



European Securities and
Markets Authority

Reply form for the Consultation Paper on the Guidelines on the calibration, publication and re- porting of trading halts



Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in the ESMA Discussion Paper on the Guidelines on specific notions under MiFID II related to the management body of market operators and data reporting services providers, published on the ESMA website.

Instructions

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, ESMA will only be able to consider responses which follow the instructions described below:

- use this form and send your responses in Word format (pdf documents will not be considered except for annexes);
- do not remove the tags of type <ESMA_QUESTION_MIFID_GTH_1> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
- if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

- if they respond to the question stated;
- contain a clear rationale, including on any related costs and benefits; and
- describe any alternatives that ESMA should consider.

Naming protocol

In order to facilitate the handling of stakeholders responses please save your document using the following format:

ESMA_MiFID_GTH_NAMEOFCOMPANY_NAMEOFDOCUMENT.

e.g. if the respondent were ESMA, the name of the reply form would be:

ESMA_MiFID_GTH_ESMA_REPLYFORM or

ESMA_MiFID_GTH_ESMA_ANNEX1

Deadline

Responses must reach us by **06 December 2016**.

All contributions should be submitted online at www.esma.europa.eu under the heading ‘Your input/Consultations’.



Publication of responses

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that 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 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'.



Introduction

Please make your introductory comments below, if any:

< ESMA_COMMENT_MIFID_GTH_0 >

The Wholesale Markets Brokers' Association (WMBA) and the London Energy Brokers' Association (LEBA) (jointly referred to in this document as the 'WMBA') are the European industry associations for the wholesale intermediation of Venue traded and Over-the-Counter (OTC) markets in financial, energy, commodity and emission markets and their traded derivatives. Our members, in addition to operating some twenty MTFs and eight SEFs, will almost all apply to have OTF permissions and act solely as intermediaries in wholesale financial markets and do not undertake any proprietary trading. As a result, they are classified in the UK as Limited Activity and Limited Licence Firms in respect of the current Financial Conduct Authority classification. The WMBA originated in 1963 from market oversight in central banking, but is an independent industry body.

Whilst the WMBA welcomes the opportunity to respond to this ESMA consultation paper, we underline that there is a more serious and fundamental discussion in proportionality and appropriateness that ESMA has omitted to enter into at this point. Nevertheless, we are doing so in the capacity of being generally supportive of the principles to ensure that our member firms', when operating under their regulated permitted licenses to operate an organised trading venue:

- be able to halt or constrain trading in case there is a significant price movement and
- ensure there are provisions in place to monitor the trading activity of those market and
- report parameters as well as any changes to these parameters.

The WMBA notes its concerns in respect of the approach of ESMA to apply a perfunctory and ill-considered read-across from rules applying to cash equity exchanges into the more heterogeneous and ephemeral non-equities markets. Whilst the proposed Guidelines do allow venues to author their own rules and indeed they provide welcome formats and protocols for the dissemination of information and the NCA procedures and formats for reporting, WMBA would urge ESMA to reconsider the approach towards trading halts for non-equity markets and derivatives in particular. Specifically, we would urge ESMA to differentiate, "High Frequency Trading", where these controls and trading halts are clearly appropriate, from "Algorithmic Trading" where the definition captures a very broad spread of investment activity onto venues.

In short, we set out that that non-equity markets are global liquidity pools and closely correlated both across the venue perimeter and the EU perimeter, and open twenty-four hours per day and participated in by non-retail clients or members who almost never engage in "High Frequency Trading". Where liquid CLOBs are not habitual and constant through the trading day, trading halts will only be required due to operational issues rather than market led or third-party venue disruptions.

In the opinion of the WMBA, the only way the proposed approach could ever work is if some, 'common global supervisor' would be able to preside over a holistic view of markets. Such a body may have the foresight to interpret excess volatility in a consistent manner and inform venues that have admitted products to trading that trading should be halted around the world. Failing this, we shall end up with a patchwork quilt of an implementation as venues have differing interpretations of what constituent excess volatility driven by a lack of a complete data source. At best the framework behind the scope of the proposals for guidelines on the calibration, publication and reporting of trading halts represents a set of costs which would exceed any benefits that could be identified.

We note that the proposals for guidelines do not ask any questions on scope and therefore limit any further comments to specific letters.

TYPE YOUR TEXT HERE

< ESMA_COMMENT_MIFID_GTH_0 >



Q1. Would you consider these factors discussed above to be useful? Could you identify any additional element to be factored in?

<ESMA_QUESTION_MIFID_GTH_1>

Yes, the WMBA does find the factors highlighted and discussed to be useful in general, although by no means sufficient. In reference to paragraph [39 iii] however, trading venues such as those operated by our members would only be able to consider metrics from their own venue to assess volatility of the financial instrument and not, as ESMA proposes, over metrics of volatility activity on other competing firm venues as such information on these venues is not always readily available, regardless of any existence of a CTP.

We draw attention to paragraph [39 vi] suggesting that trading venues should, when calibrating volatility parameters, consider the statistical correlation between instruments, in cross-asset and cross-market situations. In fact, this is a calculation only achieved in theory by the most sophisticated of market participants and individual trading venues would not have access to other competitive firm data so therefore it would be difficult for OTF/MTF venues to have access to external references. Furthermore, ESMA should consider the question of scope, MiFID2/R does not set out for individual trading venues to advise and protect global wholesale market participants.

WMBA would therefore welcome initial dialogue between ESMA and EU venues on the broad outcomes desired and quite how guidelines could direct venues to view cross market and third country volatility information in order to make this assessment.

TYPE YOUR TEXT HERE

<ESMA_QUESTION_MIFID_GTH_1>

Q2. Do you consider that the Guidelines regarding calibration of volatility parameters should also apply to mechanisms to reject erroneous orders (i.e. order price / volume collars) and that ESMA should propose Guidelines on this issue at its own initiative?

<ESMA_QUESTION_MIFID_GTH_2>

Yes, the WMBA does agree in principle regarding the calibration of volatility parameters to reject erroneous orders. Any such calibration should therefore be supported by sufficient and timely statistical information.

We note however, that there are today multiple MTF venues and future OTF venues trading the same instrument under a common unique identifier, and that it is impossible to currently assess the activity on these venues as operators of OTF/MTF do not have access to competing venue information and activity.

ARE TYPE YOUR TEXT HERE

<ESMA_QUESTION_MIFID_GTH_2>

Q3. Is there any other aspect which should be considered in these Guidelines so as to prevent market-wide volatility events given the current structure of European markets?

<ESMA_QUESTION_MIFID_GTH_3>

The WMBA is of the opinion that the authorising NCA should make any decision as to what constitutes a threshold of volatility, because they are the sole entities with a market-wide perspective with sufficient access to trade details. However, it is difficult to iterate this into a global perspective for appropriate application to the wholesale non-equities markets operated by WMBA member firms. WMBA disagrees with proposals for venue led measures as the venue only has access to its own trading activity. Left to their own



devices, OTFs and MTF will likely devise different measures of volatility per instrument due to each having access to only a limited subset of trading and order information. For fixed income bonds which may trade only rarely we fail to see the effectiveness of such proposals, whilst the application to derivatives which usually only trade for a single day is even more problematic. This, in the opinion of the WMBA would only serve to create market wide inconsistencies in relation to the imposition of trading halts.

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<ESMA_QUESTION_MIFID_GTH_3>

Q4. Do you consider that the proposed order and trade feed reporting standard for trading status will contribute to facilitate a correct identification of trading halts across Europe? Do you foresee any drawback on it?

<ESMA_QUESTION_MIFID_GTH_4>
No, the WMBA does agree in principle with the proposed order and trade feed reporting standard for trading status. Rather these are appropriate solely for Regulated Markets in the EU and not for MTFs nor OTFs.

Regulated Markets own the intellectual property rights of the products traded on their platform and are the sole venue for such product, by definition the 'Central Limit Order Book'. Therefore, they have the necessary information to monitor the activity undertaken through their system and as such be able to facilitate identification of the need for trading halts.

Multiple OTFs and MTFs will trade the same instruments but will have different liquidity pools, different clients and different thresholds. Therefore, it would most likely not be possible to establish the proposed standard criteria across all these multiple OTFs and MTFs. This again calls into question the objectives of the proposed guidelines and any perceived costs versus benefits framework.

TYPE YOUR TEXT HERE
<ESMA_QUESTION_MIFID_GTH_4>

Q5. Would you prefer a further degree of granularity in the information provided as described in the text under paragraphs 46 and 47? Please elaborate in case you consider necessary further granularity but you disagree with the proposed approach.

<ESMA_QUESTION_MIFID_GTH_5>
No comment. TYPE YOUR TEXT HERE
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Q6. Is the code proposed above (i.e. "VH") appropriate, or should another code be used? Please elaborate in case you consider that another code should be used.

<ESMA_QUESTION_MIFID_GTH_6>
No comment. TYPE YOUR TEXT HERE
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Q7. Do you agree with the reporting template proposed?

<ESMA_QUESTION_MIFID_GTH_7>
No Comment. TYPE YOUR TEXT HERE
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Q8. Are there any other items that should be included in the template?

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Q9. Please provide any views with respect to the costs and benefits identified in the relevant annex.

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