Press Release
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FESE CALLS FOR DELETION OF EQUITY OTFs

Today, the European Council will seek to finalise its position on the revision of MiFID I (Markets in Financial Instruments Directive). This Directive, which was adopted in 2004, changed Europe's trading landscape by increasing the competition between trading venues. However, MiFID I also led to increased market fragmentation and complexity for investors and companies. One of the most contentious issues that the Council will discuss is whether Europe needs yet another type of trading venue: Organised Trading Facilities (OTFs). The Commission initially proposed to introduce OTFs to capture banks' internal crossing systems (Broker Crossing Networks - BCNs) that currently operate outside MiFID on an Over-the-Counter (OTC) basis. BCNs are private clubs open for business to only a limited number of investors. They allow the operator to trade at discretionary prices. The latest changes proposed to the OTF category at the Council seek to further facilitate the business of these trading venues.

The European Parliament clearly understood the danger and decided to remove this new category altogether for the trading of equities from its final report. The Federation of European Securities Exchanges (FESE) agrees with the European Parliament because the current proposals fall short of what Europe needs to foster safe and liquid capital markets in Europe. Equity OTFs will not provide a fair or neutral environment for investors. OTFs will be allowed to discriminate and give preferential treatment to certain clients to the detriment of others. This means small local players will increasingly have difficulties to provide services to SMEs.

A failure to improve the current Council proposals could radically change the way capital markets function today in the EU and in particular would:

- **Reduce investor protection**
- **Reduce the ability for SMEs to raise capital in the EU**
- **Create an unlevel playing field in the EU for multilateral trading**
- **Mean a flight of liquidity from smaller jurisdiction to London**

We believe that neutral, efficient and competitive trading environment is best promoted by requiring BCNs to qualify as MTFs. We urge the Presidency and Member States to follow the European Parliament's approach and to delete OTFs for equities. If this is not the case, MiFID II would be worse than MiFID I for investors, issuers, SMEs and the real economy as a whole.

Guillaume Prache, Managing Director, EuroFinuse said: *'The ability for retail investors to access capital markets will once again be weakened if the current "OTF" proposal goes ahead.'*

Michael Sterzenbach, Secretary General, Bundesverband der Wertpapierfirmen said: *'The losers of this proposal would be SMEs which do not have the same opportunities as the larger companies do to use global market players.'*

Helle Søby Thygesen, Manager, Danish Bankers Association/Danish Securities Dealers Association said: *'The OTF category will make the current situation worse. It will hurt Europe's equity markets because it will direct order flow away from the current neutral trading venues: Regulated Markets and MTFs.'*

Judith Hardt, Secretary General, FESE said: *'OTFs will give new players and market participants an additional incentive to use this less regulated environment. MiFID II was supposed to solve the problems of MiFID I. This objective became particularly important as a result of the financial crisis. It is surprising that the Council is not solving the problems of MiFID I, but making them worse'.*

Information for the Editor:

Further background information:
Reasons why OTFs are bad for the market and would make MiFID II worse than MiFID I

- **OTFs endanger price formation**, efficiency and fairness, because of their discretionary nature.
- **OTFs create an unlevel playing** field and go against fair competition among trading venues. Multilateral venues that are in the same business have to be subject to the same rules.
- **OTFs will unfairly treat investors**:
    - An investor is accepted to trade on an OTF platform by an investment firm operating such a platform;
    - The investor submits orders to the OTF for execution with certain criteria for 'best execution'
    - However, the OTF operator would use its power of discretionary execution to ensure that other key clients received more favorable execution conditions when transacting against these clients' orders.
- **OTFs will destroy the local markets as it will damage smaller and independent brokers in Europe**. This is because these brokers will be excluded from larger liquidity pools operated by the larger brokers, and, even where they have access, they will be unable to get non-discretionary execution from such pools. Hence they will lose clients to the larger brokers. This will have several negative consequences:
    - **Impact on SMEs**:
        - "Local" players will increasingly have difficulties to provide the needed service to their clients in terms of primary market funding to companies and efficient order executions for clients.
        - The losers will be small and midsize companies which do not have the same opportunities as the larger companies do to use global market players when raising capital.
    - **Impact on investors**: In addition some investors will face similar challenges in the secondary market in terms of order execution.

About FESE
The Federation of European Securities Exchanges (FESE) represents 46 exchanges in equities, bonds, derivatives and commodities through 21 full members from 30 countries, as well as 4 Observer Members. FESE is a keen defender of the Internal Market and many of its members have become multi-jurisdictional exchanges, providing market access across multiple investor communities. FESE represents the operators of public Regulated Markets. Regulated Markets provide both institutional and retail investors with transparent and neutral price-formation. Securities admitted to trading on our markets have to comply with stringent initial and ongoing disclosure requirements and accounting and auditing standards imposed by EU laws.

As of May 2013, FESE members had up to 8,953 companies listed on their markets, of which 7.5% are foreign companies contributing towards the European integration and providing broad and liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access the capital markets; 1,463 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers.

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