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Market Structure

Liquidity Landscape

Europe back in vogue?

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Europe back in vogue?

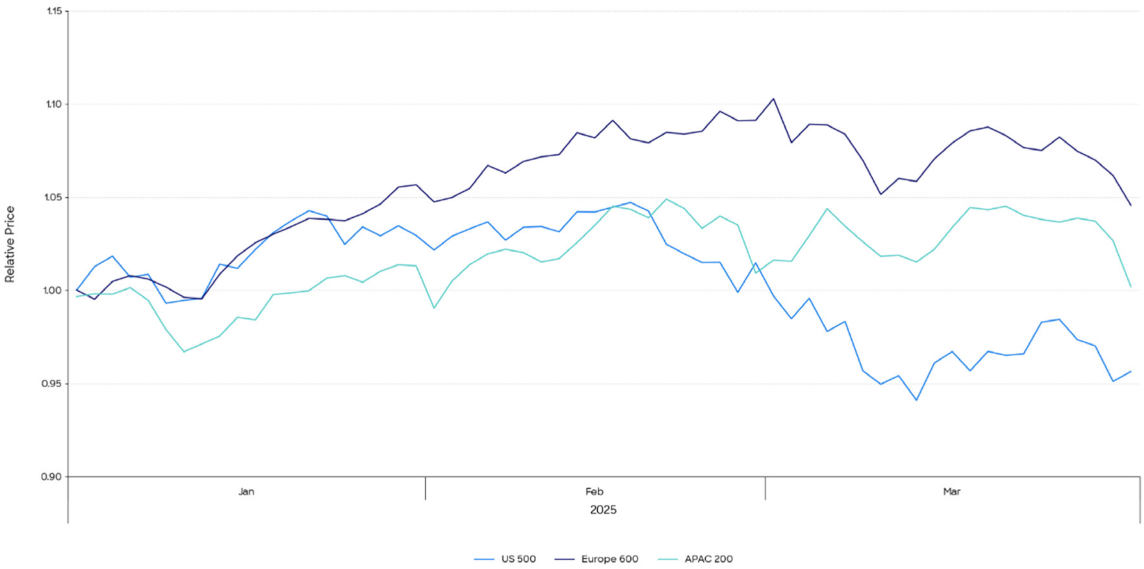
More Eyes on Europe

After a decade of declining volumes across European equities, Q1 2025 saw a large turn of events with record trading activity. Increased volatility driven by new US foreign policy pledges, as well as potential tariff implementation, not only contributed to the higher volumes but may have triggered the end of US exceptionalism, shifting flows back into Europe.

During the first quarter this year, reasons for greater investor sentiment in the region became abundant. A temporary relief in the political climate in Germany and France, an improved economic outlook with expectations beating corporate earnings, Germany unlocking a historical cap for fiscal spending, and a potential ceasefire in Ukraine—all contributed to a rally in European stock markets.

Exhibit 1

Relative Returns across Europe, US and APAC (benchmarked to YTD)



Source: Bloomberg Q1 2025

The initial rise in volumes was a product of investors locking in gains at recent stock highs, and of genuine new interest and investment in the region.

However, as details around US tariffs unravelled around March, their potential impact on the global economy and hit on corporate earnings became more apparent, and uncertainty became a stronger driver of higher volumes. The back-and-forth over tariff escalations or reprieves led to higher activity as investors constantly reassessed company exposure to the turmoil.

Yet, around all this uncertainty, there appears to be some hardening of key facts. The value story that Europe brings, the greater diversification its main indices provide relative to its Western and Eastern counterparts, and the region's future outlook with its renewed push for unification and self-sufficiency, have all contributed to higher interest in the region.

Daily volumes averaged €60.5B (Q1 2025), up 33% over the same period last year (€45.4B) and 35% higher than the 2024 full year average[1].

Continued on next page

[1] BMLL and Liquidnet Internal - January 2021 - March 2025

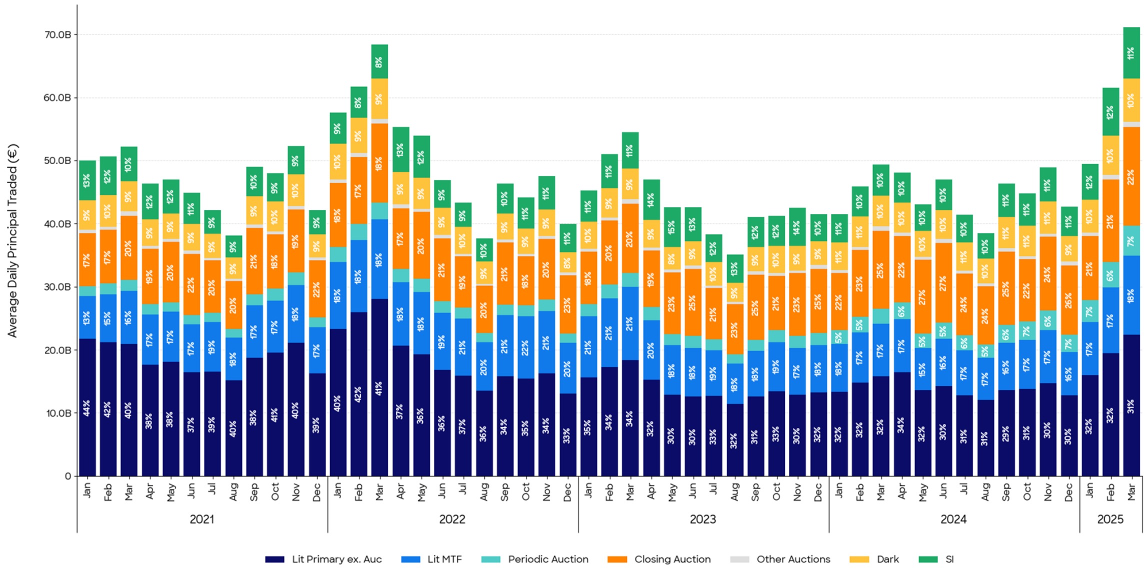
EMEA Flow Breakdown

Since President Trump's inauguration day, each day has recorded trading volumes above the 2024 average, in line with increased volatility observed (*see Exhibit 3*).

Q1 2025 witnessed a sharp increase in trading volumes across European markets. As shown in *Exhibit 2*, activity climbed steadily month over month, with February volumes up 24% from January, followed by a further 15% increase in March. Average daily notional reached €71 billion—levels not seen since the market volatility triggered by the onset of COVID-19 in March 2020.

Exhibit 2

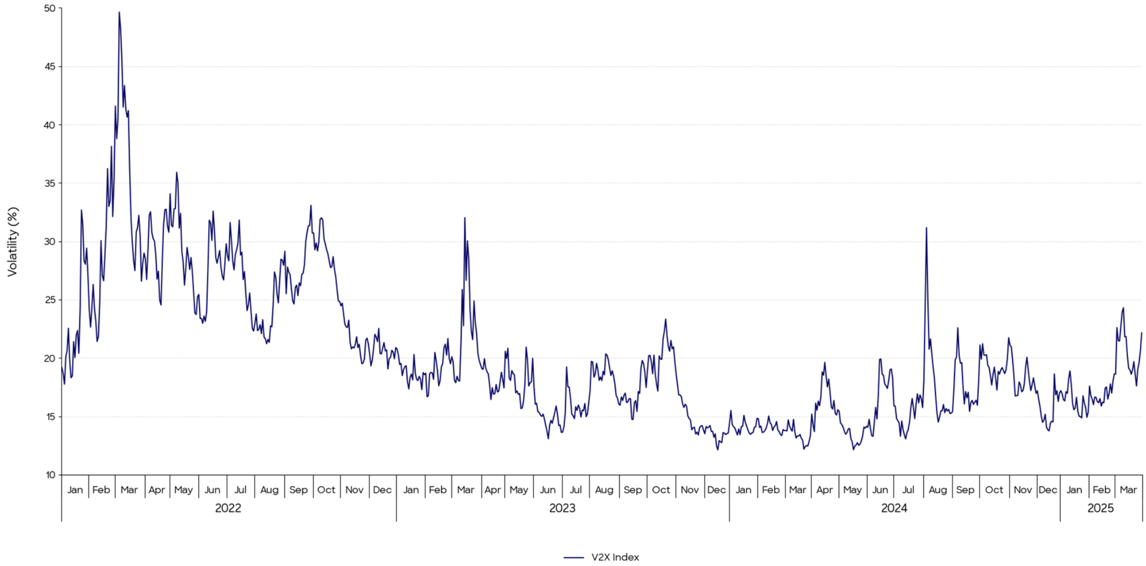
Addressable liquidity ex OTC/Off-Book On-Exchange



Source: BMLL and Liquidnet Internal—January 2021 - March 2025

Exhibit 3

Volatility across European Equities



Source: Bloomberg—January 2022 - March 2025

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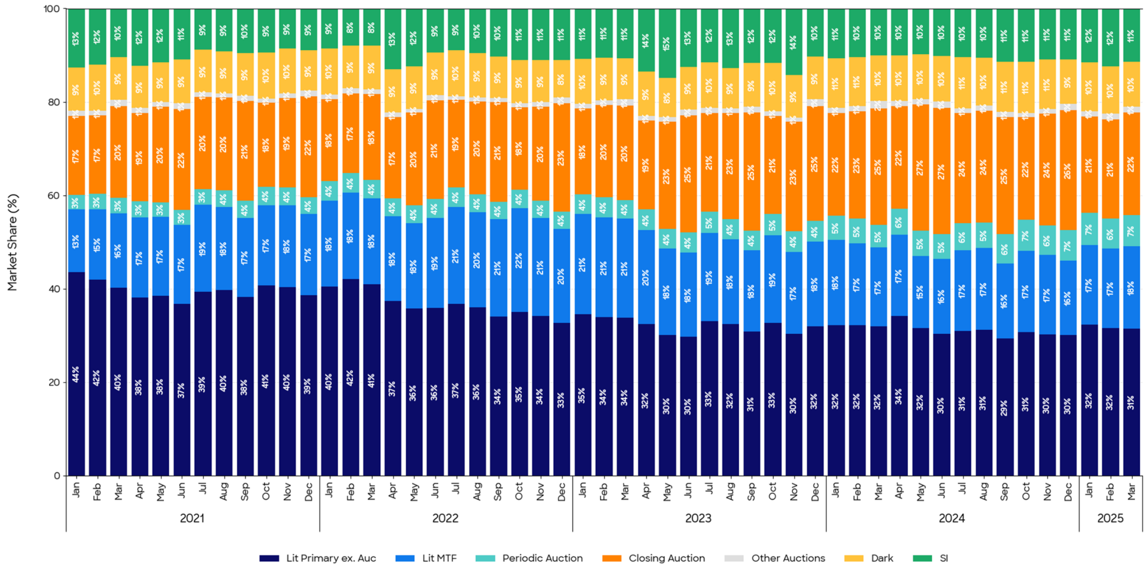
What does this mean for European equity trading

Shifting back to the Lit

Market share for Lit Continuous venues increased slightly to 49.3% this quarter from 47.6% in Q4 2024.

Exhibit 4

Addressable liquidity ex OTC/Off-Book On-Exchange.



Source: BMLL and Liquidnet Internal—January 2021 – March 2025

Although the continuing decline of lit continuous volumes has been apparent since 2021, *Exhibit 4* highlights how demand for immediacy of execution prevails in times of higher uncertainty. We can see this rise in market share for both the Lit Primary (excluding auction) and MTF venues since the start of the year, as flow becomes more concentrated into the continuous. Investors attempt to react quickly to the rollercoaster of policy changes and announcements and desire a greater certainty of fill to position themselves around large market moves.

The closing auction, which ballooned in market share over the last decade, driven by factors including a rising demand for investments in passive ETFs, saw a drop in favour this quarter. The close saw its market share fall from a Q4 2024 average of 23.4% to 20.1%, as investors shifted trading priorities to earlier in the day.

Continuous Lit activity, however, was not the only winner of this market share. SI (Systematic Internaliser) liquidity also saw a slight increase in line with expectations, as SIs also offer a higher certainty of fill, albeit at arguably increased implicit costs (although this perception is gradually changing). Historically, access to risk liquidity tends to increase with higher urgency levels. Q1 2025 averaged a 7% increase in SI market share from the prior quarter.

In comparison, dark activity remained stable, holding its market share at 10%. During this turmoil, exposing trades to dark venues allows investors to avoid crossing wider spreads and minimise market impact. When attempting to unwind larger positions, block trading can be particularly beneficial with larger potential cost savings.

An insight into bilateral markets

Historically, the volume profiling of the European market structure has focused on addressable liquidity that is systematically routable.

Typically, a broker smart order router over the last decade has had access to a number of different multilateral venue categories, and post MiFID II, this included a portion of systematic risk flow via bilateral feeds.

However, the proliferation of negotiated risk liquidity (bilateral risk flow not typically accessed by broker smart order routers) and the general change in perception towards trading against SI market-makers, suggest that the methods by which total liquidity is assessed may need to be revisited.

Exhibit 5 highlights how the market share for OTC, benchmark and off-book on-exchange flow has risen from 21% in January 2021 to 36% in January 2025. Including this group of trading activity raises the average daily traded notional from €71B shown in *Exhibit 2*, to over €111B.

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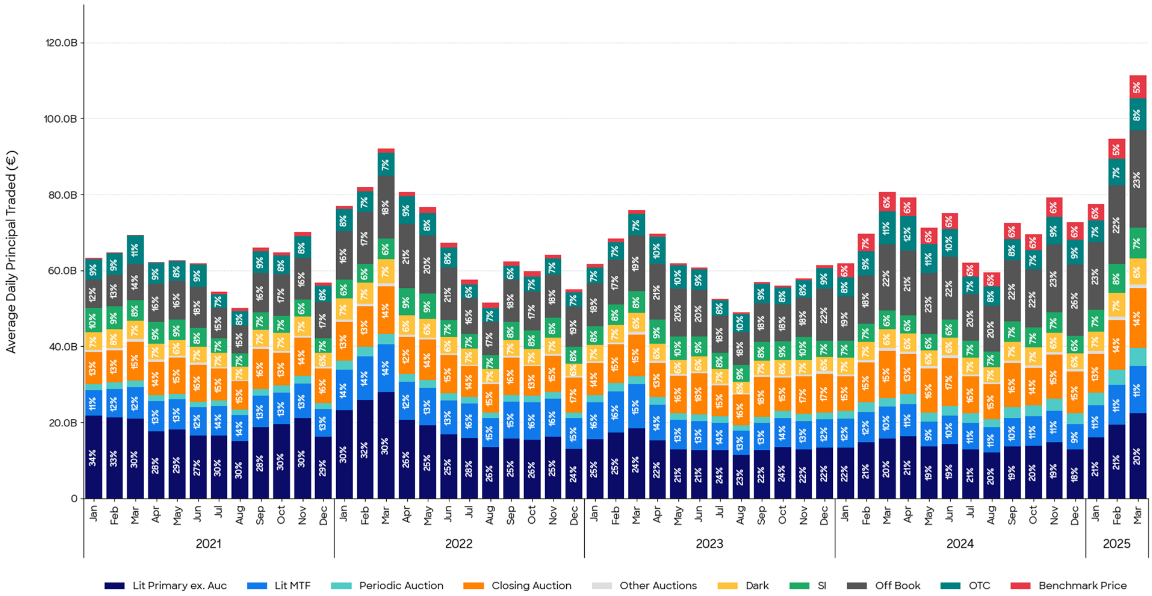
This growth has been primarily driven by a sharp rise in off-book on-exchange activity, which has nearly doubled its share over the period, and is home to negotiated trades not classified as SI, as well as other types of trading.

Exhibit 5

Overall market addressable liquidity



Source: BMLL and Liquidnet Internal—January 2021 – March 2025

What is Negotiated Bilateral Flow?

This flow refers to trading activity conducted directly between two counterparties, who privately negotiate the price, volumes and other terms of the trade. They can be reported under different classifications based on certain criteria, and include the following:

Off-book on-exchange

Trades that follow the rules of a trading venue but do not take place in the order book. It includes flows from market-makers who privately negotiate trades but do not fall under the SI regime. It is challenging to fully understand this category of flow, as there is a lack of clarity behind both its constituents and what portion of its trading activity should be classified as addressable.

OTC

Trades are bilateral transactions that take place away from the rules of a trading venue and are not placed on an order book. Typically, this involves a high-touch desk where prices and volumes are negotiated between the two parties.

Benchmark

OTC trades that include reference price transactions, such as a guaranteed VWAP or close baskets. These products are offered to clients on risk, at a set price plus a mark-up to account for potential impact. They carry a separate flag allowing one to distinguish this flow from regular OTC trades.

Negotiated bilateral flow is a subset of non-displayed flow

Although both dark and bilateral liquidity fall under the 'non-displayed' umbrella, it is important to distinguish their differences (*see Table 1*).

Table 1

Non-displayed venue differences

Non-Displayed Venue Type	Order Book	Trading Venue	Execution Model	Pre-Trade Transparency	Systematically Accessible (via a typical router)
Dark	Yes	Yes	Multilateral	No	Yes
SI	No	Yes	Bilateral	Limited	Limited
Off-Book On-Exchange	No	Yes	Bilateral	No	No
OTC (Incl. Benchmark)	No	No	Bilateral	No	No

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The growth in negotiated bilateral flow over the last few years is vastly different to that experienced for dark liquidity. Whilst dark venue trading experienced a recent rise due to increased demand for above LIS trading, its market share remains very stable, fluctuating between 8-10% (or 6-7% when including the non-systematic flow).

How does the increase in non-displayed activity impact European equity trading?

The total amount of non-displayed liquidity now sums up to approximately ~50% of total volumes in Europe (Q1 2025), which means that less flow contributes to price discovery by traditional means on a central limit order book[2].

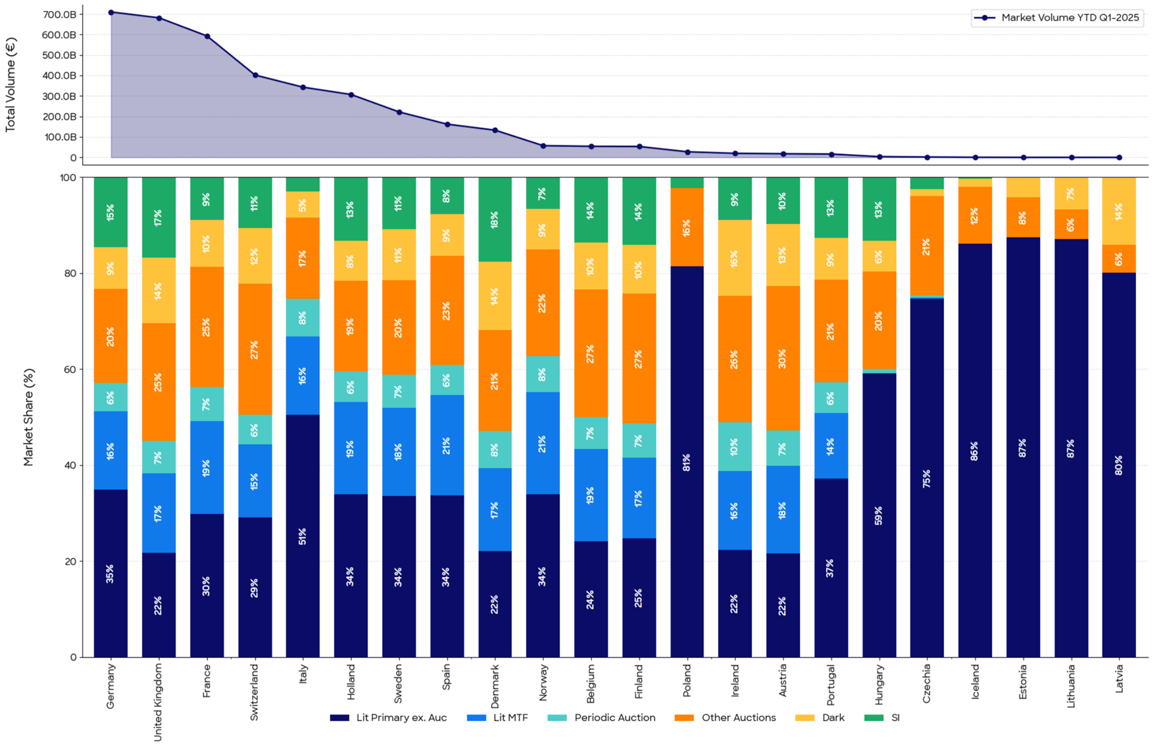
Nearly 36% of total volume now falls under OTC, benchmark and off-book on-exchange, and its significance can no longer be ignored[3]; failing to access this liquidity can increase trading costs. As more liquidity shifts to bilateral channels, visible volumes on lit venues become thinner, contributing to higher market impact when executing trades. This also reduces the pool of liquidity available to broker smart order routers, raising the likelihood of incomplete fills.

Furthermore, if an investor does include the full market volume when calculating a target participation rate, a 10% rate could effectively rise to 16% if the described flows cannot be accessed. Ignoring these dynamics may result in greater-than-expected implicit trading costs.

Market Fragmentation by Country

Exhibit 6

Addressable liquidity excluding OTC/off-book on-exchange



Source: BMLL and Liquidnet Internal–January 2025 - March 2025

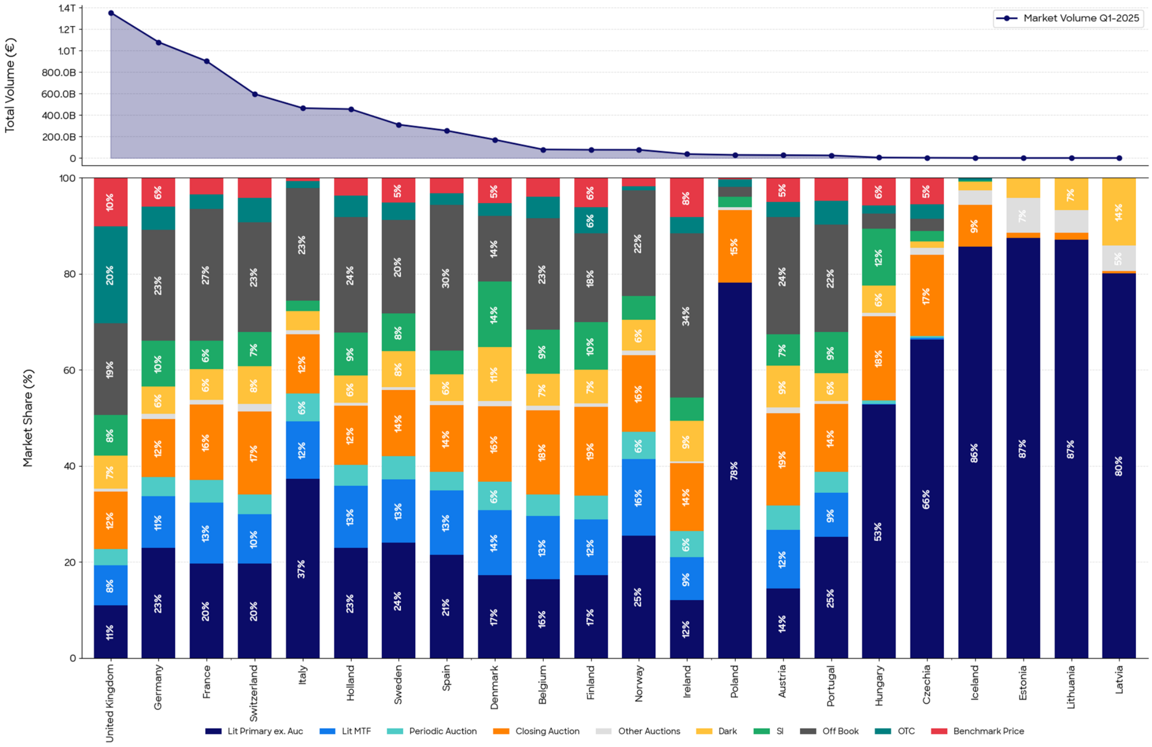
In terms of addressable liquidity (excluding OTC/off-book on-exchange), *Exhibit 6* shows how Germany has overtaken the United Kingdom for the top spot in average daily traded notional. Q1 saw a significant update in German fiscal policy, which led to a surge in trading volumes in the country. Adjusting the historic debt brake, the large fiscal package has opened the path for investment in several areas, raising growth prospects for the country and prompting a positive response from the markets.

Exhibit 6 also highlights other notable differences in market structure, such as the dominance of the primary exchange in Italy and Poland, and the prevalence of non-displayed liquidity in the UK and Copenhagen. Within the top three markets by flows, while the UK and Germany see 17% and 15% of market volume executed through SIs, respectively, the figure in France is significantly lower at 9%, reflecting the lower risk appetite for the latter.

[2, 3] BMLL and Liquidnet Internal - January 2021 - March 2025

Exhibit 7

Overall Addressable liquidity



Source: BMLL and Liquidnet Internal—January 2025 – March 2025

Including OTC, off-book on-exchange and benchmark trades shows significant differences in market composition across European equity markets. Off-book on-exchange activity clearly is a top contributor to overall volumes, reaching 34% of Ireland's equity volumes, and averaging approximately ~23% across the region.

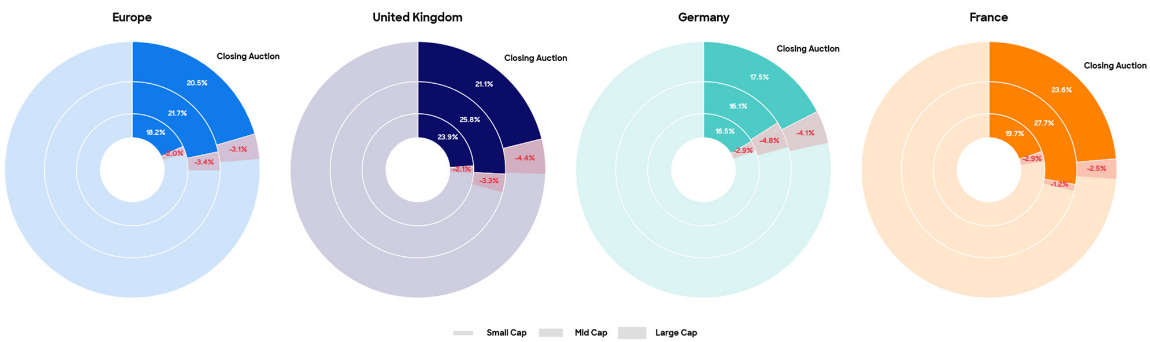
The UK dominance of the OTC markets is also an interesting feature of this breakdown, accounting for 20% of daily average trading volumes. This is a major contributor to the 8% average experienced across Europe. The UK noticeably has the largest portion of flows outside of displayed venues.

Limitations of the closing auction

The previous instalment of the Liquidity Landscape examined the persistent growth in closing auction market share. In contrast, the overarching theme of heightened European liquidity during Q1 2025 has led to an increased preference for immediacy of execution, which is reflected in a notable decline in closing auction participation. *Exhibit 6* presents the change in closing auction market volume by comparing FY 2024 to Q1 2025—the closing auction is shown as a percentage of addressable liquidity excluding OTC/off-book on-exchange.

Exhibit 8

Closing auction market share by market capitalisation



Source: BMLL and Liquidnet Internal – Q1 2024 and Q1 2025

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Exhibit 8 shows that closing auction volumes have decreased without exception across Europe as a proportion of addressable liquidity. This is widely seen as a response to market volatility and a need for immediacy, prompting participants to shift from the auction to the continuous session, particularly in the primary market. A similar phenomenon can be seen in March 2023 on the back of heightened volatility (*see Exhibits 2 and 3*).

Closing auction volumes declined more sharply in Germany and the UK than in France. While no single driver stands out, a mix of structural and short-term factors is likely at play. Elevated volatility in Q1 2025 was more pronounced in the UK and Germany, whereas France, having already absorbed political shocks following the June snap elections, saw relatively more stable conditions by comparison.

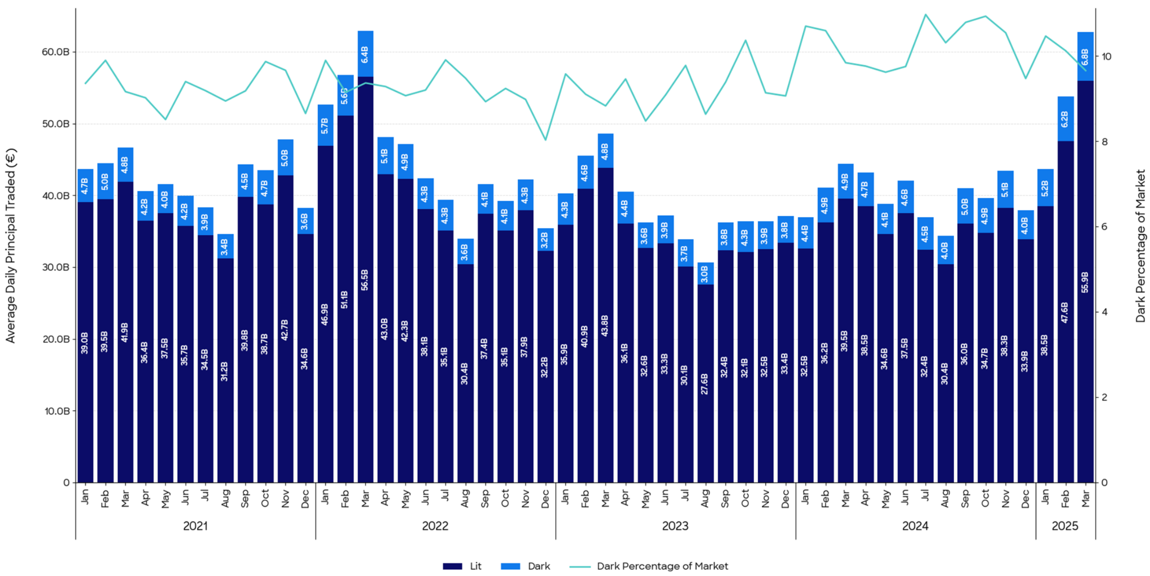
Looking ahead, it remains to be seen whether market participants will revert to the closing auction as market conditions stabilise or continue to prioritise the immediacy of execution offered by the primary markets and SIs, even in periods of lower volatility.

Stability in Dark Market Share

The dark market share continues to remain stable. From the 2024 yearly average to Q1 2025, dark volumes declined slightly, from 10.3% to 10% of addressable liquidity. *Exhibit 9* shows the modest month-on-month decline in 2025, though it falls within the typical range of fluctuations.

Exhibit 9

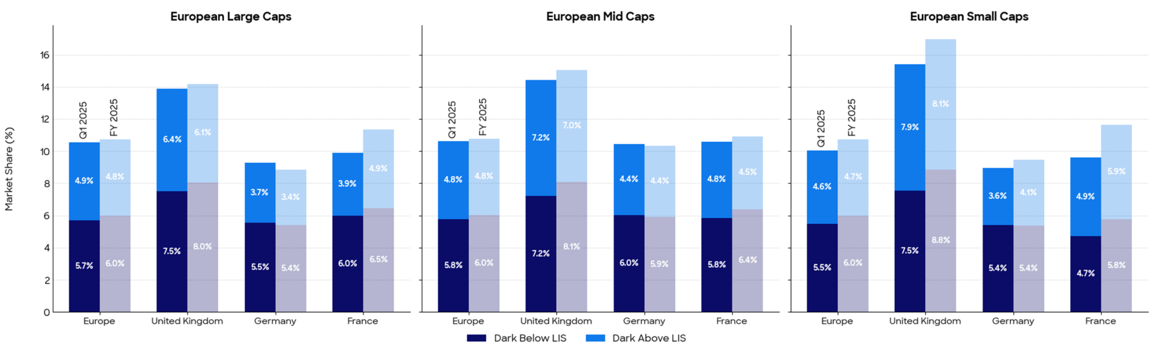
Dark market share remains stable



Source: BMLL and Liquidnet Internal—January 2021 – March 2025

Exhibit 10

Dark trading market share by market capitalisation



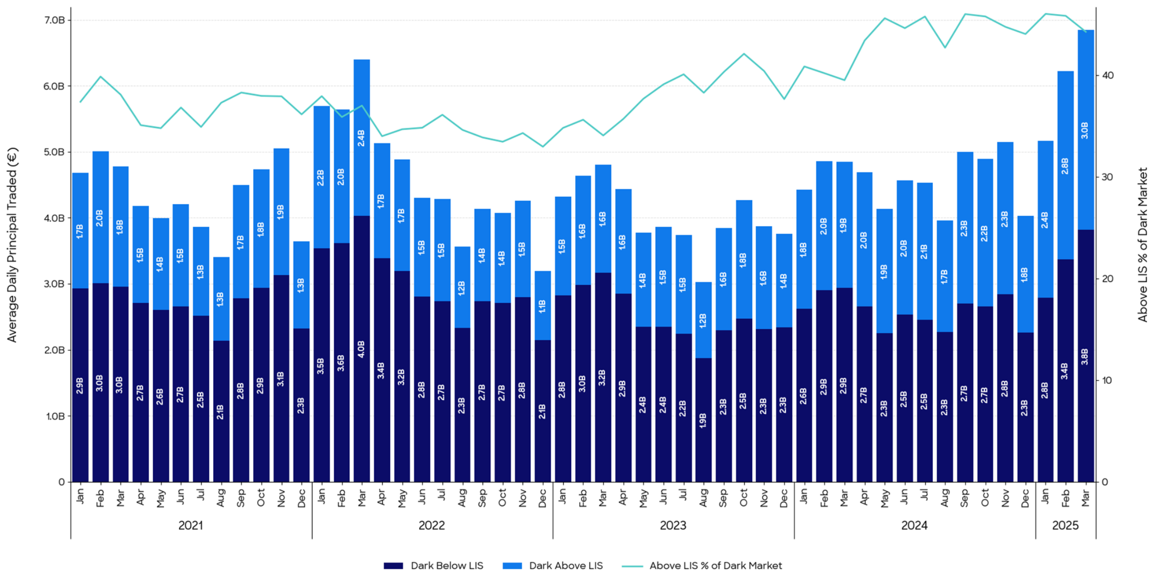
Source: BMLL and Liquidnet Internal—January 2021 – March 2025

When broken down by country and market cap, this trend appears consistent across most regions, as shown in *Exhibit 10*. The only exceptions are German large- and mid-cap stocks, which saw a small increase in dark trading in Q1 2025 relative to the FY 2024 average. Changes in above and below LIS Dark trading are broadly in line with the overall trends.

Through the changing market dynamics, the dark market has maintained a consistent share, supported by entrenched algo routing logic and a distinct value proposition of reduced market impact.

Exhibit 11

The Large-in-Scale market holds growth

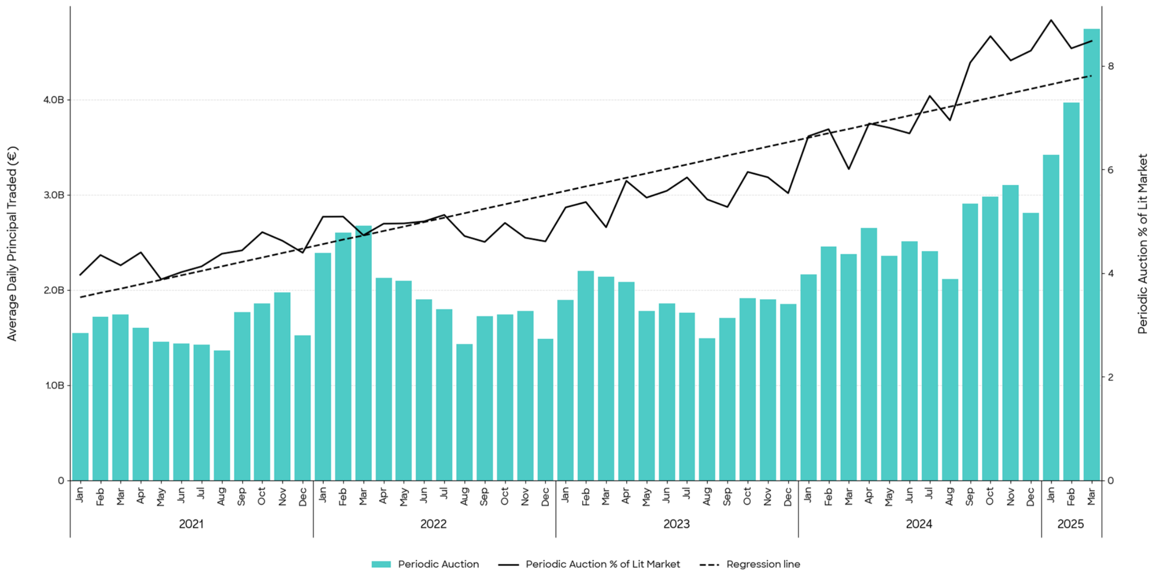


Source: BMLL and Liquidnet Internal—January 2021 - March 2025

The LIS share of the dark market remains in line with 2024, with 45% of Dark flow in Q1 2025 being LIS compared to an average of 44% across FY 2024.

Exhibit 12

Period auction activity keeps rising



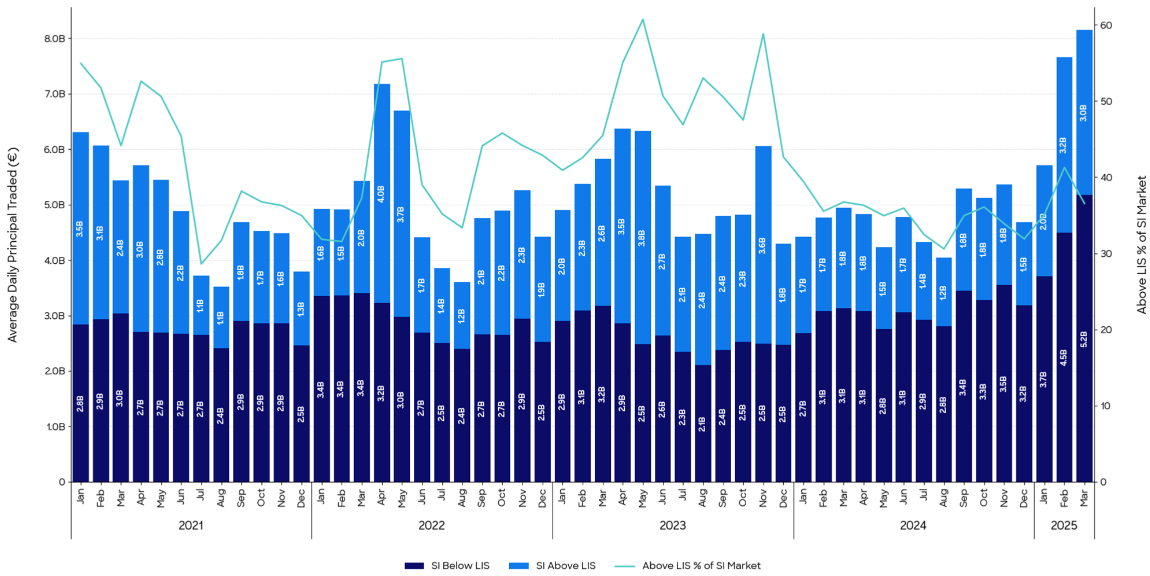
Source: BMLL and Liquidnet Internal—January 2021 - March 2025

Periodic Auction (PA) Books continue to set fresh records, making up 6.7% of the total market in Q1 2025, up from 5.1% over the same period in 2024. In the context of only Lit volumes periodic auctions are 8.5% of the volume in Q1 2025 as shown in *Exhibit 10*, compared to 6.5% in the same period in 2024.

Periodic Auction market share is remarkably consistent between countries as shown in *Exhibit 5*. Venues such as Periodic Auctions and Lit MTFs are largely reliant on SORs rather than on direct access by Buyside clients. The upward trend in Periodic activity highlights increased systematic appetite for liquidity of this nature.

Exhibit 13

Systematic Internalisers increasing presence



Source: BMLL and Liquidnet Internal–January 2021 - March 2025

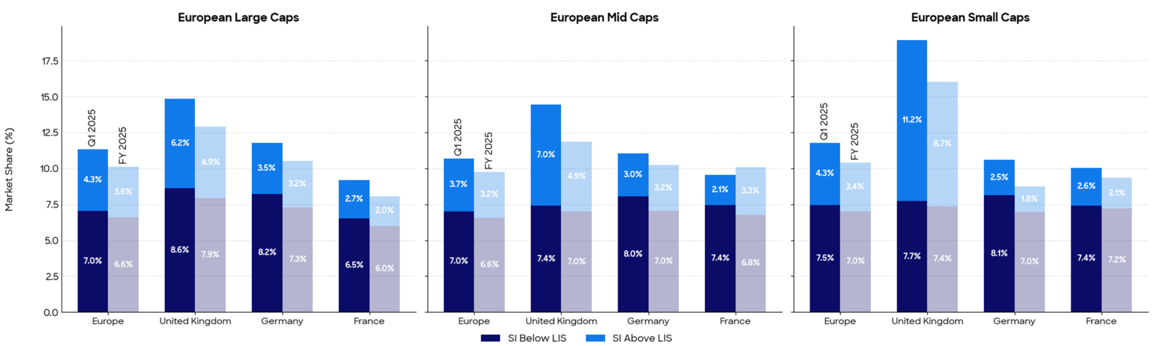
The last Liquidity Landscape report stated that '*SI market share moves in line with overall market volumes, which may suggest it is valued as an extra source of liquidity for those seeking a higher certainty of execution.*'

This certainly rings true with regard to Q1 figures. Across the entire market, average daily liquidity rose to €60.5B, up 35% from €44.7B FY 2024. SI activity not only mirrored the broader trend but amplified it, with average daily liquidity rising to €7.1B, up 51% from 4.7B in FY 2024.

Notably, periods of elevated SI volume have historically coincided with a higher proportion of LIS trades. However, this pattern is less evident in Q1 2025, where the LIS share of SI flow remains below 40%, compared to spikes above 50% during similar volume increases in Q2 2022 and Q2 2023. This may suggest a larger presence of the ELP type SIs, who typically trade in smaller sizes vs bank SIs.

Exhibit 14

SI volume by market capitalisation



Source: BMLL and Liquidnet Internal–January 2021 - March 2025

Breaking down SI volume by market cap and jurisdiction, the UK continues to lead among the three largest markets. Overall, the UK saw the most pronounced growth in SI activity, especially within the small-cap segment. In Q1 2025, French mid-caps were the only segment not to see a rise in SI market share compared to FY 2024.

Beyond MiFID II/MiFIR: What to watch for Next

The recent surge in geopolitical uncertainty has triggered a sharp rise in market volatility, shaken risk models and earnings forecasts, and forced investors to reposition quickly. As volatility grows, the demand for immediate execution intensifies, leading to a growth in risk provision, wider bid-ask spreads and higher market impact costs.

Dark vs Lit debate moves to Addressable/Non-Addressable

European markets now stands at a critical juncture in its market structure evolution. Fragmentation and ongoing regulatory reform have highlighted a core issue - what is the appropriate balance between lit and non-lit trading? The continued decline in activity on central limit order books (CLOBs) raises pressing questions about the reliability of the primary market as a reference price, relative to the growing level of bilateral quote streaming and "private room" trading. Key issues such as the role of SI in price formation and the transparency of OTC activity are moving into wider questions, addressing who is now able to access the market, how, and what the cost of entry is.

Traditionally, only **multilateral trading activity**—where buyers and sellers interact on centralized exchanges—was considered useful for transaction cost analysis, liquidity measurement, and algorithmic scheduling. This approach emphasized transparent, price-forming trades that contributed to clear price discovery.

However, the growing inclusion of **Electronic Liquidity Provider (ELP) bilateral liquidity** in execution scheduling has changed this perspective. Today, a much broader range of trading activity is relevant to understanding market dynamics. Even trades that occur bilaterally, outside of traditional exchanges—excluding purely technical trades with no informational value—provide valuable insights. They reveal where and how much a stock is trading, giving market participants a clearer view of overall market interest and activity.

The key question now is whether some **off-book on-venue trades** should be considered addressable. While these trades are not directly visible to all market participants, they reveal the prices at which parties are willing to transact, indirectly contributing to price discovery.

The growth of bilateral trading is not just a technical change—it redefines how liquidity is measured and valued. Even non-price-forming trades can provide critical insights, requiring market participants to refine their execution strategies accordingly,

Perceived shortcomings in MiFID II/MiFIR in driving trading back to CLOBs, as well as a renewed drive for deeper capital markets integration under the Savings and Investment Union (SIU)[4] have led to the European Commission's Targeted Consultation on the Integration of EU Capital Markets[5] (closing June 10, 2025), potentially leading to the adoption of a Reg NMS-style framework in Europe, amongst other policy shifts.

These developments could further substantially affect how asset managers approach execution, compliance, and liquidity strategies.

Key Drivers of Change

- **European Commission Targeted Consultation:** Integration of EU capital markets, cross-border trading + settlement reforms, simplification, tech adoption.
- **ESMA Transparency Reforms:** New transparency rules for Sis revised liquidity definitions, enhanced reporting standards (Client ID, Chain ID).
- **Rise of Bilateral Trading**: With close to half overall market activity trading OTC or SI market, norms on transparency and reference price integrity are being challenged.

Strategic Implications

- Investment in technology is no longer optional.
- Data Management and Accurate Trade Reporting need to be core competencies.
- Cross-Asset and Cross-Venue Execution will continue to improve competitive advantage.
- The ability to monitor bilateral engagement will become ever more essential to ensure best execution.

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[4] https://finance.ec.europa.eu/regulation-and-supervision/savings-and-investments-union_en
[5] https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-integration-eu-capital-markets-2025_en

Immediate Areas of Focus

Area	What to Watch For	Longer Term Impact
Perceived transparency erosion	Rise of bilateral OTC	Harder to monitor best execution, reference pricing based on central limit order books becomes a less reliable benchmark
Execution complexity	Cross venue smart order routing technology	Requirement to partner with third-party technology firms to provide detailed analytics/ revision of algorithmic trading models
Data requirement	Incomplete market view given the rise in private liquidity streams	Rising tech and connectivity costs – need for real-time standardised data
Robust reporting obligations	New chain ID and client ID reporting obligations under RTS 22.	
Trading Venue Transaction Identification Code (TVTIC), due for both buyer and seller.	IT and compliance system upgrades to meet proposals, including GDPR compliance for client data standards	
T+1 settlement	Fragmented Workflows and the need for greater harmonisation in post-trade workflows	Greater automation in matching, allocation and settlement workflows (under FIX?)
24/7 trading	Operational workflows during thin liquidity periods/heightened volatility	Requirement for overnight liquidity management and operational resilience

1. European Commission's New Blueprint: Unlocking Market Integration

The Consultation Paper focuses on:

- **Simplification and harmonisation:** Reducing legal and supervisory fragmentation across Member States to create a truly single capital market.
- **Cross-border efficiency:** Removing operational and regulatory barriers to cross-border trading, post-trading, and asset management activities.
- **Tech innovation:** Promoting digital execution, smart order routing (SOR), and infrastructure upgrades, including DLT (Distributed Ledger Technology) integration.
- **Deepening liquidity pools:** Tackling fragmentation, dark trading, and "ghost liquidity" to support fairer, more transparent markets.
- **Preparing for 24/7 trading models:** Evaluating extended market hours to align with global digital asset markets and better serve retail investors.

Key Sections for the industry to address:

Section 2.3: Non-regulatory barriers to liquidity aggregation focuses on practical and structural limitations that could hinder cross-border liquidity pooling and efficient access to trading venues. The questions the document poses are:

- **Technology as a facilitator:**
  - Whether digital solutions (e.g. API aggregation, smart order routing) enable better integration of liquidity pools.
  - What are the barriers to adoption of such technologies—regulatory, supervisory, or commercial?
- **Execution access issues:**
  - To what extent is there inefficiency in direct/indirect connections between investment firms and execution venues across Member States?
  - What are the reasons for this—cost, commercial policies, or cross-border infrastructure issues that create frictions?
- **Commercial practices and discrimination:**
  - Whether intermediaries charge higher fees for cross-border trading, and if so, what are the reasons for this?
- **Barriers to cross-listings and pan-EU trading of instruments:**
  - Specific focus is given to ETFs and whether market, infrastructure or legal practices require multiple listings.
- **Interconnection between venues:**
  - Whether intermediaries should be mandated to offer cross-border access to venues and how this can best be achieved (e.g. via regulation, technology, or routing models)

- **Role of trading venues and liquidity fragmentation:**
    - Whether the **US "order protection rule"** is feasible for EU markets and the cost of implementation.

Section 2.5: Enhanced quality of execution

- Effectiveness of current best execution rules:
    - Whether **investor protection and execution quality** are effectively ensured under current MiFID II obligations - comparing the EU model (intermediary-centric) to the US model (Reg NMS - Order Protection rule).
- Role of the Consolidated Tape (CT) and inclusion of SI:
    - Focus is placed on whether the European Best Bid and Offer (EBBO) should be more transparent and display deeper layers of data, as well as its timeliness.
    - Whether SIs should be required contributors to the pre-trade tape, to avoid distortion of price discovery.

Settlement Reforms:

- Enhancing cross-border CSD links.
- Supporting interoperability and settlement efficiency to meet T+1 ambitions.
- Reducing settlement costs and harmonising post-trade workflows.

2. ESMA's New Transparency Agenda

Final Report on Equity Transparency (RTS 1) (Published December 2024):
The report includes proposals for amending regulatory technical standards (RTS), including;

- Changes to the definition of a liquid market for equity instruments, specifications for pre-trade transparency disclosures pertinent to the equity CT.
- A review of pre-trade transparency requirements for SIs with calibration of quoting sizes.
- Enhancements to post-trade transparency reports with additional flags for equity instruments.

Annual Transparency Calculations (Feb 2025): Updated liquidity assessments affecting where and how trading activity is concentrated (April 7, 2025—April 5, 2026). This includes liquidity assessments and determination of the most relevant market in terms of liquidity, average daily turnover, and standard market size.

Transaction Reporting changes: ESMA is finalising significant updates to RTS 22 and RTS 24 under MiFIR to improve transaction reporting, particularly around client identification. Key changes include a refined use of the "INTC" code for aggregated client orders, a new chain identifier to track order transmissions, and a field specifying the reporting entity in complex delegation scenarios.

ESMA also proposes a shift from XML to JSON for better data processing, which aligns reporting fields with EMIR and SFTR, and clarifies exemptions from reporting obligations. Final rules were expected mid-2025, and implementation is likely to follow a 12-18 month transition period.

These are the topics that remain outstanding, including Technical Standards from MiFID II/MiFIR review:

- Tighter SI pre-trade obligations and real-time post-trade reporting.
- Clarified "Traded on a Trading Venue" (TOTV) definitions under Level 2 measures
- Mandatory participation in the Equity CT, aimed to offer a near-real-time view across lit and bilateral venues, as well as operational aspects, a selection of CT provider and development of the necessary infrastructure.
- Full capture of OTC, SI, and bilateral trades in reporting frameworks, an overarching intent has been published, but specific technical standards and reporting requirements are still being finalised.

Consultations on derivatives and cross-asset transparency are still ongoing.

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Understanding the European Regulatory Process

ESMA Submission to European Commission

↓

EU Commission Review Period (Under Art 10 - 3 months to endorse proposed amendments)

↓

Adoption and Publication: When Commission endorses, amendments are adopted and published in Official Journal (OJ).

↓

Entry into Force: Amended RTS enter into force 20th day following publication in OJ.

↓

Application Date: determined in adopted RTS to provide transition period to allow market participants to comply.

3. Why all of this matters

The European trading environment is undergoing significant change, driven by rising costs and heightened volatility. The combination of the Commission's and ESMA's initiatives seeks to re-anchor liquidity in transparent, centralised markets, but several structural challenges remain:

Transparency Erosion and the Bilateral Threat

- Bilateral trading (OTC, RFQ, SI) is now roughly half of total daily activity, potentially undermining price discovery, fairness, and the reliability of reference prices (e.g., VWAP, ETF NAVs).
- The new EU Consultation references risks around ETFs, index tracking, and VWAP calculations being undermined if liquidity is too scattered – pricing benchmarks could become unreliable without enough lit trading.
- Fragmentation and the rise of non-lit venue activity are contrary to the European vision of a Capital Markets Union that is open, transparent, and efficient.

Reasons for trading outside the continuous lit remain

- Rising execution costs in an environment of declining revenues will ensure markets continue to look for innovative means to execute to improve the outcome for end investors
- For example, trajectory crossing trades, such as when one fund is buying and another is selling the same stock along pre-scheduled execution paths (e.g. VWAP or Over the Day), allow both parties to match orders directly without routing through the open market. This approach reduces market impact and trading costs, often enabling execution at the mid-point of the bid-ask spread.

Market complexity requires a refocus on post-trade transparency/addressable/non-addressable vs. Lit/Dark

- Systematic/bank low-touch liquidity (e.g. algos, bank SIs), benchmark trades and trajectory crossing are now seen as largely addressable given the visibility they provide into market activity.
- High-touch/human bilateral off-book seen as non-addressable.

Post-trade reporting tightening

- With ESMA proposing enhanced chain ID tracking and shifting reporting responsibility onto investment firms (not trading venues), asset managers will need robust post-trade systems ready by early 2026.
- Without a standardised interpretation of trade categorisation for reporting, there is a risk that industry divergence could undermine these efforts.

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Execution complexity and rising technology costs

- Asset managers will need enhanced execution oversight tools to monitor and evidence "best execution" as liquidity becomes increasingly private and fragmented.
- Success will increasingly depend on smart order routing (SOR), cross-venue connectivity, API aggregation, and AI-driven execution to access bilateral streams of liquidity.
- Smaller and mid-sized managers may struggle to meet rising infrastructure costs to compete effectively in bilateral and lit markets alike.

Impact on T+1 settlement readiness

- Fragmented bilateral workflows risk complicating operational flows, making the move to T+1 settlement potentially more challenging without standardisation across bilateral and lit venues reporting.

Consolidated Tape and Real-Time Data Challenges

- The success of the CT hinges on full participation from bilateral venues in post-trade reporting. If not achieved, asset managers may continue to face fragmented visibility of true market conditions, which is where derivatives reporting (in particular CFDs) will be crucial.

4. The View from the UK

While the European regulatory agenda is dominating, the UK is also continuing to advance its secondary markets framework, building upon the Wholesale Markets Review (WMR)[6] and the Financial Services and Markets Act 2023 (FSMA) to emphasise market efficiency, transparency, and adaptability to technological advancements. The key areas to watch for over the next six months are:

Transaction Reporting Reform[7] (DP 24-25)

- Post ESMA proposals and the planned introduction of a new chain identifier to track order transmissions, and a field specifying the reporting entity in complex delegation scenarios, the FCA also completing its consultation on streamlining transaction reporting, with a focus on reducing duplicative requirements and tailoring obligations to where they are most valuable.
- A policy statement is expected in the second half of 2025, most likely between Q3 and early Q4, potentially aligning with broader changes to the transparency regime and upcoming consultations on the SI framework.

SI and OTC Transparency Reform

- Following the publication of the Future of the SI Regime[8], the FCA is anticipated to consult on the equity SI regime in summer 2025, with a policy statement expected by December 2025, also timed to align with broader transparency changes. The Industry focus remains on low-quality OTC data, with ambitions to improve pre- and post-trade visibility."

Latest on the Tape

- The European Parliament's Economic and Monetary Affairs Committee (ECON) voted in favour of a draft report suggesting that the equity tape should contain real-time pre-trade information to inform investors' trading decisions. However, the FCA still has pre-trade data under consideration, although many in the industry seem to be converging on pre-trade and post-trade, echoing the EU's ambition to facilitate real-time decision-making.
- However, delivering such a feed presents significant challenges. One major issue is the high volume of rapidly changing quotes from SI quotes, which could create excessive market noise and obscure meaningful pricing signals. Additionally, inconsistent quoting practices among participants (private and public SI quotes), along with the complexity of bilateral and off-book trading, make it difficult to present a clear and accurate view of market liquidity. As such, there is a risk that the tape could offer a fragmented or misleading picture of available trading opportunities, ultimately failing to meet its goal of supporting better-informed trading decisions.

FCA handbook transition from MiFID II (CP24/24)

The FCA continues to repatriate key MiFID II obligations into a more agile UK-specific handbook, with a policy statement due in H2 2025. Focus areas include:

- **Conduct + conflicts rules** simplification
- **Systems and controls** streamlining
- **Client categorisation/reporting** alignment with UK market needs

In terms of unbundling, there is renewed concern around conflicts of interest, especially if firms lack robust controls to ensure research payments do not incentivise routing client orders based on research access rather than execution quality. The FCA is likely to require firms to adopt clear governance and oversight frameworks to manage these conflicts, moving away from a reliance

[6] https://www.fca.org.uk/markets/strengthening-wholesale-markets
[7] https://www.fca.org.uk/markets/transaction-reporting#revisions
[8] https://www.fca.org.uk/publications/policy-statements/ps24-14-improving-transparency-bond-and-derivatives-markets

on detailed, prescriptive rules toward principles-based expectations focused on fair client outcomes and transparent value for money.

Liquidity Risk Management Review (March 2025)

- The review identified shortcomings in governance, stress testing, and contingency planning during periods of market volatility, especially for firms exposed to illiquid assets and complex OTC instruments. As the UK moves toward a more principles-based regulatory framework, asset managers will be granted more flexibility. However, this also requires firms to strengthen internal controls, oversight of trading desks, and transparency in service payments. Enhanced liquidity frameworks, real-time escalation protocols, and robust governance will be essential for meeting the FCA's evolving standards.

Simplified Listing and Capital Raising Rules (April 2025)

- The FCA proposed simplifications to listing disclosures and capital raising to make UK markets more attractive for issuers. While more relevant to primary markets, changes may affect liquidity dispersion and secondary market float, indirectly influencing portfolio liquidity for asset managers.

Commodity Derivatives Framework Update (PS25/1 - February 2025)

- New rules on position limits and streamlined reporting aim to enhance stability while reducing complexity. Relevant primarily to multi-asset desks, particularly those managing commodity exposure through listed derivatives.

Latest on Crypto

- The release of FCA's DP25/1 proposes significantly enhanced oversight of algorithmic and automated trading in crypto markets, reflecting growing concerns about their impact on market integrity. Given the widespread use of trading bots, often by retail participants, the FCA is considering introducing controls similar to those under MiFID II, such as requiring trading platforms (CATPs) to identify algorithmic users, monitor their activity, and implement safeguards to prevent market abuse. While acknowledging enforcement challenges, the FCA aims to ensure fair, orderly, and resilient markets by making CATPs responsible for managing the risks posed by algorithmic trading strategies.

5. Other areas of focus across the EMEA region

Share Trading Obligation (STO) and Swiss normalisation

From May 1, 2025, Swiss shares are once again accessible on EU trading venues following Switzerland's decision to lift its protective trading measures against the EU, reciprocating the EU's 2024 MiFIR amendment that excluded Swiss shares from its Share Trading Obligation (STO). With the STO now limited to EEA ISINs, EU investment firms can trade Swiss shares freely on both EU and Swiss venues[9]. This normalisation of trading relationships is anticipated to enhance liquidity, simplify cross-border transactions and mergers, and improve overall market integration between the EU and Switzerland, but with other proposed changes in play, this will be one to watch.

Latest on the move to T+1

With the transition date for T+1 settlement now set for 11 October 2027 across the region, there is far less margin for error, making real-time trade matching, allocations, and confirmation processes non-negotiable. Heads of dealing will need to ensure that their teams operate within fully automated, tightly integrated execution and post-trade environments.

This also means greater reliance on accurate data inputs, low-latency systems, and seamless coordination with middle-office and custodial teams. Strategically, dealing heads will be responsible for reviewing counterparty performance, minimising settlement fails, and possibly renegotiating SLAs with brokers and third-party vendors to meet T+1 standards.

Liquidity access models and pre-funding arrangements will become increasingly important, especially for cross-border trades where currency timelines could become a constraint. Ultimately, success will hinge on the ability to automate further, from front to back office. Hence, the UK's Accelerated Settlement Taskforce (AST) plans to move to a Digital Asset Taskforce (DAT) with a second workshop being planned for the end of May, beginning of June[10].

Market resilience and testing

Both ESMA and the UK's FCA have recently intensified their focus on market resilience and operational testing, aiming to bolster the robustness of financial systems amid increasing digital interconnectivity and reliance on third-party service providers.

[9] https://www.news.admin.ch/en/nsb?id=103976
[10] https://www.linkedin.com/posts/andrew-douglas-9b6439_yesterday-was-the-inaugural-workshop-of-what-activity-7323814384437272576-C8Oj

Since January 2025, ESMA has stepped up its efforts to enhance operational efficiency as a key driver of market stability, with a series of reforms targeting risk modelling, data use, and real-time market safeguards. New guidance focuses on the use of simulation tools by central counterparties (CCPs) and clearing members, aiming to improve the accuracy and responsiveness of stress testing across the clearing ecosystem. This forms part of a broader strategy detailed in ESMA's 2025 Work Programme[11], which outlines priorities for market infrastructure resilience.

In parallel, ESMA's recent report on regulatory data usage[12] highlights a notable increase in how EU authorities leverage data for supervision, delivering faster insights into market conditions and strengthening early intervention capacity. These data-driven capabilities are further supported by ESMA's latest final report on circuit breakers[13], which proposes a harmonised framework for trading halts across EU venues. The rules aim to ensure consistent trigger thresholds, improve the transparency of market interruptions, and enhance coordination among venues during periods of stress. By standardising how and when circuit breakers are applied, the framework supports orderly markets and greater investor confidence, especially during extreme volatility.

Collectively, these initiatives plan to link automation, real-time data, and coordinated risk controls to foster greater operational efficiency and systemic resilience.

FCA's operational resilience framework

As of 31 March 2025, firms are required to comply with the FCA's operational resilience framework[14]. This includes identifying important business services, setting impact tolerances, and conducting scenario testing to ensure continuity during disruptions. The FCA emphasises that operational resilience should be an ongoing process embedded within firms' culture and risk management practices. This includes new rules which came into effect in January on Oversight of Critical Third Parties (CTPs). The new rules empower the FCA, along with the Bank of England and the Prudential Regulation Authority, to oversee third-party service providers deemed critical to the UK financial sector[15]. Designated CTPs are now subject to requirements such as regular assurance reporting, resilience testing, and incident notification protocols.

There will be more to follow on operational resilience after the FCA's consultation paper CP24/28[16] proposing clearer guidelines for firms on reporting operational incidents and managing third-party risks closed in March. The aim is to improve the FCA's ability to identify and mitigate systemic risks arising from operational disruptions.

The FCA's policy statement PS21/3 outlines the requirements for firms to identify important business services, set impact tolerances, and conduct scenario testing to ensure they can withstand operational disruptions. Firms are expected to be fully compliant by 31 March 2025, embedding operational resilience into their culture and governance structures.

These regulatory efforts underscore a broader commitment to ensuring that financial markets remain stable and resilient in the face of evolving technological and operational challenges.

AI on the Horizon

One of the reasons for regulatory concern over market stability is the rising use of AI in global trading, regulators are now accelerating their response to manage AI's both transformative potential and systemic risk to the ecosystem as a whole.

Norges Bank Investment Management recently announced its plans to use AI to cut trading costs by $400 million annually[17]. AI is also starting to influence short selling strategies, with tools like large language models being used to identify persistent underperformers and weak corporate governance. While JPMorgan CEO Jamie Dimon warns of the unintended consequences of unchecked AI in financial systems, urging thoughtful integration[18]. Dimon likens AI's impact to historical innovations such as the printing press and electricity, emphasizing its capacity to augment virtually every job at JPMorgan.

The regulators are also catching up:

- ESMA is finalizing guidance to bring AI trading systems in line with the EU AI Act, focusing on transparency, accountability, and market surveillance;
- The UK's FCA is embedding AI oversight into its Innovation Hub to address emerging threats like impersonation scams and model bias[19]; and
- The SEC is pushing outcome-based supervision that holds firms accountable for AI-driven decisions[20].

[11] https://www.esma.europa.eu/sites/default/files/2024-10/ESMA22-50751485-1488_Annual_Work_Programme_2025.pdf
[12] https://www.esma.europa.eu/press-news/esma-news/esma-report-shows-increased-data-use-across-eu-and-first-effects-reporting#:~:text=The%20report%20reveals%20how%20the,supervision%2C%20enforcement%20and%20policy%20making.
[13] https://www.esma.europa.eu/sites/default/files/2025-04/ESMA74-2134169708-7780_Final_Report_on_SI_notification__volume_cap_and_circuit_breakers.pdf
[14] https://www.fca.org.uk/news/blogs/operational-resilience-beyond-regulatory-raincoats
[15] https://www.bankofengland.co.uk/prudential-regulation/publication/approach-to-the-oversight-of-critical-third-parties
[16] https://www.fca.org.uk/publications/consultation-papers/cp24-28-operational-incident-third-party-reporting
[17] https://on.ft.com/4iFgCs0
[18] https://www.jpmorganchase.com/ir/annual-report/2024/ar-ceo-letters
[19] https://www.fca.org.uk/news/blogs/ai-through-different-lens-what-115-experts-taught-us-about-ai-innovation
[20] https://www.sec.gov/newsroom/meetings-events/sec-roundtable-artificial-intelligence-financial-industry

Meanwhile, industry bodies such as ICMA[21] and EFAMA[22] are calling for globally consistent AI definitions, human oversight in critical processes, and greater attention to environmental and ethical risks.

As AI-driven decision-making expands across the trade lifecycle, from execution to idea generation, regulators may need to extend existing frameworks or develop new standards to ensure these systems remain transparent, auditable, and aligned with principles of market integrity and investor protection.

6. What to Action

Reassess Liquidity Management Models: Recalibrate how liquidity is sourced, monitored, and evaluated across increasingly fragmented venues. Adapt trading workflows to anticipate higher scrutiny on bilateral trades.

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Enhance Best Execution Monitoring: Strengthen execution analysis tools to account for the rise in bilateral trading and reduced lit pool visibility or partner with brokers who can help your firm achieve this.

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Update Transaction Reporting Systems: Prepare for Chain ID and stricter client identification fields under revised RTS 22/24.

↓

Prepare for CTP Participation: Ensure internal systems are aligned to contribute and use the future Consolidated Tape efficiently.

↓

Plan for 24/7 Trading Resilience: Assess overnight liquidity risks, operational resilience, and potential client demand for round-the-clock access.

Market structure change is no longer incremental, it is systemic. Asset managers must invest in technology, reporting, and execution adaptability, or risk losing a competitive edge as the European market rewires itself around new rules, new transparency standards, and new liquidity realities. Buy-side trading is now a centralised, high-impact discipline that connects data science, market structure, and strategic execution. As Europe accelerates towards T+1 settlement and embraces end-to-end digitisation, pressure is mounting to streamline not just execution but every part of the trade lifecycle.

This demands a new approach: one where fragmented systems are replaced with interconnected architecture, and where data isn't just processed but anticipated and acted on in real time. Execution is evolving into an art of configuration, balancing direct market access, algorithmic routing, and curated sell-side relationships. In this new reality, success won't come from reacting faster, but from *designing smarter*, from building infrastructure that learns, adapts, and optimises even before a trade is even sent.

[21] https://www.icmagroup.org/News/news-in-brief/icma-responds-to-iosco-consultation-report-on-artificial-intelligence-in-capital-markets-use-cases-risks-and-challenges/
[22] https://www.efama.org/sites/default/files/files/efama-response-to-iosco-ai-report.pdf?utm_source=chatgpt.com

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