

AFME MiFID II Exchange Questionnaire

Executive Summary:

This MiFID II Exchange Questionnaire (“Questionnaire”) has been created through collaboration between AFME and major European Equities Exchanges¹. The purpose of the Questionnaire is to provide a standardised set of questions which can be sent from investment firms to Exchanges that fall under the scope of MiFID II. Exchanges responding to the Questionnaire should note that six questions have been selected as high priority issues and should be addressed in detail, these questions have been underlined.

The Questionnaire is to be sent bilaterally from investment firms to their Exchange counterparts. The information provided in response to the Questionnaire by Exchanges to investment firms is strictly confidential and for the benefit of the recipient firm and its affiliates only. Furthermore, the information provided is valid at the point in time when it is provided. The liability regime for the Questionnaire is established by the Disclaimer included in Annex I, which is provided by the responding Exchange.

The Questionnaire is made available to any party to use in a Microsoft Word format. However, in order to maintain the integrity of the document, we ask users to recognise and respect the numbering and wording of all questions.

The Questionnaire is subject to change and may be updated.

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About AFME:

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

¹ The Questionnaire has been shared with but not necessarily endorsed by individual Exchanges as well as the Federation of European Securities Exchanges and the Futures Industry Association.

AFME is listed on the EU Register of Interest Representatives, registration number: 65110063986-76.

Questionnaire

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A. Communication and Collaboration

- A.1.** What are your plans for communicating MiFID II updates to your members and participants during 2017?

Members and participants are kept updated via our [Microsite](#).

Further and more detailed information is released through Trade Desk notices, release documents and client updates.

- A.2.** How are you collaborating with cross exchange groups to develop a consistent approach to the solutions required by MiFID II?

Aspects of our approach are developed in conjunction with FIX MiFID working group, AFME Working Group, liaison with IA and informal liaison with FESE members.

- A.3.** How are you providing Independent Software Vendor's with MiFID II specific updates & workshops?

See answer under A.1

- A.4.** When do you plan to have your changes for MiFID II requirements ready? Will these become mandatory on Jan 3rd 2018 or earlier?

The Q2 exchange release includes some mandatory changes effective 9th June 2017, as well as some optional reporting for additional fields required under MiFID II. A further release in Q3 will incorporate the ability for third country firms to supply transaction reporting information to Bats.

All the above will become mandatory on the 3rd January 2018.

B. Treatment of Confidential Information

- B.1. High Priority Question - Can you confirm that confidential personal client information can be sent and received over an interface separate to the order interface, thus will not require encryption being on the same private data circuit, can be sent post trade and will not be leveraged for commercial purposes?**

Yes – more information is available on our [microsite](#) and our [MiFID II Identifier Management Specifications](#).

C. Due Diligence

- C.1.** What efforts are you making towards an industry standard on your due diligence approach?

We are currently considering our approach and we will be consulting participants.

- C.2.** Will your due diligence be standardised every year?

We anticipate that our annual firm oversight program will continue to take place based on perceived areas of risk.

D. Regulatory Data and Data Management

- D.1. High Priority Question - Will you follow short codes on your FIX or native interfaces and will it cover the following fields:**

D.1.1. Member/Participant – N/A – this information is held in static data.

D.1.2. Client ID codes – Yes.

D.1.3. DEA Orders – Yes.

D.1.4. Investment Decision ID – Yes.

D.1.5. Execution Decision ID – Yes.

Relevant FIX tags are detailed under [FIX](#) and [BOE](#) specifications.

D.2. Provision of Regulatory Data:

- D.2.1.** What are your plans for collecting regulatory data pertaining to Trading Capacity - (e.g. AOTC, DEAL, MTCH)?

This will be captured by the order capacity field. Population of this field will be mandatory from 9th June 2017 as part of our [Q2 release](#).

- D.2.2.** What are your plans for collecting regulatory data pertaining to on/off venue post-trade indicators for trade reports?

This data will be collected via FIX or BOE messages where relevant.

- D.2.3.** What are your plans for collecting regulatory data pertaining to non-executing brokers?

N/A

- D.2.4.** Will you return any/all of these details back on order and/or execution events?

Yes, all these details will be returned to participants.

D.3. Provision of data from Exchanges to investment firms:

- D.3.1. High Priority Question - What are your plans for providing market participants with passive/aggressive flags?**

This will be made available to participants under FIX tag (9730) TradeLiquidityIndicator.

- D.3.2.** What are your plans for providing market participants with the Waiver ID on executions?

This will be made available to participant under FIX tag (8013) TrdRegPublicationReasons.

- D.3.3. High Priority Question - What are your plans for providing market participants with event time and to what precision/format?**

AFME preference would be a concise, faster format. AFME are in support of the FIX proposals on the formatting of market data.

From 2017 Q2 release, event time will be specified with microsecond granularity. Information will be disseminated using [FIX](#) and [BOE](#) messages.

D.3.4. What are your plans for providing market participants with triggered circuit breaker flags?

This information will be provided on rejected orders with a reason code of (p = Static Collar Breach). In addition, this information will be disseminated on trading status messages in the status flag (V = Volatility Interruption) sent on PITCH.

D.4. Is there any additional order/trade/control information you expect from participants? Will you pass back any information not listed above?

Bats will pass back any additional information received. The Q3 2017 release will allow participants to obtain file based information from Bats related to their order record keeping obligations.

D.5. Halting of Algorithms:

D.5.1. Will you support withdrawal or halting of algorithms according to the Algorithm ID sent and how will this work?

Yes - our Market supervision team will maintain a "blacklist" of Algorithm IDs and any new orders with those specific Algorithm IDs will be rejected.

D.5.2. Will you have a kill switch at the Algorithm ID level and how would it work?

Yes – a blacklist of Algorithm IDs will be maintained by our Market Supervision team as explained under D.5.1 and a cancel on disconnect functionality will be enabled.

D.6. Will there be a way for firms to extract all their order and execution details for the day to feed into their surveillance systems and how will it work?

Yes – order and execution details will be available in real-time via DROP copy and all executions will be available on a trade file made available to participants.

D.7. Will you require a registered list of people to contact to invoke kill functionality?

Yes – each person having access to the kill functionality will be provided with a web login via a secure API.

D.8. What are your plans for harmonising instrument tick sizes against a central standard and will you still have your specific tick size rules?

We will adopt tick size rules as defined under RTS 11, we will not implement additional specific tick sizes.

D.9. Will you continue to publish your own data with regards to tick sizes?

Yes – this information will be included in the tick size file referred to by the symbol file.

D.10. How are you unbundling your market data products? For instance, to publish independently instrument trading stats and phases (e.g. auction data vs continuous phase data)?

We provide separate feeds for auction data and last sale (trade data in the MiFID II RTS 1 prescribed format). All other unbundling of market data is available via licensing.

D.11. What MiFID II specific changes are you introducing to your market data feeds - additional static data fields, real-time data fields, format changes, tick sizes?

Bats is providing last sale feed which includes all post-trade information required under RTS 1. MMT v3 format will be available from the Q2 2017 release. The applicable PITCH and Last Sale specifications are available on our [website](#).

D.12. Do you plan to include the ISO requirement in your market data?

If D12 is referring to MiFID defined field formats under RTS 1 then these will only be present on our last feed.

D.13. Do you intend to inform members of progress (per instrument, per waiver) towards the 4% volume cap and if so, how?

No

D.14. When an instrument is suspended due to exceeding the 4% or 8% cap, will you continue to accept the reporting of negotiated trades provided the size exceeds LIS?

Yes

D.15. How will negotiated trades be rejected for instruments which have been suspended due to the dark volume caps?

If a waiver cap is reached, a suspension in the relevant symbol will be triggered.

The reject message will include a reason code (v = MiFID II Double Cap related) indicating it was related to the Double Volume Caps followed by one of the following description:

- Negotiated trades are capped;
- The symbol was capped when the trade was arranged.

D.16. For any instruments prevented from trading under the Double Volume Cap constraints, will you be informing members of an expected date at which trading will be re-enabled?

No – information on any volume cap being reached will be disseminated by ESMA. The symbol file contains a “capped” column which indicates whether a symbol is capped on any given day. The file should be downloaded each day to obtain the symbols available for trading under the waivers subject to the volume caps.

- D.17.** Do you intend to inform members of the waivers available per instrument on each given trading day and whether the use of any particular waivers has changed compared to the previous day?

Yes – we will inform participants if waivers become unavailable under the symbol file, however, we will not indicate changes so we will encourage our participant to process the symbol file every day.

- D.18.** What are your plans with regard to formalising and making public the instruments traded on your venue(s) (particularly with regard to explicitly identifying the admission of multi-listed instruments from non-EEA markets)?

Where the admission/listing of such instruments will drive participant and investor obligations in respect of the Trading Obligation and trade/transaction reporting.

Instruments admitted to trading on our venues will be made available via the symbol file.

- D.18.1.** Will you rely purely on RTS 23/FIRD notification, or will you publish lists of instruments in a publicly available place?

See answer under D.18.

E. Algorithms and Algorithmic Testing

- E.1. High Priority Question - What certification will be required for algorithms and can you confirm that you will not block new Algorithm IDs before retrospective self-certification?**
AFME preference would be the self-certification of algorithms which can be retrospectively validated.

We will not require pre-certification for new algorithms, however, our rules will require participants to test their algorithms prior to their deployment.

- E.1.1.** What will be the grace period for retrospective self-certification?

N/A as per answer for E.1.

- E.2. Testing Environments**

- E.2.1.** What are your plans for supporting test instruments on the market?

We have test symbols available in production but they are not designed for algorithm testing. However we have a range of test symbols available in certification which mimic and reproduce various trading scenarios.

For more details on trading scenario please refer to our [microsite](#).

- E.2.2.** Will you provide test symbols in the live market?

See answer under E.2.1

E.2.3. Do you plan any enhancements to your existing testing environment and how will these work?

See answer under E.2.1

E.3. Many members may use third party vendors for market data. How will testing of market data consumption be tested in regards to algorithmic trading?

It is for participants to satisfy themselves that testing of market data consumption is satisfactory with regards to algorithmic trading.

E.4. Stress testing

E.4.1. Will testing environments mirror production to enable high volume stress testing?

No – however, our participants can participate in our annual Disaster Recovery (DR) day and test capacity and failover in our production environment.

E.4.2. Will you be providing a test system to facilitate your own and investment firms stress testing requirements?

Weekly and monthly DR tests are conducted as well as opportunities for participants to conduct testing in our production environment. The last DR test was on March 11th 2017, another will be scheduled in 2018. Bats conducts internal stress tests throughout the year, as well as monitoring for performance degradation identified in the customer certification environments.

E.4.3. How often will the stress testing cycle occur? (*Available daily? Repeated every hour?*)

See answer under E.4.2.

More information is available under:

- [Organisation requirements for Trading Venues;](#)
- [Algorithm testing on our microsite.](#)

E.4.4. Will there be any auto order generators or other tools deployed, if so how will they operate?

See answer under E.4.3

E.5. How will maximum order volume checks work, will these be security specific or generic?

A maximum order size is defined across all markets at 99,999,999 shares. Any order exceeding this limit will be rejected. However, participants can set their own risk limits for more granularity.

E.6. What post trade checks, if any, will you implement?

Yes – all risks limit implemented are detailed under our [Risk Management Specification](#).

E.7. What circuit breakers have you implemented?

Bats has implemented two circuit breakers:

- dynamic collars on all markets;
- static collars on the Regulated market and for Spanish stocks.

More information is available in our [Participant Manual](#).

E.7.1. Are you considering altering these or adding new ones?

No

E.7.2. How will you support members monitoring DEA or algorithmic orders triggering circuit breakers?

Yes – full order details and activity is available to be monitored by DROP copy.

E.8. High Priority Question - What are your plans with respect to supported “kill switch” functionality?

Bats Trade Desk can cancel a participant’s open orders and block new incoming orders. Participants can also perform these actions on their own (or firms they are sponsoring) orders via an API or a using a web application in the participant portal. Participants can also configure “cancel on disconnect” functionality to cancel open orders and block new incoming orders if they disconnect from ODROP.

E.9. What precautionary/absolute measures will venues operating a dark pool put into effect to ensure trading remains below the double volume cap?

Bats may, as a result of its analysis, choose to cap a symbol if it is close to the threshold. This information will be communicated through the new "capped" column of the symbol reference file.

F. DEA Impacts

F.1. What information regarding trading controls and organisation will you require from members in relation to sponsored access and how will you provide real time alerts?

Information regarding trading controls will be gathered as part of the due diligence process and the firm oversight program. Monitoring of sponsored clients will be allowed by DROP copy.

In addition, daily email alerts are available for participants on notional traded at the bank code (trading desk) level.

- F.2.** For DEA/SMA trading, what additional enrichment will you be making to exchange drop copies to facilitate new data requirements for MiFID?

Relevant additional fields have been added to the execution report for Q2 2017 release. Specifications can be found on [Bats website](#).

G. Order to Trade Ratio/Market Making

- G.1.** What are your plans for collecting regulatory data pertaining to liquidity provision flags?

This data is collected under FIX tag (8015) OrderAttributeTypes = 2 “Liquidity Provision”.

- G.2.** How will you monitor compliance with the market making measures? Will this monitoring also include alerting for when market making levels are being approached? If so, how will you inform members of a need to register as a Market Maker?

Bats will monitor registered market makers under a MiFID II compliant liquidity provider program. However, Bats will not be monitoring unregistered firms to assess whether registration is required. It is for firms to monitor their own activity and assess whether registration is required.

- G.3.** What are your plans for implementing OTR controls?

Our OTR plan is detailed in the following dedicated [Participant notice](#).

- G.3.1.** At what level will you set these and how will you apply the controls?

OTR controls are applied at symbol level for registered participants on a daily basis.

- G.3.2.** Will OTR be applied at a trader, session or membership level?

Controls will be applied at firm level and monitored by our market supervision team.

- G.3.3.** What tools/MIS will you produce for members to monitor OTRs and will you plan for daily as well as monthly reports?

Bats will only notify firms when they breach their OTR.

- G.3.4.** What obligations will you put on members (if any) to monitor the OTR?

Members are obliged to abide by Bats’ trading rules which will detail their OTR obligations. Bats is yet to establish its disciplinary approach to OTR breaches.

- G.3.5.** Do you have any access linked to OTR that would block trading or prevent access to the market?

No – although Bats would potentially bar a participant for continued breaches of the OTR after repeated breaches/fines.

H. High Frequency Trading

- H.1.** Will you define where a member is using infrastructure intended to minimize network and other types of latencies, and what level will this definition be at (i.e. member, connection etc)?

No

- H.2.** Will you monitor firms for use of HFT trading technique?
This will help firms to assess HFT status.

No – although please see answer to H.3.

- H.3.** What are your plans for providing monthly estimates of the average messages per second taking into account the preceding 12 months?

Bats will make available to participants and on request an estimated average number of messages sent per second on a monthly basis.

Annex

Annex I – Disclaimer

Exchange’s specific disclaimer to be inserted here.

The information and responses (the “Information”) provided by Bats Europe (“Bats” or “we”) in this questionnaire are for general information purposes only and represent the current view of our organisation which may change in the future. The Information provided is not intended to constitute legal or other professional advice and should not be relied on by the recipient.

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