

Consultation Response

FCA CP 26/30: Supporting Equity Market Transparency and Considering Market Structure Developments

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the FCA's consultation on supporting equity market transparency and considering market structure developments. 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. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) 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) in Asia.

AFME is registered on the EU Transparency Register, registration number 65110063986-76.

Questions

Question 1: Do you agree with our assessment that current evidence does not justify prescriptive intervention to steer trading towards particular execution mechanisms, but that continued monitoring is warranted? If not, why not?

Yes.

AFME agrees that current evidence does not justify prescriptive intervention and supports continued evidence-based monitoring. CLOBs remain important to price formation, but their market share is not a measure of market health. We welcome FCA recognition that lower CLOB share alone is not evidence of harm. As outlined in our recent joint position paper with the Investment Association and UK Finance¹, we emphasise that the current market structure, with a diverse range of execution mechanisms, is necessary to serve diverse investor needs and optimise investor outcomes.

On price formation specifically – we consider that prices are formed according to a wide range of inputs, including displayed bid-offer prices, post-trade transparency, market fundamentals, macroeconomic conditions, company news flow, other asset prices, analyst coverage and research. Any future intervention should require clear evidence of market harm and should not seek to favour a particular execution model.

Question 2: Do you agree with the proposed elements of a framework for monitoring equity market quality and price formation, including the metrics set out in Table 3.2? Are there any additional indicators, data sources or emerging risks we should consider?

Yes, subject to the following observations.

AFME supports a flexible, contextual and non-formulaic framework in which indicators are assessed collectively rather than used as automatic triggers for pre-determined policy interventions.

¹ <https://www.afme.eu/media/ls3cgrzs/afme-ia-ukf-joint-position-paper-eqmarstr.pdf>

Quantitative analysis, including from academics, should be supplemented by regular qualitative input from buy-side firms, brokers and liquidity providers on actual execution drivers. Investor interests should be prioritised in conjunction with monitoring assessment metrics.

When assessing the relative value of equity trading by execution mechanism, analysis of systematic internalisers should draw a distinction between bank and non-bank SIs, who typically have different business models and supervisory requirements.

In addition to this monitoring framework, the FCA may wish to consider further analysis of the underlying causes of changes to the relative proportion of trading per different execution mechanism. More specifically, this could include analysis of changes to the explicit and implicit costs of trading on the CLOB over time, and the associated impact on investor outcomes.

Question 3: If future monitoring were to show material harm to market integrity, are there any regulatory options that you consider could be a viable and proportionate response, including any of the options discussed above? Please explain your reasoning, including the circumstances in which such options might or might not be appropriate.

AFME does not consider it appropriate to pre-determine the necessary intervention without adequate identification of the issue to be addressed.

Any regulatory response should be evidence-based, proportionate and specifically targeted at any identified harm. For example, a concern relating to retail execution should not result in measures that unnecessarily affect institutional flow.

AFME does not support order-protection rules, trade-at rules, minimum-size requirements or restrictions on the ability for firms to choose where to trade, without compelling evidence. We agree with the FCA's findings that such interventions tend to have unintended consequences and rarely achieve their stated aims. Any future measure should be subject to consultation and a full cost-benefit analysis. Less intrusive measures, including clearer guidance (e.g. ensuring consistency in post-trade transparency) and targeted supervision, should be considered first.

Question 4: Do you agree with our proposal to extend existing post-trade reporting exemptions currently applicable to off-venues trades to off-book on-exchange trades and delete the NPFT flag?

Yes.

AFME supports equivalent treatment of the same non-price-forming activity irrespective of whether it is conducted OTC or off-book on-exchange. Excluding technical transactions, including trades undertaken for clearing or settlement purposes, will reduce artificial inflation of reported liquidity and improve the usefulness of post-trade data.

The NPFT flag may be deleted once the FCA confirms that all transactions currently identified by that flag will fall within the revised exemption.

Question 5: Do you agree that we should remove the TNCP flag? Are there any meaningful uses for the TNCP flag that we should take into account, in particular is there a case for keeping it to cover contingent trades?

Yes, provided contingent trades remain capable of appropriate identification.

AFME supports simplifying the flagging regime where a flag no longer provides useful information. The FCA should consider replacing TNCP with a specific flag for contingent trades rather than retaining a broader flag whose remaining purpose is unclear.

Question 6: Which option for identifying trades taking place under the reformulated reference price waiver do you support?

AFME supports the use of separate segment MIC codes for lit and reference-price-waiver activity.

We are in principle supportive of measures to facilitate innovation, for example we welcome the FCA's reforms to the reference price waiver to allow reference price venues flexibility to determine the appropriate reference price. However, AFME is less convinced of the need to integrate reference price liquidity into one a lit order book, noting that the market has already found solutions to access liquidity on dark and lit books.

If lit and RPW activity is to take place in the same book, we agree that clear identification of dark orders is imperative. The approach should be developed with the FIX Trading Community and relevant market-data users.

AFME members would like the FCA to require venues to flag such executions in line with industry standards. Today those industry standards are to have a separate MIC code for such executions/books. If the FCA would prefer not to require a different MIC code in its rules, we would request that this at least becomes an explicit supervisory expectation and that the rules require venues to have regards to industry standards. Not all systems that firms use for certain processes (e.g. transaction cost analysis) will incorporate flags, and there would be a meaningful decline in the ability of investors to understand the liquidity they are interacting with on a specific book.

Question 7: Do you agree with our proposal on back-reporting? If not, what would be your preferred approach?

No.

AFME supports the objective of ensuring the completeness and accuracy of post-trade transparency data, including, where appropriate, the correction of errors and omissions. However, members do not support the proposed requirement to back-report transactions for up to three years.

Key considerations include:

- Limited value of older transparency data: Members question the incremental benefit of publishing legacy post-trade transparency information. The FCA itself acknowledges that the information value of trade reports diminishes rapidly over time, and that back-reported data is less relevant for price formation. AFME agrees with this assessment. While historic data may have some use for market analysis, members do not consider that a three-year back-reporting period is justified.
- Operational burden and practicality: Firms and APAs may face significant operational challenges in back-reporting older transactions. Members noted that some APAs do not support back-reporting beyond relatively short periods. In practice, the ability to back-report historic transactions may therefore be constrained by existing infrastructure and vendor capabilities.
- Changes to reporting standards over time: AFME welcomes the FCA's recognition that firms should not be expected to enrich historic data to meet current reporting requirements. This includes, but is not limited to, situations where an APA cannot technically support publication due to changes in reporting formats or standards. However, we think it is more appropriate to refer to the last time the reporting standards changed as this is more objective and provides firms greater certainty. Accordingly, these challenges further support a shorter look-back period.
- Alignment with changes to transparency requirements: Members agree that firms should not be required to back-report transactions in instruments that are no longer within scope of the transparency regime when the back-reporting obligation arises and should not be required to back report in a format that is different to the current requirements

In recognition of the diminishing value of delayed reports, AFME would support a flexible, proportionate and discretionary approach. Back reporting should be conducted only in those cases where there would be merit in doing so (as is broadly the case today) – i.e. firms should be able to assess whether back-reporting is appropriate taking into account the nature, scale and age of the issue and whether publication would provide meaningful information to market participants.

In those instances where back reporting of post-trade data is deemed appropriate, it should be limited to the shorter of: (i) three months; or (ii) the period since the relevant reporting requirements or formats changed. Such a formulation of the requirement recognises that firms' or their APAs' ability to back report the relevant data will be limited after there has been a change to the reporting requirements or the formats, including the scenarios in paragraphs 4.42 and 4.43 of CP 26/30.

Question 8: If public reporting were extended to cover certain equity swap activity, in what circumstances should this apply, and how should any such regime be designed to capture relevant addressable liquidity in a way that is legally clear, operationally workable and useful for market participants?

AFME does not support extending the scope of post-trade reporting obligations to equity swap activity.

AFME remains unconvinced that internal book transfers conducted in anticipation of the potential to enter into an equity swap is analogous to trading an equity share. Equity swap activity, as a bilateral contract with funding and risk considerations, cannot be considered to be fully fungible with the activity in the underlying share.

Post trade reporting is designed to include firm, executed trades which reflect a change in beneficial ownership and contribute to meaningful post-trade transparency and price discovery.

Deviating from this approach would be fundamentally misaligned with the objective of improving the informational quality of the post-trade data to be included on the consolidated tape. The reforms the FCA have undertaken to post-trade transparency in the past few years have helped ensure that there is greater confidence amongst investors on the amount and value of transactions taking place in UK stocks (both on and off venue). This confidence will allow investors to look beyond primary or CLOB liquidity they can interact with when deciding to invest in UK stocks. However, such a change would run counter to those efforts and undermine confidence in the output of the tape.

Conflating different asset classes in the same regulatory reporting regime would risk introducing significant complexity for users seeking to interpret liquidity metrics while imposing substantial implementation and operational costs on market participants.

As AFME noted in its response to CP25/20, the illustrative scenarios described by the FCA do not necessarily represent market-facing liquidity and may instead reflect risk management, hedging, inventory management or other internal trading activity which is fundamentally different from actionable liquidity available to market participants.

More broadly, AFME has not identified a legally clear and operationally workable methodology capable of isolating only those transactions that genuinely contribute to addressable liquidity without also capturing a broader population of internal hedging transactions, book transfers, lifecycle events, risk-reduction activity and other non-price-forming transactions. Such activity does not necessarily contribute to price discovery and may provide a misleading picture of available liquidity.

Accordingly, AFME believes that any new transparency requirements for equity swap activity should only be considered where the FCA can demonstrate:

- a clear and evidence-based transparency gap;
- that the activity in question reflects genuine addressable liquidity;
- that a legally clear and operationally workable reporting framework can be established; and
- that the benefits to market participants outweigh the implementation and ongoing compliance costs.

Absent such evidence, AFME continues to support the position expressed in its response to CP25/20 and does not support new public reporting obligations to equity swap activity.

Question 9: Do you consider there to be a case for extending public reporting to tokenised forms of equity exposure and, if so, how should a technology-neutral approach apply across natively issued tokenised shares, digital receipt models and other forms of synthetic or fractionalised exposure?

AFME supports a technology-neutral approach.

In general, the transparency requirement should follow the legal and economic substance of the instrument. A natively issued tokenised share should be treated consistently with the equivalent conventionally issued share, while digital receipts or synthetic and fractionalised exposures should only be captured where they fall within a clearly defined reportable MiFID instrument category, not unlike equity swaps in the traditional space, third party issued tokens can be seen as an instrument providing

a different (and therefore not fungible) type of exposure to the underlier. The FCA should avoid duplicative or UK-specific requirements and should coordinate with international work in this area.

Question 10: Do you agree with our proposal to require equity SIs to publish quotes indicating the price and volume at which they are prepared generally to buy and sell up to and including SMS, and to amend aspects of the pricing framework that may encourage more formulaic quotes? If not, what alternative approach would better support meaningful pre-trade transparency?

We acknowledge the FCA's ambition to improve the "meaningfulness" of SI's public quotes. However, we do not consider that the proposed "generally prepared" standard is a workable means of achieving that objective. Whilst SIs play a key role in supporting deep, liquid and efficient markets, there remains a fundamental disconnect between the obligation to provide generic, public, attributed quotes and the reality of bilateral liquidity provision.

The current SI quoting regime was adapted from a framework originally designed for CLOBs and public quoting environments. Venues publish quotes to enable the anonymous trading interests of their participants to interact, and take no risk in the resulting transactions. SIs are in a different position: their quotes are not anonymous, they commit their own capital, and quoted prices reflect specific counterparty features, and the potential impact of trading at the quoted price. It is unrealistic and unreasonable to expect that public, indicative, attributed quotes by SIs can replicate the function performed by quotes provided by on-venue market makers, which are anonymised in a multilateral platform. Moreover, we continue to believe that the post-trade reporting of all SI-executed activity is a significant contributory factor to price formation that should not be underestimated. The FCA's proposed rule would require SIs to publicly quote at the price and volume at which they are prepared to transact with its entire client base. In practice, there is no price or volume at which SIs are "generally prepared" to trade: the relevant price and volume are customised to the specific counterparty and the associated balance sheet risk. As there is no single static price or size that is "generally" applicable, the proposed requirement would likely be less competitive than a custom quote, reducing the informational value of the quote itself and potentially creating an unworkable compliance standard.

An SI quote is most valuable to a client when it reflects the SI's appetite and capacity to trade in a particular instrument with that particular counterparty. It cannot be the same quote when it is made public, given the signaling risk that creates. Furthermore, where a quote must be homogenised so as to be appropriate for an entire client base of potentially hundreds of clients, SIs must necessarily be more conservative in their quoting. If the regulatory objective is simply to increase the alignment between public quotes and actual executions, the likely outcome is that SIs would be less able to provide price improvements to their clients, worsening outcomes for end investors.

However, we take note of the FCA's analysis which states that, already, "SIs predominantly quote at the BBO" and "most of the time execute at their quoted price". This demonstrates the value that SIs bring to their clients – providing guaranteed access to liquidity at the best available price. As well as this, SIs can also provide bespoke prices to individual clients. Here, we draw a distinction between "price improvements" provided under the narrow definition of MiFIR Article 15(2), and other scenarios in which SIs are permitted to trade away from their quoted price (such as trades above SMS, benchmark or portfolio transactions flagged as "TNCP", or midpoint executions).

Moreover, the revised requirements, as drafted, do not indicate how SIs may comply, i.e. what data or evidence firms should use to establish the price and volume at which they are "generally prepared" to buy and sell. Given the potential for very divergent interpretation of the requirement across firms, it is not possible to assess with confidence the potential impact of the change.

We therefore recommend that the FCA consider alternative approaches, which we believe would more closely align quote sizes with real-world trade sizes.

For example, the FCA could increase the minimum public quoting size to an increased percentage of the current SMS thresholds, calibrated to approximately reflect average trade sizes on UK venues. Alternatively, the FCA could recalibrate SMS "buckets", based on analysis of average UK trade sizes, and require SIs to make public firm quotes at a minimum of 100% of the revised SMS, and actionable up to twice revised SMS.

These approaches would improve the meaningfulness of SIs' public quotes, whilst at the same time providing SIs with a more concrete and objectively verifiable regulatory obligation.

We note that the FCA is proposing, simultaneously, to include SI quotes in the UK equity consolidated tape. In our view, these two changes should not be taken forward at the same time. The FCA should consider whether the public SI quoting regime serves investors in practice, and how SI quotes can best contribute informational value to the market. We welcome further engagement on this matter.

Proposed revision to MAR 11A.8.3 | G

For the purposes of MAR 11A.8.2R, without prejudicing the ability of an equity systematic internaliser to provide price improvement for individual transactions where permitted by MiFIR:

- (1) the price and volume specified in a quote should reflect the price and volume at which an equity systematic internaliser is prepared to transact with its clients ~~as a pool of potential counterparties~~; and*
- (2) when determining the volume specified in a quote, this should be at least [X]% of the applicable standard market size.*

Question 11: Do you agree with our proposal to revoke UK MiFID RTS 8 in its entirety for algorithmic trading firms? If not, what element of the requirements should be retained or amended, and why?

Yes.

AFME supports revocation of obligations that create operational burden without demonstrably improving liquidity or market quality. Market making is primarily driven by commercial incentives and venue arrangements. The FCA should ensure that revocation does not create unintended inconsistencies with venue rulebooks or remaining UK onshored MiFID Level 1 requirements.

Question 12: Do you agree that we should consider developing further guidance for consolidated tape providers on how they should prepare for and respond to outages? If so, what issues should such guidance cover, and how should it differ from the proposed guidance for trading venues?

Yes.

The equity CTP will become important market infrastructure and should maintain and publish a tailored outage playbook. Unlike venue guidance, CTP guidance should focus on data continuity, quality, dissemination and recovery rather than order handling or auctions.

The CTP outages guidance should cover contributor outages, data-ingestion failures, latency, incomplete or stale data, erroneous BBO or trade outputs, cyber incidents, recovery and correction or replay procedures, clear service-status indicators and simultaneous, machine-readable notifications to users and contributors.

Question 13: Do you agree with the guidance for trading venues to publish an outage playbook on their website that sets out what and how the venue would communicate in the event of an outage?

Yes.

AFME strongly supports public, operationally clear and up-to-date outage playbooks, and we welcome the FCA's action to address this longstanding regulatory gap.

Playbooks should be periodically tested and reviewed after material incidents.

Question 14: Do you agree with the proposed content of the outage playbook? If not, why not?

Yes, subject to the following additions.

The proposed content appropriately covers communication arrangements, reopening procedures, treatment of unexecuted orders, closing auction contingencies and fallback methodologies for establishing official closing prices.

AFME's only suggested additions relate to certain areas highlighted in the joint AFME, EFAMA and FIA EPTA statement² that are not explicitly referenced in the proposed playbook content:

First, venues should explain how market status will be communicated during an outage, including whether a specific "outage" or "closed" status indicator will be used. Clear market status notifications help ensure participants are not misled into believing that normal trading conditions continue to apply during an outage.

Second, venues should explain how they will communicate determinations regarding trade validity and order status, including the identification of trades considered valid and any relevant timestamps. While order handling is addressed elsewhere in the FCA guidance relating to Question 16, it may be helpful for participants to understand in advance how such determinations will be communicated during an outage. It should also be clear at what point notices will be provided for any cancelled trades and venues should establish the latest time this can happen.

Third, AFME considers it useful for playbooks to explain whether participant consultation may form part of the venue's reopening decision-making process (to ensure there are no outstanding issues which might be further exacerbated by the market reopen) and whether an order-book purge may be considered before reopening in certain circumstances.

It should be clear in the rules that the outage playbook is intended to apply to the market data operations associated with each venue even if the venue treats them as separate products.

Subject to these observations, AFME considers the proposed content requirements to be appropriate and broadly aligned with established industry expectations regarding outage management.

Question 15: Do you agree with the above additional guidance in relation to communication plans? If not, why not?

Yes, subject to further operational specificity.

AFME's suggests that communications concerning market status should be provided on a predictable schedule. The joint industry statement proposed that updates should occur at least every 15 minutes, including where there is no material change in status. AFME does not necessarily consider a fixed interval should be mandated in FCA guidance, but venues should specify within their outage playbooks the maximum interval between market-wide updates during an outage.

The joint statement also suggested that any planned reopening times should be communicated at least 15 minutes in advance. Reopening times should be on a "round" time increment (e.g. on the hour or half hour).

AFME also continues to support the use of machine-readable status communications wherever possible to facilitate firms' automated contingency arrangements and operational responses.

Question 16: Do you agree with the additional guidance in relation to order handling? If not, why not?

Yes, subject to the following addition.

AFME also considers it helpful for venues to communicate the relevant timestamps associated with determinations regarding valid trades, cancelled orders and other outage-related actions so participants can reconcile positions and assess exposures with confidence. Any trade cancellations should be notified as soon as possible, and venues should establish a latest time by which this can occur. This should be done as soon as feasible and in any case, certainty should be provided within one hour of the commencement of the outage.

Subject to these observations, AFME considers the proposed order-handling guidance appropriately balanced and consistent with the principles set out in previous industry work on market outages.

² <https://www.afme.eu/media/bgqfmj3f/joint-statement-on-equity-market-outages.pdf>

Question 17: What factors, in your view, limit or prevent liquidity from moving to other trading venues during an outage affecting a primary market, and the continuation of effective price formation on those venues?

In practice, a combination of operational, technological and behavioural factors may inhibit migration, even where alternative execution venues remain available.

AFME notes that market participants may be willing and operationally ready to trade elsewhere, but the practical challenge is whether sufficient opposing liquidity is available on alternative venues.

This is, in part, caused by uncertainty about the actions of the venue facing the outage. If firms are provided with timely information about the status of existing transactions, information about existing orders (and the venue's plans for those orders once it reopens) and a reliable estimate for when the venue may be in a position to recommence trading, they are unlikely to start trading on alternative venues. Where this information is not available, liquidity providers, market makers and other participants are uncertain whether liquidity will migrate, creating a self-reinforcing cycle. Furthermore, firms' trading systems and execution workflows may have been historically designed around the primary trading venue as the source of the reference price.

We therefore agree with the FCA that two important barriers are:

- uncertainty regarding the availability of a reliable and broadly accepted reference price; and
- uncertainty regarding whether sufficient liquidity will be available on alternative venues.

In this regard, AFME welcomes the reforms already implemented by the FCA to broaden the range of reference prices available under the reference price waiver framework and supports the introduction of the equity consolidated tape, including attributed pre-trade data. Both measures should help reduce dependence on a single venue and improve participants' visibility of available liquidity during an outage. As market structure continues to evolve, with a reduced reliance on primary exchanges as a source of liquidity and price formation, the regulatory framework should be designed in a way which reflects this.

AFME believes it would be premature to introduce measures to prescribe how liquidity should migrate in the event of a primary market outage. The priority should be to improve outage management arrangements, communications and operational certainty, and to assess whether the combination of enhanced outage protocols, broader reference pricing and the equity CT leads to greater liquidity migration during future incidents.

Accordingly, AFME considers that the FCA should:

- first assess the effectiveness of the new outage guidance, broader RPW regime and equity CT;
- continue to monitor whether these measures improve liquidity migration during outages;
- encourage market participants to review any unnecessary operational dependencies on the primary market, including order-routing and connectivity arrangements; and
- only consider more interventionist approaches if evidence demonstrates that significant barriers remain after these reforms have been implemented and assessed.

Question 18: Do you have any views on setting a definite timeframe for confirming orders, followed by a specific period to transition to alternative arrangements for the purpose of ensuring liquidity becomes available on alternative venues when there is an outage on the primary market? Please explain.

AFME supports trading venues setting clear timeframes regarding order and trade certainty but does not support universally applicable timing requirements being set in regulation.

Providing market participants with timely certainty regarding the status of orders and trades is an important objective during an outage. AFME believes that trading venues should seek to provide confirmation regarding order and trade status as soon as practicable following an outage and, where feasible, within one hour.

However, AFME does not believe that a regulatory timeframe for transitioning to alternative trading arrangements would be appropriate. The nature, scope and operational impact of outages can vary significantly across venues, asset classes and circumstances. A framework that is overly prescriptive risks creating inappropriate outcomes in situations where flexibility and judgement are required.

AFME therefore considers that any transition arrangements should be clearly pre-defined within a venue's outage playbook; tailored to the type and severity of the incident; sufficiently flexible to reflect

different market structures and venue models; and designed to provide participants with certainty while preserving orderly market functioning.

AFME does not support imposing mandatory requirements on liquidity providers or market makers to provide liquidity on alternative venues after an arbitrary period of time. The availability of liquidity will depend on prevailing market conditions, risk considerations and participant confidence that sufficient counterparties are available. Artificial timing requirements are unlikely, on their own, to resolve the underlying causes of limited liquidity migration.

AFME would support further industry engagement and scenario-based testing of outage-management arrangements. In particular, tabletop exercises involving trading venues, liquidity providers, brokers, market makers and infrastructure providers could help assess how transition arrangements operate in practice and identify operational barriers to continued trading following a primary market outage.

Accordingly, AFME supports clear expectations regarding order and trade certainty, including a practical objective of providing certainty within one hour where feasible, but considers that transition arrangements should remain scenario-based, flexible and pre-defined within venue outage playbooks rather than being subject to rigid regulatory timelines.

Question 19: Do you have any views on how to best facilitate the continuation of trading during an outage on the primary market? Please explain.

Please see our response to Q17.

Question 20: Do you agree that venues should establish and disclose the arrangements that would apply where an outage may affect the determination of an official closing price, including the use of alternative arrangements and any pre-determined fallback arrangements? If not, why not?

Yes.

AFME supports transparent, pre-determined arrangements for closing-price disruption. Venues should be required to consult their members on their proposed methodology before adopting it. Venues should indicate, preferably 30 minutes before the normal close where feasible, whether the closing auction will proceed, be delayed or be unavailable.

Question 21: Where the official closing price would normally be determined through a closing auction, do you agree that venues should have clearly defined alternative arrangements to support the continuation of an auction-based price formation process during an outage? If not, why not?

Yes.

AFME supports preserving an auction-based closing process where it can be conducted safely and orderly. Playbooks should identify potential delayed-auction windows and the latest point at which an auction may be attempted. Open-ended delays should be avoided because they create uncertainty for valuation, index and risk-management processes.

Venues should refrain from keeping the continuous phase open after the originally scheduled auction start time if they are unable to start the auction at the scheduled start time.

If an auction cannot be held safely, the venue should move promptly to its disclosed fallback methodology.

Question 22: Do you agree that venues should have a pre-determined fallback methodology for establishing the official closing price where the closing auction cannot proceed or would not be appropriate? If not, why not?

Yes.

The methodology for establishing the closing price should be deterministic and publicly available to participants, and aligned with industry standards³. Venues should be required to consult their members on their proposed methodology.

Market close should occur no later than 18:00 CET. If this cannot be adhered to because the system issue is ongoing, exchanges should have in place clear arrangements to ensure that the market is provided with a closing price for the day by 18:00 CET. For example, for cash equities, by publishing a list of close prices on a spreadsheet on their website and to market data vendors. The spreadsheet should contain ISIN, SEDOL, RIC, Currency and Price.

Question 23: Do you consider there to be any issues with the structure and recent trend in the market for retail trading in UK equities? If so, please explain.

AFME does not consider that the evidence currently supports regulatory intervention to direct retail order flow towards particular execution mechanisms or market structures.

The FCA's analysis indicates that the UK retail market continues to be dominated by the RSP model, whilst also showing increasing competition from new execution models and market participants. The data presented in the consultation suggests that retail investors continue to receive frequent price improvement through existing arrangements, with the majority of retail trades analysed being executed at prices better than the best displayed touch price on public order books.

AFME believes that retail investors would benefit most from access to a range of execution models, whether through RSP networks, systematic internalisers or trading venue-based mechanisms. The focus of regulation should be on ensuring that all models operate within a consistent regulatory framework, calibrated for each of the execution models, and deliver appropriate outcomes for investors, rather than favouring one mechanism over another.

We believe that tick-size rules should be applied consistently across all execution methods, with midpoint execution off-tick permissible for all modalities.

AFME therefore considers that the FCA should continue monitoring developments in the retail market and do not believe regulatory intervention is necessary at this point, absent evidence of a clear market failure or material harm to retail investors.

Question 24: What are your views as to potentially introducing a retail flag? Please give reasons as to why you would support or are against its introduction.

AFME does not currently support the introduction of a retail flag.

While we recognise the FCA's interest in improving understanding of retail participation and execution outcomes, we do not believe that a sufficiently strong case has yet been made for introducing a new transparency requirement. In particular, the consultation acknowledges that retail activity can already be estimated using existing data sources and market information.

Introducing a retail flag would result in significant implementation costs and operational complexity across the industry. This would extend beyond intermediaries to include asset managers, trading venues, APAs, market data providers and users of transparency data. System changes, data capture processes, governance arrangements and controls would all be required to support the accurate creation and use of the flag.

AFME agrees with the FCA's observation that establishing an appropriate definition of a retail trade would be challenging. Important practical questions would need to be resolved, including how retail status should be determined through execution chains involving multiple intermediaries and whether the concept should be linked to client classification, client location or another criterion. These challenges create a material risk of inconsistent implementation and reduced comparability of the resulting data.

Given the absence of a clearly demonstrated market requirement, and the potentially significant operational burden associated with implementation, AFME does not believe the introduction of a retail flag is justified at this time

³ See [Plato](#): In the event an outage prevents a closing auction taking place prior to the cut-off time, the determination of the official closing price should be applied in the following order by the trading venue: 1. Last traded price where the continuous phase has commenced; 2. Opening price where the continuous phase has not commenced; 3. Prior closing price where the market has not opened.

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