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EFAMA

European Fund and Asset Management Association

EFSA

European Forum of Securities Associations

Ensuring a Market Structure and a Transparency Regime which facilitate Liquidity, Investors' choice, and Funding of Companies[1]

Well-functioning and liquid capital markets are fostered by an efficient market structure and supporting legislative frameworks. A diverse and efficient market structure reduces the costs of trading whilst promoting best execution. This optimises funding opportunities for issuers and maximises returns for investors and savers.

To ensure that the EU market structure and transparency regime remain fit for purpose the MiFIR review must abide by the following principles[2]:

Regulatory changes must be based on thorough analysis: The quality of the existing post-trade transparency data does not allow for an accurate analysis of EU equity and fixed income markets. EFAMA and EFSA support ESMA initiative to substantial review and enhance RTS 1 and RTS 2, and to continue to improve the accuracy and completeness of the existing data sets. It is vital that financial markets regulatory policy is data-driven. Any proposed regulatory changes should demonstrate benefits for end investors and issuers[3].

Investors' choice should not be compromised: Market participants need choice and competition amongst the different execution venues to enable the best possible outcomes for investors. This means that all types of trading mechanisms should be allowed to satisfy varying investor needs such as preferences relating to size or immediacy of execution.

Systematic internalisers (SIs) and other liquidity providers (LPs) activity should be protected: Unlike central limit order book trading systems operated by regulated markets and multilateral trading facilities, SIs and other LPs operating on various market models offer execution against their own capital, thereby enabling timely and efficient execution independent of prevailing market liquidity. The EU regulatory framework ought to ensure that liquidity can continue to be offered to the European investor community in a way that allows liquidity providers to appropriately manage their risks.

SIs and other LPs play a valuable and distinct role in financial markets, which complement central limit order book trading. Liquidity providers should not be considered as substitutes to trading venues, they offer their clients an alternative way of trading that cannot be replicated. In doing so, liquidity providers use their capital and balance sheet to facilitate cheaper, more efficient, and better priced investment transactions to the buy-side. For example, when trading with wholesale clients – such as pension funds - SIs can minimize market impact when executing larger orders, which trading venues are unable to do. For retail clients, they can provide two-side quotes in smaller sizes and ensure immediate execution, which central limit order book trading systems often are unable to support, particularly in less liquid instruments.

Limitations on SIs and other LPs will unduly restrict their ability to provide these services and will undermine the benefits that have been realised through the introduction of MiFID I and II.

Transparency needs to be well-calibrated to each instrument: The balance between transparency and liquidity is delicate. Bond markets are price-driven and not order-driven (unlike the equity markets) and depend on risk capital provided by committed LPs (including SIs). If LPs are exposed to undue risks due an inappropriately calibrated transparency framework, liquidity will be affected by higher spreads or smaller quotes. This will impact corporates raising financing in markets, investors' ability to allocate their savings and ultimately the overall financial stability of the Union.

[1] EFAMA,the voice of the European investment management industry, represents 28 Member Associations, 60 Corporate Members and 24 Associate Members. At end Q2 2020, total net assets of European investment funds reached EUR 17.1 trillion. These assets were managed by almost 34,200 UCITS (Undertakings for Collective Investments in Transferable Securities) and more than 29,100 AIFs (Alternative Investment Funds). More information is available at www.efama.org. EFSA is a forum of European Securities Associations gathering the Association for Financial Markets in Europe (AFME), the French Association of Financial Markets (AMAFI), the Spanish Asociación de Mercados Financieros (AMF), the Italian Association of Financial Intermediaries (ASSOSIM), the Danish Securities Dealers Association (DSDA), The German Federal Association of Securities Trading Firms (bwf), The Belgian Financial Sector Federation (Febelfin), The Polish Securities Dealers Association (IDM) and the Swedish Securities Markets Association (SSMA).

[2] Please see our recommendations as published by EFAMA here and EFSA here.

[3] For a comprehensive analysis of the current equity market trading landscape, please refer to "The landscape for European equity trading and liquidity (Oxera, June 2021)", which addresses some of the flaws of ESMA's Annual Statistical Report, November 2020.