Chapter 5

Multilateral trading facilities (MTFs)

5.1 Application

Who and what?

5.1.1 R This chapter applies to:

(1) a *UK domestic firm* which operates an *MTF* from an establishment in the *United Kingdom* or elsewhere; or

(2) an *overseas firm* which operates an *MTF* from an establishment in the *United Kingdom*.

Status of EU provisions as rules in certain instances

5.1.2 R [deleted]

5.1.3 G ■ GEN 2.2.22AR applies to ensure that a *third country investment firm* should not be treated in a more favourable way than an *EEA firm*.

5.2 Purpose

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5.2.1 G The purpose of this chapter is to implement the provisions of *MiFID* relating to *firms* operating *MTFs*, specifically articles 18, 19, 31, 32, 33, 48, 49 and 50 of *MiFID*. This chapter does not apply to bilateral systems, which are excluded from the *MTF* definition.

5.3 Trading process requirements

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Rules, procedures and arrangements

5.3.1 R A *firm* must have:

(1) transparent rules and procedures for fair and orderly trading;

[**Note:** articles 18(1) and 19(1) of *MiFID*]

(2) objective criteria for the efficient execution of orders which are established and implemented in non-discretionary rules;

[**Note:** articles 18(1) and 19(1) of *MiFID*]

(2A) arrangements for the sound management of the technical operations of the facility, including the establishment of effective contingency arrangements to cope with the risks of systems disruption;

[**Note:** article 18(1) of *MiFID*]

(3) transparent rules regarding the criteria for determining the *financial instruments* that can be traded under its systems;

[**Note:** subparagraph 1 of article 18(2) of *MiFID*]

(4) published, transparent and non-discriminatory rules, based on objective criteria, governing access to its facility and which must provide that its members or participants are *investment firms*, *CRD credit institutions* or other *persons* who:

(a) are of sufficient good repute;

(b) have a sufficient level of trading ability, competence and experience;

(c) where applicable, have adequate organisational arrangements; and

(d) have sufficient resources for the role they are to perform, taking into account the different financial arrangements that the *firm* operating the *MTF* may have established in order to guarantee the adequate settlement of transactions;

[**Note:** articles 18(3), 19(2) and 53(3) of *MiFID*]

(5) arrangements to provide, or be satisfied that there is access to, sufficient publicly available information to enable its users to form an investment judgement, taking into account both the nature of the users and the types of instrument traded; and

[**Note:** subparagraph 2 of article 18(2) of *MiFID*]

(6) (as between the interests of the *MTF*, its owners, or the *firm* and those of the members and participants or users in the sound functioning of the *trading venue*) arrangements to identify clearly and to manage any conflict with adverse consequences for:

(a) the operation of the *trading venue* for the members and participants or users; or

(b) the members and participants or users otherwise.

[**Note:** article 18(4) of *MiFID*]

Functioning of an MTF

5.3.1A R A *firm* must:

(1) ensure the *MTF* has at least three materially active members or users who each have the opportunity to interact with all the others in respect of price formation;

[**Note:** article 18(7) of *MiFID*]

(2) have arrangements to ensure it is adequately equipped to manage the risks to which it is exposed, to implement appropriate arrangements and systems to identify all significant risks to its operation and put in place effective measures to mitigate those risks;

[**Note:** article 19(3)(a) of *MiFID*]

(3) have available at the time of *authorisation* and on an ongoing basis, sufficient financial resources to facilitate its orderly functioning, having regard to the nature and extent of the transactions concluded on the venue and the range and degree of the risks to which it is exposed;

[**Note:** article 19(3)(c) of *MiFID*]

(4) not execute orders against proprietary capital, or engage in *matched principal trading*;

[**Note:** article 19(5) of *MiFID*]

(5) [deleted]

(6) provide the following to the *FCA*:

(a) a detailed description of the functioning of the *MTF*, including any links to or participation by a *regulated market*, an *MTF*, *OTF* or *systematic internaliser* owned by the same *firm*; and

(b) a list of its members, participants and users.

[**Note:** article 18(10) of *MiFID* and *MiFID ITS 19* with regard to the content and format of the description of the functioning of *MTFs*]

5.3.1B G The requirement in ■ MAR 5.3.1AR(4) does not prevent a *firm,* with the appropriate *permission*, from executing orders against its proprietary capital or engaging in *matched principal trading* outside the *MTF* it operates.

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5.3.2	G	[deleted]
5.3.3	G	[deleted]
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5.3.6	G	[deleted]

Operation of a primary market in financial instruments not admitted to trading on a regulated market

5.3.7	G	The *FCA* will be minded to impose a variation on the*Part 4A permission* of an *MTF* operator that operates a primary market in *financial instruments* not *admitted to trading* on a *regulated market* in order to ensure its fulfilment of the requirements in ■ MAR 5.3.1 R as regards fair and orderly trading.

Transferable securities traded without issuer consent

5.3.8	R	Where a *transferable security*, which has been *admitted to trading* on a *regulated market*, is also traded on an *MTF* without the consent of the *issuer*, the *firm* operating the *MTF* must not make the *issuer* subject to any obligation relating to initial, ongoing or ad hoc financial disclosure with regard to that *MTF*. [**Note:** article 18(8) of *MiFID*]

5.3A Systems and controls for algorithmic trading

Systems and controls

5.3A.1 R A *firm* must ensure that the systems and controls, including procedures and arrangements, used in the performance of its activities are adequate, effective and appropriate for the scale and nature of its business.

5.3A.2 R ■ MAR 5.3A.1R applies in particular to systems and controls concerning:

(1) the resilience of the *firm's* trading systems;

(2) its capacity to deal with peak order and message volumes;

(3) the ability to ensure orderly trading under conditions of severe market stress;

(4) the effectiveness of business continuity arrangements to ensure the continuity of the *MTF's* services if there is any failure of its trading systems, including the testing of the *MTF's* systems and controls;

(5) the ability to reject orders that exceed predetermined volume and price thresholds or which are clearly erroneous;

(6) the ability to ensure that *algorithmic trading* systems cannot create or contribute to disorderly trading conditions on the *trading venue*;

(7) the ability to ensure any disorderly trading conditions which do arise from the use of *algorithmic trading* systems are capable of being managed, including systems to limit the ratio of unexecuted orders to transactions that may be entered into the *MTF's* trading system by a member or participant;

(8) the ability to ensure the flow of orders is capable of being slowed down if there is a risk of system capacity being reached;

(9) the ability to limit and enforce the minimum tick size which may be executed on the *MTF*; and

(10) the requirement for members and participants to carry out appropriate testing of algorithms, including providing environments to facilitate that testing.

[**Note:** article 48(1),(4) and (6) of *MiFID*, *MiFID RTS 7*, *MiFID RTS 9*, and *MiFID RTS 11*]

Market making agreements

5.3A.3 R A *firm* must:

(1) have written agreements with all *investment firms* pursuing a *market making strategy* on *trading venues* operated by it (market making agreements);

(2) have schemes, appropriate to the nature and scale of a *trading venue*, to ensure that a sufficient number of *investment firms* enter into market making agreements which require them to post firm quotes at competitive prices with the result of providing liquidity to the market on a regular and predictable basis;

(3) monitor and enforce compliance with the market making agreements;

(4) inform the *FCA* of the content of its market making agreements; and

(5) provide the *FCA* with any information it requests which the *FCA* reasonably requires to be satisfied that the market making agreements comply with this *rule*.

[**Note:** article 48(2) and (3) of *MiFID*, and *MiFID RTS 8*]

5.3A.4 R A market making agreement in ■ MAR 5.3A.3R(1) must specify:

(1) the obligations of the *investment firm* in relation to the provision of liquidity;

(2) where applicable, any obligations arising, or rights accruing, from the participation in a liquidity scheme mentioned in ■ MAR 5.3A.3R(2); and

(3) any incentives in terms of rebates or otherwise offered by the *firm* to the *investment firm* in order for it to provide liquidity to the *MTF* on a regular and predictable basis and, where applicable, any other rights accruing to the *investment firm* as a result of participation in the liquidity scheme.

[**Note:** article 48(3) of *MiFID* and *MiFID RTS 8*]

Measures to prevent disorderly markets

5.3A.5 R A *firm* must have the ability to:

(1) temporarily halt or constrain trading on the *MTF* if there is a significant price movement in a *financial instrument* on the *MTF* or a related *trading venue* during a short period; and

(2) in exceptional cases, cancel, vary or correct any *transaction*.

[**Note:** article 48(5) of *MiFID*]

5.3A.6 R For the purposes of ■ MAR 5.3A.5R and to avoid significant disruptions to the orderliness of trading, a *firm* must calibrate the parameters for halting trading in a way which takes into account the following:

(1) the liquidity of different asset classes and subclasses;

(2) the nature of the *trading venue* market model; and

(3) the types of users.

[**Note:** article 48(5) of *MiFID*]

5.3A.7 R The *firm* must report the parameters mentioned in MAR 5.3A.6R to the *FCA* in writing, by electronic mail to an address for the usual supervisory contact of the *firm* at the *FCA*, and obtain an electronic confirmation of receipt.

[**Note:** article 48(5) of *MiFID*]

5.3A.8 R A *firm* must have systems and procedures to notify the *FCA* if:

(1) an *MTF* operated by the *firm* is material in terms of the liquidity of trading of a *financial instrument*; and

(2) trading is halted in that instrument.

[**Note:** article 48(5) of *MiFID*]

Direct electronic access

5.3A.9 R A *firm* which permits *direct electronic access* to an *MTF* it operates must:

(1) not permit members or participants of the *MTF* to provide such services unless they are:

(a) MiFID investment firms; or

(b) CRD credit institutions; or

(c) third country firms providing the *direct electronic access* in the course of exercising rights under article 46.1 of *MiFIR*; or

(d) third country firms providing the *direct electronic access* in the course of exercising rights under article 47.3 of *MiFIR*; or

(e) third country firms providing the *direct electronic access* in accordance with the; exclusion in article 72 of the *RAO* or

(f) a third country firm which does not come within MAR 5.3A.9R(1)(d) to (f) but is otherwise permitted to provide the *direct electronic access* under the *Act*; or

(g) firms that come within regulation 30(1A) of the *MiFI Regulations* and have a *Part 4A permission* relating to *investment services or activities*;

(2) set, and apply, criteria for the suitability of *persons* to whom *direct electronic access* services may be provided;

(3) ensure that the member or participant of the *MTF* retains responsibility for adherence to the requirements of *MiFID* in respect of orders and trades executed using the *direct electronic access* service;

(4) set standards for risk controls and thresholds on trading through *direct electronic access*;

(5) be able to distinguish and if necessary stop orders or trading on that *trading venue* by a *person* using *direct electronic access* separately from:

(a) other orders; and

(b) trading by the member or participant providing the *direct electronic access*; and

(6) have arrangements to suspend or terminate the provision of *direct electronic access* on that market by a member or participant in the case of any non-compliance with this *rule*.

[**Note:** article 48(7) of *MiFID*]

Co-location

5.3A.10 R Where a *firm* permits co-location in relation to the *MTF*, its rules on co-location services must be transparent, fair and non-discriminatory.

[**Note:** article 48(8) of *MiFID* and *MiFID RTS 10*]

Fee structures

5.3A.11 R A *firm's* fee structure, for all fees it charges and rebates it grants in relation to the *MTF*, must:

(1) be transparent, fair and non-discriminatory;

(2) not create incentives to place, modify or cancel orders, or execute transactions, in a way which contributes to disorderly trading or *market abuse*; and

(3) impose market making obligations in individual *financial instruments* or suitable baskets of *financial instruments* for any rebates that are granted.

[**Note:** article 48(9) of *MiFID* and *MiFID RTS 10]*

5.3A.12 G Nothing in ■ MAR 5.3A.11R prevents a *firm*:

(1) adjusting its fees for cancelled orders according to the length of time the order was maintained;

(2) calibrating its fees to each *financial instrument* to which they apply;

(3) imposing a higher fee:

(a) for placing an order which is cancelled than for an order which is executed;

(b) on participants placing a high ratio of cancelled orders to executed orders; and

(c) on a *person* operating a *high-frequency algorithmic trading technique*,

in order to reflect the additional burden on system capacity.

[**Note:** article 48(9) of *MiFID*]

Flagging orders, tick sizes and clock synchronisation

5.3A.13 R A *firm* must require members and participants of an *MTF* operated by it to flag orders generated by *algorithmic trading* in order for the *firm* to be able to identify the following:

(1) different algorithms used for the creation of orders; and

(2) the *persons* initiating those orders.

[**Note:** article 48(10) of *MiFID*]

5.3A.14 R A *firm* must adopt tick size regimes in:

(1) shares, depositary receipts, *exchange-traded funds*, *certificates* and other similar *financial instruments* traded on the *MTF*; and

(2) any other *financial instrument* which is traded on that *trading venue*, as required by a regulatory technical standard made under powers conferred by *MiFIR*.

[**Note:** article 49 of *MiFID* and *MiFID RTS 11*]

5.3A.14A R A *firm* adopting tick sizes in accordance with ■ MAR 5.3A.14R may match orders large in scale at mid-point within the current bid and offer prices.

[**Note**: article 49 of *MiFID* and *MiFID RTS 11*]

5.3A.15 R The tick size regime referred to in ■ MAR 5.3A.14R must:

(1) be calibrated to reflect the liquidity profile of the *financial instrument* in different markets and the average bid-ask spread, taking into account the desirability of enabling reasonably stable prices without unduly constraining further narrowing of spreads; and

(2) adapt the tick size for each *financial instrument* appropriately.

[**Note:** article 49 of *MiFID* and *MiFID RTS 11*]

5.3A.16 G Nothing in ■ MAR 5.3A.14R or ■ MAR 5.3A.15R requires a *firm* to act inconsistently with *MiFID RTS 11* or any regulatory technical standards made under powers conferred by *MiFIR*.

[**Note:** article 49 of *MiFID*]

5.3A.17 R A *firm* must synchronise the business clocks it uses to record the date and time of any reportable event.

[**Note:** article 50 of *MiFID* and *MiFID RTS 25*]

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5.3A.18 G For the purpose of ■ MAR 5.3A.17R, *MiFID RTS 25* provides further requirements.

5.4 Finalisation of transactions

5.4.1 R A *firm* must:

(1) clearly inform its users of their respective responsibilities for the settlement of transactions executed in its *MTF*; and

(2) have in place the arrangements necessary to facilitate the efficient settlement of the transactions concluded under its systems.

[**Note:** articles 18(6) and 19(3)(b) of *MiFID*]

[**Note:** in relation to derivative transactions, *MiFID RTS 26* contains requirements on the systems for the clearing of such transactions]

5.5 Monitoring compliance with the rules of the MTF

5.5.1 R A *firm* must:

(1) have effective arrangements and procedures, relevant to its *MTF*, for the regular monitoring of the compliance by its users with its rules; and

(2) monitor the transactions undertaken by its users under its systems in order to identify breaches of those rules, disorderly trading conditions, system disruptions in relation to a *financial instrument*, or conduct that may involve *market abuse*.

[**Note:** article 31(1) of *MiFID*]

5.6 Reporting requirements

5.6.1 R A *firm* must:

(1) report to the *FCA* any:

(a) significant breaches of the *firm's* rules;

(b) disorderly trading conditions;

(c) conduct that may involve *market abuse*; and

(d) system disruptions in relation to a *financial instrument*;

(2) supply the information required under this *rule* without delay to the *FCA* and any other authority competent for the investigation and prosecution of *market abuse*; and

(3) provide full assistance to the *FCA*, and any other authority competent for the investigation and prosecution of *market abuse*, in its investigation and prosecution of *market abuse* occurring on or through the *firm's* systems.

[**Note:** article 31(2) of *MiFID* and articles 81 and 82 of the *MiFID Org Regulation*

5.6.2 R A *firm* operating an *MTF* must give the *FCA* a summary of:

(1) any proposal to introduce, amend or renew a scheme for rebating or waiving fees or charges levied on its members or participants (or any group or class of them), at the same time as the proposal is communicated to those members or participants; and

(2) any such change, no later than the date when it is published or notified to the members or participants.

5.6.3 R The summary referred to in MAR 5.6.2R(1) must be given in the form specified in MAR 5 Annex 2R.

5.6A Suspension and removal of financial instruments

5.6A.1 R A *firm* must:

(1) not exercise any power under its rules to suspend or remove from trading any *financial instrument* which no longer complies with its rules, where such a step would be likely to cause significant damage to the interest of investors or the orderly functioning of the *trading venue*;

(2) where it does suspend or remove from trading a *financial instrument*, also suspend or remove derivatives that relate, or are referenced, to that *financial instrument*, where necessary to support the objectives of the suspension or removal of the underlying; and

(3) make public any decision in (2) and notify the *FCA* of it.

[**Note:** article 32 of *MiFID*, article 80 of the *MiFID Org Regulation*, *MiFID RTS 18* and *MiFID ITS 2*]

5.7 Pre- and post-trade transparency requirements for equity and non-equity instruments: form of waiver and deferral

5.7.1 R [deleted]

5.7.1A D A *firm* that makes an application to the *FCA* for a waiver in accordance with articles 4 or 9 of *MiFIR* (in relation to pre-trade transparency for equity or non-equity instruments) must make it in the form set out in
■ MAR 5 Annex 1D.

[**Note:** articles 4 and 9 of *MiFIR*, *MiFID RTS 1* and *MiFID RTS 2*]

5.7.1B G [deleted]

5.7.1C D A *firm* intending to apply to the *FCA* for deferral in accordance with articles 7 or 11 of *MiFIR* in relation to post-trade transparency for equity or non-equity instruments must apply in writing to the *FCA*.

[**Note:** articles 7 and 11 of *MiFIR*, *MiFID RTS 1* and *MiFID RTS 2*]

5.7.1D G A *firm* should have regard to the urgency and significance of a matter and, if appropriate, should also notify its usual supervisory contact at the *FCA* by telephone or by other prompt means of communication, before submitting a written application. Oral notifications should be given directly to the *firm's* usual supervisory contact at the *FCA*. An oral notification left with another person or on a voicemail or other automatic messaging service is unlikely to have been given appropriately.

5.7.2 EU [deleted]

5.7.3 EU [deleted]

5.7.4 EU [deleted]

5.7.5 EU [deleted]

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5.7.6	G	[deleted]
5.7.7	EU	[deleted]
5.7.8	EU	[deleted]
5.7.9	EU	[deleted]
5.7.10	EU	[deleted]
5.7.11	EU	[deleted]
5.7.12	G	[deleted]

5.8 Provisions common to pre- and post-trade transparency requirements for shares [deleted]

5.8 EU

5.9 Post-trade transparency requirements for shares [deleted]

5.10 Operation of an SME growth market

Registering an MTF as an SME growth market

5.10.1 R A *firm* may apply to the *FCA* to have an *MTF* registered as an *SME growth market*.

[**Note:** article 33(1) of *MiFID*]

5.10.2 R For an *MTF* to be eligible for registration as an *SME growth market*, the *firm* must have effective rules, systems and procedures which ensure that:

(1) at least 50% of the *issuers* whose *financial instruments* are admitted to trading on the *MTF* are *small and medium-sized enterprises* at the time when the *MTF* is registered as an *SME growth market*, and in any calendar year thereafter;

(2) appropriate criteria are set for initial and ongoing admission to trading of *financial instruments* of *issuers* on the market;

(3) on initial admission to trading of *financial instruments* on the market, there is sufficient information to enable investors to make an informed judgement about whether or not to invest in the *financial instruments* published in either:

(a) an appropriate admission document; or

(b) a prospectus, if the *Prospectus Regulation* is applicable in respect of a public offer being made in conjunction with the initial admission to trading of the *financial instrument* on the *MTF*;

(4) there is appropriate ongoing periodic financial reporting by, or on behalf of, an *issuer* on the market, for example through audited annual reports;

(5) the following comply with the *Market Abuse Regulation* as applicable to each of them:

(a) *issuers* on the market as defined in point (21) of article 3(1) of the *Market Abuse Regulation*;

(b) *persons* discharging managerial responsibilities as defined in point (25) of article 3(1); and

(c) *persons* closely associated with them as defined in point (26) of article 3(1);

(6) regulatory information concerning the *issuers* on the market is stored and disseminated to the public; and

(7) there are effective systems and controls aiming to prevent and detect *market abuse* on that market as required under the *Market Abuse Regulation*.

[**Note:** articles 33(2) and 33(3) of *MiFID*]

The contents of an application for registration as an SME growth market

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5.10.3 G The requirements specified in ■ MAR 5.10.2R:

(1) are subject to the provisions of the *MiFID Org Regulation*, further specifying the requirements laid down in article 33(3) of *MiFID*; and

(2) do not detract from other obligations relevant to an *MTF* under this chapter, but a *firm* may impose additional requirements to those specified in ■ MAR 5.10.2R.

[**Note:** articles 33(4) and 33(8) of *MiFID*, and articles 78 and 79 of the *MiFID Org Regulation*]

5.10.4 G (1) The *FCA* expects an application for registration as an *SME growth market* to be accompanied by:

(a) a copy of the rules, systems and procedures supporting the applicant's compliance with the requirements specified in ■ MAR 5.10.2R; and

(b) such other information as the *FCA* may reasonably require to determine the application in accordance with ■ MAR 5.10.2R and ■ MAR 5.10.3R.

(2) A *firm* intending to apply for registration as an *SME growth market* may wish to contact the Infrastructure and Trading Firms Department at the *FCA* for further advice on the preparation, timing and practical aspects of an application to register.

5.10.5 R (1) Where a *financial instrument* of an *issuer* is admitted to trading on one *SME growth market*, the *financial instrument* must not be traded on another *SME growth market* unless the *issuer* has been informed and has not objected.

(2) In the case of (1), the *issuer* shall not be subject to any obligation relating to corporate governance or initial, ongoing or ad hoc disclosure with regard to the latter *SME growth market*.

[**Note:** article 33(7) of *MiFID*]

5.10.6 G The *issuer* of the *financial instrument* referred to in ■ MAR 5.10.5R should be informed by notice in writing that another *SME growth market* wishes to admit the instrument to trading, and should generally be given no less than 28 *days* to object.

Deregistering an MTF as an SME growth market

5.10.7 R An *MTF* registered as an *SME growth market* may be deregistered by the *FCA* in the following cases:

(1) the *firm* operating the market applies for its deregistration; or

(2) the requirements in ■ MAR 5.10.2R are (subject to ■ MAR 5.10.3G(1)) no longer complied with.

[**Note:** article 33(5) of *MiFID* and article 79 of the *MiFID Org Regulation*]

Form in relation to pre-trade transparency

[*Editor's note:* The form can be found at this address:

https://www.fca.org.uk/publication/forms/mifid-transparency-waiver-form.docx]

Form for reporting incentive scheme proposals (MAR 5.6.3R(1))

Annex 1 – Incentive Schemes (MAR 5.6.3R)

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