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# European Equity Markets

## State of Play Post MiFID Pre Brexit – What we learnt from FIX EMEA 2019



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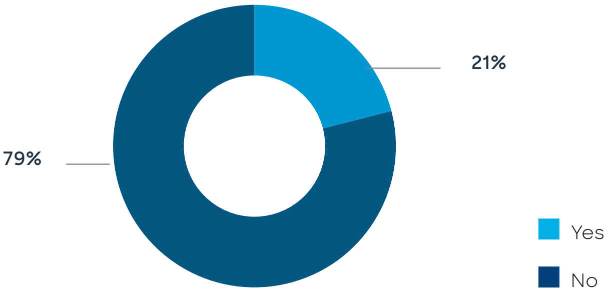
## Executive Summary

One year on from the start of MiFID II and ahead of a possible no-deal Brexit, the key issue for industry participants and regulators alike remains ensuring access to accurate data to establish where and how to trade. Although data completeness and accuracy remain a key regulatory priority, the lack of standardisation in the publication of data means that interpretation of data today can sometimes appear more challenging than pre-MiFID II for market participants.

The level of uncertainty as to the final outcome of Brexit merely emphasises these challenges with the potential introduction of a parallel version of MiFID II Share Trading Obligation (STO) in the UK as well as the EU, as well as the resulting risk of duplicate reporting in the event of a no-deal Brexit. Currently there is no planned equivalence for UK venues which will have implications on where European shares – and potentially UK shares – will be eligible for trading in the future. Recent guidance from ESMA on how European investment firms should implement the STO[1], states that the EU STO should apply to all shares traded on EU27 venues under EU ISINs, meaning all UK venues including Systematic Internalisers would no longer be eligible for trading by European investment firms. ESMA plans to extend this obligation to UK ISIN listed shares deemed "liquid" in the EU27[2].

Despite agreed MMoUs (Memoranda of Understanding) between UK and European regulators[3], these are focused on market supervision of abuse, rather than the potential impact for funds trading across multiple jurisdictions. The resulting complexity in navigating the trading landscape is likely to lead to increased implementation and transaction costs, ultimately raising costs for end investors. There will be added complexity in whether to report transactions to the UK or EU regulators, and as a result, over three quarters of the audience at the recent FIX EMEA 2019 conference felt they didn't have enough information to successfully implement the necessary changes (see Exhibit 1). The question that now needs to be answered is what the industry can do today to address these challenges, rather than continue to wait for a regulatory response dependent on a political outcome.

**Exhibit 1: Do firms believe they have all the necessary information to implement the new reporting regimes?**



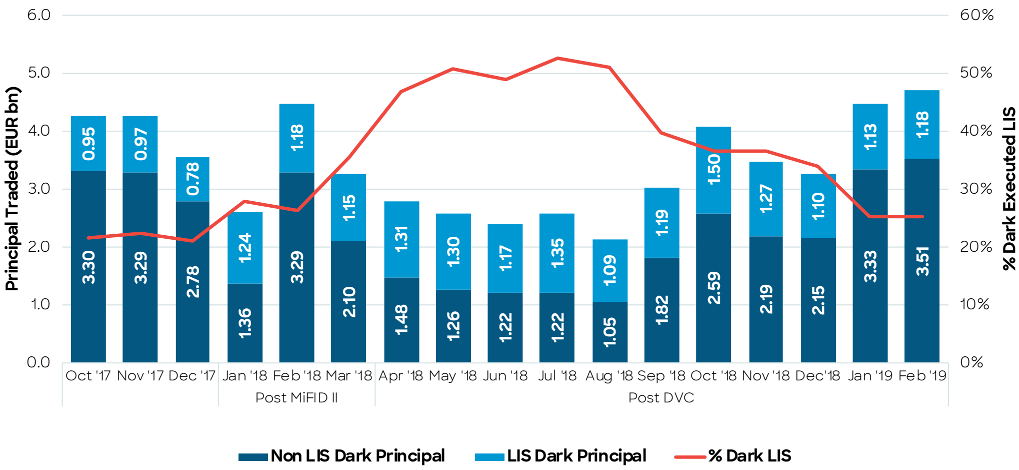

*Source: FIX EMEA 2019 Audience poll*

The introduction of a consolidated tape remains a possible solution; however, while MiFID II created the opportunity for a commercial initiative to emerge, the high cost of acquiring data has prevented progress to date. The challenge for the industry is that in the event of a no-deal Brexit, UK and European regulators are likely to progressively remove non-relevant EU or UK data from local transparency calculations. This will require the industry to consume and review data from both sides of the channel, making the need for an industry consolidated tape ever more critical. Greater standardised reporting with additional flags highlighting UK and EU reporting requirements could enable the industry to identify duplicate reporting using FIX Protocol, which in turn could lead to the bare bones of an industry-led response to the request for a European consolidated tape.

[1] https://www.esma.europa.eu/press-news/esma-news/esma%E2%80%99s-application-trading-obligation-shares-following-no-deal-brexit
[2] https://www.esma.europa.eu/press-news/esma-news/esma%E2%80%99s-application-trading-obligation-shares-following-no-deal-brexit-0
[3] https://www.esma.europa.eu/press-news/esma-news/esma-and-eu-securities-regulators-agree-no-deal-brexit-mous-fca

In the opening speech, the European regulator noted that transparency has increased, over 95% of reports now use accurate LEIs, however there is still demand to increase the number of instruments subject to real-time transparency. The European regulator also questioned whether the measures taken to date have been sufficiently successful. For example, although the introduction of the Double Volume Cap (DVC) has delivered a decline in dark trading (see Exhibit 2), only when the current DVC expires will it become evident the extent to which trading behaviours have permanently rather than temporarily changed, and whether further suspensions will be triggered. There is also the risk that the 8% threshold on the DVC could be breached sooner if trading activity splits between UK and European venues in the event of a UK and EU STO being implemented.

**Exhibit 2: Dark Volumes 2017 – 2019**




*Source: Liquidnet*

Liquidity formation is likely to be altered further with the introduction of regulatory changes to periodic auctions to address ESMA's concerns around the perceived lack of pre-trade transparency and price discovery. Although it was acknowledged that the volume of periodics remains around 2% of market share[4], with the initial increase occurring in the first wave of suspensions, regulators question as to whether periodic volume will increase further if there are more DVC suspensions. Any future regulatory focus on auctions would appear to be focused on ensuring specific characteristics of the different auctions are aligned to ensure consistency between trading protocols, rather than an outright ban.

Increased automation and technological change as well as the prevailing political uncertainty continues to raise many more questions than the industry has found answers since the introduction of MiFID II. Shifting liquidity formation due to unbundling and breaking the traditional buy and sell distribution model is redefining the market eco-structure and its participants. The potential for the implementation of the STO in Europe to be replicated in the UK will redefine this further still. If UK ISINs are deemed liquid in Europe this raises questions as to which European instruments listed in the UK could be deemed liquid and eligible for trading under a UK STO. The expiry of the current Swiss equivalence agreement on June 30th could result in European liquidity becoming split, with the UK, Swiss and International trading remaining in the UK and European fund activity trading in the EU27. Given the number of European organisations apparently taking up the FCA Temporary Permissions regime to continue current activities in the UK with three years to submit an application for full authorisation, firms are beginning to recognise the implications for trading and exercising plans which will have further knock-on implications for the formation of liquidity in European trading.

The need to access accurate and complete data to establish where and how to trade will only increase as the level of complexity in how liquidity is formed continues to evolve. The question for the industry is how technology and greater standardisation in the publication of data can improve the visibility of the market – not only for participants but for those who regulate it.

[4] MiFID II Liquidity Landscape – Q4 2018 – https://bit.ly/2FrxQLu

## Top Ten Facts from FIX EMEA 2019

1. 85% of attendees are unsure how to respond to the new requirements regarding the Share Trading Obligation.

2. Half the industry attendees have plans in place for Brexit, but only just over a quarter believe they will be ready in the event of Brexit.

3. 89% see the unbundling of commission as positive outcome for execution.

4. 80% believe more work is needed to ensure the market has access to the data needed to measure execution quality.

5. 55% believe the use of data is very important to differentiate research, and just over a third believe it is quite important.

6. 44% of attendees believe the Double Volume Cap should be a regulatory priority for review, 30% believe efforts should be focused on Systematic Internalisers (SI)– just 7% see the need for a regulatory review of Periodic Auctions.

7. 47% believe the proposed changes to the tick-size regime will impact access to liquidity and increase trading costs significantly, with a further 37% believing there will be somewhat of an impact.

8. 63% have increased their access to non-bank SIs further altering liquidity formation in Europe.

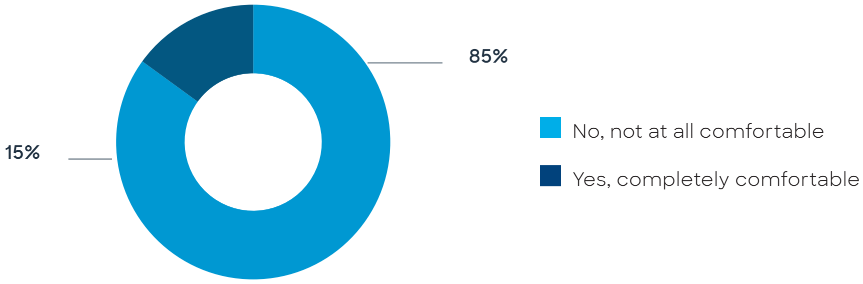
9. 62% of attendees believe that the Asset Management industry will only undergo minor adjustments with no fundamental structural changes in the next five years; whereas 26% believe the industry will be unrecognisable.

10. 64% believe that Artificial Intelligence (AI) and Machine Learning will be a major catalyst for change in the industry.

## Brexit - The Impact on STO

In an opening panel discussion with both the UK and French regulators, it was evident that the lack of political clarity is impacting the regulators ability to address industry concerns, particularly in relation to the STO, with 85% of respondents unsure of what will now be required if the STO is implemented in both the UK and EU (see Exhibit 3).

**Exhibit 3: Are you comfortable with what the industry needs to do around the STO?**




*Source: FIX EMEA 2019 Audience poll*

Under Article 23 of MiFIR, shares listed on EEA venues must be traded on Regulated markets, MTFs, SIs or third country venues deemed equivalent by the EU Commission. Without equivalence, EU asset managers providing MiFID II services will not be able to access UK venues (including UK SI). Under ESMA Q&A[5], this obligation applies to any EEA investment firm in the chain of execution including passing order to a UK broker to execute to avoid EU STO. There is no distinction between a primary listing of a share, whether it is traded on a European trading venue because the issuer has sought a listing or where a share is just available for trading. For European asset managers in particular, this represents real concerns on retaining access to liquidity. Many European firms are in the process of repapering with their counterparties in the UK and Europe to ensure that they have continued access to liquidity in the relevant jurisdiction, an exercise which is both time consuming and costly.

"When executing in UK names, we need to execute where the main pool of liquidity is to fulfill our best execution obligations. We can't trade Vodafone in Frankfurt if it represents only 5% of trading activity."
**FIX EMEA 2019 Panellist**

ESMA have now provided long-awaited guidance on how European investment firms should implement the STO[6], stating that not only will the EU STO apply to all shares traded on EU27 venues under EU ISINs, but will also extend to UK ISIN listed shares deemed to be "liquid" in the EU. In a subsequent statement from the FCA[7], the onshoring of EU legislation in preparation for Brexit means that the UK will, as well as the EU, have an STO. If the FCA apply the same approach as ESMA to the UK STO, there potentially could be a large degree of overlap between the UK and EU obligations, which as the FCA states *"has the potential to cause disruption to market participants and issuers of shares based both in the UK and the EU, in terms of access to liquidity and could result in detriment for client best execution"*.

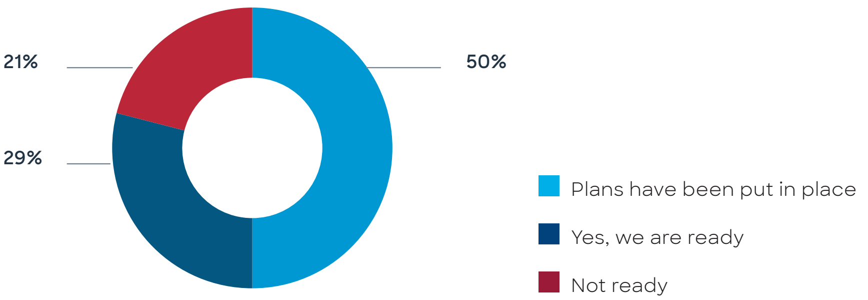
For those firms who have multiple licences in both the EU and the UK, the situation is still further complex and may result in order flow needing to be split between those firms and funds registered with the UK and those registered in Europe, adding to both trading complexity and changes to workflow requirements in relation to routing and reporting obligations. It was suggested whether the FIX Protocol could be used to indicate duplicate transaction reporting given that in the event of a no-deal Brexit, from 30 March 2019 transactions concluded on UK trading venues would be considered OTC-transactions by European regulators and would be subject to the post trade transparency requirements under Articles 20 and 21 of MiFIR[8]. This would require EU27 investment firms not to make transactions public in the EU27 via a European APA where trades have been executed on an UK trading venue. But for trades executed with a UK investment firm (SI) which would now be considered OTC, European investment firms will be required to make the transaction public via an APA established in the EU27.

[5] https://www.esma.europa.eu/press-news/esma-news/esma-clarifies-trading-obligation-shares-under-mifid-ii [esma.europa.eu]
[6] https://www.esma.europa.eu/press-news/esma-news/esma%E2%80%99s-application-trading-obligation-shares-following-no-deal-brexit
[7] https://www.fca.org.uk/news/statements/fca-statement-share-trading-obligations
[8] Articles 20 and 21 of MiFIR.

## Future Changes to MiFID II/MiFID III

While 50% of firms responded that they have Brexit plans in place, 21% indicated that they will not be ready in the event of a hard Brexit (see Exhibit 4). While some regulators indicated they expected few further political changes to MiFID II text given forthcoming European elections in May, there was also a plea to the industry not to push for greater clarity at this time given current uncertainty, but instead for firms to focus on compliance with existing rules. This was viewed by some as an indication that there will be an element of proportionality from the European regulators with regards to firms getting ready for no-deal Brexit, acknowledging the impact on smaller firms given the increased cost and demand on resources.

**Exhibit 4: Is your firm ready for a no-deal Brexit?**

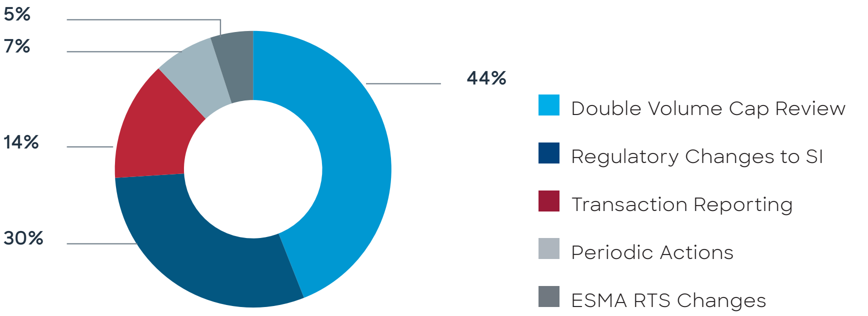



*Source: FIX EMEA 2019 Audience poll*

While UK and European regulatory regimes will be very similar on 1st of April, in the event of a hard-Brexit, the risk of divergence between UK and the EU27 is likely to increase. Under the terms of the Statutory Instrument (SI), the FCA reserves the right to use available data as it sees fit which may deviate from ESMA in the longer term on transparency objectives. This could potentially lead to a divergence in the way Dark Trading, Systematic Internalisers and Periodic Auctions are regulated on either side of the channel[9].

This matters for asset managers looking to minimise their market impact. The general consensus among the trade associations contributing to the panel discussion was the importance of retaining market innovation such as periodic auctions to avoid HFT but rather to focus on reviewing the current Double Volume Cap and proposed changes to the SI regime (see Exhibit 5). Any regulatory constraints regarding Periodic Auctions are likely to lead to new alternative market innovations rather than a return to trading on lit markets.

**Exhibit 5: What do you consider should be a priority for the regulators to review post MiFID II?**




*Source: FIX EMEA 2019 Audience poll*

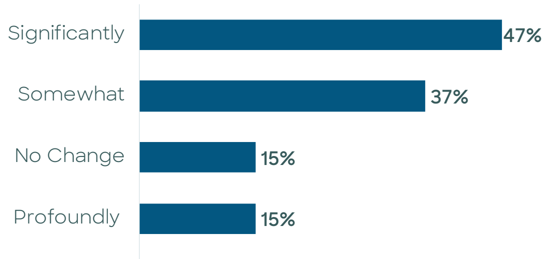
[9] https://www.fca.org.uk/publication/policy/statements-of-policy-mifid-transparency-regime.pdf

The industry view is that pegging at mid contributes to price formation through fluctuations in price during the auction process. Firms can ensure a fair execution without the need to enter 'LIMIT' orders which would require consistent manual updating to ensure the right price is achieved, which would be both inefficient as well as prone to error. Not all auctions offer the same functionality, and some do have a higher proportion of "fading", where clients pull back and cancel their orders, similar to negative market interaction on lit primary exchanges.

Irrespective of the outcome on periodics, future liquidity formation looks set for further change with the introduction of adjustments to the sub-tick regime under Article 49 and RTS 11 of MiFID II[10] for all venues and the possibility of restricting mid-point activity to Large in Scale (LIS) only. Just 15% of conference attendees believed that the proposed amendment to Article 49(1) of MiFID II will not impact access to liquidity as a result (see Exhibit 6).

"ESMA should allow half-tick crossing; that will easily solve the issue for both even- and odd-tick spread stocks."
**FIX EMEA 2019 Panellist**

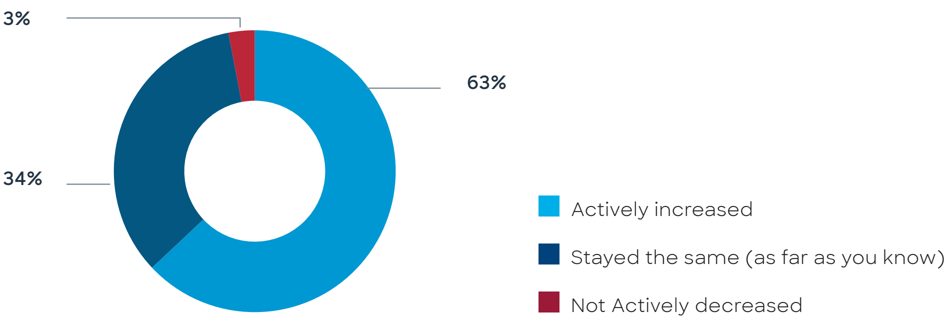
**Exhibit 6: Do you think that the proposed tick size regime changes will affect your access to liquidity, and impact costs?**




*Source: FIX EMEA 2019 Audience poll*

The regulatory intention is that by subjecting SIs to the tick size regime for standard market sizes and restricting their ability to price improve, this will create a level playing field between trading venues and SIs. However, there are a number of small cap instruments where mid-point trading is highly valuable but the threshold for LIS is significant. If midpoint crossing gets impacted in sub-SMS, it is likely that the ELP SIs will simply size up, increasing block trading, altering the liquidity formation in non-bank SI which are increasingly becoming a liquidity option for a previously sceptical buy-side (see Exhibit 7). For bank SIs panel participants were unsure how they would respond but concerns were raised again regarding the ability to identify the proportion of non-addressable liquidity.

**Exhibit 7: How has your use on non-banks SIs to access liquidity changed since the start of MiFID?**




*Source: FIX EMEA 2019 Audience poll*

While work has been completed by FIX Protocol on identifying addressable and non-addressable liquidity, panellists felt that more could be done to standardise the process and ensure this is replicated across the industry particularly given that most operators of SIs are likely to duplicate, with firms operating a UK and an EU SI. Some intend quoting the entire universe of stocks and it will be up to brokers to determine which one to access on behalf of their clients. The ability to understand what actionable liquidity is available and on which venues will be critical in the event of a hard Brexit and implementation of the STO on both sides of the channel.

[10] https://www.esma.europa.eu/press-news/esma-news/esma-publishes-responses-its-consultation-proposed-amendments-rts-11

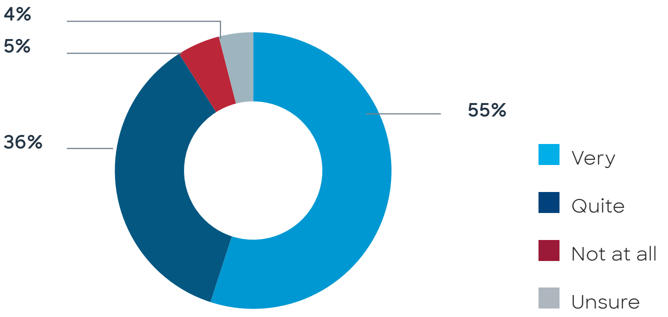
## Research unbundling – 1 year on

The panel discussion focused on how research unbundling is being implemented by the industry, the changes in research consumption by the buy-side and the subsequent future provision of research by the sell-side. While regulators noted the number of asset managers now choosing to absorb research cost into P&L and the rise in adoption outside Europe, the panellists view was that unbundling research is still only in its infancy given the lack of true price discovery to date. Consequently, the full impact of change in the production and consumption of research has yet to be felt.

"We're not really one year on, more like a few months on. 2018 is when people really started looking at this space, rather than 2017. Q3 of this year is when we can expect to have a clearer picture. Research budgets for equities were -30% last year, flat to -5% so far this year."
**FIX EMEA 2019 Panellist**

The importance of disclosure back to the sell-side as to what services the buy-side valued and the price they were willing to pay is an essential part of this evolution. Although research budgets continue on their downward trend globally, the true value of research has yet to be established by many organisations as they remain focused just on lowering costs. The need for more data around consumption is only beginning to come through now as firms adopt a more systematic approach to understanding their consumption of research, enabling firms to move from pricing models to valuation models (see Exhibit 8). Feeding this information back into broker reviews is providing the sell-side with greater visibility as to where they are able to deliver value, but not all asset managers have yet implemented these processes. Managing the different client models – cost, cost plus, those who carve out non-MiFID regions as well as those clients who choose not to budget upfront and then translate those different client requirements to the rest of the organisation to ensure client expectations are met is still very much work in progress. As a result, firms are still discovering which research business models are sustainable from an economic perspective and where further change is required.

**Exhibit 8: How important do you think data is to be able to differentiate research?**




*Source: FIX EMEA 2019 Audience Poll*

Many buy-side firms remain focused on retaining access and establishing price mechanisms with bulge bracket brokers, rather than reviewing all potential research providers to establish where they will achieve value for money and where gaps exist which need to be plugged, or conversely, unnecessary duplication removed. As a result, there has been previous little evidence of broker lists being trimmed between 2017 and 2018, but panellists are now seeing some evidence of core lists reducing. Sell-sides are also starting to push back where clients are not paying sufficiently to continue to access services. Rather than continue to service clients across the board, increasingly research providers are looking to determine where their value-add lies from a brand perspective, marketing their strengths in areas such as regional specialisation or macro or quant content and then establishing the best method of distributing this content. Research portals are starting to become more pivotal in providing alternative methods of access, allowing asset managers to enhance their content discovery process as well as meet regulatory demands in terms of compliance around inducement.

In the debate as to whether research unbundling is leading to less coverage in SME (Small/ Midcap Equities); again, the panellists felt this is yet to play out. Under the previous bundled model, research was ADV-linked so there is an assumption that a bigger incentive existed for bulge brackets to cover large cap stocks and get paid with large cap flow. Becoming an expert in a small cap company enables the provider of research services to remain relevant to clients rather than being a lowly ranked analyst in a large cap where you are unlikely to be paid commensurably for your work.

Data in and of itself is also becoming a research product as the sell-side adjust product offerings to meet buy-side demand. Dependent on the type of firm, internalisation of research by some will alter what they choose to take from the sell-side; whereas more active managers covering a broader geographic and sector coverage will not be able to internalise to the same extent and will require more traditional access to analysts. Others are moving to accessing investor relations departments to set up bilateral meetings rather than rely on broker roadshows. As the provision of research is becoming more bilateral and bespoke based on individual client need, the provision of research is becoming specialised and targeted rather than a demonstration of what a bulge bracket bank can offer.

The panel continued to discuss how this plays out in the longer term globally with the SEC now apparently planning to let the US No-Action letter expire. The view was that while the US regulator is unlikely to implement unbundling in a similar manner to Europe, increased commercial pressure from end investors in the US is already starting to drive behavioural change. Regardless of whether firms choose to pay from P&L or via a more robust CSA model, asset managers themselves will need to demonstrate a more cost-effective research procurement process and the means by which they value research. As that valuation is disclosed to the providers of research, the provision and consumption of research will change, making future selection more sophisticated as the level of transparency between research providers and clients evolves. Given that unbundling payment of research services from execution commissions has just started in terms of process, it will take time for the full impact of the outcome on the traditional market eco-structure to be felt.

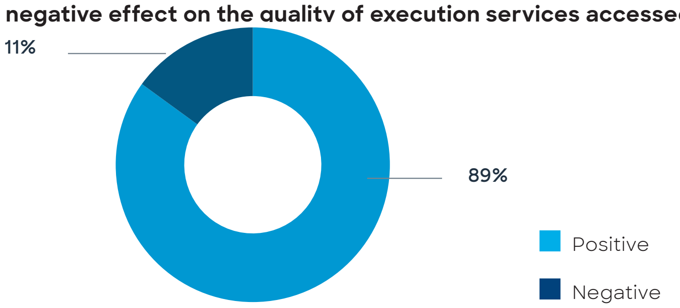
## The Evolving Buy & Sell Side relationship

Overwhelmingly the industry felt that unbundling has had a positive impact on execution (see Exhibit 9). As a result, the relationship between the buy- and sell-side is undergoing significant change, albeit often subtly and over a longer period of time than initially anticipated. As the buy-side start owning more of the data-driven processes around execution, the more the buy-side will "own" execution, using tools and technology to decide where, when and how to trade. This then shifts the requirement of sell-side services from pure execution to more execution consultancy services.

"Every broker review is now just the provision of more broker data. Only 3 of my brokers do a good job in explaining how they help us execute."
**FIX EMEA 2019 Panellist**

"More data is good, but quality data is key. If you have bad data in, you'll get bad data out."
**FIX EMEA 2019 Panellist**

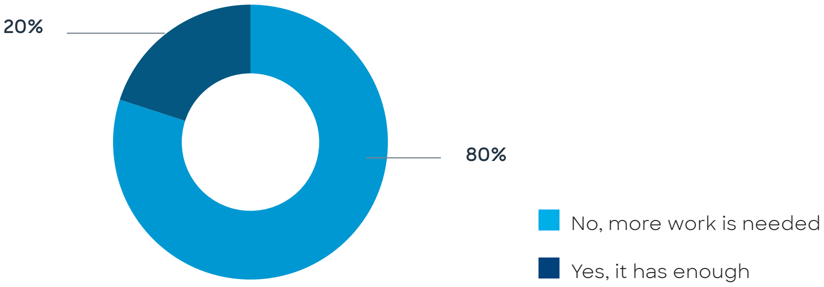
**Exhibit 9: Do you think the unbundling of commissions under MiFID II has had a positive or negative effect on the quality of execution services accessed by fund managers?**




*Source: FIX EMEA 2019 Audience Poll*

While there was broad-based agreement in the benefits of unbundling for execution, there was an acknowledgement that larger buy-side organisations had access to the relevant tools and technology to make this happen. Smaller buy-side firms are still dependent on brokers for data, or external data sources and continue to struggle to make sense of the new trading environment. Several comments were made on the questionable usefulness of RTS27 data in particular, with reference being made to the erroneous exclusion of daylight savings time changes impacting the data points venues are required to complete on a quarterly basis. Some venues held strong views as to the benefit of reporting data retrospectively. Again, it comes down to the resources available to individual firms how they are able to consume and derive value from the data available – whether that is internal, external or via an independent third party, though there was widespread consensus on the need for the industry to invest more in accessing accurate data (see Exhibit 10).

**Exhibit 10: Does the market now have access to the data it needs to measure execution quality post MiFID II?**




*Source: FIX EMEA 2019 Audience Poll*

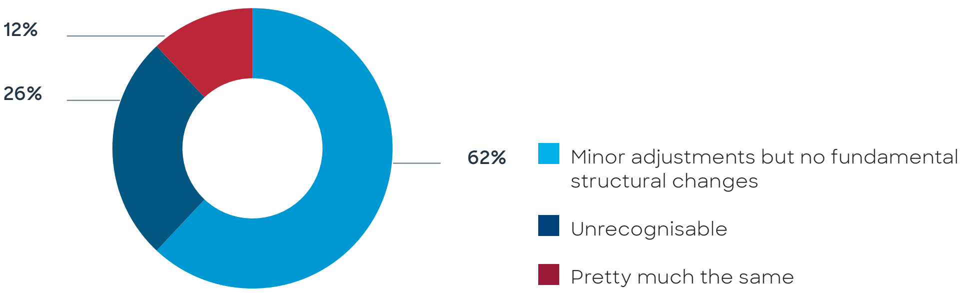
As tools develop, the more the buy-side can evolve where, when and how they choose to trade. Not all brokers are connected to venues in the same way and it is now a question for the buy-side to establish where their best partnerships exist, utilising the collection of data to monitor and learn from execution outcomes to continually improve. One example was the introduction of algo wheels. While providers of algo wheels claim they are not sell-side products but rather owned by the buy-side, the buy-side panellists indicated their preference for proprietary products to ensure accurate independent analysis of broker offerings; once again reiterating the two-tier evolution of asset management, as firms become more dependent on access to data and technology.

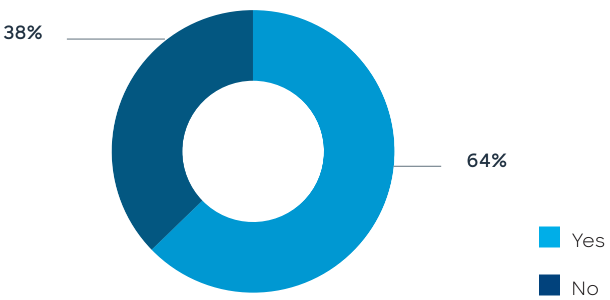
## The Future of Asset Management

The final panel of the day was based on the future of the asset management industry. Although the need for human skill within the investment process remains undisputable, the transfer of skillsets and tools is now required for firms to remain competitive. Data – as throughout the day – was a central theme, along with the increased use of technology to clean and harness that data, together with greater collaboration across trading and investment teams to improve alpha in the investment process. The challenge for the industry is that only a quarter of attendees appear to recognise the level of change required, with the majority believing there will only be minor adjustments but no fundamental structural changes (see Exhibit 11). Yet alternative data, machine learning, behavioural science are all beginning to make inroads into the investment process with over half the participants acknowledging the impact these changes are likely have on the asset management industry overall (see Exhibit 12).

"One of our clients now has the ability to process 30 years' worth of data in 16 minutes."
**FIX EMEA 2019 Panellist**

**Exhibits 11 and 12: How will the Asset Management Industry look in 5 years' time? / Will AI & ML be a major catalyst for change in the Asset Management Industry?**




*Source: FIX EMEA 2019 Audience Poll*

The ability to share data and information real-time will have a significant impact in the way in which investment and execution teams interact, making the process more collaborative and interactive. However, a critical factor in successful implementation will be those firms which are able to bridge internal cultural caps between traditional portfolio managers, traders and data scientists.

Expert investment techniques will continue to remain key however the changing market structure means traditional investment processes need to evolve. Increased communication between the different stakeholders will be essential in understanding what data is available and how it can contribute successfully to the investment process. Rather than remaining focused on access to the right data, the industry needs to now question whether we are asking the right questions of the data and what can be learnt from the results. This will enable firms to move from static datasets to more valuable multi-faceted streams of data which continue trigger a series of questions based on the answers as they become available.

One of the major challenges for the asset management industry as a result of this evolution is attracting and retaining the necessary talent. It was the view of some panellists that not everyone who claims to use AI/machine learning is using it correctly, and spurious correlations can become expensive mistakes. Current use of alternative data sources today continues to remain focused on verifying current investment themes used to oversee portfolio risk profiles rather than uncover new investment ideas and approaches.

As an industry, the technology stack remains underutilised as it has focused on proprietary development rather than collaborating with third party providers, which again comes down to greater standardisation in the production of data to facilitate better access and interrogation of data to provide value. Machine learning could in the future be used in trading flows in a similar manner to how it is currently used in retail – those who purchased a particular item were interested in which alternatives. Use of historical data will enable better predictions to be developed regarding expected behaviours under certain market conditions. New technologies such as the cloud will revolutionise both the volume of data processing, along with the time taken to complete this, facilitating the adoption of real-time hypotheses to assess potential outcomes. This requires wide-spread adoption of technology and innovation throughout organisations, rather than retaining silos between investment teams and their IT departments who have the knowledge and computing power. Overcoming current cultural resistance will be the first vital step in delivering necessary technological change to the investment process.

## Conclusion

European equity markets clearly remain in a state of flux post the introduction of MiFID II and ahead of the final outcome of Brexit. However, significant industry change is already underway, altering the traditional relationship with the buy and sell side, leading to what services are required and how these are provided as well as the roles individual industry participants now play in the wider market eco-structure.

One of the key regulatory objectives of MiFID II was to restore investor confidence in European Capital Markets through improving pre-trade price transparency. From a regulatory perspective, there is still limited success in moving trading back to lit continuous markets; the buy-side continue to seek alternatives and further proposed regulatory adjustments to periodic auctions or mid-point trading are unlikely to deliver given that they fail to address the core problem of HFT on continuous lit market trading.

Instead industry participants remain concerned on the ability to successfully enter and exit investment strategies. The ability to trade directly impacts European citizens' pension and savings plans as well as the capital raising processes of European governments and companies to reduce their cost of funding. As a result, the ability to access all pools of liquidity remains central to asset managers ability to help investors, companies and governments achieve their investment objectives. Any restriction of access to either EU or UK trading venues in the event of a no-deal Brexit will have significant impact on liquidity formation in European Capital Markets, potentially leading to an increase in the use of intermediaries and arbitrage. Ultimately whichever jurisdiction can offer the lowest cost to trade and deepest liquidity pool will emerge successful.

Dark trading continues to remain central for asset managers in reducing trading costs and delivering improved execution performance for end investors. The ability to trade at mid-price limits any unnecessary adverse market impact and reduces market volatility by synchronising of buy and sell order flow over time periods – removing any unnecessary "temporary" market impact. As the responsibility to source liquidity sits increasingly with the buy side along with the obligation to evidence best execution, the more alternative trading protocols will be adopted as they become available in the event of declining liquidity. This continued evolution of liquidity formation will require the industry to collaborate further to deliver necessary transparency to understanding how liquidity formation occurs, such as enhancements in identifying non-addressable liquidity leading to improved classification of true SI activity reducing noise in the SINT tape.

Political events will continue to make their mark on European markets. With the European Parliament, Commission and Council all set for change in the second half of 2019. Further European regulation is underway in terms of the Investment Firm Review (IFR) and the European Supervisory Authorities (ESA) Review[11]. The outcome of Brexit will dictate the level of divergence by the UK from future European regulatory change, potentially dramatically changing the shape of European Capital Markets. While the industry has successfully adjusted to MiFID II, no-one can remain complacent for what now lies ahead. Industry collaboration to address these challenges through the use of free and open standards has never been more critical for the European Capital Markets to thrive and survive.

[11] https://www.linkedin.com/pulse/brexit-100-days-counting-rebecca-healey/

## About the author

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Rebecca is considered to be one of Europe's leading industry voices on market structure, regulatory reform, and financial services technology. She has authored a plethora of qualitative research reports and commentary covering the impact of market regulation on all asset classes, changing market structure and developments in dark pools, HFT, and surveillance. She joined Liquidnet in July 2016 to use her 20 years' experience to collaborate and deliver research and insights for both the European equities and fixed income markets. Rebecca is also Co-Chair of the FIX Trading Community's EMEA Regulatory Subcommittee, dedicated to addressing real business and regulatory issues impacting multi-asset trading in global markets. She has held prior roles at TABB Group, Incisus Partners, the British Embassy in Bahrain, Credit Suisse, Goldman Sachs International, and Bankers Trust International.

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