Liquidnet

Market Structure

Liquidity Landscape

Changes: They are a-coming

Liquidnet

Changes: They are a-coming

European markets accelerated higher during the first quarter, with many indices achieving record highs at the end of March. The prospect of a hard landing has turned toward a soft landing with whispers even of no landing at all. Coupled with continued exuberance around artificial intelligence, markets have responded with vigour and liquidity increased alongside rising markets during the quarter. While most relative growth is still occurring outside lit continuous trading, the multi-year decline in the market share of the lit primary post-MiFID II appears to have plateaued, consolidating above a floor of around 30%. With investor conviction robust, dark volumes also grew with the Large-in-Scale market experiencing growth: 86 prints over $20M were recorded during the first quarter, more than double the quarterly average in 2023. Periodic auctions continued their steady growth, as market participants appear to increasingly value the format as an important piece of the market structure. The market share of periodic auctions as a percent of overall lit activity peaked at 7.2% in February. As expected, and in line with their historic seasonality, after a quiet January and February, SI market share increased over 75% from February into March—now at 22% of the market.

As markets remained at record highs, investor conviction appears to be robust in the face of significant geopolitical risks. There remains uncertainty about the pace and extent of monetary loosening, with the Swiss Central Bank paving the way with the first significant rate cut among major central banks. Decisions on the trajectory of rate cuts are now due from the Fed, BoE, and ECB, and are a key overhang on markets. May will also deliver major regulatory change with the transition to T+1 settlement for the United States, Canada and Mexico, given the global nature of funds trading, market participants must remain alert as the industry navigates these evolving complexities.

Continued on next page

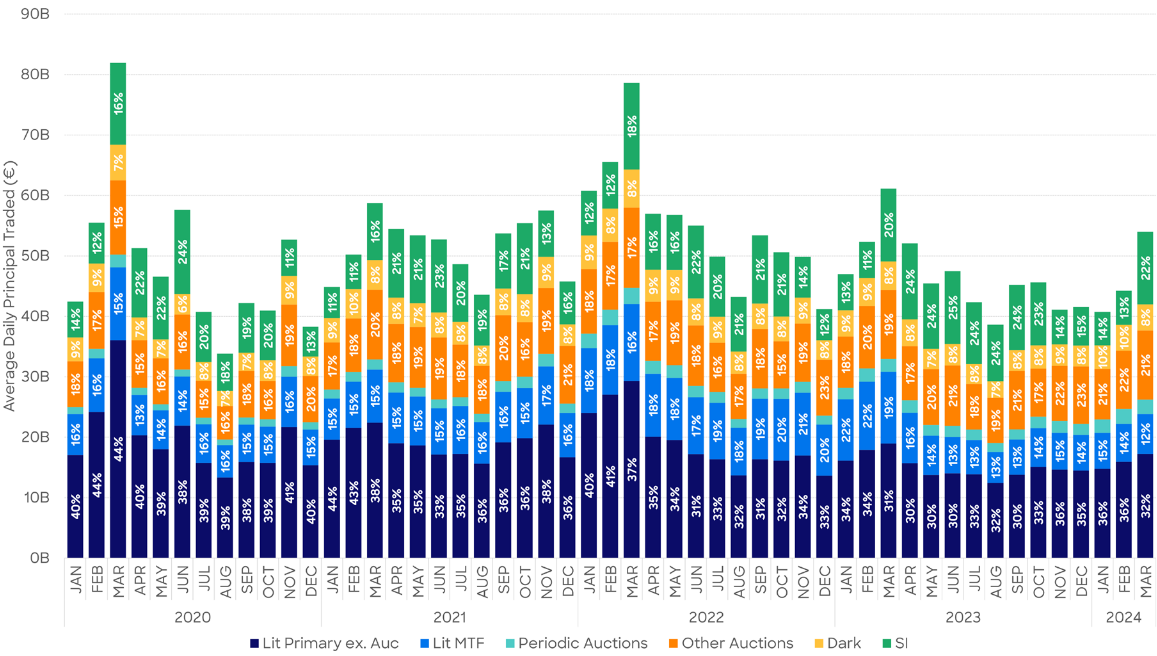
All data in this report has been sourced from Liquidnet internal analysis and CBOE and Bloomberg market data.

What this means for European Markets

EMEA market volumes increased as the quarter progressed, reaching a total average daily value transacted of €54.0B in March, the highest level since a year prior in March 2023. The reinvigoration of market activity has coincided with the achievement of all-time highs by many indices in EMEA, with the DAX, CAC 40, and Euro Stoxx 50 breaching record levels at the end of March.[1]

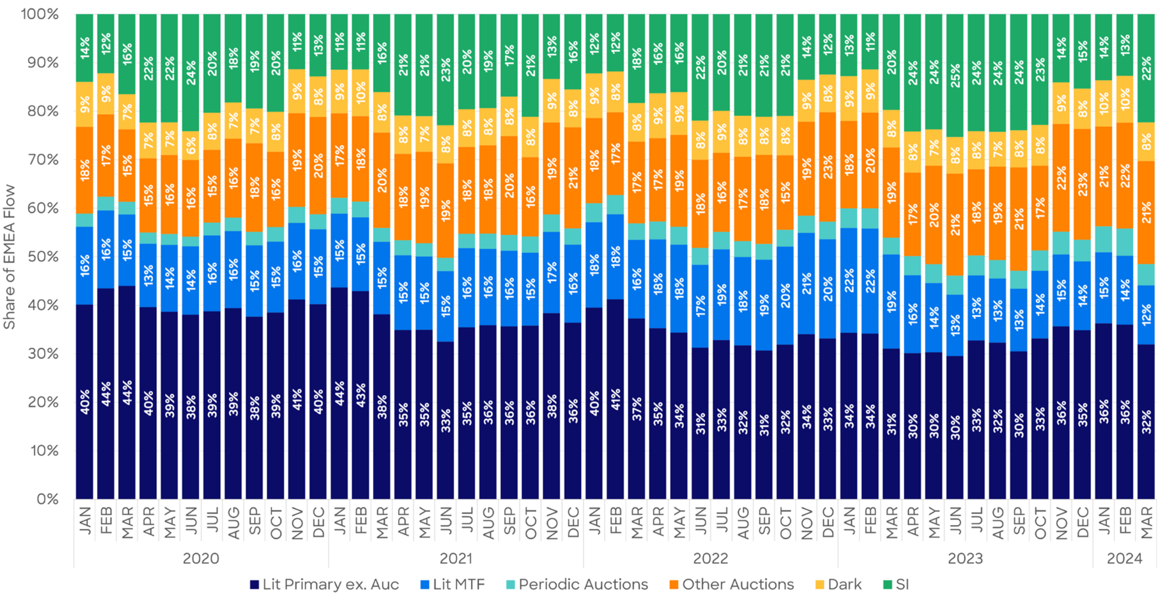
Exhibit 1

EMEA Flow Breakdown[2]



Source: Cboe and Bloomberg, January 2020 to March 2024

Exhibit 2



Source: Cboe and Bloomberg, January 2020 to March 2024

Lit primary continuous volumes continued the fourth quarter's minor uptrend and remained elevated compared with last year, averaging a 34.7% market share, up over the 2023 average of 32.5%. Interestingly, this consolidation is limited to the lit primary and does not extend to the lit continuous sessions generally, with Lit MTF market share continuing to fall, reaching a record low of 12.2% in March 2024.

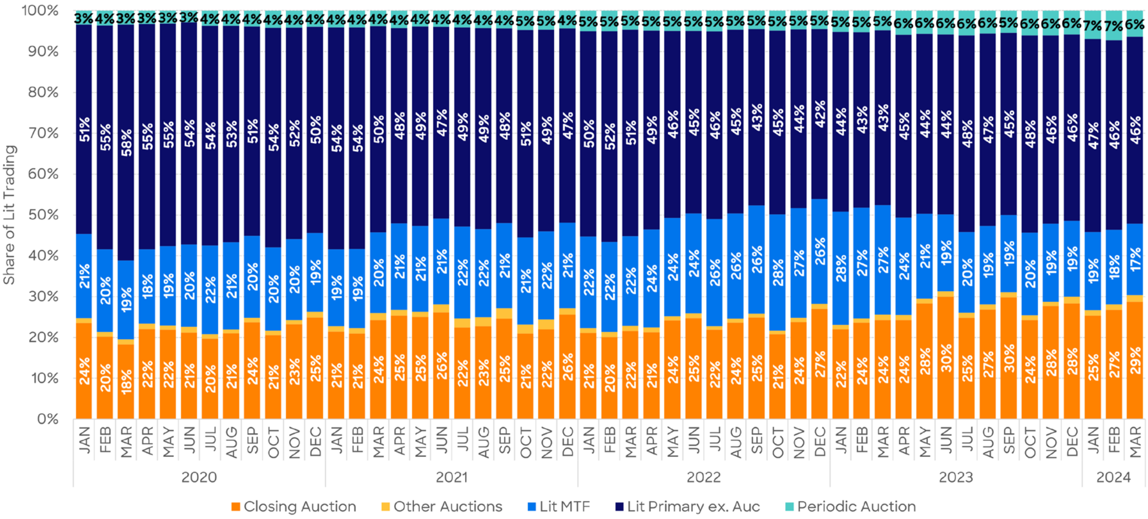
[1] Bloomberg market data
[2] All data in this report has been sourced from Liquidnet internal analysis, and Cboe and Bloomberg market data

Liquidnet

SI's experienced an uptick in activity during March, reaching 22% of total activity. This followed low levels of activity at the turn of the year, which follows the historical patterns. As flows are redirected to SI's, market share in other methods of trading naturally declines. Comparing February market shares with those in March, lit primary share declined by 11%, periodic auction share by 21%, and dark MTF share by 17%. Closing auction volumes in comparison remained relatively stable, declining by only 3%, reinforcing the stickiness and differentiation of closing auction volumes relative to other liquidity sources, which may be competing more directly with SIs for market participant's attention for certain segments of flow.

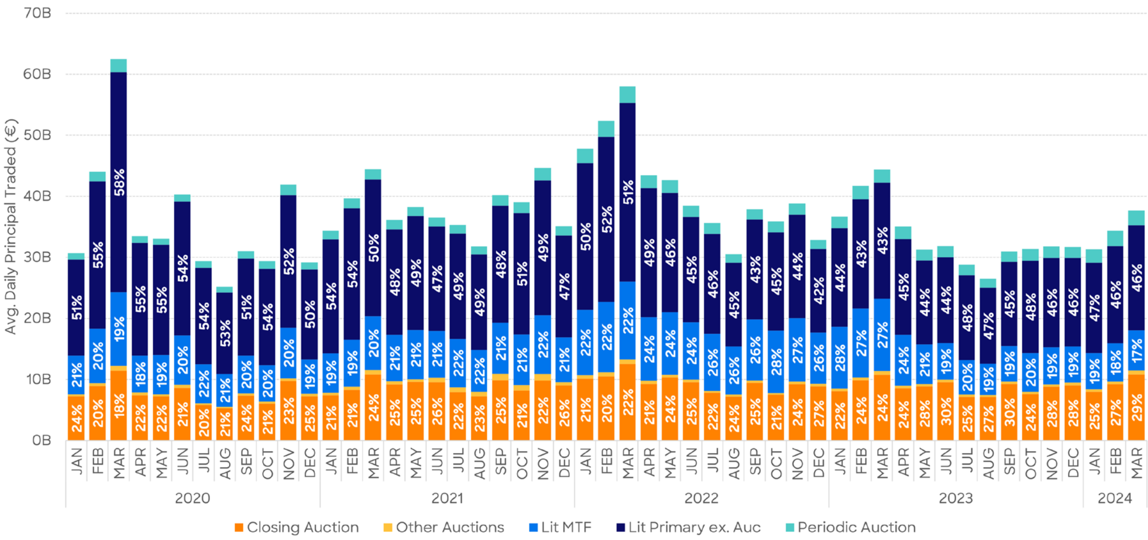
Exhibit 3

Lit volumes increase along with broader market volumes



Source: Cboe and Bloomberg, January 2020 to March 2024

Exhibit 4



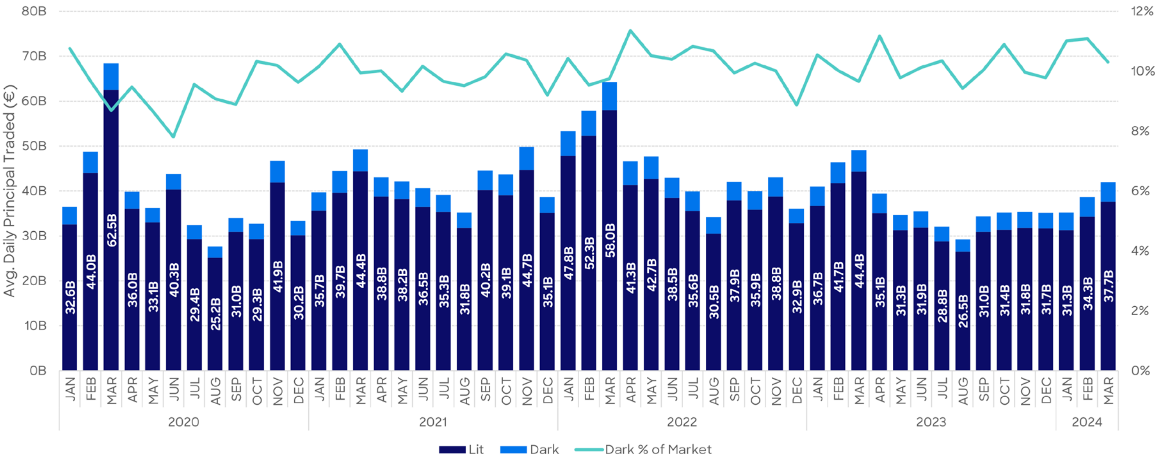
Source: Cboe and Bloomberg, January 2020 to March 2024

The growing importance of the closing auction has been a consistent theme over the past few years, as the rise in benchmarked flows has enhanced the network effects around not just the liquidity available in the auction but also its authority as a price setting mechanism. Overall auction volumes in the quarter averaged 26.97%, peaking at 28.72% in March, just below the record highs of 29.95% in June 2023 and 29.84% in September 2023.

Continued on next page

Exhibit 5

The dark market remains stable, with monthly shares around 10%

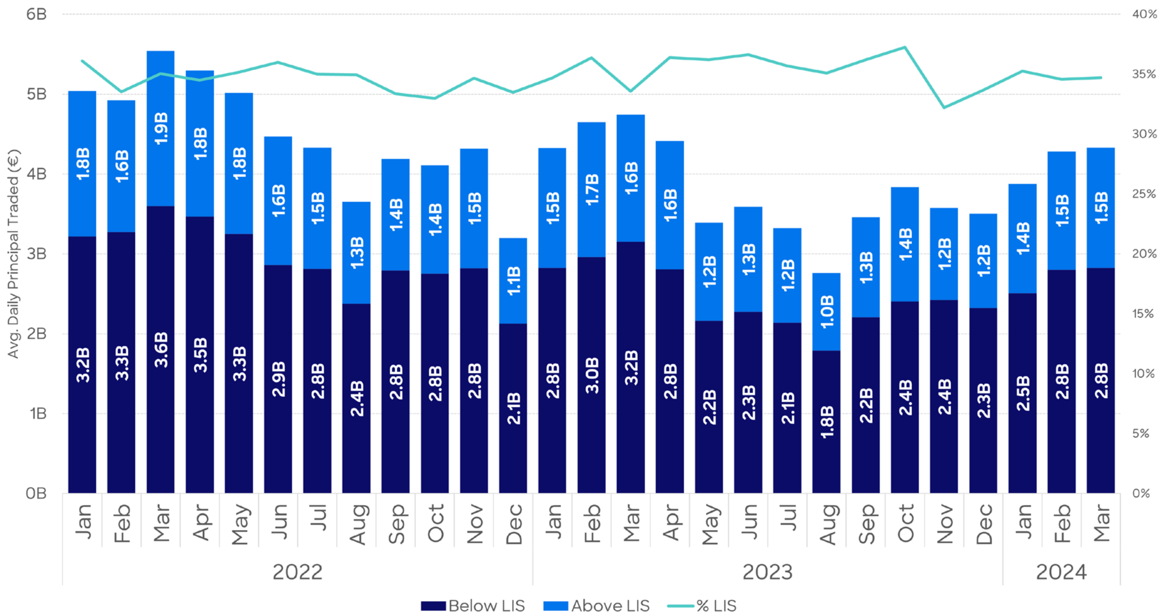


Source: Cboe and Bloomberg, January 2020 to March 2024

Dark market share has remained remarkably consistent over past years remaining within a steady range of 8.5 - 10.5% of lit volumes. In Q1 2024, average dark market share reached its highest level since 2020, with a daily average of 10.8% of lit market volumes, just exceeding the previous high of 10.7% in Q2 2022. Considered alongside the rapid growth of periodic auctions, the stability of the dark market indicates the importance market participants place on alternative sources of liquidity.

Exhibit 6

The Large-in-Scale market grows to start the year



Source: Cboe and Bloomberg, January 2022 to March 2024

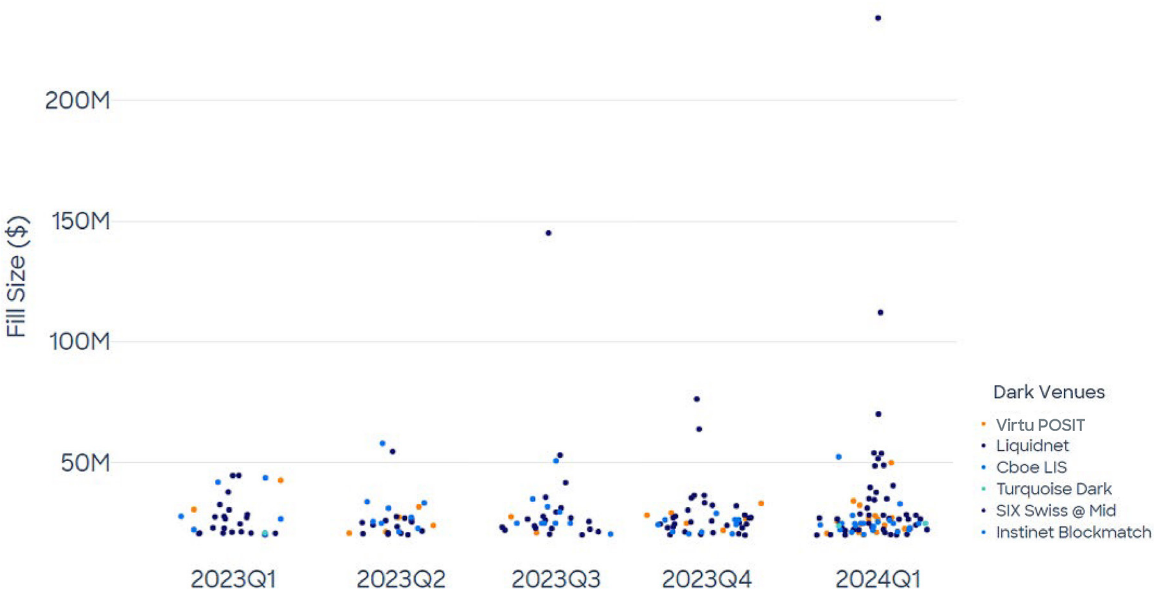
The large-in-scale market grew to start the year, reaching €1.5B in average daily value transacted in March. As **a percentage of the overall dark market, the LIS market averaged a consistent 35% share, in line with historic averages**. The LIS market in February and March matched the highest levels seen in nearly a year, going back to March and April 2023.

Continued on next page

Liquidnet

Exhibit 7

The number of Large-in-Scale prints above $20M increased significantly during the first quarter

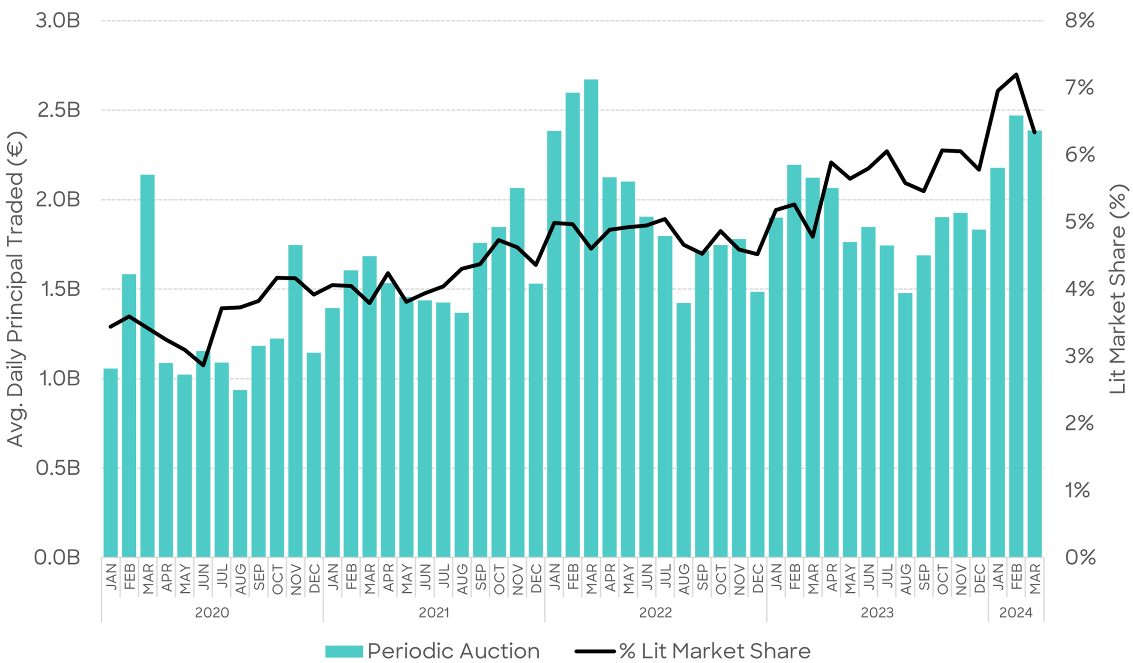


Source: Bloomberg market data, January 21, 2023 to March 31, 2024. LIS prints above $20M.

The upper end of block market further strengthened during the first quarter as conviction returned among the institutional investment community. During the first quarter there were 82 blocks traded over $20M, as compared with 46 in Q4 2023 and a low of just 29 in Q2 2023. The pick-up in large block activity was mirrored across the LIS market, with over 108,000 total above LIS prints occurring during the quarter, up 25.7% from the second quarter of 2023. Despite the pick-up in large blocks, overall average fill size in the LIS market has remained relatively consistent, coming in at $980,467 during the first quarter, up from $844,006 in Q4 2023 but down from $1.05M in Q3 2023. This suggests the increased activity in the LIS market broadly, including on the high-end.

Exhibit 8

Periodic auctions growth accelerates reaching record lit market share



Source: Cboe and Bloomberg, January 2020 to March 2024

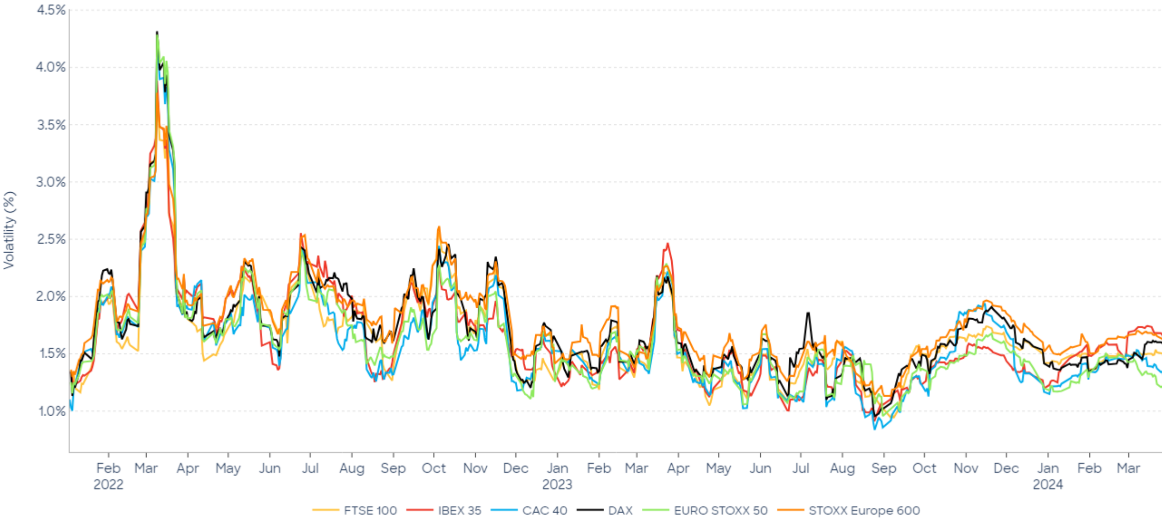
Continued on next page

Liquidnet

Periodic auctions continued their steady growth, with the market share of periodic auctions as a percent of overall lit activity **peaking at 7.2% in February**. The steady growth in periodic auction activity shows no sign of abating, and it will be interesting to observe how their continued growth impacts the allocation of flow elsewhere across both dark and lit markets going forward. Liquidity begets liquidity but fragmentation introduces complexity, meaning that as the large-in-scale and hybrid markets see continued growth, tools and technologies to navigate that complexity will remain critically important.

Exhibit 9

Volatility stabilizes dramatically, sitting near the low end of the multi-year average



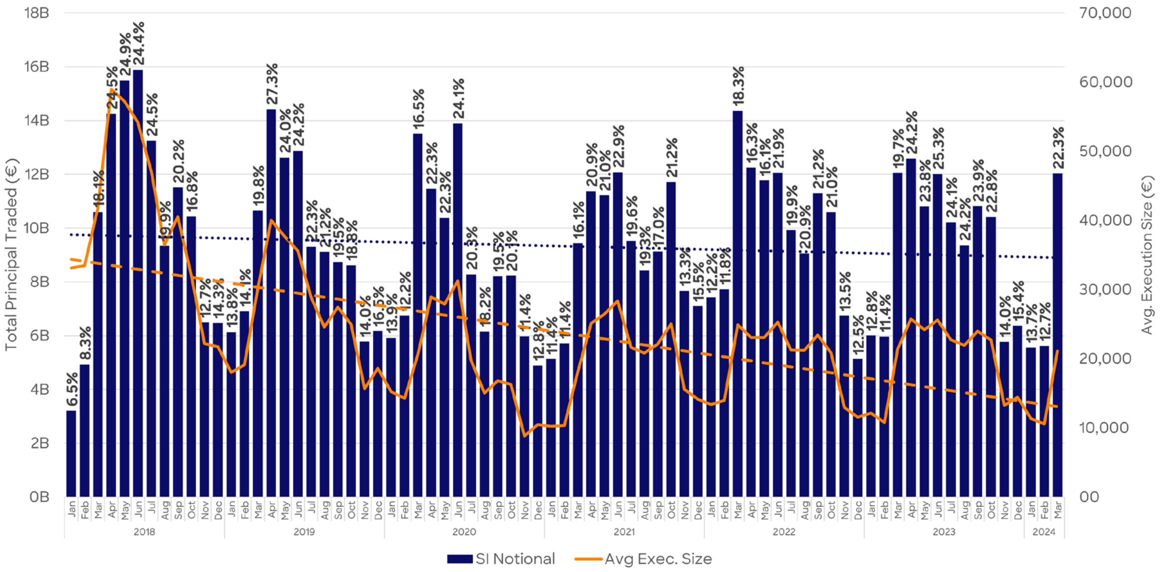
Source: Bloomberg, January 2022 to March 2024

Volatility rose slightly through the quarter off the lows of the start of the year, settling in February and March around the average levels seen throughout 2023. There has been a notable smoothing of volatility throughout the end of 2023 and into 2024, as the more rapid shifts seen throughout 2022 and the first half of 2023 appear to have coalesced into a more stable market regime. Considering the risks that overhang markets, this perhaps suggests a growing detachment between global developments and market response. Comparing Q1 2024 to FY 2023, the standard deviation of daily volatility has declined significantly across all indices—by 66% for the CAC 40, by 65% for DAX, and by 81% for the FTSE 100. While the absolute level of volatility remains somewhat lower but largely consistent with historic levels, its day to day stability should give comfort to market participants following the more unpredictable environments of the past few years.

Continued on next page

Exhibit 10

Systematic Internaliser average execution size continues its multi-year decline



Source: Cboe and Bloomberg, January 2018 to March 2024

As expected, SI activity picked up in March after a slow start to the year, in line with the usual pattern of cyclicality seen in SI flows, reaching a market share of 22% of overall flow in March. Average SI fill sizes continued their broad multi-year decline, averaging €21K in March, up from €10.5K in February. The consistency of overall SI market share coupled with declining average fill sizes could suggest that SI liquidity remains valued for its certainty of execution, but not at the expense of too much information leakage.

Regulatory Update: US T+1 D-Day

On March 27, the SEC published a Risk Alert regarding the forthcoming move to T+1 in the US.[3] Recognising the interconnectedness of markets, the Risk Alert highlights the need for market participants to be ready to meet the new obligations—not just in terms of settlement but also the impact on any subsequent auxiliary activity. For example, amendments to Rule 204 mandates the closing out of failure to deliver positions.[4] On short sale transactions, failure to close out positions will result in the restriction of further short sales until the position is resolved, and Rule 203 requires immediate purchase to close out failures in "threshold securities" if persisting for 13 consecutive days. To remove any absence of doubt regarding the US regulator's commitment to the move to T+1, the Risk Alert also highlights the SEC's intention to conduct examinations over firms' level of preparedness, looking at operational readiness in implementation/enhancement/modifications to systems, controls, policies or processes to facilitate straight-through processing.

Impact for EU + UK Firms

All US, Canadian, and Mexican listed assets par spot FX will move to T+1 over May 27 - 28. Assets that are listed on a UK or EU exchange will still settle T+2. However, current estimates put 20% of US Securities and 16% of US equities as held by Offshore entities[5] and 85% of trading in the Spot, Forward, and Swap markets featuring USD in one leg.[6] Issues in completing all aspects related to a trade, for example the FX leg, will be exacerbated given CLS and custodians' current inability to extend cut-off times. Given the proportion of trading volume based in US equity, together with the MSCI rebalancing on May 31 and the SEC rules on closing out fails, market liquidity is likely to be squeezed over the medium term.

Continued on next page

[3] https://www.sec.gov/exams/announcement/risk-alert-tplus1-032724
[4] https://www.federalregister.gov/documents/2023/03/06/2023-03566/shortening-the-securities-transaction-settlement-cycle
[5] https://www.bis.org/publ/cgfs65.pdf
[6] https://www.bis.org/publ/qtrpdf/r_qt2212x.htm

Funding Trading

The most immediate concern for EU and UK firms will be continued access to funding. The majority of funds in UK and Europe have a longer subscription and redemption cycle than their US counterparties, operating T+2, 3, 4 or even 5-day cycles. Trades will now need to be funded either by:

- Prefunding before EOD on Trade Date;
- Broker credit lines and the ability to extend settlement to T+2;
- Custodian overdrafts or committed loan facilities;
- Or use of derivatives for synthetic exposure.

Changes to Workflows

Once the ability to trade has been secured (which may also include repapering fund mandates or new agreements/amendments to Global Master Securities Lending Agreements (GMSLA)), there will be necessary changes to existing operational flows and resources:

- Facilitating same day trade management—allocation, pre-settlement matching and affirmation—and systematic booking and split settlement;
- Firms opting to increase their use of derivatives will need to ensure appropriate governance of derivative risk limits and exposures, manage risk and operational controls from imperfect hedging and the unwind of any synthetic exposure to buy the physical after receipt of funds;
- On completing any resulting FX trades, news that CLS will **not** extend cut-off times for netting,[7] means firms will need to ensure bilateral netting arrangements + procedures are in place;
- Portfolio Managers need to be made aware of currency implications and changes to cash level holdings in portfolios—including the additional cost of running higher cash balances/performance drag plus any additional fees for extended settlement;
- This may require an additional field in commission charges which firms order management systems (OMS) may or may not be able to facilitate currently; and
- Automation of securities lending and recalls including commencing the recall process upstream or suspending securities lending processes completely.

ETFs + Mutual Funds

Initial concerns regarding the impact on ETF trading have been mitigated somewhat given European-domiciled EU ETFs, MSCI European ETFs, and Gold ETFs will continue to settle T+2. ESMA has also confirmed that current UCITS regulation will cover concerns regarding possible breaches on cash holdings under Article 52(1)(b) which sets out that UCITS may hold ancillary liquid assets, without providing for any explicit quantitative limit.[8]

When UCITS must pay for US securities sooner than they would receive the cash against the fund share/unit from the EU investor, borrowing cash to cover "funding gap" may result in UCITS breaching the temporary borrowing limits of 10% set out in Article 83(2)(a) of UCITS Directive. ESMA has stated that there is sufficient evidence to argue that legislative changes or a general forbearance is needed but will keep monitoring the situation.[9] The UK Taskforce also proposes amending the UCITS rules to relax the 10% borrowing limit to address the liquidity issues raised above in relation to ETF and other mutual and open-ended funds.[10]

However, the market appetite for risk may be more challenging. Broker financing and appetite for warehousing is likely to be more selective and expensive, particularly given the risk of extended settlement for US counterparties. Timing and the ability to split settlement for Global basket trading will become more significant as will automation of Authorised Participant (AP)'s Inventory Management to be able to provide inventory when required. New share creation or redemption will require at least one extra day of financing from ETF market makers. This is leading to some

Continued on next page

[7] https://www.globalcustodian.com/cls-decides-not-to-move-fx-settlement-cut-off-for-t1-following-evaluation/
[8, 9] https://www.esma.europa.eu/sites/default/files/2024-03/ESMA74-2119945925-1959_Feedback_statement_of_the_Call_for_evidence_on_shortening_the_settlement_cycle.pdf
[10] https://assets.publishing.service.gov.uk/media/6603f31bc34a860011be762c/Accelerated_Settlement_Taskforce_Report.pdf

organisations opting to move creations to T+1 for funds overweight in US securities—leaving redemptions at T+2 for primary market transactions to support. Either way, European firms, fund managers and platforms are all reassessing costs of settlement misalignment with the US move to T+1 versus moving subscription and redemption cycles.

Latest from UK + EU

UK and EU regulators are aware of the impact for firms under their jurisdiction. ESMA's recent call for evidence notes the particular impact on smaller entities who are more likely to be disproportionately impacted by not having staff or resources to manage unharmonized national securities laws.[11] The EU regulator cites one credit institution indicating an increase in market fails by 30 - 40% in the short term, medium 25% and long term 10 - 15%.[12] They also noted that staying in T+2 in the EU would not impede settlement efficiency from deteriorating from the US move to T+1 in the US and as such the industry needs to work on settlement alignment as a matter of urgency.[13] The UK Taskforce similarly recommends amending Article 5(2) of UK CSDR for the UK to move to T+1 but also recognised the importance for the UK to move in line with the EU and Swiss.[14]

The UK Taskforce proposals are to mandate market standards by end of 2025 for:

- onboarding to including all data necessary to settle a trade (SSI);
- Allocations, Confirmations, Matching, and all settlement instructions to be sent on Trade Date with electronic processes for sharing SSI;
- Recalls of securities Lending

By end of 2024, the UK Technical Group is expected to report a date prior to 31 December 2027 for final transition to T+1.

Seeing the Bigger Picture

Ultimately all regulators remain focused on the need to make each region more competitive against a rising tide of de-equitisation and perceived declining secondary market flows. The global supply of public equities is shrinking at its fastest pace in at least 25 years[15] fighting a tide of rising interest in alternative assets, not least, the rapid rise of crypto and Decentralised Finance (DeFi). Tokenization of assets is estimated to reach $16 trillion by 2030, equivalent to 10% of the world's GDP.[16] Real-world assets (RWA) could represent a shift in investor appetite from companies and indexes to physical assets like commodities and metals as tokens on the blockchain in a similar manner to the growth seen in ETFs. Perhaps a token will prove to be a better format for securitisation, although there is still considerable legal and regulatory work required on that.

Current regulation is currently tackling two challenges in efforts to boost Capital Markets. Firstly, perceived lack of trust which has led to regulatory policies on transparency and resiliency since MiFID and the continuing work on trading on venue and operational efficiency. The latest report from IOSCO highlights the need to review current processes particularly given public exchanges focusing on revenue generation since demutualisation and the shift to for-profit entities.[17]

Secondly, there is a perceived need to improve access for companies and investors in the current financial system. Alongside regulatory policies regarding access to accurate data, the consolidated tape in Europe and the UK play a role, as well as addressing the growth of private markets. With money being directed to the largest index constituents, the Aim All-Share index is now trading at its lowest level ever relative to the FTSE All-Share[18] representing a growing disconnect between markets today and their role as the lynchpin between smaller companies and investors. The UK aims to address interaction between private companies and public markets by improving on existing trading that takes place bilaterally in private markets and introducing private companies to the commercial ecosystem of public markets—The Private Intermittent Securities and Capital Exchange System (PISCES).[19] Seen as somewhat of a wild west currently, institutional investors are supportive of greater transparency in private placings. Companies will be able to open periodic 'intermittent trading windows' for shareholders to sell existing shares with companies able to set price parameters. A consultation is currently underway due end of 2024.

Continued on next page »

[11, 12, 13] https://www.esma.europa.eu/sites/default/files/2024-03/ESMA74-2119945925-1959_Feedback_statement_of_the_Call_for_evidence_on_shortening_the_settlement_cycle.pdf
[14] https://assets.publishing.service.gov.uk/media/6603f31bc34a860011be762c/Accelerated_Settlement_Taskforce_Report.pdf
[15] https://on.ft.com/4allgCa
[16] https://web-assets.bcg.com/1e/a2/5b5f2b7e42dfad2cb3113a291222/on-chain-asset-tokenization.pdf
[17] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD763.pdf
[18] https://on.ft.com/3xlOus3

Alongside the efforts to make equity markets more attractive to compete with the dominance of US trading, given the recent rise of tokenisation, future regulation may need to be more focused on blending TradFi with DeFi across a multitude of asset classes and global investors, rather than repacking new ways to list on particular exchange. Already regulators are extending financial services obligations to third party technology providers under Europe's Digital Operational Resilience Act (DORA) coming into effect on January 17, 2025, and the UK's CP23/30: Operational resilience: Critical third parties to the UK financial sector Consultation Paper which closed in March.[20] New assets will also come into scope through Markets in Crypto Assets Regulation (MiCA).[21] On June 30, 2024, Title III and Title IV will become applicable (can be enforced), with five more Titles (I, II, V, VI, VII) applying in December 2024. This will cover Business Continuity and Incident Reporting for entities providing crypto assets (CASPs) as financial instruments, including Market Abuse, Investor Protection, and System Resilience.

The rapid rise of tokenization and on-chain money from reputable providers could provide the final key building block in the maturation of crypto and supercharge the integration between TradFi and DeFi—via CeFi (Centralised Finance).[22] Future regulatory policy is likely to look very different given the broader scope of stakeholders that will be involved, but also how trading will take place. There will still be necessary regulatory scrutiny on anti-money laundering rules, Know Your Customer (KYC) and Source Of Wealth (SOW), but new ideas on how assets are traded and by whom is likely to have a radical effect on who is regulated and how. To address this both the UK and EU regulators are engaging with industry. The UK (FCA and Bank of England) has launched a consultation on proposals for a Digital Securities Sandbox (DSS).[23] ESMA have released a study on the impact of crypto-assets posing regulatory challenges and implications for traditional financial markets. Industry participants will need to get engaged in the debate otherwise regulators will have little alternative than to issue top down rather than industry led rules and guidelines.

Today's market infrastructure, asset ownership doesn't convey knowledge about what happens with the asset, but in the new ecosystem, the status of the asset can be updated. For example, a stable coin can include the status of the gold holdings that back that particular coin. Using the single global internet of contracts that asset can then be transacted between different individuals on different chains, moving one asset to the chain that wanted to purchase it, sending another a stable coin in return onto a different chain. The data needs to remain with the asset as proof for it to remain a valuable unified golden record but can also include a host of new valuable data previously not deemed necessary for a vanilla equity transaction. New policy initiatives such as Transition Finance to meet Net Zero Targets are also providing incentives to fast-track DeFi, particularly in relation to Carbon Credits. ANZ is working on using CCIP to send a stable coin and then exchange the stable coin for a carbon credit which is enriched with data proving that the carbon credit is valid.[25]

When the market wants to transact, a settlement price is needed, the payment is sent, and the assets are transferred. As regulators dismantle the legal barriers separating TradFi and DeFI world, standards for data and connectivity will also need to merge—the data for the transaction to take place and the connectivity to make liquidity to flow across counterparties. None of this will happen overnight but it will mean that regulation of financial services is about to become even yet more complicated. Pretty soon, the conversation will be less about T+2 to T+1 and more about changing the system in its entirety. But in the meantime, there is still MiFID and the rebundling of research to contend with.

Continued on next page »

[19] https://assets.publishing.service.gov.uk/media/65e6f39e7bc329020bb8c279/Consultation___Private_Intermittent_Securities_and_Capital_Exchange_System.pdf
[20] https://www.fca.org.uk/publications/consultation-papers/cp23-30-operational-resilience-critical-third-parties-uk-financial-sector
[21] https://www.esma.europa.eu/esmas-activities/digital-finance-and-innovation/markets-crypto-assets-regulation-mica
[22] Centralised Finance: Front office "off-chain", on centralised servers, that then settles "on chain". However, the front office is not being recorded/run on the blockchain.
[23] https://www.bankofengland.co.uk/paper/2024/cp/digital-securities-sandbox-joint-bank-of-england-and-fca-consultation-paper
[24] https://www.linkedin.com/pulse/how-anz-bank-demonstrated-cross-chain-tokenized-asset-ano-tisam-xtocc/
[25] https://www.fca.org.uk/publication/consultation/cp24-7.pdf

Rebundling Research

There is a view that unbundling in MiFID II has hindered investment in smaller companies. Acknowledging that research supports deep capital markets and economic growth, the FCA is now proposing a third option for firms under current rules regarding payment for third-party research.[25] Currently UK asset managers can pay for research either by:

1. Agreeing a separate research charge (RPA); or
2. By covering the cost themselves (P+L model)

The new third option proposed in the CP would allow asset managers to make bundled payments for research and execution services. However, the FCA clearly stress that this would not be a return to how research payments were made prior to MiFID II.

"The rules preventing the bundling of payments were introduced in 2018 for good reason. There was a concern that the practice led to less disciplined spending on duplicative or low-quality research, in appropriate influence of research procurement consideration on trade allocation decisions, and opaque charging structures."

Those that opt to pay for research using bundled payments would have to meet specific requirements including formal policies, budgets, agreements with research providers ,and disclosure to clients.

In addition, the FCA make clear that firms are still bound by best execution rules of COBS 11.2 and under these firms have an obligation to take all reasonable steps to obtain the best possible result for their clients. To prevent poorer trade execution and avoid bundled pricing leading to an overconsumption of research, increased prices and opacity in costs borne by investors, the FCA will introduce new guardrails around bundled payments for research to capture these risks.

Interestingly, in the Consultation Paper, research conducted by the FCA indicates that most firms hold the view that access to research has not diminished under MiFID II and that they currently have access to the research they need. The consultation is in response to Recommendation 2 of the Independent Research Review (IRR) report commissioned after Brexit. It does not cover other recommendations such as greater access for retail investors and other regulatory aspects on research such as IPO's so we can anticipate more changes to regulation. For this consultation firms have until June 5 to respond and the FCA plans to publish any resulting rules or guidance in the first half of 2024.

MiFID 3

On 8 March 2024, Regulation 2024/791 amending MiFIR and Directive 2024/790 amending MiFID II were published in the Official Journal of the European Union. The regulation applies to EU countries now, whereas Member States must apply the Directive by 29 September 2025. The focus remains on improving transparency across asset classes but also the resilience of regulated markets including limiting or suspending trading in emergency situations or in the event of major fluctuations in the price of a financial instrument.

ESMA is now mandated to deliver technical standards (Level 2) which are then submitted to the Commission for endorsement.[26] There will be a series of Consultation Papers from ESMA on key areas—namely data, equity market transparency ,and stability—including dark Trading and SI notifications to establish the appropriate technical standards (Level 2). Yet more change is on its way.

Issuance of CP	Objective		Closure of CP
May 2024	**Enhancing Data and removing obstacles to CTP**	Cost of Market Data (RCB) Reference Data Clock Synch Revisiting RTS 2 - Bond Transparency	December 2024
July 2024	**Equity Market Transparency and Stability**	Revisiting RTS 1 • Dark DVC/SVC • SI/OTC • Order Execution policies • Removing PFOF Circuit Breakers	March 2025
September 2024	**Reporting**	Transaction Reporting Order Book Record Keeping	May 2025
January 2025	**Derivatives**	Derivatives and Packaged Trades CTP reporting	October 2025

[25] https://www.fca.org.uk/publication/consultation/cp24-7.pdf
[26] Article 10 Reg 1095/2010

ESMA have already clarified that where there are "substantial differences between MiFIR as amended by the MiFIR review (Level 1) and the current delegated regulations (Level 2) "there are no transitory powers and under Article 54, if there is no new Level 2, previous Level 2 will apply.[27]

Double not Single

As there is no Single Volume Cap (SVC) in Level 1 text, the Double Volume Cap will continue to apply until the new SVC applies in 18 months' time.[28] Once the SVC applies, negotiated trade waivers (NTW) of type I (liquid instruments)[29] will no longer be subject to the cap. While a removal of the Volume Cap in Europe to mirror the UK would be welcome by market participants, the Parliament instead proposed to limit the use of the Reference Price Waiver as well as NTW.

SI Changes

MiFID 3 amends the size up to which SI quotes should be made transparent and will determine the minimum quote size (replacing the 10% standard market size (SMS). However, as these new rules cannot effectively be applied without new RTS, RTS 17 will continue to apply—minimum quote size of 10% of SMS. Allowing Systematic Internalisers to match orders at midpoint within the current bid and offer prices does not require further specification in RTS and applies as of 28 March 2024.

There is also a ban on brokers prohibiting receiving payment for order flow (although Germany have already postponed their participation on this until 30 June 2026).[30]

Data, Data, Data

The other key area common to both the UK and Europe is the implementation of the Consolidated Tape—firstly for bonds, then for equities. As with legislation in the UK, MiFIR regulation outlines the organisational requirements applicable to consolidated tape providers (CTP) to ensure there is a continuous electronic live data stream on non-discriminatory terms as close to real time as technically possible. This includes effectively checking the completeness and accuracy of data and sound security arrangements in place to minimise the risk of data corruption.

The UK has also published Handbook Notice 117 relating to CP23/33 Consultation on Payments to data providers.[31] While the UK regulator has decided not to require payments by the consolidated tape provider (CTP) to data providers, it is still under review. The likely impact on data aggregators and intermediaries in being able to distribute data in any manner and at any cost will see renewed focus on platform license agreements. Market data consumers still have significant concerns regarding the opacity and complexity of pricing and agreements such as the bundling of data packages which may even come in a reduced rate versus the firm only wishing to take one data stream. As is the obligation for venues to take data from most relevant market necessitating purchase of more data, even when it is not perceived as necessary. As the integration of AI marches on, the debate over access to and the cost of data is only going to get louder. Financial Services regulation shows no sign of slowing down any time soon.

[27] https://www.esma.europa.eu/sites/default/files/2024-03/ESMA74-2134169708-7163_Public_statement_on_specific_revised_MiFIR_provisions.pdf
[28] https://www.esma.europa.eu/double-volume-cap-mechanism
[29] The determination of the liquidity of an instrument is also moving from free float to market cap. https://www.esma.europa.eu/sites/default/files/2024-03/ESMA74-2134169708-7163_Public_statement_on_specific_revised_MiFIR_provisions.pdf
[30] https://www.esma.europa.eu/sites/default/files/2024-03/ESMA35-335435667-5923_List_of_EU_Member_States_using_temporary_exemption_from_PFOF_prohibition_under_the_MiFIR_review.pdf
[31] https://www.fca.org.uk/publication/handbook/handbook-notice-117.pdf