

Clock synchronisation under MIFID II

What is the requirement?

MiFID II requires that all trading venues and their members or participants synchronise the business clocks they use to record the date and time of any reportable event. (Article 50(1) MiFID II)

Business clocks must be synched to Coordinated Universal Time (UTC) and venues and their members or participants need to establish a system of traceability to UTC.

The aim of the clock synchronisation requirement is to, amongst others, make sure there is consistency in reporting to ease the creation of a consolidated tape and to assist market surveillance.

Am I affected?

The requirement applies to members or participants of trading venues. These terms are used interchangeably. Electronic Request for Quote (RFQ) systems common in fixed income markets are typically regulated as trading venues.

If you directly trade on these platforms by submitting RFQs you will likely be considered a 'participant' and would be subject to the clock synchronisation rules.

What do I have to do?

Time stamp to the required level of granularity

For members or participants of trading venues, the required granularity depends on the "type of trading activity". For activity on an RFQ system, Table 2 of the Annex to RTS 25 provides that this should be 1 second for "activity on request for quote systems where the response requires human intervention or where the system does not allow algorithmic trading". As recently clarified by the ESMA guidelines, firms must sync to 1 second level of granularity even when trading off-venue.

There had been concerns about whether a firm whose trading activity involves human intervention would be permitted to sync to 1 second if using an RFQ trading venue that otherwise permits algo trading. That is, whether the requirement should be determined by the activity of the individual participant or whether this relates to the type of activity permitted by the trading venue. If activity does not fall within the RFQ description in Table 2, it appears to require timestamping at a more granular level (1 millisecond). This would significantly increase compliance costs for firms.

ESMA recently confirmed in its *Guidelines on transaction reporting, order record keeping and clock synchronisation* that:

“A member or participant of a Trading Venue is not required to follow the same time-stamping requirements that apply to the Trading Venue of which it is a member or participant. The member or participant should only time-stamp according to the requirements that apply to its Firm’s trading activity under Article 50 of MiFID II.” (Page 282)

For RFQ systems, we interpret this as meaning that a buy-side participant should sync to the required level of granularity based on its own trading activity irrespective of whether the trading venue otherwise allows algo trading. We are confirming this interpretation with regulators.

Sync to UTC

Article 4 of RTS 25 provides that trading venues and their members or participants must establish a system of traceability to UTC and be able to demonstrate this by documenting the system design, functioning and specifications. Firms must be able to identify the exact point at which a timestamp is applied and demonstrate that the point within the system where the timestamp is applied remains consistent. For trading activity on RFQ systems, the maximum permitted level of divergence is 1 second. Firms must carry out a review of their traceability arrangements at least once a year.

Where timestamping is required to 1 second level of granularity we understand that it should be possible to achieve this by using a reputable internet source. Whilst the recent ESMA guidelines focus on syncing to UTC using GPS (which is necessary if the required level of granularity is less than 1 second) it is understood that they do not preclude using an internet source provided the requirements of RTS 25 are met, including the requirement to establish a system of traceability to UTC. As above, we are confirming this interpretation with regulators.

References

Article 50(1) MiFID II

<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0065>

RTS 25 on level of accuracy of business clocks

http://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160607-rts-25_en.pdf

Annex: http://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160607-rts-25-annex_en.pdf

ESMA guidelines on *transaction reporting, order record keeping and clock synchronisation* (10th October 2016)

https://www.esma.europa.eu/sites/default/files/library/2016-1451_final_report_on_guidelines_mifid_ii_transaction_reporting.pdf