MiFID II Briefing on Trading Venue Topics

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Caps on dark trading (SSTI and LIS)	Access to CCPs
New tick size/ liquidity bands	
Data disaggregation	Improved best execution

1. Caps on dark trading (SSTI and LIS): chapter 2, RTS 2

To establish the transparency regime for non-equity markets, ESMA proposes a dynamic methodology for calculating size-specific-to-the-instrument (SSTI) and large-in-scale (LIS) thresholds for pre- and post-trade transparency. Thresholds for liquid instruments will – for most asset classes - be calculated annually as the greater of a trade percentile, a pre-set threshold floor and, for post-trade thresholds only, a volume percentile. For most illiquid instruments, the pre-set threshold values will be used. Pre-trade thresholds will be lower than post-trade thresholds. For the liquidity assessment of bonds, ESMA proposes an instrument by instrument approach.

2. Tick size regime: chapter 3, RTS 11

To contribute to the orderly functioning of markets, ESMA sets tick size regimes for shares, depositary receipts and for those exchange traded funds (ETFs) with underlying components subject to the tick size regime. ESMA adopts a two-dimensional approach where the applicable tick size derives from both the liquidity profile of the instrument traded and the price of the order submitted. This means that the tick size will evolve dynamically depending on the price of submitted orders. The instrument's liquidity will be calculated annually as the average number of trades per day. ESMA's final table comprises six liquidity bands with three tick size increments (1, 2 and 5) and nineteen price ranges.

3. Greater transparency on trading data: chapter 4, RTS 14

To provide investors with more readily available market data, ESMA proposes a set of disaggregation criteria that trading venues will have to offer, in any combination, on a reasonable commercial basis if requested by a market participant. Proposed disaggregation criteria are: asset class (equity, equity-like, fixed income, emission allowances and different derivative classes), currency, whether from scheduled daily auctions or continuous trading and, for shares and sovereign bonds, country of issue.

4. Access to Central Counterparties (CCPs): chapter 4, RTS 15

To facilitate greater competition, CCPs and trading venues should grant access except when significant undue risk cannot be mitigated. ESMA clarifies on what grounds a CCP could deny access which includes when a CCP is not currently licensed to clear the financial instrument in relation to which access is sought and it would not be able, with reasonable efforts, to obtain an extension of its authorisation compliant with EMIR.

5. Best execution: chapter 9, RTS 27

To enhance the conditions under which firms execute orders on terms most favourable to their clients, trading venues, systematic internalisers (SIs), market makers and other liquidity providers must publish information on their execution quality for all financial instruments. However, only trading venues and SIs are required to publish information on instruments subject to trading obligations. This information must cover costs, daily pricing, likelihood and speed of execution and be published free-of charge in a machine-readable electronic format, four times a year, within three months of each quarter end.

Implementation timeline