

Intro to MTFs and OTFs

MTFs (Multilateral Trading Facilities) and OTFs (Organised Trading Facilities) are types of trading venues under MIFID that were provisioned to transpose dark pools on-venue to increase trade transparency. MTF is a type of trading venue that came to life originally under MIFID in 2004 to help bring about transparency on dark pools. However, working under the strict rules for MTF proved somewhat difficult for non-equity asset classes, especially the requirement to operate on a 'non-discretionary' basis and not being able to trade proprietary capital on the platform or trade on a matched principal basis. As such, a new type of trading venue, OTF, was created under MiFID II to allow firms a level of discretion in trade matching as well as the ability to trade on a matched principal and principal (proprietary) basis in certain non-equity asset classes.

What is a Multilateral Trading Facility (MTF)?

It is a type of venue where multiple third-party buying and selling occurs between members of the MTF under strict adherence to the rules established by the MTF operator in a rule book. The MTF operator cannot use their discretion in matching orders between members and nor can they engage in principal (proprietary) or matched principal trading on the MTF. In summary, the operator only operates the market but doesn't participate in it. The operator is however under obligation to monitor transactions to prevent market abuse on the platform, monitor conflicts, report on quality of execution on the platform, and undertake MIFID II reporting requirements. The operator is also under obligation to provide system infrastructure and ensure business continuity and be able to address contingencies.

What is an Organised Trading Facility (OTF)?

An OTF is a type of trading venue like an MTF but was created under MiFID II to focus on dark pools around 'non-equity' products. As such, an OTF is limited to trading only 'non-equity' products such as fixed income products and derivatives (note however that an MTF can trade all types of products equity and non-equity). An OTF is allowed to use a level of discretion (an MTF cannot use discretion) in matching orders between its members, engage in principal dealing (on own account) in illiquid sovereign debt products, and engage in matched principal trading in bonds, structure finance products, emission allowance, and derivatives, which have not been declared subject to clearing obligations under EMIR. These elements make an OTF different to an MTF.

Key differences between MTFs and OTFs

| MTF | OTF |
|--|---|
| Originally created under MIFID in 2004 | Created under MiFID II in 2008 |
| Has to operate on non-discretionary rules at all times | A level of discretion is allowed in deciding trade placement on platform and trade matching |
| Can trade all asset classes | Limited to non-equity only (fixed income, derivatives, etc) |
| Not allowed to trade proprietary capital on the MTF | Allowed to trade as principal (proprietary) in illiquid sovereign debt |
| Not allowed to trade on a matched principal basis on the MTF (i.e. riskless principal) | Allowed to trade on a matched principal basis when trading in bonds, structure finance products, emission allowance, and derivatives, which have not been declared subject to clearing obligations under EMIR |

Similarities between MTFs and OTFs

| MTF | OTF |
|---|---|
| Multiple third party buying and selling on the platform (the multilateral aspect) | Multiple third party buying and selling on the platform (the multilateral aspect) |
| A type of trading venue under MIFID/MiFID II | A type of trading venue under MIFID II |
| IFPRU730K prudential classification | IFPRU730K prudential classification (although risks can be different to an MTF) |
| Subject to MiFID II transparency requirements | Subject to MiFID II transparency requirements |

Did you know?

- A majority of MTFs are based in the UK
- The minimum capital requirement for MTF/OTFs is set to be reduced from €730K to €150K
- Kraken owned Crypto Facilities became the first crypto currency futures MTF to be authorised in the UK and the EU in July 2020
- Archax was authorised as the first digital assets (security tokens) MTF in August 2020

How we can help?

At Pillar 4 our Consultants have experience working with trading venues and we understand the authorisation process and requirements. We continue to support an innovative MTF using DLT and AI technology to set up a bond trading platform. Please do get in touch with us if you would like to discuss your MTF/OTF authorisation, we will be glad to help.