Association of Proprietary Traders

DUTCH PROPRIETARY TRADING FIRMS VIEWS ON REVIEW OF MIFIR II

The Association of Proprietary Traders APT, representing 23 proprietary trading firms based in the Netherlands, trading professionally in financial instruments and providing continuous liquidity on exchanges and trading platforms, welcomes the European Commission's MiFIR II Review proposal, but also has the following suggestions for improvement:

In the EU, there is currently an unlevel playing field between firms and Member States and insufficient transparency to monitor execution quality for retail investors in the absence of a European benchmark, undermining the best execution obligations owed to retail investors. The retail investor, albeit unconsciously, can pay the bill for poor price discovery. Regulatory action is required to fix the shortcomings of **Payment for Order Flow (PFOF) practices in the EU** by either adopting an EU-wide harmonized regulatory framework to address such practices or implement an all-encompassing EU PFOF ban (including soft inducements and non-monetary/ancillary benefits). It is important to ensure there is always open competition between market makers on the basis of best price improvement for retail orders, which would also mean removing single market maker arrangements on trading venues.

APT also welcomes the establishment of a **real-time Consolidated Tape (CT)** for equity and fixed income markets, as this will make these markets more transparent, to the benefit of all investors and market participants. As revenues will be shared, making up for any potential loss of revenue from market data fees, we do not follow FESE's concern that a real-time post-trade CT for equities would eradicate earnings and affect exchanges' primary listing services detrimentally. Moreover, we question why primary market activity should be 'subsidised' by market data revenue streams in the first place. We do see an urgent need to enhance the proposed revenue sharing model for the equity CT. All contributing market participants should receive a fair share that is proportionate to the data contributed.

Regarding the proposed changes to the **transparency regimes**, we particularly welcome the simplification of the Double Volume Cap (DVC) as a good step forward. As ESMA's assessments have shown the DVC to have very limited impact, we would also urge for removal of the DVC altogether. We feel the proposed restrictions connected to twice standard market size (SMS) should be reconsidered. Instead of volumes moving to fully lit EU venues, more likely is that volume will move to venues where trading is less restricted, to the detriment of EU's capital markets. Where orders are unconstrained by the STO and a broker's SOR logic is designed to seek a fill in dark prior to crossing the spread, smaller orders will still seek initial dark fills but with a constrained list of available venues, leaving only non-EU, such as the UK, dark venues as eligible. In this context, the increase of minimum quote size to twice SMS seems arbitrary in the absence of evidence that this is in the interests of the end investor and makes it harder for SI's to manage individual counterparty risk. Venue selection should be driven more by trading intent and a trader's desire to manage market impact, not solely by the order size.

Finally, we are concerned that the **proposed changes to the "non-equity" bond deferrals** lack ambition. Such as evidence from the US with minimal deferrals suggests, shorter deferrals will bring more transparency, more liquidity and more efficient price formation to these opaque markets. In case of large-size transactions a volume masking regime could ensure that liquidity providers are not exposed to undue risk.

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