

Markets in financial instruments

2002/0269(COD) - 30/03/2004 - Text adopted by Parliament, 2nd reading

The European Parliament adopted the resolution drafted by Theresa VILLIERS (EPP-ED, UK) in line with a compromise worked out between the rapporteur and the Council. Under the terms of the compromise, the Council will change the threshold of block-sized quotes, above which firms do not have to disclose publicly the price of trades before a transaction takes place. This means more transactions will be excluded from the obligation to publish pre-trade prices. The threshold for the quoting obligation will now be the "standard market size" instead of "large in scale compared to normal market size". The calculation for the standard market size will be based on an arithmetical average of orders executed in the market. The standard market size for any class of share must not be significantly disproportionate to any share included in that class. Concerning price improvement, the common position remains basically unchanged. Accordingly, significant restrictions remain on the price improvement clauses, which allow quoted spreads to be wider than the best bid on offer, so as to protect against the additional risk of public quotes. Firms will not be able to improve on their public quote when dealing with retail clients. Price improvement will be possible for professional clients, under stricter conditions than Parliament had proposed. The directive will allow, as Parliament had requested, execution only services to continue, though under more complex conditions than those proposed by Parliament. The definition of firms that must comply with the directive remains largely unchanged. A new recital states that it is not the intention of the directive to require the application of pre trade transparency rules to transactions carried out on an OTC basis, the characteristics of which include that they are ad-hoc and irregular and are carried out with wholesale counter parties and are part of a business relationship which is itself characterised by dealings above standard market size, and where the deals are carried out outside the systems usually used by the firm concerned for its business as a systematic internaliser.