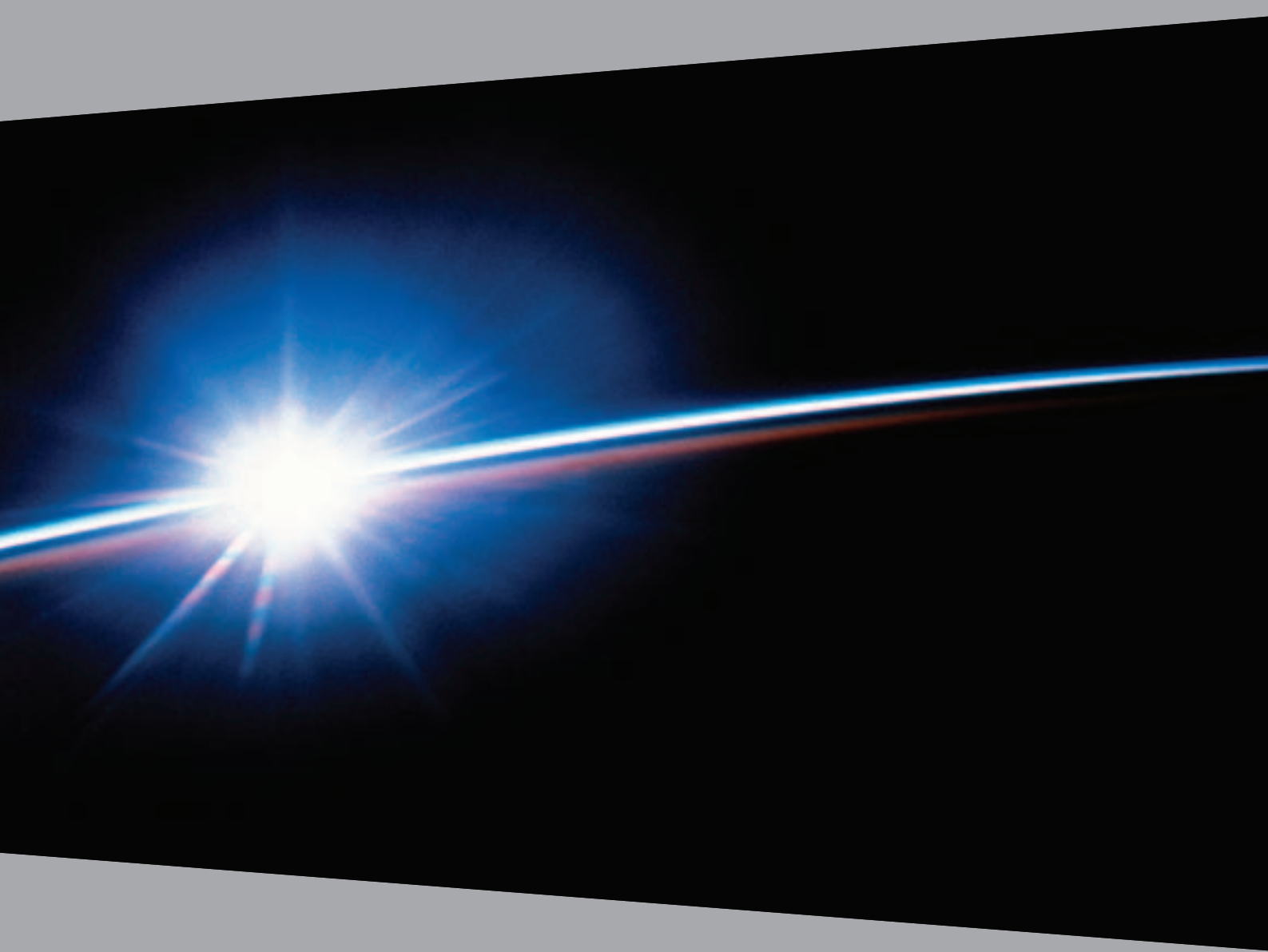




*London*  
**STOCK EXCHANGE**

# MiFID in a pan-European market

A SHARED VISION OF THE FUTURE



## Partner with us in Europe

By working in partnership, we have built the most powerful primary and secondary markets in Europe

A more competitive, highly efficient pan-European market

A complete solution to meet your MiFID compliance needs effectively, with minimum disruption to your business

Our significant investment in technology is delivering a next generation trading platform with a step change in capacity and speed



## MiFID – the bigger picture

The Markets in Financial Instruments Directive (MiFID), due to be implemented on 1 November 2007, is the latest step on the journey towards a single European financial market. Seen by many as a seismic shift in its own right, MiFID is in fact just one of 42 measures within the European Union's Financial Services Action Plan. As part of this much wider process, it edges us closer to the goal of a more competitive and innovative market where firms can conduct their business across European borders, subject to the same rules and regulations.

**The London Stock Exchange has been instrumental in helping to shape the new regulations at both a national and a European level to realise MiFID's goals of creating a more efficient pan-European securities market. The resulting MiFID legislation endorses much of the London model, extending many of its advantages across Europe.**

Through our position as Europe's largest and most liquid pool of international capital, we believe we are ideally placed to help you achieve MiFID's long-term vision. Together, we can create a new, more transparent and much more efficient pan-European marketplace for the benefit of all users.

A handwritten signature in black ink, appearing to read 'Clara Furse'.

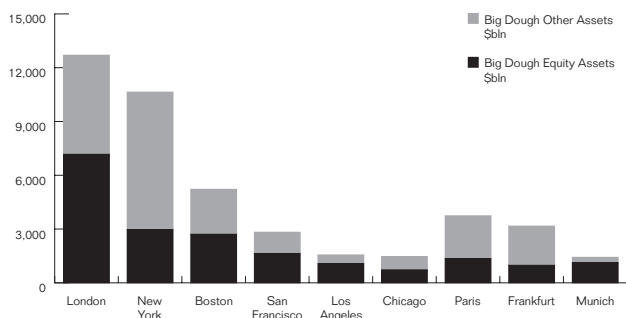
Clara Furse  
Chief Executive Officer  
London Stock Exchange plc

## MiFID is London's opportunity to develop a pan-European marketplace

### MiFID: Business risk or an opportunity for growth?

We believe MiFID will present opportunities for increased efficiency and enhanced growth. We can realise these opportunities by working in partnership to build on the momentum that has put London at the heart of Europe's financial marketplace.

#### Comparative analysis between total assets managed in London and other major cities



Source: Big Dough, January 2006

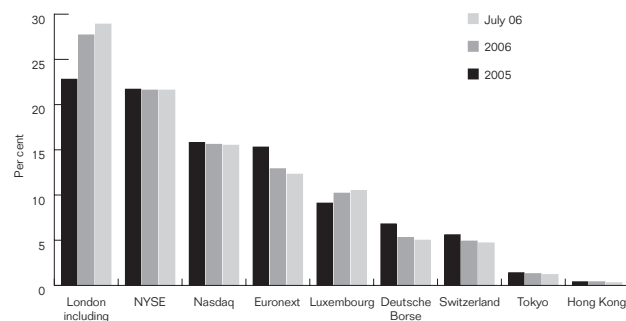
### Delivering compliance while laying the foundations for growth

MiFID can be viewed from two perspectives – compliance and growth. Our immediate focus is to reassure our customers that we have a complete equity trading solution that will deliver compliance. We will leverage new and proven products and services to provide a solution for your MiFID requirements, supported on TradElect™, the Exchange's next generation trading service which will go live in Q2 '07. By utilising existing and familiar market structures our solution is cost-effective and can be implemented with minimal disruption.

The focus can then shift from compliance to growth, so choosing the right exchange partner now will make the difference to the future success of your business.

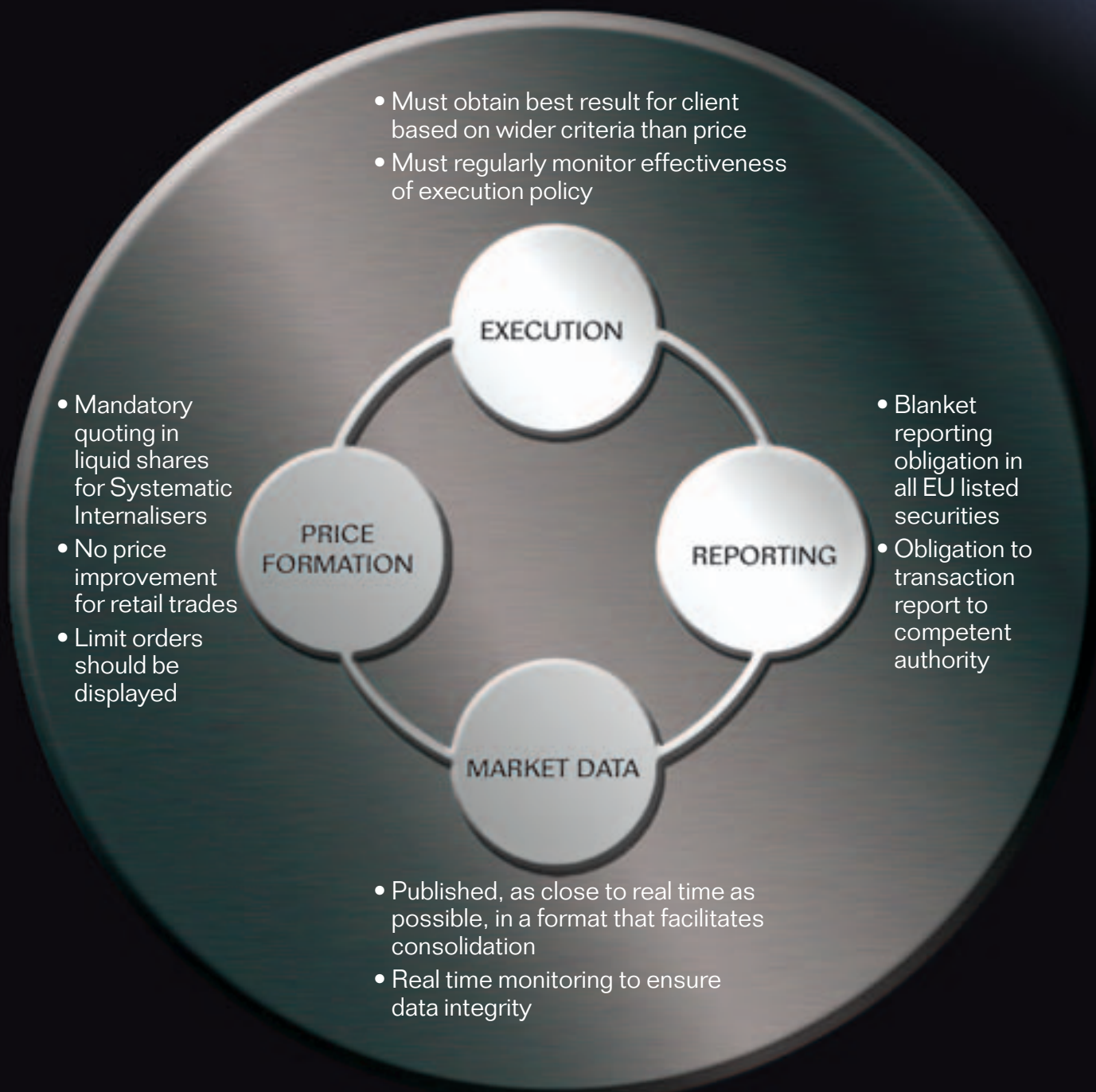
Partnering with the London Stock Exchange will provide you with the tools to move beyond compliance and look to the future. The Exchange is ideally positioned to deliver your pan-European service, as our primary and secondary markets continue to flourish. This brochure tells you how we can help you to grow in Europe.

#### Trend in market share of foreign company listings



Source: WFE (selected universe – FY end March)

# An overview of key MiFID obligations



## MiFID's impact and how we can help

MiFID is designed to create a single market for financial services across the EU. It creates a harmonised conduct of business rulebook for European investment firms. It also changes the dynamic for European exchanges. Out go the concentration rules seen in some countries, and in comes the ability for all firms across the EU to internalise flows as trading venues in their own right. It also responds to developments in the markets over the last decade, recognising new categories of trading venue – regulated markets, multilateral trading facilities (MTFs) and Systematic Internalisers (SIs) – promoting competition between them and establishing a comprehensive pan-European transparency regime.

The new transparency requirements will apply to all investment firms from the largest fund manager to the smallest broker, although the pre-trade obligations will only affect those firms internalising high volumes. Firms can decide how to adapt their businesses and position themselves for a pan-European future.

## Meeting your pre-trade transparency obligations

(SIs, Liquid shares<sup>1</sup> only)

As part of this regime, MiFID imposes pre-trade transparency obligations on firms whose business model encompasses the systematic internalisation of customer order flow in liquid shares. SIs must publish buy and sell prices up to standard market size<sup>2</sup>, at which they are prepared to trade with their customers. If challenged, SIs will have to honour these prices and will not be able to improve the price when dealing in retail size or with retail clients.

In response, the Exchange plans to use a combination of order book and quote functionality to provide a simple one-stop-shop service for all UK and EU liquid shares. SETS will be enhanced to allow for the publication of executable two-way market maker quotes, akin to SETSmm, whilst two-way non-executable quotes will be available for all EU liquid shares. The obligations associated with these quotes will be defined under the Exchange's rules as a market operator. This approach provides a MiFID compliant solution and preserves your ability to price improve where the trade is executed under the rules of a regulated market or MTF. It also enables you to avoid expensive and unnecessary development work, allowing your resources to be better utilised elsewhere.

## Meeting your limit order display obligations

MiFID will require market participants to display unexecuted limit orders in all EU-listed shares unless a client expressly consents otherwise. The potential impact of this article will be most keenly felt by UK investment firms that provide limit order handling services to their retail client base, as the article will require them to make limit orders held within their systems available to the market.

Many of the Exchange's existing products already provide the ability to publish limit orders, namely SETS, SETSmm and Dutch Trading Service (DTS). These platforms cover securities from the FTSE100 to FTSE Small Cap indices with DTS covering securities traded on the AEX and AMX indices. In addition, we are launching a new platform, SETSqx, to facilitate limit order display for the FTSE Fledgling and remaining non-index securities listed on the Main Market. This new trading service will use a hybrid approach, supporting quotes and the continuous display of limit orders with uncrossing during periodic auctions. This new service will not only help to enhance liquidity, but will deliver a MiFID-compliant solution. By November 2007, all UK-regulated market securities admitted to trading on the Exchange will have limit order display facilities.

<sup>1</sup> Liquid shares – A share which is traded daily, with a free float not less than €500m and has either more than 500 transactions a day or a daily turnover in excess of €2m.

<sup>2</sup> Standard Market Size – (in €)

Class in terms of average value of transactions (AVT)	≤ AVT < 10,000	10,000 ≤ AVT < 20,000	20,000 ≤ AVT < 30,000	30,000 ≤ AVT < 40,000	40,000 ≤ AVT < 50,000	50,000 ≤ AVT < 70,000	70,000 ≤ AVT < 90,000	Etc.
<b>Standard market size</b>	<b>7,500</b>	<b>15,000</b>	<b>25,000</b>	<b>35,000</b>	<b>45,000</b>	<b>60,000</b>	<b>80,000</b>	<b>Etc.</b>

## Helping you to meet your best execution policy

MiFID will introduce a more complex best execution regime than currently applies in most EU markets. The underlying principle will change from a pure focus on price to allow a weighting for other factors, including cost, speed, quality, likelihood of execution and settlement, size and nature of the order.

You will have to engage much more closely with your customers to agree a formal best execution policy and report on performance against that policy. New systems and tools will be needed to support this deeper level of customer engagement and access to key market data will be crucial for the tools to be effective.

In response, the Exchange will offer a set of tools – utilising our data mining products and central data storage – to help you demonstrate best execution to your customers. These tools provide the official data necessary to identify and analyse trends, as well as the ability to monitor, assess and compare execution performance.

In addition, Proquote, the London Stock Exchange's market data and trading subsidiary is introducing new services that will allow firms to assess best execution using data across all European exchanges and will allow statistics on Transaction Cost Analysis to be reported.


## Meeting your post-trade transparency obligations

MiFID will extend a UK-style post-trade transparency regime across Europe to all shares that have been admitted to trading on an EU regulated market. This requirement will impact all parties conducting over-the-counter (OTC) trades in any EU listed security.

The Exchange has been providing a UK reporting service for many years and we will expand this high-quality service to EU securities at a competitive cost for both on Exchange and OTC trades. We are also planning an enhancement to this service which will undertake the publication of trades in accordance with the new MiFID block trade reporting regime<sup>3</sup>, removing the need for you to develop costly in-house applications. All trades will be rigorously checked for data errors, providing you with the peace of mind that we are delivering your compliance with MiFID's data quality measures and ensuring the advanced levels of data integrity to which you are accustomed in the UK. Ultimately, the Exchange's official FSA classification as a Trade Data Monitor (assuming this proposal goes ahead) and our extensive connectivity to information vendors will ensure your data is disseminated to the market efficiently, preventing data fragmentation and averting unnecessary spend.

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<sup>3</sup> MiFID specifies a regime that allows for the delayed publication of large trades in certain circumstances based on the Average Daily Turnover (ADT) of the stock and the consideration/size of the trade.



## Meeting your transaction reporting obligations

MiFID requires that a competent authority receives transaction reports for all transactions undertaken by an authorised investment firm. Current UK practice is for sell side firms to report these on behalf of their clients, although MiFID raises the possibility that buy side firms may have to submit transaction reports for some business themselves.

The Exchange has been providing a reliable, low-cost transaction reporting service for the past four years. The Exchange Reporting Service (ERS) will be available to customers wishing to have a straightforward and cost-effective way of submitting transaction reports to the Financial Services Authority (FSA).

## Market Data – efficiency through continued centralisation

The Exchange will continue to aggregate data in UK securities as well as capturing trade information in EU securities. Using a cost-efficient, centralised source is one of the easiest and lowest risk methods to ensure continuance in the level of visibility required by the market. We will also ensure the data is published in accordance with MiFID – providing the highest levels of integrity and reliability.

We will continue to disseminate both UK and International Level 1 and 2 market data and in addition we will be providing a new data feed comprised solely of off book trade reports in all UK and EU listed securities.

We believe our approach will maintain the quality of reported trades that our customers are accustomed to and extend this level of service across Europe, where a large amount of OTC business will become reportable for the first time. This will give you, our customers, the confidence and comfort that not only are you MiFID compliant but also capturing accurate and up-to-date time and sales information.

## London – the world's capital market

### Conclusion

We are seeking to meet our customers' immediate need for MiFID-compliant solutions which combine efficiency and reliability, whilst being cost-effective to implement. By focusing on the enhancement of our existing functionality and familiar market models and systems, we can reduce the need for customers to undertake significant development work in these areas, providing minimal disruption to your business and easing the implementation of your MiFID obligations.

Nevertheless, MiFID is much bigger than a compliance task. It is about creating higher levels of market efficiency through the evolution of a truly single European marketplace.

Looking ahead, we believe many of our customers are more interested in those products that go beyond compliance to create new opportunities for growth. Our expertise in operating Europe's most successful equity marketplace and the significant investment we have made in next generation trading technology will help you realise these opportunities.

### Find out more

To discuss the impact of MiFID and the London Stock Exchange's range of proposed products, please contact your primary account manager.

MiFID@londonstockexchange.com  
+44 (0)20 7797 4093

Or visit our website at  
[www.londonstockexchange.com/mifid](http://www.londonstockexchange.com/mifid)

To find out more about MiFID, we suggest visiting the following websites:

Financial Services Authority: [www.fsa.gov.uk](http://www.fsa.gov.uk)

HM Treasury: [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

The Committee of European Securities Regulators:  
[www.cesr-eu.org](http://www.cesr-eu.org)

The European Union Single Market:  
[www.ec.europa.eu/internal\\_market/securities/isd/index\\_en.htm](http://www.ec.europa.eu/internal_market/securities/isd/index_en.htm)



Uses proven connectivity, services and infrastructure

**HIGH QUALITY**

Familiar market model for low cost implementation

**MINIMAL DISRUPTION**

Centrally managed compliance reduces regulatory burden

**LOW RISK**

Market cohesion maintained by minimising data fragmentation

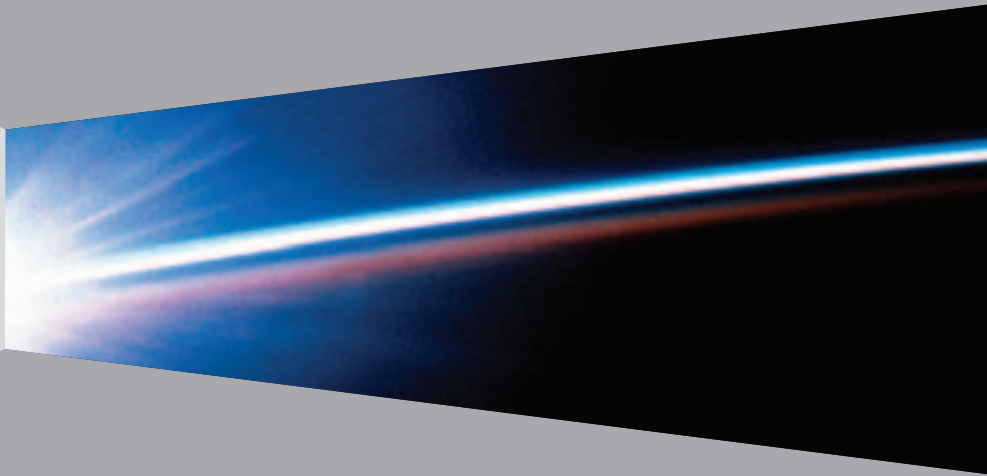
**MARKET INTEGRITY**

Next generation technology – increased capacity, speed and flexibility

**SCALABLE**



*London*  
**STOCK EXCHANGE**



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