

Financial Conduct Authority  
International Division  
12 Endeavour Square  
London, E20 1JN  
United Kingdom

27 november 2020

**FIA EPTA response to the FCA's consultation paper on its approach to international firms**

The FIA European Principal Traders Association (FIA EPTA) appreciates the opportunity to respond to the FCA's consultation paper on its approach to international firms and the process for setting out the FCA's expectations of such firms operating in the United Kingdom under its framework. FIA EPTA is supportive of the FCA's proposed flexible approach to the regulation of international firms. FIA EPTA would, therefore, like to use this opportunity to set out why we support this approach and how we believe it would benefit UK financial markets.

FIA EPTA represents 29 independent European Principal Trading Firms (PTFs) which deal on own account, using their own money for their own risk, to provide liquidity and immediate risk-transfer in exchange-traded and centrally-cleared markets for a wide range of financial instruments, including shares, options, futures, bonds, ETFs and OTC derivatives. All of our members are investment firms authorised under MiFID II. We note the majority of our members would not qualify as international firms as they are physically based in the UK and authorised by the FCA directly. However, many of our EU based members have taken advantage of the FCA's Temporary Permissions Regime. Additionally, it should be noted that most of our member firms are part of global groups of principal trading firms, in many cases with parent companies or subsidiaries which would qualify as international firms and which are providing liquidity to UK markets and end-investors separate from, and in addition to, the activities of our member firms on the UK market directly.

FIA EPTA's members and the global PTFs with which they are affiliated are independent market makers and provide liquidity and risk transfer for exchanges and end-investors across Europe. Market making and liquidity provision (also referred to as principal trading or dealing on own account) is a distinct activity that is undertaken by non-systemic investment firms rather than banks, in a highly dispersed and varied ecosystem of independent Principal Trading Firms. These firms operate in an innovative and competitive fashion leading to a vibrant, dynamic and diverse ecosystem which massively reduces interconnectedness and increases substitutability. This fundamentally reduces systemic risk whilst improving market quality and lowering costs for retail and institutional investors alike.

PTFs generally transact on-exchange in a transparent and centrally cleared trading environment where their trades are cleared and settled by General Clearing Members which, as gatekeepers, provide an additional layer of risk management. Consequently, we would assess the wholesale risk associated with the liquidity provision activities of our members and the global PTFs affiliated with them as low.

From the FCA's consultation, we understand that an international firm that meets all FCA requirements and has the appropriate risk mitigation mechanisms in place will be able to be authorised, while the FCA will address other specific challenges in cases where a firm does not meet the minimum standards. FIA



## EUROPEAN PRINCIPAL TRADERS ASSOCIATION

EPTA consistently argues for a robust, fair and proportionate regime to be applied to our members. We therefore firmly support the FCA's commitment to crafting such a personalised framework for the mitigation of risk that international firms may pose. The FCA's overarching goal of ensuring that offering financial services to UK market participants is appropriately regulated and supervised is laudable and in line with FIA EPTA's wider views on market regulation.

Because of their specific nature as firms dealing on own account, FIA EPTA members and their global parent companies or subsidiaries do not clearly fall within one of the categories listed in the consultation. As stated above, our members trade on their own account and the market is structured in such a way, that none of our members poses systemic risk. We welcome that the FCA's proposed, customised approach to international firms would allow for our members to engage constructively with the regulator and continue operating within the UK's financial markets within the appropriate regulatory framework. We consider that this will help to ensure that principal trading firms can continue to focus on providing liquidity to the wider UK market and end-investors.

We also welcome that the consultation paper provides more clarity on the FCA's intended regulatory approach following the end of the transition period when the UK will start to apply its own legislation from 2021 onward. The UK's future regulatory path will undoubtedly cause some need for adjustment by our members and other market participants. The proposed approach to international firms helps in this regard by easing cross-border operations and providing some necessary form of continuity. The consultation also gives us and our members confidence that UK markets will remain among the most open, effectively regulated and attractive capital markets for the foreseeable future.

We very much look forward to participating in future regulatory dialogue with the FCA. If you have further questions or if you wish to receive additional information, we and our members will be very happy to provide this.

Kind regards,

A handwritten signature in blue ink, appearing to read 'Piebe Teeboom', written in a cursive style.

Piebe Teeboom  
Secretary-General, FIA EPTA