



April 30TH, 2010

**CESR'S CALL FOR EVIDENCE
MICRO-STRUCTURAL ISSUES OF THE EUROPEAN EQUITY MARKETS**

FRENCH BANKING FEDERATION'S RESPONSE

GENERAL REMARKS

1. The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorised as banks and doing business in France, *i.e.* more than 500 commercial, cooperative and mutual banks. FBF member banks have more than 25,500 permanent branches in France. They employ 500,000 people in France and around the world, and service 48 million customers.

As universal banks, French credit institutions were directly and highly impacted by the enforcement of the MiFID on their main business lines, since this directive was the cornerstone of the first Financial Services Action Plan, insofar as it sought to address the entire financial-intermediation sector, from trading activities to distribution to retail investors. Thus they are very interested in the incoming reform and are happy to share views on their experience with the regulators.

2. The FBF strongly believes that the reform of the MIFID must focus on the markets' architecture.

The FBF very welcomes this call for evidence since it is focused on the functioning of the equity markets after the experience of the two and a half years since the implementation of the MIFID and in a context of fragmentation of the liquidity of the equity markets that every stakeholder has to analyze in order to identify which evolution could be beneficial for users and investors and which evolution could be detrimental to the functioning of the markets and at the end to the investors.

This said, the FBF regrets the very short notice (only 4 weeks) for such a technical and important call for evidence; Apart from that, the FBF considers that many of the figures asked by CESR can only be done by the exchanges themselves.

3. The FBF welcomes that CESR intends to tackle the micro-structural issues subject to its call for evidence at level 2 or level 3.

Indeed, it is obvious to French banks that these issues can not be solved at level one, since they are linked to technical or economic evolutions of the markets that only the regulators can follow and that a general level one framework would not relevantly address. Then CESR first, and ESMA from the 1st of January 2011 will have a key role to play.

4. Most of the evolutions that the stakeholders have experienced were expected as regards to the foundation of the MiFID.

The foundation of the MiFID directive was an analysis of equity markets based on the monopoly enjoyed by the stock exchanges, either in law or in fact¹. The objective was to achieve "*an effective, transparent, integrated trading infrastructure.*" To this end, the philosophy of the MiFID directive was based on three-pronged reasoning:

- The stock exchanges' monopoly (as long as it continued) did not allow investors to benefit from lower trading costs resulting from market computerization in the 1990s.
- Competition between exchanges and other market operators would cause the decrease in trading costs to have an effect on intermediation costs incurred by investors.
- Due to the opening up of competition among various market operators, pre-existing rules relating to investor protection prior to order execution and to execution itself had to be reinforced (by the creation of a "*best execution*" obligation).

During the MiFID directive's preparatory work, French banks defended pre- and post-trade transparency rules, which were needed to prevent information asymmetries between intermediaries and investors. Competitive distortions, whether real or imagined, the impact of fragmentation on the price discovery process and, to a lesser degree, the directive's allowable exceptions have been the source of most formal criticism since then.

Without calling into question the competition created by other operators for regulated markets, French banks feel that it is necessary to implement reforms that prevent the information and competitive-condition asymmetries that have appeared since the directive became effective. Indeed, the directive itself has brought about asymmetries on the equity markets and not the economic crisis, which, although it has made the markets much more volatile, has not adversely affected their efficiency in terms of liquidity or resilience.

5. The French banking community would like to express 6 main messages regarding the issues addressed by the current call for evidence.

- First, if additional rules are considered necessary, it should be considered to introduce them through the trading platforms' own rules; or alternatively, through Level 2 or Level 3 of the Lamfalussy process.
- Second, future CESR recommendations should be led by the purpose of market abuses prevention and traceability. The fragmentation of the equity markets has blurred the sight the regulators had over the markets and then some guidelines

¹ It should be recalled that, in accordance with the ISD of 10 May 1993, States had the power to impose an obligation to concentrate orders on the regulated market until the MiFID directive's entry into force.

shall prevail in order to prevent market abuses and to make the regulators in a situation to identify them.

- Third, the technological side of the markets is a natural evolution and the regulators shall follow these evolutions and adapt their capacity to react to certain consequences of these evolutions which could lead to asymmetries of information of breaches in the level playing field, but in no way the regulators shall set up limitations to the technological evolutions.
- Fourth, no general confusion shall be made between some activities or practices (such as high frequency trading or direct market access) and the potential abuses that a few actors can commit through these activities.
- Fifth, cooperation between intermediaries, exchanges and regulators is the best way to prevent or identify market abuses. In this perspective, a calibrated framework on activities or practices is far better than a ban of activities or practices.
- Sixth, the FBF regrets the very short notice of four weeks to answer to the consultation

I. High frequency trading (HFT)

1. *Please describe trading strategies used by high frequency traders and provide examples of how they are implemented.*

High frequency trading (HFT) consists broadly speaking of taking opportunities of market differences observed (even infinitesimal) and of making profit by executing orders within time slots close to a nanosecond. This practice is not shocking *per se*. It corresponds to the traditional activity of arbitragist (market makers) which is as old as the stock exchange, the only difference is that the service providers or the hedge funds that practice this have adapted their tools and equipped themselves with more and more powerful calculators in order to work with smaller and smaller units of time.

The strategies largely vary from a market participant to another. For investment banks, HFT is mostly used to arbitrate baskets against futures and in the context of a correlation book. Some other market participants, not brokers nor investment banks, base their strategies on arbitration on single stocks or on very tight baskets.

In doing HFT, market participants have quite simply adapted to the technological evolutions of the markets themselves (by way of example, LSE announced in September the acquisition of the Millenium IT company, which should enable it to quote to the nearest nanosecond).

2. *Please provide evidence on the amount of European trading executed by HF traders (including the source(s) of that information). CESR is particularly interested in statistical material on: a) market share of HFT in orders/trades in Q1/2010 (and, if possible compared to 2008 and 2009), b) average trade size in Q1/2010 (and, if possible compared to 2008 and 2009), c) market participants, d) financial instruments traded (including cash vs. derivatives). If possible, please distinguish between HFT on transparent organized trading platforms and on dark pools of liquidity.*

The Stock Exchanges are far better placed, for instance through FESE, to answer than the banks. However, if we are provided with some relevant figures, we would be pleased to communicate them to CESR.

3. *What are the key drivers of HFT, and (if any) limitations to the growth of HFT?*

This cutting edge technology should not be seen as a potential danger but as a factor for progress as long as the clients can benefit from this. They must obviously respect the principles of market integrity and this is monitored daily.

In our view, regulation should not seek to limit or thwart the “partnership” of technological progress and financial innovation on the sole pretext that it could generate risks.

Without technology, we would never have been able to develop the techniques of modern finance nor many of derivative products which purpose is to cover risks incurred by investors in their principal activities.

4. In your view, what is the impact of high frequency trading on the market, particularly in relation to:

- **market structure (e.g. tick sizes);**
- **liquidity, turnover, bid-offer spreads, market depth;**
- **volatility and price formation;**
- **efficiency and orderliness of the market?**

Please provide evidence supporting your views on the impact of HFT on the market.

Opinions diverge on arbitrating strategies based on high-frequency trading, which financial intermediaries may execute on their own account or which investors themselves, such as hedge funds, may execute:

- Some observers stress the contribution that these strategies make to market liquidity and efficiency by unifying prices across different trading systems and quickly eliminating any extraneous prices. These same observers point out that these strategies are in line with arbitragers' regular efforts to seek out new opportunities;
- Other observers stress the excessive share of trading volumes attributable to these strategies and the risks associated with purely mechanical order systems, yet fail to back their criticism up with any technical arguments.

According to the explanations provided by high-frequency trading practitioners, their gains are made at the expense of brokers, who make profits by capturing the spread.

It is widely recognized, among French banks, that HFT adds liquidity to the markets, thereby reducing spreads as well as volatility. Overall, this should lead to increased market efficiency, even if the very high number of orders creates a tintinnabulation in the market.

5. What are the key benefits from HFT? Do these benefits exist for all HFT trading strategies?

The following positive aspects resulting from high frequency trading should be highlighted:

According to the FSA (FSA Financial Risk Outlook 2010), within the last decade, HFT has grown from negligible amounts to an estimated 60-70% of equity trading volume in the US, and to 30-50% within the EU. Therefore, there is no doubt that HFT brings more and more additional liquidity to the market.

- Whatever the origin of liquidity, spreads naturally become narrower as volumes increase. This can be seen on all markets. It represents a net gain for all players.
- Another consequence of the presence of high frequency arbitrage is to guarantee prices which are close to fair value.
- The fact that orders are executed in smaller tranches than before might lead to the atomization of liquidity in the order books. Nevertheless, due to MIFID, the orders are executed more quickly in smaller tranches which can therefore lead to a reduction in the bearing risk.
- High frequency trading is a very low margin activity which is negligible for institutional investors and individuals. However, it has taken the place in an extremely competitive manner of the old market maker model which benefited from the opacity of OTC transactions which could be carried out with different

counterparties dealing directly between themselves. This contributes to market transparency.

- Lastly, a final important point to be remembered is that the additional liquidity generated by high frequency has a direct positive impact on the real economy. Liquid shares attract more investors and therefore improve the financing of business.

The most important benefit of HFT lies in the increase of liquidity, and in the accordingly lower spreads and volatility.

6. Do you consider that HFT poses a risk to markets (e.g. from an operational or systemic perspective)? In your view, are these risks adequately mitigated?

The FBF does not believe that HFT implies any systemic risk.

As a matter of fact, the risk that a “rogue trader” can generate does not exist in HFT since an automat cannot react as a human being; this said, when the volatility is important, the automatic intervention of the HFT is not blocked, therefore some operational risks can occur, but not at the level of a systemic risk.

In order to prevent such operational risks, some parameters are entered in the automat. These filters are efficient to limit the occurrence of operational risks. Naturally, as the parameters are entered by humans, it cannot be completely excluded that a wrong parameter exists as regards to specific market circumstances.

7. Overall, do you consider HFT to be beneficial or detrimental to the markets? Please elaborate.

HFT is a natural response of some market participants to new trading opportunities. They allow these market participants to achieve gains, achieved through high investments in the necessary infrastructure. It is a necessary feature of the capital markets that these gains are achieved through opportunity costs of other market participants, and the FBF believes that such gains are entirely legitimate and should not be seen as detrimental to the markets.

Naturally, in order to allow the exchanges and the regulators to control, it would be relevant to give to any automat an Id as if it was a physical trader. It would also prove, when a high number of orders entered in the book are not executed, that the automat is not trading with itself.

8. How do you see HFT developing in Europe?

In Europe, we have observed a steady increase in volumes which coincides with the development of high frequency trading. The development of this activity, which generates very low margins, has been encouraged by lower execution fees due to competition between markets as a result of MIFID. This trend lasted until 2008 and the financial crisis. Since then, overall volumes have dropped, which has led some to believe that the volume of high frequency trading was artificial. Furthermore, as a result of the crisis, liquidity levers have become extremely volatile from one month to another which has accentuated this impression of a decrease.

In reality, the share of high frequency in the total volume has remained roughly stable (from 50 to 80 percent depending on the markets). The increase in liquidity is not therefore

artificial but is a perennial consequence of MIFID. We can even consider that if market competition increases due to further price decreases, the relative volume of high frequency trading should grow further.

9. Do you consider that additional regulation may be desirable in relation to HF trading/ traders? If so, what kind of regulation would be suitable to address which risks?

In practice, three kinds of measures that could be envisaged by the legislator must be ruled out, since they would harm the market (increase of volatility risk, widening of spreads...): limiting the decimalization of tick sizes, imposing a “minimum latency” for order transmission and regulating the fees charged by trading systems.

There does not seem to be any need for the European regulator to take such measures at this time. Yet, this report recommends that the regulator analyse and monitor high-frequency trading activity in order to be ready to intervene with such measures if abuses occur.

It is the duty of regulators to investigate their practices on a case by case basis, to decide whether or not they constitute market abuse, and if so to punish them. It is therefore indispensable that the regulators themselves should have a sufficient level of technology and expertise which would allow them to carry out their mission properly.

CESR should keep on implementing the level 3 measures.

II. Sponsored access

As preliminary comments, the FBF emphasizes that sponsored access was a logical consequence of the implementation of MiFID since one of the objectives was to allow access to the markets to new participants other than market intermediaries.

1. What are the benefits of SA arrangements for trading platforms, sponsoring firms, their clients and the wider market?

Sponsored access (SA) is a service granted by trading members (sponsoring firms) to some of their clients under which these clients benefit from the membership of the trading members and are able to send orders in the trading platform's order book. SA is justified in countries where difficulties to become member remain due to regulatory barriers to entry. In that case, the Sponsored Access lowers specific local constraints for market access & memberships and is therefore justified to ensure a level playing field between market makers – the Spanish equity market is a good example.

In such a situation, it is the duty of the trading members to ensure that applicable trading rules are duly respected by implementing appropriate order filters. It is also the duty of the clients to comply with the MAD.

As a general observations, we believe that membership (trading platforms, clearing houses and settlement systems) should only be granted to firms complying with appropriate requirements that notably relate to strong financial resources and proper organization.

This said, French banks consider that two different situations exist:

- first, the **Direct market access** (DMA) given by a member to another actor who has been profiled by the member and who is controlled by the member through the

member filters and processes; this situation is acceptable in terms of risks because the member is able to control the possible market abuses;

- second, the ***Naked Sponsored access*** (NSA) given to another actor who will not pass through the filters of the member and who cannot be controlled by the member. In this situation, the control of possible market abuses is not possible by the member and then there is a risk *vis à vis* the market. This situation is not acceptable.

2. *What risks does SA pose for the orderly functioning of organised trading platforms? How could these risks be mitigated?*

As it is stated above, French banks consider the DMA as acceptable and that the NSA generates high risks in terms of potential market abuses.

However it proved useful in some circumstances to bypass existing restrictions to access financial markets. In that regards, sponsored access should be limited to financial institutions that possess the adequate infrastructures, compliance and control procedures.

3. *What risks does SA pose for sponsoring firms? How should these risks be mitigated?*

The members who give the DMA must of course be aware of their clients' use of the access to the trading platform, so as to ensure due respect of the applicable rules.

The profiling of clients and the control of orders is the key stone of efficient risk mitigation by the member.

4. *Is there a need for additional regulatory requirements for sponsored access, for example:*

a. *limitations on who can be a sponsoring firm;*

Only a market member shall be allowed to grant a direct market access.

b. *restrictions on clients that can use sponsored access;*

Since the profiling of the client is achieved and the filters of the member are used, there is no reason to limit DMA as regards to the status of the client.

As stated above, the question is different for SA. In that regard, French banks think that sponsored access should be allowed provided that sponsored firm put in place adequate controls and retain additional 'regulatory' requirements (compliance officers / market abuse tools/filters, etc.) that could be specified by the supervisors.

c. *additional market monitoring requirements;*

We firmly believe the best place to mitigate risk is at market level, to ensure fair treatment of participants. Circuit breaker procedures should become the rule.

d. *pre-trade filters and controls on submitted orders.*

See above; we think the best place to put control is at the market level

5. Are there other market wide implications resulting from the development of SA?

No, being recalled that French banks are opposed to NSA other than DMA.

III. Co-location

As a general remark, in a context where speed has become a more and more determining factor, the question of equality of access to trading systems (transmission of orders) and to market information (pre and post trade data) has become more and more pressing. Co-location enables, with complete transparency, to guarantee this equality even if it is likely that not all participants will be able to collocate with all markets or MTFs. Co-location avoids situations where those who have the capacity to set up offices as close as possible to the quotation centers have an advantage over those who are situated further away.

Regulators should make sure that markets which offer co-location services make these services available to any party which has an interest (members but also other markets and information routers). One must also ensure that technical conditions are identical for all entities which benefit from the co-location service (e.g. the length of cable between the server of the entity benefitting from the co-location service and the market server must be the same as that of the server which is furthest from the market server).

1. What are the benefits of co-location services for organised trading platforms, trading participants and clients/investors?

Co-location, in combination with the use of extremely powerful IT infrastructure and the use of trading algorithms, allows some trading participants to speed up their market access and decrease overall latency. Its benefits and disadvantages are thus closely interlinked with those of HFT as such – see the remarks under Chapter II.

The quest to reduce latency to a minimum extends to “co-location” of high-frequency traders’ and their intermediaries’ computer servers inside the trading systems to ensure faster transmission of orders. Co-location also provides additional revenue for trading systems, which charge participants rent for their slots. However, this practice raises the issue of equal access to the market.

Co-location advocates point out that trading systems have enough slots to accommodate every intermediary that wants one. It should also be noted that markets have often allowed certain players to be located closer to the central market, especially when they are asked to make a special contribution to market liquidity (brokers on the trading floor in Paris and specialists at the New York Stock Exchange).

2. Are there any downsides arising from the provision of co-location services? If yes, please describe them.

For the FBF, it must be ensured that there is equality of chances, as opposed to equality of outcome. It would be problematic if access to co-location services was provided in a discriminatory manner.

3. What impact do co-location services have on trading platforms, participants, and the wider market?

See FBF's answer to question 1.

4. Does the latency benefit for firms using co-location services create any issues for the fairness and efficiency of markets?

Co-location must not be confused with the practice of flash orders, which consists of allowing some participants to view orders a few milliseconds before they arrive on the market so that they can know about them before they become public. This practice was developed by some American trading systems and is now being dropped because it allows the beneficiaries to transmit their orders before information becomes public, which constitutes front-running.

The development of co-location should be monitored by ESMA. Moreover, ESMA should gauge its impact before deciding what the appropriate measures are, if any. The report recommends that, at the minimum, action should be taken to ensure equal access to co-location for all market participants.

5. In your view, do co-location services create an issue with the MiFID obligations on trading platforms to provide for fair access?

"Fairness", in the view of the FBF, is to be understood as equality of chances. As long as this is provided, banks have no concerns about co-location services.

6. Do you see a need for regulatory action regarding any participants involved in co-location, i.e. firms using this service, markets providing the service and IT providers? Please elaborate.

Co-location is a recent process and has suffered from various difficulties at the beginning, such as limited space dedicated to co-location that led to "first-in first-served" behaviours. However French banks notice that those problems have now been solved. To their knowledge, they are not aware of remaining difficulties apart from those already listed above.

IV. Fee structure

As a general statement, the FBF considers that Asymmetrical fee structures have been part of the competitive tools available to execution venues to differentiate their offerings. To the extent that they do not confer unfair advantages to any class of market participant, or otherwise create an artificial bias in the structure of the order book, such competition should be allowed to continue.

It should be noted however that certain HFT strategies rely on asymmetrical maker/taker fee structures, which has led some observers to suggest that the liquidity provided by HFT is in some way artificial and dependant on the existence of a fee advantage. Other observers, on the contrary, believe that those fee structures actually enhance valid liquidity. In this light, we would welcome regulatory oversight of fee structures of execution venues.

1. Please describe the key developments in fee structures used by trading platforms in Europe.

The introduction of competition between trading venues, with the creation of several MTFs, changed the fees structures, levels and policies.

The major changes were:

- Introduction of maker / taker model, often used to initially attract flow, esp when used in its "inverted" form
- Strong decrease of fees level, both on execution and clearing
- Segmentation of fee structure, used as a commercial argument. An exchange will apply different rates / tariff package to different activities / desks of the same Member Firm. Exchanges are gradually moving away from bulk pricing and linear discount on volumes.

2. What are the benefits of any fee structures that you are aware of?

First, the fees have globally gone down. However, this broad decrease of fees hides, heterogeneous situations, depending of the market participants, with negative impacts for agency brokers on some markets.

Secondly, the introduction of maker/taker fee structures encourages liquidity providing and therefore favors volumes and liquidity.

3. Are there any downsides to current fee structures and the maker/taker fee structure in particular? If yes, please describe them.

4. What are the impacts of current fee structures on trading platforms, participants, their trading strategies and the wider market and its efficiency?

While direct trading costs have decreased as a result of the greater competition that MiFID has introduced between trading platforms, indirect costs have increased. In particular, there have been increases in data costs. This is not only as a result of the need to receive data from a larger number of trading venue. For some markets including the Nordic ones, trading data can only be acquired as part of a package for several markets. I.e., a market participant might only be interested in the data referring to country X, but is forced to acquire the data for the markets X, Y, and Z.

5. How important is the fee structure of a trading platform in determining whether to connect or not to it for trading. Please elaborate.

6. Do you consider that the fee structures of trading platforms should be made public to all market participants? Please provide a rationale for your answer.

It is important to preserve fair competition. Making the fee structures public will help avoiding abnormal and discriminating pricing structures, preventing unfair practices. However, it is still important to allow fees adaptation based on objectives criteria and to give some room to exchange trading platforms to conduct pre-public policies tests with selected players.

7. Is there a role for regulators to play in the fee structures? If yes, please describe it.

In general, banks believe that the costs for trading data need to be monitored. At this point in time, banks would also find it helpful that regulators encourage fee structures that allow market participants to acquire data in a targeted way.

V. Tick size

1. In your view, what has been the impact of smaller tick sizes for equities in Europe on the bid-ask spreads, liquidity, market depth and volatility of these markets? Are there any spill-over effects on derivatives markets?

The competitive methods used by MTFs and regulated markets have profoundly changed the structure of order books and therefore affected price-formation mechanisms. In particular:

- A sharp decrease in tick sizes (*i.e.* the minimum time variation between two consecutive prices) has helped reduce the bid/ask spread. Quantities available at the best limit are lower, but this has not contributed to a decrease in execution quality; it has also facilitated arbitrage of the orders placed (introduction of a best-bid order costing only the reduced tick size). Fragmentation has not been shown to have a negative effect on price formation, and a study by the CFA shows that spreads have even decreased.
- The introduction of different pricing models for liquidity providers and takers (so-called "maker-taker" models), as well as the decrease in latency (*i.e.* information time for accessing market data, which is currently calculated in milliseconds, and placing orders), mainly *via* co-location models (which for market members involves locating access tools as close as possible to the order book), have attracted order flows from statistical arbitrageurs.

Given the role played by arbitrageurs, who act on their own account, a study could be effectively carried out on the appropriateness of European tick-size harmonization, but the FBF would not favor a level 1 regulation in this area.

2. What are the benefits/downsides of smaller tick size regimes for shares in Europe?

Since MTFs are subject to the same pre-trade transparency obligations as regulated markets, their emergence has not significantly impacted the price-formation mechanism *per se*.

3. Is there a need for greater harmonization of tick size regimes across Europe? Please elaborate.

Regarding the use of high-frequency trading, the FBF is not systematically favorable to a reduction in tick sizes, but agrees on the idea of a study and possible harmonization in Europe. At the very least, for a given stock, tick sizes should be harmonized on all markets or MTFs on which this stock is listed.

4. Is there a role for regulators to play in the standardization of tick size regimes or should this be left to market forces?

This said, the FBF considers that tick sizes have to be tailored to the characteristics of the market (volatility and liquidity) and that regulators shall be in capacity to adapt tick sizes in abnormal circumstances (high volatility, lack of liquidity).

As a consequence, the FBF considers that the role of CESR at level 2 is quite important in this area. On the contrary, there is no need for level 1 regulation. Indeed, the arbitrary fixing of too large a tick would result in a draining of orders towards dark pools rather than lit markets.

5. Have organised markets developed an appropriate approach to tick sizes?

Yes. The example of the Deutsche Börse practice is interesting in that regard

6. Should regulators monitor compliance with the self-regulatory initiative of the MTFs and FESE? If this initiative fails, do you see a need for regulators to intervene?

7. What principles should determine optimal tick sizes?

See answer on questions 3 and 4:

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VI. Indications of interest

We think that two types of indications of interests ("IOIs") can be noted.

On the one hand, "traditional IOIs" have been used for many years (before MiFID) as an alternative to communication over the phone between brokers and their clients. Traditional IOIs do not create an obligation for the broker to execute order because they do not have yet all the characteristics of final orders. When traditional IOIs are expressed by brokers, they give rise to discussions that could modify their initial elements before an order can be transacted.

In other words, traditional IOIs and the relevant orders/transactions are two separate elements that could justify that the former are not submitted to a pre-trade transparency requirement. Following this logic, traditional IOIs – which are part of the role of brokers to execute clients' orders in a discretionary manner and in compliance with the best execution obligation - do not create any information asymmetry and therefore we think that they are fully consistent with MiFID and notably with the pre-trade transparency obligation relevant to "transactable" orders.

On the other hand, "actionable IOIs" or "executable IOIs" developed since MiFID, are a new kind of order sent to some transactional sites. As soon as they are expressed, actionable IOIs can be captured and executed by one of the entities enabled by the broker. Hence, for these entities, actionable IOIs already have all the characteristics of final orders. The concern here is that if actionable IOIs are only revealed to certain market participants or certain clients selected by the issuer, they create information asymmetry. As actionable IOIs are "transactable" orders and are used to provide information to a select group of market participants to the exclusion of others, we think that a regulatory intervention regarding the pre-trade transparency regime could be needed

In this context, we answer the questions only regarding the executable IOIs.

1. Please provide further information on how IOIs are currently used in European markets by investment firms, MTFs and RMs?

As far as we know, IOIs are not commonly used in Europe on regulated markets or on MTFs. It seems that only a few crossing engines use IOIs.

2. Which are the key benefits/downsides of such IOIs? Please provide evidence to support your views.

For the market operators who would use IOIs, the main interest is to attract orders.

When IOIs are sent to a crossing engine (without being exteriorized), they do not give rise to any particular problems.

Otherwise, French banks share the view that IOIs should not be revealed only to certain market participants or certain clients as this would create information asymmetry.

3. Do you consider that MiFID should be amended to clarify that actionable IOIs should be subject to pre-trade transparency requirements?

The FBF considers that IOIs shall be either completely transparent *vis à vis* the market or completely discrete and released only to a crossing engine.

The problem of information asymmetry arises from the release of IOIs to some market participants but not to others.

4. Do you see circumstances where it would be appropriate for IOIs to be provided to a selected group of market participants? Please provide evidence/examples to support your views.

No