WEBINAR

Possible evolution of MIFID II algorithmic trading rules

6 May 2021

Presenters

Tess Jones
MODERATOR
Regulation and Industry Technology Manager, FIA

Gordon Ball
EMEA Head of Electronic Execution, Citi

Nikoletta Chelakidi
Derivatives Markets Trading, Market Structure & Regulation, Eurex

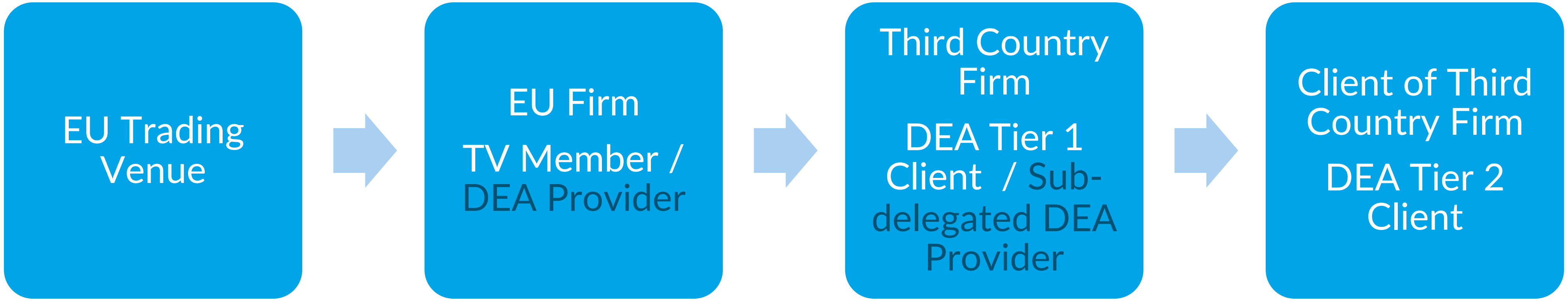
Patrik Westerberg
Vice President, Nasdaq Stockholm AB

Katie Wiltshire
Vice President and Counsel, Goldman Sachs International

Jason Wright
Director, Futures Electronic Trading, Barclays

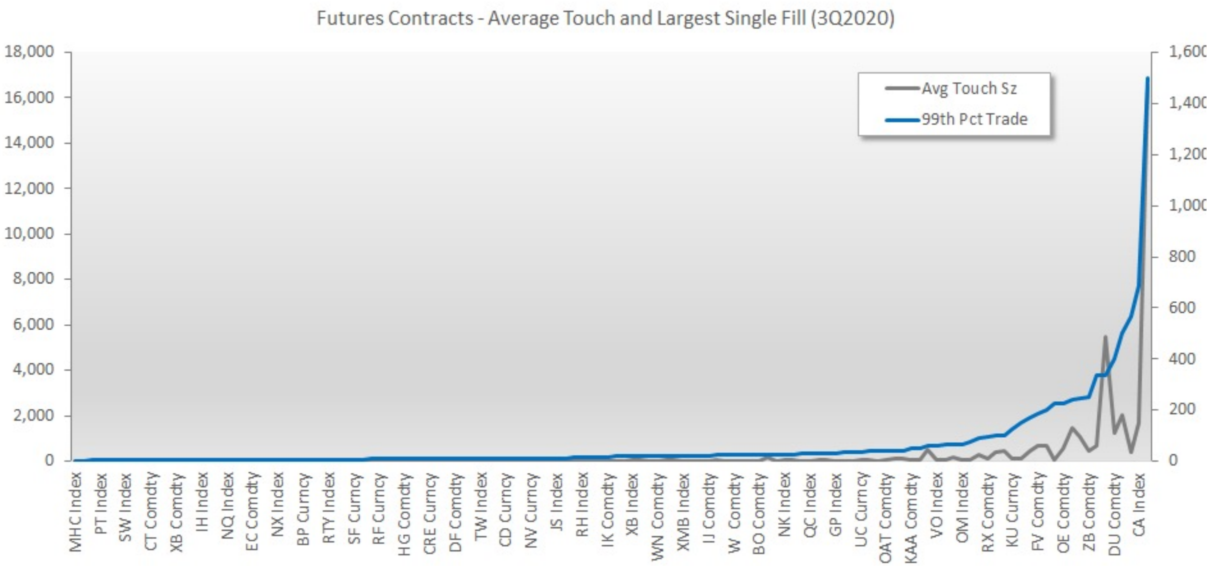
MiFID 2: Direct Electronic Access Framework

Diagram: Basic sub-delegation of DEA access



Disorderly Trading – Listed Futures and Options

Question: Is there a hard and fast rule for a ‘disorderly market’?



Normalised Bid-Offer Spread (ticks) over time (GMT, 4Q2020)

contract \ hour	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
CA_front										0.7	-0.1	-0.3	-0.1	-0.1	-0.3	-0.3	-0.2	0.7						
CL_front	0.2	0.4	0.4	0.4	0.5	0.4	-0.0	-0.1	-0.1	0.0	-0.1	-0.4	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	0.0	0.1		-0.1
CO_front		0.4	0.5	0.4	0.1	0.3	0.2	0.0	-0.0	-0.2	-0.2	-0.3	-0.2	-0.2	-0.3	-0.3	-0.3	-0.2	-0.2	-0.1	0.1	0.1	2.0	0.4
CT_front			0.8	2.0	2.5	1.3	1.2	0.7	-0.1	-0.1	-0.1	-0.1	-0.3	-0.3	-0.3	-0.4	-0.5	-0.4	-0.4	-0.5				
DF_front										0.0	-0.0	0.2	0.0	-0.1	0.2	-0.1	-0.1	-0.0						
FC_front															-0.1	-0.3	-0.3	0.2	0.5					
HO_front	0.6	0.3	0.3	0.4	0.4	0.2	-0.1	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.5	-0.4	-0.5	-0.3	0.4	2.9		0.4
KC_front											-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	0.4					
KW_front		-0.0	0.0	0.4	0.4	0.2	0.3	0.3	-0.1	-0.2	-0.0	-0.0	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1					
LC_front															-0.0	-0.3	-0.3	0.1	0.6					
LH_front															-0.1	-0.2	-0.2	0.3	0.2					
NG_front	0.2	0.5	0.6	0.4	0.5	0.4	0.2	0.1	0.1	0.0	-0.0	0.0	-0.0	-0.2	-0.3	-0.4	-0.4	-0.3	-0.4	-0.5	-0.4	0.4		0.0
QC_front											0.3	0.1	-0.0	-0.1	-0.2	0.0	-0.2							
QS_front		0.3	0.3	0.2	0.3	0.1	0.1	-0.1	-0.0	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	0.0	-0.1	0.1	0.2	1.4	0.3
SB_front										0.3	0.0	0.1	0.1	-0.2	0.0	-0.1	-0.2	-0.1						
XB_front	0.4	0.4	0.4	0.5	0.5	0.2	0.0	-0.1	-0.2	-0.2	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	0.0	2.3		0.6

Example charts for illustrative purposes only.
Data sourced from Bloomberg, Exchanges and Citi TCA.

1. Huge dynamic range of liquidity and volatility across asset class subtypes
2. Distant expiries and strikes have a fraction of liquidity vs front month / ATM
3. Open 24hrs – liquidity shifts dramatically over core vs evening hours

Proportionality of Algorithms – an axis of automation

Question: Are all algos the same?

Decreasing Sophistication / Automation

	Fully automated investment / execution algorithm	Position based algo (hedger / spreader)	Model based execution algo	Rules based execution algo	Trigger / Contingent	Simple Smart Router *	Pass-through
Investment Decision	Machine	Machine	Human	Human	Human	Human	Human
Execution Decision	Machine	Machine	Machine	Machine	Machine	Human	Human
Routing Decision	Machine	Machine	Machine	Machine	Machine	Machine	Human
Discretion	Size and Price, parameters, contract, expiry, side, start and end times, number of orders	Size and Price, side and quantity of orders within min/max limits	Price and envelope of executions within total order, overall duration	Price and envelope of executions within total order, overall duration	Timing of release of order	Immediate release of order to multiple venues	No discretion

Typically classed as 'DEA'

Clearly an Algorithm

Normally an Algorithm?

Not an algo

Contacts

Tess Jones
MODERATOR
Regulation and Industry Technology Manager
FIA
tjones@fia.org

Gordon Ball
EMEA Head of Electronic Execution
Citi
gordon.ball@citi.com

Nikoletta Chelakidi
Derivatives Market Design, Market Structure & Regulation
Eurex
nikoletta.chelakidi@eurex.com

Patrik Westerberg
Vice President
Nasdaq Stockholm AB
Patrik.Westerberg@nasdaq.com

Katie Wiltshire
Vice President and Counsel
Goldman Sachs
Katie.Wiltshire@gs.com

Jason Wright
Director, Futures Electronic Trading
Barclays
EU eTrading Committee Chairman
jason.wright@barclays.com

Thank you for joining us today!

Upcoming webinars:

MAY 13 — Anti-money laundering considerations for security and commodity derivatives

MAY 19 — UK/EU – Rebuilding a relationship

JUN 10 — NTFs: Key considerations for an emerging asset class

FIA