

# Global Market Structure – Europe

Execution Excellence

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## MiFID II: Calculating SMS and LIS Thresholds for Equities

### Bulletin 4

#### What is happening?

- From January 3, 2018, MiFID II will classify transactions in equity and equity like instruments on the basis of their size for pre and post trade transparency requirements.
- The legislation defines two quantitative thresholds for such instruments – Standard Market Size (SMS) and Large in Scale (LIS).
- For each instrument, SMS is established on the basis of the average value of transactions (in Euros), and LIS is calculated as a function of the average daily turnover (in Euros). These calculations are done in accordance with the tables included below.
- The SMS threshold will be used by Systematic Internalisers (SI) when meeting their quoting obligations. For liquid instruments, SIs are required to publish their quotes for sizes between 10% of SMS and 100% of SMS. For more information on SI quoting obligations, visit our earlier document [here](#).
- Trading venues will use the LIS threshold to allow pre trade transparency waiver for large orders submitted on their platforms.

#### How are LIS and SMS calculated?

- The SMS and LIS thresholds in [RTS 1](#) are indicated in Euros, without specifying the currency exchange rates participants should use to arrive at equivalent Euro values, where prices are denominated in other currencies. For non-equity instruments, [RTS 2](#) on the other hand, explicitly mentions that, *“Where the trade size defined .... is expressed in monetary value and the financial instrument is not denominated in euros, the trade size shall be converted....by applying the European Central Bank euro foreign exchange reference rate as of 31 December of the preceding year.”*
- Further, RTS 1 does not specify the instrument price participants should use when converting the monetary values of SMS and LIS into a quantity of instruments for pre trade assessment.
- In the absence of a prescribed standard, there is scope for participants to use different reference values for calculation and as a consequence, arrive at different results.
  - o i.e. Number of shares to qualify for LIS waiver  
= LIS threshold / (Unknown share price \* Unknown FX rate)

#### What is Deutsche Bank's approach?

- Deutsche Bank will use ECB's euro exchange rate as of December 31, 2017 as specified in RTS 2.

- Deutsche Bank will use the official closing price for the previous day as published by the primary listing venue via Thomson Reuters to convert SMS and LIS into number of instruments.
- Where the resultant figure is not a whole number, DB will round this up to the next whole number.

Table 1, Annex II, RTS 1 – LIS Thresholds for Shares and Depositary Receipts

Average Daily (ADT) Turnover in EUR	ADT < 50K	50K ≤ ADT ≤ 100K	100K ≤ ADT ≤ 500K	500K ≤ ADT ≤ 1m	1m ≤ ADT ≤ 5m	5m ≤ ADT ≤ 25m	25m ≤ ADT ≤ 50m	50m ≤ ADT ≤ 100m	ADT > 100m
Minimum size of orders qualifying as Large in Scale compared with normal market size in EUR	15K	30K	60K	100K	200K	300K	400K	500K	650K

Table 3, Annex II, RTS 1 – Standard Market Sizes

Average Value of Transactions (AVT)	AVT < 20K	20K ≤ AVT < 40K	40K ≤ AVT < 60K	60K ≤ AVT < 80K	80K ≤ AVT < 100K	100K ≤ AVT < 120K	120K ≤ AVT < 140K	Etc.
Standard Market Size	10K	30K	50K	70K	90K	110K	130K	Etc.

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