

FESE Response to the IOSCO Consultation Report “Regulatory Considerations and Good Practices on the Evolution of Market Liquidity During the Trading Day”

Brussels, Friday 21st August 2026

Q1: Do you agree with the observed trends outlined in the Chapter 2?

FESE broadly agrees with the observed trends described in Chapter 2, notably the increase of trading activity in closing auctions and the factors identified as contributing to this evolution.

Evidence available to FESE is consistent with the report’s findings that the share of closing auctions has gained prominence between 2020 and 2025. Data from xyt, for example, indicates that the share of total equity turnover for EEA shares in the Cboe Europe All Companies Index traded via auctions on European lit venues has increased from 11% in 2018 to 18% in 2025. Similar patterns are reflected in ESMA’s recent Call for Evidence on European equity market structure, which points to a gradual rise in closing auction liquidity from 18% in 2022 to 19.3% in 2025.

FESE also shares the view that the expansion of index-tracking and other passive investment strategies is a key structural factor behind this trend. As noted by the AMF (2019), the growing importance of closing auctions is partly explained by the expansion of passive investment strategies, whose mechanism for creating and cancelling units usually uses the net asset value at the end of day and which requires trading at the closing price for exact replication (AMF, 2019, “[Growing Importance of the closing auction in share trading volumes](#)”). The greater use of closing auctions should therefore be understood as a response to changing investor needs and evolving market practices.

In addition, regulatory and market structure changes have amplified this shift. The post-MiFID II environment has facilitated a wider range of execution models, including systematic internalisers (SIs), dark trading mechanisms and other alternative execution arrangements. While these developments have increased competition, they have also contributed to a more fragmented liquidity landscape, reinforcing the attractiveness of closing auctions as an essential point for liquidity aggregation and robust and transparent price formation.

In general, closing auctions perform a vital market function by bringing together liquidity at the end of the trading day and producing a single, transparent closing price. Therefore, maintaining the effectiveness and resilience of closing auction mechanisms remains essential for the orderly functioning of equity markets, including efficient price formation, market integrity and confidence in benchmark prices.

Q2: Do you think that there are additional aspects or trends regarding end-of-day auction mechanisms and post-close sessions, that have not been captured? If so, please explain.

As a general comment, FESE notes the growing dependence on reference prices generated by lit markets, including closing prices determined through closing auctions. As an increasing share of trading relies on price formation without contributing to it, safeguarding liquidity and price discovery during closing auctions, and on transparent multilateral venues more

broadly, is essential to preserve the quality and reliability of reference prices across the market. For more details, please refer to Q6, Q18 and Q20.

Q4: Have you observed any impact on competition arising from liquidity variation throughout the trading day? If so, please provide further information on this.

FESE has not observed evidence suggesting that shifts in liquidity throughout the trading day have significantly altered the competitive landscape. Competition between execution venues remains robust overall, although regulatory asymmetries between multilateral trading venues and SIs continue to create distortions in incentives and competitive conditions.

With respect to closing auctions, FESE considers that there are no structural or regulatory obstacles to competition. In this space, competition both among trading venues and with bilateral systems and internalisation is strong. The continued growth of closing auction activity reflects the value that investors place on features such as concentrated liquidity, efficient price formation and execution at a single closing price.

The competitive environment has also encouraged the development of alternative solutions to provide access to the closing price outside the primary closing auction itself. This involves executing orders at the official closing price once it has been established, while some models operate alongside existing auction mechanisms. Certain investment firms also offer “market at close” services, including execution through SIs, allowing clients to obtain exposure to the closing price through alternative channels.

Q5: Where a closing price cannot be determined in the closing auction, what fallback options exist in your jurisdiction, and how frequently have they been applied?

FESE notes that European trading venues generally maintain well-established contingency arrangements to ensure the orderly determination of a reference closing price in exceptional circumstances where a closing auction cannot be completed. In particular, FESE Members have co-developed public playbooks (<https://www.fese.eu/publications/exchange-playbooks-on-outage-protocols/>) to support market participants in the event of potential outages. In these cases, for instance, the last traded price may be used as the reference closing price. Market participants are provided with a transparent and operationally robust fallback mechanism, while ensuring continuity for valuation, benchmark calculation and post-trade processes.

Given the rarity of such events and the high level of operational resilience of European trading venues, these measures are applied infrequently, although their availability is essential. Under normal circumstances, the closing auction remains the preferred mechanism for establishing the closing price, as it aggregates buying and selling interest in a transparent manner and contributes directly to price formation.

Q6: Have you observed an increase in the prevalence of mechanisms by which investors are guaranteed execution at the closing price, without routing trades through a trading venue’s closing auction? If so, please provide details on this and, any impact on: (i) market efficiency; (ii) price discovery, (iii) liquidity, (iv) investor protection and (v) market resilience.

FESE notes that the growing concentration of activity around the market close may also be linked to the increasing use of alternative execution arrangements that allow participants to obtain the closing price without directly participating in the primary market’s closing auction. A variety of products now operate alongside official closing auctions. FESE notes that IOSCO has identified the growing use of alternative execution mechanisms, including post-close trading, dark venues, SIs and OTC transactions, as one possible factor contributing to changing liquidity patterns during the trading day. Similarly, in its Call for Evidence on

European equity market structure, ESMA has highlighted a broader market trend towards execution mechanisms that depend on reference prices generated elsewhere, both on- and off-venue.

While these developments increase the range of execution choices available to market participants, they may also raise longer-term concerns for the price formation process. Lit multilateral trading venues remain the primary source of transparent price discovery; a continued migration of trading activity towards mechanisms that reference market prices without materially contributing to their formation could gradually weaken the underlying price discovery process and affect the robustness of reference prices.

To enable a more comprehensive assessment of these developments, FESE would support enhanced transparency around transactions executed at the closing price outside regular trading hours and across different execution mechanisms. In particular, FESE supports a more widespread use of the CLSE post-trade flag across jurisdictions, similar to the existing regime in the UK. Greater visibility of these transactions would support regulators and market participants in assessing the evolution of trading at the closing price and its potential implications for liquidity and price formation.

Q8: Do trading venues' cybersecurity programs consider possible increased cyber risk implications related to changes in liquidity profile, such as concentrated liquidity periods? Are trading venues considering their operational resilience frameworks, BCP and recovery plans, in light of changes in liquidity profiles and concentrated trading periods? Do you have any additional element relevant to enhance the operational resilience during periods of increased concentration of liquidity?

In the EU, the existing regulatory framework already provides a comprehensive and robust set of requirements to address operational resilience, including cybersecurity risks arising from periods of concentrated trading activity. In particular, trading venues are subject to both the DORA framework and the requirements applicable under MiFID II/MiFIR, which establish extensive obligations relating to ICT risk management, cyber resilience, disaster recovery, system capacity and operational safeguards. These frameworks already encompass risks linked to in case of increased trading volumes, changing liquidity profiles and concentrated liquidity events.

FESE therefore does not consider that additional specific requirements targeting concentrated liquidity periods are necessary in the EU context. Introducing further requirements that pursue the same objectives could create unnecessary overlap, increase compliance complexity and risk inconsistencies with the existing regulatory framework. Regulatory efforts should focus on ensuring consistent implementation and supervision of the existing DORA and MiFID II/MiFIR requirements.

Q14: Do you agree that the changing liquidity dynamics and the existence of differentiated trading phases could be considered in the calibration and review of volatility control mechanisms (VCMs)? Please elaborate on whether the growing complexity of secondary markets' microstructural features shall be considered in the context of VCMs' review.

In the EU, the regulatory framework already provides a comprehensive approach to the calibration and review of volatility control mechanisms (VCMs). Under Article 48 MiFID II, and the ESMA guidelines on circuit breakers (as the amended RTS 7 is pending adoption), trading venues are required to establish and regularly review VCMs taking into account the characteristics of the relevant instrument and its liquidity profile.

In this respect, changing liquidity dynamics and differentiated trading phases should be already largely captured by the existing EU framework. Trading venues operate different market models, trading phases and instrument types, and volatility control mechanisms should be calibrated according to these specific features.

Q18: Do you believe that the concentration of trading activity during closing auctions may raise risks for price formation and benchmark integrity, and if so, how could these risks be monitored or addressed?

FESE agrees with the observation that, to date, the growing concentration of activity in closing auctions has not resulted in a deterioration of key market quality metrics such as average daily bid-ask spreads or depth of liquidity during the continuous trading session. At present, no evidence is available to suggest that price formation and benchmark integrity have been negatively impacted by the concentration of liquidity in closing auctions.

Closing auctions continue being essential for price formation and the determination of the closing price as a benchmark. By bringing together a broad range of buying and selling interest at a single point in time, they support efficient price discovery and the determination of reliable closing prices. Maintaining the integrity and robustness of closing auctions is therefore essential for the functioning of capital markets.

Nevertheless, FESE believes it is important to monitor broader trends in liquidity distribution. While the concentration of activity in closing auctions does not currently appear problematic, a more significant shift of trading activity away from transparent lit markets and towards bilateral or other alternative execution mechanisms could, over time, have implications for the price formation process. The increasing use of execution models that rely on reference prices generated elsewhere highlights a potential structural imbalance. Should this trend become more pronounced, the quality and resilience of price formation could be affected.

FESE considers that greater transparency regarding transactions executed at the closing price across different execution mechanisms would facilitate a more informed assessment of these trends. To this end, FESE reiterates its proposal to broadly introduce a dedicated post-trade flag identifying transactions executed at the closing price across all relevant execution venues, similarly to the UK's CLSE flag. This would enable regulators and market participants to better monitor the evolution of alternative closing mechanisms and assess their impact on liquidity, price formation and market efficiency.

Q20: Have you observed any other risk stemming from changes in liquidity patterns? In addition to the closing auctions, have you noted a rise of other alternative trading protocols? If so, have you noted that these new trading protocols may have an impact on market liquidity?

FESE considers that a key risk associated with evolving liquidity patterns is the continued displacement of trading activity from transparent multilateral markets towards bilateral and other less transparent execution mechanisms.

Transparent order books and closing auctions remain the primary venues where prices are established and subsequently used as a benchmark by a broad range of market participants and trading models. Consequently, a market structure in which an ever-smaller proportion of trading actively contributes to price discovery, while a larger proportion relies on the resulting prices, may become increasingly difficult to sustain over time, with a risk that the quality and resilience of price discovery could gradually weaken.

For these reasons, FESE believes that continued monitoring of liquidity migration trends is warranted. In particular, the contribution of different trading models to the price formation process could be assessed, to analyse how increasing levels of bilateral and non-transparent trading and the consequent changes in liquidity patterns may affect price formation, market efficiency and the long-term sustainability of transparent multilateral markets.