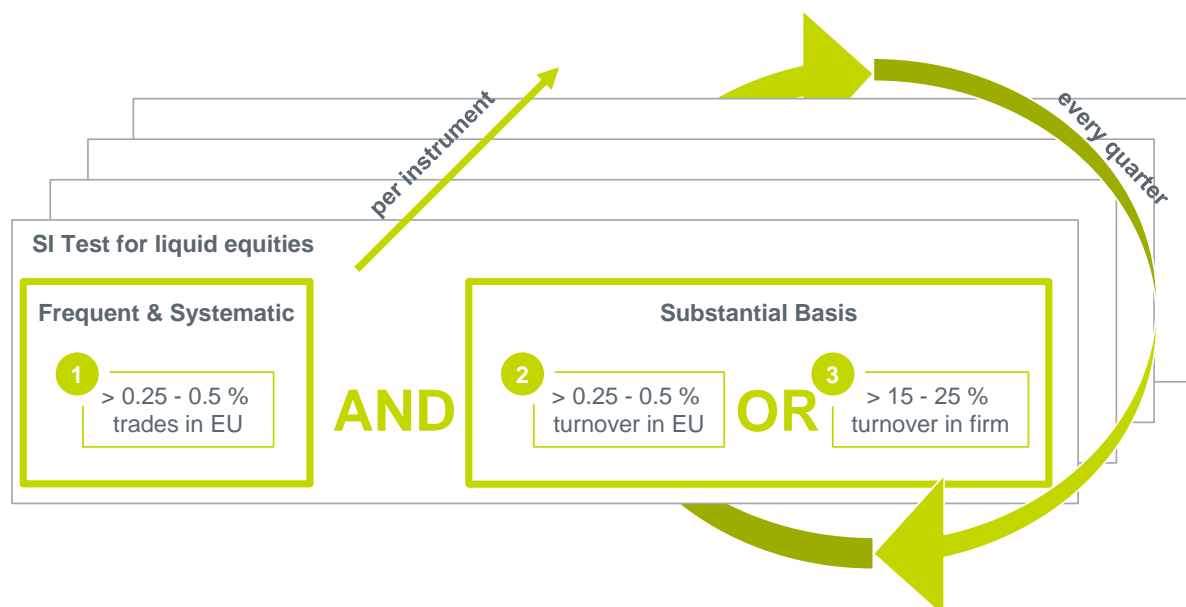


Fi When to become a Systematic Internaliser under MiFID II

MiFID II brings with it some significant changes to the Systematic Internaliser (SI) regime. Most importantly, ESMA will introduce quantitative thresholds that determine when a firm is obliged to obtain an SI licence. In the current Level 2 consultation, ESMA discusses the thresholds for liquid equity instruments:

1. "Frequent & Systematic": How many OTC trades a firm executes relative to the EU market. ESMA considers a threshold of between 0.25% and 0.5%.
2. "Substantial Basis": How much OTC turnover (price x shares) a firm executes relative to the EU market. ESMA considers a threshold of between 0.25% and 0.5%.
3. "Substantial Basis": How much OTC turnover (price x shares) a firm executes relative to their other business. ESMA considers a threshold of between 15% and 25%.

Looking at the diagram below, a firm has to apply for an SI licence if its OTC trading is frequent & systematic and on a substantial basis at the same time. Frequent & Systematic is measured using the first threshold, while OTC trading is deemed substantial if the second or third threshold is true.



All thresholds are average values across the previous quarter and the SI test applies for each instrument separately.

ESMA suggests that once thresholds are breached firms will have just one month to obtain an SI licence.

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