



## Building stronger European equity markets

Lit continuous trading in European equities is declining. This is a trend that needs to be understood and analysed so that we can identify the causes and potential impact on end investors and market quality. Lit continuous order books, where buyers and sellers trade against displayed quotes, are a fundamental part of how prices are formed. Their health matters to everyone who participates in European equity markets.

But the causes of that decline are more specific than the broader debate suggests, and so are the remedies. If we genuinely want to support lit continuous markets, we need to understand what is actually driving the shift and design policy responses that address those causes directly, rather than repeating interventions that have already been tried and failed.

Here are five targeted reforms to strengthen lit markets that are explored further in this paper.

- 1 Allow lit venues to compete for investors seeking better prices.** Systematic internalisers that execute trades using their own capital can currently offer midpoint pricing, a better deal for both sides of the trade. Exchanges and trading venues cannot offer this pricing with the same flexibility. The fix is to extend this permission to exchanges and other venues, so that investors seeking this type of execution can find it on lit markets.
- 2 Build a proper consolidated view of lit market prices.** Displayed prices on European exchanges are fragmented across dozens of venues, with no single consolidated view. A broker seeking the best available price has to aggregate multiple separate data feeds at significant cost. Europe's forthcoming consolidated tape should include two enhancements proposed in MISP: labelling every quote and trade with the trading venue it came from, and showing the full depth of available prices at each venue rather than just the best. These are necessary to make displayed lit liquidity genuinely visible and usable.
- 3 Fix the gaps in trade reporting.** Trades executed between entities within the same corporate group are currently reported in the same way as trades with external counterparties. This means public data overstates the true volume of accessible bilateral liquidity, and distorts the policy debate. Regulators already have the information to distinguish group-internal trades from arm's-length activity — but investors and market participants cannot. MISP should introduce a compulsory reporting standard requiring all venues and firms to flag group-internal transactions clearly in post-trade data.
- 4 Open up post-trade clearing to competition.** When a trade is executed on most venues in Europe, it must be processed and guaranteed by a clearing house. In many EU markets, the exchange and clearing house are owned by the same group, effectively locking participants into a single provider. Past efforts to offer a choice of clearing house have not yet fully delivered in practice. True clearing choice, known as interoperability, allows each participant to

independently choose their clearing provider. MISP should mandate this model for exchange groups that do not offer it fully today in cash equity.

- 5 **Foster more genuine competition on retail trading venues.** Some venues in Europe route all retail investor orders to a single, affiliated firm, with that exclusivity, in some cases, written into venue rules. These venues are legally classified as open, multilateral markets — but operate like a bilateral venue in practice. Regulatory analysis by the AFM and CNMV confirms the cost to investors: between 68 and 83% of retail transactions reviewed by the AFM and 86% of those reviewed by the CNMV were executed at worse prices than on competitive markets. EU rules already require venues to allow open, non-discriminatory access — MISP should make clear that arrangements granting a single firm exclusive access to retail order flow are incompatible with this requirement.

## Strengthening Europe’s equity markets, without forcing the flow

### Understanding the data

ESMA’s Call for Evidence on the market structure of European equity markets<sup>1</sup> provides a useful recent analysis of where European equity trading is actually going. On-book trading (activity executed through venue order books and different types of auctions) has remained broadly stable since 2022, with quarterly readings holding between 71% and 83% of total EU equity trading. The share of trading that is genuinely accessible to investors (what ESMA calls “addressable liquidity”) has also held steady, at around 85%.<sup>2</sup>

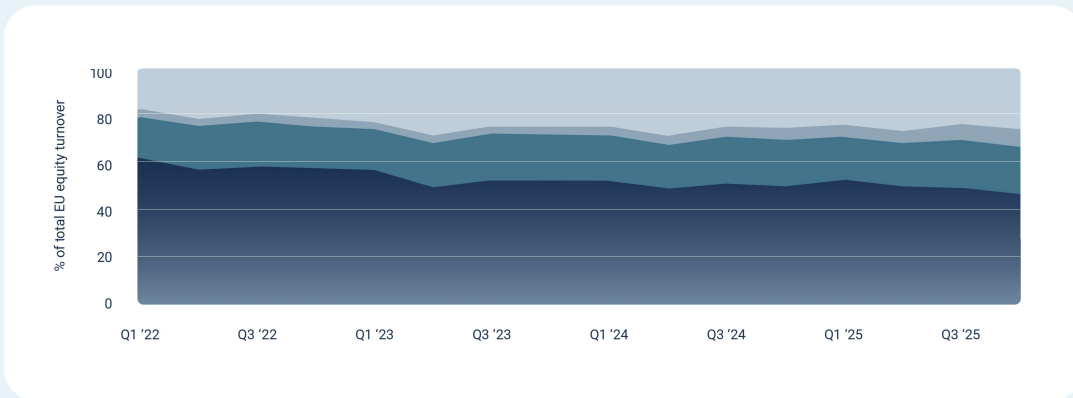


The decline in lit continuous trading reflects shifts in two directions. Within venues, activity has moved from continuous order books to other on-venue mechanisms: closing and intraday auctions

grew from 16.7% to 20.3% of total turnover, and frequent batch auctions more than doubled, from 3.2% to 7.9%, between Q1 2022 and Q4 2025. Off-venue, SI activity excluding intragroup transactions grew from 5.1% to 10.0% over the same period.<sup>3</sup> Each execution modality has absorbed a roughly comparable share of the shift away from lit markets, and each reflects a different category of investor demand.

## Trading activity by mechanism, Q1 2022 - Q4 2025

■ Lit continuous   
 ■ Closing & intraday auctions   
 ■ Frequent batch auctions   
 ■ Off-book



Source: ESMA Call for Evidence, ESMA74-1119406008-1578 (30 April 2026). EEA shares on EEA venues.

## SI share of EU equity turnover (excl. intragroup), Q1 2022 - Q4 2025



Source: ESMA Call for Evidence, ESMA74-1119406008-1578 (30 April 2026). EEA shares on EEA venues.

Understanding the reasons behind these shifts is important for devising sound policy. For instance:

- The continued growth in passive investing concentrates activity in the closing auction.
- Execution algorithms are becoming more sophisticated and increasingly use periodic auctions to manage market impact and deliver better trading outcomes for end investors.
- SI growth reflects investor demand for execution against committed capital that the lit continuous order book cannot always supply.

These are structural market trends that reflect the ongoing process of adjusting trading strategies to provide improved execution outcomes. Blunt restrictions on any single channel would not return activity to the lit continuous book. Instead they would result in poorer execution outcomes and less flexibility for investors.

### **Caps have been tried. They did not work**

The MiFID II double volume cap remains the most thoroughly tested attempt to force trading back to lit continuous venues. When caps first came into effect in March 2018, dark trading in affected stocks fell sharply, but within months the overall share of non-lit trading had recovered as much of the activity migrated to frequent batch auctions.<sup>4</sup> Each subsequent cap adjustment produced the same pattern: a temporary dip, followed by migration elsewhere. Trading did not return to lit. It found the next available alternative.

Different investors have different needs. A passive index fund that tracks the closing price needs the closing auction. A large institution managing a sensitive trade needs to avoid revealing its intentions to the market. Institutional investors with larger orders may first seek liquidity from channels that offer both immediacy and a competitive price. When regulation restricts a trading channel that meets genuine investor needs, those needs do not disappear. Activity migrates to the next available mechanism, sometimes one that is less well-suited to the investor's circumstances, leading to poorer execution performance.

### **SIs complement lit markets**

Systematic internalisers (firms that execute orders using their own capital rather than matching two external buyers and sellers) are often grouped together with the causes of lit decline, which ignores the fundamental differences between multilateral venues and SIs.

SIs serve a range of counterparties. Some are large institutions that need to trade a size the lit continuous order book cannot absorb without moving the price against them. Others are smaller participants who value the immediacy and certainty of trading against a committed counterparty. What these have in common is not trade size but the execution model: the SI puts its own money at risk at the point of trade, taking the price exposure onto its own book.

To illustrate how this works in practice: at Optiver, when we transact via our SI, the resulting risk is managed passively, typically using correlated instruments such as related equities, ETFs, or derivatives, rather than by immediately trading the same stock only on a lit order book. Our SI absorbs risk and distributes it gradually across a broader set of instruments. We believe this model, where the SI genuinely commits capital and manages risk independently, is how a well-functioning risk-taking SI should operate.

However, there is an asymmetry in the application of tick-size rules between SIs, exchanges and MTFs. The policy response should be to address that asymmetry rather than restricting a form of execution that is meeting genuine demand.

## **On price improvement**

The ESMA Call for Evidence shows almost no SI trades flagged as price-improving under the RPRI indicator.<sup>5</sup> However using this indicator as the sole measure of the price improvement offered by SIs ignores the genuine value they provide to investors.

Midpoint execution allows investors to trade at a price halfway between the best buy and sell prices, representing an improvement on the best displayed bid and offer. The buyer pays less than the best offer; the seller receives more than the best bid. This is price improvement in any meaningful sense, but it is not captured the RPRI data because of the scope of the indicator.

There is also a second form of value. Consider an investor who wants to buy 5,000 shares. The exchange order book shows only 500 shares available at the best price of €10.00. To fill the full order on the exchange, the investor would have to buy successive lots at progressively higher prices: €10.01, €10.02, and so on. An SI may be able to fill all 5,000 shares at a single price of €10.00, because it is willing to commit its own capital based on an assessment of risk on that trade. The size that a market maker is willing to show in its SI may be larger than the market maker is willing to show on exchange because the SI knows who it is trading against. The investor gets a materially better outcome on the full order, but because each individual trade happens at the prevailing best price rather than above it, no flag records it as price improvement. Both of these are real forms of value that SIs routinely provide.

## **Single market-maker venues: an issue that deserves attention**

A separate and meaningful issue deserves direct attention in the Market Integration and Supervision Package.<sup>6</sup> In parts of Europe, some venues operate with a single firm serving as the exclusive liquidity provider for retail order flow.

Regulatory analysis published by the AFM and CNMV identified execution quality concerns at certain venue models. The AFM found that at two of these so-called single market-maker venues operating with a single market maker, between 72% and 83% of retail orders were executed at worse prices than the reference price, at an average cost of up to 11 basis points per trade.<sup>7</sup> The CNMV found that 86% of trades at a comparable venue were executed outside the contemporaneous price range of the ten most liquid competitive venues, an average loss of approximately €1 per €1,000 traded.<sup>8</sup> Competition between liquidity providers tightens spreads and delivers better execution; a sole liquidity provider faces no such pressure. Retail investors need exposure to competitive pricing, not captive routing to a monopoly counterparty with no incentive to improve the prices it is offering.

In some cases, this exclusivity is embedded in venue rulebooks that, for example, may designate a single specialist per product and require that firm to hold a private contractual agreement with the exchange operator. This prevents other firms from providing competing prices in that product. The result is a venue that is multilateral in its regulatory classification but has discriminatory access

rules that prevent competition for order flow, which in many cases leads to worse prices for retail investors.

## **Policy reforms to strengthen lit markets**

In our view, the issues described above can be solved by targeted revisions that improve the competitiveness of lit markets, without capping or limiting other execution channels.

**Give lit venues the ability to trade at midpoint.** Tick sizes set the minimum price increment at which trades can be executed (for example, a stock might trade in increments of one cent). The 2024 MiFIR review gave SIs explicit permission to execute trades at the midpoint between the best buy and sell prices (e.g., €10.005 when the best buy is €10.00 and the best sell is €10.01) for orders of any size. Lit venues do not have this flexibility and remain bound to execute only at the full tick. ESMA itself acknowledges this inconsistency “might have redirected trading flows from venues to SIs.”<sup>10</sup>

Midpoint execution is a recognised marker of fair value in other well established capital markets and it is not uniquely associated with bilateral trading. In the United States, trading at the midpoint of the national best bid and offer (NBBO) is a standard and widespread feature of equity market structure, used routinely by many types of execution venues (including lit exchanges). Restricting or discouraging midpoint execution in European regulation, while it remains freely available and widely used in other major capital markets, would perpetuate a structural asymmetry that weakens European venues’ ability to meet investor needs and compete internationally.

The fix is to establish a common standard across all trading venues. Dark midpoint books relying on the Reference Price Waiver and periodic auctions should receive the same explicit, unambiguous permission to match at midpoint that SIs were granted in 2024. Some of these venues already execute at midpoint in practice, but the regulatory basis has been inconsistent: ESMA’s own data shows over 40% of periodic auction transactions executing off-tick, yet the legal clarity that SIs enjoy has not been extended to venues.

Removing the current regulatory ambiguity would give lit venues the tools to respond to a genuine investor need and enhance their ability to compete. Midpoint execution is something investors actively seek and demonstrably use, and those currently accessing it through SIs should have the option of finding it through lit venues as well. The full tick regime that anchors the lit continuous book, where pre-trade prices are publicly displayed, would remain intact. In practice, this means any orders entered onto the book adhere to the tick-size regime but have the possibility of being executed at the midpoint.

**Support the MISP enhancements to the consolidated tape.** A European consolidated tape for equities is already on the way (EuroCTP was selected as the provider in December 2025). But the tape as initially conceived does not go far enough to support lit markets. The Market Integration and Supervision Package takes positive steps forward, proposing two critical enhancements: venue attribution and five levels of pre-trade depth.

These changes address a specific disadvantage lit markets currently face. The core product of a lit venue is visible prices, but today those prices are fragmented across dozens of venues with no single consolidated view. A broker trying to find the best available displayed liquidity has to

aggregate multiple proprietary data feeds. The result is that lit markets compete with one hand tied behind their back: their main advantage is transparency, but that transparency is hard to access. A tape with venue attribution and meaningful depth would make lit liquidity discoverable, comparable, and accessible, giving investors a clear reason to interact with the venues showing the deepest displayed interest. We strongly support these MISP proposals as one of the most direct ways to improve lit markets' competitive position.

**Reform the post-trade flagging regime.** When a trade is executed in Europe, it is published with a set of flags that describe its characteristics: whether it was large in scale, whether it was done at a reference price, whether it was purely technical. These flags determine how trades are classified and whether they count as genuinely accessible liquidity. The problem is that important gaps remain in the taxonomy.

Trades between entities within the same corporate group, which are not genuinely available to outside investors, carry no flag that distinguishes them from real bilateral trades with external counterparties. There is no "intragroup" identifier in RTS 1. A consumer of post-trade data cannot tell whether a reported bilateral trade represents genuine arm's-length activity or an internal booking between affiliates. This inflates the apparent volume of addressable bilateral liquidity in the public record. ESMA itself can identify intragroup transactions through MiFIR Article 26 transaction reporting, which captures both counterparties' LEIs, so the regulator has a clean view of the market that the wider audience does not. Much of the confusion in the current debate over off-book trading and its role in the decline of lit venue volumes stems from this absence of granularity in the public data.

The implementation tool for fixing this gap already exists. The FIX Trading Community's Market Model Typology (MMT), an industry standard now at version 5.0 and designed for the revised MiFIR and the consolidated tape, translates the full set of regulatory flags into a consistent, machine-readable format that venues and data providers can apply uniformly.<sup>11</sup> MMT v5.0 includes a voluntary intragroup flag, but uptake has been weak precisely because it is voluntary. EPTA has called for compulsory MMT adoption. Making MMT the required standard for post-trade reporting would close this gap and ensure the consolidated tape receives comparable, granular data from day one.

Making MMT compulsory for all reporting entities should be a Level 1 requirement in MiFIR. At Level 2, ESMA should be given powers to maintain and adapt the flag taxonomy as market practices evolve, ensuring the standard remains current without requiring further legislative change. Leaving the mandate entirely to Level 2 risks delay: MMT has been available on a voluntary basis for years without widespread uptake, and a clear legislative signal is needed to move the industry to comprehensive adoption.

**Move from preferred to full clearing interoperability in cash equities.** When a trade is executed on most venues in Europe, it must be cleared through a central counterparty (CCP), a financial institution that sits between buyer and seller and guarantees the trade will settle. In many European markets, the choice of CCP is determined by where you trade: vertically integrated exchange groups route clearing through their own CCP by default.

The MiFIR open access provisions were designed to address this, but the way they have been interpreted and implemented in practice has not delivered the competitive outcomes the legislature intended. Some exchange groups have introduced what is known as “preferred interoperability,” an arrangement where an alternative CCP can be used, but only if both sides of the trade independently select it. In practice, this is ineffective: the coordination problem means the incumbent CCP remains the default for the vast majority of trades, and the competitive pressure that genuine interoperability should create never materialises. Preferred interoperability is an instructive example of how a legal requirement on open access can be formally satisfied while leaving the underlying structural problem intact.

Full interoperability is different. Under full interoperability, each participant independently chooses its CCP, and the two CCPs interoperate to settle the trade regardless of whether the counterparties have chosen the same clearing house. This already works in practice. UK, Swiss, and Nordic equity markets operate with full interoperability: multiple CCPs compete to clear trades from the same venues, and each participant chooses its preferred provider independently of what the other side chooses. The result is greater venue competition, lower post-trade costs, and lit liquidity that consolidates based on execution quality rather than clearing lock-in.

Full interoperability would make lit markets significantly more accessible and attractive to a broader range of participants. A trading firm that wants to provide liquidity on a competing venue would be free to choose its preferred CCP without establishing a separate clearing relationship for each venue’s linked clearing house. The result is that more firms participate on more venues, and lit liquidity consolidates where execution is best rather than where the clearing relationship already exists. Smaller or newer lit venues would be able to attract participants on the quality of their market alone.

MISP should mandate full clearing interoperability in cash equities, not the preferred model that leaves the incumbent CCP’s dominance intact. Full interoperability means that the best lit market wins on the quality of its order book, not on the entrenchment of its clearing relationships.

**Enforce non-discriminatory liquidity provision on single market-maker venues.** MiFID II introduced clear non-discriminatory access rules for membership of EU trading venues. But the existing text has not prevented venues from establishing arrangements where, in practice, a single firm provides all the liquidity with no realistic path for competitors to participate. The rules permit participation in theory while the venue’s design renders it economically or operationally unviable for additional firms to join.

MISP should clarify that multilateral venues may not grant exclusive liquidity provision rights to a single member, and that any market-making scheme (including enhanced incentive arrangements) must be structured so that it does not, in practice, unduly restrict or disincentivise the participation of additional liquidity providers. Venues should remain free to designate market makers with enhanced obligations and to set objective performance criteria, but on a transparent, competitive basis that allows any qualifying firm to participate on equivalent terms. Where a venue operates a liquidity provision scheme, additional members meeting objective requirements must be able to access and operate under the same regime.

## **A clearer path**

Europe's market structure debate has spent too long looking for ways to redirect trading activity and not enough time fixing the structural problems that put lit markets at a disadvantage. Giving venues the same midpoint flexibility as SIs, enhancing the consolidated tape with venue attribution and depth, reforming the flagging taxonomy, mandating full clearing interoperability, and enforcing genuine competition on multilateral venues: these are organic, evidence-based measures consistent with how investors actually trade. Together they protect public price formation without undermining the execution choice that has made European markets work for the full range of participants who use them.

## Sources

<sup>1</sup> ESMA, Call for Evidence on the market structure of European equity markets (ESMA74-1119406008-1578, 30 April 2026).

<sup>2</sup> Ibid., executive summary.

<sup>3</sup> ESMA, Call for Evidence (above), Section 3.

<sup>4</sup> ESMA, Trends, Risks and Vulnerabilities Report (2019); ESMA, Final Report on Frequent Batch Auctions (2019).

<sup>5</sup> ESMA, Call for Evidence (above), paragraphs 91–92 and Q22.

<sup>6</sup> European Commission, Market Integration and Supervision Package (4 December 2025).

<sup>7</sup> AFM, 'Assessment of order execution quality on PFOF trading venues' (March 2022).

<sup>8</sup> CNMV, 'Payment for order flow: an analysis of the quality of execution of a zero-commission broker on Spanish stocks' (March 2022).

<sup>9</sup> Optiver, "Not just PFOF: Another anti-competitive threat to European markets" (February 2023); "PFOF is going away, but the problem isn't" (March 2025). Both available at <https://www.optiver.com/insights/>.

<sup>10</sup> ESMA, Call for Evidence (above), Section 4.3.

<sup>11</sup> FIX Trading Community, MMT v5.0 (22 July 2025). EPTA called for compulsory MMT adoption in its 2020 response to the European Commission's MiFID II/MiFIR review consultation.

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