

FIA EPTA response to FCA CP21/09 on Changes to UK MIFID's conduct and organisational requirements

FIA EPTA welcomes the opportunity to respond to the FCA's consultation on changes to UK MIFID's conduct and organisational requirements with a particular view on best execution reports.

We agree with the FCA assessments that, in their current form, RTS 27 (quarterly reports) and RTS 28 (annual reports) have not achieved their policy goal of enhancing investor protection or improving information on execution quality and order routing. For this reason, we would suggest to replace the current RTS 27 and 28 rules by a more effective regime which should be simplified, more standardised and generally more useful to both wholesale and retail market participants.

Q8 a. Do you agree with our proposal to remove the obligation for execution venues to produce execution quality reports consistent to the format prescribed under RTS 27?

Yes, FIA EPTA members agree with the FCA's proposal. We do, however, consider that the original policy intention (i.e., to provide market participants with comprehensive information on execution quality) continues to be worthwhile and we would, therefore, suggest to the FCA to develop a new and better regime in its place. We elaborate on this below.

b. If yes or no, please explain your views.

FIA EPTA members' experience is that, in their current form, the RTS 27 reports are not widely used by market participants, while at the same time being onerous for execution venues to produce.

Reasons why the reports are not widely used by market participants include the stale and not easily collatable nature of the information contained therein, which is further aggravated by the lack of prescribed standardised formatting and the fact that the reports need to be collected by users in a decentralised manner from each individual execution venue. In sum, this creates an impractical process for potential users. It should be noted, however, that the reasonably substantial client base for commercial services which normalise and aggregate RTS 27 report data suggests that a much greater potential user-base does exist. Given the relatively high cost for little benefit in its current form, FIA EPTA members support the FCA's suggested amendment to delete RTS 27 in COBS 11.2A, 11.2B and 11.2C. and the need to produce quarterly best execution reports as specified in RTS 27.

We continue to be of the view that transparency on where orders are routed and where instruments are traded and under what conditions is important for investors and market participants to get a clear liquidity picture and insight on the quality of execution.

Therefore, FIA EPTA members would suggest to the FCA to replace RTS 27 reporting by a more effective, new regime that should be designed such that it does actually provide useful information for market participants. We would suggest in this regard for the FCA to orient itself on the [SEC Rule 605](#) reports in the US, as these do indeed provide market participants with actual transparency on execution quality in a relevant, standardised, centralised and consistent manner. As globally active firms are well accustomed to the Rule 605 format, this would also reduce administrative cost and facilitate global workstreams for many firms.

Q9: a. Do you agree with our proposal to remove the obligation for firms who execute orders to produce reports about their order routing and execution outcomes obtained consistent to the format prescribed under RTS 28? [Yes/No/No view]

Yes, FIA EPTA members agree with the FCA's proposal to remove the obligation in its current form. However, we do consider that the FCA should replace it by a better designed and more useful reporting regime, as explained below.

b. If yes or no, please explain your views

FIA EPTA members consider that the current RTS 28 reports do provide a level of basic clarity on where brokers route their orders and should, given their format, not be too burdensome to produce. In terms of added value, it should be noted that the RTS 28 reports can quickly highlight cases where brokers rely on very few venues (especially SI or OTC venues) or affiliate entities for the bulk of or entirety of their execution, both of which can be potential red flags for conflicts of interest.

However, FIA EPTA members consider that in their current form, the RTS 28 reports are so basic that they also lose value in terms of the level of insight provided. Therefore, we would suggest to the FCA to substantively redesign the reporting requirements for firms about their order routing and execution outcomes so as to ensure that these reports are insightful and highlight particular points where there are likely to be conflicts of interest. We would suggest i.a, the following principles to guide such a new reporting regime, which in our view would make it relevant and worthwhile from a cost-benefit perspective:

- Quicker turnaround and reporting frequency – We would propose quarterly and with a short timeline between end of year/quarter and publishing deadline;
- Mandating a specific format and making the reports accessible centrally via a register maintained by the FCA;
- Ensuring that the reports are machine-readable via a prescribed format (such as csv), enabling data analysis at-scale by market participants. Such a machine-readable formatting should include all destinations, not merely the top-five;
- Highlighting how much of a brokers' flow is routed to any affiliate entity/SI for execution, irrespective of whether this entity sits in the top-five for any of the current sections. This would clearly highlight areas of potential conflicts of interest that may come along with internal routing.

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About FIA European Principal Traders Association (FIA EPTA)

FIA EPTA represents 30 independent European Principal Trading Firms (PTFs) that deal on own account, using their own money for their own risk, to provide liquidity and facilitate risk-transfer in exchange-traded and centrally-cleared markets for a wide range of instruments, including shares, options, futures and ETFs. As market makers and liquidity providers, our members contribute to efficient, resilient, and high-quality secondary markets that serve the investment and risk management needs of end-investors and corporates throughout Europe, including the UK. FIA EPTA's members are based in the Czech Republic, Germany, Ireland, The Netherlands and the UK (70% of our members having been licensed by the FCA).