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ESMA publishes final report on the tick size regime

The minimum tick size, under RTS 11, applicable to shares and depositary receipts is calibrated to the ADNT on the most liquid market in the EU. While this metric appears to be an adequate liquidity indicator for the vast majority of equity instruments, experience since MiFID II’s implementation shows that it may not be suited to instruments where the most liquid venue is located outside the EU.

In those cases, the mandatory tick size may be calculated only based on a small subset of the global trading activity and, as a result, EU trading venues may be subject to minimum tick sizes that are larger than those applicable on non-EU venues. This may unintentionally put EU venues at a competitive disadvantage, and may result in shallower liquidity on EU trading venues which could be detrimental to the interests of investors trading on EU venues and for orderly trading on EU markets.

Steven Maijoor, Chair, said:

“Today’s proposal aims to alleviate concerns about an unlevel playing field developing regarding tick sizes between third-country and EU trading venues. It also ensures that the applicable tick size in the EU is calibrated in a more convergent way.

“The proposed amendment is also relevant in the context of the United Kingdom’s withdrawal from the EU, which may result in a significant increase of the number of equity instruments for which the most liquid trading venue is located outside the Union. It will provide EU national competent authorities with adequate tools to address, at least with respect to the tick size regime, the possible issues that might arise in this context.”

Next steps

ESMA has submitted the final report to the European Commission which now has three months to decide whether to endorse the proposed amendments to RTS 11.

Press Release – Final Report on tick size regime

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