ESMA_QA_1059

Submission Date
03/10/2018

Status: Answer Published

Additional Information

Level 1 Regulation
Markets in Financial Instruments Directive II (MiFID II) Directive 2014/65/EU- Investor Protection and Intermediaries

Topic
Best Execution

Subject Matter
Best Execution

Question
In some instances, investment firms use the RFQ system of a trading venue that allow firms to identify and select the different counterparties they wish to obtain quotes from, before concluding the trade with the selected counterparty on that trading venue's RFQ system. Where an investment firm agrees a trade via such systems, should it identify the

counterparty with whom the transaction was agreed with or the trading venue used to ultimately conclude the transaction for its RTS 28 reporting?

ESMA Answer

03-10-2018

Original language

[ESMA35-43-439 MiFID Investor protection, best execution Q&A 19]

Sometimes, investment firms select and approach one or more potential counterparties, obtaining quotes from them using the non-anonymous request-for-quote (RFQ) systems of a trading venue and agree the trade with their selected counterparty on that trading venue's RFQ system.

This is common across asset classes, but is especially prevalent, for example, in bond markets, where some trading venues allow investment firms to identify different liquidity providers that the firm may wish to deal with in the transaction, and obtain quotes from them before executing the transaction with their selected counterparty on the trading venue.

ESMA considers that a transaction is deemed to be executed on a trading venue, where it is carried out under the rules of the trading venue. Correspondingly, a firm executing orders on behalf of clients or decisions to deal under the rules of a trading venue would need to identify the trading venue in question in its RTS 28 reports.

ESMA also recognises that the objective of RTS 28 is to make the sources of liquidity used as well as firms' order routing practices more transparent. ESMA is of the opinion that where in-vestment firms use the RFQ systems of a trading venue that allow the investment firm to identify the counterparty they are dealing with, this objective is better achieved if an investment firm provides information about the counterparty it has approached for a quote and selected to execute the transaction through such systems, before concluding the trade on that trading venue's RFQ system.

For the RTS 28 reports to accurately reflect the investment firm's venue selection process and order execution policy and behaviour, and to provide an accurate picture of the investment firm's order routing practices and considerations,[1] ESMA considers that as part of the summary of the quality of execution obtained on the different venues used (Article 3(3), Recital 11), the investment firm should also disclose the identity of the (five) counterparties it most commonly executes against where they have agreed the trade via an RFQ system of a trading venue that allows the firm to identify the counterparty they are dealing with. The firm should also disclose the proportion of volume traded with each of these counterparties as a percentage of the total in that class of financial instruments. This disclosure should also include information about the existence of any close links, conflicts of interest, common ownerships and specific arrangements with such counterparties in its summary of execution quality,[2] and for this information to be consistent with the information to be provided under Article 3(3) of RTS 28.

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[1] Article 3(3)(a) of RTS 28.

[2] Article 3(3)(b) of RTS 28.