

Markets in  
Financial  
Instruments  
Directive/  
Regulation

## **Markets in Financial Instruments Directive/Regulation**

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## **Chapter 7**

# **Commission Delegated Regulation (EU) 2017/566**

Preamble

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, and in particular Article 48(12)(b) thereof,

01/01/2021

Whereas:

(1) Trading venues should have a number of systems, procedures and arrangements in place to ensure that algorithmic trading systems cannot create or contribute to disorderly trading conditions including systems to monitor and, where appropriate, limit the ratio of unexecuted orders to transactions.

(2) Taking into account their nature, voice trading systems should be exempt from the scope of this Regulation which should only apply to trading venues operating electronic continuous auction order book or quote-driven or hybrid trading systems.

(3) Directive 2014/65/EU extends the requirements relating to the determination of the ratio of unexecuted orders to transactions to multilateral trading facilities and organised trading facilities. It is therefore important that those venues are also within the scope of this Regulation.

(4) Trading venues should calculate the ratio of unexecuted orders to transactions effectively incurred by their members or participants at the level of each financial instrument traded on them in order to ensure effectively that the ratio does not lead to excessive volatility in that instrument.

(5) In order to ensure sufficient harmonisation across the Union of the arrangements to prevent disorderly trading conditions through the limitation of the ratio between unexecuted orders and transactions, a clear methodology to calculate the ratio of unexecuted orders to transactions with respect to all market participants should be laid down.

(6) The meaning of certain essential parameters to be used for the calculation of the ratio of unexecuted orders to transactions should be clarified.

(7) The calculation of the ratio of unexecuted orders to transactions entered into the system by a member or participant should be supported by an adequate observation period. On that basis, the calculation period of the effective ratio of unexecuted orders to transactions should not be longer than a trading session. However, trading venues should be allowed to set out shorter observation periods in case such shorter observation periods would contribute more effectively to maintain orderly trading conditions.

(8) For reasons of consistency and in order to ensure the smooth functioning of the financial markets, it is necessary that the provisions laid down in this Regulation and the related national provisions transposing Directive 2014/65/EU apply from the same date.

(9) This Regulation is based on the draft regulatory technical standards submitted by the European Securities and Markets Authority to the Commission.

(10) The European Securities and Markets Authority has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Securities and Markets Stakeholder Group established by Article 37 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council,

HAS ADOPTED THIS REGULATION:

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**Article -2 Application**

This Regulation applies to UK trading venues as defined by article 2(1)(16A) of Regulation 600/2014.



## Article -1 Interpretation

Where a term is defined in Directive 2014/65/EU that definition shall apply for the purposes of this Regulation except where (2) applies.

(2) Where a term is defined in article 2 of Regulation 600/2014/EU, as amended by the Markets in Financial Instruments (Amendment) (EU Exit) Regulations 2018, that definition shall apply for the purposes of this Regulation.

(3) Article 2(1)(62) of Regulation 600/2014/EU shall apply for the purposes of this Regulation.

## Article 1 Definitions

For the purposes of this Regulation, the following definitions shall apply:

(a) "order" includes all input messages, including messages on submission, modification and cancellation sent to the trading system of a trading venue, relating to an order or a quote, but excluding cancellation messages sent subsequent to:

- (i) uncrossing in an auction;
- (ii) a loss of venue connectivity;
- (iii) the use of a kill functionality;

(b) "transaction" means a totally or partially executed order;

(c) "volume" means the quantity of financial instruments traded expressed as any of the following:

- (i) the number of instruments for shares, depositary receipts, ETFs, certificates and other similar financial instruments;
- (ii) the nominal value for bonds and structured finance products;
- (iii) the number of lots size or contracts for derivatives;
- (iv) metric tonnes of carbon dioxide for emission allowances.





**Article 2 Obligation to calculate the ratio of  
unexecuted orders to transactions**

Trading venues shall calculate the ratio of unexecuted orders to transactions effectively entered into the system by each of their members and participants for every financial instrument traded under an electronic continuous auction order book or a quote-driven or a hybrid trading system.

## Article 3 Methodology

(1) Trading venues shall calculate the ratio of unexecuted orders to transactions for each of their members or participants at least at the end of every trading session in both of the following ways:

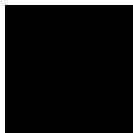
(a) in volume terms:  $(\text{total volume of orders} / \text{total volume of transactions}) - 1$ ;

(b) in number terms:  $(\text{total number of orders} / \text{total number of transactions}) - 1$ .

(2) The maximum ratio of unexecuted orders to transactions calculated by the trading venue shall be deemed to have been exceeded by a member or participant of the trading venue during a trading session if the trading activity of that member or participant in one specific instrument, taking into account all phases of the trading session, including the auctions, exceeds either or both of the two ratios set out in paragraph 1.

(3) Trading venues shall calculate the number of orders received from each member or participant following the counting methodology per order type set out in the Annex.

(4) Where a trading venue uses an order type which is not explicitly laid down in the Annex, it shall count the messages in accordance with the general system behind the counting methodology and on the basis of the most similar order type appearing in the Annex.



## Article 4 Entry into force and application

This Regulation shall enter into force on the twentieth following that of its publication in the *Official Journal of the European Union*.

It shall apply from the date that appears first in the second subparagraph of Article 93(1) of Directive 2014/65/EU.



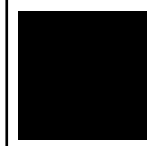
Signature

01/01/2021 Done at Brussels, 18 May 2016.

01/01/2021 *For the Commission*

01/01/2021 *The President*

01/01/2021 Jean-Claude JUNCKER



ANNEX Counting methodology for orders set out for each type

Types of order	Number of orders received by the trading venue to be counted when calculating the ratio of unexecuted orders to transactions (each submission, modification, cancellation shall be counted as one single order)	Updates potentially sent by the trading venue not to be counted when calculating the ratio of unexecuted orders to transactions (excluding executions/cancellations by market operations)
Limit	1	0
Limit — add	1	0
Limit — delete	1	0
Limit — modify	2 (any modifications entails a cancellation and a new insertion)	0
Stop	1	1 (when triggered)
Immediate (Market)	1	0
Immediate (Fill-or-Kill, Immediate-or-Cancel)	1 (and if deleted/cancelled 2)	0
Iceberg/reserve	1	0
Market-to-limit	1	1 (when triggered)
Quote	2 (1 for the buy side and 1 for the sell side)	0
Quote — add	2	0
Quote — delete	2	0
Quote — modify	4 (any modifications entails a cancellation and a new insertion)	0
Peg	1	potentially unlimited as the order tracks the BBO
Market peg: an order to the opposite side of the Best Bid and Offer (BBO)		

Primary peg: an order to the same side of the BBO		
Midpoint peg: an order to the midpoint of the BBO		
Alternate peg to the less aggressive of the midpoint or 1 tick		
Midpoint inside the same side of the Protected BBO		
One-cancels-the-other: two orders are linked so that if one of the two is executed, then, the other one is removed by market operations	2	1 (when one leg trades, the other is cancelled)
One-cancels-the-other — add	2	
One-cancels-the-other — delete	2	
One-cancels-the-other — modify	4	
Trailing stop: Stop order which stop price at which the order is triggered changes in function of the BBO	1	potentially unlimited as the stop limit tracks the BBO
At best limit order where the limit price is equal to the opposite side of the BBO at the time of entry	1	0
Spread limit order whose yield is calculated by adding a spread to a benchmark's yield (two parameters: spread and benchmark)	1	potentially unlimited as the limit is dependent on another asset's quote
Strike match: minimum price for buy orders and maximum price for sell orders	1	potentially unlimited but limited in time (the lasting of the auction)
Order-on-event: order that is inactive until it is triggered by a specific event (similar to a stop order, except that the order, once triggered, does not necessarily be in the same way as the trend of the underlying: a buy order can be triggered while the stop price was triggered due to a fall of the financial instrument)	1	1 (when triggered)
"At the open"/"At the close": Order that is inactive until it is triggered by the opening or the closing of a market.	1	1 (when triggered)

Book-or-cancel/Post: order that cannot match the other side of the order book at the time it enters into the order book		
Book-or-cancel/Post — add	1 (2 if deleted/cancelled)	0
Book-or-cancel/Post — delete	1 (2 if deleted/cancelled)	0
Book-or-cancel/Post — modify	2	0
Withheld: order entered in the order book that is ready to be transformed as a firm order	2 (submission of the order + confirmation)	0
Deal order	1	0
TOP, TOP+ either placed on the top of the book or rejected (+: check on the available volume): an order which has to be both passive and at the BBO, failing which it is rejected.	1	0
Imbalance Order (IOOP or IOOC): an order which is only valid for auctions and which aims at filling the quantity imbalance (between the surplus and deficit sides) without affecting the price equilibrium.	1	potentially unlimited but limited in time (the lasting of the auction)
Linked order: an order which corresponds to a number of single orders each of which being on a different financial instrument. When a trade takes place on one of these orders, the volume of the other ones will be immediately reduced proportionally. This order type is typically used on the bond market.	1	potentially equal to the quantity of underlying entered
Sweep: allows participants to access integrated order-books.	1	0
Best price sweep: work through price levels from the combined order books, to the limit price		
Sequential lit sweep: execute to the limit order price on the book of entry before any quantity is sent to the other book		
Named: non-anonymous order	1	0
If-touched: triggered when the last, bid or ask price touches a certain level	1	1 (when triggered)

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Guaranteed stop: This guarantees the execution at the stop price	1	1 (when triggered)
Combined orders such as options' strategy, futures' roll, etc.)	1	potentially unlimited