

Latest TABB Group research study,
published October 2008

European Equity Market Structure: Liquidity, Trust and Competition

Technology For The Sell-Side Conference
London, October 14th, 2008

By End 2008 There Will Be Six Pan-European Lit MTFs

Platform	Live date	CCP	Owner
Chi-X	Live	EMCF (Fortis)	Instinet, banks, brokers
Turquoise	Live	EuroCCP	9 investment banks
Nasdaq OMX	Live	EMCF (Fortis)	Nasdaq OMX
BATS Europe	4Q08	EMCF (Fortis)	BATS
Octopus	4Q08	EuroCCP	NYSE-Euronext
Equiduct (RM)	4Q08	LCH Clearnet	Boerse Berlin

Why Competition Will Succeed This Time Around

▲ Regulation

- ▲ MiFID is the result of cooperation at a pan-European level
- ▲ Best execution policies
- ▲ MiFID established the legal right to compete

▲ Member Support

- ▲ MTF sponsors are closely aligned and focused
- ▲ Members are backing the rivals to exchanges

▲ Economics

- ▲ High cost models and cost structures are under pressure
- ▲ Equity trading is quickly becoming commoditised

Soon There Will Be 20 Competitors and They Are All Different

Platform	Type	Target	Owner	Platform	Type	Target	Owner
BATS Europe	Lit	Sell	BATS	Euro Millennium	Dark	Both	NYFIX
Burgundy	Lit	Sell	Nordic brokers	Liquidnet	Dark + negotiation	Buy	Liquidnet
Chi-X	Lit	Sell	Instinet, banks	Liquidnet H2O	Dark	Both	Liquidnet
Equiduct (RM)	Lit	Sell	Boerse Berlin	Pipeline	Dark + Lit	Both	Pipeline
Nasdaq OMX	Lit	Sell	Nasdaq OMX	Plus Europe	Dark	Sell	Plus Markets
Octopus	Lit	Sell	NYSE Euronext	POSIT Alert	Dark	Buy	ITG
Pex	Lit	Sell	OPEX	POSIT Match	Dark	Both	ITG
Turquoise	Lit	Sell	9 investment banks	POSIT Now	Dark	Both	ITG
Baikal	Dark + hub	Both	LSE/ (?)	Smartpool	Dark	Sell	NYSE Euronext
Blockmatch	Dark	Buy	Instinet	Swiss Block	Dark	Both	SWX Europe

Source: MTFs, TABB Group

Exchanges Will Employ Different Tactics to Defend and Grow Market Share

- △ Technology upgrades
- △ Revamping pricing models
- △ Launching dark pools
- △ Adding midpoint match orders
- △ Hosting facilities

**Defend
Market
Share**

- △ Launching innovative MTFs
- △ Expanding clearing
- △ Innovative order types
- △ Creating new products
- △ Targeting internalisers

**Grow
Market
Share**

We Are Entering a New Age of Competition

▲ How Liquidity is Formed

- ▲ Best Ex policies
- ▲ Competing business models

▲ What execution venues look like

- ▲ Ownership structures will support rivals
- ▲ Target audience

▲ The tools that are needed

- ▲ To measure and access dark and lit liquidity
- ▲ To trade across multiple venues simultaneously

The Sell Side Has The Most Opportunities

Opportunities

- ✓ Complex markets favor the big or niche players
- ✓ New algo-trading opportunities
- ✓ Increase in internalization
- ✓ Lower trading costs
- ✓ Re-connect with clients with new services, technology

Challenges

- x Significant investment in technology
- x Some may struggle to differentiate themselves
- x Single ticket allocations erode profit margins
- x MTFs will look to erode buy side relationships

The Impact on Buy Side Participants is Mixed

Opportunities

- ✓ Increase in choice and business models
- ✓ Decrease in execution costs over time
- ✓ Better liquidity search for harder-to-trade stocks
- ✓ Control over order flow
- ✓ New trading opportunities for some

Challenges

- ✗ Loss of price discovery in the mass of dark pools
- ✗ Diminished pre- and post-trade transparency
- ✗ Bombardment of new competitors
- ✗ Complex diagnostics and execution management

Conclusion

- ▲ Change is occurring at a very rapid rate
- ▲ More MTFs will crowd into the market
- ▲ Harmonious (not homogenous) framework
- ▲ Crowding followed by consolidation will occur
- ▲ Trading will become very commoditised
- ▲ Mediocre performers will come under severe pressure



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