MiFID and its impact

Global

Robert Barnes, FSI
Managing Director, Head of Market Structures, UBS Investment bank
Chairman, Securities Trading Committee, London Investment Banking Association

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With only a month until MiFID becomes effective, we take this opportunity to circulate Robert Barnes' article featuring in this year's Handbook of World Stock, Derivative & Commodity Exchanges 2007.

Expect More

Expect more. Expect more competition, more complexity and more change with opportunities for those delivering the highest standards. Here we outline why.

MiFID will impact 3 relationships

1. How buy-side firms interact with their clients

2. How sell-side firms interact with their buy-side clients

3. Exchange and broker relationships

Changes to these relationships will lead to the following consequences:

Competition will reduce Exchange and Central Counter Party (CCP) fees starting with Cash Equities. Why does this matter? Because lower Exchange fees increase liquidity, help reduce market impact, and ultimately improve investment performance, and these are good for the market.

The market landscape will become more complex. With competitive new entry, there will be more choice of execution venues and related entities which will require more sophisticated tools and methods to manage.

Buy-side firms embracing change and building on unbundling trends can become more efficient. As buy-side firms have new best execution obligations to their clients, the potential for added importance derives from how effectively buy-side firms exercise their responsibilities in justifying their choices among executing brokers using MiFID criteria that excludes research, while separately rewarding value-added research, for example, through Commission Sharing Agreements (CSAs).

Conclusions about the impact of MiFID revolve around how the landscape will change. Volumes will grow due to lower Exchange fees and upgrades to faster matching engines. Smart-order-routing will arrive in Europe to pool in a virtual manner the multiple physical liquidity puddles resulting from competitive new entry. Order flow and new business will concentrate to those most capable in an increasingly fierce technological and commercial arms race.

MiFID sets the regulatory framework encouraging competitive new entry and entrepreneurial opportunity. Realising this opportunity arises from understanding and embracing impending change to market structures.

What do we mean by Market Structures?

MARKET STRUCTURES comprise the rules and institutions that determine competition among trading platforms. This definition encompasses the framework for interaction, including Exchange fees, which ultimately shape order execution strategies. The focus includes external factors that impact business and operating models driving opportunities to grow revenues and to reduce costs.

COMPETITION enabled by MiFID and encouraged by the regulators

There is a symbiotic relationship that exists between Exchanges and their members, including brokers. One can see the brokers as a free sales and distribution arm for Exchanges, for example piping orderflow onto Exchange orderbooks as brokers sign Direct Execution clients or when brokers hedge blocks in smaller pieces on-orderbook.

As trading flows increase, through competitive broker automation for example, and Exchange internal unit costs fall as is the positive expectation of Exchanges as fixed cost platform providers, Exchange members have a reasonable case for Exchange tariffs to improve. Competition can lead to lower frictional costs.

Figure 1: $70tn+Cash Equities traded in 2006, up 37%+

AMERICAS +38%	$35,908,566m
American SE	$601,188m
Bermuda SE	$157m
Buenos Aires SE	$5,281m
Colombia SE	$15,000m
Lima SE	$5,492m
Mexican Exchange	$96,320m
Nasdaq	$11,.807,491m
NYSE	$21,789,392m
Santiago SE	$29,691m
Sao Paulo SE	$267,076m
TSX Group	$1,282,478m

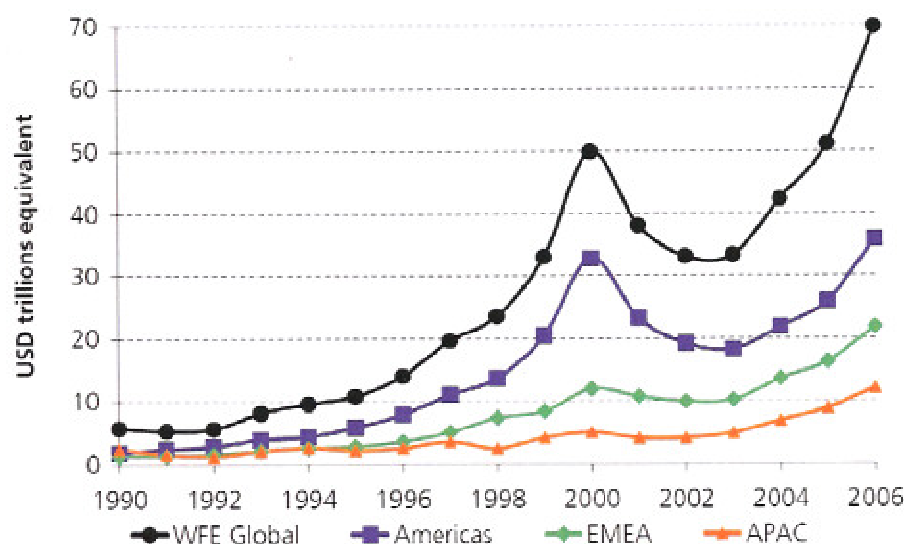
EMEA +34%	$21,824,356m
Athens Exchange	$107,879m
BME Spanish Exchanges	$1,941,227m
Borsa Italiana	$1,596,199m
Budapest SE	$31,000m
Deutsche Börse	$2,741,608m
Euronext	$3,805,260m
Irish SE	$81,786m
Istanbul SE	$224,610m
JSE	$312,296m
Ljubljana SE	$2,059m
London SE	$7,583,762m
Luxembourg SE	$263m
Malta SE	$255m
OMX Exchanges	$1,332,732m
Oslo Bors	$406,469m
Swiss Exchange & virt-x	$1,395,567m
Tehran SE	$4,886m
Tel Aviv SE	$65,538m
Warsaw SE	$56,061m
Wiener Börse	$82,245m

APAC +37%	$12,099,937m
Australian SE	$860,663m
Bombay SE	$215,010m
Bursa Malaysia	$75,487m
Colombo SE	$1,004m
Hong Kong Exchanges	$832,386m
Jakarta SE	$48,844m
Korea Exchange	$1,339,638m
National Stock Exchange India	$424,251m
New Zealand Exchange	$22,185m
Osaka SE	$262,954m
Philippine SE	$11,252m
Shanghai SE	$738,859m
Shenzhen SE	$423,699m
Singapore Exchange	$180,440m
Taiwan SE Corp.	$737,742m
Thailand Stock Exchange	$100,654m
Tokyo Stock Exchange	$5,824,867m

Source : WFE, single counted

Figure 1 shows the size of the market. According to the World Federation of Exchanges, the value of Cash Equities traded around the world in the most recent year 2006 was equivalent to USD 70 trillion with more than half represented by Americas. The lower level of value traded in Europe presents an interesting opportunity as economists indicate that the American and European economies are similar. Reducing frictional costs of trading, i.e. reducing Exchange and post-trade Central Counterparty (CCP) fees, may stimulate more liquidity in Europe.

Figure 2: Cash Equities value traded continues to grow



Source : WFE, single counted

Figure 2 shows 17 years of data from the World Federation of Exchanges with the top right point highlighting the USD 70 trillion total value of Cash Equities traded in 2006 from Figure 1. While there is a relative peak in 2000 just before the bursting of the "internet bubble", the overwhelming trend of the data is that values trading on Exchanges are increasing.

Brokers directing this flow to Exchanges operate in an increasingly competitive environment. To compete at the top, brokers must innovate.

Fast technology is the enabler, algorithms the logic, and automation by brokers speeds the process. Clients benefit from brokers offering faster execution, potential price improvement and better service. The positive result is increased market activity.

A focus area for order execution strategies is minimising market impact, for example by slicing orders into ever-smaller sizes before deploying them, intelligently, onto Exchange orderbooks. The consequence for Exchange orderbooks is a trend of increasing number of bargains and smaller average size per trade as shown clearly in the next table.

Figure 3: Consequences for Orderbooks: bargains up, order size down

	Order book average size (£)	Order book number of bargains
2006	**19,362**	**78,246,367**
2005	20,463	51,415,546
2004	21,472	40,771,163
2003	21,739	32,897,427
2002	28,126	23,839,550
2001	41,283	15,750,253
2000	61,749	8,594,471
1999	**63,020**	**5,374,520**
1998	58,508	3,583,128

Source: www.londonstockexchange.com Factsheets and News

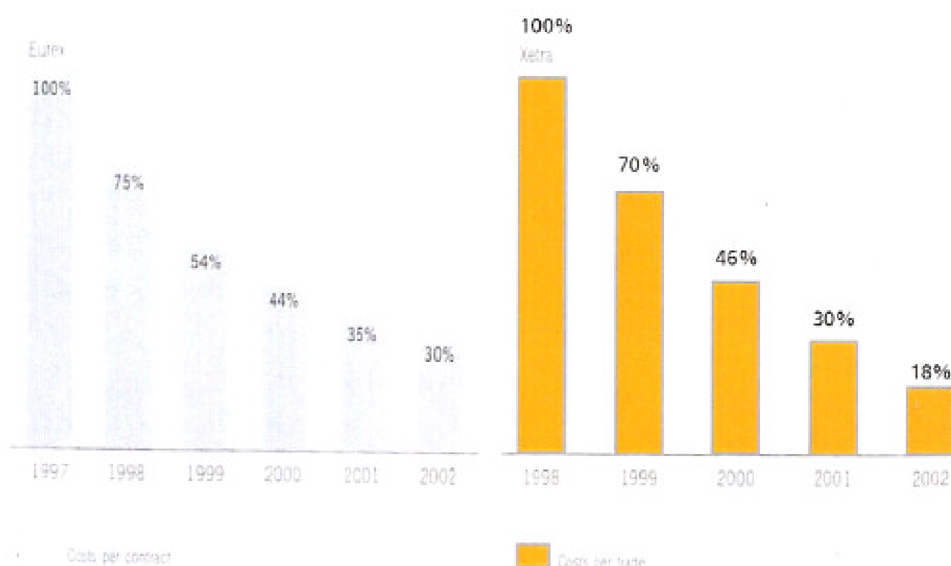
Figure 3 summarises data from the London Stock Exchange (LSE). The trend is one of increasing number of bargains and lower average bargain size. This trend is broadly similar for all Exchanges with electronic orderbooks processing activity from brokers competing with other brokers in a fiercely challenging environment.

The timetable displayed coincides with brokers deploying increasingly sophisticated order execution engines. In 1999, the "internet bubble" neared its peak, and approximately 5 million bargains by number matched on LSE's orderbook across all members. By 2006, orderbook trades had grown to more than 78 million. Looking only at the growth in number of bargains, one never would have guessed there had been a "bear" market occurring 2000 to 2003. The table shows for 1999-2006 the average bargain size falling from GBP 63 thousand to less than GBP 20 thousand.

By multiplying the average size by number of bargains, one can see the overall value traded grew from 1999 to 2006 by almost 5 times and the number of trades by approximately 15 times. Exchanges benefit from these trends as they charge tariffs on a combination of number and value variables for processing trades through what are broadly fixed cost platforms.

As a fixed cost platform processes more activity, the internal unit cost of production falls which is good for the Exchange as it is good for its profitability. The benefits of economies of scale lead to more internal efficiencies at the Exchange, and this is shown clearly in the example provided by Deutsche Boerse summarised in Figure 4.

Figure 4: Economies of scale: Again lower unit costs and derivatives markets



Source:Deutsche Boerse 2002 annual report, page 24.

In Figure 4, Deutsche Boerse shows how its internal unit costs of processing a trade on Xetra, its Exchange orderbook, positively falls from a normalised 100% in 1998 to 18% by 2002. This trend of reducing internal unit costs is broadly true for Exchanges with electronic orderbooks over the last few years. Although the chart stops at 2002, one would expect the reduction in unit costs to continue as orderbook activity has grown dramatically since then.

Meanwhile, Exchange fees to members of Exchanges have not reflected these economies of scales. In fact, the public statements from some of the Exchanges attempting a transformational merger with the London Stock Exchange, for example, suggested intentions not to raise Exchange fees [Macquarie, Nasdaq] or in some cases the potential sharing of synergy benefits with Users to the tune of approximately 10% cut in Exchange fees [Deutsche Boerse, Euronext].

LSE in January 2007, still independent, itself announced a selection of tariff cuts that will eventually be worth approximately 10%. Such offers, while welcome in principle, are underwhelming in context.

With the introduction of Cash Equities Central Counterparties (CCPs) to European markets in recent years, a new layer of frictional costs have appeared on top of Exchange fees for matching trades. So even where functionalities, such as netting, physically reduce the number of settlements, the current European Exchange and CCP tariff structures mean that Exchange and CCP fees for processing business have increased, contrary to expectations. This suggests a compelling need to review tariff structures.

Some European Exchanges and CCPs have engaged positively with the User community, for example through their own established User advisory groups or via the industry's representatives at the London Investment Banking Association (LIBA). This has led to new tariff structures which do yield lower marginal and average unit costs in some cases. The magnitude of the overall trend, however, of increasing number of bargains and lower average bargain size mean that the frictional costs of trading remain significant, and Exchange and CCP tariffs are material variable costs to brokers which becomes increasingly important to the market as business scales.

There is widespread belief in the market that additional value for money has not increased commensurately with Exchange volumes and revenues. The industry view, originally expressed through LIBA and increasingly widely supported by other trade associations, therefore, is that Exchanges and CCPs should address three issues regarding tariffs: headline cuts (to reflect the significant contributions already by members to the platforms), incentives for incremental flow (such as volume discounts, caps on aggregate fees, plus other creative mathematical ideas), and simplification of invoices.

What is the context for these consistent requests? Exchange members, including brokers, start with goodwill towards Exchanges and recognise the positive symbiotic relationship between Exchanges and Exchange members. Ideally, the way to grow business further is to work together with the incumbent Exchanges and CCPs in a spirit of entrepreneurialism and partnership. The motivation for reduction in frictional costs, particularly European Exchange and CCP fees, is to increase liquidity, lower market impact of pro-competitive broker order execution strategies, and ultimately increase investment performance for buy-side clients.

The reality today is that brokers have little influence with most Exchanges and post-trade providers such as CCPs, beyond the goodwill the Exchanges and post-trade providers offer, and this is particularly true in Europe. Given the current landscape and activity trends, one can understand why the incumbent Exchanges and post-trade providers prefer to preserve their privileged positions and yields from current tariff structures.

The free market alternative for addressing frictional costs is competitive new entry. Helpfully, there is regulatory support and encouragement for this.

MiFID sets a framework enabling and encouraging competitive new entry

There are three areas ripe for competitive new entry in Europe enabled by MiFID

1. Trade reporting and market data

2. Trade execution

3. Cash Equities clearing by CCP

Trade reporting and market data – Project Boat

Post-MiFID, there will be more transparency obligations and therefore more market data. Firms, however, will no longer be obliged to report only to Exchanges. As long as the data format is easily accessible to other market participants and available on a reasonable commercial basis, then firms may direct reports to a choice of destinations, including Exchanges as well as other destinations such as the offices of a third party or proprietary arrangements. The industry already is responding to this MiFID-enabled opportunity.

On 19 September 2006, nine firms, including UBS Investment Bank, announced Project BOAT, the intention to embrace the opportunity created by MiFID to pool trading transparency information across Europe to create a trade data and market data dissemination platform. BOAT will be inclusive and welcome contributions from other market participants. The ideal consequences will be improved efficiency, reduced reporting fees and pro-competitive challenge to the economic paradigm of market data. On 22 January 2007, the BOAT consortium announced its selection of technology and business partners.

Trade execution – Pan European MTF / Project Turquoise

MiFID removes domestic Exchange concentration rules and recognises three trading destinations: Regulated Markets (RMs), Multi-lateral Trading Facilities (MTFs), and Systematic Internalisers (SIs). Everything else is Over-The-Counter (OTC).

RMs and MTFs are similar in that both require market surveillance. RMs and MTFs will have non-discretionary rules and bring together multiple third party buyers and sellers. Beyond an MTF, RMs verify that issuers comply with disclosure obligations. MTFs can admit to trading a stock name without issuer consent. SIs are firms dealing on own account that also are executing on an organised, frequent and systematic basis outside an RM or MTF. SIs have SI-specific market-wide transparency rules and some protection for firms operating as SIs by limiting to that firm's clients access to that firm's capital.

MiFID thus sets a framework for competitive trade execution. The industry already is responding to this MiFID-enabled opportunity.

With internalisation, MiFID encourages the competitive behaviour of queue-jumping, which can enable immediacy of execution, by allowing the ability to 'trade-through' a similar price elsewhere historically protected by 'price-time' priority. In February 2007, Euronext announced its intention to offer internalisation within its infrastructure and effectively recognise a shift to 'price-member-time' (PMT) priority for this functionality.

Interestingly, MiFID and the regulators anticipate that MTFs will be set up by RMs or firms. Already, there have been multiple announcements of intentions to offer alternative trading destinations. For example, a firm, Instinet, announced MTF Chi-X, and an Exchange, EASDAQ, announced its plan to launch Equiduct (it may become an RM).

On 15 November 2006, seven firms, including UBS Investment Bank, announced the intention to create a pan-European Equities trading platform followed by a statement on 18 April 2007 of the choice of clearing and settlement provider. Aligned with the spirit and letter of the impending MiFID regulations promoting competition, the driver for this MTF is to reduce frictional costs of trading, i.e. Exchange orderbook fees, and potentially innovate, e.g. with some smart anonymous block auctioning to minimize trading impact. This functionality may be analogous to that of BIDS, which stands for Block Interest Discovery Service, another consortium announced on 27 September 2006 by six banks including UBS Investment Bank to establish pro-competitive block trading in America (there followed on 1 March 2007 a statement of the joining by another six financial firms).

Similar to BOAT, the pan-European MTF, also referred to as Project Turquoise, plans to be inclusive and be open to all qualifying participants that wish to be members. A company with independent management will operate the MTF separately from the banks, and there is no intention to force client flow onto the platform.

The proposed MTF will therefore be just one more parallel venue, so the success of this MTF will depend on the attractiveness of its own fees and functionality. Helpfully, key regulators have expressed views supporting this pro-competitive initiative by the banks (see Appendix).

Cash Equities clearing by CCP

MiFID access provisions regarding CCP, clearing and settlement arrangements complemented by the European Code of Conduct signed on 7 November 2006 by European Exchanges, CCPs, and Settlement entities, encourage competitive new entry and provide the regulatory tools for Users to escalate concerns to European regulators for "adult supervision" if an incumbent attempts to frustrate pro-competitive new entry. The industry already is responding to this MiFID-enabled opportunity.

In consultation with Users, including UBS Investment Bank, LSE and SIS x-clear announced on 24 May 2006 the intention to provide member firms with a choice of clearing provider in addition to LCH.Clearnet for UK equity trades processed by LSE from the latter part of 2007. This coincided with publication of a paper by the EU Commission Competition DG entitled, "Competition in EU securities trading and post-trading Issues Paper" which stated in the Executive Summary on page 2, "CCP services could - and probably should - operate in a competitive environment provided issues of interoperability are overcome."

For some years, a working interoperability precedent has existed facilitating User choice of CCP for Swiss blue-chips as part of the virt-x post-trade market model. Like most offerings by virt-x, this was a result of consultation with Users. Interestingly, Users, including platform-neutral pro-competition UBS Investment Bank, suggested ahead of the original virt-x CCP launch that SIS x-clear should not be the only CCP for virt-x as LCH was such an important service provider to the international markets. The record shows subsequently that SIS x-clear operating in a competitive environment won additional clearing business, including that moved to SIS x-clear by UBS Investment Bank, on objective merit via its compelling commercial and functional offerings. Such achievement sends a strong signal that competition works.

Extension of initiatives such as SIS x-clear to the UK market will give further credibility to rolling out similar competitive initiatives to other European markets that have incumbent CCPs. The elegance of the proposed competitive CCP model open to all is that only members that believe they will benefit commercially and functionally from migrating clearing from the incumbent need switch. The rest stay with the incumbent if they wish. N.B. Users also can choose between LCH.Clearnet and CC&G in Italy for Fixed Income trades matched on the MTS platform.

With competitive new entry comes more choice and therefore COMPLEXITY

Competition will reduce Exchange and CCP fees leading to increased liquidity. Competitive new entry also means more entities and thus more fragmentation. Brokers will need more technology to manage this new complexity, and this will require significant technological investment. Two innovations likely to arrive in Europe will include intelligent or Smart-Order-Routing (SOR) and dark pools of liquidity.

Smart-Order-Routing (SOR)

Many will recall previous attempts at competitive new entry for orderbook trading, including pan-European initiatives from Tradepoint, Jiway, Easdaq, virt-x, Nasdaq Europe, Borsa Italiana's MTA International, and the more

targeted challenges vs Euronext of Deutsche Boerse's Dutch initiative and LSE's Eurosets Dutch Trading Service. Aside from SWX successfully growing its global market share of its core Swiss blue chip trading by pro-actively moving its liquidity pool to its London-based virt-x Recognised Investment Exchange (UK RIE), all previous orderbook attempts to compete with incumbent platforms have yet to gain meaningful market share. This is due to neither lack of good ideas nor lack of resources. One key missing structural component is the lack of SOR mass deployment in Europe.

Because of the overriding importance to participants of liquidity, the current market structure encourages Exchange members to continue to direct "at-market" orders (which take offers and hit bids on electronic orderbooks) to the domestic pool of liquidity, and "limit" orders (the actual bids and offers that fill the order-book) to where those limit orders are most likely to be 'hit' by at-market orders (i.e. again, the domestic market). Unless Users have comfort that other market participants can both recognise and seamlessly interact with limit orders placed on alternative platforms, the status quo will remain.

SOR pools puddles. Via intelligent electronic links to multiple platforms, SOR enables seamless recognition and interaction with orders across these physically fragmented platforms as if they belong to one virtual pool of liquidity. Like the fax machine, internet and mobile phone, SOR becomes meaningful with mass deployment.

Why is meaningful deployment of SOR in Europe more probable now than before? Firstly, MiFID as a regulatory imperative means firms are all preparing for the same start date, November 2007. This means all are, legitimately, looking at the same issues at the same time, and all are, in parallel, upgrading systems as relevant. Secondly, SOR is available, and many are familiar with SOR methods that have existed within the USA market structure for years. In fact, brokers not deploying SOR in Europe may find themselves at a competitive disadvantage.

How might the incumbents respond to these competitive challenges?

1. Downplay potential competition and maintain that the status quo will continue.

2. Slow progress of a competitive new entrant by initiating a regulatory complaint with the resulting bureaucratic process. Such a tactic seems less likely given the awareness and positive comments in the public domain from key regulators supporting the announced pro-competitive initiatives (see Appendix).

3. Pro-actively reduce fees. This is starting, welcome but small in scale.

4. Perhaps the most interesting is that incumbents may leverage their existing or announce new competitive offerings. Mass deployment of SOR will increase the success probability of the pro-competitive MTF announced on 15 November 2006 as well as that of the earlier Exchange initiatives listed above. One way or another competition will reduce Exchange fees.

5. Volunteer to participate in market initiatives. There are also some examples of this.

Dark pools of liquidity

Where SOR pools puddles, dark pools aim to reduce information leakage while finding anonymous liquidity. Dark pools, an increasingly used buzz word, exist where firm orders are not yet executed nor displayed to the market. This is hardly novel. Consider the hidden components of iceberg orders. For example, if one has 100 to trade, shows 10 and hides 90 through an iceberg order-type, this is classic functionality that exists on many Exchanges. Similarly, the traditional matching by brokers of buy and sell orders on the way to the market is another example of accessing dark liquidity.

Dark pools effectively augment traditional broker skills of finding the other side of a trade and automate the process with electronic pipes. More recent examples include alternative crossing systems, such as Liquidnet or BIDS. There are also likely to be improved broker blind crossing of institutional flow and broker blind crossing of institutional with retail flow.

The challenge to manage more complexity

The challenge is to source liquidity in an increasingly fragmented landscape. This is therefore not only about technology, it is about improving process.

MiFID itself provides an example with Best Execution. Best Execution in many jurisdictions today emphasises price. MiFID redefines Best Execution as a "Process to deliver Best Possible Result."

Under MiFID, firms (both buy-side and sell-side) have new Best Execution obligations which are broadly to have an Execution policy to take all reasonable steps to achieve the best possible result for their respective clients and to be able to demonstrate on request from clients or regulators they have executed orders in accordance with their policies.

Research is no longer a criterion for choice of executing broker. Building on the trends of unbundling legislation adopted since 2006 in the UK, buy-side clients have freedom to direct orders to the destination that gives Best Execution. Separately, buy-side clients have the power to reward value-added Research, for example, via Commission Sharing Agreements (CSAs).

The result will be more competition among firms in an increasingly fierce commercial and technical arms race. Order flow and business should concentrate to those most capable.

What skills will clients increasingly demand? Skills will include crossing, pro-active liquidity finding, and competence deploying quality technology.

On what criteria will brokers seek to differentiate themselves? Market share and the quality of internal liquidity access will be critical to a broker's crossing performance. The logic for buy-side clients will be to direct order flow to the brokers with larger market share and better internal liquidity since this will increase the probability of crossing and therefore the probability of potential price improvement leading to better investment performance.

Connecting only to an Exchange's orderbook will miss all the potential dark liquidity of the leading broker. Pro-active liquidity finding is all about the traditional brokerage ability of confidentially finding the other side of the trade. Confidentiality and minimising information leakage will highlight the increasingly important need to interact with a broker that stands by a policy in public, for example, of "No pre-hedging ahead of client orders."

Technology competence will include connection of Smart-Order-Routing to a meaningful number and range of multiple venues, algorithmic trading for minimising market impact on deployment of order execution strategies, and a structured process for monitoring and evaluation. Order flow will concentrate to those most capable.

CHANGE is a dynamic process

Buy-side clients embracing change can have more importance if they more effectively exercise their responsibilities to understand, explain, monitor, decide, and justify their choice of executing broker. This may require some buy-side clients to make new efforts to learn about the state-of-the-art services of their sell-side execution brokers, including, for example, how algorithms work and how directing orderflow to the best executing brokers help the buy-side client better compete with other buy-side peers through benchmark outperformance. The process to deliver best possible

result by brokers will increasingly extend to include sales/trading complementing highest consistent execution quality with calls of relevance and insight.

The impact of MiFID

MiFID creates opportunities for those delivering the highest standards and duty of care.

MiFID will increase competition, lower Exchange and CCP fees, and increase liquidity. MiFID will increase choice and therefore complexity, and Europe will see Smart Order Routing deployed. MiFID will increase change adding importance to those buy-side clients building on unbundling trends and exercising their new responsibilities to understand, explain, monitor, decide, and justify their choice of executing broker on MiFID criteria that excludes research, while separately rewarding value-added research, for example, through Commission Sharing Agreements (CSAs).

Ultimately, MiFID sets a framework where orderflow and new business can concentrate to those most capable in an increasingly fierce commercial and technical arms race.

Appendix: Regulators encourage competition through MiFID

Views from Regulators support the pro-competitive initiative by banks

Neelie Kroes, European Minister for Competition Policy,

"Because I am convinced that competition drives competitiveness, growth and productivity, I am encouraged by the news that a group of banks is considering launching a new trading platform...I trust that, if needs be, it will be able to seamlessly plug into the existing post-trade infrastructure on a non-discriminatory basis…The same applies for some other platform providers."

30 November 2006, City & Financial/ICMA conference, Brussels:
"Securities markets – the post-trading Code of Conduct and competition"
http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/06/764&format=HTML&aged=0&language=EN&guiLanguage=en

Charlie McCreevy, European Commissioner for Internal Market and Services

"The overall purpose of [MiFID] is to broaden and deepen competition in the field of investment services, to stimulate competition between stock exchanges and alternative trading platforms across Europe and to enhance the overall efficiency of the pan-European investment services industry. Already we are beginning to see positive impacts: Last week Project Turquoise was announced – a project initiated by seven global investment banks to establish a new trading platform for equities to compete with the established European exchanges. It is expected to be up and running in 2008- shortly after the MIFID takes full legal effect. This is good news for competition and will I hope bring down the cost of trading."

24 November 2006, Institute of European Affairs, Dublin:
"Fulfilling the Promise of Europe's Asset Management Industry"
http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/06/745&format=HTML&aged=0&language=EN&guiLanguage=en

Hector Sants, Managing Director, Wholesale Markets Division, FSA

"The MiFID standard is intended to drive orders to those venues that deliver the best possible result for clients. It is interesting to see that the marketplace is already changing to compete against this standard. We have noted with interest the recent announcement by a group of major banks that they intend to establish a bank-driven European trading platform. We anticipate that MiFID will continue to stimulate competition and that this will drive down the cost of dealing across Europe."

23 November 2006, MiFID Trade Tech Conference:
"Implementing Best Execution Requirements in Different Markets for Different Clients"
http://www.fsa.gov.uk/pages/Library/Communication/Speeches/2006/1123_hs.shtml

Ed Balls, Economic Secretary to the UK Treasury and City Minister

Ed Balls suggested that the recent move by leading banks to create a virtual exchange to challenge established forces was a triumph for MiFID. "We were right when we said this was going to open up markets and make financial services more competitive"

22 November 2006, Financial Times, page 2

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