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Execution at Midpoint for LIS Orders

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Plato Partnership notes the European Parliament's Draft Compromise K relating to Article 61 (including Article 17a) to ensure Systematic Internalisers' (SIs) quotes, price improvements on those quotes and execution prices shall comply with tick sizes set in accordance with Article 49 of Directive 2014/65/EU. Plato Partnership also notes the European Parliament's Recital (42a) – which aims to subject SI quotes, price improvements and executions prices to the tick size regime when dealing in all sizes.

We strongly believe the intention behind Recital (42a) – to create a level playing field between trade execution venues – does not require applying the tick size regime to Large in Scale (LIS) orders. This is true irrespective of whether these orders are executed on an exchange or on an SI. In line with global market practices, we also believe that EU investment firms should continue to match LIS orders at the mid-point. Removing this ability would increase trading costs to the detriment of EU based investment firms and end investors, namely the pension holders and savers across the EU. Execution at mid-point, irrespective of whether the mid-point falls between tick increments, reflects international trading standards and is the fairest way to split execution cost between a buyer and seller.

In detail –

Execution at mid-point for LIS orders

- Execution at the mid-point of the reference market best bid and offer is agreed as the global standard that ensures a fair way to split the cost of trading (the spread) between buyer and seller. Mid-point is considered a fair execution price because both the buyer and seller split the bid versus offer spread in equal parts.

- Execution at mid-point represents a key component of cost savings. These savings are compounded over time and have a real and meaningful impact on investment returns which benefit end investors and ultimately the economy as a whole. The compound effect on investment returns are especially magnified when applied to LIS orders.

- Mid-point execution under current LIS rules maximises execution efficiency and liquidity matching opportunities. In the absence of mid-point execution, investment firm traders may not be willing to pay the offer price ("cross the spread") when executing larger size. Having to cross the spread each time a large trade is filled reduces trading interest and, in consequence, liquidity in the market. Any reduction in overall liquidity impacts the price formation process and increases volatility.

- If larger orders are limited in their ability to efficiently trade LIS in the market place, trading behaviour may change. As larger orders are split into smaller sizes, the efficiency of trading in large blocks is foregone. The execution of multiple smaller orders is potentially more expensive and leads to an inferior overall price for filling the entire order.

- The absence of mid-point execution for LIS orders may cause a significant volume shift to SIs given the potential market impact benefits. SIs and Trading Venues could still potentially achieve a mid-point price execution if they were allowed to price an order in two separate fills of equal size (one fill at the best bid price and one fill at the best offer price of the reference primary market). However, this outcome presents significant technology and operational cost implications and operational hazard for trading venues and market participants that may result in further volume shift to SIs.

- The absence of mid-point execution for LIS orders could also potentially cause a volume shift to closing auctions that would remove significant intraday pricing formation from the market. This could result in greater trade date plus one price reversion events.

- A significant amount of market impact and potential volatility are reduced from the market place through execution at mid-point for LIS orders particularly within the small and mid-cap (SME) segment. Listing and trading in SME shares is already complicated enough and further complexity would imperil the CMU aims of creating more SME IPO opportunities in the EU.

- Mid-point execution is also of benefit in volatile markets, because it provides the opportunity to get the best possible price when buying or selling a security regardless of volatility.

Plato Partnership is supportive of the efforts to level the playing field between venues and SIs and provide fair and efficient markets. Given the supporting evidence above, Plato Partnership requests that trades above LIS should not be subject to the tick-size regime and can continue to be executed at the mid-point. Furthermore, while Plato Partnership's focus is on LIS, we recognise the criticality that mid-point provides in global markets in enabling a fair equilibrium price and requests that it continues to be available across all trade sizes.

Plato Partnership contacts

Michael Bellaro, CEO, Plato Partnership:
mike.bellaro@platopartnership.com Tel. +1 (949) 370-5577
Christoph Hock, Buy-side Chairman, Plato Partnership:
Christoph.Hock@union-investment.de Tel. +49 69 2567-1078
Nej D'jelal, Sell-side Chairman, Plato Partnership:
nej.djelal@barclays.com Tel. +44 0203 1348 260

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About Plato Partnership Limited

Plato Partnership Limited ("Plato Partnership"), a not-for-profit company comprising 22 European buy-side and sell-side member firms, was formed in September 2016 with a vision of bringing creative solutions and efficiencies to today's equity marketplace. The group's key aims are to reduce trading costs and simplify market structure for the benefit of all market participants, and to act as a champion for end investors.

Central to this vision is Plato Partnership's Market Innovator (MI3) that sponsors independent academic research and analysis that will identify better ways of executing trades, as well as lowering the cost and improving the quality of the broad range of processes required to support the execution lifecycle. Plato Partnership engage, and partner with, industry partners to achieve its goals and objectives and put its research findings into practice.

Members of Plato Partnership include:

Axa Investment Managers, Baillie Gifford, BlackRock, Cedar Rock, DWS Group, Fidelity International, Liontrust, Norges Bank Investment Management, Union Investment,

Barclays, Bank of America Merrill Lynch, Citi, Deutsche Bank, Goldman Sachs, Instinet Europe Ltd, Jefferies, J.P. Morgan, Morgan Stanley, RBC, Redburn, Societe Generale and UBS.

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