

Submission Date

03/04/2017

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Additional Information

Level 1 Regulation

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

Level 2 Regulation

Regulation 2017/589 - RTS specifying the organisational requirements for investment firms (RTS 6)

Level 3 Regulation

ESMA70-872942901-38 - Q&A on MiFID II and MiFIR market structures topics

Topic

Direct Electronic Access and algorithmic trading

Subject Matter

Question

Please explain what is meant by Article 17(3) of RTS 6 which requires investment firms to “reconcile” their own electronic logs with information about their outstanding orders and risk exposures as provided by the trading venues to which they send orders, their brokers or DEA providers, their clearing members or CCP, their data providers or other relevant business partners?

ESMA Answer

03-04-2017

Original language

[ESMA 70-872942901-38 MiFID II MiFIR market structures Q&A, Q&A 3.9]

The goal of post-trade controls is mainly to enable firms engaged in algorithmic trading to undertake appropriate management of their market and credit risk. To that end, and in order to make sure that post-trade controls are based on reliable information, Article 17(3) of RTS 6 requires investment firms to reconcile their own electronic logs with information about their outstanding orders and risk exposures as provided by external parties. This should be understood as an obligation to compare the trading activity's reports generated by the investment firm itself with reports from other external sources. This should contribute in particular to:

1. Early detection of any discrepancy between the different data sources and mitigation of errors and malfunctions;
2. Accurate calculation of the firm's actual exposure (in particular, where it accesses different multiple trading systems and/or brokers) and the timely generation of adequate alerts before the position and loss limits set out by the firm have been breached.