

Press Release - FESE Views on the ECON Draft Report on the MiFIR Review

Proposals to include pre-trade data in an equity consolidated tape, along with insufficient market structure protections, threaten to fragment markets further

Brussels, 29th July 2022

FESE endorses the guiding principles of the draft parliamentary report on the MiFIR review - to reduce fragmentation, level the playing field between venues, bolster the EU's international competitiveness, and promote retail participation. Such guiding principles need to be interpreted and implemented in the context of the specificities of a fragmented EU capital market with no single dominant financial centre. The solutions proposed, however, risk the integrity of the Capital Markets Union (CMU), would further deteriorate price formation and continue to fuel the concentration of equity trading among large players.

Primary exchanges play a major role in funding the EU economy thanks to their continued ability to run and maintain a full suite of operations, such as the strengthening of the price formation process (on which all market participants rely), the listing function, and the nurturing of SME growth markets.

Fragmentation can only be solved by a clean market structure, not via a tape

The Rapporteur, like the Commission, is correct to seek to address the fragmentation of EU markets. The consolidated tape (CT) project, however, is not the silver bullet, and must not distract from the core issue: the proliferation of Systematic Internaliser (SI) trading and a complexity and opaqueness of EU equity markets that with or without a tape only benefits a few players.

“It should be clear that the fundamental obstacle to less fragmented markets in Europe is the extent to which banks are able to internalise trading of smaller orders on their own books without taking risks,” said FESE Director General, Rainer Riess.

“Only a proper market structure which supports transparency and protects retail investors, can address fragmentation.”

The experience of the United States, which has a CT, demonstrates this, for example in the large portion of flows conducted via dark venues - a trend the US Securities and Exchange Commission, in its latest [reform plans](#), is rightly looking to counter. More than fifty years after the setup of its CT, the US market shows that this database in and of itself cannot address the issues of liquidity fragmentation. Market structure reforms, which support transparency and protect retail investors, are the answer to fragmentation.

FESE has consistently argued that limiting SI trading to large orders, to ensure protection from market impact, would be an efficient and relatively straightforward way to address the current causes of fragmentation whilst also incentivising lit trading and safeguarding the quality and robustness of price formation. Collectively these measures protect retail investors and reduce potential conflicts of interest, such as payment for order flow.

Europe with a fragmented tape?

A CT would be an important step forward and exchanges support this initiative. Guaranteeing a transparent, high-quality, reliable and consistent view of 100% of the market activity will

be key to the effective functioning of European capital markets and the ability of investors to verify best execution.

Exchanges have, however, been warning for some time about the potential threat of a real-time CT to the viability of smaller exchanges. Rapporteur Hübner seems similarly concerned, as the report contains a proposal to exempt smaller markets from mandatory contributions to the tape. Such a proposal risks introducing further fragmentation into the EU market, impeding the development of a fully functioning CMU which can serve issuers and investors alike, and creating a two-tier market structure in the EU. Instead of delivering a consolidated view, it would further fragment EU markets. The proposal to include an opt-in option for the exemptible venues would lead to possible discrimination, which would in turn increase fragmentation and counter the idea of presenting a consolidated view of 100% of trading.

The suggested inclusion of pre-trade data - information before a trade is completed - would, due to any latency on the feed, create an illusory view of the market, susceptible to exploitation by more sophisticated players.

The Chair and CEO of the Prague Stock Exchange, and FESE President, Petr Kobic, commented:

“A pre-trade tape brings with it a litany of risks - for instance arbitrage by institutional investors, a distorted reference price, etc. - which leaves retail investors worse off.”

“High-quality exchange data is readily available at reasonable prices which is already consolidated via many vendors. Instead of focussing on a largely tangential debate over the CT, we need to focus on what really matters: securing a market structure which preserves and enhances transparency, delivers for issuers and investors alike and which strengthens EU strategic autonomy and its ability to compete internationally.”

Notes to editors:

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About FESE

The Federation of European Securities Exchanges (FESE) represents 35 exchanges in equities, bonds, derivatives and commodities through 16 Full Members and 1 Affiliate Member across 30 countries.

At the end of June 2021, FESE members had 9,063 companies listed on their markets, of which 17% are foreign companies contributing towards European integration and providing broad and liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access capital markets; 1,490 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their RM and MTF operations, FESE members are keen to support the European Commission's objective of creating a Capital Markets Union.

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