
Press release

MiFIR Review outcome could risk holding back EU equity markets

Policymakers should prioritise EU equity market competitiveness through finalising an ambitious consolidated tape and promoting the diversity of trading mechanisms

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As EU trilogues on the Markets in Financial Instruments Regulation (MiFIR) Review begin this week, the Association for Financial Markets in Europe (AFME) has issued a warning on the state of equity market liquidity in Europe and is calling on the negotiators to consider the impact of this important financial markets regulation on the attractiveness of Europe's capital markets.

- AFME has found that European equity markets are markedly less dynamic and liquid than their US peers. From mid-2016 to end 2022, the **equity turnover ratio¹ increased by 40% in the United States but remained completely flat in Europe over the same period.**
- This trend in Europe's equity turnover ratio is largely explained by the EU's nationally fragmented equity markets which operate under a regulatory framework that limits choice and introduces even more complexity through arbitrary restrictions that deter liquidity. (The European equity market is less than half the size of the US but it has three times as many exchange groups; more than 10 times as many exchanges for listings; more than twice as many exchanges for trading; and roughly 20 times as many post-trade infrastructure providers².) This complexity is likely to be one of the factors motivating European high-growth companies to list outside the EU.
- Therefore, AFME is calling on policy makers to ensure a variety of trading mechanisms remains in place as the backbone of a healthy, vibrant market, but also that an ambitious real-time pre-trade consolidated tape is implemented to reverse the worrying trend in EU equity market turnover. Together, these measures will facilitate equity capital raising and support dynamic economic growth.

Adam Farkas, Chief Executive of AFME, said: *"As inter-institutional negotiations begin, AFME is urging policymakers to keep the attractiveness and liquidity of EU markets at the forefront of its considerations.*

"To do this, first, we need a meaningful consolidated tape. This means a real-time, pre-trade tape to help overcome the current fragmented picture of the EU's liquidity and provide a much-needed window where all users of capital markets can have a complete view of that liquidity. This will also help reinvigorate lacklustre European markets, creating further opportunities for both investors as well as companies seeking to list in the EU. After many years where a tape of any sort has failed to materialise, we are now closer than ever to achieving this goal. It is high time that the co-legislators set aside the interests of any particular group of market participants and make policy choices to the benefit of the EU as a whole.

"Second, we must ensure that sufficient choice in trading mechanisms remains to attract investment within and into Europe. Here again, the EU's geographically fragmented equity markets and its complex regulatory

¹ Turnover ratio is a commonly used liquidity metric which is calculated as equity trading value relative to market capitalisation. Using turnover ratios as a proxy for market liquidity strips out price performance of assets across regions, and shows how quickly assets are moving hands.

² New Financial, THE PROBLEM WITH EUROPEAN STOCK MARKETS, 2021 (see EQUITY MARKET STRUCTURE IN EUROPE on page 6)

framework risk holding the bloc back from making policy choices that could benefit the EU overall. It is critical the co-legislators continue to recognise the important role that banks' systematic internalisation plays in the liquidity ecosystem. For example, AFME has found systematic internalisers provide an additional EUR 3 trillion - or 14% of total European liquidity - because they place their capital at risk to enable trading to take place which otherwise might not. This is very different to exchanges which bring buyers and sellers together, but do not facilitate trading by using their balance sheet. Both types of trading mechanisms have key roles to play in creating a vibrant market environment we commonly strive for. What is important is that we work in partnership to grow overall liquidity within the EU, and we urge policymakers to put a legal framework in place which will ensure the best possible outcomes for the users of capital markets such as investors and savers."

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