# Editorial

## 10 Years after the 2008 Crisis and one Year into MiFID II: Taking Stock from the Perspective of Liquidity Providers

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With 2018 marking a decade after the financial crisis, it is time to take a look at how the present regulatory landscape is affecting the role of liquidity providers, exchanges, and central counterparty clearing houses (CCPs). This is especially important given the Brexit and new global regulatory requirements.

We as a society have since long relied on exchanges to facilitate the capital transfer from investors to the real economy. Over centuries, vast improvements to the infrastructure have been made to reduce risk and streamline the process of buying and selling of financial instruments. CCPs were introduced to bring certainty and efficiency to exchanges and participants by taking on credit risk. Out of the need to assure that there is always a buyer and a seller, market makers stepped in to provide continuous pricing and improve the bid-ask spread, notably in the derivatives market.

Markets function best when fair competition amongst trading members and between trading platforms is cultivated through policy. In turn, modern, developed economies benefit from healthy markets. Robust markets are accessible, liquid, and comprised of diverse participants. Optiver strongly believes that in order for markets to remain efficient and support sustainable growth, they should be transparent, multilateral, and centrally cleared.

The last ten years have seen a wave of EU regulatory legislation with the aim of restoring confidence after the recession. In contrast, what we now witness is the dramatic increase of systematic internalisation (SI) and strict capital requirements creating an environment that threatens efficient markets in Europe.

Under MiFID II, firms operating as SIs benefit from a substantial advantage where they are exempt from the tick size regime reserved for EU trading venues and have more flexibility in the timing of trade publication.

In a properly functioning exchange ecosystem, the reference price is in the lit market. But the influx of SIs has recently pushed increased trading volumes towards models with reduced transparency, leading to limited competition and a more fragmented landscape.

ESMA's Steven Maijoor captured the issue well when he recently asserted that "there are concerns that the attractive environment for trading on systematic internalisers may ultimately result in changes in the market structure away from trading venues".

Furthermore, new capital rules have a significant impact on the exchange ecosystem and how it finances the real economy. Capital rules drafted for banks have made it costlier for clearing members and market makers to hold positions and provide liquidity to end-investors. Inflated capital requirements imposed by the leverage ratio framework are actually bolstering the OTC derivatives markets and could increase systematic risks as a result of an expected decrease in liquidity when markets become volatile and volumes go up.

The European legislative focus should move away from overregulation and shift towards long-term, stable growth for EU capital markets. Moreover, it is essential to evaluate the unanticipated effects of MiFID II and determine mitigating actions while there is still time to regain strength, especially alongside the safeguarding of continued access to UK markets. International competitive forces must be taken into account to prevent obvious regulatory arbitrage actions. When well more than half of all European trades are executed on London-based exchanges, imposing a border between EU and UK financial markets will weaken Europe's exchange ecosystem. Failing to address this could prompt a chain reaction on a wider scale and contribute to an unbalanced global exchange ecosystem in the years ahead.