

Building more liquid and efficient markets

Introduction

The Chair emphasised the need to build more liquid, deep and efficient securities markets in the EU in order to unlock investments and strengthen Europe's competitiveness and strategic autonomy, which are the central objectives of the Savings and Investments Union (SIU) initiative. Achieving these objectives requires deeper, simpler and more integrated capital markets, with stronger equity financing and greater retail participation. Despite significant reforms over the past decade through initiatives such as MiFID II, EMIR and the CMU agenda, European markets remain fragmented, with a significant share of equity trading taking place in non-lit venues, while fixed income markets remain largely OTC and retail participation remains relatively low.

This objective of further strengthening and integrating EU capital markets has gained renewed momentum with the Market Integration and Supervision Package (MISP) proposal, which includes several key trading-related measures to address these challenges, notably the expansion of consolidated tapes, open access provisions, interconnectivity measures in the post-trading space and enhanced reporting requirements, as well as proposals related to the supervision of significant cross-border trading and post-trading infrastructures, including the potential development of a Pan-European Market Operator (PEMO) status for groups of trading venues operating across the EU.

1. State of play of European securities markets

1.1 Limited size and liquidity of European markets despite strong fundamentals

A policymaker stated that European capital markets are broadly well-functioning but remain underdeveloped in terms of size, liquidity and depth compared to global peers. Market size remains comparatively low, with equity market capitalisation at 73% of GDP in 2024, compared to 130% in the UK and 270% in the US. Issuance activity also underperforms, with the EU averaging 107 IPOs annually between 2015 and 2024, compared to 360 in the US, a gap larger than suggested by the relative size of the economies. Following a temporary uptick during the Covid period, listings in Europe have declined over the past decade, while remaining broadly stable in the US and increasing significantly in Asia-Pacific.

An industry speaker agreed that, overall, European markets function well, with significant daily trading

volumes at around EUR 92 billion and a majority of activity (approximately 60%) taking place on lit venues, supporting effective price discovery. Recent geopolitical instability has accelerated structural shifts in global markets, with investors and issuers increasingly viewing the EU as a relative safe haven, driving a reallocation of capital towards European markets and potentially supporting listing activity.

A regulator observed that European capital markets benefit from strong fundamentals including high savings, robust financial institutions and significant expertise. However, they remain insufficiently developed to fully meet financing needs for innovation, the green transition and strategic industries, with structural frictions contributing to weaker IPO activity and broader market inefficiencies.

Evidence drawn from the Dutch capital markets, which may be illustrative of broader European trends, shows that while trading activity is increasingly integrated across Europe, liquidity provision remains concentrated among a small number of firms and post-trade infrastructure remains fragmented, limiting the efficient pooling of liquidity across the single market. A small number of trading firms dominate price formation, with the top three firms quoting the best price around 60% of the time and the top five around 80%. In practice, this means that only a limited number of participants are setting the prices at which others trade, which may reduce competition in price formation and, over time, lead to wider spreads and higher trading costs for investors.

A second industry speaker added that recent data indicate that spreads (i.e. the difference between the best buy and sell prices, commonly used as a measure of price quality) and market depth (i.e. the volume available for trading at the best price) have remained stable or improved across major European markets since 2018, with primary exchanges continuing to play a leading role in price formation and liquidity provision.

A third industry speaker highlighted the diversity of market conditions across the EU, pointing in particular to the Nordic markets as an example of strong IPO and secondary issuance activity supported by significant retail participation, which contributes positively to price formation.

1.2 Evolving trading dynamics at domestic and EU level

An industry speaker noted that no significant shift towards OTC or systematic internalisers (SI) trading has been observed at the EU level in recent years, with off-exchange bilateral volumes remaining broadly stable at around 30–35% of total trading. The decline in order book trading has mainly been driven by the growth of other multilateral mechanisms, such as dark pools,

closing auctions and periodic auctions. This reflects both the rise of passive investment and investor demand for a wider range of execution options, but results in reduced transparency. In periods of heightened volatility, trading tends to revert to lit order books however, as investors seek greater execution certainty, although non-displayed and bilateral channels remain important for executing large or sensitive orders. These developments highlight the importance of strong and stable central limit order books, robust market infrastructures and the preservation of investor choice to support efficient price formation and innovation.

A second industry speaker cautioned that the fact that order book quality has not materially deteriorated since MiFID II should not be seen as satisfactory, noting that evidence from Nordic markets points to widening spreads and lower order book depth. In addition, the increasing opacity of European markets is concerning, as a growing share of liquidity is no longer visible to all participants. The increased use of mechanisms such as batch and periodic auctions contributes to fragmentation and reduces the transparency of price formation. In addition, in some markets, such as the Nordics, rising volumes executed through bilateral and non-displayed channels, including SIs, further accentuate this trend. This shift leads to a greater use of midpoint matching, where trades are executed at prices derived from lit market quotes without participating directly in the price discovery process. As a result, lit markets reflect only a partial view of supply and demand, weakening price discovery.

The industry speaker added that the current market structure creates incentives towards dark and bilateral trading, further reducing the visibility of liquidity in secondary markets and weakening price discovery. This may also undermine the attractiveness of European IPO markets, potentially encouraging companies to list in the US, where market liquidity is stronger. A further emerging global trend is the extension of trading hours, which may dilute liquidity across a longer trading day and raise challenges for maintaining consistent and robust price formation.

A policymaker noted that the evolution of execution patterns warrants close monitoring, given the mixed evidence on the evolution of lit and non-lit trading and on the possible shift towards SIs at the aggregate EU level.

1.3 Concentration of trading at market close driven by passive investment

An industry speaker explained that the growing importance of closing auctions, accounting for up to 30–35% of total volumes on certain days, reflects the rise of passive investment strategies, which seek to match closing prices and concentrate trading at the end of the day. This highlights the need for exchanges to handle such volumes in a resilient and stable manner.

A second industry speaker further noted that while passive investment lowers entry barriers and reduces costs for retail investors, it does not directly support IPO activity, highlighting the need for a balance between passive and active investment.

A regulator added that, in the Dutch market, price discovery is also increasingly shifting towards closing auctions, with an increase of around 10 percentage points since 2022 in line with broader European trends.

A third industry speaker observed that the concentration of trading volumes at the end of the trading day is a longstanding feature of European markets, reflecting the demand of market participants and particularly institutional investors for greater price certainty and predictability. The consolidated tape is expected to enhance price visibility throughout the trading day, thereby supporting a more even distribution of liquidity and reducing reliance on end-of-day concentration.

1.4 Fragmentation of EU capital markets

A policymaker highlighted that fragmentation of liquidity is a key structural issue in European capital markets, both across trading venues and along national borders. The high number of execution venues and SIs (341 trading venues and 167 SIs in total) results in smaller and less liquid markets than international peers, particularly the US, where liquidity is more concentrated. This fragmentation contributes to a higher cost of capital for issuers and reduces the attractiveness of public listings. Post-trading fragmentation further exacerbates these challenges, as inefficiencies in clearing and settlement increase operational complexity, limit cross-border participation and prevent the effective pooling of liquidity within a genuine single market.

An industry speaker identified fragmentation as the central structural issue affecting the liquidity and depth of EU securities markets, both in trading and post-trading, with a large number of trading venues, CCPs and CSDs operating across the EU. Fragmentation however primarily lies within domestic markets rather than across national markets, as shown by a recent Oliver Wyman report, with liquidity split between lit venues, dark pools and SIs.

A second industry speaker added that limitations in post-trade connectivity, particularly among CSDs, make it more difficult for funds, including ETFs, to access and invest in securities across different EU markets, thereby constraining their efficient pan-European activity.

A regulator noted that a significant share of trading activity in Europe is already conducted on a cross-border basis, as illustrated by the Dutch market, where only 17% of trading in Dutch large cap equities is carried out by domestic firms. However post-trade infrastructures remain largely organised along national lines. This post-trading fragmentation increases costs and prevents the efficient pooling of liquidity across the single market.

Another regulator emphasised that the original rationale behind past reforms of secondary markets, remain valid and should be preserved. These reforms were designed to support a diversity of trading mechanisms tailored to different asset classes and investor preferences in terms of price, speed of execution and market impact, while fostering competition. The prevailing perception that liquidity fragmentation is detrimental to the attractiveness of primary markets

should be examined carefully. Empirical evidence from the Portuguese equities market shows that fragmentation between 2020 and 2025 coincided with higher overall trading volumes across all stocks and benefitted all types of trading venues, notably MTFs and SIs, without leading to a significant shift from lit to dark trading. Broader participation across trading venues and increased market interest were also observed, including new buy-side and sell-side participants, as well as a rise in active short sellers. Fragmentation can therefore have positive effects on market attractiveness and liquidity, even if activity is distributed across multiple venues. However, the unintended consequences of these evolutions should be carefully assessed in order to identify areas where further action may be needed.

2. Impact and limitations of current regulations

2.1 Importance of progressing the SIU

A policymaker highlighted that the SIU is a critical initiative to enhance the liquidity and depth of European capital markets. It represents a new policy concept, rather than a simple rebranding of the CMU, and now requires effective implementation with no room for complacency. Past legislative negotiations have often diluted ambition through the accumulation of national adjustments, resulting in overly complex frameworks. Delivering on the SIU will therefore require clear and sustained political commitment to translate its policy objectives into concrete outcomes, without which Europe risks missing a critical opportunity to strengthen its capital markets.

An industry speaker emphasised that the current geopolitical environment, marked by heightened uncertainty and weaker economic growth in Europe compared to the US, also reinforces the urgency of advancing the SIU in order to support Europe's strategic autonomy. The actions proposed to strengthen the demand side, notably through initiatives on supplementary pensions and savings and investment accounts are also positive. In this context, the Council's call to rapidly advance key SIU initiatives is welcome, but it is essential to ensure that this political momentum translates into concrete results.

Another industry speaker added that strengthening secondary markets and improving the quality of price formation should also be key objectives of the SIU.

2.2 Addressing level playing field issues

An industry speaker emphasised that the current regulatory framework under MiFID does not provide a genuine level playing field between trading venues. In particular, midpoint matching is subject to stricter regulatory constraints when performed by exchanges (through the reference price waiver regime and associated volume-cap rules), than similar activity conducted by SIs. In addition, while SIs were initially conceived primarily for large or specific bilateral transactions, their use has expanded to smaller and

retail orders, suggesting the need to reassess aspects such as order-size thresholds, tick-size regimes, price-improvement requirements and transparency obligations, in order to restore fair competition and improve overall market transparency.

The industry speaker further noted that venues performing comparable activities should be subject to similar rules, which is not currently the case under MiFID II. This does not imply limiting investor choice or forcing all trading into central limit order books but rather aligning the regulatory treatment of similar activities to ensure fair competition. The competitive advantage currently enjoyed by SIs can be illustrated by the ban on payment for order flow (PFOF), which led to a migration of volumes towards these bilateral execution channels. In the absence of a genuine level playing field across the large number of execution venues operating in Europe, on-going reforms are unlikely to deliver effective outcomes.

Another industry speaker agreed on the importance of ensuring a level playing field across trading venues, so that all liquidity channels can compete on fair terms and support innovation. A review of the rules governing midpoint trading may be needed to allow exchanges to also benefit from this execution mechanism. Midpoint pricing is particularly attractive to the buy side, as it offers improved execution prices, helping to explain the development of SI trading and periodic auctions in response to demand for better pricing conditions.

A regulator concurred that the consistent application of core parameters, such as tick sizes and execution rules, across different trading venues and mechanisms is essential to ensure a genuine level playing field.

3. Expected impact of the MISP on securities market liquidity and efficiency

3.1 Key objectives of the MISP and expected benefits

A policymaker presented the MISP as a coherent package of interdependent measures aimed at removing structural barriers and addressing fragmentation across trading and post-trading segments, in order to improve the efficiency and integration of European capital markets. Fragmentation remains a defining feature of European markets and requires coordinated action across the entire value chain.

In the trading space, the absence of harmonized rules for regulated markets limits integration. The MISP therefore proposes measures to facilitate the operation of cross-border groups of trading venues, notably through the introduction of a new PEMO status, aimed at fostering a more integrated market environment and facilitating the pooling of liquidity across venues and streamlined membership procedures to improve access for market participants.

In the post-trading area, the MISP introduces measures to strengthen interconnectivity between financial

market infrastructures and facilitate cross-border clearing and settlement. These measures aim to improve direct market access for intermediaries, reduce cross-border settlement costs and support the development of a more unified pool of liquidity. Enhanced connectivity between CSDs, while potentially involving short-term implementation costs, is expected to generate long-term efficiency gains and economies of scale, by supporting more seamless cross-border transactions.

An industry speaker expressed strong support for the MISP, which demonstrates political commitment to strengthening and integrating European capital markets in order to support the financing of the real economy. Its success now depends on effective implementation and on reducing remaining frictions in market functioning, including operational and tax-related barriers. The package as a whole is expected to strengthen liquidity in Europe, with components that are mutually reinforcing. Particular importance should be attached to post-trade reforms, notably the simplification and streamlining of the regulatory framework and stronger interconnectivity between CCPs and CSDs. On the trading side, the MISP is also expected to strengthen major European market infrastructures, enabling them to compete more effectively with US and Asian peers and attract global issuers and investors.

Another industry speaker also welcomed the MISP proposals aimed at strengthening post-trade integration and cross-border competition as a means to facilitate access to European markets.

3.2 Remaining gaps and challenges in the MISP approach related to trading

An industry speaker highlighted that the MISP should go further in addressing the growth of bilateral and dark trading, identifying this as a key gap in the current proposals. Previous reforms under MiFID II were insufficient to correct these dynamics. Stronger incentives for trading on lit markets are needed, alongside clearer boundaries between SIs and multilateral venues that play a primary role in price formation, in order to ensure that a sufficient share of trading remains visible to the market and supports robust price formation. Structural imbalances that favour bilateral execution should also be addressed, while preserving the flexibility needed to handle large or sensitive orders that cannot easily be executed in open markets. Simplifying cross-border access and reducing regulatory burdens are further priorities to support more integrated, efficient and competitive European capital markets.

Another industry speaker similarly pointed to the need to reassess the overall market structure, noting that a recent letter from the E6 emphasised the importance of strengthening transparency in equity markets and achieving a more balanced and efficient trading landscape, including between lit and non-lit trading. However, while fragmentation is widely recognised, further reflection is needed as the MISP does not yet provide clear mechanisms to effectively reconcentrate liquidity across trading venues.

The industry speaker also questioned the approach to the consolidated tape in the MISP, stressing that priority should be given to implementing the framework agreed in the previous legislative cycle and learning from its initial deployment before introducing further changes, in order to ensure an appropriate sequencing of reforms.

A regulator added that incentivising deeper liquidity pools requires removing barriers to the consolidation of fragmented liquidity, in particular by reducing the cost of going public and better communicating the benefits of public listings to potential issuers.

3.3 Conditions for an effective implementation of MISP

A regulator emphasised that regulatory stability should guide discussions on the MISP. While the MISP package and the broader SIU agenda are relevant, repeated rule changes should be avoided, as they impose significant adaptation costs on market participants without necessarily generating commensurate benefits. New measures proposed should be subject to an effective competitiveness test to ensure that they can strengthen markets without creating unnecessary regulatory burdens.

An industry speaker added that policy decisions affecting market structure should be based on robust data and a clear understanding of market dynamics. Preserving the strong market infrastructures in the EU, maintaining investor choice and avoiding unnecessary fragmentation are key objectives to pursue to support innovation and attract investment from European and international investors.

The industry speaker further cautioned against relying on blunt regulatory restrictions or hard caps, noting that past microstructure reforms have often imposed significant adaptation costs on the industry without materially improving liquidity or increasing lit trading. The MiFID dark pool caps are an example of this, as dark market share increased following their introduction. Future reforms should therefore be carefully designed to avoid unintended consequences and should prioritise incentive-based approaches that support innovation in lit venues and choice, rather than banning or limiting specific forms of trading.

Another regulator suggested that the MISP should be preserved as a coherent package. Standardisation, harmonisation and improved access to market data with the consolidated tape are key priorities, alongside stronger data centralisation and more centralised supervision.

An industry speaker highlighted the growing importance of data-driven policymaking, with regulators increasingly relying on industry evidence and data sharing to ensure that policy decisions enhance competitiveness relative to the US and Asia. The consolidated tape acting as a "single source of truth" is a key tool to improve liquidity by enhancing price transparency, providing a comprehensive view of market activity, and showcasing the depth and vibrancy of European markets to global investors.