

Ensuring Best Execution in a Post-Brexit EMEA Landscape



Equity trading across the EU is undergoing significant transformation due to geopolitical events linked to the possible departure of the UK from the EU. This transformation is creating numerous technical challenges for trading participants who wish to remain in the market (minimising impact), retain a competitive edge & stability, and stay compliant under MIFID II obligations. This paper describes some of the technical challenges and associated solutions.

A BRIEF HISTORY

As a result of MiFID regulation introduced in 2007, the EU trading landscape was fragmented into a number of Primary Listing Exchanges (PLE) and Multilateral Trading Facilities (MTF).

Article(4)(22) of MiFID defines ‘Multilateral Trading Facility’ or ‘MTF’ as:

A multilateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments – in the system and in accordance with non-discretionary rules – in a way that results in a contract in accordance with Title II of this Directive.

Furthermore, MiFID II was introduced in January 2017 and built upon MiFID’s Best Execution requirements, mandating that all trading agents must execute client orders at the best possible price across venues. In other words, order books of fungible instruments must be aggregated to identify the “Best Bid & Offer” across disparate markets. As a result of MiFID II, four MTFs emerged as the most liquid; they are Aquis (AQXE), Cboe BATS (BATE), Cboe ChiX (CHIX), LSE Turquoise (TRQX).

REGULATORY CHANGES AHEAD

With the four most liquid MTFs being based out of London, the UK’s departure from the EU looming, and its “3rd country equivalence” status yet to be determined, these MTFs may no longer be eligible for trading EU instruments under European Securities and Markets Authority (ESMA) regulations. Thus, the operators of these MTFs established three new MTFs which are registered & operated in EU countries and regulated by EU regulators to support segregated order books, ensuring trading continuity:

- AQEU - Aquis EU, registered in Paris
- CEUX - Cboe Europe, registered in Amsterdam
- TQEU - Turquoise Europe, registered in Amsterdam

To add further complexity, Financial Conduct Authority (FCA) in the UK and EU27’s ESMA regulator have adopted different approaches to the trading of its instruments:

- ESMA – EU Regulator will not permit trading of UK stocks on EU-regulated venues
- FCA – To date, the FCA has not placed restrictions on EU instruments trading on UK venues—more clarity on this is expected in late October.

Each new EU MTF operator has adopted varying approaches to dual-listing of stocks that exist today within their UK entities:

- BATE/CHIX – Cboe Europe, operator of BATE/CHIX, permits trading EU27 stocks on the UK MTFs
- AQXE – Aquis Plc permits trading EU27 stocks on the UK MTF
- TRQX - Turquoise does not permit trading EU27 stocks on the UK MTF

This is best illustrated in the following table:

Venue Type	Regulator	Venue Name	Permits EU27 Stock Trading	Regulator	Venue Name	Permits UK Stock Trading
PLE(s)	FCA	XLON	No	ESMA	XPAR, XAMS, XETR... (>27)	No
MTFs	FCA	AQXE	Yes	ESMA	AQEU	No
	FCA	BATE	Yes	ESMA	CEUX	No
	FCA	CHIX	Yes	ESMA	TQEU	No
	FCA	TRQX	No			

TECHNICAL IMPACT OF REGULATORY CHANGES

The new trading landscape from 1st November onwards presents a number of technical challenges:

- To be compliant with MiFID II Best Execution rules, trading agents of EU stocks must aggregate both Cboe's UK and EU MTFs in addition to Aquis EU, Turquoise Europe, and primary exchange(s).
- As the FCA expects to remain aligned to EU rules initially, trading participants of UK stocks must aggregate XLON + 4 UK based MTFs (AQXE, BATE, CHIX and TRQX).
- Although both Turquoise venues will share the same network path, as will Aquis optionally, Cboe venues will have separate connectivity for their EU MTF.
- Trading participants must ensure new connectivity, order book handling and symbology management is all in place and tested prior to 31st October 2019.

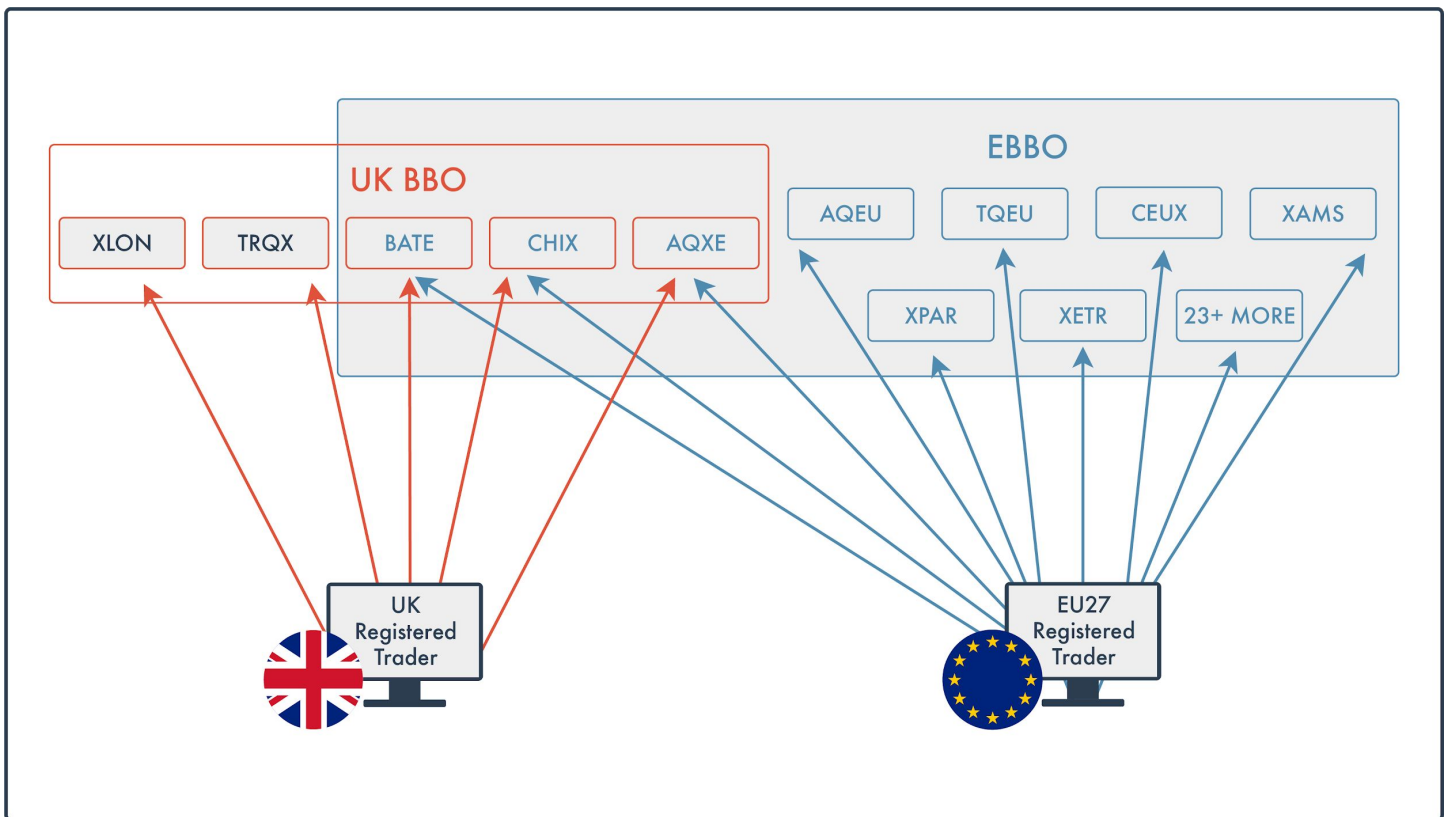
HOW TECHNOLOGY PROVIDERS LIKE REDLINE CAN HELP

Firms that are interested in preparing themselves for Brexit should select market data providers and platforms that have readied their technology for changes to come. It is essential to work with experts that have deep knowledge and an understanding of the different possible outcomes to minimise risk. In addition, platforms should already support all available EMEA markets whilst adding new venues as they form.

For example, Redline's InRush Market Data platform supports over 30 existing EMEA equities markets and is actively adding new venues. Redline's Engineering team work closely with exchanges/MTFs to ensure it supports each incremental iteration, enabling clients to remain compliant ahead of 31st October and excel in a rapidly changing landscape.

Redline-specific features:

- InRush provides a normalised API allowing order book/trade streams to be consumed with zero bespoke logic
- Each subscribing client can define the participant books to create a user-defined view of the market. InRush's compositing logic will aggregate volume by price levels, while also maintaining visibility into each participant's individual book
- Consuming clients can also dynamically modify participant books to add/remove participant(s) in real-time.
- On order entry, only EU27-registered members can submit orders to EU27 regulated markets. This presents a challenge for trading firms that cross UK/EU27 borders. Redline's ability to create per-user composite orderbooks solves this problem.



IN SUMMARY

The degree of flexibility, such as including or excluding venues dynamically/on demand, is made possible through Redline’s fully normalised data model for EMEA equities, efficient software architecture, and adaptable subscription paradigm. Each user can define the books required for its aggregated view, meaning client applications only receive updates for markets in which they can trade.

For more information or to learn more about Redline’s Brexit-ready trading solutions contact our experts at: sales@redlinetrading.com or visit our website www.RedlineTrading.com.

About Redline Trading Solutions, Inc.

Redline Trading Solutions is the premier market access technology provider, delivering low-latency access to market data and order execution on over 175 venues. With flexible delivery models, Redline provides a comprehensive, end-to-end solution for multi-asset electronic trading with global market coverage, enabling smarter access to global liquidity.

Redline has offices in the U.S., Europe, and Asia supporting traders, market makers, financial institutions and other market participants worldwide.

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