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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

Kill functionality

Question

Does the ‘kill functionality’ require having to integrate different systems in-house using a software approach so that a single button can cancel all orders in all asset classes for all house trading and client trading?

ESMA Answer

07-07-2017

Original language

[ESMA 70-872942901-38 MiFID II MiFIR market structures Q&A, Q&A 3.16]

The requirement for an investment firm to have a kill functionality pursuant to Article 12 of RTS 6 obliges the firm to have the ability as an emergency measure to immediately pull any or all outstanding orders from any or all trading venues. ESMA considers that effective kill functionality is essential for ensuring adequate risk management and safeguarding of the orderly functioning of the market, given the risks to which algorithmic trading firms are exposed, in particular in situations where an algorithm is not behaving as expected.

In practical terms, this does not create an obligation for all systems connecting the firm to different trading venues to be implemented through a single unified piece of software, in particular when the investment firm comprises different trading systems. The functionality can comprise both procedures and switches that should be adjusted to the characteristics of the systems operated by the investment firm. For instance, when there is a unified system, a button could be set at the highest level of the system, with adequate and gradual procedures so as to limit risks of disorderly markets conditions. In any case, a single decision of the investment firm should be able to result in an immediate withdrawal of all orders or any subset of them.