# Revolution in rules governing markets in financial instruments (1/21/17)

After the 2008 financial crisis, the European Commission found that the rules governing markets in financial instruments are not safe enough and need substantial changes. After a round of consultations about ways to improve the financial instruments markets rules in 2010, the Commission launched an initiative to recast the existing EU legislation on markets in financial instruments. Among other things, this initiative provides for implementing the Second Markets in Financial Instruments Directive (MiFID II) and the Markets in Financial Instruments Regulation (MiFIR). This article explores some of the main changes to the rules governing markets in financial instruments.

## The goals of MiFID II and MiFIR

The main goals of MiFID II and MiFIR are to provide investor protection, reduce systemic risks, ensure efficiency of the financial markets, and reduce their participants' costs. Both MiFID II and MiFIR came into force on 2 July 2014, and their requirements are to apply across the EU from 3 January 2018. MiFIR as a regulation will be directly applicable across the EU, and MiFID II as a directive is to be passed into Latvian legislation by 3 July 2017. The Latvian Financial and Capital Markets Commission is actively drafting amendments to the Financial Instruments Market Act as the main piece of legislation for adopting the MiFID II requirements in Latvia.

In general, these initiatives entail quite extensive reforms to the rules governing markets in financial instruments. The main changes are shown in the chart below:



### Investor protection

- Tighter requirements for advertising the investment services and ancillary services of financial institutions, investment broker companies and insurance companies to private clients
- Clearer rules for determining whether investment services and ancillary services are adequate and promote client interests
- Tighter requirements for disclosing payments received and made by financial consultants

#### Market transparency

- Tighter requirements for the obligation to report to clients (e.g. losses exceeding a 10% threshold) and to the Financial and Capital Markets Commission (e.g. trading on the multilateral trading system or an organised trading system)
- Including after-sales data in the consolidated tape (an electronic program that provides continuous, real-time data on trading volume and price for exchange-traded securities)

#### Internal systems

- Clearer requirements for internal corporate governance rules in investment broker companies and financial institutions
- New requirements for the management of investment service providers

# External systems

- Tighter rules regarding the obligation to report to the Financial and Capital Markets Commission
- Third-country investment service and ancillary service providers' access to professional clients and legitimate business partners

#### Market structure

- Implementing organised trading platforms
- The list of investment services is supplemented with emission permits, emission permit derivatives and commodity derivatives traded on organised trading platforms.
- Restrictions on trading outside a regulated market and/or multilateral trading platforms
- Special rules for high frequency trading and algorithmic trading
- Rules for free access to trading platforms and central business partners
- Rules for position limits on commodity derivatives
- It is generally provided that trading in any types of financial instruments is only conducted on a regulated market (a stock exchange, the multilateral trading system, or an organised trading platform).

Overall, these reforms are extensive and complicated. The lawyers at PwC Legal would be pleased to advise you and provide legal assistance on matters regarding the application of MiFID II and MiFIR as well as your company's compliance with their requirements.