

PRESS RELEASE

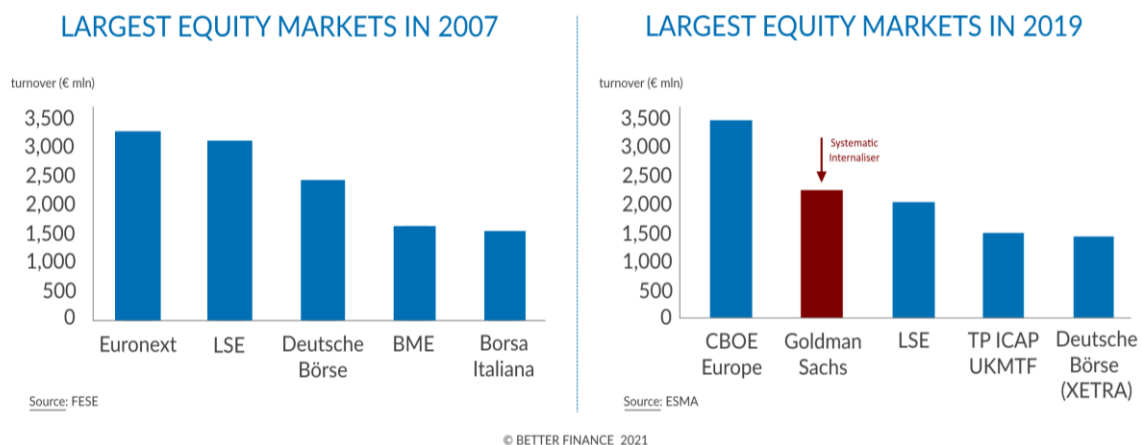
## Is the Trade Body of European Asset Managers Putting its Interests over End Investors?

**11 April 2022** – Last week, the fund industry warned that “*the EU is putting the interests of exchanges over investors*”.

A letter from EFAMA to the EU Authorities regarding the reform of EU rules on capital markets (“MIFIR Review” in EU jargon) opposes the compensation of securities exchanges for communicating their trade data to “dark” competitors and labels it as a “subsidy”. This actually disregards and hurts investors, especially EU citizens as non-professional individual investors. It would also hurt SME financing on equity markets where “retail” investors currently play a much bigger role than in the “blue chips”.

Indeed, asset managers (“*other people’s money*”) are not investors. Rather, they manage assets for investors, those who bear the risks and reap the rewards (net of fees) of investing. And end investors are mostly “retail” ones: EU citizens.

These demands from asset management companies would further discriminate against EU citizens as retail investors, and further crowd them out of capital markets, by once again favouring “dark” capital market venues instead of “lit” regulated markets (the securities exchanges), thereby hampering price formation and depriving retail investors of free, easily accessible, intelligible and transparent trade data provided by regulated markets<sup>1</sup>. This would be a further blow to EU regulated markets that would come on top of the recent and damaging evolution for EU retail investors, whose orders and trades are increasingly directly or indirectly captured by the well named “dark” venues:



This is a danger for the well-being of pension savers and middle classes who are about to be deprived of a real choice between:

- the dominant fee-laden and too often complex and ill-advised intermediated “packaged” retail investment products on the one hand,
- and the direct, simple, and cost-efficient capital market instruments such as listed equities, bonds and index ETFs on the other.

<sup>1</sup> See BETTER FINANCE, Consumer Access to EU Equity Trade Data (April 2021) BETTER FINANCE, available at: <https://betterfinance.eu/publication/capital-markets-union-at-risk-as-european-retail-investors-have-less-and-less-access-to-equity-market-data/>

As BETTER FINANCE wrote last year to the EU Commissioner (attached), this already happened in the bond markets to the detriment of people: direct bond investments by EU citizens collapsed in recent years, in particular due to the setting up of higher entry tickets (now often set at € 100 000 minimum per unit, also a level at which issuers are exempted from the requirement to publish a plain language standardised and short Summary Prospectus), de facto cornering retail investors solely into intermediated retail bond products, making them pay an average 1.86% in commissions annually (example for the majority of French retail investors<sup>2</sup>), on top of currently negative real bond returns. Does EFAMA want to replicate the same dark and retail investor-averse market structure for equities as was done for bond markets?

Our letter also pointed to the limited value of the “consolidated tape” project for retail investors.

Guillaume Prache, Managing Director of BETTER FINANCE, said: *“We reiterate our plea made since 2015<sup>3</sup> to bar dark capital market venues - Systematic Internalisers in particular – from dealing directly or indirectly with “retail” orders, unless they become as accessible and transparent to retail investors as Regulated Markets are.”*

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➔ [Annex below: Letter from BETTER FINANCE to EU Commissioner McGuinness on a “consolidated tape” for capital markets’ trade data, 3 June 2021](#)

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<sup>2</sup> BETTER FINANCE [Research Paper](#) on the Detrimental Effects of “Inducements” - Evidence & Arguments for Banning Inducements in Retail Investment Services, February 2022

<sup>3</sup> BETTER FINANCE [Briefing Paper](#), "An EU Capital Market Union for Growth, Jobs and Citizens", May 2015

Brussels, 3 June 2021

Commissioner Mairead McGuinness  
Financial services, financial stability and Capital Markets Union  
Rue de la Loi / Wetstraat 200  
1049 Brussels - Belgium

Re: A consolidated tape for capital markets trade data

Dear Commissioner, dear Ms. McGuinness,

I am writing to you on behalf of the EU citizens who act or could act as individual non-professional (called “retail” in MiFID) investors with regard to the EC’s projects on the consolidated tape (“CT”), as we hear that the impact assessment would be finalized soon, although we have not been consulted on this.

Again, we very much appreciate your firm stand for a CMU that works for people and businesses and to “*place retail investors at the heart of (y)our policies*”. And this is why we are hopeful you will take our positions into consideration.

They are the following:

**1. There are other more urgent and more serious issues to address to improve EU capital market structures for the real economy.**

We are concerned an EU focus on the CT would divert a lot of attention, time, and efforts of the EC for a long time from the very urgent problems to fix:

- the fastly expanding and now dominating share of dark and so-called internalising traders (SIs) who are also dealing directly or indirectly with “retail” orders and trades to profit from the bid-ask spreads;
- the lack of easy and intelligible access to market data from “non-lit” market venues for EU citizens as individual investors (as evidenced by [our recently published findings on access to equity trade data for retail investors](#));
- the highly questionable data quality of “non-lit” venues also for EU regulators themselves as some financial institutions are even challenging the correctness of ESMA’s equity trading statistics. One cannot manage what he cannot measure: this must be fixed now in our view.
- Payments For (retail) Order Flows (“PFOF”): these practices which work to the sole detriment of “retail” investors and on which the EU regulator is blind, should at the very least be subject to full disclosure like in the US (SEC rule 606) or – better – banned, as some Member States have already decided.

**2. A CT is very unlikely to bring any tangible benefits to “retail” investors and would likely increase costs of trading for them.**

- We enjoyed a de facto CT until 2007: 70% of trades were on “lit” markets. We had 70% of the data very easily and intelligible for non-professional investors. Addressing the issues above would already get us back closer to this situation we enjoyed prior to MiFID I.

- Assuming “retail” investors would have easy, free and intelligible access to a CT of trade data (this is a huge “if”, see below para. 3 and our recent report on retail access to equity trade data), this would be of little use to them due to the lack of electronic connectivity of retail brokers to a majority of the many EU market venues. Most of the MTFs and SIs have never invested in being able to interconnect with the local clearing and settlement infrastructure on which most retail brokers and end investors rely on. In other words, a CT would not help the best execution of “retail” orders.
  - It will be a long-term project, more difficult and more costly to achieve than in the US due to the much higher fragmentation of EU capital markets, and the current large gap in terms of data quality between “lit” RMs and the now dominant new “darker” market operators. In the meantime, the share of “lit” market venues is likely to continue dwindling, hurting “retail” equity investors even further.
3. **However, if this elusive CT would be the main approach of EU policymakers to all the problems mentioned above, then we plead for at least three requisites:**
- o **Start with bond markets** which are much worse markets than equity ones in terms of transparency, liquidity and “retail” access: we have been literally “kicked out” in recent years from bond markets (EU households’ listed bonds assets are down 38% since 2015, the starting year of the CMU initiative): we are now left with no real alternative to the negative net real yields of bank savings for capital guaranteed (at maturity) short to mid-term investments.
  - o **Make the CT work for people:** The CT is de facto not accessible to “retail” investors in the US. An EU one, on the contrary, should be easy and free to access, as well as intelligible for “retail” investors.
  - o Of course (like in the US this time) it should be **governed (not run) by EU public authorities**, not by the financial industry.

We would of course be happy to provide more detailed assessments and policy proposals if you so wish. Looking very much forward to your response.

Best regards,



Guillaume Prache  
Managing Director