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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

Systematic internaliser

Question

Should a system providing quote streaming and order execution services to multiple SIs be authorised as a multilateral system?

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Original language

[ESMA 70-872942901-38 MiFID II MiFIR market structures Q&A, Q&A 5.28]

Articles 14(1) and 18(1) of MiFIR require SIs to make public firm quotes, which may be published through an APA. Some prospective APAs propose setting up arrangements which, on top of their APA services, provide a suite of quote streaming and order execution services to SIs and their clients. Clients cannot interact with more than one SI via a single message but can send multiple messages to multiple SIs participating in the service provided.

Article 4(19) of MiFID II defines a multilateral system as " [...] any system or facility in which multiple third-party buying and selling trading interests in financial instruments are able to interact in the system". Article 1(7) of MiFID II requires all multilateral systems to operate as either a RM, an MTF or an OTF.

In line with the criteria set out in Q&A 3 on OTFs published on 3 April 2017 for identifying multilateral trading systems, ESMA notes that:

1. If a system allows multiple SIs to send quotes to multiple clients and allows clients to request execution against multiple SIs, then this meets the interaction test foreseen in Article 4(1)(19) even if there is no aggregation across individual SI quote streams;
2. The arrangements described above have the characteristics of a system as they are embedded in an automated facility; and,
3. Those arrangements are not limited to pooling potential buying and selling interests from SIs but also cater for the direct execution of the selected SI quotes. Genuine trade execution would be taking place on the system provided.

Accordingly, a system that provides quote streaming and order execution services for multiple SIs should be considered a multilateral system and would be required to seek authorisation as a regulated market, MTF or OTF in accordance with Article 1(7) of MiFID II.

ESMA reminds that if a firm were to arrange transactions on one system and provide for the execution of the transactions on another system, the disconnection between arranging and executing would not waive the obligation for the firm operating those systems to seek authorisation as a trading venue.