

FIA EPTA responds to the European Commission consultation on EU Capital Market Integration

FIA EPTA members strongly support the Savings and Investment Union (SIU) as an opportunity to launch an ambitious policy programme for economic growth and competitiveness. This requires robust investment from global and EU-based institutional and retail investors. To realise it, EU policymakers must focus on creating deep, integrated EU capital markets. Additionally, the SIU demands resilient, efficient and easily navigable market infrastructure, as well as effective and consistent regulation and supervision. Not least, the SIU will also greatly benefit from strong liquidity provision by Principal Trading Firms (PTFs).

Strengthening the global attractiveness of EU capital markets goes beyond adjusting rules and regulations; it is also a matter of values. The EU needs to cultivate a stronger investment culture, supported by a strong yet more pragmatic regulatory and supervisory approach. What is needed is a disciplined and targeted regulatory reform program, driven by a coherent vision for more globally competitive markets, leveraging a true Single Market for Capital.

Our full response is available [here](#). Below we provide a summary of key points.

Better trading and post-trade market structure

To effectively integrate and grow EU capital markets will demand an open framework that fosters competition and transparency, removes barriers to access, and avoids prescriptive rules that hinder innovation while privileging certain market participants or infrastructures. Regulation should support and advance the interests of investors and issuers by facilitating choice. The market should be able to innovate and provide incentives for participation. Attempting to force investors to be active in the EU, by creating artificial barriers with the aim of relocating markets or activities, will not be effective. Instead, EU regulatory policy should focus on making EU markets inherently more appealing and attractive, expanding opportunities for all participants.

A holistic policy perspective on the trading and post-trade environments is critically important. It cannot be emphasised enough that the trading and post-trade areas cannot be viewed in isolation when considering existing barriers and potential policy areas for harmonisation and simplification.

Full clearing and settlement interoperability, supporting competition among service providers, will significantly enhance the functioning and integration of EU capital markets. Standardisation of post-trade processes will also support harmonisation, improve efficiency and reduce costs, while easing the transition to T+1 settlement. Barriers to full clearing interoperability across equities and exchange-traded derivatives (ETDs) should be removed as soon as possible.

Tackling barriers identified by the European Post-Trade Forum (2017) would be a meaningful step towards reducing fragmentation of settlement. This includes expanding Target 2-Securities (T2S), as well as adopting the Hague and the Geneva securities conventions to align with global markets including the US.

We forcefully warn against commercial consolidation of post-trade infrastructure as a policy solution. Entrenching vertical silos will only add to the high costs, complexity and inefficiency of EU capital markets and lead to poorer outcomes for investors.

Trading competition reaps benefits: Our members don't view trading across venues as a problem. Instead, they see real benefits from the introduction of competition among venues since MiFID I, as evidenced by narrower spreads in European markets. Market makers play a crucial role in facilitating access to competitive pricing across trading infrastructures and thus linking the various liquidity pools. The Consolidated Tapes, which will become operational in the near future, will further help to offer a coherent view of EU trading markets to global investors.

Inter-venue connectivity should not be mandated by regulation. Introducing venue order routing requirements or a requirement based on the US Order Protection Rule would undermine the goals of the SIU by creating additional cost and complexity in EU capital markets. Such a requirement would go beyond venues' function as well as the concept of best execution embodied in the existing EU regulatory framework. Issuers and investors would be better served by an environment that fosters competition and lowers barriers to access.

Retail investors will be best served by lowering cost, improving efficiency and more choice. The most significant problem for retail access to markets is the complex post-trade environment. Direct access to markets would not materially improve the retail investor's experience of trading, nor would it support market efficiency and resilience.

Greater market transparency

Continuing to enhance post-trade transparency will be more effective than venue interconnections for improving the accessibility and attractiveness of EU capital markets. This can be achieved with consistent access to accurate pricing across execution venues via efficient and comprehensive consolidated tapes.

Post-trade transparency is crucial in supporting healthy price discovery and thus should be as comprehensive as possible – with accurate and meaningful flagging. The relatively poor quality of post-trade data now available hampers efforts to fully assess the size and nature of EU equities markets. This gap creates obstacles to measuring the effectiveness of MiFID II's rule changes. Accordingly, we recommend a thorough review of post-trade transparency flagging, introducing a new category of reportable activity as discussed in our [“Mind the Transparency Gap” paper](#).

Pre-trade transparency matters: FIA EPTA members strongly support the application of pre-trade transparency as a key mechanism to ensure efficient price formation.

Focus on addressable liquidity to support choice and innovation. Working with industry on a common definition of addressable liquidity will support better quality price formation to benefit all investors.

More effective supervision

Reform should focus on effectiveness and ensuring supervisory governance that delivers a true Single Market for Capital: Regulatory certainty and a more level playing field is key for creating a true Single Market for Capital. Reducing differences in national practices will improve supervisory efficiency and lower compliance costs for firms and investors. Targeted progress toward more centralised supervision in the secondary markets and post-trade areas should help to ensure greater coherence,

Establish a supervisory data reporting hub. Current fragmented reporting requirements create high costs for firms as well as national competent authorities, hindering effective supervisory data analysis. To address this, we support:

- Establishing a hub within ESMA for all market-related supervisory reporting (e.g., MiFIR, EMIR, SSR);
- Empowering ESMA to manage the collection, processing, storage and quality assurance of all data within the hub, including analysis for policy and supervisory convergence purposes;
- Facilitating joint data analysis by ESMA and NCAs from the central hub.

Task ESMA with reinforcing EU market supervision. Strong markets must be clean markets. Currently, market integrity is overseen within each Member State, and some even have multiple NCAs with overlapping mandates. This fragmentation limits surveillance across markets and asset classes around the EU. Cross-border investigations are too rare and complex, so suspicious trading is too often left unaddressed. We call for ESMA to be made responsible for integrity supervision, directly carrying out the central market surveillance function with a focus on market manipulation, operating in a hub-and-spoke model with NCAs.

Harmonisation via enhanced supervisory convergence and enforcement, including in market structure regulation and best-execution rules, will further enable investors and issuers to benefit from the European single market. This consistency will improve confidence in EU markets and ease of access.

Single Market Maker venues provide a case study in how a lack of supervisory convergence can result in poorer outcomes for retail investors. It should be clear to investors how their orders will be handled and how a given execution venue will function in terms of transparency, competitive price formation and interaction with other trading interests. Venues must operate as intended under regulation and according to investor expectations. Multilateral markets, in particular, should always support transparent price competition among participants as envisaged under MiFID II. We encourage effective supervisory convergence to ensure EU regulation is being applied as intended for the benefit of end investors.

Simplification and burden reduction

Simplification efforts should be more ambitious, covering the full range of legislation applicable to EU capital markets activity. To support making the EU a more attractive market for investors and issuers, we recommend:

- **Reducing the reporting burden** from duplicative or unnecessary obligations under MiFIR, AIFMD, REMIT and EMIR.
- **Duplicative or unduly burdensome operational resilience requirements** should be removed.
- **Adopt consistently defined terms** across EU legislation for legal certainty and operational efficiency – including a meaningful definition of “market maker”.
- **Create a single reference source** for all consolidated EU legislation and for upcoming regulatory consultations/reviews.
- **Make prudential rules for Principal Trading Firms (PTFs) more proportionate** to unlock additional liquidity, which will strengthen EU capital markets so that they can better support the economy.

About FIA EPTA: The FIA European Principal Traders Association (FIA EPTA) represents the leading Principal Trading Firms in the EU and UK. Our members are independent market makers and providers of liquidity and risk transfer for markets and end-investors across Europe, providing liquidity in all centrally cleared asset classes including shares, bonds, derivatives and ETFs. FIA EPTA works constructively with policymakers, regulators and other market stakeholders to ensure efficient, resilient and transparent financial markets in Europe. More information about FIA EPTA and independent market makers is available on: www.fia.org/epta and www.wearemarketmakers.com