



MIFID II FROM A BUY SIDE PERSPECTIVE

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Impact of MiFid II framework for pre-trade and post-trade transparency, seen from the buy side

- Pre-trade transparency

- Pros

- Reduce time used on price discovery
- Minimize market impact
- Ease discovery of RV opportunities
- Move trading from OTC to venues

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- Cons

- Risk of wider bid/offers
- Reduced number of counterparties/brokers

- Post-trade transparency

- Pros

- Improve information about «real» liquidity
- Enable better performance measure (VWAP)

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- Cons

- Risk of high market impact («false positives»)

Two aspects from buy side

■ Systematic internalisers (SIs)

- Significant change in BS «DNA» !
- Market maker or price maker ?
- Assumed very few will go this way ?
- Expand trading desks organically
- Assumption: All to All trading works
- Although business case is obvious it will take time to convince risk-averse buy-side institutions for this model.
- Will probably focus on MTF and OTF to avoid firm quote and trading obligation.

■ Non-SIs

- How will investors be affected?
 1. Decreased market liquidity
 2. Reduction in brokers/market makers
 3. Wider bid/ask spreads (false positives)
 4. Increased cost of trading
 5. Higher risk of market impact
 6. Reporting obligation

Potential to lead to a behavioral change from buy side into more OTC trading with non-SI's and more trading in dark pools for large size (LIS & SSTI).

Discussion points – dealer & investor combined

1. Do members agree with the identified threats for European fixed income markets, particularly given the lack of pre-trade transparency requirements internationally & NCA discretion? Would a possible suspension of transparency obligations in some jurisdictions (NCA discretion) result in un-level playing field?
2. Is there a risk that pre-trade transparency will only work for very liquid instruments; and what would be the consequences for the less liquid instruments incorrectly classified as liquid?
3. What are the main implications of MiFID II for market liquidity and market functioning?
4. How realistic is it that Buy side will choose the «SI path» and what is the potential timeline for this?
5. Will large trades (>LIS) move to dark pools or OTC trading with non-SIs?

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