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Dear FCA colleagues,

**SI regime for bonds and derivatives including Discussion Paper on equity markets**

We welcome the opportunity to respond to your consultation paper on the SI regime for bonds and derivatives including Discussion Paper on equity markets.

The Quoted Companies Alliance *Investor Working Group* has examined the proposals and advised on this response from the viewpoint of small and mid-sized quoted companies. A list of Expert Group members can be found in Appendix A.

If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,

James Ashton

James Ashton
Chief Executive

**Q1 Do you agree with our proposal to remove the SI regime for bonds, derivatives, structured finance products and emission allowances?**

We have no comments.

**Q2 Do you agree with our proposal to remove the prohibition on an SI operating an OTF?**

Yes – we agree with this proposal.

**Q3 Do you agree with our proposed amendment to MAR 5.3.1AR(4) to remove the ban on matched principal trading by MTF operators?**

Yes – we agree with this proposal.

**Q4 Do you agree with our proposal to allow trading venues operating under the reference price waiver to source the mid-price from a wider set of trading venues?**

Yes – we agree with this proposal.

**Q5 Do you agree with our proposal to reformulate the reference price waiver so that it is applicable to an order, rather than a system so that it would be possible to place mid-price, dark orders on lit order book?**

Yes – we agree with this proposal.

**Q6 Do you believe that the declining share of trading via central limit order books (CLOBs) and corresponding increased in other execution services is impacting, or could impact in future, the effectiveness of price formation in UK equity markets? If so, what are the key drivers of concern?**

No – we do not believe that it currently impacts price formation. Liquidity moving away from CLOBs is generally related to the direct result of their higher toxicity and cost – and therefore they are often unable to compete in a competitive market to other trading venues. Given that a significant amount of trading is now conducted electronically (and human market participants will only know after the fact where their SMOR elected to trade), the ability of human market participants to observe where liquidity resides should not restrict price formation.

**Q7 Are there measures that should be taken to support the role of CLOBs?**

We believe that any measures taken to support the role of CLOBs should be considered only in so far as human market participants will require some indication of where their order might be executed – especially retail investors.

**Q8 Do you believe that there are activities in the current liquidity landscape, such as those carried out by bilateral quote aggregators, that should be considered more closely? If yes, what are the risks that they pose?**

We believe that it would be useful to include aggregated available volume from across bilateral counterparties in a view of tradeable liquidity. While this is available to buyside trading desks on a case-by-case basis, this is captured anywhere externally.

**Q9 Is the current regulatory framework a material factor in decisions to execute trades bilaterally, particularly when done outside the systematic internaliser regime? If so, which features of the framework are included in those factors?**

No – the availability of liquidity to achieve best execution via bilateral methods drives their use, rather than the regulatory framework.

**Q10 Are there forms of off-book bilateral trading outside the SI regime that are relevant to price formation? Are additional trade flags needed to better differentiate trading scenarios?**

We have no comments.

**Q11 Are you aware of cases where the same trade scenario has been reported with different flags by different firms?**

We have no comments.

**Q12 Should this type of scenario be treated as a form of RFMD for trade reporting purposes?**

Yes, we believe that it should.

**Q13 What percentage of all transfers of economic interest in shares do you estimate occur through the scenarios described? Do you believe these scenarios result in a material understatement of addressable liquidity?**

We have no comments.

**Q14 If reporting rules were updated to reflect these transfers, how should this be implemented to best capture addressable liquidity?**

We believe that this information should be reported so that liquidity can be captured. One possible suggestion would be for this information to be captured in the proposed consolidated tape.

**Q15 Are there any other issues related to the quality of post-trade reporting for equities that you would like to bring to our attention?**

We have no comments.

**Q16 Do you consider that there are any aspects of the market transparency regime, beyond post-trade, which should change to recognise the growth, outside the systematic internaliser regime, of bilateral trading?**

We have no comments.

**Q17 Which classes of instrument should be included in the equity SI regime? Are the current methods for determining liquidity still appropriate? If not, how should liquid instruments be identified?**

We believe that the equity SI regime should include liquid instruments only – for examples ETFs/DRs. We would caution against using market capitalisation as a proxy for liquidity.

**Q18 Should the use of the SINT flag be limited to trades executed against a published quote or below SMS?**

We have no comments.

**Q19 Do you believe the way market data is presented by vendors affects perceptions of liquidity? Are you aware of any issues – beyond those already raised – that we should consider?**

We have no comments.

**Q20 Are you concerned that current trade reports do not show whether an SI has taken on market risk? If so, what changes should the FCA consider?**

We have no comments.

**Q21 What metrics or indicators do you think are most informative to assess the quality and usefulness of SI quotes in contributing to price formation or liquidity assessment?**

We believe that a useful metric or indicator would be one that measures whether regime Sis offer improved prices to its entire client base.

**Q22 Should the conditions for offering price improvement remain in place? If so, should there be more clarity on what counts as a justified reason – either in our rules or in firms' policies?**

Yes – we believe that this would be helpful.

**Q23 Are there any other issues not clarified here that, under existing provisions, preclude an SI from publishing tighter quotes within the spread on the MRMTL?**

We have no comments.

**Q24 Does the current method for calculating the minimum quote size – and the size up to which price improvement must be justified – strike the right balance between protecting liquidity and supporting meaningful price formation? If not, would the approaches set out above deliver a better outcome?**

Yes – we believe that this remains appropriate.

**Q25 If we were to change the rules on price improvement and quote sizes, what would be the best way to do this to improve the contribution of SI quotes to price formation?**

We have no comments.

**Q26 Would including SI quotes in a consolidated tape improve their contribution to price formation? If so, should all quotes be included, or only those above a certain size or quality threshold? If using a threshold, what should that be?**

We believe that if the objective of the consolidated tape is to give a view of the broadest amount of liquidity available then all quotes should be included.

**Q27 Would greater disclosure of SI's quality of execution and of execution behaviour – such as the frequency and size of price improvements – support better outcomes for clients and more effective competition?**

Yes – we agree with this position.

**Q28 Are there any additional concerns regarding equity market transparency or structure that you have not addressed in response to previous questions but would like to raise?**

One area that we have previously raised with the FCA and would like to highlight in this response is the impact of liquidity requirements on investment in smaller companies.

The collapse of the Woodford Equity Income Fund in 2019 and the FCA's response to it has resulted in a situation whereby there is a pensiveness and reluctance amongst the asset management industry to invest in smaller, less liquid stocks. The FCA's letter on effective liquidity management in 2019 and the liquidity management multi-firm review in 2023 both adopted a one-size-fits-all approach that failed to take a balanced view. This created a general sense of unease from the investment community within our membership and has resulted in asset managers moving up the market capitalisation scale whereby they de-fund from smaller listed companies or no longer consider investing in smaller companies.

As the FCA looks to review and remove a number of its 'Dear CEO' letters from its website and to simplify its communication with firms, we would like to see this area clarified by marking them as historical, and providing guidance or an update on this area in one of the FCA's market reports.

**Q29 Do you consent to the publication of your name as a respondent?**

Yes.

**Appendix A**

**The Quoted Companies Alliance Investor Working Group can be found here: https://www.theqca.com/investor-working-group/**