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Financial regulation

MIFID overhaul necessary but missed opportunity to close key loopholes

The European Commission today presented legislative proposals aimed at reforming the Markets in Financial Instruments Directive (MIFID) (1). While the Greens welcomed some of the proposals aimed at increasing market transparency, the group has expressed disappointment that the Commission has failed to close some of the loopholes under MIFID that have harmed investors. Commenting on the proposals, Green finance spokesperson **Pascal Canfin** said:

"Overhauling MIFID is clearly an important and necessary step. We welcome the proposals to increase pre- and post-trade transparency and create a level playing field between trading venues. The provisions to ensure that high frequency traders should provide on-going liquidity are also an important measure to ensure useless short-term speculators cannot access trading venues.

"Regrettably, however, the Commission missed an opportunity to close some of the other key loopholes in MIFID. The proposals should have gone further as regards defragmenting the equity market in Europe. The fragmentation of the financial market in Europe and the development of 'Dark Pools', facilitated by the original MIFID rules, leads to major inefficiency. The Commission has also failed to take strong enough steps to clamp down on food speculation. Food markets should not be left to the whim of speculators, yet these proposals will definitely not put an end to speculation on food commodities."

Green finance and economic spokesperson **Sven Giegold** added:

"While the European Commission has proposed a ban on commissions, this will only apply to brokers who declare themselves independent, and will fail to guarantee the quality of advice for retail investors. It is little more than an incentive for brokers to delete the word 'independent' on their business cards, as was the case with similar provisions under the insurance mediation directive. A complete revision of the regulation on product design and distribution would have been necessary to prevent the false incentives caused by commissions.

"In addition, member states will still be allowed to exempt brokers that only deal only with investment funds (UCITS) from the directive. This has proved to be a damaging incentive for brokers to cover all the needs of clients with UCITS, even if UCITS are not the suitable product. On the other hand, the professional requirements for those brokers were questionable in some member states in the past. The reform of MIFID should have been used to set European standards for the entire retail distribution of financial products, and the failure to do so represents a missed opportunity."

(1) MIFID is a central part of all European regulation on financial markets, with an impact from retail investors to professional trades. The Commission is proposing splitting it into a directive and a regulation.

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Sven Giegold

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