

## Press Release - Policymakers must shape competitive EU financial markets to power the digital and green transitions

Proposed changes to the MiFIR Review miss their targets, to the detriment of investors, EU-global competitiveness, and the capacity of EU markets to finance the green and digital transitions

Brussels, 16<sup>th</sup> November 2022

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There is widespread consensus among EU policymakers that market fragmentation and opacity are harming the efficiency of EU markets.<sup>i</sup> However, amid intense discussions over PFOF compromises and the consolidated tape in the MiFIR review negotiations, the organisation of EU equity markets - what should be at the core of the planned reforms - is not getting much attention. Worse, some of the latest proposals in this area risk cementing fragmentation and opacity, to the detriment of investors and EU-global competitiveness.

Therefore, FESE is calling on policymakers not to lose sight of their overall objectives: increased transparency, visibility, and liquidity, and a level playing field between trading and execution venues.

The MiFID II/R framework was designed in the aftermath of the financial crisis with a view to strengthening transparency, price formation, investor protection, and investor access to EU markets. Although some improvements have been achieved, complexity and fragmentation have intensified, with more than 250 equity venues currently in operation. Systematic internalisers (SIs) have especially prospered, accounting for 27% of European flows by June 2022, while lit primary activity hit an all-time low of 28% - almost half its 2017, pre-MiFID II peak of 53%.<sup>ii</sup>

Current levels of dark trading are far above the threshold that academic research recommends.<sup>iii</sup> At such levels, dark mechanisms are detrimental to the quality of trading, harming the functioning of EU financial markets and diminishing the depth of liquidity. If the EU continues on this trajectory, it threatens the viability of its capital markets to finance the digital and sustainable transition.

SI trading should be limited to what it was intended for: trading in large sizes. A single volume cap, replacing the existing double volume cap mechanism, should be introduced to limit the total EU volume of all non-pre-trade transparent trading, with ESMA responsible for setting the threshold.

Regrettably, however, in a perceived bid to remain competitive, the EU seems keen to embrace the deregulatory agenda in equity of the UK's Wholesale Markets Review. Such changes would be short-sighted: the UK is in the same position as the EU, of declining global importance as our collective share of global market capitalisation falls. In global capital markets, the benchmark is the US and Asia. For the EU to position itself globally, as a genuine player in capital markets, the Capital Markets Union needs to provide a transparent, well-functioning and stable market that investors can trust.

Petr Koblic, the FESE President, commented:

“If we in Europe are to realise our ambitions, around sustainability, around shared prosperity, we need to empower our capital markets to deliver and mobilise European investors.”

“For this, we need a clean, simplified market structure - without inducements or payment for order flow - in which a sensible balance between lit and dark trading allows European equity markets to flourish.”

Rainer Riess, Director General of FESE, added:

“We fear that the current direction of the MiFIR negotiations bypasses the core issue - EU market structure. If policymakers do not adjust their focus, certain proposed changes threaten to set back the prospect of a genuine CMU and competitive EU capital markets.”

“In taking its lead from the UK, and not the US, policymakers risk mirroring the wrong target. For EU open strategic autonomy to succeed, Europe must take control of its own destiny and not engage in a race to the bottom.”

## Notes to editors:

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**For further information, please contact:**

**Stephen Gilmore**  
Communications Officer  
Federation of European Securities Exchanges  
Email: [gilmore@fese.eu](mailto:gilmore@fese.eu)  
Tel: +32 498 07 78 19

## About FESE

The Federation of European Securities Exchanges (FESE) represents 35 exchanges in equities, bonds, derivatives and commodities through 16 Full Members and 1 Affiliate Member across 30 countries.

At the end of September 2022, FESE members had 9019 companies listed on their markets, of which 17% are foreign companies contributing towards European integration and providing broad and liquid access to Europe’s capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access capital markets; 1671 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their RM and MTF operations, FESE members are keen to support the European Commission’s objective of creating a Capital Markets Union.

FESE is registered in the European Union Transparency Register: 71488206456-23.

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<sup>i</sup> <https://www.oxera.com/insights/reports/primary-and-secondary-equity-markets-in-the-eu/>

<sup>ii</sup> SI activity spike further damaging European intraday liquidity, report finds (thetradenews.com)

<sup>iii</sup> <https://www.fca.org.uk/publications/occasional-papers/no-29-aggregate-market-quality-implications-dark-trading>