

## Table of upcoming MiFID II Requirements

Markets in Financial Instruments Directive (MiFID) is the framework of European Union (EU) legislation for the organised trading of financial instruments. MiFID was applied in the UK from November 2007, but is now being revised to improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection/Best Execution. The changes are currently set to take effect from 3 January 2018, with the new legislation being known as MiFID II - this includes a revised MiFID and a new Markets in Financial Instruments Regulation (MiFIR).

The European Securities and Markets Authority (ESMA) published final drafts of the 28 regulatory technical standards (RTS) for MiFID II and MiFIR. Below is a summary of the key regulatory technical standards relevant to Aquis Exchange and its members, along with a summary of developments for Aquis MTF to adhere to the new regulations.

	Summary of the ESMA RTS	Requirements under MiFID II	Aquis Exchange plans and actions	Timescale
<b>RTS 1</b>	Transparency requirements for trading venues and investment firms in respect of shares, depositary receipts, exchange traded funds, certificates and other similar financial instruments	<p><b>Transparency</b> - MiFID II mandates a high degree of pre and post-trade transparency across European markets.</p> <p>Market operators and investment firms operating trading venues are required to make public the range of bid and offer prices and the depth of trading interest at those prices, and also make public the details of each transaction.</p>	<p>Aquis operates an MTF with a fully transparent order book.</p> <p>Market data publication will incorporate relevant MiFID II trade flags, such as the algorithmic trade indicator.</p>	From 3 Jan 2018
<b>RTS 3</b>	The volume cap mechanism and the provision of information for the purposes of transparency and other calculations	<p><b>Volume cap</b> - Under MiFID II, reference price waiver trades and liquid-market negotiated trades will be restricted to 4% of the total volume of trading in a particular instrument per venue, and 8% across all venues of the previous 12 months.</p>	<p>Trading on Aquis will not be subject to the pre-trade transparency waiver caps.</p> <p>Aquis operates a lit order book with full pre-trade transparency and does not have trades which fall under the negotiated or reference price waivers.</p>	From 3 Jan 2018

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RTS 7	Specifying organisational requirements of trading venues	<p><b>Capacity requirements</b> - Venues must monitor system load capacity, order/trade ratios, general infrastructure set-up and usage on an ongoing basis, and have systems to monitor and react to sudden surges in activity.</p> <p><b>Controls to prevent disorderly trading</b> - Venues must have at least the following in place to prevent disorderly trading and breaches of capacity limits:  (a) limits per member of the number of orders sent per second;  (b) mechanisms to manage volatility;  (c) pre-trade controls</p> <p><b>Algo testing</b> - Venues will require members to certify that the algorithms they deploy have been tested to avoid creating disorderly trading conditions, and explain the means used for that testing.</p> <p><b>DEA provisions</b> - DEA is only allowed via firms with suitable systems and controls. Members providing DEA arrangements are responsible for all orders and transactions from their DEA clients.</p>	<p>Aquis' platform capacity is stress tested to ensure there is sufficient redundancy to cope with any extraordinary peaks in order messaging on busy trading days. Aquis monitors system capacity on an ongoing basis with real time alerts for signs of load stress.</p> <p>Aquis has the following mechanisms to ensure orderly trading conditions:  - Price reference check  - Order consideration limit check  - Kill switch functionality  - Order throttling arrangements</p> <p>Aquis already has a testing suite, which is separate from the main production site, where members can stress test their algorithms. Both the testing suite and production include one test symbol per market.</p> <p>Aquis lays out the stipulations for DEA in its Rulebook, although Aquis does not currently provide Sponsored Access.</p>	In place
RTS 8	Specifying the requirements on market making agreements and schemes	<p><b>Market making arrangements</b> - An investment firm posting simultaneous two-way quotes of comparable size and at competitive prices, in at least one financial instrument, on a single trading venue, for at least 50% of the daily hours of continuous trading, for half of the trading days over a one month period, is automatically deemed as a market maker and will be required to sign a market making agreement with the venue. Venues will have to publish the names of their market makers along with details of the agreements.</p>	<p>Aquis' current liquidity provision scheme contains the minimum obligations for market makers on Aquis. Aquis intends to keep the current scheme in place as default, but may introduce a tighter scheme in future with increased benefits for better quality of liquidity.</p>	In place
RTS 9	The ratio of unexecuted orders to transactions	<p><b>Unexecuted order/transaction ratios</b> - venues should have systems, procedures and arrangements to monitor and, where appropriate, limit the ratio of unexecuted orders to transactions. Venues should set a maximum OTR appropriate to their systems in order to reduce the risk of disorderly trading conditions.</p>	<p>Aquis will calculate OTRs for each member, per stock, across the course of each trading day (by both order count and order volume). Aquis will stipulate guideline OTRs for members. Guideline limits will relate to system capacity and only be imposed to ensure fair usage between member firms to avoid disorderly market conditions.</p>	Guidelines to be confirmed

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RTS 10	Requirements to ensure fair and non-discriminatory co-location services and fee structures	<p><b>Fair, non-discriminatory co-location arrangements and fee schemes</b> - venues are required to have transparent, non-discriminatory and fair co-location rules and must take reasonable steps to monitor latency measurements and ensure non-discriminatory treatment of users. Venues will have to publish their policies regarding co-location services on their website.</p> <p>Venues are also required to have fair and public fee structures.</p>	<p>Aquis' approach to data access, market connectivity, co-location arrangements, technology, technical support and messaging type availability applies equally to all Members. Aquis monitors connections in real-time to ensure fair and non-discriminatory treatment of users.</p> <p>Aquis' fee schedule is universal to all Members and is available from the Aquis website.</p>	In place
RTS 11	Tick size regime for shares, depository receipts and, exchange traded funds	<b>Tick size regime</b> - A mandatory tick size regime will be introduced under MiFID II. All venues will be required to adhere to the published RTS 11 annex 1 ESMA tick size table, according to liquidity bands/price ranges.	Aquis currently adheres to the market of listing tick size tables, as published by the national markets. Under MiFID II, Aquis will adhere to the tick size tables published by ESMA.	In place
RTS 14	Specification of the offering of pre-and post-trade data and the level of disaggregation of data	<p><b>Data disaggregation requirements</b> - In order to reduce costs for market participants when purchasing data, venues will have to separate and disaggregate their pre-trade and post-trade data relating to all instruments, by the following criteria: asset class, currency, scheduled daily auctions as opposed to continuous trading.</p> <p>Venues must offer data on a reasonable commercial basis using any combination of the disaggregation criteria, provided that it is requested at least by one market participant. Trading venues may, in addition, offer bundles of data.</p>	<p>Aquis currently groups its market data via four multicast feeds.</p> <p>Aquis does not currently charge any fees for its market data, so will leave its market data groupings unchanged for the present time. For greater flexibility and granularity, Aquis will broadcast specific bundles of data to those who request it.</p>	In place
RTS 24	Maintenance of relevant data relating to orders in financial instruments	<p><b>Maintenance of order data and new fields</b> - Several new order information fields need to be collected by venues, under article 25 of MiFIR. Aquis will accommodate and store the following fields to be included by Members in their orders:</p> <ul style="list-style-type: none"> <li>- Client ID (including DMA client ID field)</li> <li>- The investment decision-maker ID</li> <li>- The execution decision-maker ID</li> <li>- Flag to indicate DMA Provision</li> <li>- Liquidity provision flag</li> <li>- Algorithmic trading flag</li> </ul>	<p>Aquis will make the new fields available for both the FIX protocol and the Aquis Trading Protocol (ATP). The new tags will be implemented into the Aquis test environment for Members to test in July 2017. Aquis will look to include the new MiFID II order string constructs in production shortly after.</p> <p>ID codes (client/investment decision maker/execution decision maker)- Aquis will mandate the use of short codes by Members to populate order strings. This will require Members to send Aquis a confidential file with the short code mappings to their long code IDs (e.g. LEIs/passport numbers etc.) by the end of every trading day. This transfer will be conducted securely via SFTP.</p>	<p>In test July 2017.</p> <p>Note that these additional MiFID II order fields will not be mandatory until the regulation takes effect on January 3rd 2018 and will not affect existing order message constructs.</p>

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RTS 25	Level of accuracy of business clocks	<p><b>Clock synchronisation</b> - Venues and their Members must synchronise the business clocks they use to record the date and time of any reportable event with Coordinated Universal Time (UTC) disseminated by a satellite system. Any offset from UTC must be accounted for and removed from the timestamp.</p> <p>If the gateway-to-gateway latency time of the trading system is less than 1 millisecond, as with Aquis, then the maximum allowable divergence from UTC is 100 µs. The granularity of the timestamp needs to be 1 µs or better.</p>	Aquis has traceability to UTC within the system design, functioning and specifications, and currently tracks UTC within the required tolerances.	In place
RTS 27	Data to be provided by execution venues on the quality of execution of transactions	<p><b>Best execution statistics</b> - Venues must publish data relating to the quality of execution that takes place on their venue to ensure investment firms can make appropriate comparisons to validate, assess and evolve their best execution policies. Venues will report per instrument, per trading day, per transaction size range.</p>	Aquis intends to publish its venue statistics from Q3 2017. The reports will be available in CSV file format.	Q3 2017