ASSIGNMENT COVER SHEET

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1. ABSTRACT

The financial industry has seen a number of RegTech innovations that help financial institutions comply with regulatory obligations. In the financial sector, FinTech and RegTech are intimately related to one another. One of these FinTech rules, MIFID, is covered in this research. MIFID stands for "**Markets in Financial Instruments Directive."**

We have established the context by defining MIFID and describing its requirements in Ireland. Laying out a regulatory framework that shows how well EU investors are protected and how interested they are in participating in EU financial institutions The implications of MIFID 1, MIFID 2, and MIFIR are then discussed in order to create more equitable, secure, and effective markets as well as to promote more openness for all participants. The following study uses an appropriate exemplification of RegTech companies to explore the relationships between these laws. For a better understanding of the fundamental ideas, the rules and obligations necessary for appropriate compliance with MIFID 1, MIFID 2, and MIFIR have also been presented.

To go deeper into the legislation, we have also spoken about the changes that MIFID 2and MIFIR have brought about in terms of financial rules. Finally, we have examined two distinct RegTech firms that might assist our company in complying with this regulation by utilizing their Artificial intelligence and Machine learning algorithms rule and shield us from fines. Finally, we arrive at a conclusion and chose Eflow organization which can help us with MIFID and its regulations.

2. INTRODUCTION

The report on MIFID and its regulations is being written for the Board of Directors of Fisher Investment. The report's main purpose is to protect our organization from fines and penalties imposed by the Central Bank of Ireland, preserve client information from fraud, and promote participation in the financial institution. According to the European Commission, we are obliged to adhere to MIFID obligations and standards as an investment firm. As a compliance officer, I examined the major directives and rules contained in MIFID and created an engaging report that provides a clear understanding of MIFID and its laws, as well as their influence on our organization.

MIFID aims to provide all EU members with a uniform, comprehensive regulatory framework that protects investors. It was implemented a year before the 2008 financial crisis, but adjustments were made in response to the crisis, which took the form of MIFID II. The MIFID 2and MIFIR regulatory frameworks promote investor protection and improve financial market functioning, making them more efficient, robust, and transparent.

This report provides a high-level understanding of MIFID and its regulatory framework. changes brought forth by MIFID 2 and MIFIR and their significance for our investment firm.

The Markets in Financial Instruments Directive (MIFID) is a European Union regulatory framework that promotes greater transparency in financial market operations and standardizes disclosure requirements for European Union investment firms and banks. MIFID is regarded as a cornerstone of financial market legislation.

3. HISTORY OF MIFID

The Markets in Financial Instruments Directive (MIFID) came into force November 2007 (ESMA, 2022).

MIFID applies to investment firms based in the EU, but it is not an EU investor protection measure that applies to firms based anywhere in the world that provide services to EU clients. MIFID's requirements apply to all EU-based firms, regardless of where their clients are located or where the relevant instrument is listed or traded. MIFID introduced new measures, such as pre- and post-trade transparency requirements, and established the standards of conduct that financial firms must follow. MIFID has a specific scope that primarily applies to stocks.

The EU implemented three major pieces of legislation:

- LEVEL 1: The MIFID Directive, which was level 1 legislation, set forth the primary requirements for investment firms conducting business on the EU securities market.
- Level 2: The laws provided specifics on how each member state should carry out the Directive.
- MIFID 1: These three pieces of legislation were collectively referred to as MIFID I.

3.1 MIFID'S REGULATORY FRAMEWORK

MIFID 1 established a legal framework for investment firms to offer their services in the EU. It included the following:

1. Organizational standards and business practices for investment firms

This implied that investment firms had to conduct business and establish their corporate structures in accordance with the guidelines set forth by the EU in the Directive.

2. Requirements for authorization in regulated markets

This meant that in order to obtain authorization to conduct business within the EU, one had to request formal authorization from the appropriate authority in a member state. A competent authority is, for instance, the Central Bank of Ireland.

MIFID established standards that had to be met in order to harmonize this process among member states.

3. Regulatory reporting to prevent market abuse

MIFID required investment firms to complete various types of reports and submit them to the appropriate authority. These forms contained a massive amount of data about the investment firm's trading activities in order to improve oversight and transparency and thus avoid or identify market abuse.

4. Shared trade transparency obligations

Any investment firm trading in shares was required to complete additional reports containing trade details in order to improve transparency.

5. Trading rules for financial instruments

If any EU investment firm or institution created a new financial product or instrument and wanted to place it on a financial market for trading purposes, they had to follow the rules outlined in MIFID.

4. EVOLUTION OF MIFID 2

During the 2007–2008 financial crisis, many investment firms were found to be violating MIFID 1, and many investors in the EU and around the world lost large sums of money.

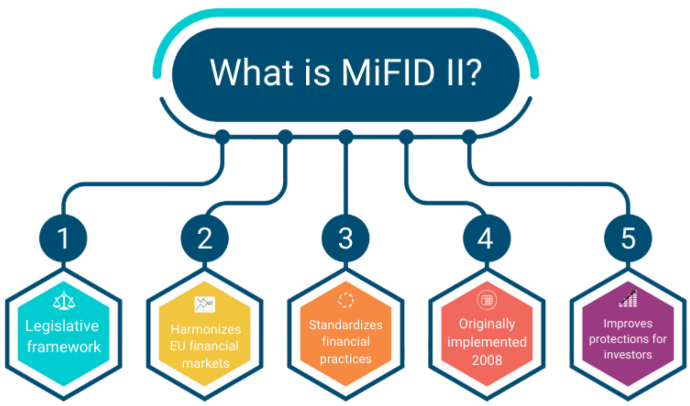
When it became clear that MIFID 1 could not meet adequate investment regulations, MIFID 2 was implemented as the new arrangement, taking into account the lessons learned during the crisis.

One flaw in some of MIFID 1 underlying principles was that the stated rules of conduct did not apply to countries outside of the European Union. This meant that some investment firms operating outside the EU could have an advantage in regulating investment activities over firms operating within the EU.

The Directive on Markets in Financial Instruments, also known as MIFID 2, went into effect on January 3, 2018, replacing MIFID 1. In addition to the directive, a regulation known as MIFIR also came into force in 2022.

MIFID 2 governs the provision of investment services in financial instruments.

It applies to investment firms, wealth managers, broker dealers, product manufacturers, and credit institutions that are MIFID-authorized. It also affects trading venues, market operators, alternative investment fund managers, investment intermediaries, data reporting service providers, and third-country firms providing investment services in the EU.



4.1 NEW CHANGES IN MIFID 2

The new directive repeals Directive 2004/39/EC, which strengthened the existing securities market rules. MIFID II:

- Trading Organization
- Algorithmic and High Frequency Trading
- Transparency and Oversight of Financial Markets
- Investor Protection

1. Trading Organization

Only regulated platforms are used for organized trading.

2. Algorithmic and High-Frequency Trading

Trading Rules for Algorithmic and High-Frequency Trading (as computer systems were now being used to make investment decisions and high volumes of trades). The rules have been updated to require investment firms to state whether each trade decision was made by a computer or by a human.

3. Transparency and Oversight of Financial Markets

Improve transparency and oversight of the financial markets, particularly the derivatives markets. Derivatives were the primary contributor to the financial crisis. New reporting requirements for derivative transactions were introduced by MIFID II.

4. Investor Protection

Increase investor protection through stricter business conduct regulations.

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5. REGULATIONS OF MIFIR

The Markets in Financial Instruments Regulation (MIFIR), which set forth additional, enhanced requirements for investment firms, is as follows.

- Making public information about trading activity.
- Transparency with regulators and managers regarding transaction data.
- Mandatory trading of derivatives only on authorized exchanges.
- The elimination of obstacles between trading platforms and suppliers of clearing services to promote greater competition.
- Specific supervisory actions with regard to derivatives positions and financial instruments.

5.1 CHANGES BROUGHT BY MIFID 2 AND MIFIR

1. **Conduct of Business and Investor Protection**

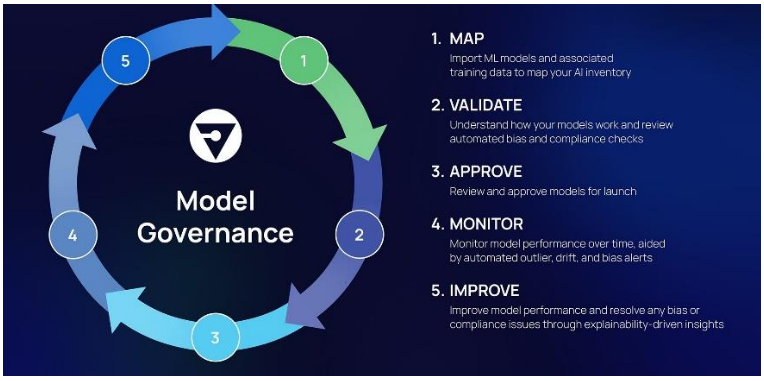
MIFID 2 strengthens the role of the compliance officer. Compliance officers must ensure that employees who sell or advise on MIFID financial instruments understand the MIFID 2 compliance requirements. Staff who advise or sell to clients are also subject to stricter remuneration controls. This is done to ensure that employees act in the best interests of their customers. Client disclosure to investment firms has also increased. Clients of advisory and portfolio management, for example, receive a detailed suitability assessment on a regular basis.

2. **Supervision of Power**

Competent authorities, such as the Central Bank, and European Supervisory Authorities, such as the European Securities and Markets Authority (ESMA) or the European Banking Authority (EBA), now have the power to restrict or suspend the marketing and/or sale of financial instruments in certain situations when there are high risks to investors' funds or the stability of the financial system.

3. **Governance**

MIFID 2 requires MIFID investment firms to adhere to stricter governance standards. Senior executives and directors who are qualified must devote enough time to their jobs.



4. **Broadened Scope**

New financial instruments are included in the scope due to its expansion (such as emissions allowances and structured deposits). Additionally, some exemptions were eliminated or reduced under MIFID II. For instance, MIFID 2 now permits investment companies whose sole function is to trade on their own behalf using high-frequency trading.

5. **Firm Authorizations**

MIFID 2 ensures that the authorization process is consistent across Europe.

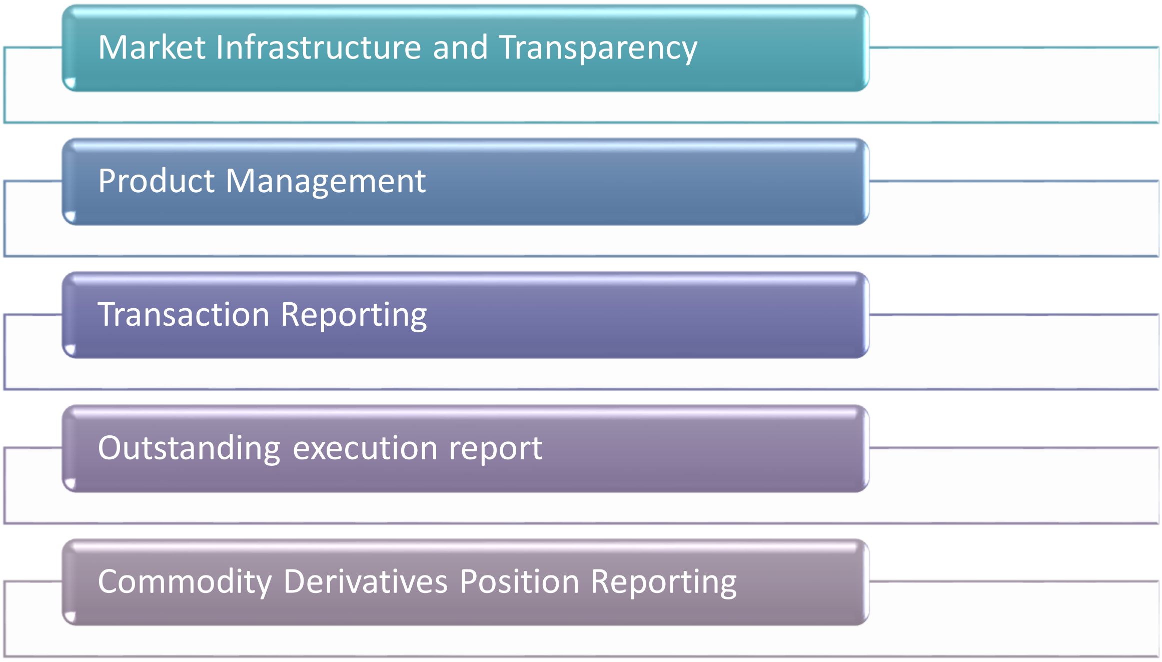
6. **New Trading Venue**

The Organized Trading Facility (OTF) has been introduced as a new trading venue for non-equity instruments (such as bonds, structured products, and derivatives).

7. Transparency

MIFID 2 improves the overall transparency regime for financial markets. This is accomplished by extending the transparency requirements beyond equities and equity-like instruments to non-equity instruments. This will ensure that a broader range of pre-trade and post-trade disclosures regarding orders submitted to and transactions conducted on trading venues are made.

6. IMPACT OF MIFID II/MIFIR ON OUR FIRM



1. Market Infrastructure and Transparency

- This will cover all our trading venues, regulated markets, organized trading facilities (OTFs), and high-frequency trading (HFT).
- Investing in non-equity securities
- Market and trading facility regulations are now in sync.

2. Product Management

- The scope of reportable financial instruments has expanded to include commodities derivatives, interest rate derivatives, and foreign exchange derivatives.
- It can help our help to develop financial products and establish target markets and distribution channels.
- Product performance must be reviewed on a regular basis.

- Since distributors will be distributing the current product to clients, they should be knowledgeable about the product.

3. <u>Reporting</u>

- An investment firm submits information to the CBI, which subsequently monitors and looks for abuse.
- They will also assist us with number of data fields required for each transaction.
- Illiquid instruments, stock trading, person-executing-trade details, and short sales are also included in the detailed trade report.

The following are the most crucial reporting requirements:

- MIFIR – Transaction Reporting
- MIFID II – OTC trade reporting
- MIFID II – SI services (Systematic Internaliser)
- MIFID II – Best Execution Reporting
- MIFID II – Commodity Derivatives Position Reporting

A. Transaction reporting

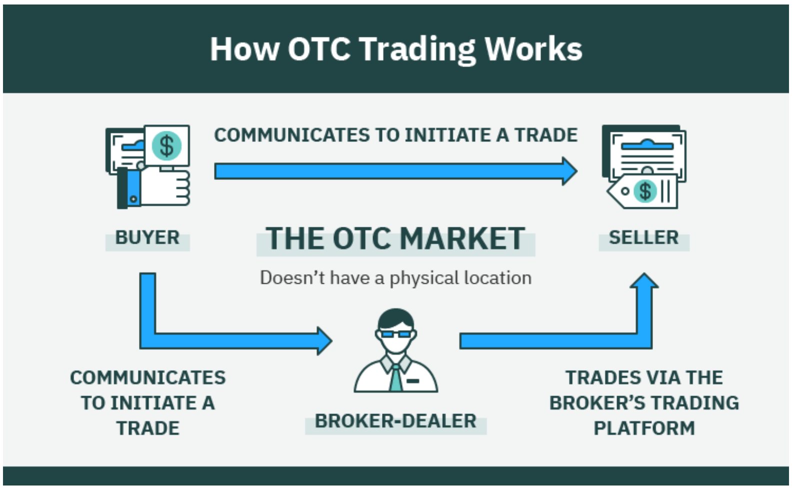
- More information must be reported by firms under MIFID II, including the identification of the people or computer programs in charge of an investment decision.
- Investment firms will give information to CBI, which will subsequently monitor and identify misuse.

Transaction reports must include the following information:

- The names and numbers of the financial instruments purchased or sold;
- The amount;
- The dates and times of execution; and
- The transaction prices.

B. OTC trade reporting

- The OTC Reporting Facility (ORF) is a service that reports trades in OTC equity securities that are not performed on or via an exchange, as well as trades in restricted equity securities that are completed in accordance with Securities Act Rule 144A and the dissemination of last sale reports.
- For example, OTC information must be made public as soon as possible (the CBI may authorize a deferral).
- between 60 minutes and the end of the next trading day for shares, depository receipts, ETFs, and other similar products.
- Two days to four weeks for bonds, structured finance products, emission permits, and derivatives.



C. SI Services (Systematic Internalizer)

- SI is a firm that trades on its own account by executing customer orders on instruments that are not traded on regulated markets or MTFs on a "regular, frequent, and systematic basis."
- SI deals with both equity-like securities like depositary receipts, certificates, and exchange-traded funds and non-equity instruments including bonds, derivatives, emission permits, and structured finance products.

4. Outstanding execution report

- Investment companies must take all necessary measures to acquire the best possible outcome for their customers when executing orders.
- They should look after the price, cost, execution, and settlement of the order.

- The investment company must execute the transaction in accordance with the instructions given by the customer.

- Execution venues must provide quarterly reports on the quality of their execution.
- Provide a summary of the analysis and conclusions drawn from extensive monitoring of the quality of execution achieved on the execution venues for each class of financial instruments.

5. Commodity Derivatives Position Reporting

- To avoid market abuse in commodities markets (e.g., developing and exploiting dominant holdings), Competent Authorities (CBI) require investment companies to disclose daily details of their commodities positions.
- Ensures that enterprises do not exceed the total amount of a commodity or contract in possession for a particular month.

7. IMPLEMENTATION OF THE REGULATION

According to EU law, each member state's competent body is responsible for implementing the Regulation and transposing the Directive into national law. The Central Bank of Ireland is the responsible authority in Ireland.

1. DIRECTIVE: The Directive and Regulation were transferred into Irish law by the European Union Regulations on August 10, 2017.

2. ESMA STANDARDS: ESMA continuously develops technical standards to assist member states in implementing legislation. These standards not only provide information on how to adopt them, but they also serve to resolve questions that were previously unclear.

8. ORGANIZATION INVOLVED IN MIFID

The regulation imposes a large reporting burden on businesses on the Central Bank of Ireland. RegTech companies now have a chance to offer market participants solutions to lessen their reporting load.

Following are the two companies that can help our firm with MIFID regulation.

1. ACA

The ACA Compliance Group was created in 2002 by four former SEC regulators and one former state regulator. It enables investment advisers to obtain expert advice on existing and emerging rules.

ACA has expanded its business and technological solutions both organically and through acquisition throughout the years. Verification, cybersecurity and technology risk, regulatory technology, ESG advising and analytics, AML and financial crimes, financial and regulatory reporting, and Mirabella for setting up EU operations are now among the services offered.

Following are the regulations and legislation that help ACA assist with: MIFID, MIFID II, KYC, AML, AIFMD, SFTR, EMIR, MIFIR, and MAR.

Compliance Administration

Compliance Management Solution offers a governance, risk, and compliance technology platform for managing a firm's compliance program activities and identifying potential issues through automated risk monitoring, compliance activity tracking, up-to-date reference compliance content, reporting, and visual analytics.

ACA can help with a variety of relevant compliance issues. Following are the considered which can help our firm:

1. MIFID 2 Consulting and Support

The goal of the post-implementation assessment is to evaluate, benchmark, and test the MIFID II program in order to find any gaps and lower your regulatory risk.

2. Transaction Reporting

Transaction reporting under MIFID II mandates that businesses disclose a lot more data, including the identity of the people or software programs in charge of an investment decision. Since reporting is crucial for tracking systemic risk, regulators should pay more attention to the accuracy and timeliness of their data.

ACA can be useful here. With the support of ACA's Regulatory Reporting Monitoring and Assurance (ARRMA) service, businesses can immediately detect corrective modifications that would otherwise require specialized internal resources that could divert attention from other projects.

According to ARRMA studies, 97% of MIFIR and EMIR reports are inaccurate, and each report includes an average of 30 different types of errors.

While many businesses provide platforms for reporting technology that enable the creation of reports or mistake analysis, ACA notably goes one step farther.

The outstanding addition is the inclusion of their independent consulting skills, oversight, and assurance that offers practical remediation support. They not only analyse the reports produced by firms but also independently create external platforms to question framework assumptions.

2. Eflow

Eflow was It was founded in 2004 and has been delivering regulatory compliance solutions to the financial services industry for over 20 years. Currently, they serve over 100 regulated organizations, ranging from tiny family offices to multi-jurisdictional banks, offering both buyside and sell side firms fast, efficient software designed to keep them compliant and competitive. Trade surveillance for market abuse, best execution and transaction cost analysis, custom and bespoke regulatory reporting, transaction reporting, eComms surveillance, and MIFID 2 record keeping are among the services provided by the company.

Regulation/Legislation: MIFID II, AIFMD, MAR, MAD II, EMIR, MIFIR, SFTR, MAS, SEC, ASIC, FINRA.

MIFIR Reporting

In just a few clicks, they can compile trade data and prepare regulator-ready MIFID 2 reports.

Following are the solutions for Regulatory Reporting for our firm.

Here are some of the most important regulatory reporting features.

1. Global Regulatory Compliance

Regulatory solutions for a variety of international regulatory standards

2. MIFID 2 Compliance

3. Handling large volumes of data

Ability to absorb and analyse massive amounts of data. Every day, millions of trades are executed.

4. Reporting of Transactions

Transaction reporting capabilities for EMIR and MIFIR

5. Comprehensive Coverage

Orders, transactions, communications, and paperwork may all be saved and accessed instantly.

6. Long-Term Sustainability

Keep data for the 5-7 years mandated by ESMA and other European National Competent Authorities (NCAs).

7. Storage of WORM files

Keep all data in MIFID-compliant storage. To ensure data security, use the "Write Once Read Many" (WORM) formats.

8. Preset and customized reports

PATH's integrated reporting functionality allows you to rapidly compile reports on saved data.

9. Large-Volume Data Processing

Every day, we ingest and process millions of deals and records without slowing down.

10. Immediate data access

With a few mouse clicks, we can access any data stored on your PC.

All systems include built-in reporting capabilities. It implies we can generate reports on all saved data at no extra expense. Reports can be tailored to cover multiple time periods, filter various types of data, and be exported in a variety of file formats.

9. CONCLUSION

The duty to report transactional details has long been in place, but as regulations have developed, it has grown more burdensome and complicated. The FCA (Financial Conduct Authority) has identified enhanced regulatory reporting as one of its supervisory objectives after issuing fines for reporting errors or omissions under MIFID and EMIR European Market Infrastructure Regulation in amounts ranging from small to more than £130 million.

After conducting a number of assessments, I believe that Eflow is a fantastic company that can assist our investment firm by offering its MIFID Reporting services. Our company will be able to spot issues with the thoroughness, accuracy, and timeliness of our trade and transaction reports thanks to their award-winning trade and transaction reporting systems. The operational effort of re-reporting as well as the cost and reputational risk associated with regulatory scrutiny and enforcement can be considerably decreased by quickly identifying inaccuracies.

Using data analytics, APIs, and ARMs (MIFIR Approved Reporting Mechanisms), they provide quick fixes. These approved third parties may submit reports to our Competent Authority on our behalf. To guarantee that their customers receive the greatest products and services available, they collaborate with a variety of technology pioneers. I've included the company's links in this report for your convenience, and we'll proceed with the rest of the process based on your choice.

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