FINANCIAL CONDUCT AUTHORITY

Consultation Paper

CP25/20**

Consultation Paper on the SI regime for bonds and derivatives

including Discussion Paper on equity markets

July 2025

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We are asking for comments on this Consultation Paper (CP) by **Wednesday 10 September 2025**.

You can send them via email to cp25-20@fca.org.uk.

Or in writing to:

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Chapter 1

Summary

1.1 In November 2024 we published the policy statement (PS24/14) 'Improving transparency for bonds and derivatives markets' which introduces new bond and derivative transparency rules for trading venues from 1 December 2025. We also included, in Chapter 9 of the policy statement, a short section for discussion on the future of the systematic internaliser (SI) regime.

1.2 We are now consulting on the SI regime for bonds and derivatives as well as on other changes that aim to improve the functioning of UK markets. We also include a discussion paper on the current functioning of UK equity markets to help establish whether further consultation proposals are appropriate.

Why we are consulting

1.3 The new bond and derivatives transparency requirements set out in PS24/14 will come into force in December 2025. This includes important changes to the pre-trade requirements for trading venues and systematic internalisers. Given the removal of pre-trade transparency from SIs' obligations in bonds and derivatives, we are consulting on the future of that regime now. This will allow us to give effect to new SI rules in Q4 2025 and ensure a timeline that allows for continued alignment between the transparency and SI regimes.

1.4 This consultation also provides an opportunity to deliver on two commitments made under the Wholesale Markets Review[1] (WMR). First, we are proposing to remove the prohibition on matched principal trading by firms operating a multilateral trading facility (MTF). The WMR concluded that this was an unnecessary and costly constraint. Second, we are consulting on changes to reference price waiver rules to allow trading venues greater flexibility in sourcing equity market reference prices and to permit the use of the reference price waiver in lit markets. Finally, we are proposing removal of the prohibition on an investment firm that is an SI from operating an organised trading facility (OTF). These changes are intended to support competition, reduce unnecessary complexity and improve market resilience.

1.5 In addition to these proposed rule changes, we are using this publication to start a broader discussion on the structure and transparency of UK equity markets. Chapter 4 explores the evolution of UK equity market trading, including the growth of bilateral trading and the declining use of central limit order books. We are seeking views on whether these developments raise concerns and if reforms may be warranted to address them. This early engagement will inform our proposals for adjustments to equity market transparency, which are scheduled for consultation in 2026.

1 Wholesale_Markets_Review_Consultation_Response.pdf

Who this applies to

1.6 This consultation and discussion paper will primarily be of interest to:

- Systematic internalisers in all asset classes
- Trading venues
- UK branches of overseas firms undertaking investment services and activities
- Investment firms

1.7 Our changes will also interest Approved Publication Arrangements (APAs), law firms, market data and analytics firms, consultancies, retail investors and trade associations.

What we want to change

1.8 We want to change some of the rules that were introduced by MiFID II which:

- Extended the SI regime to include bonds and derivatives and created transparency obligations specific to SIs in these instruments, in part to level the playing field with trading venues. This rationale no longer holds as the revisions in PS24/14 have modified pre-trade transparency obligations for trading venues for voice and request for quote (RFQ) trading systems that are relevant for the way transparency applies to SIs in bonds and derivatives.
- Prohibited an investment firm which operates an MTF from engaging in matched principal trading on the MTF it operates. This prohibition was recognised in the WMR as a costly and unnecessary constraint.
- Prohibited an investment firm that is an SI from operating an OTF.
- Limited the prices that can be used under the reference price waiver. These limitations may have made it more difficult for trading venues to compete with OTC (over the counter) markets, including those provided by SIs.

1.9 In this consultation we propose three main changes: (1) removal of the SI regime for bonds and derivatives, as well as structured finance products and emission allowances; (2) removing the prohibition on an investment firm to execute clients' trades on the MTF they operate on a matched principal trading basis; and (3) permitting trading venues operating under the reference price waiver to use a broader set of prices than just the primary market, or the most relevant market in terms of liquidity, to cross orders under their systems; this would also include allowing the use of the reference price waiver within the same system where the price is derived from.

Outcome we are seeking

1.10 Our proposal to remove pre-trade transparency obligations for SIs trading bonds and derivatives should reduce unnecessary burden on SIs offering those instruments that are not producing a commensurate benefit in terms of transparency. Our proposal to lift the prohibition on matched principal trading by operators of MTFs aims to reduce cost and complexity for firms by removing the need for separate legal entities to comply with the prohibition. Lastly, the proposals to remove the restrictions on the sourcing of reference prices aim to improve market integrity as trading venues will be able to use prices from a wider set of venues, including from their own market, provided they are transparent and reliable.

1.11 For our discussion paper on future reforms to transparency in equity markets, we are aiming to start engagement with industry on the topic so that we can formally consult in 2026.

Measuring success

1.12 As the rule changes proposed in this paper all involve removing barriers which we believe are creating unproductive costs of compliance or constraining innovation, their success will largely be realised by removing the need for firms to incur those costs. Collecting metrics on these savings would be disproportionately costly. However, we will continue to monitor market developments closely, with particular attention to how firms adopt and use the new flexibilities. We will also expect firms to demonstrate that they are appropriately managing any conflicts of interest arising from their revised arrangements. In addition, we will invite market participants to share their assessments of the reforms' impact – both positive and negative – to help inform our ongoing evaluation.

Next steps

1.13 We are seeking views on the proposals we are consulting on, as well as the discussion questions for future reforms to equity transparency by Wednesday 10 September 2025.

1.14 Please send your comments using one of the options in the 'How to respond' section above. Unless you have indicated that your response and/or the fact that you have responded are confidential then we will not treat them as such.

1.15 Based on the responses we receive, we will finalise the changes on the SI regime for bonds and derivatives and the other reforms on matched principal, the reference price waiver and the operation of an OTF and SI in the same legal entity in a policy statement in Q4 2025. We will use the responses to the discussion questions on reforms to equity transparency to inform the proposals that we intend to consult on in 2026.

Chapter 2

The wider context

2.1 In PS24/14, we observed that several changes to the UK's wholesale markets regime in recent years have had implications for the SI regime. These included:

- Changes introduced in PS23/4 to trade reporting rules that resulted in SI status no longer playing a role in determining who reports OTC trades in instruments that are traded on a trading venue.
- The new transparency regime for bonds and derivatives, set out in PS24/14, which means that SIs in bonds and derivatives are no longer subject to pre-trade transparency.
- The change to the tick size regime in UK MiFIR by the Financial Services and Markets Act 2023 (FSMA 2023) which allows SIs trading equities to execute at midpoint for all transactions.
- The amendment to UK MiFIR by FSMA 2023 which deletes the share trading obligation that required most trades in shares to be executed on a trading venue or an SI.
- Revisions to the definition of an SI in FSMA 2023 and PS24/14 making the definition entirely qualitative, whereby firms no longer need to perform calculations to determine whether they are an SI.
- Guidance on the trading venue perimeter including the boundary between multilateral and bilateral trading activity finalised in PS23/11.

2.2 In response to these changes, we set out in Chapter 9 of PS24/14 our initial thinking on the future of the SI regime and sought input from market participants. We did not put forward any proposals for consultation but instead asked questions to elicit discussion that would help us develop the proposals in this CP.

2.3 We have reflected on the responses we received to further develop our views on the future of the SI regime. In Chapter 3 of this CP, we summarise the feedback we have received to date, outline our responses and present our proposals for consultation. Chapter 4 includes our discussion paper on broader questions related to the structure of equity market trading and questions to inform our thinking on future reforms.

Market integrity

2.4 The proposals in this consultation support our strategic objective of ensuring that the relevant markets function well by enhancing the integrity of the UK financial system. By removing the SI regime for bonds and derivatives and other non-equity financial instruments – where it no longer contributes meaningfully to transparency – and reforming the reference price waiver, matched principal trading restrictions and allowing a firm to act as a systematic internaliser and operate an OTF within the same legal entity, we aim to reduce regulatory complexity while preserving robust safeguards.

2.5 These changes are aligned with our strategy to 2030, which emphasises the importance of rebalancing risk and enabling informed risk-taking in financial markets. By allowing trading venues to source reference prices from a broader set of venues and removing unnecessary constraints on matched principal trading, we are strengthening the resilience and competitiveness of UK markets. This helps ensure that price formation remains robust, particularly in times of market stress, and that trading venues can compete effectively while maintaining high standards of oversight and control.

2.6 In parallel, we are exploring whether structural shifts in equity markets – such as the growth of bilateral trading and the declining use of central limit order books during the trading day – suggest that modifications to transparency or other requirements may be appropriate. Through our discussion paper in Chapter 4, we are seeking views on whether the current transparency framework remains effective in supporting robust and reliable market data, and whether any reforms are needed to maintain market integrity in the evolving execution landscape.

Competition

2.7 Our proposals are designed to promote effective competition in the interests of consumers and market participants. The removal of the prohibition relating to matched principal trading as it applies in MAR 5 to MTF operators and the relaxation of constraints on the reference price waiver will lower barriers to entry and reduce operational complexity for firms. This will enable more firms to offer competitive execution services without the need for contrived legal structures, thereby fostering innovation and reducing costs for end users.

2.8 This aligns with our strategic priority to be a smarter regulator, one that is proportionate, purposeful, and predictable. By streamlining rules that no longer serve their intended purpose, we are creating a more level playing field between trading venues and OTC markets, consistent with our commitment to support growth and enhance competition across UK financial services.

2.9 In addition, we are seeking views on whether current transparency obligations – particularly for equity SIs – are supporting effective competition. Chapter 4 explores whether enhanced disclosure or recalibrated quoting obligations could improve the quality of price formation and promote more effective competition between execution venues.

Secondary international competitiveness and growth objective

2.10 The reforms proposed in this consultation are intended to advance our secondary objective to facilitate the international competitiveness and growth of the UK economy in the medium to long term. By removing outdated or duplicative regulatory requirements, we are reducing friction in UK wholesale markets and enabling firms to operate more efficiently and flexibly.

2.11 These changes support our strategic goal of maintaining the UK's position as a leading global financial centre, as set out in our 2025–2030 Strategy. The reforms to the SI regime, matched principal trading by MTF operators and the reference price waiver are all consistent with our broader capital markets reform agenda and our commitment to unlock investment and innovation. They also reflect our intention to align with international standards where appropriate, while tailoring UK rules to the specific needs of our markets.

2.12 In particular, we are exploring how the equity SI regime can be enhanced to support transparent, competitive, and resilient markets. Chapter 4 invites views on how the UK can continue to evolve its equity markets while ensuring that regulatory standards remain proportionate, internationally credible, and tailored to the specific needs of UK markets.

2.13 By enabling more competitive and resilient market structures, these proposals contribute to a regulatory environment that supports sustainable growth, attracts global capital, and reinforces the UK's reputation for high standards and innovation in financial services.

Environmental, social & governance considerations

2.14 In developing this Consultation Paper, we have considered the environmental, social and governance (ESG) implications of our proposals and our duty under ss. 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008 and environmental targets under s. 5 of the Environment Act 2021. Overall, we do not consider that the proposals are relevant to contributing to those targets. We will keep this issue under review during the course of the consultation period and when considering whether to make the final rules.

Equality and diversity considerations

2.15 We have considered the equality and diversity issues that may arise from the proposals in this Consultation Paper.

2.16 Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other anti-discrimination legislation applies). We will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules.

Chapter 3

Feedback on the future of the SI regime and consultation proposals

Feedback to questions 3 to 9 in Chapter 9 of PS24/14

3.1 In PS24/14, we said that, in respect of bonds and derivatives, the removal of the pre-trade transparency obligations applicable to SIs raised the question of whether it is reasonable to continue to require firms to identify themselves as SIs. We noted that, beyond pre-trade transparency, the remaining applicable provisions are few and mainly technical in nature.

3.2 We provide below a summary of the feedback we received. Questions 1 and 2 related to the equity SI regime and are covered in the next chapter.

Post-trade transparency

3.3 Investment firms are required to publish trades conducted OTC in instruments that are within the scope of transparency through an Approved Publication Arrangement (APA). In PS24/14, we noted that the reliance on SI status to determine who was responsible for publishing a trade where two investment firms transacted ended in 2024, with the introduction of the Designated Reporter (DR) regime.

3.4 Currently, trades executed by a SI must be identified with the generic label 'SINT' in the "Trading Venue" field as the trade report does not identify the specific SI that executed a trade.

3.5 If firms were no longer identified as SIs, SI trades would default to the 'XOFF' identifier for trade reports. This would be in line with how trades executed by an OTC liquidity provider that is not an SI are reported currently. We noted that, if all SI trades were to default to the 'XOFF label', trade reports may become less informative.

3.6 We asked:

PS 24/14 Question 1: **Does the SI flag on post-trade transparency reports 'SINT' provide useful information?**

PS 24/14 Question 2: **If firms trading bonds and derivatives OTC no longer had to identify themselves as SIs do you think there is a case for adding any new trade flags to post-trade reports to help identify addressable liquidity? If so, please explain your proposal for an additional flag.**

Feedback received

3.7 Market participants said that the SINT flag is only useful for equities, noting that SI post-trade reports contribute to price discovery. In an equities context, the SINT flag allows participants to identify addressable liquidity provided by systematic internalisers within the market.

3.8 In terms of fixed income securities, respondents said that the SINT flag does not add value to post-trade transparency as there is no additional benefit in identifying trades undertaken by consistent providers of liquidity separately from those providing liquidity on an occasional basis. Additionally, post-trade transparency is anonymous and not designed to identify the specific liquidity provider. On this basis respondents strongly supported using 'XOFF' for all OTC transactions in bond trades.

3.9 More generally, respondents noted that maintaining the SI status for firms trading bonds and derivatives does not add any value and are therefore supportive of an approach where firms should no longer have to identify themselves as SIs for these instruments. As a result, respondents also do not see any need to introduce an additional flag to identify consistent providers of liquidity which would require us to undertake additional calibrations to determine what constitutes a 'consistent provider of liquidity' and the provision and analysis of external data. Respondents noted that both of these requirements go against the aim of simplifying the regime. Respondents strongly believe that 'XOFF' is wholly sufficient for all off-venue trades in this context.

Our response

3.10 We agree that 'SINT' remains a meaningful flag in relation to equity post-trade reporting and that, if the SI regime in bonds and derivatives was deleted, there is no resultant need for any new trade flag to help identify liquidity providers. We consider in Chapter 4 whether there is an opportunity for trade reports to better help identify addressable liquidity in equity instruments.

Trading venue perimeter & interaction with OTF rules

3.11 In PS24/14, we reiterated that any changes made to the SI regime would not impact the distinction between bilateral and multilateral trading activity. A key premise of the SI regime is that firms shall, by dealing on their own account, be undertaking risk-facing activity that impacts their profit and loss. Such trading activity is therefore bilateral and would remain so if the requirement for firms to identify themselves as SIs ceased or the obligations applying to SIs were altered. We provide further guidance on the trading venue perimeter in PS23/11.

3.12 We flagged that there are two aspects of the MAR 5A.3.1R(3) rules relating to OTFs that reference SIs. These are:

- It is not permissible to operate an SI and an OTF in the same legal entity.
- An OTF is not permitted to connect to an SI in a way that enables orders in the OTF and SI to interact.

3.13 If firms are no longer required to identify themselves as SIs in bonds and derivatives these two restrictions should no longer apply. We sought views on whether this would make a practical difference to market structure, given that someone operating a trading venue must be running a multilateral system whilst someone trading on a bilateral basis cannot do so on a multilateral system.

3.14 We asked:

PS 24/14 Question 3: **What do you think might be the consequences if the restrictions in MAR 5A.3.1R(3) no longer applied? Explain your answer.**

PS 24/14 Question 4: **If the restrictions in MAR 5A.3.1R(3) no longer applied, would it be necessary to apply new limitations?**

Feedback received

3.15 We received strong support from respondents that there would be no negative consequences if the restrictions in MAR 5A.3.1R no longer applied. Respondents argued that conflict of interest rules and market abuse surveillance procedures would continue to apply in the conduct of business and would cover both scenarios highlighted in paragraph 9.19 of PS24/14.

3.16 Respondents believed that if SIs were no longer required to identify themselves in respect of bonds and derivatives, the restrictions in MAR 5A.3.1R(3) which prohibit an SI from operating an OTF would become meaningless because there would be no SIs in bonds and derivatives, and OTFs are only relevant in those financial instruments.

3.17 Respondents suggested there is no need to create new restrictions to replace MAR 5A.3.1R as conflicts of interest requirements already apply to SIs (and other investment firms) and OTFs and provide adequate protection. Additionally, venues are subject to non-discriminatory access requirements which should ensure that an OTF would not give preferential (e.g. preference in matching priority) access to its platform to any firm that is also an SI (or indeed to any other investment firm). MAR 5A.3.4G for example, provides that an OTF should not have close links with an investment firm which carries out market-making on that OTF.

3.18 There was therefore consensus among respondents expressing a view on this topic that we should refrain from introducing new constraints.

Our response

3.19 We agree that existing obligations are adequate to ensure that conflicts of interest do not undermine the maintenance of fair and orderly markets by operators of trading venues. We also note that the prohibition set in MAR 5A.3.1R(3) for an SI and an OTF to be in the same legal entity is not expressed in terms of financial instruments traded by the SI or available for trading by the OTF. Some respondents said that the rule could be read as prohibiting an SI in equity instruments from operating an OTF executing trades

in non-equity instruments. We therefore propose a revision to the rule at paragraph 3.43 below.

Other areas

Transaction reporting

3.20 We highlighted two main areas of interaction between transaction reporting and the SI regime. The first is that in certain circumstances SIs are required to provide reference data for the instruments they trade. The second is that, for trades executed on an SI, transaction reports collect information specific to the individual SI. 'XOFF' is used for execution with liquidity providers who are not SIs.

3.21 These topics were raised in our DP24/2, which covered issues relating to transaction reporting more widely, and we intend to address them when we publish a consultation paper on reducing the regulatory burden of transaction reporting later in 2025. We therefore do not cover them further in this paper.

Reporting to clients

3.22 In certain circumstances, Article 59 of the MiFID Org Regulation requires investment firms carrying out client orders to send a notice (a post-execution 'contract note' specifying details such as price, volume, costs, and execution venue) to clients once the transaction occurs with the essential details of the transaction.

3.23 Contract notes for retail clients have a field for the execution venue which is expected to be filled in on the same basis as for transaction reports. If firms were no longer identified as SIs, SI trades would default to the 'XOFF' label for such contract notes.

3.24 We asked:

PS 24/14 Question 5: **Do you think the inclusion of 'SINT' in contract notes provides any meaningful information for retail clients?**

Feedback received

3.25 There was agreement from respondents that the inclusion of "SINT" in contract notes does not provide meaningful information to retail clients, in the same way that it does not provide meaningful information for institutional clients. One respondent said that it does not see any use of "SINT" in the context of these 'contract notes'. They therefore supported using 'XOFF' as described in responses to PS24/14 Q3 above. Adding further clarification, respondents flagged that Article 59 reports are firm-specific and sent directly to the client from the firm, as the result of a transaction. Consequently, the client already knows the executing firm that has sent them the trade confirmation thus including the 'SINT' code does not add any value to clients receiving this confirmation.

Our response

3.26 Respondents' views are generally aligned with our own and we believe that omission of the 'SINT' code in contract notes would not result in a loss of useful information for retail clients. As regards equity instruments, we shall make a proposal on the use of 'SINT' at the same time as our broader consultation on equity transparency, planned for 2026.

Best execution

3.27 We flagged that the best execution framework references SIs as part of the definition of 'execution venues', the entities firms must choose between when deciding where to execute client orders. Yet the definition of execution venue also includes 'other liquidity providers', which is what SIs would become if they were no longer required to identify themselves as SIs.

3.28 We also highlighted a letter from the European Commission to the Committee of European Securities Regulators (ESMA's predecessor). The letter sets out how best execution applies when an investment firm is executing client orders that are received in response to a quote the investment firm has provided to the client. In PS24/14 we explained that if firms are no longer required to identify themselves as SIs that should not affect the assessment of whether a client is relying on the firm in respect of a quote it provides.

3.29 Finally, we reiterated that SIs no longer have to produce reports on the quality of execution that they provided (formerly required under RTS 27) as it was clear that, given how they were designed, these were not being used by clients. We sought views on whether users of SIs have access to adequate information to assess the quality of execution SIs provide, noting that our work to improve market data via a CT is ongoing.

3.30 We asked:

PS 24/14 Question 6: **Do you think that there will be any implications for best execution if in respect of bonds and derivatives firms are no longer identified as SIs?**

PS 24/14 Question 7: **Do you think that SI users have access to adequate information to assess the role that SIs play in helping the clients to meet their best execution obligations? If not, how best do you think the information gap should be addressed?**

Feedback received

3.31 In response to PS24/14 Q6, respondents agreed that there will be no implications for best execution if in respect of bonds and derivatives, firms are no longer identified as SIs. It was raised that most trades executed off-venue are performed on an RFQ basis. The letter from the European Commission to the Committee of European Securities Regulations, as referenced in paragraph 9.26 in FCA PS24/14, clarifies that trades of this type may not be considered in-scope of best execution. Therefore, whether a firm is an SI or not when responding to an RFQ is not determinative to establish if a best execution obligation is owed.

3.32 Respondents to PS24/14 Q7 maintained that for fixed income, a firm's status as an SI when responding to an RFQ is irrelevant information for best execution purposes.

3.33 For bank SIs in equities, it was noted that clients have access to high-quality information on how leveraging a given SI contributes to the provision of best execution. Bank SI liquidity will generally be accessed by that bank's smart order router following the processes outlined in their best execution policy. Any such transactions will then be marked as 'SINT' post-trade, meaning that the client can perform post trade analytics on the quality of the execution to complement the analytics provided by any given bank to ensure that execution quality is as expected.

3.34 Additionally, it was suggested that the Equities Electronic Order Handling Questionnaire[2], a long-standing tool used by market participants since 2015 and last updated in March 2024, already addresses any gaps in wholesale clients' informational needs. Buy-side firms can submit this questionnaire bilaterally to their sell-side counterparts to obtain information about the way in which their orders are handled via SI, including details of best execution.

3.35 Another respondent noted that they are not aware that the removal of best execution reporting requirements as part of the MiFID II quick fix created any information gap which needs to be addressed.

Our response

3.36 Respondents' views are generally well-aligned with our own. Specifically, we do not believe that there will be any implications for best execution if firms are no longer identified as SIs in respect of bonds and derivatives. We recognise the value of market led initiatives like the Equities Electronic Order Handling Questionnaire. We discuss in the discussion paper section on the equity SI regime whether there may be a need for additional regulatory intervention to enhance firms' disclosures on the quality of execution by SIs.

2 Electronic Trading Questionnaire 2024.pdf

Consultation paper proposals

3.37 Informed by responses to the questions posed in PS24/14, and subsequent dialogue with market participants and their trade bodies, this consultation paper proposes to remove the SI regime for bonds and derivatives and to repeal the prohibitions on investment firms operating an SI and an OTF in the same legal entity. Additionally, we are using this consultation to deliver 2 commitments made in the WMR. We are consulting on removing the current prohibition for investment firms to execute transactions on a matched principal basis on the MTF they operate, and on amending the reference price waiver so that trading venues can use prices from a broader set of venues than is currently allowed.

3.38 We are not proposing changes to the equity SI regime in this consultation. However, we recognise that the regime plays a central role in the bilateral trading landscape and warrants further scrutiny. We believe that the contribution made to price formation by the quotes that equity SIs are obliged to publish should be considered in the broader context of the CP on proposals to reform equity market transparency which we intend to publish in 2026. Accordingly, chapter 4 of this paper outlines our current understanding of the evolution of equity market structure and raises questions intended to inform its proposals.

Removal of the SI regime for bonds, derivatives, structured finance products and emission allowances

3.39 As discussed above and in PS24/14, the provisions that apply to SIs in bonds and derivatives outside of pre-trade transparency are mainly technical in nature and, taken together, do not make a significant contribution to facilitating competition between execution venues or to helping to maintain the boundary between bilateral and multilateral trading. Neither is the designation of firms as SIs in bonds and derivatives providing useful information in either post-trade reporting or contract notes nor is it relevant when assessing whether best execution obligations have been met. We therefore agree with the views detailed above that after the removal of the pre-trade transparency obligations applicable to SIs in bonds and derivatives, it serves no purpose to require firms to identify themselves as SIs in these instruments.

3.40 Systematic internalisation of structured finance products and emission allowances is also subject to the non-equity SI regime. These instruments are classified as Category 2 instruments under the transparency rules published in PS24/14 and there is no pre-trade transparency requirement for SIs. We believe that the rationale for removing the SI regime for bonds and derivatives applies equally to structured finance products and emission allowances.

3.41 We are therefore proposing to remove from our rules all references to SIs in bonds, derivatives, structured finance products and emission allowances. Additionally, as the obligations on firms to assess their SI status and inform us if they meet the definition of an SI are created in Article 18 b) of UK MiFIR, we are working with the Treasury to ensure the date of its deletion is the same as the date of the changes to our rules.

Question 1: **Do you agree with our proposal to remove the SI regime for bonds, derivatives, structured finance products and emission allowances?**

Removal of the prohibition for investment firms to be an SI and to operate an OTF

3.42 A firm that is an SI is prohibited from operating an Organised Trading Facility (OTF) by MAR 5A.3.1R (3). The rule is not specific about the class of instruments in which the firm is classified as an SI and thus, it can be read to mean that a firm that is an SI in an equity instrument is prohibited from operating an OTF in which buying and selling interests in non-equity instruments interact. We believe such reading would not be consistent with the intended aim of the restriction. Similarly, the prohibition on connecting an OTF with a systematic internaliser is no longer appropriate.

3.43 Accordingly, we propose to delete the prohibitions. This would involve modifying MAR MAR 5A.3.1R(3) as follows:

[A firm must:...] ensure ~~that the operation of an OTF and of a systematic internaliser does not take place within the same legal entity; and~~ that the OTF does not connect with another OTF ~~or with a systematic internaliser~~ in a way which enables orders in the different OTFs ~~or systematic internaliser~~ to interact.

Question 2: **Do you agree with our proposal to remove the prohibition on an SI operating an OTF?**

Removal of the restriction on matched principal trading

Introduction

3.44 Matched principal trading occurs when a transaction is facilitated by an investment firm that interposes itself between the buyer and the seller in such a way that it is never exposed to market risk throughout the execution of the transaction. In a matched principal transaction, both legs of a transaction are executed simultaneously and have the investment firm as a counterparty, and the transaction is concluded at a price where the facilitator makes no profit or loss, other than a previously disclosed commission, fee or charge for the transaction.

3.45 MiFID II introduced a prohibition on investment firms acting on a matched principal trading basis in respect of trades matched in the MTF they operate. MAR 5.3.1AR(4) requires that an MTF operator must not execute orders against proprietary capital or engage in matched principal trading on trades matched on the MTF.[3]

3.46 Respondents to the WMR consultation agreed that the current prohibition on matched principal trading creates unnecessary costs as other rules already require MTFs and their operators to have arrangements in place to prevent, identify and manage adverse

3 For recognised investment exchanges (RIEs), similar requirements exist in REC 2.16A.1, paragraph 9B(2)(b).

consequences of any conflict of interest arising from matched principal trading.[4] The WMR therefore concluded that there was a clear case for removing the matched principal trading restriction on operators of an MTF, while retaining obligations to address conflicts of interest.

Analyses and proposals

3.47 The prohibition on matched principal trading by MTF operators seeks to prevent the conflict of interest between the roles of the investment firm as the operator of a trading venue and as a broker-dealer executing its clients' orders. The restriction aims to ensure that the investment firm has no other interests than that clients' transactions are executed in an efficient and orderly way on the MTF it operates.

3.48 Under MiFID I, the operator of an MTF was able engage in matched principal trading in respect of trades matched on its MTF. We are not aware of instances where it has caused harm to market integrity or detriment to investors.

3.49 Following the introduction of MiFID II, some firms established separate legal entities within their groups to continue to be able to operate their MTFs. This enabled a group company that was not the MTF operator to undertake matched principal trading to enter its clients' orders onto the MTF, also referred to informally as riskless principal trading. In our view, the prohibition on matched principal trading did not provide a stronger protection against conflict of interest; however it did result in additional costs for the operators' group entity and their clients.

3.50 Because of the restriction on matched principal trading, clients of the firm operating the MTF must either become direct members or route orders via a separate firm.

3.51 Permitting an investment firm that is an MTF operator to face its clients in the same way in respect of trades executed on its MTF as it does for any third-party trading venue will reduce complexity and the associated costs and deliver greater simplicity in the execution of trades. Doing so would also alleviate the MTF operator's existing disadvantage whereby it must establish a separate legal entity to provide the same client order-routing functionality that any MTF member may currently provide. The removal of the restriction is not intended to weaken market integrity and our rules already provide protections for clients in relation to the disclosure and management of conflict of interests, which in any event are not mitigated by the existence of a separate legal entity as well as requiring MTFs to operate non-discretionary matching rules.

3.52 We therefore believe that any potential risk arising from an MTF operator engaging in matched principal trading can be more appropriately managed through the establishment of adequate arrangements managing such risk in compliance with the rules relating to conflict management and operating an MTF than by maintaining the restriction. We also believe that the change will support competition by lowering the barriers for new MTFs to enter the market and reduce costs of trading for end users.

4 For example:
- MAR 5.3.1R(6) for MTFs
- MAR 5A.4.1R(7) for OTFs
- REC 2.5.1AR for RIEs

3.53 In line with the WMR's findings, we are proposing to remove the prohibition on matched principal trading by MTF operators. This would involve modifying MAR 5.3.1AR(4) as follows:

[A firm must…] not execute orders against proprietary capital~~; or engage in matched principal trading~~;

3.54 Please note that this proposed removal of the prohibition does not in and of itself mean that an MTF operator can conduct matched principal trading without holding the relevant permission. They will still need to comply with the rules that apply to matched principal trading in any context, for example those contained in MiFIDPRU 4[5], and they would need to make a Variation of Permission application if not already permitted to perform matched principal trading.

Question 3: **Do you agree with our proposed amendment to MAR 5.3.1AR(4) to remove the ban on matched principal trading by MTF operators?**

Changes to the pre-trade transparency waivers for equity instruments

Introduction

3.55 Our rules relating to pre-transparency waivers will be made under the new legislative framework in the Financial Services and Markets Act 2023[6]. This includes a new article 4 MiFIR which enables us to make rules waiving the pre-trade transparency requirements on trading venue operators in respect of shares and equity-like instruments. The criteria for the purposes of negotiated transactions, large-in-scale and order management facility waivers, currently contained in MiFID RTS 1, will be reformulated into a new Handbook chapter (MAR 11A) in accordance with the Annex to this paper.

3.56 The new chapter MAR 11A contains rules in a single sourcebook, streamlining the current regulatory framework where waiver criteria are spread across article 4 MiFIR and MiFID RTS 1. We have also included a mechanism in MAR 11A to enable trading firms currently relying on negotiated transactions, large-in-scale and order management facility waivers to continue to do so without the need to notify us, but does require trading venue operators to reflect the use of the waiver in their own rulebooks. We propose to allow three months from the date our instrument comes into force for the rulebooks to be updated. This should provide for a smooth transition from the current framework for waivers to the new one in MAR 11A.

3.57 We have also taken the opportunity to revisit the criteria surrounding the application of the reference price waiver. Currently, some trading venues operate trading systems whereby orders are crossed at a reference price derived from another system. These

5 https://www.handbook.fca.org.uk/handbook/MIFIDPRU/4/4.html
6 Schedule 2 Part 1 https://www.legislation.gov.uk/ukpga/2023/29/schedule/2

systems are not subject to pre-trade transparency provided they apply for and are granted a waiver. This is known as reference price waiver and the requirements are set out in MAR 5.7.8.

3.58 Prior to MiFID II, the reference price waiver permitted such systems to cross orders at the best bid or offer price or the mid between the best bid and offer. They were able to derive these prices from the primary market (e.g. LSE's limit order book) or use a combination of prices from multiple trading venues, to ensure that the price provided is always the most competitive one.

3.59 MiFID II introduced two new restrictions on the use of the reference price waiver. It appears that the restrictions were inspired by the same concerns about dark trading that led to the establishment of quantitative volume caps, which we repealed after Brexit. MiFID II required trading venues to:

- only use the mid-price between the best bid and offer prices; and
- to derive those prices only from the venue on which the financial instrument was first admitted to trading or the most relevant market in terms of liquidity.

Analyses and proposals

3.60 In line with feedback to a previous consultation on equity markets (CP 22/12), and from engagement with industry, we have identified reliance on the price published by a single trading venue as potentially exacerbating the risk that an outage on that venue prevents firms from continuing to trade on alternative venues.

3.61 Additionally, market participants have noted that the restrictions introduced by MiFID II do not apply to SIs who can reference their own quotes when executing at the mid which created level playing field concerns between types of execution venue. The WMR recommended providing a similar latitude in the source of the reference price for trading venues.

3.62 We therefore propose to allow trading venues to source their reference price from a wider set of trading venues, including those not currently qualifying, and to combine prices from multiple venues. This would enable the use of the best bid and offer across venues to calculate a tighter spread when calculating mid-price, potentially improving execution quality. It would also reduce operational risk by mitigating reliance on a single venue, thereby avoiding a single point of failure.

3.63 We intend to maintain the requirement for the reference price to be widely published and regarded as reliable. We will expect that trading venues will assess those conditions when first using the reference price and on an ongoing basis to ensure that the reference price remains appropriate.

3.64 We are also interested in views on whether the reference price waiver should be reformulated to allow it to be applied to individual orders rather than whole systems. This would permit the price at which such orders are matched to be calculated from pre-trade transparent orders entered into the same order book as the reference price waiver order. This is currently permitted only for larger orders that are exempted from pre-trade transparency under the large in scale waiver.

3.65 The benefit of the change is that it would allow a broader set of liquidity to interact in the same liquidity pool instead of being fragmented in separate, lit and dark, order books.

3.66 While we agree that excessive dark trading may harm price formation, we are concerned that, instead of supporting transparency via increased use of lit trading venues, the current restrictions on trading venues' use of the reference price waiver may reduce their ability to compete with other execution venues and incentivise bilateral trading. This results in a risk to market integrity since regulated trading venues are subject to higher standards in relation to market oversight, systems and controls and operational resiliency.

3.67 These changes would be reflected by changing our rules as follows:

11A.2 Reference price waiver

11A.2.1 R Article 3 *MiFIR* does not apply in respect of systems matching orders based on a trading methodology by which the price of the *equity transparency instrument* is derived from:

(1) the *trading venue* where that *financial instrument* was first admitted to trading; or

(2) any other trading venue,

and the reference price is widely published and regarded by market participants as a reliable reference price.

11A.2.2 R The reference price in *MAR* 11A.2.1R must be established by obtaining:

(1) the midpoint within the current bid and offer prices of the trading venue to which *MAR* 11A.2.1R applies; or

(2) when the price referred to in (1) is not available, the opening or closing price of the relevant trading session.

11A.2.3 R Orders must only reference the price referred to in *MAR* 11A.2.2R outside the continuous trading phase of the relevant trading session.

11A.2.4 G The midpoint in *MAR* 11A.2.2R(1) may be derived from the current bid and offer prices of more than one *trading venue*.

Question 4: Do you agree with our proposal to allow trading venues operating under the reference price waiver to source the mid-price from a wider set of trading venues?

Question 5: Do you agree with our proposal to reformulate the reference price waiver so that it is applicable to an order, rather than a system so that it would be possible to place mid-price, dark orders on lit order book?

Consequential amendments

3.68 We are also taking the opportunity to make the following consequential or clarificatory amendments:

a. minor amendments to the table of category 1 instruments in MAR 11 Annex 1R to clarify that only bonds traded on a trading venue fall within the scope of the post-trade transparency requirements in MAR 11.4 of our Market Conduct Sourcebook;

b. a consequential amendment to REC 3.14A of our Recognised Investment Exchanges (REC) Sourcebook to remove the provision relating to waivers for equity or non-equity instruments and the associated MAR 5 Annex 1D, which will be superseded by the new MAR 11 and 12 of our Market Conduct Sourcebook; and

c. a consequential amendment to the Article 9 MiFID RTS 1 to remove the reference to article 15 of MiFID RTS 13 following the revocation of MiFID RTS 13.

Chapter 4

Discussion paper: UK equity market structure and the transparency regime

Introduction

4.1 Having set out our proposals for rule changes in the previous chapter, we now turn to a discussion of the structure and transparency of UK equity market trading. While we are not consulting on specific rule changes at this stage, we are seeking views on how the market is operating and whether any reforms may be warranted. This discussion will help shape our future consultation on the equity market, planned for 2026.

4.2 The structure of the UK market in shares has changed significantly over the past two decades, driven by technological innovation, structural trends and the evolving regulatory environment. In particular, secondary market trading activity has become more dispersed across the different ways of executing trades, with a smaller proportion of trading now conducted on the central limit order books (CLOBs) operated by exchanges.

4.3 These changes have brought a range of benefits. The competition between execution venues brought by regulatory reforms spurred technological advances (such as reduced latency and increased resiliency), lowered the cost of trading and gave investors greater choice.

4.4 We support a regulatory framework that enables competition between execution venues and trading firms which facilitates informed choices on how to deliver best execution for clients. Potential barriers to those outcomes, including the share trade obligation and double volume cap, have been removed.

4.5 Fragmentation of liquidity across execution venues is the result of a competitive market and has existed in the UK at least since MiFID was introduced. Alongside this, pre- and post-trade transparency requirements aim to enable participants to construct a complete view of liquidity across the spectrum of addressable sources, helping to ensure that markets remain efficient and resilient.

4.6 The nature of that fragmentation is changing, however, with an increasingly significant role for negotiated bilateral trading and a sustained decline in the share of trades executed on central limit order books. These changes raise questions about how the market may continue to evolve over time and whether fragmentation could impact the effectiveness and attractiveness of UK equity markets. For example, there is a question of whether the existing pre- and post-trade transparency regime remains fully effective in enabling a complete view of addressable market liquidity and supporting efficient price formation.

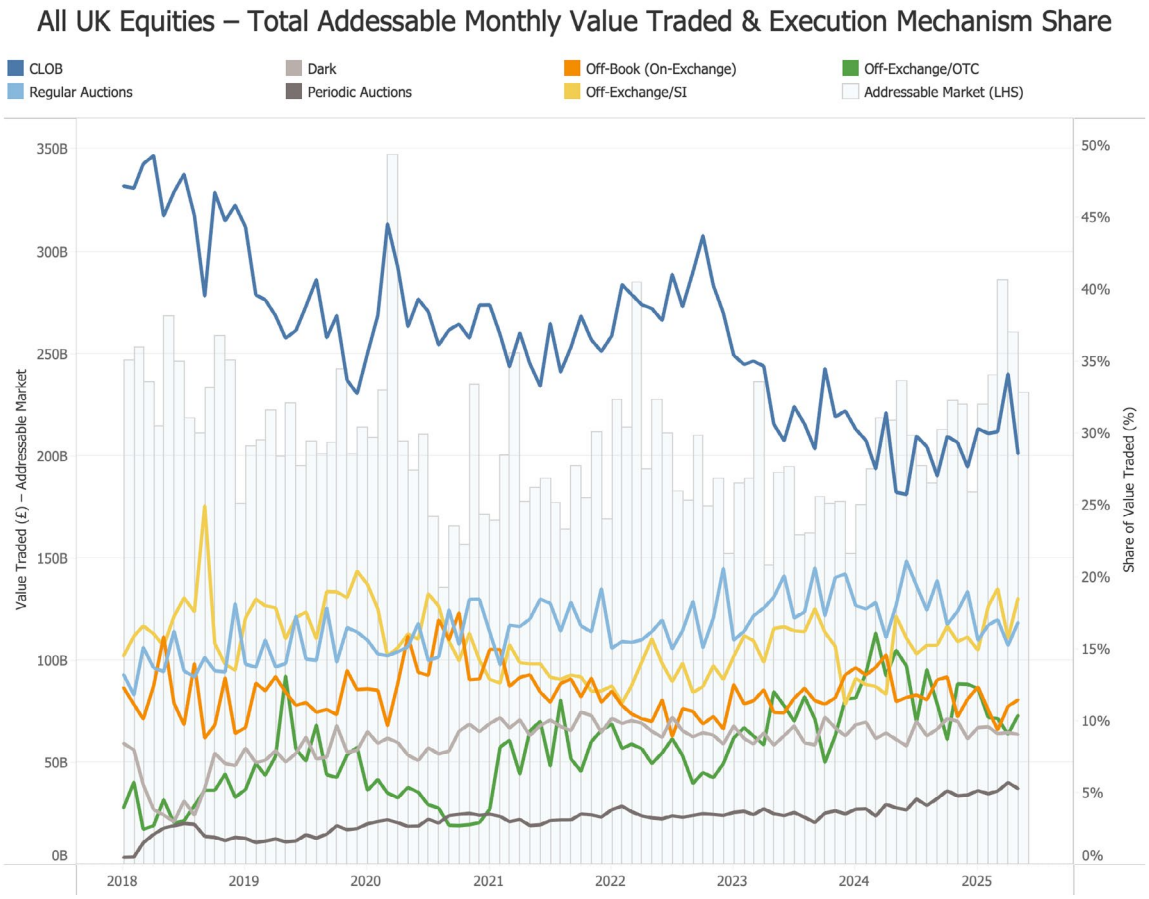
4.7 In this chapter, we explore some of the changes to trading in equity markets, discuss the challenges they may create, and invite views on whether there are particular areas on which we should focus in relation to future regulatory reform.

4.8 We begin by considering market trends – the declining use of central limit order books and the rise of bilateral trading. We hear from market participants that trading activity reported as off-book business may include addressable liquidity, but that it is difficult to distinguish this from non-price forming activity that falls within the same reporting category. This may be obscuring true levels of addressable liquidity in UK markets. We invite participants' feedback on whether the reporting or the dissemination of trade data is limiting the ability of firms or issuing companies to fully understand the liquidity in the market, and if so, how this can be addressed. We then assess whether the equity SI regime, which is an essential component of the bilateral OTC market, is delivering meaningful transparency, proportionate to the costs it imposes.

Market structure trends and their implications

4.9 This section considers trends in the evolution of secondary market trading in UK equity markets. The chart below illustrates these trends. It shows the monthly evolution of addressable trading volumes and the share of different trading mechanisms. As discussed at paragraph 4.16 below, "addressable" is not a strictly defined term. This chart excludes non-addressable off-book volumes that do not contribute to price formation such as Non-Price Forming Trades (NPFT) and Trades Not Contributing to Price Discovery (TNCP). We are aware that other market participants may form different judgements when assessing data on different types of liquidity relevant for execution quality and for market transparency.

Figure 1: Fragmentation of trading



Source: big-xyt

4.10 This table summarises the change in market share for each line in the above chart:

Table 1: Shifts between execution mechanisms

Execution Mechanism	Jan 2018	May 2025	Absolute change
Multilateral	**69%**	**60%**	**-10%**
CLOB	47%	29%	-19%
Regular Auctions	13%	17%	+4%
Dark	8%	9%	+1%
Periodic Auctions	0.5%	5%	+5%
Bilateral	**31%**	**40%**	**+10%**
Off-Book (On-Exchange)	12%	11%	-1%
Off-Exchange/SI	15%	19%	+4%
Off-Exchange/OTC	4%	10%	+6%

Source: big-xyt

4.11 These figures illustrate a noticeable shift in market structure, with implications for how market liquidity is understood. Changes in how trades are executed are not inherently problematic. Innovation in execution models can improve outcomes for investors, and bilateral trading can offer benefits such as reduced market impact and more tailored pricing. However, there has been a notable reduction in the proportion of trades executed on CLOBs, which are the most transparent execution services offered by multilateral venues.

Use of central limit order books

4.12 As a result of the shift of trading away from CLOBs, some of our market contacts have questioned whether this may be affecting, or could in future affect, the visibility of addressable liquidity and the resilience of price formation. They raise questions about access to complete market data, the consistency of transparency obligations across execution channels, and the continued effectiveness of the price formation process. On one hand, placing restrictions on the ability of bilateral liquidity providers to offer price improvement over publicly available prices could create a significant and counterproductive barrier to achieving best execution. On the other, we are interested in whether the current regulatory framework remains appropriate in light of these structural shifts and if it continues to support a level playing field.

4.13 CLOBs have traditionally served as the foundation of transparent price formation, offering a multilateral environment, open to the widest range of participants, with visible bid-offer prices. However, the share of trading activity on CLOBs has declined over time. This trend appears to be driven by several factors:

- The emergence of alternative trading modalities such as periodic auctions and dark pools.
- The increasing sophistication of smart order routers and execution algorithms.
- The growing availability and appeal of bilateral liquidity, which may offer more tailored pricing and reduced signalling risk.
- The growth of passive investment strategies and increased use of closing auctions.

Question 6: **Do you believe that the declining share of trading via central limit order books (CLOBs) and corresponding increased in other execution services is impacting, or could impact in future, the effectiveness of price formation in UK equity markets? If so, what are the key drivers of concern?**

Question 7: **Are there measures that should be taken to support the role of CLOBs?**

The growth of bilateral trading and its role in price formation

4.14 We have heard from market participants that UK market liquidity is, overall, strong. However, we have also heard that some users may not fully realise the true depth of the market because of the way that certain kinds of potentially price forming bilateral business is reported and disseminated. We are also aware of analysis suggesting that the exclusion of certain activities from trade reporting requirements may create a gap in post-trade data, which further adds to this issue. We consider these issues in the following section.

4.15 Bilateral trading, both within and outside the systematic internaliser regime, has grown significantly. This includes trading under negotiated trade waivers and OTC activity beyond the scope of execution venues. Its growth has been supported by:

- The ability of liquidity providers to stream quotes directly to clients via execution management systems (EMSs).
- The use of aggregators that consolidate bilateral quotes from multiple sources.
- The flexibility to offer bespoke pricing to selected counterparties.
- The ability to reduce information leakage and market impact for certain trades.
- Increased scope and sophistication of risk management techniques used by liquidity providers.

Question 8: **Do you believe that there are activities in the current liquidity landscape, such as those carried out by bilateral quote aggregators, that should be considered more closely? If yes, what are the risks that they pose?**

Question 9: **Is the current regulatory framework a material factor in decisions to execute trades bilaterally, particularly when done outside the systematic internaliser regime? If so, which features of the framework are included in those factors?**

Improving the identification of addressable liquidity

4.16 "Addressable liquidity" is not defined in regulation, but is commonly used in the market to mean liquidity that participants could interact with.

4.17 We have heard that some analyses of addressable liquidity focus only on on-venue volumes – or even just on trades executed on the primary market – and exclude off-venue activity. If the change in market structure means that an increasing proportion of that liquidity is now executed bilaterally, such an approach could distort perceptions of the UK's market depth and attractiveness, both as a listing venue and for investment decisions. For example, funds with mandates that limit investment based on a percentage of average daily turnover may invest less than they otherwise would if they had a complete view of available liquidity. While the introduction of a consolidated tape should help by making all trade reports equally accessible, we believe there may be other issues that also need to be addressed.

4.18 In particular, we wish to receive views on the degree of clarity provided by trade reports, under existing post-trade transparency requirements for business executed on an on-exchange, off-book basis or outside the systematic internaliser regime. In PS23/4, we made changes to simplify and align trade identification flags, including those used to identify non-price forming trades. These changes were partly intended to help identify addressable liquidity. However, we are aware that there is still no clear consensus on which trading scenarios should count as addressable liquidity – or how to distinguish them in trade reports.

4.19 To help with this, the FIX Consolidated Tape Working Group has published a list of relevant trading scenarios. Some of these – such as "cash give-up" and "RFMD give-up" when reported as on venue negotiated trades – use the same regulatory flags. They can only be distinguished using optional FIX-recommended flags. While we generally support a simple and consistent approach to trade flags, we are open to views on whether additional mandatory flags would improve transparency.

4.20 Regardless of views on the need for new flags, the value of any flags depends on consistent application. We want to understand whether firms are applying the same flags to the same types of trades across the market.

4.21 We will consider proposing changes which we feel could complement the introduction of an equity consolidated tape by enabling potentially price forming business executed away from central limit order books to be more easily identified, supporting informed analysis of addressable liquidity.

Question 10: **Are there forms of off-book bilateral trading outside the SI regime that are relevant to price formation? Are additional trade flags needed to better differentiate trading scenarios?**

Question 11: **Are you aware of cases where the same trade scenario has been reported with different flags by different firms?**

Reporting of addressable liquidity

4.22 In addition to issues surrounding the clarity of current post-trade data, some market participants have raised concerns that certain trading practices may lead to underreporting of bilateral activity. This could add to concerns that the true level of liquidity available in UK markets is understated or misunderstood. We are seeking views on the whether this is a legitimate concern, how widespread it is, and what solutions might be appropriate.

4.23 For example, in its paper "Mind the Transparency Gap"[7] the FIA European Principal Traders Association argues that there is *"an entire segment of addressable equity activity in both EU and UK markets that is currently wholly unreported"*. They highlight the scenario where:

- A firm writes a swap on an equity with client.
- The firm hedges its resulting market exposure either with another swap or with an equity position already held in inventory.

4.24 In such cases, no trade report may be generated, even though it could be argued that the activity reflects addressable liquidity. This could lead to an incomplete picture of market activity.

4.25 A similar issue may arise in scenarios resembling the Request for Market Data (RFMD) model, but where no market leg is involved. For example:

- A firm provides a client with indicative pricing
- The firm later agrees to a trade, either directly or via a give-up to the client's prime broker.
- The firm offsets its exposure using another client's order, a related instrument (such as a swap), or inventory.

4.26 In PS23/4, we said that RFMD give-ups and give-ins should not be reported, as the market leg is already reported by the trading venue. However, in the scenario above, no market leg is executed, as would have been the case in an RFMD trade – and therefore no trade report is generated. As with the FIA EPTA example, the absence of a trade report when the hedge is secured may result in underreporting of addressable liquidity.

Question 12: Should this type of scenario be treated as a form of RFMD for trade reporting purposes?

4.27 FIA EPTA has proposed that reporting rules be updated to reflect transfers of economic interest. They suggest that firms should publish a trade report as if a transaction in the underlying instrument had occurred. These reports could then be aggregated with existing data to provide a more complete view of market liquidity.

4.28 However, implementing such a change would require clear definitions of what constitutes a transfer of economic interest, and which instruments are equivalent to cash positions.

Question 13: What percentage of all transfers of economic interest in shares do you estimate occur through the scenarios described? Do you believe these scenarios result in a material understatement of addressable liquidity?

7 FIA EPTA Insights – Mind Transparency Gap paper_FINAL.pdf: https://www.fia.org/sites/default/files/2024-04/FIA%20EPTA%20Insights%20-%20Mind%20Transparency%20Gap%20paper_FINAL.pdf

Question 14: **If reporting rules were updated to reflect these transfers, how should this be implemented to best capture addressable liquidity?**

4.29 Beyond the issues raised in the questions above, we are not currently aware of other concerns about the quality of post-trade reporting for equities. However, we welcome further feedback.

Question 15: **Are there any other issues related to the quality of post-trade reporting for equities that you would like to bring to our attention?**

Question 16: **Do you consider that there are any aspects of the market transparency regime, beyond post-trade, which should change to recognise the growth, outside the systematic internaliser regime, of bilateral trading?**

The equity SI regime

4.30 In the earlier section, we have been considering the growth of bilateral trading executed outside the SI regime, for example via the negotiated trade waiver. We now turn to consider the equity SI regime, which forms an important further element of the UK's market structure for bilateral trading. The equity SI regime was aimed at ensuring that liquidity outside regulated and transparent trading venues could continue to support price formation. Some market participants have nonetheless questioned whether the current design of the regime is delivering its intended outcomes.

4.31 This section considers feedback to PS24/14 and then considers a range of reforms, from clarifying the scope of the regime to recalibrating current quoting obligations and alternative approaches. Our aim is to ensure that the regime remains effective, proportionate, and capable of supporting transparent and competitive markets.

Feedback to questions 1 and 2 in Chapter 9 of PS24/14

4.32 In the previous chapter we discussed the responses we received to questions 3 – 9 of PS24/14. In that policy statement we also raised questions about the pre-trade provisions of the equity SI regime and the responses to these are covered in this section.

4.33 We said that the issues around the equity SI regime are different issues from those relating to bonds and derivatives. In part this is because we do not intend to propose changes to the pre-trade transparency regime for equities that could present a case for removing pre-trade transparency obligations for SIs. Nevertheless, we were aware that there is still a question about the proper functioning of the transparency requirements for equity SIs.

4.34 The current pre-trade transparency regime for equity SIs applies in respect of transactions up to standard market size (SMS – the average size of certain transactions that are below the Large in Scale threshold which are executed on transparent trading venues). SIs must make public quotes on a continuous basis during normal trading hours with a volume that is at least 10% of SMS. In justified cases, SIs can execute transactions at prices better than those advertised, provided that the price falls within a public range close to market conditions.

4.35 We noted that certain respondents to the WMR advocated changes to the transparency regime for SIs with a view to make the quotes published by them more meaningful – in terms of contribution to price formation. In particular, they wanted the minimum quote size to be set at SMS so that advertised quotes were closer to the level of trades being undertaken on SIs.

4.36 Relatedly, in PS24/14 we summarised the EU's revisions to its transparency regime for equity SIs. Level 1 amendments require ESMA to set the threshold at which the regime applies to at least double SMS and the threshold at which the quoting obligation applies to at least SMS. After our publication of PS24/14, ESMA published its document titled "MiFIR Review Final Report on Equity transparency"[8] confirming its proposal that the thresholds should be set at no higher than the minimum levels required by the Level 1 amendments.

4.37 We asked:

PS 24/14 Question 8: **Do you think the current transparency regime for SIs is effectively contributing to the price formation process for equities?**

PS 24/14 Question 9: **Are there specific changes that you think should be made to the threshold under which the pre-trade transparency regime applies to SIs and the minimum quote size for SIs?**

Feedback received

4.38 Respondents said that the current transparency regime for SIs effectively contributes to price formation for equities, albeit mainly via the publication of post-trade information. There was strong consensus that the systematic internaliser framework continues to be an important regulatory construct and a key part of the equity trading landscape. One respondent flagged that it delineates bilateral, systematic and frequent trading as distinct from multilateral trading where only the latter is within the trading venue perimeter. Another respondent emphasized that bank SIs (i.e. SIs within broker-dealers that provide a wide range of financial services) play a key part in the equity trading landscape. The respondent argued that SIs contribute to price formation through the provision of risk capital and as a consequence they should form part of the consolidated tape.

8 https://www.esma.europa.eu/sites/default/files/2024-12/ESMA74-2134169708-7636_MiFIR_Review_Final_Report_on_Equity_transparency.pdf

4.39 Other respondents acknowledged that the current regime could be improved but cautioned against adopting changes similar to those introduced in the EU. They argued that such changes – particularly those increasing the minimum quote size and size up to which SIs' can price improve only in justified cases – could lead to worse outcomes for clients without delivering a meaningful enhancement in price formation. In their view, the potential improvement in price formation from larger quote sizes mandated under the EU approach are minimal and do not justify the risk of worse execution for clients or decline in market competitiveness.

4.40 The link between the SI quotes and the primary market was also raised by respondents. They noted that Articles 14 and 15 UK MIFIR require SI quotes to reflect prevailing market conditions. Article 10 of UK MIFID's RTS 1 specifies that quotes reflect prevailing market conditions where they are "close in price [...] to quotes of equivalent sizes [...] on the most relevant market in terms of liquidity". It was suggested that this may tie SI quotes to prices on the primary market and that removing this obligation could enable them to publish more meaningful prices, including in the case of an outage of the most relevant market. It was also raised that once a quote has been made, and on receipt of an order that is lower than the standard market size for that share, SIs are generally bound to trade at their quoted price. This restricts firms' ability to price improve. It was therefore suggested that it would improve execution outcomes if firms were not restricted in this way.

Our response

4.41 We explore in this section the issue of improving the pre-trade transparency requirements for SIs with a view to strengthening their contribution to price formation.

4.42 Regarding the requirement for SIs to quote close in price to the most relevant market in terms of liquidity, it is intended to ensure that the quotes provided by SIs remain meaningful where price improvement is possible. We agree that in the context of the UK equity market structure where multiple trading venues offer prices and liquidity that is comparable to that of the primary market, the obligation is unlikely to provide any additional protection to clients or to enhance price formation. However, we disagree that – as drafted – the requirement prevents SIs from making more competitive prices. We explore this further in the discussion paper below.

Scope of equity SI regime

4.43 Before looking at the detailed transparency rules for SIs, it is worth asking whether the regime currently covers the right set of financial instruments.

4.44 The equity SI regime applies to shares, depositary receipts, exchange-traded funds (ETFs), certificates, and similar instruments. However, only those deemed "liquid" are subject to transparency obligations. This approach is designed to avoid exposing SIs to undue risk and to ensure they can continue providing risk capital in less liquid markets.

4.45 Of around 12,000 shares, only 543 are classified as liquid – and just 300 of those have a UK ISIN. There are 505 liquid ETFs, but only 5 liquid depositary receipts, certificates, or similar instruments.

4.46 We intend to retain the SI regime for shares and ETFs. However, we are seeking views on whether it should continue to apply to depositary receipts, certificates, and similar instruments, given their limited presence in the liquid category.

4.47 Currently, liquidity is assessed through annual quantitative calculations. While we support limiting the regime to liquid instruments, we are interested in whether there are simpler, more cost-effective, or more accurate ways to define liquidity – for example, by using inclusion in major indices or issuer market capitalisation.

Question 17: **Which classes of instrument should be included in the equity SI regime? Are the current methods for determining liquidity still appropriate? If not, how should liquid instruments be identified?**

Use of the SINT flag

4.48 Under the current post-trade transparency regime, SIs are required to report trades executed in that capacity using the "SINT" flag. This flag is intended to indicate that the trade was executed under the SI regime and, by implication, subject to the relevant transparency obligations.

4.49 In practice, many trades executed above SMS, which are not impacted by an SI's pre-trade quoting requirements, are reported using the SINT flag, even though they may not have been executed against a published quote.

4.50 This approach may reduce the information value of the SINT flag and overstate the extent to which SI activity contributes to price formation. It also raises questions about the consistency of the post-trade regime with the underlying policy intent of the SI framework, which is, in part, to ensure that bilateral trading activity is subject to appropriate transparency so that there is a level playing field where that activity is directly competing with CLOBs.

4.51 We are therefore seeking views on a potential refinement to the post-trade reporting regime. Specifically, we are considering whether the use of the SINT flag should be limited to trades executed below SMS, where the SI quoting obligation applies and where there is a reasonable expectation that the trade was executed against a published quote. This refinement would support our broader objective of ensuring that post-trade transparency data provides meaningful insights into market activity and the sources of liquidity.

Question 18: **Should the use of the SINT flag be limited to trades executed against a published quote or below SMS?**

4.52 The way data vendors present market data – including the default views shown in their systems – is outside our regulatory remit. However, we've heard concerns that these practices may contribute to a misleading impression of liquidity in UK markets. We're interested in views on this and any other factors that may be affecting perceptions of market depth.

Question 19: **Do you believe the way market data is presented by vendors affects perceptions of liquidity? Are you aware of any issues – beyond those already raised – that we should consider?**

Definition of "internalisation"

4.53 The SI regime is designed to regulate firms that internalise client orders by taking on market risk. However, in some cases, an SI might, incidentally, execute a client order on its own account without taking on market risk. They might offset any potential exposure against an order in the same, or a related (e.g. a swap), instrument that it has received from another client. In such scenarios, where the hedge is already available, the SI does not assume market risk but instead facilitates a transfer of an economic interest in the instrument between clients.

4.54 This raises the question of whether the SI is truly acting as a liquidity provider or simply as an intermediary. As a result, it is arguable that the SI regime currently treats two distinct activities – risk-taking and riskless facilitation – in the same way. Notably, our supervisory approach, reflected in ESMA Q&A 5.27 which we onshored at the time of Brexit, makes clear that riskless facilitation by an SI is only permissible on an occasional basis. This is grounded in the principle that SIs should not operate systems designed to match client orders or aim to avoid market risk.

4.55 Nevertheless, trade reports don't currently distinguish between trades where the SI takes risk and those where it does not. We want to understand whether this lack of distinction affects market transparency.

Question 20: **Are you concerned that current trade reports do not show whether an SI has taken on market risk? If so, what changes should the FCA consider?**

Pre-trade transparency for equity SIs

4.56 The current pre-trade transparency obligations applying to SIs are contained in articles 14 and 15 of UK MiFIR[9] and in articles 9-11 of RTS 1[10]. As discussed in the above, our engagement with market participants has revealed that there are diverging views about whether the quotes that SIs publish meaningfully contribute to price formation.

4.57 As a starting point, we wish to establish an objective framework within which to evaluate and measure any policy proposals. For this reason, we seek views on the metrics we should consider when assessing SIs' quotes contribution to price formation.

Question 21: **What metrics or indicators do you think are most informative to assess the quality and usefulness of SI quotes in contributing to price formation or liquidity assessment?**

9 https://www.legislation.gov.uk/eur/2014/600/contents
10 https://www.legislation.gov.uk/eur/2017/587/contents

4.58 The key parameters of the SI pre-trade transparency regime are:

- prices
  - the prices quoted,
  - the ability to improve upon those prices,
- sizes
  - the minimum size that must be quoted, and
  - the size up to which a price improvement must be justified

4.59 We want to explore two possible approaches to strengthen SIs' contribution to price formation and the quality of the outcomes provided to clients.

4.60 The first is based on setting higher pre-trade transparency parameters. Clearly, the calibrations of the price and size parameters are interrelated: the larger the quotation size the more material is any constraint on price improvement. Therefore, while we consider the price improvement and size parameters sequentially, question 26 invites views on how they might be best calibrated together.

4.61 The second approach is based on more effective disclosure about SIs' quotation and execution behaviour, rather than on strengthening the transparency parameters, with a view to improving competition and ultimately price formation. These two approaches are not mutually exclusive.

SI quotes – price improvement

4.62 SIs must publish quotes with prices that are firm up to the quoted size and that reflect prevailing market conditions. SIs must make their quotes available to clients on an objective and non-discriminatory basis. However, they can take into account commercial factors, such as counterparty risk.

4.63 SIs can offer clients better prices than their published quotes, but only in justified cases. Some market participants have expressed concerns about whether those requirements are sufficiently binding to make SI quotes meaningful while price improvement is possible. Others argue that relaxing the rules on price improvement could lead to better outcomes for investors.

4.64 There appears to be no clear agreement on what counts as a valid justification for price improvement. Some worry that this flexibility allows SIs to publish quotes that do not reflect their true willingness to trade, enabling selective price improvement for certain clients. They believe that restricting the ability to price improve would make quotes more useful for the wider market.

4.65 We recognise the need to strike a balance. Excessive restrictions could reduce liquidity or lead to worse execution for clients. But too much flexibility could undermine transparency. We want to know whether the current rules strike the right balance between supporting price formation and allowing SIs to offer best execution.

4.66 One option could be to remove the current constraints on price improvement if they are not delivering meaningful benefits for clients or the market. Another option is to clarify when price improvement is acceptable – or to require SIs to be more transparent about their price improvement policies.

Question 22: Should the conditions for offering price improvement remain in place? If so, should there be more clarity on what counts as a justified reason – either in our rules or in firms' policies?

4.67 Under Article 14(3) of UK MiFIR, SI quotes must reflect prevailing market conditions. Article 10 of RTS 1 says this means quotes should be close in price to those in an equivalent size on the most relevant market in terms of liquidity (MRMTL).

4.68 Some feedback on our questions in PS24/14 suggested that allowing SIs to reference prices from other lit venues – not just the MRMTL – could lead to better quotes. This suggests some firms may be interpreting the rules too narrowly, assuming they can't quote better prices than those on the MRMTL.

4.69 We don't agree with that interpretation. The rules don't stop SIs from quoting better prices than those on the MRMTL. We want to reassure firms that they can publish tighter quotes without needing a rule change.

Question 23: Are there any other issues not clarified here that, under existing provisions, preclude an SI from publishing tighter quotes within the spread on the MRMTL?

SI quotes – sizes

4.70 SIs must publish firm quotes for liquid instruments they trade during normal trading hours. These quotes must be for a size that is between 10% and 100% of SMS.[11] SIs don't need to publish quotes for larger trades. However, if they offer a better price for a trade below SMS, they must justify it.

4.71 Our annual transparency calculations show that for over 70% of liquid shares (UK and non-UK), the SMS is €10,000. For UK shares, 99% have an SMS of €10,000 – meaning the minimum quote size is just €1,000. But most SI trades are much larger. Only 11% of SI trades are at or below SMS. Clearly the minimum quote size does not reflect the average size of trades SIs typically carry out. No transparency requirements apply to SIs when dealing above SMS.

4.72 This raises questions about whether the current method for setting the minimum quote size is still appropriate. We are interested in views on whether the current approach strikes the right balance – protecting liquidity while ensuring SI quotes are meaningful and competitive.

11 An SI is not required to make public the quotes that it makes bilaterally, regardless of the size of those quotes.

4.73 One option could be to set a fixed minimum size – for example, £10,000 – this might also remove the need for annual SMS calculations and reduce the burden on firms and the FCA. Another option could be to require SIs to quote in sizes that better reflect the trades they usually execute. We also want to know whether an approach of increasing minimum size, such as adopted in the EU would be more effective.

Question 24: **Does the current method for calculating the minimum quote size – and the size up to which price improvement must be justified – strike the right balance between protecting liquidity and supporting meaningful price formation? If not, would the approaches set out above deliver a better outcome?**

Question 25: **If we were to change the rules on price improvement and quote sizes, what would be the best way to do this to improve the contribution of SI quotes to price formation?**

SI quotes – enhancing disclosure of SIs' quoting behaviour

4.74 In the previous paragraphs we discussed changes aimed at improving the information content of SI quotes by making the existing requirements on minimum quotation size and price improvements more prescriptive.

4.75 Regulatory intervention of this type requires careful calibration to ensure that requirements are proportionate and do not have unintended consequences on price formation and the provision of liquidity to investors.

4.76 We want to gather views as to whether an alternative approach based on enhanced disclosure of SI quoting behaviour may improve price formation through market discipline and competition. There are 2 ways in which greater disclosure may make SI quotes more meaningful.

4.77 We are working on the establishment of an equity consolidated tape. We have not yet determined the precise content of the consolidated tape and we will consult later this year on whether it will include pre-trade data. However, where pre-trade information from trading venues is part of the tape, there is an argument for consolidating quotes provided by SIs.

4.78 Even where SI quotes are published, their contribution to price formation depends on their visibility and accessibility. SI quotes are provided on different reporting mechanisms which creates a challenge for users to consolidate them in a single stream. A pre-trade consolidated tape would reduce the frictional cost of aggregating those quotes, improving access by enhancing their visibility, and potentially incentivise SIs to improve the quality of their quotes as part of the process of competing with other SIs.

4.79 The second component of enhanced disclosure relates to execution quality. The SI quotes are named, however, the actual execution of transactions by SI remain anonymous save for the use of the "SINT" flag. Clients of SIs can use the publicly available information to assess the quality of the execution received from SIs.

Information about the frequency and size of price improvements may complement such information and support best execution and incentivise the provision of more competitive prices. The disclosure of such information would support a better understanding of the quality of the quotes provided by SIs. It would also provide insight on the circumstances when price improvements are offered.

4.80 Other jurisdictions, like the US, have imposed the obligation on market centres, such as exchanges, market makers, and alternative trading systems, to publish standardized monthly reports on the quality of executions. SEC's Rule 605 reports are broader and more akin to the type of reporting that was previously adopted in the EU and abolished as part of the WMR's post-Brexit reforms. Any new reporting obligation would be narrowly focused and need to be carefully calibrated with the objective of providing to clients valuable information about the quality of execution received, including on SIs' price improvement practices.

Question 26: **Would including SI quotes in a consolidated tape improve their contribution to price formation? If so, should all quotes be included, or only those above a certain size or quality threshold? If using a threshold, what should that be?**

Question 27: **Would greater disclosure of SI's quality of execution and of execution behaviour – such as the frequency and size of price improvements – support better outcomes for clients and more effective competition?**

Call for further evidence

4.81 While the questions above focus mainly on bilateral trading and systematic internaliser obligations, we may explore a broader range of issues. Our aim is to identify all aspects of equity market transparency that may benefit from closer monitoring, regulatory intervention, or wider structural reform.

4.82 We therefore welcome views on whether there are wider concerns about how the equity market functions that might justify expanding the scope of the consultation – beyond what can be addressed through transparency measures alone.

Question 28: **Are there any additional concerns regarding equity market transparency or structure that you have not addressed in response to previous questions but would like to raise?**

Question 29: **Do you consent to the publication of your name as a respondent?**

4.83 The questions raised in this chapter are intended to stimulate early engagement on the future of equity market transparency. We are particularly interested in whether the current framework remains fit for purpose in a more fragmented and bilateral trading environment. Your feedback will help us shape a proportionate and evidence-based consultation in 2026 that supports robust price formation, competition, and market integrity.

Annex 1

Questions in this paper

Question 1: Do you agree with our proposal to remove the SI regime for bonds, derivatives, structured finance products and emission allowances?

Question 2: Do you agree with our proposal to remove the prohibition on an SI operating an OTF?

Question 3: Do you agree with our proposed amendment to MAR 5.3.1AR(4) to remove the ban on matched principal trading by MTF operators?

Question 4: Do you agree with our proposal to allow trading venues operating under the reference price waiver to source the mid-price from a wider set of trading venues?

Question 5: Do you agree with our proposal to reformulate the reference price waiver so that it is applicable to an order, rather than a system so that it would be possible to place mid-price, dark orders on lit order book?

Question 6: Do you believe that the declining share of trading via central limit order books (CLOBs) and corresponding increased in other execution services is impacting, or could impact in future, the effectiveness of price formation in UK equity markets? If so, what are the key drivers of concern?

Question 7: Are there measures that should be taken to support the role of CLOBs?

Question 8: Do you believe that there are activities in the current liquidity landscape, such as those carried out by bilateral quote aggregators, that should be considered more closely? If yes, what are the risks that they pose?

Question 9: Is the current regulatory framework a material factor in decisions to execute trades bilaterally, particularly when done outside the systematic internaliser regime? If so, which features of the framework are included in those factors?

Question 10: Are there forms of off-book bilateral trading outside the SI regime that are relevant to price formation? Are additional trade flags needed to better differentiate trading scenarios?

Question 11: Are you aware of cases where the same trade scenario has been reported with different flags by different firms?

Question 12: Should this type of scenario be treated as a form of RFMD for trade reporting purposes?

Question 13: What percentage of all transfers of economic interest in shares do you estimate occur through the scenarios described? Do you believe these scenarios result in a material understatement of addressable liquidity?

Question 14: If reporting rules were updated to reflect these transfers, how should this be implemented to best capture addressable liquidity?

Question 15: Are there any other issues related to the quality of post-trade reporting for equities that you would like to bring to our attention?

Question 16: Do you consider that there are any aspects of the market transparency regime, beyond post-trade, which should change to recognise the growth, outside the systematic internaliser regime, of bilateral trading?

Question 17: Which classes of instrument should be included in the equity SI regime? Are the current methods for determining liquidity still appropriate? If not, how should liquid instruments be identified?

Question 18: Should the use of the SINT flag be limited to trades executed against a published quote or below SMS?

Question 19: Do you believe the way market data is presented by vendors affects perceptions of liquidity? Are you aware of any issues – beyond those already raised – that we should consider?

Question 20: Are you concerned that current trade reports do not show whether an SI has taken on market risk? If so, what changes should the FCA consider?

Question 21: What metrics or indicators do you think are most informative to assess the quality and usefulness of SI quotes in contributing to price formation or liquidity assessment?

Question 22: Should the conditions for offering price improvement remain in place? If so, should there be more clarity on what counts as a justified reason – either in our rules or in firms' policies?

Question 23: Are there any other issues not clarified here that, under existing provisions, preclude an SI from publishing tighter quotes within the spread on the MRMTL?

Question 24: Does the current method for calculating the minimum quote size – and the size up to which price improvement must be justified – strike the right balance between protecting liquidity and supporting meaningful price formation? If not, would the approaches set out above deliver a better outcome?

Question 25: If we were to change the rules on price improvement and quote sizes, what would be the best way to do this to improve the contribution of SI quotes to price formation?

Question 26: Would including SI quotes in a consolidated tape improve their contribution to price formation? If so, should all quotes be included, or only those above a certain size or quality threshold? If using a threshold, what should that be?

Question 27: Would greater disclosure of SI's quality of execution and of execution behaviour – such as the frequency and size of price improvements – support better outcomes for clients and more effective competition?

Question 28: Are there any additional concerns regarding equity market transparency or structure that you have not addressed in response to previous questions but would like to raise?

Question 29: Do you consent to the publication of your name as a respondent?

Annex 2

Cost benefit analysis

Introduction

1. The Financial Services and Markets Act (2000) requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'. Section 138S(2)(f) imposes an obligation in relation to technical standards.

2. This analysis considers the impact of the three proposals made in this paper. These are:

- Removal of the SI regime for bonds and derivatives
- Removal of the matched principal restriction
- Removal of the restrictions on mid-price reference orders

3. FSMA does not require us to publish a CBA with our consultation papers proposing new rules when we believe these rules will involve either no cost increase or where the increase will be of 'minimal significance' (compared to a scenario of no FCA intervention). We consider each of these proposals in turn. We do not think any of these changes imposes costs of more than minimal significance. We explain why for each of the proposals in the following section.

Removal of the SI regime for bonds and derivatives

4. A Systematic Internaliser (SI) is an investment firm which, on an organised, frequent systematic and substantial basis deals on own account when executing client orders outside a regulated market, an MTF or an OTF without operating a multilateral system. Investment firms that meet the criteria to be a SI are required to notify us.

5. We have made several changes to the wholesale markets regime that have implications for the SI regime for bonds and derivatives. These include:

- Changes introduced in PS23/4 to trade reporting rules that mean SI status no longer plays a role in determining who reports OTC trades in instruments that are traded on a trading venue.
- A new transparency regime for bonds and derivatives set out in this PS which means that SIs in bonds and derivatives are no longer subject to pre-trade transparency.
- Revisions to the definition of an SI in FSMA 2023 and this PS that mean the definition is entirely qualitative and firms do not have to perform calculations to determine whether they are an SI.

6. Consequently, the implications for an investment firm that qualifies as a systematic internaliser for bond or derivatives are limited. There will not be any new costs that arise from removing the SI regime for bonds and derivatives as the regime does not affect outcomes in markets. There may be some small benefits in the form of efficiency gains for investments firms that no longer need to notify us they operate an SI in bonds or derivatives or cease to have that status. While these are benefits, the costs of notification are not large (see MIFID II Systematic Internaliser and Electronic Trading Notification Guide for details on the notification), there are likely to be limited in scope. Further, there are not many notifications each year. There are around 60 investment firms that are SIs in bond or derivatives and very few changed status in each year.

Removal of the matched principal restriction

7. Matched principal trading occurs when a transaction is facilitated by an investment firm positioning itself between the buyer and the seller in such a way that it is never exposed to market risk. Both sides of the trade are executed simultaneously, and the transaction is concluded at a price where the facilitator makes no profit or loss, other than a previously disclosed commission, fee or charge for the transaction.

8. MiFID II prohibited investment firms using matched principal trading for trades executed on an MTF they operate. This was permissible under MiFID I and we have no evidence that it caused any harm.

9. The current prohibition means that two clients of a firm operating an MTF need to settle their trades directly with each other. To avoid this firms, which operate an MTF but wish to offer matched principal trading as part of their broking services have located the MTF in a separate group legal entity. This means that there are no benefits to clients or the wider markets from this restriction.

10. We do not expect any costs to arise to firms, or their clients, as a consequence of this change. The proposal gives firms with the appropriate permissions the option to locate their MTF in the same legal entity as their broking services that uses their MTF. However, we do not expect firms to incur costs to change their business to avoid the small additional costs that arise from having their MTF in separate entity to their broking service for these particular trades. New entrant firms may structure their business slightly differently as a result of this rule change, but we have had only one new firm authorised as an MTF since October 2023 and so these benefits will not accrue very often or be very large. We note that there are currently only 37 MTFs operators as some firms operate more than one MTF (see DRSP, MTF, OTF, SI and DR Register (CSV)).

11. We do not think that there will be any change to the market outcomes for firms or their clients. The requirement for firms to manage conflicts and obtain best execution for clients remain unchanged.

Removal of the restrictions on mid-price reference orders

12. Trading venues can waive the obligation to publish information about bid and offer prices available on their systems (i.e. pre-trade transparency) provided they apply for a waiver with us and comply with certain restrictions. The restrictions include the obligation to only cross orders using a single price derived from the most relevant market in terms of liquidity (almost always the primary market like the London Stock Exchange).

13. This is known as the "reference price waiver" and the resultant "reference price orders" are an example of a number of order types collectively known to as "dark orders". Trading venues that match only dark orders are known as "dark pools".

14. Our proposal is to:

- allow trading venues to source the price from a wider set of trading venues, including from their own market.
- allow the reference price waiver to be applied to individual orders rather than whole systems.

15. We consider each of these proposals in turn.

Allow trading venues to source reference prices from a wider set of trading venues

16. Currently, the reference price waiver requires trading venues to use prices derived from the most relevant market in terms of liquidity (MRMTL). Our proposals will allow trading venues to use reference prices from other venues, when the prices used are reliable, robust and transparent.

17. Allowing trading venues to use reference prices from a wider set of trading venues is optional for trading venues. We think in many instances we would expect that trading venues would continue to use the MRMTL for their reference prices, as they will most likely reflect the market consensus value of the equity. However, venues may choose in some instances to use a different appropriate reference price. For example, they may choose to do this where there is an outage in the MRTL.

18. Where trading venues choose to use a different reference price, we think the costs will be of minimal significance in changing systems to use these alternative prices. We do not expect any other costs from this change. Hence, the FSMA obligations to undertake a cost benefit analysis do not apply.

19. There may be some small benefits to trading venues as they can better compete with Systematic Internalisers who can reference their own quotes, rather than MRMTL currently, especially when there is an outage on the MRTL. It may also mean that trades from bilateral OTC move on to trading venues. We expect these benefits to be small.

20. We do not expect market participant to be materially affected as they will likely trade at very similar, at the same price, under the proposal. Where an alternative price reference is used, compared to the MRTL, there will be a slight redistribution between

counterparties (as one side would receive a slightly better price, and the other worse). We do not expect a material change to the amount of trading because trading using alternative reference prices is currently available outside trading venues.

Allowing reference price waivers for individual orders

21. Currently, reference price waivers apply to the trading venue rather than individual orders. This means that trading venues are either 'dark' or 'lit'. Our proposals would allow reference price orders in lit markets. Currently, trading venues need to set up another trading venue to undertake reference price orders.

22. Under this proposal, trading venues could choose to allow reference price orders in their lit markets. While trading venues may incur some costs in allowing reference price orders onto their lit venue, they would only do this where the costs to them are outweighed by the benefits from greater trading revenues. Where firms adjust the allowable orders on their exchange, there may be small system costs. We do not expect them to be material.

23. The benefits to trading venues that have dark venues in their group will be limited. They can already offer both types of trading and therefore any changes will not affect their current offering but only affect administrative costs and offer opportunity to improve their offering in the future. For lit venues without a dark venue in their group, this proposal means that they can offer reference price orders to market participants

24. While allowing reference price order in lit venues may on the margin improve competition on trading fees for reference price orders, we do not expect a significant effect.

25. We do not expect any direct change to market outcomes from this proposal. This is because a reference price order on a lit exchange, rather than a dark one, will not affect the addressable liquidity on that exchange, or affect the amount of information available to inform trading decisions. The only effect will be indirect from an increase in trading activity from greater competition and lower trading fees. We think this effect is limited.

Conclusion

26. In the previous paragraphs we have considered the individual changes proposed in this CP. In aggregate, the costs are still of minimal significance and that we expect the interventions to be proportionate. We note the impact of the proposals fall on different firms (SIs and MTFs).

Appendix 3

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules (a) is compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA, and (c) complies with its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA. The FCA is also required by s 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. We are also consulting on a standards instrument revoking and amending various technical standards, and as such the FCA is required by section 138I(2)(d) FSMA and section 138S FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA, and (c) complies with its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons. References to rules in this section also include requirements in technical standards.

4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s 1JA FSMA in the November 2024 Remit Letter about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.

5. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

6. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of market integrity. They are also relevant to the FCA's consumer protection objective.

7. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well. For the purposes of the FCA's strategic objective, "relevant markets" are defined by s. 1F FSMA.

8. We consider these proposals comply with the FCA's competition objective. Our proposals are designed to promote effective competition in the interests of consumers and market participants. The removal of the prohibition relating to matched principal trading as it applies in MAR 5 to MTF operators and the relaxation of constraints on reference price waiver will lower barriers to entry and reduce operational complexity for firms. This will enable more firms to offer competitive execution services without the need for contrived legal structures, thereby fostering innovation and reducing costs for end users.

9. We consider these proposals comply with the FCA's secondary objective in advancing competitiveness and growth. We have had regard to the recommendations made by the Treasury in the November 2024 Remit Letter. By removing outdated or duplicative regulatory requirements, we are reducing friction in UK wholesale markets and enabling firms to operate more efficiently and flexibly. These changes support the FCA's strategic goal of maintaining the UK's position as a leading global financial centre, as set out in our 2025–2030 Strategy. In particular, the reforms to the SI regime, matched principal trading by MTF operators and the reference price waiver are all consistent with our broader capital markets reform agenda and our commitment to unlock investment and innovation. They also reflect our intention to align with international standards where appropriate, while tailoring UK rules to the specific needs of our markets. By enabling more competitive and resilient market structures, these proposals contribute to a regulatory environment that supports sustainable growth, attracts global capital, and reinforces the UK's reputation for high standards and innovation in financial services.

10. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s.3B FSMA.

The need to use our resources in the most efficient and economic way

11. This aligns with the FCA's strategic priority to be a smarter regulator, one that is proportionate, purposeful, and predictable. By streamlining rules that no longer serve their intended purpose, we are creating a more level playing field between trading venues and OTC markets, consistent with our commitment to support growth and enhance competition across UK financial services. This will reduce the burden on FCA having to administer the existing set of rules.

The principle that a burden or restriction should be proportionate to the benefits

12. The consultation reduces the burden on firms. By removing the SI regime for bonds and derivatives and other non-equity financial instruments – where it no longer contributes meaningfully to transparency – and reforming the reference price waiver, and matched principal trading restrictions, and allowing a systematic internaliser to operate an OTF, we aim to reduce regulatory complexity while preserving robust safeguards.

The general principle that consumers should take responsibility for their decisions

13. The proposals do not depart from the general principle that consumers take responsibility for their decisions.

The responsibilities of senior management

14. Our proposals do not specifically relate to the responsibilities of senior management. Nevertheless, we have had regard to this principle and do not consider that our proposals undermine it.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

15. This consultation sets out our policy rationale for the proposed amendments to the non-equity SI regime which support efficient price discovery. Where we exercise our power (once given to us under Schedule 2 of FSMA 2023) to suspend transparency requirements or to withdraw any pre-trade transparency waivers, we are required to publish a notice setting out the relevant details.

The principle that we should exercise of our functions as transparently as possible

16. By explaining the rationale for each of our recommendations and the anticipated outcomes the FCA has regard to this principle.

17. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s 1B(5)(b) FSMA).

Climate change

18. The FCA has to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target). More efficient wholesale financial markets will make it easier for companies to raise finance for a variety of purposes including in support of their transition plans towards net zero.

Expected effect on mutual societies

19. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies compared with other authorised firms. Our proposed rules will apply according to the powers exercised and to whom they are addressed, equally regardless of whether it is a mutual society or another authorised body.

Equality and diversity

20. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, and foster good relations between people who share a protected characteristic and those who do not.

21. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraph 2.16 of the Consultation Paper.

Annex 4

List of non-confidential respondents

1. The following is a list of those respondents to Chapter 9, regarding the future of the SI Regime, of PS24/14 who gave permission for their names to be published.

The Association for Financial Markets in Europe (AFME)

Global Financial Markets Association's Global FX Division (GFMX)

Hargreaves Lansdown

The International Swaps and Derivatives Association, Inc (ISDA)

The International Capital Market Associations (ICMA)

UK Finance

Annex 5

Derivation and Changes Table

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[12]/ other comment
Article 4 MiFIR	MAR 11A & TP 2	Waivers for equity instruments	Transferred to FCA Handbook with policy change relating to reference price waivers
MiFID RTS 1			
Article -1	Not transferred	Interpretation	Modification to refer to updated MAR sourcebook.
Article 4	MAR 11A.2	Reference price waiver	Transferred to FCA Handbook with policy change
Article 5	MAR 11A.3	Negotiated transactions waiver	Transferred to FCA Handbook with HSD changes
Article 6	MAR 11A.3	Negotiated transactions waiver	Transferred to FCA Handbook with HSD changes.
Article 7	MAR 11A.4	Large in scale waiver	Transferred to FCA Handbook with HSD changes.
Article 8	MAR 11A.5	Order management facility waiver	Transferred to FCA Handbook with HSD changes.
Article 9	Not transferred	Systematic internalisers – arrangements for the publication of a firm quote	Consequential change to reflect revocation of delegated regulation relating to data reporting services providers.
Article 10	Not transferred	Systematic internalisers – prices reflecting prevailing market conditions	Consequential cross-reference change
Article 14	Not transferred	Post-trade transparency	Consequential cross-reference change
Article 15	Not transferred	Deferred publication of transactions	Consequential cross-reference change

12 "HSD" means handbook style drafting. The term is used to denote instances where assimilated law has been transferred to the handbook with minor drafting changes that do not amount to a substantive change in policy.

Source of provision	Handbook Reference	Subject matter	Policy change/HSD[12]/ other comment
Article 17	Not transferred	Transparency calculations	Consequential cross-reference and timing changes
Article 17A	Not transferred	Transitional period for publication of transparency calculations.	Provision revoked as one that applied up to IP completion date [31 December 2024].
Article 17B	Not transferred	Most relevant market in terms of liquidity	Reformulation of material previously contained in revoked article 4 relevant to other RTS 1 provisions.
Annex 1	Not transferred	Information to be made public	Amendments to waiver references in table to reflect relocation of requirements to the Handbook.

Annex 6

Abbreviations used in this paper

Abbreviation	Description
APA	Approved Publication Arrangements
CLOB	Central limit order book
CP	Consultation paper
DR	Designated Reporter
EMS	Execution management system
ESG	Environmental, social and governance
FSMA 2023	The Financial Services and Markets Act 2023
HMT	His Majesty's Treasury
ISIN	International securities identification number
MAR	Market Conduct Sourcebook
MiFID II	The second Markets in Financial Instruments Directive
MiFID RTS 1	UK version of Commission Delegated Regulation (EU) 2017/587
MiFID RTS 13	UK version of Commission Delegated Regulation (EU) No 2017/571
MiFID RTS 27	UK version of Commission Delegated Regulation (EU) 2017/575
MiFIR	Markets in Financial Instruments Regulations
MRMTL	Most relevant market in terms of liquidity
MTF	Multilateral trading facility
NT	Negotiated transaction
OTC	Over the counter
OTF	Organised trading facility

Abbreviation	Description
RFMD	Request for market data
RFQ	Request for quote
RTS	Regulatory Technical Standard
SI	Systematic internaliser
SMS	Standard market size
UK MiFID	UK Markets in Financial Instruments Directive
UK MiFIR	UK Markets in Financial Instruments Regulations
WMR	Wholesale Markets Review

Appendix 1

Draft Handbook text

MARKETS IN FINANCIAL INSTRUMENTS (SYSTEMATIC INTERNALISERS, MULTILATERAL TRADING FACILITIES AND EQUITY TRANSPARENCY) INSTRUMENT 2025

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the powers and related provisions in or under:

(1) article 4 of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012; and

(2) the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(a) section 137A (The FCA's general rules);
(b) section 137T (General supplementary powers);
(c) section 139A (Power of the FCA to give guidance); and
(d) section 300H (Rules relating to investment exchanges and data reporting service providers);

(3) regulation 11 of the Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges, Clearing Houses and Central Securities Depositories) Regulations 2001 (SI 2001/995); and

(4) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA's Handbook.

B. The rule-making powers listed above are specified for the purposes of section 138G(2) (Standards instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Interpretation

D. In this instrument, any reference to any provision of assimilated direct legislation is a reference to it as it forms part of assimilated law.

Amendments to the Handbook

E. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Market Conduct sourcebook (MAR)	Annex B

Supervision manual (SUP)	Annex C
Recognised Investment Exchanges sourcebook (REC)	Annex D

Notes

F. In the Annexes to this instrument, the notes (indicated by "**Note**:" or "*Editor's note*:") are included for the convenience of readers, but do not form part of the legislative text.

Citation

G. This instrument may be cited as the Markets in Financial Instruments (Systematic Internalisers, Multilateral Trading Facilities and Equity Transparency) Instrument 2025.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical position. The text is all new and not underlined.

[*Editor's note*: This Annex takes into account the changes introduced by the Markets in Financial Instruments (Non-Equity Transparency Rules) Instrument 2024 (FCA 2024/38), which come into force on 1 December 2025.]

benchmark trade	a transaction executed by reference to: (a) a price calculated over multiple time instances according to a given benchmark, including transactions executed by reference to a volume-weighted average price or a time-weighted average price; or (b) the market closing price.
equity systematic internaliser	a *systematic internaliser* trading in *equity transparency instruments*.
equity transparency instrument	a share, depositary receipt, *ETF*, certificate or other similar *financial instrument* traded on a *trading venue*.
relevant area	the *United Kingdom* and such other countries or regions as have been specified by the *FCA* by direction for the purposes of article 5 or article 14 of *MiFIR*, as the context requires.

Amend the following definitions as shown.

execution venue	for the purposes of the provisions relating to best execution in *COBS* 11.2, *COBS* 11.2A, *COBS* 11.2B and *COLL*, execution venue means a *regulated market*, an *MTF*, an *OTF*, ~~*a systematic internaliser*~~ an *equity systematic internaliser*, or a *market maker* or other liquidity provider or an entity that performs a similar function in a third country to the functions performed by any of the foregoing.
portfolio trade	(1) (in *MAR* 11) transactions in 5 or more different bond instruments where those transactions are traded at the same time by the same client and as a single lot against a specific reference price.

	(2)	(in *MAR* 11A) transactions in 5 or more different *equity transparency instruments* where those transactions are traded at the same time by the same *client* and as a single lot against a specific reference price.
trading venue	(1)	(except in *FINMAR* and *MAR* 11A) a *regulated market*, an *EU regulated market*, an *MTF* or an *OTF*.
	(2)	…
	(3)	(in *MAR* 11A) a *UK RIE*, an *EU regulated market*, a third country trading venue that performs a similar function to a *UK RIE*, an *MTF* or an *OTF*.

Annex B

Amendments to the Market Conduct sourcebook (MAR)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

[*Editor's note*: This Annex takes into account the changes introduced by the Markets in Financial Instruments (Non-Equity Transparency Rules) Instrument 2024 (FCA 2024/38), which come into force on 1 December 2025.]

5 Multilateral trading facilities (MTFs)

…

5.3 Trading process requirements

…

Functioning of an MTF

5.3.1A R A *firm* must:

…

(4) not execute orders against proprietary capital~~, or engage in *matched principal trading*~~;

~~[**Note**: article 19(5) of *MiFID*]~~

…

(6) provide the following to the *FCA*:

(a) a detailed description of the functioning of the *MTF*, including any links to or participation by a *regulated market*, an *MTF*, *OTF* or ~~*systematic internaliser*~~ *equity systematic internaliser* owned by the same *firm*; and

(b) a list of its members, participants and users.

[**Note:** ~~article 18(10) of *MiFID* and~~ *MiFID ITS 19* with regard to the content and format of the description of the functioning of *MTFs*]

5.3.1B G The requirement in *MAR* 5.3.1AR(4) does not prevent a *firm*, with the appropriate *permission*, from executing orders against its proprietary capital ~~or engaging in *matched principal trading*~~ outside the *MTF* it operates.

5.3.1C G A *firm* with the appropriate *permission* may engage in *matched principal trading* for the purpose of executing *client* orders on or outside an *MTF* it operates. An appropriate *permission* comprises the *permitted activity* of *dealing in investments as principal*. When a *firm* engages in *matched*

principal trading by executing an order on an *MTF* it operates, it does so by *dealing on own account* and is subject to the *Handbook* requirements relating to this activity and the *investment service* of execution of orders on behalf of *clients*, as applicable.

…

5.7 Pre- and post-trade transparency requirements for equity instruments: form of waiver and deferral

5.7.1A D ~~A *firm* that makes an application to the *FCA* for a waiver in accordance with article 4 of *MiFIR* (in relation to pre-trade transparency for equity instruments) must make it in the form set out in *MAR* 5 Annex 1D.~~ [deleted]

~~[**Note**: article 4 of *MiFIR* and *MiFID RTS 1*]~~

…

MAR 5 Annex 1D is deleted in its entirety. The deleted text is not shown but the annex is marked '[deleted]' as follows.

5 Annex 1 D Form in relation to pre-trade transparency [deleted]

Amend the following as shown.

…

5A Organised trading facilities (OTFs)

…

5A.3 Specific requirements for OTFs

Executing orders

5A.3.1 R A *firm* must:

…

(3) ensure ~~that the operation of an *OTF* and of a *systematic internaliser* does not take place within the same legal entity, and~~ that the *OTF* does not connect with another *OTF* ~~or with a *systematic internaliser*~~ in a way which enables orders in the different *OTFs* ~~or *systematic internalisers*~~ to interact.

~~[**Note:** article 20(1) to (4) and 20(6) of *MiFID*]~~

…

6 Systematic internalisers

…

6.4 Systematic internaliser reporting requirement

6.4.1 R An *investment firm* must promptly notify the *FCA* in writing of its status as ~~a *systematic internaliser*~~ an *equity systematic internaliser*:

(1) when it gains that status; or

(2) if it ceases to have that status.

[**Note:** ~~articles~~ article 15(1) ~~and 18(4)~~ of *MiFIR*]

…

9A Trade data

9A.1 Application

9A.1.1 R This chapter applies to:

(1) a *trading venue operator*; and

(2) ~~a *systematic internaliser*~~ an *equity systematic internaliser*.

9A.2 Trade data requirements

Making trade data available on a reasonable commercial basis

…

9A.2.2 R …

(2) ~~A *systematic internaliser* must ensure that the quotes published in accordance with article 18 of *MiFIR* are made public in a manner which is easily accessible to other market participants on a reasonable commercial basis.~~ [deleted]

(3) ~~Paragraph (2) does not apply to a *systematic internaliser* when making market data available to the public free of charge.~~ [deleted]

…

11 Transparency rules for **bond** transparency instruments

…

11 Category 1 instruments

Annex 1

R This is the table of *category 1 instruments*.

Note: The deferral periods shown in columns F, H and J end at 6pm on the day of publication.

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I	Column J
Grouping				**LiS Threshold 1**	**Deferral 1**	**LiS Threshold 2**	**Deferral 2**	**LiS Threshold 3**	**Deferral 3**
Asset classes	**Factor1**	**Factor 2**	**Factor 3**						
Bond Type	**Issuer**	**Issue Size**	**Maturity**						
Sovereign bonds (other than inflation linked or STRIPS) (traded on a trading venue)	UK, France, Germany, Italy, Spain or USA	≥ £2bn	≤ 5yr	£15m	1 day	£50m	2 weeks	£500m	3 months
			5 - ≤15yr	£10m		£25m		£250m	
			> 15yr	£5m		£10m		£100m	
Sovereign and Municipal bonds (traded on a trading venue)	All	≥ £2bn	All	£1m		£5m		£25m	
		< £2bn	All	£1m		£2.5m		£10m	
Bond Type	**Currency**	**Issuer Rating**	**Issue Size**						
Corporate, Covered, Convertible & Other bonds	GBP, EUR & USD	IG	≥ £500m	£1m	1 day	£5m	2 weeks	£25m	3 months
		HY	≥ £500m	£1m		£2.5m		£10m	
	All other ~~instrument~~ instruments			£500k		£2.5m		£10m	

(traded on a trading venue)									
…									

…

Insert the following new chapter, MAR 11A, after MAR 11 (Transparency rules for bond transparency instruments). The text is all new and is not underlined.

11A Pre- trade transparency rules for equity instruments

11A.1 Purpose and application

Purpose

11A.1.1 G The purpose of this chapter is to set out the conditions applying to pre-trade transparency waivers in relation to *equity transparency instruments*, to be read in conjunction with article 3 of *MiFIR* and *MiFID RTS* 1.

Application

11A.1.2 R This chapter applies to a *trading venue operator*.

11A.2 Reference price waiver

11A.2.1 R Article 3 of *MiFIR* does not apply in respect of systems matching orders based on a trading methodology by which the price of the *equity transparency instrument* is derived from:

(1) the *trading venue* where that *financial instrument* was first admitted to trading; or

(2) any other trading venue,

and the reference price is widely published and regarded by market participants as a reliable reference price.

11A.2.2 R The reference price in *MAR* 11A.2.1R must be established by obtaining:

(1) the midpoint within the current bid and offer prices of the *trading venue* to which *MAR* 11A.2.1R applies; or

(2) when the price referred to in (1) is not available, the opening or closing price of the relevant trading session.

11A.2.3 R Orders must only reference the price referred to in *MAR* 11A.2.2R outside the continuous trading phase of the relevant trading session.

11A.2.4 G The midpoint in *MAR* 11A.2.2R(1) may be derived from the current bid and offer prices of more than one *trading venue*.

11A.3 Negotiated transactions waiver

11A.3.1 R Article 3 of *MiFIR* does not apply in respect of systems that formalise negotiated transactions which are:

(1) made within the current volume weighted spread reflected on the order book or the quotes of the *market makers* of the *trading venue* operating that system;

(2) in an illiquid *equity transparency instrument* that does not fall within the meaning of a liquid market in article 2(1)(17) of *MiFIR*, and are dealt within a percentage of a suitable reference price, being a percentage and a reference price set in advance by the system operator; or

(3) subject to conditions other than the current market price of that *financial instrument*.

11A.3.2 R A negotiated transaction in *equity transparency instruments* to which *MAR* 11A.3.1R applies includes a transaction which is negotiated privately but reported under the rules of a *trading venue* where:

(1) two members of, or participants in, that *trading venue* are involved in any of the following capacities:

(a) one is *dealing on own account* when the other is acting on behalf of a *client*;

(b) both are *dealing on own account*; or

(c) both are acting on behalf of a *client*; or

(2) one member of, or participant in, that *trading venue* is either:

(a) acting on behalf of both the buyer and seller; or

(b) *dealing on own account* against a *client* order.

11A.3.3 R A negotiated transaction in *equity transparency instruments* is subject to conditions other than the current market price of the *financial instrument* where the transaction is:

(1) a *benchmark trade*;

(2) part of a *portfolio trade*;

(3) contingent on the purchase, sale, creation or redemption of a derivative contract or other *financial instrument* where all the components of the trade are meant to be executed as a single lot;

(4) of a type listed in article 13 of *MiFID RTS 1*; or

(5) any other transaction equivalent to one of those described in paragraphs (1) to (4) that is contingent on technical characteristics

which are unrelated to the current market valuation of the *financial instrument* traded.

11A.4 Large in scale waiver

11A.4.1 R Article 3 of *MiFIR* does not apply in respect of orders that are large in scale compared with normal market size.

11A.4.2 R For the purposes of *MAR* 11A.4.1R, an order is 'large in scale' where, in respect of:

(1) an *equity transparency instruments* other than an *ETF*, it is equal to or larger than the minimum size of orders set out in Tables 1 and 2 of Annex II of *MiFID RTS* 1; and

(2) an *ETF*, the order is equal to or larger than 1,000,000 euros.

11A.4.3 R Unless the price or other relevant conditions for the execution of an order are amended, the waiver in *MAR* 11A.4.2R continues to apply in respect of an order that is large in scale when entered into an order book but that, following partial execution, falls below the threshold applicable for that *financial instrument* as determined in accordance with *MAR* 11A.4.2R.

11A.4.4 G For the purpose of determining orders that are large in scale, the *FCA* calculates the average daily turnover in respect of shares, depositary receipts, certificates and other similar *financial instruments* traded on a *trading venue*.

11A.4.5 G The calculation in *MAR* 11A.4.4G:

(1) includes transactions executed in the *relevant area* in respect of the *financial instrument*, whether traded on or outside a *trading venue*; and

(2) covers the period beginning on 1 January of the preceding calendar year and ending on 31 December of the preceding calendar year or, where applicable, that part of the calendar year during which the *financial instrument* was admitted to trading or traded on a *trading venue* and was not suspended from trading.

11A.4.6 G *MAR* 11A.4.4G and *MAR* 11A.4.5G do not apply to shares, depositary receipts, certificates or other similar *financial instruments* first admitted to trading or first traded on a *trading venue* 4 weeks or less before the end of the preceding calendar year.

11A.4.7 G Before a share, depositary receipt, certificate or other similar *financial instrument* is traded for the first time on a *trading venue*, the *FCA* estimates the average daily turnover for that *financial instrument*, taking into account any previous trading history of that *financial instrument* and

of other *financial instruments* that are considered to have similar characteristics, and publishes that estimate.

11A.4.8 G The estimated average daily turnover referred to in *MAR* 11A.4.7 should be used for the calculation of orders that are large in scale during a 6-week period following the date that the share, depositary receipt, certificate or other similar *financial instrument* was admitted to trading or first traded on a *trading venue*.

11A.4.9 G The *FCA* calculates and publishes average daily turnover based on the first 4 weeks of trading before the end of the 6-week period referred. The average daily turnover should be used for the calculation of orders that are large in scale and until an average daily turnover calculated in accordance with *MAR* 11A.4.4G and *MAR* 11A.4.5G applies.

11A.4.10 G Average daily turnover is calculated by dividing the total turnover for a particular *financial instrument* as specified in article 17(4) of *MiFID RTS 1* by the number of trading days in the period considered. The number of trading days in the period considered is the number of trading days on the most relevant market in terms of liquidity for that *financial instrument* as determined in accordance with *MAR* 11A.2.

11A.5 Order management facility waiver

11A.5.1 R Article 3 of *MiFIR* does not apply in respect of orders held in an order management facility of a *trading venue* pending disclosure.

11A.5.2 R *MAR* 11A.5.1R applies in respect of an order which:

(1) is intended to be disclosed to the order book operated by a *trading venue* and is contingent on objective conditions that are predefined by the system's protocol;

(2) cannot interact with other trading interests prior to disclosure to the order book operated by a *trading venue*; and

(3) once disclosed to the order book, interacts with other orders in accordance with the rules applicable to orders of that kind at the time of disclosure.

11A.5.3 R Where a portion of a quantity of an aggressive order has executed against the disclosed quantity of a reserve order and other disclosed orders in the order book of a *trading venue*, *MAR* 11A.5.1R applies to the non-disclosed quantity of the reserve order held in a *trading venue's* order management facility.

11A.5.4 R Where *MAR* 11A.5.3R applies, the non-disclosed quantity of the reserve order can be executed against the remainder of the quantity of the aggressive order.

11A.5.5 R An 'aggressive order', for the purposes of *MAR* 11A.5.3R, is a limit order that has been disclosed in the order book of a *trading venue* and which initiates trades.

11A.5.6 R A 'reserve order', for the purposes of *MAR* 11A.5.3R, is a limit order consisting of a disclosed order relating to a portion of a quantity in the order book of a *trading venue* and a non-disclosed order relating to the remainder of the quantity where the non-disclosed quantity is held in the order management facility of a *trading venue*.

11A.6 Publications

11A.6.1 R A *trading venue operator* must:

(1) publish in its rulebook the rules or processes it adopts to fulfil any waiver in this chapter before it implements them; and

(2) identify the waiver implemented by reference to the relevant *rule* in this chapter in any rule published in accordance with *MAR* 11A.6.1R(1).

Amend the following as shown.

…

TP 2 Transitional provisions relating to trading venue operators and transparency investment firms

TP 2.1

…		
	Pre-1 December 2025 transactions	
…		
1.9	R	…
	Trading venue operators – pre-trade transparency equity waivers	
1.10	R	For the period between [*Editor's note*: insert date on which this instrument comes into force] and [*Editor's note*: insert date falling 3 months after this instrument comes into force] only, a *trading venue operator* relying on a waiver previously arising under one or more of articles 5 to 8 of *MiFID RTS* 1 may rely on the corresponding waivers in *MAR* 11A.3 to *MAR* 11A.5:

		(1)	where it meets the conditions relating to *MAR* 11A.3 to *MAR* 11A.5 (as applicable); and
		(2)	pending publication in its rulebook in accordance with *MAR* 11A.6.1R.
1.11	R	For the period between [*Editor's note*: insert date on which this instrument comes into force] and [*Editor's note*: insert date falling 3 months after this instrument comes into force] only, a *trading venue operator* relying on a waiver previously arising under article 4(1)(a) of *MiFIR* as it was in force immediately before [*Editor's note*: insert date] may rely on the corresponding waiver in *MAR* 11A.2.1R:	
		(1)	where it meets the conditions in *MAR* 11A.2 relating to reliance upon *MAR* 11A.2.1R; and
		(2)	pending publication in its rulebook in accordance with *MAR* 11A.6.1R.

…

Sch 5 Rights of action for damages

…

Sch 5.2 G

Chapter / Appendix	Section / Annex	Paragraph	For Private Person?	Removed	For other person?	
…						
MAR 11 (all *rules*)			No		No	
MAR 11A (all *rules*)			No		No	

Annex C

Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text.

17A Transaction reporting and supply of reference data

…

17A.2 Connectivity with FCA systems

…

17A.2.1A G The *FCA* expects ~~a *systematic internaliser*~~ an *equity systematic internaliser* that will be supplying the *FCA* with *financial instrument* reference data in respect of a *financial instrument* traded on its system that is not *admitted to trading* on a *regulated market* or traded on an *MTF* or *OTF* to establish a technology connection with the *FCA* for the supply of that reference data.

…

Annex D

Amendments to the Recognised Investment Exchanges sourcebook (REC)

In this Annex, underlining indicates new text and striking through indicates deleted text.

3 Notification rules for UK recognised bodies

…

3.14A Operation of a trading venue

…

Pre- and post- trade transparency requirements for equity and non-equity instruments: form of waiver and deferral

3.14A.7A	D	~~A *UK RIE* operating a *trading venue* that proposes to take advantage of a waiver in accordance with articles 4 or 9 of *MiFIR* (in relation to pre-trade transparency for equity or non-equity instruments) must make an application for it to the *FCA* using the form in *MAR* 5 Annex 1D.~~ [deleted] ~~[**Note:** articles 4 and 9 of *MiFIR* , and *MiFID RTS 1* and *MiFID RTS 2*]~~

…

TECHNICAL STANDARDS (MARKETS IN FINANCIAL INSTRUMENTS REGULATION) (EQUITY TRANSPARENCY) (AMENDMENT) INSTRUMENT 2025

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the powers and related provisions in or under:

(1) article 4 of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012; and

(2) the following sections of the Financial Services and Markets Act 2000 ("the Act") as amended by the Financial Regulators' Powers (Technical Standards etc.) (Amendment etc) (EU Exit) Regulations 2018 (SI 2018/1115):

(a) section 138P (Technical standards);
(b) section 138Q (Standards instruments);
(c) section 138S (Application of Chapters 1 and 2); and
(d) section 137T (General supplementary powers).

B. The provisions referred to above are specified for the purpose of section 138Q(2) (Standards instruments) of the Act.

Pre-conditions to making

C. The FCA has consulted the Prudential Regulation Authority and the Bank of England as appropriate in accordance with section 138P of the Act.

D. A draft of this instrument has been approved by the Treasury in accordance with section 138R of the Act.

E. The FCA published a draft of this instrument in accordance with section 138I(1)(b) of the Act, accompanied by the information required by section 138I(2). The FCA had regard to representations made in response to the public consultation.

Modifications

F. The following technical standard, which is part of UK law by virtue of the European Union (Withdrawal) Act 2018 is amended in accordance with the Annex to this instrument.

Commission Delegated Regulation (EU) 2017/587 of 14 July 2016 supplementing Regulation (EU) 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on transparency requirements for trading venues and investment firms in respect of shares, depositary receipts, exchange-traded funds, certificates and other similar financial instruments.

Commencement

G. This instrument comes into force on [*date*].

Notes

H. In the Annexes to this instrument, the notes (indicated by "*Editor's note*:") are included for the convenience of readers, but do not form part of the legislative text.

Citation

I. This instrument may be cited as the Technical Standards (Markets in Financial Instruments Regulation) (Equity Transparency) (Amendment) Instrument 2025.

By order of the Board
[*date*]

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Annex

Commission Delegated Regulation (EU) 2017/587 of 14 July 2016 supplementing Regulation (EU) 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on transparency requirements for trading venues and investment firms in respect of shares, depositary receipts, exchange-traded funds, certificates and other similar financial instruments

…

CHAPTER I GENERAL

…

Article -1

Interpretation

…

4. Any reference in these Regulations to a sourcebook, including to the Market Conduct sourcebook (MAR), is to a sourcebook in the Handbook of Rules and Guidance published by the FCA containing rules made by the FCA under FSMA~~, as the sourcebook has effect on IP completion day~~.

…

…

The following articles are deleted in their entirety. The deleted text is not shown but the articles are marked [deleted] as shown below.

CHAPTER II PRE-TRADE TRANSPARENCY

Section 1 Pre-trade transparency for trading venues

…

Article 4

Most relevant market in terms of liquidity (Article 4(1)(a) of Regulation (EU) No 600/2014) [deleted]

Article 5

Specific characteristics of negotiated transactions (Article 4(1)(b) of Regulation (EU) No 600/2014) [deleted]

Article 6

Negotiated transactions subject to conditions other than the current market price (Article 4(1)(b) of Regulation (EU) No 600/2014) [deleted]

Article 7

Orders that are large in scale (Article 4(1)(c) of Regulation (EU) No 600/2014) [deleted]

Article 8

Type of orders held in an order management facility (Article 4(1)(d) of Regulation (EU) No 600/2014) [deleted]

Amend the following as shown.

…

Section 2 Pre-trade transparency for systematic internalisers and investment firms trading outside a trading venue

Article 9

Arrangements for the publication of a firm quote (Article 14(1) of Regulation (EU) No 600/2014)

Any arrangement that a systematic internaliser adopts in order to comply with the obligation to make public firm quotes shall satisfy the following conditions:

…

(b) the arrangement ~~complies with technical arrangements equivalent to those specified for approved publication arrangements (APAs) in Article 15 of Delegated Regulation (EU) 2017/571 that facilitate~~ facilitates the consolidation of the data with similar data from other sources;

…

Article 10

Prices reflecting prevailing market conditions (Article 14(3) of Regulation (EU) No 600/2014)

The prices published by a systematic internaliser shall reflect prevailing market conditions where they are close in price, at the time of publication, to quotes of equivalent sizes for the same financial instrument on the most relevant market in terms of liquidity as determined in accordance with Article ~~4~~ 17B for that financial instrument.

[*Editor's note*: the number '4' above is deleted.]

…

CHAPTER III POST-TRADE TRANSPARENCY FOR TRADING VENUES AND INVESTMENT FIRMS TRADING OUTSIDE A TRADING VENUE

…

Article 14

Real time publication of transactions (Article 6(1) of Regulation (EU) No 600/2014)

…

(2) For transactions that take place outside a trading venue, post-trade information shall be made public in the following circumstances:

[*Editor's note*: the number '4' in (a) and (b) below is deleted.]

(a) where the transaction takes place during the daily trading hours of the most relevant market in terms of liquidity determined in accordance with Article ~~4~~ 17B for the share, depositary receipt, ETF, certificate or other similar financial instrument concerned, or during the investment firm's daily trading hours, as close to real-time as is technically possible and in any case within one minute of the relevant transaction;

(b) where the transaction takes place in any case not covered by point (a), immediately upon the commencement of the investment firm's daily trading hours and at the latest before the opening of the next trading day of the most relevant market in terms of liquidity determined in accordance with Article ~~4~~ 17B.

…

Article 15

Deferred publication of transactions (Article 7(1) and 20(1) and (2) of Regulation (EU) No 600/2014)

…

(2) The relevant minimum qualifying size for the purposes of point (b) in paragraph 1 shall be determined in accordance with the average daily turnover calculated as set out in ~~Article 7~~ MAR 11A.4.

(3) For transactions for which deferred publication is permitted until the end of the trading day as specified in Tables 4, 5 and 6 of Annex II, investment firms trading outside a trading venue and market operators and investment firms operating a trading venue shall make public the details of those transactions either:

(a) as close to real-time as possible after the end of the trading day which includes the closing auction, where applicable, for transactions executed more than two hours before the end of the trading day;

(b) no later than noon local time on the next trading day for transactions not covered in point (a).

For transactions that take place outside a trading venue, references to trading days and closing auctions shall be those of the most relevant market in terms of liquidity as determined in accordance with Article ~~4~~ 17B.

[*Editor's note*: the number '4' above is deleted.]

…

…

CHAPTER IV PROVISIONS COMMON TO PRE-TRADE AND POST-TRADE TRANSPARENCY CALCULATIONS

Article 17

Methodology, date of publication and date of application of the transparency calculations (Article 22(1) of Regulation (EU) No 600/2014)

(1) ~~At the latest 14 months after the date of the entry into application of Regulation (EU) No 600/2014 and by 1 March of each year thereafter,~~ Each year the FCA shall, in relation to each financial instrument that is traded on a trading venue, collect the data, calculate and ensure publication of the following information:

(a) the trading venue which is the most relevant market in terms of liquidity as set out in Article ~~4(2)~~ 17B;

(b) the average daily turnover for the purpose of identifying the size of orders that are large in scale as set out in ~~Article 7(3)~~ MAR 11A.4;

…

(2) The FCA, market operators and investment firms including investment firms operating a trading venue shall use the information published in accordance with paragraph 1 for the purposes of ~~points (a) and (c) of Article 4(1)~~ MAR 11A.2, MAR 11A.4 and paragraphs 2 and 4 of Article 14 of Regulation (EU) No 600/2014~~, for a period of 12 months from 1 April of the year in which the information is published or~~ until such time as the information is next published in the following year in accordance with paragraph 1 or the revocation of this Article, whichever is earlier.

Where the information referred to in the first subparagraph is replaced by new information pursuant to paragraph 3 during the 12-month period referred to therein, competent authorities, market operators and investment firms including investment firms operating a trading venue shall use that new information for the purposes of ~~points (a) and (c) of Article 4(1)~~ MAR 11A.2, MAR 11A.4 and paragraphs 2 and 4 of Article 14 of Regulation (EU) No 600/2014.

…

The following article is deleted in its entirety. The deleted text is not shown but the article is marked [deleted] as shown below.

Article 17A

Transitional period for publication of transparency calculations [deleted]

Insert the following new article after Article 17A (Transitional period for publication of transparency calculations). The text is all new and not underlined.

Article 17B

Most relevant market in terms of liquidity

(1) For the purposes of this article, Article 2(1)(62) of Regulation 600/2014/EU shall not apply.

(2) The most relevant market in terms of liquidity for a share, depositary receipt, ETF, certificate or other similar financial instrument shall be considered to be the trading venue with the highest turnover within the relevant area for that financial instrument, except where paragraph 3 applies.

(3) Where a share, depositary receipt, ETF, certificate or other similar financial instrument is admitted to trading in a third country, the most relevant market in terms of liquidity may be considered to be the third-country trading venue where that financial instrument was first admitted to trading.

(4) For the purpose of determining the most relevant market in terms of liquidity in accordance with paragraph 1, the FCA may calculate the turnover in accordance with the methodology set out in Article 17(4) in respect of each financial instrument that is traded on a UK trading venue and for each trading venue in the relevant area where that financial instrument is traded.

(5) The calculation referred to in paragraph 4 shall have the following characteristics:

(a) it shall include, for each trading venue in the relevant area, transactions executed under the rules of that trading venue, excluding:

(i) in the case of UK trading venues, reference price and negotiated transactions flagged as set out in Table 4 of Annex I and transactions executed on the basis of at least one order that has benefitted from a large-in-scale waiver and where the transaction size is above the applicable large-in-scale threshold as determined in accordance with MAR 11A.4; and

(ii) in the case of non-UK trading venues, transactions benefitting from any similar relief in the form of transparency waivers or otherwise; and

(b) it shall cover either the preceding calendar year or, where applicable, the period of the preceding calendar year during which the financial instrument was admitted to trading or traded on a UK trading venue and was not suspended from trading.

(6) Until the most relevant market in terms of liquidity for a specific financial instrument is determined in accordance with the procedure specified in paragraphs 2 to 5, the most relevant market in terms of liquidity shall be the trading venue in the relevant area where that financial instrument is first admitted to trading or first traded.

(7) Paragraphs 4 and 5 shall not apply to shares, depositary receipts, ETFs, certificates or other similar financial instruments which were first admitted to trading or first traded on a UK trading venue 4 weeks or less before the end of the preceding calendar year.

Amend the following as shown.

…

ANNEX 1

Information to be made public

…

Table 4 List of flags for the purpose of post-trade transparency

Flag	Name	Type of execution or publication venue	Description
…			
“NTLS”	Pre-trade large in scale trade flag	RM, MTF APA CTP	Transactions that are large in scale compared with normal market size for which pre-trade transparency can be waived under ~~Article 7~~ MAR 11A.4.
"RFPT"	Reference price transaction flag	RM, MTF CTP	Transactions which are executed under systems operating in accordance with ~~Article 4(1)(a) of Regulation (EU) No 600/2014~~ MAR 11A.2.
“NETW”	Negotiated transaction flag	RM, MTF	Transactions executed in accordance with

		CTP	~~Article 4(1)(b) of Regulation (EU) No 600/2014 and article 6 of this regulation~~ MAR 11A.3.
…			

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