The Issues and Challenges of Competition Policy in Direct Financial Markets

Constance Monnier-Schlumberger [*], **Michael Troege** [**]

[*] Associate Professor at the University of Paris. Email: constance@univ-paris1.fr

[**] Professor of Finance, ESCP Europe. Email: troege@ep.eu

Article Info

How to cite this paper: Constance Monnier-Schlumberger., Michael Troege.,. (2026). The Issues and Challenges of Competition Policy in Direct Financial Markets. *World Copmpetition*, *49*(1), 72-85. https://doi.org/10.54648/woco234262

ISSN Online: 1875-8436
ISSN Print: 1011-4548

Received: 12.03.2025
Revised: 09.10.2025
Accepted: 06.05.2026
Article Type: **ORIGINAL Research**

ABSTRACT

This article offers an analysis of the specific challenges that direct financial markets, such as money markets, markets for derivatives, currencies and bonds, pose to competition policy. These markets often fall outside the scope of tools developed in the context of traditional competition analysis, particularly those derived from theories based on the Structure-Conduct-Performance (SCP) paradigm. Drawing on a comprehensive review of the theoretical and empirical literature, we examine several fundamental issues related to competition policy in direct financial markets. First, we explore the question of market power and concentration in this sector from the theory point of view. Second, we discuss specific types of anticompetitive behaviour, such as collusion on benchmark prices, the potentially anti-competitive effects of information-sharing mechanisms and the growing role of algorithms and artificial intelligence (AI). We highlight the need to adapt the analytical frameworks and tools of competition policy in order to ensure effective competition, as well as legal certainty for financial market participants, both of which are essential to the proper functioning of these markets in a rapidly evolving environment.

Keywords: competition policy, antitrust policy, direct financial markets, collusion

1.Introduction

Direct financial markets—comprising money markets, markets for derivatives, currencies, and bonds—constitute the backbone of the global financial system. These markets facilitate the allocation of capital, enable risk management, and support price discovery for a vast array of financial instruments. Their proper functioning is essential not only for financial stability but also for the broader economy, as they underpin the financing of investment, trade, and consumption. Yet, despite their systemic importance, competition policy in these markets has received less attention than in retail banking or consumer-facing financial services.

Competition policy in direct financial markets presents challenges distinct from those encountered in traditional competition analysis (Monnier-Schlumberger & Troege, 2026). These markets are characterized by constantly fluctuating prices and the dual role of most participants as both buyers and sellers, complicating the application of conventional antitrust analysis (Association Française de Science Économique, 2024). Additionally, many direct financial markets rely on sophisticated institutional arrangements, such as information exchanges, disclosure strategies, and electronic trading tools. While these mechanisms are often necessary to enhance efficiency and transparency, they can also serve to reinforce market power or facilitate collusion (Association Française de Science Économique, 2024).

Despite these complexities, in recent years we have seen a marked rise in antitrust cases involving instruments such as interest rate derivatives, credit derivatives, and foreign exchange contracts (Association Française de Science Économique, 2024). These cases underscore the importance of addressing anti-competitive practices that can distort market functioning, even in highly regulated environments. Workshops and academic conferences, such as the one organized by the Association Française de Science Économique in December 2024, have brought together academics and practitioners to deepen understanding of both specific cases and the conceptual tools developed to address competition issues in these markets (Association Française de Science Économique, 2024).

This article offers an analysis of the specific challenges that direct financial markets pose to competition policy (Monnier-Schlumberger & Troege, 2026). The analysis proceeds as follows. Section 2 provides an overview of the characteristics of direct financial markets that distinguish them from other markets. Section 3 examines the issue of market power and concentration from a theoretical perspective. Section 4 discusses specific types of anti-competitive behaviour in direct financial markets. Section 5 examines the role of regulation and institutional arrangements. Section 6 assesses the challenges for competition authorities. Section 7 offers conclusions.

2. Characteristics of Direct Financial Markets

2.1. Defining Direct Financial Markets

Direct financial markets encompass a range of wholesale financial markets where financial instruments are traded directly between participants, rather than through intermediaries such as banks or brokers on behalf of retail customers. These include money markets, markets for derivatives (interest rate derivatives, credit derivatives, currency derivatives), foreign exchange (FX) markets, and bond markets (Monnier-Schlumberger & Troege, 2026). These markets are characterised by high volumes, significant liquidity (at least in normal times), and the participation of sophisticated institutional investors, banks, hedge funds, and other financial institutions.

2.2. Distinguishing Features

Direct financial markets differ from traditional product and service markets in several important respects that challenge conventional competition analysis (Monnier-Schlumberger & Troege, 2026).

Price Volatility and Uncertainty. Prices in direct financial markets are subject to constant fluctuation in response to a vast array of information, including economic data, monetary policy announcements, geopolitical events, and market sentiment. This volatility makes it difficult to identify and measure market power, as high prices may reflect genuine scarcity or risk rather than anti-competitive conduct.

Dual Role of Participants. Most participants in these markets act as both buyers and sellers, often simultaneously. A bank, for example, may be buying interest rate derivatives to hedge its own risk exposure while selling them to clients. This dual role complicates the identification of anti-competitive conduct, as behaviour that might appear collusive in a traditional market could be consistent with legitimate hedging or market-making activities (Association Française de Science Économique, 2024).

Sophisticated Institutional Arrangements. Direct financial markets rely on complex infrastructure, including trading platforms, clearing houses, information-sharing mechanisms, and disclosure strategies. While these arrangements are often necessary to enhance efficiency and transparency, they can also serve to reinforce market power or facilitate collusion (Association Française de Science Économique, 2024). The interactions between market participants, trading platforms, and regulators create a web of relationships that competition authorities must navigate.

Speed and Automation. Trading in direct financial markets has become increasingly automated, with algorithms and artificial intelligence (AI) now playing a central role in price discovery and execution. The use of algorithms raises novel questions for competition policy, particularly regarding algorithmic collusion, market manipulation, and the impact of technology on market structure (Monnier-Schlumberger & Troege, 2026).

2.3. The Challenge for Traditional Competition Analysis

These characteristics mean that direct financial markets often fall outside the scope of tools developed in the context of traditional competition analysis, particularly those derived from theories based on the Structure-Conduct-Performance (SCP) paradigm (Monnier-Schlumberger & Troege, 2026). The SCP paradigm posits that market structure (e.g., the number and size distribution of firms) determines firm conduct, which in turn determines market performance (e.g., prices, profits, efficiency). In direct financial markets, however, the relationship between structure, conduct, and performance is far more complex. Market structure can change rapidly, conduct is heavily influenced by regulation, and performance is measured not only in terms of allocative efficiency but also in terms of financial stability and market integrity.

3. Market Power and Concentration in Direct Financial Markets

3.1. Theoretical Perspectives

The question of market power in direct financial markets is complex and contested. In traditional markets, market power is typically identified through market share, barriers to entry, and the ability to raise prices above competitive levels. In direct financial markets, however, these metrics may not be reliable.

Market Share and Concentration. High concentration in some direct financial markets (e.g., the derivatives market, where a few large dealers dominate) has raised concerns about market power. High concentration in banking markets may reduce competition, increase prices, and contribute to financial instability (OECD, 2025). In retail banking, market concentration can limit consumer choice, increase borrowing costs, and reduce deposit rates. In wholesale financial markets, concentration can affect the pricing of financial instruments, the availability of liquidity, and the resilience of the financial system.

However, the relationship between concentration and market power in direct financial markets is not straightforward. Unlike traditional markets, where market share may provide a durable source of market power, in financial markets, market share can be volatile and subject to rapid change (Monnier-Schlumberger & Troege, 2026). Moreover, the existence of many participants in a market may not guarantee effective competition if there are barriers to entry or switching costs.

Barriers to Entry. Entry into direct financial markets is subject to significant regulatory and operational barriers. These include the need for regulatory authorisation, the requirement to meet capital and liquidity standards, the cost of developing or acquiring trading infrastructure, and the difficulty of building a client base. These barriers may protect incumbents and reduce competitive pressure (OECD, 2025).

However, the nature of barriers to entry in financial markets is complex. Some barriers, such as capital requirements, are essential to protect financial stability and investor protection (OECD, 2025). Others, such as opaque licensing processes or disproportionate compliance costs, may inadvertently limit entry and innovation (OECD, 2025). The challenge for policymakers is to calibrate prudential regulations so that they promote resilience without unnecessarily restricting competition (OECD, 2025).

3.2. The Role of Liquidity

Liquidity is a critical dimension of direct financial markets. Liquid markets are those in which participants can buy and sell financial instruments quickly, in large volumes, and at low cost. Liquidity enhances market efficiency, facilitates risk management, and supports price discovery. However, liquidity also has implications for competition.

Concentrated markets can sometimes exhibit high liquidity, as a few large dealers provide continuous bid-ask quotes and absorb order flow. However, this concentration may reflect market power rather than efficiency. Conversely, fragmented markets with many participants may experience low liquidity if participants are reluctant to trade without the assurances provided by established dealers. The relationship between market structure, liquidity, and competition is therefore complex and context-dependent.

3.3. Network Effects and Switching Costs

Direct financial markets often exhibit network effects and switching costs that can reinforce market power. Network effects occur when the value of a financial instrument or service increases with the number of users. For example, a benchmark rate (such as LIBOR or SOFR) is more valuable when many financial contracts reference it. Switching costs arise when participants incur costs (monetary, operational, or legal) when switching from one provider, platform, or instrument to another.

These features can create path dependencies and lock-in effects that protect incumbents and limit competition (UNCDF, 2024). A dominant provider of essential financial market infrastructure, such as a clearing house or trading platform, may be able to extract rents from participants who have no viable alternative. Competition authorities must therefore consider the role of infrastructure, standards, and ecosystem effects in their analysis.

4. Anti-Competitive Behaviour in Direct Financial Markets

4.1. Benchmark Manipulation

One of the most prominent areas of antitrust enforcement in direct financial markets has been in relation to benchmark manipulation. The LIBOR and FX benchmark rate fixing scandals, in which major banks colluded to manipulate key reference rates, highlighted the vulnerability of benchmarks to anti-competitive conduct (Johnson, 2024). These cases have led to significant fines and regulatory reforms, but similar concerns remain in other benchmark markets.

LIBOR Manipulation. In the LIBOR scandal, traders at several major banks colluded to manipulate the London Inter-Bank Offered Rate, a benchmark used to price trillions of dollars of financial contracts. The manipulation involved traders requesting favourable rate submissions from colleagues and coordinating their submissions to influence the final rate (Johnson, 2024). This conduct distorted market prices, harmed counterparties, and undermined confidence in the integrity of financial markets.

FX Benchmark Manipulation. In the FX market, traders at major banks colluded to manipulate the WM/Reuters benchmark rate, which is widely used by fund managers and other investors. The manipulation involved traders sharing information about client orders and coordinating trading activity to move the benchmark rate in a direction favourable to their positions (Johnson, 2024).

Lessons for Competition Policy. The benchmark manipulation scandals illustrate several challenges for competition policy in direct financial markets. First, collusion in financial markets can take sophisticated forms that may be difficult to detect. Second, the harm from such conduct can be widespread and diffuse, affecting numerous counterparties and market participants. Third, effective enforcement requires close co-operation between competition authorities and financial regulators.

4.2. Anti-Competitive Effects of Information-Sharing Mechanisms

Information sharing is central to the functioning of many direct financial markets. Participants need information about prices, trading volumes, liquidity, and counterparty risk to make informed decisions. However, information sharing can also facilitate anti-competitive conduct (Monnier-Schlumberger & Troege, 2026).

Legitimate Information Sharing. Many information-sharing mechanisms in direct financial markets are necessary to enhance efficiency, transparency, and risk management. For example, trade repositories provide a central source of information about derivatives transactions, which helps regulators monitor systemic risk. The sharing of information about counterparty creditworthiness also facilitates the smooth functioning of financial markets.

Information Sharing and Collusion. However, information sharing can also facilitate collusion by enabling firms to coordinate their conduct and monitor compliance with agreements. For example, the exchange of information about pricing, trading strategies, or client orders may enable market participants to align their behaviour or to punish deviations from a collusive equilibrium. In the LIBOR and FX scandals, the sharing of information between traders at different banks was central to the collusive conduct.

The competition analysis of information sharing therefore requires a careful assessment of its likely effects on market outcomes. Factors to consider include the nature of the information exchanged (e.g., public or private, aggregated or disaggregated), the structure of the market, and the extent to which the information is necessary for the efficient functioning of the market (Monnier-Schlumberger & Troege, 2026).

4.3. Algorithms, AI, and the Risk of Algorithmic Collusion

The growing use of algorithms and artificial intelligence (AI) in direct financial markets raises novel questions for competition policy (Monnier-Schlumberger & Troege, 2026). Algorithms now play a central role in price discovery, execution, and risk management. They may also facilitate forms of collusion that are difficult to address under existing legal frameworks.

Algorithmic Trading. Algorithmic trading involves the use of computer algorithms to execute trades automatically. It can increase market efficiency, reduce costs, and improve liquidity. However, it may also facilitate market manipulation, foster herding behaviour, and increase the risk of flash crashes.

Algorithmic Collusion. There is growing concern that algorithms may enable forms of collusion that do not require explicit agreement or human communication. For example, algorithms may learn to coordinate pricing behaviour through trial and error, effectively achieving a collusive outcome without any explicit agreement (Monnier-Schlumberger & Troege, 2026). This "tacit" or "algorithmic" collusion poses significant challenges for competition law, which traditionally requires evidence of an agreement or concerted practice.

Challenges for Enforcement. The use of AI in financial markets creates enforcement challenges for competition authorities. First, detecting algorithmic collusion is difficult when there is no direct evidence of agreement. Second, establishing intent is challenging if the collusive outcome results from the operation of algorithms rather than human decision-making. Third, the speed and complexity of algorithmic trading may make it difficult to understand and prove anti-competitive effects.

4.4. Abuse of Dominance

Direct financial markets may also be subject to abuse of dominance. A dominant firm may engage in conduct that excludes competitors, exploits customers, or otherwise harms competition. For example, a dominant clearing house or trading platform may impose excessive fees, discriminate against competitors, or deny access to essential infrastructure (Clifford Chance, 2025).

Regulatory Scrutiny. Competition authorities in several jurisdictions have launched investigations into potential abuses of dominance in financial services. For example, the Turkish Competition Board concluded a preliminary enquiry into whether scheme services levied by Visa and Mastercard amounted to exclusionary practices (Clifford Chance, 2025). In the EU, an abuse of dominance investigation was launched in the Netherlands into the acquisition of Ziemann by the money transport company Brink's (Clifford Chance, 2025).

Challenges for Enforcement. Abuse of dominance in direct financial markets can be difficult to prove. First, the definition of the relevant market can be challenging due to the complexity of financial instruments and the interplay between different market segments. Second, demonstrating that conduct is anti-competitive requires a detailed economic analysis of its effects, which may be contested. Third, the conduct may be protected by regulatory approval or justified by efficiency considerations.

5. The Role of Regulation and Institutional Arrangements

5.1. The Interaction between Prudential Regulation and Competition Policy

The relationship between prudential regulation and competition policy in financial markets is both complex and dynamic (OECD, 2025). Prudential regulation underpins the stability and trust on which deposits, credit and investment depend, while competition drives efficiency, innovation and higher-quality financial services (OECD, 2025).

Complementarity and Tension. In some respects, prudential and competition objectives are complementary. A stable financial system provides the environment in which competition can flourish, and competition can promote a more dynamic and resilient financial system (OECD, 2025). However, there are also inherent tensions. Prudential regulation can create barriers to entry, entrench incumbents, and limit the scope for competition (OECD, 2025). The challenge for policymakers is to calibrate prudential regulations so that they achieve their objectives without unnecessarily restricting competition (OECD, 2025).

Regulatory Barriers to Entry. Licensing and capital requirements play a central role in safeguarding stability but may also create barriers to entry. If set too high or without regard to differences in risk profile or institutional size, initial requirements can represent disproportionate costs for smaller firms, tilting the playing field toward incumbents (OECD, 2025). This can limit the number of firms that enter and protect incumbents even when newcomers could offer more competitive rates or innovative products.

Proportionate Regulation. Proportionate, risk-based frameworks may help reconcile prudential and competition objectives. Calibrating prudential requirements proportionally to size, complexity, or risk profiles can preserve contestability while maintaining stability (OECD, 2025). Many jurisdictions apply proportionality principles to simplify requirements for smaller institutions while remaining consistent with the overarching objectives of prudential regulation (OECD, 2025).

5.2. Institutional Arrangements in Direct Financial Markets

Direct financial markets rely on a range of institutional arrangements, including trading platforms, clearing houses, and information-sharing mechanisms (Association Française de Science Économique, 2024). These arrangements are often necessary to enhance efficiency and transparency, but they can also serve to reinforce market power or facilitate collusion.

Trading Platforms. Trading platforms facilitate the buying and selling of financial instruments. They can promote competition by reducing transaction costs, increasing transparency, and enabling access to a wider range of participants. However, a dominant platform may exercise market power, impose excessive fees, or discriminate against competitors. Competition authorities must therefore monitor the behavior of platforms and ensure that they do not exploit their position.

Clearing Houses. Clearing houses play a central role in financial markets by acting as intermediaries between buyers and sellers, reducing counterparty risk, and ensuring the smooth settlement of transactions. However, their central position may give them significant market power and create barriers to entry or switching (UNCDF, 2024). Dominant providers often control essential infrastructure such as payment switches, agent networks, or digital credit ecosystems, enabling them to influence pricing, restrict interoperability, and set access terms that tilt the playing field in their favor (UNCDF, 2024). These dynamics reduce competitive pressure, dampen innovation incentives, and raise transaction costs.

5.3. The Growing Role of Non-Bank Financial Institutions

The growing role of non-bank financial institutions (NBFIs), including FinTechs and BigTechs, introduces new forms of competition and innovation but also new challenges (OECD, 2025). These firms may compete directly with banks in some areas, providing deposit-taking, lending, or payments services. This competition can improve outcomes for consumers by lowering costs, expanding access, and fostering innovation.

However, the entry of NBFIs also raises prudential risks. Insufficient oversight or an overly narrow prudential perimeter can allow vulnerabilities to accumulate and amplify systemic risk (OECD, 2025). Moreover, the interplay between NBFIs and traditional banks creates interdependencies that may be difficult to monitor and manage. The challenge for policymakers is to foster competition from NBFIs while ensuring that they are subject to appropriate prudential oversight (OECD, 2025).

6. Challenges for Competition Authorities

6.1. Adapting Analytical Frameworks and Tools

The characteristics of direct financial markets mean that competition authorities need to adapt their analytical frameworks and tools to ensure effective competition (Monnier-Schlumberger & Troege, 2026). The traditional tools of competition analysis—market definition, market share, barriers to entry, and competitive effects—may not be adequate to address the complexities of financial markets.

Market Definition. The definition of the relevant market is a foundational step in most competition analyses. In direct financial markets, however, market definition can be challenging. Financial instruments may be close substitutes in ways that are not immediately obvious, and the boundaries between different market segments may be porous. Competition authorities must therefore be prepared to adopt flexible and economically informed approaches to market definition (Monnier-Schlumberger & Troege, 2026).

Assessment of Effects. The assessment of anti-competitive effects in direct financial markets also requires careful economic analysis. The harm from collusion or abuse of dominance may be indirect, diffuse, or difficult to quantify. For example, manipulation of a benchmark rate may affect numerous counterparties and market participants, but the magnitude of the harm may be difficult to ascertain. Competition authorities must therefore develop expertise in financial economics and be prepared to engage with complex evidence.

Algorithmic and Tacit Collusion. The risk of algorithmic collusion poses a particular challenge for competition authorities (Monnier-Schlumberger & Troege, 2026). Traditional competition law requires evidence of an agreement or concerted practice to establish a violation. In cases of algorithmic collusion, however, there may be no explicit agreement, and the collusive outcome may result from the independent operation of algorithms. Competition authorities must therefore consider whether existing legal frameworks are adequate to address this challenge, or whether new rules or approaches are needed.

6.2. Ensuring Effective Co-Operation between Regulators

The effective enforcement of competition policy in financial markets requires close co-operation between competition authorities and financial regulators (Clifford Chance, 2025). Financial regulators have expertise in the operation of financial markets and may have access to information that is not available to competition authorities. Conversely, competition authorities can bring insights about competitive dynamics and the effects of anti-competitive conduct.

Information Sharing. The sharing of information between competition authorities and financial regulators is essential for effective enforcement. However, there may be legal or practical barriers to such sharing, including confidentiality obligations and different institutional mandates.

Co-ordination of Enforcement. Co-ordination of enforcement actions can also be beneficial, particularly where the same conduct raises issues under both competition and financial regulation. By co-ordinating their efforts, regulators can avoid duplication, inconsistency, and gaps in enforcement.

Joint Initiatives. Joint initiatives, such as sandboxes, market monitoring, and forward-looking assessments, can provide opportunities to identify emerging risks, trade-offs, or complementarities (OECD, 2025). For example, regulators can work together to assess the impact of new technologies on competition and financial stability and to design proportionate regulatory responses.

6.3. Providing Legal Certainty

Legal certainty is essential for the proper functioning of direct financial markets (Monnier-Schlumberger & Troege, 2026). Participants need to understand their obligations and the risks they face. Uncertainty about the application of competition law can deter legitimate activity and undermine market confidence.

Competition authorities must therefore provide clear guidance about the application of competition law to financial markets. This includes guidance on areas of potential concern, such as information sharing, algorithmic trading, and benchmark setting. The guidance should be sufficiently detailed to enable market participants to understand their obligations, while also being flexible enough to adapt to changing circumstances.

7. Conclusion

This article has offered an analysis of the specific challenges that direct financial markets pose to competition policy (Monnier-Schlumberger & Troege, 2026). The analysis has highlighted several fundamental issues that competition authorities and policymakers must address.

First, the characteristics of direct financial markets—including price volatility, the dual role of participants, sophisticated institutional arrangements, and the growing role of algorithms and AI—mean that these markets often fall outside the scope of tools developed in the context of traditional competition analysis (Monnier-Schlumberger & Troege, 2026). Competition authorities must therefore adapt their analytical frameworks and tools to the specificities of financial markets.

Second, market power and concentration in direct financial markets raise significant concerns, but the relationship between structure, conduct, and performance is complex and context-dependent. The existence of network effects, switching costs, and regulatory barriers may reinforce the position of incumbents and limit competitive pressure. However, the appropriate policy response must take into account the prudential objectives of financial regulation and the need to maintain stability and confidence.

Third, specific types of anti-competitive conduct, such as benchmark manipulation, anti-competitive information sharing, and algorithmic collusion, pose particular challenges for competition authorities (Monnier-Schlumberger & Troege, 2026). These forms of conduct may be difficult to detect, prove, and sanction under existing legal frameworks. Competition authorities must therefore develop expertise in financial economics and be prepared to engage with new forms of anti-competitive behaviour.

Fourth, effective competition policy in direct financial markets requires close co-operation between competition authorities and financial regulators. The sharing of information, co-ordination of enforcement, and joint initiatives can help to ensure that both competition and prudential objectives are achieved. Without such co-operation, there is a risk of gaps, duplication, or inconsistency in regulation.

Fifth, ensuring legal certainty for financial market participants is essential. Participants need to understand their obligations and the risks they face. Competition authorities must provide clear guidance about the application of competition law to financial markets, while also being flexible enough to adapt to changing circumstances.

The challenges of competition policy in direct financial markets are significant, but they are not insurmountable. By adapting analytical frameworks, strengthening co-operation between regulators, and providing legal certainty, competition authorities can ensure that these markets function effectively and efficiently. Effective competition in direct financial markets is not only vital for market integrity but also for maintaining trust and stability in global financial systems (Association Française de Science Économique, 2024).

References

1. Association Française de Science Économique. (2024). Competition policy in direct financial markets. Workshop Report, December 13, 2024.
2. Clifford Chance. (2025). Financial Services Antitrust Bulletin. Clifford Chance Briefings, April 3, 2025.
3. Johnson, D. (2024). What lessons can be learnt from America's use of competition law in the enforcement of financial crime? In The Routledge Handbook of Financial Crime (pp. 127-145). Taylor & Francis.
4. Monnier-Schlumberger, C., & Troege, M. (2026). The issues and challenges of competition policy in direct financial markets. World Competition, 49(1), 27-44.
5. OECD. (2025). Balancing prudential regulation and competition considerations in banking. OECD Publishing.
6. UNCDF. (2024). Financial sector competition. UNCDF Policy Accelerator.
7. Vives, X. (2016). Competition and stability in banking: The role of regulation and competition policy. Princeton University Press.