What's to consider for Open Access for ETDs

The open access regime for ETDs was just changed, so why are we discussing it again?

MiFIR regulates under which conditions trading venues and CCPs can be linked and for which products such links can be established. On that basis, links for transferable securities and money market instruments are well established in the industry. However, MiFIR was just amended in 2024 to remove ETDs from the scope of the regime due to concerns around innovation and competition, liquidity fragmentation and loss of efficiencies, as well as operational resilience and financial stability. Political discussions on how to address the current level of equity market fragmentation in the EU and the new Commission's objectives to promote greater market integration, are sparking ideas not only to improve the functioning of the open access regime for equities, but also to re-consider the exclusion of ETDs.

Will open access for ETDs help address market fragmentation, ultimately reducing costs for market participants?

Instead of addressing fragmentation, changes to the open access regime would do the exact opposite and lead to further fragmentation of ETD markets. By fragmenting ETD liquidity pools across multiple venues, trading costs would increase for market participants to take positions or hedge risks. Further, multiple CCPs clearing for the same trading venue would increase clearing costs as netting efficiencies at the "home" CCP would be reduced and additional margins would have to be provided for collateralizing the link. While the linked CCP might offer new margin offsets or cross-CCP-margining, it would depend on a market participant's individual set-up if new efficiencies outweighed lost efficiencies and additional costs. Ultimately, however, liquidity fragmentation and loss of efficiencies could have severe knock-on effects on the underlying markets, such as European government debt markets and therefore on the wider economy.

Will open access for ETDs help address vertical silos and foster competition and innovation?

The seamless integration of trading and clearing of ETDs has fostered competition and innovation as infrastructures need to be highly responsive to market needs through product development. Where more infrastructures would just connect to the liquidity pool of an established product by one infrastructure, open access for ETDs would disincentive infrastructures to keep investing in the development of competitive alternatives and new products. Therefore, it would lead to the end of any real competition and innovation.

Open access for equities works well, so why not extend it to ETDs?

Derivatives are fundamentally different compared to cash market products in terms of maturity, complexity, and risk management requirements (e.g. no fungibility, up to 50 yrs maturity). Hence, open access for ETDs would make the default management process and recovery & resolution more complex, more time-consuming, and riskier. It would add additional contagion risks and create single points of failure, liquidity constraints, and costs: ETD links would introduce a direct channel of contagion between CCPs arising from inter-CCP exposures of market participants, which may lead to under-collateralization and liquidity squeezes. Higher margin and default fund contributions (DFCs) would be required to mitigate risks, resulting in increased costs for market participants. As the linked CCP would become the largest member of the "home" CCP, the "home" CCP would have to collateralize the link with additional margins, potentially eating up any netting benefits for clearing members. Therefore, the recent removal of ETDs from the open access regime provided a strong signal regarding the unresolved risks associated with the concept.