What does MiFID II mean for social media?

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You might wonder what MiFID II has to do with social media, and at first glance it is not entirely clear.

However, European legislators and regulators have been keen to make MiFID II as future proof as possible and that has led to regulatory principles which can be broadly applied and take account of new developments in markets.

Crucially, the buy-side is going to be expected to do a lot more to ensure they achieve the best execution and investment outcomes for clients, though how they do that is still fairly open to interpretation.

MiFID II’s best execution rules make some critical changes to the first MiFID. Under
MiFID I, firms were obliged to take “all reasonable steps” to achieve best execution for their clients, but under MiFID II, they must take “all sufficient steps”. Such a minor difference in language has huge implications for the way asset managers respond.

So, you might still be wondering what this has to do with social media?

MiFID II also states that when executing orders they must consider: “price, costs, speed, likelihood of execution and settlement, size, nature or any other relevant consideration”

The last part of this indicates that firms will have to make sure they are utilising a comprehensive set of tools and data sources to complement their trading activity. It will no longer be acceptable to merely take in a few market feeds and check your Bloomberg terminal, while ignoring the diverse array of rich data sources available today, which includes social media.

“Social media, and Twitter in particular, is a critical input into the investing process,” said George Goldman, VP of Finance Sales at Dataminr, whose business is focused on identifying trading signals from Twitter. “If institutions aren’t finding a way to incorporate social signals in their information suite they’re not only losing ground to competitors, but they are doing their clients a disservice.”

In many areas social media is already a leading indicator of both economic and political trends and asset managers ignore it at their peril. It can not only inform decisions to actually make an investment but give vital clues about how day to day securities pricing is moving and provide insight into key issues such as market toxicity and liquidity which can feed into best execution processes and policies.

Social media is likely to become an ever larger presence in people’s lives as traditional media declines, and this means it will become increasingly important in its ability to move markets. Being able to effectively analyse this massive volume of social media data, and filter out the noise, is set to be one of the main factors that will differentiate investment performance in the not-to-distant future.