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## MiFID II ESMA Publishes Double Volume Cap Data

### RETURN OF THE CAP

Following an initial delay in January, [ESMA published the double volume cap \(DVC\) data](#) last night. The data consisted of two 12-month periods: January-December 2017 and February 2017-January 2018. Out of the 18,881 ISINs across both data sets, 755 have breached at least one of the caps. As expected, in most cases a breach of the 4% cap was accompanied by a breach of the 8% cap; a mere 17 securities in the January data and 10 in the February data breached only the 4% cap.

A total of 74 instruments were measured as trading over 16% in dark pools in at least one of the data sets, suggesting the possibility of a second six-month suspension following later this year. We expect venues to implement suspensions for affected instruments starting Monday, 12<sup>th</sup> of March, and lasting until 12<sup>th</sup> of September. The next set of DVC data including February 2018 trading is expected to be released on the 9<sup>th</sup> of April. We foresee minimal disruption to trading for clients placing orders through our electronic products or with our trading desk. We expect to be in a position to provide more analysis on the impact of the suspensions over the next few days.

The limitation of trading under the reference price waiver will finally instigate the market changes we had prepared for in 2017 and expected to occur in early January. We have already seen a significant shift to block trading using the LIS waiver and we expect this to take another step up in volume. Periodic Auctions are also likely to grow significantly once other avenues for execution are no longer available.

### POSIT, POSIT Alert, ITG algos and Triton

As detailed in previous communications we have already made a number of dark cap related changes despite the regulatory delay. POSIT Alert thresholds were adjusted to use LIS in the middle of January. ITG's algorithms have already prioritised block liquidity for some time. A few weeks ago, following the delay in DVC data publication, periodic auctions liquidity was also prioritised in order to reward other firms trading in a MiFID II manner and benefit from the high quality of liquidity resident in these pools.

We will now make the following further changes:

- ITGL will suspend reference price waiver (RPW) trading in POSIT for stocks which have hit the cap. We expect this to be on Monday 12<sup>th</sup> March.
- POSIT Alert will have a hard minimum order size of 100% LIS for these stocks
- Algorithms will be aware of stocks that are capped and LIS values required to trade and will look to route orders accordingly.
- POSIT Auction orders of any size and conditional orders above LIS into POSIT Dark will continue to work as normal. Please speak to your ITG contact if you have any questions.

For Triton users extra columns are available, showing stock-specific LIS values and dark pool suspensions.



### Liquidity shift

The introduction of the double volume caps marks the last in a series of significant changes to the liquidity landscape in Europe. We are already seeing the effects of the earlier changes on SIs, periodic auctions and block trading venues. In early March, pan-European SI volumes exceeded OTC and off-book volumes for the first time\*. While it is still unclear how much SI trading is electronically accessible, we expect more clarity at the end of Q2, when SIs are required to publish regulatory reports on their trading.

The four periodic auction venues currently trading in Europe - POSIT Auction, Cboe Periodic Auctions Book, Nasdaq Auction on Demand and Turquoise Lit Auctions - have seen total daily volumes of just over €300 million in recent weeks, or around 0.6% of total market volumes\*\*. We expect this to increase next week, when the double volume caps preclude other types of non-principal sub-LIS trading for stocks impacted by the volume caps.

Block trading growth trends have continued into 2018, despite the delay of the DVCs. January saw a new record for total volumes, as well as individual records for all four major block trading venues including POSIT Alert. The total amount traded across all four venues was more than twice that traded in January 2017. While February volumes did not set a new record, we expect growth to continue as the DVCs reduce alternatives to LIS and periodic auction trading. As part of this growth, we are continuing to increase sell-side conditional order connectivity to enhance liquidity available in POSIT Alert.

\*Source: Fidessa

\*\*Source: Cboe, Fidessa

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