Markets in Financial Instruments Directive

Convergence towards a Unified European Capital Markets Industry

By

Jean-René Giraud and Catherine D’Hondt
# Contents

About the Authors vii  
Introduction ix  

## 1 Markets in Financial Instruments Directive:  
A desire to better integrate European capital markets 1  
The European Investment Services Directive(s) 2  
The Financial Services Action Plan 13  
Definitions and Common Vocabulary 24  
Structure of the Directive 28  
MiFID in a Nutshell 44  

## 2 The Development of Multilateral Trading Facilities and Electronic Communication Networks:  
A US example and the European reality 63  
Fundamentals of Market Structures 64  
Evolving Environment and Emergence of Alternative Trading Systems 72  

## 3 An Emerging Pan-European Level Playing Field:  
Execution as a commodity business 89  
Execution Services - A Step into the 21st Century 90  
The Emergence of Multilateral Trading Facilities 94  
Internalisation: Harmonisation of Existing Practices 100  
Transparency Requirements for Equities 106  
Reporting Requirements and Market Integrity 115  

## 4 The Likely Impact of MiFID on Market Structures:  
Will transparency guarantee efficient and fair markets? 121  
Market Quality 122  
Fragmentation 127  
Transparency 139  
Concluding Remarks 146  

## 5 Best Execution: The (in)Famous Provision:  
A journey with Sisyphus and Icarus 153  
Introducing the Best Execution Obligation 154  
Defining Best Execution 169  
Key Developments Affecting Equity Execution 171  
Concluding Thoughts 183
## 6 Transaction Cost Analysis: The state of the industry and research

| Components and Drivers of Transaction Costs | 186 |
| Measuring Transaction Costs | 198 |
| Pitfalls and Common Problems in TCA | 203 |
| A Critical Review of the Most Popular TCA Indicators | 206 |
| Practical Issues, Evolving Landscape and Complications | 211 |

## 7 A New Framework for Advanced Transaction Cost Analysis: The EBEX indicators

| Presentation of the New Methodology and its Foundations | 220 |
| Presentation of the Preliminary Study | 228 |

### Appendix: Level 1 Directive | 247

### Glossary | 329

### Index | 337