Regulation

Financial Markets On The Move

The success or failure of investment products on the financial markets can often be substantially determined by the legal regulatory conditions – a fact that can also apply to the cost and revenue structures of financial service providers. Consequently, the EC’s Markets in Financial Instruments Directive (MiFID), which stipulates a stricter regulation of the European markets (for the benefit of investors), required the attention of banks and stock exchanges across Europe.

MiFID, transposed into national law on 1 November 2007, broadens and strengthens market regulation across Europe. MiFID introduces a single market and regulatory system for investment services and affects virtually all areas of the financial services industry. It has changed the European financial markets since it became effective and there will most likely be further changes as markets adjust to the new MiFID world. So far, it seems that many market participants have been focusing heavily on complying with MiFID rather than exploiting the many opportunities that MiFID can provide. Not only are investment firms impacted, but also governments and competent authorities, which may still be finalising rules and regulations in some countries. Market participants in jurisdictions that finalised their rules and regulations close to November 2007 have been impacted in a negative way as they had less time to change their operations in order to comply. The impact in jurisdictions where the rules and regulations were not finalised by 1 November 2007 will be greater and will raise significant challenges for affected organisations.

At this relatively early stage, both regulators and firms seem to be finding their feet in the MiFID world. MiFID has already had an impact across Europe as it has forced banks and financial institutions to react to the new regulations. As a consequence, financial institutions might need to seek to optimise their customer advisory processes, for example, in end customer advice. Market participants regulated by MiFID should have already identified how they need to change their operations in order to comply. Key to this is the procurement of market data necessary for the various business functions to identify when a particular aspect of MiFID is relevant. In addition, market data is required under MiFID for a firm to demonstrate MiFID compliance. Furthermore, under MiFID, financial firms will require market data to monitor and prove their operational policies, to identify new areas of opportunity and to be aware of market developments that can affect their competitiveness.

Blurred Boundaries Between Funds And Derivatives In Germany

The impact of MiFID – in combination with other market regulations – can lead to different results within individual countries. For example, regulations start to have an impact on funds and derivatives in Germany as they contribute to shift market conditions for these asset classes. This has become a focus of discussion in the industry (see also page 10/11), since derivatives have become a very successful asset class in Germany during the last few years.
The funds segment faces more regulation which will most probably allow for more flexibility: the so-called “Amendment of the German Investment Act”, which takes effect at the beginning of 2008, will most probably lead to increasing flexibility regarding the structure of mutual funds as it is expected to provide investment companies with increasing flexibility when releasing new funds products.

Among other things, the combination of MiFID with other country-specific market regulations can result in the increased merging of individual asset classes. Consequently, funds with a certificates structure have started to enter the market in order to combine the advantages of both classes. This trend could possibly continue to grow in the near future. It is foreseeable that these trends will pose new challenges to financial service providers.

**New Challenges For Financial Service Providers**

Such change presents entirely new challenges to applications and their underlying databases, since queries will become even more complex in the future and the requirements to be met by data suppliers will continue to grow. With robust systems, financial service providers have the chance to improve their market position and gain competitive advantages.

With its powerful Market Data Gateway platform, Interactive Data Managed Solutions is helping to meet these requirements, providing its customers with support and assistance along the way.

**Interactive Data’s businesses offer a broad, cohesive range of data and services to help customers comply with the obligations imposed by MiFID:**

- **Real-time pre- and post-trade pricing data**
  Interactive Data collects, consolidates and disseminates pre- and post-trade pricing information via its low latency, digital datafeed service, PlusFeedSM and makes it available via its various services.

- **Tick repository**
  The new tick-data repository – which has stored both Level 1 and Level 2 quote and trade data from 1 November 2007 – can help investment firms demonstrate best execution.

- **MiFID Advisor Suite**
  is designed to help investment firms comply with their MiFID code of conduct obligations, enabling online classification of clients or suitability check and appropriateness tests, among others.

- **Intra / end-of-day pricing data**
  Interactive Data’s FTS\textsuperscript{SM} online portfolio administration service will implement price selection hierarchies that can select a ‘best valuation’ pricing source; criteria include items such as date, time, venue, volume and price.

- **MiFID reference data**
  Interactive Data’s businesses can offer its customers comprehensive high quality reference data.

Pricing, evaluations and reference data are provided in the US through Interactive Data Pricing and Reference Data, Inc. and internationally through Interactive Data (Europe) Ltd. and Interactive Data (Australia) Pty Ltd.
Interactive Data Corporation (NYSE: IDC) is a leading global provider of financial market data, analytics and related solutions to financial institutions, active traders and individual investors. Interactive Data, headquartered in Bedford, Mass., has approximately 2,400 employees in offices located throughout North America, Europe, Asia and Australia.

Interactive Data’s Managed Solutions business is a leading provider and operator of customized financial information systems. The group builds and manages Web-based financial market data portals and terminals for a range of organizations worldwide, from retail and investment banks to asset managers, online brokers, stock exchanges and media portals. By aggregating a broad set of financial data and client-proprietary content and offering visually stunning features such as charts, sophisticated search functions, decision-support tools and analytics, these intuitive applications can help customers optimize their business processes and realize efficiencies. This group is managed as part of the Interactive Data’s Real-Time Services business, which provides a comprehensive suite of offerings that includes PlusFeed(SM), a consolidated, low-latency digital datafeed.

For more information about Interactive Data and its businesses, please visit www.interactivedata.com.