PRESS RELEASE

ESMA launches call for evidence on periodic auctions for equity instruments

The European Securities and Markets Authority (ESMA) has published today a call for evidence on periodic auctions for equity instruments. Following the introduction of MiFID II/MiFIR on 3 January, a new type of periodic auction trading system for equity instruments consisting of auctions of a very short duration during the trading day triggered by market participants has been rapidly gaining market share - *frequent batch auctions*.

ESMA, following the first suspensions under the double volume cap (DVC) mechanism, has been approached by stakeholders raising concerns that frequent batch auctions may be used to circumvent the DVC.

This call for evidence aims to gather relevant information to inform ESMA in developing its understanding of frequent batch auction trading systems, to assess whether and to which extent these systems can be used to circumvent the MiFID II transparency requirements and, should this be the case, to develop appropriate policy measures.

Steven Maijoor, Chair, said:

> "MiFID II aims to increase transparency of equity markets and foster competition between different type of market participants on a level-playing field. In order to deliver on this objective it introduces various provisions.
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> "In noting both the growth in market share of frequent batch auctions and stakeholders' concerns, this call for evidence will allow ESMA to gather more information on the functioning of frequent batch auction trading systems. Using this evidence, we will assess whether they can be used to circumvent the DVC and other pre-trade transparency requirements under MiFID II.
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> "If ESMA comes to the conclusion that frequent batch auction systems violate the spirit and the rules of MiFID II, we will develop appropriate policy responses."

Periodic Auctions

ESMA recognises that while periodic auctions are not a new development, frequent batch auctions represent a new type of periodic auction trading system with two substantive differences. Firstly, the duration of frequent batch auctions is very short lasting only several milliseconds as opposed to conventional periodic auctions that last several minutes. Secondly, whereas conventional periodic auctions are scheduled by the trading venue, for frequent batch auctions two different models for triggering an auction currently exists. Specifically, to trigger a ‘call period’ every time a pair of opposing orders can be matched or to trigger an auction as soon as one order has been submitted.

Developments under MiFID II

Currently, trading under frequent batch auctions and under the waivers subject to the DVC only constitutes a small part of total trading volume. Nevertheless, ESMA has observed a rapid rise of frequent batch auction trading and a decrease in trading under the waivers subject to the DVC following the application of MiFID II and in particular since the first DVC suspensions in March 2018. Furthermore, since the end of the first suspensions under the DVC, trading under the waivers subject to the DVC has increased, whereas trading on frequent batch auction systems has decreased. ESMA has observed that the trend for frequent batch auction trading seems to be in a large extent driven by instruments that have been suspended under the DVC.

ESMA is aware that the success of frequent batch auctions may also be driven by other factors, for instance, stakeholders trying to reduce the impact of factors such as speed and latency. Moreover, the growth in frequent batch auctions may also be partly attributable to activity that had previously been OTC prior to MiFID II entering into force.

Next steps

Stakeholders are invited to provide feedback on this call for evidence until 11 January 2019.

Notes for editors

1. Call for evidence:

    - ESMA70-156-785 Call for evidence periodic auctions for equity instruments

2. ESMA's mission is to enhance investor protection and promote stable and orderly financial markets.

    It achieves these objectives through four activities:

    i. assessing risks to investors, markets and financial stability;

    ii. completing a single rulebook for EU financial markets;

    iii. promoting supervisory convergence; and

    iv. directly supervising specific financial entities.

3. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board, and with national authorities with competencies in securities markets (NCAs).

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