NORGES BANK
INVESTMENT MANAGEMENT

European Securities and Markets Authority
201-203 Rue de Bercy
75012 Paris
France

Date: 01.10.2021

Re: Consultation on the review of RTS 1 (Equity Transparency)

Norges Bank Investment Management ("NBIM") appreciates the opportunity to respond to the European Securities and Markets Authority ("ESMA") review of the Regulatory Technical Standards on equity trading transparency requirements (RTS 1).

NBIM is the investment management division of the Norwegian Central Bank ("Norges Bank") and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with assets valued at EUR 1,041 billion as of 31 December 2020, of which EUR 320 billion was invested in European equities and bonds of European issuers.

As a long-term investor NBIM has a vested interest in well-functioning financial markets that facilitate the efficient allocation of capital and promote long-term economic growth and thus in a regulatory environment for trading in financial instruments that facilitates such outcomes.

Frequent batch auctions

The price discovery process in equity markets takes place in a liquid and competitive marketplace with multiple venues, electronic order books and firm, transparent bids and offers. This transparent process provides efficient reference prices for the investment firms required to secure best execution for their clients.

High quality markets allow for efficient trading in size. Trading venues that operate under pre-trade transparency waivers and auction processes on regulated markets can help institutional investors like us access more natural liquidity and limit the cost of equity trading as measured by implementation shortfall.[1] Limiting the cost for institutional investors trading in European equities, should be a regulatory concern for ESMA.

[1] *For a discussion see: «The role of closing auctions in well-functioning markets», Norges Bank Asset Manager Perspectives #2/2020*

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The introduction of Frequent Batch Auctions (FBAs) in European markets has been an important development, and an example that constructive innovation can take place within current regulation. While overall transaction volume is quite limited as a share of overall trading volume, the auctions offer a venue for us to match our trading intention with other sources of natural liquidity. FBAs allows for a more managed disclosure of trade intentions and allows for patient execution close to mid prices, making them more important to us than their overall volume share may indicate.

FBAs run in parallel with the continuous order book, unlike the periodic auctions at open or close. We are concerned that requiring further pre-trade transparency, in addition to the indicative price and indicative volume available at matching under current regulation, will lead to adverse price moves on the continuously traded lit market. Low latency market participants will reflect transparent order imbalances in the lit market and reduce the probability of uncrossing in the auction. The main effect of the alternatives put forward by ESMA will be to undermine FBAs and reduce optionality and competition in the market.

FBAs do contribute to price formation in continuously traded markets through the uncrossing information. We acknowledge that a certain fraction of trades needs to be conducted on continuous markets with full pre-trade transparency to provide efficient reference prices and maintain overall market efficacy. This function is not under treat by FBAs operating under the current regime.

Conclusion
We believe FBAs serves a clear purpose in the market and that current pre-trade transparency regulation is adequate and efficient.

We appreciate this opportunity to share our perspective on the review of RTS 1 and remain at your disposal should you wish to discuss these matters further.

Yours sincerely,

Emil R. Framnes
Global Head of Equity Trading and Transition

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Special Advisor