TORA

INVESTMENT TECHNOLOGY THAT ACTUALLY WORKS

The top five MiFID II challenges your OMS or EMS must help you overcome

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INTRODUCTION

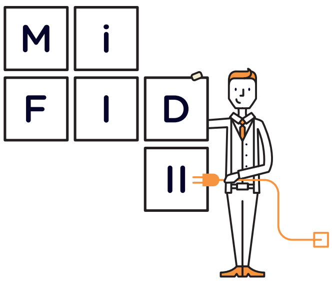
MiFID II is causing major compliance headaches for firms across the industry. Getting ready for the January 2018 deadline has been complicated by ongoing and active interpretation of the legislation for which clarification was not received from the regulators until late 2017. This situation was highlighted in a research report from the Tabb Group showing that even the most advanced buy side firms still have ground to make up. In fact, the report's authors believe "that the majority of firms will not be fully prepared for the deadline and will still need to make adjustments well after the deadline has passed."[1]

This is a risky and potentially costly scenario that firms should try to avoid. How should they go about that given the short timeline and open implementation questions? How can they shore up their near-term readiness without impacting their long-term compliance flexibility and effectiveness?

MAKING THE RIGHT MOVES

To help asset managers navigate MiFID II regulations, TORA has assembled its list of the five most critical challenges that will impact a firm's trading operations, and included its recommendations for how to address them.

Along with each challenge, we've included brief discussions of how TORA's order and execution management system (OEMS) can address the challenges and mitigate its regulatory risks. Whether you are trying to find a solution by the end of the year or will need a system early next when you realize that your current technology cannot support all the new regulatory requirements, TORA can help. Our OEMS is a cloud-based solution that is MiFID II-ready, and is easy to install and deploy. With our OEMS solution, your firm can solidify its MiFID II compliance footing in a matter of days or weeks – not months.



[1] MiFID II is a collective term used for a European directive called MiFID -2014/65/EU and also a separate regulation called MiFIR -2014/600/EU. MiFID 2014 covers the rules and guidelines around governance, products, investor protection and information disclosure. The specific implementation has now been decided by each EU member state and varies slightly under each country's local law. MiFIR 2014 includes rules and guidelines for execution venues, transaction reporting and pre-trade and post-trade transparency. The rules will come into force in the EU member states and each country had no discretion on how to implement these into local law.

CHALLENGE 1:

The best execution bar has been raised

The MiFID 2004 requirements were that firms had to “take all reasonable steps” to obtain best execution for clients. Under the incoming MIFID II, the requirement is to take “all sufficient steps” to achieve best execution. There is a new focus on the overall process of providing best execution, and not simply on the cost of the trading.

As such, the European regulator states that Investment firms need to systematically measure execution quality in terms of “price, costs, speed, likelihood of execution and settlement, size, nature or any other relevant consideration”. Firms are obliged to provide clear and sufficiently detailed execution policies written in language that is easy for their clients to understand.

This should include:

- An explanation of the relative importance given to the execution factors of price, costs, speed, likelihood of execution, or any other consideration including qualitative factors when making assessments of the quality of execution.
- Factors that led to a change in the roster of execution venues listed in the firm’s execution policy should be clearly outlined.
- Details of any data or tools used to enhance the quality of execution.
- An annual report of the top five execution venues by trading volume for the prior year, along with detailed information on the quality of execution provided by each venue.

HOW TORA CAN HELP

TORA's OEMS is used by many leading funds in locations where quantifiable best execution has been a requirement for many years.

The following solutions are being used by TORA clients to build MiFID II best execution processes.

PRE-TRADE

- Access to hundreds of algo suites from leading global brokers and third party algo providers.
- One of the few OMS/EMS vendors to support ATDL which allows algo upgrades to be incorporated very quickly.
- Geographically dispersed data centres and proprietary global FIX network which can also plug into 3rd party networks.
- TORA pre-trade AI-augmented TCA to help improve execution quality.
- TORA AlgoWheel to help firms implement a data-driven broker selection processes.
- TORA Strategy Server that enables funds to automate low-touch orders, giving traders time to focus on harder-to-trade orders.
- Integration with Markit and OTAS pre-trade TCA applications that use AI and big data techniques to help improve execution quality.

IN-TRADE

- A range of intraday monitoring tools to help manage slippage, volume participation and pace.
- Custom alerts to highlight orders that need immediate attention.
- Access to a large library of data visualisation tools to monitor orders versus a range of benchmarks, and to see execution quality by broker, venue and strategy.

POST-TRADE

- TORA offers broker-neutral, independent post-trade TCA that is customised to the requirements of each fund. TORA clients have direct access to the TORA TCA team to help tailor the TCA to their fund's requirements.
- Broker scorecards across different algo categories.
- Venue toxicity analysis.
- Access to the TORA iHub reporting platform to design any kind of post trade report and access customised interactive dashboards.

CHALLENGE 2:

Operational burdens created by new transaction reporting

Most buy-side firms say the transaction reporting requirements under MiFID II are the biggest challenge. This stems from the fact that; a) a much broader set of asset types is covered under the new regime (equities and non-equities), b) a much greater number of data points must be reported, including who made the trading decision and for whom (which client) and c) the full transaction details must be reported to the local regulator within T+1.

Counterparties submitting transaction reports can now do so directly to regulators, or they can go through 'Approved Reporting Mechanisms' or ARMs. ARMs are key partners under MiFID II because they help firms understand and comply with the myriad of reporting obligations. The ARMs help firms avoid making reporting errors, and they assist in the analysis of over- and under-reporting.

HOW TORA CAN HELP

TORA has partnered with the major ARMs. For TORA's clients, this means that they have 'plug 'n play' functionality with these ARMs' platforms with virtually no additional implementation required. In addition to providing a faster path to compliance readiness, these 'out-of-the-box' integrations shorten clients' time-to-value for the TORA OEMS solution.

CHALLENGE 3:

Complex new trade reporting obligations

Under MiFID II, to improve the transparency of execution prices and how prices are quoted and formed, real-time trade reporting obligations have been shifted to buy-side firms for some products, some of the time. Reporting to an Approved Publication Arrangement (APA) must be done as close to real time as possible (60 seconds post-trade for equities, and 15 minutes for other instruments).

Once collecting the trade report, the APA is responsible for making the data available to the public. Like the obligation of financial firms to submit trade reports in near real-time, APAs are also required to publicize data as real-time as possible. No duplicate reporting is allowed so only one party to the trade can report (be it a firm, a systematic internaliser or a trading venue). It's fair to say that for buy-side firms, these new trade reporting requirements are both confusing and operationally challenging.

HOW TORA CAN HELP

The TORA OEMS has partnered with APAs to provide clients with a straight-through processing solution that includes:

- Systematic Internaliser determination.
- Pre-trade quote and waiver publication.
- Post-trade publication of prices, volumes and deferrals.
- Systematic Internaliser reference data reporting.
- Millisecond timestamps aligned to Coordinated Universal Time using GPS satellite technology.

CHALLENGE 4:

Building on a solid FIX foundation

The changes required under MiFID II reach far into firms' operations and will require changes to their FIX messaging protocols, the foundation of any trading operation. For buy-side firms to accurately capture all the additional information that MiFID II requires for transaction reporting, trade reporting and best execution, significant FIX upgrades are required. Undertaking that development and testing effort in-house is a time-consuming and expensive proposition.

HOW TORA CAN HELP

TORA offers a better path for firms to get their FIX capabilities aligned with regulatory requirements. TORA's FIX specification has been enhanced to include all the additional information that needs to be passed within and between firms for MiFID II's mandates around trade and transaction reporting, and documenting best execution efforts.

TORA's market-ready FIX specification ensures that buy-side firms can capture all the data they need in an easily workable form. Beyond just the data, the TORA OEMS lets firms take their FIX-enabled functionality several steps further. With new transaction and trade reporting enhancements, and new connectivity with ARMs and APAs, TORA can deliver the missing FIX piece for any buy-side firm's MIFID II compliance puzzle.

CHALLENGE 5:

Throwing good (OMS or EMS) money after bad

Regardless of what OMS or EMS systems and processes firms have in place, if they do significant business in Europe, MiFID II will stretch those systems, some to the breaking point. The strategic question for firms is what to do about it.

That's a tricky question for any firm to answer, but especially for those heavily invested in legacy systems that do not use cloud-based technology. If your OMS/EMS is not hosted in the cloud, will your vendor have time to upgrade its systems across its client base before the MiFID II deadline? It's the old technology conundrum: How long do you limp along, patching and tweaking old systems? When are the costs and risks of that strategy outweighed by the benefits of moving to a new approach?

Every firm must make their own determination, but their decisions should reflect the fact that MiFID II is only the latest batch of regulatory changes. There are surely more to come. Many firms are embracing flexible and cost-effective cloud-based solutions for other parts of their operations. Given the ongoing regulatory changes, transitioning OMS/EMS capabilities to the cloud is a strategy that's growing more viable every day.

HOW TORA CAN HELP

TORA's OEMS is highly advanced, cloud-based OEMS. It offers a smarter, more flexible, and more effective approach than any legacy, hardware-centric systems can offer. With its cloud-native architecture, it delivers the responsive compliance capabilities firms need. For example, instead of having to manually change settings on dozens of servers in multiple data centers, TORA can make one simple change in the cloud that's then automatically populated across its entire client base. This means that no more painful software upgrades will be needed to stay aligned to new regulatory requirements. TORA's order, execution, portfolio, risk, reporting and post-trade management solution is delivered as a SaaS offering, that is easily installed, maintained and updated every month, with approximately 500 new features being added every year.

Conclusion

With MiFID II's January 2018 deadline fast approaching, buy-side firms are getting down into the tactical, nitty-gritty of their preparation and readiness for these new regulations. If industry analysts like those at the Tabb Group are right, many firms don't have their MiFID efforts all buttoned up. That's not a criticism. Rather, it speaks more to the challenges and uncertainties in the regulations. That said, firms still must do all that they can to achieve and document their compliance.

For any buy-side outfit – whether it's a large enterprise looking to transition away from its legacy systems, or a small and nimble hedge fund trying to stay ahead of the compliance curve – TORA can help.

TORA's advanced investment management technologies support the full trading lifecycle, including features to help navigate all the new MiFID II requirements. In addition to the full suite of SaaS-delivered execution, analytics and compliance tools, TORA offers industry-leading order, portfolio, allocation, commission and risk management capabilities. The products are used by hundreds of leading hedge funds, asset managers, proprietary trading firms and sell-side trading desks around the world.

TORA's solutions are in place in these production environments for a reason. To learn more about how TORA can help your firm meet its MiFID II requirements quickly and effectively please contact one of the TORA global offices for more details.

TORA

TORA is a cloud-based front-to-back office technology provider for the buy-side. TORA provides everything you need to run a fund: portfolio, risk, order and execution management systems, and compliance and analytics engines – all built in-house and available individually, or as an integrated, unified platform.

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