

Retail derivatives and cross border markets to provide big MiFID opportunities from 1st November

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Cross-border customers and retail derivatives markets, such as Contracts for Difference (CfD) and Spread Betting, will be two areas presenting significant opportunity after the introduction on 1 November of MiFID (Markets in Financial Instruments Directive) predicts Andrew Miller, Managing Director of Arcontech (part of KTS plc). Arcontech is an award-winning City software firm whose specialist products are being used by dozens of financial institutions affected by MiFID.

Andrew Miller says: "I anticipate that the MiFID passporting regulations will lead to a growing swell of competition in many regions, particularly with UK firms expanding into continental Europe. Firms within countries which may be expecting 'business as usual' may be in for some surprises, especially as banks in some countries are reported to be collaborating over MiFID in a protectionist manner.

"For example, MiFID allows UK firms which are regulated and expert in providing retail services to operate on a pan-European basis without further regulation and with very little operational change. Likewise, the UK market will be vulnerable to players large and small from European countries that may not have such strict governance as that provided by the FSA in the UK.

"Exchanges and data vendors such, as Reuters and Bloomberg, may also be exposed. Currently they make considerable income

through charging investment banks for data contribution and distribution services. Thanks to MiFID, new platforms – such as Chi-X and the proposed Projects Boat and Turquoise – will lead to cheaper market data and a shifting of liquidity to more cost-effective venues, threatening the status quo.

“Many firms are not ready and will take several months to be anywhere near complying. One of the biggest changes will be around “best execution” which, put simply, is ensuring you get the best deal for your client when you buy them equities, bonds or other financial instruments. It sounds simple, but is actually fiendishly complex as price is only one consideration and there is an obligation to keep records for many years to prove that a firm acted in accordance with its execution policy at the time. Depending on the policy, this may require data from a large number of sources, not all of which may be available cost-effectively via a single source. You can imagine that sophisticated software will be needed to collect, record and analyse this data.

“Spread-betting is another rapidly growing area which is likely to suffer considerable regulatory impact through MiFID’s requirements, but many areas appear unclear and some firms are late in their preparations. UK spread-betting firms that are prepared have considerable opportunity to expand into new EU markets.”