# *EU Equity Market Structure: challenging the myths*

EU equity markets have experienced positive momentum in 2025-26, with a growth of trading volumes and strong performance of major indices. Academic research notes that the "liquidity gap" between European and comparable US stocks has narrowed substantially since 2010, driven by regulatory reform, technology advancements, and increased competition between trading venues[1]. However, more ambition is needed to complete the Savings and Investment Union (SIU) and advance the global attractiveness and competitiveness of EU markets.

AFME is supportive of the Market Integration and Supervision Package (MISP) as a key pillar of this strategy, setting clear objectives to:

- ***Enable market participants to operate more seamlessly across Member States***
- ***Facilitate innovation and encourage the adoption of new technologies***
- ***Simplify the regulatory framework and reduce its burden on participants***

We are increasingly concerned that the policy agenda of certain Member States, fueled by misleading descriptions of market structure by incumbent exchanges, has lost sight of these core principles.

While it does not provide a significant level of detail, the recent statement of the E6 group[2] calls for a "level playing field" between trading venues and banks. When considering this statement, it is important that the co-legislators recognise that banks acting as Systematic Internalisers (SIs) are not acting in the same capacity as exchanges**.** Different transparency and organisational rules for these mechanisms are therefore not only justified, they are necessary. SIs provide bespoke trading solutions to investors when they require immediacy and certainty of execution and the need to minimise market impact. Unlike exchanges which match buying and selling interests, SIs place their own capital at risk when taking the other side of the trade. The liquidity they provide is additive and complementary to that on exchanges. It does not detract from it. The re-introduction of any equity market structure changes which would be designed to explicitly further concentrate trading activity on incumbent exchanges would: reinforce siloed trading along national lines; create additional regulatory complexity for investors to navigate; and reduce incentives to innovate by weakening competition. Critically, it would limit investors' choice of how, where and with whom to trade – directly leading to increased costs for these investors.

The co-legislators should assure themselves that they have an informed, accurate perspective of how EU equity markets function. Incumbent exchanges tend to assert that increased 'fragmentation' of trading has resulted in three outcomes: diminished price formation, reduced IPO activity, and an "unlevel playing field" between trading mechanisms. In reality, there is no basis for these assertions, as detailed below. What exchanges call 'fragmentation' should be more accurately described as diversity. Diverse trading mechanisms meet different investor needs and create more efficient and liquid markets.

**We therefore call on European co-legislators to reaffirm the core principles of the MISP, and to remain focused on making EU equity markets more globally competitive and attractive to investors, rather than prioritising the narrow commercial interests of a small group of exchanges.**

[1] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5782262
[2] https://www.bundesfinanzministerium.de/Content/DE/Downloads/Europa/position-zum-marktintegrations-und-aufsichtspaket.pdf?__blob=publicationFile&v=4

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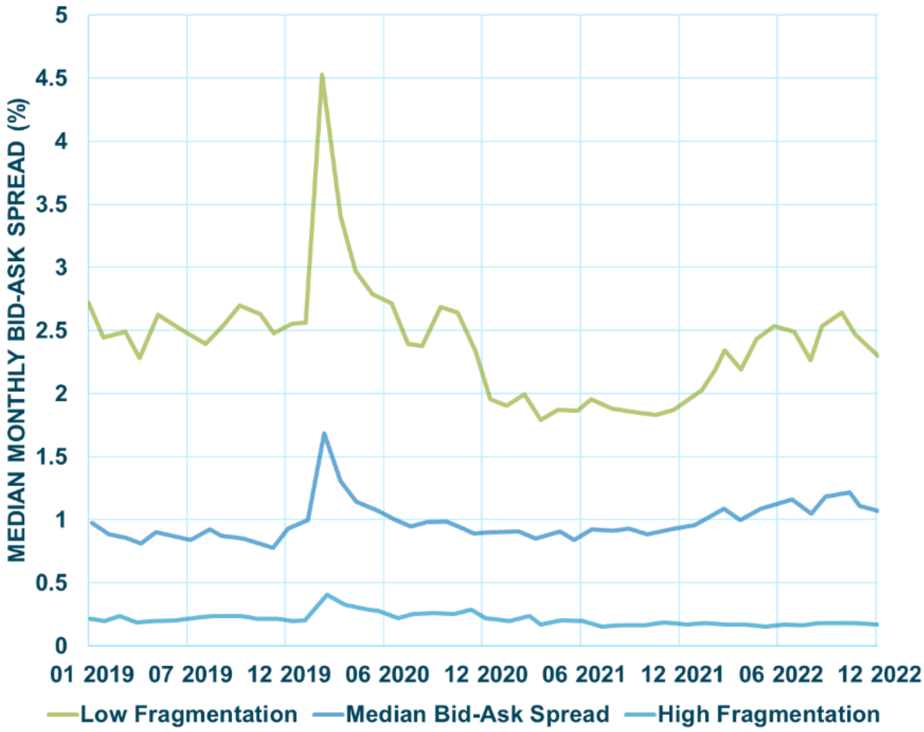
*PRICE FORMATION*

Price formation is the process by which information is absorbed by market participants to collectively determine the price of an asset. Equating price formation solely with on-exchange trading is simplistic and incomplete – a much broad set of information sources, including the post-trade reporting applicable to all forms of trading, market fundamentals, macro conditions, and news flow, shape participants' assessment of a "true" or fair price.

Claims of a systemic "price formation problem" require evidence that prices are persistently less reliable or less efficient than would be expected given fundamentals and observable trading conditions. Buy-side and sell-side market participants – whose job it is to assess the fair price of assets – report no such concerns. Whilst no single metric can conclusively measure price formation, a common indicator which helps to provide a practical view of market quality is the 'spread' - the difference between bid and offer prices. Narrow spreads are generally consistent with competitive liquidity provision and confidence in current prices. We note that recent ESMA analysis[3] finds that stocks with a higher degree of trading 'fragmentation' (i.e. activity is more dispersed across different execution methods) also exhibited tighter spreads.




Ultimately, price formation is a function of the information available to market participants. As such, improving access to market data would be conducive to supporting price formation. It is therefore surprising that the same market participants who purport to be concerned about the health of price formation remain vehemently opposed to the introduction of a comprehensive Consolidated Tape.

[3] https://www.esma.europa.eu/sites/default/files/2025-09/ESMA50-524821-3352_Working_Paper_Fragmentation_in_European_Equity_Markets_since_2019.pdf

***PRIMARY MARKETS***

There is a symbiotic relationship between primary and secondary markets - deep and liquid secondary markets support vibrant primary markets, and vice versa. What matters here is overall liquidity and its accessibility to investors, rather than the trading mechanism providing this liquidity.

ESMA analysis[4] shows that, across EU markets, trading activity remains highly concentrated on trading venues (over 90% of transactions, representing 75% of € turnover, take place on venues). At a country-level, there are observable differences in market structure: both in the overall split between on-venue and off-venue activity, as well as the breakdown of different types of on-venue trading (between traditional exchanges (regulated markets) and multilateral trading facilities (MTFs), and the different trading mechanisms they operate such as auctions and dark pools). Mapping this data against other key indicators shows that more diverse markets (i.e. where there is less concentration on the primary central limit order book of a regulated market) typically have higher market capitalisation and higher levels of recent IPO activity.

There are numerous, complex factors impacting when and where IPOs take place[5], and the overall health of markets. The evidence is clear however, that pursuing greater concentration of trading on exchanges is not a credible strategy for growth.

| Country | RM Cont. % | Market Cap to GDP | IPO Value (€m) |
|---|---|---|---|
| Ireland | 11% | 16% | 37 |
| Belgium | 18% | 64% | 2,000 |
| Austria | 19% | 35% | 0 |
| Denmark | 21% | 127% | 661 |
| France | 22% | 103% | 5,278 |
| Finland | 22% | 113% | 2,132 |
| Norway | 24% | 63% | 8,400 |
| Netherlands | 26% | 92% | 14,354 |
| Germany | 26% | 51% | 24,121 |
| Sweden | 27% | 191% | 20,198 |

***Trading on primary CLOB:***
**<30%**

***Average market cap to GDP:***
**86%**

***Average 5-year IPO total:***
**7,718mn EUR**

| Country | RM Cont. % | Market Cap to GDP | IPO Value (€m) |
|---|---|---|---|
| Spain | 31% | 64% | 6,091 |
| Lux | 32% | 74% | 0 |
| Portugal | 32% | 28% | 149 |
| Latvia | 33% | 1% | 56 |
| Italy | 39% | 43% | 5,288 |
| Cyprus | 39% | 63% | 0 |
| Malta | 45% | 19% | 0 |
| Slovenia | 49% | 25% | 0 |

***Trading on primary CLOB:***
**30-50%**

***Average market cap to GDP:***
**40%**

***Average 5-year IPO total:***
**1,448mn EUR**

| Country | RM Cont. % | Market Cap to GDP | IPO Value (€m) |
|---|---|---|---|
| Czechia | 60% | 13% | 148 |
| Hungary | 61% | 25% | 43 |
| Bulgaria | 61% | 9% | 6 |
| Iceland | 61% | 49% | 811 |
| Lithuania | 63% | 7% | 0 |
| Greece | 67% | 43% | 1,104 |
| Estonia | 73% | 12% | 235 |
| Poland | 74% | 30% | 4,000 |
| Romania | 81% | 18% | 2,257 |
| Slovakia | 84% | 2% | 0 |
| Croatia | 90% | 34% | 227 |

***Trading on primary CLOB:***
**>50%**

***Average market cap to GDP:***
**22%**

***Average 5-year IPO total:***
**803mn EUR**

[4] https://www.esma.europa.eu/sites/default/files/2026-04/ESMA74-1119406008-1578_Call_for_Evidence_on_on_the_market_structure_of_European_equity_markets_0.pdf
[5] See 2025 AFME/Strategy paper for detailed analysis, *Gear shift for European equity markets*

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## *"LEVEL PLAYING FIELD"*

As noted above, Systematic Internalisers (SIs) are banks and other investment firms who use their own capital to trade bilaterally with their clients on a frequent basis. The liquidity they provide is complementary and additive to that which is available on trading venues. SIs are legally and functionally distinct from trading venues and, as such, arguments that they should be subject to identical regulatory requirements are unfounded.

### *Post Trade Transparency*

This distinction is particularly important in the context of post-trade reporting. When an on-venue trade is reported, the exchange on which the trade took place is included, but not the identities of the trading counterparties. Any suggestion to mandate the public disclosure of the SI on post-trade reports are based on a false equivalence. The SI is itself a counterparty to the trade – not a neutral platform operator like an exchange. Publicly revealing the identity of a trading counterparty in post trade reporting would be a globally unprecedented step, and one which would reveal critical information regarding the SI's activity and position in the market, fundamentally undermining their ability to provide liquidity to investors.

### *Retail Orders*

Whilst SI clients are typically institutional, in many cases they are ultimately managing the investments of ordinary European citizens. Banks have a 'best execution' obligation to their clients and will therefore – for all trades by all types of clients – seek to find the best possible price, ultimately to the benefit of end investors. Whilst we therefore do not see the benefit of restricting retail investors' access to the maximum possible liquidity, we stress that any form of regulation regarding how SIs interact with retail flow must avoid inadvertently capturing institutional trades. In other words, requirements should relate specifically to the direct client of the SI, and trade size should not be used as a proxy for client-type, as large institutional orders can often be sliced into smaller sizes for efficient execution.

### *Tick Size Rules*

As well as transparency requirements, incumbent exchanges have focused on the ability of SIs (and separately, periodic auction operators) to facilitate "off-tick"[6] midpoint execution for their clients. Tick size rules set the smallest increment by which the quoted price of an asset can change, and were designed to prevent trading venue participants from making economically insignificant price updates to jump the queue of orders. Executing a trade at midpoint (the equilibrium between the bid and offer quotes) is a globally practiced execution strategy, allowing both buyer and seller to save half the spread and with minimal market impact.

The 2024 MiFIR Review introduced the ability of SIs to execute client orders at midpoint, even if "off-tick", recognising that this practice would not undermine the purpose of the tick size regime. Reversing this change less than 2 years later, with no evidence of market harm, would run counter to broader regulatory simplification objectives of the EU. If it is determined that the current rules place exchanges at a competitive disadvantage, the obvious solution is to provide exchanges similar flexibility to execute at midpoint, which would promote innovation and competition, and improve outcomes for end investors: "levelling up" rather than "levelling down".

[6] executing a trade at a price that does not respect the tick size increment.

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