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Press release

Oxera trading and post-trading price monitoring study

The European Commission has today published Oxera's price monitoring study of securities trading and post-trading services. This study, conducted in cooperation with the market participants, provides the first detailed empirical description of how the European capital markets are operating in terms of market dynamics and customer and supplier behaviour. It enables the Commission to monitor how the costs of trading and post-trading to investors will evolve over time.

For this study, a specific dataset was collected from intermediaries (fund managers, brokers and custodians) and infrastructure providers (trading platforms, central counterparty clearing houses (CCPs) and central securities depositories (CSDs)) operating in the trading and post-trading value chain in Europe. This exercise will be repeated in 2010.

Securities trading and post-trading (ie, clearing and settlement and custody and safekeeping) services play an important role in the overall functioning of financial markets. The markets for these services have been subject to significant changes, such as the introduction of MIFID in 2006 and an industry Code of Conduct for infrastructure providers in 2007, the removal of barriers to cross-border trading and post-trading, and the entry of new trading platforms and CCPs, strengthening competition and choice for investors, fund managers and brokers. The Oxera price monitoring study measures the impact of these changes on the cost of trading and post-trading.

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Main findings

- Using infrastructure providers has become cheaper. The costs of using trading platforms and CCPs have fallen by between 20% and 80%. The evidence on CSDs is more mixed. The data does not reveal a systematic trend; in some financial centres, costs have increased and in others they have fallen.
- Although the costs expressed per transaction of using trading platforms have fallen, when expressed in terms of value of trading, they have increased in some financial centres (eg, France, Italy, the Netherlands, Spain and the UK). This may reflect a trend in the brokerage sector of smaller transactions, which in turn is the result of brokers splitting orders into several transactions with the aim of reducing market impact.
- Cross-border transactions are more expensive than domestic transactions. For institutional investors in major financial centres such as the UK, Germany, France and Italy, the cost of trading in securities domiciled in foreign financial centres is two times higher than that of trading in domestic securities.
- The differences between the costs of domestic and cross-border transactions are due not only to the specific costs incurred when crossing the border, but also to economies of scale. Using a broker that is not located in the domicile of the security is more expensive in general than using a local or global broker. This is because the former has much lower volumes than the latter. Given the widespread practice of volume discounts (reflecting underlying economies of scale), this results in higher costs for cross-border transactions.

Internal Market and Services Commissioner Charlie McCreevy said "This study is significant because it helps us understand the evolution of end-to-end trading and post-trading prices, costs and volumes. While acknowledging the broad diversity in the financial centres covered, I particularly welcome the study's findings concerning the decreases in costs for trading and clearing and to some extent also for settlement services since 2006. This confirms the positive impact on competition of the Markets in Financial Instruments Directive and the Code of Conduct on clearing and settlement. I encourage market participants to continue supporting our efforts to improve transparency and carry out sound policies based on facts."

Dr Luis Correia da Silva, Managing Director of Oxera, says, 'The study shows that integration of markets is well under way but there is some further work to be done. The costs of cross-border transactions are still between two and six times more expensive than domestic transactions. At the same time, our analysis shows that using infrastructure providers has become cheaper, by up to 80% over two years. This reflects some significant price reductions and is what one would expect as competition increases. The next Oxera study will assess more precisely the extent to which these price reductions have translated into lower trading and post-trading costs for institutional and retail investors.'

Frank Gerstenschläger, Member of the Deutsche Boerse Group Executive Committee and Vice President of the Federation of European Securities Exchanges: "We welcome the approach of the Commission to conduct comprehensive market analysis such as the Oxera study and therefore we actively participated in it. In particular, we welcome that the study focuses on transaction costs along the entire value chain including both market infrastructures and intermediaries. By showing a decrease in costs for customers of trading platforms, CCPs, and CSDs in most markets, the study demonstrates the efficiency of market infrastructures. We look forward to future developments of the study based on the baseline now established."

Robert Barnes, Managing Director of equities at UBS Investment Bank, said "This first report by Oxera on behalf of the European Commission benchmarking the impact of tariff prices on cost and activity of trading and post-trading services provides insights into the difficulty and frictional cost users face and seek to overcome for pan-European equities business. This is an important exercise, UBS welcomes the Commission's efforts to improve efficiency of European securities markets and commends the Commission for its commitment to evidence-based policymaking. To become an effective tool, further reports need to reflect also post-trade costs as a proportion of the respective value-traded – as this is what impacts investors."

Ends

Notes to editors:

Oxera combines the most rigorous economic thinking and quantitative methods with a practical business approach to advise clients on matters in competition, finance and regulation.

What sets Oxera apart is:

- our reputation for credibility and integrity with policy-makers, regulators and legal authorities, which is of critical value to our clients and has been created through our long-standing emphasis on quality and independence;
- our experience and unique ability to combine the fields of competition, financial, regulatory and quantitative economics, which, together with in-depth sector knowledge, provide the ingredients for respected economic advice.

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