WORLD FEDERATION OF EXCHANGES

Response to the European Commission's Call for Evidence and Targeted Consultation on Savings and Investment Union (SIU)

05 June 2025

The World Federation of Exchanges (WFE) supports the European Commission's Savings and Investment Union (SIU) initiative. Financial services are the lubricant of the economic engine; without them, growth falters. At this critical juncture, the WFE is particularly supportive of measures aimed at enhancing economic productivity and fostering sustainable growth across the world and in Europe.

Summary

In this statement we intend to set out the exchange industries view of the Savings and Investment Union initiative. In summary:

- Simplification and burden reduction are good objectives. Developing principles-based regulation going forward can help achieve this. The push to "go further" than international standards often harms this goal.
- Consolidation of financial market infrastructure should be led by market forces.
- Competition and fragmentation go hand in hand; it may be valuable to look again at the regulatory consistency between bilateral and multilateral venues.
- Central supervision of trading venues and CCPs is not a panacea that will attract investors to European markets so perhaps it should not be a priority.
- On the other hand, the tax-advantaged account is an excellent idea that could stimulate investment and growth.
- Investors, including retail investors, should be further empowered to make their own decisions and use derivatives to manage risk.
- A 93 page, 370 question consultation is not "targeted."

Simplification and Burden Reduction

We are hugely supportive of the initiatives towards simplification and burden reduction. Reducing unnecessary complexity and administrative overhead can help market infrastructure and market participants operate efficiently, innovate responsibly, and channel capital into productive investment thereby creating economic growth and jobs across Europe.

However, this commitment must translate into concrete outcomes. Too often, the rhetoric of simplification is not matched by the result. To be effective, simplification efforts should involve a genuine review of existing obligations to identify redundant or disproportionate requirements.

Examples of Some Burdens

A good example of where the EU risks undermining its simplification agenda is in the proposed RTS for EMIR 3.0's change authorisation procedures. While the Level 1 framework promised streamlined timelines and clearer categories of change, the RTS as drafted significantly increase the burden on EU CCPs. Routine changes that previously required no authorisation are now subject to full procedures, including board-level approval and detailed documentation that replicates existing annual requirements. The accelerated procedure - intended to support agility - has been rendered largely unusable due to onerous requirements. These proposals risk disincentivising timely innovation in post-trade services and instead encourage changes to be made in bulk. We urge the Commission to revisit the thresholds and documentation obligations, and to leverage existing EMIR compliance assessments, so that change authorisation processes remain proportionate and effective.

A further good example is the Digital Operational Resilience Act (DORA). DORA was intended to be targeted at cloud service providers and information technology providers and introduce a framework for their oversight. The resulting Regulation has often increased the burden on the financial sector, and financial market infrastructure in particular, rather than providing stronger oversight of these digital third parties.

Simplification Going Forward

There should also be a forward-looking element with a clear commitment and focus on proportionality in future rulemaking. Which brings us to the subject of this consultation. Much of European regulation referenced below has recently been changed and/or is still in the process of changing. For example, the consolidated tape has not started operating yet, the CSDR colleges have not yet been established, and the EMIR changes have only entered into force six months ago. We are pleased to see political impetus around the development of an SIU but the desire to “do something” needs to be tempered with the understanding that Europe already is doing something in a lot of areas.

Principles-based Regulation

Closely linked to the idea of burden reduction is the need for more principles-based regulation. The EU tends to create dense, rules-based regulations that are difficult and costly to comply with. The same or even better outcomes can be achieved with a more principles-based approach. To some extent the EU has been trying to put forward more principle-based Level 1 legislation but there is more work to be done. Although, with EU legislation drafted against a civil law background, moving entirely to a principles-based approach would prove difficult.

EU rules tend to assume that market participants and infrastructure want to circumvent the rules. Or EU policymakers tend to favour prescriptive rules in an attempt to make sure they are applied uniformly across the EU. But this rules-based regulation is the source of burden that everyone is looking for. If the European Union allowed financial services firms to meet principles of regulation rather than rules, we would see a divergence in how firms achieve that compliance which would be a result of different and more innovative approaches to the same problem. This could be coupled or complemented with a more harmonised supervisory policy throughout the EU, ensuring that there is not a significant divergent application of the same rules.

International Standards and the Need to “Go Further”

The EU aspires to be a global leader in regulation, but this is often interpreted as a need to "go further" than other jurisdictions. For example, the EU has over applied the Basel prudential rules on banks by applying them to all banks and not just systemically important ones. Another example is the EU’s approach to environmental standards where the EU sought to go furthest and fastest and is now simplifying via the Omnibus proposals.

A further example is the requirement for EU CCPs choose one of three pre-defined anti-procyclicality (APC) margin measures in place. Although international standards recommend for CCPs to take measures to limit procyclicality, the EU has taken this a step further than needed with prescriptive measures that place undue burdens on European CCPs and limit their flexibility. As no other CCPs have equivalent provisions, treating EU and non-EU CCPs more similarly could help enhance the level playing field and competitiveness of Europe’s post-trade landscape, as well as providing the requisite flexibility that CCPs need when choosing appropriate anti-procyclicality measures in concert with their national supervisor. As EMIR 3 mandates a revision of the APC rules and a definition of procyclicality whilst taking into account international developments, aligning the EU regime with the new global standards of the BCBS-CPMI-IOSCO Joint Working Group on Margin and replacing the pre-defined APC tools with an outcomes based-approach, based on a definition of procyclicality and its measurement, would greatly contribute to the political objectives of EMIR 3.0 and the SIU.

However, the EU does not need to prove its leadership by overreaching—its position as a global regulatory leader is already well established. If the EU wants to “go further” for to address specific domestic risks or market characteristics that may not be fully captured by global norms there is nothing wrong with that. But there should be an acceptance that there will be a trade-off in terms of the attractiveness and competitiveness of Europe.

Consolidation of Financial Market Infrastructure

The discussion around consolidation of financial market infrastructure leading up to the publication of the European Commission’s Communication on the SIU was worrying. We are pleased to see that the emphasis is now on market-led consolidation. Market-driven consolidation is preferable because it allows efficiencies and synergies to emerge organically, driven by commercial incentives and competitive dynamics, rather than through artificial or imposed structures. Removing barriers to possible consolidation is a reasonable and valuable goal.

Fragmentation, Liquidity and Competition Among Trading Venues

As is implicit in the new push to consolidate, fragmentation and competition are two sides of the same coin. Over the past two decades, both in Europe and globally, we have increased competition among trading venues through execution-only venues like alternative trading systems (ATS) or Multilateral Trading Facilities (MTFs). This has led to reduced execution costs and some technological innovations too, but we have also seen the growth of internalisation via systematic internalisers (SIs) in Europe. This has contributed to the fragmentation of liquidity across the continent.

Bilateral off-exchange markets siphon liquidity from multilateral venues. Although the SI market in the EU 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 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. *Single Supervision*

Merely creating a single supervisor is not enough to guarantee growth. The SIU consultation, Letta and Draghi reports all point to the Single Supervisory Mechanism (SSM) as a success. Whilst it may have contributed to financial stability, it has not been a success in creating growth for European banks.

Hence the fact that "no bank from the EU currently ranks in the top 25 globally by market capitalisation."[1]

On the one hand, centralised supervision could enhance consistency in the application of the rules. On the other hand, EU markets remain very domestically focused, especially for retail investors, and NCAs are generally well attuned to the specific characteristics and dynamics of their domestic markets. In addition, resolution of FMI's such as CCPs remains a national consideration, so a move to supranational single supervision of FMIs may create unintended consequences without a corresponding resolution fund.

European Supervisory Authorities (ESAs), such as ESMA, already provide tools for regulatory convergence and cooperation across jurisdictions. Strengthening these frameworks to ensure consistent application of the rules could be a valid, and less costly, method to achieve the outcomes the Commission is seeking.

Finally, if the ESAs role does continue to evolve and grow to include supervisory responsibilities, then it will be important for the ESAs to have transparent, predictable and proportionate funding models. Fees can place undue burdens on market infrastructure, participants and ultimately end users.

If the EU were to consider establishing a single supervisor, it would be essential to carefully delineate responsibilities between the central and national levels—a task that is inherently complex. Without this clarity, the system could become overly complicated and burdensome, potentially running counter to the Commission's broader aim of simplification and ultimately the competitiveness of Europe.

Putting the Real Economy Users First

As exchanges and CCPs we see our role as being to serve the real economy and that means supporting investors, issuers, those requiring risk management tools and other end users. Therefore, we are incredibly supportive of the goal of putting savers and investors at the heart of the political project around further developing capital markets in Europe.

As policymakers consider investors, we would encourage policymakers to also think about placing the needs of issuers and companies high up on their agendas too. We welcome the steps towards reducing burdens of listed companies and the measures to reduce burdens on smaller and mid-cap companies in particular.

Tax Incentives

We have long supported increased retail participation in financial markets and would underline that investing in listed equity represents a powerful, if not the most powerful, way of investing for the longer term in the face of inflation. We are therefore very supportive of the idea of tax advantage accounts to incentivise investment by retail participants.

Tax incentives are generally missing from the SIU outside the tax advantaged account proposal, but they could be some of the most powerful ways to incentivise investment and growth. Addressing the

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[1] https://www.ft.com/content/059f0a79-bc4e-47be-9a22-8fefa6b2bc1c

debt-equity bias is a good first step but eliminating local transaction taxes, eradicating taxes on listings and providing further tax relief to productive investment can all create growth.

We understand this is a Member State competence and that any steps towards further EU harmonisation in this area will likely be met with opposition. However, the Commission is asking for ambitious proposals to unlock growth in Europe and we believe efforts would be better spent here than say on a single supervisor.

Empower Investors

Investor protection should not only focus on avoiding investment risks but also consider the risks of *not* investing. Consumer policy initiatives at the EU level are fundamentally aimed at safeguarding investors. This protection should extend to securing their long-term financial well-being. It is therefore essential to consider not only the risks and costs associated with investing, but also those linked to not investing—particularly in the context of inflation, which gradually erodes the real value of savings.

We would encourage policymakers to take a look at the regulatory treatment of products deemed too risky. While it is appropriate to acknowledge that certain financial products may not be suitable for all individuals, the prevailing regulatory posture often errs on the side of excessive paternalism while paradoxically allowing investment in unregulated crypto-assets (at least for the last few years).

Retail investors should have the opportunity to participate in well-regulated derivative markets, for instance. Derivatives are not inherently risky; rather, they are critical tools for managing and mitigating risk. For example, a retail investor holding an exchange-traded fund (ETF) tracking a broad index should be permitted to hedge downside exposure by purchasing a put option on that index.

Investor education is important to ensure that investors understand what they are investing in. However, investors also need to be able to learn by doing and allowed to invest their own money with real risk. This way, individuals will be able to learn how to invest in a more productive way.

Investing inevitably involves risk-taking. And taking risk management tools, like derivatives, away from retail investors hinders them more than it helps. The EU's objective should be to empower the individual investor with the tools and protections needed to navigate risk responsibly.

A "Targeted" Consultation

Finally, we are concerned with the breadth and depth of this "targeted" consultation into the SIU. The "targeted" consultation is 93 pages long and includes 370 questions. Almost all these questions ask for and require an explanation. For comparison, the AI targeted consultation was 22 pages long with 43 questions in it. The European Commission gave stakeholders two months to respond to a consultation that covers almost the entire market structure in the European Union. We were pleased to see the call for evidence be much more flexible in how it took feedback but were also disheartened by the short deadline.

This may seem like an unimportant point, and it certainly is in comparison to the rest of our comments, but we want to see well thought-out policy that delivers on SIUs goals, not a rushed piece of work that fails to meet the ambitions of the EU and the people of Europe. In that spirit, it may be a valuable exercise to keep the door open to the Commission on burden reduction for example, perhaps by creating a dedicated mailbox for evidence or examples of burdens to be highlighted to them.

Conclusion

In conclusion, we are excited about the idea of a Savings and Investment Union in Europe. Whilst we are enthusiastic about the goal, we are concerned that some of the ideas (like single supervision or consolidation in post-trade) will not deliver the economic growth the EU is seeking. Instead, addressing the imbalance of regulatory treatment of non-price forming securities trading infrastructures active in the EEA and providing tax incentives for investment should be the goal.

WFE RESPONSE TO TARGETED CONSULTATION ON SIU

PART 1

1. Simplification and burden reduction

1) Is there a need for greater proportionality in the EU regulatory framework related to the trade, post trade, asset management and funds sectors? Please choose from 1 (strongly agree) to 5 (strongly disagree) or 'no opinion'. If yes, please explain and provide suggestion on what form it should take.

Answer:

2 – Trade & Post-Trade

From our global viewpoint, we do see a need for greater proportionality and a cultural shift in rulemaking in Europe. We see room for improvement in three areas:

Firstly, the EU favours rules-based regulation as opposed to principles-based regulation. Rules-based regulation might be favoured as it can provide clear requirements that must be met in all member states. However, principles-based regulation is better for growth.

Principles-based regulation provides flexibility to accommodate innovation and evolving market conditions, ensuring regulatory outcomes are met without overly prescriptive constraints or the need to constantly update laws. It promotes accountability by focusing on the spirit rather than the letter of the law, and encourages firms to act in accordance with broader regulatory objectives such as fairness, integrity, and transparency. This could be coupled or complemented with a more harmonised supervisory policy throughout the EU, ensuring that there is not a significant divergent application of the same rules.

Secondly, the EU's regulatory approach often presumes that firms will seek to circumvent the rules, leading to an attempt to close every possible loophole. This results in a cumbersome and unwieldy framework; a principles-based approach would be more effective and proportionate.

This contrasts with the supervisory approach, where EU supervisors are generally regarded as constructive and collaborative. European regulators tend to prioritise engagement and dialogue over punitive enforcement, fostering a regulatory environment where issues can be addressed proactively rather than reactively. This approach supports better regulatory outcomes by enabling firms to seek clarification, share innovations, and work transparently with supervisors. Such open communication not only builds mutual trust but also enhances the resilience and responsiveness of the financial system as a whole.

Thirdly, the EU aspires to be a global leader in regulation, but this is often interpreted as a need to "go further" than other jurisdictions. For example, the EU has over applied the Basel prudential rules on banks by applying them to all banks and not just systemically important ones. Another example is the EU's approach to environmental standards where the EU sought to go furthest and fastest and is now seeking to undo some of that in the Omnibus proposals.

The great irony here is that when Member States overinterpret or overapply EU rules, they are accused of gold-plating. However, when the EU overapplies international standards, it is considered acceptable. Of course, international standards are often seen as a baseline which more advanced jurisdictions tend to build on and we would not seek to undermine that approach.

The main point here is: the EU does not need to prove its leadership by overreaching—its position as a global regulatory leader is already well established.

We will address these points in our answers to later questions, but in the trading landscape we consider the rules to be overly prescriptive and restrictive where multilateral venues are concerned.

<u>5) Are there areas that would benefit from simplification in the interplay between different EU regulatory frameworks (e.g. between asset management framework and MiFID)? Please choose from 1 (strongly agree) to 5 (strongly disagree) or 'no opinion'. If you agree, please explain and provide suggestions for simplification. Also if possible present estimates of the resulting cost savings. Please explain.</u>

Answer:

On the digital finance front, the interplay between the Cyber Resilience Act (CRA) and DORA could be further simplified. Both frameworks aim at increasing the cybersecurity and resilience of the EU economy, one through the lens of digital products and the other via the ICT systems of financial entities. Consequently, the scope of both the CRA and DORA are very much interconnected, which leads to an unnecessary duplication of requirements. A suggested simplification measure would be to recognise that sectors that have similar requirements, resulting in the same objectives of the CRA and/or DORA, to be granted equivalence, giving the European Commission the freedom to set guidance on sector-specific application of its rules.

<u>7) Do you have other recommendations on possible streamlining and simplification of EU law, national law or supervisory practices and going beyond cross-border provision? Yes / no / no opinion. If yes, please list your recommendation and suggested solutions. Please rank them as high, medium or low priority. Please explain</u>

Answer:

The Market Abuse Regulation (MAR) still uses a one-size-fits-all approach, applying the same requirements for all asset classes, regardless of the relative risk of market abuse associated with an individual instrument. It has been extensively identified that this negatively affects debt instruments which, in most cases, are unlikely to be impacted by, or contribute to, market abuse. It would be key to fine-tune the application of MAR based on the specificities of financial instruments and markets.

We would recommend to the Commission to better use existing data reported (for instance EMIR or SFTR TR data, as well as other existing databases). Many of the barriers in the reporting of derivatives are due to data sharing issues between authorities. Challenges persist due to a lack of ability of NCAs and ESMA to share data across the European Union. The ESMA database is accessible by the ESRB, with NCAs being able to only see some segments. Moreover, some jurisdictions have rules in place that prohibit data sharing. ESMA's database should be available to all relevant authorities when necessary and the mechanism for data sharing should be made more effective based on meaningful and comprehensive MoUs.

Disproportionate burdens for EU CCPs have also been introduced in the proposed RTS for EMIR 3.0's new change authorisation procedures. The Level 1 text proposed fixed timelines, which CCPs viewed as helpful in reducing the previously lengthy approval processes, as well as three new categories of changes: regular approval procedures, accelerated approval procedures, and exempted cases. However, the industry sees significant challenges with the proposed implementation. The main concerns are:

1. Less Exemptions: Business-As-Usual changes that previously required no approval processes will now be captured by the new thresholds of the regular approval procedure.
2. Board Approvals: The new change procedures introduce board approvals for each change, outlining how every change aligns with the CCP's strategic goals and will affect factors such as volume/market size/growth/risks. Not only does this also add to the regulatory burden, there is uncertainty in the industry as to whether the executive or supervisory board would need to sign off on these changes. The industry preference is for executive board approval, but a more streamlined solution would require approval from the Chief Risk Officer only.
3. Other Documentation Requirements: The RTS have also added other significant documentation requirements to change authorisations, including attestations for compliance across all of EMIR for every change (despite CCPs already doing this on an annual basis). In particular, the accelerated approval procedure also requires extensive documentation, reducing it to a non-option for CCPs. For example, CCPs must conduct complex six-month lookback analyses to check whether the accelerated approval path should be taken for any risk model changes. CCPs will likely view this as too burdensome to undertake for small/iterative changes, and will be incentivised to group minor changes into one annual approval process to avoid duplicating effort. Therefore, the RTS will have an unintended consequence of making EU CCPs less agile than before and render the accelerated process unused.

The industry proposes that:

- Less cases are funnelled into the regular procedure, not more, by:
    - Broadening the thresholds for exemptions to cover minor BAU changes, and
    - Broadening the thresholds for the accelerated procedure,
- Documentation requirements are made more proportional to the type of change involved,
- And that existing annual assessments of compliance against EMIR are leveraged instead of requiring constant re-attestations.

This will ensure that CCPs are not deterred from expanding their clearing offerings due to the heightened burden around obtaining regulatory approvals. In their current state, the proposals threaten to stifle innovation in the post-trade sector, as potential applications will likely be postponed or not pursued.

8) Does the EU trade, post-trade, asset management or funds framework apply disproportionate burdens or restrictions on the use of new technologies and innovation in these sectors? Please choose from 1 (strongly agree) to 5 (strongly disagree) or 'no opinion'. Please explain and provide examples.

Answer:

2

Regulators and policymakers in the EU are generally risk averse to technology provided by existing market participants and, in particular, exchanges. This is not just a phenomenon that we have seen in Europe but around the world. A more risks-based and balanced approach would better support innovation.

For example, crypto markets were allowed to develop unregulated until last year even though there were clear problems with them that regulation could address. Traditional financial market players are not given this level of leeway.

9) Would more EU level supervision contribute to the aim of simplification and burden reduction? Please choose from 1 (strongly agree) to 5 (strongly disagree) or 'no opinion' and explain.

Answer:

3

EU supervision may or may not contribute to simplification and burden reduction but it is not a key growth measure for Europe.

While EU-level supervision has the potential to reduce burdens and simplify compliance for regulated firms, the existence of a single supervisor does not in itself guarantee these outcomes. A shift towards more centralised supervision risks duplicating existing national oversight structures, creating new layers of compliance obligations rather than streamlining them. Furthermore, some of the rules emerging from the current ESAs are overly complex and burdensome, including some cited here in our response, so we know that single supervision does not necessarily mean better rules.

A single supervisor could reduce cross-border frictions and supervisory arbitrage by boosting convergence and harmonisation of standard-setting and enforcement. But that could also be achieved through existing regulatory tools focused on supervisory convergence. Ultimately, regulatory outcomes are the most important consideration, regardless of whether this is done by a single supervisor or NCAs.

The revised frameworks under EMIR and CSDR have also not yet been fully tested in practice. The new co-chairing powers granted to ESMA under the CCP college framework and the implementation of the college model for CSDs suggest a move towards more consistent, collaborative supervision across the EU. However, given these recent reforms, there is a case for regulatory stability. It would be prudent to allow these models to mature before initiating further structural changes, which could disrupt implementation and impose additional burdens on both supervisors and FMIs.

Furthermore, ESMA's fee structure for Tier 2 third-country CCPs is disproportionately high relative to the scope and intensity of their supervision. Single supervision risks undermining the attractiveness of the EU as a regulatory jurisdiction and places undue cost burdens on global market participants.

With resolution still handled at the national level, supranational centralisation of supervision risks creating misalignment between oversight and crisis response mechanisms. This is particularly true as supervision of FMIs at the EU level would not be matched by a corresponding EU-level resolution authority or fund.

If the EU aims to establish a single supervisor, it should carefully delineate responsibilities between the central and national levels—a task that is inherently complex. Moreover, it will need to move beyond the current ESMA model, where 27 national regulators each opine and decide, towards a framework of a true single supervisor. Without these elements the system risks becoming overly complex and burdensome which is something the Commission is trying to avoid elsewhere.

2. Trading

2.1. Nature of barriers to integration, modernisation of liquidity pools

17) Increased access to financial instruments on a cross-border basis can also be ensured by improving the interconnection between all relevant EU regulated markets and MTFs. To that end, would you consider important to ensure an increased level of interconnection between trading venues in the EU?

- Yes/
- Yes, provided it is funded/co-funded by public funds
- / No
- / Don't know.
  In case you answered "yes" or "yes, provided it is funded/co-funded by public funds" to the previous question, which of the following options do you prefer?
    i. Requiring every EU regulated market and MTF to offer the possibility to trade any share or ETF that has been initially admitted to trading on a regulated market across the EU
    ii. Requiring every EU regulated market and MTF to collect the orders and reroute them to one of the venues where a given share or ETF is traded (i.e. without requiring all venues to directly offer trading in all shares and ETFs)
    iii. Leaving the choice of the option to each EU regulated market and MTF
- Please explain and clarify if you would see merit in limiting the options to only a subset of regulated markets/MTFs (e.g. MTFs with a cross-border dimension). In that case, please clarify what the criteria should be and provide details concerning possible implementation costs. In case you answered "yes" or "yes, provided it is funded/co-funded by public funds" to question 17, what would be the impact in terms of building cross-border liquidity? What would be the potential estimated costs or savings associated with such a measure (where relevant, for each respective type of market participant)? If you replied 'yes' or "yes, provided it is funded/co-funded by public funds" to question 17, do you see any post-trade challenges associated with this?

Limited access to trading venues is not a systemic issue across Europe. In cases where access appears lacking, it is more often a reflection of limited demand for trading activity rather than infrastructural or regulatory barriers. Brokers operating across the region generally have the capability to connect to all relevant venues. If clients believe additional venue access is necessary to meet their trading needs, they should raise this with their brokers, who are well-positioned to facilitate such connections.

19) In other jurisdictions, notably the US, an increased level of interconnection at the level of trading venues resulted from the application of the 'order protection rule' (Rule 611 of the Regulation National Market System) that established intermarket protection against trade-throughs for certain shares. Do you have any experience with this rule? Yes / No / No opinion Please explain If so, on a scale from 1 (low) to 5 (high), please assess the effectiveness of this rule in terms of:

- Guaranteeing the best price for clients/investor protection
- Speed of execution
- Level of execution fees
- Split of liquidity
- Interconnection between trading venues
- Efficiency of the price formation process
- Modernising trading protocols (e.g. digitalisation/electronic trading)

Answer:

As the World Federation of Exchanges, we represent members in the United States.

Instead of achieving any great gains, Rule 611 under Regulation NMS ("the order protection rule") in the United States has entrenched a fragmented market structure. By requiring routing across multiple trading venues to access protected quotes for minimal price improvements the rule has introduced increased inefficiencies. It is increasingly complex (and therefore costly) to undertake order routing.

Furthermore, latency has increased as orders route via numerous venues. Many of these venues, primarily the alternative trading systems (ATS) – the equivalent to MTFs in Europe – have limited displayed liquidity which harms price discovery.

Finally, the order protection rule undermines the incentive structure for brokers to actively fulfil their execution responsibilities. When exchanges effectively assume the roles of order routing, best execution, and order execution, it raises a fundamental question: what added value do brokers contribute under such a framework? Particularly as they are no longer required to publish data on when they meet best execution.

The order protection rule is a source of fragmentation in US markets and we would caution against adopting similar rules in any other jurisdiction. It has been 20 years since the adoption of these rules, and they have not proven to be widely effective.

- Guaranteeing the best price for clients/investor protection: 2
  The rule mandates execution at the national best bid and offer, but often overlooks other dimensions of best execution such as size, speed, and likelihood of execution.
- Speed of execution: 2
  Intermarket routing adds latency and introduces routing delays, particularly when accessing distant or lightly populated venues.
- Level of execution fees: 2
  Increased fragmentation and routing obligations can result in higher overall execution costs and added complexity for brokers managing multiple fee structures.
- Split of liquidity: 1
  The rule contributes significantly to the fragmentation of displayed liquidity, undermining consolidated order books and hampering market depth.
- Interconnection between trading venues: 4
  While it fosters technical interconnection, this is not necessarily beneficial, as it complicates order handling and risk management without commensurate benefits.
- Efficiency of the price formation process: 2
  Fragmentation dilutes the informational content of quotes, particularly when venues display ‘flickering’ prices that are not reliably executable.
- Modernising trading protocols (e.g. digitalisation/electronic trading): 3
  While it has contributed to the automation of routing protocols, this modernisation has often been reactive and geared towards circumventing inefficiencies introduced by the rule itself.

23) Crypto-markets have seen the emergence of a market architecture whereby retail investors have direct access to a crypto-asset trading venue. Do you see merit in allowing or promoting the direct access of retail participants to trading venues for financial instruments, without an intermediary? Yes/No/Don’t know If your response is ‘yes’, please explain the advantages and disadvantages of such a model, as well as the risks and how they could be mitigated.

Answer:

Whilst retail investors may have direct access to the crypto-asset trading platform, that does not always mean that their trades are exposed to the market. Often their orders are simply internalised by the trading platform. This lack of clarity is not necessarily a better outcome for them.

2.5. Enhanced quality of execution through deeper markets

28) When the same financial instrument is traded on multiple execution venues, the best execution rule plays a key role. The rule seeks to protect investors, ensuring the best possible result for them,

while also enhancing the efficiency of markets by channelling liquidity towards the most efficient venues. On a scale from 1 (insufficient) to 5 (completely efficient), what is your assessment of the effectiveness of the best execution rules in the EU? Please explain.

Answer:

4

In the absence of any data or meaningful standardised reporting across Europe by brokers, we would highlight that in 2019, the UK's FCA found that 85% of trades were receiving a price as good as the best they could on an exchange. Assuming this holds true for other European markets, this means that almost one in five retail trades fail to achieve best execution.

https://www.fca.org.uk/publication/market-studies/ms17-1-3.pdf

2.6. Building quality liquidity for EU market participants: impact of recent trends

2.6.1. Non-transparent ('dark') trading (for equity instruments)

35) The EU's trading landscape is witnessing a decrease of lit order book equity trading (i.e. order book trading with pre-trade transparency). In your view, what are the main reasons that explain such a trend? Please select one or more of the options below and explain your reasoning. Please select the relevant options.

- Regulation (please specify)
- Liquidity fragmentation
- Order flow competition (e.g. development of EMS/OMS)
- Technological developments (e.g. algorithmic trading/HFT)
- Surge in ETFs and passive management
- Other (please explain) Please explain

Answer:

Regulation and Order Flow Competition – It is easier and cheaper to internalise order flow than expose it to the market. Segmentation of order flow enables certain market participants to selectively interact with only the most profitable or least risky orders, undermining the principle of a single, transparent price discovery process. This can erode market integrity, reduce overall transparency, and diminish the incentives for maintaining robust public markets that serve the broader economy.

24-hour trading

43) On a scale from 1 to 5 (1 being "not significantly positive", 5 being "extremely positive"), how positive do you deem extended trading hours / 24-hour trading for the development and competitiveness of EU markets? Please explain your reasoning. 1 2 3 4 5 No opinion

Answer:

3

Trading venues must retain the flexibility to define their own trading schedules. Any harmonisation or shift toward 24-hour trading (encompassing 24/7, 24/5, 23/5 or some other form of extended trading hours) should be market-led, based on demonstrated investor demand and technological capability. Besides these key considerations, it should also be ensured that exchanges are operationally ready, and that the applicable regulatory frameworks are adjusted to allow it, should the commercial and investor appetite move in the direction of 24-hour trading (or extended trading hours).

44) On a scale from 1 to 5 (1 being "very advantageous", 5 being "highly risky"), how advantageous or risky do you deem extended trading hours/24-hour trading for the orderly functioning of EU capital markets? If you attribute a score pointing at a risk, please explain these risks and, where relevant, differentiate between different categories of investors (e.g. professional investors and retail investors). If you provide a score pointing at advantages, please explain those advantages. 1 2 3 4 5 No opinion

Answer:

3

24-hour trading could be advantageous for European markets because:

- It enables European retail investors to trade outside of normal hours
- It enables non-European investors in different time zones to trade European shares.

24-hour trading is unlikely to become a huge source of risk in European markets. This is because:

- Exchanges could cope with shift and current technology could cope. However, there would likely be additional costs incurred by the exchanges (and therefore passed on to market participants). Exchanges would include circuit breakers to prevent extreme volatility regardless of the time. Exchanges would operate operational resilience measures – staffing etc. Exchanges would be able to maintain software.
- Exchanges would still operate closing auctions for the benefit of market participants (particularly in asset management) that need to price their positions.

The biggest question mark for us is liquidity. Would there be sufficient liquidity in the market overnight? Would market makers continue to operate overnight? Could market participants get best execution overnight? We think that for the time being in Europe there is unlikely to be sufficient liquidity and that is why we are not seeing exchanges (or indeed MTFs) move to 24-hour trading.

The role of multilateral vis-à-vis bilateral trading

<u>47) In your view, what are the benefits stemming from competition between bilateral and multilateral execution venues? Please explain your reasoning and differentiate between different categories of clients (professional investors vs retail investors)?</u>

Answer:

The WFE supports fair competition between different types of execution venues. We recognise that competition can deliver benefits when underpinned by a robust regulatory framework that ensures a level playing field among execution venues. Competition in general can contribute to innovation and in this case may have led to improved technology, cost efficiencies and overall quality of service.

However, such benefits are only realised when competition does not compromise market integrity, transparency or investor protection. In this regard, it is important to understand that bilateral venues do not play the same foundational price formation role that exchanges do. Regulated markets offer transparent, lit markets with pre- and post-trade transparency, non-discriminatory access and strong investor protections, which collectively deliver prices.

For professional or institutional investors, bilateral venues may offer certain efficiencies with regards to managing large orders with reduced market impact. These "block trades" can be exercised in the dark, moving markets less than they would if executed on an open market. Although, there is certainly a question that should be asked about whether it is right that institutional investors should be advantaged in this way or even if it is a poor outcome for price formation if trades that would change the price of an asset occur off-exchange. Nevertheless, for the time being, we think that the accepted wisdom that there is value in institutions being able to manage large positions without panicking the market is good for the market overall.

For retail investors, multilateral venues are likely to be more beneficial as they provide transparent pricing and equal access. Structural protections inherent in regulated markets safeguard less sophisticated participants and ensure they receive best execution. We know from experience that bilateral venues may lack the same degree of transparency and conflict-of-interest safeguards.

<u>48) In your view, what are the main drawbacks stemming from competition between bilateral and multilateral execution venues? Please explain your reasoning and differentiate between different categories of clients (professional investors vs retail investors)?</u>

Answer:

While competition between execution venues can promote innovation and efficiency, it also presents several drawbacks. This is particularly true where regulatory asymmetries exist between bilateral and multilateral venues.

Firstly, a proliferation of bilateral venues fragments liquidity. This can impede efficient price discovery and increase trading costs. Fragmented liquidity is a key problem that Draghi, Letta and the Eurogroup all identified as important for economic growth.

Secondly, bilateral venues erode transparency. Bilateral venues typically lack the pre- and post-trade transparency that characterises multilateral venues. This opacity undermines market integrity and impairs regulators’ ability to monitor for abusive practices such as front-running or quote manipulation.

Thirdly, bilateral venues are open to potential conflicts of interest. Conflicts of interest may particularly arise where market makers internalise flow.

Professional investors are likely to possess the capacity to evaluate and navigate fragmented venues. However, more venues typically means more connection costs, increase complexity and increase compliance burden. Retail investors may be exposed to inferior execution outcomes and diminished price competition.

In summary, while competition can drive beneficial innovation, it must be carefully managed to preserve market integrity, investor protection, and efficient price formation. Ensuring a level playing field between venue types is essential to sustaining these objectives.

<u>49) In your view, do benefits stemming from competition between bilateral and multilateral execution venues outweigh the associated drawbacks? Yes/No/No opinion. Please explain your reasoning and differentiate between different categories of clients (professional investors vs retail investors)? If you responded “no” to the previous question, would you see merit in requiring that retail orders be executed on multilateral and lit venues? Yes/No/don’t know. Please explain your reasoning, in particular please specify any impact that such a measure would have on the quality of execution of retail orders. If you responded “yes” to the previous question, do you believe that any measures would be necessary to avoid an increase in execution costs for retail orders? Yes, No, Don’t know. Please explain your reasoning.</u>

Answer:

Multilateral venues are better than bilateral venues and retail orders would benefit from being exposed to exchange markets. See the FCA research from earlier – best ex is missed 20% of the time.

2.7. Other issues on trading

<u>58) Please provide any further suggestions to improve the integration, competitiveness, simplification, and efficiency of trading in the EU. Please provide supporting evidence for any suggestions.</u>

Answer:

The focus of this consultation seems to be on fragmentation of liquidity on public markets. However, it misses the wider discussion about the value of private markets. Private markets have long fed into public ones but the balance between them is changing rapidly, and this merits attention to ensure that the two can work together optimally.

In recent years, private assets have grown rapidly while targeting retail investors and attempting to organise secondary trading. At the same time, the private-credit component has increased its profile, introducing new risks within the private-asset world. This unprecedented growth in private markets may have implications for public markets and for the rest of the capital-raising system, including the private markets that, in practice, rely on public ones in many ways.

Furthermore, and linked to this debate, the decline in listings in Europe (and other developed markets) hinders the growth in trading and access to investment for all, particularly retail investors.

3. Post-trading

3.1. Barriers to cross-border settlement and other CSD services

Section 3.1.1: Cross-Border Provision of CSD Services

Q1. What are the main barriers to the provision of cross-border CSD services in the EU and to freedom of issuance in any CSD in the EU?

Answer:

The key barriers to the consolidation and cross-border provision of CSD services in the EU are rooted in national legal frameworks. In particular, differences in the four core areas of corporate law, insolvency law, securities law, and taxation create legal and operational fragmentation. These divergences affect the treatment of ownership rights, issuer obligations, asset protection, and tax withholding or relief procedures. Together, they create obstacles to the seamless provision of cross-border services by CSDs.

This legal fragmentation is further exacerbated by diverging legal models of securities holding across Member States. Some jurisdictions adopt a direct holding model where the end investor is recognised as the legal shareholder, while others follow an indirect holding model where intermediaries hold legal title and the end investor holds a beneficial interest. This creates complexity in implementing EU-wide rules such as the Shareholder Rights Directive II, which presumes a consistent definition of shareholder that does not align with all national frameworks. As a result, cross-border investors may face legal uncertainty over voting rights and entitlements, and issuers may struggle to identify their shareholders.

Attempts to harmonise ownership structures, such as through SRD II and its implementing regulation, have yielded limited results, in part because key elements (e.g. identification and communication of shareholders) remain governed by national corporate law.

Overall, the required harmonisation in national laws would require extensive reforms across Member States' which may not be feasible in the near term:

1. **Corporate Law**
   Barrier: National company laws determine how securities are issued, registered, and who can maintain securities registers. For example, in some Member States, only domestic CSDs may act as central registers.
   Solutions: Introduce EU-level recognition of central registers across Member States or guidance on acceptable central register structures.

- **Insolvency Law**
  Barrier: Different treatment of securities in insolvency, client asset segregation, and finality protection.
  Solutions: Implement EU-wide framework for client asset protection in CSD insolvency scenarios.

3. **Securities Law**
   Barrier: Variations in how ownership is constituted (e.g. book-entry vs. notarial), or enforced.
   Solutions: Adoption of harmonised model laws or interpretive guidance. Convergence in enforcement of ownership rights.

- **Tax Law**
  Barrier: Diverging and burdensome withholding tax relief and reclaim processes.
  Solutions: Implement a simplified EU-wide tax relief at source framework. Standardisation of documentation and digital procedures.

Alternatively, efforts to reduce fragmentation could focus on achievable, lower-risk routes to achieve greater legal harmonisation, outlined in our response to 3.1.2.

3.1.2. Links

<u>Q6. What are the main barriers to building an efficient network of links between EU CSDs?</u>

Answer:

There are several interrelated barriers—operational, legal, and structural—that inhibit the creation of an efficient network of links between EU CSDs. These include:

Lack of Commercial Incentives

One of the fundamental challenges lies in the absence of incentives for larger CSDs to establish and maintain links with smaller CSDs. While CSDR mandates that an *Investor CSD* must be allowed to initiate a link with an *Issuer CSD* unless significant risks exist, there is no corresponding obligation or incentive in the reverse direction. This asymmetry leads to a lack of proactive link formation, particularly where smaller-market issuers seek to access broader capital pools or pursue dual listings. Without these "tracks" in place, smaller markets remain at a disadvantage in terms of capital raising and post-IPO liquidity.

Operational and Technological Barriers
Operational and technical barriers also play a role, especially for non-T2S CSDs and those operating on legacy systems. EU CSDs operate with different messaging standards, settlement processes, and IT infrastructures. These differences limit the ability to establish standardised link interfaces and contribute to complexity in post-trade operations, particularly for cross-border activity. However, it should be noted that while harmonising data formats and aligning interface protocols is beneficial (especially for non-T2S connections), it does not in itself guarantee willingness to establish new links.
Settlement Failures and Custody Chain Complexity

The EU's custody and settlement chains are often multi-layered and cross-border in nature. This complexity (particularly within the custody chain and cross-CSD flows) can result in mismatched instructions, timing differences, or data incompatibility. Cross-CSD transfers may require the use of local agents or intermediaries, increasing operational risk and cost.

Legal and Regulatory Fragmentation

Divergent national rules (particularly in areas such as tax, insolvency, and securities law) add considerable complexity and cost to link establishment and maintenance. Addressing these legal barriers, as outlined in Section 3.1.1 of the consultation, would significantly improve conditions for greater interoperability, by reducing the costs of establishing links and the ongoing costs of maintaining them.

Potential Interim Measures

Recognising that full legal harmonisation is a long-term goal, several interim steps could support progress:

- **A centralised register** which consolidates key legal provisions related to insolvency, tax, securities markets, and settlement systems across EU and EEA countries would reduce administrative burdens and compliance costs for CSDs assessing and maintaining links. Although existing lists summarise corporate laws at the Member State level, similar resources are lacking in other areas.
- **Standardised Templates** for legal and risk assessments required during link establishment. A benchmark template for link agreements would also improve consistency and reduce the negotiation burden.

3.1.3. Settlement services in the EU

Q23-34. How could T2S be further enhanced to increase its efficiency and attractiveness?

Answer:

Enhancements could include broader adoption of harmonised corporate action standards, improvements to real-time settlement monitoring tools, expanded support for automated matching and reconciliation workflows, and integration of instant settlement capabilities where appropriate.

We do not recommend removing the requirement for a bilateral link between CSDs that participate in T2S. CSDs already utilise T2S infrastructure for inter-CSD transactions, but formal link arrangements remain essential to address legal, operational, and risk considerations. It is difficult to envision how flows between participating T2S CSDs could be effectively facilitated without such link arrangements.

Section 3.6: Other Post-Trade Issues

Other matters that could potentially contribute to removing barriers to the consolidation of posttrading infrastructure, to improving the EU's capital markets attractiveness while reducing fragmentation and to improving integration in post-trade services might also be important. Please provide any further suggestions to improve the integration, competitiveness, and efficiency of posttrade services (including clearing and settlement) in the EU. Please provide supporting evidence for any suggestions.

Answer:

The CCP equivalence regime could be optimised through more regular reviews, greater transparency, and clearer communication on pending decisions. Equivalence is a cornerstone of global market oversight, and its revocation or the de-recognition of a third-country CCP by ESMA must be accompanied by adequate transitional arrangements for market participants. EMIR 3.0 introduces some improvements, but further enhancements could include decoupling the EMIR Article 25 equivalence process from the QCCP status under the EU Capital Requirements Regulation (CRR). The current reliance on equivalence for capital treatment creates disproportionate outcomes, particularly for CCPs awaiting recognition or from jurisdictions that may be blacklisted for unrelated reasons. A new, risk-based test to determine QCCP status for capital purposes, separate from market access, would be a welcome innovation.

In addition, the EU should eliminate regulatory barriers that hinder voluntary clearing of securities financing transactions (SFTs) to improve capital efficiency and encourage broader participation. Key recommendations include:

1. **Capital Requirements:** Allow clearing members to recognise cross-product netting (e.g. SFTs vs derivatives) in capital calculations under the Capital Requirements Regulation to reduce costs and support client clearing growth.
2. **Collateral Rules:** Adjust EMIR 3.0-related collateral concentration and diversification rules for funds in cleared SFTs, and permit margin reuse to enhance clearing's economic appeal, requiring targeted updates to MMFR and UCITS-D.
3. **Insurer Access:** Expand EIOPA's recommendations for improved CCP access beyond derivatives to also cover cleared SFTs, addressing capital disincentives for insurers.
4. **NSFR Treatment:** Revise Net Stable Funding Ratio rules to grant favourable treatment to centrally cleared SFTs—such as applying a 50% Available Stable Funding and 0% Required Stable Funding—to reflect their reduced risk relative to bilateral transactions.

Overall, these reforms would strengthen the EU clearing ecosystem and deliver greater efficiency for market participants.

PART 2

4. Horizontal barriers to trading and post-trading infrastructures

4.3. Issuance

8) Please describe the steps and how long it takes to issue securities (and, if applicable other financial instruments) in your Member State, and indicate which steps could work better, in particular if undertaken cross-border (i.e. CSD and/or trading venue is in another Member State).

The process and timings for issuing securities varies from country to country. Challenges faced during this period include: issuers not being prepared with the requisite information, lack of expertise, resource allocation, limited sector/industry information availability, issuers' ability to provide the required information in the correct formats, ensuring the accuracy and completeness of issuers' financial statements, risk identification and management, confidentiality matters, meeting regulatory requirements, harmonising legal and marketing needs, stakeholder engagement and management, and coordination of the various actors involved.

Regulatory measures that could mitigate these challenges would improve the process for Member States.

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4.4. Innovation – DLT Pilot Regime (DLTPR) and asset tokenisation

23) Do you believe that the DLTPR limit on the value of financial instruments traded or recorded by a DLT market infrastructure should be increased?

Answer:

Yes. There is not enough uptake of the project because it is not commercially viable. Increasing limits of financial instruments that are in scope and) with regards to the aggregated value of all DLT financial instruments could help increase uptake..

Alternatively, redefining the reference value of the limitations – for example, using turnover instead of market capitalization as the reference value. This could better reflect the risk reasons for why these limitations exist.

24) Do you believe that the scope of assets eligible within the DLTPR should be extended?

Answer:

Yes. It should cover more financial instruments under MiFID II, including structured products. This would increase the DLTPR's relevance.

31) Do you believe that DLT is a useful technology to support trading services in financial instruments? Please explain your response.

Answer:

DLT has potential to alter the fabric of traditional finance if implemented in a safe, sound and fair way. It is our current view that tokenisation as a natural evolution in the financial industry. Following the move from paper share certificates to dematerialisation, tokenisation possibly represents the next step for traditional assets.

Nevertheless, some benefits are overplayed by vocal proponents of tokenisation. Continuous 24/7 trading and same day settlement can be achieved without tokenisation. Disintermediated models face conflicts of interest; and, instantaneous settlement in tokenised trading may have unpredictable timing, affecting market liquidity and trading costs, especially if assets and funding needs to be blocked prior to execution.

It has been over 15 years since the Bitcoin white paper and tokenisation has not 'taken off' in traditional markets. This is because current DLT faces challenges in high transaction environments. There are also interoperability challenges, high implementation costs, and regulatory uncertainties associated with tokenisation.

We wrote in more detail about this here: https://www.world-exchanges.org/our-work/articles/demystifying-tokenisation-embracing-future

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.

Website: www.world-exchanges.org
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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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