

Mr Emil Paulis
Director
Directorate G - Financial Markets
DG Markt

Brussels, 18th February 2013

Subject: Organised Trading Facilities (OTFs) and potential problems for European equity markets

Dear Emil Paulis,

We are writing to you on behalf of the members of the Federation of European Securities Exchanges (FESE), the Federal Association of Securities Trading Firms (bwf) and the Nordic Securities Association (NSA) to draw your attention to some major concerns we have with the current direction of the MiFID/R discussions on the Organised Trading Facility (OTF) trading venue category in Council.

The Commission proposal on OTFs has been subject to heavy debate in the European Parliament and the Council. There is wide agreement among policy makers that such a new venue type is needed for derivatives and fixed income products. This is fully in line with the international regulatory agenda and G20 commitments. However, we strongly believe that creating this new category for equities trading is not in the interest of European equity markets, companies and investors.

MiFID I has created competition between trading venues. On the other hand it has led to market fragmentation. We fear that the introduction of an OTF for equities will create a two-tier market which risks leaving small and midsize companies behind and compromise a neutral price discovery process. The Commission proposal on OTFs tries to capture Broker Crossing Networks (BCNs) that currently operate on an OTC-basis. In practice, the new category will make the current situation worse and undermine goals to increase efficient price formation process and transparency. We believe that neutral, efficient and competitive trading environment is best promoted by requiring BCNs to qualify as MTFs. That way, we may avoid further fragmentation in the equities market.

BCNs might capture a substantial amount of trading without being subject to market facing rules which essentially protect investors and ensure equal treatment of order flows across Europe's capital markets. We believe that the proposal for equities OTFs will hurt Europe's equity markets because it will direct order flow away from the current neutral trading venues, Regulated Markets and MTFs.

In practice, only few investors will have the possibility to access prices displayed by the OTFs. Lack of access would compromise the price discovery process, the aims of transparency and best execution.

Regulated Markets and MTFs are neutral and open market venues. When the order flow disappears from these venues where investors provide capital to companies, the neutral and open market loses its value. This also has negative consequences for intermediation since "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. In addition some investors will face similar challenges in the secondary market in terms of order execution.

In summary, an OTF category for equities is not an open and neutral trading venue. It could potentially have significant adverse consequences for equity trading and the financing of the economy, in particular for the small and medium sized companies.

Best regards,

FESE

Judith Hardt
Secretary General

Nordic Securities Association

Kerstin Hermansson
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**Bundesverband
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Michael H. Sterzenbach
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CC: Commissioner Michel Barnier, MEP Markus Ferber

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 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.

About NSA

The Nordic Securities Association ("NSA") represents the common interests of Member firms in the Nordic securities dealers associations towards external stakeholders primarily in the Nordic market but also on European and international issues of common interest. Members of the NSA are the Danish Securities Dealers Association, the Finnish Federation of Financial Services, the Norwegian Securities Dealers Association and the Swedish Securities Dealers Association.

About bwf

The Bundesverband der Wertpapierfirmen e.V. (Federal Association of Securities Trading Firms) was created in September 2003 with the goal of uniformly protecting and promoting the common professional interests of Germany's securities trading firms on a national, European and global level. bwf members are usually completely "wholesale" firms. Their clients and market counterparts are German and international banks, UCITS companies, insurance companies and other investment firms alike. While some of the members are still focused solely on their traditional function as market specialist on the German exchanges, others offer the full range of trading, order routing and order execution services on German and European trading venues across a wide range of instruments. Some member firms are also active in the IPO and corporate finance business.