# Equity Pre-trade Transparency

On 14 November, the COM circulated a non-paper on equity pre-trade transparency combining price improvement at the mid-point with a double volume cap mechanism, as suggested by the Council. This paper highlights the concerns of buy-side investors to this non-paper.

Investors support transparent and well-functioning markets. The COM non-paper, by insisting on retaining the double volume cap however, does **not** support well-functioning markets in Europe.

The COM has based its justification for the double volume cap on research by CESR in 2010 highlighting that total trading using pre-trade waivers in Q1 2010 was 8.5%. Despite the CESR report being out-dated and not reflecting today's reality; in the same data table, CESR shows that in the three-months prior to the data point selected by the COM, trading under pre-trade waivers in Q4 2009 stood at 9.8%. [1] This is well above the 8% cap supported by the COM.

The COM has also stated that the use of the Reference Price Waiver equated to just 1% in Q1 2010, based on the CESR report. This is worryingly misleading. The same CESR report shows that use of the RPW from Q1 2008 to Q1 2010 went from 0.1% to 1% - an increase of ten-fold over two-years. Given that this report is over three-years old, it is safe to assume that the use of the RPW has increased since the publication of the CESR report. The proposed 8% threshold therefore, is indeed very low.

It is disturbing the COM believes there will be "no disruption of trading" when the use of a waiver has been suspended. 79% of institutional investors believe that the volume cap will impact their ability to execute order flow.[2] It is clear the COM has not taken in to consideration the need for investors to have choice in execution in order to attain the best price for our underlying clients – pensioners and savers.

Finally, for the COM to argue that trading off exchange is not "legitimate" illustrates an inherent misunderstanding of the way markets operate in reality. We also ask the COM to explain how legislating against automated dark trading will stop trading off exchange; Italy here, serves as a lesson. Automated dark trading provides greater post trade transparency for investors, which in turn enables us to get best execution for pensioners and savers – our underlying clients.

If European investors are to contribute to economic growth in a sustained manner – they need choice of execution in a market environment that is conducive to doing so based on facts and evidence.

As such, investors call for the following:

- Removal of the double volume cap;
- Mandating the use of the FIX Protocol tags;
- Harmonised data standards and a European consolidated tape;
- The ability to adapt and react as MiFIR/D come in to force

**For more information, please contact Arjun Singh-Muchelle.**

---

[1] CESR (10/802) Technical Advice: MiFID Review of Equity Markets, pg 8

[2] Healey, Rebecca. (2013). European Dark Trading: A Question of Clarity. Tabb Group: London

65 Kingsway London WC2B 6TD

Tel:+44(0)20 7831 0898 Fax:+44(0)20 7831 9975

www.investmentuk.org