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Guidelines on calibration of circuit breakers and publication of trading halts under MiFID II

Scope:

The Guidelines appended to this document are addressed to trading venues that allow or enable algorithmic trading on their systems and, in particular, to market operators operating regulated markets, to MTFs (multilateral trading facilities) and to OTFs (organised trading facilities).

Summary/Objective:

This document addresses the Guidelines issued by the European Securities and Markets Authority (hereafter ESMA) on calibration of circuit breakers by trading venues that allow or enable algorithmic trading on their systems, and the application of these Guidelines by the FSMA to the trading venues under its supervision.

Dear Sir or Madam,

Pursuant to Article 16 of the ESMA Regulation¹, ESMA can issue guidelines and recommendations addressed to competent authorities or financial market participants with a view to establishing consistent, efficient and effective supervisory practices within the European System for Financial Supervision and to ensuring the common, uniform and consistent application of European Union law.

The third paragraph of Article 16 of the aforementioned Regulation specifies the following: "*The competent authorities and financial market participants shall make every effort to comply with those guidelines and recommendations. Within 2 months of the issuance of a guideline or recommendation, each competent authority shall confirm whether it complies or intends to comply with that guideline or recommendation. In the event that a competent authority does not comply or does not intend to comply, it shall inform the Authority, stating its reasons.*"

It is in light of the above that ESMA published, on 27 June 2017, its Guidelines on "Calibration of circuit breakers and publication of trading halts under MiFID II".

These Guidelines are based on Article 48, § 5 of MiFID II².

¹ Regulation (EC) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority.

² Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

The Guidelines are aimed, in particular, at ensuring that the circuit breakers put in place by trading venues use reference prices which reflect the volatility behaviour of the concerned instrument in a reliable and consistent way.

To this end, trading venues should calibrate their circuit breakers according to a pre-defined, statistically supported methodology, taking the following non-exhaustive list of elements into account:

- the nature of the financial instrument;
- the liquidity profile and the quotation level of the financial instrument;
- the volatility profile of the financial instrument;
- the order imbalance;
- trading venue mode and rules;
- internal references (such as opening price, closing price, etc.);
- external references (such as cash and futures contracts);
- duration of the halts,
- newly issued instruments.

Moreover, trading venues should immediately make public the activation of a trading halt in the manner set out in these Guidelines.

The FSMA will incorporate these ESMA Guidelines into its supervisory regime for the trading venues under its supervision, effective 3 January 2018.

Sincerely yours,

Jean-Paul SERVAIS

Chairman

Attachment: [FSMA 2017 15-1 / Guidelines on calibration of circuit breakers and publication of trading halts under MiFID II](#)