European Association of Co-operative Banks
Groupement Européen des Banques Coopératives
Europäische Vereinigung der Genossenschaftsbanken

EACB Answer
to the CESR Call for Evidence on the impact of MiFID on secondary markets functioning

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The **European Association of Co-operative Banks** (EACB) is the voice of the co-operative banks in Europe. It represents, promotes and defends the common interests of its 28 member institutions and of co-operative banks in general. Co-operative banks form decentralised networks which are subject to banking as well as co-operative legislation. Democracy, transparency and proximity are the three key characteristics of the co-operative banks' business model. With 4.200 locally operating banks and 63.000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 160 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 50 million members and 750.000 employees and have a total average market share of about 20%.

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General remarks

The EACB welcomes the opportunity to contribute to the questions ot the CESR in its Call for Evidence on the impact of MiFID on secondary markets functioning. As we already expressed in several occasions we would like to highlight that only one year has passed since the implementation of MiFID. It is therefore important to await possible further market changes and evaluate those at a later date.

1. What do you think are the key benefits for yourself or the market more generally that have arisen as a result of MiFID provisions relating to equity secondary markets?

The Directive has led to a significant increase of competition between trading venues and we welcome this development very much. The emergence of those new trading venues shows – especially in relation to Multilateral Trading Facilities (MTFs) – that the consistent framework of rules in Europe leads to the establishment of new business models as well as to the facilitation of cross-border trading.

2. Do you consider that there are any remaining barriers to a pan-European level paying field across trading venues? If so, please explain.

No, we consider the pan-European guidelines of the Directive as sufficient.

3. Do you think that MiFID has supported innovation in the equity secondary markets? Please elaborate.

Yes, from our perspective the development of equity trading in general has benefited from MiFID. The new trading venues are the best example for this development. At the same time also established venues have improved their offers in order to retain their existing market participants.

4. a) Have you faced significant costs or any other disadvantages as a result of MiFID relating to equity secondary markets? If so, please elaborate. b) Have these been outweighed by benefits or do you expect that to be the case in the long run? If so, please elaborate.

The implementation of MiFID was linked to significant costs for our members, especially in relation to the best execution policy. As of today it is not yet assessable whether those costs will be amortized in the long term. Due to the very difficult environment in which secondary markets are currently operating (e.g. a drop in clients' trading volumes) especially the fixed costs attached to the MiFID adaption will be much more difficult to amortize.

However, we think that the advantages will prevail, especially taking into consideration that the client will more and more demand clear and transparent products from the markets and the market participants in the future.

5. Have you seen/experienced any unexpected consequences in terms of level playing field arising from the implementation of MIFID provisions relating to equity secondary markets? If so, please elaborate.

Yes, there were some difficulties in implementing the best execution policy in the IT-systems of our members. Several change requests were necessary for the complete implementation.

6. What impact do you consider that increased competition between equity trading venues is having on overall (i.e. implicit and explicit) trading costs? Please elaborate.

The direct transaction costs decreased after the introduction of MiFID. Some stock exchanges for instance do not charge commissions for the execution of retail orders any more. The ultimate client has benefited from this development.

We also expect medium term cost reductions regarding the indirect costs (e.g. internal transaction costs) due to economies of scale with the concentration to less execution venues.

7. Do you think that there has been significant fragmentation of trading and/or liquidity in European equity markets? If So, please elaborate. Do you think that such fragmentation raises concerns (for example, does it impact on the price formation process, the overall efficiency of the markets, search costs, best execution requirements? If so, please elaborate on those concerns.

The emergence of new trading venues – especially in the area of MTFs – has naturally led to a fragmentation of the market. However, this is simply the consequence of an increasing competition. We do not see a negative impact, particularly taking into account that the transparency obligations seem balancing.

8. Do you think that MiFID pre- and post-trade transparency requirements adequately mitigate potential concerns arising from market fragmentation?

Yes, please see question 7.

9. Is the categorisation of shares appropriate in relation to: the definition of liquid shares; 'standard market size'; 'orders large in scale'; and 'deferred publication'? If not, please elaborate.

Yes, we consider the categorisation intended by MiFID as practicable. This applies especially to threshold values regarding the transparency of the post trade for share transactions conducted off the floor.

10. Do you see any benefits (e.g. no market impact) to dark pools of liquidity (to be understood as trading platforms using MiFID pre-trade transparency waivers based either on the market model or on the type of size of orders)? If so, what are they?

Yes, we consider the usage of so called dark pools in principle as desirable. By this means it can be warranted that a block order is placed appropriately. However, a transparency of pre-trade for block orders would lead to a distortion of prices, which is fundamentally not justifiable. In regulated markets there are respective possibilities of the discretionary execution of orders. Without those possibilities, it would be the investor itself to take care that the intended volume is placed in tranches on the market.

11. Do you see any downsides to dark pools of liquidity (e.g. impacts on the international content of light order books)? If so, what are they?

No, please see question 10.

12. Do you consider the MiFID pre- and post-trade transparency regime is working effectively? If not, why not?

Currently the system of pre- and post-trade transparency has proven itself. In general we have to say that from our point of view the pre-trade regime has definitely advantages regarding the transparency of data in the execution of an order. For the post-trade transparency data we cannot see any relevant interests for the clients.

13. What MiFID pre- and post-trade transparency data do you use, and for what purpose? Does the available date meet your needs and the needs of the market in general?

Yes, the available data meet our needs.

14. Do you think that MiFID pre- and post-trade transparency data is of sufficient quality? If not, please elaborate why and how you think it could be improved.

Like 13. The data quality is sufficient.

15. Do you think that there has been significant fragmentation of market data in the EEA equity markets? If so, please elaborate. Do you think that such fragmentation raises concerns (for example, does it impact on the price formation process, the overall efficiency of the markets, search costs)? If so, please elaborate on those concerns.

No.

16. Does the current availability of data facilitate best execution? If not, please elaborate.

There is only a limited use of the data for the best execution. It would be much more valuable to calculate and to provide data about the depth of the order book, the timeframe until the execution, etc.

17. Do you think that commercial forces provide effective consolidation of data? If not, please elaborate.

Yes. It is probable that data will be provided more promptly in the long term. The validity will be higher and therefore we expect the quality of the data to increase.

18. Do you think that the implementation of MiFID is delivering the directive's objectives in relation to equity secondary markets (e.g., fostering competition and a level-playing field between EEA trading venues, upholding the integrity and overall efficiency of the markets)? If not, why do you think those objectives have not been met?

Yes, we consider that the implementation of MiFID set the course for the mentioned objectives. At the same time we would like to highlight that only one year has passed since the implementation of the directive. Some changes need more time. It is therefore important to await further market changes and evaluate those at a later date.

19. Do you see any other impact or consequences of MiFID on equity secondary markets functioning?

No.

Contact:

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