EURONEXT

ESMA'S CALL FOR EVIDENCE ON EQUITY MARKET STRUCTURE: EURONEXT'S VIEWS

30 June 2026

1. Overall remarks

Euronext strongly welcomes ESMA's Call for Evidence (CfE), which provides a valuable assessment of the EU equity landscape. It is particularly timely given the important EU discussions currently being held as part of the Market Integration and Supervision package, as the EU equity landscape will be a central element of the debate on the improvements that are needed for equity market structure.

Trends

ESMA's analysis clearly demonstrates that the quality and composition of liquidity in the EU is changing. The trend is shifting from continuous to alternative execution mechanisms that are less transparent and/or accessible, accompanied by an increasing reliance, both implicit and explicit, on reference prices for both on-book and off-book trading. ESMA states that such a decline in lit trading could signal a growing reliance on less transparent and accessible trading mechanisms. Given the importance of primary market trading on price formation, this warrants careful consideration. Furthermore, based on public market data which includes UK execution venues (TVs, SIs and pure OTC), the rise of bilateral is even more pronounced. These concerning developments have consequences in terms of overall market functioning, including enabling meaningful valuations.

Liquidity is key. Capital should be able to flow seamlessly across borders to boost the attractiveness of EU markets for companies seeking to raise finance. But the gradual migration of liquidity away from lit multilateral markets raises important concerns about the long-term resilience and quality of price discovery. ESMA correctly identifies these markets as the foundation of the price formation process within European capital markets, providing the transparent reference prices on which other execution mechanisms rely.

While it is fully recognised that there is a role for bilateral trading in relation to minimising market impact for large orders, the fact that bilateral trading is increasing at the expense of liquidity and price formation on multilateral lit venues raises concerns over the ability for market participants and issuers to gauge existing liquidity. The consequences are the potential deterioration of market quality. In recent months, this risk is no longer purely theoretical but has begun to materialise, as evidenced by the deterioration in market quality on certain MTFs, visible on spread, time at EBBO and EBBO setting.

Impact on primary markets

While these are functionally market structure topics, they have a direct impact on primary markets and companies' financing. Primary markets are heavily reliant on a well-functioning secondary market given its impact on the cost of capital.

It is also important to highlight that index inclusion is a central concern for listed companies, as it directly determines their visibility to passive investors and the scale of automatic capital allocation they attract. The criteria applied by major index providers - including minimum liquidity thresholds, free-float requirements, and trading volume conditions measured on lit venues - mean that the quality and visibility of secondary market trading has direct consequences for a company's eligibility for index inclusion and, by extension, for the depth and stability of its investor base. As trading migrates toward bilateral and non-displayed mechanisms, companies risk falling below index inclusion thresholds not because of any deterioration in their fundamentals, but because the liquidity that matters for index eligibility - lit, transparent, and measurable - is being systematically eroded. This creates a damaging feedback loop: reduced index inclusion leads to lower passive allocation, which reduces free-float liquidity, which further undermines index eligibility. Listed companies are increasingly losing visibility over where and how their own securities are being traded, and this opacity undermines their ability to monitor their shareholder base and engage meaningfully with investors.

Ensuring that lit market liquidity remains deep and visible is therefore not merely a market structure question - it is a prerequisite for maintaining the attractiveness of EU capital markets as a listing destination and for protecting the valuation of listed companies.

Regulatory asymmetry

The current regulatory framework is contributing to these developments given the more lenient requirements that apply to certain execution venues, such as SIs and FBAs, which embeds an unfair competitive advantage to these venues, at the expense of lit venues. As a consequence of these asymmetries, order flow may be diverted away from lit venues due to differences in the regulatory frameworks.

Actions required

Therefore, **Euronext urges ESMA to consider recommending impactful measures that could be incorporated into the MISP proposals to address this negative trend and rebalance the framework, making it more fair and equitable while improving transparency of markets.** Listings and European IPOs are increasingly dependent on the existence of a genuinely liquid secondary market, and more needs to be done to ensure liquidity is more visible and accessible so that companies view the EU market as a preferable place to list where they will achieve optimal valuations.

Set out below are Euronext's detailed views on the key topics, including some specific proposals to tackle the main issues and the reasoning why we believe there is a clear need for targeted regulatory amendments, and why these improvements need to be implemented now.

2. Description of the trading landscape

Overall, Euronext agrees with the proposed classification and description of the trading landscape by ESMA. However, there are a number of points that should be considered further as part of the analysis:

- It is important to clearly understand and define what is reported under the different categories, and this must be monitored and enforced.
- The market reality is that the distinction between lit and dark trading is not strictly binary; between fully lit and fully dark trading, there are execution mechanisms offering various levels of transparency, and these should not be reduced simply to lit and dark only.

- To offer a more accurate picture of market structure, there needs to be a distinction between closing auctions, FBAs and trades at close, as they have very different characteristics, with only closing auctions truly contributing to price formation.
- The report exclusively focuses on trading on EEA trading platforms and excludes trading on EEA shares undertaken on UK platforms, which ESMA does recognise as materially significant, notably OTC and on SIs. While we understand the rationale ESMA provides for taking this approach given the constraints they mention, we believe this calls for further investigation to understand how so much trading in EEA stocks can be executed overseas, given the existing Share Trading Obligation and the reverse solicitation rule.

3. Dark trading

Firstly, we consider that the term "dark trading" as defined by ESMA (namely, trades executed under the reference price waiver or the large in scale waiver) does not fully capture the scope of trading that should properly be regarded as dark. We believe any trade executed under a waiver, and therefore not subject to pre-trade transparency, should be considered dark trading.

That said, Euronext concurs with ESMA's observation that dark trading as per ESMA's definition has remained rather stable over the period, in particular the trades below LIS. This was the direct consequence of the Double Volume Cap, proving the effectiveness of the mechanism, at least on its defined scope.

However, evidence shows that trading volumes generally move to Frequent Batch Auction models (trading for 90% of their volume at midpoint) when the Reference Price Waiver is suspended under the Volume Cap, so it does not result in the desired outcome of encouraging trading flows to contribute to price formation.

Therefore, **we recommend amending the Volume Cap to align its scope with the new reality of dark non-price-forming venues in the current market structure**.

This approach would play an important role in rectifying some of the issues observed in the current EU market structure. Overall, it would enhance transparency across the board, strengthen the quality of the price formation process and address the risks that the overuse of non-transparent markets in the EU present.

4. Closing auctions

Euronext is aligned with ESMA's assessment of the pivotal role of closing auctions and the value of their contribution to price formation. ESMA rightly acknowledges that it differs to trading at close.

The drivers for increased trading in closing auction include the rise of index-tracking and passive investment strategies, as well as the redemption process for ETFs that require execution at the end-of-day price for accurate replication. Closing prices are essential in asset management for NAV calculations. The quality of execution at the closing auction is also a key driver – especially in an increasingly fragmented environment – as is the resiliency of closing auctions, which has been enhanced by market operators over recent years.

However, ESMA strongly underestimates the level of fragmentation at close, mostly due to the lack of UK data. Based on public market data and net of duplicate trades, alternative closing mechanisms – whether on books of MTFs or in bilateral – amount to 34% of closing volume on primary exchanges. Most of the volumes traded on these alternative closing mechanisms are executed in bilateral, especially through the guaranteed close offered by SIs.

Fragmentation in the closing results in a dilution of closing order interaction and therefore in a subsequent weakening of price discovery. When the alternative venues of execution are not pre-trade transparent – typically the SIs offering guaranteed close – market participants are deprived of valuable information, such as the side and size of the orders. The effects of this fragmentation are even more sensitive at the closing, given the critical role that closing prices play as reference price in a number of use cases, particularly for funds and NAV calculation. **We therefore consider that any regulatory initiatives should aim at curbing this growing fragmentation rather than fostering it**.

In this respect, the proposal by the European Commission in MISP to introduce a Volume Weighted Closing Price in the consolidated tape would be highly detrimental. By legitimising and aggregating prices formed outside the primary closing auction, it would actively encourage divergence from the reference price established on lit markets, undermine price discovery at the most critical moment of the trading day, and create a benchmark that is operationally difficult to replicate for the vast majority of market participants.

Rather than promoting alternative closing mechanisms, legislators should consider imposing a cap on the volumes that such mechanisms can attract. Platforms that import the closing price determined on lit primary markets - without contributing any pre-trade transparency or price formation of their own - should not be permitted to do so without limit. Such a cap would preserve the integrity of the closing price as a genuine market signal while containing the adverse externalities that unconstrained free-riding imposes on the price formation process.

We also highlight that closer and more granular monitoring of closing activity is long overdue. **The introduction of a dedicated flag such as CLSE in both transaction reporting and post-trade transparency would enable regulators, issuers and market participants to systematically identify and quantify the volume executed through bilateral closing mechanisms**. We urge ESMA to fix this gap as soon as possible.

5. Frequent Batch Auctions (FBAs)

Euronext concurs with ESMA's analysis that there is a considerable increase in FBA activity and fully agrees with ESMA that these models warrant further attention. FBAs have minimal transparency and import prices on a very substantial scale, and should therefore be considered very much like a dark platform given their lack of contribution to price forming.

The fact that they have been allowed trade at midpoint for years despite the ESMA Q&A, which has only been repealed now as part of this Call for Evidence, is an important factor that has incentivised the use of these systems and given them a competitive advantage over lit trading venues. This is reflected in ESMA's analysis, as they suggest FBA success may be linked to the execution of orders off tick.

If these trading systems were required to avail of the reference price waiver allowing them to trade at midpoint, the trading would fall under the Single Volume Cap. However, as they do not fall under this waiver, this is currently not the case. Pegging the order to another reference price different to the mid-price prevailing on the most relevant market in terms of liquidity (the PBBO - as per the RPW) should in no way constitute a means to circumvent the volume cap: it creates a dangerous incentive for venues to offer better alternatives to the regulatory PBBO reference price.

The current asymmetry creates competitive distortion, putting participants of lit trading venues at a significant disadvantage in comparison with those trading on these other systems. As a result, trading at imported prices or via pegged orders is increasingly prevalent in EU markets, with midpoint matching and off-tick execution increasingly becoming the norm across various execution venues, mechanisms or trading systems. This raises important questions on quality of execution, price formation and market resiliency, as these imported prices are only reflective of a shrinking share of genuine trading interests, thus impairing investor confidence.

FBAs provide some benefits under specific circumstances, but a recent analysis we published shows that the spread capture for a passive investor in a continuous lit book outweighs the benefit of trading at mid on FBAs, even after taking into account their better market impacts (lower markouts). It is therefore an area that needs to be looked into further.

As the growth of FBAs and midpoint trading comes at the expense of lit continuous trading and the trend remains upward, the risk of further impairing the price formation process is increasing, and in our view justifies regulatory actions.

We note that ESMA highlights that it is repealing its Q&A on applying the tick size regime to FBAs. The reason they give is to level the playing field with SIs. However, we find this disappointing as we argue that **action should be taken to level the playing field by fully applying the tick size to all venues to ensure an orderly functioning of the market, rather than to relax the requirements for these trading models. ESMA does indicate that this should be considered further as part of the MISP negotiations, which we fully welcome, and urge ESMA to recommend these changes to the MiFIR framework.**

The tick size regime defines minimum price increments, and as such is central to price formation within and across execution venues. Applying a uniform tick size regime to all execution mechanisms, multilateral or bilateral and for both orders and transaction prices, is pivotal to ensure the orderly functioning of EU capital markets.

Clarifying the application scope of tick sizes in Article 49 MiFID II and corresponding MiFIR provisions (Art 17a) would remove an important channel for regulatory arbitrage and refocus competition on execution quality, speed and service.

If the tick size regime is not uniformly applied, there is a need to expand the Volume Cap as referenced in Section 3.

6. Systematic Internalisers (SIs)

Trading on SIs has increased significantly in recent years as demonstrated by ESMA's Call for Evidence. While many argue this is simply a reflection of investor demand, one important factor that has to be considered is the regulatory asymmetry applicable to these bilateral venues in comparison to lit multilateral trading venues. This creates a distortion in the market and results in incentivising certain execution venues to be chosen over others.

We agree with ESMA's assessment of the trends identified in bilateral trading and that much of the trading is done at sub-tick and in small sizes. It is worth highlighting that the trade size does not necessarily reflect the type of client: while retail clients almost exclusively trade in smaller sizes, institutional clients can equally trade smaller and larger sizes, especially as the use of execution algorithms becomes more prevalent.

Yet, when it comes to market structure rules, while the type of client is important, so is the size of the order. The purpose of markets is to reduce information asymmetries without compromising the execution outcome. A smaller order can be absorbed and executed on a multilateral price forming venue, thereby contributing to price formation, while this is more complex or not even possible without adverse outcomes for a larger order. The increasing prevalence of smaller orders on SIs is therefore problematic, as these do not contribute to price formation. Given the very bespoke regime applicable to SIs (discretionary access, discretionary execution, off-tick) this raises important concerns.

The report references the fact that SIs have a more lenient regime in relation to the tick size regime as it allows midpoint trading for orders of all sizes, and this is likely to have a direct effect on diverting trading flows away from lit markets to bilateral models. This means there is an embedded competitive advantage given to Sis, and this is not the only aspect of the framework that is more lenient.

Despite their material importance and the fact they are deemed eligible execution venues under the Share Trading Obligation, SIs are covered by a less robust framework when it comes to their operations in comparison to regulated trading venues and by a lighter transparency framework.

This undermines issuers' and investors' ability to navigate EU markets, and comes at the expense of liquidity and price formation on multilateral (i.e. open to all) and lit venues, which thereby raises concerns over liquidity visibility, accessibility and overall market functioning. This is not neutral: efficient price formation is pivotal to ensure quality of price, meaningful valuations, facilitating companies in accessing finance through the listing function, and the nurturing of SME growth markets. An overreliance on the use of reference prices will create longer-term structural issues.

Liquidity is not equally accessible across the market, and participants without access to bilateral networks may face reduced ability to interact with certain liquidity pools. For example, a quantitative hedge fund is likely to have difficulties accessing some SI streams. Addressing this issue requires improving transparency and ensuring a more level playing field between multilateral and bilateral trading, so that liquidity is more visible and remains broadly accessible to all market participants on an equal basis.

In addition, ESMA highlights issues with the quality of data reporting for SIs and OTC. This confirms the need to revise the post-trade transparency framework, to ensure that market participants at large have access to extensive, consistent and understandable information on executed liquidity.

Overall, we believe ESMA's findings set out in its Call for Evidence support the need for the below targeted changes to be made to the SI regime in order to address the asymmetries in the regulatory framework, to enhance the visibility of liquidity in the market and support a stronger price formation process:

- **Require SIs to publish Rulebooks and Protocols, as well as provide more detailed information to NCAs**

- **Require SIs to publish *all* their quotes on liquid instruments below twice the SMS**

- **Strengthen the SI quoting obligations for meaningful price improvement of at least one tick**

- **Complement SI post-trade transparency requirements with:**
    - **Specific SI identifier** (with an appropriate time deferral) and
    - **Additional SI-specific transaction flags including**:
        - **a price improvement flag** (enabling regulators to monitor developments),
        - **an SI direction flag** (allowing market participants to conduct transaction cost analysis and toxicity analysis, by having visibility over whether the SI was on the buying or selling side, such flag could be added with a one-month deferral period, similarly to the SI identifier field),
        - **a below/above SMS flag** (enabling a distinction between retail and institutional order flow) and
        - **a CLSE flag** (to better map volumes executed at the closing price across execution venues, similarly to the UK present regime).

  This will allow investors to get the most extensive and granular view possible on liquidity in EU equities, and aiming to harmonise their application across the industry would be extremely beneficial for the overall market.

- Lastly, we also **recommend amending the tick size provisions so that the regime is applied consistently across all execution venues.**
  Further detail is set out above in Section 5.

7. Benchmark transactions

We believe the increasing use of benchmark transactions poses a serious risk to the price formation process. By matching parent orders before they reach price formation venues, these transactions deprive lit markets of liquidity and shift volumes further towards dark trading.

In our view, it would benefit the market if ESMA provides more clarity on benchmark transactions. They should span a period of minimum duration to prevent circumventing pre-trade transparency requirements. A minimum duration of five minutes or minimum number of ten consecutive trades seems reasonable.

Lastly, there is a growing trend of the systematic use of benchmark trades within an automated venue set-up under the negotiated trade waiver. Beyond benchmark trades per se, this raises concerns regarding the legality of such a mechanism in light of the intended use of this waiver, and should be looked into further.

8. Member preferencing

Member preferencing, or member segmentation, is one of the only mechanisms available to trading venues seeking to compete versus single market-maker platforms or systematic internalisers who can select their counterparties and apply different execution, depending on the counterparty type.

Therefore, this practice cannot be assessed in isolation and any regulatory action should apply across the whole range of execution venues.

The real issue regarding member preferencing relates to **trading venues operating with a single market maker model** and to an extent on bilateral platforms;

- non-discriminatory access is not guaranteed and different clients seemingly receive distinct executions depending on their tiering
- these single market maker models raise serious issues when it comes to retail quality of execution, which are exactly the same as for PFOF-type of models. 70% to 90% of retail orders on PFOF type of models receive worse execution than on true transparent and multilateral type of trading models, risks of conflicts of interests and risks to the overall functioning of the markets. For more details please see: AFM, 2022 and CNMV, 2022.

9. Addressable liquidity

Euronext generally agrees with the approach ESMA has taken to define addressable liquidity. However, it is difficult for exchanges to fully opine on these questions regarding which transactions fall into each bucket given the lack of visibility of these transactions. We therefore believe feedback from market participants and banks is essential, as it is important that ESMA is able to draft clear recommendations.

In our view, further consideration should be given to whether misused or inconsistently applied flags may affect the classification of transactions. This may in particular be due to uncertain applications of the flags and reporting requirements for chains of transactions, where regulatory guidelines, notably based on the recommendations of the European Commission Data Expert Group from 2024, could be adopted.

We therefore suggest it could be worthwhile for ESMA to host a dedicated technical call to discuss these points in more detail, or to reconvene the European Commission Data Expert Group from 2024 to progress this further.

Given the potential ambiguities in defining these, one of the key aspects that needs to be addressed is the inconsistency of implementation and regulatory oversight once the framework is agreed upon.