

MiFID & EU Markets: What is Next?

Bruce Hamilton

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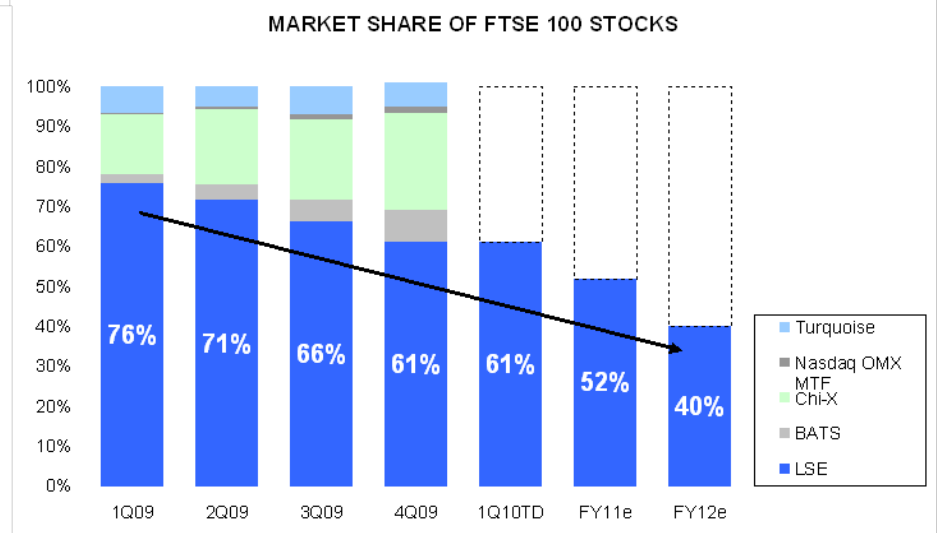
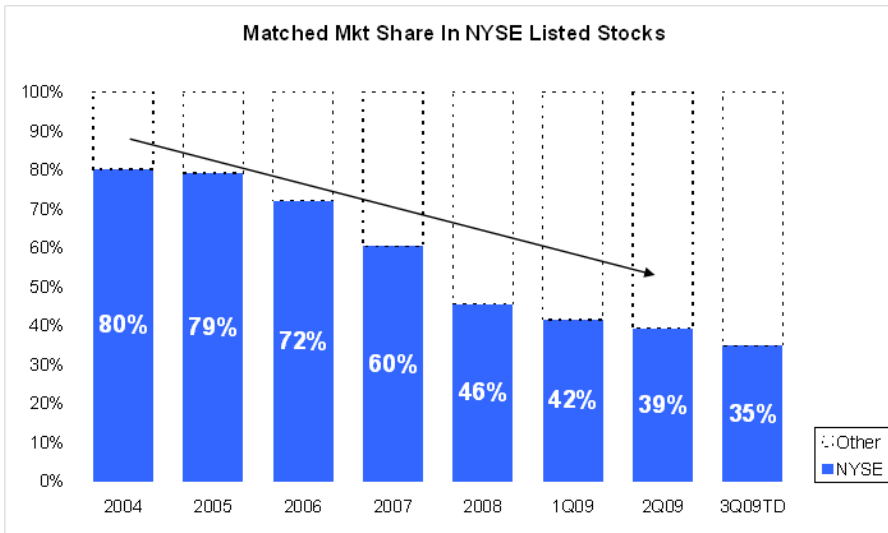
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History repeating itself? Incumbents losing market share to lower cost, efficient MTFs

NYSE market share has declined 80% 2004 to ~35% Q309

European experience is accelerated as ~15% market share loss experienced by incumbents in 2009 – same end result?



Dark pools overstated? We believe that broker crossing systems account for as little as 1.25% of European share trading

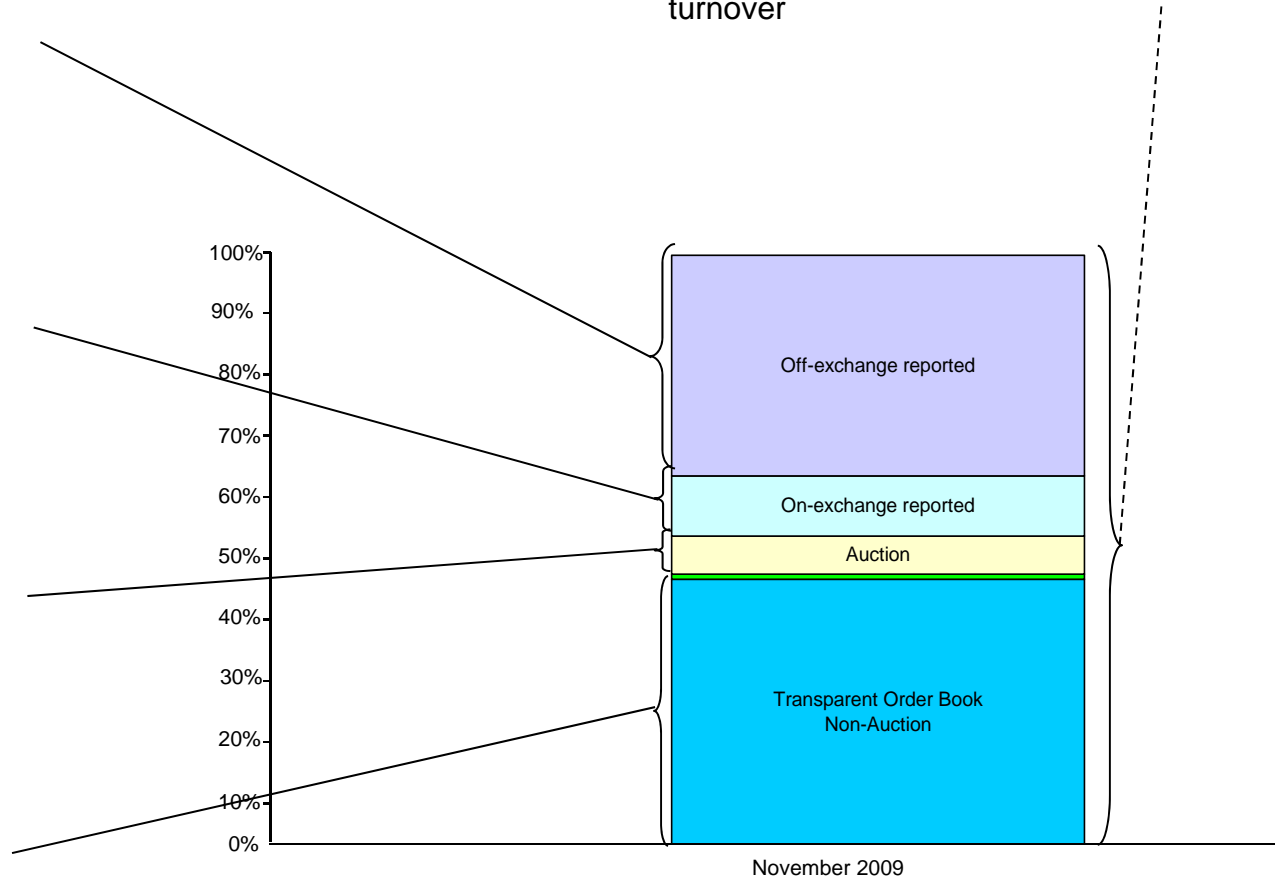
OTC trades: In UK reported to a TDM (e.g. BOAT). No pan-European reporting standard. Key focus in MiFID 2

On-exchange reported: Some firms report their off order book business to the exchanges. Something that should be considered when looking at market share numbers

Auction trades: volume reported as on order book

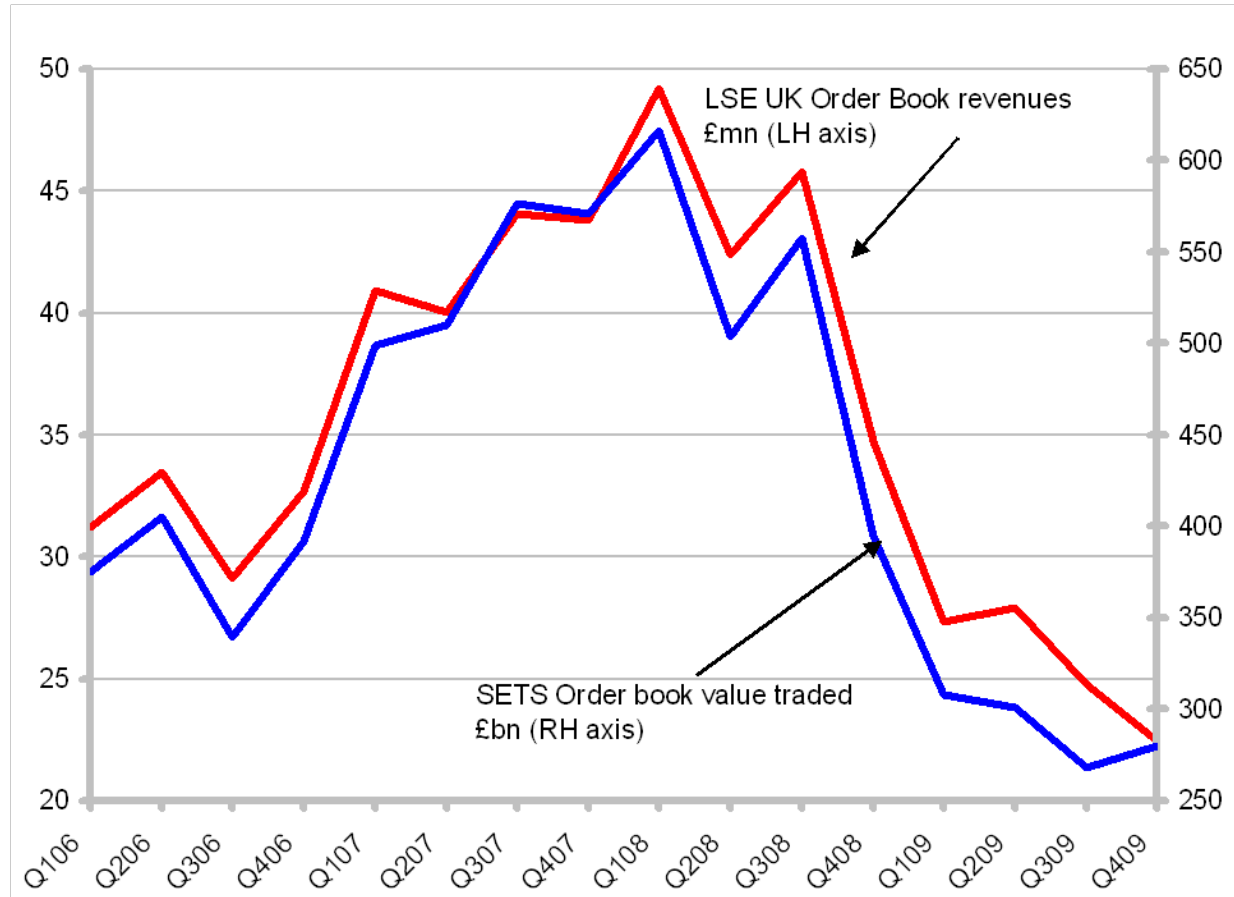
Order book non-auction: Trades reported real time by venues.

BCS: 1.25% of European share trading turnover



Despite changes in tariffs and client tierings, the cost of trading as a proportion of value traded has not materially changed for users of the LSE since 2006

Whilst larger users have benefitted from client tiering, volume discounts and other incentives, the overall cost of trading has largely tracked value traded

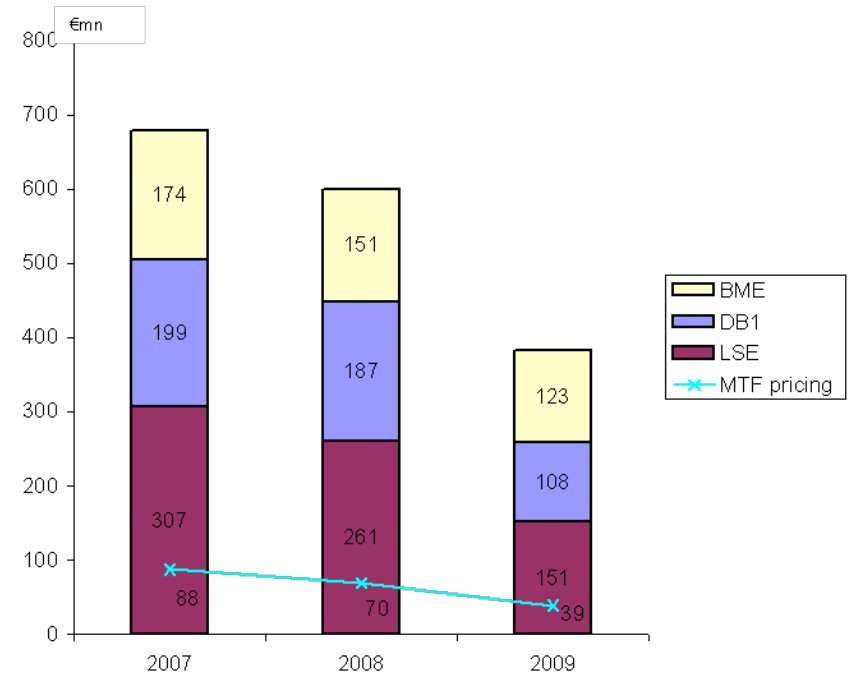
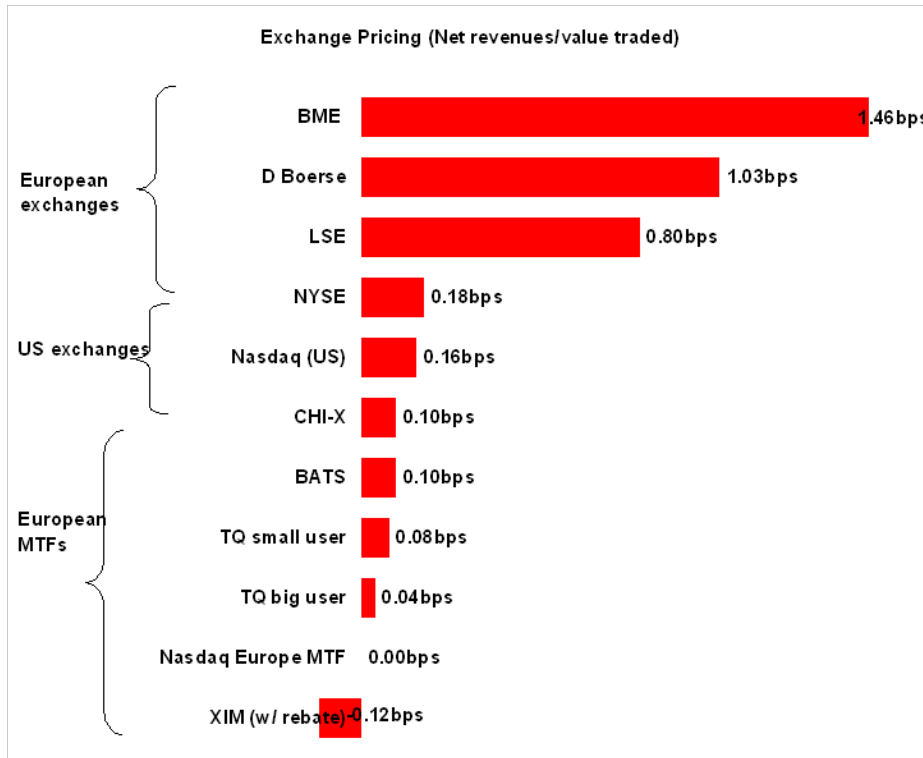


Source: Company data, Morgan Stanley Research

Lower Execution costs offered by MTFs – positive for the users, further progress to be made on execution costs to normalise to MTF levels, and on post trade costs which remain elevated in Europe

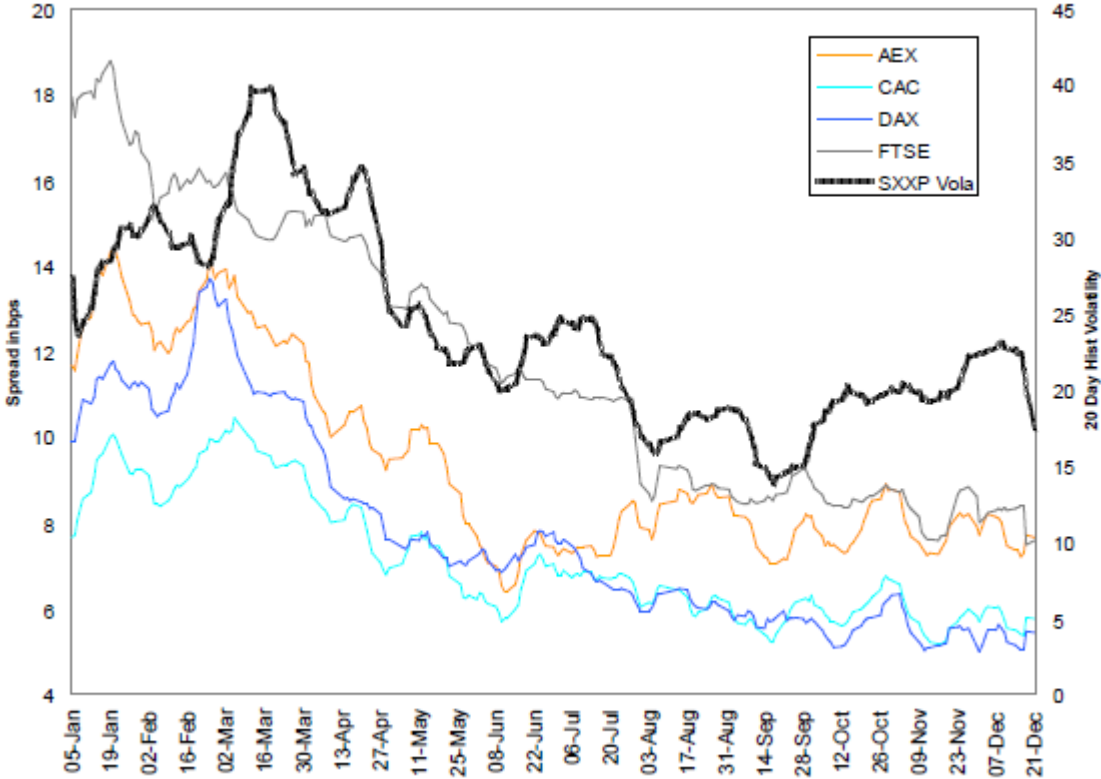
MTF pricing is ~1/10th the level charged by the exchanges

Applying the MTF price structure to European trading would imply equity execution revenues for LSE/BME/DB1 combined at €40m for 2009



We see little evidence that the fragmentation of liquidity has led to increased spreads

2009 has seen spreads decline across European markets, supported by tighter tick size schedules (led by the MTFs), Chi-x shows similar spreads to the primary exchanges

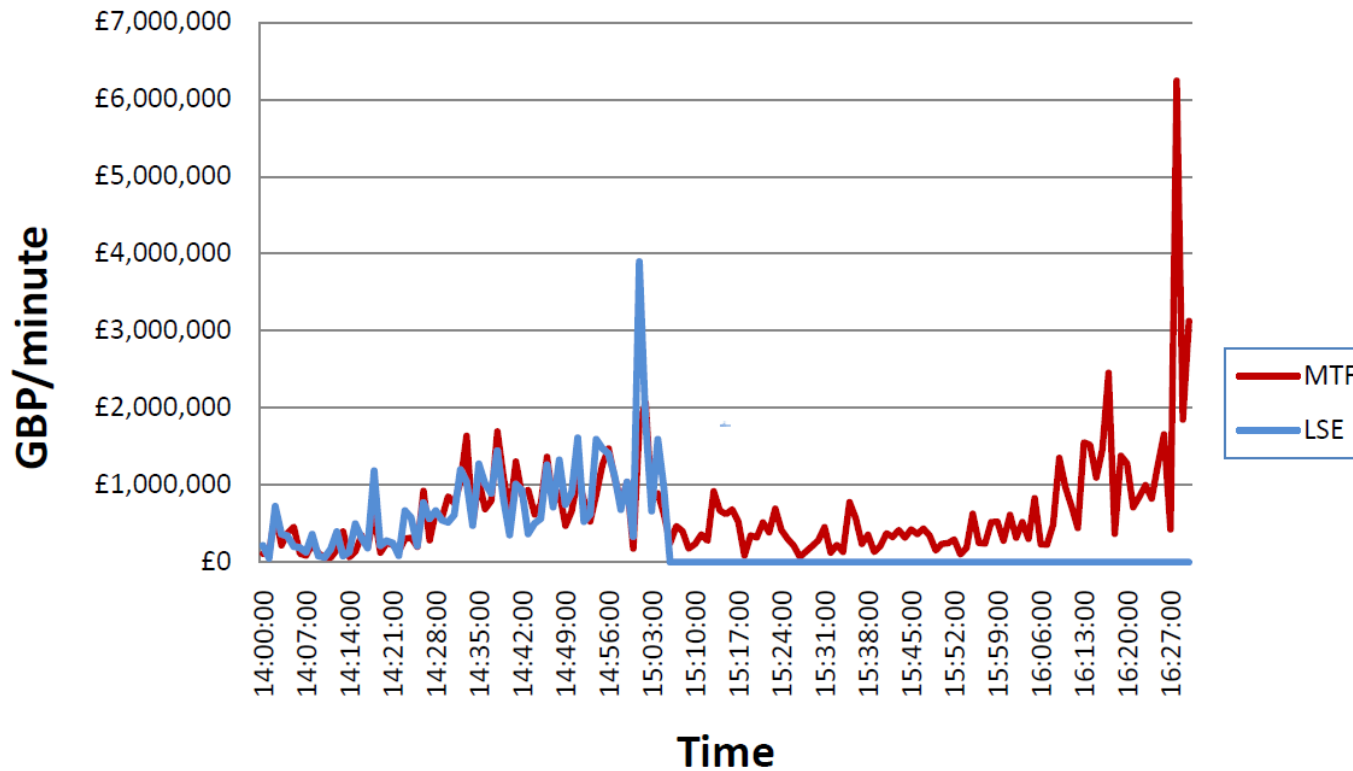


Source: Equiduct LFA, Morgan Stanley Research

Increasing market confidence in the liquidity provided by the MTFs evidenced in SETS outage 11 Nov 2009, unlike previous outage which saw market trading cease

LSE outage Nov 9th 2009 saw volumes traded on the MTFs whilst the SETS Order book remained closed

Execution rate, 2009-11-09



Source: BATS Trading Limited

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Total	2,445		693		

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