Response to consultation

FCA Consultation Paper 22/18: Guidance on the trading venue perimeter

About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £10 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond 46% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally and supports 122,000 jobs across the UK. Our mission is to champion the investment management industry for the benefit it brings to investors and the wider economy, in the UK and across the world.

Executive summary

The IA and its members welcome the opportunity to feed into FCA consultation 22/18: Guidance on the trading venue perimeter. As stated in our response to HMT's Wholesale Markets Review (WMR), we believe that a clear perimeter is necessary. There should also be a distinction between those that facilitate trading and the technology that facilitates communication and data exchange. At the same time, our primary wish is for clear and simple rules. This will ensure the UK remains competitive and at an advantage to jurisdictions with more complicated or contradictory rules. With regards to Order Execution Management Systems (OEMSs), we do not regard these as in scope. The IA and its members consider their prevalence to signify the natural process of electronification of equities and fixed income markets overtime. Utilising technology such as OEMS to trade on the same request to a single broker has reduced risk and increased efficiency for buyside market participants and ultimately the end investor.

Q1: Do you agree with our approach that following issuance of our final guidance, Q&As 7, 10, 11 and 12 in Section 5 of the ESMA market structures Q&As should not form part of our supervisory expectations?

IA members agree that once the FCA's final guidance on the trading venue perimeter is issued this supersedes Q&As 7, 10, 11 and 12 under section 5 of ESMA's market structure Q&As, which afterward should not form part of the UK's supervisory expectations.

The Investment Association
Camomile Court, 23 Camomile Street, London, EC3A 7LL
www.theia.org

[Team or your Email Address]
@InvAssoc @The Investment Association

Q2: Do you agree with our interpretation of the definition of a multilateral system?

Whilst overall we agree with the FCA's interpretation of the definition of a multilateral system we do consider there to be areas that require further clarity. As an example, we believe the position of Request For Quote (RFQ) process should be clearly and simply stated.

Q3: Are there any other relevant characteristics to a multilateral system that should be taken into account?

As stated in our executive summary we do not consider OEMSs to be within the parameters of a multilateral system. Their presence and use within the markets signifies the organic electronification of equities and fixed income markets overtime. OEMSs replicate in a digitised format communications on the same request to a single broker that can occur over the phone or through chat and instant massaging formats. The modernisation of these communications into an electronic format has significantly increased efficiency whilst reducing risk and ensuring the end investor gets the best on their investment.

Furthermore, OEMSs do not qualify as multilateral systems on the basis that they do not meet the 4 elements of the criteria outlined (on pg.14 of this CP) by the FCA which qualifies an activity as multilateral, and therefore requires authorisation as a trading venue. For example:

a) OEMSs do not meet the characteristic of a system or facility. While an Execution Management System (EMS) imposes technical specifications for users, it does not prescribe a 'set of rules' governing the execution of trades (which are instead executed directly between counterparties) and/or;

b) An OEMS does not facilitate the interaction of multiple third-party buying and selling interests. OEMSs purely provide the technical connectivity to transmit trading information between two bilateral counterparties.

As a result, the IA suggests that the FCA provide more explicit guidance clarifying that digitised, or electronic tools which aid workflow efficiencies are not captured within scope of the trading venue perimeter.

Q4: Do you agree with our proposed guidance in relation to voice broking?

IA members are supportive of the FCA's proposed guidance in relation to voice broking.

Q5: Do you agree with our proposed guidance relating to internal crossing by portfolio managers?

IA members agree with the FCA's position that a portfolio manager does not manage a multilateral system when, in the exercise of discretion it executes trading interests relating to the portfolio of one of its clients which may be a fund against the trading interests relating to the portfolio of another of its clients in an internal matching system.

Q6: Do you agree with our proposed guidance to blocking onto trading venues

We agree that if a firm operates a system for the purpose of blocking trades onto a trading venue consistent with the intentions of the parties to the underlying transactions to trade on a trading venue, these arrangements do not constitute to the operation of a multilateral system.

Q7: Do you agree with our interpretation to regard a crowdfunding platform operating only in primary markets as not involving the operation of a multilateral system?

No comment.

Q8: Do you agree with our interpretation of the characteristics of a bulletin board?

No comment.

Q9: Do you agree with our approach to updating the Glossary definition of a service company in relation to client limitation types?

The IA and its members consider it sensible for the FCA to take this opportunity to update the relevant section of the glossary terms within their handbook, so the definition of a service company aligns with MiFID terminology to capture within the definition of client limitation types: professional clients, eligible counterparties, and maintain the definition of market counterparties and intermediate customers.

Chapter 4: For discussion – potential areas for future change

Q10: Which regulatory requirements applicable to MTFs and OTFs are most likely to create barriers to entry to the trading venue market for smaller firms?

With regards to new issuance and secondary markets trading, the UK should continue to support the development of platforms which encourage innovation and create more competition in the UK market.

Furthermore, we note that any future guidance should not stifle innovation that enhances connectivity and improves risk effective communication between market participants.

Consideration should also be given to the impact the establishment of multiple MTFs could potentially have on the industry, as there are some concerns that too many MTFs could increase fragmentation of liquidity and result in extra costs for the industry.

Q11: Does the existing service company regime already address concerns regarding these barriers to entry?

IA members recommend that the FCA reiterate that blocking tactics by firms with vested interests that stifle innovation that would create efficiencies and mitigate operating risks for asset managers and their clients will not be looked upon favourably by the regulator.

Q12: Based on which criteria should firms be potentially subject to more scalable set of requirements?

IA members consider that if the main functionality of a firm is to match trading interests and allows for electronic negotiation of a trade it should be subject to more scalable requirements.

Handbook text
Please provide any comments on our draft Handbook text

CBA
Please provide any comments on our cost benefit analysis

No comment.

Any other feedback
Please provide any other feedback you wish to provide on this Consultation Paper

As stated in our executive summary the IA and its members believe Order Execution Management Systems (OEMSs) are out of scope. They represent the organic electronification of equities and fixed income markets overtime. Utilising technology including but not limited to OEMS to trade has reduced risk and increased efficiency rather than undertaking bilateral trades that circumnavigate the multilateral nature of markets.