The SmartStream Reference Data Utility (RDU)
MiFID II Service

The complete set of reference data to support pre-trade transparency, post-trade reporting and transaction reporting requirements

Executive summary

As financial institutions build their longer-term MiFID II plans and control frameworks, SmartStream RDU provides organizations with both the data and the tools to achieve sustainable operational processes, maintain competitive advantage and, importantly, ensure full compliance with regulatory obligations, across all asset classes including OTC derivatives.

The SmartStream RDU MiFID II service eliminates the complexity of acquiring, normalizing and integrating the complete set of reference data sources required for MiFID II, integrating all MiFID II reference data into a single schema for financial institutions to incorporate into their EDM, regulatory reporting and trading platforms. It offers a choice of delivery method – either file-based or API – depending on a firm's preference for security of interest (SOI)- based distributions, or on its requirements for supplemental calculations and workflow to enhance its automation goals or service proposition.

MiFID II reporting requirements demand that market participants have a clear understanding of whether a counterparty is, or is not, a systematic internalizer. In association with leading members of the APA community, SmartStream RDU has created a unique Systematic Internaliser (SI) Registry Service. This centralized registry enables market participants to easily identify systematic internalisers for a particular financial instrument, thereby closing a significant gap in the MiFID II regulatory protocols.

The business challenge

MiFID II is now a reality. Capital markets firms have put the fundamental aspects of their MiFID II structures in place but, during the lead up to the MiFID II deadline, organizations may have resorted to shortcuts, adopting tactical fixes or sourcing data inefficiently. There may, therefore, be aspects of their MiFID II compliance framework that are partial, suboptimal or hastily constructed.

While regulators allow the market to settle, and before financial authorities begin to scrutinize operational practices in depth, prudent firms will be assessing the operational environment they have put in place. They will be taking the opportunity to remediate any gaps, optimize workflows, and to establish robust control frameworks – all with the aim of creating operational processes which are sustainable, cost-effective and resilient.

Acquiring, normalizing and integrating the complete set of reference data sources for MiFID II creates a considerable challenge for financial institutions. Some firms have undertaken this task themselves while others have chosen to turn to a data vendor. MiFID II reference data is typically supplied by vendors as a file-based service – files can be extremely large and must be carved up into a digestible form before the data can be consumed. Certain organizations may, alternatively, require a service that can provide them with a more focused set of reference data, in an easy-to-consume form, that can readily be integrated into their systems.

Some financial institutions are considering whether or when to identify themselves as systematic internalisers for specific instrument classes. Systematic internalisers face transparency and reporting obligations, and fulfilling these requirements demands access to significant volumes of targeted reference data. While firms currently have the choice to opt in as SIs, the regime is set to shift away from a voluntary basis. At this point, regulators will determine whether a company falls within the systematic internaliser category on the basis of the transaction volumes it carries out.

Organizations trading OTC derivatives are feeling the impact of MiFID II. For example, OTC derivatives must now be given an ISIN, assigned by the ANNA Derivatives Service Bureau (DSB). Another complexity introduced by MiFID II is the concept of trading on a trading venue (TOTV). These demands create new reference data challenges, which organizations trading OTC derivatives must find effective means of addressing.

Finally, one of the greatest challenges market participants currently face is the need to identify which counter-parties are systematic internalisers for MiFID II reporting purposes. Clarifying this essential matter is not straightforward, as regulatory protocols have failed to set out a means – such as a centralized database – which allows the easy identification of systematic internalisers for particular instruments. With no solution forthcoming from financial authorities, it has fallen to the industry to plug this gap.

The SmartStream RDU and its response to MiFID II: an overview

The SmartStream RDU offers a complete set of data for all MiFID II requirements, normalized for easy data integration. The RDU allows a choice of distribution methods, either file-based or through a rest API.

The RDU MiFID II file-based service offers daily file drop via SFTP, full files at weekend, deltas during the week, synchronized with ESMA publication. The rest API service is made up of a set of request/ retrieve rest APIs and is also the mechanism through which a series of value-added calculations and workflows can be made available to financial institutions. These additional capabilities have

MiFID reporting requirement	Content description
Pre-trade transparency Post-trade reporting	Returns the required fields needed to determine pre-trade transparency and post-trade reporting
Transaction reporting	Supports ESMA RTS 23 data required for transaction reports
Value added capabilities: trading on a trading venue (ToTV) OTC enrichment and ISIN creation	Provides all ISINs that are determined to be ToTV by ESMA in its end of day file delivery It calculates ToTV on an on-demand request basis, using attribute matching criteria defined by ESMA and a 'best fit ISIN' logic It interfaces to the ANNA DSB service for ISIN look-up and creation, and to enrich the transaction
NCA waivers, deferrals & suspensions SI determination	Identifies relevant NCA and checks for local deferrals and suspensions Allows post-trade verification of whether a counterparty LEI is an SI
SI registry	Offers pre-trade determination of SIs by ISIN or sub-class. The registry is a collaboration between SmartStream RDU and the leading APAs

the potential to greatly reduce organizations' workload, handling much of the complexity associated with MIFID II and, in particular, that associated with OTC derivatives.

The SmartStream RDU provides a unique service in association with a number of leading APAs – the SI registry. The APA community collects the list of instruments for which their SI customers provide SI services, and the RDU consolidates this information into a master file. The data can then be shared by the APAs, contributing SIs and other market participants. The register enables market participants to determine at an ISIN level which firms are registered systematic internalisers as well as to identify whether a counterparty LEI is an SI for the instrument being traded.

The RDU also offers custom services for a closer fit with an individual financial institution's business processes.

MiFID II service overview: features & benefits

Full support for MiFID II regulations & comprehensive data coverage
The SmartStream RDU MiFID II service supports all regulations relating to reference data, including RTS 1, RTS 2, RTS 3, RTS 22, RTS 23, RTS 27 and RTS 28. It covers all asset classes, not simply OTC derivatives.

Consistent security classifications
The service reconciles security classifications across CFI, ANNA and ESMA codes with ESMA classifications derived down to asset class, sub-asset class, and sub class for OTC securities.

Straightforward to use and integrate
The complete set of requirements for MIFID II reference data can be satisfied through a set of simple API calls. All data (RTS 1, 2 and TTC) is normalized to an instrument level. Importantly, all information – for example, relating to eligibility, thresholds, deferral – required for pre-trade price transparency, post-trade reporting and transaction reporting is returned in an easy-to-consume JSON format. The service also aligns well with a transaction-by-transaction data enrichment model.

Full support for OTC derivatives
A range of value-added capabilities are delivered by the RDU MiFID II service, offering a variety of advantages to those trading OTC derivatives.

Specifically, the service supplies near real-time pre- and post-trade transparency data (RTS 2), as well as TOTV and uTOTV determination (without ANNA). An API interfacing with the ANNA DSB enables users to query the ANNA DSB for ISINs, as well as for ANNA ToTV and uToTV. It allows users to create ISINs through the ANNA DSB, and it also returns a full set of ANNA and ESMA enrichment data for TOTV instruments. The API hides the complexity of ANNA interaction and, importantly, eliminates the need for users to build their own infrastructure with which to connect to the ANNA DSB.

In addition, a "best fit" algorithm for ToTV allows users to understand whether an OTC transaction falls within ESMA definitions on an intraday, (T+0) basis. Users are therefore not dependent on waiting for the latest updates to ESMA FIRDS (which are T+1) in order to make this determination.

Facilitates smooth processing
Additional validations ensure that processing runs smoothly. These include counterparty LEI, counterparty role identification (e.g. central bank, systematic internaliser, MIFID investment firm), and market identifier codes (for example, regulated market, MTF, OTF or systematic internaliser). The API also checks for local deferrals and suspensions, pinpointing the relevant NCA and monitoring for any pertinent information.

Distribution options
Data is delivered daily as full file and deltas. SFTP/FTP delivery. All information is normalized to the instrument level.

API deployment options
The API Service is offered as a fully hosted, resilient service or can be deployed on a customer site.

About The SmartStream Reference Data Utility (RDU)

Financial institutions are critically dependent on high quality reference data to ensure that they can successfully trade electronically, automate their operations and report accurately to regulators. Large institutions spend millions of dollars to improve data quality, fix data issues and manage the exceptions that occur due to bad data.

The SmartStream RDU offers a simple solution to satisfy those complex reference data needs, by providing a high quality security master built using industry best practises. The RDU is the product of an initiative developed in close association with demanding global institutions and has been proven to deliver dramatically better quality data.

For more information visit:
smartstreamrdu.com