FIA EPTA response to the FCA's CP22/12 on Improving Equity Secondary Markets

16 September 2022

Introduction:
The FIA European Principal Traders Association (FIA EPTA) appreciates the opportunity to provide feedback to the FCA's CP22/12 on Improving Equity Secondary Markets.

FIA EPTA represents 24 independent 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 and ETFs. Our members are independent market makers and providers of liquidity and risk transfer for exchanges and end-investors across the European trading region, including the UK. FIA EPTA's members are based in the Czech Republic, Germany, Ireland, The Netherlands and the UK (More than two-thirds of our members having been licensed by the FCA).

FIA EPTA members appreciate FCA's consideration of our comments and stand ready to provide any further input as required.

CP UK MiFID II RTS1, Improving Equity Secondary Markets

Chapter 3: Post-Trade Transparency

Headline points on Post-Trade Transparency:

- FIA EPTA is appreciative to the FCA for taking the lead in designing an improved post-trade transparency regime which should benefit the efficiency and competitiveness of UK capital markets. FIA EPTA members found broad support for the FCA's proposals and found them to be mostly welcome enhancements to the current approach to post-trade transparency. We believe that the targeted calibrations to the FCA's proposals that we suggest in our response will help ensure that the regime is effective and fit for purpose. In that regard, we emphasise the need for an appropriate lead-time for firms to implement the new regime. Furthermore, as these improvements would lead to differences regarding the applicable post-trade transparency regimes in the wider European trading region, such lead-time will also allow market participants to advocate for corresponding changes to the relevant EU regime.

- We support a change to consider the closing auction as a benchmark within the BENC definition (and feel this should also include other scheduled auctions for completeness). FIA EPTA members also believe that the BENC indicator is valuable as an independent identifier, particularly when combined with the ALGO indicator to identify systematic broker closing cross activity which is understood to now be a significant proportion of closing auction activity. FIA EPTA members therefore do not support consolidating this identifier with other non-price-forming flags.
- FIA EPTA members fully support the concept of a Designated Reporter (DR) regime and see this as a clear improvement on the current trade reporting hierarchy. However our members believe that this should be set at the asset class level, not the entity level and should provide additional flexibility in the event that two DRs have traded against each other.
- FIA EPTA supports efforts to increase transparency in the trading markets and believe that the regulator should be aiming to ensure that each equity trade (including those done synthetically (swap, CFD, GU) should be reported once (and only once) via a Regulated Market (RM), MTF or APA. At a high level this can be thought of as printing total volume only once despite the potential for many transactions to involve chains of trades between investment firms. Where transactions reflect the same underlying economic terms (allowing for the potential for multiple smaller hedging transactions to occur throughout the day, often followed by subsequent transfers within the chain occurring at the overall average price), the volume traded should only be printed once.
- Whilst an exemption from reporting for give-up and give-in transactions is broadly welcome, FIA EPTA members would like to highlight that such a change could actually lead to a reduction in transparency relative to the current regime. When an executing broker fills a synthetic order by crossing it against another synthetic client order, there is no trade report for such a cross. In such cases, therefore, the only public record of this trade occurs from the resulting transfer of the aggregate position from the executing broker to the investment firm's prime broker by way of give-up.

Q1: Do you agree with maintaining the exemption for inter-funds transfers in Article 13?

- FIA EPTA members agree with the FCA.

Q2: Do you agree with the new definition of inter-funds transfers?

- FIA EPTA members agree with the FCA.

Q3: Do you agree with amending the exemption from post-trade reporting for give-ups and give-ins?

- FIA EPTA members agree with the FCA. The revised definition helps clarify what sorts of transactions constitute a give-up trade but the exemption from reporting give-up/give-in trades under Article 13 would likely mean some end-investor trading interest not being reported at all.

FIA EPTA supports efforts to increase transparency in the market and we believe that the regulator should be aiming to ensure that each equity trade (including those done synthetically (swap, CFD, give-up) will be reported once (and only once) via a RM, MTF or APA. At a high level this can be thought of as printing total volume only once despite the potential for many transactions to involve chains of trades between investment firms. Where transactions reflect the same underlying economic terms (allowing for the potential for multiple smaller hedging transactions to occur throughout the day, often followed by subsequent transfers within the chain occurring at the overall average price), the volume traded should only be printed once. For give-up/give-in/RFMD trades there will generally be a price difference between the average executing price on the fills and the end of day net booking on net trade being given up to the investment firm's prime broker. This is due to the fact that the executing broker needs to charge commission but cannot bill the investment firm directly, meaning that commission is generally rolled into the executing price via a markup. Reporting this "net" trade offers no value to the market and, arguably, could be dropped, but only if all child-order fills are reported at the time of execution as the RFMD order is worked.

The potential for the proposed change to reduce transparency occurs because, currently, the end investment firm may choose to trade a UK or EU security synthetically or physically. This can lead to different levels of transparency depending on how the order is filled. By way of example, consider the situation whereby an investment firm places an order with a broker to buy 1m shares of VOD:LN, as further detailed in the scenarios below:

1) *Where investment firm A elects to trade trades the physical underlying cash equity*: In this case, regardless of how the broker works the order, the 1m shares should be reported once. As the order is worked across the following venues, trade reporting will be:
    a) RM/MTFs - volume worked across RM/MTF books (lit and dark) will be reported by the respective venue as each child order is filled;
    b) ELP SIs - volume will be reported by the ELP SIs (seller reports) as each child order is filled. The volume would be reported to an APA;
    c) Broker Internalisation - regardless of whether this is a fill from the broker's risk desk (SI) or a natural cross vs delta one synthetic client business (swap and GU/RFMD). The volume would be reported to an APA.

    Once the parent order is fully filled, it would be booked to the client at the average price of all the child order fills and no further trade report would be generated, however we believe there to be a lack of consistency across investment firms with some firms reporting the average price trade in addition.

2) *Where investment firm A elects to trade synthetically (either on swap with the broker executing the parent order or via another PB as RFMD/give-up)*: In this scenario, not all the 1m shares may get printed depending on where the fills occur:
   a) RM/MTFs - As with a cash/physical order any volume worked across RM/MTF books (lit and dark) will be reported by the respective venue as each child order is filled and there is no difference in this scenario;
   b) ELP SIs - As with a cash/physical order any volume worked across ELP SIs will be reported by the ELP SIs (seller reports) as each child order is filled. The volume would be reported to an APA;
   c) Broker Internalisation – Here there is a difference. Where the child order is filled via a natural cross against other client-driven orderflow, a trade report will only be generated to the extent that the child order driven by investment firm A crosses against a cash/physical contra order from another client of the broker. If the contra order was for example investment firm B that had also elected to trade synthetically, then no trade report would be generated. Ultimately, therefore, if investment firm A's order is for swap done with the executing broker, any SI fills from the broker's risk desk would not be reported at all. If investment firm A's order is a RFMD/GU then any broker SI fills would only get included within the end-of-day net booking to investment firm A's prime broker.

For a RFMD/GU order the end of day booking of the parent order will be done with the commission rolled in via a mark-up and here some brokers may report the full 1m shares to an APA while others may not. Where this volume is reported it will represent duplicate volume of any child orders filled via a) and b) (and potentially c)), while also representing the only print for a subset of the child orders filled via c).

At the extreme, if the parent order is fully filled via internalisation vs investment firm B's synthetic order, no volume at all is printed to the market, unless given up. Under the FCA current proposals, therefore, the give-up would also be non-reportable. Under either scenario 1 or 2 above, FIA EPTA members believe that 1m shares of VOD:LN should be printed to the market across the RM/MTFs and APAs as each child order is filled.

FIA EPTA would therefore strongly encourage the FCA to review the practice of de-facto-riskless synthetic crossing activity occurring within broker-operated SIs. We believe that this practice harms transparency in the example provided above, making the true size of the UK's equity market unknowable. A complete picture of the equity market could be achieved by requiring the reporting of client-driven synthetic trades on equity underliers, as described above, and by creating an additional flag for the reporting of a synthetic form of an equity trade.

Q4: Do you think guidance to clarify further the types of give-ups and give-ins that can benefit from the exemption from post-trade transparency is required?

- FIA EPTA members are neutral in the assessment by the FCA.

Q5: Do you agree with introducing an exemption for inter-affiliate trades?

FIA EPTA members are neutral in the assessment by the FCA. In principle FIA EPTA members support a regulatory approach whereby volume is reported to the market once. Intra-day or end of day movements between affiliates can be categorised as non-addressable but do not necessarily always represent volume that has already been reported on via a market leg. We would support inter-affiliate back-to-back riskless principal trades as being non-reportable and believe this is already the case in practice. However, there will also be instances where positions may have been established over a number of days before subsequently being booked to an affiliate and this volume would represent volume that has some relevance to the market and should be retained as being reported (but with a flag to indicate the non-addressable nature). It is also worth highlighting that the majority of inter-affiliate trading happens between EU and UK based affiliates and as such, without a similar change on the EU side any change to the UK regime will likely have limited impact.

Q6: Do you agree with our proposed definition of inter-affiliate trades?

- FIA EPTA members agree with the assessment by the FCA.

Q7: Do you agree with the deletion of point d) from Article 13?

- FIA EPTA members strongly agree with the assessment by the FCA.

Q8: Do you agree with the proposal to introduce a deferral for all transactions within scope of Article 13 of RTS 1?

- FIA EPTA members agree with the assessment by the FCA.

Q9: Do you agree with our proposals to align the definitions of non-price forming trades in Articles 2, 6 and 13?

- FIA EPTA members agree with the assessment by the FCA.

Q10: Do you agree with our proposal to amend the definition of benchmark transaction to include transactions that reference to the market closing price?

- FIA EPTA members agree with the assessment by the FCA. FIA EPTA members consider the definition of a benchmark trade should also include other scheduled auctions.

Post-trade flags

Q11: Do you agree with the deletion of the SI related flags "SIZE" and "ILQD" and "RPRI"?

- FIA EPTA members strongly agree with the assessment by the FCA. FIA EPTA members consider these flags to be of limited use and therefore we agree that they can be removed.

Q12: Do you agree with the deletion of the agency cross flag "ACTX", the duplicate trade flag "DUPL" and the algorithmic trade flag "ALGO"?

ACTX: Agree

While crossing activity still occurs, notably in the context of synthetic order flow but also ad-hoc crossing via high touch desks at brokers, we understand this activity is all reported as SI trades and the ACTX flag is not widely used

DUPL: Disagree

In many situations the DUPL flag, as defined, is redundant on the basis that firms do not generally report the same trade to multiple APAs. However some of our members operate an SI from a UK-based branch of an EU entity and require this flag for cross-jurisdictional reporting purposes. Specific guidance has been provided to confirm that UK SI MIC codes are unrecognised within Europe and a single UK trade report does not meet EU reporting requirements. In such circumstances, firms need to report the same trade once in the UK and again in the EU but using a different MIC code. In this scenario the ability to apply the DUPL flag is valuable to avoid double-counting of volumes when looking at activity across the two jurisdictions, and hence the wider EU trading region, holistically.

ALGO: Disagree

The ALGO flag should be retained as it provides a useful method for looking at systematic and non-systematic activity. This can be a key indicator in attempting to determine whether reported activity was "addressable" and therefore could reasonably be expected to be available to a wide number of market participants, or whether it was manually bilaterally agreed.

<u>Aggregation of flags</u>

Q13: Do you agree with the proposal of identifying "benchmark", "portfolio" and "contingent" trades with one single flag, "TNCP"?

- FIA EPTA members disagree with the assessment by the FCA. Gaining visibility into the proportion of activity crossed by brokers at the closing auction price is welcome. This is achieved by including the close in the definition of Benchmark and by maintaining the Benchmark flag as a way of distinguishing this business from other non-price-forming flow.

Q14: Do you agree with our proposal to aggregate the three negotiated transactions flags into one single flag, "NETW"?

- FIA EPTA members agree with the assessment by the FCA.

Q15: Are there any other flags that we should consider removing, amending or adding?

- FIA EPTA members did not flag any other flags.

Q16: Do our proposals to modify the flags for trade reporting impact your systems for transaction reporting?

- FIA EPTA members agree with the assessment by the FCA. FIA EPTA members consider that not aligning the changes between the flags used for trade reporting and those required on a transaction report may significantly increase the complexity for firms' reporting systems due to the need to retain separate logic to generate the flags for trade reporting and transaction reporting. It will also still be necessary to pass the "old" trade reporting flags in real time to the counterparty on each transaction so that they can capture the information for their own transaction reports. This situation is already complicated in cross UK-EU transactions where each regulated party will be subject to differing reporting rules and using different regulatory reference data. The lack of alignment between the trade report and transaction report will also make firm's audits and checks of the reporting accuracy much more difficult.

  Furthermore, our members are concerned about the capability and timeliness with which APAs would be able to manage any required changes to the reporting structure and so urge further discussion with APAs to avoid a disjointed approach to the support of any changes.

  Members are also cognisant of the cost of differences emerging for firms both between trade and transaction reporting within the UK and between the UK and the EU. Reporting cost and complexity has increased for firms that now need to reference four data sources across two jurisdictions to meet their regulatory obligations within the wider European trading region (i.e., FCA FIRDS and FITRS and ESMA FIRDS and FITRS). While the proposed changes by the FCA to equities post-trade transparency are generally welcome when considered as stand-alone improvements, they are unlikely to bring meaningful benefits unless calibrated on the basis of a further cost-benefit analysis, taking into consideration the numerous firms with regulated entities in both the UK and EU.

  At a minimum, FIA EPTA members would encourage the FCA to apply a sufficiently long lead time (following consultation) before implementation in order to:
  - Achieve internal system changes across relevant firms;
  - Achieve system changes across the entire APA community to ensure consistency;
  - Enable market participants to advocate for corresponding changes to the relevant EU regime in order to minimise operational differences in required standards across jurisdictions
  - Seek alignment between post-trade reporting flags and transaction reporting flags.

<u>**Content of the reporting fields**</u>

Q17: Do you agree with the proposed changes to the reporting fields?

- FIA EPTA members disagree with the assessment by the FCA. While in principle the change suggested would make sense, at this point we believe firms' systems are already adapted to consuming the price field on a trade report with both numeric and non-numeric values and a change at this point seems to add limited value while forcing firms to make technical changes. Without alignment from EU regulators, firms with operations in both the UK and the EU would need to maintain systems to manage both formats which would lead to further unnecessary costs.

Q18: Are there other changes that you suggest we should make to the fields of reported transactions?

- FIA EPTA members did not make any other suggestions.

<u>Designated reporter regime</u>

Q19: Do you agree with our proposal to create a regime where firms will be able to opt in as designated reporters at an entity level?

- FIA EPTA members agree with the assessment by the FCA. Our members fully support the concept of a Designated Reporter ("DR") regime and see it as a clear improvement on the current trade reporting hierarchy. However, whilst this change would be an improvement, it could be more precisely applied and also be extended in order to better mitigate current reporting issues. In that regard, our members believe the DR regime should be set at the asset class level, not the entity level, and should provide for additional flexibility in the event that two DRs have traded against each other.

  Opting-in the DR regime at an entity level would tie firms predominantly active in only one asset class that transact only ad-hoc in other asset classes to reporting all trades. Such firms may not necessarily have the technical capabilities and infrastructure required to effectively report outside their core asset class. By contrast, defining DR at the asset class level would mitigate this risk.

  Introducing a DR regime should certainly remove some trading activity that is currently reported as being on an SI only for trade reporting purposes. This would therefore likely reduce the number of firms that feel obligated to become registered as an SI, reducing SI activity as a proportion of total value traded and thus helping focus regulatory attention. However we do not believe such changes would fully resolve the issues with the current reporting regime as many problems stem from interactions where both counterparties are SIs. In theory, there is provision within MiFID II to support the notion of two SI firms agreeing which party would report. However, in practice it is the experience of FIA EPTA members that broker and investment bank counterparties accessing SIs liquidity were reluctant to enter into such agreements and so maintained a partial trade reporting responsibility. It would help to clarify the reporting responsibility if the SI operator (i.e. the investment firm providing the liquidity) could take responsibility for trade reporting regardless of whether the transaction is a buy or a sell. Such a change, combined with a DR regime designed to cleanly lift any reporting obligation from the buy side/regulated end-investors should create a much simpler reporting hierarchy.

For true bilateral OTC trades done outside of an SI by two designated reporters (the majority of which will consist of high-touch trades between brokers) could then be left to be reported via a regular seller reports logic. Alternatively, building additional flexibility into the regime whereby in the event that two DRs have traded against each other, there Firms could rely on a written bilateral agreement as to which party assumes the responsibility for the trade report, in the event that such an agreement exists.

Q20: Do you agree that the FCA should maintain the register of designated reporters for firms to determine who reports OTC trades?

- FIA EPTA members agree with the assessment by the FCA.

Q21: Do you agree with the proposed implementation timetable? If not please explain your answer.

- FIA EPTA members disagree with the assessment by the FCA. FIA EPTA members are conscious of the consequent impending differences between the UK and EU post-trade transparency regimes and so where changes are welcome, would encourage to apply a sufficiently long lead time before implementation, in order to:
    - Enable market participants to advocate for corresponding changes to the equivalent EU regime in order to minimise operational differences in required standards across jurisdictions;
    - Achieve internal system changes across relevant firms;
    - Achieve system changes across the entire APA community to ensure consistency;
    - Advocate alignment between post-trade reporting flags and transaction reporting flags both within the UK and across the EU.

  Members therefore feel that a 12 months implementation time would be more appropriate, provided APAs are also able to make adjustments within this timeframe.

Chapter 4: Waivers from pre-trade transparency

<u>The reference price waiver</u>

Q22: Do you agree with the proposal to change the definition of the MRMTL to allow trading venues to derive the price form a non-UK venue provided that the price is transparent, robust and offers the best execution result?

- FIA EPTA members strongly agree with the assessment by the FCA.

Q23: Do you agree with the proposal to change the definition of the MRMTL for the purpose of the tick size regime?

- FIA EPTA members strongly agree with the assessment by the FCA.

The order management facility (OMF) waiver

Q24: Do you agree with the proposal to delegate the decision to set a minimum size threshold for reserve and other orders to trading venues using the OMF waivers?

- FIA EPTA members agree with the assessment by the FCA. FIA EPTA members consider that minimum size constraints for Iceberg orders are of less consequence than setting a minimum transparency level for these orders. This could be achieved not by way of standardised minimum order size, but by minimum display quantity of for example the larger of 10% of the order or 1 x Standard Market Size.

Chapter 5: Tick size

Q25: Do you agree with the proposal to allow trading venues to adopt the minimum tick size of the primary market located overseas when that tick size is smaller than the one determined based on calculations using data from UK venues?

- FIA EPTA members strongly agree with the assessment by the FCA.

Chapter 6: Improving market-wide resilience during outages

Q26: Do you agree with the proposals to be included in the FCA/industry guidance for trading venues?

(Joint FIA EPTA-AFME response)

FIA EPTA and AFME members are, in principle, supportive of the FCA's proposals establishing clear expectations of venue operators and market participants when responding to market outages. We look forward to working together with the FCA and other stakeholders to develop the most suitable guidance.
FIA EPTA and AFME members also welcome the FCA's plan to amend the reference price waiver regime to allow dark venues to consolidate prices from other markets as a way to contribute to market resilience.

Q27: Are there other areas we need to consider for the guidance?

(Joint FIA EPTA-AFME response)

We note that the FCA in its consultation paper highlights having "considered the concerns about Article 15 (2) of RTS 7 requiring trading venues to resume services within or close to two hours", but are not "currently persuaded of the case for a change".

FIA EPTA and AFME members consider that requiring venues to restart operations within two hours from an outage can lead to additional and unnecessary disruptions when venues are not ready to do so. However, we note that the appropriate application of this provision is that the trading venue should be prepared to recover within the two hours but should not restart within this timeframe unless ready to resume orderly trading.

Paragraph 6.8 of the consultation paper quite correctly identifies 'coordination problems' as a barrier to firms continuing to trade on alternative trading venues. However, it is not clear from the consultation paper that any of the proposed areas of guidance will solve for this critical issue. FIA EPTA and AFME members believe that the coordination problem is one where there are natural barriers (legal risks and conflicting interests) to the industry reaching a consensus on a solution without FCA facilitation.

FIA EPTA and AFME would therefore request further engagement with the FCA to explore ways in which it can provide the necessary leadership to facilitate a solution.
Similarly, it is of critical importance to identify the specific protocols to identify the closing price when an outage prevents the closing auction from taking place.

Q28: Is the current arrangement for an alternative closing price on the primary market appropriate?

- FIA EPTA members disagree with the assessment by the FCA. FIA EPTA strongly supports the requirement for a published and unambiguous process for the determination of alternative closing and settlement prices in the event of an outage to ensure the orderly settlement of derivatives contracts and the calculation of fund/ETF NAV prices.

  This procedure should be standardised across UK markets and agreed upon and preferably have appropriate recognition from the FCA.

  We would suggest that this closing price could be distributed via the Consolidated Tape (CT) once this becomes operational in the UK. We consider this functionality to be an additional important use case for the CT.

  In future, if an alternative closing auction was implemented, the alternative venue could also publish the closing price on the tape ensuring continuity of information for the consumers of the tape.

Q29: Is an alternative closing auction needed?

- FIA EPTA members are neutral in the assessment by the FCA. FIA EPTA members consider it to be critical that there is an agreed upon and recognised mechanism for determining and disseminating the closing price in the event of a primary market outage. Further thought should be given to a longer term best practice where there would be an alternative closing auction for market participants in the event of a primary market outage.

  As an increasing percentage of the daily volume crosses at the close, ways to reduce that dependency should be considered (for example by implementing a consolidated tape so participants have more confidence in pricing during continuous trading) and increasing the resilience of the closing auction process further by offering an alternative closing auction held on a separate venue.

Q30: Do you agree with the above proposals to be included in the FCA/industry guidance for market participants?

- FIA EPTA members agree with the assessment by the FCA.

Q31: Are there other areas we need to consider for the guidance?

Further to the areas already discussed, FIA EPTA members would reiterate the value of establishing a central venue status communications platform as an industry-wide initiative. Good communications from trading venues are heavily reliant on a venue to be first aware that it is experiencing technical difficulties and to be incentivised to notify participants. In practice, market participants are often the first to notice issues with connectivity, market data, or order flow at a venue. Presently, there is no standardised and commercially secure way in which participants can communicate amongst themselves to alert others of potential outages and identify if the issue is internal to the participant's systems or a broad venue is-sue. To solve this, a secure venue-status communications platform could provide a centralised tool to more identify outages quickly and to maintain continuity of trading.

Such a platform should be simple and secure in its design and we envision a step-wise, iterative approach to its development. In the future, such a platform could form a valuable single central hub whereby any participants or other stakeholders could obtain information about the health of trading venues. However, to get to that state would be a large project and in some ways parallel or duplicate efforts and tools that trading venues already maintain. Therefore, we propose beginning with a simple platform with the goal of offering market participants a multilateral place to communicate anonymously about trading venue issues and health, and only after its proven adoption possibly expanding its function.

The establishment of such a platform should be market-led. However, clarity on the FCA's expectations for market participants' efforts will still be useful in this regard.

Chapter 7: The UK market for retail orders

Q32: Do you think the RSP system works well for retail clients?

FIA EPTA members are in agreement with the key points set out by the FCA in the Investments Platform Market Study regarding best execution and the RSP system. I.e., that firms should make clear to retail clients where they use the RSP system, contingent arrangements should be in place and thorough assessments should be conducted to confirm the venue selection delivers a consistently high quality of execution for retail clients.

A number of factors relating to the operation of the RSP networks are of concern to our members:

- These systems are operated by non-authorised third-party service providers (ISVs) which facilitate the multilateral matching of orders in a manner very similar to RFQ MTFs, allowing brokers to poll a number of market makers for quotes to determine the best price offered. Such system operators offer a comprehensive handling of all elements of pre- and post-trade requirements while categorising themselves as purely a trading connectivity solution. Our members believe that given both the letter and the spirit of the definition of a multilateral trading system, that RSP systems should fall under the requirement to become authorised as such.
- The RSP network is an essentially closed community, characterised by high bilateral post-trade cost of setup. As a consequence, the entry of new entrants in this space is highly uncommon, while the process of switching between RSPs is difficult, as pointed out in the FCA study, and exit fees are high.
- Historically, these RSPs were set up to handle retail orders that were under the LSE minimum order size, however, there is no maximum size limit for RSP request for quotes and they are often multiple times the minimum LSE order size. Bringing all volume, especially larger retail orders, on exchange for wider competition via Retail LP schemes would be preferable and are expected to yield a better outcome for retail clients.
- It is difficult to see how the RSP system fits into the established regulatory requirements for pre-trade transparency. As pointed out in the consultation paper, RSP market makers are LSE members who meet their pre-trade transparency obligation by making public two-way quotes in shares on the LSE lit orderbook. However, there is no direct connection between these market makers' LSE quotes and the quotes provided via the RSP. The LSE rulebook requirement is purely that in order for an RSP trade to be brought on exchange, the member firm must be registered as a market maker in that security and maintain an on-exchange executable quote, firm quote or named order at the time that the trade is agreed. Also, our members understand that these public two-way LSE quotes are often not competitive, being at the maximum width and away from the top-of-book prices.
- From a best execution perspective, our members also struggle to see how these RSP networks are meeting these requirements. As pointed out by the FCA study, the

percentage of orders that receive a price at least as good as the best available price across UK venues is only 80% and, where an instrument is cross-listed on venues outside of the UK, best execution, should be viewed in relation to all active markets (including non-UK). This reduces that percentage further. Also, as the retail investor trading interest is not entered into an openly transparent marketplace there is no opportunity for market makers in the lit orderbooks to update their quotes to take account of this additional interest. The segregation of the RSP retail flow makes facilitates RSP market makers in profitably arbitrating the price differential between the incoming retail order flow and public market prices, while at the same time this retail flow does not contribute to the actual price discovery process. This means that any RSP price 'improvement' gives a false impression of its execution quality relative to the exchanges as the lit book market makers are at a competitive disadvantage.

- Price competition – although one of the benefits set out in response to the Interim report was that up to 30 market makers may compete for each order, in practice the firms using the RSP system only choose from a small number of market makers and often have an established relationship with one market maker in particular with whom the majority of their trading is conducted. In the ETF space, for example, we understand that only two market makers undertake approximately 90% of all trading activity with potentially 8-10 other market makers that have a light presence in regard to the remaining (ca. 10%) of the retail order flow.

Q33: Do you have any suggestions for changing the regulatory regime as it applies to the execution of orders by retail clients?

In addition to the key points set out in the Investments Platform Market Study, FIA EPTA members would recommend the following changes to the regulatory regime as it applies to the execution of orders by retail clients:

1. Retail orders over a certain size should be submitted to a trading venue (regulated market or MTF).
2. The contingency arrangements of firms using the RSP system should include the ability to route retail client orders to a trading venue.
3. RFQ response time should be made immediate. This has become largely standard in other asset classes and markets in the UK that apply electronic RFQ models and a 10 to 30 second response time to a quote should no longer be necessary with the existing advances in technology.
4. The 'venue selection' assessments firms using the RSP system should include a trade price check against the NBBO/EBBO and explanation of the rationale for trading away from that price where applicable.
5. Standardized execution quality metrics should be developed that should be published by the retail brokers to demonstrate that they are achieving best executionthat Retail brokers should be required to consider available liquidity outside of merely the RSP.