THE INVESTMENT ASSOCIATION

IA response to FCA CP26/30 Supporting equity market transparency and considering market structure developments

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 £11.1 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 53% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

Executive summary

The IA welcome the opportunity to respond to the FCA's consultation on equity market transparency and market structure developments. The IA shares the ambition and fully supports the FCA's objective to ensure that the UK remains an attractive and trusted place to list, invest and conduct business.

We welcome the FCA's assessment of UK equity market activities and the conclusion that there is currently insufficient evidence to justify regulatory intervention aimed at directing trading towards particular execution mechanisms. We support the FCA's evidence-based approach and its proposal to continue monitoring developments in market quality and price formation rather than introducing prescriptive measures at this stage.

We agree with the FCA's proposed monitoring framework and consider it appropriate to focus primarily on indicators that assess market liquidity, execution quality and the effectiveness of price formation. The FCA should explain what each metric is intended to demonstrate and assess the indicators collectively across representative market conditions, rather than treating any single measure or venue type as determinative. Displayed price should also be considered alongside overall execution outcomes, including fees, market impact, speed and certainty. In addition, we encourage the FCA to monitor broader measures of the health and competitiveness of UK equity markets, including listing activity, market capitalisation and trends in investor participation.

Should future monitoring identify material harm to market integrity, we believe any regulatory intervention should be supported by a clear definition of the harm, robust evidence of causation and extensive market engagement. The FCA should respond sequentially and proportionately: first addressing deficiencies in data quality, transparency, disclosure or market access; then assessing whether those measures and market-led

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competition resolve the issue; and considering restrictions on execution choice only where less intrusive measures would be ineffective. We caution against any assumption that future concerns will necessarily relate to the balance between lit and bilateral trading. Market issues can manifest in many forms, including reduced competition, operational inefficiencies, barriers to market access and information asymmetries. Any response should therefore address the underlying problem rather than reflect a predetermined preference for a particular market structure.

The IA recognises the FCA's efforts to strengthen market resilience and preparedness for market outages. We also remain supportive of the development of the UK equities and ETF consolidated tape, which could improve transparency and give market participants a more complete view of available liquidity across the market. In the context of a market outage, a consolidated tape could play a role in helping market participants identify alternative sources of liquidity and continue trading in an orderly manner when activity is disrupted on a primary venue. Together, these initiatives should contribute to a more resilient, transparent and efficient UK market ecosystem.

Q1. Do you agree with our assessment that current evidence does not justify prescriptive intervention to steer trading towards particular execution mechanisms, but that continued monitoring is warranted? If not, why not?

The IA agrees with the FCA's observations that the UK equity markets continue to function well overall and there is no clear evidence that the growth of bilateral trading has harmed market integrity, execution quality or investor outcomes. We welcome the FCA's conclusion that there is insufficient evidence to support prescriptive intervention to steer trading towards particular execution mechanisms.

In our view, the UK equity markets remain liquid, resilient and efficient, continuing to serve investors effectively across a range of market conditions. The existing market structure supports competition, innovation and choice, enabling market participants to select the execution venues and mechanisms that best meet their trading objectives.

We would also caution against treating the evolution of trading activity across multiple venues and execution mechanisms as inherently harmful "fragmentation". Venue and protocol diversity can deliver competition, innovation, execution choice and resilience. The relevant concern is whether fragmented or inconsistent information prevents participants from obtaining a sufficiently complete view of liquidity, price, volume and execution quality across the market.

We support the FCA's proposal to continue monitoring market developments. However, we believe such monitoring should focus primarily on liquidity and execution quality, rather than overly focusing on the relative market shares of different venue types or execution mechanisms. The key policy objective should be to ensure that the UK equity markets deliver efficient price formation, sufficient liquidity, robust execution quality, and positive outcomes for end investors.

Accordingly, any future regulatory intervention should be driven by clear evidence of harm to trading quality or investor outcomes. Policy measures should focus on improving market efficiency and the overall functioning of the market, rather than seeking to influence where trading takes place. Such an outcomes-based approach would better support the competitiveness and effectiveness of UK capital markets while preserving the benefits of competition and choice.

Q2. Do you agree with the proposed elements of a framework for monitoring equity market quality and price formation, including the metrics set out in Table 3.2? Are there any additional indicators, data sources or emerging risks we should consider?

The IA agrees with the FCA's proposed framework for monitoring equity market quality, including the metrics set out in Table 3.2. We support the FCA's evidence-based approach and its commitment to ongoing monitoring of the UK equity markets.

As noted in our response to Question 1, we believe the primary focus of the framework should remain on metrics that measure market liquidity, execution quality and the effectiveness of price formation. Indicators such as spreads, depth, trading volumes, order book activity, execution outcomes and measures of market resilience are likely to provide a meaningful assessment of whether the market continues to function efficiently for investors. The framework should also capture the accessibility, cost, consistency and timeliness of market data, as these directly affect participants' ability to assess liquidity and execution outcomes. Quantitative analysis should be complemented by structured engagement with market practitioners and tested across representative market conditions.

In addition, we encourage the FCA to monitor broader indicators of the overall health and attractiveness of UK equity markets. While these factors may not directly measure market quality, they can provide important context when assessing the effectiveness and competitiveness of the UK's market structure. Relevant metrics could include:

- The number of listed companies and IPO activity.
- Overall UK equity market capitalisation.
- Trading activity in UK-listed securities relative to other major markets.
- Trends in domestic and international investor participation in UK equities.

Monitoring these broader indicators alongside market quality metrics would help provide a more holistic view of the competitiveness and attractiveness of UK public markets over time.

Besides the quantitative metrics outlined above, we encourage the FCA to gather qualitative feedback through regular engagement with a broad range of market participants, including representative trade bodies. This would give the FCA further feedback on what might, at first glance, look like a deteriorating market liquidity picture before considering any prescriptive intervention.

Q3. If future monitoring were to show material harm to market integrity, are there any regulatory options that you consider could be a viable and proportionate response, including any of the options discussed above? Please explain your reasoning.

The IA does not believe it is possible to identify a single set of regulatory interventions that would be appropriate for all future market integrity concerns. The nature of any issue, its causes, and its impact on market participants would need to be carefully assessed before considering whether regulatory intervention is necessary and, if so, what form it should take.

Should future monitoring identify material harm to market integrity, any intervention should be developed on a case-by-case basis, supported by robust evidence and extensive engagement with market participants. The FCA should establish a causal link between the relevant practice and adverse outcomes for price formation, liquidity, competition, resilience or end investors, taking account of market conditions and practitioner evidence rather than relying on individual metrics or static data points. Market structure is

complex and highly interconnected, and market engagement will be critical to determining whether a problem exists and which response is appropriate and proportionate.

We would also caution against viewing future market integrity concerns solely through the lens of where trading takes place. The potential interventions discussed in the consultation paper largely fall into two categories: measures designed to support CLOB trading and measures targeted at bilateral execution channels. While these may be relevant in certain circumstances, this framing risks assuming the nature of the problem before it has been identified.

Market integrity issues can manifest in many ways and may not necessarily be driven by the balance between lit and bilateral trading. For example, concerns could arise from inadequate competition, operational inefficiencies, barriers to market access, information asymmetries, lack of liquidity, technological disruption, or other factors affecting market quality and investor outcomes. The appropriate policy response would therefore depend on the specific issue identified rather than any predetermined preference for a particular execution model.

Q4. Do you agree with our proposal to extend existing post-trade reporting exemptions currently applicable to off-venue trades to off-book on-exchange trades and delete the NPFT flag?

N/A

Q5. Do you agree that we should remove the TNCP flag? Are there any meaningful uses for the TNCP flag that we should take into account, particularly contingent trades?

N/A

Q6. Which option for identifying trades taking place under the reformulated reference price waiver do you support?

N/A

Q7. Do you agree with our proposal on back-reporting? If not, what would be your preferred approach?

N/A

Q8. If public reporting were extended to cover certain equity swap activity, in what circumstances should this apply and how should the regime be designed?

N/A

Q9. Do you consider there to be a case for extending public reporting to tokenised forms of equity exposure? If so, how should a technology-neutral approach apply?

The IA has no strong view on extending public reporting to tokenised forms of equity exposure. If the FCA proceeds, the framework should be technology-neutral and based on the legal rights and economic characteristics of the underlying instrument, rather than the technology used to issue, record or transfer it. Economically equivalent activity should deliver comparable transparency outcomes, while avoiding duplication where the same economic event is already reported under the equity or derivatives framework.

Clear classification criteria, reporting responsibilities and data standards would be needed before implementation.

Q10. Do you agree with our proposal to require equity SIs to publish quotes indicating the price and volume at which they are generally prepared to buy and sell up to and including SMS, and to amend aspects of the pricing framework that may encourage more formulaic quotes? If not, what alternative approach would better support meaningful pre-trade transparency?

The IA recognises the potential benefits of requiring equity SIs to publish quotes up to and including SMS and, in principle, supports the FCA's objective of enhancing transparency in UK equity markets. As set out in our response to *CP26/31 Consultation on the Inclusion of SI Quotes in the Equity CT,* members acknowledge that SI quote information could potentially provide additional insight into available liquidity and contribute to a more complete picture of market activity.

The proposal outlined in CP26/31 appears to be a sensible approach should the FCA decide to proceed with the inclusion of SI quotes. However, as highlighted in our response to CP26/31, members are cautious about the extent to which the additional transparency benefits justify the costs and complexity associated with the publication of SI quotes. Some members consider that SI quotes may provide useful information, while others note that they may be duplicative of existing venue-based data and that the bilateral nature of SI liquidity may limit their value to a broader set of market participants.

Given these considerations, we encourage the FCA to establish which SI quotes are genuinely accessible, executable and useful to market participants before imposing additional requirements. Any regime should define clearly the meaning of "generally prepared to trade", recognise differences in liquidity and market conditions, and assess whether the benefits justify the implementation cost and complexity. Work on SI quote transparency should be sequenced so that it does not delay or dilute delivery of the initial equities and ETF consolidated tape.

Q11. Do you agree with our proposal to revoke UK MiFID RTS 8 in its entirety for algorithmic trading firms?

N/A

Q12. Do you agree that we should consider developing further guidance for consolidated tape providers on how they should prepare for and respond to outages?

Yes. The IA agrees that further guidance would help consolidated tape providers prepare for and respond to outages consistently and effectively. It would also provide market participants with greater clarity on what to expect during an outage, supporting contingency planning and confidence in the resilience of the consolidated tape.

Q13. Do you agree with the guidance for trading venues to publish an outage playbook?

Yes. The IA agrees with the FCA's proposal for trading venues to publish an outage playbook. A publicly available playbook would provide market participants with greater transparency and predictability

regarding how venues will respond during an outage, helping firms to prepare their own contingency arrangements and manage operational risks more effectively.

Q14. Do you agree with the proposed content of the outage playbook?

Yes. The proposed content is appropriate, but the playbook should also cover data integrity, completeness and latency; correction of missing or erroneous data; resilient fallback arrangements; recovery priorities; decision ownership; regular testing; and post-incident review. These elements are particularly important for a consolidated tape given its role in aggregating and disseminating market-wide information.

Q15. Do you agree with the additional guidance in relation to communication plans?

Yes

Q16. Do you agree with the additional guidance in relation to order handling?

Yes

Q17. What factors limit or prevent liquidity from moving to other trading venues during a primary market outage?

Liquidity may be constrained from moving to other venues during a primary market outage by operational and connectivity limitations, order routing and risk controls and concerns around price formation and reference pricing. In the absence of a clear view of available liquidity across the market, firms may be reluctant or unable to redirect trading activity efficiently.

The IA considers that a pre-trade consolidated tape could help mitigate these challenges by providing market participants with a comprehensive view of meaningful liquidity across trading venues, supporting price discovery and facilitating the migration of trading activity during periods of market stress or venue outages. Improved market visibility would enable trading to shift from one venue to another with less disruption, thereby enhancing market resilience.

To maximise these benefits, the FCA should consider including more than a single level of pre-trade data. The IA advocates for venue attribution and ideally five layers of best bids and offers in the equities and ETF tape, as deeper order book information would provide a more complete picture of available liquidity and better support execution decisions during an outage.

Q18. Do you have views on setting a definite timeframe for confirming orders and transitioning to alternative arrangements during an outage?

N/A

Q19. Do you have views on how best to facilitate the continuation of trading during a primary market outage?

As stated in our response to Q17, one way to facilitate the continuation of trading during a primary market outage is to improve market-wide visibility of available liquidity. The consolidated tape with pre-trade data

could provide market participants with a comprehensive view of liquidity across all trading venues, supporting price discovery and helping firms identify alternative execution opportunities when a primary market is unavailable. To maximise these benefits, consideration should be given to including deeper levels of order book data, as this would provide a more complete picture of meaningful liquidity available in the market.

Q20. Do you agree that venues should establish and disclose arrangements for outages affecting official closing prices?

Yes

Q21. Do you agree that venues should have clearly defined alternative arrangements to support auction-based price formation during outages?

Yes

Q22. Do you agree that venues should have a pre-determined fallback methodology for establishing the official closing price?

Yes

Q23. Do you consider there to be any issues with the structure and recent trend in the market for retail trading in UK equities?

The IA has no strong concerns regarding the current structure or recent trends in the market for retail trading in UK equities. However, we believe it is important that retail investors remain appropriately protected from predatory practices and are able to participate in markets on fair and transparent terms.

Q24. What are your views on potentially introducing a retail flag?

The IA does not currently see a clear benefit to introducing a retail flag. Any proposal should identify a specific regulatory use case, adopt a precise and harmonised definition of "retail", address reporting responsibility for intermediated and aggregated orders, and demonstrate that existing transaction-reporting data cannot meet the objective. The FCA should also assess whether standardised execution-quality disclosures by retail brokers and platforms would provide more direct evidence of price improvement, fills, rejections, speed and performance under stress. A retail flag should proceed only where its incremental benefits clearly justify the systems build, cost and operational complexity.