



**European Principal
Traders Association**

FIA European Principal Traders Association

Market Structure and Technology – Who Benefits?

Brussels, 10th October



Average Institutional Commissions - Europe

High touch (brokerage/ phone) is now **less used** by institutional traders (only 30%) with an average fee of 10-15 bps.

No touch (DMA) accounts now for approximately 70% of total value due to **reduced fees** and **fast connectivity**.

	2000		2005		2011	
Method of execution	% of trades	fee (bps)	% of trades	fee (bps)	% of trades	fee (bps)
High touch	100 %	25 – 40	70 %	15 – 20	30 - 40 %	10 – 15
No touch (DMA)	N.A.		30 %	7 – 8	60 - 70 %	1 - 3

Source: IMC estimates

Trading Costs according to Oxera Report

Domicile of securities	Cost of trading (bp) in 2006	Cost of trading (bp) in 2009	% change
All financial centres			
Weighted average	8.9	7.0	-21
Major financial centres			
Weighted average	9.4	7.6	-19
France	11.0	9.1	-18
Germany	9.2	7.2	-21
Italy	8.0	4.1	-48
Spain	9.2	6.9	-25
Switzerland	8.2	7.4	-10
UK	9.3	8.1	-12
Secondary financial centres			
Weighted average	9.1	7.9	-13
Other financial centres			
Weighted average	10.9	8.8	-19

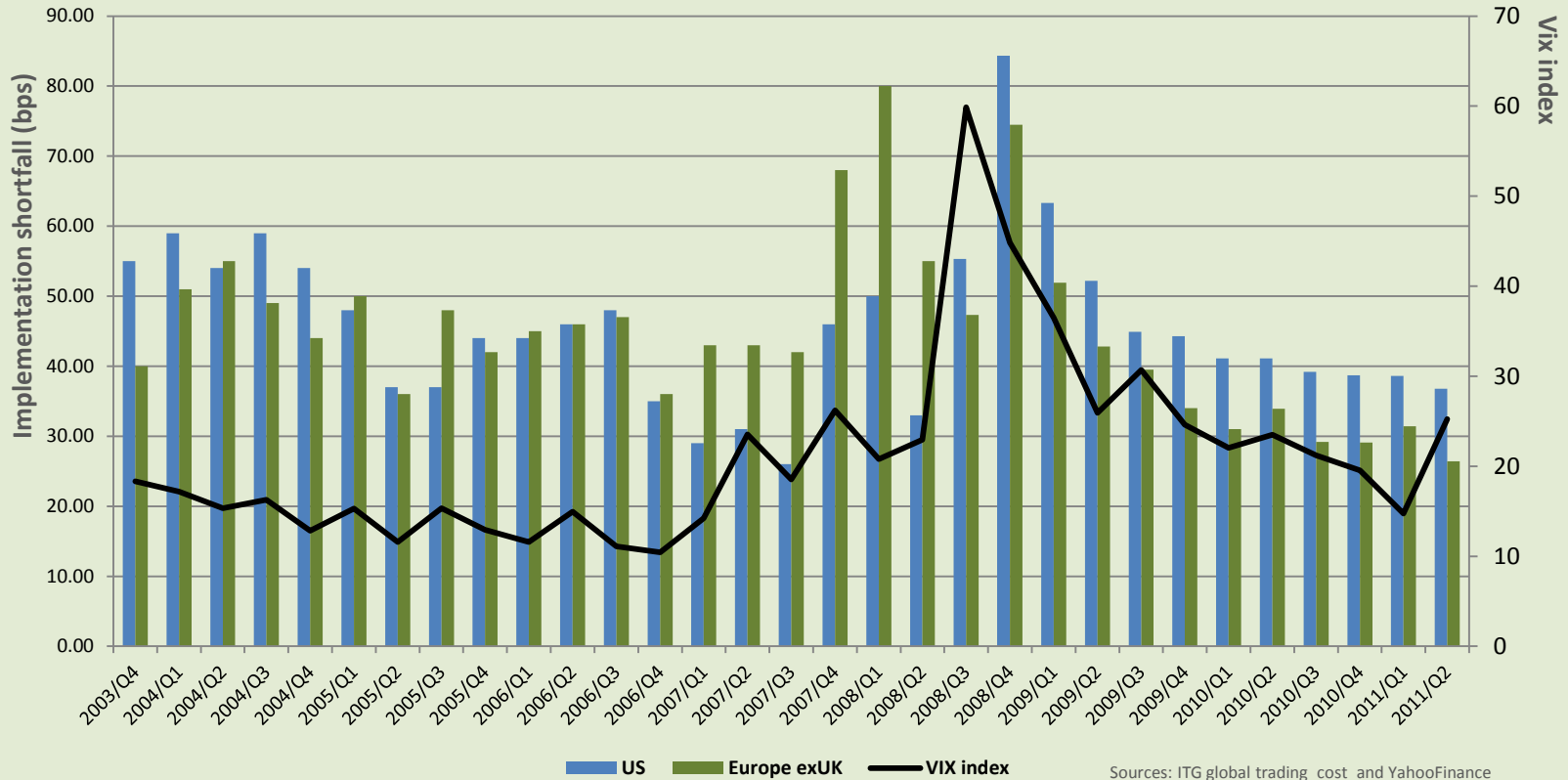
Reduction in the costs of trading in all major financial centers (weighted average decrease of 21%)

The cost of trading corresponds to the sum of fees charged by:

- **Trading platforms**
- Central counter-parties (CCP's)
- Central Securities Depositories (CSD's)



Execution Costs for Institutions



Sources: ITG global trading cost and YahooFinance



Opinions from Several Large Institutions

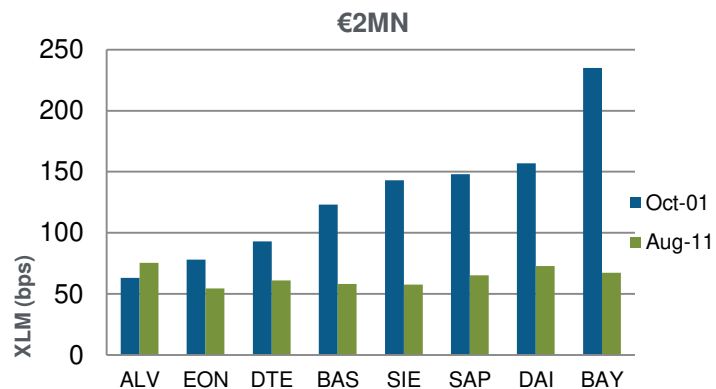
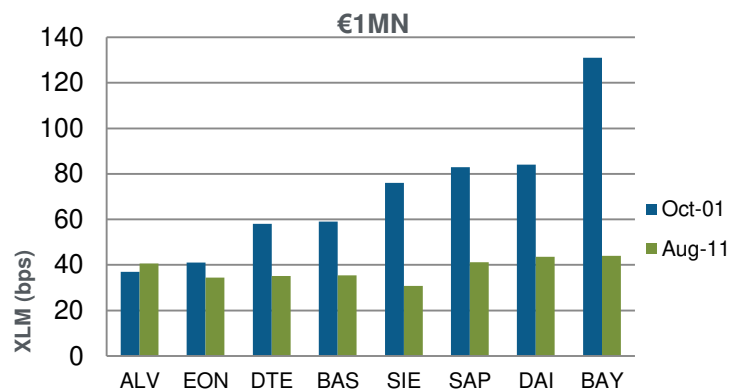
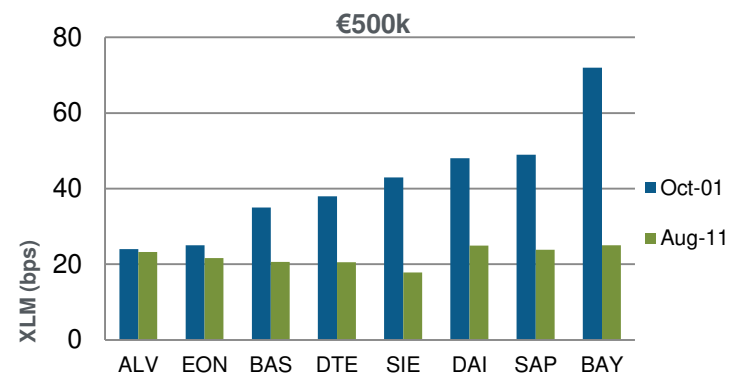
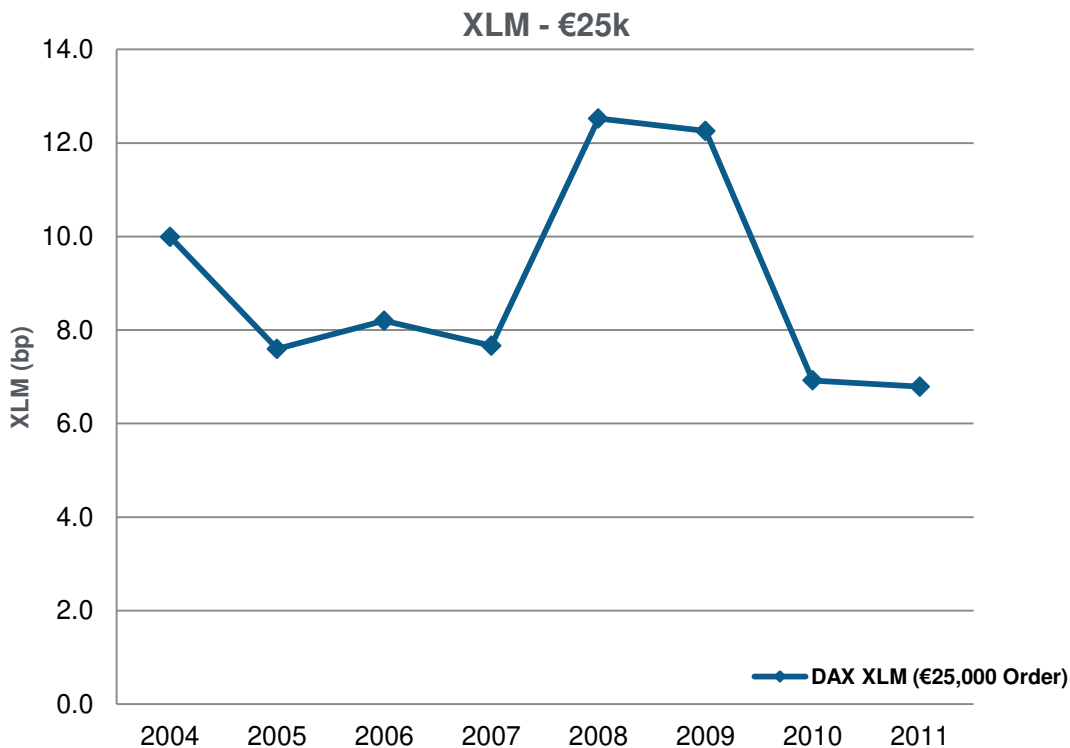
	Assets Under Management	Opinion
Blackrock	\$3,350 billion	High-frequency traders provide a vital service to all market participants. (Blackrock research)
Vanguard	\$1,509 billion	I think the lion's share of high frequency works to the benefit of the marketplace (Gus Sauter)
JP Morgan Asset Management	\$1,252 billion	“we think that our ability to trade stocks for clients actually over the last five years is considerably improved” (Paul Quinsee)
Wellington Management	\$537 billion	“Explicit and Implicit Costs have Decreased” “We believe that on the whole the liquidity they (HFT) provide is beneficial to the markets.” (SEC comment letter)
Managed Fund Association	\$2,000 billion	Advancements in technology has led to significant strides in market efficiencies through competition, lower transaction costs and greater market depth and liquidity (IOSCO consultation)



The Xetra Liquidity Measure

Deutsche Börse uses XLM to measure the liquidity of assets traded in the Xetra limit order book on the basis of implicit transaction costs.

The lower the XLM the lower the cost of trading an instrument measured by market impact.



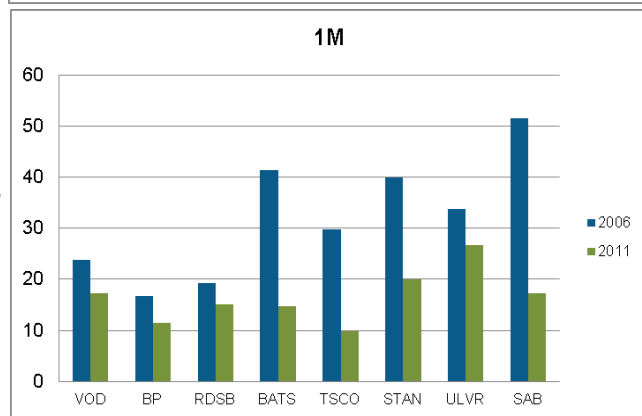
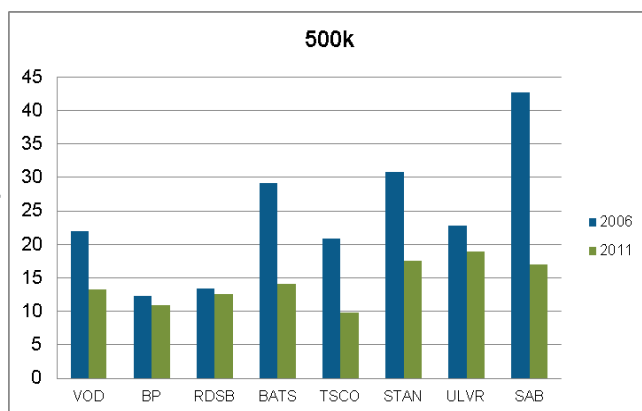
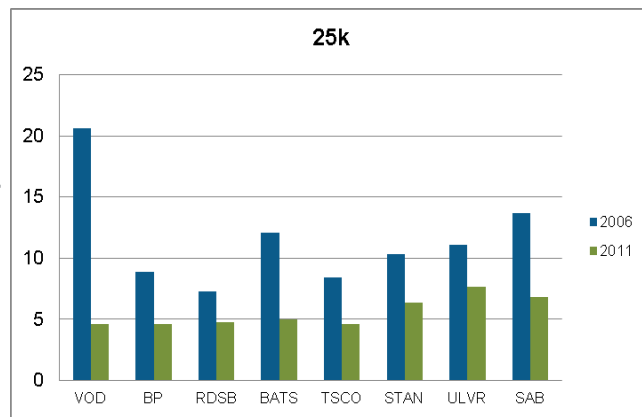
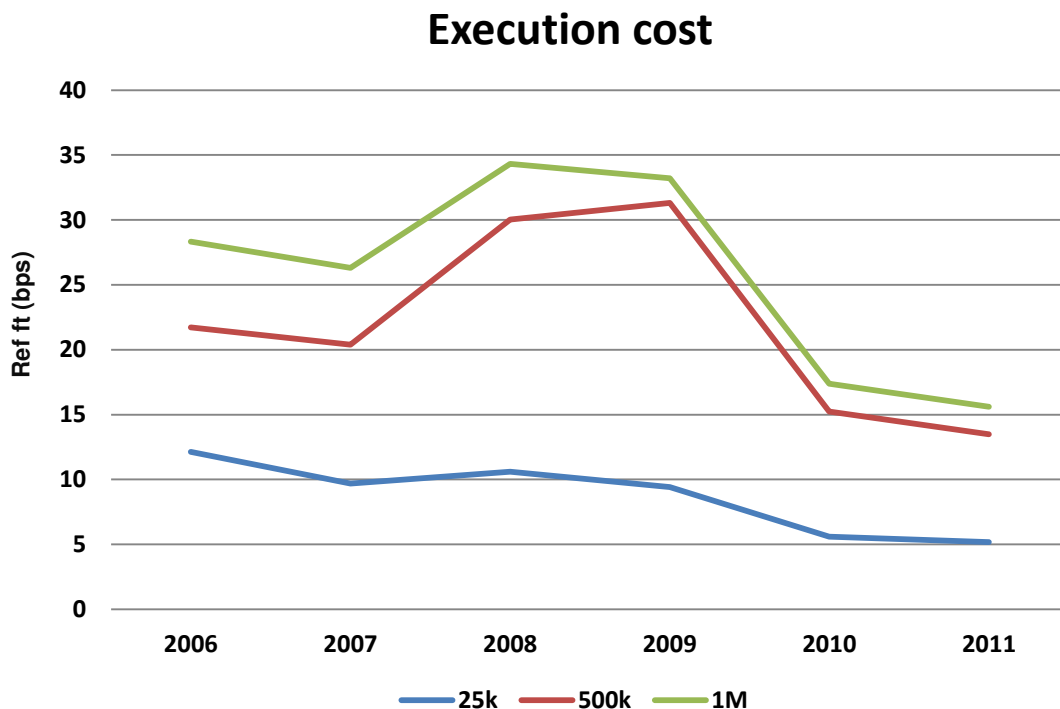


Execution cost - FTSE

Execution cost is calculated by using the real effective spread. (dividing the absolute value of the difference between execution price and spread mid-point by the stock price.)

Analysis on the FTSE 8 biggest stocks.

$$Reff_t = \frac{|p_t - p_t^M|}{p_t}$$



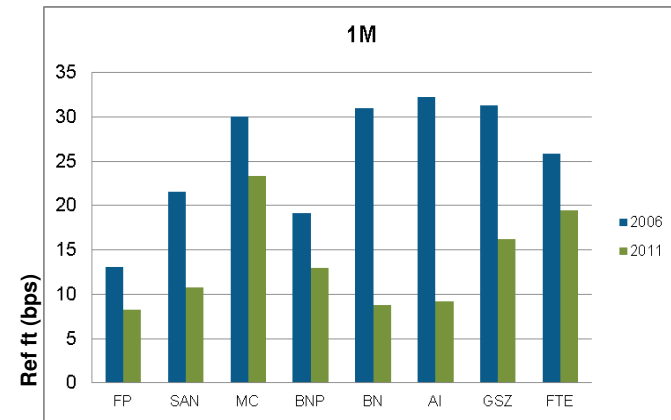
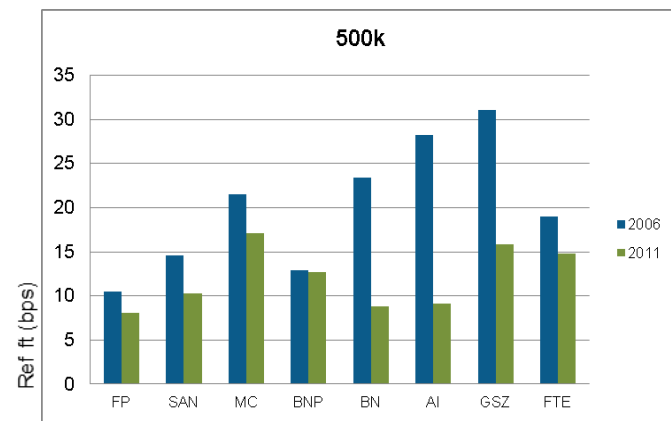
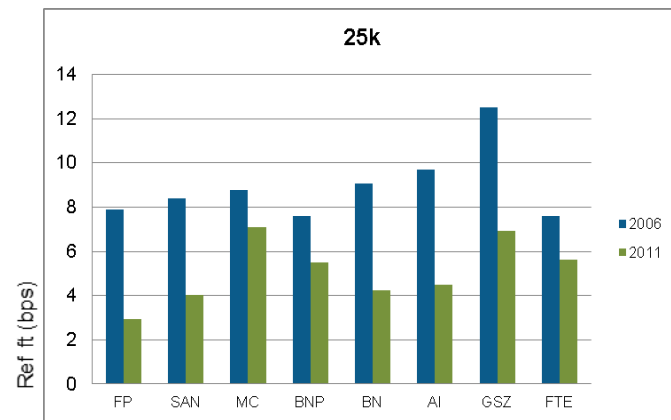


Execution cost - CAC

Similar Analysis on the CAC 8 biggest stocks.

$$Ref\ ft_t = \frac{|p_t - p_t^M|}{p_t}$$

Execution cost



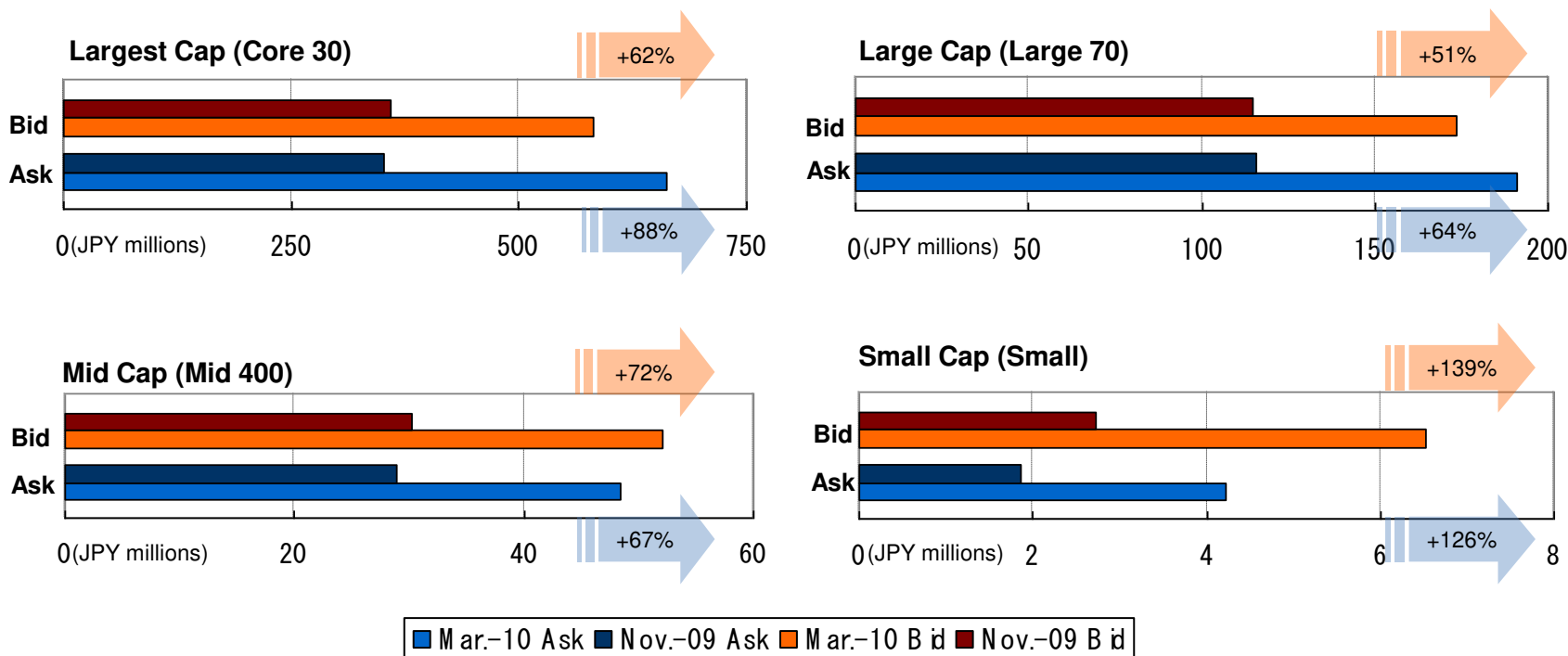


Tokyo Stock Exchange – Introduction of Arrowhead

Enhanced Depth

After the introduction of Arrowhead, liquidity has increased for almost all stocks

Depth: November 2009 versus March 2010;
within 50 bps from mid-price



Source: Tokyo Stock Exchange, Inc.; Depth is the total value of orders within 50bps of the BBO (number of orders × price)

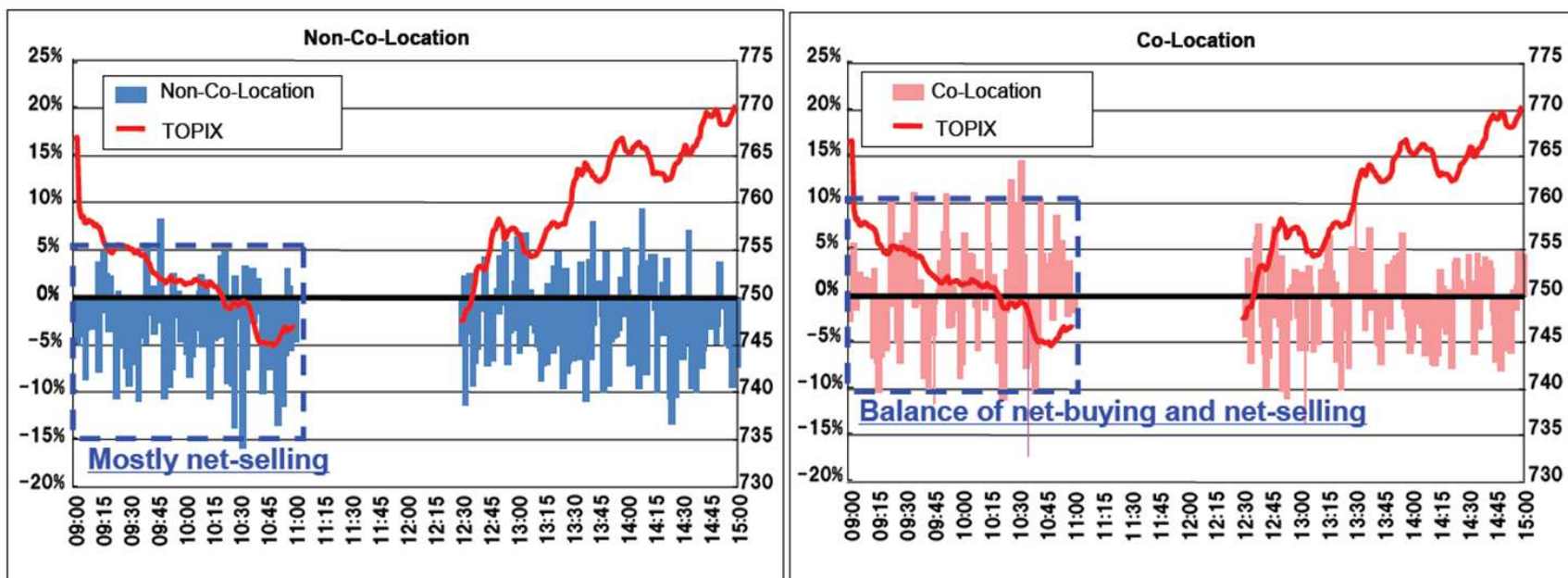


Tokyo Stock Exchange – Volatility spike

Trends by Major Investor Category:

Co-Lo/Non-Co-Lo-Net Trading Value by Minute (Ratio for Market Total Trading Value)

*positive means net-buy, negative means net-sell



- Trading value by minutes on 9 Aug, 2011
- This was the first session after the U.S. credit rating downgrade
- Co-located traders, associated with high-frequency trading strategies, have dampened volatility by buying the non-co-located clients sell orders



The Indian 'Glitch'



FIA EPTA Position on MiFID II

The revised regulatory environment should:

- Regulate all direct market participants
- Promote risk management
- Support resilient and safe markets

And preserve the gains that have been made by automation and competition:

- Lower trading costs
- Reduced bid-ask spreads
- Higher liquidity
- Lower barriers to entry/more choice to investors