Liquidnet
Market Structure

Liquidity Landscape

From Q3 trends to 2025 transformations

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Q3 2024 Liquidity Landscape

Anywhere but Europe

European equities in 2024 have continued to shake their reputation as the laggard in the global investment race. Overshadowed by the glitz of the US Magnificent seven and the dynamic growth of the APAC economies, the S&P 500 has returned over 20% YTD (as of September 2024), and APAC offers similar double digit returns across high-growth economies such as India, as shown in *Exhibit 1.*

Exhibit 1

Regional Index Performance: US, Europe, and APAC Comparison

Source: Bloomberg, January 2024 – September 2024

Regulators in both the UK and Europe continue to pursue ways in which to make their markets more competitive—implementing consolidated tapes[1,2], moving to T+1[3,4], and improving listing regimes[5,6]. The UK has also introduced a pioneering effort to create a regulated exchange facilitating intermittent trading of private company shares; Pisces[7].

The make-up of Europe's equity landscape is also changing. Once dominated by financials, energy, and materials, the region now boasts greater exposure to high-growth sectors like healthcare, IT and consumer discretionary, offering more diversification than its Western and Eastern counterparts. In addition, over half of MSCI Europe revenues come from outside the region, providing investors global exposure at a discount compared to high US valuations.

Yet European equity markets continue to remain impacted by short-term geopolitical issues, high structural and regulatory costs, and investor appetite for index trading on the close. Daily volumes averaged €44.5B (Q3 YTD), up just 0.9% over the same period last year (€44.1B) and only 2.3% higher over the 2023 full year average.

EMEA Flow Breakdown

The trend of reduced volumes over the last few years continues to persist. However, European markets this year have remained resilient amid a complex economic environment.

Every month since April 2024 has experienced a higher daily average volume year-on-year, in-line with the surge in volatility observed from the second quarter (*see Exhibits 2 and 3*). This could suggest that the increased flows may be transitory, due to the constant tweaking of investment strategies based on geopolitical and macroeconomic announcements.

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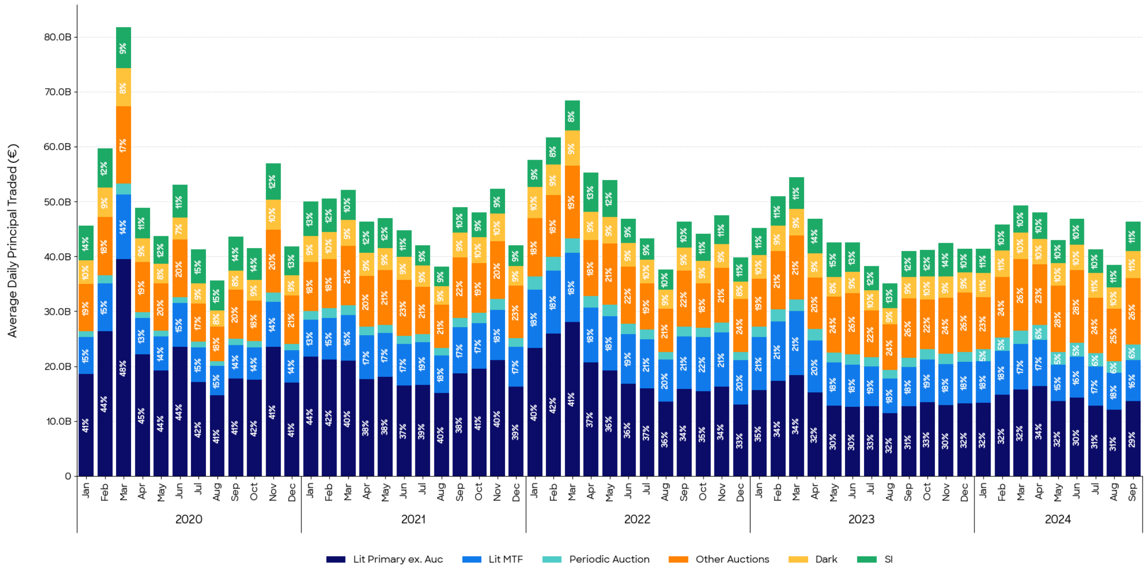
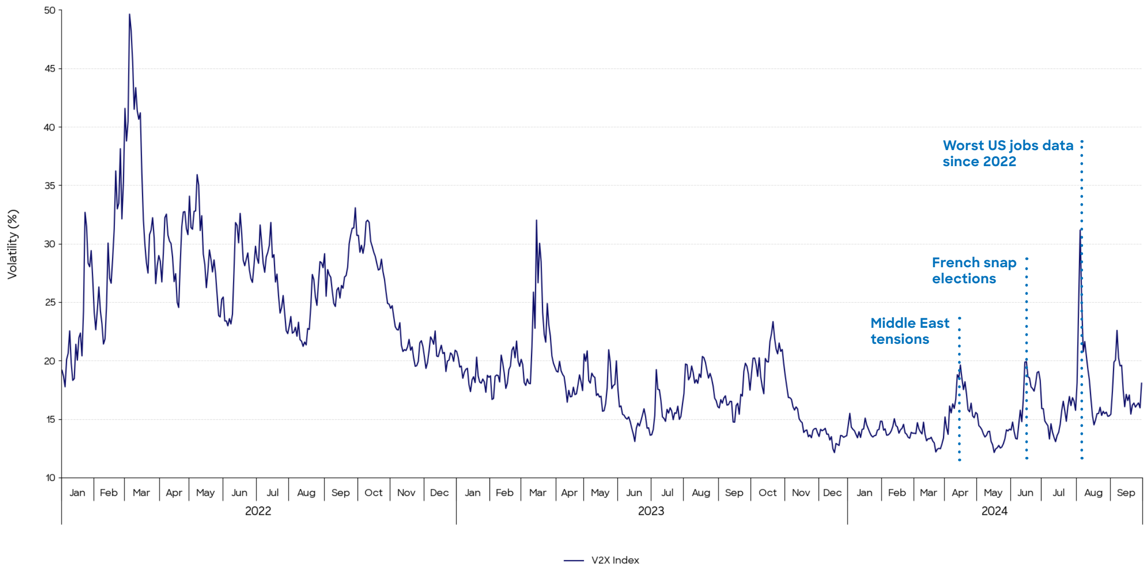
1 https://finance.ec.europa.eu/publications/reports-expert-stakeholder-group-equity-and-non-equity-market-data-quality-and-transmission_en
2 https://www.fca.org.uk/publications/consultation-papers/cp23-15-framework-uk-consolidated-tape
3 https://www.esma.europa.eu/press-news/esma-news/esma-proposes-move-t1-october-2027
4 https://www.gov.uk/government/publications/accelerated-settlement-taskforce
5 https://www.esma.europa.eu/esmas-activities/listing-act#:~:text=The%20Listing%20Act%20aims%20to,investor%20protection%20and%20market%20integrity
6 https://www.gov.uk/government/publications/uk-listings-review
7 https://assets.publishing.service.gov.uk/media/67374daf12f25d730812722c/PISCES_consultation_response_November_2024_vf.pdf

Exhibit 2
EMEA Flow Breakdown



Source: BMLL and Liquidnet Internal, January 2020 – September 2024

Exhibit 3
Volatility Trends from 2022 to 2024



Source: Bloomberg, January 2022 – September 2024

What this Means for European Equity Trading

Anywhere but the Lit

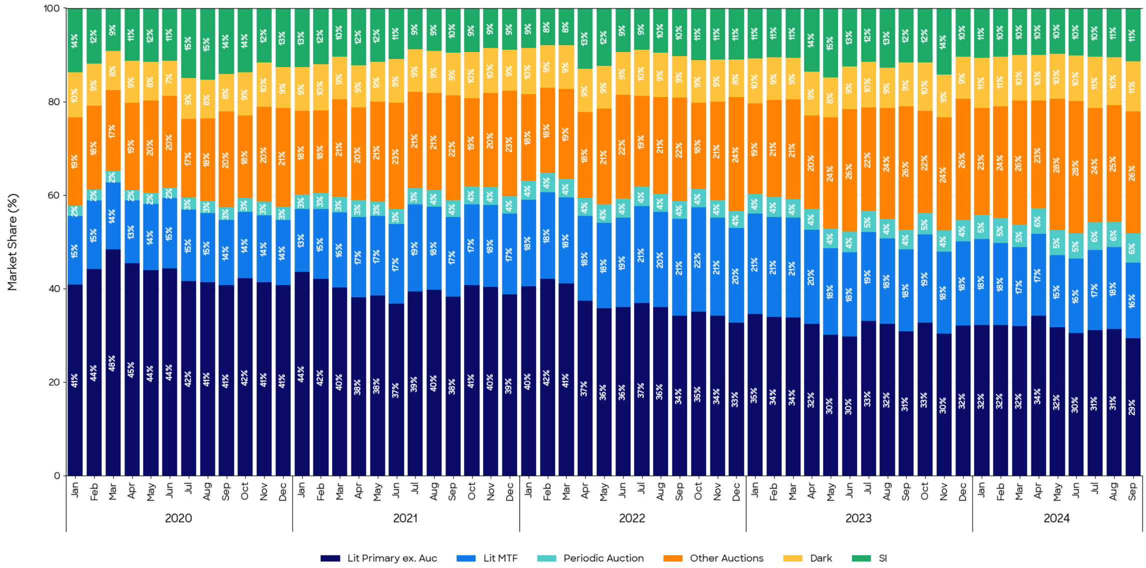
Market share for Lit Primary Continuous venues recorded the lowest value to date, at 29.4% in September 2024. Total lit volumes for the third quarter also hit record lows, taking a share of 45.5% of overall volumes in September. This compares to 57% in 2020. Quarter on quarter, Q3 2024 volumes represented 47.5%, versus 50.4% in 2023.

The continuing decline remains due to record high investments in passive ETFs and trading in the closing auction. The close continues to maintain its high market share, averaging 25% of total liquidity in Q3, slightly down from 26.4% in Q2 but up year-on-year. The average over the YTD period has increased from 22.5% in 2023 to 25.3% in 2024.

The resulting dearth in continuous lit activity is leading market participants to seek out alternative means of execution to minimise their market impact. After plateauing for a number of years, dark trading has experienced an uptick in activity this year, reaching 10.7% of total trading volumes in Q3. The increase in volumes can be attributed to the rise in larger blocks trading in the dark, which accounted for 46% of dark trading in September, up from 38% last year.

The sharpest increase, though, is in Periodic Auctions, which reached record highs after hitting 6.3% of overall volumes in September 2024. Their share has been increasing consistently year on year, taking flow from the Primary and Lit MTF continuous markets.

Exhibit 4



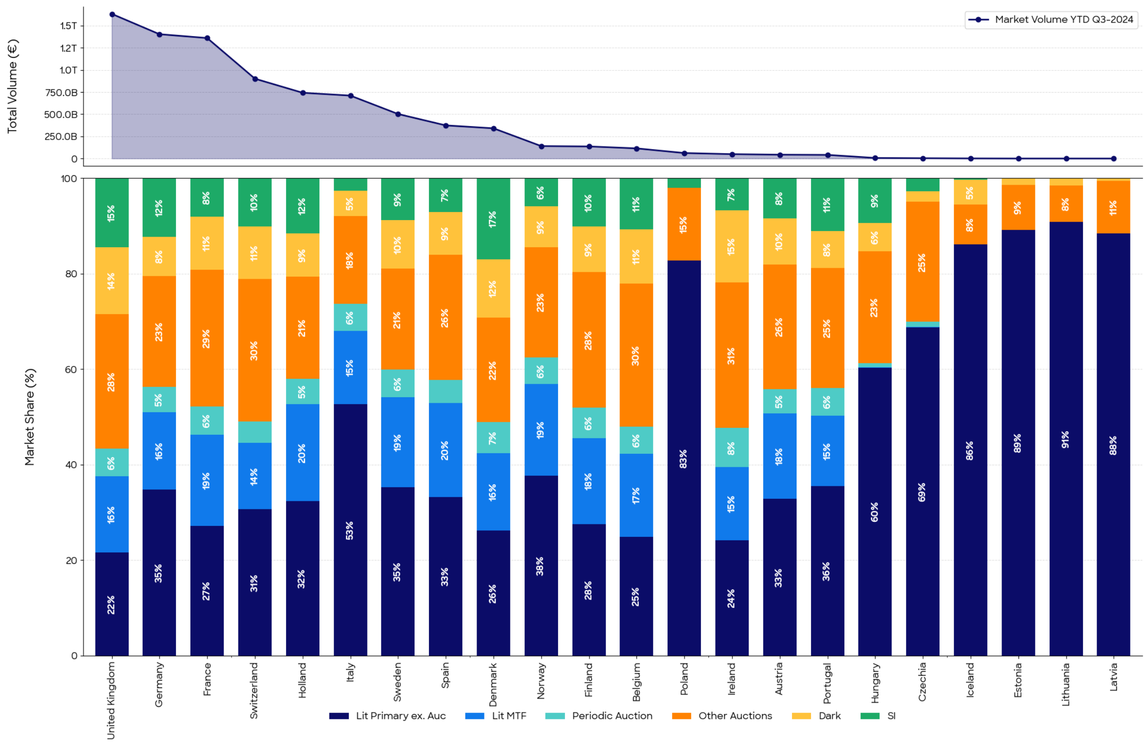
Source: BMLL and Liquidnet Internal, January 2020 – September 2024

Market Fragmentation by Country

Significant differences continue to exist between European countries in how transactions occur, which hampers the growth of cross-border activity. For example, dark trading only accounts for 5% in Italy but exceeds 12% on Nasdaq's Danish exchange. In the UK and Denmark, there is also a higher percentage of SI activity compared to other European venues.

Exhibit 5

Market volume and share by venue type across Europe



Source: BMLL and Liquidnet Internal, January 2024 – September 2024

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The increasing importance of the Closing Auction

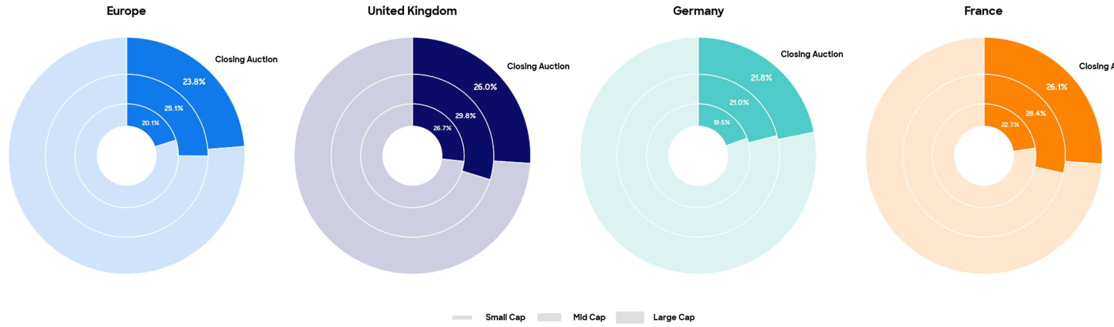
The Closing Auction continues to play a major part of the lit markets, accounting for over 38% of total lit volumes.

One major contributor to this is the role of passive ETFs. With multiple benefits such as lower operational and trading costs, and increased ease of access to both the retail and institutional investor, the popularity of passive ETFs has surged over recent years. As index funds usually buy and sell shares at the close, this has significantly influenced the size of this liquidity event.

Across Europe, the closing auction now makes up between 20% and 30% of the entire addressable market. The exact proportion differs by both country and market cap. European mid-caps show the largest portion of volume going through the closing auction and this is particularly pronounced in the UK and France.

Exhibit 6

Closing auction market share by market capitalisation



Source: BMLL and Liquidnet Internal, January 2024 – September 2024

It is a common maxim that liquidity begets liquidity, and it seems likely that other investors are also choosing to move more flow to the end of the day. Popular algorithms that base their volume curves on historical data compound this volume shift by allocating an increasing portion of their volume to the close. This helps reduce their slippage against the VWAP benchmark.

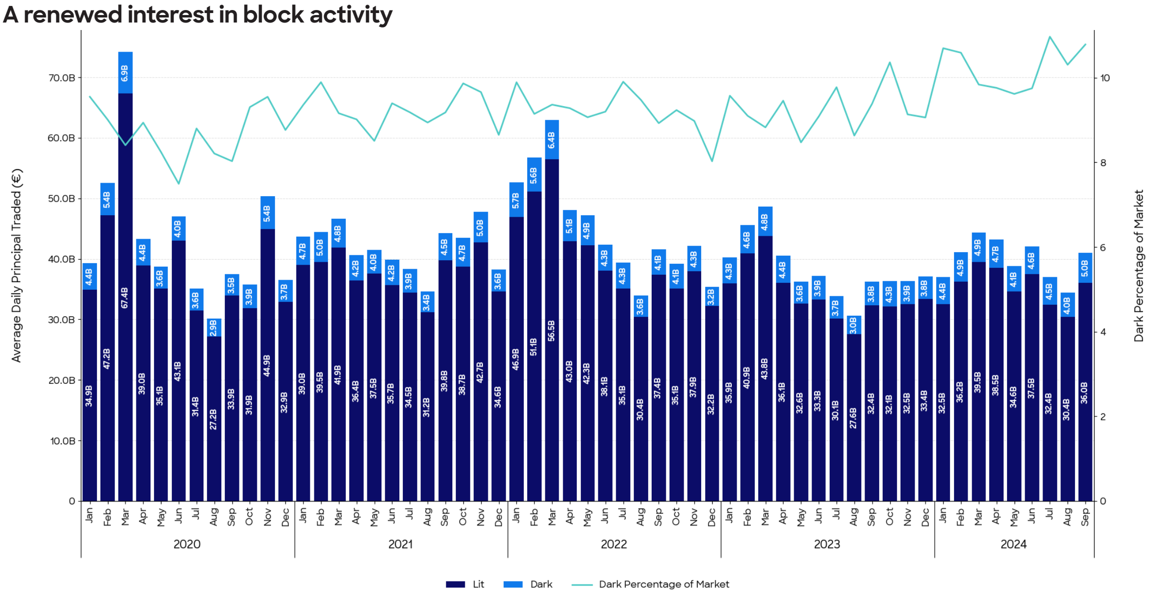
The closing auction plays an important role in market microstructure and algorithms must make sure that they account for this dynamic at a stock/market level. It is however important to acknowledge the limitations of allocating large sizes one-dimensionally, in particular for the close, as this can lead to price inefficiencies that result from reversion the next morning.

Dark market dynamics are changing

Dark market activity, after years of maintaining its 8 to 10% market share, has started to increase. This is in line with the renewed interest in block liquidity, where above-LIS fills have witnessed annual growth. In 2024, dark market share increased to 10.3% YTD. Q3 2024 observed an average of 10.7%, (peaking at 11% in July) versus 9.7% in Q2, and 9.3% in Q3 last year.

Exhibit 7

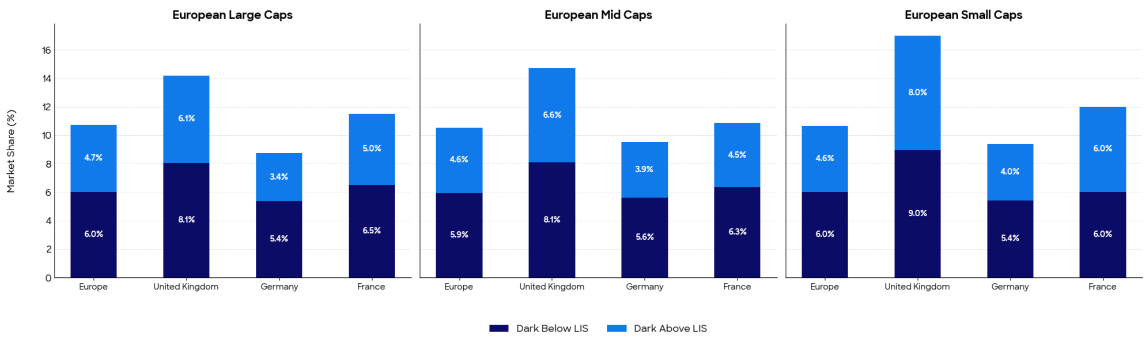
A renewed interest in block activity



Source: BMLL and Liquidnet Internal, January 2020 – September 2024

Exhibit 8

Dark trading market share by market capitalisation



Source: BMLL and Liquidnet Internal, January 2024 – September 2024

While the market share of dark trading is generally similar across small-, mid-, and large-cap stocks in Europe, notable variations exist between countries. The UK, for instance, shows a higher proportion of dark trading compared to Germany and France, particularly for small-cap stocks, where the difference is most pronounced. This trend is consistent across both above and below LIS segments of the market. Since smaller-cap stocks typically have wider spreads, dark trading can improve execution performance by capturing half the spread and reducing information leakage.

The Dark Large-in-Scale market continues to grow

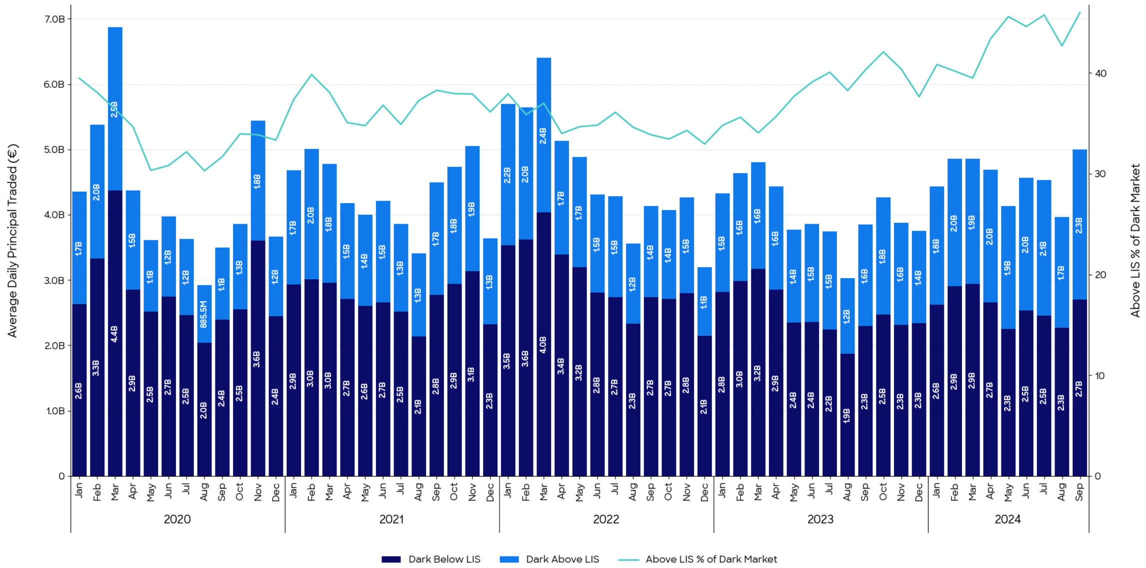
In the dark market, above LIS trades have risen by 13% from the 2023 average to 43% YTD. Within the year, there has been a continued increase in market share quarter on quarter, expanding to 45% in Q3, and peaking at 46% in September.

The increase in dark liquidity overall is due to a combination of a growing desire to minimise market impact, the need to trade larger block sizes in the market, and improved mechanics for identifying matches in natural block liquidity. The continued shift in volume away from the continuous session further encourages transacting dark blocks in size, as market impact costs in lit markets become more substantial due to the increased visibility of sizeable trades.

Together with thinning liquidity in European markets, proactive manufacture of liquidity grows in importance, alongside the technology and tools that help traders not just to access, but to generate matches in an increasingly challenging market.

Exhibit 9

The Large-in-Scale market continues to grow



Source: BMLL and Liquidnet Internal – January 2020 – September 2024

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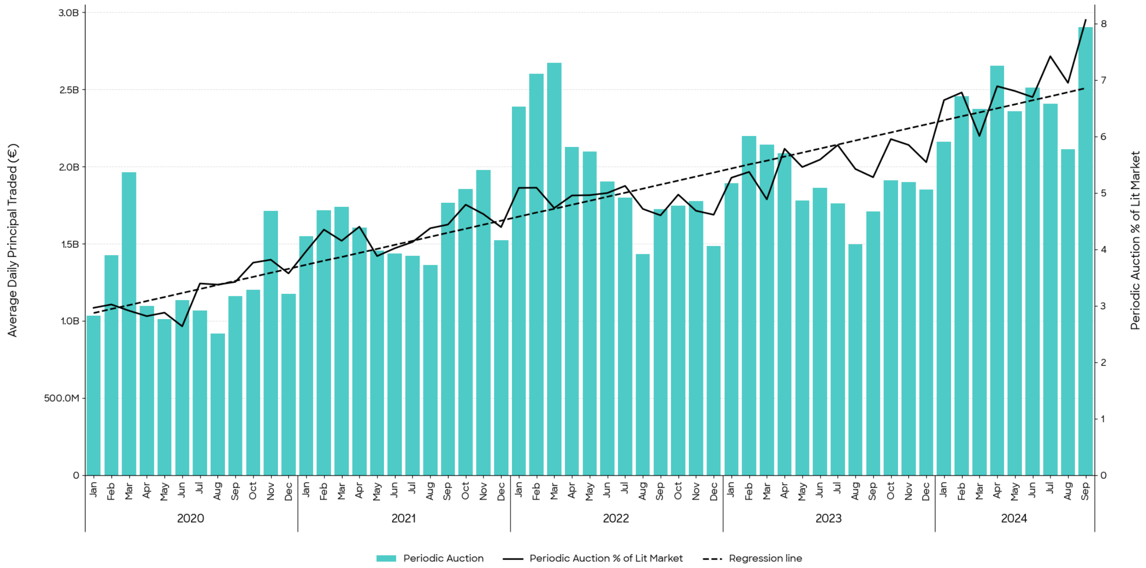
Periodic auction activity keeps rising

Periodic Auction (PA) Books achieved a record market share with €2.9B in volume in September 2024. Year on year, their market presence grew significantly, with PA books rising from 4.3% of overall market volume in Q3 2023 to 5.9% in Q3 2024. If we focus on lit volumes only, this share climbed from 3.4% in 2020 to 5% in 2023, reaching an impressive 8.1% in September 2024.

Periodic Auctions have garnered strong support given the protection they provide from adverse market activity (HFT) while still contributing to effective price formation during the continuous trading day under an EBBO price collar. Their importance as a liquidity source is likely to continue to grow as a result. Subsequently, It is increasingly important that Periodic Auctions are included in routing decisions as a key source of liquidity when attempting to work with the market volume profile.

Exhibit 10

Periodic auction activity



Source: BMLL and Liquidnet Internal, January 2020 – September 2024

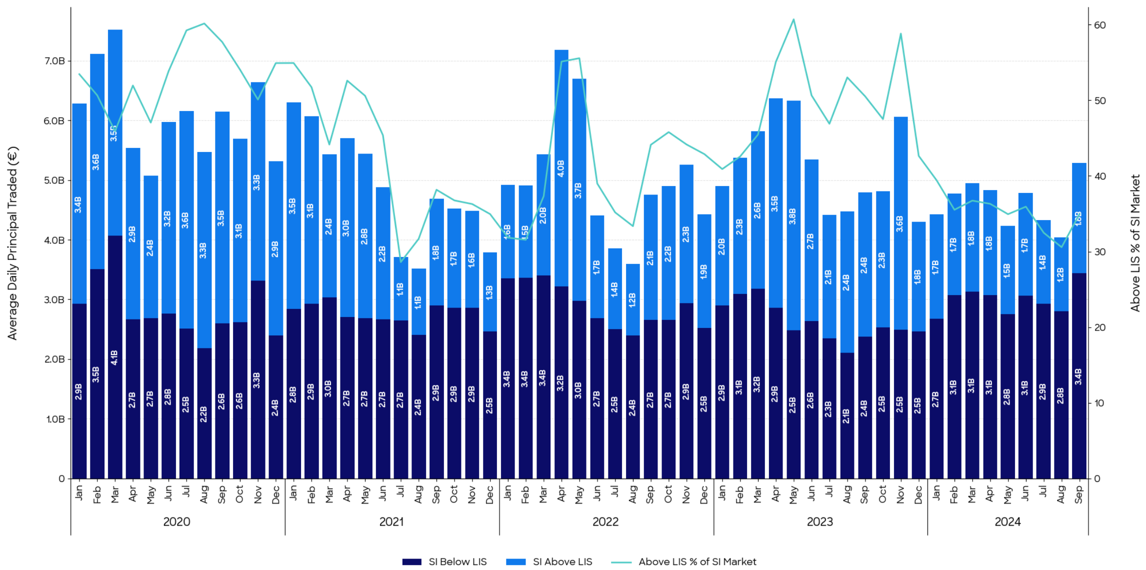
Systematic Internaliser volumes based on market activity

Systematic Internaliser (SI) market share moved in line with overall market volumes, which may suggest it is valued as an extra source of liquidity for those seeking a higher certainty of execution.

Above-LIS trades seem to have a strong correlation with total market volumes, where we observe up to 60% of SI flows above LIS on more liquid days. This fluctuation in market share may reflect the increased risk appetite during certain market scenarios from SI operators to offer liquidity in larger sizes.

Exhibit 11

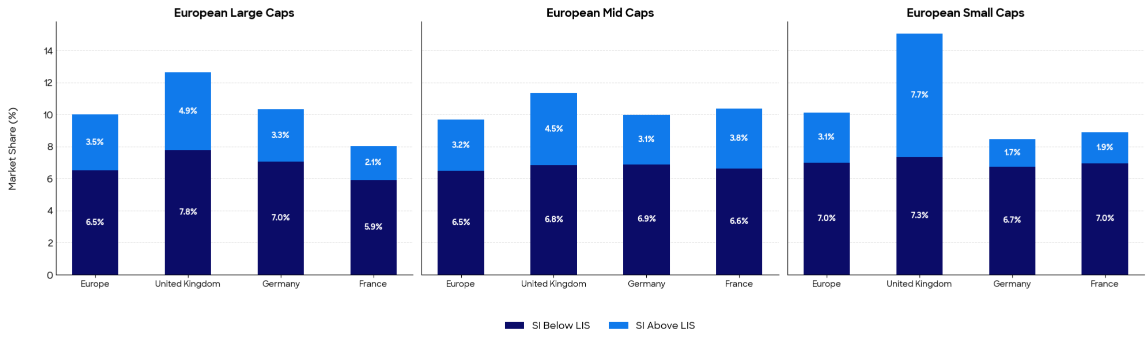
Systematic Internaliser volumes



Source: BMLL and Liquidnet Internal, January 2020 – September 2024

Exhibit 12

SI volume by market capitalisation



Source: BMLL and Liquidnet Internal, January 2024 – September 2024

Looking at the breakdown of SI volume by market capitalisation, the UK is the highest amongst the three largest markets in terms of market share, especially within small caps. This is akin to the dark market, however, this time almost all of the additional UK small-cap volume is through above LIS trades.

What's on the Regulatory Radar for 2025

As the trading landscape continues to embrace automation, resulting in changes to liquidity formation, several key regulatory and structural themes are poised to shape the coming year:

- **Implementation of the consolidated tape:** This will require robust and reliable data to support its functionality and deliver the intended transparency benefits.
- **Advancements in automation:** Areas as distinct as IPOs and settlement processes must evolve to meet shortened timeframes to support execution.
- **Enhancing market resiliency:** Regulatory efforts will continue beyond traditional markets and participants to third party technology providers, leading to greater standardisation of protocols across industry to strengthen resiliency.

The Move to 24/7

Recent developments in market structures outside Europe are also poised to drive significant change. The SEC's approval of 24X[8], a platform enabling US equities trading for 23 hours each weekday with after-hours trading from Sunday to Thursday, will align stock trading with the continuous trading practices of other asset classes, such as cryptocurrencies. Its introduction will also fundamentally alter the current market dynamic. Navigating thin liquidity during overnight trading introduces the risk of volatility and price slippage, requiring greater use of technology to manage risk and improve performance while ensuring compliance.

The growing role of technology is driving further workflow streamlining across the trading lifecycle—front to back. This evolution is reshaping the buy-side trader's role into that of a strategic orchestrator, managing increasingly complex data flows across multiple automated systems. The transition to T+1 in Europe, alongside recent proposals from The Investment Association (IA) to automate IPO processes[9], underscores the need to automate all aspects of trading—not just execution. This shift is essential to improving efficiency, reducing risk and enhancing transparency. Achieving these objectives will depend on leveraging advanced data and technologies to enable faster, more seamless workflows. Addressing fragmented data across silos, systems and use cases will require a fundamental rethinking of how data is accessed, structured and shared in the future.

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[8] https://www.sec.gov/files/rules/other/2024/34-101777.pdf
[9] https://www.theia.org/news/press-releases/investment-association-publishes-position-paper-automation-ipos-and-placing

What's Next for Europe

Over the last year, both EU and UK regulators have outlined key areas to improve the competitiveness of their markets. Earlier this year, ESMA published a list of the planned Consultation Papers in 2024 (numbering 48 in total[10]), with four papers specifically addressing changes to MiFIR/MiFID II (*see Exhibit 13*).

Exhibit 13

Key reform papers 2024 and 2025

Issuance of CP	Objective		Closure of CP
May 2024	**Enhancing Data and removing obstacles to CTP**	Cost of Market Data (RCB) Reference Data Clock Synch Revisiting RTS 2 - Bond Transparency	December 2024
July 2024	**Equity Market Transparency and Stability**	Revisiting RTS 1 • Dark DVC/SVC • SI/OTC • Order Execution policies • Removing PFOF Circuit Breakers	March 2025
September 2024	**Reporting**	Transaction Reporting Order Book Record Keeping	May 2025
January 2025	**Derivatives**	Derivatives and Packaged Trades CTP reporting	October 2025

Getting the Consolidated Tape Right

The core objective for Europe is implementation of greater Capital Markets Union (CMU) to enhance investment flows and opportunities by reducing fragmentation. The Council has called for improved data transparency and availability, including overcoming barriers to a real-time Consolidated Tape. ESMA is reviewing industry feedback on challenges like data quality, transmission reliability and coordination, with a final report due to the European Commission this month. The proposals address:

1. **Consolidated Tape Provider (CTP) input and output data standards:**
    - Minimum requirements for data quality, transmission protocols and real-time transmission for equity and bond CTPs. The proposal of JavaScript Object Notation (JSON) as the standard format for data exchange has been met with considerable industry pushback given the widespread industry use of existing standards such as Market Model Typology (MMT).
2. **Revenue redistribution scheme:**
    - Establishes methodologies and criteria for redistributing revenues generated by CTPs to data contributors. Introduction of mechanisms for suspension and resumption of revenue distribution based on compliance.
3. **Business clock synchronization:**
    - Mandates precise synchronization standards for trading venues, systematic internalisers, and other entities to ensure transaction accuracy.
4. **Data Reporting Service Provider (DRSP) authorization and organisational requirements:**
    - Update technical standards for DRSPs, including reporting mechanisms for Approved Publication Arrangements (APAs) and Approved Reporting Mechanisms (ARMs).
5. **CTP selection criteria:**
    - Outline governance, operational resilience, cost structures and cyber risk considerations for assessing CTP applicants.

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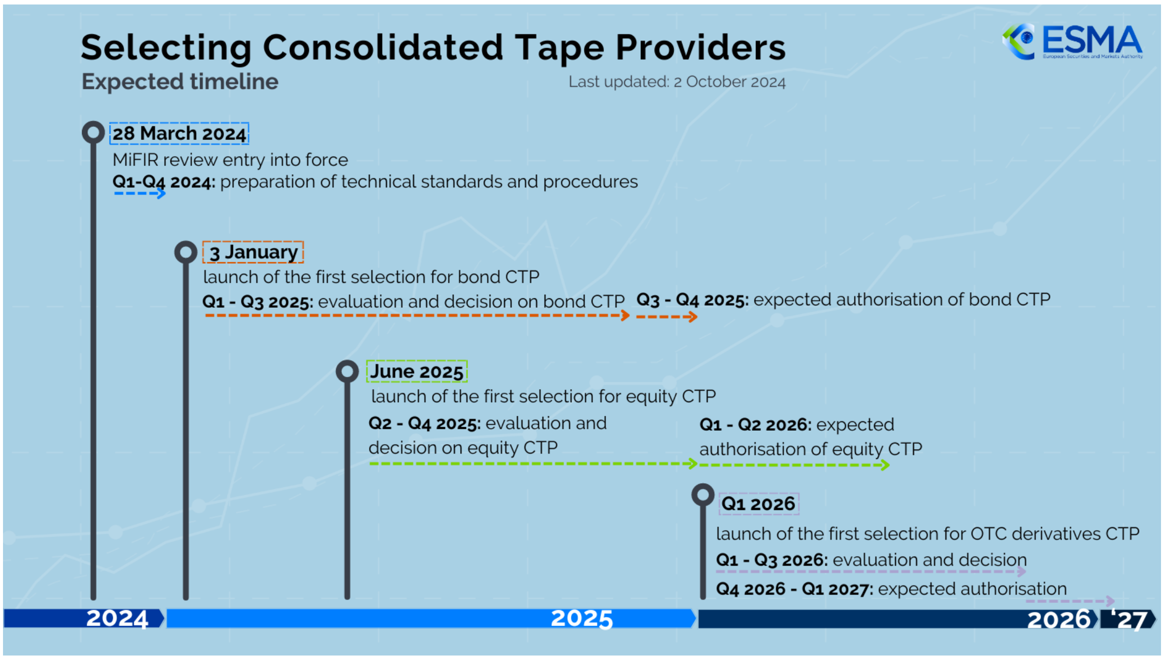
[10] https://www.esma.europa.eu/document/overview-planned-consultation-papers-2024

Exhibit 14
EU Consolidated Tape Timeline



Source: ESMA

What's Next for the UK

While Europe is set to introduce an Equities Consolidated Tape ahead of the UK, the FCA is also reforming its MiFID II framework. The recent statement by HM Treasury highlights the future key areas for UK regulation[11] based on the Wholesale Markets Review (WMR)[12] and the Financial Services and Markets Act 2023 (FSMA)[13]. It covers:

- Replacing **MiFID II** regulation with rules in the FCA handbook to ensure it enables more agile, regulator-driven updates aligned with market trends and risks.
- Revoking current **transaction reporting requirements** in MiFIR, with HMT delegating the design of a new regime to the FCA to streamline reporting requirements.
- Greater authority for the FCA over **OTC position reporting**, improving market transparency and stability post the Nickel market events of March 2022.
- Extension of regulation to new assets such as Cryptoassets[14].

The FCA recently published the CP24/24[15] consultation paper which highlights proposed changes to MiFID Organisational Regulation. These proposals are minimal to ensure maximum continuity, but also endeavour to streamline duplicative rules originating from overlapping EU directives, tailoring them to fit UK markets. The FCA are also addressing rules across sectors to reduce regulatory complexity, lower operational costs and foster greater innovation. There will also be greater flexibility in refining rules, which will allow the FCA to be more responsive to market innovation. The proposed reforms encourage technological advancements by enabling a flexible, adaptive regulatory environment, particularly for newer entrants and products covering:

- Conduct rules, consolidating conflicts of interest rules (currently fragmented across multiple regulations).
- System and control obligations.
- Client categorisation, reporting and record-keeping requirements.

The FCA are also consulting on potential long-term reforms:

- To align UK regulations with international standards for interoperability.
- Reviewing client categorisation thresholds to ensure protections remain proportionate to client sophistication to avoid unnecessary burdens but still inform decision-making.
- Rationalizing disclosure rules to reduce compliance complexity while maintaining investor protection.

[11] https://www.gov.uk/government/publications/next-steps-for-reforming-the-uk-markets-in-financial-instruments-directive/next-steps-for-reforming-the-uk-markets-in-financial-instruments-directive
[12] https://assets.publishing.service.gov.uk/media/621debdfd3bf7f4f0743dc58/Wholesale_Markets_Review_Consultation_Response.pdf
[13] https://www.legislation.gov.uk/ukpga/2023/29/contents
[14] https://www.fca.org.uk/publication/documents/crypto-roadmap.pdf
[15] https://www.fca.org.uk/publications/consultation-papers/cp24-24-mifid-organisational-regulation

What will further regulatory change mean for buy-side trading

Differences between the EU and UK Consolidated Tape

Exhibit 15

Consolidated Tape Proposals: European Union vs. United Kingdom

Aspect	European Union (EU)	United Kingdom (UK)
Inclusion of Pre-Trade Data	Includes both pre-trade (bid/offer prices) and post-trade data.	Evaluating the inclusion of pre-trade data. FCA study currently underway for publication by end of 2024.
Number of Consolidated Tape Providers (CTPs)	Single CTP per asset class (equities, bonds, derivatives) to ensure uniformity.	Considering whether to appoint a single provider or allow multiple providers to foster competition.
Revenue Distribution Models	Subscription fees to cover operating costs (Professional and Non-Professional Users). Any surplus revenue, after covering operating costs, would be redistributed to data contributors. Aim is to incentivise smaller exchanges and trading venues to contribute by offering them a relatively higher share of the redistributed revenue.	Under Handbook Notice 117, FCA has decided **not to mandate** that the bond CTP make payments to data providers but is exploring a fair framework that compensates all contributors to maintain a level playing field.
Implementation Timelines	ESMA intends to decide CTP within six months of initiating the selection procedure with implementation of tapes: • Bonds Q3/Q4 2025 • Equities Q1/Q2 2026 • Derivatives Q4 2026/Q1 2027	Process only published for Bond CT currently FCA will initiate tender process by December 2024. New transparency regime for bond and derivative markets is scheduled to come into effect on 1 December 2025. Bond CT will become operational only after these changes are implemented but estimated late 2026.

1. **The Consolidated Tape – Who Will Pay?**

While minimal subscription fees are proposed, ensuring the consolidated tape (CT) operates with minimal latency but also with sufficient resiliency will require substantial infrastructure investment which, some argue, may be cost prohibitive for certain market participants. One response to minimise these costs is to utilise existing data formats such as FIX MMT, already widespread in the industry. This will ensure higher-quality inputs, which will help reduce the inconsistencies that could lead to inaccurate information on the CT, undermining its reliability.

Of greater concern is the renewed attention to data costs and platform license agreements more generally, particularly regarding how data aggregators and intermediaries distribute data—such as the bundling of data packages, which may be offered at discounted rates but compel firms to purchase multiple data streams when only one is required. Forthcoming discussions on both sides of the channel on the subject of Reasonable Commercial Basis (RCB) for data provision will be front and centre of the debate in 2025. Imminent proposed changes to Best Execution under the recent ESMA Consultation Paper highlight the challenges for the industry in establishing what is necessary and proportionate data to include in execution decisions[16].

2. **Consolidated Pre-Trade Questions**

While market participants are advocating for pre-trade data, many institutions already rely on proprietary data feeds that prioritise low latency–something an industry consolidated tape would struggle to deliver due to the need for data aggregation. The suggestion that less latency-sensitive firms could replace existing pre-trade data feeds with an industry tape largely depends on the data's intended use–for example, middle- or back-office functions versus trading.

As execution transitions to a shorter settlement cycle, the use cases for pre-trade data are expanding to enhance operational efficiency, compliance and decision-making. These use cases include compliance and trade monitoring in the middle office, best execution, risk management to address trading impact and pricing risks, portfolio management support, and liquidity assessment.

Aggregating real-time bid and offer information from multiple sources introduces latency, potentially causing discrepancies between the tape and direct data feeds. If the tape lags real-time data, it risks providing outdated information, which could lead to suboptimal trading decisions and heightened volatility. While firms focused on low-latency execution may continue to rely on direct feeds, an industry-wide pre-trade tape would offer broader access to valuable data for a wider audience.

[16] https://www.esma.europa.eu/sites/default/files/2024-07/ESMA35-335435667-5891_Consultation_Paper_-_Draft_RTS_on_OEPs_-_MiFID_II_review.pdf

3. Post-Trade Questions

Implementing a European consolidated tape presents significant challenges due to the fragmented nature of regional trading venues and diverse market practices—one example being the hidden volume of European ETF activity taking place within German regional exchanges. Ensuring consistent data quality for a European consolidated tape is particularly challenging due to price discrepancies arising from variations in local exchanges, many of which specialise in niche assets, like securitised derivatives, or cater to specific participants such as neo-brokers and single-dealer platforms—as well as differences in Member-State adoption, such as Germany's temporary extension of Payment for Order Flow (PFOF) models.

Addressing these issues will demand synchronised data protocols and significant investment in technology to integrate real-time data effectively, but also strengthened enforcement and a unified approach across Member States to best support a functioning tape.

4. Seeking out Real Liquidity

Whether in the UK or the EU, the implementation of a consolidated tape is reigniting industry debates about addressable versus non-addressable liquidity and the type of information that should feed into the tape to accurately reflect market activity. Industry requests for additional FIX trading flags aim to enhance transparency and better classify liquidity types[17]. These include flags for "give-up" transactions, risk management trades, ETF NAV transactions, inter-fund transfers, and duplicative post-trade transaction reports, which should be excluded from addressable liquidity calculations to ensure a more accurate picture of true market liquidity.

Systematic Internalisers and Rise in Bilateral

With Systematic Internalisers (SIs) permitted to match orders at the midpoint of the prevailing bid and offer prices, without requiring additional Regulatory Technical Standards (RTS) updates, activity in this execution venue has gained market share. Until new RTSs are implemented, RTS 17 will remain in effect, upholding the previous MiFID II 10% SMS rule. Matching orders at the midpoint enhances the flexibility of bilateral trading, particularly for larger, negotiated trades, by enabling more efficient execution.

The rise in bilateral trading raises concerns about reduced market transparency, potentially exacerbating thinner order books on central limit order books (CLOB), resulting in wider spreads and increased hidden trading costs. Electronic Liquidity Providers (ELP) argue that advancements in technology have significantly improved the management of risk books, countering these claims. But the asymmetric nature of information flows can lead to poor execution outcomes if ELP engagement is not carefully selected according to investment strategy.

The shift toward cross-asset trading teams on the buy side will continue to blur the traditional lines between OTC and CLOB trading. Fixed income liquidity streams are increasingly being repurposed for RFQ equity activity, enhancing liquidity access while complicating the tracking of trading activity across venues—a trend set to continue as market activity becomes more asset-agnostic and complex.

Getting AHEAD watching the Dark

The recent growth in dark liquidity, particularly above Large-in-Scale (LIS) highlights the increasing adoption of advanced technology for matching liquidity to minimize market impact. Although the UK has eliminated the Double Volume Cap (DVC), restricting the use of the Reference Price Waiver and Negotiated Trade Waivers (NTW), Europe has maintained the DVC until the Single Volume Cap (SVC) of 7% takes effect on 29 September 2025, after which NTW for liquid instruments will no longer be subject to caps.

Instead, the continued shift to alternative execution methods is extending beyond dark pools to include periodic and variable auctions, as participants explore alternative execution methods to reduce information leakage and avoid impact when trading on the lit. There is an argument that, as auctions have an EBBO collar, there is still contribution to price formation. However, the smaller residual flow reaching CLOBs becomes increasingly vulnerable to arbitrage, amplified by misaligned market incentives. Combined with volatility interruptions and trading halts, this can lead to retail market orders being executed at less favourable prices. While circuit breakers provide stability during volatile periods, innovative execution strategies, such as stacking retail orders to achieve critical mass before triggering an auction, present additional opportunities for improvement.

[17] https://www.fixtrading.org/fix-and-regulations/#eu

The AHEAD proposal by the French regulator[18] is one example of how execution methods may evolve to meet future market needs, highlighting advancements in strategies and the necessary tools and technology for effective participation. While regulators may prioritise enhancing CLOB secondary market activity to support primary markets, it is evident that market participants will continue exploring alternative execution methods. This trend is mirrored in the US, where Alternative Trading Systems (ATS) like OneChronos, PureStream, and IntelligentCross are driving innovation with novel execution strategies.

5. Automation Beyond Trading

Industry participants are increasingly adopting automated workflows. Whether to enhance efficiency, reduce errors, or ensure regulatory compliance, automation lowers costs, scales with market complexity, enables real-time processing and supports resiliency during disruptions. Managing manual outlying workflows is costly in terms of resources and risk, a cost that will only rise as markets move increasingly automated across asset classes.

From Primary to Secondary

The IA has recently proposed automating IPO and secondary market placement processes to address inefficiencies and reduce errors in the current manual system[19]. The transition to electronic order placement aims to improve efficiency, transparency and risk management through time-stamped orders, pre-trade compliance checks and flexible placement outside market hours by utilising standardised communication protocols.

Trading Venue Transaction Identification Code (TVTIC)

ESMA has proposed amendments to MiFIR that would extend the requirement for reporting the Trading Venue Transaction Identification Code (TVTIC) to all transactions executed on a trading venue, including negotiated trades and those brought under the venue's rules[20]. This means that for every transaction executed on a trading venue (including non-European Economic Area (EEA)), the operator must generate a unique TVTIC and disseminate it to both the buyer and seller involved. The TVTIC should be unique, consistent and persistent per Market Identifier Code (MIC) and per trading day, and its components should not disclose the identity of the counterparties.

The proposals aim to enhance the traceability and transparency of transactions across different types of trading venues, thereby improving market oversight and regulatory reporting consistency. However, given booking models and set ups post-Brexit, this has the potential to introduce significantly more complexity where there are multiple executions that also include non-EEA trading venues—for example, an order is routed and executes partially against an SI, while the remaining portion is executed on risk and using algorithms on a venue. ESMA plans to provide further guidance on the methodology for harmonising the code's syntax, potentially combining existing information such as the International Securities Identification Number (ISIN), Legal Entity Identifier (LEI) of the generating entity, date, time, and quantity. Correctly tagging the execution message with all relevant information will be critical to success, further underlining the need for efficient automated workflows.

T+1: 2027

The successful transition to T+1 settlement in the US, Canada, and Mexico is setting the stage for the UK and EU to follow. ESMA have published recommendations to transition on 11 October 2027[21]. The UK Accelerated Settlement Taskforce (AST) has yet to set an official date but has recommended this takes place by 31 December 2027[22]. Although the move in the US has been deemed a success, unique differences remain for UK and EU firms due to funding constraints under shorter settlement cycles requiring pre-funding on the trade date, reliance on broker credit lines or the use of derivatives for synthetic exposure. Therefore, the focus will need to be on electronic allocation, pre-settlement matching, and affirmation for same-day processing–but with FX netting arrangements, portfolio adjustments to manage cash reserves, and automation of securities lending recalls or suspension of lending activities to align with T+1 timelines. All of this reiterates the need to move away from OTC activity to ensure full data capture necessary to complete automated workflows successfully within the shortened timeframe.

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[18] https://acrobat.adobe.com/id/urn:aaid:sc:EU:176cff8f-71d7-4861-b0da-2516600a8f43
[19] https://www.theia.org/sites/default/files/2024-11/IA%20Position%20Paper%20on%20IPO%20Automation_final_0.pdf
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[21] https://www.esma.europa.eu/press-news/esma-news/esma-proposes-move-t1-october-2027
[22] https://www.gov.uk/government/publications/accelerated-settlement-taskforce?utm_source=chatgpt.com#full-publication-update-history

Preparing for 2027

Proposals include mandating market standards by the end of 2025, with onboarding all necessary data to settle trades, ensuring allocations, confirmations, and matching occur on the trade date, and enabling electronic sharing of settlement instruction data. Securities lending recalls would also require automation under these proposals. All market participants need to focus on collaborative initiatives for post-trade harmonization, T+1 readiness, and streamlined settlement processes, including improved market standards and best practices for:

- Onboarding new accounts to include all data necessary to settle a trade;
- Sharing SSI (Standard Settlement Instructions) electronically;
- Allocations, confirmations and trade-level matching to take place on trade date;
- Automated securities lending recalls.

6. Market Resilience and Testing

ESMA also introduced proposals under its third consultation package (CP3) aimed at enhancing market resilience. Just as critical as testing, monitoring, and resiliency measures is transparent, standardised and consistent information flows between operators, participants and clients.

Recent industry proposals from FIX include unique outage identifiers, codified status updates and clear descriptions of impact and severity, coupled with filtering mechanisms to reduce redundancy and information overload[23]. A further proposal suggests adoption of centralised hubs for disseminating outage information, highlight the commitment to cohesive communication and fostering operational stability in today's increasingly interconnected and complex markets.

While the industry awaits further guidance from regulators, the need for effective communication between market participants is only likely to increase with the recent volatility, more assets trading electronically and the growing reliance on major third-party technology providers which introduces a new level of industry concentration. Recent incidents, such as those involving CrowdStrike, underscore the growing interconnected complexity of global markets.

Navigating 2025: Key Strategies for European Asset Managers

European asset managers face a transformative landscape in 2025, requiring strategic adaptation to fragmented liquidity, evolving regulations and advancing technology. Amid rapid industry changes, buy-side trading desks will remain indispensable for the foreseeable future to centralise dataflows, interpret the complexity to manage liquidity, optimise execution and improve performance.

High Touch to Tech Touch[24]

As automation extends across into fixed income and other asset classes, existing methods of execution are adjusting to incorporate more value-added services and cross-asset expertise to connect parent orders directly with liquidity providers. The growing complexity of liquidity sources and methods of execution will continue to demand a focus on technology-driven solutions. Investments in AI-powered analytics for order and execution management systems (OEMS) require access to adequate and verifiable data sources, alongside scalable and interoperable IT to streamline fragmented and cross-asset workflows. Tools that normalise and integrate data across asset classes are becoming essential, enabling seamless execution while reducing operational silos.

Choosing Partners + Selecting Strategies

Execution strategies are shifting towards bespoke workflows that incorporate direct liquidity streams and partnerships with electronic market makers as well as sell-side firms. The move toward internal algorithms and algo wheels highlights the buy side's growing emphasis on leveraging proprietary knowledge to best select execution strategies, relevant for their flow. This evolution fosters deeper collaboration, with trust and transparency forming the foundation for minimising market disruption and enhancing liquidity access, but also in challenging trading norms. The rise in trading at the close at perceived zero slippage, in practice, can lead to reduced Assets Under Management (AUM) when rebalancing portfolios. Selling the stock deleted from the index into the close to switch weightings can lead to poor execution outcomes which then require further selling in order to reinvest[25]. Greater analysis of trading outcomes from improved AI modelling is likely to lead to further changes in execution selection.

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[23] https://www.fixtrading.org/packages/outage-communication-standards/
[24] Forthcoming paper from Charles Le Halle, Ecole Polytechnique, Paris and Rebecca Healey
[25] Green, T. Clifton, and Russell Jame. "Strategic trading by index funds and liquidity provision around S&P 500 index additions." *Journal of Financial Markets* 14, no. 4 (2011): 605-624.
https://www.sciencedirect.com/science/article/pii/S1386418111000140

SMART Outsourcing

A hybrid approach to technology, combining in-house expertise with external partnerships, is enabling firms to address gaps without compromising control over bespoke solutions. SMART outsourcing is gaining traction, as investments in EMS, scalable IT and AI tools streamline execution protocols and improve liquidity sourcing. Cost pressures have prompted a move toward blended pricing models that combine low-cost execution with premium services. These models ensure sustainable funding for innovation while maintaining service quality.

Focus on Automation around the Trade

Preparation for T+1 settlement, consolidated tape implementation, and updates to MiFID/R is critical given the shift to automation necessary to meet regulatory requirements. Regulations like DORA and the operational resilience initiatives mandate robust outage communication protocols, while the rise of 24/7 trading models and extended trading hours introduce additional complexities. UK-specific efforts to enhance bond and derivatives transparency and electronify OTC markets underscore the need for adaptable strategies.

A Digital-First Future

While Crypto remains on the outskirts of the TradFi community, the increasing adoption of tokenized real-world assets (RWAs), such as commodities and metals, is driving the need for international regulatory frameworks that encompass diverse asset classes and investors. This shift highlights the urgency for global harmonisation of data standards and connectivity protocols to facilitate seamless integration across traditional and future digital ecosystems. This requires rethinking the data necessary with which to trade. To support liquidity and interoperability, new systems and standards for data-sharing and cross-platform connectivity will be essential, ensuring efficient and secure transactions in an increasingly globally-interconnected market.

As firms prepare for the future, the integration of advanced technology, increased interoperability and collaborative partnerships will shape this next phase of market evolution, positioning asset managers for success in a complex financial ecosystem.

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