Euronext Response to the IOSCO Consultation Report on the Evolution in the Operation, Governance, and business Models of Exchanges: Regulatory Implications and Good Practices

A. About Euronext

1. Euronext welcomes the opportunity to comment on IOSCO's Report on the Evolution in the Operation, Governance, and business Models of Exchanges: Regulatory Implications and Good Practices ("the Report"). Euronext is a pan-European market infrastructure group operating regulated and transparent equity and derivatives markets, one of Europe's leading electronic fixed income trading markets, FX and power trading markets and is the largest centre for debt and funds listings in the world. Euronext also provides advanced market data services and a range of indices and index solutions, clearing via Euronext Clearing and settlement services via four CSDs as well as innovative corporate and investors services.

2. Since its inception, following the merger between the exchanges in Paris, Amsterdam, and Brussels in 2000, Euronext has strived to connect markets, opening up a deep single liquidity pool to its investors and its issuers. In so doing, Euronext has gone through several corporate and regulatory evolutions, leading to the current model it operates within the framework of EU legislation.

3. As a true pan-European financial markets infrastructure provider across trading, clearing and settlement, Euronext helps overcome issues of fragmentation, providing benefits to investors and issuers alike. After Euronext migrated the trading of Italian securities on its proprietary technology platform in 2023, investors and issuers can now benefit from a single liquidity pool with an aggregated market capitalization of more than € 6.5 trillion. In 2023, c. 24% of European equity flows have been traded on the Euronext platform. It is this combining of liquidity that promotes efficiency for investors, deepens the orderbook and contributes to price formation.

4. It is important to note, before addressing specific questions arising from the Report, that we acknowledge the fact that the Report seeks to reflect a global view. However, Euronext is based in the EU, operating as a group with exchanges in seven EEA countries, and our contribution will reflect our position from the viewpoint of this experience. We believe the approach iterated by IOSCO makes sense in situations where exchanges operate as a single entity. We, however, do not believe the approach described in this Report is suitable for exchanges operating in a group structure.

5. We believe that, in order to move forward to further global convergence, **a more ambitious approach is essential**. As a Financial Market Infrastructure (FMI) consolidating multiple exchanges into the federal model we operate, we have witnessed the challenges the European legislative and supervisory frameworks pose today.

6. In this respect, we have two broad recommendations: (i) it is critical that the Report is amended to include a greater **recognition of the diverse way in which regional capital markets are developed and exchanges are operated**, with this translated

into the practices and recommendations; and, (ii) while we acknowledge this point is not part of the consultation, we take the opportunity to reiterate the point that EU policymakers should support a **convergent single supervisory framework in the European Union,** thereby supporting IOSCO's further coordinating role in global supervision. The supervision of pan-European groups operating exchanges should ultimately transition under a **single supervision authority** to ensure a true level-playing field and a single application of rules.

B. The 6 Good Practices

7. While the objectives are supported, the Report fails to acknowledge the reality of exchanges operating within group constructs in Europe, maximizing efficiencies under applicable regulatory frameworks that ensure good governance, the management of risks and conflicts. As such, we believe the Report should **better reflect the diverse nature of the way exchanges are organized,** i.e. accepting the reality of consolidation and incorporate this into the Good Practices.

8. The current recommendations are primarily focused on individual, national responsibilities, which in our view does not do justice to the efforts taken by exchanges in Europe to consolidate and integrate markets within the context of sound and prudent regulatory frameworks. Indeed, it seems the Report does not take into account all the work done to progress the EU Single Market and the harmonised regulatory framework, and the manner in which exchanges have adapted accordingly. Specifically, Euronext has led the way in reducing fragmentation by making important strides in EU capital markets integration. **Our deep single liquidity pool now spans seven European countries,** with a diverse investor base trading via a single trading technology on the basis of harmonised rules. It is clear that market-driven initiatives such as these contribute to capital markets integration.

Euronext suggestions with respect to the Practices

9. IOSCO recommends that exchanges need to be governed primarily in their home state. This suggestion does not, however, reflect the reality of how certain (Group) exchanges are organized in Europe and goes against the current debate in Europe around the need to accelerate integration in finance and create deeper pools of liquidity, and on harmonised and central supervision to increase competitiveness of European markets in a global scenario.

10. While we agree that local exchanges still carry **a relevant function in the local economies** and that local expertise is very much required, the Practices should recognize the need for further efficiencies when exchanges are operating in a Group: **exchanges that choose to consolidate should not be prevented from introducing group efficiencies** that support their clients' needs, delivering shareholder value.

11. We agree that to date the system of regulatory cooperation for groups of multinational exchanges has worked well within the limited construct the current regulatory framework

provides. From its original foundation, Euronext has grown, with a vision of connecting markets.

12. Euronext is subject to a College of Regulators governing its Regulated Markets in Europe. Our experience – and the benefit the Group has derived from such arrangements – is broadly positive. However, these arrangements, and the supervisory ethos required to make them a success, needs to be recognised in the Report. Ultimately, as indicated above, we see the need for pan-European supervision, certainly in respect of cross-border FMI. At the very least, there is a need to allow for further streamlining of group efficiencies: the concept of group application should be considered in this case too, and duplication of roles and divergence of requirements should be eliminated.

13. At the same time, and having experienced this structure for over two decades, we believe more can be done. Despite best efforts in harmonising regulatory and supervisory approaches, enforced by multiple national competent authorities, Euronext still faces divergent applications of European rules across its European markets.

Euronext recommendation

14. We believe the Report should go further and recognise the diverse nature of exchanges governance. While we acknowledge the fact that the Report seeks to reflect a global view, Euronext is based in the EU, operating as a group with exchanges in seven EEA countries, and our contribution will reflect our position from the viewpoint of this experience.

15. The approach proposed by IOSCO makes sense in situations where exchanges operate as a single entity. We do, however, not believe it is suitable for exchanges operating in a group structure. As such, we strongly suggest that IOSCO should incorporate in its recommendations a recognition of the way different exchanges operate, particularly as Groups. For instance, a recognition of group structures with a matrix organization (even across multiple jurisdictions) which are able to address all regulatory obligations while delivering efficiencies derived from operating as a Group. These efficiencies should be fostered and allowed within the different regulatory structures that exist.

16. We realize the following point is not specifically in scope of the Report, but the European regulatory framework for exchanges is the foundation of one of the challenges we face today and is relevant for the topics raised by IOSCO.

17. When pan-European groups face similar, but different rules, enforced by multiple national competent authorities, the resulting complexity prevents value creation commensurate with the potential of European economies. Today, Euronext still faces divergent applications of rules across its European markets. We must progress towards a **single set of rules, enforced by a single supervision authority.** It requires the **phasing-out of national exemptions and domestic 'gold-plating' of EU regulations**, as well as a reformed and empowered European Securities and Markets Authority. **Pan-European groups should transition under a single supervision authority** to ensure a true level-playing field with subsidiaries of global financial firms operating from a single country. Prioritizing, in such a context, national competencies and responsibilities would

clearly be counter effective: for FMIs to fully operate on a consolidated basis there is a need for: (i) a true single rulebook, (ii) an absence of local gold-plating or regulatory discretion, and (iii) fully harmonized supervision.

18. We believe this is the most efficient way for financial market infrastructures such as Euronext, also in the context of Capital Markets Union, to create full value and efficiency.

C. The Questions

Question 1 - *Do you agree with the analysis provided and the trends identified in Chapter 2*

19. We indeed agree with the analysis. Euronext has been at the forefront of connecting markets to the benefit of investors and issuers seeking capital, aligned with the goal of European policymakers to create a true Capital Markets Union. The existence of strong and liquid capital markets supports the growth of the European economy and provides access to capital markets for issuers, including SMEs, providing reliable price formation and risk management. In the IOSCO Report, **not enough emphasis is placed on the importance of public financing and the need for deep liquidity pools** in order to strengthen the financing opportunities for companies.

20. Capital market financing also supports and adds discipline to the transformation to a green and digital economy. Public markets are one of the major transmission tools towards greater sustainability and digitalisation, encouraging best practices in corporate governance, the internationalisation of companies, transparency, and environmental stewardship.

21. Capital markets can also promote a broader investor culture and a more efficient pension system. By easing pressure on public finances through improved risk-sharing, public markets play a vital role in societal wealth creation and can complement public pension systems. The EU must regain global competitiveness through the removal of single-market barriers and development of deep and liquid capital markets so that European companies can grow and flourish. Over recent decades the EU has been losing out to other regions of the world, but the decline in public markets is a common trend globally.

Question 2: Have you identified other major trends regarding the changes in the business models of exchanges?

22. We recognise the apparent diversification of revenue streams within exchanges, which is a trend that cannot be ignored. Shareholders do rightfully demand return on investment and optimizing by way of diversification is addressing this demand. Furthermore, while we understand the focus of this consultation being aimed primarily at exchanges, we should also understand that the majority of trading these days is taking place on les lit or dark platforms and via internalisation. We believe that the focus of regulatory concerns should be addressed at improving a transparent environment for investors to have access to the most efficiency price formation processes possible.

Question 3: If yes, what other factors do you think might have contributed to the additional trends identified?

23. No comment.

Question 4: Do you agree with the risk and challenges identified in Chapter 3?

24. **Conflicts of interests:** we recognize the concerns by IOSCO on potential conflicts of interests. This is why the regulatory framework underpinning the operation of exchanges requires the management of such. Indeed, the pooling of expertise does provide optimal outcome, convergent approach towards clients and an efficient structure. Decision making processes are well monitored and structured in a way to prevent and manage conflicts of interest as per (in the case of Euronext) the MiFID requirements.

25. **Outsourcing:** we agree that outsourcing practices need to be in place to manage the related risks. However, we believe there is a need for greater recognition of the advantages and benefits arising from outsourcing in the context of FMI groups. Sectoral FMI EU legislation should better reflect the reality of operating in a group. For example, in the EU for trading venues, there is no differentiation in the approach taken on outsourcing depending on whether the entity providing the outsourced service belongs to the same group, intra-group outsourcing, or is a completely separate third-party service provider, external outsourcing.

26. This approach seems specific to exchanges, and we have noted that investment firms are able to benefit from a group approach for outsourcing. They are allowed to differentiate the approach they take to compliance depending on whether the outsourcing is between two entities of the same group, intra-group outsourcing, or to a completely external third-party service provider, external outsourcing.

27. **We suggest this differentiation between intra-group outsourcing and external outsourcing should apply equally to regulated markets**. We believe legislation should be updated to reflect standard market approaches that have been accepted in many financial industries and should equally apply to the exchange industry.

Question 5: Do you think there are other risks and challenges that have not been identified?

28. Euronext would like to reiterate the point that not acknowledging the reality of operating at a group level could lead to risks as well. Duplication of efforts within separate legal entities failing a regulatory acknowledgment of a group, has the inherent increased risk of errors and differences in approaches.

Question 6: Do you have comments on the proposed good practices identified in the boxes in Chapter 3?

it is critical that the Report is amended to include a greater **recognition of the diverse way in which regional capital markets are developed and exchanges are operated**, with this translated into the practices and recommendations.

Question 7: Do you have suggestions regarding other good practices and/or examples of toolkits to be included?

29. We refer to the Euronext Recommendations under (B).