White Paper:

Peculiarities of Straight-Through-Processing in the context of Indirect Clearing under MiFID II / MiFIR

Reference: ECC Indirect Clearing Account MiFID II / MiFIR (current version)

Purpose of this White Paper

ECC offers Straight-Through Processing (STP) of transactions registered at the Partner Exchanges by brokers. In the sense of Indirect Clearing, ECC would like to point out several peculiarities of Straight-Through-Processing induced by the structure of an Indirect Clearing setup.

This White Paper should serve the Clearing Members (CMs), the Indirect Clearing Providers (IC Providers), the Indirect Clients, STP Provider, Vendors and the Brokers to consider the challenges of an effective trade registration reasoned in the necessity of an entire information transfer along the "Indirect Clearing chain".

The application of present STP setups (addressing trades to proprietary accounts of the CM or to A1 of the CM with subsequent sorting of trades by the CM) is feasible without further ado. The sorting of trades is a manual work the CM has to accomplish as only the CM possesses the knowledge about the correct location of a trade (for the name of an Indirect Client).

Indirect Clearing in a nutshell

Indirect Clients are clients of clients (so called IC Provider) of a Clearing Member.

Upon request of the CM on behalf of the IC Provider, ECC **dedicates an A-Account** in a NCM/CM/tNCM ID for a specific use based on the segregation (in the sense of MiFID II/MiFIR) need of the respective Indirect Client. The Indirect Clients positions will be recorded in such dedicated A-Accounts at the level of ECC.

For that reason, trades executed in the name of an Indirect Client have to be directed to the appropriate account. At least, the Clearing Member has to obtain knowledge about the affiliation of a trade to the respective Indirect Client. With this knowledge, the Clearing Member could redistribute trades manually to the correct accounts.

Thereto, several information has to be passed along the Indirect Clearing chain, being enriched at every stage with more specified information. Based on this information, the Indirect Client is able to execute trades which could be routed to the correct account.
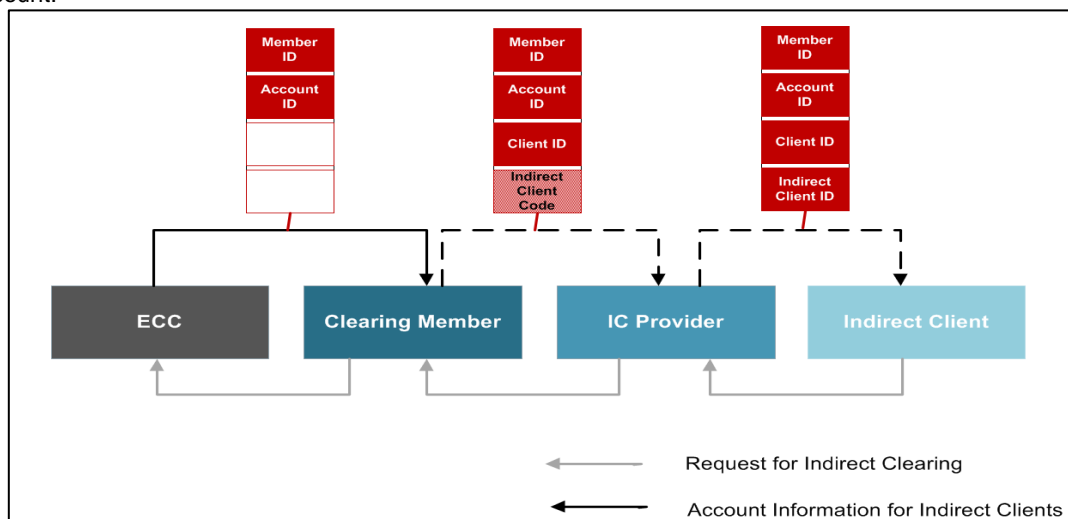
Setups

In terms of broker trading (via STP), it has to be divided between two main scenarios:

I. An Indirect Client is a customer of a customer of the broker (e.g. the Client/IC Provider)
- The customer of the broker ensures (e.g. by dynamically flagging transactions on a case-by-case basis), that all transactions from this Indirect Client are correctly addressed within ECC using the information provided

II. An Indirect Client is a direct customer of the broker
- The Indirect Client communicates to the broker the information needed (NCM/CM/tNCM ID + Account Name + Optionally customer code)
- The Broker ensures in its static data settings, that all transactions from this Indirect Client are correctly addressed within ECC using the information provided
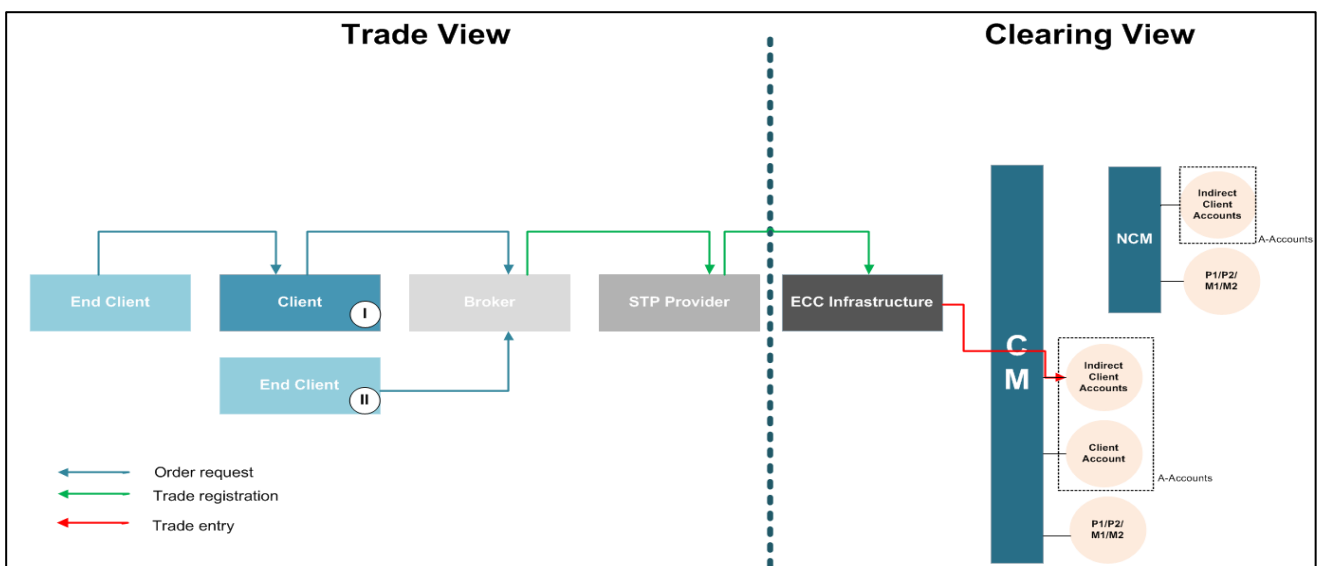

Figure 1. Ideal STP Process with correct addressing of a trade in the context of Indirect Clearing

General terms of STP trade registration

In order to route trades into the right accounts, the CM can choose between two general options:

1. Indirect Clients or IC Provider on behalf of the Indirect Client initially trade into the CM's unsegregated A-account (typically A1 under the CM ID). Subsequently, the CM transfers this trade into the correct NOSA or GOSA Account, based on the information (Client Code, Indirect Client Code) presented in the trade details. This would constitutes the following steps:

   - IC Provider and CM agree an anonymous but unique code for the Indirect Client
   - IC Provider communicates the code to the Indirect Client
   - CMs will identify transactions using this code and initiate a trade (or position) transfer to the right account after it has been initially booked

2. Indirect Clients or IC Provider on behalf of the Indirect Client directly trade into their dedicated A-account
   - CM will have to communicate to the Indirect Client the Account Name and the NCM/CM/tNCM ID that is dedicated to the use requested by the IC Provider
   - IC Provider will have to communicate to the Indirect Client the same information

In any case, the Indirect Client will be informed about an NCM/CM/tNCM ID and A-Account to post trades into + in case of 1) a customer code to be used in flagging transactions. (Also in 2, a customer code may be agreed, but not strictly needed.

Practical terms of STP trade registration

Practically, the described ideal STP process in option 2 can be realised only if the Indirect Client respectively the broker deploys the appropriate account information. For option 1, it is necessary to enrich the trade with specific customer information, enabling the CM to correctly identify the trade as executed in the name of a specific Indirect Client. In the case of option 2, the Indirect Client has to know about its "location" at the CM and the Indirect Client has to forward this information to the broker. Subsequently, the broker has to address the trade destination correctly in its systems in order to ensure the trade to be directly routed to the appropriate account.

Appendix A shows the different scenarios respectively options influencing the information chain in the trading setup.

Summary for STP Service Provider

It must be possible to address correctly within ECC

- A specific Member ID, e.g. ABCEX
- A specific Member Account, e.g. A3
- A specific Customer Code, e.g. abc12

```
<buyer>
     <companyId>ABCEX</companyId>
     <account>A3</account>
     ..
     <reference1>abc123</reference1>
     ..
</buyer>

<seller>
     <company>ABCEX</company>
     <account>A3</account>
     ..
     <reference1>abc123</reference1>
     ..
</seller>
```

- A correct addressing may be achieved through mapping customers in the STP / Broker environment to these three details on a trade by trade basis

Summary for Broker

- No change in scenario I) "IC is customer of the broker", other than the correct mapping has to be setup
- In scenario II) "IC trades via a customer of the broker", the broker may offer to:
    - Setup the IC explicitly as a client, but under the control of the other Broker Customer, or
    - Allow the broker customer to choose on a trade-by-trade basis whether the IC is to be addressed using the mapping defined in the STP Provider environment

Appendix A