

ESMA Opinion clarifies application of pre-trade transparency and price determination in frequent batch auctions

ESMA's Opinion aims to provide sufficient clarification regarding the application of the pre-trade transparency requirements by FBA systems and the price determination process of FBA systems, ensuring consistent application throughout the EU.

- **Application of pre-trade transparency by FBA systems**

ESMA considers that trading venues operating FBA systems initiating auction calls based on the first incoming order pending a potential match should inform market participants that an auction has started, thereby making market participants aware that there might be a trading opportunity and enabling them to participate in the auction.

- **The price determination process of FBA systems**

ESMA's Opinion sets out several practices which may undermine the price formation process and details three functionalities which would result in non-price forming FBA systems. Notably, systems that allow only for the submission of pegged orders and/or 'adjusted limit orders', the use of price band limitations and systems that lock in the prices at the beginning of an auction.

Next Steps

ESMA will keep monitoring developments in the market, including how trading venues adapt their systems to meet the guidance on the operation of FBA systems set out in this Opinion.

Should it prove necessary, ESMA will issue further guidance in order to ensure the convergent application of the MiFID II / MiFIR requirements across the EU, in particular with respect to transparency and price formation.