple account holders?**

Short codes can be mapped to only one long code. In case of multiple account holders, we request you to submit only one long code per short code.

- **Do I have to submit a mapping file every day?**

Mapping files only need to be provided in case there are new short codes to be declared or if there are modifications in the previously provided short and long code combinations. Members can choose to provide either a 'Cancel and Replace' file or only supply the delta.

- **Are the short and long code combinations required to be unique?**

Short codes are not required to be unique across code types. SLC Manager EUA will be updated for these purposes mid-November.

- **Can one short code be mapped to different long codes? Can one long code be mapped to different short codes?**

One short code can be mapped to only one long code, but one long code can be mapped to more than one short code.

- **How do I get access to SLC Manager?**

Members will be provided log-in credentials to EUA by CAS following a service access request by the MCA using the Saturn Access web form(s) available on the Euronext Connect portal.
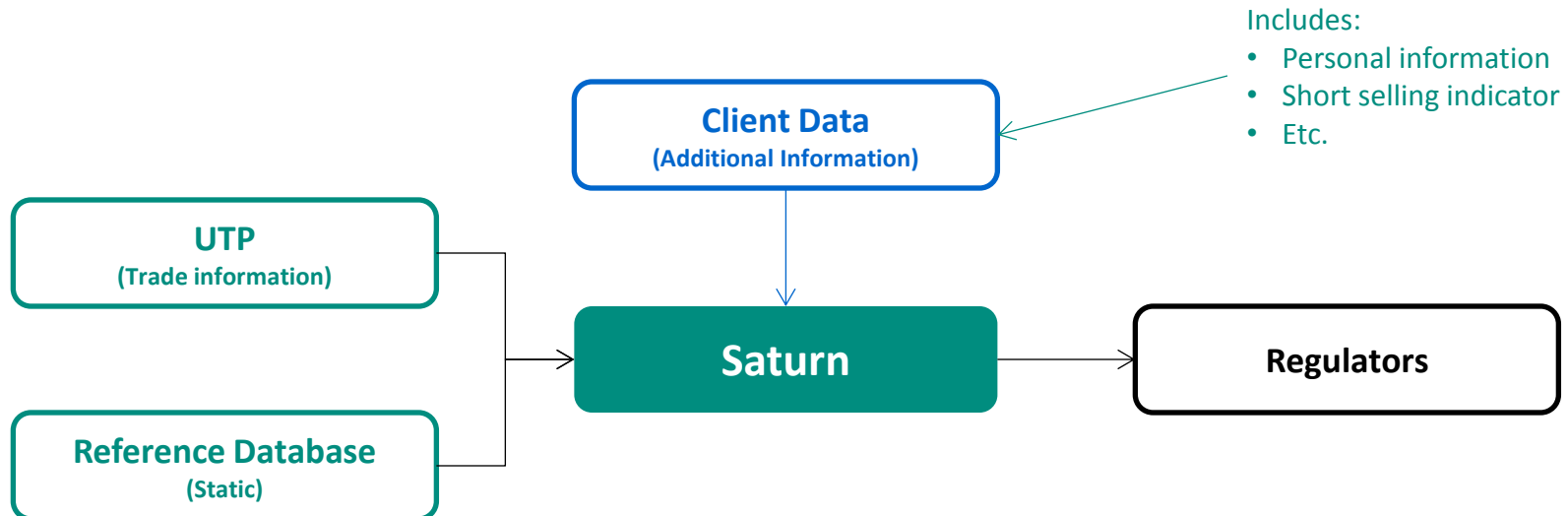
TRANSACTION REPORTING

Requirements

- For non-MiFID firms the obligation to transaction report falls on the Trading Venue
- To enable Euronext to complete this task it is **required for all non-MiFID members to submit details not available on Order Entry**
- This must be to enable Euronext to meet regulator deadlines
- Members must use Saturn for this by using amend function for upload of additional information, using TradeID as the reference to match information from the trading platform to that being entered by the member

Data transmission:

- Web-based REST API: XML, FIX, JSON, CSV
- Web-based GUI: CSV

Includes:
- Personal information
- Short selling indicator
- Etc.

Client Data
(Additional Information)

UTP
(Trade information)

Saturn

Regulators

Reference Database
(Static)

COMMODITY POSITION REPORTING

Position Limits

- AMF has applied for its position limits for agricultural derivatives to ESMA since mid April
- The limits have been officially approved by ESMA on 10 August 2017

	Spot month limits		All other months limits	
	Step 1 *Spot Month until the last 12 trading days*	**Step 2** *During the last 12 trading days*	**Step 1** *From furthest maturities except during the 21 trading days prior to the expiry of the Spot Month*	**Step 2** *During the 21 trading days before the expiry of the Spot Month*
MIling Wheat	60 000	20 000	60 000	100 000
Rapeseed	30 000	7 000	20 000	25 000
Corn	13 000		6 500	9 000
Other Contracts	2 500 lots		2 500 lots	

COMMODITY POSITION REPORTING

Requirements

- **For options:**

Positions on options should be converted into delta equivalent positions on futures and added to actual positions on futures, resulting in a **single combined position.**
- Long calls and short puts should be added to long positions on futures
- Short calls and long puts should be added to short positions on futures

The limit for all other months applicable to the combined positions on futures and options shall be based on the open interest of futures only (i.e. excluding option).

- **AMF's determination of the deliverable supply:**

The methodology proposed by the AMF for the determination of the deliverable supply for the Milling Wheat, Rapeseed and Corn contracts is available on the ESMA website:

- Milling Wheat: https://www.esma.europa.eu/sites/default/files/library/amf_milling_wheat_ebmobm.pdf

- Rapeseed: https://www.esma.europa.eu/sites/default/files/library/amf_rapeseed_eco_oco.pdf

- Corn: https://www.esma.europa.eu/sites/default/files/library/amf_corn_ema_oma.pdf

# COMMODITY POSITION REPORTING

Position Limits

- Trading venues are required to provide competent authorities with a breakdown of the positions held by all persons on the venue on a **daily basis**

- Trading venues are required to make public a weekly report **-** the **Commitments of Trades (CoT) reports -** with the aggregate positions held by the different categories of market participants for the different Commodity Derivatives

- Trading participants will be provided with an **interface which will generate daily reports to Euronext**

- Information contained in the daily reports will be stored for the generation of the **weekly Commitments of Trades reports.**

Products out of scope: ESMA confirmed on 7 July through the publication of a Q&A that Exchange-Traded Commodities (ETCs) and Securitised Derivatives with a commodity underlying (including Warrants, Certificates & Structured Notes) are exempt from weekly position reporting. Securitised Derivatives (including Warrants, Certificates & Structured Notes) with a commodity underlying with less than 2.5 million units issued will also be exempt from daily position reporting, provided that Regulators have satisfactory evidence the issue is under 2.5 million units.

# COMMODITY POSITION REPORTING

Who reports?

- MiFID II requires members to report to the trading venue the details of **their own positions as well as those of their clients** and the clients of those clients until the end client is reached. MiFID II defines **clients** as any natural or legal person to whom a **MiFID-regulated investment firm** provides investment or ancillary services.

- There have been some clarifications on reporting obligations through ESMA Q&A limiting the reporting obligation down the chain of intermediaries.

- Where General Clearing Members of the CCP (GCMs) are also trading members of Euronext, they report the positions they hold for their own account and for that of their clients i.e. the Non Clearing Members.
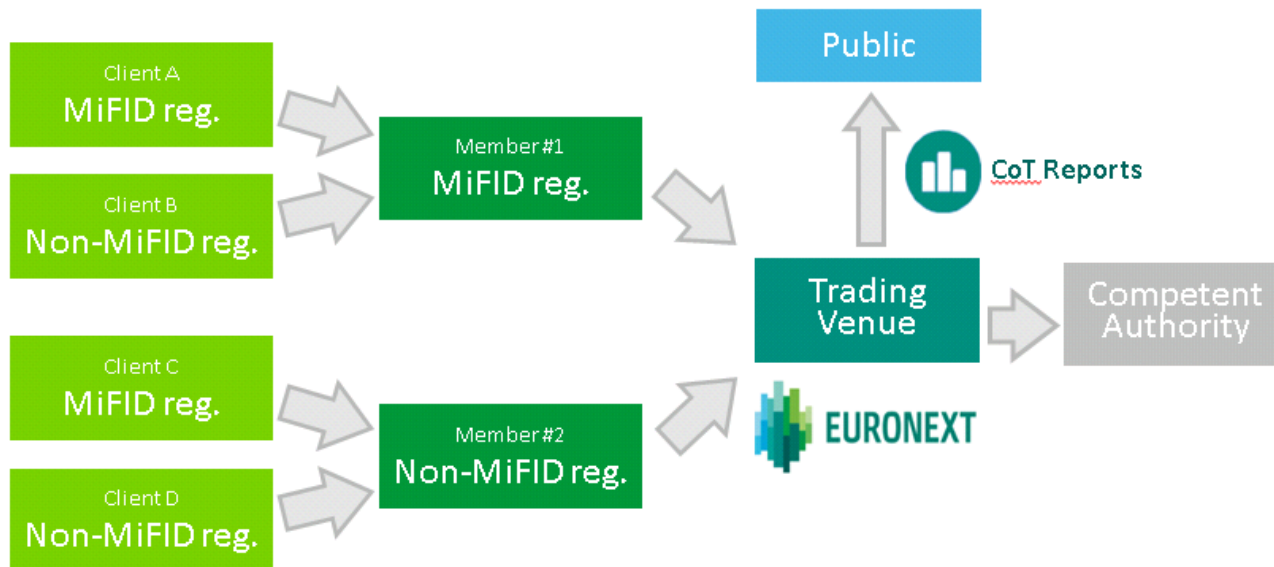
- **Reporting obligations apply only to members and MiFID-regulated investment firms (art. 58.3).**

- By reporting its own positions and those of its clients, a participant – even not MiFID-regulated – is able to demonstrate that no single position holder is actually in breach while the cumulated positions may exceed the limit.

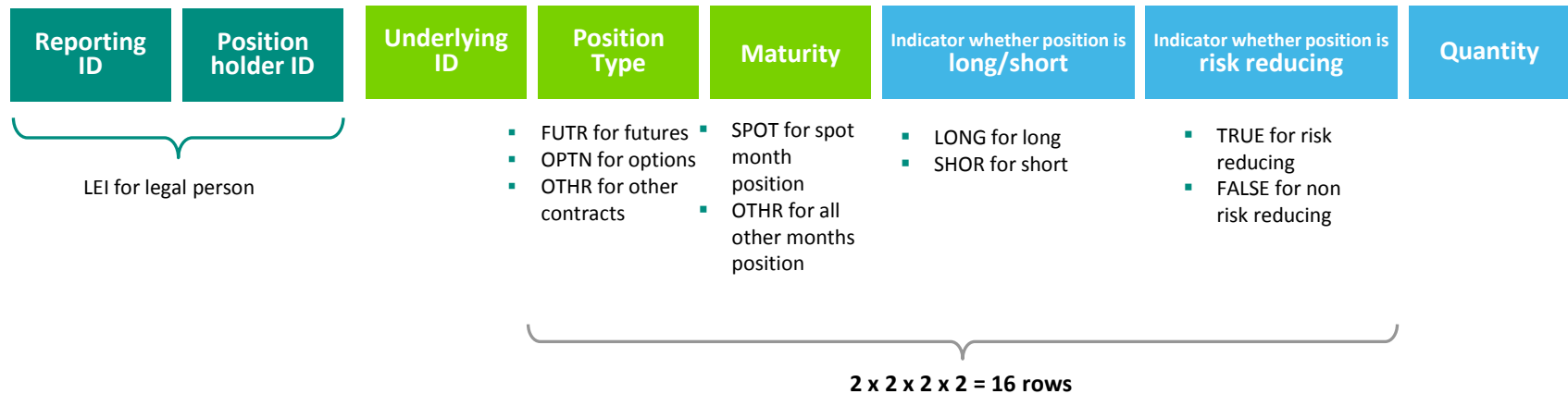# COMMODITY POSITION REPORTING

Reporting of nested positions
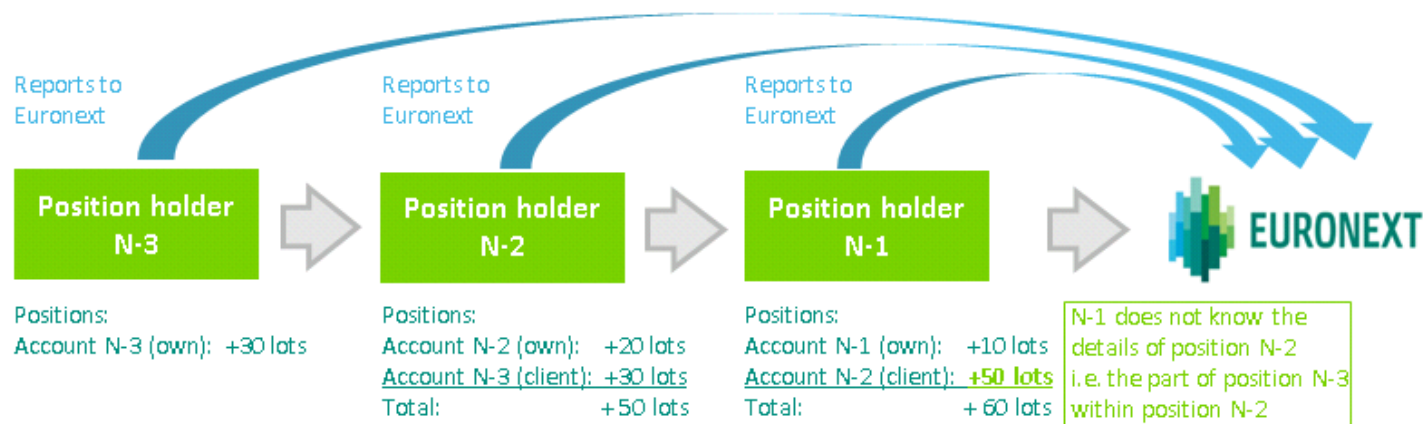
- Regardless the level in the chain until which reporting is required, Euronext solution has been designed to allow any position holders – not only members – **to report directly** the details of their positions **to Euronext** instead of reporting to their intermediary up to Euronext.

- Reporting directly to the trading venue avoids participants subject to reporting obligations from passing potentially sensitive information through intermediaries.

COMMODITY POSITION REPORTING

Content of the Position Reports

- There is no specification on the template of position reports to the trading venue (pursuant to art. 58.3) in the texts. In particular ITS4 is required only for position reporting of EEOTC and listed instruments by investment firms to the competent authorities (art.58.2).

- In order to reduce implementation costs for participants, Euronext considers using the same specifications as prescribed in ITS4 for its reporting **as a general approach**.

- Positions are reported gross, although the limits apply to the net position (net will be computed by AMF).

- **Granularity of the reports :** the daily position report of each participant for the milling wheat may be made up of :

Reporting ID	Position holder ID		Underlying ID	Position Type	Maturity	Indicator whether position is long/short	Indicator whether position is risk reducing	Quantity

LEI for legal person

- FUTR for futures
- OPTN for options
- OTHR for other contracts

- SPOT for spot month position
- OTHR for all other months position

- LONG for long
- SHOR for short

- TRUE for risk reducing
- FALSE for non risk reducing

2 x 2 x 2 x 2 = 16 rows

COMMODITY POSITION REPORTING

The Weekly Commitment of Trader (COT) Report

- Euronext will issue **weekly Commitments of Trades reports** reflecting positions held on Friday at close of the trading session.
- The weekly CoT reports will be submitted to the competent authorities (AMF, AFM) and to ESMA by 17:30 CET Wednesday of each week, reporting positions held by close of trading Friday of the previous week.
- There will be one report per Commodity contract
- Reports will be published on ESMA website as well as on the Euronext website
- The CoT report will contain aggregate positions by the five different categories of persons as defined under Article 58 (4) and include per category:
  - Number of persons
  - The long and short positions
  - Changes since the last report
  - Percentage of open interest

COMMODITY POSITION REPORTING

Testing, onboarding and timeline

- The Euronext Commodity Position Reporting is available to clients through Saturn.
- Client specifications of the Web Service and the CSV file are available on the Euronext website
- Reporting entities should contact as quickly as possible their Relationship Manager at ccc@euronext.com to get the legal and onboarding document and be provided access to the test platform
- GCMs should declare the position holders for which they will submit the reports before submitting any report.

Non Financial entities in a nutshell

| Position Reporting | ■ **NO, except if the entity is a member.** Voluntary reporting is however encouraged especially if positions are significant. A breach of position limit may be erroneously suspected if a non MIFID entity do not report its positions. |
| Position Limits | ■ **YES**, anytime. The entity may apply for an exemption for its risk reducing positions. |

CONTACT DETAILS

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