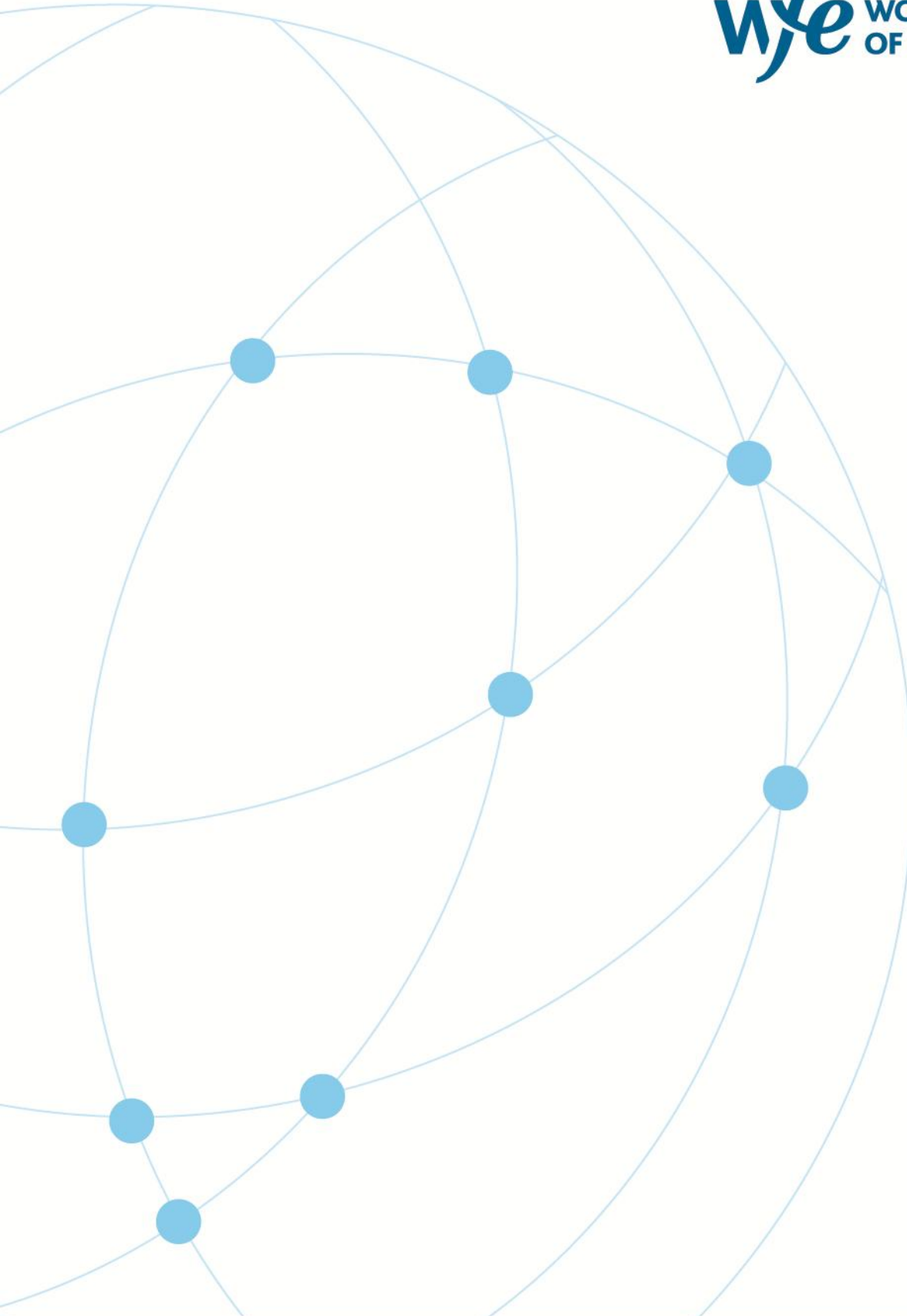




**Response to the FCA's CP25/20: Consultation Paper on the SI
regime for bonds and derivatives including Discussion Paper on
equity markets**

10th September 2025

Summary

Discussion Paper on equity markets

Central limit order books (CLOBs) play a key role in ensuring effective price formation in equity markets in the UK and elsewhere around the world. Increased competition in execution services have brought benefits, namely reduced execution costs and innovation. However, the decline in CLOB usage poses a structural risk to market transparency, liquidity, and price discovery.

CLOBs ensure that all trading interests are publicly displayed and interact in a single, integrated order book accessible to all market participants. This structure facilitates genuine price discovery, as it reflects the full spectrum of supply and demand in real time. The resulting price is not only transparent but also represents the most accurate and consensus-driven valuation of an asset, having incorporated and matched all expressed trading intentions in a fair and non-discretionary manner.

Multilateral venues provide unmatched pre- and post-trade transparency, non-discriminatory access, and strong investor protections. These characteristics are foundational to reliable price formation and support broader market integrity. In contrast, the rise of bilateral trading mechanisms has introduced fragmentation and reduced the visibility of market activity, potentially weakening the overall market ecosystem.

To safeguard the role of CLOBs, policy and regulation must support their operators. This includes ensuring a level playing field between multilateral and bilateral venues, removing structural constraints that inhibit innovation, and enabling the provision of robust, transparent markets. Specific measures could include reinstating key execution data requirements, exposing retail trades to exchanges, and reassessing regulatory asymmetries that currently disadvantage exchanges.

Consultation Paper on the SI regime for bonds and derivatives

We recognise that permitting SIs to operate OTFs could enhance competition, particularly in non-equity markets, and may be manageable with appropriate safeguards. However, we do not support removing the ban on matched principal trading by MTFs, where the risks of conflicts of interest and information asymmetry are significantly more acute. A clear boundary between trading venues and participants remains essential to preserving market integrity and avoiding the erosion of trust in transparent, multilateral market structures.

2. Do you agree with our proposal to remove the prohibition on an SI operating an OTF?

This is a matter of regulatory judgment rather than one with a single correct answer. It requires careful balancing of the FCA's objectives of promoting effective competition while protecting market integrity.

On the one hand, the proposal further blurs the already delicate line between trading firms and trading platform operators. Allowing SIs to operate multilateral trading platforms means the distinction between neutral market infrastructure and active market participant becomes increasingly unclear.

Exchanges are subject to regulatory requirements that ensure neutrality and prevent them from acting as market participants. Allowing Alternative Trading Systems (ATS) to operate under a different standard undermines these principles and creates an uneven regulatory landscape. An SI bilaterally quoting prices and dealing on its own account could be favoured in the OTF; and, the SI may benefit from information asymmetry and have insight into order flow or trading intent of participants. Information leakage is a concrete risk when the same firm runs both an SI and OTF.

On the other hand, we recognise that the balance for non-equity instruments may favour increased competition, so we tend to agree with the FCA's analysis that removing this prohibition may be overall beneficial.

Existing regulatory safeguards (particularly those relating to conflicts of interest, market abuse surveillance, and non-discriminatory access) could be sufficient to ensure fair and orderly markets. Legal separation and segregation can be an effective tool for managing specific risks. However, its application should be proportionate and targeted to circumstances where risk profiles warrant it. Ensuring functional separation and appropriate governance within firms can be achieved without requiring artificial legal separation, which may impose unnecessary costs and complexity in this case.

In summary, permitting SIs to operate OTFs offers some benefits it also gives rise to some concerns. Accordingly, we would suggest that the FCA consider appropriate safeguards. For example, the FCA could consider this a supervisory priority for the next five years to ensure that the issues seen in the past do not play out in the future. This could include enhanced monitoring of SIs that operate OTFs and a study after five years to identify if issues have arisen.

3. Do you agree with our proposed amendment to MAR 5.3.1AR(4) to remove the ban on matched principal trading by MTF operators?

As above, this is once again a further blurring of the lines between SIs and multilateral platform operators. However, unlike the above, we see more serious concerns.

Like the FCA, we are not aware of instances where an MTF was able to engage in matched principal trading that has caused harm to market integrity or detriment to investors. Nevertheless, we are

aware of several instances where an ATS operator that is also a trading firm has advantaged itself by using the informational advantage it has or internalising order flow (see Pipeline,¹ for example).

So, the theoretical risk that the operator could use its order visibility to step in selectively, disadvantage clients, or otherwise favour itself is very much real and has been evidenced. The reason the FCA may not have seen any instances of this problem is because it has been banned in Europe since the introduction of MiFID II and it was banned for this very reason.

Therefore, we do not agree with this proposal.

Discussion Questions (Chapter 4)

6. Do you believe that the declining share of trading via central limit order books (CLOBs) and corresponding increased in other execution services is impacting, or could impact in future, the effectiveness of price formation in UK equity markets? If so, what are the key drivers of concern?

It is refreshing to see the FCA recognise the trade-offs that have occurred as a result of MiFID II/MiFIR and the push towards increasing competition. We would generally agree that there have been benefits from increasing competition for execution, principally lower cost of execution and technological advancement. But, as the FCA acknowledges, this has come at a cost of increased fragmentation.

The WFE shares the concerns of the FCA about the decline in share trading executed via central limit order books. CLOBs remain the gold standard of trading. Nearly all contemporary securities markets operate on a continuous trading model, in which incoming orders are matched with existing resting orders immediately upon arrival at the exchange. This approach is widely regarded by market participants as fostering deeper liquidity, narrower bid-ask spreads, and more precise price formation. CLOBs offer transparent, fair, and competitive environments unmatched by bilateral or discretionary execution mechanisms and are central to maintaining healthy, well-functioning equity markets.

As the FCA notes, regular auctions have become larger execution mechanisms. In particular, closing auctions have become an increasingly significant source of liquidity across the world. Closing auctions are widely used for benchmarking purposes, index calculation and pricing derivatives and funds, such as exchange traded funds. The increase in passive investing, order flow seeking guaranteed execution at the end-of-day price and reduced market impact for large trades all likely have led to this result. Crucially, auctions like these also contribute to price formation.

While dark trading does not offer the same level of transparency, price discovery or liquidity as CLOBs or regular auctions, a measured degree of dark activity may complement lit markets.² The execution of larger or more sensitive orders with reduced market impact can be a particular benefit.

In contrast, bilateral off-exchange markets siphon liquidity from multilateral venues. Although the SI market in Europe has not yet reached US levels of off-exchanges activity, we believe a primary focus should be on ensuring SIs are properly contributing to beneficial market dynamics. In particular, it is

¹ <https://www.sec.gov/news/press/2011/2011-220.htm#:~:text=Pipeline%E2%80%99s%20claims%20were%20false%20and,the%20%E2%80%9Cnatural%20liquidity%E2%80%9D%20it%20advertised>

² <https://opus.lib.uts.edu.au/bitstream/10453/121967/1/manuscript.pdf>

important to understand that bilateral venues do not play the same foundational price formation role that multilateral venues and exchanges in particular do. Multilateral venues offer transparent, lit markets with pre- and post-trade transparency, non-discriminatory access and strong investor protections, which collectively deliver prices. These measures are important for issuers as they seek liquidity, quality, and effective price formation to ensure their securities are attractively priced, readily tradable, and perceived as reliable by investors. The stark rise in usage of bilateral as an execution mechanism should be a concern for regulators and policymakers.

7. Are there measures that should be taken to support the role of CLOBs?

Yes. As the FCAs data shows, CLOBs remain the cornerstone of equities markets. Ensuring that CLOBs can continue to deliver price discovery requires that their operators compete on a level playing field with other venues and are given flexibility to innovate. CLOB operators face constraints that are not typically applied to other venues or execution mechanisms which can limit their ability to adapt to changing market conditions and evolving technologies. The issues addressed earlier in this consultation are another example of this issue.

We recognise that exchanges are unique in the financial system and must be treated as such. We would not wish to undermine their unparalleled ability to create transparent, reliable prices both for trading on their own platform and to serve as a reference point for off-exchange trading, indices, and derivatives.

Supporting CLOBs means that you need to support CLOB operators. This does not mean shielding them from competition or change. Rather, it involves creating a regulatory and policy environment that recognises their central role in transparent price discovery; avoids structural limitations that inadvertently restrict operational flexibility; and, encourages continued investment in market resilience, technology, and investor protection.

A measured approach that enables CLOB operators to remain competitive, sustainable, and innovative ultimately reinforces the health of the broader market ecosystem. By ensuring that the entities running CLOBs can operate effectively, regulators and policymakers safeguard the very mechanisms that provide trust, transparency, and efficiency in capital markets.

This reality should guide regulatory policy. Market reforms should be assessed for their impact on the sustainability of regulated markets. Measures that undermine the economic viability of exchanges risk weakening the very market structure that delivers reliable price formation and investor protection.

As highlighted in the WFE's [Financing the Future](#) paper, equity exchanges play a central role in mobilising investment and enabling long-term capital formation. They offer the most reliable, accessible, and transparent means for investors to benefit from corporate growth. In pursuing their objectives regulators should ensure their actions enable, rather than inadvertently erode, the ability of exchanges to perform this vital role.

More specifically, the FCA could consider:

- Levelling the playing field with bilateral

Ensure that such as bilateral trading via SIs or OTC platforms are subject to appropriate transparency and conduct obligations when compared with multilateral. A regulatory asymmetry in favour of less transparent venues risks further diversion of liquidity away from multilateral, pre-trade transparent platforms.

- Reinforce best execution rules with data

The FCA (and the EU) revoked the requirements to produce quarterly and annual best execution reports as they were costly to produce. Whilst we recognise the costs were problematic there is now no longer sufficient publicly available data on how often best execution is met.

- Expose retail trades to exchanges

Closely linked to the above, the FCA's Investment Platform Market Study found that "approximately 85% of the execution prices achieved by retail investors were at least as good as the prevailing best price available on the primary exchange (LSE). But when we also compare the RSP trading data with the best prices from all the available UK trading venues, rather than just the LSE, the percentage of orders that receive a price as at least as good as the best available price falls to 80%." The RSP system was widely criticised in the response to the [improving equity secondary markets](#) CP responses but we are yet to see a suggestion from the FCA.

8. Do you believe that there are activities in the current liquidity landscape, such as those carried out by bilateral quote aggregators, that should be considered more closely? If yes, what are the risks that they pose?

Yes. These platforms can make it difficult to clearly differentiate between bilateral and multilateral trading.

When quote aggregators consolidate and display pricing from multiple systematic internalisers or liquidity providers, they may in practice create a centralised point of interaction which brings together multiple third-party buying and selling interests in financial instruments. This activity can resemble multilateral trading without being subject to the regulatory safeguards that apply to trading venues. As a result, there is a risk of regulatory arbitrage and erosion of transparency.

We would consider this an area where greater clarification could be beneficial.

9. Is the current regulatory framework a material factor in decisions to execute trades bilaterally, particularly when done outside the systematic internaliser regime? If so, which features of the framework are included in those factors?

Yes. The compliance costs associated with operating an exchange can be higher than those for bilateral channels. If regulatory obligations are not applied consistently, participants may prefer channels that cost less in nominal terms. The real cost is often not felt by individuals but rather the market overall which loses out on price formation. While bilateral execution can play a legitimate role, the framework should not implicitly favour opacity.

Background

Established in 1961, the WFE is the global industry association for exchanges and clearing houses.

Headquartered in London, it represents the providers of over 250 pieces of market infrastructure, including standalone CCPs that are not part of exchange groups. Of our members, 36% are in Asia Pacific, 43% in EMEA and 21% in the Americas. The WFE's 87 member CCPs and clearing services collectively ensure that risk takers post some \$1.3 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. The exchanges covered by WFE data are home to over 55,000 listed companies, and the market capitalization of these entities is over \$111tr; around \$124tr in trading annually passes through WFE members (at end-2023).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back more than 40 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system.

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If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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