BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

BETTER FINANCE responds to

ESMA call for evidence on the market structure of European equity markets

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Executive Summary

BETTER FINANCE welcomes ESMA's Call for Evidence on the market structure of European equity markets. While the questions are technical in nature, the key issue for retail investors should not only be whether markets offer more apparent execution channels, lower explicit transaction costs or wider access through digital brokers. It is also whether current market conditions, and possible distortions within them, support broader / more direct access to EU markets that are fair, transparent and capable of delivering verifiable execution outcomes, while preserving robust public price formation in the long run. This includes limiting hidden implicit costs and also consider avoiding adverse effects on actual trading mathods and access. This also matters for the attractiveness of EU public markets and IPOs, which ultimately depend on visible liquidity, reliable price discovery and trusted secondary markets.

In its report, ESMA's evidence shows a structural shift in EU equity trading: lit continuous trading on regulated markets fell from around 35% of turnover in 2022 to 27% in 2025, while non-intragroup SI trading rose from 5.1% in Q1 2022 to 10% in Q4 2025. OTC trading also remains material, at around 7-8% of turnover, while CLOB + closing-auction activity on primary markets declined from around 72% in 2022 to 64% in 2025. At the same time, closing auctions, frequent batch auctions, systematic internalisers and other 'bilateral' or reference-price-based mechanisms have gained importance. In plain terms: more trading appears to take place away from the main lit / price-forming markets, while still relying on the prices those markets generate. Although addressable liquidity appears broadly stable,

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this may conceal a more qualitative concern: more execution may take place in mechanisms that rely on prices formed elsewhere, while contributing less directly to public price formation.

Two fragmentation dynamics should be acknowledged: cross-market fragmentation, where liquidity is dispersed across national / EU trading venues and remains difficult to access seamlessly across borders; and intra-market fragmentation, where liquidity within the same instrument is increasingly dispersed across execution models. From a retail perspective, the core concern is the latter: part of the current market structure shifts liquidity away from open, lit and multilateral markets towards more proprietary / bilateral execution systems (often managed by investment banks or specialised firms). While the current envisaged MISP reforms, including the Consolidated Tape and related trading / post-trading measures, provide important tools to support market integration, they do not fully address the inherent distortions created by intra-market fragmentation, where alternative execution systems compete with regulated markets while relying on prices formed elsewhere. Such instances of "bilateralisation" may divert liquidity away from lit regulated markets, which are essential to orderly trading, neutral price formation and fairer access to liquidity. A connected issue is that liquidity executed in dark pools, SIs or other less transparent mechanisms may be less visible to end-investors and may weaken confidence in the wider equity market. Reported exchange volumes may therefore understate the overall level of trading in European stocks, while visible lit liquidity may appear thinner than it should. This can also affect IPOs and issuer confidence: if secondary trading is quickly absorbed by internalisation or bilateral execution channels, issuers and retail investors may perceive weaker market depth, poorer market sentiment and less reliable price discovery.

For these reasons, BETTER FINANCE's overall call is to re-open the market-structure discussion and ensure a better level playing field between internalisers and regulated markets. Alternative / bilateral execution models should remain possible, but their use cases should be justified by meaningful price improvement, transparency and appropriate safeguards, rather than being normalised as default retail execution channels. Under the MISP reform, retail investors should expect better market conditions and stronger consolidation of lit liquidity pools, including improved cross-border access and reduced intermediation. Ultimately, market integration should support a price-discovery-first structure, where competition improves retail outcomes without weakening the lit markets on which fair execution, issuer confidence and long-term EU market attractiveness depend.
In conclusion, retail participation in EU capital markets will only be strengthened if lower explicit costs are accompanied by implicit ones that result from orderely markets relying on robust public prices and

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safeguards against 'hidden' implicit costs. European equity markets must remain orderly, transparent, competitive, resilient and verifiable for end-investors – whilst much must be achieved to rectify current imbalances and fragmentation.

In detail, on selected items, we argue:

- **On market structure / addressable liquidity:** ESMA should distinguish more clearly between addressable liquidity, price-forming liquidity and retail-accessible liquidity. A transaction may be "addressable" in technical terms, yet remain unavailable / invisible / difficult to verify for the retail investor whose order is routed by a broker or further intermediaries. Conversely, liquidity reported as available may not necessarily contribute meaningfully to public price formation.
- **On SI-OTC / XOFF reporting:** transactions reported as XOFF by firms that also act as SIs deserve closer scrutiny, as they may blur the boundary between bilateral SI execution, OTC execution and non-addressable liquidity. Where EU retail flow is involved, it should be clear whether execution was exposed to competitive liquidity or internalised by a broker / affiliated liquidity provider.
- **On the decline of lit continuous trading:** the reduction of CLOB / lit trading should be treated as a market-quality and investor-protection concern, not merely as a normal evolution in execution choice. Lit, multilateral markets remain the main mechanism through which buying and selling interests interact transparently, continuously and, in principle, on a non-discriminatory basis.
- **On price formation / reference-price dependency:** where a decreasing share of trading contributes to lit price formation while a growing share references those prices, the robustness of price discovery may deteriorate. Retail investors may still receive executions that appear marginally better than the displayed best bid / offer, but the benchmark itself may become less reliable if lit depth, spreads or time at EBBO worsen.
- **On SIs / internalisation:** BETTER FINANCE does not oppose SIs as such, but their growth should not be driven by regulatory advantages, weaker transparency, tick-size flexibility, midpoint / off-tick execution or broker routing incentives. Where retail flow is internalised or routed to a single liquidity provider, price improvement should be genuine, meaningful and verifiable – not merely rely on nominal (often virtual) or sub-tick.
- **On explicit vs implicit costs:** lower commissions, digital access or narrower displayed spreads should not be treated as sufficient proof of better outcomes. Retail execution quality also depends on implicit costs, effective spreads, routing concentration, execution certainty, market impact, conflicts of interest and the robustness of the underlying price-formation process over the long run.
- **On lit-market alternatives:** where brokers rely on bilateral / internalised / single-venue execution models, retail investors should have access, in principle, to at least one meaningful lit-market execution alternative. This would support practical choice, verifiability and exposure to genuine market competition, while mitigating routing dependency and "trade halt"-like risks in quasi-bilateral channels and bypass conflict of interest that may arise.
- **On less liquid instruments / SMEs:** we find dispersion of liquidity to be particularly harmful where instruments are less liquid, such as SMEs' shares. Retail investors may be locked into the "securities on offer" and execution arrangements of a given broker, while issuers may face weaker visible liquidity and less reliable secondary-market depth.
- **On issuer confidence / IPO attractiveness:** a healthy listing environment depends on a liquid, transparent and trusted secondary market. If secondary

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trading is absorbed by bilateral or less transparent channels, issuers and investors may face less visible liquidity, weaker valuation signals and poorer market sentiment, ultimately affecting IPO attractiveness.

- **On FBAs, dark trading and benchmark mechanisms:** ESMA should look beyond headline dark-trading figures and also monitor any substitution effects, including movement from formal dark pools into FBAs, SI midpoint execution or benchmark mechanisms.
- **On closing auctions:** official closing auctions should remain robust, transparent and supported by meaningful order interaction, given their importance for funds, ETFs, benchmarks and end-of-day valuation. Alternative trade-at-close / guaranteed-close models should be clearly distinguished from mechanisms that actually form the closing price.
- **On member preferencing:** we are doubtful of any practice that undermines price priority and/or equal access, especially where transparency or fair execution may be affected; such practices should be restricted / calibrated. Yet, this should be assessed across the whole execution landscape, so that transparent venues are not constrained while bilateral / single-market-maker models retain broader discretion. The aim should be to preserve fair and orderly markets without weakening lit venues' ability to compete with less transparent execution models.
- **On the Consolidated Tape:** the CT should support retail and supervisory verification of execution routing and best-execution outcomes. Post-trade CT data is paramount and should become a standard reference point to compare brokers' execution practices. Pre-trade data with venue attribution may also be useful, not as a retail trading tool, but to assess how bilateral models rely on reference prices and whether they contribute to, or merely use, lit market price formation, potentially creating further imbalances. In this context, we support full SI reporting, especially for retail-related trades. Finally, to make such checks operational for retail investors / supervisors, brokers should provide accurate timestamps, venue information and relevant reference prices.
- **On the level playing field:** ESMA should tackle current unintended advantages for certain bilateral execution models (including through tick-size treatment, midpoint execution, pre-trade transparency, reporting practices, access conditions or post-trade flagging). Whilst the objective is not to prescribe one trading model, it should to ensure that competition improves retail outcomes without weakening public price formation.
- **On the broader SIU / MISP objective:** market integration should not make bilateral execution more scalable by default, but should facilitate the operation and consolidation of lit trading. Retail investors should benefit from broader cross-border access, reduced intermediation, more visible liquidity and more verifiable execution outcomes, with lit / multilateral markets remaining the anchor of EU price discovery. This should ultimately strengthen the competitiveness of EU public markets / IPOs, rather than create further advantages for proprietary or internalised execution models.

Keywords : Market structure; European Equity Trading, Price formation; Execution Methods; MiFIR, MiFID, best execution

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About BETTER FINANCE

BETTER FINANCE is the European federation representing individual savers, investors, and financial services users. Dedicated to promoting transparency, fairness, and accountability, it works to ensure that Europe's financial system serves the real economy and the best interests of its citizens. BETTER FINANCE is a European federation consisting of 40 member organisations across 25 countries. It represents millions of individual investors and other users of financial services and has operated with EU support since 2012. We empower citizens with independent information and education, advocate for fair access to financial markets, and call for policies that place people at the heart of financial decision-making. Through participation in EU advisory groups, research-based advocacy, educational initiatives, and campaigns, we strengthen investor protection, enhance financial literacy, and advocate for effective supervision and governance.

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Selected Questions - answers

Q1 Do you agree with the description of the market structure summarised in Figure 1 for the purpose of the study in sections 3 and 4 based on transaction reporting data? If not, could you provide an alternative description that you consider more adapted to the reality of the European trading landscape for shares

BETTER FINANCE is not a technical operator of financial markets, since we represent end-users of financial services, including retail investors. From this perspective, we take note of ESMA's Figure 1 and consider it a useful methodological starting point to describe the European equity trading landscape. While its description may be further refined, we highlight below some general considerations.

We find Figure 1 to usefully illustrate the diversity of execution channels, yet it could also be complemented by a clearer distinction between addressable liquidity, price-forming liquidity and 'retail-accessible liquidity'. A trade may be technically addressable for professional counterparties but still remain unavailable (invisible or difficult to verify) for the retail investor whose order is routed by a broker or further intermediaries. Conversely, certain liquidity reported as available to the market may not necessarily contribute meaningfully to public price formation.

For the average (non-expert) retail investor, the first question is often not whether an order is technically classified as on-book or off-book, or whether liquidity is addressable or non-addressable. In practice, many retail investors may have limited influence over the execution venue, while some may not know precisely where or how their order is executed (especially when executed off-exchange): access to liquidity is largely mediated by brokers, trading apps under varied routing arrangements.

The illustration of said market structure table therefore has decisive implications for retail investors through broker conduct, execution-policy transparency and the practical verifiability of execution outcomes.

In this respect, we maintain that the key operational question is whether a (retail) transaction contributes to transparent price formation, market depth, narrower spreads and verifiable best execution. For this, brokers and execution venues (all types) need to provide sufficiently accurate information, including timestamps, routing information, venue identification and execution-price comparisons. Without such transparency, retail investors cannot properly assess whether their order has benefited from genuine market competition, fair access to liquidity and meaningful price improvement. For these reasons, BETTER FINANCE cautions against the (quasi) bilateral capture of retail order flow, especially where it may create imbalances in market conditions and price discovery while delivering no meaningful or only marginal incremental price improvement.

Furthermore, this issue should also be considered in the broader context of EU market integration. Retail investors should benefit from wider access to lit and transparent markets, while market integration should not compromise lit trading mechanisms in favour of opaque arrangements. Robust EU price formation and

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the attractiveness of EU public markets and IPOs should be strengthened, not weakened.
Finally, ESMA should also keep under its radar, including through a targeted review, the proportion of trading in EEA shares taking place outside EEA trading venues, notably where this may affect the operation of the share trading obligation, the robustness of EU lit price formation and, ultimately, the ability of end-investors to verify execution quality.

Q2. Do you have any insights on the XOFF transactions reported by investment firms who also act as an SI (SI-OTC trades)?

BETTER FINANCE does not have access to proprietary transaction data on SI-OTC trades. However, we concur that this category deserves closer scrutiny in the technical reporting chain. XOFF transactions reported by investment firms that also have SI activity may obscure the boundary between bilateral SI execution, OTC execution and non-addressable transactions, unless reporting clearly identifies the capacity in which the firm acted and the nature of the transaction.
We would therefore welcome further identification and analysis of these trades, including why they are reported as XOFF rather than as SI transactions, whether they involve principal or riskless-principal execution, and whether affiliated entities or internal routing arrangements are involved. ESMA should also assess whether retail-size XOFF trades by firms with SI activity reflect genuine OTC circumstances or functionally resemble internalised execution outside the more visible SI framework.
More specifically, where EU retail flow is involved, it should always be clear whether the execution was exposed to competitive liquidity, or whether it was internalised by the broker or an affiliated liquidity provider. This also points to the need for retail investors to have access, at least in practice, to a lit trading option and to verifiable execution outcomes as an important pre-requisite for MiFID II best execution framework.

Q3. Do you agree with the general trends identified regarding on-book vs. off-book trading, and addressable vs. non-addressable liquidity? What other trends do you consider relevant, also in terms of competitive pressures?.

BETTER FINANCE agrees the general trends identified, despite the stressed data limitations including UK turnover in EEA shares and issues relating to reporting quality and completeness by some market participants.
From a retail investor perspective, the headline stability of addressable liquidity should not hide a more qualitative, and potentially detrimental, shift: lit continuous trading has declined, while FBAs, closing mechanisms and SI activity have grown. One key concern is the continued shift of trading activity away from transparent, price-forming venues towards bilateral and less accessible execution channels. More execution appears to rely on prices formed elsewhere, while contributing less to the public price formation process. This may reduce the visibility and accessibility of liquidity for end-investors and raises structural questions, over the

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long run, about whether current market structures deliver the best outcomes for retail participation.
We believe fragmentation should therefore be assessed not only in terms of competition, but also in terms of its impact on fair and transparent price formation, market efficiency and overall investor outcomes. While competition between execution models is valuable where it improves execution quality and lowers costs without distorting spreads, it should not be driven by regulatory differences that favour bilateral or less transparent mechanisms over lit, multilateral and price-forming markets. Examples of potentially ill-suited asymmetries between execution models include an uneven playing field on tick-size flexibility, midpoint or off-tick execution, pre-trade transparency requirements, access conditions and post-trade reporting quality. Further, broker(-chain) incentives, routing defaults such as single-venue or single-market-maker arrangements, as well as the marketed some commission-free trading, may steer retail order flow away from lit venues. We further caution that this may create a new form of lock-in to proprietary or bilateral execution models, without ensuring meaningful incremental price improvement, optimal outcomes nor adequate safeguards. In fact, BETTER FINANCE also notes reported instances where retail investors faced execution unavailability or interruption (under "trade halt"-like communication) in quasi-bilateral execution channels, with limited information provided, while the relevant listing market remained open. Such cases heighten concerns around conflicts of interest, routing dependency and sub-optimal execution quality. This reinforces our call for more transparency and practical choice in routing arrangements, including access to at least one lit trading venue when other execution models are offered to help mitigate detrimental trading circumstances, while fostering the integration of lit markets and avoiding the development of execution models that increase retail dependence on intermediaries; rather than open and competitive trading environments.

Q4 Do you have any concerns on the impact of the identified trends on the general functioning of the EEA markets for shares? In your view, what are the implications of the relative decreasing trend in trading on CLOB for the effective price formation in the EEA markets for shares? What are the implications on price formation should this trend persist or even accelerate?.

Yes; *and see also our response to Q3*. The gradual decline of CLOB trading is a central investor-protection concern, as lit, multilateral trading venues play a key role in ensuring transparent and reliable price formation. Lit order books remain the main mechanism through which buying and selling interests interact transparently, continuously and – in principle – on a non-discriminatory basis. They also in turn themselves generate key reference prices used elsewhere for other execution mechanisms (such as SIs, FBAs, dark pools and benchmark or closed execution methiods).
Shall a decreasing share of trading contribute to lit price formation while a growing share references those prices, we therefore may expect the robustness of price discovery may deteriorate. While retail investors may still receive executions that appear marginally better than the displayed best bid/offer the benchmark against

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which this improvement is measured may itself become less reliable if lit depth, spreads or time at EBBO worsen; creating a distorted market. Therefore, we believe that if this trend persists or accelerates, EU markets may risk becoming increasingly dependent on broker-dealer/broker-driven, or internalised models or reference-price mechanism; where transparency, safeguards and competitive price-formation pressures are lower. Next to market distortion, we call ESMA to investigate further risk of conflicts of interest and the extent to which best execution becomes less verifiable, especially where execution is routed through affiliated brokers, single liquidity providers or less transparent arrangements. Eventually, for retail investors in particular, confidence in markets depends on fair and observable prices, effective access to liquidity and the ability to verify execution outcomes. Safeguarding a strong role for widely accessible, consolidated lit markets is therefore important not only for efficiency, but also for trust and participation in EU capital markets. Alternative execution mechanisms may complement this ecosystem (under stricter conditions, use-case and a genuine level playing field) but they should not become a default substitute for the pan-European lit liquidity needed to anchor price formation.

Q5 As the choice of trading facility has increased, it is important for ESMA to understand why market participants are choosing the execution facilities that they do. What are the drivers that you consider most relevant when choosing on which execution venue and with which execution method to trade?

Depending on their broker, many retail investors have limited to no practical choice over their execution facility, while most remain primarily sensitive to the apparent execution price and explicit transaction costs. Implicit price assessment is currently more likely to be conducted by experienced investors. As a general matter, this should call for a market structure that supports tighter spreads, market depth and accessible liquidity.

In many cases, the actual routing decision is made at the interface level by the investment firm offering the service, the trading app or the order-routing system, sometimes within intermediated models such as banking distribution, internalised execution or "trading-as-a-service" arrangements (sometimes displaying "off-exchange" as the sole information). This reinforces the need for retail investors to have clear information and, where feasible, practical access to a lit market option alongside other execution models.

On the interface / investment firm side, the drivers for choosing an execution venue or method are manifold and can include a combination of commercial, operational and regulatory factors, such as reducing explicit execution costs, connectivity, execution certainty, speed, market impact, order size, quote availability and settlement arrangements. Other drivers may be less visible to the retail client and more specific to the intermediary, including counterparty relationships, commercial arrangements with liquidity providers, internalisation benefits, execution discretion, affiliated entities or regulatory flexibility.

These drivers should not be assessed only from the intermediary's perspective. A routing decision may be commercially or operationally efficient for a broker, while being less favourable for the retail client or for market quality over time. In

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particular, low explicit commissions should not mask implicit execution costs, limited venue access, routing concentration or reduced exposure to open market competition.
In fine, regulatory asymmetries between bilateral and multilateral trading models may also distort incentives and steer order flow away from lit markets, not purely on execution quality, but due to framework design. We believe a retail investor should not be locked by default into one (quasi) bilateral execution channel, one market maker or one affiliated liquidity provider. Where brokers use bilateral or internalised execution models, retail clients should at least have clear information on this model and practical access to a lit venue option alongside other execution methods.
Further, MiFID II best execution should be made more operational, comparable and verifiable, with less reliance on discretionary policy practices. This should include appropriate reporting requirements and simple, comparable explanations of the venues and liquidity providers used, the proportion of retail flow routed to each venue type, the use of affiliated or preferred counterparties, and how the chosen routing compares with credible lit-market alternatives. Operationalising best-execution checks is essential: this should include accurate execution timestamps and, where available, reference to consolidated market data so that execution outcomes can be compared against observable EBBO / lit-market conditions.

Q6 What are your experiences with regard to gaining access to liquidity? To what extent are you, either directly or via a broker, able to access liquidity on relevant trading venues or relevant systematic internalisers? If not, please explain what stands in the way of gaining such access.

As exposed previously, BETTER FINANCE represents retail investors, who normally access liquidity through brokers, banks or other investment platforms such as neobrokers. In practice, many retail investors rarely have a meaningful choice between RMs, MTFs, SIs or other execution mechanisms, especially where firms provide limited alternatives to their default routing models. They may also be unaware that their orders are split or routed to a single venue, a single market maker, an affiliated SI or a limited set of liquidity providers.
While multilateral trading venues may provide open, transparent and non-discriminatory access to liquidity for members, this does not automatically translate into effective retail access where brokers are not direct members, do not connect to certain venues, or choose not to offer access to them. Conversely, bilateral environments may provide execution for selected counterparties, but are less transparent and less accessible to the wider market. This creates uneven access to liquidity depending on the broker's connectivity, commercial arrangements and routing policy.
Overall, the increasing dispersion of liquidity also creates varied intermediation models, which may reduce the visibility of execution quality and make best-execution monitoring more difficult across the chain. Direct connectivity to markets may also prove costly or complex for some intermediaries, increasing the incentive to rely on internalised or outsourced execution models that may be

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cheaper operationally but not necessarily better for retail investors or market quality. As a consequence, retail investors may also be locked into the "securities on offer" and execution arrangements of a given broker, requiring them to use several providers depending on their access needs. This is particularly relevant for less liquid instruments, including SMEs, where access may remain difficult both through SIs and lit markets.

The increasing dispersion of liquidity therefore raises concerns around the overall accessibility and visibility of market liquidity for end-investors. The upcoming consolidated tape can help mitigate this (improving visibility across pan-EU equity markets), provided its use case is supported by broker-level execution information; i.e. clear venue attribution and appropriate timestamps. The priority should be to enable robust ex-post checks: investors and supervisors should be able to verify whether retail orders accessed competitive liquidity and received fair execution outcomes. The CT should also be integrated into brokers' client-facing execution information as a reference point, so that retail investors can better understand market conditions or routing choices impact; without serving a trading tool; and CT should be established a reference benchmark to compare brokers execution quality.

Q7 If you are an issuer, how do you see these market developments? Do you consider this an attractive environment for listing? If not, why?

BETTER FINANCE is not an issuer; yet from an investor-protection and market-development perspective, we consider that a healthy listing environment equally depends on a liquid, transparent and trusted secondary market. Companies will be more willing to list where liquidity is visible, accessible cross-border and supports robust valuation.

Therefore, as a growing proportion of trading migrates to bilateral or less transparent mechanisms, issuers and investors alike may face less visible liquidity and less robust price discovery, ultimately affecting valuation and IPO attractiveness. We stress that the Savings and Investments Union will not be achieved only by increasing household investment flows. It also requires accountable governance, on the one hand, and confidence that listed markets provide fair, transparent and verifiable execution, on the other.

Eventually, strengthening lit, multilateral and price-forming markets is paramount to support both investor protection and the attractiveness of EU listings. Moreover, we call for innovation and reduced intermediation to help reduce listing costs, improve market access and enhance direct issuer-investor relations, without weakening the quality of secondary-market price formation. In that regard, an EU-wide listing segment could prove beneficial by supporting issuer visibility and access from a broader retail investor base, provided it is connected to transparent secondary-market liquidity, effective consolidated-tape visibility and non-discriminatory cross-border access. It should not become another fragmented layer, but rather support integrated EU price formation and wider retail participation.

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Q8 What conclusions would you draw from the distribution of liquidity across EEA ISINs? Do you identify any policy recommendations in this context, with a view to enhancing price formation while ensuring a level playing field across different types of venues? Do you have explanations for the high share of OTC trading observed in the ISIN's of some jurisdictions?

As the measured dark trading on EU trading venues appears relatively stable, this is yet only reassuring in part, as the policy concern is not limited to formal dark trading under the RP or LIS waivers, but also to the extent such activity shifts into alternative non-transparent ('bilateral') mechanisms under conditions that the distinction between lit and dark trading becomes increasingly complex – in particular for retail investors – and may not fully capture the diversity of various execution models. In principle, transactions executed under waivers, or through mechanisms with limited pre-trade transparency, should therefore be considered when assessing the evolution of "dark" activity beyond the standard definitions. Including SI midpoint execution and alternative closing mechanisms, where they import prices from lit markets while contributing little to public price formation. . From a retail perspective, the main risk is indirect but real: excessive reliance on reference-price execution can weaken lit depth and the reliability of the public prices used for best-execution comparisons. ESMA should therefore look beyond headline indicators and monitor substitution effects, in particular following the single volume cap, to assess whether flow moves from formal dark pools into mechanisms with similar economic effects. More generally, BETTER FINANCE stresses that similar concerns around OTC dominance, wider spreads and (very) limited retail access also arise in other markets, such as bonds, but this requires a separate assessment beyond the scope of this question.

Q11 What is your view on the evolution and effects of trading in closing auctions on the EU markets? Do you agree with the presented rationale for trading in closing auctions or do you consider other drivers more important for explaining the growth and increasing significance of closing auctions trading?

From a retail perspective, the issue is mostly indirect but important: closing prices affect fund and ETF valuations, portfolio reporting and benchmark-linked outcomes. Closing auctions should therefore remain robust, transparent and supported by meaningful order interaction The growth of closing auctions appears consistent with structural demand, including passive investing, index tracking, ETF creation/redemption processes and the need for reliable end-of-day execution. In principle, BETTER FINANCE agrees that official closing auctions are price-forming and may warrant distinction from other specific trade-at-close mechanisms that merely execute at a price formed elsewhere. This distinction should be envisaged to further understand whether alternative mechanisms contribute to price discovery or rely on the primary closing auction.

Q12 Alternative closing mechanisms offered by MTFs or SIs may provide execution choice, but they may also fragment closing liquidity where they execute at the official closing price without contributing to its formation. ESMA should assess if such mechanisms materially drain liquidity from official

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auctions or weaken closing price formation. The priority should be transparency: a specific post-trade flag for transactions executed at the closing price, comparable in purpose to a CLSE-type flag, would help distinguish price-forming closing auctions from non-price-forming trade-at-close executions.

We acknowledge Alternative closing mechanisms offered by MTFs or SIs may provide execution choice, but they may also fragment closing liquidity where they execute at the official closing price without contributing to its formation. ESMA should assess if such mechanisms materially drain liquidity from official auctions or weaken closing price formation. The priority should be transparency: a specific post-trade flag for transactions executed at the closing price, comparable in purpose to a CLSE-type flag, would help distinguish price-forming closing auctions from non-price-forming trade-at-close executions.

Q13 What will be in your view the effects of 24h/ extended trading ours on closing auctions?

As exposed, extended or 24-hour trading could have mixed effects. The official closing auction is likely to remain the key reference point for fund valuation, ETF processes, index tracking and benchmarks, but material extended-hours trading could dilute liquidity around the close or create lower-quality parallel reference prices. It is up to ESMA to assess the impact on closing-auction depth, volatility, order imbalances and retail execution outcomes.

Q14 Are there any structural shifts that you noticed, which you believe the competent authorities should monitor? Would you like to highlight any concerns/issues at this stage? Do you see a need for specific regulatory interventions (please provide details relating them possibly to the data and observations available)?

Competent authorities should monitor the fragmentation of closing liquidity between official auctions, MTF trade-at-close mechanisms and SI guaranteed-close models. The key question is whether alternative mechanisms contribute to price formation or rely on prices formed elsewhere. ESMA should assess this through clear venue-type identification and under trade-at-close flags. At this stage, transparency and monitoring should be prioritised over a ban, but additional safeguards may be needed; in particular shall alternative mechanisms materially weaken official closing price formation.

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Q20 What is your view on the evolution of trading of SIs on the EEA markets? What are the main drivers of their growth?

As previously introduced, BETTER FINANCE considers that, as SI trading has grown significantly, it should be treated as a core market-structure and retail-investor issue. The main drivers appear to include regulatory flexibility, midpoint and off-tick execution, lower or different pre-trade transparency obligations, counterparty selection, broker connectivity and internalisation strategies, execution certainty, and commercial relationships between brokers and liquidity providers.
While SIs can play a useful role for certain trades, their growth raises concerns where it comes at the expense of lit, multilateral and price-forming markets and, over the long run, market integrity. This is especially true where SI activity captures smaller orders or retail flow, and where execution quality is difficult for the investor to verify or compare.
The policy objective should not be the straight prohibition of SIs, but to ensure that they do not benefit from regulatory advantages or regulatory/national arbitrage. In fine, they should not further fragment EU capital markets, undermine lit markets or weaken public price formation. Their quoting, price improvement, tick-size treatment, post-trade transparency and relationships with affiliated brokers should also be subject to more robust and comparable standards. As exposed previously, additional safeguards may also be needed, including mandating practical broker access to at least one lit venue option (when a bilateral execution or unique execution venue is selected for a security), evidence of actual and meaningful incremental price improvement, retail-flow flagging, and genuine transparency obligations. SIs should not be allowed to substitute the public price-formation and market-quality role of lit venues. BETTER FINANCE therefore supports key market-structure adjustments to level the playing field between bilateral and multulateral regulated operators, while keeping the objectives of EU market consolidation, fair competition and investor protection in mind.

Q21 Does this picture reflect the trends you observe in SI trading? Do SI offer trading for both large and small sizes? Do these different trade size reflect different types of clients / SI businesses?

The picture appears to broadly reflects the observed trend that SIs execute both large and small trades; which may be an indicator of increasing retail flow capture (among other factor creating smaller transaction slices). As retail orders are usually smaller, ESMA analysis and question are pertinent.
Overall, the increasing prevalence of smaller transactions within SI environments also raises questions about the appropriateness of execution venues for different types of orders and investors at hand. This highlights the need for proper flagging to draw the right conclusions on client type, trade size and execution method. In particular, ESMA should assess whether the growth of small-size SI trading reflects retail-like flow being captured under a lighter transparency and tick-size framework, especially where small executions are systematically internalised or executed sub-tick / at midpoint rather than exposed to lit, multilateral competition.

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While SIs may play a useful role in facilitating large / block or bespoke trades, smaller orders could often benefit from execution in transparent, multilateral environments where prices are publicly observable, liquidity is aggregated, spreads may be tighter, and competition between orders contributes directly to price formation. The impact of implicit costs, including spread costs, should not be neglected. For retail investors to benefit from SI execution, any claimed price improvement should be genuine, meaningful and verifiable, rather than merely incremental in a way that diverts flow from lit markets. This also calls for further assessment of tick-size and midpoint rules.
At the end, for retail investors, what remains important is not only whether the SI filled the order, but whether the execution was objectively better than available lit alternatives after considering price, spread / implicit costs, fairness of execution, non-discrimination, explicit costs and broader market-quality effects – all of said elements are harder to verify in bilateral systems. Therefore, BETTER FINANCE supports market-structure adjustments that encourage the exposure of smaller trades to transparent, multilateral environments, as this could enhance transparency and support better outcomes for retail investors, without undermining genuine liquidity provision for specific or bespoke execution needs. This calls to level the playing field (see previous questions). Further, BETTER FINANCE also supports more granular SI reporting by trade size, execution method, broker affiliation and operational retail client-category flagging. This should help distinguish genuinely bespoke SI business models from systematic small-order internalisation that may divert retail flow from transparent markets. ESMA should also monitor whether cross-border group structures or non-EEA execution channels connected to SI activity may affect the operation of the share trading obligation, EU price formation and supervisory visibility.

Q22 What is your perception of the application of price improvement by SIs? Does the data analysis reflect the reality, or do you believe that there are some data quality issues in the flagging of transactions subject to price improvement?

The application of price improvement by SIs is difficult to assess with current data and appears mixed… As exposed previously, BETTER FINANCE considers that genuine price improvement is of crucial where retail orders are executed, especially through bilateral / internalised systems. In the absence of clear, meaningful and verifiable said improvement, routing retail flow away from lit, multilateral markets is difficult to justify and simply amounts to extracting value from public price without contributing to it. Moreover, this is also weak to justify where the claimed improvement is only nominal, sub-tick or not properly evidenced against credible lit-market alternatives. As ESMA's finding points that price-improvement flags represent a "negligible share of turnover", this raises two concerns: either meaningful price improvement is less frequent than suggested, or reporting / flagging is inconsistent. Both outcomes are problematic. Concretely, price improvement should not be assessed only 'formally' from a market structure perspective. Since sub-tick or midpoint execution may appear better than the displayed Best lit order book prices, the improvement may still be very small and

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not benefit the retail investor directl. Such practice may not compensate for reduced competition, routing concentration, conflicts of interest or the loss of contribution to lit price formation. Best execution should therefore not be considered satisfied by nominal 'sub-tick' improvement alone. BETTER FINANCE therefore supports retaining and strengthening price-improvement reporting by leveling paying field. Such reporting should distinguish nominal from meaningful improvement, include average and median improvement in basis points and euro value, and allow comparison with credible lit-market alternatives and, once available, consolidated tape reference data. The CT should further support ex-post verification of execution outcomes, but it should not be used to legitimise (bilateral) execution models that merely reference lit prices without contributing fairly to the price-formation process. Therefore, reinforcing the overall pre-trade transparency regime applicable to SIs would also be useful in this regard, ensuring that SI quotes are genuinely public and firm, and that any price improvement offered is meaningful and appropriately flagged.

Q23 Which flags do you consider important to identify certain trade related to SI trading?

We stress that as a general rule, high-quality, consistent and sufficiently granular data is essential to assess execution quality, market efficiency and the functioning of different trading models. From a retail investor perspective, current transparency around SI activity are insufficient to truly understand how/where trades have been executed, if they contribute to price formation or if they benefit from meaningful price improvement, and how they compare with execution on lit markets.
key indicators for ESMA to consider SI-related flags should therefore include, first, a clear identification of the execution setting: SI identifier, SI transaction / SI-OTC / OTC-XOFF / intragroup transaction, with information on affiliated broker or single-liquidity-provider arrangement, and riskless-principal chains where relevant. Second, ESMA should consider execution-quality flags to reflect trade size relative to 'SMS' and 'LIS', midpoint execution, off-tick execution, price improvement / amount of improvement (bps and euro value) – and whether execution is based on a firm public quote, and the reference price or venue used. Importantly, a retail-order / retail-trade flag, or at least an aggregated retail-flow indicator, would also be important to assess whether retail orders receive meaningful price improvement and are exposed to genuine competition.
Ultimate my, the goal of strengthening reporting and flagging practices should remain a priority as better data should enable both supervisory assessment of internalisation trends and execution quality. For retail investors, they need simpler disclosures and means to assess showing where their orders were routed and if internalised execution delivered meaningful improvement over with credible lit-market alternatives.

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Q24 What is your view on the evolution of SI trading on the EU markets? Are there any structural shifts that you noticed, or envisage, which you believe should be further monitored?

As exposed in the document and previously raised, the key structural shift is the increasing role of bilateral execution models in overall trading activity, particularly for smaller transactions. BETTER FINANCE calls for supervisory gaps to be filled and for this development to be monitored closely, because it may reduce the depth and quality of visible liquidity on transparent markets, weaken price discovery and make execution outcomes less verifiable for end-investors.
Maintaining a balanced market structure requires ensuring that different trading models coexist without undermining core market functions. ESMA should therefore monitor SI market share by ISIN, country and liquidity band; any share of SI trades below 'SMS'; off-tick and midpoint execution; reliance on affiliated broker flow; etc. Ultimately, price-improvement flagging criteria but als the impact of SI growth on lit spreads is a further concern. Also, for retail markets, ESMA should also monitor routing concentration by brokers and neobrokers. Where a retail broker systematically routes to one SI, one market maker or an affiliated liquidity provider, the investor should receive clear disclosure and, where concentration is material, a specific warning. The broker should also be able to demonstrate that the arrangement delivers better outcomes than credible lit-market alternatives, while providing practical access to at least one lit market option to mitigate routing and execution risks.

Q25 Please highlight any concerns/issues you may have at this stage? Do you see a need for specific for regulatory interventions (please provide details possibly relating to the information and data available or observed)?

From a retail investor perspective, the main concerns are: (i) overall fragmentation of liquidity, including where activity shifts towards less transparent bilateral execution; (ii) potentially weaker price formation under a decreasing role of multilateral trading systems that offer directly and publicly observable prices; (iii) uneven transparency and partial data quality, limiting investors' ability to assess execution outcomes; (iv) conflicts of interest in internalised models, notably where orders are routed to affiliated or preferred liquidity providers; (v) nominal price improvement used to justify internalisation; and (vi) regulatory asymmetries in tick size, pre-trade transparency and access conditions. This is why BETTER FINANCE supports targeted regulatory intervention for stronger SI transparency, more granular post-trade flags, consistent tick-size treatment, a meaningful price-improvement standard, and firmer broker disclosures on routing concentration, venue type and affiliated liquidity providers. However, we also stress the separate impediment of insufficient pan-European market access, which can create less liquid or less visible markets / sub-markets and deprive investors of investment opportunities.
Continued progress towards more integrated and competitive EU capital markets should ensure that retail investors benefit from lower costs, fair execution and effective / broader lit market access cross-border, not only from cheaper but less

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transparent execution channels that may further constrain access to specific instruments and fragment liquidity. Finally, the upcoming consolidated tape should be used as a supervisory and investor-verification tool. Its data should be integrated into best-execution assessments, with brokers required to compare retail execution outcomes against credible consolidated-tape / lit-market benchmarks, not only against internal or preferred liquidity-provider prices. This would help make MiFID II best execution more operational, comparable and, ultimately, verifiable.

Q26 Have you witnessed an increase in the use of benchmark trades? If so, what are the drivers of such increase on venue and on SI?

While we cannot provide data, we understand the related risk that benchmark trades may increase because they offer flexibility and therefore can shift liquidity away from transparent price formation, which can be detrimental if not properly calibrated and justified.

Q30 Would you be supportive of ESMA issuing guidance on benchmark trades? If yes, should it encompass quantifying the minimum requirements (e.g. minimum number of transactions to be included when calculating a benchmark price, minimum time period to cover).

Yes. BETTER FINANCE supports ESMA issuing guidance to ensure greater clarity on benchmark trades, since these may risk shifting further volume away from price-forming markets towards dark or less transparent execution facilities. Such guidance should be principle-based, but may need to include both quantitative and qualitative minimum standards. In principle, we would support ESMA clarifying what are eligible methodologies. While BETTER FINANCE cannot be prescriptive on such technical calibration. Relevant elements may need to include the applicable time period / number of transactions, the use of multi-venue data, safeguards (against cherry-picking), transparency of sources and weighting, and the management of conflicts of interest. More generally, such guidance would also be welcome to help identify when benchmark trades should be considered non-price-forming. From a retail investor point of view, benchmark transactions should not further erode the lit prices used to verify best execution, nor replicate reference-price or dark-like execution outside transparent order interaction. Their use should reinforce transparency, data quality and supervisory understanding of whether execution contributes to (or merely relies on), public price formation.

Q31 Does member preferencing lead to unfair outcomes for end-investors, other members or the markets? Please explain, if possible on the basis of data.

BETTER FINANCE does not possess data to quantify any effect of 'member preferencing' settings. However, we consider that it may lead to unfair outcomes whenever it undermines time priority, equal access, transparency and ultimately

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best execution frameworks. From a retail-investor angle, ESMA should assess the extent to which such mechanisms weaken fair and non-discriminatory order interaction, since retail investors may reasonably expect that execution on a multilateral trading venue is governed by neutral priority rules.
At the same time, we acknowledge that member preferencing should not be assessed in isolation from the wider competitive environment. Trading venues may use certain mechanisms to compete with SIs / single-market-maker models and bilateral platforms, which may benefit from greater discretion in counterparty selection and potentially differentiated execution treatment. Regulatory action should therefore avoid weakening transparent venues while leaving bilateral models with broader flexibility, especially where such flexibility is justified by specific, bespoke or larger-order execution needs rather than systematic retail-flow internalisation.
Therefore, as a general principle, we would preliminarily state that any practice that violates price priority, discriminates between clients / favours affiliates, reduces exposure to open competition, or ultimately produces worse outcomes for retail investors should be restricted / calibrated. ESMA should provide a balanced assessment across execution models, with the objective of supporting wider market access for retail investors and their intermediaries, while keeping intermediation as limited and transparent as possible and ensuring lit markets remain competitive.
We also recall that retail investors do not have direct membership of multilateral venues and often benefit from limited pan-European access. This makes it important to facilitate broker access to transparent venues and to reduce unnecessary layers of intermediation, so that market structure supports end-investors rather than steering them towards opaque or preferential execution channels.

Q32 To what extent do you see evidence that member preferencing extends in practice beyond jumping the queue and may also violate price priority principles?

BETTER FINANCE is, in principle, attached to fair and orderly markets principle. In particular, if member preferencing extends beyond queue-jumping and affects price priority, the issue warrants close supervisory scrutiny and should not be in effect. As a principle, any practice allowing an order to execute ahead of a better-priced order should be treated as inconsistent with fair and orderly markets. Even where preferencing affects only time priority at the same price, it should still be transparent, justified, limited and assessed for investor impact.
ESMA should therefore investigate and assess scenarios of whether preferred members or selected counterparties receive execution where other participants could have offered a better price, stronger price improvement or more transparent order interaction. If warranted, retail-facing brokers may also need to disclose whether orders may be affected by preferencing arrangements of venues and whether such arrangements could influence execution quality. Also, shall this practice be, this may warrant relevant, post-trade reporting and CT-related data to include sufficient flagging to identify executions subject to preferencing, so that

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ESMA and NCAs can detect potential distortions in priority rules, price formation or execution quality.

Q33 Should member preferencing be (a) prohibited, (b) should there be rules restricting the practice, or (c) should nothing be done? If you suggest there should be rules (b), which rules would you suggest? Please explain.

In principle, BETTER FINANCE would favour prohibition where member preferencing undermines fair and orderly markets. However, as we do not have the full technical picture, a balanced approach would be to retain option (b): strict rules restricting the practice, combined with prohibition of harmful forms. Member preferencing should be prohibited where it violates price priority, favours affiliates, discriminates between members or clients that can ultimately worsens outcomes for retail investors who are already trading in a complex environment. Same-member priority or queue-jumping at the same price should only be permitted under strict conditions, where it is objectively justified, limited, non-discriminatory and does not impair best execution. Any such allowance of (potential detrimental) practice should be prominent and transparent in venue rules, subject to regulatory approval / monitoring, and disclosed to members and, where relevant, end-clients in a form they can understand. ESMA should also ensure consistency across execution models, so that restrictions on trading venues are not offset by broader discretion in bilateral / single-market-maker models.

Q39 Would you consider that some benchmark transactions should be classified as non-addressable and non-price forming? If so, provide a clear description of the case and rationale.

Yes, some benchmark transactions should be classified as non-addressable and non-price-forming. We believe ESMA should avoid a blanket classification and should introduce benchmark-specific flags and methodology standards to that effect.

Q41 Do you agree that all transactions without a flag should be considered addressable liquidity and price forming?

While this may be a practical starting point for data analysis, BETTER FINANCE does not support an unqualified presumption that all transactions without a flag are necessarily addressable and price-forming. This is particularly relevant for SI and OTC-related activity, where missing or inconsistent flags may conceal benchmark, portfolio, technical, intragroup or reference-price-dependent transactions. ESMA should avoid overestimating the contribution of bilateral or opaque mechanisms to public price formation. We therefore call for stronger validation, enforcement and reconciliation between RTS 1 post-trade transparency and transaction reporting, for ex. Where flagging quality is weak or uncertain, ESMA should apply conservative classification or require additional supervisory checks before treating such transactions as addressable and price-forming.

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Q44 Do you agree that intragroup transactions executed by SIs should not constitute addressable liquidity and therefore, could be flagged (i.e. a new flag in RTS 1 could be added to disentangle those transactions)? Do you agree that intragroup transactions executed by SIs should be classified as non-price forming?

Yes, we concur with this position. Intragroup transactions executed by SIs should be separately flagged and should not count as addressable since these trades appear to take place within the same group. The effect ultimate effect being that other market participants cannot not realistically access that liquidity or be part of the transaction.

Q45 Do you believe that other transactions should be flagged and excluded from the calculation of addressable liquidity (i.e. a new flag in RTS 1 should be added to disentangle those transactions)?

Yes, potentially. ESMA may consider additional flags, with the overarching objective of preventing addressable liquidity from being overstated and ensuring that public price formation remains anchored in transparent, multilateral markets. For example, ESMA should carefully consider flags for retail order flow routed to SIs or single liquidity providers, midpoint / off-tick execution, affiliated broker flow, and executions relying on prices formed elsewhere. Not all such transactions should automatically be excluded from addressable liquidity, but they should at least be identifiable. Other flags may also be needed for SI-OTC trades where the basis for OTC reporting is unclear, riskless-principal chains, give-up / give-in transactions, and specific affiliated broker / internalisation flows. More generally, transactions or trading methodologies that do not sufficiently contribute to genuine price formation should be clearly disentangled from liquidity that is accessible, competitive and price-forming.

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