Briefing Note
Proposed Amendment 620, Article 28 a (new), MiFIR

Proposal for a regulation of the European Parliament and of the Council on markets in financial instruments and amending Regulation [EMIR] on OTC derivatives, central counterparties and trade repositories (2011/0296(COD))

Amendment 620 Pascal Canfin , on behalf of the Verts/ALE Group Proposal for a regulation, Article 28 a (new)		
Text proposed by the Commission	Amendment Article 28 a	Quoted Companies Alliance Amendment
	Clearing obligation for equities and bonds traded on regulated markets, MTF and OTF ***The operator of a regulated market, an MTF, or an OTF shall ensure that all transactions in equities and bonds that are concluded on a regulated market, an MTF and OTF are cleared by a CCP when a CCP accepts to clear that financial instrument.***	***[delete Article 28 a (new)]***

The proposed amendment 620 for Article 28 a (new) will have significant impact on the UK equity and bond markets with a specific focus on retail investors and small and mid-size quoted companies. A number of such impacts are detailed below:

- **Market Structure:**

  The UK retail market is in the most part characterised by on exchange trades agreed on a bilateral basis between brokers and market makers away from the exchange order book and not centrally cleared. This execution delivers numerous efficiency, cost and best execution benefits for retail clients.

  - The proposed change will materially redesign this model in spite of there being no evidence of a failure during the financial crisis.
  - The proposals would create significant additional cost for retail clients as well as reducing trading flexibility by preventing long dated settlement.
  - There has been no observed market failure in this market model.

- **Liquidity:**

  Successful markets require liquidity to prosper. Liquidity is maximised through the ability to negotiate trades on an extended settlement basis. With trades negotiable on an extended settlement basis e.g. T+10 rather than T+3 more trade is executed thus more liquidity is present. Successful SME Growth markets i.e. AIM have prospered in this model where centrally cleared market models have failed.

  - CCPs require all trades to be agreed and settled on a homogonous settlement basis. Consequently the obligation for CCP clearing of equity and fixed income trade would reduce liquidity, increase risk and widen spreads to the detriment of listed companies and investors alike.
  - Incorporation of bilateral trading into a CCP cleared environment will in many cases make the market maker's role uneconomical and force de-registration due to the effects of the Short Selling regulation which is not calibrated to reflect the needs of SME growth markets. This could have significant detrimental effects on the markets for such securities.

- **Economic effects**

  EU and national governments have stated that SME growth markets are essential alternative funding sources for small and medium-sized enterprises and that they should be developed. Damaging such markets will therefore reduce their ability to provide such alternative finance and may in fact force companies out of business, harming the prospects for economic growth and creating unemployment.

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