Markets in financial instruments

2002/0269(COD) - 24/02/2004

The committee adopted the report by Theresa VILLIERS (EPP-ED, UK) amending the Council's common position under the 2nd reading of the codecision procedure. It reinstated a number of amendments adopted by Parliament at first reading which were not taken up by the Council, dealing mainly with pre-trade transparency, the definition of internalisation and execution-only services. On pre-trade transparency (Article 27), the committee laid down a requirement to quote in a "standard market size". The amendments also allowed for "price improvement" (whereby firms that internalise orders can offer their clients a better price than the publicly quoted price) for orders from professional clients under certain conditions. To reach a compromise with Council, the committee was more restrictive about allowing price improvement for orders from retail clients, which MEPs believed in general should be executed at the quoted price. They said that a better price for retail clients should only apply in "distinctive" circumstances. The amendments also limited the discretion of the Commission regarding the definition of the "standard size" which triggers the requirement to make public firm bid and offer quotes. The Commission would therefore have to take into account prevailing local market conditions, the effect on liquidity and price formation among other factors. As for execution-only services, where no advice is given, the amendment simplified the text. It was less restrictive than the common position, making it easier for intermediaries not to have to comply with the suitability test (Article 19). Other amendments dealt with commodities and derivatives, introducing criteria to define when they can be considered a financial instrument for which the single passport applies.