



## Participant Notice

Ref: PN16/12

Dated: 2 November 2016

From: Participant Services

**Subject: In preparation for MiFID II implementation - consulting on Participant Manual and Rule Book additions in relation to an Order to Trade Ratio policy and a MiFID II compliant Liquidity Provider Program (LPP3).**

Bats encourage Participants to submit feedback on the proposals outlined below to: [participantserviceseurope@bats.com](mailto:participantserviceseurope@bats.com).

Ahead of MiFID II, Bats is making available in production with the Q4 2016 release functionality in production to support Participants' MiFID II preparation. Please note that neither LPP3, nor the Order to Trade Ratio policy will be enforced through a Rule Book and Participant Manual amendment until further notice, although draft text is provided below.

### LPP3

With the implementation of MiFID II/R, all firms pursuing an algorithmic market making strategy that meet the definition set out in the legislation, will be required to sign up to a monitored market making agreement on said venue. Following this consultation, Bats will, at a later stage, introduce a third Liquidity Provider Program (see table below) that is intended to support Participants who are captured by the obligation.

Bats will make the functionality supporting LPP3 available in Production on the 11<sup>th</sup> November 2016, thus allowing Participants to register and monitor their own performance against the program's requirements - please note that participation will require the use of the Liquidity Provision Flag.

However, the program will not be incorporated in the Participant Manual on the date above, nor will Bats monitor or enforce the program until a future implementation date closer to MiFID II/R entry into force.

In order to register for LPP3, please email [participantservices@batstrading.com](mailto:participantservices@batstrading.com) in order to gain access to the LPP GUI. Note that registering for LPP3 will not at this stage be covered by the Liquidity Provider Addendum and thus Bats will not recognise an LPP3 provider as a registered market maker.

	REQUIRED SIZE	SPECIFIED PRICE %	REQUIRED TIME %
Program 3	€5,000	0.25%**	50%

\*\*The bids and offers have to be of comparable size, where "comparable size" is defined as not diverging by more than 50% from each other.

### **Order to Trade Ratio (OTR) policy**

Following the implementation of MiFID II, all trading in the Integrated and Reference Price Order Books will be subject to the OTR policy. As part of the MiFID II obligations, Participants will be required to adhere to two OTR limits, measured per trading session and in each individual symbol.

The OTR thresholds “max\_otr\_count” and “max\_otr\_volume” will be populated in the daily symbol file with the Q4 2016 release as part of this consultation.

The method Bats uses for capturing Participants’ order and trade activity is set out in the Regulatory Technical and Implementing Standards – RTS 9 – Annex I: Order types.

Bats’ method for calculating Participants’ OTR is also set out by ESMA as per below:

Number Denominated Ratio: (Total number of orders/total number of transactions)-1

Volume Denominated Ratio: (Total volume of orders/total volume of transactions)-1

#### Proposed amendment to the Rule Book:

10.7 *All trading on an Integrated and Reference Price Order Book in BXE and CXE is subject to an Order to Trade Ratio policy, detailed in the Participant Manual.*

#### Proposed amendment to the Participant Manual:

### **Order to Trade Ratio policy**

*All trading in the Integrated and Reference Price Order Books is subject to an Order to Trade Ratio (OTR) policy. Participants are required to adhere to two symbol level thresholds at the end of each trading session - one ‘Number Denominated Ratio’ and one ‘Volume Denominated Ratio’.*

*The respective thresholds are displayed as a value populated in the daily symbol file and Participants’ compliance with the thresholds are monitored by Bats.*

*The daily symbol file values are populated dependent on the band it has been designated by Bats as per the table below. A symbols band designation is derived from an end of month calculation performed by Bats to reflect market dynamics.*

<i>Band A</i>	<i>Number Denominated Ratio</i>	<i>250</i>
<i>Band A</i>	<i>Volume Denominated Ratio</i>	<i>30 000</i>
<i>Band B</i>	<i>Number Denominated Ratio</i>	<i>500</i>
<i>Band B</i>	<i>Volume Denominated Ratio</i>	<i>50 000</i>

*When admitting a new symbol from an established market at Bats, the default band for the symbol is set to Band B.*

When enabling entirely new markets, Bats will make use of an incubating period with corresponding thresholds for which all symbols in said market are subject to. The incubating period will last for 12 months and may be extended at Bats' discretion in order to support quoting under the New Market Initiative.

Incubating Number Denominated Ratio	1000
Incubating Volume Denominated Ratio	100 000

#### **Liquidity Provider Program and Market Making**

A Participant registered and successfully meeting its obligations under a Liquidity Provider Program in a given symbol is subject to a Market Maker OTR policy in said symbol.

Market Maker Number Denominated Ratio	250 000
Market Maker Volume Denominated Ratio	10 000 000

#### **Monitoring and breaches**

Monitoring of Participants' compliance with the OTR policy is performed by Bats on a symbol level with a scope of daily trading sessions over periods defined by calendar months.

Breaches of the OTR policy by a Participant will result in a notification from Bats. A fixed penalty fine may be issued by Bats if a Participant is found to be in breach three times in a given symbol during a calendar month without mitigating circumstances (please see Bats' Disciplinary Policy).

Participants are invited to comment on the proposed changes by Tuesday 28 February 2017. Any comments or queries on the proposed changes should be addressed to Participant Services at ParticipantServicesEurope@bats.com or +44 (0) 20 7012 8927.