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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
Can an OTF arrange or trade strategies including an equity leg?

ESMA Answer

29-05-2018

Original language

[ESMA 70-872942901-38 MiFID II MiFIR market structures Q&A, Q&A 5.25]

Strategies that include futures contracts, the contingent trade of a basket of equities or delta one financial instruments can be arranged by an investment firm, as a provider of investment services listed under points (1), (2) or (3) in section A of Annex I of MiFID II. This includes a strategy in which one party agrees to buy an equity and to execute a short derivative in the equity and the other party agrees to sell the equity and to execute the long derivative.

ESMA considers that an investment firm operating an OTF could arrange such strategies provided that the equity leg is not executed on the OTF system, since Article 4(1)(23) of MiFID II defines OTFs as multilateral systems where only non-equity instruments can be traded. This restriction also applies to strategies composed of a look-alike equity leg, including a forward trade.

In addition, for the purpose of market integrity, ESMA recalls that double counting should be avoided. Thus, an OTF should only provide transparency information, transaction and best execution reports for transactions that are concluded on its system and considered as taking place under the rules of its system. In case of a strategy composed of an equity leg concluded on another venue while the derivative is concluded on the OTF system, the OTF is subject to reporting requirements for the derivatives' leg.