30 April 2026
ESMA74-1119406008-1622

Reply Form

Call for evidence on the market structure of European equity markets.

Responding to this Consultation Paper

ESMA invites comments on all matters in this Consultation Paper and in particular on the specific questions summarised in Annex 1. Comments are most helpful if they:

- respond to the question stated;
- indicate the specific question to which the comment relates;
- contain a clear rationale; and
- describe any alternatives ESMA should consider.

ESMA will consider all comments received by **30 June 2026.**

All contributions should be submitted online at www.esma.europa.eu under the heading 'Your input - Consultations'.

Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

- Insert your responses to the questions in the Consultation Paper in this reply form.
- Please do not remove tags of the type < ESMA_QUESTION_MSEM_0>. Your response to each question has to be framed by the two tags corresponding to the question.
- If you do not wish to respond to a given question, please do not delete it but simply leave the text "TYPE YOUR TEXT HERE" between the tags.
- When you have drafted your responses, save the reply form according to the following convention: ESMA_CP1_ MSEM_nameofrespondent.

  For example, for a respondent named ABCD, the reply form would be saved with the following name: ESMA_CP1_ MSEM_ABCD.
- Upload the Word reply form containing your responses to ESMA's website (**pdf documents will not be considered except for annexes**). All contributions should be submitted online at *www.esma.europa.eu* under the heading *'Your input - Consultations'.*

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the heading 'Data protection'.

Who should read this paper?

This paper is primarily addressed to all financial market participants, including trading venues and investment firms, as well as to asset management, data reporting service providers, trade associations, issuers and other stakeholders involved in financial regulation, investor education, and retail investment market developments.

1 General information about respondent

Name of the company / organisation	Associação Portuguesa de Bancos
Activity	Trade association
Are you representing an association?	☒
Country / Region	Portugal

2 Questions

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

<ESMA_QUESTION_MSEM_1>

We acknowledge that the framework presented in Figure 1 provides a useful starting point for analysing the European equity market structure based on transaction reporting data. The distinction between on-book and off-book trading, as well as the introduction of the concept of addressable liquidity, offers a pragmatic structure for organising a highly fragmented landscape. However, from a buy-side perspective focused on execution outcomes and best execution obligations, we consider that the framework, in its current form, may not adequately reflect the economic reality of liquidity available to investors.

In particular, the concept of addressable liquidity may not fully capture differences in accessibility and execution characteristics across liquidity pools. The current classification assumes that transactions where another participant could in principle have been a counterparty are equivalent in terms of accessibility and usability. This is not the case. A significant portion of liquidity classified as addressable is either conditionally accessible, restricted to specific counterparties, or available only under circumstances. For example, systematic internaliser liquidity is frequently accessed through bilateral relationships and selective distribution, implying that not all market participants face equal access to this liquidity. Similarly, periodic auctions and batch mechanisms represent episodic liquidity that cannot be interacted with continuously, while negotiated and benchmark transactions are often pre-arranged and therefore not genuinely contestable in real time. Treating all these forms of

activity under a single “addressable” category may introduce a structural upward bias in the measurement of usable liquidity.

This aggregation also obscures fundamental differences in execution quality and market function across liquidity pools. Continuous lit order books provide firm, immediately accessible liquidity and remain central to competitive price formation. In contrast, midpoint executions, reference price mechanisms and benchmark trades derive their pricing from existing market levels without directly contributing to price discovery. Periodic auctions concentrate liquidity at discrete times and therefore serve a different role in execution strategies. These differences are not merely technical, as they are central to how buy-side firms assess execution risk, market impact, timing and opportunity cost. As a result, combining these heterogeneous mechanisms into a single analytical framework risk creating categories that are not economically comparable and may lead to misleading conclusions about the resilience and effectiveness of the market.

From a best execution perspective, this distinction is critical. Institutional investors are required to optimise execution outcomes across multiple dimensions, including price, costs, likelihood of execution and speed. In practice, execution decisions are driven not by whether liquidity is formally addressable, but by the probability of obtaining a fill, the expected market impact, the risk of information leakage and the timing constraints associated with different execution channels. The current framework does not capture these dimensions and therefore does not align with how liquidity is evaluated in real trading decisions. Consequently, it risks understating the complexity and cost of execution faced by buy-side firms, particularly in an environment where liquidity is increasingly fragmented across heterogeneous and partially opaque mechanisms.

A further implication is that the framework may understate potential risks to price formation. The increasing reliance on execution mechanisms that are either episodic or based on reference prices implies a reduced share of trading occurring in environments where prices are formed through continuous interaction of supply and demand. By classifying many of these mechanisms as addressable without distinguishing their contribution to price discovery, the framework may give an overly optimistic view of the robustness of the price formation process.

We therefore consider that the current framework would benefit from the introduction of an additional, functionally driven layer of analysis that reflects the execution characteristics of liquidity. In particular, it is important to distinguish (i) between liquidity that is firm and immediately available versus liquidity that is conditional or subject to matching logic, (ii) between liquidity that is continuously accessible versus liquidity that is episodic in nature, and (iii) between liquidity that is broadly accessible on a multilateral basis versus liquidity that is restricted or bilateral. It is also essential to differentiate between trading mechanisms that actively contribute to price formation and those that rely on pre-existing reference prices.

Incorporating these distinctions would provide a more accurate representation of effective liquidity and would align the analysis more closely with the experience of end-investors. It would also improve the assessment of how different execution channels compete and interact and allow for a more robust evaluation of market quality, particularly in the context of best execution obligations. Without such refinements, there is a risk that the current framework may overestimate the availability of actionable liquidity and underestimate the challenges associated with executing orders efficiently in the current European market structure.

<ESMA_QUESTION_MSEM_1>

Q2 Do you have any insights on the XOFF transactions reported by investment firms who also act as an SI (SI-OTC trades)?

<ESMA_QUESTION_MSEM_2>

From a buy-side execution perspective, XOFF transactions reported by investment firms that also act as systematic internalisers highlight a structural limitation in the current framework, rather than constituting a clearly identifiable liquidity segment.

We note that, within the ESMA framework, XOFF OTC transactions are conceptually treated as non-addressable liquidity, reflecting their off-venue and typically bilateral nature. However, the subset of XOFF trades reported by firms that are also SIs introduces a degree of ambiguity which is acknowledged in the paper, as it is not possible to clearly distinguish, based on transaction reporting flags alone, whether these trades reflect genuine SI-driven internalisation or pure OTC activity. In practice, this requires the use of simplifying assumptions in the classification, which affects the robustness of the resulting analysis.

From an execution standpoint, these transactions do not behave as a distinct or accessible pool of liquidity. Buy-side firms, typically correspond to broker-facilitated activity, such as principal risk trades, negotiated executions, or portfolio-related transactions, which are conducted on a bilateral basis and are not exposed to competitive interaction at the point of execution. Access to such liquidity is inherently conditional, depends on the existence of a prior relationship with the counterparty, and cannot be assumed ex ante in the same way as liquidity available on multilateral trading venues.

This has important implications for the interpretation of the data. While such trades may be reported by SI firms, they are not economically equivalent to continuous SI quoting activity, nor they can be considered a reliable source of repeatable or broadly accessible liquidity. As a result, even where these transactions cannot be reliably distinguished from addressable SI

activity within the current framework, they do not represent actionable liquidity from the perspective of a buy-side execution strategy.

More fundamentally, this category illustrates a limitation in the current approach to classifying liquidity based on reporting fields. The fact that economically similar transactions may be classified differently depending on how they are flagged, and that the same category can encompass both SI-driven and purely bilateral activity, suggests that reporting-based classifications do not reliably capture the accessibility or usability of liquidity. This reduces the ability to draw robust conclusions on the distribution of liquidity across execution channels and on the effective role of SIs in providing market-wide liquidity.

Without a clear distinction between trades executed within a genuine SI quoting framework and those reflecting bilateral OTC facilitation, there is a risk of overstating the scale and accessibility of internalised liquidity, and of mischaracterising the competitive landscape between on-venue and off-venue trading. As a result, liquidity metrics derived from current reporting fields risk overstating the accessibility of off-venue liquidity and should be interpreted with caution when assessing market quality and execution outcomes.

We therefore consider that XOFF transactions reported by SI firms should not be interpreted as indicative of accessible or competitive liquidity. More broadly, this category demonstrates the need for a classification framework that more clearly distinguishes between firm and conditional liquidity, and between multilateral and bilateral execution environments. Enhancing the granularity and consistency of reporting in this area would improve the reliability of market structure analysis and provide a more accurate reflection of execution reality for end-investors.<ESMA_QUESTION_MSEM_2>

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

<ESMA_QUESTION_MSEM_3>

We broadly agree with the general trends identified in the report regarding the evolution of on-book versus off-book trading, as well as the increasing prominence of mechanisms beyond traditional lit order books. In particular, the observed decline in the share of trading conducted on regulated markets, alongside the growth of systematic internalisation and other off-venue execution channels, is consistent with our experience as buy-side market participants. Similarly, the development of periodic auctions and other non-continuous matching mechanisms reflects a structural shift in how liquidity is accessed and interacted with across European equity markets.

However, while these trends are correctly identified, their interpretation may require further qualification, particularly with respect to the notion that addressable liquidity has remained broadly stable over time. From an execution perspective, stability in the proportion of liquidity classified as addressable does not imply stability in the quality, accessibility or usability of that liquidity. On the contrary, the composition of this liquidity has changed materially, with a growing share being conditional, episodic or subject to access constraints. As a result, the apparent stability of addressable liquidity can mask a deterioration in the share of liquidity that is effectively accessible and actionable in real time.

In particular, the increase in off-book trading and in SI activity should not be interpreted as a straightforward increase in competitive or broadly accessible liquidity. A significant portion of this activity takes place in bilateral or segmented environments, where access depends on counterparty relationships, trading protocols or specific execution workflows. While such liquidity may be considered addressable in a formal sense, it is not uniformly available across market participants and cannot be relied upon consistently when implementing execution strategies. This implies that the growth of these segments does not necessarily strengthen effective competition for order flow in a way that is comparable to multilateral trading venues.

A similar dynamic can be observed in the growth of periodic auctions and other batch-based mechanisms. While these venues contribute to overall trading activity and may offer execution opportunities under certain conditions, they represent episodic rather than continuous liquidity and therefore do not provide the same execution characteristics as traditional lit order books. Their increasing use reflects a shift toward more conditional and timing-dependent execution, rather than an expansion of continuously available depth.

More broadly, these developments point to a structural transition in liquidity, from firm and continuously available liquidity toward more fragmented, conditional and protocol-driven

liquidity. This transition has direct implications for execution quality, as it increases uncertainty around fill probability, raises the importance of timing and routing decisions, and amplifies the risk of information leakage. As a result, the practical complexity and cost of achieving best execution have increased, even in an environment where aggregate measures of addressable liquidity appear stable.

An additional trend of relevance is the evolving role of price formation. The relative decline in trading activity occurring within continuous lit order books, combined with the growth of mechanisms that rely on reference prices, such as midpoint executions, systematic internalisation and certain off-venue trades implies that a smaller proportion of transactions directly contributes to the price discovery process. This creates a growing reliance on a narrower set of venues for price formation, with potential implications for market robustness, particularly in stressed conditions.

From a competition perspective, we observe increased competition among trading venues and execution models, accompanied by greater market fragmentation, a risk of regulatory arbitrage (with order flow potentially shifting in response to transparency and tick-size rules), unequal access to liquidity, favouring more sophisticated market participants, and increased market complexity, coupled with reduced overall transparency.

Therefore, we consider that the increase in fragmentation does not necessarily translate into more effective competition. While the number of execution channels has expanded, competition is increasingly shaped by differences in access, execution protocols and client segmentation rather than by fully open interaction. This means that venue-based metrics may overstate the degree of effective competition, as they do not capture the extent to which liquidity is selectively accessible or internally matched.

These observations suggest that traditional indicators such as the share of trading conducted on- versus off-venue and the proportion of addressable liquidity do not fully capture the evolving nature of execution conditions and competitive dynamics in European equity markets. They risk overstating both the accessibility of liquidity and the intensity of effective competition.

Overall, while the trends identified in the report are directionally correct, they should be interpreted in the context of a broader structural shift toward more fragmented, conditional and less uniformly accessible liquidity, which demand continuous monitoring. As a result, aggregate indicators such as addressable liquidity and venue-based fragmentation may give an incomplete picture of market functioning and should be interpreted with caution when assessing market quality, competition and investor outcomes.

<ESMA_QUESTION_MSEM_3>

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

<ESMA_QUESTION_MSEM_4>

From a buy-side perspective, the trends identified in the report raise important considerations regarding the general functioning of EEA equity markets, in relation to the sustainability and robustness of the price formation process. While the evolution toward a more fragmented and diversified market structure has, in many respects, increased the range of available execution mechanisms, it has also altered the balance between price-forming and price-taking activities in a way that warrants careful attention.

A central element in this regard is the relative decline in trading activity conducted on continuous central limit order books. The decline in CLOB trading, may reduce the amount of information available in the order book, potentially impairing the efficiency of the price discovery process throughout the continuous trading session and increasing reliance on prices formed at specific points in time, such as closing auctions, or through less transparent and/or off-exchange trading mechanisms.

Lit order books play a unique role in the market as the primary venue for transparent and competitive price formation, where prices are continuously updated through the interaction of supply and demand across a broad range of participants. A reduction in the share of trading taking place in these environments therefore has direct implications for the depth, robustness and representativeness of observable market prices.

At the same time, the growth of off-book trading, systematic internalisation and various forms of reference price-based execution implies that an increasing proportion of trading activity relies on prices formed elsewhere rather than contributing directly to the discovery process. From an execution perspective, many of these mechanisms provide value as complementary tools, allowing for reduced market impact or improved execution under certain conditions. However, they do so by referencing prices that originate in the lit market. As the relative weight of such mechanisms increases, the market becomes more reliant on a smaller pool of transactions to support price formation.

This dynamic creates a structural asymmetry: the segment of the market that directly contributes to price discovery could be interpreted as shrinking in relative terms, while the segment that depends on those prices is expanding. While this does not necessarily impair market functioning under normal conditions, it increases the system's sensitivity to changes in liquidity provision on primary price-forming venues. If the depth or resilience of lit markets were

to deteriorate further, the quality and stability of reference prices used across the broader market could be affected.

From a resilience perspective, this shift also has important implications. Continuous lit markets provide firm, immediately accessible liquidity and play a critical role in absorbing imbalances and facilitating price adjustment, particularly in periods of market stress. By contrast, a growing share of liquidity is now conditional, episodic or dependent on bilateral interaction, including periodic auctions, internalisation and negotiated trades. Such liquidity may not react in the same way under stress conditions and may withdraw or become less accessible precisely when it is most needed. Consequently, a decline in the relative importance of continuous order books could reduce the overall resilience of the market, even if aggregate measures of liquidity appear unchanged.

The implications of this trend for price formation become more pronounced if it persists or accelerates. A continued decline in CLOB activity could lead to a situation where price discovery becomes concentrated in an increasingly small subset of transactions or venues, raising questions about the representativeness and robustness of the resulting prices. At the same time, the growing reliance on reference price-based execution mechanisms could amplify any weaknesses in the underlying price formation process, potentially leading to wider dispersion in execution outcomes or reduced confidence in market prices during periods of stress.

This dynamic implies that the market is becoming increasingly dependent on a shrinking base of price-forming liquidity. If this trend persists or accelerates, it could weaken the robustness of price discovery and the resilience of market functioning.

There are also potential implications for market participation and competition. If price formation becomes concentrated in fewer venues while liquidity provision becomes more segmented across bilateral or protocol-driven channels, the ability of participants to access meaningful liquidity on equal terms may be affected. This could, over time, influence the incentives to contribute to price-forming liquidity, further reinforcing the observed trend.

Overall, these developments suggest that the observed decline in trading on continuous order books is not merely a shift in execution preference, but part of a broader structural evolution with potential consequences for the effectiveness of price formation and the resilience of market functioning. While the current market structure continues to operate effectively, the trends identified point to a gradual rebalancing between price-forming and price-referencing activity. If this trend were to persist or accelerate, it could weaken the linkage between trading activity and price discovery and increase the importance of monitoring not only the quantity of liquidity, but also its quality, accessibility and contribution to the formation of reliable market prices.<ESMA_QUESTION_MSEM_4>

Q5 As the choice of trading facility has increased, it is important for ESMA to understand why market participants are choosing the execution facilities that they do. What are the drivers that you consider most relevant when choosing on which execution venue and with which execution method to trade?

<ESMA_QUESTION_MSEM_5>

From a buy-side perspective, the choice of execution venue and method is driven by a combination of execution probability at the best available price, total execution costs, market impact, timing constraints (e.g., execution speed), settlement certainty and the risk of information leakage

In practice, venue selection reflects a trade-off between execution certainty and impact. Continuous lit order books provide firm and immediately accessible liquidity, but may expose orders to adverse price movement, particularly for larger trades. Off-venue mechanisms, including systematic internalisers, midpoint execution and auctions, may reduce impact but are inherently conditional and less predictable. As a result, execution strategies are typically dynamic and involve allocating flow across multiple venues rather than selecting a single execution channel.

In addition, other relevant considerations include the availability of liquidity, latency and matching quality, ease of access (either directly or through intermediaries), the effectiveness of smart order routing systems, regulatory requirements, and the pricing and incentive models offered by different trading venues.

Regarding the access to liquidity, ewe consider that it is not uniformly accessible across market participants, particularly in bilateral or SI-based environments where interaction depends on relationships, protocols or selective distribution. This means that venue choice is, in practice, constrained by access conditions, and the effective set of available liquidity differs across participants.

The characteristics of the order itself further influence venue selection, including size, urgency and execution objective. For larger orders, market participants tend to favour SIs or alternative execution mechanisms that minimise market impact, whereas smaller or time-critical orders rely more heavily through CLOBs. <ESMA_QUESTION_MSEM_5>

Q6 What are your experiences with regard to gaining access to liquidity? To what extent are you, either directly or via a broker, able to access liquidity on relevant trading venues or relevant systematic internalisers? If not, please explain what stands in the way of gaining such access.

<ESMA_QUESTION_MSEM_6>

From a buy-side perspective, access to liquidity is generally available, either directly on trading venues or indirectly through brokers and counterparties. In practice, however, this access is uneven, conditional and highly dependent on the structure of relationships and execution protocols.

While the access to equity trading is conducted directly through CLOBs, in bond trading, however, institutions rely more on the OTC markets and observe challenges in accessing the best available price, given the lower levels of transparency regarding both pricing and the effective availability of liquidity.

Access to liquidity is most commonly achieved indirectly through brokers, with whom trading protocols are established. These arrangements allow interaction with a wide range of liquidity sources, including trading venues and systematic internalisers, often via algorithmic routing or RFQ-based workflows. This intermediation facilitates access but together with liquidity fragmentation also means that visibility, comparability and control over underlying liquidity are not always complete, making it more difficult to consistently access trading opportunities under optimal conditions and letting execution outcomes depend materially on the broker's connectivity and routing logic.

With respect to systematic internalisers, access is typically bilateral and relationship driven. In our experience, there has been an increase in direct engagement from SI firms, which are actively reaching out to provide liquidity, often through competitive pricing and execution formats such as fill-or-kill. While this indicates growing competition for order flow, it also reflects a model where interaction is selective and dependent on pre-established connections, meaning that not all market participants have equivalent access to the same liquidity at any given time.

In addition, the availability of SI liquidity is not only constrained by access but also by the internal decision-making processes of the liquidity provider. Not all order types are systematically accepted. For less liquid instruments or more complex orders, SIs may assess on a case-by-case basis whether internalising the trade is appropriate. This introduces an additional layer of conditionality and reduces the predictability of execution outcomes.

Access conditions may also differ across intermediaries. While SIs generally does not impose formal volume thresholds, some brokers apply minimum size constraints or internal thresholds

as part of their execution frameworks, which can influence which liquidity pools are effectively accessible for a given order. This further reinforces that access is not uniform and depends on how liquidity is intermediated.

More broadly, even where access exists, liquidity is often conditional rather than firm. Interaction with SI or off-venue liquidity depends on factors such as order size, timing and counterparty willingness, and therefore cannot be assumed with certainty. This contrasts with continuously available lit liquidity, where access is open and immediate, even if execution may come at a higher cost in terms of market impact.

Overall, the practical experience is that access to liquidity is mediated, heterogeneous and not equally available across participants. The existence of liquidity in reported data does not imply that it is consistently accessible or actionable in execution terms, and the reliability of access can vary significantly depending on the liquidity source, the execution method and the characteristics of the order.<ESMA_QUESTION_MSEM_6>

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

<ESMA_QUESTION_MSEM_7>

We see the recent developments in European equity market structure as conducive to some ambiguity. For one hand we have an increase of flexibility to investors, while simultaneously raising questions regarding fragmentation and price formation. Granted that the evolution of market structure has led to greater diversity of execution venues and trading mechanisms, including systematic internalisers (SIs), periodic auctions, and frequent batch auctions, these changes pose some challenges to issuers, namely on what concerns:

- Fragmentation of liquidity, as liquidity is increasingly dispersed across multiple venues and execution channels;
- Weaker price formation, as the observed decline in lit continuous trading raises concerns about the quality of price discovery. In fact, while alternative mechanisms such as auctions and off-book trading provide execution opportunities, they may not contribute equally to transparent price formation;
- Increasing use of less transparent trading mechanisms, mainly due to the growth of off-book trading.

Overall, while the evolving market structure brings certain benefits, the current trends are not unambiguously positive from an issuer's perspective. Further regulatory efforts to strengthen price formation, enhance transparency, and reduce excessive fragmentation would be

important to ensure that European equity markets remain attractive for listing and capital raising. <ESMA_QUESTION_MSEM_7>

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

<ESMA_QUESTION_MSEM_8>

The observed distribution of liquidity across EEA ISINs exhibits a heterogeneous pattern and reflects both natural differences in market capitalisation and liquidity, as well as structural features of the current market environment.

While it is expected that larger and more liquid securities concentrate a higher share of trading activity, the data also indicates that the nature of liquidity differs materially across ISINs, particularly between more and less liquid instruments.

Liquidity remains primarily concentrated in lit markets (CLOBs operated by Regulated Markets) and closing auctions, while at the same time becoming increasingly fragmented across multiple trading venues and execution mechanisms. In less liquid instruments, trading activity is often concentrated in a smaller number of transactions, with a greater reliance on block trading and broker-facilitated execution. In our experience, this is particularly evident in the Iberian market, where a significant proportion of volume in less liquid stocks is executed through block trades rather than continuous order book interaction. These trades are typically negotiated or facilitated bilaterally and therefore do not contribute to price discovery in the same way as competitive interactions on continuous order books. While such mechanisms are necessary to execute larger trades efficiently, they reflect underlying limitations in continuous liquidity provision.

In addition, there appears to be an increasing concentration of trading activity in closing auctions, again more visible in less liquid instruments. While auctions play an important and legitimate role in price formation, a higher reliance on closing auctions implies that a larger share of price discovery is concentrated in discrete time windows rather than distributed continuously throughout the trading day. Taken together with the prevalence of block trades, this suggests that a smaller proportion of overall trading activity contributes to continuous price formation, particularly in less liquid ISINs.

These dynamics also help explain the relatively high share of OTC trading observed in certain jurisdictions. In markets or segments where continuous lit liquidity is limited, market participants may rely more heavily on negotiated or broker-facilitated execution mechanisms to achieve efficient outcomes. This naturally leads to a higher proportion of off-venue trading, reflecting execution constraints rather than purely a preference for OTC transactions. While we have observed these dynamics in the Iberian market, we do not have sufficient visibility to assess whether the same patterns apply uniformly across other jurisdictions.

From a market structure perspective, these observations suggest that liquidity distribution across ISINs is not only uneven in quantitative terms, but also in qualitative terms. Less liquid instruments appear more reliant on conditional, episodic or bilateral execution mechanisms, whereas more liquid instruments benefit from deeper and more continuous price formation. This difference is important when assessing market quality, as it implies that aggregate metrics may mask meaningful variations in how effectively prices are formed across the market. Overall, the distribution of liquidity across ISINs points to a growing reliance, particularly in less liquid segments, on execution mechanisms that are either negotiated or concentrated in specific timeframes. While these mechanisms serve important functions, they do not fully substitute for continuous price discovery and should therefore be considered carefully when evaluating market functioning and identifying potential policy responses.

From a policy perspective, we consider it essential (i) to preserve the role of lit markets by ensuring sufficient critical mass to support robust price formation; (ii) to maintain a level playing field across different trading venues, avoiding regulatory arbitrage (particularly with respect to transparency requirements and execution rules); and (iii) to enhance transparency and data consolidation in order to mitigate the effects of market fragmentation and facilitate access to liquidity.<ESMA_QUESTION_MSEM_8>

Q9 What is your view on the evolution of dark trading on EU trading venues? Are there any structural shifts that you noticed, which you believe should be further monitored?

<ESMA_QUESTION_MSEM_9>

From a buy-side perspective, dark trading remains an important component of the execution landscape, particularly for managing market impact. However, its role and form has not increase significantly in recent years.

In our experience, there has been a shift away from traditional dark pool interaction toward increased use of systematic internalisers and other off-venue mechanisms. This reflects a preference for more immediate and predictable execution outcomes, including mechanisms such as fill-or-kill, as opposed to passive matching in multilateral dark venues where execution certainty is lower. As a result, activity that was historically associated with dark trading is increasingly taking place outside traditional on-venue dark pools.

This suggests a broader structural shift whereby dark trading is no longer confined to specific venues but is instead distributed across a range of execution models, including SI interaction, bilateral trading and auction mechanisms. These execution channels often share similar characteristics in terms of reduced transparency and reliance on reference prices, but differ in terms of accessibility, conditionality and execution certainty.

A further shift relates to the nature of liquidity itself. Dark trading is increasingly associated with conditional and episodic execution, rather than continuous interaction. This reflects the broader trend toward execution models that prioritise impact reduction and execution control, but which rely on prices formed elsewhere rather than contributing directly to price discovery.

Nevertheless, it is expected continued monitoring of these trading mechanisms and their implications for price formation in order to ensure their transparency and efficiency. In particular, the substitution between traditional dark venues and SI-based or bilateral execution should be viewed in the context of its impact on market transparency, interaction between participants and the distribution of trading across price-forming and price-referencing mechanisms. While these alternative channels provide valuable execution tools, they also contribute to a fragmentation of liquidity and a reduced share of trading taking place in fully multilateral environments.

Overall, the evolution of dark trading appears less as a change in the overall demand for non-impactful execution, and more as a shift in how such execution is achieved, with increasing reliance on internalisation and conditional liquidity.

<ESMA_QUESTION_MSEM_9>

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

<ESMA_QUESTION_MSEM_10>

The integrity of the price formation process should be safeguarded, and the various execution mechanisms should be continuously monitored as well as the evolving characteristics of liquidity and how it is accessed and measured. A key issue is the increasing reliance on liquidity that is conditional, bilateral or episodic, and that does not directly contribute to price discovery. The growth of systematic internalisation, off-venue execution and auction-based trading, combined with the decline in continuous order book activity, implies that a smaller share of trading takes place in environments that support competitive and continuous price formation. While these mechanisms offer clear execution benefits, they rely on prices formed elsewhere, creating a structural dependence on a limited pool of price-forming activity.

A second concern is that commonly used metrics do not fully reflect execution reality. Measures such as “addressable liquidity” or the distinction between on- and off-venue trading fail to capture differences in accessibility, conditionality and execution certainty. As a result, they may overstate both the effective availability of liquidity and the degree of competition across venues.

A third issue is the uneven accessibility of liquidity. Access to certain liquidity pools, particularly SI-based or off-venue liquidity, is often mediated, relationship-driven and subject to internal decision-making by liquidity providers. This implies that market participants do not interact with liquidity under equivalent conditions, which may affect the extent to which competition operates on a level playing field.

In addition, the evolution of dark trading functionalities raises further concerns. While traditional dark pools have become less central, similar execution characteristics (such as reduced transparency, conditional interaction and reliance on reference prices) are increasingly found across SI, bilateral and auction-based models. This suggests that traditional distinctions between dark and lit trading are becoming less representative of how liquidity is accessed in practice.

Taken together, these developments point to a structural shift toward more fragmented, conditional and less transparent liquidity, combined with a reduced share of multilateral, price-forming interaction. This dynamic implies that existing classifications and metrics may no

longer fully reflect how liquidity is provided and accessed in practice and may therefore lead to incomplete or potentially misleading assessments of market quality and competition.

In terms of regulatory considerations, these observations suggest that targeted refinements may be introduced, where necessary, also to ensure adequate transparency and a level playing field across competing trading venues and execution models. Greater emphasis could be placed on differentiating between firm and conditional liquidity, and between theoretically addressable and practically accessible interaction. It would also be important to monitor substitution effects across execution models, including the migration of activity from traditional dark venues toward SI and bilateral channels, and to assess how differences in access conditions influence effective competition.

Overall, while the market continues to function effectively, the combination of increasing fragmentation, reliance on conditional liquidity and evolving execution models indicates that current frameworks may not fully capture the practical realities of market functioning. Continued monitoring, combined with refinements to measurement and interpretation, appears warranted to ensure that assessments of market quality and price formation remain robust.

<ESMA_QUESTION_MSEM_10>

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

<ESMA_QUESTION_MSEM_11>

From a buy-side perspective, closing auctions have become an increasingly important component of the European equity market, both in terms of volume and execution relevance. We consider the growth of closing auctions to be consistent with the rationale presented, notably the concentration of liquidity at the close, which facilitates the execution of large orders with lower market impact, and the importance of the closing price as a reference for investment funds, indices, and valuation purposes. They provide a valuable mechanism for concentrating liquidity, reducing market impact and establishing a widely observed reference price, and therefore play a legitimate and central role in the market structure.

However, their growing importance has also changed the way price formation occurs over the trading day. A larger share of trading activity is now concentrated at the close, implying that a meaningful portion of price discovery takes place in discrete time intervals rather than continuously. This trend is particularly visible in less liquid instruments, where liquidity is more

limited during the day and market participants rely more heavily on auctions to achieve efficient execution. We broadly agree with the rationale presented for the growth of closing auctions, particularly the role of benchmark-driven execution. The increasing importance of passive investment strategies, including ETFs and index-tracking funds, has led to a greater emphasis on executing at the closing price. For these participants, matching the closing benchmark is a key objective, which naturally drives volume toward the auction.

At the same time, we consider that additional factors play an important role. From an execution perspective, closing auctions provide a high degree of execution certainty. This feature is particularly attractive for larger market participants seeking to manage market impact while ensuring completion of their trades. In that respect, auctions function as a reliable liquidity pool in environments where continuous negotiation may not provide sufficient depth.

In addition, higher levels of intraday volatility appear to reinforce the use of closing auctions. Market participants may prefer to defer execution to the end of the day in order to reduce exposure to intraday price movements and to trade at a consolidated reference point. This behaviour further contributes to the concentration of liquidity in the closing auction.

Taken together, these factors suggest that the growth of closing auctions reflects not only structural demand from benchmark-driven investment strategies, but also the increasing importance of auctions as a mechanism to access liquidity under conditions where continuous execution may be less efficient or more uncertain.

While this evolution brings clear benefits, it also has implications for market functioning. A greater reliance on closing auctions reduces the relative importance of continuous price formation and increases the concentration of liquidity at specific points in time. This shift may increase the sensitivity of prices to imbalances in the auction and reduce the extent to which prices are continuously formed throughout the trading day.

Overall, closing auctions remain a critical and well-functioning component of the market, but their growing role should be understood in the broader context of changing liquidity conditions and execution behaviour. In particular, the increasing concentration of trading at the close appears to reflect both demand for benchmark execution and the use of auctions as a response to the limitations of continuous liquidity provision.

Therefore, the growth of auction-based trading should be closely monitored to ensure that it does not compromise the balance of the price formation process or reduce the liquidity available during the continuous trading session.

<ESMA_QUESTION_MSEM_11>

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

<ESMA_QUESTION_MSEM_12>

From a price formation perspective, the growth of alternative closing mechanisms raises concerns regarding the fragmentation of liquidity around the close. While these mechanisms enhance competition, execution choice, potentially, lower costs for market participants and may increase competitive pressure for order flow, they also draw activity away from the primary closing auction without contributing proportionally to the formation of the closing price. This may reduce the concentration of interaction required for a robust and representative closing price. More broadly, their development reflects a substitution of execution models, where participants increasingly replicate the benefits of closing auctions outside the primary venue rather than interacting within it. This is consistent with wider structural trends observed across the market, where execution is optimised through conditional and alternative channels rather than through direct participation in multilateral price formation.

From an execution perspective, these mechanisms respond to genuine demand, offering certainty of execution, flexibility and reduced market impact. However, this efficiency gain comes with the trade-off of further dispersing liquidity at the close, potentially weakening the depth and resilience of the primary auction.

In addition, access to these alternative mechanisms is not uniform, as participation may depend on bilateral relationships, broker intermediation or specific protocols. This introduces elements of segmentation, where not all participants contribute equally to the closing price formation process.

While alternative closing mechanisms provide valuable execution tools, their growing use may fragment liquidity at the close and reduce participation in the central price-forming process. This suggests the importance of monitoring the balance between execution flexibility and the need to preserve sufficient concentration of liquidity to support effective price formation at the close.

Therefore, as previously mentioned, they should be closely monitored to ensure that they do not undermine the price discovery process or the integrity of the closing price.

<ESMA_QUESTION_MSEM_12>

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

<ESMA_QUESTION_MSEM_13>

The introduction of extended or 24-hour trading could alter execution dynamics and affect the quality of price formation and materially affect the role and effectiveness of closing auctions by altering the temporal concentration of liquidity, as the dispersion of trading activity over a longer period may increase reliance on prices formed during periods of lower liquidity. Currently, the closing auction benefits from the aggregation of liquidity at a defined point in time, which supports robust price formation. If trading activity becomes more evenly distributed throughout the day and across extended hours, this concentration may weaken. As a result, price formation could become more fragmented over time and potentially more erratic, with less interaction taking place at a single, coordinated moment.

At the same time, liquidity is unlikely to become uniformly distributed. In practice, it would still concentrate around specific periods driven by benchmark requirements and market behaviour. The closing auction may therefore remain a reference point, but potentially with reduced dominance relative to a more continuous trading environment.

This dynamic is likely to have a more pronounced impact on less liquid stocks. In these instruments, the closing auction often plays a key role in concentrating otherwise scarce liquidity. A dispersion of trading activity across extended hours could further dilute this concentration, making price formation more fragile and increasing reliance on smaller and less competitive sets of transactions.

From an execution perspective, extended trading hours offer greater flexibility, but for large or benchmark-driven flows, the need for a common reference price is likely to persist. This creates a tension between increased temporal flexibility and the continued reliance on a single price formation point.

It is important that closing auctions continue to play an essential role in establishing a reliable market reference price. This is also a highly impactful issue for the clearing and settlement of trades.

<ESMA_QUESTION_MSEM_13>

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

<ESMA_QUESTION_MSEM_14>

A structural development that warrants particular attention is the increasing internalisation of retail order flow through broker and systematic internaliser (SI) relationships.

In practice, a growing share of retail orders appears to be routed via specific counterparties rather than interacting on multilateral trading venues. While this reflects the evolution of execution models and can deliver some benefits to end investors, such as improved spreads, reduced market impact and higher execution certainty, it also changes how this flow interacts with the broader market.

In particular, the internalisation of retail flow reduces the extent to which this order flow contributes to open and competitive price formation. Instead of interacting with a wide range of participants in multilateral environments, a larger proportion of retail orders is executed in bilateral contexts, where interaction is more limited. This may reduce the degree of cross-participant price discovery and weaken the link between observed prices and the full set of market interests.

Another relevant aspect concerns the role of routing arrangements. Access to this flow is often intermediated and may depend on connectivity, execution frameworks or commercial relationships with specific liquidity providers. While these arrangements are consistent with current market design, they imply that competition for retail flow may increasingly take place through access and relationships rather than solely through price competition in transparent trading environments.

From a market structure perspective, this represents a shift from open interaction toward more segmented liquidity pools, where not all participants interact with the same flow under equivalent conditions. Over time, this may affect the distribution of liquidity across venues and the extent to which trading activity in multilateral markets reflects the full spectrum of supply and demand.

We also identified a reduction in the relative importance of CLOBs for institutional clients, increasing liquidity fragmentation, and a growing reliance on reference prices. At this stage, these developments do not necessarily warrant direct intervention, but they do suggest the need for continued monitoring. It would be relevant to assess how the internalisation and routing of retail flow affect price formation, transparency and the functioning of competition across venues, especially in the context of broader trends toward bilateral and conditional liquidity.

<ESMA_QUESTION_MSEM_14>

Q15 What is your view on the evolution of trading in FBAs on EU markets? Why are those mechanisms gaining traction in your view? Which are the benefits and shortcomings they offer? (please elaborate)

<ESMA_QUESTION_MSEM_15>

The increasing use of FBAs in European markets reflects an adaptation of market structures to the needs of participants, particularly in terms of execution efficiency, cost reduction, and the creation of additional liquidity interaction points and therefore a natural response to some of the limitations of continuous trading, particularly in terms of latency arbitrage and adverse selection. By reducing the advantage of speed-based strategies, they can provide a fairer interaction mechanism and improve execution conditions. At the same time, their development is part of a broader structural shift toward execution models that prioritise impact reduction and control over continuous interaction. In this respect, FBAs are not an isolated development but form part of a wider move toward more conditional and episodic liquidity. FBAs are a useful tool, but their growth reflects both the advantages they offer and the constraints of existing liquidity provision, contributing to a market structure that is increasingly fragmented and less centred on continuous, price-forming interaction.

However, their growth should be closely monitored to ensure that it does not undermine the role of continuous trading in the price formation process. At the same time, a level playing field should be maintained across different trading mechanisms, ensuring fair competitive conditions between regulated markets and other forms of trading.

<ESMA_QUESTION_MSEM_15>

Q16 Do you have any particular observations as regards the impact of SVC on FBAs?

<ESMA_QUESTION_MSEM_16>

From a buy-side perspective, the Single Volume Cap does not appear to have had a direct impact on FBAs, but it has likely influenced their development indirectly. Restrictions on dark trading seem to have contributed to a redistribution of order flow toward alternative execution mechanisms that offer similar low-impact characteristics, including FBAs.

In this regard, the SVC does not reduce the underlying demand for execution models that minimise market impact and information leakage but rather changes where that demand is expressed. FBAs benefit from this shift as they provide a form of interaction that, while different in structure, can deliver comparable execution outcomes for certain order types.

More broadly, this dynamic suggests that the SVC has contributed to a reallocation of trading activity across execution models without necessarily increasing participation in continuous, price-forming markets. Instead, part of the activity that may previously have taken place under dark waivers appears to have migrated toward episodic auction-based mechanisms.

From a regulatory perspective, this highlights the importance of considering the functional characteristics of execution mechanisms rather than focusing solely on venue classifications. The experience with FBAs suggests that when constraints are applied to a specific channel, activity may shift toward other models that provide similar execution benefits but are treated differently within the regulatory framework.

Overall, the impact of the SVC on FBAs can be understood as part of a broader pattern of substitution across trading models, reflecting the persistent demand for low-impact execution rather than a structural change in trading behaviour.

<ESMA_QUESTION_MSEM_16>

Q17 Are there any emerging structural shifts which you believe would warrant closer monitoring? (please elaborate)

<ESMA_QUESTION_MSEM_17>

A key emerging structural shift is the increasing role and proactivity of systematic internalisers in the execution landscape. In our experience, SIs are becoming more widespread and are actively engaging with portfolio and fund managers, offering competitive pricing, lower execution costs and higher certainty of execution. This has made them an increasingly attractive alternative to traditional execution venues from a buy-side perspective.

While this development brings clear benefits in terms of execution quality, it also reflects a broader shift toward bilateral and internalised trading. A growing share of order flow is executed through these channels rather than interacting in multilateral environments, which reduces the level of open interaction between market participants. As a result, a smaller proportion of trading contributes directly to competitive price formation.

In addition, this evolution suggests that competition in the market is increasingly taking place through the ability to attract and internalise order flow, rather than solely through price interaction in transparent venues. Access to liquidity may therefore become more dependent on relationships, connectivity and execution arrangements, leading to a more segmented market environment where not all participants interact with the same liquidity under equivalent conditions.

Overall, while the expansion of SIs reflects innovation and provides clear execution advantages, it also points to a structural shift toward more internalised, relationship-driven trading. This may increase reliance on a narrower set of price-forming transactions and warrants closer monitoring to assess its implications for market interaction, competition and price formation.

We also believe that the continuing decline of CLOB trading in European markets, which may have implications for the quality of visible liquidity and the robustness of the price formation process should be closely monitored.

<ESMA_QUESTION_MSEM_17>

Q18 What is your view regarding the contribution of FBAs to price formation and transparency? Should those mechanisms be generally considered as price forming/ non price forming or this assessment should be done on a case-by-case basis depending on the specific design of the auction? (please elaborate, supplementing your views with data evidence when available)

<ESMA_QUESTION_MSEM_18>

From our perspective, frequent batch auctions do contribute to price formation, but in a manner that is inherently different from continuous order book trading. FBAs occupy an intermediate position between price-forming mechanisms, such as CLOBs and auctions, and non-price-forming mechanisms, such as dark trading.

Their contribution is discrete and episodic rather than continuous, as prices are established only at specific auction intervals through the aggregation of available order flow. As such, while FBAs can generate meaningful price points, they do not provide the same ongoing price discovery process that characterises continuous lit markets.

In terms of transparency, FBAs offer a mixed profile. On the one hand, executed prices and volumes are typically published, contributing to post-trade transparency (i.e. higher degree of transparency than dark trading). On the other hand, the process leading to price formation is less transparent than in continuous order books, as there is limited visibility of order interaction prior to execution. This means that, although the outcome of the auction is observable, the underlying dynamics of supply and demand are less visible to the wider market. Given this intermediate position, where price formation may depend on both dark trading and CLOB activity, their impact and effectiveness should be assessed on a case-by-case basis.

From a classification perspective, it would not be appropriate to categorise FBAs uniformly as either price-forming or non-price-forming mechanisms. Their contribution to price formation depends on their specific design and on the level of participation and interaction they generate. Factors such as auction frequency, the diversity of participants, the extent of independent order flow, and whether prices are formed endogenously or primarily anchored to external references all influence their role in the price discovery process. FBAs appear to play a complementary role, facilitating execution under conditions where continuous interaction may be less effective, but contributing only partially to the broader price formation process. Their increasing use reflects demand for low-impact and controlled execution but also aligns with a broader shift toward episodic and conditional liquidity.

<ESMA_QUESTION_MSEM_18>

Q19 Please highlight any concerns/issues you may have at this stage. Do you see a need for specific regulatory interventions, particularly regarding the tick size regime and its application to transactions and periodic auctions (please provide details)?

<ESMA_QUESTION_MSEM_19>

While tick size is central to price competition in continuous markets, its role is more limited in auction-based mechanisms, where prices are determined through discrete clearing rather than incremental price improvement. In this context, tick size acts more as a constraint on the outcome than as a driver of price formation. This can reduce the precision of auction prices, for example through rounding or clustering effects, especially in less liquid instruments.

Applying the same tick size framework across fundamentally different trading models may lead a risk of inconsistent application of the regime, particularly across CLOBs, SIs and periodic auctions (FBAs). In continuous markets, tick size influences spreads and queue positioning, whereas in auctions its impact is largely indirect. This may affect comparability across execution venues and influence routing decisions.

At this stage, this does not necessarily call for a fundamental redesign of the regime, but it suggests that its application to auction-based mechanisms may warrant closer assessment.

We consider it important to clarify and harmonise the application of the tick size regime across trading venues and execution methods, to ensure that FBAs are subject to clear and consistent rules, and that the different trading mechanisms do not undermine transparency or the efficient price formation process.

<ESMA_QUESTION_MSEM_19>

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

<ESMA_QUESTION_MSEM_20>

From our perspective, trading through systematic internalisers has expanded materially and is becoming a core part of the execution landscape rather than a complementary channel. In practice, SIs are now much more proactive, directly engaging with portfolio and fund managers and positioning themselves as competitive alternatives to traditional venues.

Their growth is primarily driven by execution considerations. We consider as the most important factor: execution certainty. SIs can offer immediate interaction, often through

fill-or-kill mechanisms, which makes them particularly attractive compared to more uncertain execution in lit or dark venues. Closely linked to this is market impact: interacting bilaterally allows trades to be executed with less signalling, which is a key consideration for larger or more sensitive orders.

Price and cost also play a role. SIs are increasingly competitive on pricing and can offer tighter effective execution, while avoiding some of the explicit and implicit costs associated with trading on venues. At the same time, improvements in connectivity and the ability to access multiple SIs through brokers or direct relationships have made this liquidity easier to reach and integrate into execution strategies.

SIs are no longer passive but actively compete for order flow, approaching clients, directly and offering tailored execution solutions. This shifts competition away from purely price-based interaction on venues toward the ability to attract and internalise flow.

Overall, we see the growth of SIs as a natural response to execution needs, particularly around certainty, impact and cost. At the same time, it represents a structural shift toward more internalised and relationship-driven trading, which may increase reliance on a smaller base of price-forming activity and merits continued monitoring from a market structure and competition perspective.

<ESMA_QUESTION_MSEM_20>

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

<ESMA_QUESTION_MSEM_21>

From our experience, the overall picture broadly reflects the trends we observe in SI trading. SIs are increasingly active across a wide range of instruments and provide liquidity for both small and large trade sizes.

In practice, SIs do offer execution across different sizes, but the pricing and execution characteristics vary depending on the size of the order. Small-sized trading may be associated with retail clients, characterised by a high number of transactions with relatively low individual values, and for this pricing tends to be more standardised and closer to prevailing market levels. For larger trades, typically associated with institutional clients, involving a lower number of transactions but representing a significant share of overall trading volume, SIs typically assess opportunities more selectively, but can offer more competitive pricing, reflecting the value of capturing larger order flow and the ability to internalise risk.

As a result, there is a clear differentiation in how liquidity is provided across trade sizes. Larger trades tend to benefit from more attractive pricing and more tailored interaction, while smaller trades are executed in a more standardised manner.

<ESMA_QUESTION_MSEM_21>

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

<ESMA_QUESTION_MSEM_22>

From our perspective, price improvement by SIs is a common feature of their execution model and, in practice, it is often observed across a range of trade sizes. SIs frequently provide prices that are marginally better than the prevailing quotes on lit markets, particularly to attract and internalise order flow.

However, the extent and nature of this price improvement can vary significantly depending on the size and characteristics of the order. For smaller trades, price improvement is often systematic but minimal, typically reflecting very small increments relative to the prevailing spread. For larger trades, pricing tends to be more selective but can be more meaningful, reflecting the bilateral nature of the interaction and the willingness of the SI to take on risk.

With respect to the data analysis, while the general conclusion that SIs provide price improvement is broadly consistent with our experience, we believe that the data may not fully capture the underlying execution reality. In particular, the identification and flagging of transactions as “price improved” can be sensitive to the benchmark used, the timing of the reference price and the granularity of the measurement. As a result, observed price improvement may sometimes be overstated or not fully comparable across venues and execution models.

In addition, small increments that qualify as price improvement in regulatory terms may not always reflect a meaningful economic benefit for the client, especially when evaluated against factors such as execution certainty, market impact and overall execution quality.

<ESMA_QUESTION_MSEM_22>

Q23 Which flags do you consider important to identify certain trade related to SI trading?

<ESMA_QUESTION_MSEM_23>

The most important flag is the execution venue or SI identifier, which allows the trade to be clearly attributed to a specific SI. Equally important is the price improvement flag, which helps distinguish trades executed at prices better than the prevailing reference market. Pre-trade transparency indicators are also relevant, particularly flags that identify whether a trade was executed under conditions of limited or no pre-trade transparency. This helps distinguish SI activity from fully lit interaction and better understand the nature of liquidity provision. Another key element is the trade type and size classification, including whether a transaction is above standard market size. This provides important context, as SI activity often differs significantly between smaller and larger trades, both in pricing and execution dynamics. In addition, timestamps and reference price indications are critical to assess the context in which a trade occurred, particularly when evaluating price improvement or alignment with prevailing market conditions.

<ESMA_QUESTION_MSEM_23>

Q24 What is your view on the evolution of SI trading on the EU markets? Are there any structural shifts that you noticed, or envisage, which you believe should be further monitored?

<ESMA_QUESTION_MSEM_24>

From our perspective, SI trading has evolved from a complementary channel into a core component of the market structure. SIs have become more numerous and more proactive, increasingly positioning themselves as direct liquidity providers and competing actively for order flow.

A key structural shift is the growing internalisation of trading across multiple SIs. As more SIs capture and execute flow bilaterally, liquidity is increasingly fragmented across separate pools rather than interacting in a single multilateral environment. This reduces overall interaction between market participants and disperses order flow across different channels.

While this development is driven by some execution benefits, including competitive pricing and greater certainty of execution, it also has broader implications. The fragmentation of liquidity reduces interaction between pools and may weaken the effectiveness and representativeness of price formation, as a smaller share of trading takes place in fully multilateral environments. At the same time, competition is increasingly shifting toward the ability to attract and internalise order flow, rather than taking place through direct price interaction in transparent markets.

Looking forward, the continued growth in the number and role of SIs, and the resulting fragmentation, should be closely monitored. It will be important to assess the impact on market interaction, the robustness of price formation, and the extent to which competition remains effective across participants.

<ESMA_QUESTION_MSEM_24>

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

<ESMA_QUESTION_MSEM_25>

The main concerns relate to a set of gradual but consistent structural shifts in the market. These include the growing role of internalisation, the fragmentation of liquidity across multiple execution channels, and an increasing reliance on conditional and price-referencing trading. Taken together, these developments reduce direct interaction between market participants and concentrate price formation in a smaller share of trading activity.

In particular, the expansion of SIs and their role in internalising order flow have led to a more segmented market structure, where liquidity is distributed across separate pools rather than interacting in a single multilateral environment. While this reflects clear efficiency gains from an execution standpoint, it also reduces the depth and visibility of consolidated liquidity and may weaken the robustness of price formation.

Competition appears to be shifting from open price interaction toward the ability to attract and internalise order flow. This can make market dynamics less transparent and more dependent on access conditions, such as relationships and connectivity, which may affect how effectively competition operates across participants.

Another important concern is that current metrics and classifications do not fully capture these developments. Widely used indicators may overstate the availability and comparability of liquidity by not sufficiently reflecting its conditionality, accessibility or role in price formation.

At this stage, these developments do not necessarily warrant broad structural intervention. However, they do point to the need for continued monitoring and targeted refinement of the regulatory framework. There may be value in improving how liquidity is measured and assessed, with greater emphasis on its characteristics and contribution to price formation, rather than relying solely on volume-based indicators.

It would also be important to monitor substitution effects across execution models (e.g. decline of CLOB trading in European markets), as constraints in one area may lead to migration of activity to other mechanisms with similar functional characteristics. Ensuring consistency in how rules apply across different trading models, and assessing how access conditions affect competition, would further support a more accurate understanding of market functioning.

<ESMA_QUESTION_MSEM_25>

Q26 Have you witnessed an increase in the use of benchmark trades? If so, what are the drivers of such increase on venue and on SI?

<ESMA_QUESTION_MSEM_26>

Yes, there has been a noticeable increase in the use of benchmark trades, which in our view reflects a broader shift in investor behaviour and execution priorities.

This growth is primarily driven by the expansion of passive investment strategies and increased reliance on benchmark-based performance measurement. As more assets are managed against indices, there is greater demand to execute at reference prices such as the close or VWAP to minimise tracking error and align portfolio valuation with benchmarks. This has made benchmark execution a central component of trading strategies for a wide range of market participants.

From an execution perspective, benchmark trades also provide greater certainty and clarity of outcome, which is particularly important in more volatile environments. Participants are

increasingly inclined to concentrate execution around known reference points, rather than take on intraday execution risk.

On trading venues, this is reflected in the growing importance of closing auctions, where liquidity is concentrated and price formation aligns with benchmark needs. On SIs, the growth is driven by their ability to offer execution at or relative to benchmark prices with a high degree of certainty, often through bilateral interaction and flexible execution arrangements. This allows participants to achieve benchmark outcomes while managing market impact and execution risk.

<ESMA_QUESTION_MSEM_26>

Q27 Should the use of transactions from multiple trading venues be allowed when calculating the benchmark?

<ESMA_QUESTION_MSEM_27>

From our perspective, the calculation of benchmarks should be primarily restricted to transactions on the primary venue, provided that integrity, transparency and consistency in its calculation can be ensured.

The key reason is that benchmark prices should be based on trades that genuinely contribute to price formation through open and competitive interaction. Primary venues, in particular closing auctions and continuous order books, concentrate liquidity and reflect multilateral participation, ensuring that the resulting price is formed through the aggregation of supply and demand across the market.

Restricting the calculation to the primary venue also helps avoid circularity. A significant share of trading on other venues, including SI and bilateral transactions, is often price-referencing rather than price-forming, meaning that these trades rely on benchmark prices determined elsewhere. Including such transactions in the benchmark can therefore lead to a situation where the benchmark is partially derived from trades that already depend on it.

In addition, limiting the benchmark to primary venue transactions supports the integrity and robustness of the reference price. It ensures that the benchmark reflects genuine price discovery rather than a mix of heterogeneous trades, including conditional or negotiated executions that may not represent independent market interaction.

While this approach may reduce representativeness in terms of total trading volume and exclude some off-venue activity, it preserves the quality and reliability of the benchmark. Overall, prioritising price formation over breadth of inclusion is, in our view, more appropriate

to ensure that benchmarks remain robust and meaningful reference points for valuation and execution.

<ESMA_QUESTION_MSEM_27>

Q28 When performing benchmark trades, on how many transactions is the calculation of the benchmark trade based (on average, min, max, liquid vs. illiquid instruments)?

<ESMA_QUESTION_MSEM_28>

The number of transactions underlying benchmark trades varies significantly depending on the liquidity of the instrument.

For liquid securities, benchmark calculations are typically based on many transactions. In these cases, both intraday benchmarks such as VWAP and end-of-day benchmarks such as the closing price are supported by broad participation and high trading volumes, resulting in relatively robust and representative reference prices.

By contrast, for less liquid instruments, the number of contributing transactions can be significantly lower. Benchmark prices in these cases may be derived from a limited number of trades, particularly in closing auctions or during periods of low activity. This can lead to greater sensitivity of the benchmark to individual transactions and reduce its overall robustness.

The definition should perhaps include a minimum number of transactions, calibrated according to the liquidity of the instrument: a higher threshold for liquid instruments and a lower threshold (potentially combined with a longer observation period) for illiquid instruments, while also considering the relative contribution of different trading venues.

<ESMA_QUESTION_MSEM_28>

Q29 To what extent SI take advantage of the provision in Article 15(3) of MiFIR? Please share any data you may be informative in this context to understand the extent to which SIs use this provision.

<ESMA_QUESTION_MSEM_29>

From our experience, SIs make active use of the flexibility provided under Article 15(3), through differentiated pricing and tailored interaction with counterparties.

In practice, pricing offered by SIs varies depending on the characteristics of the transaction, most notably the size of the order and the liquidity of the instrument. Smaller trades tend to receive more standardised pricing, while larger trades are assessed more selectively and can benefit from more competitive pricing. Similarly, in more liquid instruments, SIs are generally able to provide tighter and more consistent pricing, whereas in less liquid names pricing tends to be wider and more conditional, reflecting higher risk and more limited hedging possibilities.

<ESMA_QUESTION_MSEM_29>

Q30 Would you be supportive of ESMA issuing guidance on benchmark trades? If yes, should it encompass quantifying the minimum requirements (e.g. minimum number of transactions to be included when calculating a benchmark price, minimum time period to cover).

<ESMA_QUESTION_MSEM_30>

We would be supportive of ESMA issuing guidance on benchmark trades, as this could improve consistency, transparency and comparability across market participants and execution models.

The growing importance of benchmark-driven trading, particularly linked to closing prices and other reference points, means that such benchmarks play a critical role not only for execution, but also for valuation and performance measurement. In this context, greater clarity on how these benchmarks is constructed would help ensure that they remain robust and representative of underlying market conditions.

It would be useful for guidance to address minimum requirements for benchmark construction, including the number of transactions and the time period over which they are calculated. Establishing such principles could help ensure that benchmark prices are based on sufficient trading activity and are not overly influenced by a limited number of transactions, especially in less liquid instruments where the number of underlying trades may be low.

At the same time, any quantitative thresholds should remain flexible and proportionate, considering differences across instruments, liquidity profiles and market conditions. A rigid, one-size-fits-all approach may not be appropriate, given the significant variation in trading activity between highly liquid and less liquid securities.

<ESMA_QUESTION_MSEM_30>

Q31 Does member preferencing lead to unfair outcomes for end-investors, other members or the markets? Please explain, if possible on the basis of data.

<ESMA_QUESTION_MSEM_31>

From our perspective, member preferencing does not constitute unfair treatment in a strict regulatory sense, as it operates within the current market framework and can deliver clear execution benefits. In many cases, it supports efficient matching, reduces market impact and can result in improved execution outcomes for end-investors on an individual trade basis.

However, in practice, member preferencing leads to differentiated execution conditions across participants and it may create conflicts of interest by favouring internal or external orders over those of other market participants, lead to differences in execution quality where access to liquidity is restricted, and potentially affect the price formation process.

Access to liquidity is not uniform, and pricing and execution certainty can vary depending on how participants are connected and prioritised within a given execution framework. As a result, some investors may systematically achieve more favourable outcomes than others, not because of differences in the underlying instrument, but due to differences in access and interaction conditions. In this context, while member preferencing does not inherently result in unfair outcomes for end-investors, it does lead to unequal access to liquidity and differences in execution outcomes across participants. This reflects a trade-off between execution efficiency and the level playing field, and suggests that its impact on market interaction, competition and price formation warrants continued monitoring.

<ESMA_QUESTION_MSEM_31>

Q32 To what extent do you see evidence that member preferencing extends in practice beyond jumping the queue and may also violate price priority principles?

<ESMA_QUESTION_MSEM_32>

From our perspective, there is no clear evidence that member preferencing systematically extends beyond queue priority to directly violate price priority principles. Execution frameworks continue to operate within the constraints of best execution and prevailing market rules.

<ESMA_QUESTION_MSEM_32>

Q33 Should member preferencing be (a) prohibited, (b) should there be rules restricting the practice, or (c) should nothing be done? If you suggest there should be rules (b), which rules would you suggest? Please explain.

<ESMA_QUESTION_MSEM_33>

From our perspective, member preferencing should not be prohibited, but it would be appropriate to introduce targeted safeguards to ensure that its use does not undermine market functioning. As such, option (b) appears the most balanced approach.

Member preferencing plays a legitimate role in supporting efficient execution by facilitating matching, reducing market impact and improving execution certainty. A general prohibition would therefore risk negatively affecting execution quality and liquidity provision.

However, as previously noted, preferencing can lead to differences in access to liquidity and reduce the level of open interaction between market participants. To address these effects, we consider that a few targeted measures could help ensure that its use remains consistent with the principles of fair competition and effective price formation but without causing any disruption in the possibility of using this practice.

Further transparency around interaction conditions and execution models could improve the ability of market participants and regulators to assess how preferencing operates in practice. In addition, it may be appropriate to ensure that the use of preferencing does not result in systematic outcomes that are inconsistent with price priority principles or materially restrict access to competitive liquidity.

More broadly, continued monitoring of execution outcomes and access conditions would help assess whether preferencing leads to persistent differences across participants and whether these differences have wider implications for market functioning.

<ESMA_QUESTION_MSEM_33>

Q34 What would be the consequence of prohibiting certain forms of member preferencing? Please explain, if possible on the basis of data.

<ESMA_QUESTION_MSEM_34>

Restricting or prohibiting certain forms of member preferencing would have several material consequences for market functioning.

Member preferencing plays an important role in facilitating efficient matching and reducing market impact by allowing interaction within defined counterparties. Limiting this flexibility would increase the exposure of orders to the market, potentially leading to reduced execution certainty and less favourable pricing, particularly for larger or more sensitive trades.

In addition, liquidity providers may become more cautious in their pricing and willingness to commit capital if they are not able to control how their liquidity is accessed and interacted with. This could result in wider spreads and reduced depth, offsetting some of the potential benefits of increased transparency.

It is also important to consider potential substitution effects. Restricting preferencing in one context may lead to a reallocation of activity toward other execution models or channels where similar outcomes can be achieved, without necessarily increasing the share of fully price-forming interaction.

<ESMA_QUESTION_MSEM_34>

Q35 Are you aware of other similar and common practices, for example on RFQs, where on venue competition is limited to the detriment of other investors or members? Please explain, if possible with data.

<ESMA_QUESTION_MSEM_35>

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<ESMA_QUESTION_MSEM_35>

Q36 Do you agree with the above three approaches?

<ESMA_QUESTION_MSEM_36>

We broadly agree with the three concepts outlined as it establishes a clear distinction between them and consider that they provide a useful framework to analyse the nature of liquidity and trading activity across different execution models.

In particular, the distinction between addressable liquidity and transactions that do not contribute to price formation is relevant in understanding how trading activity supports market interaction and price discovery. Similarly, identifying transactions executed under conditions other than the prevailing market price allows for a clearer assessment of execution models that are not directly driven by immediate supply and demand.

At the same time, in practice, the boundaries between these categories are not always clearly defined. Transactions that are technically addressable may, in reality, be subject to various conditions, such as access limitations or bilateral interaction, which reduce the extent to which they contribute to open competition. Likewise, some non-price forming or condition-based transactions still rely on prices formed elsewhere and therefore remain indirectly linked to the broader price formation process.

The usefulness of this distinction depends also on the consistency and quality of transaction reporting, particularly the correct flagging of transactions, including negotiated transactions of the third type (NT3).

For these reasons, while the proposed classification is a useful analytical tool, it would be important to ensure that its application reflects the practical characteristics of trading activity, including the degree of effective accessibility and interaction underlying each type of transaction.

<ESMA_QUESTION_MSEM_36>

Q37 Do you agree with this first part of the table on addressable liquidity and price forming?

<ESMA_QUESTION_MSEM_37>

We broadly agree with the classification of transactions executed under the NT3 waiver and flagged as NPFT as non-price forming, as long clear application criteria is established. These transactions are, by design, not the result of continuous interaction between supply and demand and therefore do not directly contribute to price discovery.

<ESMA_QUESTION_MSEM_37>

Q38 Do you agree with this second part of the table on addressable liquidity and price forming?

<ESMA_QUESTION_MSEM_38>

We broadly agree with the classification of these transactions as non-price forming. Benchmark, portfolio and contingent trades are not the result of continuous and competitive interaction in the market and therefore do not directly contribute to price discovery.

We also agree in principle that benchmark and portfolio trades can be considered as forms of addressable liquidity, as they may be subject to competition between different counterparties and can, in many cases, be executed with more than one liquidity provider.

<ESMA_QUESTION_MSEM_38>

Q39 Would you consider that some benchmark transactions should be classified as non-addressable and non-price forming? If so, provide a clear description of the case and rationale.

<ESMA_QUESTION_MSEM_39>

While benchmark transactions are generally classified as addressable liquidity but non-price forming, there are cases where their effective addressability may be limited in practice.

This can arise where benchmark trades are agreed in advance with a specific counterparty and executed at a reference price, such as the closing price or a Volume-Weighted Average Price (VWAP). In such cases, although other counterparties could theoretically provide liquidity, the transaction is not meaningfully exposed to broader competition.

Similarly, where benchmark trades are executed within a restricted set of counterparties, access to the flow is limited in practice, even if more than one liquidity provider could in principle be involved. This reduces the degree of effective interaction compared to what would be expected in a fully open environment.

In these cases, benchmark trades remain non-price forming, but their classification as addressable liquidity may overstate the extent to which they are genuinely accessible to the wider market.

This suggests that, while the conceptual distinction is valid, the notion of addressability may benefit from considering the degree of effective exposure to competition in practice.

<ESMA_QUESTION_MSEM_39>

Q40 Do you agree with this third part of the table on addressable liquidity and price forming?

<ESMA_QUESTION_MSEM_40>

We broadly agree with the approach taken in this part of the table, particularly the distinction between addressable liquidity and price forming.

<ESMA_QUESTION_MSEM_40>

Q41 Do you agree that all transactions without a flag should be considered addressable liquidity and price forming?

<ESMA_QUESTION_MSEM_41>

We broadly agree that transactions without a specific flag can, as a general rule, be considered as addressable liquidity and price forming. In most cases, such transactions occur in trading environments where prices are determined through interaction between participants and where, in principle, liquidity is accessible to a broad set of market actors. However, the absence of a flag does not necessarily guarantee that the transaction reflects fully open and competitive interaction, as the degree of effective accessibility and price discovery may vary in practice.

<ESMA_QUESTION_MSEM_41>

Q42 Do you agree with this fourth and last part of the table on addressable liquidity and price forming?

<ESMA_QUESTION_MSEM_42>

We broadly agree with the approach taken in this part of the table, because it provides a more robust synthesis than previous approaches and enhances the ability to analyse market structure. However, careful attention should be paid to data quality.

<ESMA_QUESTION_MSEM_42>

Q43 Do you agree with the approach on the combination of flags in the case of addressable liquidity?

<ESMA_QUESTION_MSEM_43>

We agree with the proposed approach whereby, in cases of combined flags, the classification indicating that a transaction is not addressable should prevail.

This hierarchy is appropriate as it ensures a conservative and consistent interpretation of addressability. Where a transaction exhibits characteristics that limit its accessibility, such as conditionality or restricted interaction, these features should take precedence over other attributes that might otherwise suggest broader accessibility.

<ESMA_QUESTION_MSEM_43>

Q44 Do you agree that intragroup transactions executed by SIs should not constitute addressable liquidity and therefore, could be flagged (i.e. a new flag in RTS 1 could be added to disentangle those transactions)? Do you agree that intragroup transactions executed by SIs should be classified as non-price forming?

<ESMA_QUESTION_MSEM_44>

We agree that intragroup transactions executed by SIs should not be considered as addressable liquidity.

Such transactions typically occur within the same group and do not involve genuine interaction with external market participants. As a result, they do not provide an opportunity for other investment firms or clients to participate or compete in the transaction. Classifying them as addressable liquidity would therefore overstate the extent to which they contribute to accessible market liquidity. Introducing a dedicated flag to clearly identify these transactions would be beneficial to improve transparency and allow for a more accurate assessment of market activity.

We also agree that intragroup SI transactions should be classified as non-price forming. These trades are generally not the result of competitive interaction between independent buyers and

sellers but rather reflect internal allocation or risk management decisions within a group. Consequently, they do not contribute meaningfully to the price discovery process.

<ESMA_QUESTION_MSEM_44>

Q45 Do you believe that other transactions should be flagged and excluded from the calculation of addressable liquidity (i.e. a new flag in RTS 1 should be added to disentangle those transactions)?

<ESMA_QUESTION_MSEM_45>

We consider that additional flagging could improve the robustness of the classification of addressable liquidity, particularly in cases where transactions are formally treated as addressable but are not effectively exposed to competitive interaction in practice. However, their implementation should be aimed at improving data quality without compromising practical usability.

Transactions that are pre-arranged or negotiated bilaterally in advance may warrant further differentiation. In such cases, although the trade may follow standard reporting conventions, the counterparty is effectively predetermined, and the transaction is not meaningfully exposed to broader market participation. Including such trades within addressable liquidity may therefore overstate the extent of accessible liquidity.

Similarly, certain forms of internal matching or internal crossing, where transactions are executed within a restricted execution framework or without exposure to external counterparties, may also limit effective access. While these transactions may not fall under existing categories that explicitly capture restricted interaction, they do not reflect genuinely addressable liquidity from a market-wide perspective.

<ESMA_QUESTION_MSEM_45>