
Press release

AFME responds to UK Treasury Wholesale Markets Review

24 September 2021

The Association for Financial Markets in Europe (AFME) has today submitted its response to the UK Treasury Wholesale Markets Review Consultation.

Adam Farkas, Chief Executive of AFME, said: *"The UK Wholesale Markets Review is a key moment for the industry and policy makers to reflect on how well capital markets are functioning.*

"The Review is comprehensive and proposes a number of changes to existing MiFID II provisions. It is vital that any future changes to rules governing how financial markets operate continue to support the development of capital markets in Europe, ensuring that they remain open, competitive and diverse.

"AFME's members are global wholesale banks that support European clients internationally, therefore, it is a priority to ensure the continuity of cross-border services and to avoid market fragmentation at all costs."

Among some of the key points in AFME's response are:

Supporting the removal of the STO and DVC

- AFME supports the removal of both the Share Trading Obligation (STO) and the Double Volume Caps (DVC) because these rules have not resulted in positive outcomes for investors and instead have increased complexity in market structure.
- With respect to the DVC, European equity markets are alone in having a volume-based constraint on undisplayed liquidity. This makes them global outliers in placing unnecessary caps on this type of trading activity, rather than enabling better execution performance for end investors.
- Meanwhile, the STO has had the unintended consequence of restricting firms' access to the most liquid markets, making the delivery of best outcomes for investors more challenging. AFME has long argued that this is a feature which can render markets less attractive as a place in which to invest or raise capital.
- AFME has consistently called for the removal of both the DVC and STO and therefore welcomes the UK Treasury's proposal to remove them and strongly encourages the European Authorities to do the same.
- AFME supports the UK Treasury's proposal to ensure that the price formation process will continue to be monitored by the FCA.

Improving primary market communication to avoid market outages

- AFME supports HMT's proposal to have an industry playbook for both venues and market participants to follow in the event of an outage. In its response, AFME has set out recommendation on the key components of a playbook, which include:
 - Accurate and timely identification of outages by participants and trading venues.
 - An orderly halt to trading on the affected venue, and redirection of trading to alternate venues.
 - Reliable and standardised broadcast of details surrounding the outage, order status, planned resolution and re-opening by the trading venue.
 - A minimum time between participants being notified of a venue re-opening and trading on that venue re-commencing.
 - Orderly restart of the affected trading venue and resumption of its trading without disruption to continued trading on other venues.

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Use of the reference price waiver (RPW)

- HMT proposes enabling reference price systems to match orders at the mid-point within the current bid and offer of any UK or non-UK trading venue, rather than the price of the primary market that has been the status quo since MIFID was implemented. AFME believes that this approach ensures that the price being used will be a reflection of the best execution conditions based on the nature of the order.
- Additionally, AFME members believe that HMT's proposal will lay the groundwork for a solution to primary market outages as it would facilitate market participants moving trading onto an alternative venue in the case of an outage on the primary market.

Creation of a Consolidated Tape

- AFME members agree that the UK Government should take action to encourage the development of a Consolidated Tape (CT) for both equities and bonds. AFME believes that the provision of an appropriately constructed CT could democratise access for all investors, regardless of resources or sophistication, with a comprehensive and standardised view of the trading landscape. However, design of an appropriately constructed CT raises many challenges, which must be thoroughly thought through ahead of any regulation or guidance being drafted to ensure that a high quality data source is built.

Improving MIFIR's reporting framework

- AFME has long advocated for a review of MIFIR's reporting framework. The existing regime creates uncertainty about who should report the trade and can lead to duplicative reporting, resulting in weak quality of the existing data sets.
- AFME proposes that the link between the Systematic Internaliser (SI) status and Post-Trade transparency/reporting is removed and that a designated reporting entity register is created and maintained by the FCA. This would remove uncertainty on who should report a transaction and, as a consequence, will lead to enhanced quality of the reported data.
- This approach would also provide the benefit that firms qualifying or opted in as SIs will only be those firms acting as liquidity providers. This would provide much-needed clarity to the overall equity market structure.

Improving liquidity calculations for bonds

- The liquidity calculations to determine which bonds should be deemed liquid is a key element of the MIFIR transparency framework. AFME has been a long-standing supporter of a well-calibrated transparency framework for bonds, which recognises the heterogeneity of fixed income markets and that does not put committed liquidity providers at undue risk.
- The fact that the quality of existing data sets remains patchy makes liquidity calculations based on quantitative criteria only, prone to false positives (i.e. bonds deemed liquid that are effectively illiquid).
- AFME members are supportive of HMT's proposal to move away from regular liquidity calculations based on quantitative criteria only, in favour of a qualitative and quantitative criteria. The current liquidity calculations outlined under MiFIR/MiFID II are complex and do not accurately measure or capture true liquidity within the market.
- Well-balanced and measured qualitative criteria, that more accurately captures and reflects true liquidity within the market would help smoothing out false determinations of liquidity.

The HMT Wholesale Markets Review's objective is to ensure UK regulation remains fit for purpose and proportionate for UK capital markets. This is a sensible approach to better regulate financial markets.

AFME advocates for the same approaches both in the UK and the EU.

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Notes:

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](https://twitter.com/AFME_EU)