Professor Danuta Hübner

"This is not a zero-sum game"

Eurofi High-Level Seminar

Stockholm, 27 April 2023

Thank you, Verena, and good morning everyone - it is a pleasure to be here. The plan is to look at the MIFIR review with two major issues on our mind, the consolidated tape and the market structure. But before focusing on the overview of the progress proposed on those two issues, I would like to stress once more that when we talk about the MIFIR review we must not lose sight of what is at stake in more general terms. The review will shape the EU capital markets for years to come. The intention is not to codify the past. It is about reflecting on how we can best modify the rulebook of the European capital market to enable it embarking on the paths of expansion and to channel capital where it is most needed.

There is no substitute for efficient capital markets when it comes to financing the sustainable and digital transition, fostering economic growth, boosting competitiveness, innovation and face global challenges.

Europe needs desperately growth through improved competitiveness, and we must do it with full awareness of the pívot to a different world. We must also be aware of the necessity to strike the right balance between the recent focus on security and resilience concerns on the one hand and the costs and efficiency concerns on the other.

The Consolidated Tape is the cornerstone of the Commission proposal. And I would like to stress that it is for all asset classes.

It is true that the tape for equity took most of the attention during our work, but the tape for bonds and derivatives is of great importance to us as these asset classes suffer from a lack of transparency.

In the European Parliament there was a clear mandate - endorsed by a very broad majority - for the phased introduction of the CTs, starting with bonds, followed by equity and then derivatives.

On the equity CT, the European Parliament position is to show real-time, pre- and post- trade data. Pre-trade data should include the quotes of the first five layers of the order books.

This approach is also supported by the Commission.

The Council as you know calls for an equity consolidated tape that only shows pre-trade data together with post-trade data , in other words, with a delay.

The inclusion of real-time pre-trade data is technically feasible and will maximise the value of this tool and serve more use cases - in particular, critical use cases such as liquidity risk and trading and portfolio management.

The potential users of the consolidated tape - pension and investment funds and asset managers in particular - have consistently been supporting a real-time, pre-trade tape.

But let me underline strongly that in the environment shaped by the introduction of the Consolidated Tape, we want to see the EU stock exchanges play their critical function in the European markets.

That is why both the Parliament and the Council are committed to introduce several safeguards to address the unintended consequences of the CT on stock exchanges.

I think here of the revenue sharing mechanism and the opt-out mechanism for smaller venues.

The introduction of the Consolidated Tape will give greater visibility to venues that are today ‘hidden’ because of the high-costs of market data and should increase trading volumes in the EU.

This in turn will benefit stock exchanges thanks to greater trading activity and increased liquidity pools.

The purpose of the tape is to respond to the need of investors, boost the attractiveness of the European Union Capital markets and increase transparency in the markets.

The pre-trade equity Consolidated Tape will support the development of a competitive Capital Market Union.

EU firms rely on deep and liquid capital markets to conduct business and to attract investment flows.

We know that the Consolidated Tape is not a panacea, but if designed properly it will incentivise cross-border investment and deliver meaningful and easily accessible data to investors.

The intention of both legislators is to provide a framework conducive to expansion and competitiveness of all market participants.

This is not about a zero-sum game. Our aim is to improve the framework for all the market conditions that will enable them to both contribute to and benefit from the expansion of EU capital markets.

Moving now to the market market structure, let me first of all insist that the provisions on market structure are equally important as the ones on the Consolidated Tape. And our ambition is to shape the rulebook fit for the future, creating for all market participants conditions enabling them both to contribute to and benefit from growing markets.

MiFID 2 introduced a complex system of caps, waivers and other transparency rules, in an attempt to strengthen price formation.

The results have been modest, and in this review we look again at how to improve the transparency regime.

On the equity transparency rules, we propose to empower ESMA to define the threshold for the use of the Reference Price Waiver (RPW) and for Systematic Internalisers (SIs) quotes and execution.

We also maintain the Commission's proposal of a single volume cap set at 7%, and mandate ESMA to regularly assess this threshold and the scope of the cap.

The Council removes minimum sizes for the RPW and for SIs and sets the volume cap at 10%. We will have, therefore, a rather lively discussion on these differences and it is difficult to judge what will be the final outcome of the joint work of legislators.

There is no easy answer to the question of the exact calibration of the different measures.

Today, EU markets are outperformed not just by the US but even by the Asian markets, which continue to grow. In this context the issue of competitiveness is of fundamental importance. The challenge we face today is about increasing the size of EU markets.

We also need to protect price formation, and strengthen trading in lit markets that play a very important role in the financial ecosystem.

The volume cap and the thresholds for the Reference Price Waiver and SIs must be carefully calibrated, as no other major jurisdiction has a similar system for redirecting trading to venues.

We must be aware that different execution venues serve different execution needs.

There are investors that want to avoid impacting the market, others that want to trade faster and in smaller sizes, and there are those that want to employ a mix of different trading strategies.

We need to be careful in artificially restricting the choice of execution venues as we may see trading volumes disappear, rather than move somewhere else within the European capital markets. As I said earlier, this is not a zero-sum game.

We propose to empower ESMA to take more data-driven decisions for the calibration of market structure measures.

This will introduce much needed flexibility in the regulatory framework. It is only if we have European level supervision of our capital market, we can rely to a bigger extent on evidence based level two regulations, and reduce the prescriptive nature of level one legislation.

Of course this is a delicate balance that we have to strike in market structure doing it in a way that would strengthen our markets as a whole. One can also add that bigger and more attractive markets will also increase the number of IPOs and investments in EU companies which will benefit the entire ecosystem.

And once again let me insist that whatever decisions we make on levels of transparency , caps and thresholds, it is

important that we introduce flexibility in the system. The best way - I feel tempted to say that the only way - to achieve it is more generous use of level two legislation.