

Cost of Execution of Retail Equity Trades in Europe

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The data

- The data cover **14** EU countries, gathered with your help. Thank you!
- **Different degrees of transparency** in fee structures, so numbers are just an approximation.
- All fees are reported in **euro**.
- The **costs** include the **overall fee** paid by the final investor, but **do not include taxes**.
- The names of banks surveyed and their country of origin were changed in order to guarantee their **anonymity**.

Purpose of the survey

- The purpose of this exercise is **not** to conduct a **rigorous scientific analysis** of the trading costs for retail investors.
- We just want to have an idea of the size of the country **differences**, if any, **in execution costs** of equity trades by private persons.
- We also want to find out whether or not there are substantial **cost differences between domestic and cross-border trades**.

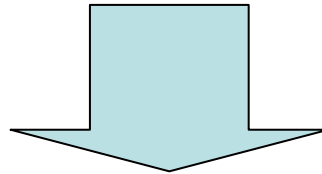
Analysis methodology

- Three different **types of trades** with “blue chips” were considered:
 - **small:** 100 shares (cash equivalent* €1430);
 - **medium:** 500 shares (cash equivalent* €7150);
 - **large:** 1000 shares (cash equivalent* €14300).
- Three different **levels of comparison** were used:
 - across countries – domestic transactions;
 - across countries – cross-border transactions;
 - within countries – domestic vs. cross-border.

* At time of analysis.

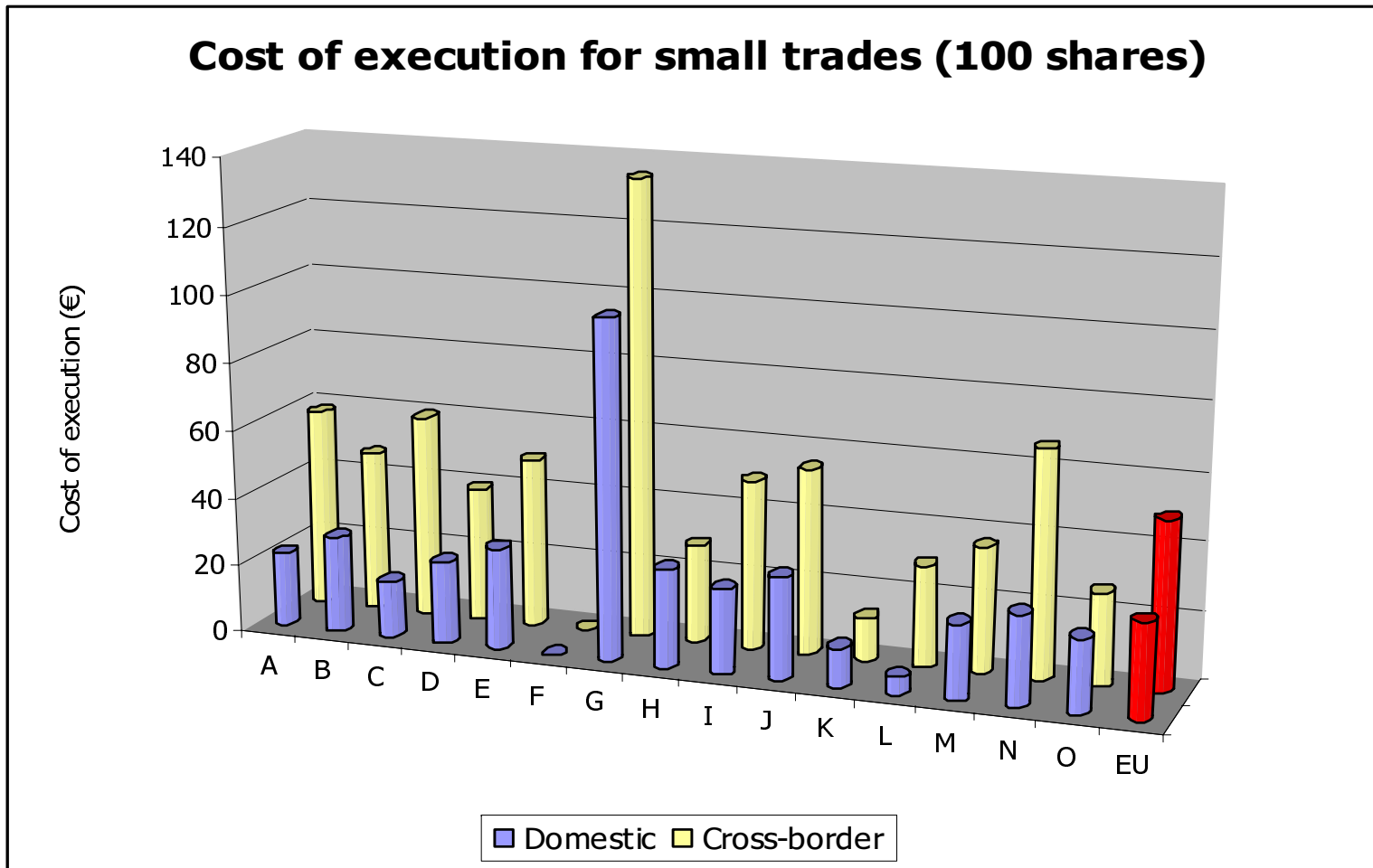
Results: small-sized trades (1)

- Costs **heavily influenced** by **minimum charges**.
- Costs of domestic trades have low variation across countries (if we exclude the two outliers), while they are somewhat bigger for cross-border trades.
- Costs for a single transaction ranging from €5 to €100 for domestic, and from €13 to €135 (almost **20% (!!!)** of value in case of a “complete” trade, i.e. buy & sell) for cross-border transactions.
- The ratio between cross-border and domestic costs ranges from 1 to 6 (EU average **1.8**).



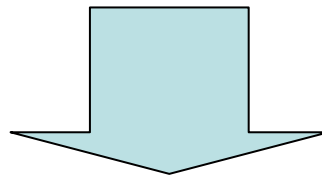
Markets highly inefficient.

Results: small-sized trades (2)



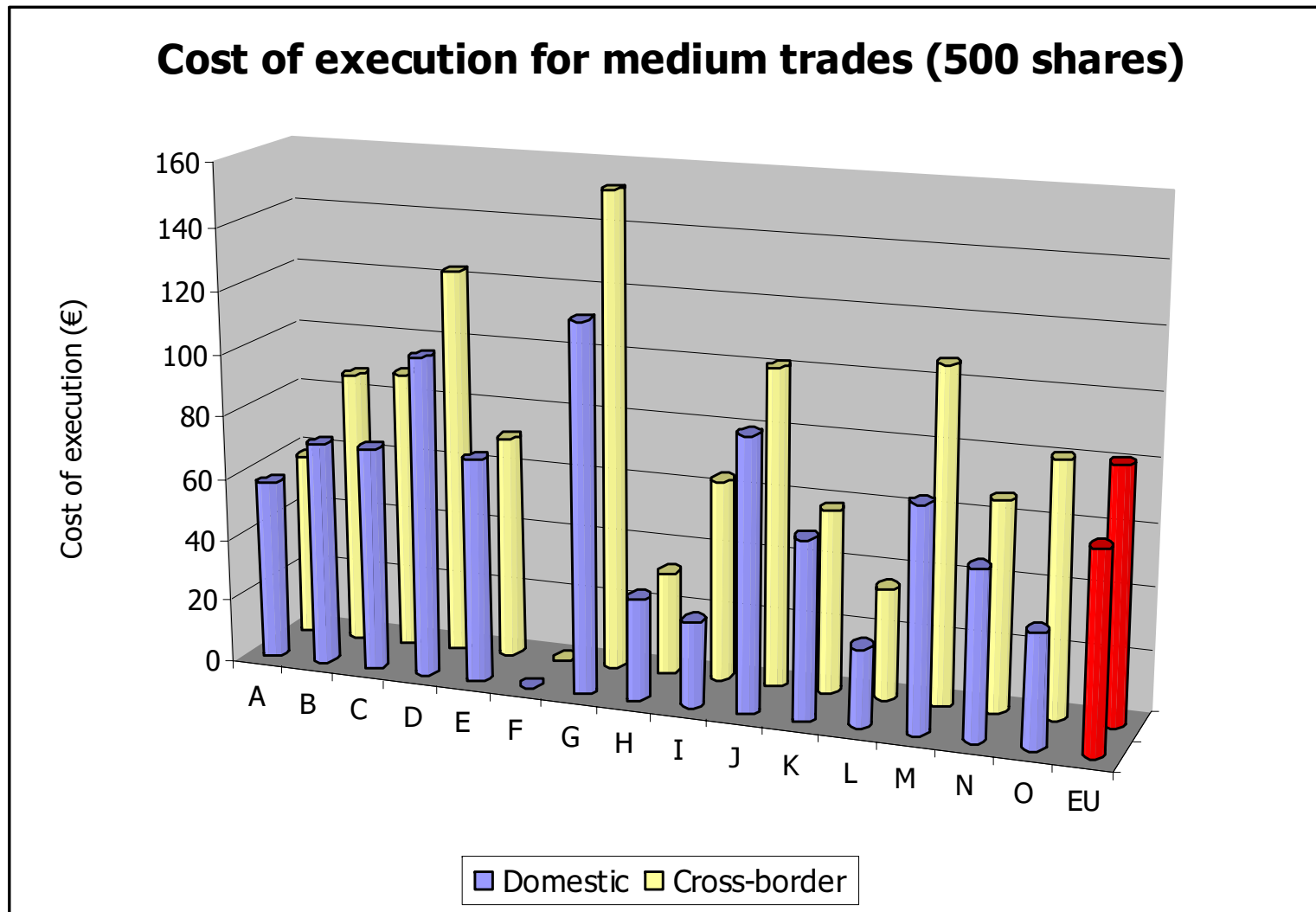
Results: medium-sized trades (1)

- **No influence of minimum charges.**
- The variation of costs (both domestic and cross-border) is larger than for small-sized trades.
- Costs ranging from €25 to €118 for domestic, and from €33 to €153 for cross-border transactions.
- The ratio between cross-border and domestic costs drops substantially (EU average **1.3**), though it still remains relatively high; only two countries have a ratio higher than 2.



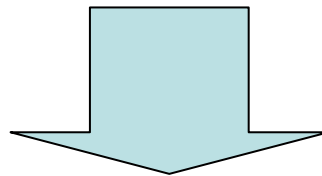
Economies of scale start to kick in.

Results: medium-sized trades (2)



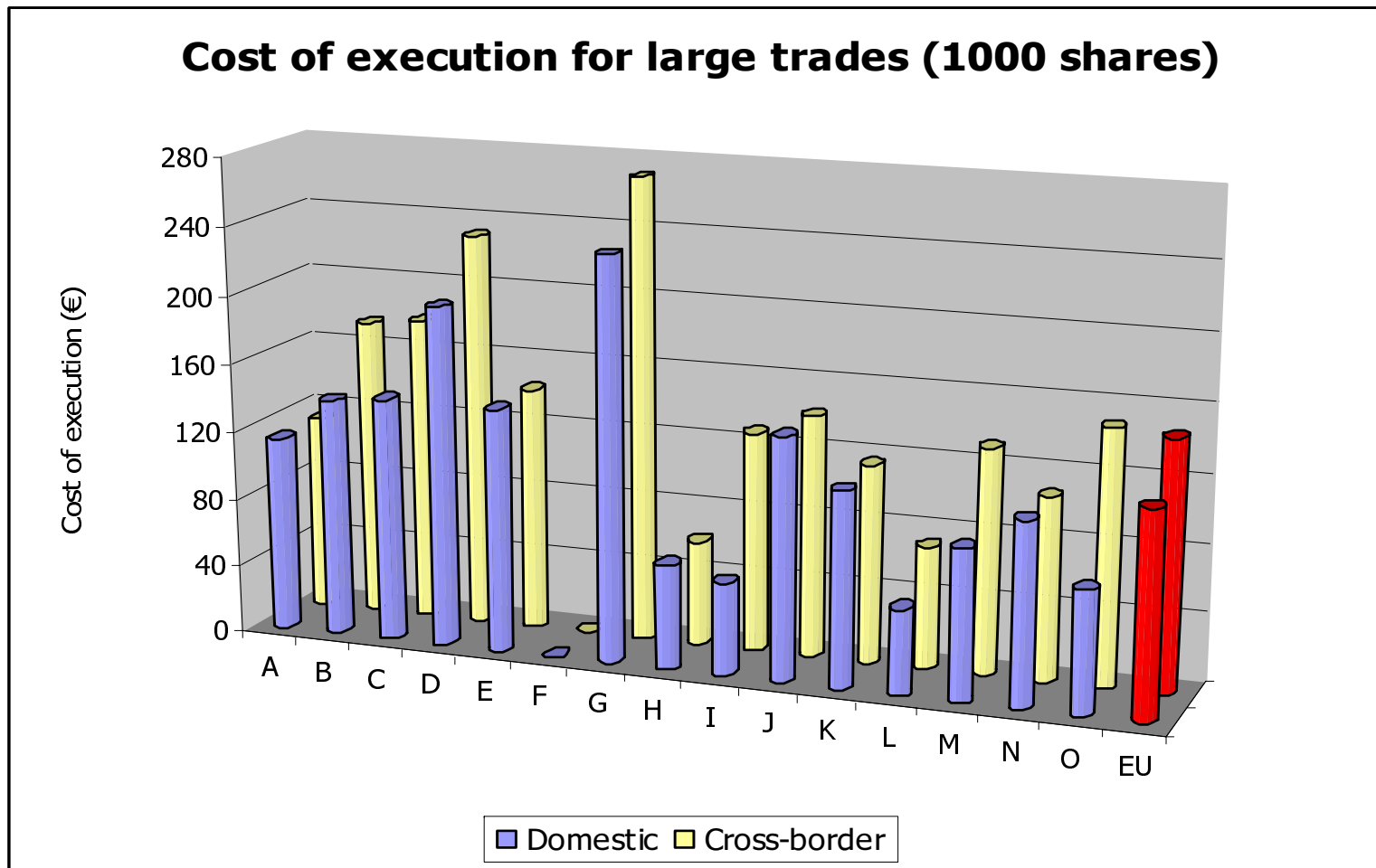
Results: large-sized trades (1)

- No influence of minimum charges.
- The variation of costs (both domestic and cross-border) is larger than for small-sized trades.
- Costs ranging from €50 to €236 for domestic, and from €61 to €271 for cross-border transactions.
- The ratio between cross-border and domestic costs falls further (EU average **1.2**), but only marginally; again, only two countries have a ratio higher than 2.



Effect of economies of scale fading.

Results: large-sized trades (2)



EU discount brokers

- To complete the analysis some discount brokers were added.
- The **fees** for an equity transaction carried out through a discount broker are **substantially lower** (going, on average, from €12.5 for small-sized trades to €22.5 for large-sized ones) compared to transactions carried out through banks.
- However, the **ratios between domestic and cross-border costs** still remain roughly at the same level as those of banks.

EU vs. US discount brokers

- Before comparing EU and US discount brokers, the meaning of the word “**cross-border**” needs to be further clarified.
- From a **US perspective**, cross-border means a US investor investing in Europe, while from an **EU perspective** cross-border refers to EU investors investing either in the US or in one of the other EU countries.
- **EU brokers are more inefficient** both in terms of levels of fees (both domestic and cross-border) and in terms of the ratio between cross-border and domestic fees.

Conclusions

- As already noted at the beginning of this presentation, this exercise does not try to be a rigorous scientific analysis.
- Nevertheless, some very interesting conclusions can be drawn from the basic analysis that we carried out:
 1. There is practically **no market for small-sized trades**: costs can swallow up to **20% (!!!)** of the value of a “complete” trade (i.e. buy & sell).
 2. There is very **little difference** in terms of efficiency between medium- and large-sized trades.
 3. Even in the case of large-sized trades, the costs are too high (up to almost 4% of the value of a “complete” trade).