

## EUROPEAN COMMISSION

Brussels, 11.12.2012  
C(2012) 8921 final

*Dear Lord Boswell,*

*The Commission would like to thank the House of Lords for its Opinion on the proposal for a directive on markets in financial instruments repealing Directive 2004/39/EC of the European Parliament and of the Council {COM(2011) 656 final} and on the proposal for a regulation on markets in financial instruments and amending regulation [EMIR] on OTC derivatives, central counterparties and trade repositories {COM(2011) 652 final}, commonly known as "MiFID II". The Commission would like to take this opportunity to clarify what its objectives and intentions are with regard to certain of the elements of its proposals on which the House of Lords expressed serious concerns.*

*With the introduction of a new category of trading venue, i.e. the Organised Trading Facility (OTF), the Commission proposals aim at achieving a comprehensive regulatory framework which would ensure that similar trading practices are governed by similar rules and be subject to strict transparency requirements, while preserving the legitimate interests of market participants to choose where they trade. The Commission proposals approach the boundary between different trading practices from a functional point of view, distinguishing multilateral from bilateral trading. The ban on own capital for the operator of the OTF introduces a clear separation between multilateral and bilateral trading.*

*Another key objective of the MiFID review is to increase transparency in the financial markets. The price formation process is a public good, the integrity and quality of which must be upheld. This is why transparency is a common thread throughout the Commission proposals. Regarding the House of Lords' specific concerns on pre-trade transparency requirements for non-equity markets, the Commission is fully aware of the difference between equity and non-equity markets and its intention is to strike the right balance between transparency and liquidity. The Commission proposals entail an appropriate calibration of these requirements, taking into account the liquidity of the respective financial instruments. Increased transparency enhances the public good and the integrity of the price formation mechanism.*

*With regard to high frequency trading (HFT), the Commission welcomes the House of Lords' support to strengthen the organizational requirements for trading venues. The Commission has duly noted your reservations concerning the specific requirement for algorithmic traders to provide liquidity on a continuous basis. The Commission's*

*Lord Boswell  
Chairman of the European Union  
Select Committee  
House of Lords  
Palace of Westminster  
UK – LONDON SW1A 0PW*

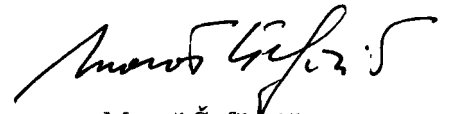
*objective with this provision is to enhance the quality of the liquidity, the stability and the integrity of financial markets by influencing the behaviour of HFT traders.*

*Regarding the third country regime, the Commission's intention is to simplify and consolidate existing practices under 27 different regimes by introducing an EU-wide regime. This regime is a natural extension of the G20 agenda on coordination of regulatory reform and international convergence. We need effective regulation and supervision for markets that are global and interconnected. The Commission's objective is to ensure that EU financial markets remain open but are safe for investors, too. The Commission's proposal is, therefore, mindful of the need to achieve the correct balance between open access with minimal duplication of administrative and other requirements on the one hand and investor protection on the other hand.*

*Finally, the Commission would like to clarify the expected timing of this review. As you know, the proposals, commonly known as MiFID II, are currently being considered by the European Parliament and the Council. There is a clear political willingness to act swiftly on this file and try to reach a political agreement by the end of this year. The Commission is committed to delivering swiftly on the G20 and financial regulatory reform agenda and would like to see MiFID II enter into force as from mid-2014.*

*The Commission hopes that these explanations address the concerns expressed by the House of Lords and looks forward to continuing our dialogue in the future.*

*Yours faithfully,*



*Maroš Šefčovič  
Vice-President*