

SmartStream RDU gears up for Mifid challenge

SmartStream's Reference Data Utility has emerged in recent years as a rare example of the financial services industry working together to develop a solution to a common problem.

Recently, the division of the technology group has been focused on the draconian challenges presented by the European Mifid II reforms that take effect on January 3 2018, specifically the vast data processing obligations associated with compliance.

Peter Moss, Chief Executive Officer of The SmartStream Reference Data Utility, told Global Investor: "The SmartStream Reference Data Utility (RDU) was set-up as a collaboration between a number of banks and SmartStream to create a security master utility for the industry at large. What we are doing today is not fundamentally different from that idea - we support reference data for tradeable financial instruments, such as equities, bonds, futures and options."

Moss continued: "A year ago, we realised that in 2017 no-one was going to focus on anything but Mifid II and that Mifid II is hugely reliant on reference data for tradeable financial products, which is exactly what we do. We took a good look at the regulations and started to build out our reference data functionality to support regulatory reporting under Mifid II and Mifir."

Moss said in November the RDU had "many customers" testing in preparation for the January introduction of the reforms but firms are being hampered because "some of the data has not yet been made available by the regulators".

Given Mifid applies to any firm that trades in one or more of the European Union's 28 member states, the rules also impact most international trading firms, including those in the Americas and Asia.

Moss said: "We are actively selling across Europe, the Americas and Asia and have found that our natural audience is the large brokers that will be systematic internalisers under Mifid II."

"We already have as customers many of the tier one banks but we also have tier two banks in Europe and Asia," he added.

The data sources upon which the RDU draws information are similarly varied. "We are connected to nearly 100 listed derivatives exchanges as well as all the major data vendors and other agencies such as the European Securities and Markets Authority (Esma) and ANNA. We are also expecting to source data from each of the 28 national regulators."

The utility model is popular, in principle at least, because it mutualises the cost of a common challenge but Moss said the appeal of the RDU goes further.

"I see the advantages of the utility as being efficiency and cost effectiveness but also, crucially, the quality of the data. This is all we do, we are focused on reference data and nothing else. We pride ourselves on implementing best practice."

The industry is fixated with the January 3 Mifid implementation date but Moss said that is just the beginning of what looks like a multi-year effort.

"Everyone is currently focused on getting to the starting line but most firms are going to keep their Mifid

projects going into next year. They are going to need to constantly adjust and fix their processes as the regulations are bedded down."

The systematic internaliser regime is certainly one to watch. Dozens of large sell-side firms have already said they will seek certification as an SI.

Moss said: "In September next year the regulators are going to decide who will need to be classified as systematic internalisers. We are expecting a good number to be in this group. A lot of firms have already said they expect to be SIs, which they are using as a marketing exercise to the buy-side."

He added: "Being an SI has significant requirements in terms of trade processing generally. They need to be able to offer transparent pricing prior to the trade and, once executed, they need to be able to publish that trade data to the industry."

No-one really knows what the industry will look like in the weeks and months immediately after Mifid II but Moss, for one, thinks the change will be gradual.

He said: "I think it will be very different once the regulation goes live, I don't expect everything to be working perfectly on January 3. It is going to take a period of time to settle down and there will be some fine-tuning by the regulators. The first six months at least are going to be about bedding down what has been a massive change for the industry." ■

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