Market Structure Partners

Strategic Advisory | Financial Market Structure & Competition

Response to ESMA Call for Evidence:

Market Structure of European Equity Markets

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Introduction and Scope of this Response

Market Structure Partners (MSP) is a strategic advisory organisation specialising in financial market structure and competition in financial market infrastructure.

We aim to deliver real benefit to society through the work we do by ensuring that, as a niche specialist, we deliver valuable but non-biased advice with the utmost integrity to help develop capital markets. MSP does not participate in any of the trading or exchange activities referred to in this consultation. It is not an advocacy organisation and has not been paid to respond to this consultation.

We are submitting a deliberately narrow response to this Call for Evidence (CfE). Rather than commenting on each of the 45 questions, we have chosen to concentrate our submission on Question 20, because it is the question that, in our view, offers ESMA the clearest opportunity to address the issue raised at the outset of the CfE: the diverging conclusions reached by the Oliver Wyman/FESE study (July 2025) and the Goldman Sachs/New Financial study (October 2025) regarding the decline in lit continuous trading.

The CfE frames this as a disagreement about consequences: FESE's study treats the shift away from lit continuous trading as a problem of fragmentation and impaired price formation, while the Goldman Sachs/New Financial study treats the same shift as the healthy outcome of competition and investor choice.

Our submission argues that this framing, while accurate as far as it goes, overlooks the more fundamental question: why has the European market structure evolved into one in which incumbent national exchanges and systematic internalisers (SIs) have both prospered, while the competitive multilateral trading facilities (MTFs) offering alternative means of price formation that MiFID I and MiFID II were designed to foster have struggled to gain meaningful traction in the middle ground between them?

In our view, this is not principally a story about investor preference or natural competitive evolution. It is the predictable result of policy choices made at the inception of MiFID I and reinforced through MiFID II, which articulated competition as a policy objective but did not put in place the structural rules necessary to allow competitive venues to emerge and scale on equal terms with incumbents. The result is two types of trading models becoming entrenched at either end of the multi-lateral vs bilateral trading spectrum with little competitive tension in the middle ground. We set out this argument in our response to Question 20 below.

Response to Question 20

> **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 growth of SIs cannot be understood in isolation from the entrenchment of incumbent exchanges

ESMA's CfE rightly identifies a divergence of views between the FESE-commissioned study and the Goldman Sachs/New Financial study. We would encourage ESMA to look past the apparent disagreement between these two perspectives, because both are, in a sense, describing symptoms of the same underlying condition rather than competing explanations of it.

The opposing trading models described by each report are manifestations of the same set of regulatory gaps. The root cause of the market structure evolution that this CfE documents goes back to the original policy design of MiFID I, carried through largely unaddressed into MiFID II: policymakers articulated competition between trading venues as an explicit objective, but did not follow through with the rules and structural safeguards required to remove the structural headwinds facing competitive MTFs/alternative CLOBs seeking to challenge incumbents and that could have created more competition in price formation and market transparency.

The result, more than two decades on, is a bifurcated market in which liquidity is locked in two trading models at the opposite end of a spectrum, with national incumbent exchanges the winners at one end and the SIs, the winners at the other end.

The real questions should be:

- Why has there been comparatively little competitive tension from challenger venues to help improve price formation or introduce innovation in the competitive middle ground that MiFID I and II were supposed to create?
- Has the total cost market participation increased?

The structural headwinds facing competitive MTFs and CLOBs

We set out below the five principal structural headwinds that, in our assessment, account for this outcome and provide explanations below:

1. **Allowing separate charging for market data**
2. **Allowing discriminatory charging for market data**
3. **No mandated consolidation or governance and enforcement of data standards**
4. **Index and benchmark data did not have to reflect alternative venues**
5. **Lack of mandated interoperability in clearing and settlement**

1. Allowing separate charging for market data

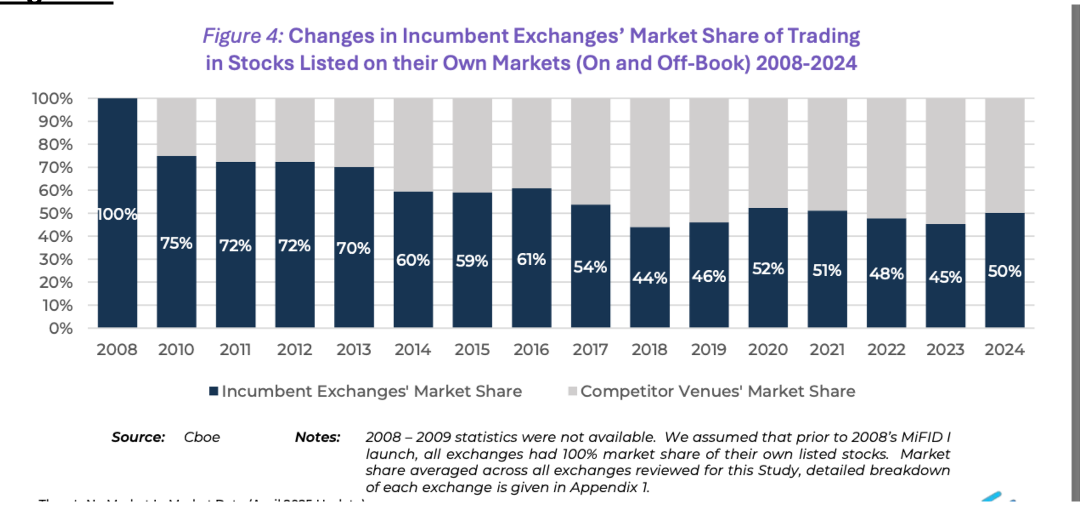
Trading venues have been permitted to charge separately for market data, notwithstanding that data is a by-product of the trading process itself rather than a separate product because, without disseminating the prices of the goods for sale on their platform, trading venues would have no business.

Given most market participants are required, in practice and, for some by law (i.e. Most Relevant Market, MRM, rules), to consume the data of national incumbent exchanges, there is no competitive tension in the price of market data and this has had three compounding effects, each evidenced in Market Structure Partners' April 2025 study of exchange market data practices and costs (*Market Structure Partners, There's No Market in Market Data, April 2025 Update)* and in FESE's own reports[1] on Market data:

i) Growth of the Market has become a secondary objective for incumbent Exchanges, resulting in a lack of motivation to innovate and improve their value proposition

Despite the reduction in lit trading that the FESE/Oliver Wyman's July 2025 report points to, and the reduction of total trading market share that has also occurred at the incumbent exchanges since MiFID I (see Fig 1 from MSP's Study on Market Data), FESE's own data (see Fig 2) shows that the market data revenue of the FESE exchanges has remained stable or even increased (*Oxera for FESE, Sept 2024, Market data fees and revenues*).

<u>Figure 1</u>



Source: Market Structure Partners, April 2025, There's No Market in Market Data, p16

[1] FESE commissioned Oxera, an economics consultancy, to carry out two studies: 1) "Pricing of market data services, an economic analysis"[20] in 2014 and 2) "The design of equity trading markets in Europe"[21] in 2019. These studies were followed by two short updates, also by Oxera: 1) "What's the data on market data?"[22] in July 2022 and "Market data fees and revenues"[23] in September 2024. In July 2025, FESE sponsored a report by Oliver Wyman, The Liquidity Matrix: Addressing Fragmentation in European Equity Markets.

Figure 2

Figure 2.1 MiFID II / MiFIR market data revenues from FESE exchanges, 2018–23 (€m)

Note: See Appendix A1 for further detail on the scope of revenues included.
Source: Oxera analysis of data provided by FESE members.

Source: Oxera, Sept 2024, Market data fees and revenues, p2

- MSPs 2025 Study showed that charging separately for data has allowed incumbent exchanges to generate very significant profits from data sales even as their trading market share has declined.
– Our research found that the five largest European exchanges (including LSEG, which is not included in FESE's report) have earned an estimated €6.7 billion from equity market data since 2007, and that market data revenue has continued to rise as a proportion of equity revenue at incumbent exchanges even where transacted value has fallen — for example, Deutsche Börse's public disclosures show that its market-data-to-equity-revenue ratio rose from 21% to 31% between 2020 and 2023 while transacted value fell 29% over the same period. The ability to grow data revenue so easily while not growing the market has clearly turned market growth into a secondary objective.
– As a result, the motivation to invest in the market is declining. The same study found "no evidence of significant investment" in trading infrastructure at most of the exchanges studied, noting that most exchanges "have run the same trading technology for more than a decade," and that equities now account for as little as 3% of total group turnover at Deutsche Börse — consistent with our view that incumbents have faced limited competitive pressure to modernise their core trading proposition and have directed profits from equity market data away from equity markets to build other businesses, rendering their equity value propositions increasingly less attractive.

Source: Market Structure Partners, There's No Market in Market Data (April 2025 Update), pp. 2-3, 7.

- SI's, on the other hand, are motivated to grow their market and their value proposition and distribute their data for free.

ii) Market Data Revenues can be used by incumbent exchanges to cross subsidise trading fees, making it harder for new venues to emerge

- Because market data is charged separately, incumbent exchanges have evidently been able to cross-subsidise their trading fees from data revenue (per the examples given above where market data revenue growth is outstripping the growth of trading revenue). As our 2025 Study explains, "the separation of data revenues from trading revenues allows the exchanges to become price makers in relation to market data even if they must become a price taker for trading activity," fuelling a race to the bottom on headline trading fees while the all-in frictional cost of market participation continues to rise.

- This means that competing venues and exchanges do not compete on a level playing field and it is a significant contributor to the fact that more MTFs that might have offered other trading models or transparent price formation have not been able to succeed on a sustained basis.
- It also means that framing the success of MiFID I and II by examining any reduction in trading costs alone is missing the larger picture of the cost of data impact on the overall cost of market participation.

Source: Market Structure Partners, There's No Market in Market Data (April 2025 Update), pp. 7, 32.

iii) The pricing power that exchanges enjoy means the total frictional cost of market participation remains high and participants are unable to capitalise on their own trading efficiencies making it harder to trade in lit environments

MSP's 2025 Report (Chapters 5 and 6) explained the increasing complexity of fee structures and how fees are based on the users' rather than the exchanges' costs of production. The result has been that market participants are unable to capitalise on the efficiencies they introduce into the trading environment when trading on incumbent exchanges, and it maintains, or does not allow them to decrease, their underlying cost base.

- Each time customers introduce efficiencies such as replacing humans with computers (display versus non display fees) or increasing the use of AI, exchanges have been increasing pricing for data even though this has no impact on the exchanges' costs of production.
- A simple cost comparison in our 2025 Study, p45, reveals that under certain conditions, in 2024, it cost 84.3 times more at Euronext and 34.87 times more at Deutsche Börse for a machine (non-display) to do what a single physical user (display) could do with the data in 2017.
- Additionally, exchanges have imposed licences on users of data that effectively suggest that a customer cannot do anything with an exchange's data that the exchange has not thought of itself. The creates extraordinary financial risk for any firm wishing to innovate using the data and could render a competitor unviable at any moment.
- Commentary from any party that focuses on the reduction of costs in trading is not considering increases in the total frictional cost of participating in market.

Source: Market Structure Partners, There's No Market in Market Data (April 2025 Update), pp. 5, 41-49, 50-64.

In contrast, it is free to consume, handle and disseminate SI data.

2. Allowing Discriminatory Pricing for Market Data

The law has not only allowed exchanges to charge for data but has also permitted discriminatory pricing of market data, allowing exchanges to charge the highest prices to the very competitive firms that are obliged to consume their data.

- MSP's 2025 report showed how the exchanges' direct competitors have consistently been subjected to the highest price rises for use of non-display data (either as alternative trading platforms or as creators and distributors of proprietary indices)
  - For example, the research found that, between 2017 and 2024, firms operating a competing trading platform faced non-display data price rises of up to 481% at Deutsche Börse and 102% at Euronext — among the steepest increases of any user category measured.
- This has made it materially harder for innovative CLOBs and MTFs to gain traction, given the high fixed cost of acquiring incumbent data simply to remain viable as a venue.

Source: Market Structure Partners, There's No Market in Market Data (April 2025 Update), p. 5.

3. No Mandated Consolidation or Governance of Data

MiFID I and II did not mandate the consolidation of trading data across venues and the ability to profit from market data and have revenues available to supplement declines in trading revenues appeared to further the case for the exchanges to lobby against data consolidation. Furthermore, the regulations did not establish robust governance or standards or means of adherence for the reporting of data.

MSP's 2020 study for the European Commission *(Sept 2020, The Study on the Creation of an EU Consolidated Tape)* on the creation of an EU consolidated tape, based on engagement with 189 data users and 11 industry associations, sets out the consequences in detail.

- The absence of consolidation has made it difficult for competing CLOBs to have their data seen and used by the market. The research found that the cost and complexity of consuming multiple data feeds "drives users to economise by taking a subset of the available market data as if it were a proxy for the whole market," typically sourced from the dominant trading venue, which "reinforces the pricing power and market models of the largest [trading venues]... and allows them to price their data as if it represented the entire market."
- The same study concluded that, absent consolidated data, "the primary and secondary market models of incumbent [trading venues] are being forced on the market and different liquidity provision and listing models cannot emerge."

Source: Market Structure Partners, The Study on the Creation of an EU Consolidated Tape (September 2020), Executive Summary §6(a) and §5(e)(i); Main Report §2.4.

- The absence of mandated data standards, and of any consistent enforcement of trade reporting standards, has directly contributed to the confusion this CfE itself identifies around the concept of addressable liquidity. Our 2020 study found that data submissions to trading venues and aggregators are "of poor quality," citing "ambiguities or inconsistencies in the rules, subjective interpretation of the rules, abuse of the rules or misuse of flags as well as a lack of mandated market-wide technical operating standards for the reporting of trades," and that there remains "no centrally agreed penalty mechanism for poor data submissions." ESMA's own work in Section 6 of this CfE to define and standardise addressable liquidity is, in our view, an implicit acknowledgement of this very headwind.

- *Source: Market Structure Partners, The Study on the Creation of an EU Consolidated Tape (September 2020), Executive Summary §6(b)-(c).*

- The same Study also pointed to the difficulties in using data that was not fully consolidated and or cleaned resulting in poorly informed trading strategies that often avoided placing more trades in the lit market because there was not clear visibility of the proportion of liquidity available. This has had a circular effect, driving more liquidity towards, dark trading models, SIs and end of day closing auctions.

The data asymmetries caused by lack of consolidated, clean data benefitted SI's who were able to invest to consume, clean and aggregate the different data sets for their proprietary use. It is likely that this allowed them to profit more than they would otherwise have done if there had been a more holistic transparent data set. Increasing profitability helped augment their balance sheets, strengthening their business offerings and enabling them to face buy-side firms directly.

- MSP's 2026 Study on market evolution, (Markets Unstructured, the Importance of Connectivity in the Reinvention of Markets, Paper 1 p3-9) explains that market participants expect bi-lateral trading to continue to grow and explains that, without mandated standards and meaningful consequences for not following the mandated standards, it will become even harder to ensure an accurate picture of the market. This is particularly important if market share of SI's is growing as there is a risk that there will be a greater proportion of market data reliant on OTC trade reporting flags where data reporting requirements and use of appropriate flags are not enforced.

4. Index and Benchmark Data did not have to Reflect Alternative Venues

Index and benchmark providers have not been required to incorporate data from alternative trading venues into their calculations. This has made it structurally harder for competitive venues to have their prices and liquidity reflected in the benchmarks against which institutional performance is measured, reinforcing the gravitational pull of incumbent exchange data even where better prices were available elsewhere. This point reflects Market Structure Partners' broader market structure expertise rather than the studies cited above, which do not address benchmark construction directly.

5. No Mandated Inter-Operability of Clearing

MiFID I and II did not mandate interoperability of clearing, and national exchanges were permitted to restrict new CLOBs' access to their clearing facilities. This prevented competitive venues from achieving the scale of clearing access necessary to compete with incumbents on a level playing field, irrespective of the quality of their trading proposition.

The consequence: data asymmetries have entrenched two winners and hollowed out the competitive middle

In summary, taken together, these five headwinds have produced a market structure in which the only consistent winners are the national incumbent exchanges and the SIs — two categories of venue whose positions have both been strengthened by the same underlying data asymmetries, even though they sit at opposite ends of the multilateral to bilateral trading spectrum.

- Incumbent exchanges have been insulated from competitive pressure on trading fees and innovation by their privileged position as the default source of market data. The profitability of market data has encouraged them to lobby for market conditions where there is not symmetrical access to data, causing increasing uncertainties about trading in lit markets.
- SIs have benefitted from data asymmetries and grown by offering clients an effective bilateral alternative with greater trading certainty than the entrenched incumbent

trading infrastructure, without facing the data-access and clearing-access barriers that have constrained challenger CLOBs and MTFs.

The casualty of this dynamic has been the competitive middle ground: the multilateral, lit, order-book venues that MiFID's competition objective was specifically designed to enable. These venues have faced the full weight of the headwinds described above and have, accordingly, struggled to gain the liquidity and traction needed to constrain either incumbent exchanges or SIs through genuine competition.

This has an adverse impact on the end investor who has not benefitted from potential innovation and lower costs of market participation that a competitive middle ground should have delivered and who is bearing the higher frictional costs of a bifurcated market either by paying unnecessarily high data fees (or higher intermediary costs to supplement the data costs) or by paying a higher spread to SI's than would otherwise be necessary in a more competitive world.

We see similar issues in a number of international markets (UK, Canada, Australia, Japan and EU), where policymakers articulated competition between trading venues as an explicit objective, but did not follow through with the rules and structural safeguards required to remove the headwinds facing competitive alternatives.   Contrary to a widely reported view that competition has been successful, we argue that it never really got off the ground and see the warning signals that even CBOE, arguably one of the most successful examples of alternative trading venues in these markets, has moved to close some or all of its equity businesses in Japan, Australia and Canada as well as closing its derivatives business in the UK.

We would therefore caution ESMA against reading the growth of SI trading purely as evidence of investor preference for bilateral execution, or as a natural consequence of innovation and choice, as the Goldman Sachs/New Financial study suggests. Nor would we frame it purely as a problem of fragmentation harming price formation, as the FESE-commissioned study suggests.

Both readings are, in our view, incomplete because they treat the current market structure as the product of competitive forces operating freely. We believe the evidence instead points to a market structure shaped decisively by the absence of the regulatory follow-through — on market data costs and access, data consolidation and governance, benchmark inclusion, and clearing interoperability — that would have been required to make the original competition objective of MiFID I and II a reality.

We would welcome the opportunity to elaborate on any of these points and to assist ESMA, and the co-legislators considering the Market Integration and Supervision Package, in developing remedies that address these root causes directly, rather than treating the symptoms of SI growth and exchange entrenchment as separate or competing phenomena.

Sources Referenced

This response draws on the following Market Structure Partners research, available at the links below:

There's No Market in Market Data (April 2025 Update)

The Study on the Creation of an EU Consolidated Tape, Final Report (September 2020)

Markets Unstructured: The Importance of Connectivity in the Reinvention of Markets (papers 1,2, and 3).

Concluding Remarks

Market Structure Partners is grateful for the opportunity to contribute to this Call for Evidence. We have confined our response to Question 20 because we believe it is the question best placed to surface the structural, policy-driven root causes of the divergence in views that ESMA itself highlights at the outset of this paper.

We would welcome the opportunity to discuss these points further with ESMA staff ahead of the publication of the feedback statement.

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