Information regarding MiFID II and MiFIR

Madrid, February 17th, 2017

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GENERAL VISION

Ms. BEATRIZ ALONSO-MAJAGRANZAS
EQUITY DIRECTOR

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GENERAL VISION

TRANSPARENCY → EQUITY
DERIVATIVES AND
FIXED INCOME

MARKET MICROSTRUCTURE → ACCESS TO MARKET
TRADING MONITORING
ALGORITHMIC TRADING
MARKET MAKING

TRANSACTION REPORTING AND ORDER RECORD KEEPING

BEST EXECUTION

MARKET ACCESS

CONFORMANCE TEST	HOMOLOGATION PROCCESS
DUE DILIGENCE TO THE MARKET MEMBERS	ANNUAL REVISION
TESTING OF THE TRADING SYSTEM	TESTING ENVIRONMENT AVAILABLE
ALGORITHMS	CERTIFICATE FOR THE MARKET MEMBER
DIRECT ELECTRONIC ACCESS	REQUIREMENTS PUBLISHED

TRADING MONITORING OF THE MARKET MEMBERS

PREVENTION OF THE DISORDERLY MARKET CONDITIONS → LIMIT TO THE NUMBER OF ORDERS PER SECOND
VOLATILITY MANAGEMENT MECHANISMS
PRE TRADING CONTROLS
KILL BUTTON

HFT → USE OF MESSAGES

MARKET MAKERS → MARKET MAKER CONDITION

MICROSTRUCTURE

OTHER ASPECTS:

- INCLUSION OF LEI CODE FOR ISSUERS AND MARKET MEMBERS
- TICK SIZE (EQ)
- OTR
- CLOCK SYNCHRONIZATION
- IDENTIFICATION OF ALGORITHMIC TRADING AND DEA

TRADE COMMUNICATIONS AND ORDER REGISTERY

ADAPTATION OF THE CURRENT TRANSACTION REPORTING SERVICE TO MIFID II REQUIREMENTS
NEW REQUIREMENT OF ORDER RECORD KEEPING

AIM TO MINIMIZE THE IMPACT IN THE INFORMATION OF THE ORDERS

FIX PROTOCOL:
NEW FIELDS IN THE ORDER

REQUIRES ADITIONAL INFORMATION FROM THE MARKET MEMBERS

EXTERNAL SYSTEM FOR SENDING FILES VIA SFTP

CALENDAR

TECHNICAL ADAPTATIONS: CHANGES IN THE MARKET MESSAGES

LEGAL ADAPTATIONS: UPDATE OF THE MARKET RULES.

EXPECTED CALENDAR OF IMPLEMENTATION:

February 2017: FIX specifications published

June 2017: Testing environment available

January 2018: Implemented

EQUITY

TRANSPARENCY

TRANSPARENCY PRE TRADING

NEW FUNCTIONALITIES:

- COMBINED BLOCKS
- HIDDEN ORDER
- MID PRICE ORDER
- VWAP ORDER

ADAPTATION OF EXISTING FUNCTIONALITIES:

- BLOCKS
- ICEBERG ORDERS

TRANSPARENCY POST TRADING

- NO CHANGES

EQUITY

ALGORITHMIC TRADING AND MARKET MAKING

NORMAL MARKET CONDITIONS

- MIFID II NEW MARKET MAKER SCHEME
- PRESENCE PARAMETERS IN THE MARKET

STRESS MARKET CONDITIONS

- SYSTEM OF INCENTIVES

SPECIAL MARKET CONDITIONS

- NO QUOTING OBLIGATIONS

EQUITY

BEST EXECUTION

Data for IBEX 35® by venue

Mercado *Market*	Horquilla 25k (bps) *Spread 25k (bps)*	# Niveles para 25k *Book levels for 25k*	BBO 25k *BBO 25k*	Estabiliza apertura (min) *Stabilize price at opening (min)*
BME	6,53	1,76	51,9%	5,8
Chi-X	10,50	2,33	33,4%	14,3
Bats	25,19	3,10	3,8%	45,4

Mercado *Market*	Horquilla 1ª posición (bps) *Spread at touch (bps)*	Liquidez 1ª posición (€) *Book at touch (€)*	BBO 1ª posición *BBO at touch*	Liquidez 10 bps (€) *Book depth 10bps (€)*
BME	4,86	69.678	14,9%	222.618
Chi-X	5,59	37.194	12,1%	100.785
Bats	8,63	23.571	2,2%	50.356

EQUITY

BEST EXECUTION

Data for TEF by venue

Valor *Security*	Mercado *Market*	Horquilla 25k (bps) *Spread 25k (bps)*	# Niveles para 25k *Book levels for 25k*	BBO 25k *BBO 25k*	Liquidez 10 bps (€) *Book depth 10bps (€)*
TEF	BME	3,88	1,86	51,3%	382.941
TEF	Chi-X	4,50	2,18	39,9%	195.836
TEF	Bats	7,24	2,15	3,8%	121.213

Valor *Security*	Mercado *Market*	Horquilla 1ª posición (bps) *Spread at touch (bps)*	Liquidez 1ª posición (€) *Book at touch (€)*	BBO 1ª posición *BBO at touch*	Estabiliza apertura (min) *Stabilize price at opening (min)*
TEF	BME	2,73	54.020	21,2%	6,2
TEF	Chi-X	2,98	30.481	17,9%	18,2
TEF	Bats	5,26	30.107	2,0%	50,6

MEFF

Dª. CLOTILDE SALMERÓN
MEFF Managing Director

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MEFF

- ✓ **DERIVATIVES ARE INCLUDED IN THE MiFID II REGULATION**

- ✓ EXCHANGE TRADED DERIVATIVES → THEY ARE CONSIDERED LIQUID, SUBJECT TO TRANSPARENCY AND MARKET MAKERS REQUIREMENTS

MEFF

- ✓ **PRE-TRADE TRANSPARENCY REQUIREMENTS**
  THE TYPE OF TRADING SYSTEM WILL ESTABLISH THE TRANSPARENCY LEVEL.
  Continue auction trading, voice systems, RFQ, Hybrid Systems

  - ORDER BOOK
  - BLOCK TRADES

- ✓ **POST-TRADE TRANSPARENCY REQUIREMENTS** → PUBLICATION OF TRADES DETAILS AS CLOSE TO REAL TIME AS POSSIBLE

  ↓

  New fields, New Flags

MEFF: IMPACTS AND CHANGES

PRE AND POST TRADE TRANSPARENCY

WAIVERS

PRE TRADE
WEIVERS THAT ALLOW TO REDUCE TRANSPARENCY REQUIREMENTS

LIS-Large in Scale
SSTI- Size Specific to the Instrument
PACKAGE ORDERS- Pending ESMA definition

POST TRADE.
D+2 DELAY IN PUBLICATION

LIS-Large in Scale
SSTI- Size Specific to the Instrument
PACKAGE TRANSACTIONS

MEFF: IMPACTS AND CHANGES

PRE TRADE TRANSPARENCY

- ✓ **ORDER BOOK** → PUBLICATION OF FIVE BEST BIDS AND ASKS, ORDERS ACCUMULATED AT EACH PRICE AND VOLUMES AVAILIBLES AT EACH PRICE

- ✓ **BLOCK TRADES** → MEFF WILL SET MINIMUM VOLUME FOR BLOCK TRADES TO THE THRESHOLD STABLISHED BY ESMA

MEFF: IMPACTS AND CHANGES

PRE TRADE TRANSPARENCY

RFQ SYSTEM

OTC ALTERNATIVE

MEMBERS DUE TO THEIR ACTIVITY MUST BECOME OTF

ALTERNATIVE TO THE BLOCK MARKET

KEEP CURRENT TRADING OF MEFF MEMBERS

MEFF: IMPACTS AND CHANGES

RFQ TRADING SYSTEM

MIFID II

- PRE-TRADE TRANSPARENCY REQUIREMENTS.
  - >LIS waiver
  - >LIS and <SSTI Publication of the weighted average price once the request can be traded
  - <SSTI Publication of every price and volume once the request can be tradeed

RFQ

- REQUESTING MEMBER OR BROKER WILL BE THE ONLY ONE ENTITLED TO EXECUTE THE PROVIDED QUOTES AS RESULT OF INTEREST REQUEST

MIEMBROS DE MEFF

- OTC OPERATING MEMBERS → RFQ Transparency compliance with no neccessity of complying with OTF requirements
- IT MAKES POSSIBLE TO SEND AN INTEREST TO THE WHOLE MARKET OR TO A GROUP OF MEMBERS/BROKERS

MEFF: IMPACTS AND CHANGES

POST TRADE TRANSPARENCY

✓ **DEFERRAL DEPENDING ON VOLUME AND PACKAGE TRANSACTION** ➡ OPTIONAL USE OF TRADE DELAY PUBLICATION IN D+2

IMPLICATIONS FOR MEFF:

- TRADE IS NOT PUBLISHED IN REAL TIME
- ACCUMULATED VOLUME IS PUBLISHED AT THE END OF THE SESSION
- TRADE DETAILS WILL BE PUBLISHED IN D+2

MEFF: IMPACTS AND CHANGES

MARKET MAKERS MICROSTRUCTURE

NEW MARKET MAKER STATUS

MEFF WILL MONITOR AND SIGN AN AGREEMENT WITH THOSE MEMBERS THAT COMPLY WITH MiFID II CONDITIONS

- ✓ CURRENT INCENTIVES SYSTEM WILL BE MAINTAINED, COEXISTING OR AS A PART OF A UNIQUE AGREEMENT
- ✓ MEFF WILL PUBLISH MARKET MEMBERS AGREEMENT CONDITIONS AND INCENTIVE SYSTEM, AS WELL AS EXCEPCIONAL CIRCUMSTANCES CONDITIONS

MEFF: IMPACTS AND CHANGES

MARKET MAKERS MICROSTRUCTURE

NORMAL MARKET CONDITIONS

- MiFID II NEW MARKET MAKER AGREEMENT
- MEFF INCENTIVES SYSTEM

STRESSFUL MARKET CONDITIONS

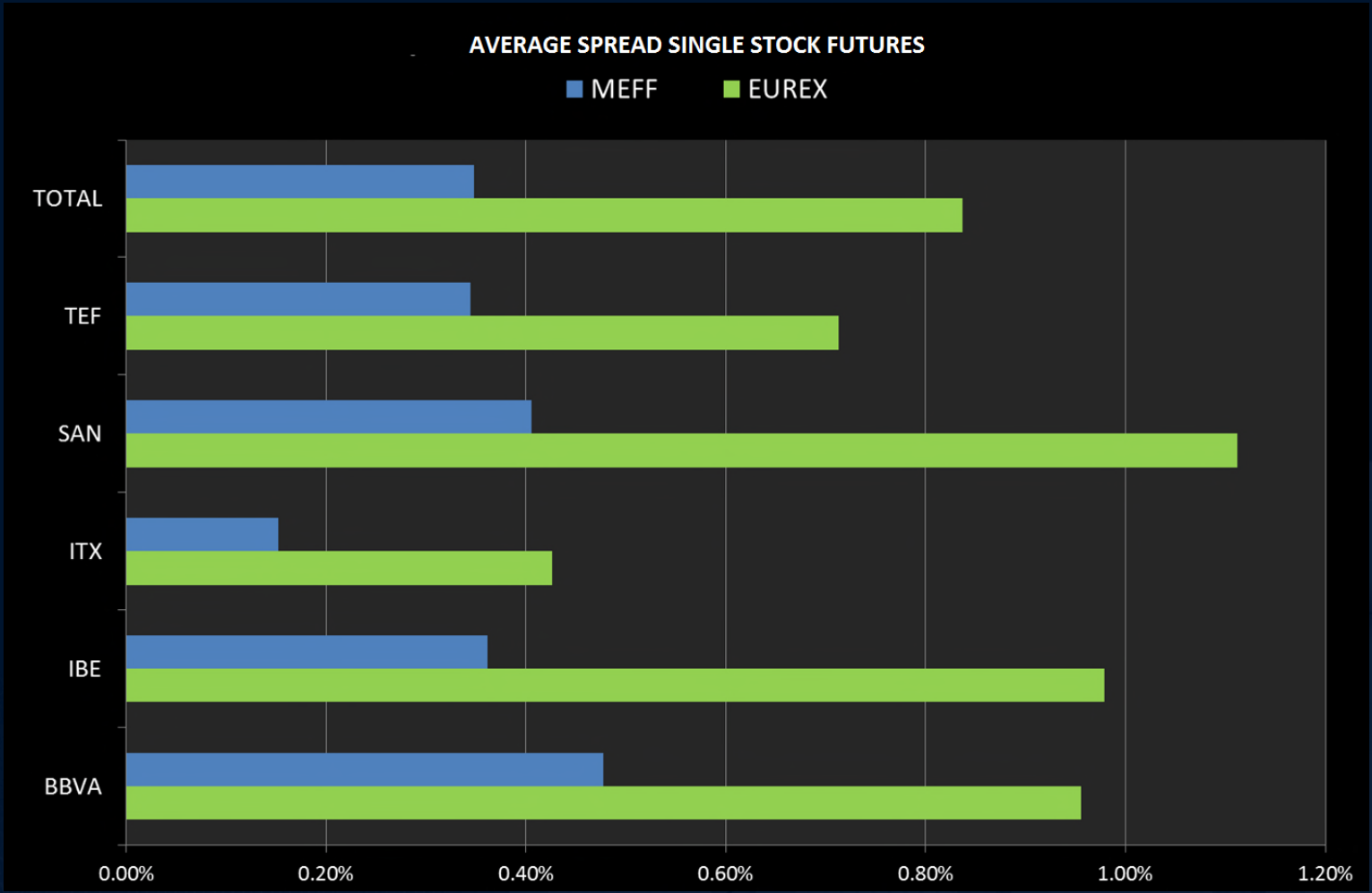
- MiFID II NEW MARKET MAKER AGREEMENT
- MEFF INCENTIVES SYSTEM

EXCEPCIONAL MARKET CONDITIONS

- NO QUOTING OBLIGATION

MEFF: IMPACTS AND CHANGES

BEST EXECUTION



Data source: Bloomberg. Average spreads calculated for the period 19.Dec.16 to 9.Feb.17 with the most liquid contract for every market Sample every 5 seconds from 09:00:30 to 17:30:00. In those samples with no spread a spread of 2% has been considered..

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MEFF: IMPACTS AND CHANGES

COMMODITY DERIVATIVES

- ✓ NON FINANCIAL ENTITIES → ANCILLARY ACTIVITY TO THE PRINCIPAL ACTIVITY WILL BE ABLE TO REQUEST A WAIVER Art 20(1)(j) MIFID
- ✓ POSITION LIMITS → ESTABLISHED AND MONITORED BY COMPETENT AUTHORITY
- ✓ POSITION REPORTS → REGULATED MARKETS WILL SEND A WEEKLY REPORT TO ITS COMPETENT AUTHORITY

Fixed income market

Mr. JULIO ALCÁNTARA
Managing Director
AIAF Fixed Income Market

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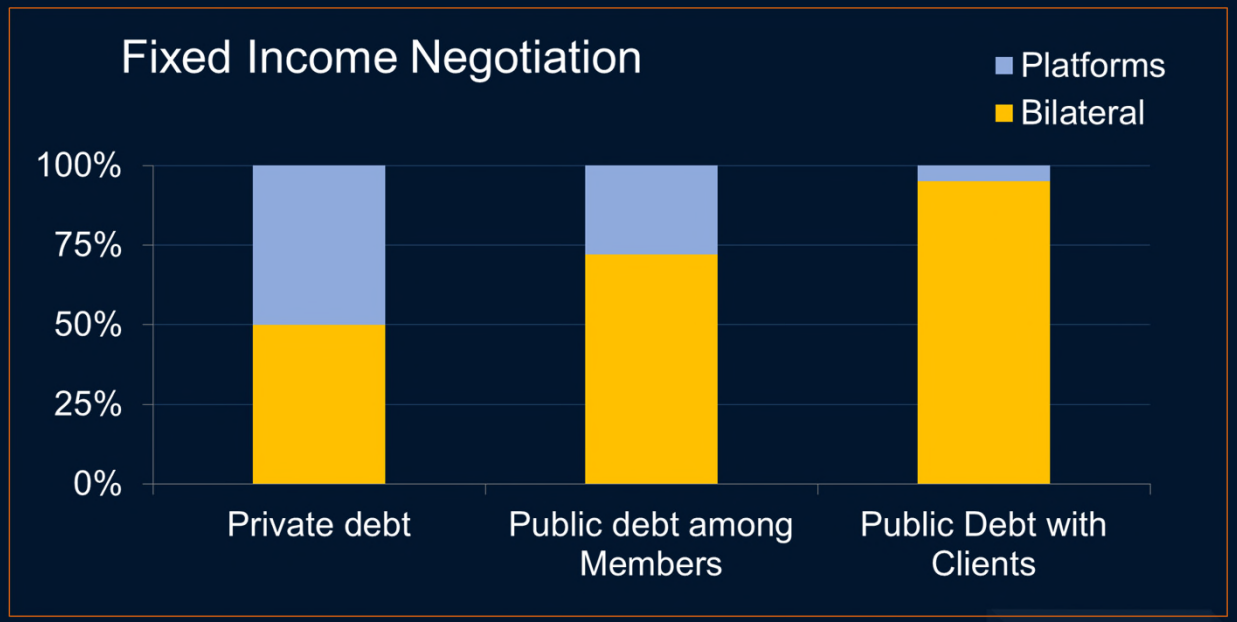
Fixed income market

Current forms of negotiation



- Most of the negotiation takes place bilaterally.
- Both the Public Debt market and AIAF publish volumes and prices at the close of the session.
- From January 2018 this activity will be OTC.

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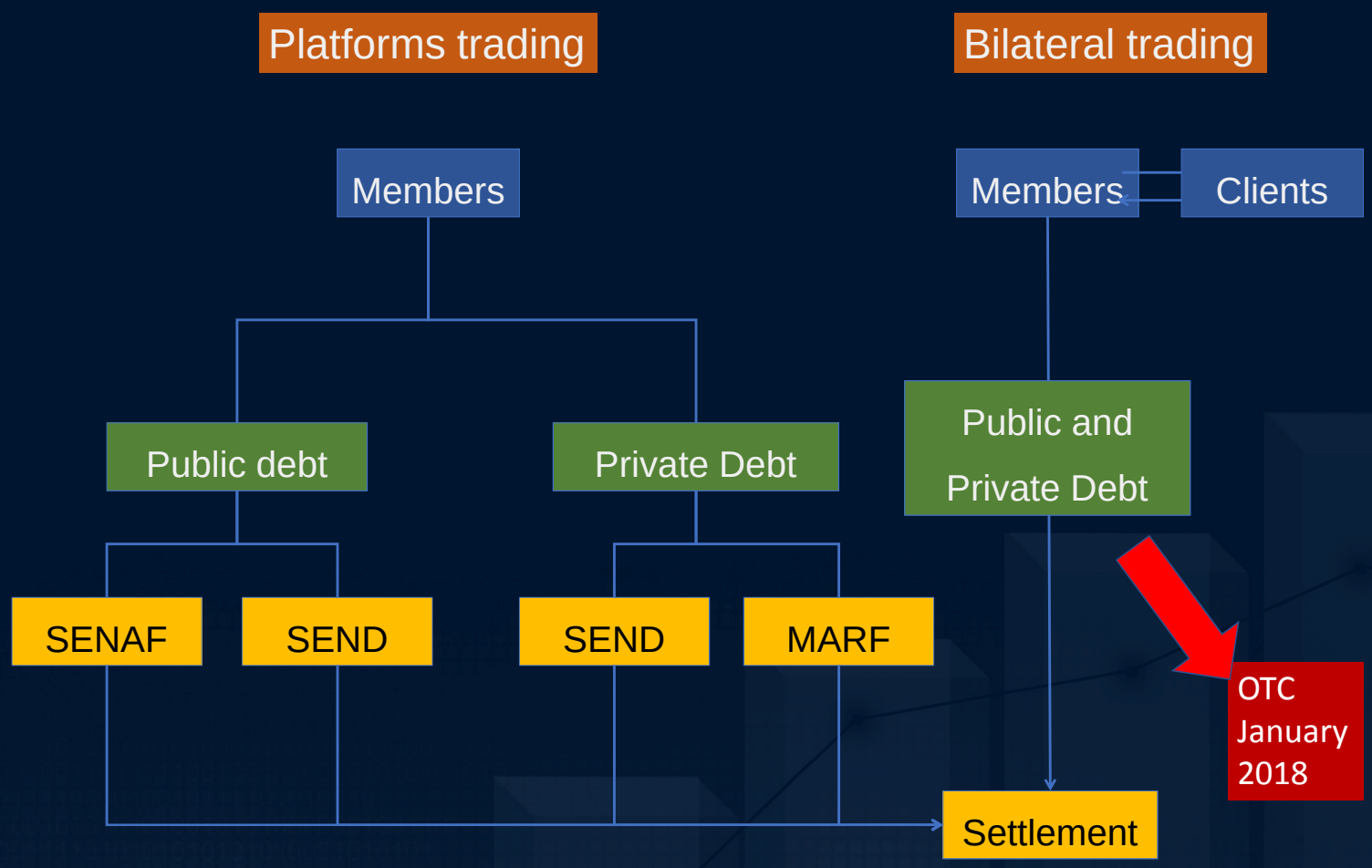
Fixed income market

Current forms of negotiation



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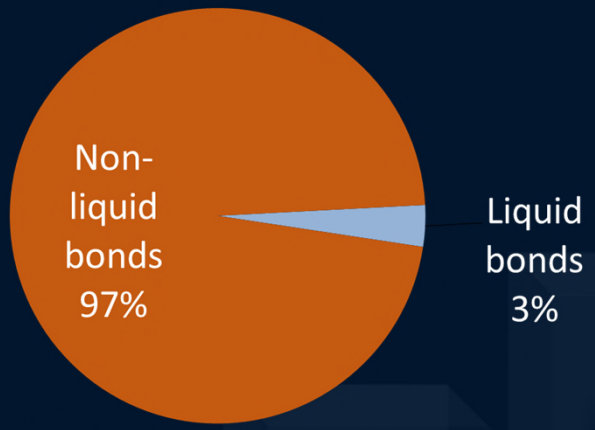
Fixed income market

New requirements MiFID II

- Implantation of transparency rules for fixed income.
- Impulse to trade in venues.
- Classification of liquid and non-liquid bonds.
- "Best execution" in client operations.
- Listing obligations for Systematic Internalisers.



Fixed income market

Systematic Internalisers in fixed income

- IS qualification when OTC transactions are carried out with your clients and certain volumes are reached.
- In non-liquid bonds, at least (on average) one transaction per week and more than 1% of the total traded in the EU.
- Obligation to offer quotes on all bonds of the same class as the issuer and on all other issuers of the same group (including vehicles).
- High technological costs and operational risk.
- The solution provided by BME would avoid these risks.

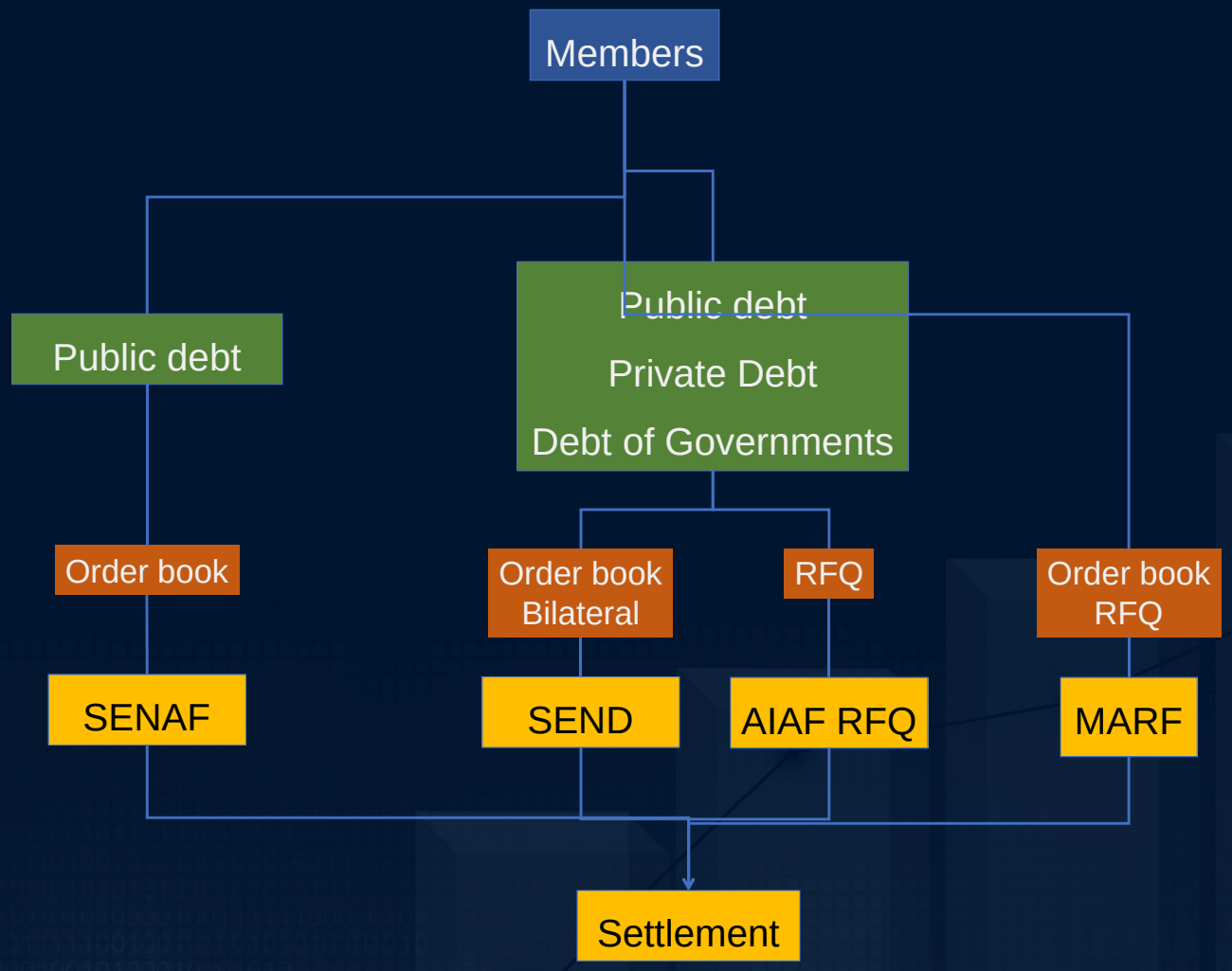
Fixed income market

New Market Structure

- Absorption of bilateral operations, avoiding its OTC rating.
- New RFQ contracting system.
- Expansion of the range of assets in the platforms.
- Inclusion of debt of European governments and bonds listed in other markets.
- Strict compliance of pre and post-transparency according to the typology of the assets and size of the transactions.
- The admission of new Market Members is facilitated.

Fixed income market

New forms of negotiation



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BME: Complying with MiFID II

Summary

	Equities	Derivatives	Fixed Income
Pre-transparency	●	●	●
Post-transparency	●	●	●
Waivers	●	●	●
Algorithmic Trading	●	●	●
Market Making	●	●	●
Best execution	●	●	●
Transaction Reporting	●	●	●
Record keeping	●	●	●
Information to ESMA	●	●	●
RFQ / Blocks	●	●	●