

FESE Statement on the CESR Consultation Paper on Equity Markets (CESR/10-394)

FESE welcomes the CESR Consultation Paper on Equity Markets, April 2010, which aims to assist CESR on providing the European Commission (EC) with technical advice on the MiFID Review regarding equity markets by July 2010.

Out of the main topics addressed in this Consultation Paper (CP), FESE would like to draw attention to findings on the size of crossing networks and over-the-counter (OTC) trading in this CP. This latest document from CESR demonstrates clearly that CESR and FESE have compiled composite pictures of European Equity trading which are identical for all practical purposes. Most importantly, the CESR CP confirms that about 38% of all EU trading is OTC, a figure which has been the subject of much public debate for a year. FESE therefore welcomes this finding and the CP, which confirms our estimates of the OTC business done in EU markets based on the best publicly available figures.

To reach a comprehensive picture, CESR gathered data from Thomson Reuters (for lit RMs, lit MTFs and OTC), brokers (for crossing networks) and RMs and MTFs (for dark trading by RMs and MTF). The fact-finding (please see the table below) shows that 38% of trading in the European Economic Area (EEA) took place on an OTC basis during the year 2009. It also confirms that a volume of 5,400 billions of Euros was traded outside the scope of the three MiFID execution venues (RMs, MTFs and Systematic Internalisers). It is especially notable that the share of OTC trading is much bigger than the sum of MTF and SI, which were specifically designed by MiFID to enable and regulate off-exchange trading.

In the table below, **from A to E** one can see explicit values contained in the CESR CP and **from F to J** implicit values used by CESR in the calculations but not shown explicitly in the CESR tables.

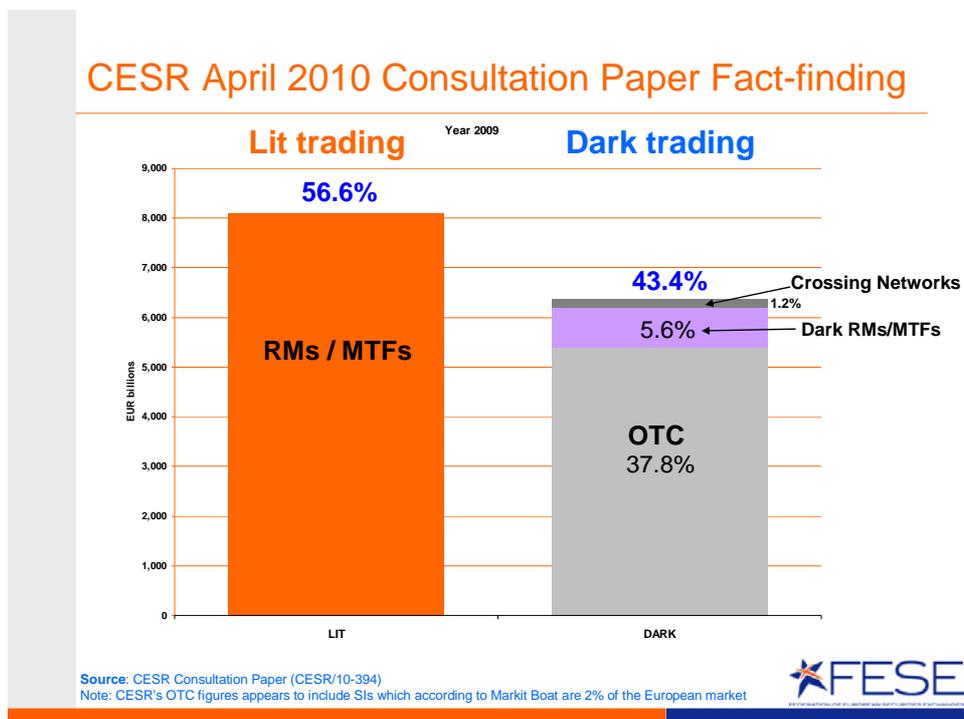
		2009				Total year 2009
		Q1	Q2	Q3	Q4	
A	All trading in EEA shares on RMs and MTFs (EUR billion)	1,934.1	2,227.8	2,289.8	2,442.5	8,894.2
B	Trading under pre-trade waivers on RMs and MTFs (EUR billion)	146.9	203.9	206.8	240.6	798.2
C	Trading executed in brokers' crossing networks (EUR billion)	28.0	36.9	47.7	55.7	168.3
D	Crossing networks as % of OTC trading	2.4%	2.1%	4.4%	4.0%	3.1%
E	Crossing as % of total EEA trading	0.9%	0.9%	1.4%	1.4%	1.2%
F	<i>OTC Trading (EUR billion)</i>	<i>1,166.7</i>	<i>1,757.1</i>	<i>1,084.1</i>	<i>1,392.5</i>	<i>5,400.4</i>
G	<i>TOTAL EEA trading (EUR billion)</i>	<i>3,100.8</i>	<i>3,984.9</i>	<i>3,373.9</i>	<i>3,835.0</i>	<i>14,294.6</i>
H	<i>Trading under pre-trade waivers on RMs and MTFs as % of total EEA trading</i>	<i>4.7%</i>	<i>5.0%</i>	<i>6.1%</i>	<i>6.3%</i>	<i>5.6%</i>
I	<i>OTC as % of TOTAL EEA trading</i>	<i>37.5%</i>	<i>42.9%</i>	<i>31.8%</i>	<i>36.3%</i>	<i>37.8%</i>
J	<i>Lit trading on RMs and MTFs as % of total EEA trading</i>	<i>57.6%</i>	<i>50.8%</i>	<i>61.7%</i>	<i>57.4%</i>	<i>56.6%</i>

Notes to the table:

- A: Reference CESR CP/10-394 Table 1 page 6 (Data sourced from Thomson Reuters)
- B: Reference CESR CP/10-394 Table 1 page 6
- C: Reference CESR CP/10-394 Table 7 page 27
- D, E: Reference CESR CP/10-394 Table 7 page 27 (OTC and total trading data sourced from Thomson Reuters)
- $F=C/D \Rightarrow OTC = (\text{crossing networks})/(\text{crossing networks as \% of OTC})$
- $G=A+F \Rightarrow Total = (\text{All trading in RMs and MTFs}) + (\text{OTC trading})$
- $H=B/G \Rightarrow \text{Dark RMs and MTFs \%} = (\text{Dark RMs and MTFs})/Total$
- $I=F/G \Rightarrow OTC \% = OTC/Total$
- $J=(A-B)/G \Rightarrow \text{Lit RMs and MTFs \%} = [(All trading in RMs and MTFs) - (Dark RMs and MTFs)]/ Total$

CESR includes a footnote caveat as follows: “The value of OTC trading published by Thomson Reuters and used here and, as a consequence the value of EEA trading published by Thomson Reuters, may be inflated due to multiple reporting of a single transaction.” (FESE also includes a similar caveat in the presentation of its estimates for OTC business and stresses that the problems with the quality of OTC data need to be taken into account in assessing this figure. FESE also draws attention to the lack of a comprehensive breakdown of the major types of trading done in the OTC space.)

In presenting data both in absolute figures and as percentages, CESR provides the ratios of dark trading to overall trading by RMs and MTFs and crossing networks to OTC trading; and estimates trading taking place in crossing networks to be at 1.2% of total EEA trading, based on figures provided by 11 crossing networks.



FESE welcomes this contribution to the public debate on the application and the review of MiFID. These figures should be looked at in the context of the following critical questions:

1. Is 30 – 40% OTC in line with MiFID?
2. How does the amount of OTC in Europe compare with the amount of OTC in other advanced markets, such as the US?
3. What kind of trading is taking place in the rest of OTC (other than the 1%) that has not been broken down by CESR?
4. As 30-40% of the market (traded on OTC) is only subject to general broker-dealer rules, but no trading venue requirements, does the size of OTC undermine proper price discovery, fair treatment of clients, and market integrity?

Information for the Editor:

The Federation of European Securities Exchanges (FESE) represents 45 exchanges in equities, bonds, derivatives and commodities through 20 full members from 29 countries, as well as 7 Corresponding Members from European emerging markets. FESE is a keen defender of the Internal Market and many of its members have become multi-jurisdictional exchanges, providing market access across multiple investor communities. FESE represents public Regulated Markets. Regulated Markets provide both institutional and retail investors with transparent and neutral price-formation. Securities admitted to trading on our markets have to comply with stringent initial and ongoing disclosure requirements and accounting and auditing standards imposed by EU laws.

To date, FESE members have up to 8,877 companies listed on their markets, of which 8% are foreign companies contributing towards the European integration and providing broad and liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access the capital markets; 870 companies are listed in these specialised markets/segments in equity, increasing choice for investors and issuers.

FESE is registered with the European Commission's 'Register of Interest Representatives'. FESE is also a founding member of the European Capital Market Institute, the European Parliament Financial Services Forum and the European Corporate Governance Institute.

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