

Operationalizing MiFID III

From regulatory text to operational readiness, a practitioner's guide to preparing financial institutions for MiFID III and MiFIR 2.

June 2026

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Contents

01	Foreword: From Rules to Readiness	03
02	A Timeline of MiFID: I → II → III	04
03	What MiFID III Changes: Where It Hits Your Operations	05
04	The Compliance & Data-Management Challenge	06
05	Why Governed, Repeatable Compliance Matters	07
06	Capability Map: Systems That Align With MiFID III	08
07	The Diletti Operating Model for Readiness	09
08	Build vs. Buy: Choosing Your Compliance Stack	10
09	The Validation Question: What to Test Before Go-Live	11
10	Market Structure & Regulatory Divergence	12
11	Preparing for MiFID III: A Practical Checklist	13
12	Looking Ahead	14
·	Glossary of Key Terms	15
·	Sources & Further Reading	16

01 Foreword: From Rules to Readiness

Every major reform of Europe's market rules has followed the same arc: the legislative text lands first, the technical standards follow, and firms spend the gap between them deciding how literally to read the deadline. MiFID II set that pattern more than a decade ago. MiFID III, together with MiFIR 2, repeats it, but against a very different operational backdrop.

The shift this cycle is not philosophical, it is practical. MiFID III does not reinvent the obligations financial institutions already understand: transaction reporting, best execution, market transparency, recordkeeping. It tightens them, harmonizes them with global standards, and, critically, raises the expectation that the data behind every obligation is accurate, complete, traceable and produced consistently. Compliance is moving from something firms *document* to something they have to *operate*.

That is where most readiness programs stall. The regulatory analysis is rarely the hard part; the hard part is turning it into repeatable controls that survive an audit, scale across jurisdictions, and don't depend on a single person remembering to run them. This paper is written for the practitioners who own that translation work (compliance, operations, data and technology leads), rather than for a board-level overview.

A note on how to read it. It is deliberately vendor-neutral. Where technology genuinely reduces risk (in data quality, communications capture, surveillance and reporting), we say so in terms of *capabilities*, not products. Where AI adds value, we are specific about the guardrails that make it defensible. The throughline is consistent: the rules will keep changing, but readiness depends on the operating disciplines that make compliance repeatable.

Why this matters now

Gartner predicted that at least 30% of generative-AI projects would be abandoned after proof of concept by the end of 2025, most often because of poor data quality, weak risk controls and unclear value. The same failure modes sink compliance-modernization programs. MiFID III readiness is, at its core, a data-quality and governance problem before it is a technology problem.

02 A Timeline of MiFID: I → II → III

MiFID III is best understood as the third turn of a regulatory ratchet, each iteration extending transparency and tightening the data standard behind it.

2007	MiFID I takes effect Opens EU markets to competition and introduces the first harmonized conduct and transparency rules.
2018	MiFID II / MiFIR apply Sweeping expansion: transaction reporting, best-execution reporting, research unbundling, recordkeeping of communications.
2023	MiFID II/MiFIR review begins ESMA and EU co-legislators agree the reform package addressing transparency gaps, a consolidated tape and reporting quality.
2024	MiFID III / MiFIR 2 drafted The reform text is finalized in principle; the focus turns to Level-2 technical standards (RTS/ITS).
2025	Phased enforcement begins Equities transparency and core changes start to bind; deferrals apply to some non-equity instruments.
2026	From rules to infrastructure Consolidated Tape Providers roll out; reporting harmonization, the PFOF ban and tighter waivers move into day-to-day operation.

Timing caveat

Exact application dates depend on the final ESMA regulatory technical standards, several of which are still landing through 2026, and on instrument type. Treat phase dates as planning anchors, not settled deadlines, and assume equities-related obligations bind earliest.

03 What MiFID III Changes: Where It Hits Your Operations

MiFID III's changes cluster into three operational domains. For each, the question is the same: *can you produce the data to prove it, consistently and on time?*

Transaction reporting & market transparency

- **Global harmonization (UPI).** Adoption of the Unique Product Identifier lets instruments be tracked consistently across jurisdictions, reducing cross-border reporting discrepancies.
- **Better, timelier reference data.** Firms must supply more accurate and timely financial-instrument reference data, with the Reasonable Commercial Basis (RCB) rule ensuring market-data pricing stays fair and accessible.
- **Transparency in complex trading.** Oversight extends to algorithmic and high-frequency trading: more granular order-flow detail, tighter control of pre-trade waivers, and expanded post-trade price transparency across more products.

In practice

A firm running an algorithmic strategy in bonds will need to submit more granular order-flow data, and any use of pre-trade waivers will face heavier scrutiny. The operational burden is less about *reporting* and more about *capturing* the right data, cleanly, at source.

Best execution & trading obligations

- **Ban on Payment for Order Flow (PFOF).** Broker compensation for routing orders to specific venues is prohibited, pushing routing decisions back onto price and execution quality alone.
- **Enhanced cost transparency.** More detailed, standardized best-execution reports, with expanded ex-ante (pre-trade) and ex-post (post-trade) cost disclosure so clients see the true cost of trades.
- **Venue selection on the record.** Firms must document *why* a venue was chosen and how that aligns with best execution. Audit-ready execution policies become essential, not optional.

Five key amendments to watch

- **Retail investor protection.** Stricter suitability and appropriateness assessments and improved Key Information Documents (KIDs) to reduce mis-selling.
- **Systematic Internalizers (SIs).** Clearer transparency obligations to align internal execution prices with market rates.
- **Dark-trading restrictions.** The old double-volume-cap system is replaced by a single volume cap, making large fully off-exchange trades harder and improving public price formation.
- **Expanded clearing scope.** More derivatives fall under the clearing obligation and must route through central counterparties to reduce default risk.
- **Consolidated Tape Providers (CTPs).** Newly regulated CTPs aggregate trade data across venues, giving participants a fuller, single view of activity.

04 The Compliance & Data-Management Challenge

The breadth of MiFID III means data management, not interpretation, is the binding constraint for most firms. Four pressure points recur across readiness programs:

- **Collection & storage.** Secure, centralized archives that remain readily accessible for audit and supervisory inquiry.
- **Data quality.** Information must be accurate and reconciled *before* submission; unreconciled data is the most common route to a reporting penalty.
- **Third-party oversight.** Vendors, including CTPs and data providers, must be monitored so their data handling meets MiFID III's quality standard.
- **Cross-border consistency.** Firms active in both the EU and UK must reconcile diverging frameworks without maintaining two incompatible control sets.

The communications-capture gap

Regulators expect complete capture of relevant communications: email, collaboration tools, voice and mobile messaging. Email and chat are usually covered; **mobile voice, SMS and messaging apps are the channels most often left uncaptured.** Map every regulated channel first; a single un-archived WhatsApp thread on a work phone is a reportable gap.

The strategic implication: solve data quality and capture *at source*. Every downstream obligation (reporting, best-execution evidence, surveillance) inherits the quality of the data captured upstream. Patching it later is where cost and audit risk accumulate.

05 Why Governed, Repeatable Compliance Matters

MiFID III rewards a specific property: **repeatability**. A control that produces the same result, with the same traceable logic, every time it runs is defensible. One that depends on individual judgment applied inconsistently is not, however expert that judgment is.

Three disciplines turn activity into defensibility

- **Consistency.** The same input produces the same output. Reporting templates, reconciliation logic and surveillance thresholds should be codified, not re-derived case by case.
- **Explainability.** Every output traces back to underlying evidence. A supervisor should be able to follow the logic from a submitted report to the source trade or communication.
- **Accountability.** A named owner, a documented change process, and a tested control. Technology supports judgment; it never absorbs the responsibility for it.

Where AI fits, and where it doesn't

AI earns its place at high-friction, high-volume points: triaging surveillance alerts, transcribing and screening communications, reconciling reference data, and drafting first-pass reporting narratives. The non-negotiable is that outputs stay **repeatably, traceable and reviewable**: deterministic enough to test and explain. AI that cannot be validated is not a compliance asset; it is an untested control.

This is the same lesson that sinks generic AI pilots: value comes not from model sophistication but from the governance around it: ownership, documentation, testing and continuous improvement. Diletti's position is that MiFID III readiness should be designed to this standard from day one, rather than retrofitted after the first exam.

06 Capability Map: Systems That Align With MiFID III

Vendor-neutral by design. These are the *capabilities* a MiFID III-ready stack needs, not an endorsement of any product. Most firms already own several; the work is integration and data quality, not net-new purchasing.

Capability	What it must do under MiFID III
Trade & transaction reporting	Enrich, validate, reconcile and monitor reporting against stricter validations, new identifiers (UPI) and additional data fields; ensure timely, accurate submission.
Communications capture & archiving	Capture all regulated channels (email, collaboration tools, voice, mobile SMS and messaging) into tamper-evident, retrievable archives. Close the mobile/voice gap.
Collaboration-tool compliance	Bring messaging that runs through everyday tools (e.g. Teams, WhatsApp) under compliant, retained oversight without breaking how staff actually work.
Data governance & risk	Enforce retention policies, track compliance status, and centralize data access so the firm can answer regulatory inquiries quickly and consistently.
AI-enabled monitoring & surveillance	Transcribe and screen communications, detect anomalies and flag high-risk behavior, moving compliance from reactive to proactive, with auditable outputs.

07 The Diletti Operating Model for Readiness

Diletti is an AI and digital-transformation consultancy. We don't sell a reporting engine or a recording product; we help institutions assemble and govern the stack they already have so it produces defensible outputs. Our readiness model has four stages.

1 - Map	Catalogue every regulated data flow and communication channel (from trade capture to Bloomberg chat to mobile messaging) and trace each obligation to the system of record behind it. Gaps surface here, before they surface in an exam.
2 - Assess	Walk a real trade and a real communication end-to-end against the new reporting formats, deadlines and best-execution criteria. Score each control for consistency, explainability and ownership.
3 - Operationalize	Codify the controls: reconciliation logic, reporting templates, surveillance thresholds and change management. Where AI is used, build the validation and audit trail alongside it, never after.
4 - Sustain	Stand up the feedback loop (outcomes analysis, calibration and staff training) so controls improve as instruments, venues and rules evolve.

Proof point

[Diletti to insert client metric, e.g. "For a [tier-2 investment firm], we reduced unreconciled reportable fields by [X]% and closed [N] uncaptured communication channels ahead of the equities go-live deadline."
Replace with a real, defensible engagement figure.]

08 Build vs. Buy: Choosing Your Compliance Stack

MiFID III tempts firms toward two extremes: build everything in-house for control, or buy a generic platform and hope it fits. Both fail in predictable ways. The decision should be made capability by capability, not as a single all-or-nothing bet.

Lean build

Bespoke logic, deep fit to your instruments and venues. Cost: you also own all the testing, change management and regulatory upkeep, indefinitely.

Lean buy

Faster coverage and shared regulatory maintenance. Cost: generic tools rarely fit niche asset classes, and a black-box output you cannot explain is a liability under MiFID III.

The pragmatic line

Buy commoditized, well-validated capabilities (capture, archiving, tape integration); build or heavily configure where your instruments, data model or surveillance logic are genuinely distinctive, and insist on explainability either way.

The test that settles most debates

If you cannot trace an output back to its source data and explain the logic to a supervisor, it does not matter whether you built it or bought it: it is not defensible. Make explainability a procurement requirement, not an afterthought.

09 The Validation Question: What to Test Before Go-Live

“It feels faster” is not evidence. Before any MiFID III control, AI-assisted or not, goes live, it should pass a documented test on each of the following:

- **Completeness.** Are all in-scope instruments, channels and counterparties captured? Run a known trade and a known conversation and confirm both arrive intact.
- **Accuracy & reconciliation.** Do reported fields reconcile to the source system before submission? Test deliberately broken data and confirm it is caught, not passed through.
- **Repeatability.** Does the same input produce the same output across runs, users and environments? Variability is a red flag for both auditors and AI controls.
- **Explainability.** Can you reconstruct, for any output, the data and logic that produced it, fast enough to satisfy an exam under time pressure?
- **Timeliness.** Do submissions meet the new harmonized deadlines and formats, including for deferred non-equity instruments?
- **Change control.** Is every threshold or template change documented, owner-approved and reversible? Silent production changes are the classic audit failure.

Document the failures, not just the passes

Supervisors increasingly treat outcomes analysis as a core control: not just that a control exists, but that the firm can show where it fails and what was adjusted as a result. Keep the test evidence; it is the cheapest defensibility you will ever buy.

10 Market Structure & Regulatory Divergence

MiFID III reshapes market dynamics and, post-Brexit, widens the gap between EU and UK rules. Firms active in both jurisdictions face overlapping but distinct obligations.

- **EU-wide consolidated tape.** A single aggregated view of market prices reduces fragmentation and raises the transparency baseline across the bloc.
- **Impact on UCITS & AIFMs.** Collective-investment and alternative-fund managers face operational adjustments, particularly in reporting and governance.
- **Distributed Ledger Technology (DLT).** Exploration of DLT in post-trade processes could improve settlement speed, but depends on regulatory harmonization to scale.
- **ESMA vs. FCA divergence.** UK reforms (EMIR Refit, and the FCA's Designated Reporter Regime) create parallel but non-identical transaction-reporting obligations. Build a control set that maps to both rather than two that contradict.

Operating implication

Treat "jurisdiction" as a configuration of one governed control framework, not as two separate compliance estates. The firms that struggle most at the next exam are those running duplicated, drifting controls per region.

11 Preparing for MiFID III: A Practical Checklist

Four moves, in order. Each is a prerequisite for the next.

- | | |
|-----------|--|
| 01 | Map communication channels
Catalogue every platform used for regulated communications (Bloomberg chat, email, collaboration tools, voice and WhatsApp on work phones) so there are no gaps in capture. |
| 02 | Review execution & reporting workflows
Follow a recent trade start-to-finish, checking compliance with new reporting formats, deadlines and best-execution criteria. |
| 03 | Upgrade infrastructure
Invest in secure, scalable data capture, storage and retrieval, ideally integrated across countries to avoid device-by-device or region-by-region drift. |
| 04 | Train staff
Ensure employees understand their role in the new requirements and can identify and flag prohibited practices before they happen. |

Start now. MiFID III was drafted in early 2024 with phased enforcement across late 2025 and 2026; firms are repeatedly advised not to wait for the final deadline, because early preparation prevents costly last-minute change. Equities obligations bind earliest. If you trade both equities and non-equities, assume day-one compliance for equities and use any non-equity deferral as breathing room, not a reason to delay.

12 Looking Ahead

MiFID III marks a shift from market rules you *read* to controls you *operate*. The winners will not be the firms with the most sophisticated tooling, but the ones whose compliance is repeatable, explainable and owned, the same disciplines that separate AI programs that reach production from the 30%-plus that are abandoned after a promising pilot.

The trajectory is clear: richer datasets, a consolidated tape, tighter transparency, and supervisors who are themselves more technically fluent and more willing to interrogate outputs at the parameter level. AI will increasingly carry the high-volume work (capture, transcription, anomaly detection, first-draft reporting), but only where its outputs can be validated and defended. Calibrated, governed intelligence; not autonomous compliance.

How Diletti can help

We work alongside compliance, operations and technology teams to map data flows, assess controls against the new standard, operationalize them with the right balance of build and buy, and stand up the validation and feedback loops that keep them defensible. If MiFID III readiness is on your roadmap, we'd welcome a conversation. [Insert Diletti contact / call-to-action.]

Glossary of Key Terms

Term	Definition
ESMA	European Securities and Markets Authority, the EU's financial-markets regulator.
MiFID / MiFIR	Markets in Financial Instruments Directive / Regulation, the EU framework governing investment services and market transparency.
UPI	Unique Product Identifier, standardized code to track financial instruments globally.
RCB	Reasonable Commercial Basis, rule ensuring fair, accessible pricing of market data.
HFT	High-Frequency Trading, algorithmic trading executed at very high speed.
PFOF	Payment for Order Flow, broker compensation for routing orders to specific venues (banned under MiFID III).
CTP	Consolidated Tape Provider, entity aggregating market data from multiple venues.
SI	Systematic Internalizer, a firm executing client orders against its own account.
KID	Key Information Document, standardized retail-investor disclosure.
UCITS	Undertakings for Collective Investment in Transferable Securities, EU-regulated investment funds.
AIFM	Alternative Investment Fund Manager, manager of non-UCITS investment funds.
DLT	Distributed Ledger Technology, blockchain-based systems for recording transactions.
EMIR Refit	Update to the European Market Infrastructure Regulation, reforming derivatives reporting and clearing.
DRR	Designated Reporter Regime, the UK FCA's parallel approach to transaction reporting.
RTS / ITS	Regulatory / Implementing Technical Standards, the Level-2 detail that operationalizes the directive.

Sources & Further Reading

This whitepaper synthesizes publicly available regulatory summaries and industry analysis. It is provided for discussion and does not constitute legal advice; confirm all obligations and dates against the final ESMA technical standards and qualified counsel.

- ESMA, MiFID II / MiFIR review and consultations: esma.europa.eu/trading/mifid-ii-and-mifir-review
- European Commission, MiFID III / MiFIR 2 legislative package.
- European Parliament (EPRS), briefing on the MiFID/MiFIR review: [europarl.europa.eu/thinktank \(EPRS_BRI\(2023\)747107\)](https://europarl.europa.eu/thinktank(EPRS_BRI(2023)747107)).
- Gartner, “30% of Generative AI Projects Will Be Abandoned After Proof of Concept by End of 2025” (press release, July 2024).
- 1GLOBAL, “Understanding MiFID III: New Rules, Timeline, and Compliance” (Aug 2025): the regulatory summary on which this readiness guide’s MiFID III specifics are based.
- Structural model adapted from Eventus, “Operationalizing AI in Financial Compliance and Trade Surveillance” (whitepaper, April 2026).

About Diletti

Diletti is an AI and digital-transformation consultancy. We help organizations move from ambition to operation, turning regulatory change and emerging technology into governed, defensible, repeatable processes. [Insert Diletti boilerplate, credentials and contact details.]