



# MiFID II : Trading Obligation for Derivatives

## Background

The Markets in Financial Instruments Regulations / Directives (MiFIR / MiFID II) set to be in force from 3 Jan 2018, will significantly enhance the framework set out by MIFID I for the provision of investment services and activities in Europe. MiFID II strengthens the framework of investor protection and market infrastructure. This document is intended to provide a high-level overview on the **trading obligation for derivatives** under the market infrastructure rules, which has an extra-territorial reach for trading in third countries such as those in Asia.



## New on-venue Trading Obligations for Derivatives

### ➤ What are the principles of the requirement?

MiFIR / MiFID II will mandate that trading of **certain derivatives** must be on **EU trading venues and equivalent third country venues**.

### ➤ What is the scope of the mandatory trading obligation?

The derivative contracts that are subject to the trading obligation are also subject to the **EMIR mandatory clearing obligation and they must also satisfy certain criteria** relating to liquidity and venue. The scope of derivative contracts includes Interest Rates Swaps and Credit Default Swaps.

### Counterparts / Clients scope

The trading obligation for derivatives will apply to FC and qualifying NFC counterparties that are subject to the mandatory clearing obligation under EMIR, as well as non-EEA (European Economic Area) entities that would be subject to the clearing obligation if they were established in the EEA and trade with in-scope EEA entities.

Derivatives	Types of counterparties under EMIR			
	Category 1	Category 2	Category 3	Category 4
Interest Rates Swaps	3-Jan-18	3-Jan-18	21-Jun-19	21-Dec-18*
Credit Default Swaps	3-Jan-18	3-Jan-18	21-Jun-19	9-May-19

\*timeline of Category 4 for IRS mandatory clearing could subject to further regulator clarification

### Products currently in scope

Derivatives	Product sub-class
Interest Rates Swaps	Fix-to-Float IRS in EUR, GBP, USD
Credit Default Swaps	iTraxx Europe



**Product characteristic of Interest Rates Swaps under the scope of EMIR Mandatory Clearing**

EUR IRS	EUR/EURIBOR 3M	EUR/EURIBOR 6M
Type of contract	Fixed-to-float	
Notional Type	Constant Notional	
Optionality	No	
Trade start type	Spot (T+2)	
Tenor	2,3,4,5,6,7,8,9,10,12,15,20,30Y	2,3,4,5,6,7,10,15,20,30Y

GBP IRS	GBP/GBP LIBOR 3M	GBP/GBP LIBOR 6M
Type of contract	Fixed-to-float	
Notional Type	Constant Notional	
Optionality	No	
Trade start type	Spot (T+0)	
Tenor	2,3,4,5,6,7,10,15,20,30Y	

USD IRS	USD/USD LIBOR 3M	USD/USD LIBOR 6M
Type of contract	Fixed-to-float	
Notional Type	Constant Notional	
Optionality	No	
Trade start type	Spot (T+2), or IMM (next two IMM dates)	
Tenor	2,3,4,5,6,7,10,12,15,20,30Y	

**Product characteristic of Credit Default Swaps under the scope of EMIR Mandatory Clearing**

CDS	Index Credit Default Swaps
Type of contract	iTraxx Europe Main iTraxx Europe Crossover
Sub-type	Untranchured index
Series	on-the-run series first off-the-run series
Tenor	5Y

➤ **How to fulfil the trading obligation for derivatives?**

When entering trades subject to the trading obligation, trades are required to be executed either on an EU trading venue, or a third country venue that has been deemed equivalent by the European Commission, such as a SEF (Swap Execution Facility).

As mentioned before, the mandatory trading obligation for derivatives is an extra-territorial requirement. In practice, in the scenario where an EEA entity (such as BNPP SA) enters into in-scope derivative contracts with counterparts/clients who are subject to EMIR mandatory **clearing** obligation, mandatory **trading** obligation applies. Qualifying counterparties of the BNPP group trading with non-EEA branches and non EEA subsidiaries will need to register with Trading Venues in order to trade the above derivatives, as it can no longer be traded on an OTC basis.

➤ **Timeline**

As at November 2017, the expected start date is **3 January 2018**.



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## **ACTIONS REQUIRED BY YOU:**

In order for us to ensure the mandatory trading for derivatives requirements are met, we are contacting you to confirm required venue connectivity

## **How to contact us?**

If you have any other comments or questions, please contact the BNP Paribas Regulatory Reform team ([regreform.eu@uk.bnpparibas.com](mailto:regreform.eu@uk.bnpparibas.com)) or your usual relationship or sales contact.

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