European Securities and Markets Authority

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PRESS RELEASE

ESMA consults on tick size regime

The European Securities and Markets Authority (ESMA) has published a Consultation Paper (CP) proposing amendments to the tick size regime (Commission Delegated Regulation (EU) 2017/588 (RTS 11)). The MiFID II tick size regime aims at creating a level playing field between the different trading venues in the EU by regulating the minimum price increment that can be used by those trading venues. The CP aims to address issues, in a timely manner, that have arisen with respect to financial instruments where only a marginal proportion of trading is executed on EU trading venues and the main pool of liquidity is located outside the EU (third country instruments).

The minimum tick size applicable to shares and depositary receipts, under RTS 11, is calibrated to the average daily number of transactions (ADNT) on the most liquid market in the EU. While this metric provides a good and simple liquidity indicator for the vast majority of equity instruments, it may not be well suited to third country instruments where the most liquid trading venue is located outside the EU. In these cases, the mandatory tick size may be calculated based on underestimated liquidity and EU trading venues might be subject to minimum tick sizes that are larger than those applicable on non-EU venues.

In this context, ESMA considers it necessary to introduce amendments to RTS 11 to ensure that the tick sizes applicable to third country instruments are adequate and appropriately calibrated. ESMA proposes allowing the relevant NCA for a specific share, with its main pool of liquidity outside the EU, to adjust the average daily number of transactions in order to take into account more comprehensive trading data and ensure that trading in the share is not unduly constrained and does not create disorderly trading conditions. Furthermore, ESMA also proposes a set of conditions governing how NCAs make any adjustments based on numerical evidence of the location of the most liquid trading venue and a threshold for the minimum amount of daily transactions.

Steven Maijoor, Chair, said:

“These specific cases where EU trading venues might be subject to minimum tick sizes larger than those applicable on non-EU venues may have the unintended result of putting EU trading venues at a competitive disadvantage.

“This might result in scarcer and shallower liquidity being available on EU trading venues which can be detrimental to those trading on those venues. This timely consultation looks to address these cases and contributes to orderly financial markets.”

Next steps

Stakeholders are invited to provide feedback on this proposal until 7 September 2018. ESMA, on the basis of the responses received to this CP, will finalise its proposed amendment to RTS 11 and submit a final report to the European Commission for endorsement.

Notes for editors

1. Consultation paper:

   - [ESMA70-156-357 Consultation Paper proposing amendments to Commission Delegated Regulation (EU) 2017/588 (RTS 11)]

2. Reply form for the MiFID/MIFIR Consultation Paper

3. Since the implementation of MiFID II on 3 January 2018 trading venues in the EU must comply with a mandatory tick size regime as prescribed under Article 49 of MiFID II and as further specified in RTS 11. Under this regime, orders in shares and depositary receipts traded on an EU trading venue are subject to minimum tick sizes that are determined based on both (i) the average daily number of transactions (ADNT) on the most relevant market in terms of liquidity (i.e. the trading venue in the EU with the highest turnover) and (ii) the price of the order.

4. ESMA's mission is to enhance investor protection and promote stable and orderly financial markets.

   It achieves these objectives through four activities:

   i. assessing risks to investors, markets and financial stability;

   ii. completing a single rulebook for EU financial markets;

   iii. promoting supervisory convergence; and

   iv. directly supervising specific financial entities.

5. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board, and with national authorities with competencies in securities markets (NCAs).

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