

THE LIQUIDITY MATRIX

Addressing fragmentation
in European equity markets

July 2025

EXECUTIVE SUMMARY

Europe faces financing needs of at least €750–€800 billion per year, driven by major transformations such as the green transition, artificial intelligence, and defence spending. Public sector and bank lending will not be able to meet all these demands — Europe will need to turn to its capital markets.

Capital markets fuel the economy by facilitating capital raising and enabling effective price formation. Strong secondary-market liquidity is critical to attract primary issuers, which in turn supports investment and growth. However, European secondary markets are underdeveloped and fragmented. Relative to GDP, liquidity in US capital markets is 4x greater than in Europe, measured by total traded notional volume.

The main driver for Europe's liquidity gap is low investment in capital markets, especially by retail investors. Households in the European Union hold only about 17% of wealth in financial securities, compared to about 43% in the US. To close this gap, boosting investor demand is critical. Oliver Wyman has outlined concrete, actionable solutions in its earlier report, 'The Capital Flywheel.'

For European capital markets to deliver, knitting together the fragmented supply-side is also key. Over the past 20 years, Europe's equity market rules have successfully fostered innovation and competition — particularly through MiFID I and II reforms — reducing trading costs and increasing execution flexibility by encouraging new venues such as multilateral trading facilities (MTFs) and systematic internalisers (SIs). But in doing so, liquidity has become fragmented, price discovery has weakened, and public markets have become less attractive for companies looking to raise capital.

The challenge now is to rebalance. Capital market supply-side reform comes with a trade-off between concentrating liquidity, spurring innovation, and fostering competition. Europe needs to revisit this delicate balance and pivot towards deeper liquidity, whilst carefully weighing the impacts on innovation and competition.

Fragmentation manifests in two ways: liquidity on a single stock can be split across venues and execution channels ('intra-market fragmentation'), and across borders ('cross-market fragmentation'). Intra-market is the most acute form of fragmentation. Trading on lit primary venues accounts for only about 30% of total liquidity. Close to 70% of volumes are split across MTFs, and dark, bilateral and non-addressable channels including SIs and over-the-counter (OTC). Cross-market fragmentation is marginal, at less than 2% of the total.¹

¹ Data sourced from BMLL (2025 Jan–May data). Stocks for a range of major European equity indices selected, intra-market fragmentation calculated as proportion of notional volumes traded outside of the main primary venue but on the same ticker MIC. Cross-market fragmentation calculated as the proportion of a single stock traded on a different ticker MIC (dual-listed).

Stakeholders across Europe need to act now. The fastest way to unlock more liquidity is by reducing intra-market fragmentation. This would allow Europe to better use its existing liquidity pool in the short term. To achieve this, harmonisation and level setting of regulation is required between exchanges and other execution venues and systems. Europe must also simplify other parts of market infrastructure, starting with settlement. This could involve the full adoption of Target-2-Securities (T2S) by member states and central securities depositories, or the deployment of new technologies such as distributed ledger technology.

The impact of cross-market fragmentation is limited today. But to maximise the impact of future pan-European demand, enhancing connectivity could also be considered to lower obstacles for all investors to access all European securities — either by creating a common connectivity layer or by linking venues together. But these shifts would come with significant costs for the industry and would take a long time, often requiring complex technology integration and a major upheaval of current regulatory and operational frameworks.

INTRODUCTION

Under the Savings and Investments Union (SIU) strategy, the European Commission is considering new proposals to develop and integrate EU capital markets. The aim is to enhance economic competitiveness and help attract capital to support the region's ambitious investment plans. Simplification of market infrastructure (issuance, trading, post-trade) is a key focus area.

This study by Oliver Wyman, sponsored by the Federation of European Securities Exchanges (FESE), examines the issue of fragmentation in Europe's equity markets. It compares the situation to other global markets and assesses the options available to improve equity market performance. The report looks at the European Union, Switzerland, and the United Kingdom and provides comparisons with the US.

Section 1 sets the scene by outlining the role of capital markets in supporting Europe's future ambitions. Section 2 defines and assesses the current state of capital market fragmentation, providing in-depth analyses and comparative perspectives from the US. Section 3 outlines potential integration pathways. Section 4 concludes with a summary vision for European equity markets.

Section 1.

THE ROLE AND EVOLUTION OF EUROPE'S EQUITY MARKETS

To reignite growth, raise productivity and overcome pressing socio-political challenges, Europe needs investment of at least €750–€800 billion per year — around 5% of EU GDP.² Major areas for action, such as the green transformation, the digitalisation of the economy, and the strengthening of Europe's military defence, all require material investment.

Public sector and bank lending are key, but they will not be able to meet these needs alone. Many governments are already over-indebted, with two out of the three largest EU economies with a debt-to-GDP ratio above 100%.³ And EU bank balance sheets are constrained by prudential regulation and cannot rely on well-developed securitisation markets to expand credit by transferring risk to investors. In fact, EU securitisation stands at some 1% of GDP, vs. around 6% in the US.⁴ Although the European Commission has recently adopted a package of measures to revive the EU securitisation framework, Europe must still turn towards capital markets to fully bridge its financing gap.

In this context, capital markets perform vital functions for the economy by facilitating capital raising and enabling effective price formation. These functions benefit both issuers and investors. Capital raising allows issuers to fund growth, and provides investors with opportunities to channel idle savings and generate yield. High-quality price formation improves valuations and reduces cost of capital for issuers, and plays a key role in setting reference prices used for a range of investment products including ETFs and funds.

Thriving secondary markets support this entire system. Favourable secondary market conditions, such as high volumes and tight spreads, have a positive impact on primary markets (see Box 1). That is why ensuring deeper liquidity in secondary markets is essential — to improve financing conditions, drive Europe's transformation, and stay competitive globally.

In shaping a vision for European equity markets, striking the right balance between concentration of liquidity, innovation, and competition is key — but there is no panacea. Liquid markets ensure the most efficient allocation of capital across the economy. Innovation enables the rise of new solutions catering to the evolving needs of market participants. Competition puts pressure on prices and improves overall service quality. Market structure determines how these forces interact.

2 Annual additional investment needs from 2025–2030 per the Draghi report, 'The future of European competitiveness' (September 2024).

3 France 113% and Italy 135%, as per Eurostat 2024 Q4 data.

4 Total European and US issuance volumes per the '2024 Full Year Securitisation Data Report' by AFME (March 2025). 2024 GDP figures sourced from IMF.

BOX 1: The positive feedback loop between primary and secondary markets

Issuer choice of IPO venue is shaped by several factors, with secondary-market liquidity playing a central role. Liquid markets provide more reliable pricing benchmarks, tighter bid-ask spreads, and greater investor participation — all of which support a more accurate valuation. Other key considerations include higher valuation differentials, broader analyst coverage, better visibility among target investor base, nationality of current shareholders, familiarity of market dynamics, and the potential for index inclusion to capture flows from passive investing.

In particular, strong secondary-market liquidity is a necessary condition to attract prospective issuers. When visible and broadly accessible liquidity is fragmented across multiple venues or shifts into dark pools or bilateral venues, it reduces transparent turnover and impairs price discovery. This fragmentation contributes to wider spreads, higher volatility, and illiquidity discounts at primary offerings. In such conditions, issuers may delay IPO, seek private funding, or list on larger venues abroad.

In turn, this weakens the domestic public equity ecosystem. Reduced issuance leads to fewer investable opportunities, thinner trading volumes, and a loss of investor engagement — further depressing liquidity. Smaller issuers in local markets are most impacted, as they face limited domestic liquidity pools and higher obstacles to listing in larger, more liquid financial centres. Without visible post-IPO liquidity, institutional investors hesitate to participate, and passive flows remain out of reach. Indeed, 65% of respondents to the European Investment Fund Venture Capital survey identified insufficient IPO market liquidity as a key exit-related challenge, underlining the role secondary-market conditions play in shaping the vibrancy of primary markets.⁵

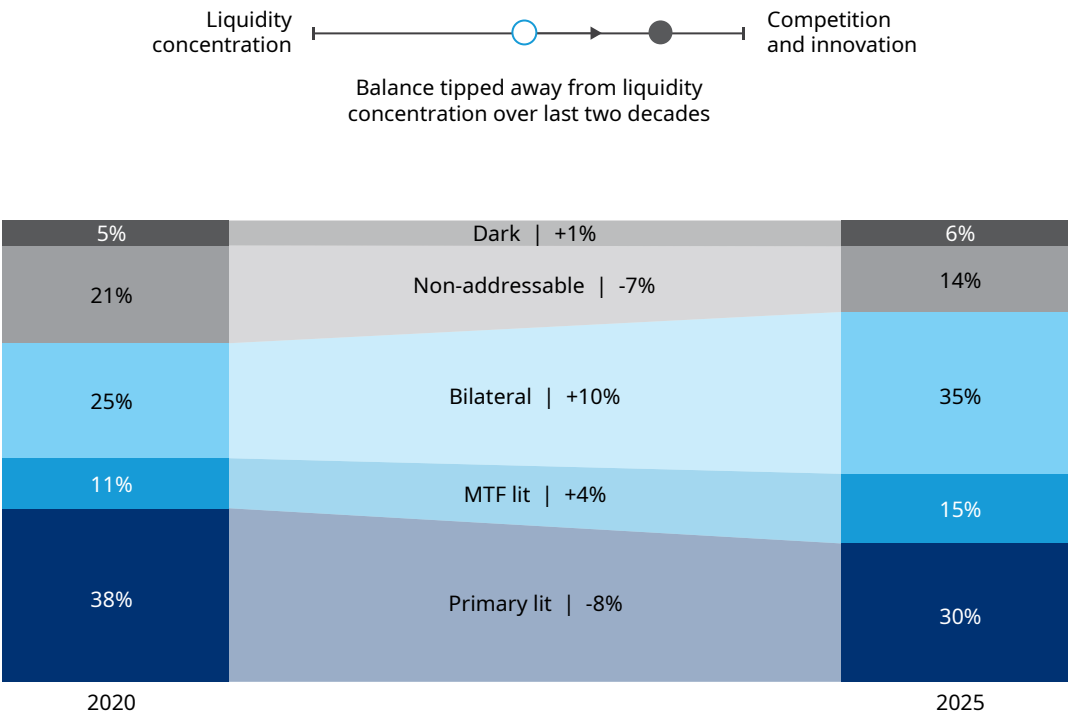
Over the past 20 years, Europe has prioritised innovation and competition over liquidity, tipping the balance away from liquidity concentration and resulting in the current levels of fragmentation. This reflects deliberate market structure policy — particularly through MiFID I and II — focused on driving down the direct and indirect costs of secondary trading. These reforms aimed to foster competition between venues to reduce execution fees, and to minimise market impact and slippage via the introduction of alternative and dark venues. By those measures, the policy goals were largely achieved: investors today operate in a landscape with low execution costs and a rich ecosystem of regulated markets (RMs), multilateral trading facilities (MTFs), systematic internalisers (SIs), and over-the-counter (OTC) venues — designed to offer choice, price efficiency, and execution flexibility. But this success has come with a structural trade-off.

⁵ European Investment Fund Venture Capital Survey 2024, Working Paper 2024/99.

The resulting fragmentation has weakened visible liquidity, diluted price discovery, and — more critically — reduced the attractiveness of public equity markets as a venue for capital formation. The cost of secondary trading has fallen, but at the expense of making the equity ecosystem less investable at its core. Over time, the share of trading on SIs and via OTC channels has expanded beyond what could have been anticipated. The challenge now is to re-balance competing priorities: preserving the gains in innovation and competition, while reorienting market structure to better support liquidity and ultimately primary markets. That requires acknowledgement that SIs, dark pools and OTC markets serve a valid purpose, but also recognising that priorities in Europe have changed. Now is the time to explicitly reframe the trade-offs between concentrating liquidity, spurring innovation, and fostering competition, and ensure that the next phase of policy recalibrates in line with priorities for European competitiveness.

Exhibit 1: Evolution of European equity execution channels over time

Share of total traded notional, %, 2020 FY to 2025 Jan–May



Source: BMLL, Oliver Wyman analysis

Europe's core challenge is on the demand side, not the supply side. Without bold demand-side action, even the best market structure reforms will fall short. Demand-side stimulus is not just complementary — it is the key. Europe has an ingrained mindset that prioritises savings over investment. Although EU households save roughly four times more than their US counterparts, they still hold only about 17% of their wealth in financial securities, compared to about 43% in the US.^{6,7} Increasing demand to US levels (relative to GDP) would deliver a three times greater impact on liquidity than merging all existing liquidity pools.⁸ Oliver Wyman's previous report, 'The Capital Flywheel,' offers a deep dive into actionable measures to tackle these demand-side challenges and unlock greater investor participation. In addition to bold demand-side action, reducing supply-side fragmentation would increase the connectivity of existing demand, help solve key challenges such as retail participation and mobilisation of long-term capital, and tie into important current considerations on Europe's strategic autonomy moving forward.

6 2023 household savings rate of 12.7% in EU and 3.2% in US per the Draghi report, 'The future of European competitiveness' (September 2024).

7 Data from Federal Reserve Economic Data for the US and ECB Distributional Wealth Accounts for the euro area.

8 While the ratio of total traded notional to nominal GDP for the US in 2024 is 378%, it stands at only 94% for Europe. In absolute terms, closing the gap would imply an additional €66 trillion of liquidity in European capital markets, which is three times the total notional across all venues in 2024 (€22 trillion). 2024FY total traded notional sourced from BMLL database, 2024FY nominal GDP from IMF database.

Section 2.

EUROPE'S FRAGMENTED EQUITY MARKETS TODAY

The fragmentation holding back Europe's competitiveness is multifaceted. Fragmentation manifests itself differently across the lifecycle of an equity, from issuance to trading, and through to post-trade (clearing and settlement). It is important to properly define fragmentation and form a clear view of today's complexity to arrive at the right conclusions and hence solutions to shape the future. There are two ways in which fragmentation can be characterised: 'intra-market' and 'cross-market'.

'Intra-market' fragmentation is the splitting of liquidity across execution venues and non-venue systems for a single stock. In addition to trading on the primary venue at which an equity is listed, it may also trade on another RM, an MTF, be bilaterally internalised by an SI, or be executed bilaterally OTC. This is the result of the market's reaction to past changes in the regulatory landscape, as laid out in Section 1.

'Cross-market' fragmentation is the splitting of liquidity and obstacles to access between countries. Investing across borders in Europe requires direct or indirect access to different venues and infrastructure, often through various brokerage arrangements, or, more indirectly, through ETFs with foreign exposure. This fragmentation runs across the entire value chain — from issuance across different listing venues, to settlement across different CSDs. On the supply side, fragmentation stems primarily from the European Union's nature as a collection of member states. Each country developed its own capital markets and infrastructure, which, for the most part, operate under distinct fiscal, legal, regulatory and supervisory regimes.

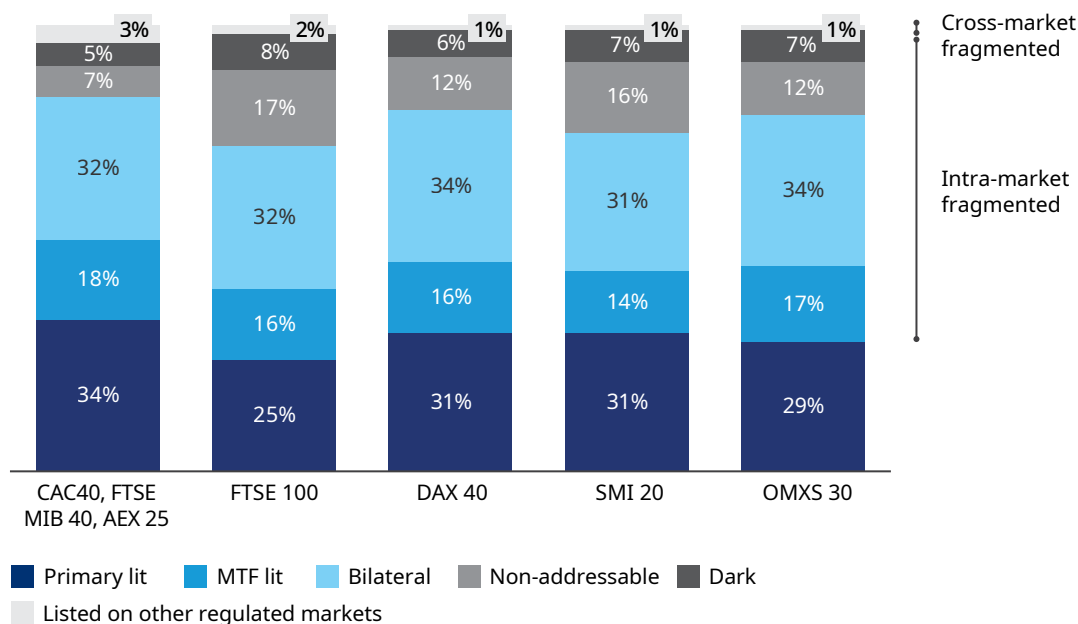
Intra-market fragmentation is most pronounced for trading, while cross-market fragmentation is most acute for issuance and post-trade. The real economic outcomes vary accordingly. Intra-market fragmentation weakens liquidity depth, making Europe less attractive for both listing and trading. Cross-market fragmentation primarily affects investor access across the region. The following section will outline the state of fragmentation across the equity lifecycle and the associated impacts.

FRAGMENTATION IN THE TRADING LAYER

At the trading layer, liquidity is primarily fragmented intra-market across venues and execution channels, rather than cross-market across borders. Taking a sample of main European stock indices, lit trading on primary venues account for roughly 30% of total liquidity. Approximately 68% is fragmented across both lit and dark MTFs, and other dark, bilateral and non-addressable channels including SIs and OTC execution (intra-market fragmented). Only about 2% of volumes are concentrated in stocks that are dual-listed on another regulated market that is not the primary listing venue (cross-market fragmented). This indicates that intra-market fragmentation is the dominant issue at the single stock level — which has significant effects on primary issuance, as single-stock liquidity is a key consideration for prospective equity issuers.

Exhibit 2: Liquidity fragmentation at the single-stock level

Share of total traded notional, %, 2025 Jan–May



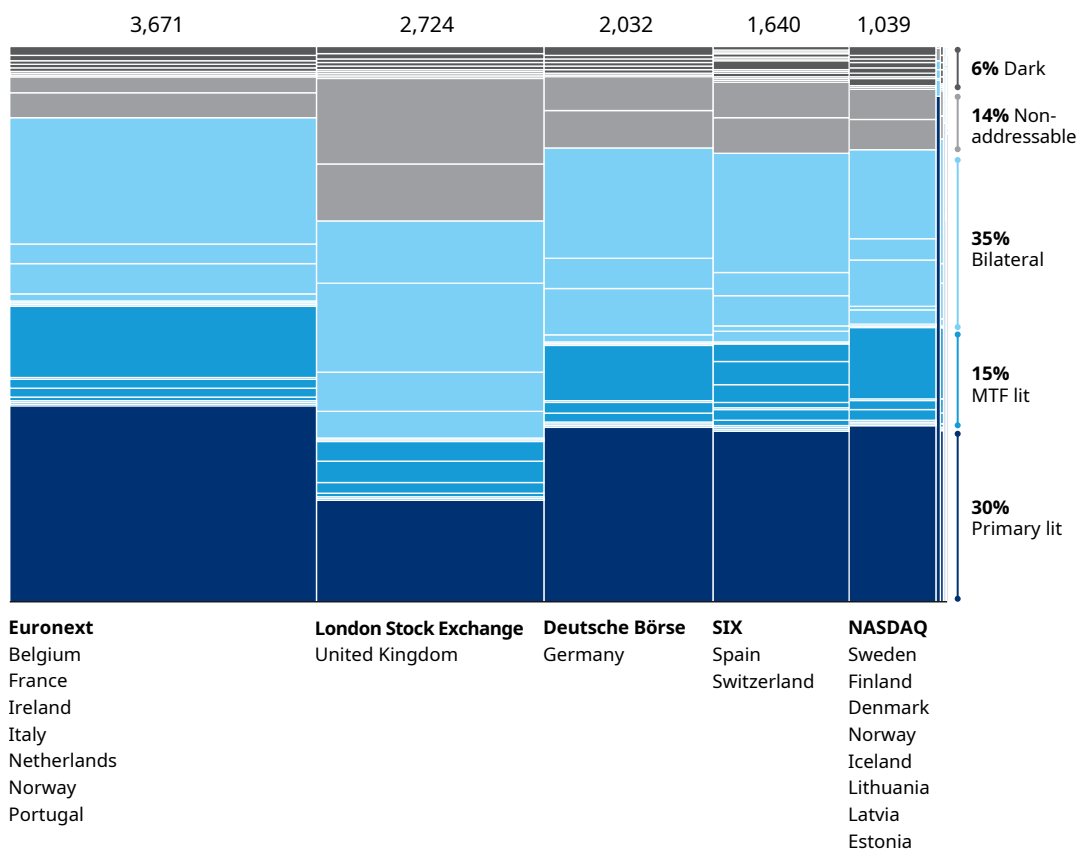
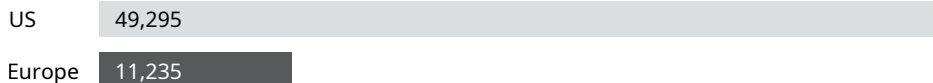
Source: BMLL, Oliver Wyman analysis

The impacts of intra-market fragmentation in Europe are exacerbated by the relative shallowness of liquidity pools, which are four times smaller than in the US (see Exhibit 3). In fact, the liquidity on US regulated markets alone is more than double the total liquidity across all channels in Europe. While US equity markets also display intra-market fragmentation (with only roughly 55% of volumes lit traded), the larger absolute size of liquidity pools results in deeper capital markets. Within liquidity that is fragmented intra-market in Europe, volumes are split further across many individual execution venues, as can be seen in the vertical axis of Exhibit 3 (with each block vertically representing a different venue). The bilateral, dark and non-addressable flow is split further between hundreds of SI and OTC counterparties, which are not shown in Exhibit 3 due to limitations in post-trade reporting transparency.

Exhibit 3: Fragmentation of European equity market trading cross- and intra-market

Notional volumes split by listing venue (horizontal axis) and by execution venue (vertical axis), €bn, 2025 Jan–May

Total traded notional



Source: BMLL, Oliver Wyman analysis

Due to intra-market fragmentation, only a third of traded volumes contributes fully to price formation — namely lit trading on primary markets. First, a significant portion of the market is dark or bilateral, which, by design, does not contribute to pre-trade price formation. Second, while lit MTF trading does contribute to price formation, MTFs are much less effective than primary venues at setting prices — primary venues set the best bids or offers four times more often than MTFs (see Exhibit 4), often mirroring prices on primary venues as opposed to shaping prices on primary venues.⁹ As a result, primary venue volumes are the key mechanism to set reference price, which are widely relied upon for calculations in derivatives, indices, funds, structured products, and IPO valuations in the primary market (see Box 1).

⁹ EBBO Setting metric, BMLL data (2021 FY–2025 Jan–May). The metric represents the number of events where the primary venues improved the consolidated best price, as a percentage of the number of all consolidated price improvement events on the market.

Exhibit 4: Contributions to price formation from primary venues vs. MTFs

% of EBBO price improvement events by venue type, 2025 Jan–May



Source: BMLL EBBO setting metric for European markets, Oliver Wyman analysis

Bilateral venues are selective by nature and not open to many investors, which creates information asymmetries and limits direct (retail) access. Bilateral systems offer discriminatory access by design, and are mainly designed with institutional investors in mind — though retail orders are often routed into these channels indirectly by intermediaries, usually with less price transparency. As there is no competition between flow providers on SIs, pricing can be less competitive, sometimes resulting in worse execution outcomes for certain clients. While SIs were originally intended for large and illiquid trades, the average trade size on SIs has dropped by roughly 70% from 2018 to 2025, from €56,000 to €15,000 (-73%), signaling a shift towards handling smaller, more routine flows. As SI liquidity is only visible and accessible to a part of the market, it contributes to lower liquidity and therefore reduces the effectiveness of European capital markets for other participants.

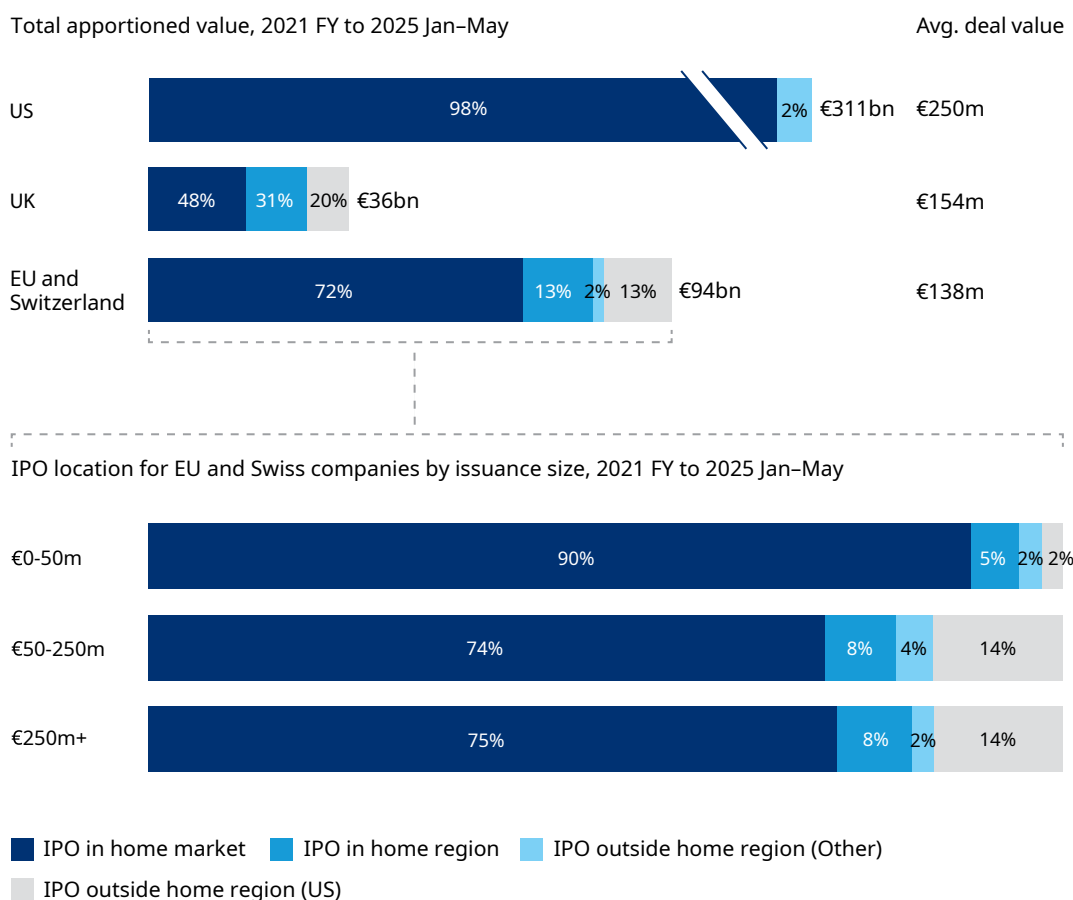
On the contrary, cross-market fragmentation of liquidity is limited — but less sophisticated investors and smaller issuers face cross-border access obstacles. Only roughly 2% of notional volumes are traded on regulated markets that are not the stock's primary listing venue — and investors are typically able to invest across borders so can access this volume. For example, major brokers are members of most major European venue groups, providing pan-European access to their clients. This suggests limited liquidity benefits from connecting venues. However, lowering obstacles for investors to access foreign markets could help grow overall liquidity over time by stimulating demand — especially from retail investors. This is both a cause and a consequence of their weaker demand for foreign assets. Indeed, retail investors' strong home bias creates a self-reinforcing loop, whereby obstacles to cross-border investments and poor financial literacy raise complexities and costs, which further discourage demand.

ISSUANCE LAYER FRAGMENTATION

Reflecting the European Union's structure as a collection of member states, equity issuance is fragmented across 17 groups of listing venues, which raises obstacles for issuers to access pan-European investment. In the US, issuance volumes are concentrated in just two major venue groups. Efforts in Europe to streamline the landscape — including market-driven consolidation and shared technical requirements — have helped reduce some complexity. The EU Listing Act reforms have pushed similar progress in Europe, by harmonising prospectus regimes and introducing multiple voting shares across the bloc. However, local market specificities still create significant obstacles to a truly integrated pan-European initial public offering (IPO) ecosystem.

Between 2021 and 2025, about 90% of European companies (excluding the UK) raising under €50 million chose to IPO within their home market, but that share drops to roughly 75% for larger issuances above €50 million. This indicates a greater willingness of larger companies to look beyond domestic borders — likely also because they have that choice. Additionally, more than half of European issuances over €50 million that listed abroad chose the US. In total, across all size buckets, nearly 50 companies with a total equity issuance of roughly €12 billion have left Europe for the US — some of them opting to delist in Europe just to re-list overseas or to dual-list in both continents.¹⁰

Exhibit 5: IPO listing location by companies domiciled in each region (top), and drill-down into listing location of EU and Swiss domiciled companies by issuance size (bottom)



Note: Categorisation of the IPO is based on the origin of the parent company vs. location of the stock exchange.
 Source: Dealogic 2025, Oliver Wyman analysis

¹⁰ Figures sourced from Dealogic for 2021 FY to 2025 Jan-May data (see Exhibit 5).

The impact of fragmentation contributes to a less vibrant European listing environment. European companies (excluding the UK) raise less equity financing vs. their US counterparts, with €94 billion raised through IPOs since 2021 vs. €311 billion in the US. Part of this gap stems from the US's ability to capture significantly more flows from foreign investors, adding further liquidity to their already well-mobilised domestic investor base. It is also reflected in smaller average IPO issuance offerings — €138 million for the EU and Switzerland, €154 million for the UK, compared to €250 million in the US. This has direct implications for the attractiveness of operating and scaling a company in Europe, with knock-on effects that spread all the way down the business lifecycle through to venture funding.

FRAGMENTATION IN THE POST-TRADE LAYER

Equities clearing is increasingly interoperable. Rules, including EMIR in 2012 and MiFIR in 2014, have been pushing for increased competition in the cash equity clearing space. Today, two clearing models coexist in Europe: interoperability and preferred central counterparty (CCP) clearing. While notable nuances between the two exist, both allow for cross-border clearing at increasingly competitive prices. In parallel, market-driven initiatives are expanding interoperability across Europe through a limited number of market infrastructure access points.

In the settlement space, innovative operating models have emerged, driven by regulation and demand, although their effectiveness in reducing cross-market fragmentation is still limited. Introduced in 2015, the technical platform T2S aimed to provide markets with an integrated and scalable infrastructure which allows for cross-border settlement. At the same time, the link between the international central securities depositories (ICSDs) enables settlement of securities in currencies other than the Euro and in commercial bank money. Nevertheless, the lack of harmonisation of rules, practices, and complex passporting procedures prevent these solutions from unlocking their full potential.

Looking ahead, the efficiency and resilience of back-office processes related to settlement could benefit from emerging technologies such as distributed ledger technology (DLT). By enabling real-time, transparent, and tamper-resistant transaction recording, DLT may end up streamlining post-trade operations and lowering reliance on costly reconciliation processes. Unlocking these benefits, however, will require regulatory clarity and thoughtful integration with the T2S platform.

Efforts to simplify issuance and trading will have limited impact without post-trade simplification. Without a more harmonised post-trade landscape, key issues would remain, including lags in cross-border settlement and high margin costs due to lower ability to net exposures.

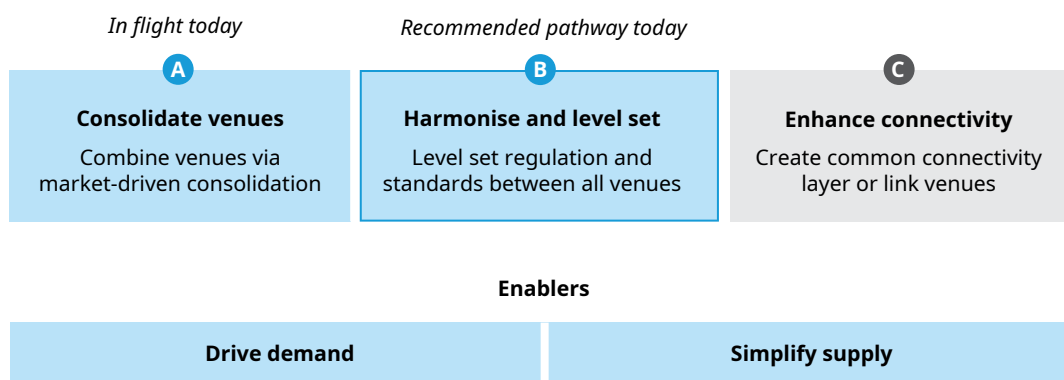
Section 3.

HOW TO ADDRESS FRAGMENTATION AND GROW LIQUIDITY

To support Europe's competitiveness, the balance between liquidity concentration, innovation, and competition must be recalibrated, by tackling both intra-market and cross-market liquidity fragmentation. Europe needs to revisit this delicate balance and pivot towards deeper liquidity, whilst carefully weighing the impacts on innovation and competition. Changes to market structure should prudently consider the benefits against implementation costs. The balance will continue to evolve as the market develops, and policymakers will need to make deliberate trade-offs, guided by their policy objectives.

Integration pathways exist to address both intra- and cross-market fragmentation, each with different impacts on liquidity concentration, innovation, and competition, as well as different implementation costs. These pathways aim to catalyse the transformation of Europe's market structure, and they are not mutually exclusive — a combination could be selected as the way forward for Europe. Regardless of the path chosen, several key enablers are also required to reduce fragmentation and boost the overall attractiveness of European equity markets.

Exhibit 6: Summary of integration pathways to address fragmentation



Source: Oliver Wyman analysis

ENABLERS: TABLE STAKES REQUIREMENTS NEEDED FOR A LESS FRAGMENTED FUTURE

Investor incentives, changes to tax regimes, and financial education can all help stimulate demand and trigger the shift towards an investor mindset that prioritises investment over mere capital preservation in Europe. Retail investors should be incentivised to allocate a greater portion of their savings into equities via (i) matched savings schemes, (ii) a capital markets based pensions system, (iii) capital gains tax exemptions. Moreover, retail participation would benefit from improved financial literacy. Retail education can be strengthened through centralised, multilingual resources that explain equity market opportunities and risks in clear terms. Demand from institutional investors can also be encouraged through revisions to Solvency II, reducing capital charges for long-term equity holdings to align regulatory treatment with the real risk profile. On tax, a simplified framework for pan-European withholding-tax reclaim would reduce frictions for cross-border investment — in this sense, the FASTER Directive signifies good progress towards more efficient and secure withholding-tax procedures in the EU.

Simplification of the post-trade landscape, harmonisation of regulation and supervision, and adoption of English as a common language in key documentation can help simplify the supply landscape. Without simplification of post-trade infrastructure, the options outlined in the previous section will not have the impact required. In particular, full adoption of T2S by member states and CSDs, and addressing remaining obstacles to cross-border settlement are key. On the regulatory and supervisory front, a more coordinated and integrated approach which minimises national gold-plating could help put growth and innovation at the centre of policy development. Consistent, efficient, and effective supervision, with identical supervisory outcomes, is a necessary piece of the puzzle to construct the SIU. Finally, the adoption of English as the standard language for key disclosure and offering documents — building on the convergence initiated by the EU Listing Act — would further reduce obstacles for cross-border market participants.

Without these enablers, the integration pathways will fail to deliver the intended impact.

INTEGRATION PATHWAY A

MERGE VENUES VIA MARKET-DRIVEN CONSOLIDATION

The natural market-driven consolidation of venues can also be further encouraged. Significant consolidation has taken place over the past 10 years, with primary venues integrated into larger groups. Beyond primary venues, this trend has extended to the alignment of post-trade infrastructure under vertically integrated ownership models. So far, the industry has engaged in merger and acquisition (M&A) activity without exogenous constraints, driven by commercial incentives to scale operations, streamline infrastructure, and expand geographic reach. It is important that this pattern of consolidation continues to be guided by commercial dynamics, rather than imposed by prescriptive regulatory action. A flexible approach enables integration where it adds value, while preserving competition and diversity in market structures.

Once regulations and settlement have been harmonised, venue consolidation would reduce cross-market fragmentation. Pathway A reduces obstacles to cross-border access via market-led harmonisation of standards and technology within each venue operator group. This creates a larger pool of investors that are able to access a broader set of equities and execution schemes through a single platform.

However, consolidation without addressing the structural obstacles underlying today's fragmentation severely limits the benefits of merging liquidity pools within the same group. Unifying exchanges under a common corporate structure does not automatically translate into the integration of trading activity. These unresolved structural issues (such as heterogeneity in membership rules, post-trade, technology as well as supervisory and regulatory frameworks) help explain why past consolidation efforts have not yet fulfilled their full potential in terms of enhancing market efficiency and investor access.

INTEGRATION PATHWAY B

HARMONISE AND LEVEL SET REGULATION AND STANDARDS BETWEEN VENUES

Pathway B would address intra-market fragmentation at the trading layer, which is the most pressing form of fragmentation facing Europe today. Only around 30% of equity trading occurs on lit primary venues, with the remaining 70% spread across MTFs, dark pools, and bilateral channels. This impacts efficient price formation and disperses liquidity across competing platforms. Adjusting the competition dynamics between primary and other venues can lead to deeper liquidity pools and more efficient price discovery.

To improve the level of liquidity contributing to price formation at the trading layer, current pre-trade transparency waivers and volume caps could be amended in favour of more lit liquidity. Pre-trade and post-trade transparency obligations for bilateral venues could be revised to promote a more level playing field between bilateral and multilateral trading venues. For example, waivers such as reference price and negotiated trade waivers could be repealed or simplified. Ensuring effective oversight of bilateral trading may also require extra measures, such as appropriate licensing and a more harmonised framework for supervision of MTFs, SIs and other OTC channels.

Alternatively, a more clearly defined role for bilateral trading within capital markets could be considered, focused on areas where it adds the most value — such as technical or large-in-scale transactions. While greater guardrails around SI activity may help rebalance market structure, any measures should be carefully calibrated to avoid unintended consequences for execution flexibility, venue competition, and innovation.

Simplifying and standardising the prospectus template and technical listing requirements would streamline the process for issuers, also addressing cross-market access obstacles. This would have a particularly high impact for small- and mid-cap companies, and increase consistency and comparability of information for investors to support better investment decisions across Europe. Harmonisation would also reduce administrative burdens for cross-border listings and encourage more firms to consider public equity as a viable source of capital.

In addition to specific actions to simplify the issuance process, addressing intra-market fragmentation to consolidate liquidity has potential knock-on benefits for primary markets. The improvements to secondary-market liquidity mentioned above would feed into a positive feedback loop with primary markets, where a more efficient price discovery process translates into lower price volatility and cost of capital for issuers, supporting greater levels of equity issuance (see Box 1). As a result, addressing intra-market fragmentation at the trading layer could be a catalyst to support the revitalisation of Europe's capital formation ecosystem.

INTEGRATION PATHWAY C

ENHANCING CONNECTIVITY ACROSS VENUES

Cross-market fragmentation in Europe is currently limited, and so addressing this should not be an immediate priority. However, improving connectivity between venues could help support pan-European investment as demand grows. Only around 2% of liquidity fragmentation is cross-market (see Exhibit 1), making this a smaller issue than intra-market fragmentation. But once demand increases, post-trade is simplified, and intra-market fragmentation has been tackled, addressing cross-market fragmentation could be an option to create a more connected Europe — albeit at significant cost and complexity. There are three potential approaches to connect venues cross-markets.

First, a common connectivity layer allowing clients to access all trading venues could create a single access point for European investment, reducing complexity and cost for clients and brokers. After all, many venues already share similar technologies that could be built upon, although legally obliging brokers and venues to interconnect should be avoided. This could be complemented by venue membership passporting with a commonly agreed set of membership criteria. At the issuance layer, a pan-European marketing platform for upcoming issuances and reduced obstacles for local brokers to market IPOs to their investor base could ensure all investors have access to all IPOs — under the necessary condition of having harmonised the post-trade layer first. These actions would reduce cross-market access obstacles to primary and secondary trading, promoting pan-European investment. However, in contrast to the above, building and maintaining a joint infrastructure or interconnection between trading venues would require significant investments, and would limit innovation due to the greater technology and connectivity standardisation, which could slow down the development of new product features. Pre-trade pricing data would also need to be spread at low latency across this network.

Second, bilateral memberships between primary venues could lower access obstacles for pan-European investment into pan-European securities. Venues could be allowed to place an order on behalf of a client at any other primary venue, somewhat akin to the ICSD model in settlement. The order book on a given stock would remain at the current primary venue, but a foreign investor could place an order on a different primary venue, which would then route the trade to the main order book. This would increase access to pan-European stocks for retail and less sophisticated clients, and enhance the value of memberships for single-venue clients. Local brokers would now be able to access all European stocks through a single exchange relationship, if there was demand. However, in this model, exchanges would take on the role of brokers who serve this function today, requiring significant new infrastructure, regulatory oversight, and changes to the business model. Common infrastructure would be required to allow clients to place orders on stocks listed at any primary venue with low latency pre-trade market data, and venues would also need to navigate regulatory frameworks applicable to brokerage activities, such as best execution, reporting requirements, and heightened know your customer (KYC) and anti-money laundering (AML) checks.

BOX 2: Overview of US equity market structure and Reg NMS model

US market structure is a lot simpler than in Europe. At the issuance layer, virtually all listings are concentrated on either NYSE or Nasdaq. The trading layer is more fragmented, with roughly 15 national stock exchanges and over 30 registered equity alternative trading systems (ATSS), along with other OTC channels. Finally, market infrastructure across clearing and settlement is completely centralised through NSCC (National Securities Clearing Corporation) and DTCC (Depository Trust and Clearing Corporation).

Although there are far fewer venues than in Europe, competition is fostered via the Reg NMS system. A key feature of Reg NMS is the restriction on trade-throughs for eligible stocks, such as the execution of trades on one venue at prices that are inferior to displayed quotations at another venue. To achieve this, the US needed both to harmonise processes and practices as well as invest in implementing a robust and resilient technological overlay to ensure interconnectivity of trading venues.

Translating a Reg NMS-like model to European capital markets would face several challenges. First, Europe's MiFID II best execution framework is much less prescriptive than its US counterpart, and integrates a plethora of other factors beyond prices, which would be complex to model into routing algorithms. Second, achieving similar operational standards — notably in terms of latency — in Europe would require a costly technological overhaul, involving amongst other, the centralisation of data centres across trading.

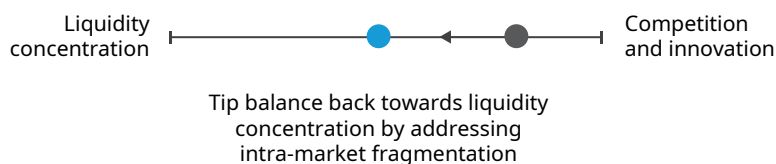
Third, another more drastic and disruptive approach would be taking inspiration from US-style market structure, with mandatory routing of orders on a best-execution basis to venues displaying best bid offer. A client placing an order on any lit venue would be displayed the best bid and offer across any venue connected as part of this scheme — in a similar style to the Reg NMS system in the US (see Box 2). This would mean a single stock would be tradeable on all European exchanges, with separate order books. Best-execution would have to be achieved based on using mandatory Consolidated Tape Provider data and following a trade-through rule, along with a pan-European smart order router — and could create significant arbitrage opportunities. However, while targeting limited cross-market fragmentation, this model seriously risks further fragmenting liquidity by splitting single-stock volumes across multiple regulated markets venues. In addition, large distances between venue data centres in Europe would result in latency gaps, slowing down Consolidated Tape data significantly, and making it unsuitable for trading and investor protection alike. The counterproductive end outcomes and technical implementation challenges mean this is not a viable option at present for European equity markets.

Section 4.

A VISION FOR THE FUTURE OF EUROPEAN EQUITY MARKETS

Europe now needs to prioritise actions that deepen liquidity. In today's European equity markets, intra-market competition among execution venues is high and innovation in execution models continues at a healthy pace, but liquidity fragmentation is holding Europe back. Institutional and retail investors across Europe should be able to subscribe to all IPOs and trade seamlessly across the region, with access to the full breadth and depth of liquidity that Europe has to offer — on a level playing field. A complete shift to solely prioritise liquidity at the expense of innovation and competition is undesirable, but a rebalancing of the trade-off is necessary — taking the required action now can set the foundation for a better market and economy for all in years to come.

Exhibit 7: Rebalancing Europe's market structure priorities



Intra-market fragmentation is the most urgent issue to tackle, calling for harmonisation and level setting across all venues (pathway B), supported by enablers that drive demand and simplify the supply landscape. Repealing or tightening key waivers would boost the proportion of flow that contributes to price formation and is accessible to all market participants. And creating a more standardised listing framework and technical prospectus would simplify the process for prospective issuers and have the added benefit of making pan-European comparisons easier for investors. To ensure these actions have the intended impact, bold measures need to be taken to address the demand challenges facing Europe. Additionally, the complexity in the settlement layer, regulation and supervision, and withholding tax need to be resolved.

While cross-market fragmentation is a less urgent issue to tackle today, enhancing connectivity could help accommodate future pan-European demand — lowering obstacles for all investors to access all European securities (pathway C). Creating a standardised access point for all venues could benefit both investors and brokers by reducing the cost and complexity of accessing multiple markets. And linking venues in some capacity could benefit local brokers and single-venue clients, but would imply exchanges taking a brokerage role which has high potential costs and implementation challenges.







In either case, the harmonisation groundwork established under pathway B would be needed for enhancing connectivity to have an impact, and would require complex and costly regulatory and technological developments.

Exhibit 8: Key measures, impacts, and feasibility of each option

	<i>In flight today</i>	<i>Recommended pathway today</i>	
	A	B	C
	Consolidate venues	Harmonise and level set	Enhance connectivity
<i>Intra-market impact</i>	Creates larger investor base for primary venue order books	Promotes concentration in lit markets for a given equity	Limited impact
<i>Cross-market impact</i>	Merged liquidity pools with enablers Limited impact without enablers	Reduces obstacles to pan-European issuance	Reduces obstacles to client access between European markets
<i>Implementation feasibility</i>	Venue-led and case-by-case	Limits execution flexibility and risk of over standardisation	Complex to build technology and establish brokerage role

Enablers

Drive demand			Simplify supply		
Demand	Education	Language	Post-trade	Regulation	Tax

Fragmentation: Higher impact    Lower impact Feasibility: Higher effort    Lower effort

Source: Oliver Wyman analysis

Achieving this vision of reduced fragmentation would have great impact on the real economy and create a more attractive capital market. Coupled with the actions needed to strengthen demand in Europe via the Savings and Investment Union, creating a more fit-for-purpose market structure is required to help increase equity market activity, meet Europe's financing demands, and drive growth across the region.

The integration pathways outlined in this report must be weighed carefully against the potential trade-offs and implementation costs for the industry. These are supply-side interventions that can reshape how Europe's capital markets function, but their success will ultimately depend on complementary shifts in demand-side behaviour. A balanced and sequenced approach will therefore be essential to ensure the effectiveness and sustainability of any structural change.

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