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CONTACT

Asia Pacific
+852.2846.3500

Canada
+1.416.874.0900

EMEA
+44.20.7670.4000

United States
+1.212.588.4000

info@itg.com
www.itg.com

MiFID II

ITG clients see more block trading; ESMA delays double volume caps; tick size disharmony

Extensive preparation efforts across the industry paid off when MiFID II came into force last Wednesday, as major mishaps were few and things mostly went as planned. As a testament to the level of preparedness of the buy-side and sell-side, we saw little deviation from the norm in ITG client activity—with clients using similar types of algorithms for execution and continuing to find valuable liquidity through electronic and other means.

Aside from the expected changes to the liquidity landscape—broker crossing networks (BCN) replaced by systematic internaliser (SI) structures, a halt to bid/offer trading under the reference price waiver, and periodic auctions volumes seeing a significant uptick—it was mostly business as usual, which is a promising sign for the year ahead.

OFF THE STARTING BLOCKS

Last week, block venues captured record market share, with large in scale (LIS) size executions making up 29%¹ of all dark trading—up from the previous weekly high of 23%² in November last year. Clients using ITG's Dark algorithm reformatted for MiFID II traded a record 46%³ of value through conditional orders, including POSIT Alert. Notably, ITG's clients participated in almost half (47%)⁴ of the trading activity across the dark pools that support conditional orders. Following a doubling of block trading volumes in 2017, more than 80% of our surveyed clients told us they expected block trading volumes to continue to grow under MiFID II⁵.

TICKED OFF

One change that has challenged the market is the new tick size regime. The expected harmonisation of tick sizes in Europe has failed to materialise as yet with Borsa Italiana and SIX Swiss Exchange deviating from the standard approach taken by other markets. Tick sizes on the Swiss exchange are narrower than those in the same stocks on European multilateral trading facilities (MTFs), with the opposite being the case on the Borsa Italiana. This seems to have contributed to the highest market share for the Swiss exchange seen in recent years, with almost 80%⁶ of Swiss lit market equity



trading taking place on the primary exchange. Borsa Italiana's market share seems to have remained steady at just under 80%⁷.

NEVER MIND THE CAP

Last night, ESMA delayed the publication of the MiFID double volume cap (DVC) mechanism to be used by national regulators for determining which venues need to halt use of the reference price waiver. Accurately bringing large amounts of data together from multiple sources is always a challenge, though this requirement has been a long time coming, so it's somewhat surprising to see this delay. While the industry has readied itself for the caps coming into effect, the delay does give some breathing room to anyone who wasn't fully prepared for the new landscape, including connectivity to the new auction models like Cboe Periodic Auctions and POSIT Auction. Despite the delay, we still expect continued growth in LIS and periodic auction trading in preparation for the caps coming into effect on the revised timescales in March.

^{1,2} Fidessa: January 5, 2018, November 17, 2017

³ ITG, January 5, 2018

⁴ ITG analysis with ITG, Cboe Global Markets and Turquoise data, January 5, 2018

⁵ ITG MiFID II client survey, as of December, 2017. Link to survey [here](#)

^{6,7} Cboe Global Markets, January 5, 2018

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