FIA EPTA
EUROPEAN PRINCIPAL TRADERS ASSOCIATION

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Tide of Change: Enhancing Liquidity Provision to the European Economy

FIA EPTA's policy recommendations for competitive EU capital markets

INTRODUCTION:

A Tide of Change: Shaping the future of EU Capital Markets

The European Union is facing both significant challenges and unprecedented opportunities. The 2024-2029 political mandate will be crucial in determining how the EU addresses significant geopolitical volatility as well as societal, technological and climate change. Like the tides, capital markets naturally ebb and flow with policy decisions. As we kick-off this mandate, the moment is ripe for launching ambitious policies that will unlock the EU's growth and navigate towards a more competitive Europe.

Vibrant, resilient and competitive capital markets are essential for the EU to be able to successfully navigate these challenges while securing growth and greater economic security for its citizens. The need for mobilising private capital is crystal clear: digitising the economy, transitioning to a climate-neutral continent and securing Europe's defence capacity will all require significant capital investment.

AS WE APPROACH THIS NEW MANDATE, THE MOMENT IS RIPE FOR INTRODUCING POLICIES THAT WILL UNLOCK THE EU'S GROWTH AND NAVIGATE TOWARDS A MORE COMPETITIVE EUROPE.

EU capital markets are not yet fully positioned to fulfil their essential function. Rightly, the focus for building a Savings and Investment Union is on invigorating the capital-raising function of the financial system. To do so, the EU must become a more attractive destination for companies to grow. A more dynamic primary listing market, where innovative, world-class companies can secure private capital through Initial Public Offerings (IPOs) and bond issuance, will be key. This will also simplify the process for governments to raise additional capital, while increasing the confidence of retail investors to invest in EU domestic markets – thus putting their savings to productive use and enabling more economic security in retirement for citizens.

Thriving EU *primary* markets require vibrant EU *secondary* markets. To enhance the flow of capital into the European economy, it is crucial to have markets with deep and diverse liquidity. Depth and liquidity in secondary markets are key factors for companies considering listing their stock via an IPO. A liquid secondary market for shares, bonds, derivatives, and other instruments provides reliable pricing, enables efficient trading, facilitates effective risk management, and ultimately leads to reduced funding costs for issuers. Improved market liquidity will be essential for the broader success of the Savings and Investment Union, making the EU a more attractive environment for investment and capital raising, and supporting economic growth for the Union.

The EU faces a significant liquidity shortfall compared to other regions, with reported average daily volumes stagnating. Notably, the EU is underperforming relative to the US and is increasingly falling behind other global markets. This perception contributes to declining capital allocation towards European markets and the migration of share listings elsewhere.

European capital markets must be built out on a foundation of strong liquidity provision. As the industrya ssociation representing Europe's independent market makers who providel iquidityt o European end-investorsa nd markets,F IA EPTA is strongly committedt o reversing this liquidity shortfall. It is from this standpointt ,hat FIA EPTA offers its policy recommendations for enhancing the flow of capital to the European economy.

Bold and comprehensive action is needed to turn the tide on these challenges and to capitalise on the opportunities, with a single-minded focus on achieving competitive, deep, and integrated EU capital markets. Building such markets requires robust investment from global and EU-based institutional and retail investors. Additionally, it demands resilient, efficient and easily navigable market infrastructure, effective and consistent regulation and supervision and, crucially, will also greatly benefit from strong liquidity provision by Principal Trading Firms.

FIA EPTA offers the following policy recommendations for globally competitive EU capital markets, underpinned by strong liquidity provision:

1. Achieving a European Single Market for Capital

Set ambitious objectives for strengthening supervisory convergence.

- Empower ESMA to drive stronger supervisory convergence outcomes in EU capital markets
- Create coordinated supervisory teams for cross-border issues
- Set top-down expectations and clear KPIs for strengthening supervisory convergence action by ESMA and NCAs

Make targeted progress toward centralised supervision

- Establish a central supervisory data reporting hub
- Provide a central role to ESMA for reinforcing EU market integrity supervision
- Move toward more integrated market infrastructure supervision

Defragment EU settlement infrastructures

- Address the barriers identified by the European Post-Trade Forum (2017)
- Ensure full harmonisation of the rules and requirements underpinning EU post-trade practices

2. A Renewed Commitment to Competitiveness

Enshrine a global competitiveness objective for all new EU financial regulations and policies

- Operationalise the competition and competitiveness responsibilities of EBA, EIOPA and ESMA
- Enhance the mandate of the Joint Committee of the ESAs to coordinate on EU capital markets development
- Enable the global success of EU firms
- Ensure full and open competition in European trading markets

Target new regulation to the areas most in need of improvement.

- Simplify existing regulations
- Empower ESMA to dynamically optimise technical rules
- Strengthen the ESAs' ability to provide no-action relief
- Establish a comprehensive EU Regulatory Initiatives Grid

Undertake targeted action to bolster EU market areas that are falling behind.

- Encourage retail investment in EU Capital Markets
- Strengthen EU listed derivatives markets

3. Unlocking EU Capital Market Liquidity

Urgently revise the prudential regime for investment firms (IFR/IFD) to unlock additional liquidity

- Implement targeted reforms to IFR/IFD as part of an ambitious Quick Fix Package to boost EU capital market functioning

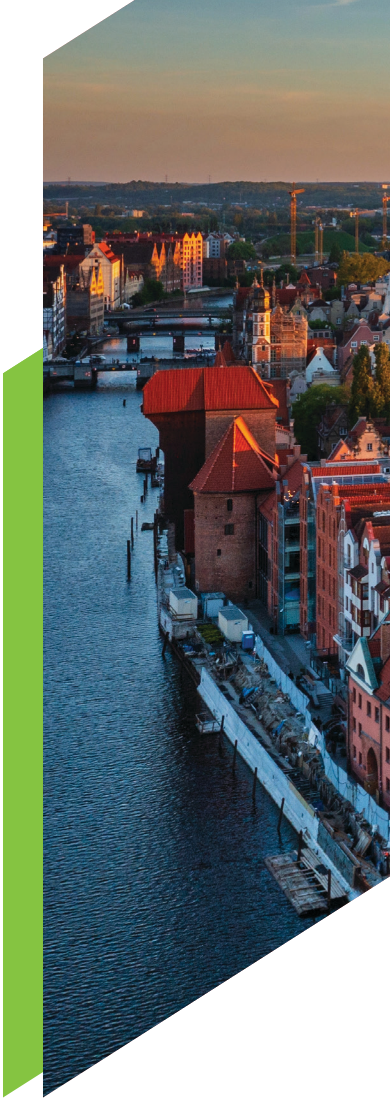
Enhance EU market transparency

- Fix the transparency gap in EU equities markets
- Improve EU bond market transparency

Strengthen regulatory coordination across the European trading region.

- Enhance EU-UK regulatory cooperation
- Establish standing EU-UK joint working groups to tackle shared challenges at technical level
- Make the consolidated tapes in the European trading region interoperable

HOW FIA EPTA'S MEMBERS CONTRIBUTE TO STRONGER EU CAPITAL MARKETS



OUR MEMBERS ARE LIQUIDITY PROVIDERS MAKING STRONGER SECONDARY MARKETS A REALITY:

They include some of the EU's most advanced, dynamic, and innovative firms. As independent market makers, our members excel in delivering liquidity to markets and end-investors. They are always ready to buy and sell, ensuring investors can trade at optimal prices with minimal costs, regardless of market conditions. FIA EPTA's members provide consistent liquidity, even during periods of high volatility when other financial actors may withdraw. Their continuous presence supports deep liquidity across European and global equities, ETFs, derivatives and fixed income markets. They achieve this by leveraging cutting-edge technology and a strong focus on risk management.

OUR MEMBERS ARE ENHANCING INVESTOR CHOICE AND MARKET RESILIENCE

They do this by providing an alternative to traditional liquidity sources and driven by healthy competition. FIA EPTA members constant and competitive pricing enables asset managers to effectively manage their investment risk and undertake the trades they need to make for their end-investors. This reliability has been particularly evident during recent periods of high market volatility, such as the pandemic and the Russian invasion of Ukraine, when liquidity providers have proven to be dependable partners for asset managers.

53% OF ASSET MANAGERS DIVERSIFIED HOW THEY ACCESSED LIQUIDITY DURING THE COVID-19 PANDEMIC.

Source: Liquidity in the Time of Covid Report

OUR MEMBERS CUT TRADING COSTS FOR END-INVESTORS:

FIA EPTA members' commitment to enhancing market efficiency has significantly reduced trading costs in European markets, saving investors money with each trade. This helps improve returns, benefiting retail investors, like those saving for retirement, making a real difference to their standard of living. Innovation driven by our members to reduce transaction costs mean an average pensioner can have as much as 30% more funds in their investment account over a lifetime, allowing them to approach the future with greater confidence and security.

SAVING FOR RETIREMENT:

Average pensioner	+30%

Source: Vanguard

OUR MEMEMBERS ARE STRONGLY COMMITTED TO EU CAPITAL MARKETS:

While maintaining a global outlook, our members are deeply invested in the success of European capital markets. Over the past two decades, our members have played a central role in advancing EU markets and we stand ready to support the next major push forward. As our membership include key market makers in EU equities markets, we also are able to provide unique insights into what EU policymakers can do to revitalise these markets and provide European companies with the funding they need to grow and innovate.

FIA EPTA and our members remain steadfast in our commitment to working with policymakers to strengthen EU capital markets. Our unwavering priority is to ensure these markets serve EU civil society, drive economic growth, and enhance the EU's global competitiveness.

1. Achieving a European Single Market for Capital

To truly empower the potential of EU capital markets, we need to fully leverage the key strategic advantages that the Single Market provides as the unifying force for the second-largest economy in the world. Our members pride themselves on being a success story of the Single Market, providing liquidity day-in-day-out to myriad markets and investors across all Member States in the EU – made possible by our members' passporting rights and the regulatory certainty provided by the Single Rulebook.

Market participants continue to face several barriers that hinder the development of EU capital markets into a true Single Market. These challenges include limitations to open cross-border competition, national regulatory anomalies that skew the playing field and supervisory fragmentation causing duplications of effort, inefficient reporting requirements and unnecessary administrative costs.

There is a need to urgently address these impediments and make an ambitious push forward. This should include both doubling down on supervisory convergence and making sensible, targeted progress toward more centralised supervision. FIA EPTA recommends the following priority actions:

1. **Set ambitious objectives for strengthening supervisory convergence.** The EU's Single Rule book is a source of strength for European capital markets, enabling firms to compete on a level playing field, enhancing market integrity, providing certainty for firms and reducing administrative cost. However, varying national supervisory interpretations in Member States still undermine passporting rights and fair and open access to markets. These inconsistencies distort competition, restrict cross-border activity and disadvantage retail investors who would otherwise benefit from greater choice and more liquidity provision.

To address these concerns, we propose the following:

- **Empower ESMA to drive stronger supervisory convergence outcomes in EU capital markets,** including significantly strengthening the ESMA Peer Review process to enable it to make binding recommendations to NCAs.
- **Create coordinated supervisory teams for cross-border** issues so that supervisory cost and inefficiencies are reduced, thereby enhancing competition and ensuring a level playing field for firms.
- **Set top-down expectations and clear KPIs for strengthening supervisory convergence action** by ESMA and NCAs. These KPIs should focus on enhancing the competitiveness and integration of EU capital markets, lowering supervisory and administrative cost and ensuring greater certainty for firms on supervisory outcomes.

AN AMBITIOUS PUSH FORWARD IS NEEDED. THIS SHOULD INCLUDE BOTH DOUBLING DOWN ON SUPERVISORY CONVERGENCE AND MAKING SENSIBLE, TARGETED PROGRESS TOWARD MORE CENTRALISED SUPERVISION.

2. **Make targeted progress toward centralised supervision.** Centralising EU supervision will ensure greater coherence and consistency, benefitting the level playing field and regulatory certainty. It will also reduce the fragmentation of national practices, leading to greater efficiency and lower compliance costs for firms and investors. The initial first step should be to introduce more centralising EU-level supervision in the secondary markets and posttrade areas.

CENTRALISING EU SUPERVISION WILL ENSURE GREATER COHERENCE AND CONSISTENCY, BENEFITTING THE LEVEL PLAYING FIELD AND REGULATORY CERTAINTY.

We recommend the following actions:

- Establish a central supervisory data reporting hub. Current fragmented reporting requirements create high costs for firms and NCAs and hinder effective supervisory data analysis. To address this , we advocate for:
  - **Establishing a centralised 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 this hub, including analysis for policy and supervisory convergence purposes;
  - **Facilitating joint data analysis** by ESMA and NCAs from the central hub.

WE CALL FOR ESMA TO BE MADE RESPONSIBLE FOR MARKET INTEGRITY SUPERVISION IN THE EU, CARRYING OUT DIRECTLY THE CENTRAL MARKET SURVEILLANCE FUNCTION WITH A FOCUS ON MARKET MANIPULATION SUPERVISION, WHILE OPERATING IN A HUB-AND-SPOKE MODEL BETWEEN ESMA AND NCAS.

- **Provide a central role to ESMA for reinforcing EU market integrity supervision.** Currently, each NCA oversees market integrity within its own Member State, and some Member States even have multiple NCAs with overlapping mandates. This fragmentation results in limited cross-market and cross-asset class surveillance across the EU. Today, cross-border investigations are rare and complex undertakings and as a consequence suspicious trading activity is too often left unaddressed. Strong EU capital markets should also be clean markets. We call for ESMA to be made responsible for market integrity supervision in the EU, carrying out directly the central market surveillance function with a focus on market manipulation supervision, while operating in a hub-and-spoke model between ESMA and NCAs.

- **Move toward more integrated market infrastructure supervision.** Whilst EU regulations for market infrastructure operators, such as exchanges, central counterparties (CCPs), and central securities depositories (CSDs), are mostly harmonised, supervision remains fragmented across Member States. This fragmentation puts EU infrastructure operators at a disadvantage compared to jurisdictions like the UK and the US, where supervision is more integrated and efficient. Greater supervisory integration in the EU would benefit both the operators and the entire capital markets ecosystem, including FIA EPTA's members, by fostering quicker market innovation and reducing lead times for technology upgrades, product approvals, and new market and margining models. We advocate for ESMA to oversee the supervision of market infrastructure operators from a European perspective, establishing a unified approach to daily supervision. The more critical a piece of market infrastructure is to EU capital markets, the more centralised its supervision by ESMA should be.

3. **Defragment EU settlement infrastructures.** The EU post-trade infrastructures for securities settlement (CSDs) currently suffer from inefficiencies that fragment liquidity and hinder the creation of a true single market for capital. Issuers often remain registered with domestic settlement systems that are not harmonised and lack interoperability in the Union. Despite recent efforts at reform, many processes remain manual and contain localised idiosyncrasies intended to limit competition, resulting in unnecessarily high costs for retail investors and other market participants. These issues stem from the non-harmonised nature of post-trade processes, inconsistent insolvency laws, and the local gold-plating of securities laws in Member States, which often protect incumbent infrastructure operators at the expense of investors.

   We recommend the following actions:

   - **Address the barriers identified by the European Post-Trade Forum (2017),** to reduce counterparty and systemic risks and increase market efficiency.
   - **Ensure full harmonisation of the rules and requirements underpinning EU post-trade practices,** enabling greater integration and consolidation of these infrastructures.

2. A Renewed Commitment to Competitiveness

Capital markets are inherently global – as are the retail and institutional players essential for their success. Investors naturally gravitate towards where they expect the best and most consistent returns. For this reason, the EU must be globally attractive as an investment, trading and listing destination if it is to achieve its ambitions of strengthening its capital markets.

EU REGULATORY POLICY SHOULD FOCUS ON MAKING EU MARKETS INHERENTLY MORE APPEALING AND ATTRACTIVE, EXPANDING OPPORTUNITIES FOR ALL PARTICIPANTS.

Whilst the EU has traditionally been a competitive capital markets destination, its position has recently been slipping, a trend that urgently needs to be reversed. As the EU does not have sufficient capital to achieve its strategic objectives, unlocking additional capital is essential. This will only succeed if global and domestic investors willingly choose to allocate this capital to EU markets. Attempting to force investors to be active in the EU, by creating artificial barriers with the aim of physically 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.

Strengthening the global attractiveness and competitiveness of EU capital markets should be a top priority for policymakers. This goes beyond simply adjusting rules and regulations; it is also a matter of values. The EU needs to cultivate a stronger investment culture, supported by a more pragmatic regulatory and supervisory approach. This will help mitigate risks of regulatory overreach, undue risk averseness and disproportionate compliance burdens that have, at times, marred otherwise positive EU policy action. What is needed then, is a disciplined and targeted EU regulatory reform program, driven by a coherent vision for more globally competitive EU capital markets.

We identify the following priority actions:

1. **Enshrine a global competitiveness objective for all new EU financial regulations and policies.** Well-designed regulation can drive greater competition, safer and more efficient markets and better investor outcomes. The European Commission should actively assess the impact of new or revised regulations on the global competitiveness of EU markets and market participants. This assessment should be based on pre-agreed KPIs and supported by a more accountable cost-benefit analysis process that fully considers global competitiveness.

By integrating these considerations into the regulatory process, new regulations and policies will more effectively contribute to achieving the strategic objectives for EU capital markets.

Further actions to enhance the competitiveness outcomes for EU capital markets regulation should include:

- **Operationalise the competition and competitiveness responsibilities of EBA, EIOPA and ESMA.** Whilst the ESAs already have a mandate to consider the impact of their activities on competition, global competitiveness, and economic growth, these objectives have not been central to their operations. To address this, support from the Commission and Co-legislators is needed to fully integrate these priorities into the ESAs' operational frameworks.
- **Enhance the mandate of the Joint Committee of the ESAs to coordinate on EU capital markets development.** EBA, EIOPA and ESMA each have sector specific mandates, with ESMA having the main responsibility for capital markets. Nonetheless, the work of EBA and EIOPA frequently impacts on capital market functioning and on key participants like e.g., investment firms. The Joint Committee of the ESAs should be given a clear mandate to coordinate and drive the development of EU capital markets. This will ensure that the ESAs' collective actions align with EU policy objectives for capital markets growth and support a robust Savings and Investment Union.
- **Enable the global success of EU firms.** Fostering competitiveness for EU capital markets also means that EU policymakers should enable domestic firms to be competitive around the world. Successful EU firms that are global champions shine a positive light on, and are a draw factor for, EU markets. However, poorly designed or overly conservative EU rules have sometimes imposed artificial barriers on EU firms' global activities or forced these firms to apply EU-specific rules without relevant risk links to the EU. The European Commission should, therefore, apply active scrutiny of any unintended consequences of EU regulation on the global competitiveness of domestic firms, including those arising from Level-2 regulations developed by the ESAs under a Commission mandate.
- **Ensure full and open competition in European trading markets.** External competitiveness also requires internal competition. Some areas of EU secondary markets still have discriminatory access barriers that prevent fair and open competition among firms. Such practices hinder new entrants, disadvantage end-investors by limiting liquidity, and restrict better pricing options. Learning from other jurisdictions like e.g., the US the EU should conduct a thorough analysis to remove remaining competition disadvantages in European trading markets, ensuring a more efficient and competitive market environment for end-investors.

EU POLICYMAKERS SHOULD ENABLE DOMESTIC FIRMS TO BE COMPETITIVE AROUND THE WORLD.

2. **Target new regulation to the areas most in need of improvement.** Adopting a more targeted approach to regulatory reform will ease the pressures on firms' IT resources caused by frequent regulatory changes. Additionally, overlapping or overly granular reporting requirements for firms, where a clear supervisory benefit is not evident, should be reduced. This will ensure that market participants can direct IT resources more effectively towards bolstering the competitiveness and resilience of EU markets.

Additional actions that we are proposing include:

- **Simplify existing regulations.** The EU Single Rulebook contains overlapping or inconsistent requirements, particularly for data reporting for firms under MiFIR, EMIR, CSDR, SSR and others. We advocate for a coherent and consistent omnibus reporting regime which streamlines firms' reporting obligations and enhances the practical utility of reported data for supervisors and policymakers, supporting more effective risk-based supervision and data driven policymaking.
- **Empower ESMA to dynamically optimise technical rules.** The EU's multilayered rulemaking process for the technical calibration of capital markets regulation can lead to inflexibility and slows down adaptation to fast-moving global market changes. This can create a competitive disadvantage for EU markets. To address this, ESMA should be given a standing mandate to dynamically optimise the calibration of technical rules. This will enable more adaptive and efficient regulation, keeping EU capital markets competitive with global peers.
- **Strengthen the ESAs' ability to provide no-action relief.** ESMA, EBA and EIOPA should have the authority to grant comprehensive no-action relief when certain provisions in new regulations are found to carry unintended consequences, or are unrealistic within the originally planned timelines. No-action relief is a globally recognised regulatory tool that provides certainty to firms that specific requirements will not be applied (temporarily or permanently). Currently, however, the ESAs' powers to provide no-action relief are unduly constrained and they should, therefore, be brought at par with global regulatory best-practice.
- **Establish a comprehensive EU Regulatory Initiatives Grid.** Currently, there is no unified overview of the planned regulatory initiatives that are collectively undertaken by DG FISMA, the ESAs and the ECB. Creating such an overview would help market participants plan ahead and manage their resources efficiently. Such a tool will also enable better coordination among public authorities, preventing unnecessary overlaps and stimulating regulatory cooperation.

3. **Undertake targeted action to bolster EU market areas that are falling behind.** The competitiveness of the EU capital markets ecosystem depends on the diversity and comprehensiveness of its participants and constituents. In this regard, EU capital markets have been noticeably falling behind other peer regions in two areas: retail participation and growth of the listed derivatives markets. Both are critical for the overall success of EU capital markets and require the dedicated attention of EU policymakers:

   - **Encourage retail investment in EU capital markets.** Retail participation in EU capital markets is low compared to other regions. To activate retail investors, it's essential to address tax and pension market constraints, make investment options more appealing and accessible, and consider a comprehensive EU investor education programme. The goal should be to empower retail investors with better market understanding and risk management skills without trying to eliminate all risks. This approach will help prevent domestic retail investors from avoiding EU capital markets in favour of other regions or non-capital market products, like crypto. Ensuring that retail investors are wellinformed and motivated to engage in EU markets will be crucial.
   - **Strengthen EU listed derivatives markets.** Robust derivatives markets are an essential component for a competitive capital markets ecosystem. Exchange Traded Derivatives (ETDs), such as listed futures and options, are particularly valuable in this regard. ETDs offer end-investors and companies efficient ways to hedge and manage financial risk, while also supporting liquidity and price discovery for underlying assets, including green equities and bonds. Despite their importance, European ETD markets have lagged behind those in other global regions. To advance a successful Savings and Investment Union, it is essential to enhance the competitiveness of EU Exchange Traded Derivatives markets and support their further development.

3. Unlocking EU Capital Market Liquidity

To truly invigorate the EU's capital markets, it is essential to build a robust foundation of liquidity. Thriving primary markets depend on vibrant secondary markets, which are crucial for attracting capital into the European economy. Deep and diverse liquidity in secondary markets is vital for creating an environment where companies feel confident in listing their stocks via IPOs. A liquid secondary market enhances pricing reliability, supports efficient trading, enables effective risk management, and ultimately lowers funding costs for issuers.

Improving liquidity across shares, bonds, derivatives, and other instruments will be

TO UNLOCK ADDITIONAL LIQUIDITY PROVISION IN EU CAPITAL MARKETS, TARGETED IMPROVEMENTS ARE NEEDED TO THE PRUDENTIAL RULES FOR INVESTMENT FIRMS (IFR/IFD). ADVANCED TECHNOLOGY HAS MADE MARKETS MORE ACCESSIBLE AND FAIR FOR KEY PARTICIPANTS, INCLUDING ASSET MANAGERS, ENABLING THEM TO TRADE MORE EFFICIENTLY.

fundamental to the success of the Savings and Investment Union. It will make the EU a more attractive destination for investment and capital raising, and support broader economic growth within the Union.

We offer the following policy recommendations to enhance capital flow and strengthen liquidity across EU capital markets:

1. **Urgently revise the Prudential Regime for investment firms (IFR/IFD) to unlock additional liquidity.** To unlock additional liquidity provision in EU capital markets, targeted improvements are needed to the prudential rules for investment firms (IFR/IFD). The EU is unique in imposing comprehensive, bank-like prudential requirements on investment firms, putting itself at a competitive disadvantage compared to other major global capital markets. These rules unduly limit the ability of Principal Trading Firms to provide optimal liquidity, not least during periods of market turbulence. Consequently, the IFR/IFD framework impedes the development of EU capital markets. We urge EU policymakers to urgently adjust these regulations to enhance liquidity provision and support capital market growth.

   We strongly call on EU policymakers, therefore, to undertake the following action:

   - **Implement targeted reforms to IFR/IFD as part of an ambitious Quick Fix Package to boost EU capital market functioning.** To enhance EU capital markets, targeted reforms to the IFR/IFD framework are urgently needed. The current requirements for investment firms in IFR/IFD are too bank-like and are misaligned with the specific risk profiles of investment firms, hindering liquidity provision. We propose adjusting the thresholds in IFR/IFD for applying bank-like requirements so as to ensure greater proportionality and true recognition of the fundamental differences in risk profiles between investment firms and credit institutions. A further priority should be to prevent the application of EU prudential requirements to non-EU operations without a tangible risk nexus to the EU. These reforms will boost liquidity provision and improve the competitiveness of EU capital markets

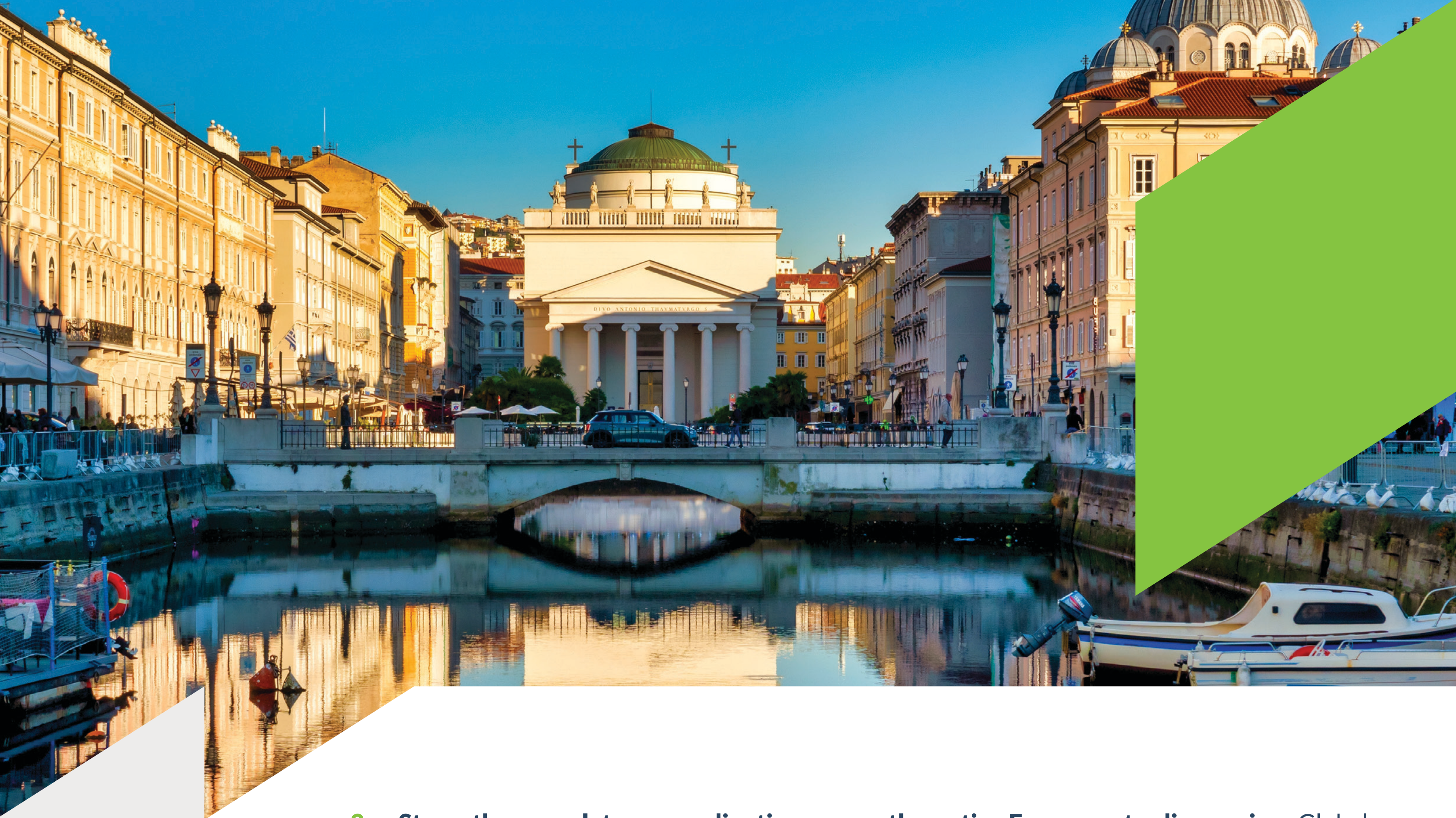
2. **Further enhance EU market transparency.** To strengthen capital market liquidity in Europe, we need to continue to improve market transparency. Advanced technology has made markets more accessible and fair for key participants, including asset managers, enabling them to trade more efficiently. To keep up with these developments, we must further increase market transparency, ensuring that market data is more readily available and easier to access.

   We recommend the following actions:

   - **Fix the transparency gap in EU equities markets.** The current lack of transparency in certain equity trading segments leads to underreported share-trading volumes, affecting global investor perceptions of EU markets, which leads to reduced shares trading, fewer IPO's and lower secondary market liquidity as a whole. To address this, the EU needs to implement technical changes to reveal the true economic interest in European equities markets. By amending the relevant Level-2 transparency rules for trading markets (MiFIR), we can bring this activity into the open, improving reported equity volumes (by at least 10-15% and likely more) to better reflect available liquidity.
   - **Further improve EU bond market transparency.** Post-trade transparency in EU bond markets needs further enhancement. Well-functioning bond markets are of crucial importance to the economic well-being of citizens. Bonds are a critical component for the investment strategies that pension funds and pension insurers undertake on behalf of pension participants. Therefore, continually improving the efficiency of EU bond markets should be a key priority for EU policymakers. Whilst progress has been made in recent years to improve bond market transparency levels, the EU's transparency regime remains complex and relatively restrictive compared to other leading capital markets centres, most notably the US. ESMA should be empowered and encouraged, therefore, to be ambitious in its approach to the recalibration process under MiFIR in aid of enhancing transparency levels in EU bond markets. This will further improve efficiency, liquidity and competition in EU bond markets and contribute to the efficacy of the Consolidated Tape for bonds.

SINCE 2020, THERE HAS BEEN A 200% INCREASE IN ASSET MANAGERS TURNING TO INDEPENDENT MARKET MAKERS

source: Acuiti



3. **Strengthen regulatory coordination across the entire European trading region.** Global investors continue to view the EU/EEA, the UK, and Switzerland as a single capital markets and trading destination. They often choose to engage with all three markets collectively or with none at all. Given their shared values and common strategic interests, including the need for resilient capital markets in the face of geopolitical risks, increased coordination and cooperation is essential. By enhancing coordination and cooperation, the European region as a whole can become a more attractive and successful destination for global capital, leading to deeper and more vibrant markets.

   We offer the following targeted suggestions:

   - **Enhance EU-UK regulatory cooperation** by going beyond the EU-UK Joint Regulatory Forum. Foster ambitious collaboration in strategic areas where the EU and UK share common geopolitical interests, such as financing the Green Transition and boosting investment in in stronger defence capacities.
   - **Establish standing joint EU-UK working groups** to tackle shared challenges at technical level, focusing on minimising operational divergence between EU and UK rulebooks. This will help reduce fragmentation and unnecessary costs for market participants that are active in both jurisdictions.
   - **Make the consolidated tapes in the European trading region interoperable,** to provide a comprehensive overview of EU/EEA, UK, and Swiss markets. The EU Consolidated Tape will aid domestic and global end-investors to have an efficient, full overview of EU trading markets for shares/ETFs, bonds and derivativ.e. The supplemental benefits for the Consolidated Tape will be even greater if it provides a full overview not just of EU and EEA trading in shares/ETFs, bonds and derivatives but at the same time for the UK and Switzerland as well. This will enable investors interested in trading and investing in European markets to have a full overview of price formation in the entire European region and significantly lowering barriers to capital allocation in European markets.

CONCLUSION:

Grasping the opportunities ahead

In the coming period, the EU will need to bolster European capital markets to achieve its strategic objectives for a safe, green and prosperous future for its citizens. A concerted joint effort will be required to grasp the clear opportunities ahead, overcome any remaining challenges, and ensure the full success of the Savings and Investment Union.

One critical component in all of this will be for EU policymakers to acknowledge the critical role of liquidity provision for the success of EU capital markets. Policymakers should focus on three main areas of reform to invigorate EU capital markets:

1. **Strengthening the single market for capital** by advancing supervisory convergence and making progress toward more centralised supervision;
2. **Enhancing the attractiveness and global competitiveness of EU markets** by setting clear competitiveness objectives, fostering greater competition, streamlining regulatory processes, and simplifying regulatory regimes;
3. **Unlocking additional liquidity by implementing targeted regulatory reforms** to ensure proportionate prudential requirements for investment firms and apply robust transparency regimes to support competition and healthy price formation. Additionally, more incoming global investment should be encouraged by strengthening regulatory coordination and cooperation across the entire European trading region.

About FIA EPTA: The 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 asset classes including shares, bonds, derivatives and ETFs. FIA EPTA works constructively with policymakers, regulators and other market stakeholders to ensure efficient, resilient and trusted financial markets in Europe.

More information about FIA EPTA and independent market makers is available on:
www.fia.org/epta and **www.wearemarketmakers.com**

FIA EPTA
EUROPEAN PRINCIPAL
TRADERS ASSOCIATION

Contact:

Piebe Teeboom, Secretary General FIA EPTA

pteeboom@fia.org