The Rt Hon John Glen MP, Economic Secretary to the Treasury and City Minister
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

04 March 2021

Dear City Minister,

Re: The case for an open financial system requires "Open Access" in the UK

It was heartening to recently hear the Governor make the well-argued case for an open financial system at the Mansion House and it is now time that the UK restated its commitment to open markets for all. After its departure from the European Union, the United Kingdom should build on its position as the standard bearer for open and competitive capital markets. One important and currently unique component of this was delivered at the start of the year when the UK adopted Open Access for exchange traded derivatives (ETDs) as part of the MiFID II onshoring legislation. This will ensure resilient and liquid capital markets, foster an optimal climate for growth and investment and cement the UK's position as global leader in capital markets innovation and competitiveness.

"Open Access" is about offering choice to end-investors and companies who rely on exchange traded derivatives as a safe and efficient tool to manage critical financial risks. As such, Open Access sits at the heart of principles-led good regulation, which together with being evidence-based and outcomes-driven underpins the British regulatory approach to ensuring a fair and effective market structure in the UK.

The principle that consumers and end-users are better served by a diversity of competing suppliers in an open market is well understood and evidenced by the lower prices, quicker adaptation, and improved service that well-regulated free competition provides. Indeed, the concept of competition and open access has, each in its own way, been successfully applied across UK labour markets, intellectual property, food, industrial goods, and many strands of the services sector, including digital technology.

Similarly, it was a deep understanding of the benefits of open competition for end-investors which inspired the UK's commitment to enshrining this principle into the first instalment of MiFID. This helped ensure that the competitive market for order execution in equities, which was already emerging in a competitive UK environment before MiFID I, would survive and ultimately prevail, in spite of efforts by incumbent interests from across Europe to keep existing oligopolistic structures in place.

In the same vein, the UK enthusiastically embraced the dismantling of the barriers standing in the way of a competitive post-trading market. This commitment to open competition in post-trading meant that the UK was a key proponent of introducing Open Access to the world of derivatives trading and clearing in MIFID II, with a view to enabling new and innovative products and market structures originating in London[1]. These efforts bore success and despite a number of earlier roadblocks, Open Access should also apply in the EU from July 2021 onwards.

We are aware that HM Treasury is at this time assessing the merits of the Open Access regime for the UK capital market. To this end, we would urge that such an assessment should confirm, that the application of Open Access to derivatives is indeed intuitive and long overdue as it is critical to ensure sufficient competition and choice in clearing as a counterweight to the small group of large exchanges and clearing houses operating a "closed" silo model building on the profit center of licensing products to a specific venue.

We would further emphasise that the operational implications of the Open Access regime are not immediate and that any associated operational risks are well-identified and can be managed in a responsible manner. We consider that the suggestions, expressed by opponents of Open Access, that operational aspects are insurmountable, are exaggerated and in many cases mask efforts to protect legacy business models based on dominant market power. By contrast, and in addition to resulting in more optionality for end-investors and lower trading costs, Open Access will also contribute to mitigating single-point-of-failure concerns related to central clearing.

As the UK takes stock of its position as a global market center, we would urge the Government to take a holistic view of the needs of the UK capital markets ecosystem. A first welcome step is the Government's commitment to considering further improvements to the UK's primary listing markets with the ongoing review under Lord Hill. However, we would emphasise that effective capital markets financing of new and innovative companies and businesses will also require the further strengthening of, and innovation in, the UK's secondary and post-trade markets.

In this context, we consider that the Government should signal loud and clear its commitment to Open Access as a key building block for strong and deep capital markets in the UK. This will empower the UK's global FinTech leadership, provide real choice for wholesale market users and transpose market economics into sustainable development, all of which will embolden the UK's position as an attractive place to do business for global firms and clients.

Non-UK firms would find a firm and fair approach to Open Access attractive because of the capability for financial institutions to better offset margins, lowering trading costs and driving liquidity. Further, the ability to "shop-around," for services imbues a level of resilience and innovation into the UK market ecosystem which non-UK firms would not find elsewhere, providing an additional competitive advantage.

Our vision for the British capital market post-Brexit is for a truly plural and resilient market ecosystem with post-trade infrastructures and service providers that compete in an operational, a legal, and a regulatory environment, offering a common domain of intelligent and innovative services through harmonised and standardised open architectures.

[1] Platforms such as *BrokerTec*, *CurveGlobal*, *Fenics*, *i-Swap* and *Trad-x* have emerged in recent years and have added to the MiFID I genesis of *BATS*, *Chi-X*, *Aquis*, *Turquoise* and *EuroCCP*. All were UK initiatives and make the case for open competition and innovation.

We foresee significant benefit accruing, including:

i. **Cost efficiencies will emerge**, for example, through netting advantages by clearing instruments from multiple venues at a single central counterparty (CCP). Central clearers are, like electricity to society, essential infrastructures; without them, one cannot have a properly functioning securities market. – In a situation without Open Access, when two indistinguishable products are each cleared at a different CCP (because they each trade at vertically integrated CCP/venue combinations), firms cannot net their exposures and therefore have to pay extra margin. In a situation of Open Access, these two margin pools could be offset, creating significant capital efficiencies which ultimately benefit end-investors and companies across the ecosystem. Besides, open access would allow clearing ETDs and OTC Derivatives at a single central counterparty. The corresponding reduction of risks would allow margin efficiencies between correlated Futures and IRS derivatives.

ii. **More effective settlement chains** and the posting or re-use of high-quality liquid assets ["*Collateral fluidity*[2]"] can embrace tokenisation to offset recent scarcities and squeezes such as that witnessed even in the U.S. Treasury markets in the autumn of 2019[3], and in turn contribute to deeper pools of market liquidity. As a result of Open Access, new and innovative trading protocols can emerge across a wider range of trading venues facilitating price discovery and risk transfer among a more diverse set of counterparties. Innovators of post-trade services will be able to attract more business, due to new technologies coming on stream such as common domain models, distributed ledgers (DLT) and blockchain technologies. Collectively, these developments will deliver better pricing, deeper liquidity and greater transparency while removing the existing CCP single-point-of-failure risk.

iii. **Lower execution costs and more innovation** will stem from the better ability to net margin which, even prior to the global implementation of SA-CCR, already creates a significant barrier to entry for challenger execution venues to emerge and compete[4]. Virtuous feedback will develop, and volumes will increase due to lower costs, so in turn more business will be attracted. Competition among CCPs for access to a venue with concomitant cost reductions, efficiencies, and spurred innovation. It is for this reason that a recent Greenwich Associates survey among 190 market participants lists 'more competition among clearinghouses' as the second most cited change request by respondents[5].

iv. **Retaining the UK's position in respect to equities clearing** as it stands a significant proportion of EU equities trades are cleared in the UK. We foresee if should Open Access

[2] *For example, see ICMA's European Repo Council paper, "[Collateral is the new cash: the systemic risks of inhibiting collateral fluidity](#)"*

[3] *[Podcast: What Just Happened in the Repo Markets? - SIFMA](#)*

[4] *From a client's perspective, changing execution venue is only attractive where execution costs savings (and other benefits) outweigh margin inefficiencies. This requires a (very) large scale, which is practically impossible for a new entrant. This means competing venues do not emerge to challenge the incumbent, which means there is no pressure on the incumbent to cut costs, improve service levels, or to innovate.*

[5] *Derivatives Market Structure 2020, Greenwich Associates, page 6-7, https://www.greenwich.com/fixed-income/derivatives-market-structure-2020*

for ETD's is not continued, then the next step for incumbents could well be to block interoperability for cash equities, leaving the UK as having lost not only the EU traded volumes but also the post-trade clearing. Such a move could set precedent for other asset classes where the UK operates significant market infrastructures and the commercially important aspects from the transportation of trading interests through to the completed transactions.

v. Lower data costs across the impacted instruments as market dominance has been reported as the key determinant of a venue's ability to charge higher fees for their market data.

In conclusion, the Open Access regime for ETDs will bring real benefits to the UK. It will foster safe and liquid capital markets, establish an optimal climate for growth and investment for firms and end-investors, and cement the UK's position as global leader in innovation and competitiveness, helping to attract new business from across the world.

We would reiterate that the policy choice before the Government is a fundamental one: whether to embrace, via Open Access, a thriving market ecosystem which can be the building block for a truly Global Britain, or rather whether, by rejecting Open Access, to limit those options.

At this critical juncture, we are calling for the UK to recommit to the values which have served it so well ever since the successful introduction of financial services competition in the 1980s. Embracing Open Access to launch the next phase for the UK as a world-leading financial center and set the global standard for excellence in the trading and clearing of exchange traded derivatives.

Sincerely yours,

Piebe Teeboom
Secretary General FIA EPTA

Alexander McDonald
CEO EVIA

Cc:
Rt Hon Mel Stride MP, Chair, House of Commons Treasury Committee
Baroness Donaghy, Chair, House of Lords EU Services Sub-Committee
Bim Afolami MP, Chair APPG Financial Markets and Services

About FIA EPTA

The FIA European Principal Traders Association (FIA EPTA) represents 30 independent European Principal Trading Firms (PTFs) which deal on own account, using their own money for their own risk, to provide liquidity and immediate risk-transfer in exchange-traded and centrally-cleared markets for a wide range of financial instruments, including shares, options, futures, bonds and ETFs.

FIA EPTA members are independent market makers and providers of liquidity and risk transfer for exchanges and end-investors across Europe, including the UK. FIA EPTA's members are based in the Czech Republic, Germany, Ireland, The Netherlands and the UK (~70% of our members having been licensed by the FCA).

About the European Venues and Intermediaries Association

EVIA promotes and enhances the value and competitiveness of Wholesale Market Venues, Platforms and Arranging Intermediaries by providing members with co-ordination and a common voice to foster and promote liquid, transparent and fair markets. It has built a credible reputation over 50 years, by acting as a focal point for its members when communicating with central banks, governments, policy makers, and regulators.

EVIA's core strength is the ability to consolidate views and data and act as a common voice for an industry operating in a complex and closely regulated environment, by acting as a central point for the industry and providing clear communication with central banks, governments, policy makers, and regulators.

EVIA provides specific standards and maintains a clear focus and direction for the participants and stakeholders across the market ecosystem, building upon a credible reputation from over 50 years of experience.

EVIA was previously known as the Wholesale Markets Brokers' Association (WMBA) whose name reflected the Interdealer Broker industry and its origins began with the Foreign Exchange and Deposit Brokers' Association (FEDBA) established over 50 years ago. Its members cover global markets and facilitate the overwhelming majority of transaction volumes in the Over-The-Counter (OTC) markets.