ESMA_QA_1649

Submission Date
03/04/2017

Status: Answer Published

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
Organized Trading facilities OTFs

Question
Under which conditions can an OTF connect to other liquidity pools such as an SI or another OTF?

ESMA Answer

03-04-2017

Original language

[ESMA 70-872942901-38 MiFID II MiFIR market structures Q&A, Q&A 5.17]

Article 20(4) of MiFID II limits the circumstances under which an OTF may connect with other liquidity pools by prohibiting orders placed in an OTF to interact with quotes or orders in a SI or with orders in other OTFs. Interaction would occur when buying and selling interests would comingle in the same liquidity pool. Accordingly, an SI quote may not be placed on an OTF. Nor can an order originating from another OTF.

ESMA highlights that a trading interest in an OTF may not be executed against an opposite order or quote on another execution venue. For a transaction to take place, the two opposite trading interests must be placed with the same execution venue. However, this does not prevent the investment firm or the market operator operating an OTF from retracting the order from the OTF and sending it to another OTF, to an SI, an MTF or a regulated market, where consistent with the investment firm’s or the market operator’s execution policy and exercise of discretion.