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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

Incentives to be provided under stressed market conditions by the trading venues

Question

Article 6 of RTS 8 requires trading venues to set the incentives and the requirements that must be met by investment firms in order to access those incentives under stressed market conditions, taking into account the additional risks. What are the types of incentives to be provided under stressed market conditions by the trading venues to comply with this

requirement?

ESMA Answer

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Original language

[ESMA 70-872942901-38 MiFID II MiFIR market structures Q&A, Q&A 3.26]

RTS 8 sets forth an obligation for trading venues to provide incentives to market makers “effectively contributing to liquidity provision under stressed market conditions” (Recital 8 of RTS 8). To this end, the market making schemes should “clearly indicate the conditions for accessing incentives and should take into account the effective contribution to the liquidity in the trading venue measured in terms of presence, size and spread by the participants in the schemes” (Recital 9 of RTS 8).

On the basis of the individual trading system, trading venues still have the ability to adjust their scheme of incentives, which may well be of a “monetary” or “non-monetary” nature as long as they effectively support trading and provision of liquidity to the market on a regular and predictable basis and in particular when it is the most volatile.

In particular, trading venues should not induce market makers to leave an already depleted market or to privilege normal market conditions over stressed ones. This means that those schemes where an incentive is given to all market makers regardless of whether they effectively meet the requirements in terms of presence, size and spread set by the trading venues under stressed market conditions would not comply with RTS 8 obligations.

Similarly, trading venues can impose different market making quoting obligations during normal and stressed markets, provided that they should always be bound by Article 2(1)(b) of RTS 8. In this regard, relaxation of market making obligations should not be construed as an incentive.