



EU EQUITY MARKET STRUCTURE: A MESSAGE FROM INVESTORS AND MARKET PARTICIPANTS TO POLICYMAKERS

- *Our vision to advance the global competitiveness of EU equity markets is one based on competition and innovation, in which investors have uninhibited access to a wide range of trading mechanisms.*
- *We agree that improving transparency for investors is paramount. This will be best delivered by accelerating proposed reforms of the consolidated tape to expand its depth and include attribution of the trading venue on which the best price is available.*
- *We urge EU policymakers to retain their commitment to the simplification agenda, and to avoid any regulatory intervention that will lead to worse outcomes for investors by curtailing choice and impairing competition.*

European equity markets have been built on competition and innovation.

Europe has long been at the forefront of innovation in financial markets, and should be rightly proud of this fact. MiFID II reforms have been highly successful in promoting a competitive landscape, opening equity markets to new entrants and alternative trading mechanisms. The Market Integration Package must retain this spirit of innovation and competition, and focus on the transformational measures that will bring value for end investors, such as delivery of the consolidated tape.

Getting the Market Integration Package right is critical to realising the true potential of European equity markets.

Simplification: EU securities markets have a longstanding reputation for an overly complex and ever-changing regulatory framework. Our members, who remain busy with implementation of changes introduced in the latest MiFIR review, would welcome the opportunity to focus efforts on “selling” the optimistic case for European growth to global investors, not having to explain another round of regulatory change.

We urge policymakers to follow through their warm words on regulatory simplification to delivery, and to set a much higher bar for regulatory intervention. We must avoid the Market Integration and Supervision Package (MISP) becoming a “free-for-all” to reopen every aspect of equity market structure without any assessment of possible impacts or unintended consequences, when markets have been working efficiently.

Prioritising investors: The increase in competition between trading mechanisms is a major European success of MiFID – something to be celebrated, not lamented. It has directly resulted in lower direct and indirect costs for investors. Regulatory interventions designed to rebalance activity towards traditional exchanges would be fundamentally anti-choice, anti-growth, and anti-competitive, leading to worse outcomes for the end investor.

Changes in the market share of different trading mechanisms are an expression of investor freedom and a right to choose how, and with whom, they do business. The relatively lower share of intraday trading in central limited order books (“CLOB”) has been balanced by an increased share of trading in closing auctions on incumbent exchanges, and/or by investors’ preference to trade in alternative venues to avoid the higher price impact of trading on CLOBs.

Highlighting available liquidity: We must stop contributing to a self-fulfilling “doom loop” by underselling the true size, scale, and potential of European equity markets. EU equity markets are much deeper and more vibrant than is often portrayed. It’s our collective responsibility to showcase this reality – to attract new listings and long-term investment to Europe. The consolidated tape will be a big step forward towards this goal.

What should European policymakers be focusing on?

1. Providing a clear and single view of total European liquidity:

- Deliver the Consolidated Tape, accelerating proposed enhancements to its depth and transparency.
- Supported by targeted changes to post-trade reporting requirements, to improve the informational quality of the post-trade tape.

2. Evidence-based policymaking and effective enforcement of current rules:

- Any concerns regarding the quality of outcomes for (retail) investors should be in the first instance addressed by adequate enforcement of existing best execution rules.
- We support a mandate for ESMA to conduct a comprehensive, evidence-based assessment of the impact of market structure changes on the price formation process in EU markets.
- We call for broad market support for an expansion of the consolidated tape to include five layers of depth and venue attribution, commit to making market data available at the lowest possible cost, and increase their own transparency.

3. Addressing the remaining areas of the value chain that are constrained by a lack of competition and choice:

- Ensure the Reasonable Commercial Basis (RCB) framework for the provision of market data is effectively implemented and enforced, bringing an end to the ongoing spiralling of market data costs which stifles growth and innovation.
- Focus the MISP on changes to the post trade ecosystem, through mandatory interoperability of significant CCPs (subject to robust risk safeguards), the expansion of the pan-EU T2S settlement system, and enhanced transparency and scrutiny for CSD fees.

Conclusion

There is broad consensus that simplification, choice, and competitiveness should be the three pillars of the EU's SIU strategy. Now we must make sure that the actions match the rhetoric. In the context of the MIP, for each proposed rule change, policymakers must ask themselves three questions, and proceed only where the answer is a clear 'yes':

- Does this advance the global competitiveness of EU markets?
- Does this empower investors to choose how they do business?
- Does this reduce the regulatory burden for market participants?

A targeted legislative proposal, focused on advancing these core objectives, is critical to support continued positive momentum for EU equity markets.

Traditional exchanges play an important role in EU equity markets, and the CLOB remains the single largest component of overall activity. Growing activity on traditional exchanges does not have to be at the expense of alternative trading mechanisms, and we call on all European market participants to think beyond protecting their own market share, and contribute ideas to how we can, collectively, scale up EU equity markets.

We urge policymakers to look forward not backwards, and to ignore calls to stifle innovation. Our vision for the future is one based on embracing innovation, promoting competition throughout the value chain, and making EU equities as attractive and accessible to global investors as possible.