

**Response to ESMA call for evidence on the structure of  
European equity markets**

**26 June 2026**

## **Summary**

The World Federation of Exchanges (WFE) welcomes the opportunity to respond to ESMA's Consultation on Market Structure. Market structure might, at first glance, seem like a technical discussion of trading venues and market participants, but it is fundamentally important for effective capital raising and ensuring the best outcomes for end investors.

In our response we:

- highlight growing concerns about the continued expansion of bilateral trading, particularly because it relies on prices formed elsewhere and may gradually weaken transparent price discovery if its share of activity keeps increasing.
- stress that ESMA's picture remains incomplete without UK data on trading in EEA shares, meaning the true scale and shape of off-book and SI activity cannot yet be fully assessed.
- explain that "addressable" liquidity should not be treated as equivalent to genuinely "accessible" liquidity, since multilateral venues provide fair, non-discriminatory access across the market.
- underline that price discovery remains concentrated on multilateral venues, with the closing auction playing a particularly important role as the definitive end-of-day reference price.

Finally, the response emphasises that strong secondary trading matters not only for investors seeking fair and reliable execution, but also for issuers, because effective price formation and liquid secondary markets support valuations, reduce the cost of capital and make public listing more attractive.

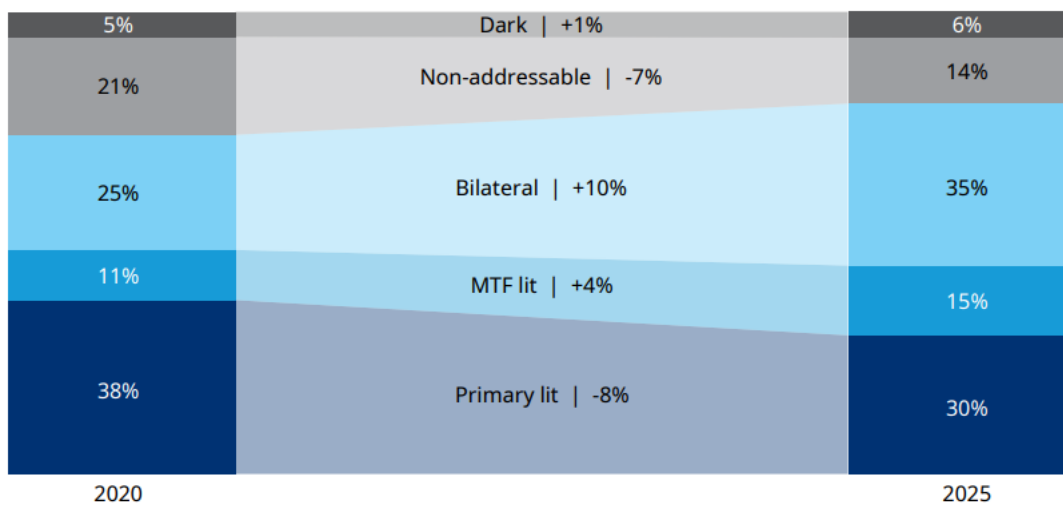
**Q1: Do you agree with the description of the market structure summarised in Figure 1 for the purpose of the study in sections 3 and 4 based on transaction reporting data? If not, could you provide an alternative description that you consider more adapted to the reality of the European trading landscape for shares?**

*Applicability*

We recognise that the scope of ESMA’s exercise is limited to equities markets, and the observations and recommendations set out in this response should be understood in that context. Accordingly, the perspectives expressed throughout this submission relate specifically to equity market structure and equity trading dynamics.

*Scope of Study*

We understand that the data may not be available to ESMA to include UK trading of EEA shares. However, we would expect to see a high proportion of EEA shares being traded through UK SI, OTC or off-book on-exchange. It may be beneficial for ESMA to pursue a data sharing arrangement with the UK authorities, particularly in the context of the MISP package and potential supervision of regulated markets by ESMA, in order to address this data gap. Without this data, we do not have a true understanding of the exact market dynamics, though it is worth noting that the FESE/Oliver Wyman report referenced in the Call for Evidence by ESMA includes UK data and shows the following:



Source: BMLL, Oliver Wyman analysis

*Periodic Auctions and the Closing Auction*

Although ESMA categorises the closing auction under periodic auctions, it differs in nature. Intraday and frequent batch auctions are truly periodic, occurring throughout the trading day. By contrast, the closing auction takes place only at the day’s end and serves as a unique, final price discovery mechanism. Moreover, some trading at close services should not be considered auctions at all as they simply reference the established lit market price and thus does not fit the auction framework.

### *Addressable Liquidity v.s. Accessible Liquidity*

There are further questions later in this Consultation Paper concerning the distinction between addressable and non-addressable liquidity, and we return to that issue in subsequent sections. However, the statement in Point 12 warrants immediate comment: “Therefore addressable liquidity provides a clearer picture of how much trading is genuinely available for investors and how it contributes to price discovery.” We consider this to be a misunderstanding. Addressable liquidity *could* be available for investors but not all of it is accessible to all investors.

Only multilateral trading venues operate under a framework that ensures fair and non-discriminatory access for all market participants. So, only multilateral trading can truly be considered truly accessible to the market as a whole. ESMA acknowledges this later in Point 30 of the Call for Evidence, where it notes that certain forms of what it categorises as “addressable liquidity” may nevertheless be “less transparent and/or accessible.”

Second, while we agree that dark trading conducted on MTFs and RMs is addressable liquidity, it is worth noting that lit trading contributes most to price discovery. Price formation depends on the transparent interaction of displayed bids and offers in a lit market. Trading conducted under mechanisms such as the reference price waiver do not establish prices independently; rather, it relies on prices formed in the lit market. It is therefore difficult to understand the basis on which such trading could be characterised as contributing to price discovery in the same manner as transparent order-book trading.

### ***Q3: Do you agree with the general trends identified regarding on-book vs. off-book trading, and addressable vs. non-addressable liquidity? What other trends do you consider relevant, also in terms of competitive pressures?***

As noted above, the lack of data for EEA shares traded in the UK means that the data presented by ESMA is not complete. Nevertheless, we agree with the trends that ESMA has identified.

We agree that trading on central limit order books (CLOBs) has generally declined, while dark trading has remained relatively stable and bilateral trading has increased. This is a trend observed not only in EU markets, but also across the US and UK, reflecting the broadly similar market structures and regulatory frameworks that exist across these jurisdictions. We also agree that trading activity in closing auctions has increased. This is a global trend, and we concur with ESMA’s analysis that it is closely linked to the growing importance of the closing price as a key benchmark and reference point for asset managers and index-tracking strategies.

In addition, we agree that lit books on RMs and MTFs remain the venues where the greatest number of trades occur and where price discovery is primarily concentrated. The growth in bilateral trading appears largely driven by the increasing internalisation of retail order flow, as well as block trading activity, effectively drawing away both smaller retail-sized trades and larger institutional transactions from the lit market.

***Q4: Do you have any concerns on the impact of the identified trends on the general functioning of the EEA markets for shares? In your view, what are the implications of the relative decreasing trend in trading on CLOB for the effective price formation in the EEA markets for shares? What are the implications on price formation should this trend persist or even accelerate?***

The data presented by ESMA indicates that there has been a shift toward bilateral trading, which does not meaningfully contribute to price formation, as it relies on prices established in the lit market rather than generating transparent market prices itself.

Many of our members have expressed concern regarding the direction of travel, particularly given the apparent absence of any natural constraints on the continued expansion of bilateral trading.

This raises broader market structure concerns because effective price discovery underpins investor confidence that transactions are executed at fair market prices, supports efficient capital formation, and ensures that capital is allocated efficiently across the economy. There may be value in ESMA conducting further analysis, perhaps examining academic literature, on the effect of this growth of bilateral trading on price discovery to identify the need for regulatory intervention.

Equally, our members recognise that different execution mechanisms serve legitimate and valuable purposes within the market ecosystem. Bilateral trading, for example, can be highly useful for institutional investors executing block or large-in-scale trades where minimising market impact is important. However, the benefits achieved for individual transactions must be balanced against the broader system-wide implications of reducing the proportion of transparent, price-forming trading activity in the market.

***Q7: If you are an issuer, how do you see these market developments? Do you consider this an attractive environment for listing? If not, why?***

Of course, we are not issuers ourselves. However, as an industry we work closely with issuers and are concerned that their perspectives are often underrepresented in debates concerning market structure.

Our research shows that market liquidity is consistently linked with IPO frequency.<sup>1</sup> A strong secondary market reduces the liquidity premium investors demand – if investors know they can easily resell a security at a fair, transparent price, they require less compensation for liquidity risk. This translates into improved equity valuations and lower financing costs on debt issuance. As a result, companies in the real economy can finance expansion in productive capacity and promote economic growth as a direct result of effective price discovery.

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<sup>1</sup> <https://www.world-exchanges.org/our-work/articles/attracting-new-listings-what-shapes-ipo-activity-across-markets>

***Q8: What conclusions would you draw from the distribution of liquidity across EEA ISINs? Do you identify any policy recommendations in this context, with a view to enhancing price formation while ensuring a level playing field across different types of venues? Do you have explanations for the high share of OTC trading observed in the ISIN's of some jurisdictions?***

Larger and more mature national financial markets within the EU tend to exhibit higher levels of dark and bilateral trading. This is consistent with our broader observations across global markets. In smaller or less mature markets, fragmenting liquidity away from the exchange is often less commercially viable for competing venues, as there may simply be insufficient trading activity to sustain multiple execution ecosystems. This is an issue we frequently raise with policymakers and regulators in smaller jurisdictions internationally.

One important dimension not fully addressed in ESMA's analysis is the distinction between trading in small-cap and large-cap stocks. Globally, we tend to observe that alternative trading systems (ATSSs), including MTFs, predominantly concentrate their activity in highly liquid, high-demand securities. Less liquid small-cap stocks, by contrast, generally continue to rely far more heavily on exchanges and lit order books to support trading activity. Figure 11 appears to demonstrate this relationship indirectly: smaller exchanges, which typically list a greater proportion of small-cap companies relative to the broader EU market, continue to dominate trading in their domestic securities because they remain the principal venues willing and able to support liquidity in those stocks.

***Q10: What concerns/issues do you highlight at this stage? Do you see a need for specific regulatory interventions also in consideration of evidence available regarding practices related to dark trading functionalities (please provide details)?***

In principle, we remain mindful of the potential risks that excessive dark trading could pose to price discovery. However, both the overall level of dark trading in the EU and its relative stability over time suggest that the market has not reached what Professor Carole Comerton-Forde has described as the "tipping point" at which price discovery and overall market quality begin to deteriorate materially.<sup>2</sup>

Nevertheless, we agree with ESMA that it would be valuable to gain a clearer understanding of the proportion of activity conducted under the Large in Scale (LIS) waiver, as we consider this to represent one of the most legitimate and economically justifiable use cases for dark trading. Nevertheless, we also consider it important to consider the scope of the other waiver types and which execution channels should be covered by which waiver.

***Q11: What is your view on the evolution and effects of trading in closing auctions on the EU markets? Do you agree with the presented rationale for trading in closing auctions or do you consider other drivers more important for explaining the growth and increasing significance of closing auctions trading?***

Yes, we agree with ESMA's analysis on this point. Closing auctions are often a more efficient mechanism for executing large trades because they concentrate liquidity at a single point in time,

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<sup>2</sup> <https://www.sciencedirect.com/science/article/abs/pii/S0304405X15001191>

thereby reducing market impact and execution risk. They also play a particularly important role for European asset managers, many of whom rely on the closing price as a key benchmark for valuation, portfolio rebalancing, and index tracking purposes.

Importantly, unlike many other forms of non-lit trading, closing auctions contribute directly to price formation. By aggregating substantial volumes of buy and sell interest in a transparent process, they establish a widely recognised reference price that reflects prevailing market supply and demand at the end of the trading day.

***Q12: What is your view on the effects of alternative closing mechanisms offered by MTFs and SIs?***

The closing auction remains the most crucial event at the end of the trading day, as it provides the definitive closing price and is where true price discovery occurs. That said, alternative closing mechanisms can be valuable tools, especially when participants seek to manage exposure without impacting price formation. That is why exchanges have adapted to meet client demands in this space through mechanisms such as trade at close. Regardless, these alternative closing mechanisms are best considered as complimentary to closing auctions, rather than as substitutes.

***Q13: What will be in your view the effects of 24h/ extended trading hours on closing auctions?***

None of our European members are currently intending to operate 24/7 markets as there is not the same level of demand as for US share trading. Nevertheless, some of our European members, and others around the world, are extending trading hours into the evening to accommodate retail trades who want to trade after the traditional working day. Importantly, this should not change the current closing auction process which should continue to operate at the same time as it currently does. Extended trading hours across the world are better thought of as an additional session after the close. Therefore, closing auctions will continue to represent a key moment in the trading day for the reasons identified by ESMA in Points 59–61.

***Q14: Are there any structural shifts that you noticed, which you believe the competent authorities should monitor? Would you like to highlight any concerns/issues at this stage? Do you see a need for specific regulatory interventions (please provide details relating them possibly to the data and observations available)?***

No. We are engaging with IOSCO's ongoing work in this area and will respond to this consultation. We may have further observations or recommendations once that work has been assessed in greater detail.

***Q20: What is your view on the evolution of trading of SIs on the EEA markets? What are the main drivers of their growth?***

The internalisation of retail order flow has been a key driver behind the growth in transaction volumes executed by SIs, and this is a trend we observe not only in the EU, but also in the US and UK markets.

Increasingly, SIs are seeking to capture retail order flow because retail trading activity can provide valuable information regarding emerging market sentiment, trading patterns, and short-term directional flows. Access to this order flow may therefore enhance an SI's ability to inform its trading strategies, pricing models, hedging activity, and liquidity provision.

This development appears materially different from what we understand to have been the original policy rationale underpinning the SI regime – namely, to facilitate the execution of large institutional orders in a manner that minimises market impact and supports efficient execution for professional investors. The growing focus on retail internalisation suggests that, in practice, the regime may have evolved beyond its initial intended purpose.

We also share ESMA's concern that SIs may, in certain respects, compete with trading venues on an uneven regulatory playing field. For example, exchanges and lit trading venues are subject to significant obligations relating to transparency, market surveillance, fair and non-discriminatory access, operational resilience, and the maintenance of price-forming markets. By contrast, SIs are able to internalise order flow while relying on prices established by exchanges, without being subject to the same degree of market-wide obligations or contributing equivalently to price discovery. This issue warrants further consideration by ESMA, NCAs, the European Commission, and the co-legislators.

***Q21: Does this picture reflect the trends you observe in SI trading? Do SI offer trading for both large and small sizes? Do these different trade size reflect different types of clients / SI businesses?***

Yes, this picture reflects the trends we observe. However, without the inclusion of UK data we can only be sure of the trend, not the exact picture.

Furthermore, as noted above, SIs today appear primarily to service two categories of flow: first, small retail orders, either directly or via other brokers seeking execution services; and second, institutional investors seeking to execute large trades in a manner that minimises market impact and information leakage. These two use cases increasingly appear to define the practical role of SIs within the current market structure.

***Q22: What is your perception of the application of price improvement by SIs? Does the data analysis reflect the reality, or do you believe that there are some data quality issues in the flagging of transactions subject to price improvement?***

The evidence presented by ESMA appears to show a surprisingly limited degree of price improvement being delivered by SIs across the EU. Like ESMA, we would welcome further explanation from SIs as to the drivers behind these results.

One possible explanation is that some SIs may already be quoting at or near the midpoint of the best bid and offer available on exchange, thereby providing a degree of price improvement that would not necessarily be captured by the RPRI flag. However, it is important to recognise that execution at midpoint does not automatically equate to meaningful price improvement once other factors – including fees, execution timing, fill certainty, and available liquidity – are considered.

It may also be a data quality issue as ESMA notes. The significant number of trades executed without an appropriate post-trade flag materially complicates analysis of the data. This is an important issue because it makes it difficult for regulators, market participants, and end investors to assess whether retail investors are consistently receiving high-quality execution outcomes. We understand that this data quality issue may be even worse in the future given ESMA's stance on repealing RTS that enable the collection of this data.

In this context, reintroducing a degree of both qualitative and quantitative reporting requirements for bilateral liquidity could prove highly beneficial. In particular, there may be merit in a retail order flag to show where retail order flow is going and to assess whether retail investors are really getting a good deal. Similarly, ESMA and the EU should reconsider the approach to venue identifiers for SIs. Rather than opaque codes, like in the call for evidence, the market should be able to review and analyse SIs performance like trading venues. SIs should welcome this step as it should benefit those that perform better.

***Q25: Please highlight any concerns/issues you may have at this stage? Do you see a need for specific for regulatory interventions (please provide details possibly relating to the information and data available or observed)?***

As explained in our response to Question 4, we are concerned by the decline in genuinely price-forming trading activity – namely, trading conducted on exchange through central limit order books (CLOBs) and transparent auction mechanisms.

The data presented by ESMA suggests that much of the reduction in this activity is being displaced toward the more opaque environment of SIs and bilateral trading. Many have expressed concern regarding the longer-term direction of travel. If this trend continues, there is a risk that confidence in the integrity and reliability of prices formed in public markets could gradually erode, particularly if an increasing proportion of trading activity relies on prices generated by a shrinking pool of transparent, lit transactions.

Furthermore, as covered above, the increasing growth of internalisation of retail order flow merits further consideration. We must carefully consider the purpose and value that various trading venues provide. Ultimately, we need to assess whether SIs are truly delivering tangible value both for end investors and for issuers raising capital. As such, a study looking in more depth at bilateral trading, its history, purpose and its effect on price formation should be undertaken.

Finally, reform is needed to ensure that systematic internalisers do not operate on a different basis from the rest of the market. It is essential to level the playing field, ensuring that competition does not skew toward bilateral trading, but rather supports the transparent, multilateral venues that deliver robust price discovery for the benefit of the entire market. A good step in the right direction would be to increase the transparency and make SIs identifiable, after all, how are investors supposed to assess which is the best without this?

***Q36: Do you agree with the above three approaches?***

As covered in our answer to the first question, we are broadly comfortable with the concept of addressable liquidity; however, we would underline that not all addressable liquidity is accessible to all market participants. Certain forms of trading activity may be addressable to some market participants, but they are unlikely to be genuinely accessible to the market as a whole.

Exchanges operate on the basis of open and non-discriminatory access, subject to transparent participation criteria. While market participants may theoretically be able to access such liquidity, in practice on-exchange liquidity is considerably more openly and consistently accessible across the market. This is a meaningful distinction and should be reflected more clearly in the terminology used by ESMA.

Similarly, it is important that the framework clearly distinguishes between accessible liquidity and price-forming liquidity. Meaningful price formation occurs on exchange, through transparent interaction within CLOBs and exchange-operated auctions. As such, transactions executed through those mechanisms should be considered to be the most price-forming.

## **About the World Federation of Exchanges (WFE):**

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, 39% are in Asia Pacific, 42% in EMEA and 19% in the Americas region. The WFE's 74 member CCPs and clearing services collectively ensure that risk takers post some USD 1.4 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. WFE exchanges are home to over 41,000 listed companies, and the market capitalization of these entities is over \$137 trillion; around \$198.5 trillion in trading annually passes through WFE members (at end-2025).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back 50 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 policymakers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system. If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal.

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