

# European Equities Addressable Liquidity

Transparency through Standards



## 1 Introduction

This document aims to provide definitions of addressable liquidity. Based on discussions with FIX members and others, it is clear that the term 'addressable liquidity' means different things depending on the scenario under consideration. Examples provided in these discussions include:

- The full range of trading activity for a stock (excluding 'technical' trades that have no informational value), such activity being considered useful for wholesale market participants who are interested in understanding how much (and where) a stock is trading. One could call this activity 'volume-forming' activity. Given this definition includes activity undertaken on a bilateral and 'high touch' basis by investment firms, it would typically be expected that certain types of market participant (e.g., retail investors) would not consider this a suitable definition of addressable liquidity for their purposes.
- Certain types of trading activity conducted on multilateral trading platforms, such activity being considered useful for transaction cost analysis and/or algorithmic trading systems. One could call this activity 'volume- and price-forming' activity. Given the multilateral nature of such activity, this would be expected to be considered as addressable liquidity by a larger proportion of the market compared with the above definition (though this does not make it any more or less valid).

This document provides details of a number of definitions agreed by the FIX equities consolidated tape working group both in terms of a brief description and by way of trade-category scenario analysis. It also provides details of how each of these definitions may be 'constructed' using data available on post-trade feeds, e.g., trade flags, venue identifiers and similar.

## 2 Types of Addressable Liquidity

### 2.1 Interactable Liquidity

“Liquidity that one could in theory interact with”. This includes:

- Executions undertaken on trading venues (including in auctions, periodic auction books and market maker trades on AIM and similar markets).
- Trades brought onto a venue (e.g., under a MiFIR negotiated trade waiver) where they are considered to be ‘price forming’.
- OTC & SI executions excluding “technical” trades - intra-group trades undertaken for operational/housekeeping purposes, give-ups, contingent trades and other ‘non-price forming’ trades.

The term ‘technical’ trade denotes what, under MiFID, is considered to be ‘not contributing to the price discovery process’ or ‘subject to conditions other than the current market price’ (these terms considered together as ‘non price forming’) with the exception of ‘benchmark’ and ‘portfolio’ trades as per the definitions under RTS 1 articles 1, 2 and 6. It should be noted that all forms of give-up and give-in trades (including those to manage hedges arising from ‘requests for market data’) fall within the definition of non-price forming activity and hence are considered not to be addressable liquidity.

### 2.2 Multilateral Liquidity

Liquidity accessible on regulated multilateral platforms where liquidity is available to all participants of that platform (or a client thereof). Excludes, for example, negotiated trades and bilateral trading services.

### 2.3 Multilateral “Lit” Liquidity

The subset of multilateral liquidity that is subject to a level of pre-trade transparency that provides, to the public, at least an aggregated indication of volume and, where relevant, price. Note this includes auctions (where meeting the pre-trade transparency criteria). Excludes, for example, venue facilities such as those using a MiFIR reference price waiver (midpoint-matching ‘dark’ books) or a MiFIR large in scale waiver (as used by various venue block matching services).

### 2.4 Multilateral “Lit” Liquidity (excluding Frequent Batch Auctions)

The subset of multilateral ‘lit’ liquidity that excludes activity resulting from frequent batch auctions<sup>1</sup>.

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<sup>1</sup> As per “Opinion, Frequent Batch Auctions” from ESMA - FBA systems are auction systems of a very short duration taking place at certain points in time during the course of the trading day and are triggered by market participants.

## 2.5 Summary

### 1 – Interactable Liquidity (volume-forming)

- All executions undertaken on trading venues
- Trades brought onto a venue that are considered to be 'price forming'
- SI/OTC activity excluding 'technical' trades

### 2 – Multilateral Liquidity

- Multilateral executions undertaken on trading venues
- Excludes negotiated trades, bilateral services

### 3 – Multilateral Lit Liquidity

- Multilateral executions undertaken on trading venues where at least an aggregated indication of volume and price is made available on public data feeds

### 4 – Multilateral Lit exc. FBAs

## 3 Liquidity Scenarios

### 3.1 Scenarios Table

The following table maps the above definitions of addressable liquidity to various types of trading activity.

Type of activity	Description	1	2	3	4
<b>Traded On Venue</b>					
On-Venue Pre-Trade Transparent ("Lit") Multilateral Matching	Activity executed on multilateral matching facilities operated by trading venues where pre-trade transparency applies. Includes: <ul style="list-style-type: none"> <li>• Continuous auction order book trading systems subject to pre-trade transparency,</li> <li>• Auctions of all types (including scheduled open/closing/intraday auctions, unscheduled volatility auctions and frequent batch auctions) where pre-trade transparency applies.</li> <li>• Trading-at-last services and MTF scheduled auctions (e.g., Aquis MAC).</li> </ul>	Y	Y	Y	Y
On-Venue Frequent Batch Auctions	Activity executed on multilateral matching facilities operated by trading venues under the category of Frequent Batch Auctions.	Y	Y	Y	N
Other On-Venue Multilateral Matching	Activity executed on multilateral matching facilities operated by trading venues where pre-trade transparency does not apply. Includes: <ul style="list-style-type: none"> <li>• Continuous auction order book trading systems where they have no pre-trade transparency (such as those making use of ESMA's reference price waiver),</li> <li>• Auctions of all types where they have no pre-trade transparency.</li> <li>• Block crossing facilities (conditional or otherwise).</li> </ul>	Y	Y	N	N
Trading Venue RFQ Facilities with pre-trade transparency	Activity executed on RFQ facilities operated by trading venues where quotes/volumes arising as a response to RFQs are made visible to the public	Y	Y	Y	Y
Trading Venue RFQ Facilities without pre-trade transparency	Activity executed on RFQ facilities operated by trading venues where quotes/volumes arising as a response to RFQs are not made visible to the public	Y	Y	N	N
Trading Venue Quoting Systems	Activity executed on quote-driven markets operated by trading venues where those quotes are visible over public data feeds	Y	Y	Y	Y
<b>Brought On Venue</b>					
Brought on Venue for Clearing or Settlement	Trades brought onto a trading venue for the purposes of achieving settlement via a CCP (e.g., Cboe ETRs). <sup>2</sup>	N	N	N	N
Negotiated Trades - Price Forming	Activity executed bilaterally between two firms and then brought onto a trading venue under a 'liquid', 'illiquid' or LIS waiver as per MiFIR article 4 (i.e., flagged with NLIQ, OILQ or, where supported, the new NLTS flag).	Y	N	N	N

<sup>2</sup> It is noted that these trades are being removed from post-trade transparency in the EU and UK.

Type of activity	Description	1	2	3	4
Negotiated Trades – PT/Benchmark	Activity executed bilaterally between two firms and then brought onto a trading venue under a ‘non price forming’ LIS waiver as per MiFIR article 4 (i.e., flagged with PRIC or NETW <sup>3</sup> ) but specifically <b>only including</b> trades qualifying for portfolio trade or benchmark trade definitions as per RTS 1 article 6a and 6b (i.e., flagged with BENC or the new PORT or CLSE flags). <sup>4</sup>	Y	N	N	N
Negotiated Trades - Non-Price Forming	Activity executed bilaterally between two firms and then brought onto a trading venue under a ‘non price forming’ LIS waiver as per MiFIR article 4 (i.e., flagged with PRIC or NETW), <b>excluding</b> trades qualifying for portfolio trade or benchmark definitions as per RTS 1 article 6a and 6b. <sup>5</sup>	N	N	N	N
<b>Off-venue</b>					
OTC/SI – PT/Benchmark	Activity executed bilaterally between two firms on an OTC/SI basis and considered not to be contributing to the price discovery process as per MiFID article 23/RTS 1 article 2, specifically including trades qualifying for portfolio trade or benchmark definitions as per RTS 1 article 2a and 2b (i.e., flagged with BENC or the new PORT or CLSE flags). <sup>6</sup>	Y	N	N	N
OTC/SI – Non-Price Forming	Activity executed bilaterally between two firms on an OTC/SI basis and considered not to be contributing to the price discovery process as per MiFID article 23/RTS 1 article 2, excluding trades qualifying for portfolio trade or benchmark definitions as per RTS 1 article 2a and 2b. <sup>7</sup>	N	N	N	N
OTC/SI – Intra-group Housekeeping Trades	Activity qualifying for the new IAFF flag, i.e., trades undertaken between legal entities of a single company where those transactions are considered to be for ‘housekeeping’ purposes (e.g., position management) or intercompany back-to-back trades.	N	N	N	N
OTC/SI – Direct Liquidity Access	An umbrella term applied to services operated by firms who provide direct electronic access to principal liquidity (e.g., SI quote streams, hittable IOIs, non-displayed ‘ping’ services, Retail Service Providers), typically under the SI regime as per MiFIR 14-17.	Y	N	N	N
OTC/SI – Bespoke Risk Trades, Blocks and Crosses	An umbrella term applied to ‘high touch’ trading services not covered by any other OTC/SI category in this document.	Y	N	N	N

<sup>3</sup> NETW was introduced by the FCA for UK equities at the start of 2024 as a replacement for PRIC, NLIQ and OILQ. NLIQ and OILQ form a very small minority of negotiated trades so treating NETW in the same way as PRIC from an addressable liquidity perspective is felt to be appropriate.

<sup>4</sup> It has been agreed by this working group that trades using the ‘contingent trade’ flag (CONT) are non-addressable.

<sup>5</sup> Give-ups/give-ins arising from requests for market data and brought onto a trading venue would be included in this category.

<sup>6</sup> As per earlier footnote, CONT is excluded.

<sup>7</sup> Give-ups/give-ins arising from requests for market data would be included in this category.

## 3.2 Duplicate Trade Handling

Trades that are considered to be cross-border duplicates (i.e., eligible for the XBDT flag) should not be considered to be included in any of the above definitions of addressable liquidity. This avoids any double-counting of liquidity (as XBDT only applies to one of the reports for the trade). The same applies to APA duplicate trades (where duplicates use the DUPL flag, leaving only the 'original' report being counted).

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