ESMA_QA_2414

Submission Date
25/01/2025

Status: Question Published

Additional Information

Level 1 Regulation
MiCA

Topic
Crypto-Asset Service Provider (CASP)

Additional Legal Reference
Art.78

Subject Matter
MiCAR CASP - Best Possible Outcome for the Client

Question
There is a practice in the crypto-asset industry when dealing with client orders which involves the following scenario:
i) a crypto-asset service provider (CASP) providing the service of execution of orders (CASP-broker) receives client orders;
ii) this CASP-broker systematically executes the orders received on behalf of the clients with another entity of the group as counterparty (the "group entity B") instead of executing such orders on the group's trading platform for crypto-assets;

iii) group entity B then immediately places an offsetting order to hedge its exposure on the group’s trading platform for crypto-assets.

In this scenario, the price offered to the client by group entity B (through the CASP-broker) is in excess of the top of book price achievable on the order book of the trading platform for crypto-assets to reflect a "guaranteed price" offered to the customer for a limited period, for example 30 - 60 seconds. Group entity B then enters an order on the group’s trading platform on the same side as the customer order would have been had it been executed directly on the group’s trading platform.

However, the price is not really guaranteed: if during the execution of group entity B’s order on the group’s trading platform, the price moves in favour of the client order, group entity B trades at that more favourable price but fills the client’s order at the agreed “guaranteed price”. But, if during the execution of group entity B’s order, the price moves against the client order, the client’s order will be filled by group entity B only if the price movement doesn't exceed the spread applied by group entity B when quoting the “guaranteed price”. Otherwise the order of the client will be cancelled.

In such scenarios, the client pays:

(i) to the CASP-broker: a fully disclosed commission for the “execution of their order”, and

(ii) to group entity B: a spread which is priced in to the “guaranteed price” quoted by group entity B.

Is this scenario compliant with MiCA?