Securities trading: fragmentation, future trends and MISP implications

1. Evolution of the European securities trading markets

The Chair explained that European securities markets are evolving rapidly, driven by technological innovation, changing investor behaviour and regulatory developments, including the MiFID review and the proposed MISP package. Trading is increasingly distributed across different execution mechanisms, including continuous lit order books, closing and periodic auctions, systematic internalisers (SIs) and other non-lit execution methods. Developments such as algorithmic and AI-driven trading, extended trading hours, passive investment and the transition to T+1 settlement could further change how liquidity is formed, accessed and distributed across European markets.

1.1 Main trends in market structure and liquidity distribution

A regulator reported that ESMA's first assessment of European equity market structure based on transaction-reporting data indicates that markets continue to function well, although some developments merit closer attention. Between 2022 and 2025, addressable liquidity, meaning trading activity potentially accessible to other market participants, remained broadly stable at around 85–90% of total turnover (value of securities traded over the period), with on-book trading accounting for approximately 75–80%. However, liquidity is increasingly redistributed across different execution mechanisms: continuous lit order-book trading (CLOB) is declining, while closing, intraday and frequent batch auctions are gaining ground. Frequent batch auctions involve repeated auctions during the trading day, each lasting only milliseconds. SI activity has doubled from approximately 5% to 10% over four years, with numerous small transactions alongside larger transactions concentrated among relatively few firms. Dark trading remained broadly stable, at around 4.5 to 5% of turnover.

An industry speaker confirmed the decline in continuous lit trading and growth in frequent batch auctions and off-order-book SI activity. Closing-auction volumes are rising, a global trend highlighted in a recent IOSCO report and partly driven by passive investing. However, the overall balance between on-book and off-book trading remains broadly stable; it is the execution mechanisms within these categories that are changing.

Another industry speaker agreed that European equity markets currently function well both for institutional and retail investors, while stressing the need to continue monitoring their performance.

Another regulator observed substantial differences between national markets. Approximately 90% of trading liquidity in Poland is concentrated on its primary exchange, compared with around one-third in Austria. Warsaw's stock-market capitalisation has grown more strongly than Vienna's. In 2019, it was 13% higher than Vienna's, a difference that has widened to 49% in 2026. This suggests that marginal trading-cost advantages associated with more diversified trading arrangements are not necessarily decisive for market development.

1.2 Drivers of change in trading patterns

An industry speaker attributed changes in trading patterns to technological innovation, the growing importance of information-driven trading, changes in the types of market participants and best-execution rules, which require investment firms executing client orders to seek the best possible outcomes when choosing how and where to execute them. In increasingly sophisticated and information-driven markets, large client orders executed on lit order books are often divided into smaller orders during the day, potentially creating signals that other participants can detect and use to move prices against the client. Alternative mechanisms, despite sometimes offering less pre-trade transparency, can reduce information leakage and market impact, delivering better execution outcomes.

A second industry speaker emphasised the role of investor needs in driving changes in trading patterns. As buy-side investors become more sophisticated, they seek complementary execution methods. Continuous lit trading through CLOBs remains essential where an open, competitive market can provide suitable execution without undue market impact, but SIs and other execution mechanisms can be more appropriate for sensitive or larger orders, or when immediate execution certainty is important. These execution mechanisms play complementary roles, with investor demand influencing where liquidity is provided. Shifts in trading volumes between execution mechanisms should therefore not, in themselves, justify regulatory intervention. To develop deeper liquidity pools in Europe, in line with the SIU's objectives, the priority is to ensure that the range of execution mechanisms continues to meet investor needs while preserving the role of CLOBs in effective price formation and maintaining overall market quality.

A third industry speaker observed that frequent batch auctions have grown rapidly from a zero base by serving previously unmet investor needs, complementing rather than replacing CLOBs. It is natural that the CLOB model, introduced nearly 60 years ago, should be supplemented by newer execution mechanisms addressing different investor needs.

2. Implications of market trends for market quality and competitiveness

The Chair framed the central question as whether European markets deliver deep, resilient liquidity, effective price formation, high-quality execution, transparency and efficient access across the EU.

2.1 Competition and choice

A regulator explained that respondents to ESMA's call for evidence on European equity market structure largely agreed on the observed market trends, but disagreed on the interpretation of some evolutions. Some considered the changes to be a natural consequence of competition and evolving investor demands; others saw threats to price formation and liquidity access. Two topics were particularly controversial. Concerning SIs, sell-side firms and market makers regarded their growth as a natural evolution, whereas trading venues and investor representatives questioned whether SIs compete on a level playing field. Views on frequent batch auctions also differed: some respondents were favourable or neutral, while others including certain trading venues and academics suggested closer examination.

An industry speaker considered that successive reforms have enabled European equity markets to deliver greater competition and choice, reducing explicit trading costs and improving end-investor outcomes. These benefits also attract additional liquidity and can support healthier IPO pipelines.

Another industry speaker agreed that the development of competition has contributed to the strength of European equity markets. Trading volumes rose by 23% in 2025, a record year, with an even higher level expected in 2026. Strong market performance is also helping drive trading activity, illustrated by European bank stocks gaining 64% in recent months, compared with 10% for the US Magnificent Seven, reflecting renewed interest in European equities amid global instability. The diversity of European trading platforms helps accommodate and manage these growing volumes.

2.2 Fragmentation and European capital market attractiveness

An industry speaker cautioned that despite substantial aggregate liquidity across European trading venues, its fragmentation raises concerns about achieving the objectives of the SIU. Looking five to ten years ahead, tokenised shares, contracts for difference (CFDs) and other derivative-like products replicating underlying returns could further increase fragmentation. In such a context, tokenised shareholdings should be recorded on-chain or in central depositories to preserve issuers' visibility and control over their shareholder bases and proxy voting rights, while limiting further fragmentation.

Another industry speaker considered that what some regard as fragmentation can also be seen as competition, and that the current degree of fragmentation in Europe is not a cause for concern. The US market is considerably more fragmented than the EU in terms of trading activity: OTC trading reached 52% in summer 2025, compared with approximately 20% in Europe after excluding clearing transactions and technical trades. The main European primary exchanges also retain larger shares of trading in their own stocks, around 50%, compared with 20 to 30% for the major US exchanges. European equity trading consequently remains more centred on primary exchanges than in the US.

2.3 Price formation, market liquidity and the role of primary markets

An industry speaker expressed concern about the migration of trading away from lit venues, which provide most of the price formation. If primary exchanges increasingly become the last resort for routing orders, they risk attracting a greater concentration of toxic order flow and intraday micro-volatility, to the detriment of investors who continue to trade on these venues. Europe is also losing high-growth companies, including unicorns and decacorns, to markets such as the US, which offer access to different investor bases, deeper and more liquid lit markets, lower costs of capital and better trading conditions. US lit order books offer higher market quality, supported by stronger on-exchange liquidity provision, in a market characterised by more intense competition and greater fragmentation. Improving the fairness and efficiency of European trading is therefore essential to achieving the objectives of MISP and the SIU.

A regulator also warned that the decline in continuous lit trading and the growing importance of alternative trading mechanisms threaten price discovery and the viability of primary-market business models.

The regulator acknowledged the benefits of innovation and incremental price improvements offered by alternative trading mechanisms but argued that primary regulated exchanges face competitive disadvantages because, in addition to their role in lit price discovery, they bear the costs of organising IPOs, which are essential for financing the real economy, as well as related regulatory and supervisory costs. These obligations make it difficult for them to compete with other trading operators on execution costs alone. Public authorities therefore need to consider these broader market effects beyond individual client outcomes, such as marginal improvements in execution prices.

A second industry speaker considered that lit order books currently show no signs of deterioration, citing a European Principal Traders Association (EPTA) study covering small-, medium- and large-cap stocks in the STOXX Europe 600, which found that quoted spreads and displayed order sizes had remained stable over five years, consistent with ESMA's assessment. Nevertheless, future deterioration remains possible and requires monitoring, particularly if investors start moving away from lit order books instead of combining them with complementary execution mechanisms.

A third industry speaker agreed that available evidence shows no apparent deterioration in bid-ask spreads or execution slippage (difference between the expected and actual execution price) and that the implications of

changing trading patterns for price formation need monitoring, given the importance of robust price discovery for attracting international and retail investment into European markets. The industry and regulators should agree on observable key performance indicators to monitor these evolutions.

A fourth industry speaker argued that price formation should not be regarded as exclusive to primary exchanges or CLOBs. It occurs whenever buyers and sellers agree on a mutually acceptable transaction, whether through continuous order books, closing or periodic auctions, SIs or bilateral OTC trading. Most price formation takes place through CLOBs, but other execution mechanisms contribute in complementary ways.

The industry speaker added that developing alternative trading mechanisms also requires significant investment in customer consultation, technology development, testing and implementation, while most innovations are not patented and can be adopted by competing operators.

3. MISP proposals and priorities for reform

3.1 Trading market structure and level playing field

A regulator identified two issues warranting particular attention in the context of MISP discussions: whether SIs compete on a level playing field with other trading venues, given potentially different price-increment constraints under tick-size rules; and the rapid expansion of frequent batch auctions. How the negotiations will address these issues remains uncertain. Reforms should focus on market outcomes, such as greater transparency, fair competition and innovation rather than favouring particular business models, while accommodating national differences within the broader objective of efficient, integrated European markets.

An industry speaker considered that MISP does not adequately address liquidity fragmentation in the European equity markets. While fragmentation may reflect greater competition, when combined with opacity it can weaken incentives for effective competition. There is also evidence of widening bid-ask spreads in certain European markets. In addition, EPTA's research finding of stable lit-book quality does not establish whether liquidity and spreads might have improved further in a more transparent market where competition could operate more effectively. Policy work should therefore look beyond observed market-quality indicators and consider whether greater transparency could strengthen competition and improve market outcomes.

Another regulator argued that MISP should give greater priority to trading mechanisms contributing to price discovery and pay closer attention to the longer-term implications of regulatory changes for market efficiency and primary exchanges. Instead, the proposed MISP measures risk accelerating the decline of continuous lit trading and the shift towards alternative execution mechanisms, potentially weakening price formation over time. Although alternative trading venues and primary exchanges remain complementary today, continued liquidity migration away from primary exchanges could progressively undermine their viability, with negative consequences for price discovery, valuations and IPOs. A recent Federation of European Securities Exchanges (FESE) paper warned that secondary-market fragmentation and unfair competition are eroding liquidity on primary exchanges.

The regulator acknowledged the need for competition among trading venues, including for primary exchanges, and suggested that they should place greater emphasis on technological innovation to remain competitive. However, competition is intensifying so rapidly that primary exchanges may not be able to adapt, particularly if MISP accelerates these changes. If this trend continues, European trading could ultimately become dominated by alternative platforms, with very few primary exchanges remaining, raising concerns about the future functioning of European public capital markets.

An industry speaker emphasized that the priority should be to grow the European equity market as a whole. Better investor understanding of Europe's complex trading structure has helped to attract investment. MISP should therefore avoid major structural changes to equity markets, as regulatory stability is important for sustaining this progress and encouraging further investment.

3.2 Consolidated tape and market transparency

An industry speaker stressed that the European equities consolidated tape, which has recently gone live, should help to monitor price formation more precisely. Before introducing further structural changes, policymakers should assess current market performance based on the more comprehensive picture of European liquidity and price formation offered by the tape. The tape may indeed reveal deeper liquidity and a different distribution of trading volumes than generally perceived, as perceptions have not always kept pace with the evolution of European market structure. The tape could be enhanced with venue attribution in pre-trade data, ideally covering all European trading venues. The industry speaker added that the question of including SI quotes is legitimate, but making bespoke bilateral prices offered to individual clients publicly available raises significant practical difficulties and risks creating confusion in the market.

A second industry speaker agreed that the launch of the European equities consolidated tape marks an important step towards improving the visibility of liquidity across European markets and that adding venue attribution would substantially increase its usefulness for supporting European market growth.

A third industry speaker added that the consolidated tape should provide a more complete picture of European liquidity across on- and off-venue trading, helping prospective issuers assess liquidity across the European market. Extending the tape to include the five

best buying and selling price levels and associated quoted volumes displayed in order books would provide visibility of quotes that may not result in trades, providing a fuller picture of liquidity across European markets. In addition, improving pre- and post-trade transparency, with shorter publication deferral periods or higher deferral thresholds, would help reduce information asymmetry, enabling liquidity providers on lit order books to incorporate a more complete view of trading across the market into their pricing.

A fourth industry speaker cautioned that expanding the consolidated tape with additional functionalities before its practical performance has been properly assessed would be premature. Venue attribution could improve transparency, but achieving greater transparency would also require including SI quotes.

3.3 Post-trading optimisation

An industry speaker considered that post-trade reform, particularly in clearing, could deliver more substantial improvements to European securities markets than further changes to trading arrangements. Open access remains incomplete across the EU, with vertically integrated structures restricting competition between clearing providers. Preferred-clearing arrangements, which require both sides of a trade to select the same CCP, are less efficient than interoperability arrangements, which allow counterparties to use different interconnected CCPs. Existing open-access provisions should therefore be more fully implemented to strengthen clearing competition.

A second industry speaker also emphasised post-trade improvements as a priority for enhancing European securities markets. While MISP provides for mandatory CSD interoperability and measures to improve clearing access arrangements, compulsory CCP interoperability remains a key missing measure that could further strengthen European market integration and clearing competition.

A third industry speaker supported further post-trade optimisation and considered that MISP could contribute to European market integration through stronger supervision, while the proposed pan-European market operator regime could also help improve post-trade efficiency.