Media Release

DDV: “No predetermined decisions on payment for order flow”

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On the occasion of the new proposals presented by the European Commission on the EU Capital Markets Union in Brussels today, the German Derivatives Association (Deutscher Derivate Verband, DDV) called for careful examination of the payment for order flow (PFOF) model for investors and markets, and for predetermined decisions to be avoided. “The effects of payment for order flow should be examined – and with an open mind. Investment culture must be further strengthened – here the offer should not be restricted by regulation from the outset. This kind of intervention rather needs to be justified on solid grounds,” says Dr Henning Bergmann, CEO and Member of the Board of Directors of the DDV.

With PFOF, client trades – usually bound by instructions – are forwarded by a broker to one or more pre-selected execution venues. The broker may receive payment for this from the execution venue. Through such payments, providers are able to offer their clients services at low direct fees. In practice, PFOF can take different forms.

National supervisors are currently investigating PFOF, and the European Securities and Markets Authority (ESMA) is also consulting on the issue. In this context, it is surprising that the European Commission’s proposal comes at this point in time.

In its magazine *Finanztest*, the German consumer organisation Stiftung Warentest published the conclusion of its research, which indicates that PFOF offers are not associated with larger trading margins when buying and selling. *Finanztest* did not find any notable additional charges compared to the Xetra trading of Deutsche Börse.

The DDV is of the opinion that the effects of PFOF should be carefully analysed before policy decisions are made. In particular, this analysis should take into account the broker’s use of third-party payments, possible adverse effects on execution quality, market liquidity, and transparency for the broker’s clients.

Deutscher Derivate Verband (DDV), the German Derivatives Association, is the industry representative body for the leading issuers of derivative securities in Germany, who represent more than 90 percent of the German structured products market: BNP Paribas, Citigroup, DekaBank, Deutsche Bank, DZ BANK, Goldman Sachs, Helaba, HSBC Trinkaus, HypoVereinsbank, J.P. Morgan, LBBW, Morgan Stanley, Société Générale, UBS and Vontobel. Furthermore, the Association’s work is supported by 22 sponsoring members, which include the stock exchanges in Stuttgart, Frankfurt, and gettex, which belongs to the Bavarian Stock Exchange in Munich. Baader Bank, the direct banks comdirect bank, Consorsbank, DKB, flatexDEGIRO, ING-DiBa, maxblue, S Broker, and Trade Republic, as well as the finance portals finanzen.net, onvista and wallstreet:online, and other service providers.

Berlin Office | Pariser Platz 3 | 10117 Berlin
Frankfurt Office | Feldbergstraße 38 | 60323 Frankfurt a. M.

Your contact:
Michaela Roth, Head of Communciation / Press Officer
Phone: +49 (30) 4000 475-20
michaela.roth@derivateverband.de

www.derivateverband.de