Finance for Europe

Association for Financial Markets in Europe

Press release

AFME urges co-legislators to ensure EU market attractiveness as MiFIR trilogues set to begin

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The Association for Financial Markets in Europe (AFME) has today issued a comment in response to the vote of the European Parliament's Committee on Economic and Monetary Affairs (ECON) on the **MiFIR Review.**

Adam Farkas, Chief Executive of AFME, said: *"Today's vote is a significant step forward towards finalising the MiFIR review which governs how financial markets function in the EU. In light of today's agreement, we are optimistic that the file can be concluded under this legislative term.*

*"AFME particularly welcomes the constructive approach the ECON has taken in relation to the **scope of the consolidated tapes**, with its clear proposals to include both pre-trade and post-trade information in the equity consolidated tape, and post-trade information only in the bonds consolidated tape. We strongly urge the co-legislators to retain the design features put forward by the ECON as they are a necessary condition to ensuring the tapes will be as useful as possible for investors and effectively contribute to improving the integration and competitiveness of the EU's capital markets. We also take note of the emergence of various potential tape providers, which is a good sign that consolidated tapes will effectively materialise once the legislative framework is in place.*

***"On equity market structure issues**, we have consistently argued in favour of reducing complexity and safeguarding investor choice across equities trading mechanisms as this allows for cheaper and more efficient execution to the benefit of end investor returns. The ECON's approach to restrictions on certain trading mechanisms, such as volume caps and limits on execution sizes and mid-point trading, impede investor choice and best execution. These features remain at odds with international practices and risk contributing to the continued decline of the EU's attractiveness as a global capital markets centre.*

*"While the ECON's approach represents an important improvement on the Commission's original proposals, AFME continues to be concerned by the relatively rigid approach both co-legislators are taking in relation to **bond market transparency.** Hard coding corporate bond deferral periods that are not informed by thorough data analysis into Level 1 legislation creates the risk that liquidity provision in illiquid or large sized bond trades will be hampered, particularly during periods of stress. As recent examples of market stress episodes highlight the need for continued focus on financial stability perspectives, we encourage the co-legislators to exercise caution and not - unintentionally – place additional pressure on markets. We also encourage the co-legislators to revisit the deferral framework for non-EU sovereign bonds during the trilogues. At present, they would fall under the corporate bond regime which simply does not cater to the characteristics of sovereign markets.*

"As we approach inter-institutional negotiations, AFME urges policymakers to keep the competitiveness and attractiveness of EU fixed income, equities and commodities markets for investors at the forefront of its considerations"

In more detail:

- **On Equities:**

  AFME has consistently advocated for a fair, proportionate and data-led framework, which supports diversity and competition in EU equity markets. Thresholds on certain trading mechanisms and on banks providing liquidity to their clients (e.g. pension and investment funds who invest and manage assets on behalf of clients) is damaging to investors' pursuit of best execution, and their ability to access liquidity that would otherwise not be available. This, over time, impacts the value of investments in EU equities and disincentivises investment in EU capital markets.

- **On Fixed Income:**

  On corporate bonds, while we support having 5 categories of bond deferrals, we are disappointed that the ECON has retained maximum deferral periods within the Level 1 framework, instead of making greater use of delegations to ESMA for the purpose of data-based calibration. In bond markets, which are characterised by a large degree of heterogeneity in the instruments traded, liquidity is notoriously difficult to source in a timely fashion. Investors in bonds are therefore particularly reliant on banks acting as market makers and using their own capital to provide liquidity to facilitate trades. The fixed income transparency regime needs to be better calibrated than proposed to ensure continued provision of liquidity so trades in large sizes and as well as in illiquid instruments can be efficiently managed by allowing sufficient time for market-makers to hedge or unwind their positions, both in a benign environment as well as during periods of high market volatility. The level one text should set out the principles which need to be considered when determining these calibrations, but the calibration exercise itself, should be delegated to ESMA on the basis of a thorough impact assessment.

  On sovereign bonds, AFME does not support non-EU sovereign bond deferrals being subject to the same timeframes proposed under the corporate bond deferral framework. The paradoxical result would be that the transparency on non-EU sovereign bonds is significantly shorter than that which would be available for EU sovereign bonds. We find it hard to justify such a different regulatory treatment for financial instruments which can present similar characteristics.

  We support the view that pre-trade transparency requirements for bonds should only apply to trading on central limit order book and periodic auction systems on trading venues. We encourage the Co-Legislators and the EU Commission to make that clear in the final text.

- **On the Designated Publishing Regime:**

Whilst we are supportive of the Designated Publishing Regime which seeks to eliminate uncertainty about which party to a trade should report a transaction and reduce the regulatory burden on investment firms, particularly smaller ones, it should not be implemented at an individual instrument level. This would make it more complicated and provide no greater benefit than what is currently in place today

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About AFME

AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu. Follow us on Twitter @AFME_EU