

BVI / IA position on the application of the tick size regime on systematic internalisers

The BVI¹ (German Investment Funds Association) and the IA² (UK Investment Association) gladly take the opportunity to present their joint view on the application of the tick size regime on systematic internalisers (SIs).

- **Purpose of the tick size regime**

The purpose of the tick size regime is to ensure that orderly and transparent trading takes place on trading venues through promoting the effective formation of prices on a displayed order book. It also helps to maintain a reasonable depth of liquidity whilst allowing spreads to fluctuate.

Therefore, the tick size regime is relevant for order book driven markets which are pre-trade transparent, and for alternative trading mechanisms that are comparable/competitive to such order book driven markets (e.g. accessed by market participants alongside - or as an alternative to - pre-trade transparent order books in the course of executing).

- **Application of the tick size regime on SI quotes**

We recognize the intention of Members of the Committee on Economic and Monetary Affairs (ECON) of the European Parliament to create a level playing field between SIs and trading venues by proposing to introduce the tick size regime to SIs. However, over-applying the tick size regime would not serve its purpose, artificially constrain actual price formation and market transparency and risk arbitrarily and unnecessarily penalising investors in certain transactions.

BVI and IA take the perspective of the buy-side. Our view is that trades executed on SIs which are above Standard Market Size (SMS) or that are non-price forming should not be subject to the tick size regime.

While trading venues must ensure that all orders entered onto their systems comply with the tick size regime, they may still conclude transactions at the midpoint, e.g. for large negotiated trades. If SIs were subject to the tick size regime when dealing in sizes above SMS, SIs not only would have a disadvantage, but it would also deprive investors from access to meaningful and differentiated risk liquidity that may not be available on a trading venue. It is also essential that institutional investors seeking execution of large orders can do so at the midpoint of the Bid-Ask spread.

¹ BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Fund companies act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's over 100 members manage assets of more than 3 trillion euros for private investors, insurance companies, pension and retirement schemes, banks, churches and foundations. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.

² The Investment Association is the trade body that represents investment managers, whose 220 members collectively manage over GBP6.9 trillion on behalf of clients. The UK is the second largest investment management centre in the world and manages 37% of European assets. More information can be viewed on our website. EU Transparency Register No: 5437826103-53.



The midpoint is understood and accepted globally as a fair execution price, and European markets would be materially harmed (and out of step with global markets) should the ability to execute at the midpoint be constrained.

Applying the tick size regime for trades above SMS may inhibit appropriate price formation between SIs and clients agreeing trades in large sizes. The ability to execute large trades on a sub-tick basis provides meaningful price improvement for clients trading in large sizes which brings benefits to end investors. Removing this capacity would amount to the regulation enforcing a bias against end investors (e.g. pensioners' funds) who wish to trade in larger sizes. Indeed, some investors would lose whilst others would gain, depending on how rounding rules were applied.

Institutional investors may wish average price executions, for example if they are targeting a stock in considerable size (e.g. when it is included in an index that the fund has to track) without causing a movement on the market. In those instances, they will request that their broker, typically in its capacity as an SI, enters the market and starts buying up the stock incrementally, tracking available liquidity at the average price of that liquidity at any given point in time over a certain period. Since this reflects an average price of available liquidity, it will in most cases not be at a round tick. Thus, guaranteed benchmark executions and other non-price forming transactions reflecting an average price achieved in the market naturally result in executions that do not conform to a tick table. A restriction to round ticks on these executions forces favouring of one set of investors and disadvantaging another and imposes on these investors needless cost, while providing no benefit to market transparency.

- **BVIIA Proposition**

This matter should be dealt with in the context of the European Commission's proposal for a regulation of the European Parliament and of the Council on the prudential requirements of investment firms and amending Regulations (EU) No 575/2013, (EU) No 600/2014 and (EU) No 1093/2010 (COM(2017)0790 – C8-0453/2017 – 2017/0359 (COD)).

Our proposed amendment to the Commission's proposal is systematically in line with the regulatory content of Title III of MiFIR and specifies that the tick size regime should apply to quotes pursuant to Article 14 of MiFIR.

In summary, we present a balanced amendment to the European Commission's proposal that reasonably considers the intention for a level playing field as well as the market interests of the buy-side which includes best execution for investors of retail funds. Further, our amendment takes into account ESMA's concerns that prices published by SIs shall reflect prevailing market conditions as expressed in ESMA's draft amendment to the MiFIR regulatory technical standards (RTS 1).³

³ Final Report, Amendments to Commission Delegated Regulation (EU) 2017/587 (RTS 1) (ESMA70-156-354).

ANNEX

BVI's and IA's proposed amendment to the European Commission's proposal:

- **Article 61 - paragraph 1 - point (a) (new)**

The title of Title III is replaced by the following:

"TRANSPARENCY FOR SYSTEMATIC INTERNALISERS AND INVESTMENT FIRMS TRADING OTC AND TICK SIZE REGIME FOR SYSTEMATIC INTERNALISERS"

- **The following Article 17a is inserted:**

**Article 17a
Tick sizes**

- 1. Systematic internalisers' quotes, price improvements on those quotes and execution prices shall comply with tick sizes set in accordance with Article 49 of Directive 2014/65/EU unless the conditions set out in Article 15(3) apply. Waivers for equity instruments pursuant to Article 4 shall apply mutatis mutandis.**
- 2. Paragraph 1 only applies to quotes pursuant to Article 14.**

- **Article 14 paragraph 2 is replaced by the following:**

2. This Article and Articles 15, 16, 17 and **17a** shall apply to systematic internalisers when they deal in sizes up to standard market size. Systematic internalisers shall not be subject to this Article and Articles 15, 16, 17 and **17a** when they deal in sizes above standard market size.

- **Article 63 - paragraph 2a (new)**

Notwithstanding paragraph 2, Article 61 (1), points (a) (new) shall apply 20 days after publication of this Regulation in the Official Journal of the European Union.

- **Recital 42a (new):**

(42a) With the aim of guaranteeing a level playing field and promote the transparency of the European market, Regulation (EU) No 600/2014 should be amended to subject systemic internalisers' quotes, price improvements and executions prices in sizes up to standard market size to the tick size regime.