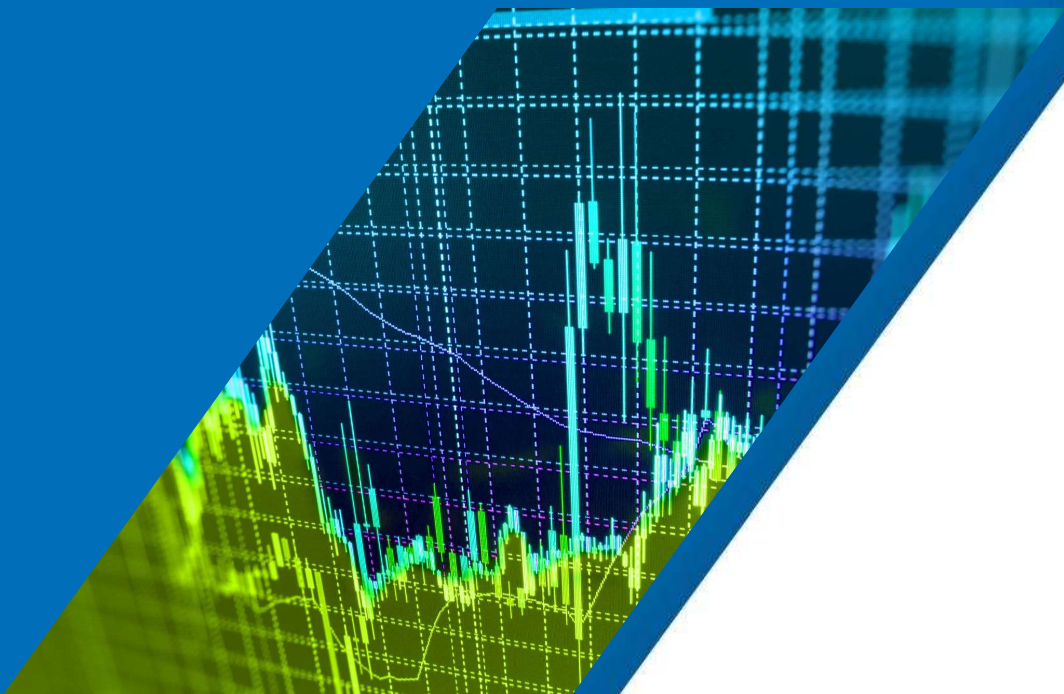
FIXing Europe

How the European Consolidated Tape can radically improve the image of European capital markets



FIX TRADING COMMUNITY™
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How the European Consolidated Tape can radically improve the image of European capital markets

European capital markets are home to some of the world's most respected companies – the biggest players in the world in aerospace (Airbus), luxury goods (LVMH), the semiconductor industry (ASML), pharmaceuticals (Novo Nordisk), fast fashion (Inditex) and cosmetics (L'Oréal), just to name a few, call Europe home. Continuously trading for over 420 years, European markets are the biggest in the world when measured by number of listed companies.

Despite this, the European market is generally considered to be a lot smaller and less liquid than its US counterpart. This is because most investors do not count off-market trades – or even trades done off a stock's primary listing venue – when assessing market size and liquidity.

In the US, activity within alternative trading systems (lit or dark venues ['dark pools'] regulated as broker dealers under Reg NMS) are considered as part of market volumes with their transactions - over 40% of total volume – reported on the consolidated tape. In Europe, similar types of off-venue activity are not counted as part of overall volume, despite contributing a similarly significant percentage of trading to the market. This has led to an image problem that has haunted European markets, venues, companies and indeed end investors for more than 20 years.

There is good news though – as Europe prepares to launch its consolidated tape, we have the perfect opportunity to fix this image problem once and for all.

The case for complexity

The obvious starting point for the current state of play is the more complex structure of European markets, representing many countries, regulatory regimes and venues. MiFID and MiFID II made strides toward harmonisation, dramatically improving transparency. However, the way trades are reported in Europe still poses problems for investors.

Specifically, European regulations currently mandate for reporting of certain types of "non-price forming" transactions that have no economic value, instead taking place for purely operational purposes (for example, to facilitate clearing and settlement). These transactions should not be included in any assessment of overall liquidity. The problem for Europe arises because most off-market activity – such as that within systematic internalisers – is reported in a similar way as this 'operational' activity. Yet this liquidity *is* available to third parties, has economic value, and can be interacted with fairly seamlessly. But because both transaction types look similar from a reporting perspective, investors typically ignore all of them when assessing market liquidity. By reducing the perceived size of the market overall, the larger outcome is detrimental to all.

Losing to win

Removing non-price forming transactions would deflate overall reported volume, however, it would allow investors to assess all volume, both on and off-market, with which they can expect to interact. Analysis earlier this year by Aquis[1] estimated that despite this deflationary effect, removing non-price forming transactions would result in an increase in 'real' European market volume of almost one-third.

This would have real benefits right through the investment chain. With investors able to accurately gauge both volume and liquidity, issuers could expect more interest in their stocks. Higher confidence levels in the true liquidity of other instruments would have benefits for fixed income and derivatives markets as well. These in turn would support more vibrant markets, which delivers benefits right down to the individual investor.

FIXing the problem

FIX's role is to convene the diverse array of participants in European markets – including those trading Europe from elsewhere – to solve issues that are common to all. With the ECT now a burgeoning reality, we have the opportunity to crystallise years of work on this topic.

This week, we released the <link> FIX Protocol gap analysis for messaging into and out of consolidated tape providers for equities, bonds and derivatives. This captures how FIX messaging can be used in a post-ECT environment to more accurately portray European market activity.

We have engaged with the European Commission, the European Securities and Markets Authority (ESMA), the Dutch Authority for Financial markets (AFM) and the Financial Conduct Authority (FCA) to argue for a regulatory mandate for more trade flagging to improve transparency.

FIX was pleased to see the UK taking a leading position on these changes by accepting FIX's recommendations to change trade definitions and also introducing a new 'CLSE' flag to improve transparency for UK markets.

[1] www.aquis.eu/news/european-liquidity

Technically practical

We are advocating for practical, targeted reforms to close gaps, improve data quality, and boost European market appeal—backed by international precedent and technical feasibility. Our specific recommendations for the ECT include:

1. Suppress non-informational, technical and cross-border duplicative reports

- NPFT (Non-Price Forming Transactions): Remove from the public tape trades for clearing and settlement purposes – not of real economic value, distorts market size.
- XBDT (Cross-Border Duplicate Trades): Reintroduce info-sharing or mandate an XBDT flag to avoid double-counting of EU-UK cross-border trades.
- IGRP (Intra-Group Trades): Exempt intra-group risk trades or, at minimum, they should be flagged as such. This would align with UK FCA practice.
- PNDG (ETF NAV Deferrals): Align with FCA practice and reduce three-report process to one deferral mechanism. This would help cut costs and reduce complexity.

2. Introduce the Closing Auction flag in the EU

- CLSE (Closing Price Trades): Mandate CLSE flag[2] in the EU – closing price activity is underreported without it.

3. Execution Method Transparency

- Execution Method Flag: Require reporting whether off-venue trades are executed manually or via automation (e.g., ALGO flag). This is important to assess addressable liquidity better.

4. Clarify Reporting Obligations

- Chains of Orders: Clarify that the executing or direct counterparty must report.
- Cross-border Scenarios: First EU investment firm to receive the trade across the regulatory border should report, avoiding ambiguity and overlaps

Many of these proposals are technically feasible, and already in use elsewhere.

We also recommend making all proposed FIX flags regulatory (not voluntary) to ensure consistent application across market participants. Regulators should issue updated guidance documentation as a fast-track step, while progressing formal RTS changes through the standard legislative process.

The FIX Consolidated Tape Working Groups are continuing their work on this important issue. To find out more or get involved, visit www.fixtrading.org.

[2] Trade at market closing price

