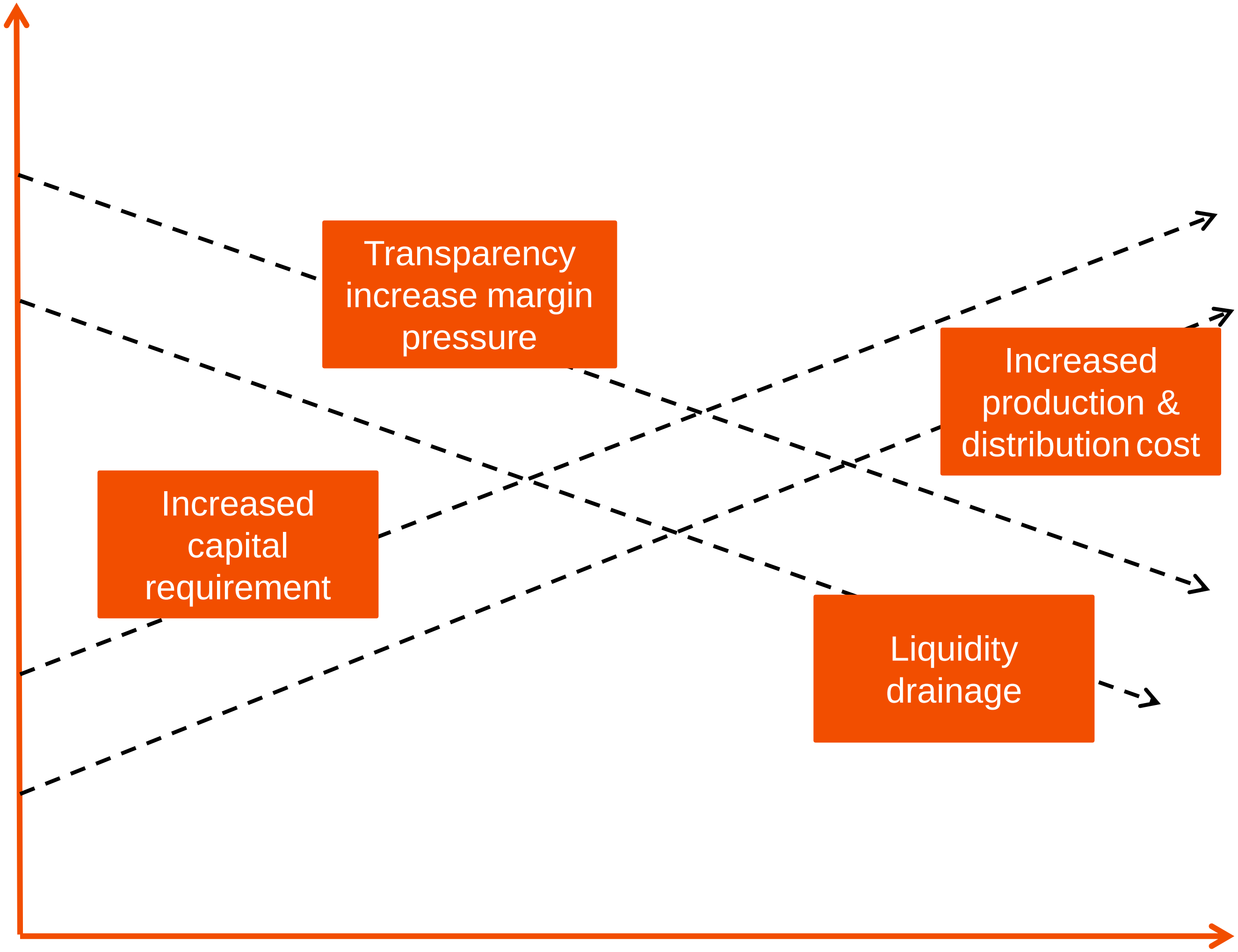
The MiFiD II regulatory landscape

2017-02-07

Main impacts from existing and coming regulations



Main effects in general terms:

- **Transparency** will lead to margin pressure and liquidity scarcity in the fixed income business, and
- Costs stemming from **increased capital requirements** will increase the price to client.

Effects of MiFID II/MiFIR – for clients

Anticipated effects for the clients

- Higher prices
- Municipalities classifieds as non-professionals
- Reduced OTC trading
- Less access to liquidity
- Additional documentation requirements
- From voice to electronic trading
- Research forced to pre-paid research account?
- More complicated to make a deal

Effects of MiFID II/MiFIR – for the bank

Anticipated effects for the bank

- Increased production cost
- Pre- and post trade disclosures
- Trading obligation
- Best execution policy
- RFQ
- Pre-sales requirements
- Expect to see lower spreads
- Define target market for each product
- Additional products classified as complex
- Reduced trading / hedging
- Electronic trading

Effects of MiFID II on order to trade life cycles

Case Study

Macro and micro look at the effect of MiFID II

Macro

- The regulation itself (unclear, high uncertainty with a lot of assumptions, absence of definitions, Q&A still outstanding).

Micro

2013
First info received

2014 | 2015 | 2016 | 2017

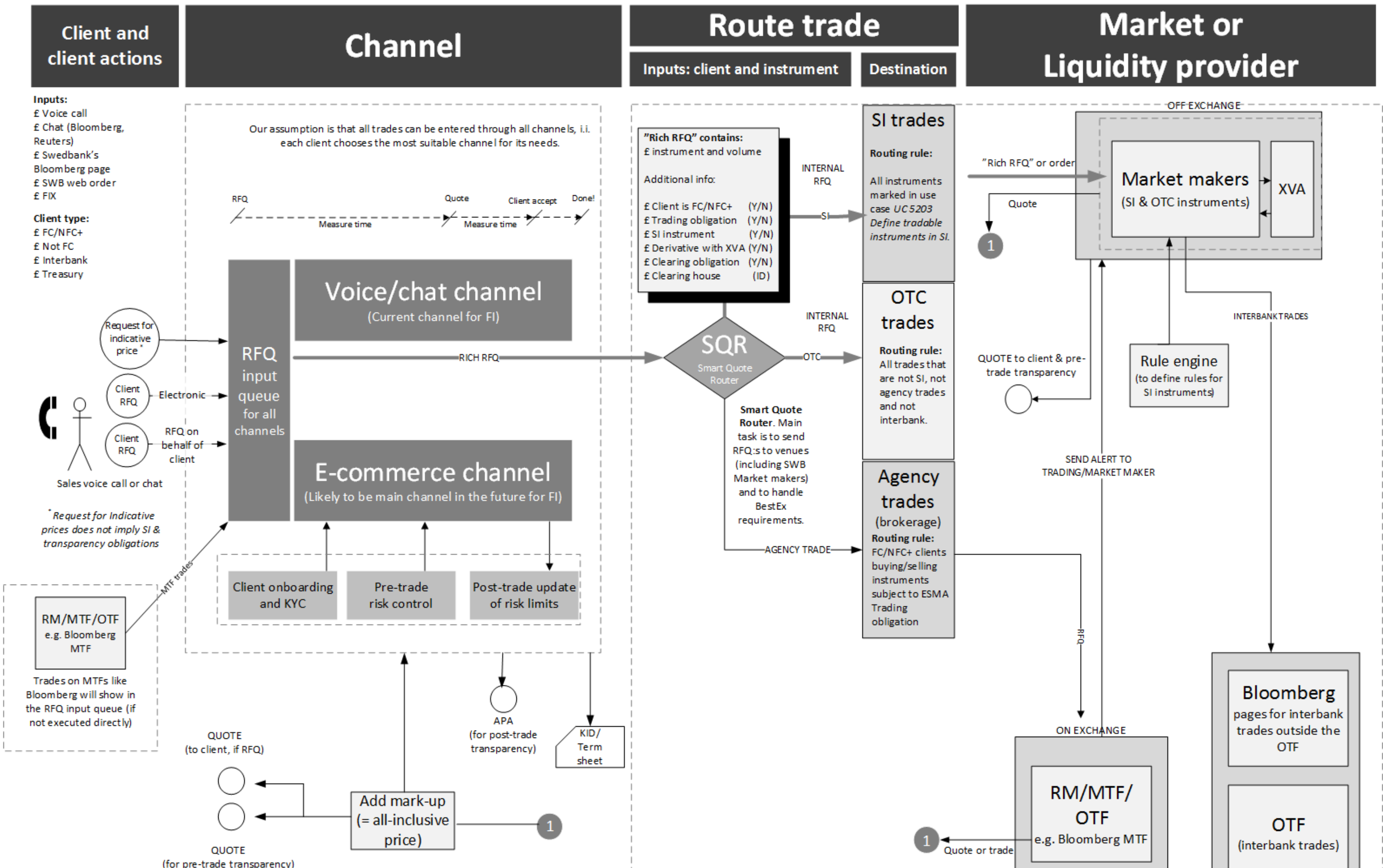
- Our interpretation of the regulation versus future market practices
- No guidelines or common take from the industry – what will it mean in practice?
- Interpretation dependent on commitment from local FSA
- Differences in market structures across countries in Europe
- Local customers with global contacts

Macro and micro look at the effect of MiFID II (cont.)

Micro

2013	2014	2015	2016	2017
	It´s official! MiFID II will come in to place.	Swedbank initiates a project within LC&I. In mid 2015 Swedbank launches a program on group level.	H2 2015 and H1 2016 – Really understanding and defining requirements H2 2016 – decide on investments for supporting future customer behavior.	Development, testing and implementation

The emergence of a new regulatory workflow



MiFID's transparency regime for non-equity SI instruments – how bad will it hurt?

		Transparency to public	Transparency to clients
Pre-trade	Liquid	Published in realtime if below thresholds	
	Illiquid	No transparency	Disclosed upon request
Post-trade	Liquid	Published in realtime if below thresholds Above thresholds deferral T+2 or T+4 weeks	
	Illiquid	No transparency	Disclosed upon request

Firm quotes from SI instruments will be transparent below thresholds.

Major concerns – information leakage

- We fear that our positions will be transparent to the outside world
- Will affect our risk appetite
- Will affect the ability to meet customer needs in instruments below SSTI

Possible ways to control and limit risk as sell-side

- Commercial policy is a framework
- General and non-discriminatory limits for firm SI quotes (e.g. *“SSTI x factor”*)
- Client tiering for cash instruments and derivatives
- Careful choice of pre-trade transparency solution
- Careful choice of post-trade APA vendor (alone?)
- Continuously updated quotes

The effects of an increase in execution method choices, competition among various trading venues and the break up of liquidity

- From storing an RFQ to done deal as an SI or alternatively routing the RFQ to a venue.
- Not only competition among different trading venues but also between banks introducing fully fledge electronic trading.

Possibilities for Swedbank

- Will there be a need for banks as intermediaries?
- Is agency model sustainable for trading on own books?
- Swedbank's strong balance sheet gives possibilities to take on risk but also to price risk a little bit different in the future.
- Possible business models may take us from market maker to broker.

- Sweden is a small country with its own currency. Hence, the liquidity assessments may diverge from Europe.
- Large investments in IT infrastructure can pave the way to become more relevant to our clients. We all have legacy systems and in the Nordics, we are still phone based.
- Over time, our clients will expect more electronic trading

What's next?

- More electronic trading – good for retail clients
- More competition – tighter spreads, good for retail clients
- Less liquidity – refinancing risks for corporates, buy to hold for institutions
- Higher risk due to more transparency, less liquidity and higher capital charges – more expensive for buyers
- Lower prices for more transparent small tickets – good for retail clients
- More regulations… ☺ MiFID III etc.