SWEDISH

SECURITIES DEALERS

ASSOCIATION

To OICV-IOSCO

Stockholm 2013-05-08

RESPONSE TO ”Regulatory Issues Raised by Changes in Market Structure”

SSDA represents the common interest of banks and investment-services-firms active on the securities market. The mission of SSDA is a sound, strong and efficient securities market in Sweden. SSDA promotes member’s view in regards to regulatory, market and infrastructure-related issues. It also provides a neutral forum for discussing and exchanging views on matters which are of common interest to its members. The Swedish Securities Dealers Association (SSDA) has the following comments.

Recommendation 1

1.1 Regulators should regularly monitor the impact of fragmentation on market integrity and efficiency across different trading spaces and seek to ensure that the applicable regulatory requirements are still appropriate to protect investors and ensure market integrity and efficiency, including with regard to price formation, bearing in mind the different functions that each trading space performs.

1.2 Regulators should regularly evaluate the regulatory requirements imposed on different trading spaces and seek to ensure that they are consistent (but not necessarily identical) across spaces that offer similar services for similar instruments.

Questions:

1. Does the evolving market fragmentation challenge the relevance, effectiveness or implementation of current regulatory requirements? If so, which ones and how are they impacted?

2. Are you aware of material differences in regulatory requirements between different trading spaces that from your point of view are not justified and create regulatory risks and unfair competition? For example, are there regulatory requirements that apply to one type of trading space in your jurisdiction and currently do not apply to others but, in your view, should apply to others that offer similar services? Please describe.

3. Do you think that the price formation process has been deteriorated or has been improved as the result of market fragmentation? If so, please explain how.

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SSDA answers:

Q1: Seeing it from the implementation of the rules, those have been done reasonable effective. But looking at the effect of the market we can see that the efficiency have gone done especially concerning the market liquidity where the fragmentation has been negative.

Q2: We think that the Broker Connecting Networks needs to be regulated in same way as MTF and regulated markets.

Q3: The price formation process has been negatively affected; this is evident in the reduced liquidity, increased fragmentation, and expansion of dark pools. The increased competition has taken a starting point in reduction in tick-size, which is a central part of liquidity creation and price formation. Given less payment for capital, i.e. smaller spreads, investment firms are less likely to contribute with own capital for trading.

Recommendation 2

In an environment where trading is fragmented across multiple trading spaces, regulators should seek to ensure that proper arrangements are in place in order to facilitate the consolidation and dissemination of information as close to real time as it is technically possible and reasonable.

Questions:

1. What options are available to manage the issues associated with data fragmentation in a competitive environment?
2. What conditions, if any, should govern access by investors to consolidated market data?
3. Are there other challenges (technical, regulatory, prohibitively high costs) with regard to creating and/or accessing consolidated market data? What if anything, should be done to address these challenges?
4. What views do you have on the relative merits of a single consolidated tape mandated by the regulation versus multiple competing tape providers? Please elaborate.

SSDA answers:

Q1: It is important that all market prices get available to the participants in the market. We think that Consolidated Tape could be one way to solve this.

Q2: Most important is the cost, we must make sure that small players have the possibility to compete. It is also essential that trading venues not use market data pricing to compensate for reduced income in other areas (e.g. trading).

Q3: We think that the biggest challenge is the cost and the fees. The CT will only be used as a reference, i.e. willingness to pay is low. Each firm must, given their best ex rule book have an own package to display the relevant transparency for the markets that the firm cover, if they want to have the “best” client offering. Cost may be higher than the realized benefit, so who would be the buyers?

Q4: Regulation is the only way forward, since there may be a limited amount of buyers.

Recommendation 3

Where markets are fragmented, regulators should consider the potential impact of fragmentation on the ability of intermediaries to comply with applicable order handling rules including, where relevant, best execution obligations, and take the necessary steps.

Questions:
1. Should existing order handling rules, such as best execution, be re-examined in the context of fragmented markets? If so, in what way?
2. Do you think that rules relating to the disclosure of order handling practices by investment firms are appropriate to facilitate compliance with and evaluation of 'best execution'?
3. Are there any other appropriate 'order handling' tools that should be considered in the context of fragmented markets?

SSDA answers:

Q1: We believe that the current model is very good where a firm can independently choose which venues to offer to customers, this goes very well in line with the best-ex formulation that other aspects should be taken into consideration when choosing venues. Alternatively a bigger take could be investigated, i.e. trade through, what implications that could imply? However, this would mean a rewriting of best-ex etc.

Q2: Yes we think they are

Recommendation 4
Regulators should regularly monitor the impact of fragmentation on liquidity across trading spaces.
Regulators should seek to ensure that applicable regulatory requirements provide for fair and reasonable access to significant sources of market liquidity on the exchange and non-exchange trading market systems.

Questions:
1. Do you have views on regulatory mechanisms and specific arrangements that might be needed to help ensure that investors have an appropriate, fair and reasonable access to liquidity in both exchange and non-exchange trading market systems? If yes, please elaborate.
2. Are there any other issues resulting from the market fragmentation that should be addressed with respect to access to liquidity on exchange and non-exchange trading market systems?

SSDA answers:

Q1: Unfortunately the price formation process was not given the proper attention in the MiFID 1 work. Since it has been working fine it was forgotten that certain micro market structures are essential to generate larger liquidity. With regard to this it is further essential that orders that can participate, disruptively, in the price formation process. So, relevant threshold should be put in place to hinder smaller order to appear in e.g. dark venues or as icebergs, referring to Canada and US. We have earlier, 2010, suggested that below a certain threshold all orders should be forced into a lit order book, despite the origin e.g. large in scale order. The intent with allowing dark venues is to reduce market impact in the lit venue with orders that cannot easily participate.

Q2: Liquidity is the key to equity trading. Another unfortunate effect with MiFID was that completion drove tick-size down to so small levels that proprietary equity trading vanished. The extra liquidity generated by equity trading was in some order books up to 50%. It is essential that many different flows meet in the order book to create best possible conditions for efficient price formation. By harmonizing tick-sizes on a national level, by instrument and denominated currency. Higher tick-size could be established in relevant instruments, giving incentives for more actors to participate in trading.

General issues

Questions:
1. Are there any regulatory requirements that should be examined in addition to the recommendations already made in the above mentioned IOSCO reports in light of the evolution of market structure and trading strategies in the very specific context of market fragmentation? If so, please describe.
2. Are there any other issues associated with the fragmentation of markets that have not been mentioned in the current report?
3. Are there any changes to regulatory structure that you would recommend to regulators in your jurisdiction to address issues raised by market fragmentation? If yes, please elaborate.

SSDA answers:

Q1: No comment

Q2: No comment

Q3: No comment