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Additional Information

Level 1 Regulation
Markets in Financial Instruments Directive II (MiFID II) Directive 2014/65/EU- Secondary Markets

Topic
Direct Electronic Access and algorithmic trading

Subject Matter
Direct Electronic Access (DEA) and algorithmic trading - Trading functionalities with automated management of orders

Question
Do orders that are executed through trading functionalities which offer automated managing of the order qualify as algorithmic trading?

ESMA Answer

15-07-2022

Original language

[ESMA 70-872942901-38 MiFID II MiFIR market structures Q&A, Q&A 3.33]

Yes. As specified in Article 4(1)(39) of MiFID II ‘algorithmic trading’ ‘means trading in financial instruments where a computer algorithm automatically determines individual parameters of orders such as whether to initiate the order, the timing, price or quantity of the order or how to manage the order after its submission, with limited or no human intervention […]”.

Hence, orders that are executed through functionalities which additionally to routing orders to trading venues offer automated managing of the order (e.g. automatically redirecting unexecuted portions of such orders to other venues or slicing orders prior to execution) should be in the scope of the MiFID II definition of algorithmic trading. Such functionalities differ from automated order routing systems, as the latter merely determine the trading venue (or trading venues) to which the order has to be sent without changing any parameter of the order (i.e. the order is unmodified in its components, including its size).

On the contrary, algorithmic trading encompasses both the automatic generation of orders and the optimisation of order-execution processes (e.g. slicing of orders) by automated means. Orders executed through such processes should therefore be flagged as algorithmic trading in line with the requirements under Articles 25(2) and 26(3) of MiFIR and Article 8 of RTS 22 and the further specification in Articles 2(c) of CDR 2017/580. Firms trading through these functionalities should also be considered as engaged in algorithmic trading and apply, the relevant requirements of Article 17 of MiFID II and RTS 6.