

Submission Date

03/02/2021

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Additional Information

Level 1 Regulation

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

Topic

Multilateral and bilateral systems

Subject Matter

Multilateral and bilateral systems - Systematic internalisers - Matched Principal Trading

Question

To which extent can an investment firm engage in Matched Principal Trading?

ESMA Answer

03-02-2021

Original language

[ESMA 70-872942901-38 MiFID II MiFIR market structures Q&A, Q&A 5.32]

As set out in Recital 19 of CDR (EU) 2017/565 and further clarified in previous ESMA guidance, Matched Principal Trading transactions are incompatible with the operation of a systematic internaliser, unless these transactions are occasional and not on a regular basis, or these transactions are executed on a trading venue.

Firms undertaking Matched Principal Trading are not 'on risk' for these transactions. The receipt of a performance fee or commission associated with the transaction is generally an indication that the firm is 'off-risk'. Firms that operate as systematic internalisers should be able to demonstrate that they are effectively taking on the inherent financial risk of the associated transactions (notwithstanding any related risk mitigation arrangements that may be in place).

In addition, a systematic internaliser is a bilateral execution mechanism and is not a trading venue for this purpose. Recital 19 of CDR (EU) 2017/565 makes clear that a system which increases the likelihood or efficiency of executing Matched Principal Trading transactions requires authorisation as a multilateral system. This clarification is not limited to investment firms operating as systematic internalisers.