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Securities and Markets Stakeholder Group

Advice to ESMA

SMSG advice to ESMA on its Call for Evidence on the market structure of European equity markets

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1 Executive Summary

The SMSG acknowledges that European equity market structure remains a critical pillar of the Savings and Investment Union, as it shapes liquidity and price formation and contributes to the attractiveness of EU markets for both investors and issuers. Over the past two decades, the EU has shifted from a concentrated model towards a competitive, multi-venue ecosystem, progressively refined through MiFID II / MiFIR and the 2024 review.

In this evolving context, the SMSG strongly supports ESMA's data-driven approach but stresses that the analysis should be carried out over longer periods and supplemented by considering trading in EU shares conducted outside the Union. Data quality also remains insufficient and should be improved as priority.

In that context, recent changes in the distribution of trading across venues (declining lit continuous trading and increased use of closing auctions, SIs and FBAs) should be interpreted with caution, as they could be partly driven by cyclical factors such as volatility. The SMSG also emphasises that other regulatory frameworks, notably PRIIPs, may have recently influenced execution strategies by encouraging lower-impact trading methods.

Against this backdrop, the SMSG stresses that assessing market structure needs to go beyond the distribution of trading volumes and should be complemented by a study on the quality and robustness of the price formation process.

It also highlights specific considerations regarding retail investors, who face additional challenges due to fragmentation and intermediary-driven access to liquidity, and calls for a dedicated analysis of their outcomes.

More broadly, the group notes that secondary market structure can have spillover effects on primary markets, potentially influencing the EU's capacity to support capital formation.

On thematic aspects, the SMSG confirms the growing importance of closing auctions, partly linked to the expansion of passive investment, while noting the need to better understand the drivers of this trend. It stresses the importance of preserving a single reference closing price for valuation and risk management.

The rise of frequent batch auctions is also acknowledged, but the SMSG cautions against attributing it too quickly to regulatory changes such as the new single volume cap, pointing instead to structural features such as reduced latency advantages.

Regarding systematic internalisers, the SMSG highlights the diversity of business models and execution patterns and calls for increased clarity on the functioning of SIs and a review of the flagging regime to allow a more consistent analysis of their activity.

2 Initial comments

1. Equity market structure is both a complex and critical topic in the context of the Savings and Investment Union and for the shared ambition to develop the role of financial markets in the financing of the EU economy. Critical, because secondary market structure has an influence on the attractiveness of the market for both investors and issuers, who need to be guaranteed sufficient accessible liquidity, a reliable and stable price formation process and price transparency. Complex and sensitive, because changes in the rules framing market structure have direct economic impact for the agents operating regulated markets (RMs), multilateral trading facilities (MTFs) and systematic internalisers (SIs).

2. Over the last 20 years, and since the implementation of Directive 2004/39/EC on Market in Financial Instruments (MiFID), the EU equity market structure has undergone profound changes. Prior to that date, the "concentration obligation" under the 1993 Directive on Investment Services – that allowed each Member State to require that transactions in the shares of that Member State be executed on a RM – ensured a concentration of liquidity on RMs in the majority of Member States[1], limiting the prospects for the development of new entrants.

3. As of November 2007, MiFID introduced a principle of open competition for the trading of shares in the Union, balanced by (i) a general principle of transparency of orders and transactions and (ii) an obligation for intermediaries to seek the best possible execution for their clients' orders. In terms of venues, the Directive distinguished between RMs and MTFs. It further created the regulatory construct of Systematic Internalisers (SIs) for investment firms internalising order flow on a frequent, systematic and organised basis. It should be noted, however, that internal order matching systems were established by a fairly large number of intermediaries outside these regulatory categories (so-called "Broker Crossing Networks", BCNs).

4. While primarily intended at organizing EU non-equity financial markets, MiFID II (Directive 2014/65/EU) and MiFIR (Regulation 600/2014) introduced significant changes on equity market structure from the beginning of 2018. The intention was notably to better regulate the competition between trading venues and to limit certain developments deemed excessive, through the introduction of:

   - an obligation to trade orders on EU shares on a multilateral platform or in front of an SI, with limited exemptions ("Share Trading Obligation", STO), effectively ending the possibility for intermediaries to match their clients' orders on informal BCNs,

[1] France, Germany, Italy, Spain, Portugal, Belgium and Greece, joined after the enlargement of the Treaty of Corfu by Austria, had implemented the concentration obligation. The United Kingdom, the Netherlands, Denmark and Ireland, joined after the Treaty of Corfu by Sweden and Finland, had not.

- a mechanism to cap the volumes that can be executed in derogation of pre-trade transparency, with a cap at 4% per platform for each security over a rolling 12-month period, and another one at 8% for all platforms, *de facto* limiting the market share accessible to Dark Pools,
- a mandatory tick size regime for EU shares, defined as a factor of liquidity and price of the instruments and aimed at avoiding the risk of ever-decreasing tick sizes, with limited exemptions (ability to trade at midpoint for systems using a reference price or for orders exceeding the Large In Scale (LIS) threshold),
- a minimum size, set at 10% of the standard market size (SMS), for the quotations that the SIs involved in transactions below the SMS were required to publish.

5. In 2020, the Investment Firm Review (Regulation 2019/2033) limited the ability of SIs to execute trades at the midpoint to transactions above the LIS threshold.

6. The review of MiFID II (Directive 2024/790) and MiFIR (Regulation 2024/791), published in March 2024, introduced further changes impacting equity market structure, notably:
   - the overhaul of the mechanism capping the market share of Dark Pools, with the double-cap transformed into a single-cap set at 7%,
   - the increase of the threshold triggering the obligation for SIs to publish firm quotations (from the SMS to at least twice this value) and that of the minimum size of the quotations required from SIs (from 10% to at least 100% of the SMS),
   - the prohibition of Payment For Order Flow (PFOF), a practice that had developed in certain Member States, in which multilateral platforms gave privileged access to market makers for the execution of retail orders, in exchange for commissions,
   - the withdrawal of the size limit for the ability of SIs to trade at midpoint.

7. It is noteworthy that the equity market structure remains an issue debated within the Union, as evidenced by the letter recently sent by a group of 6 countries to the Council, which recommends to further regulate SI activity and on the use of transparency waiver regime.

8. In this moving context, which is fraught with important and diverse considerations for market participants, SMSG members welcome ESMA's willingness to base its Call for Evidence on a data-driven and quantitative analysis of the developments observed in recent years on the Union's equity market structure. They support the idea that any further changes in the equity market structure in the Union should be based on an objective analysis of the data, and that its consequences should then be monitored in detail, in order to assess precisely their effectiveness in relation to the objectives of ensuring the robustness of the price formation process and the attractiveness of the market for investors and issuers.

3 Scope of this advice

9. Both because of the differences of point of view among its members and the lack of value in repeating the elements of response to the Call for Evidence provided by individual entities and trade associations, the SMSG has focused its contribution on articulating important general considerations and certain thematic remarks, rather than answering to each of the questions raised by the Call for Evidence.

4 General considerations

4.1 The geographical and time reach of the analysis

10. As detailed in the Call for Evidence, the data used by ESMA teams to assess the evolution of EU market structure were derived from transaction reporting, mandated by MiFID II / MiFIR for EU entities. This means, in particular, that, while it provides an extremely detailed and accurate view of the nature and evolution of transactions executed on EEA platforms (RMs, MTFs, SIs, etc.) and thus of the EU market structure, the analysis carried out by design ignores transactions executed outside the Union and therefore provides only an incomplete view of the market structure for EU shares.

11. This is extremely important in view of the weight of non-EU investors in the holding of EU listed shares. Despite the absence of a direct and aggregated measure of this weight, the available sources[2] indicate that 30% to 40% of EU shares could be held by non-residents, and that, due to the predominantly non-EU location of investors with the highest turnover rate (hedge funds), their share in executed transactions is even higher. Finally, it is generally admitted that more than 50% of transactions in EU shares are originated by non-EU investors.

12. To date, it is likely that non-EU investors execute most of their trades on EU venues. However, since they are not subject to the EU STO, they can freely execute their trades on non-EU venues and could be likely to do so depending on the most favourable offer. Several evidences can already be found of this fluidity:

    – the cross-analysis of data[3] from the UK and the EU indicates that, for the segment of SIs, the volume executed across the Channel on EU shares is twice as high as the volume executed within the EU,

    – a study of a divergence between UK and EU regulation beginning 2021 (when the UK FCA had temporarily qualified all EEA shares as illiquid) showed that the induced

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2 ECB – Securities Holding Statistics and ECB – Internation Investment Position.

3 Based on transparency, not transaction reporting.

difference in the eligibility of EU shares to dark trading resulted into a noticeable although transitory shift of liquidity from the EU dark pools to UK dark pools[4].

13. In other terms, when it comes to equity market structure, there is no such thing as a zero-sum game at the EU boundaries: a significant, if not predominant, share of liquidity on EU listed shares can move freely from EU to non-EU venues.

14. Another important consideration relates to the limited observation period used by ESMA. In view of the weight of cyclical factors (including volatility, see below), this limitation may limit the relevance of the analysis of longer-term, structural trajectories.

15. It is also relevant to consider changes in EU market structure in the context of global market structure trends. For instance, analysis[5] shows that in the US "volumes are dispersed across numerous platforms, with off-exchange trading now accounting for about half of total equity trading volume", suggesting that the trends observed in the EU are replicated elsewhere. At the same time, it is relevant to consider differences in scale, as aggregate trading volumes in the US are significantly higher than in the EU, as well as differences in market structure rules.

16. On this ground, SMSG members suggest that (i) the analysis underlying the Call for Evidence would benefit from being driven over a longer period of time and (ii) should be complemented by an analysis including the volumes of transactions executed outside the EU, and in particular in the UK, that would probably deserve to be conducted in coordination with relevant third-country authorities, (iii) should be accompanied by high-level comparative analysis with other relevant jurisdictions, and that (iv) any measure introducing new constraints on a particular activity or actor must factor-in the risk of a migration of liquidity outside the Union.

4.2 The data quality issue, including trade flags

17. A cross-cutting element that warrants further attention is the quality, consistency and granularity of the data underpinning the analysis. As highlighted in the Call for Evidence, certain limitations remain in transaction reporting, including issues related to inconsistent flagging, gaps in post-trade information and uneven data reliability across different types of execution.

18. In this context, SMSG members suggest that enhancing data quality should be considered a priority ahead of any further analytical or policy work. This could involve improving the consistency and completeness of reporting flags, introducing additional granularity where

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[4] See AMAFI, "Dark Trading in EU shares: an illustration of the impact of EU-UK regulatory divergence", Appendix. See also FCA Supervisory Statement of December 2020

[5] See SIFMA: Monthly Equities and Options Market Metrics and Trends: February

limitations have been identified, with a view to ensuring that post-trade transparency provides meaningful and usable information for analysis. In particular, greater clarity could be achieved through flags that allow a more precise identification of key execution characteristics under RTS 1 (post-trade transparency), such as whether transactions are executed at midpoint or off-tick, with price improvement, or executed at the closing price, etc.. SMSG members believe that this would help both market participants and the supervisory community[6], noting that additional reporting should also remain proportionate and coherent with existing information (for further details, please refer to section 5.3.).

19. Improving the underlying data environment is essential to support a sound understanding of market dynamics. This is particularly important in a context where views may diverge as to the drivers and implications of observed market trends. In this sense, efforts to enhance data quality should be understood as enabling better-informed analysis and policymaking, rather than as constraining any specific form of trading activity. A stronger data foundation is a prerequisite for achieving a shared and evidence-based view of the evolution of EU equity market structure.

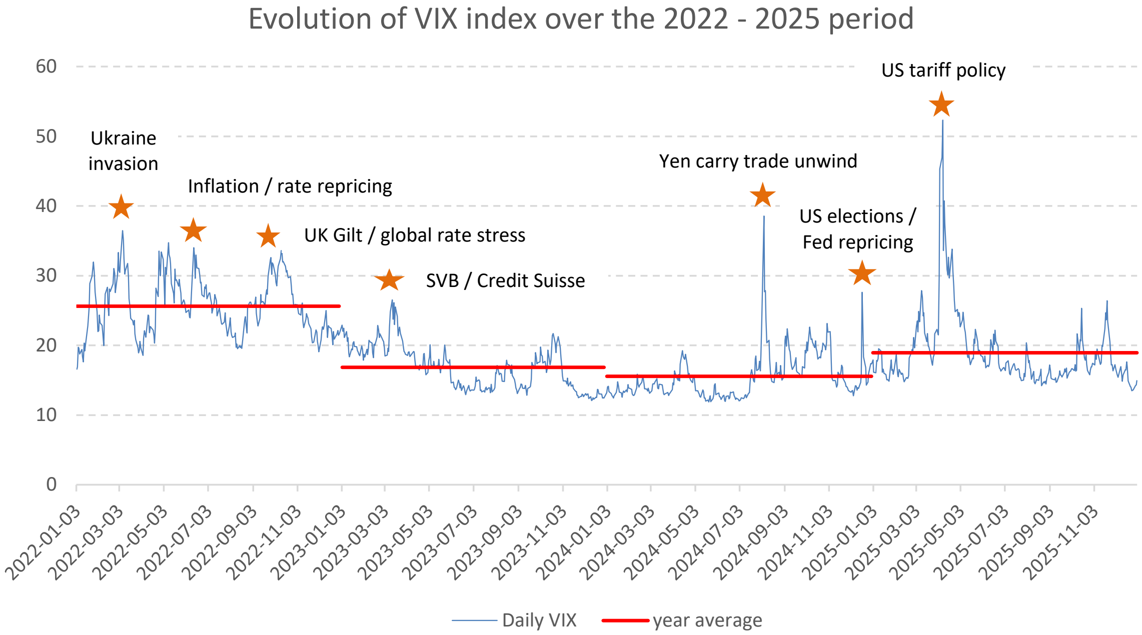
4.3 The effect of volatility

20. The data gathered in the Call for Evidence for the 2022 – 2025 period reveals a significant decline in the market share of lit continuous trading (from 54.4% <u>on average</u> in 2022 to 44.6% in 2025), in counterpoint to an increase in the share of closing and intraday auctions (from 18.0% to 19.3%), SIs (from 5.4% to 8.9%) and Frequent Batch Auctions (FBAs, from 3.1% to 6.2%).

21. While the observation of these trends largely overlaps with that made by SMSG members, it would benefit from being refined by taking into account the effect of volatility on the share of the different trading modalities over the period under consideration. Indeed:

   - the level of volatility, as measured by the VIX index, has evolved significantly over the period under review. Above 25 on average over 2022, the VIX fell to levels close to 15 in 2023 and 2024, and remained below 20 in 2025 despite the peak in April linked to the announcement of the US tariff policy,

[6] SMSG members consider, in line with the objective of simplification of reporting, that the information conveyed in the RTS1 transparency report should be cross-referenced by ESMA with the information in the RTS22 transaction reporting, and not duplicated in additional fields of the RTS22.



– beyond the well-known relationship between the level of volatility and the amounts executed across the different types of trading venues, academic research has demonstrated the existence of a positive and significant correlation between the level of volatility and the market share of continuous lit venues. It appears that, when volatility surges, dark books, periodic auctions and systematic internalisers lose market share, as some market participants favor the certainty of lit trading in times of stress. This effect was observed during the Covid crisis[7] and again, recently, when hostilities outbroke in the Middle East[8].

22. Ultimately, all other things being equal, the high level of volatility in 2022 could have inflated the market share of lit venues while its subsequent decline may have played in favour of the other venues and execution modalities (dark pools, SIs, FBAs), cyclically increasing the perceived decline in the market share of the former. In any event, as ESMA notes, regulatory factors may be contributing to the observed trends. Extending the analysis to include data from 2018 onwards would provide greater insight into their persistence and evolution over time.

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[7] See for instance Giulio Anselmi, Mahendrarajah Nimalendran, Giovanni Petrella, "Order flow fragmentation and flight-to-transparency during stressed market conditions: Evidence from COVID-19" and Gbenga Ibikunle, Khaladdin Rzayev, "Volatility and dark trading: Evidence from the Covid-19 pandemic".

[8] See Rosenblatt's Monthly Dark Liquidity Tracker - European Edition, 28 April 2026: "Dark books, periodic auctions and systematic internalisers run by ELPs lost market share as volatility surged in March, no doubt prompting some participants to prefer the immediacy of lit trading and the certainty of the close."

4.4 The influence of regulation outside MiFID / MiFIR

23. As detailed above, MiFID and its successive evolutions have been, over the past 20 years, the tools used to define the regulatory framework for the equity market structure in the Union. However, other texts can have significant, sometimes unexpected, effects on the market structure.

24. The case of PRIIPS is particularly illustrative in this respect. Under PRIIPS, manufacturers (of which asset managers of UCITS funds) have to publish in the KID (Key Information Document) the implicit transaction costs linked to the management of their instrument. For funds, this means calculating, for each order impacting the assets held by the fund, the difference between the price at the arrival of the order ("Arrival price", AP) and the actual price at which the trade is executed ("Execution Price", EP).

25. SMSG members note that, under Delegated Regulations 2017/653 and 2021/2268 and until end-2024, it was possible for UCITS funds to compute implicit costs using the 'New PRIIP' methodology, which consisted of using half of the bid-offer spread for the asset classes in the fund, combined with the portfolio turnover rate. Since 1 January 2025, the 'Slippage' methodology has become the mandatory method for transaction cost calculation. It requires taking into account the realized slippage between the AP and the EP.

26. SMSG members understand that the implicit costs displayed in the KIDs are taken into account by institutional investors in the context of their management tenders, and, insofar as they form a quantitative and differentiating factor between bidders, candidates with significant historical implicit costs are excluded from such tenders.

27. Feedback received by SMSG members indicate that the move from 'New PRIIP' (and its common spread-based, somehow "flat-rate", approach) to 'Slippage' (based on granular, realised impact) has led asset managers across the Union to modify, sometimes strongly, their execution strategy to prioritize the minimization of slippage, favoring execution modalities understood to limit impact (closing auctions, SIs, dark pools) and moving away from continuous lit trading, considered to be especially adverse in terms of impact with the perceived increasing presence of proprietary trading firms.

28. On this topic, SMSG members remark that, in the UK, the new legislative framework for the regulation of Consumer Composite Investments (CCIs), formerly PRIIPs, extended the permission to use the 'New PRIIP' methodology and finally, while keeping the aggregation of explicit costs, removed the requirement to disclose implicit transaction costs[9],

[9] See Policy Statement PS25/20: Supporting informed decision making: Final rules for Consumer Composite Investments | FCA

considering that they are “determined by market movements and can be largely outside the control of firms”[10].

29. On that ground, SMSG members believe that ESMA should further analyse the impact of the methodology evolution from ‘New PRIIP’ to ‘Slippage’ in the EU on execution strategies and market structure.

4.5 The interest of retail investors

30. Individuals willing to invest in equities have specific characteristics that clearly differentiate them from professional investors:

    – the most impactful fragmentation of the Union's equity market is that of post-trade (including the management of corporate actions and the taxation of dividends). While this is true for all investors, it is more difficult to navigate for retail investors,

    – to input their orders, retail investors rely on the interfaces proposed by intermediaries, the offer of whom hence determines their ability to access liquidity and to navigate the fragmentation of venues,

    – the same goes similarly for their vision of the liquidity of the market, even though the implementation of the equity consolidated tape should represent a real revolution in this area, providing retail investors with an independent and comprehensive view over trading occurring across the Union, at least on a post-trade basis to start,

    – solutions proposed to retail investors to access liquidity vary between intermediaries, but also between Member States. In some, the RM will propose a dedicated segment where orders originated from retail investors face selected market makers. In others, brokers will ask individuals to decide if they want their orders to be sent to SIs, in exchange for a fee rebate. Etc.

31. On that ground, SMSG members believe that the analysis of the equity market structure in the Union and of access to liquidity for EEA shares would benefit from being complemented by a dedicated analysis for retail investors.

4.6 The Price Formation Process

32. While the distribution of equity order flows between the different execution modalities is an information of great interest, SMSG members consider that what determines the attractiveness of EU markets both for investors and issuers is, on the one hand, the

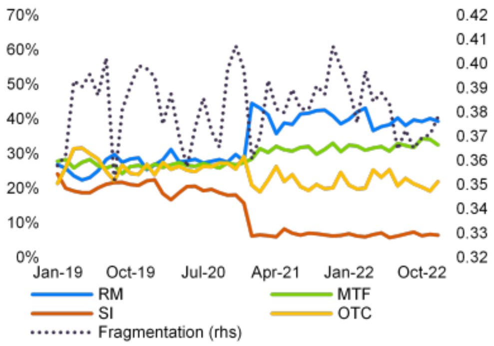
[10] See Consultation Paper [CP25/9: Further proposals on product information for Consumer Composite Investments | FCA]

availability of liquidity, and on the other hand the quality and reliability of the price formation mechanism.

33. In this regard, SMSG members welcome the importance given in the Call for Evidence to the definition and study of “addressable liquidity” and note in this regard the conclusion that “the share of addressable liquidity in EEA shares on EEA venues has remained constant at around 85-90% between 2022 and 2025”.

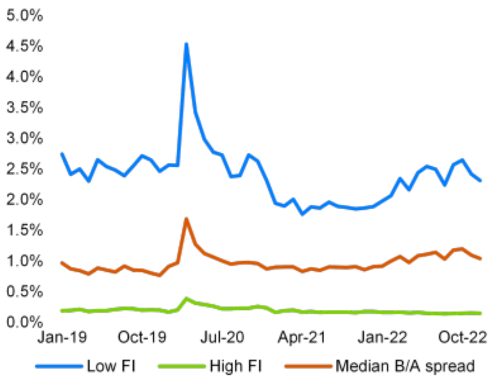
34. Conversely, the Call for Evidence does not specifically consider the question of the price formation mechanism, its quality or its evolution. Admittedly, assessing the price formation mechanism is a difficult task, as it theoretically requires examining multiple dimensions, notably informational efficiency (o/w speed of reaction), market quality (spread, depth, impact) and resiliency.

35. SMSG members’ opinions differ as to the contribution of the different execution modalities to price discovery. With regard to the bid-ask spread (a significant component of the price formation process), they note that a 2025 ESMA Working Paper[11] showed a correlation between lower bid-ask spreads and greater market fragmentation, without concluding on the existence or direction of a causal link.



Note: Share of total monthly trading volumes in equity by market type (lhs) and average monthly fragmentation index (FI, rhs) of equity traded on EEA + UK trading venues and SIs in 2019 and 2020 and on EEA trading venues and SIs in 2021 and 2022. FI calculated as 1-HHI and ranging from 0 (monopoly) to 1 (maximum fragmentation).
Sources: FIRDS, FITRS, ESMA.

Trading volumes and fragmentation index



Note: Median monthly bid-ask spreads by fragmentation levels. ‘Low FI’ if fragmentation index is <0.25 and ‘High FI’ if fragmentation index >0.75.
Sources: FIRDS, FITRS, Refinitiv Datastream, ESMA.

Median monthly bid-ask spreads

36. With this in mind, SMSG members encourage ESMA to complement the study underlying the Call for Evidence with one that would focus on observable parameters associated with the quality and reliability of price discovery (e.g. spreads, depth, impact, resilience) and on the contribution of different execution mechanisms to the price formation process. They

[11] See Lorenzo Danieli, Raoul Fruzza, Caroline Le Moign, “[Fragmentation in European Equity Markets since 2019]”

agree that monitoring selected indicators over time would bring significant value for market stakeholders.

4.7 Secondary market structure matters beyond secondary markets

37. On top of the above remarks, SMSG members wish to draw attention to the fact that the equity market structure has an influence beyond the secondary market and can have a retroactive effect on the primary market.

38. Some SMSG members consider that the persistent decrease in the share of regulated markets in the secondary trading volumes may reduce the relevance and attractiveness of listing in the EU and increase the risk that issuers may refrain from listing or choose to list in other, more liquid jurisdictions, impeding capital formation in the EU.

39. Given that there is no consensus on this within the SMSG, its members would invite ESMA to consider further researching the matter. Moreover, the members of the SMSG insist on the need, in parallel with the work on the market structure, to consider the means of strengthening the primary market within the Union.

5 Thematic remarks

5.1 Closing auctions

40. SMSG members share the Call for Evidence's analysis of a growth in the weight of closing auctions and of the role played here by the development of passive management. They also note that this trend was underway well before 2022, as evidenced, for example, by the AMF study of October 2019 “Growing importance of closing auctions in share trading volumes”[12].

41. However, they note that, despite a much more marked development of passive management in the United States – where passive ownership represents more than 20% of equity market, vs. c. 8% in the Eurozone[13] – the share of closing auctions is significantly lower than in Europe, at approximately 20% of multilateral lit trading, compared to 30% for the EU[14].

42. Several factors seem to strongly influence the relation between the development of passive management and the recourse to closing auctions by managers. First, due to the

[12] AMF, October 2019, Growing-importance-of-the-closing-auction-in-share-trading-volumes.pdf
[13] See ECB, Financial Stability Review, November 2024, Box 3 “Passive investing and its impact on return co-movement, market concentration and liquidity in euro area equity markets
[14] Reading from the charts in Sounding the bell: understanding the closing auction for… | BMLL

depth of the market in the US, a smaller proportion of secondary transactions on ETF shares result in creation / redemption operations which, in Europe, involve the execution of baskets during the closing auction. Second, SMSG members understand that, for fiscal reasons, managers of ETFs in the US favor the execution of creation / redemption orders "in kind" (i.e. they exchange shares of the ETFs for the basket of underlying constituents), and hence do not have to execute massive baskets at the close, contrary to EU managers, that execute "in cash" (i.e. they exchanges shares of the ETFs for cash).

43. SMSG members encourage ESMA to further study the interaction between the increase in the recourse to closing auctions and the development of passive asset management.

44. In addition, the Call for Evidence raises questions about "the effects of alternative closing mechanisms offered by MTFs and SIs". SMSG members note that MTFs and SIs can offer different services in relation to closing mechanisms.

45. One service that SIs can offer is to execute transactions, after the closing auction of the primary market and for a limited period of time, at the price that was determined by the said closing auction. Investors can then execute at the conditions of the closing auctions for flows that they were not able to present at the auction, or for which they were not disinterested during the auction.

46. Another service proposed by some MTFs consists of accepting orders during the auction accumulation period and until a few seconds before the end of it, then sending back the imbalance between buying and selling orders to the participants, while executing the balanced orders at the closing price determined by the primary market auction.

47. SMSG members may not share the same assessment of balance between the benefits brought by these mechanisms and their potential drawbacks; but they agree on the need to keep a single closing price as a common and indisputable reference price for position valuation and risk management. From this perspective, introducing alternative closing prices in EU equity markets would require additional analysis as regards impact and consequences.

5.2 Frequent Batch Auctions

48. The Call for Evidence asks stakeholders about the reasons for the growth of FBA, and in particular about a possible link with the implementation, at the end of 2025, of the new dark trading cap system, with the Single Volume Cap (SVC) replacing the Double Volume Cap (DVC).

49. SMSG members warn against drawing too rapid a conclusion on the basis of the observed correlation between the implementation of the SVC and the development of FBAs:

- there are no obvious connected vessels between dark trading and FBAs, and the fact that FBAs are pre-trade transparent, while dark pools by construction are not, indicate that they correspond to different usages,
- the elements presented in the Call for Evidence are aggregate and relate to a very short observation period. To reach full statistical relevance, a study would need to be run over a longer period of time and on a share-by-share basis, considering shares affected by the SVC and others not affected as a control population,
- last, and not least, FBAs have developed at a similar pace in the UK, while the dark trading cap has been withdrawn there.

50. SMSG members also note that the development of FBAs may be at least partly explained by the fact that, because of the randomization of the accumulation period, they suppress the advantage that latency traders benefit otherwise, creating more favourable conditions for genuine investors.

51. Again, the SMSG members would see value in ESMA running a more detailed analysis to highlight the main drivers for the development of FBAs.

5.3 Systematic Internalisers

52. The Call for Evidence asks whether different trade sizes executed by SIs reflect different types of clients or SI businesses.

53. SIs facing a retail flow first provide a service to the intermediary that conveys the orders of its retail clients. In this context, the SI is “size taker”: it will not choose the size of the orders and will mostly execute small sizes but may also face more sizeable orders from time to time.

54. SIs facing an institutional flow may have two different ways to interact with clients. The first modality is to accept to “start” an order, that is to propose a price for a significant share of the client’s order. The trade size can be large in that case. The other modality is to be positioned as a trading venue, among others, for the execution of “child orders” generated by the trading algorithm dealing with the client’s “parent order”. “Child orders” resulting from such “slice and dice” strategies are rather small, comparable in size with retail orders.

55. In this context, some members noted that greater clarity regarding the functioning of SIs, including through the potential availability of clearer and more standardised information on their execution arrangements, could facilitate a better understanding of their practices and help address questions related to execution modalities and supervisory oversightAs

a conclusion, SMSG members agree that the type of clients that an SI interacts with cannot be directly deducted from the distribution of the sizes of the orders it executes.

56. The Call for Evidence also asks stakeholders for their perception of the application of price improvement by SIs and of the use of related flags.

57. Within the SMSG, both operators and users of SIs share the perception that price improvement is often presented as a common feature of SIs. Figure 27 of the CfE shows that a significant proportion, and sometimes majority, of SI transactions are executed off-tick. This may correspond to transactions executed at midpoint, therefore mathematically with a price improvement, of at least half a tick.

58. Still, the analysis of flags used by SIs (Figure 33 of the Call for Evidence) show that SIs only rarely use the flag “RPRI”, and more generally that most of their transactions do not carry any specific flag. This apparent discrepancy between perceived, observable and RPRI-flagged price improvements warrants further consideration.

59. Some SMSG members believe that the limited use of the “RPRI” flag indicates some data quality issue, that may stem from different interpretations and reporting practices between firms. At the same time, some members underlined that the current data does not allow to fully assess whether price improvement is consistently meaningful or effectively delivered in practice.

60. This further reinforces the call of SMSG members for a deep review of the flagging regime, that would encompass flags reported under RTS 1 (i.e. under the transparency regime, to the public) and flags reported under RTS 22 (i.e. under transaction reporting, to the regulator) and that should be outcome-focused, identifying what really matters to understand the markets, i.e. for SIs: price improvement, trading phases, intragroup features, etc.. This review should be guided by principles of (i) streamlining, (ii) avoiding unnecessary duplication between RTS 1 and RTS 22 while ensuring sufficient visibility for market participants and (iii) ease of interpretation, supported by clear guidance. This would mean re-instating a price-improvement flag for SIs or ensuring existing flags are consistently interpreted and implemented.

This advice will be published on the Securities and Markets Stakeholder Group section of ESMA's website.

Adopted on 16th July 2026

[signed]	[signed]
Giovanni Petrella Chair Securities and Markets Stakeholder Group	Stephane Giordano Rapporteur