FERNANDO RESTOY'S DRAFT RESPONSE TO DISCUSSION QUESTION 2 TOPIC 1
PROLIFERATION OF ALTERNATIVE TRADING PLATFORMS.

The proliferation of alternative trading platforms has affected the competitive dynamics and efficiency of the exchange industry. The issue of competition may be somewhat misplaced. How does the proliferation of alternative trading platforms affect the competitive dynamics and efficiency of the exchange industry? What would the policy implications be?

A) How does the proliferation of alternative trading platforms affect the competitive dynamics and efficiency of the exchange industry?

- Trading platforms competition yields a great deal of pro-consumer oriented consequences. Its main benefits are:

- Transactions costs are reduced.
- Increased competition and new trading functionalities are available to market participants. .
- Possibility to have access to several shares at one venue.
- The 2011 Oxera report[1] shows how competition among European trading platforms has led to improving liquidity and cost reduction.

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- However the competition among trading platforms also has its drawbacks:

- Unintended consequences on the level playing field:
  - Free riding: when the main market has stopped the trading in a particular stock due to a volatility circuit breaker or any other cause (technical failures), new trading platforms cease trading also.
  - Dumping: most of the new trading platforms have been losing money for several years in a row, despite the fact that those new trading platforms are not usually subject to the same requirements as the Regulated Markets.
- More difficulties to supervise: transaction reporting mechanisms are necessary.
- Benefits only affect Blue Chips and Professional Investors, mainly investment banks. Competition or market fragmentation do not affect small caps or retail investors[2].

B) What would the policy implications be?

- Policy implications and areas that CAs should explore:

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[1] Oxera Monitoring prices, costs and volumes of Trading and post-trading services. Report prepared for European Commission DG Internal Market and Services. May 2011. Oxera is a consultancy Group located in Oxford. Its speciality is conducting reports regarding the impact of the regulation in the functioning of any sector: industrial, financial or agricultural.

[2] Equity market fragmentation and liquidity: the impact of MiFID, Tilburg University January 2011 and The impact of dark and visible fragmentation on market quality, European Banking Center Discussion Paper. April 2011. Hans Degryse, Frank de Jongy and Vincent van Kervelz.

- **Need to amplify regulatory perimeter.** CAs should ensure that all organised trading is conducted at organised trading venues. These, in turn, should be supervised by CAs. In this respect, the EU is setting up a new segment called Other Trading Facilities and the US has established the new Swap Exchange Facilities layer.

- **Need to align different regulatory requirements and supervision intensity.** CAs should assure identical regulatory requirements and supervision intensity on trading platforms in order to avoid regulatory arbitrage and free riding.

- **Need to look at fee policies.** Specific regulatory and supervisory measures should be developed in order to ensure that fee structures are fair, transparent and non discriminatory and avoiding dumping situations.

- **A single harmonised definition of best execution should be drawn up among the CAs of the main geographical areas.**

- **A consolidated tape is necessary not only on post-trade but also on pre-trade information.** The protection of investors and the correct price formation should not only be based on consolidated tape on post trade information or transaction reporting mechanisms.