

# MiFID II/R

## Fixed Income Best Execution Requirements

RTS 27 & 28

September 2016



## Key objectives of MiFID II/R

The legislation has several core objectives, including:

- **Increased investor protection**
- Alignment of regulation across the EU in certain areas
- Increased competition across the financial markets
- Introduction of reinforced supervisory powers

MiFID II places particular emphasis on investor protection, including:

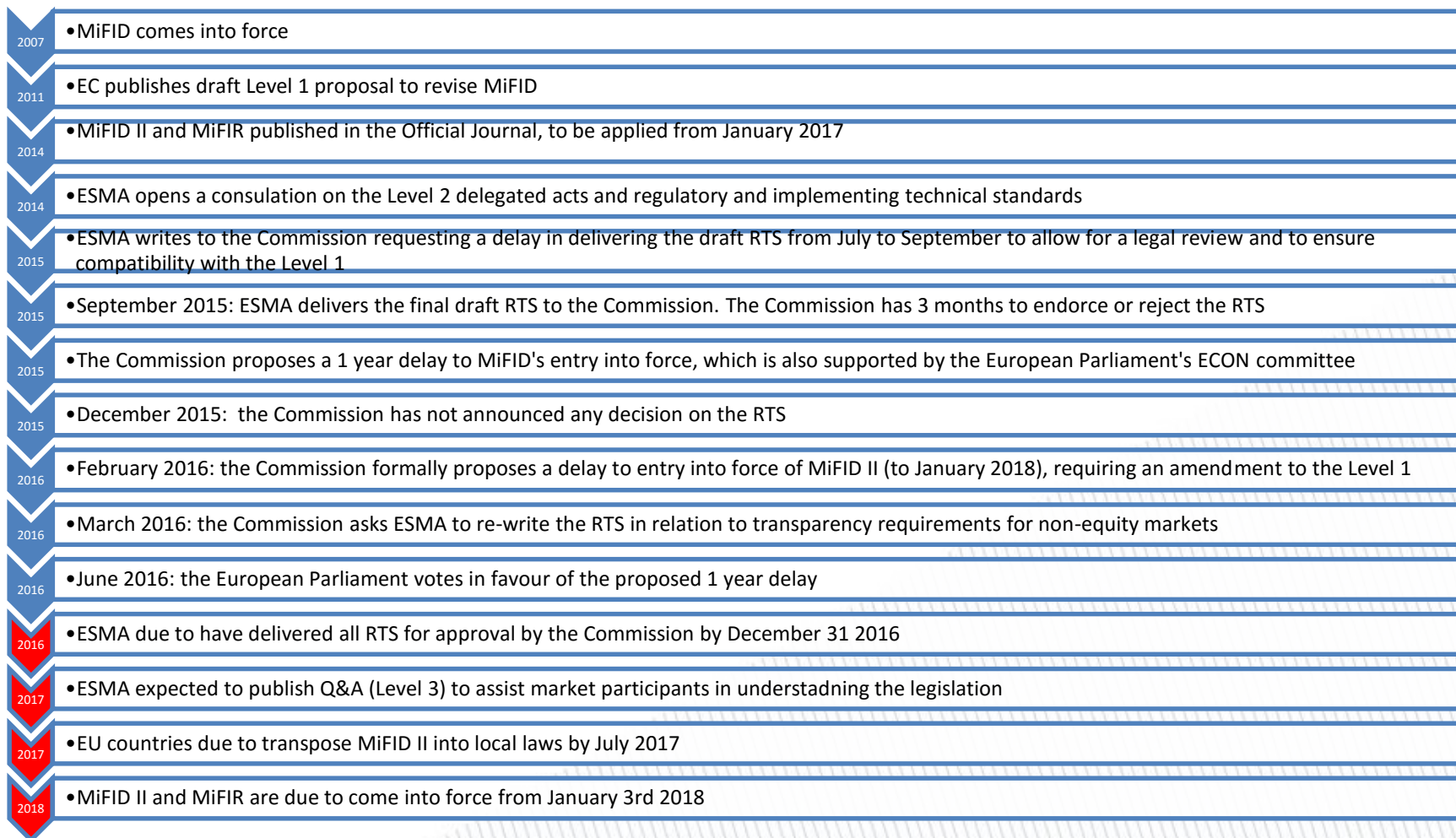
- Introducing robust controls to avoid conflicts of interest
- Encouraging greater transparency for both pre- and post-execution
- Banning commissions payable in respect of investment advice and portfolio management
- **Strengthening the obligation for financial firms to ensure the best possible execution for their clients**



## MiFID II/R Best Execution

- Under MiFID I, firms were obliged to take “all reasonable steps” to achieve the best possible results for their clients; under MiFID II, firms are required to take “**all sufficient steps**”.
- Cost will remain one of the key factors when assessing execution quality for both retail and professional clients.
- Firms are also expected to take into account and disclose commissions and costs related to executing an order on eligible venues.
- The regulation requires investment firms to establish and implement an order execution policy, which must be disclosed to, and consented on by, the firm’s clients.
- Trading venues, systematic internalisers, market makers, and other liquidity providers, are required to make data available to the public, on a regular basis, at no cost, on the quality of transaction execution.
- Investment firms are required to publish annually information on the quality of execution obtained on their top five trading venues, based on volumes (by class of instrument).

## MiFID II/R time line



## RTS 27

# Data to be published by execution venues on the quality of execution of transactions

RTS 27 outlines the reporting requirements for trading venues, including systematic internalisers, market makers, and other liquidity providers, to evidence that they have taken “all sufficient steps” to obtain the best possible result for the client when executing orders.

RTS 27 deals with the content, format, and periodicity of data on execution quality to be published by trading venues.

## What does the regulation require?

- Trading venues, systematic internalisers (SIs), and execution venues (including market makers and other liquidity providers) shall make available to the public, at no charge, **data** relating to the **quality of execution** of transactions on that venue on at least an annual basis (quarterly for execution venues).
- Reports shall include details about price, costs, speed, and likelihood of execution for individual financial instruments.
- The information should be made available in a machine-readable electronic format available for downloading by the public.
- Due to be implemented from January 2018

## Who is in scope?

- Trading venues (regulated markets, multilateral trading facilities, organised trading facilities), systematic internalisers, market makers, and other liquidity providers

## Publication of information on execution venue and financial instrument

- Trading venues, SIs, and execution venues shall publish for each market segment they operate, and for each financial instrument, information on the type of execution venue, including:
  - Name and venue identifier of the execution venue
  - Country and location of the NCA
  - Name and market segment and market segment identifier
  - Date of the trading day
  - Nature, number, and average duration of any outage (per trading day)
  - Nature, number, and average duration of any scheduled auctions (per trading day)
  - Number of failed transactions (per trading day)
  - Value of failed transactions as a % of value of total executed transactions (per trading day)
- Trading venues and SIs shall publish for each market segment they operate, and for each financial instrument, information on financial instruments, including:
  - Name and financial instrument identifier (or written description)
  - Instrument classification
  - Currency

## Price

- Trading venues, SIs, and execution venues shall publish for each market segment they operate, and for each financial instrument, information as regards price for each day orders were executed for each financial instrument, including:

### *Intra-day information*

- Simple average price of all transactions executed in the two minutes starting at the following times: 9.30, 11.30, 13.30, and 15.30 (UTC), per day
- For trading venues this will be for a range of (specified) trade sizes. For SIs, market makers, and other liquidity providers, this will be for trades  $\leq$  SSTI (bonds) or  $\leq$  €10M (money market).
- If no transactions take place in the two minutes, then the price of the first transaction after the size (subject to same size ranges)
- Execution times for each transaction
- Size (value) of each transaction
- Trading system/mode for each transaction
- Trading platform for each transaction
- Best bid and offer, or suitable reference price, at the time of execution for each transaction



## Price

- Trading venues, SIs, and execution venues shall publish for each market segment they operate, and for each financial instrument, information as regards price for each day orders were executed for each financial instrument, including:

### *Daily information*

- Simple average and volume-weighted average transaction price (if more than one transaction)
- Highest executed price (if more than two transactions)
- Lowest executed price (if more than two transactions)

## Costs

- Trading venues, SIs, and execution venues shall publish for each market segment they operate, and for each financial instrument, information as regards costs applied by the venue to any members or users of the venue, including:
  - Description of the nature and level of all cost components (before any rebates or discounts), including:
    - Execution fees
    - Fees for submission, modification, or cancelation of orders
    - Fees related to market data access and use of terminals
    - Any clearing and settlement fees
    - Any other fees paid to third parties involved in executing the order
  - Description of the nature and level of any rebates or discounts
  - Description of nature and amount of any non-monetary benefits offered to users
  - Description of nature and level of any taxes or levies incurred on behalf of the member or user
  - Total value of rebates, discounts, non-monetary benefits, or other payments as a % of total traded value during the reporting period
  - Total value of all costs as a % of total traded value during the reporting period

## Likelihood of execution

- Trading venues, SIs, and execution venues shall publish for each market segment they operate, and for each financial instrument, information as regards the likelihood of execution for each trading day, including:
  - Number of orders or request for quotes (RFQs) received
  - Number and value of transactions executed (if more than one)
  - Number of orders or RFQs cancelled or withdrawn (excluding passive orders with instructions to expire)
  - Number of orders or RFQs that were modified
  - Median transaction size on the date (if more than one)
  - Median size of all orders or RFQs on the date (if more than one)
  - Number of designated market makers

## Additional information for continuous auction order book and continuous quote driven execution venues

- Trading venues, SIs, and execution venues operating under a continuous order book, continuous quote driven trading system, or other type of trading system for which the information is available, shall also publish for each market segment they operate and each financial instrument the following **Price** data:

### *Intra-day information*

- Best bid and offer price and corresponding volumes
- Book depth for three price increments

### *Daily information*

- Average effective spread
- Average volume at best bid and offer
- Average spread at best bid and offer
- Number of cancellations at best bid and offer
- Number of modifications at best bid and offer
- Average book depth for 3 price increments

## Additional information for continuous auction order book and continuous quote driven execution venues cont....

### *Daily information*

- Mean and median time elapsed between an aggressive order or quote being received and subsequent execution (total or partial)
- Average speed of execution for unmodified passive orders at best bid or offer
- Number of 'Fill-or-Kill' orders that failed
- Number of unexecuted 'Immediate-or-Cancel orders'
- Number and value of executed transactions that are Large in Scale (LIS)
- Number of LIS transactions , but excluding orders held in an order management facility
- Number and average duration of trading interruptions as a result of any volatility auction or circuit breaker
- Nature, number, and average duration of any trading suspension that occurred as a result of a decision by the venue

### *Also*

- Number and average duration of periods lasting more than 15 minutes during which no bids or offers were provided
- Average quote presence expressed as % of venue's normal trading period

## Additional information for Request For Quote execution venues

- Trading venues, SIs, and execution venues operating under a continuous order book, continuous quote driven trading system, or other type of trading system for which the information is available, shall also publish for each market segment they operate and each financial instrument the following information for each trading day:
  - Mean and median amount of time elapsed between the acceptance of a quote and execution for all transactions
  - Mean and median amount of time elapsed between an RFQ and provision of any corresponding quotes, for all quotes

## Determination of reporting ranges

- Execution venues shall report intraday price information on executed transactions subject to the following size ranges:

### *Bonds*

- **Range 1:**  $>€0$  and  $\leq$  Standard Market Size or the Size Specific To the financial Instrument (SSTI)
- **Range 2:**  $>$  Standard market Size or SSTI, and  $\leq$  Large in Scale (LIS)
- **Range 3:**  $>$  LIS

### *Money market instruments*

- **Range 1:**  $>€0$  and  $\leq€10M$
- **Range 2:**  $>€10M$  and  $\leq€50M$
- **Range 3:**  $>€50M$

## Periodicity of the information to be published

- Execution venues shall publish the information quarterly and no later than three months after the end of each quarter, as follows:
  - 1 Jan to 31 Mar: by 30 Jun
  - 1 Apr to 30 Jun: by 30 Sep
  - 1 Jul to 30 Sep: by 31 Dec
  - 1 Oct to 31 Dec: by 31 Mar



## Annex to RTS 27: reporting templates

**Table 1 - identification information to be published as referred to in Article 3(1) – type of execution venue**

Venue	Name	Identifier (ISO 10383 Market Identifier Code (MIC) or the Legal Entity Identifier (LEI))	
Country of Competent Authority	Name		
Market Segment	Name	Identifier (ISO 10383 market segment MIC)	
Date of the trading day	ISO 8601		
Outages	Nature	Number	Average duration
Scheduled Auction	Nature	Number	Average duration
Failed Transactions		Number	Value (as % of total value of transactions executed on that day)

## Annex to RTS 27: reporting templates

**Table 2 - identification information to be published as referred to in Article 3(2) – type of financial instrument**

Financial Instrument	Name	Identifier(ISO 6166)
Written description of financial instrument, if no identifier available (including the currency of the underlying instrument, price multiplier, price notation, quantity notation and delivery type)		
Instrument classification	(ISO 10962 CFI code)	
Currency	(ISO 4217)	



## Annex to RTS 27: reporting templates

**Table 4 - price information to be published as referred to in Article 4 point (b)**

simple average transaction price	
volume-weighted transaction price	
highest executed price	
lowest executed price	

**Table 5 - costs information to be published as referred to in Article 5**

Information required under Article 5(a) to (d)	(Description)
Link to a website or other source where further information on costs is available	
Total value of all rebates, discounts, or other payments offered (as % of total traded value during the reporting period)	%
Total value of all costs (as a % of total traded value during the reporting period volume)	%

## Annex to RTS 27: reporting templates

**Table 6 – likelihood of execution information to be published as referred to in Article 6**

Number of orders or request for quotes received	
Number of transactions executed	
Total value of transactions executed	
Number of orders or request for quotes received cancelled or withdrawn	
Number of orders or request for quotes received modified	
Median transaction size	
Median size of all orders or requests for quote	
Number of designated market makers	

**Table 7 - likelihood of execution information to be published as referred to in Article 7(1)**

Time	Best Bid Price	Best Offer Price	Bid Size	Offer Size	Book depth within 3 price increments
9.30.00					
11.30.00					
13.30.00					
15.30.00					

## Annex to RTS 27: reporting templates

Table 8 - information required under Article 7(2) and 7(4)

Average effective spread	
Average volume at best bid and offer	
Average spread at best bid and offer	
Number of cancellations at best bid and offer	
Number of modifications at best bid and offer	
Average book depth at 3 price increments	
Mean time elapsed (to the milli-second) between an aggressive order or quote acceptance being received by the execution venue and the subsequent total or partial execution	
Median time elapsed (to the milli-second) between a market order being received by the execution venue and the subsequent total or partial execution	
Average speed of execution for unmodified passive orders at best bid and offer	
Number of Fill or Kill orders that failed	
Number of Immediate or Cancel orders that got zero fill	
Number of transactions executed on the trading venue that are Large in Scale pursuant to Article 4 or 9 of Regulation (EU) No 600/2014	
Value of transactions executed on the trading venue that are Large in Scale pursuant to Article 4 or 9 of Regulation (EU) No 600/2014	
Number of transactions that were executed on the trading venue pursuant to Article 4 or 9 of MiFIR, except for orders that are held in an order management facility of the trading venue pending disclosure and not Large in Scale	
Value of transactions that were executed on the trading venue pursuant to Article 4 or 9 of MiFIR, except for orders that are held in an order management facility of the trading venue pending disclosure and not Large in Scale	
Number of trading interruptions	

## Annex to RTS 27: reporting templates

**Table 9 – information to be published as referred to in Article 8**

Mean time elapsed between acceptance and execution	
Median time elapsed between acceptance and execution	
Mean time elapsed between request and provision of any corresponding quotes	
Median time elapsed between request and provision of any corresponding quotes	

## RTS 28

# Annual publication by investment firms of information on the identity of execution venues and on the quality of execution

RTS 28 outlines the requirements designed to increase transparency related to executing client orders on trading venues, including systematic internalisers, market makers or other liquidity providers, intended to improve investor protection.

RTS 28 deals with the content and the format of information to be published by investment firms.



## What does the regulation require?

- Investment firms who execute client orders are required to summarise and make public on an annual basis, for each class of financial instrument, the top five execution venues in terms of trading volumes where they executed client orders in the preceding year, as well as information on the quality of the execution obtained.
- Due to be implemented from January 2018

## Who is in scope?

- Investment firms, in relation to client orders executed on trading venues (regulated markets, multilateral trading facilities, organised trading facilities), systematic internalisers, market makers or other liquidity providers, or entities that perform a similar function in a third country

Information on the top five execution venues and quality of execution obtained:  
Excluding securities financing transactions (SFTs)

- Investment firms shall publish the following information with respect to the top five execution venues in terms of trading volumes for all executed orders per class of financial instrument (with separate templates for retail clients and professional clients):
  - Class of financial instrument
  - Venue name and identifier
  - Volume of executed client orders on that venue as a % of total executed volume
  - Number of executed client orders on the venue as a % of total executed orders
  - % of executed orders that were 'passive' and 'aggressive' orders
  - % of executed orders that were 'directed' orders
  - Confirmation of whether it has executed an average of less than one trade per business day in the previous business year (in that class of instrument)

*Passive order – order entered into the order book that provided liquidity*

*Aggressive order – order entered into the order book that took liquidity*

*Directed order – order where a specific execution venue was specified by the client*

## Information on the top five execution venues and quality of execution obtained: SFTs

- Investment firms shall publish the top five execution venues in terms of trading volumes for all executed client orders in SFTs by class of financial instrument, including:
  - Volume of client orders executed on that execution venue as a % of total executed volume
  - Number of client orders executed on that execution venue as a % of total executed orders
  - Confirmation of whether it has executed an average of less than one trade per business day in the previous business year (in that class of instrument)

## Information on the top five execution venues and quality of execution obtained

- Investment firms shall publish for each class of financial instrument, a summary of the analysis and conclusions they draw from their detailed monitoring of the quality of execution obtained on all client orders, including:
  - Explanation of the relative importance the firm gave to the execution factors of price, costs, speed, likelihood of execution, or any other consideration.
  - Description of any close links, conflicts of interest, and common ownerships with respect to any trading venues used.
  - Explanation of any specific arrangements with any execution venues regarding payments made or received , discounts, rebates, or non-monetary benefits received.
  - Explanation of factors that led to a change in the list of execution venues listed in the firm's execution policy.
  - Explanation of how order execution differs according to client categorization.
  - Explanation of whether other criteria were given precedence over immediate price and cost when executing retail client orders.
  - Explanation of how the investment firm has used any data or tools relating to the quality of execution.
  - Explanation of how the investment firm has used output of a consolidated tape provider.

## Annex to RTS 28: classes of financial instruments

- (a) Equities – Shares & Depositary Receipts
- (b) Debt instruments: (i) Bonds (ii) Money markets instruments
- (c) Interest rates derivatives
- (d) Credit derivatives
- (e) Currency derivatives
- (f) Structured finance instruments
- (g) Equity Derivatives
- (h) Securitized Derivatives
- (i) Commodities derivatives and emission allowances derivatives
- (j) Contracts for difference
- (k) Exchange traded products (Exchange traded funds, exchange traded notes and exchange traded commodities)
- (l) Emission allowances
- (m) Other instruments

## Annex to RTS 28: reporting templates

**Table 1**

Class of Instrument					
Notification if <1 average trade per business day in the previous year	Y / N				
Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class	Percentage of passive orders	Percentage of aggressive orders	Percentage of directed orders
Name and Venue Identifier (MIC or LEI)					
Name and Venue identifier (MIC or LEI)					
Name and venue identifier (MIC or LEI)					
Name and venue identifier (MIC or LEI)					
Name and venue identifier (MIC or LEI)					

## Annex to RTS 28: reporting templates

**Table 2**

Class of Instrument					
Notification if <1 average trade per business day in the previous year	Y / N				
Top five execution venues ranked in terms of trading volumes (descending order)	Proportion of volume traded as a percentage of total in that class	Proportion of orders executed as percentage of total in that class	Percentage of passive orders	Percentage of aggressive orders	Percentage of directed orders
Name and Venue Identifier(MIC or LEI)					
Name and Venue identifier(MIC or LEI)					
Name and venue identifier(MIC or LEI)					
Name and venue identifier(MIC or LEI)					
Name and venue identifier(MIC or LEI)					

## Annex to RTS 28: reporting templates

**Table 3**

Class of Instrument		
Notification if <1 average trade per business day in the previous year	Yes / No	
Top 5 Venues ranked in terms of volume (descending order)	Proportion of volume executed as a percentage of total in that class	Proportion of orders executed as percentage of total in that class
Name and Venue Identifier(MIC or LEI)		
Name and Venue identifier(MIC or LEI)		
Name and venue identifier(MIC or LEI)		
Name and venue identifier(MIC or LEI)		
Name and venue identifier(MIC or LEI)		



## Links to the regulation

### **RTS 27**

English: [http://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160608-rts-27\\_en.pdf](http://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160608-rts-27_en.pdf)

German: [http://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160608-rts-27\\_de.pdf](http://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160608-rts-27_de.pdf)

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English: [http://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160608-rts-27-annex\\_en.pdf](http://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160608-rts-27-annex_en.pdf)

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French: [http://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160608-rts-27-annex\\_fr.pdf](http://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160608-rts-27-annex_fr.pdf)

### **RTS 28**

English: [http://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160608-rts-28\\_en.pdf](http://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160608-rts-28_en.pdf)

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