MARKET INTEGRATION AND SUPERVISION PACKAGE

AMAFI's priorities

AMAFI is the trade association representing financial markets' participants of the sell-side industry located in France. It has a wide and diverse membership of more than 170 global and local institutions notably investment firms, credit institutions, broker-dealers, exchanges and private banks. They operate in all market segments, such as equities, bonds and derivatives including commodities derivatives. AMAFI represents and supports its members at national, European and international levels, from the drafting of the legislation to its implementation. Through our work, we seek to promote a regulatory framework that enables the development of sound, efficient and competitive capital markets for the benefit of investors, businesses and the economy in general.

Against the current geopolitical backdrop, it is critical for the Union to strengthen its strategic independence. To reach that objective, key reforms envisaged as part of the Savings and Investment Union (SIU) Strategy[1] need to be delivered, i.e. securitisation, Banking Union and the national reforms of pension systems. Besides, the creation of an EU safe asset to finance strategic sectors could also be considered.

Reducing internal barriers and the fragmentation of EU financial markets is also necessary, as it will help reduce costs and facilitate capital flows, making EU capital markets significantly more attractive and its market participants more competitive, including vis-à-vis third countries competitors.

This initiative should enable capital markets to complement bank-based financing, which is insufficient on its own to meet overall funding needs and ill-suited to finance innovation. Market-based financing is also critical to ensure that strategic sectors, notably defence, energy, digital and pharmaceutical, are financed primarily by European capital, reinforcing the Union's strategic autonomy and its long-term growth prospects.

In this respect AMAFI supports the overall ambition of the Market Integration and Supervision package[2] (MISP), a key component of the SIU strategy, and in particular its proposals aimed at reducing fragmentation.

[1] Saving and Investment Union Strategy, link.
[2] Market Integration and Supervision Package, link.

With the Irish presidency aiming to reach a General Approach by October/November 2026, the purpose of this note is to summarise AMAFI's priorities on (i) trading, (ii) supervision and (iii) the DLT pilot regime, as negotiations in the Council are entering their final stage.

I. TRADING

A. EQUITY MARKET STRUCTURE

Today's market structure characterised by a wide diversity of execution venues reflects the evolving needs of market participants and the development of different execution mechanisms designed to meet them. These include the growing importance of speed and immediacy, the emergence and development of ETFs, the increasing role of hedge funds and other sophisticated investors, as well as the need to for each market participant to minimise the market impact and optimise the execution of its orders while collectively preserving the quality of the price formation process. Any reform impacting the EU equity market structure should therefore consider those different needs.

It should also take into account that investors may trade EU shares outside the Union by routing orders through non-EU investment firms, as the EU share trading obligation applies only where an EU investment firm is involved in the transmission or execution of the order.

Against this background, a reform of the EU market structure should demonstrate benefits for investors while taking into account the risk of driving trading activity to the UK or other third countries offering more favourable execution conditions, with EU trading focusing only on domestic or less internationalised participants. Structural intervention should hence be approached with caution and preceded by a robust impact assessment. This approach is echoed in the July E6 paper[3], which calls for a prior assessment of the potential effects of its proposals.

As regards ESMA's Call for Evidence on the structure of European equity markets, AMAFI acknowledges the increased fragmentation of the EU trading landscape and the declining market share of regulated markets[4]. Whether this constitutes an issue should be assessed based on its impact on price formation, liquidity, market resilience or investor outcomes.

It is worth noting that the FCA recently carried out an analysis of the structure of the UK equity market on which a consultation[5] is ongoing. Faced with a similar decline in the market share of regulated markets, albeit more pronounced in the UK, the FCA does not, at this stage, identify any deterioration in market quality that would, in its view, justify structural reform. Instead, it favours targeted and proportionate adjustments based on evidence and regular monitoring of market quality indicators.

As regards the MISP proposal, AMAFI proposed amendments (*AMAFI / 26-45*) to address the inconsistency between the pre-trade price improvement transparency requirement applicable to

[3] The E6 (Germany, France, Italy, the Netherlands, Poland and Spain) non paper has put forward several targeted proposals to "*reduce fragmentation and strengthen liquidity*".
[4] AMAFI / 26-42.
[5] FCA consultation (CP26/30) on the structure of the UK equity market: link.

systematic internaliser (SIs) and the tick-size regime, notably by removing the obligation to update quotes before execution. The Association also proposes allowing regulated markets to propose execution at the midpoint, as other execution mechanisms already can, to ensure a level playing field and foster competition and innovation, especially considering that the FCA envisages allowing CLOB midpoint execution.

B. Post-trade transparency for MiFIR instruments: removing the extraterritoriality of EU law

Under the ESMA 2020 Opinion[6], EU investment firms trading on UK multilateral platforms in non-equity instruments are currently not required to report those transactions under the EU post-trade transparency regime. The MISP proposes to integrate this exemption into Level 1, but only for OTC derivatives.

While AMAFI supports this integration in Level 1, it considers that the limitation to OTC derivatives would put EU capital markets at a competitive disadvantage, especially compared to the UK where such exemption still applies for other instruments than OTC derivatives, providing a trading advantage to investors and firms executing trades in the UK. This point is particularly important in view of the revised MiFIR transparency regime for bonds, which applies since March 2026 and has increased the divergence between EU and UK deferral regimes, to the detriment of firms that have to report under the EU regime.

Additionally, requiring EU firms to report under EU rules transactions executed on third-country trading venues, or bilaterally with non-EU clients, where those transactions are already reported under a third-country transparency framework, would create unnecessary duplication and place EU market participants at a competitive disadvantage by applying more stringent rules.

Against this background, the MISP should clarify that transactions executed on third-country trading venues, as well as bilateral transactions with non-EU clients reported through a third-country APA, are exempt from EU post-trade transparency requirements.

More broadly, EU legislation should not have extra-territorial application as regards investor protection and market integrity obligations. EU market participants should be able to apply local rules on these matters when they operate outside the Union with non-EU clients from a branch. The MISP is an opportunity to clarify this principle in MiFID and MiFIR, consistent with the EU Treaties[7].

[6] Opinion, ESMA, Determining 3rd country trading venues for the purpose of transparency under MiFID II/ MiFIR, link.

[7] Pursuant to Article 52 of the Treaty of the European Union and Article 355 of the Treaty on the Functioning of the European Union, the Treaties, and the legal acts adopted on their basis, apply within the territory of the Member States, subject only to the specific extensions and derogations expressly provided for therein. MiFID is applicable to investment firms authorised to provide investment services across the Union, aligning with the broader territoriality principle set out in the Treaties.

C. CONSOLIDATED TAPE FOR SHARES: IMPROVING MARKET TRANSPARENCY

Europe's first consolidated tape for equities is currently under construction and is expected to be operational in September 2026. Its effectiveness will depend not only on the availability of consolidated market data, but also on the quality, consistency and usability of the data.

As illustrated by the ESMA consultation on the structure of European equity markets, insufficient market data quality can limit the ability of regulators and market participants to conduct detailed assessment of market structure developments, including the respective role of execution mechanisms in price formation.

Further work is therefore needed to improve the quality of input data, through greater standardisation and a common market understanding of the reporting requirements: without reliable and comparable data, the tape may not fully deliver its expected benefits in terms of market transparency and ultimately in providing an accurate view of market liquidity.

This work should be conducted with due consideration to the importance to enhance alignment between EU and UK transparency frameworks, with the aim of defining a workable approach and ideally allow future aggregation of data displayed through the EU and UK tapes.

D. ADDRESSING THE SITUATIONS WHERE SERVICES TO MARKET PARTICIPANTS ARE PROVIDED BY DE FACTO OLIGOPOLIES

A number of financial services (aggregation of market data, provision of benchmarks, provision of ratings, connectivity between buy-sides and sell-sides, etc.) are currently provided by de facto oligopolies, characterised by (i) a limited number of providers – mostly non-EU entities – and / or a significant difficulty to switch from one provider to another one and by (ii) asymmetrical pricing power to the benefit of the provider, translating ultimately in higher costs for investors.

As of today, EU market participants are left with no recourse in front of such situations:

- contrary to what one could believe, such situations are not an opportunity for the development of EU competing solutions as (i) the cost of entry is extremely high, limiting the ability of newcomers to disrupt established positions, (ii) services are often quite sticky, making the move to a new provider complex and burdensome and (iii) the terms of competition are set by the existing oligopolies, that can make new offers irrelevant by simple changes to their offer (bundling, etc.,),

- formally, providers for those services appear to compete with one another (even though they benefit from local monopolies), making regulation by DG Comp ineffective,

- while the sales of market data by trading venues is subject to the Reasonable Commercial Basis principles under MiFID II / MiFIR (readability and transparency of contractual terms, moderation in prices and justification of margins), the commercial practices linked to these services fall outside of the EU regulatory scope and appear to be totally out of control.

In this context, AMAFI calls for a competitive assessment of the aggregation of market data, the provision of benchmarks, the provision of ratings, and connectivity between buy-sides and sell-sides, with a view to extend the application of the Reasonable Commercial Basis principle[8] to these services.

II. Supervision

A. Embedding competitiveness as a secondary regulatory objective

Given the intensity of global competition, ESMA's future expanded power over EU financial markets should be exercised with due regard to the need to foster market growth, innovation and international competitiveness. ESMA's approach to competitiveness should entail both enhancing the growth and attractiveness of EU markets and creating stronger EU-based firms that can compete effectively in international markets.

The integration of competitiveness as a secondary regulatory objective is thus a prerequisite to the MISP proposal to grant ESMA direct supervision over significant trading venues, CCPs, CSDs and all CASPs, given the Authority's key role in providing technical support to the European Commission's work on legislative proposals, in the drafting of level 2 and 3 texts, as well as the impact of the exercise of its mandate on the activity of market participants.

Competitiveness should be a secondary objective to ESMA's primary objectives of financial stability, market integrity and investor protection thereby ensuring that any new rule does not unnecessarily impact EU market participants' ability to compete effectively within the Union and globally. Such a secondary objective would not apply to the supervisory role of ESMA.

It is worth noting that the UK, one of the Union's main competitors, has granted the FCA (and the PRA) a secondary objective relating to competitiveness and that other main financial centers such as the US (with the SEC) and Singapore (with the Monetary Authority of Singapore) share a similar objective, without creating conflict with their supervisory mission. The proposal from the E6 to grant ESMA with an innovation mandate is too restrictive as it covers only one aspect of competitiveness.

In order to evaluate the Authority's efforts towards making EU capital markets and its actors more competitive, the European Commission should develop dedicated metrics, such as those developed by the FCA. In particular, these should encompass the number of new entrants and firms exits to the Union's market, the percentage of wholesale firms confident that ESMA meets its primary objectives, the volume of activity and growth performed from European based entities versus on a cross border basis, the level of satisfaction of how the actions of ESMA affect the attractiveness of the Union, the quality and consistency of ESMA's interaction with the industry, the number of listed entities on EU exchanges, etc.

For that secondary regulatory objective to be effectively implemented, it is necessary to strengthen the accountability of the Authority *vis-à-vis* the European Commission and co-legislators. The annual report on the activities of the Authority should therefore integrate a dedicated section, measuring and

[8] RCB as defined in the Delegated Regulation (EU) 2025/1156: link.

reporting progress on how the Authority's regulatory actions embed competitiveness and contribute to the growth and innovation of the Union's financial markets and Union market participants. Moreover, a hearing of the Authority's Chair before the Council representatives and Members of the European Parliament of the ECON committee should take place annually so the Chair can report on the progress made, based on key metrics.

B. Direct supervision and its implementation

Infrastructures which are critical to EU capital markets should be supervised independently from domestic considerations and benefit from a supervisory framework that is not fragmented across multiple NCAs. Additionally, ensuring a level-playing field in supervision between infrastructures offering comparable services is of paramount importance.

In this context, it is important to ensure a clear and workable division of competences between ESMA and NCAs to avoid arbitrages or duplicative burdens. In particular, some areas (e.g. market abuse, market surveillance and trading halts) should continue to be handled by NCAs rather than ESMA, as they require a thorough understanding of national ecosystems and their actors.

Under the caveat that competitiveness is duly taken into consideration, AMAFI supports direct supervision. The transition should take place rapidly, in a couple of years, to avoid the duplication of costs (NCAs + ESMA). We consider direct supervision should be subject to (i) an adequate level of staffing, (ii) no increase in the costs borne by supervised entities and (iii) the independence of the Executive Board from the Board of Supervisors:

- **A substantial volume of recruitments, which should come in particular from the private sector.** The impact assessment accompanying the legislative proposal estimates that the direct supervision of "significant" TVs, CCPs, CSDs and of all CASPs would require about 240 to 400 additional full-time equivalents (FTEs). Given that ESMA currently employs 416 FTEs, this would represent an increase between 58% and 96%. Even if implemented progressively, such an expansion could only partially rely on staff seconded or definitely transferred from NCAs. Recruiting professionals from the private sector is also an opportunity to support the cultural shift implied by the broadening of ESMA's supervisory mandate. Effective direct supervision will require a deeper and more practical understanding of how supervised entities operate, as well as of the regulatory and supervisory constraints they face.
  The existing recruitment process should thus be complemented by a dedicated recruitment scheme designed to foster greater mobility between ESMA and the private sector (and vice versa), while maintaining robust conflict of interest management standards, drawing on the best practices already in place at NCAs and in other jurisdictions, notably in the UK.

- **No increase, or even an overall reduction in supervisory costs for supervised entities through economies of scale and a transfer of NCAs budgets to the ESAs**. It is worth noting that such an objective has not been achieved in other contexts, notably for significant benchmark providers and for the SSM. On this matter, transparency is of utmost importance. ESMA should report annually on the costs of supervision and their evolution, highlighting the transfer of costs from NCAs. The supervisory costs dedicated to CASPs should be specifically identified as corresponding to a new activity. We support the recent AFM/AMF paper highlighting five enablers for effective European supervision[9], including the one calling for proportionate and transparent funding. AMAFI fully supports its objective of establishing a clear, cost-neutral and capped funding framework that covers the full supervisory cost chain and that at a minimum does not increase the overall costs. We also support the proposal from the Irish presidency to establish a Fee Committee to strengthen the oversight of ESMA's supervisory fees.

- **An independent Executive Board**, in light of the new prerogatives conferred to ESMA with regards to direct supervision, it is essential that supervisory decisions are taken with the Union's interests at heart rather than national ones. It is therefore critical for the Executive Board to be fully independent from the Board of Supervisors. AMAFI therefore considers that the Board of Supervisors (BoS) should not have the power to object to an Executive Board decision based on a simple majority. The prerogatives of the BoS vis-à-vis the Executive Board should not be broadened.

C. Supervisory convergence tools

No action letters have a critical role to play where existing rules prove inadequate or misaligned with rapidly evolving market conditions or regulatory developments. They can provide the flexibility that is essential to enhance the attractiveness of EU capital markets and to strengthen the competitiveness of EU market participants.

With regards to the extension of the scope of the "no action letter" mechanism AMAFI considers that it is necessary to introduce more flexibility and to remove legal uncertainty with regards to their issuance and as such supports the proposal from the Irish presidency to delete "unforeseen circumstances" under which a no action letter could be issued.

NCAs should be allowed to request the issuance of no-action letters, with an obligation for ESMA to answer swiftly and, in case of refusal, provide reasons.

Additionally, the EC should be given the possibility to suspend, swiftly, when necessary, RTSs or ITSs in specific circumstances. This would also contribute to bringing more agility to the EU regulatory framework.

During the duration of a no action letter or the suspension of an RTS or ITS, ESMA should be empowered to invite NCAs to temporarily deprioritise supervisory and enforcement actions in relation to the relevant legislation. Additionally, no-action letters should be published on the websites of the NCAs. This would represent a major step forward in bringing greater legal certainty to financial actors.

[9] From design to delivery – Five enablers for effective European Supervision, AFM, AMF, link.

III. DLT PILOT REGIME

AMAFI welcomes the extension of the DLT Pilot Regime to all financial instruments in scope of MiFID: this is a critical step to let DLT-based market infrastructures reach the scale needed to compete internationally and to contribute meaningfully to the SIU, which are important for the competitiveness of the Union.

However, the EUR 100 billion threshold applicable to the aggregate market value of DLT financial instruments admitted to trading or recorded on DLT market infrastructures remains a significant constraint on scalability and market development. Set before the market had proven what tokenization could do, and in a context where the US is moving at lightning speed, the current EUR 100 billion aggregate threshold constitutes an obstacle to our shared ambition of enhancing the competitiveness of the European Union.

AMAFI therefore calls for this threshold to be removed or, at least, substantially increased, with ESMA empowered to adjust it swiftly to adapt where the market matures.

As regards settlement, central bank money remains the preferred settlement asset for large-value transactions and capital market tokenisation. However, within the specific context of the Pilot Regime, alternative settlement solutions, including commercial bank money and e-money tokens, should remain available without a rigid hierarchy and without requiring DLT market infrastructure operators to justify their recourse to them case by case. Narrow eligibility criteria could have the unintended effect of recreating the very concentration and barriers to entry the DLT pilot regime was designed to ease.

Finaly, AMAFI supports the creation of an industry group to develop interoperability standards between DLT market infrastructures. Given the technical complexity and rapid evolution of DLT use cases, such standards should be market-led, with ESMA's role focused on high-level oversight, coordination and the assessment of outcomes.

Time is of the essence. As technology constantly evolves and requires reactivity, the MISP should rapidly be adopted. This is important to ensure that the EU remains competitive with jurisdictions that are moving quickly in the development of DLT-based market infrastructures and capital-market tokenisation.