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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 2017/578 - RTS on market making agreements and market making schemes (RTS 8)

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

Trading venues - maximum bid-ask ranges for all instruments traded on venues or only for instruments with market making scheme

Question

Article 1(2)(d) of RTS 8 establishes that quotes shall be deemed to have competitive prices where they are posted at or within the maximum bid-ask range set by the trading venue. Does this mean that trading venues have to have published maximum bid-ask ranges for all instruments traded on their venues or only for the instruments on which they have a market making scheme in place?

ESMA Answer

07-07-2017

Original language

[ESMA 70-872942901-38 MiFID II MiFIR market structures Q&A, Q&A 3.20]

There are two different obligations when an investment firm is pursuing a market making strategy in trading venues allowing or enabling algorithmic trading through their systems:

1. There is a generic obligation, not restricted to specific financial instruments, for trading venues to sign written market making agreements with all investment firms pursuing a market making strategy on their systems (Article 48(2) and Article 17(3) and (4) of MiFID II) when the circumstances described in Article 1(2) of RTS 8 are met; and
2. Trading venues must have market making schemes in place only with respect to the instruments listed in Article 5 of RTS 8.

In order for investment firms to assess whether they are posting competitive prices on a trading venue and may therefore potentially qualify as engaging into a market making strategy, and have to enter into a market making agreement, trading venues enabling or allowing algorithmic trading through their systems must make public a maximum bid-ask range for each financial instrument they made available for trading.

ESMA notes that trading venues may group financial instruments when setting the maximum bid-ask spread for these purposes.