

Public Hearing on the MiFID Review

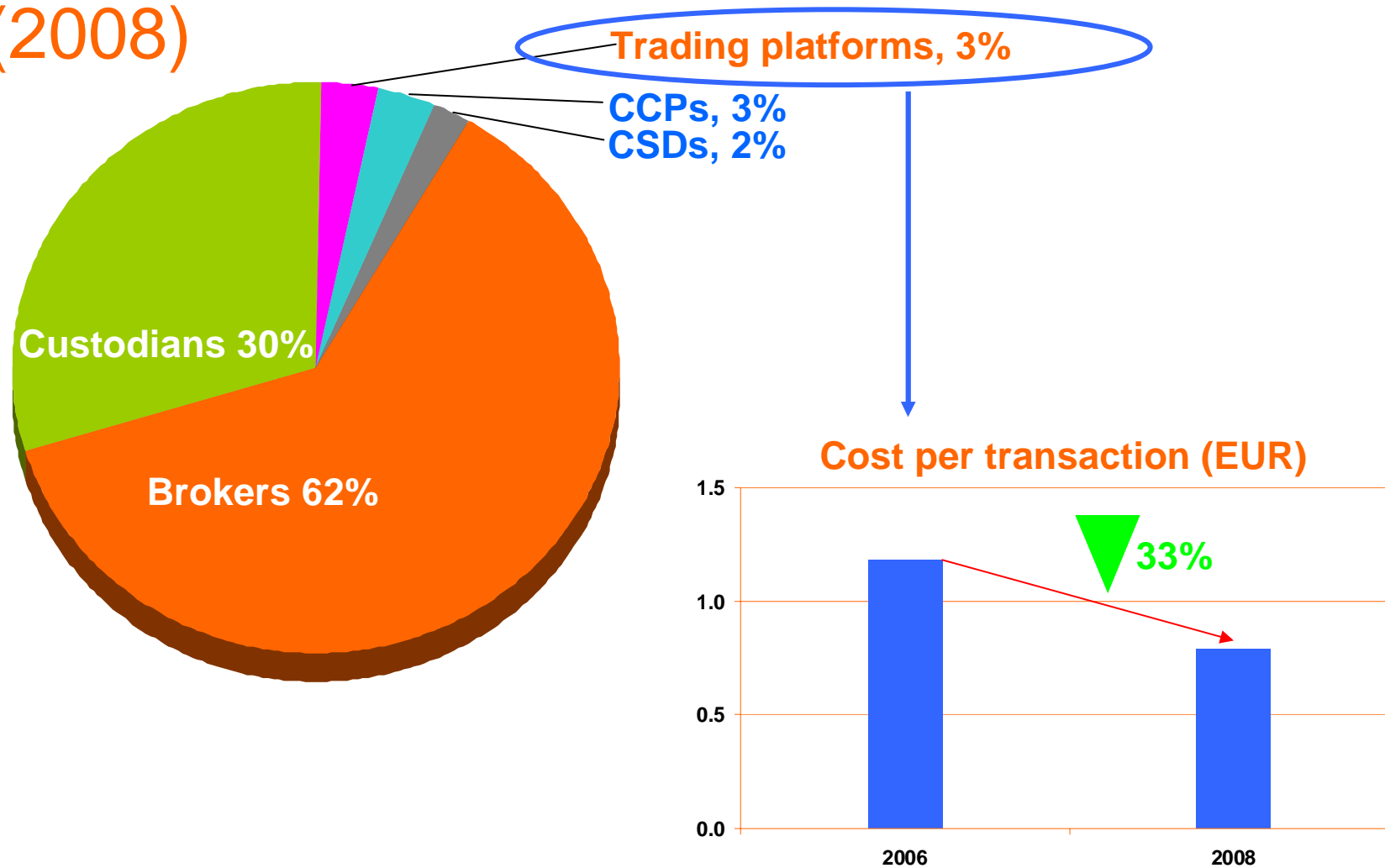
Panel III: The changing face of trading –
Achieving a level playing field for trading venues
and market participants

Judith Hardt, Secretary General
Federation of European Securities Exchanges
Brussels, 20 September 2010

Impact of MiFID

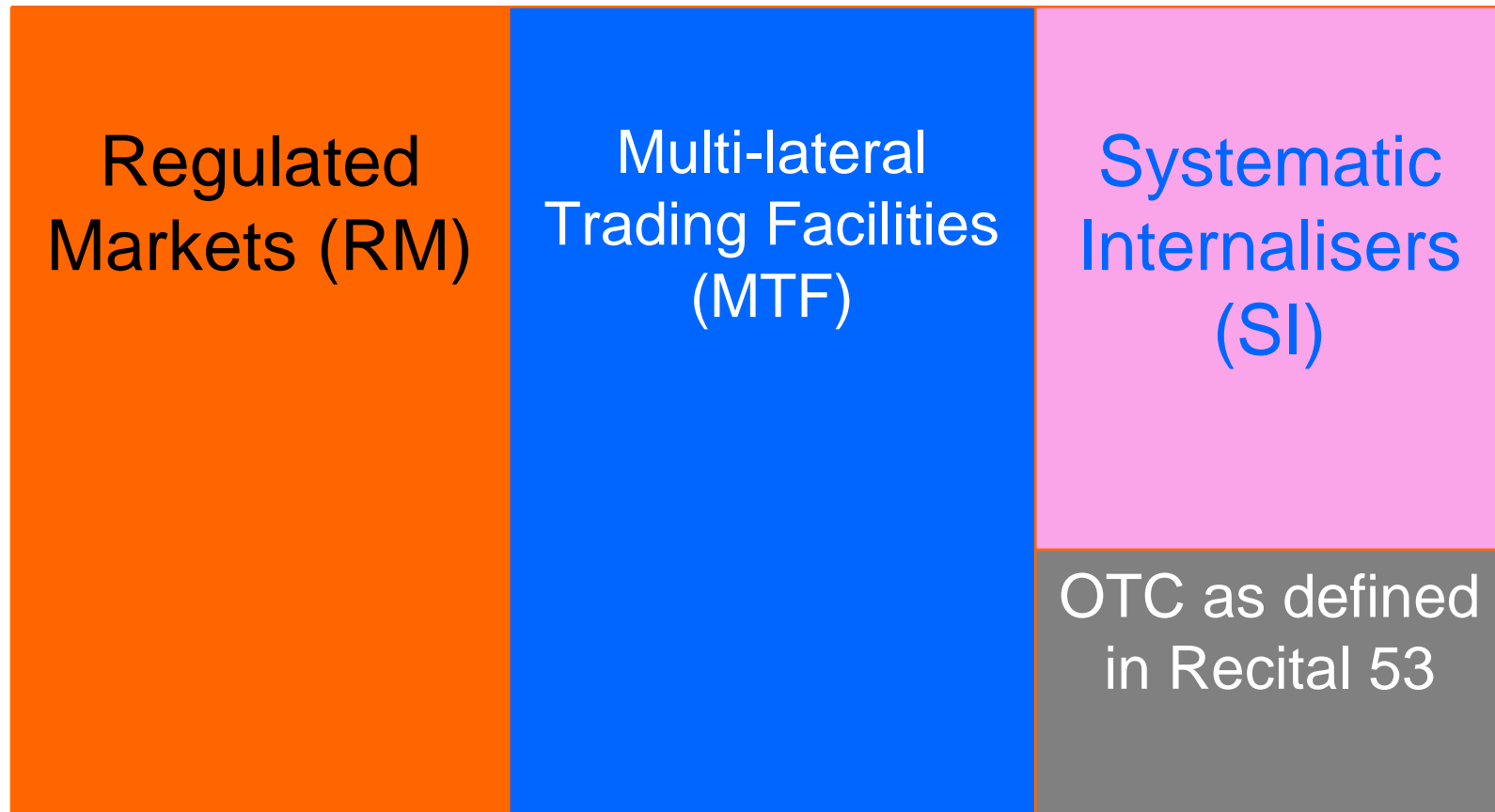
- **Positive impact of MiFID**
 - increase of Competition between trading venues
 - reduction of costs and exchange fees
 - increase of efficiency for pan-European trading of most liquid shares
- **Negative impact of MiFID**
 - Increase of opacity
 - Increase of fragmentation
 - Development of a two-tiered market between liquid shares and Midcaps and SMEs

Impact of MiFID on trading costs in Europe (2008)

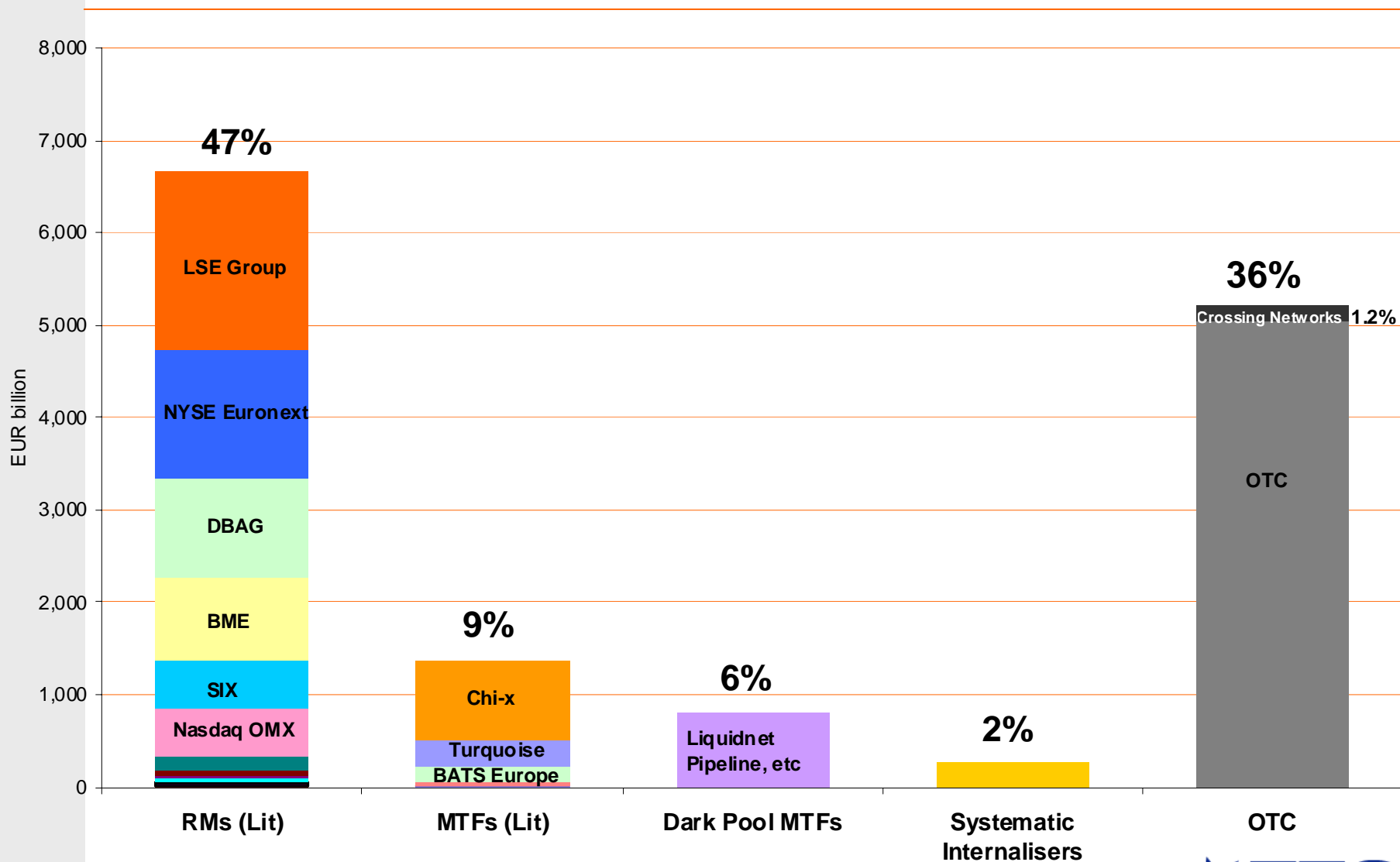


Source: EU Commission study 'Monitoring prices, costs and volumes of trading and post-trading services' July 2009

Venues competing for order flow... as required by MiFID

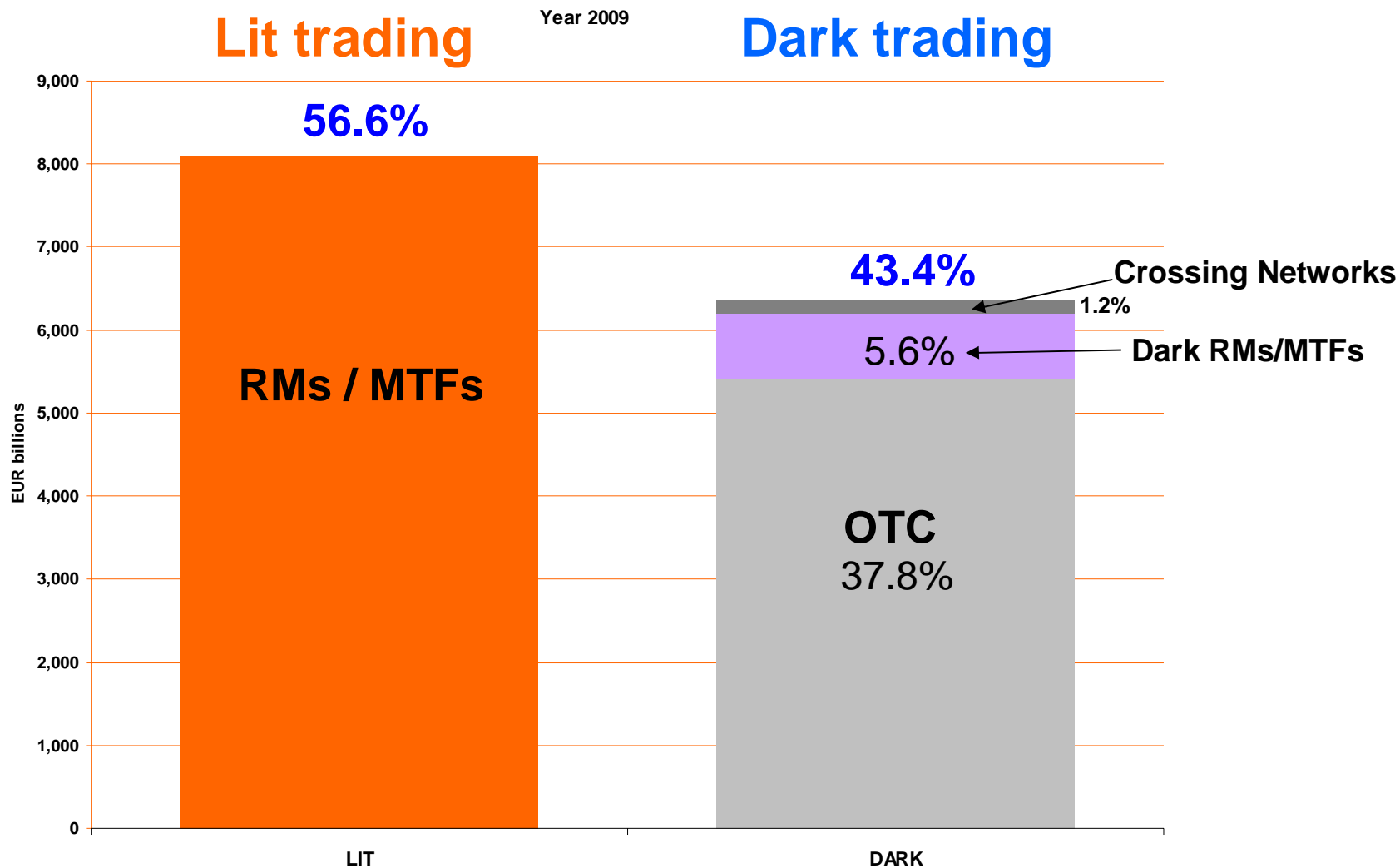


European Equity trading executed in 2009 – based on CESR figures of OTC



Note: FESE estimations reinforced with CESR CP figures on Dark trading – Dark Pool MTFs figures refer to trading under pre-trade waivers according to MiFID. Analysis based on different sources: FESE EEMR, Markit Boat, Thomson Reuters, and CESR consultation paper on Equity Markets (CESR/10-394)

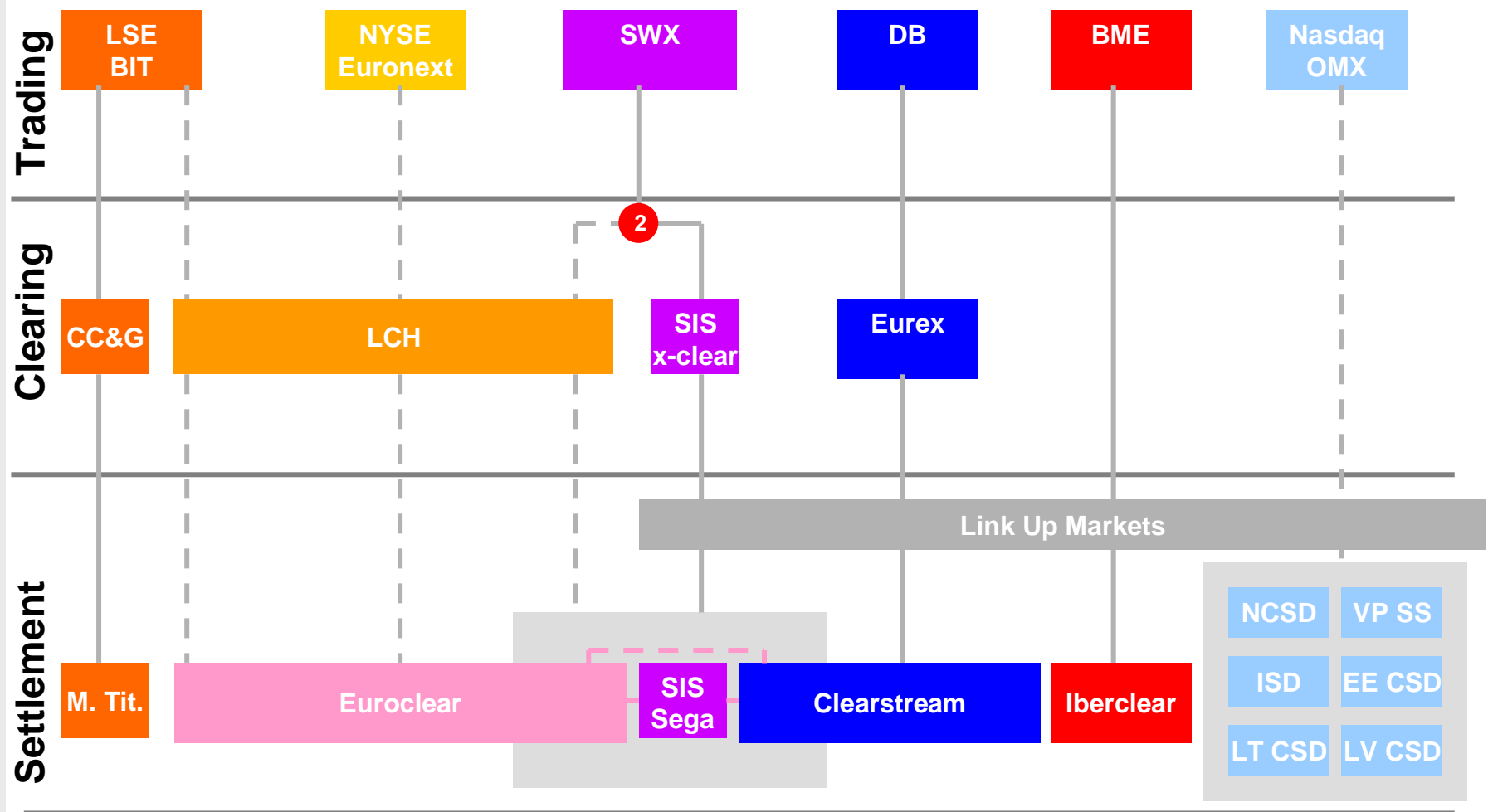
Lit versus dark trading – impact on transparency and price discovery (CESR 2010)



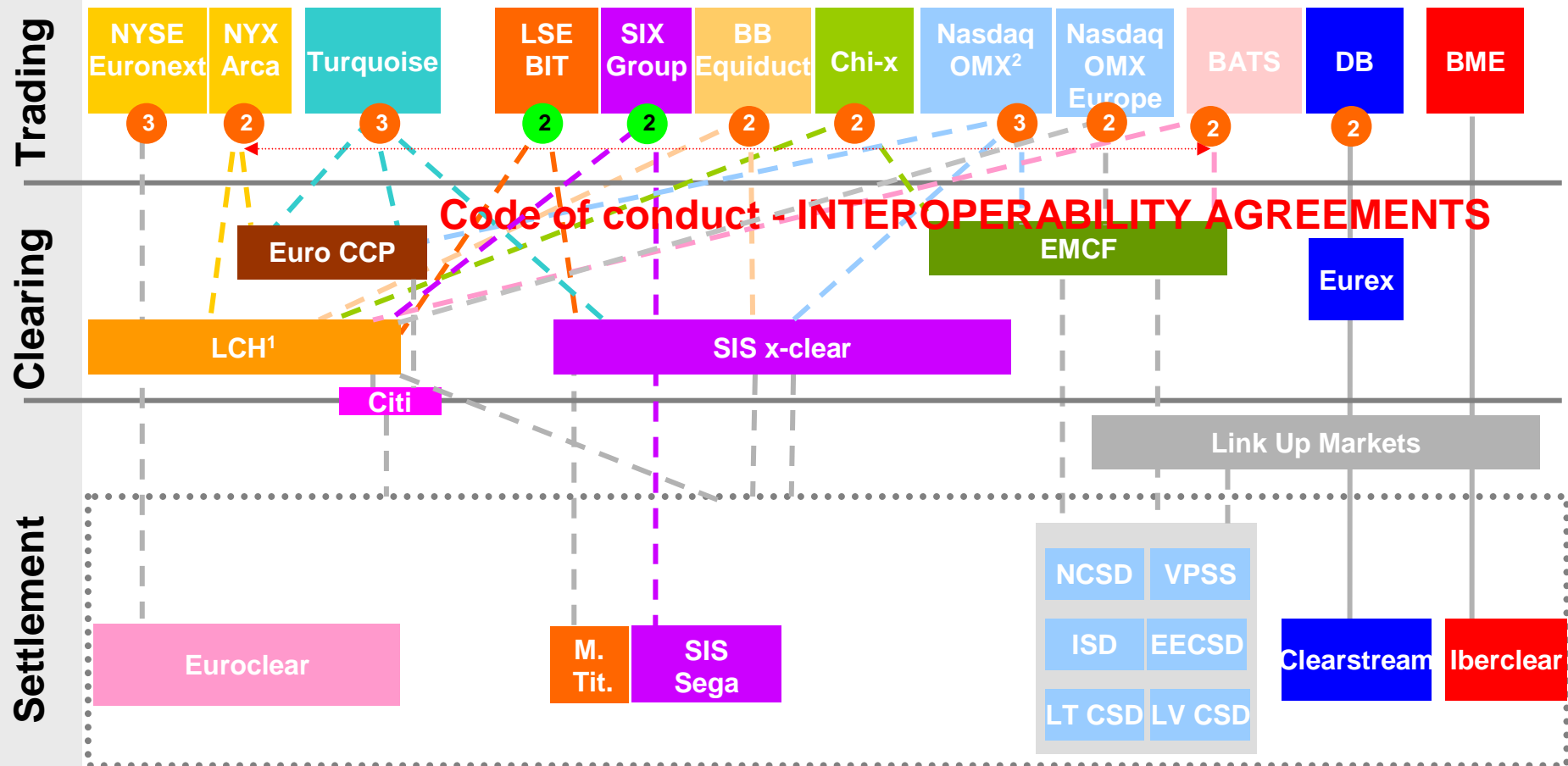
Source: CESR Consultation Paper (CESR/10-394)

Note: CESR's OTC figures appears to include SIs which according to Markit Boat are 2% of the European market

2004 - European equity landscape before MiFID and Code of Conduct



Fragmentation of European equity markets after MiFID and Code of Conduct (2010) towards a two-tiered market



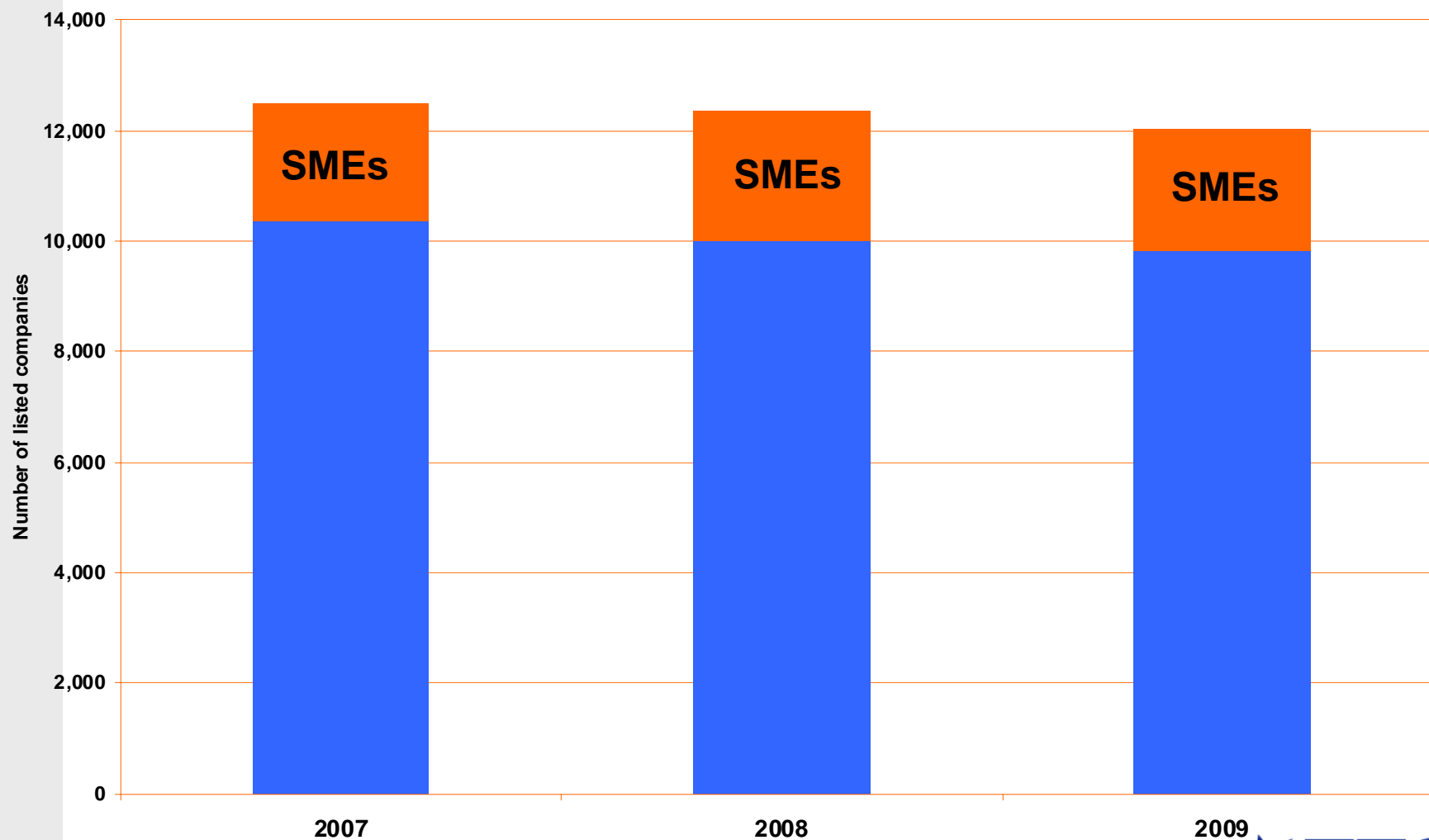
European CSDs

¹ In May 2009 announced competitive clearing agreements Chi-X, Bats, Turquoise and Nyse Arca. They are now on hold due to regulatory analysis. Currently under review by the regulators.

² Expected launched of interoperability agreements for 2010, currently under review by the regulators.

Note: In green the interoperability agreements in place and in yellow those on hold due to review by the regulators or to discussions between the parties.

20% of the companies listed by FESE members are SMEs



Source: FESE statistics

Taking MiFID forward

- Same business, same rules
- Price discovery, along side competition, should become a regulatory objective of MiFID.
- Pre-trade transparency waivers should be strictly defined and applied
- Post-trade information needs to be improved
- OTC should be properly defined EU wide
- The Commission should continue its monitoring exercise (i.e. OXERA) to better understand the regarding the cost of trading in Europe.
- Market structure and the regulation of market structure is important: exchanges should not become banks and banks should not become exchanges

How MiFID was supposed to work...

Regulated Markets (RM)

- Automated multilateral
- Transparency before and after the trade – with flexibility allowed for large orders
- Non-discretionary order execution system
- Open and fair access to the platform
- Surveillance of the trading venue

•PRESUMPTION: THIS IS A TRADING VENUE / A LIQUIDITY POOL

Multi-lateral Trading Facilities (MTF)

- Automated multilateral
- Transparency before and after the trade – with flexibility allowed for large & reference orders
- two kinds: Lit MTFs and Dark MTFs**
- Non-discretionary order execution system
- Open and fair access to the platform
- Surveillance of the trading venue

•PRESUMPTION: THIS IS A TRADING VENUE / A LIQUIDITY POOL

Systematic Internalisers (SI)

- Client orders executed against bank' book
- Transparency before and after the trade
- Non-discriminatory access to the service

•PRESUMPTION: THIS IS A TRADING VENUE / A LIQUIDITY POOL

OTC as defined in Recital 53

- Client orders executed against bank' book
- Ad hoc, irregular, above standard size
- No transparency before the trade
- Anonymous transparency after trade
- No rules on the execution system
- No rules on access to the system
- No surveillance of the venue

•PRESUMPTION: THIS IS NOT A TRADING VENUE / NOT A LIQUIDITY POOL