

## MiFID: Anniversary

Alex Walker, global head of GL TRADE's post-trade for securities business line, looks at challenges and rewards that MiFID - now a year old - can bring to the back office.



**Given the generation** of revenue in the front end it is not surprising that most of the attention of the impact of the Markets in Financial Instruments Directive (MiFID) has focused there. However, as the effects of the directive start to be felt, post trade processes are starting to be regarded as equally important.

The efficiency of back office operations post-MiFID is important because the fragmentation of markets, particularly in equities, means that clearing and settlement functions are inevitably due to become more complex.

As well as all the regulatory requirements around client classification, best execution and transaction reporting, market participants also have to cope with the technological complexities of connecting: not only to a greater range of trading venues, but also to multiple central counterparties (CCPs), which act as intermediary between security market participants.

In addition, we see today the emergence of the new multilateral trading facilities (MTFs), such as Chi-X, Equiduct and Project Turquoise, as well as numerous dark pools, creates competition right through the deal chain.

For years, a debate has raged about the merits of vertical and horizontal exchange clearing models. Until the introduction of MiFID, these were mainly academic. However, horizontal and vertical models have at times allowed the incumbent exchanges to display a degree of monopolistic behaviour. The control of clearing has allowed them, to a large extent, to dictate where trading takes place.

Now MiFID is changing this and the concept of 'inter-operability' between various CCPs is starting to become a reality. Industry watchers will have seen

the success Chi-X is having with its pan-European clearing solution. Ironically though, sources say Chi-X approached some of the existing established CCPs for clearing purposes, but none of them was able or willing to deliver what the MTF needed. Chi-X eventually implemented a novel solution using Fortis' European Multilateral Clearing Facility (EMCF).

This pan-European CCP is providing competition at the clearing level, which most institutions will embrace; however, this implementation has introduced more complexity in the post-trade arena. The purpose of new trading venues is to provide access to better pricing and a wide range of markets. It is very possible that Europe will eventually follow the American model with a pan-European clearer. Certainly Euroclear Single Settlement Engine is taking us in the right direction. Until we get there though, without appropriate back office systems, any gains achieved in the front office could be soaked up in increased clearing and settlement costs, with the risk of becoming uncompetitive.

Settlement instructions and their routing remain the 'crown jewels' of the back office world. Middle and back office systems need to be able to handle complexity in this area catering for custodians and clearers preferences, and perform netting. Users must have a flexible interface allowing them in real time to see the status of their trades, counterparty exposures, stock and cash positions all at their fingertips. After all, why stay with a system that will stop your front office from taking advantage of the new business opportunities now available? ■