

MIFID

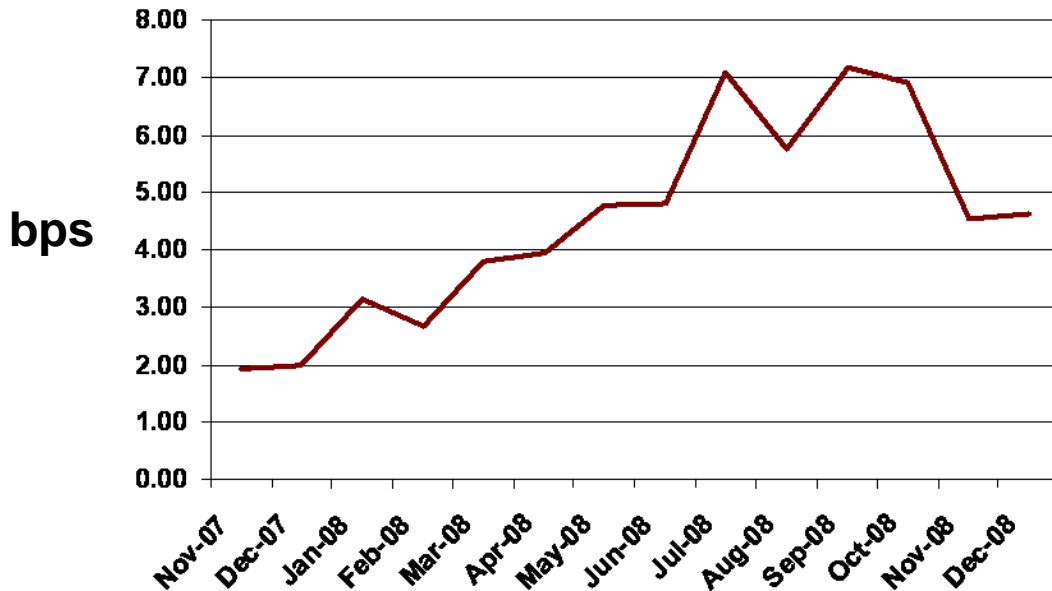
What is not working?

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The benefits of exchange competition

PRICE IMPROVEMENT : MIFID Year 1
Price improvement (MTF vs primary market)



December 2009 12.1% of all trades were missing best price

Venue	Average Loss per trade that missed Best Execution (Price Only)
BATS	3.6 bps
CHI-X	3.5 bps
EURONEXT	3.7 bps
LSE	4.6 bps
NASDAQ OMX Europe	3.7 bps
TURQUOISE	5.5 bps
XETRA	2.8 bps
ALL VENUES	3.6 bps

DARK LIQUIDITY

Stock size	Spread bp	exection price vs arrival mid bp	Dark volume as % primary
Small	77	-1.9	563
Mid	27	-2	245
Large	9.95	-4.1	150

Smart routing creates new conflicts of interests for brokers

- Do you connect to all venues, or just a few and risk missing opportunities?
- Best execution for the client vs best margins for the broker. Should a broker prioritise cost of trading in the routing decision?
- Do broker owned venues get preferential routing?
- Internalisation vs external routing?

Principles vs Prescription

Do retail investors benefit from MIFID?

“Orders in UK listed companies will be routed to the associated Member Firms of the London Stock Exchange, Plus Markets and AIM (including RSP’s and market makers); we reserve the right to route orders to investment firms who perform the same function as RSP’s outside a formally regulated market or MTF.

We request quotes from a large number of counterparties...upon receipt we route the order to the best of these”.

Do institutional investors benefit from MIFID?

Do they even care?

- Only 21% of fund managers asked more than half of their brokers for their EP
- Of the fund managers who asked 66% received responses from fewer than 20% of their brokers
- Only 7% of fund managers were asked by more than 50% of their clients for their EP
- 72% of fund managers had less than 10% of their clients request their EP

The fundamental problem with MIFID

BUNDLED COMMISSIONS

IT IS POINTLESS PROMOTING
COMPETITION IF THE END USER
CANNOT EXERCISE CHOICE.