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Better Finance demands that “dark” capital market “venues” such as “Systematic Internalisers” treat individual investors as fairly as the Regulated Markets

ESMA Hearing on MiFID II / MiFIR Consultation – Paris, 19 February 2015

Brussels, 20 February 2015 – Guillaume Prache, Managing Director of Better Finance, the European Federation of Financial Services Users, raised the issue of the Systematic Internalisers (SIs) – typically large banks – which offer securities trading to individual non-professional investors without complying with the best execution rules. The SI “market venue” was created by the European MiFID I Directive, which came into force in 2007.

MiFID I generated the fragmentation of European capital markets by creating additional “market venues” to the existing regulated stock exchanges to the sole benefit of professional investors and to the detriment of real economy end users (non-financial issuers and individual investors). MiFID I added such market venues as “MTFs” (Multiple Trading Facilities”) and SIs. These new market places are mostly – if not totally – unknown to EU citizens as individual investors, and usually the trade data to be provided to them do not include those from the MTFs and SIs, but only those from the stock exchanges, as the MiFID-induced capital markets fragmentation implies the fragmentation of trade data as well. Since then, commercial firms do provide “consolidated” trade data but at a very high price that individual investors cannot afford.

However, these new venues sometimes market securities trading directly to individual investors, in particular in the field of equity warrants. Better Finance collected evidence that certain SIs systematically execute buy orders from individual investors at the upper limit of the bid/offer spread at the time, and sell orders at the lower limit of the bid/offer spread, instead of executing these buy or sell orders at prices within the

bid/offer spread based on the matching of other orders, as requested by best execution rules.

At the ESMA hearing on February 19 2015, Better Finance asked if the new technical standards proposed by ESMA would help ending this investor detriment. ESMA replied that indeed in the future data collected from the SIs together with supervision actions should improve the compliance of SIs with best execution requirements.

Better Finance demands that the new market venues such as SIs comply with the same best execution and transparency requirements as the regulated markets (stock exchanges), or that they are barred from doing any business with individual investors.

Contact information:

Policy Officer
Phone
Email

Juan Manuel Viver
0032 (0)2 514 37 77
viver@betterfinance.eu

