Insideview

Buy-Side Trading – First Impressions: 180 Days into MiFID II

INTERVIEW WITH CHRISTOPH HOCK

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Since January 3rd, 2018, MiFID II has to be applied in the European Union. What are the main implications of MiFID II and has the regulatory initiative changed your role as trading desk?

Our role as a trading desk has not changed at all. In MiFID II, just as it was under the rule of MiFID I, our ultimate goal has always been to deliver a true best-in-class service to our clients – internally, our portfolio managers, externally, our investors – and to offer best execution at all times. Reaching this aim is not just another box to tick but requires both deep market insight and strong relationships with other market participants as well as a sophisticated electronic approach. In this context, and in particular under the regime of MiFID II, it is key to have access to the very best sources of liquidity in order to fulfill the highest standard of our best execution policy.

What are your main observations? Do you think that the cost of trading, i.e., your market impact, has decreased?

I think it is too early for a comprehensive review of the impact of MiFID II, despite the fact that the regulatory initiative has been live for roughly 180 days. At first glance, though, the costs are improving slightly in favor of our clients. Our internal transaction cost analysis (TCA) confirms this.

Do you see differences in market segments and trading venues concerning the impact of the new regulatory set of rules?

Most definitely. In lit markets, average spreads tend to be at levels pretty similar to what we have experienced in 2017. However, order book depth has diminished substantially. Another observation is that due to the implementation of MiFID II and its double volume caps, dark pool activity as in multilateral trading facilities is reduced substantially. The regulators' goal to somehow limit dark pool trading has been at least partially achieved. Looking at new sources of liquidity, we notice enhanced market activity.

Could you provide us with some examples for new sources of liquidity?

Of course. We do notice that central risk books at bulge brackets firms and conditional LIS (large-in-scale) venues are being used more actively. The same holds true for systematic internalisers and periodic auctions. These liquidity sources benefit from the double volume caps. They allow for more flexibility on the one hand and simultaneously require an enhanced skill set of our traders on the other hand.

So what's next? Do you see further modifications from regulators' perspectives, e.g., MiFID III?

We are in constant exchange with our regulators to serve as a partner and consultant in case that modified regulatory measures are to be planned and eventually installed. Our objective is to support the development and improvement of a functional regulatory framework. We do this in order to be up to date and to offer our market insights to regulators. At the same time, it is our goal to take part in the process and to make sure that the cost of trading is further reduced to offer our clients and our investors the best service possible. This applies to equity trading as well as to fixed income, FX, derivatives, commodities, and securities lending.

What is the role of the trading desk in the investment process as of today?

Trading has become much more crucial in the world of asset management. This development is not entirely new and we have been playing an active role in it for the last years. What we do notice more recently is the intensified focus that investors put on a professional high-quality trading desk. From a process perspective, top-notch trading capabilities are of the highest importance to clients. It appears to be an integral part of the investment process.

Thank you for this interesting conversation.