European Securities and Markets Authority

Reply form for the Consultation Paper on the Algorithim Trading

18 December 2020 | ESMA70-156-4086

Responding to this paper

ESMA invites comments on all matters in this consultation paper and in particular on the specific questions summarised in Annex I. Comments are most helpful if they:

- respond to the question stated;
- indicate the specific question to which the comment relates;
- contain a clear rationale; and
- describe any alternatives ESMA should consider.

ESMA will consider all comments received by **12/03/2021.**

All contributions should be submitted online at www.esma.europa.eu under the heading 'Your input - Consultations'.

Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

1. Insert your responses to the questions in the Consultation Paper in the present response form.

2. Please do not remove tags of the type <ESMA_QUESTION_ALGO_1>. Your response to each question has to be framed by the two tags corresponding to the question.

3. If you do not wish to respond to a given question, please do not delete it but simply leave the text "TYPE YOUR TEXT HERE" between the tags.

4. When you have drafted your response, name your response form according to the following convention: ESMA_ALGO_nameofrespondent_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESMA_FOTF_ABCD_RESPONSEFORM.

5. Upload the form containing your responses, in Word format, to ESMA's website (www.esma.europa.eu under the heading "Your input – Open consultations" → "Consultation on Algorithmic Trading").

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publically disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the heading Legal Notice.

Who should read this paper

This document will be of interest to (i) alternative investment fund managers, UCITS management companies, EUSEF managers and/or EuVECA managers and their trade associations, (ii) distributors of UCITS, alternative investment funds, EuSEFs and EuVECAs, as well as (iii) institutional and retail investors investing into UCITS, alternative investment funds, EuSEFs and/or EuVECAs and their associations..

General information about respondent

Name of the company / organisation	CFA Institute
Activity	
Are you representing an association?	☒
Country/Region	Europe

Introduction

Please make your introductory comments below, if any

<ESMA_COMMENT_ALGO_1>

CFA Institute welcomes the opportunity to provide comments on the impact of MiFID II/MiFIR requirements on algorithmic trading, including high-frequency algotithmic trading.

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organisation is a champion of ethical behaviour in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environ-ment where investors' interests come first, markets function at their best, and economies grow. There are more than 160,000 CFA® Charterholders worldwide in 164 markets. CFA Institute has nine offices world-wide and 161 local member societies.

The answer provided herein is the result of CFA Institute consulting with our member societies in Europe, including in particular expert members in Italy and Cyprus, as well as CFA Insitute's own views.

Given the electronification and automation of trading markets as well as the rise of artificial intelligence in financial services, we also believe it is important for regulators to aim for the right regulatory framework. In a 2016 report, Deutsche Bank was reporting that the share of HFT or algorithmic trading in Europe was 35% of all equity trading, after reaching the all-time high level of 40% in 2010 (ref. Deutsche Bank, Research Briefing, High-Frequency Trading, 24 May 2016). Figures are even higher in the US. At such levels of market share, it can be argued that algorithmic trading are a significant and structural part of the market and therefore of the natural price formation mechanism, including price discovery.

CFA Institute has previously commented on HFT. While we believe that algorithmic trading and HFT can provide benefits to the market (liquidity, narrower spreads, price discovery, volumes on traditional exchanges), we are also of the view that properly crafted rules and regulation should be in place to address the potential risks of manipulation and fraud:

- Firms should be subject to meaningful regulation and oversight.

- Firms should not have access to the market order book in the same manner as market makers unless they also are subject to market-maker obligations.

- Firms should have to maintain controls and oversight of their trading algorithms to ensure that mistakes are addressed automatically and quickly.

Overall, CFA Institute and the members who have considered this consultation find the EU regulatory framework on algorithmic trading fit for purpose, yet the general view was also that there is room for improvement. We agree with the Commission's iterative process on the market, aiming to gradually better identify the sources of risk and where inefficiencies may rise. We are of the view that scenario analysis and case studies should be considered as a next step in order to better understand the various interests at play in this market and how it impacts the broader price formation mechanism and liquidity provision.

Our answers to this consulation are addressing the key points we think ESMA is raising in the following manner:

- Systematic internalisers. We agree that systematic internalisers should be brought into scope of RTS 6 and that the MiFID definition og algorithmic trading be extended to include trading conducted on SIs.

- Annual self-assessment. We agree with the proposal that firms submit their self-assessment to their NCA on a bi-annual basis and under a standardised format.

- Testing of algorithms and validation. We believe that testing shoud be harmonised through the use of required assumptions across market participants, in order to establish a level playing field and enhavne the meaningfulness of results from the point of view of the NCAs.

Standardisation and harmonisation of controls and regulatory frameworks in Europe across the various regulatory regimes is a common theme CFA Institute is advocating for. The effectiveness of such regimes depends on the ease and level of comprehension with which firms are implementing those rules.

<ESMA_COMMENT_ALGO_1>

Questions

Q1 : What is your overall assessment of the MiFID II framework for algorithmic trading, HFT and DEA?

<ESMA_QUESTION_ALGO_1>
Overall, CFA Institute and the members, who have considered this consultation, find the EU regulatory framework on algorithmic trading fit for purpose, yet the general view was also that there is room for improvement.

The fundamental issue with the development of a regulatory framework for this market resides in the difficulty of approaching algorithmic trading holistically and on a jurisdiction-by-jurisdiction basis, which has been the intention in the EU. The rate of technological developments (we would call it a technological arms race) has been exponential over the last few years. Competition has therefore grown to such a level that the observed impact has been quite different depending on the point of view, whether that of trading venues, market participants or regulatory authorities. This means that a wholesale and indiscreminate approach may be difficult as by definition it cannot specifically cover all the different aspects and cases part of the algorithmic trading universe.

We do find that the Commission's iterative approach has been sensible in trying to gradually approach and identify the sources of risk and market inefficiencies. If a holistic approach to regulation remains the target, then we would argue that a next step for regulators and the Commission should involve and mandate case studies and scenario analysis, which would help gain a better picture of the entire range of different activities, participants, risks and operational specifities of this market as well as its role in price formation and liquidity provision. We are of the view that each player in the industry has different goals and objectives, which may result in opposite points of view or interests. This needs to be analysed and better understood.

<ESMA_QUESTION_ALGO_1>

Q2 : In your views, are there risks other than the one mentioned in MiFID II or impacts on market structure developments due to market electronification/ algorithmic trading that would deserve further regulatory attention? Please elaborate.

<ESMA_QUESTION_ALGO_2>
We believe that no further risks are foreseen other than those that have already taken into account.
However, some of our members from CFA Society Cyprus highlight that many prime brokers have been established across EU over the past years which mainly facilitate hedge funds by providing them loans for large transactions, holding the securities they trade as collateral. By HFT, the risk of collateral not being able to cover the loan is higher as HFT increases the risk of erroneous/excessive trading. Consequently, security values could drop more sharply. Prime brokers are supposed to have their risk-based methodogy to mitigate potential default risk but these are build internally. Therefore, ESMA should pay further regulatory attention not only for a holistic approach on HFT but also on the use of sub-sector analysis (depending on HFT provider type), i.e. for prime brokers.

<ESMA_QUESTION_ALGO_2>

Q3 : Do you consider that the potential risks attached to algorithmic trading should also be given consideration in other trading areas? Please elaborate.

<ESMA_QUESTION_ALGO_3>
No, the potential risks attached to algorithmic trading are negligible in other trading areas. that markets would not be affected by trading in OTC markets. The risk of market abuse would not exist since trades would not be sent to the market, and subsequently market volatility is also avoided for the same reasons. A risk could arise if the OTC venue offering the trading would wish to hedge itself in the market, and transfer some or all of the trades received to the market (therefore indirectly passing the volatility to the market). This should, however, be a small risk given that the underlying firm causing this HFT and subsequent volatility would need substantially more capital and investments in order to cause this rather than simply trading directly.
<ESMA_QUESTION_ALGO_3>

Q4 : Do you agree with this analysis? If not, please explain why.

<ESMA_QUESTION_ALGO_4>
Yes, the definition of algorithmic trading shall refer to a trading technology used to send orders to a trading venue, and therefore it should include all DEA clients and HFT that use algo trading as defined under the definitions to MiFID II.
<ESMA_QUESTION_ALGO_4>

Q5 : Did you encounter any specific issue with the definition of HFT? Do you consider that the definition should be amended? Do you have any suggestion to replace the high message intraday rates with other criteria or amend the thresholds currently set in Level 2? Please elaborate and provide data supporting your response where available.

<ESMA_QUESTION_ALGO_5>
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<ESMA_QUESTION_ALGO_5>

Q6 : Based on your experience, is sub-delegation of DMA access a frequent practice? In which circumstances? Which benefits does it provide to the DEA user and to the sub-delegatees? Are you aware of sub delegation arrangements in the context of Sponsored access? If so, please elaborate.

<ESMA_QUESTION_ALGO_6>
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<ESMA_QUESTION_ALGO_6>

Q7 : (for DEA Tier 1clients) Do you sub-delegate direct electronic access? If so, are your Tier 2 clients typically regulated entities/investment firms? Are they EU-based or third country based?

<ESMA_QUESTION_ALGO_7>
TYPE YOUR TEXT HERE

<ESMA_QUESTION_ALGO_7>

Q8 : Do you agree with this analysis? If not, please explain why. Do you consider that further clarification is needed in this area? If so, what would you suggest?

<ESMA_QUESTION_ALGO_8>
Yes, we agree. Retail investors currently do not have access to such time sensitive trading able to perform this type of trading. Even in the future, if such technology is widely accessible and retail clients do gain such access, they would need to invest substantial amounts to have any impact, and would inevitably qualify as professional clients
<ESMA_QUESTION_ALGO_8>

Q9 : Do you agree with ESMA's proposal? If so, do you consider that the requirements considered above relevant? Should there be additional ones? If you disagree with ESMA's proposal, please explain why.

<ESMA_QUESTION_ALGO_9>
Yes, we agree with ESMA's proposal to extend the definition of algorithmic trading also to trading in financial instruments OTC via a Systematic Internalisers (Sis). Some of our members from CFA Society Italy also agree on the application of the following requirements at SI level for OTC algorithmic trading: (i) governance arrangements for trading systems and trading algorithms, (ii) controlled deployment of algorithms (iii) kill functionality and other risks controls). It would not be proportionate to extend those requirements to all investment firms trading OTC.
<ESMA_QUESTION_ALGO_9>

Q10 : Do you agree with ESMA's proposals above? Please elaborate.

<ESMA_QUESTION_ALGO_10>
Yes, some of our members from CFA Society Italy believe that the ESMA's proposal, which would remove the obligation for DEA clients to be authorised as investment and to introduce a requirement for third-country firms to be authorised as an investment firm when they qualify as an HFT firm on an EU trading venue, would facilitate the level playing field between EU and non-EU firms.
However, some of our members from CFA Society Cyprus argue that the suggestion to exempt firms to become Investment Firms when they will be DEA users for dealing on own account considers additional risk that has to be mitigated. They should abide by the rules and have effective control systems but, still, dealing on own account is a MiFID II investment service. They suggest that an assessment on how many firms would only be DEA users for dealing on own account should be carried out as most of them will be eventually offered DEA access to retail clients like online brokerage firms.
<ESMA_QUESTION_ALGO_10>

Q11 : Do you agree with ESMA's proposal? Please elaborate.

<ESMA_QUESTION_ALGO_11>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_ALGO_11>

Q12 : Do you see merit in ESMA developing a template for notifications to NCAs under Articles 17(2) and 17(5) of MiFID II? If not, please justify your position.

<ESMA_QUESTION_ALGO_12>
Yes, we agree that a template for notifications to NCAs would facilitate greater harmonization on national practices for notifications. Some of our members from CFA Society Italy highlight that, for example, CONSOB (the Italian NCA) only requests information on i) algotrading start date, ii) trading venue; iii) instrument type, iv) nature of the activity (algotrading or DEA). This is less information than what the consultation paper considers and no template is used.
<ESMA_QUESTION_ALGO_12>

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Q13 : Do you agree that it would be useful to clarify that notifications should be done 'without undue delay'?

<ESMA_QUESTION_ALGO_13>
Yes, we agree that this would avoid discretion in the timing to send the notification. However, some of our members from CFA Society Cyprus are concerned that such a clarification may lead to overreaction by NCAs to request information which would disrupt ongoing investment firm operations. Investment firms will have to provide all requested information, and will, at all times, have to comply with the legislation
<ESMA_QUESTION_ALGO_13>

Q14 : Do you agree with ESMA's approach for the exchange of information between NCAs? If not, please justify your position.

<ESMA_QUESTION_ALGO_14>
Yes, we agree with the ESMA's approach to make a proposal to facilitate the exchange of information, should there be a need in the future.
<ESMA_QUESTION_ALGO_14>

Q15 : What is your view on clarifying the definition of algorithmic trading? If you deem it beneficial to refine the definition and account for further types of algorithms or algorithmic trading strategies, please provide your suggestion as well as underlying rationale.

<ESMA_QUESTION_ALGO_15>
ESMA Q&As already provide clarification on algorithmic trading; no requirement for additional clarification.
<ESMA_QUESTION_ALGO_15>

Q16 : Do you think there should be specific requirements for different type of algorithms or algorithmic trading strategies in RTS 6? Please explain.

<ESMA_QUESTION_ALGO_16>
No, we believe that introducing specific requirements would not lead to greater benefits.
<ESMA_QUESTION_ALGO_16>

Q17 : What is your experience with testing environments? Are they used frequently? If not, why? Do you see a need for any improvements?

<ESMA_QUESTION_ALGO_17>
Test environments are used at least twice a year, and more frequently depending on any new IT releases. There is no need for any improvements.
<ESMA_QUESTION_ALGO_17>

Q18 : Do you agree that the definition of "disorderly trading conditions" should be clarified? If yes, how would you define such trading conditions?

<ESMA_QUESTION_ALGO_18>
Yes, we agree that the definition if "disorderly trading conditions" should be clarified. Some of our members from CFA Society Italy suggest that possible definitions could entail market structure disruption (e.g. volatility interruptions, intraday auction phases), extraordinary and unlikely conditions (in terms of market volatility and volumes), general IT failures.
<ESMA_QUESTION_ALGO_18>

Q19 : Do you agree that ESMA should provide additional guidance on the expectations concerning the checks and testing to be done, in particular for testing on disorderly trading conditions?

<ESMA_QUESTION_ALGO_19>
Yes, additional guidance could facilitate greater harmonization on how checks and testing are done.
<ESMA_QUESTION_ALGO_19>

Q20 : Would you agree that it could be beneficial if ESMA develops a prescribed format for the self-assessment foreseen in Article 9 of RTS 6?

<ESMA_QUESTION_ALGO_20>
Yes, we agree that a prescribed EU harmonized format on the self-assessment on their compliance with art. 17 of MiFID II would improve consistency and comparability. However, our members from CFA Society Italy underline that CONSOB already requires notification of the annual algotrading self-assessment. A standard format would simplify the due diligence criteria, potentially allowing to rely more on external suppliers given a standardised framework.
<ESMA_QUESTION_ALGO_20>

Q21 : Do you agree with the changes proposed to the self-assessment of Article 9 of RTS 6?

<ESMA_QUESTION_ALGO_21>

Yes, we agree on the proposed changes on the self-assessment. Some of our members from CFA Society Italy especially support on the change in frequency if the format proves to be more burdensome than the current criteria.
<ESMA_QUESTION_ALGO_21>

Q22 : Would you propose any other targeted legislative amendments to RTS 6? Please include a detailed explanation of the proposed amendment and of the underlying issue that this amendment would aim to tackle.

<ESMA_QUESTION_ALGO_22>
No additional proposal.
<ESMA_QUESTION_ALGO_22>

Q23 : Do you agree with ESMA's proposal to harmonize and create a clear structure for the performance of the self-assessment?

<ESMA_QUESTION_ALGO_23>
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<ESMA_QUESTION_ALGO_23>

Q24 : Do you agree with limiting the self-assessment to every two years and to require trading venues to share it with their relevant NCA?

<ESMA_QUESTION_ALGO_24>
Yes, we agree on this proposal as long as NCAs would also retain the possibility to request the self-assessment to be performed more frequently.
<ESMA_QUESTION_ALGO_24>

Q25 : Do you agree with ESMA's analysis about the overlapping requirements between RTS 6 and 7? Are those overlaps considered beneficial, should they be removed or are there any gaps? Are there any further points that should be clarified?

<ESMA_QUESTION_ALGO_25>
We believe that the two requirements are overlapping and should be clarified. There is no evident benefit in maintaining this overlap.
<ESMA_QUESTION_ALGO_25>

Q26 : What is your view with regards to the testing of algorithms requirements? Do you agree that more robust testing scenarios should be set?

<ESMA_QUESTION_ALGO_26>
We suggest a combined algorithm testing be also performed by the Trading venues in an effort to check if the combination of all the algorithms from different investment firms could result in disorderly trading.
<ESMA_QUESTION_ALGO_26>

Q27 : Are the testing environments available for the testing of algorithms appropriate for this purpose?

<ESMA_QUESTION_ALGO_27>
Yes, we believe that they are appropriate.
<ESMA_QUESTION_ALGO_27>

Q28 : Do you agree with ESMA's analysis that the circuit breaker mechanism achieved its objective to avoid significant disruptions to the orderliness of trading?

<ESMA_QUESTION_ALGO_28>
Some of our members from CFA Society Cyprus stress that not enough information is given in order to decide if the objective was achieved. In order to check the goal to avoid significant disruptions to the orderliness of trading, we would need an assessment of the impact before, during and after the circuit breaker was activated against a volatile day during which the circuit breaker was intentionally not activated. Any reduction in disorderly trading during the activation of the circuit breaker could have amplified disorderly trading after the circuit breaker was deactivated, as we have seen during March 2020 when subsequent circuit breakers were activated shortly after they were deactivated.
<ESMA_QUESTION_ALGO_28>

Q29 : Do you agree that the requirements under Article 48(5) of MiFID II complemented by RTS 7 and the guidelines on the calibration of circuit breakers and publication of trading halts under MiFID II remain appropriate? If not, what regulatory changes do you deem necessary?

<ESMA_QUESTION_ALGO_29>
Yes, we agree that the requirements and guidelines on the application of the circuit break mechanism remain appropriate. It is important for the Trading Venues to adjust according to their capacity to absorb volatile trading before needing the circuit breaker mechanisms to be activated.
<ESMA_QUESTION_ALGO_29>

Q30 : Do you agree that the co-location services and fees structures are fair and non-discriminatory? Please elaborate.

<ESMA_QUESTION_ALGO_30>
Yes, these are fair and non-discriminatory. However, some of our members from CFA Society Cyprus suggest the option of an all-including transaction price as long as the fees are clearly presented ex-post and ex-ante. The fees will of course be shown broker-down but the all-in-one will be an indication and given a generic picture of what the fees would be like. The ex-post presentation would also be useful and give more clarity (however, ESMA should assess ways to avoid adding time and cost burden for the trading venues and for non-efficient cost-benefit.
<ESMA_QUESTION_ALGO_30>

Q31 : Do you think that the disclosures under RTS 10 made by the trading venues are sufficient or should they be harmonized among the different entities? Please explain.

<ESMA_QUESTION_ALGO_31>

Yes, CFA Institute advocates for the harmonization of such disclosures among the different entities as this would improve consistency and comparability.
<ESMA_QUESTION_ALGO_31>

Q32 : Do you agree with ESMA's proposal to set out the maximum OTR ratio, calibrated per asset class?

<ESMA_QUESTION_ALGO_32>
Yes, we agree on this proposal. Setting separate limits per asset class brings about significant benefits.
<ESMA_QUESTION_ALGO_32>

Q33 Q33: Do you agree that the maximum limits are not frequently exceeded? Please explain any potential underlying issues in this respect that should be recognised.

<ESMA_QUESTION_ALGO_33>
Yes, we agree that the maximum limits are not frequently exceeded.
<ESMA_QUESTION_ALGO_33>

Q34 : Do you agree with the consequences as described of exceeding the maximum limits or should there be a more convergent approach? Please provide any comment or suggestion regarding the procedures in place by trading venues in case of a member exceeding the prescribed limit.

<ESMA_QUESTION_ALGO_34>
As it seems that there are no significant adverse effects, we believe that taking a more convergent approach is not needed. Trading Venues should continue on an ad-hoc basis to deal with these breaches and the approach can be reassessed in the future if it leads to larger risks.
<ESMA_QUESTION_ALGO_34>

Q35 : Do you agree with the need to improve the notification process in case of IT incidents and system outages? Beyond the notification process between NCAs and ESMA, which improvements could be done regarding communication of incidents to the public?

<ESMA_QUESTION_ALGO_35>
Yes, improvements on the notification process in case of IT incidents and outages are necessary. Some of our members from CFA Society Cyprus suggest that it could be a more efficient solution to release alerts on a tiered system where an initial alert should be sent automatically and in real time to the NCAs, while ESMA would provide any available information and description of failures identified. The alert should be updated within 1-2 hours with more detailed information. This information could also be published to the public as long as it does not contain sensitive information that could further compromise the issue at hand (ie. if the threat was a cyber-attack or a DDoS attack, it may not be prudent to publish this information thereby allowing more public users with malicious intent to add traffic to the trading venue systems).
<ESMA_QUESTION_ALGO_35>

Q36 : Do you believe any initiative should be put forward to ensure there is more continuity on trading in case of an outage on the main market, e.g. by requiring algo traders to use more than one reference data point?

<ESMA_QUESTION_ALGO_36>
This could only be required for algo traders that have significant capital.
<ESMA_QUESTION_ALGO_36>

Q37 : Do you agree with the view that the tick size regime had overall a positive effect on market depth and transaction costs?

<ESMA_QUESTION_ALGO_37>
Our members believe that the tick size regime seems to have had a positive impact on market depth and transaction costs.
<ESMA_QUESTION_ALGO_37>

Q38 : Is there any further issue you would like to highlight regarding tick size regime?

<ESMA_QUESTION_ALGO_38>
No further issues.
<ESMA_QUESTION_ALGO_38>

Q39 : Do You agree with the proposal not to amend the tick size regime for third country shares? Please explain.

<ESMA_QUESTION_ALGO_39>
No, we do not believe that amendments to the tick size regime are needed.
<ESMA_QUESTION_ALGO_39>

Q40 : Do you agree with the proposal to widen the scope of the tick size regime to all ETFs? Would this pose challenges in your view? Please explain.

<ESMA_QUESTION_ALGO_40>
Yes, we agree on the proposed extension of the tick size regime to all ETFs. However, this could challenging for ETFs with no physical replication, using derivatives and underlyings not in the regime.
<ESMA_QUESTION_ALGO_40>

Q41 : Do you agree with the proposal not to widen the scope of the tick size regime to non-equity instruments? Please explain.

<ESMA_QUESTION_ALGO_41>
Yes, we agree on not widening the scope of the tick size regime to non-equity instruments as the extension would lead to unnecessary complexity without bringing about important benefits.
<ESMA_QUESTION_ALGO_41>

Q42 : Do you agree with ESMA findings and assessment of the current MiFID II market making regime?

<ESMA_QUESTION_ALGO_42>
Yes, we agree on the ESMA findings that the current market making regime has led to more predictability into the high-speed market making activity.
<ESMA_QUESTION_ALGO_42>

Q43 : What do you think of ESMA proposals and suggested amendments to RTS 8? In your view, what other aspects of the market making regime require to be amended and how?

<ESMA_QUESTION_ALGO_43>
The ESMA suggested amendments would improve the liquidity of illiquid securities.
<ESMA_QUESTION_ALGO_43>

Q44 : What are market participants views regarding the flexibility left in the MiFID II market making regime? Would you agree with ESMA further clarifying certain relevant concepts? If yes, which ones?

<ESMA_QUESTION_ALGO_44>
Some of our members from CFA Society Cyprus argue that, although the provision in MiFID II leaves a certain degree of discretion to the trading venues, it may yield a positive result for the market, given that the trading venues will have sufficient flexibility to find innovative ways to draft agreements and enhance market efficiency. ESMA should, however, still set rules on the outcome of such agreements so that the new agreements do not yield negative unexpected results for the market participants. In addition, these new agreements should be revisited and reviewed in due time in order to investigate their effectiveness in enhancing market efficiency. ESMA can bring clarity on what constitutes "stressed market conditions", giving a quantifiable rule as a ratio for a level playing field in Trading Venues.
<ESMA_QUESTION_ALGO_44>

Q45 : Could you please describe how Primary Dealers agreements are designed (number of designated Primary Dealers, transparency about investment firms having signed such agreements, typical obligations contained, etc…). Do you consider that Primary Dealers should be exempted from the Article 1 of RTS 8? Do you consider that this can introduce a regulatory loophole?

<ESMA_QUESTION_ALGO_45>
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<ESMA_QUESTION_ALGO_45>

Q46 : Do you think that venues which introduced asymmetric speedbumps provide enough information regarding the mechanism used? If not, what additional information would be useful to disclose to market participants?

<ESMA_QUESTION_ALGO_46>
No, not enough information on the mechanisme used seems to have been disclosed. Some of our members from CFA Society Cyprus suggest that further clarification could be provided

on why asymmetry exists for specific asset class/products, and also if the reasoning is minimum size, and if any rebate is given. This suggestion also holds for any term used that should be explicitly clarified, such as the definition of "liquidity takers" given that this term may be interpreted differently between trading venues.
For certain exchanges where the speedbumps are flat for everyone and the asset classes for which they apply are clearly indicated no further clarification is needed.
<ESMA_QUESTION_ALGO_46>

Q47 : Reflecting on those mechanisms which allow liquidity providers to provide quotes that can be filled only against retail order flow, do you think that such mechanisms are beneficial in terms of market quality? Is there any specific aspect that you think should be further taken into account, also considering the type of instruments traded? Please specify the venue of reference and the type of arrangement discussed.

<ESMA_QUESTION_ALGO_47>
Yes, we believe that these mechanisms would be beneficial in terms of market quality as they would result in improved quotes to retail order flow and therefore more efficient markets..
<ESMA_QUESTION_ALGO_47>

Q48 : Do you think that venues which introduce asymmetric speedbumps should set tighter market making requirements? Please explain why and how tight those new requirements should be.

<ESMA_QUESTION_ALGO_48>
We suggest that at an initial stage, the TVs could ask liquidity providers with assymetric speedbumps to show their effective steps in providing better prices and, thus, tighter spreads. They also coul show actions taken on distressed market conditions where liquidate may become non-existent. This eventually must be done for a level playing field in illiquid markets/securities and so to help those as well. Concerning the level of tightness, at an initial stage, this would be on a non-mandatory basis and specifically on spreads.
<ESMA_QUESTION_ALGO_48>

Q49 : Do you agree on the conclusion that speedbumps might not be a well-suited arrangement for equity markets? If yes, do you think that such arrangements for equities should be prohibited in Level 1? Please explain.

<ESMA_QUESTION_ALGO_49>
Yes we agree that speedbumps might not be a well-suited arrangement for equity markets. However, some of our members from CFA Society Cyprus argue that they should not be prohibited in Level 1 legislation as Trading Venues may yet find new ways to implement more complex speedbumps that may have benefits to the market liquidity and pricing.
<ESMA_QUESTION_ALGO_49>

Q50 : Do you think that the introduction and functioning of speedbumps should be further regulated? If yes, which specific requirements would you like to be included in EU legislation?

<ESMA_QUESTION_ALGO_50>
No, further requirements are not needed.

<ESMA_QUESTION_ALGO_50>

Q51 : Is there any specific issue you would like to highlight about speedbumps?

<ESMA_QUESTION_ALGO_51>
No further issues.
<ESMA_QUESTION_ALGO_51>

Q52 : What are your views on the relative timing of private fill confirmations and public trade messages? If you are a trading venue, please provide in your answer an explanation of the model you have in place.

<ESMA_QUESTION_ALGO_52>
We believe that public trade messages should have priority over private fill confirmations as this evens the playing field and mitigates risk of inside information. Although this would increase the risk of HFT, with traders benefiting from this information, there may still be merit in asymmetric speedbumps specifically targeting such reactions until the private confirmation is also disseminated.
<ESMA_QUESTION_ALGO_52>

Q53 : Do you consider information on the sequencing of these two feeds at trading venues to be easily available? If you are a trading venue, please provide a link to where this information can be found publicly.

<ESMA_QUESTION_ALGO_53>
TYPE YOUR TEXT HERE
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Q54 : Do you think there should be any legislative amendments or policy measures in respect of these feed dynamics?

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