

Submission Date

03/10/2017

ESMA_QA_1656

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

How do the OTF best execution obligations apply when third-party brokers are clients of the OTF or when these brokers provide Direct Electronic Access (DEA) (see Article 4(1)(41) of MiFID II)?

03-10-2017

Original language

[ESMA 70-872942901-38 MiFID II MiFIR market structures Q&A, Q&A 5.24]

When an investment firm or a market operator operating an OTF receives orders or indications of interest from a broker acting on behalf of its own clients, the operator of the OTF should be implementing its own best execution policy when executing the order from the broker orders as it owes its user clients (the broker) the duty of best execution. The broker should determine that the OTF it selects allows it to comply with its best execution obligations towards its own clients. To that end, the broker should conduct a performance assessment of the OTF including how discretion is exercised.

In the specific case of DEA to an OTF, the DEA order is entered in the OTF client's name (the broker) and the OTF operator should execute the DEA order as it would for any OTF client order. Alternatively, the operator of the OTF may decide not to permit DEA to its system.

ESMA notes that a DEA order could be considered as a client specific instruction to the broker providing the DEA arrangement to its clients.