



London
STOCK EXCHANGE

CHANGE IS ON THE WAY. BE READY.

UNDERSTANDING MiFID





How will MiFID affect my business?

A question all firms operating within financial services in Europe must ask themselves.

All market participants – from buy and sell side firms, vendors, exchanges and technology companies – will be impacted by the Markets in Financial Instruments Directive (MiFID) and need to understand its implications.

What is MiFID?

MiFID is a new EU regulatory framework directive that aims to create a structure for a pan-European market for investment products. It seeks to make cross-border trading in securities in Europe more accessible for financial institutions and investors alike harmonising secondary market rules with a goal of lowering the cost of capital for companies. Whilst there have been many attempts to address this issue in the past, a single market is yet to be achieved. MiFID is designed to address the entire issue under one directive, which is currently due to be implemented by 30 April 2007.*

Post Trade Transparency

MiFID requires that all trades executed in a security listed on an EU regulated market will need to be published, even when the trade has been executed outside of a regulated market i.e. all On and Off Exchange business MUST be published. MiFID aims to facilitate greater freedom of choice with regard to execution and reporting venues.

On Exchange

In the UK, On Exchange trades fall into two categories:

1. On Book: Business transacted on the order book (e.g. automatic executions on SETS) and subsequently published by the Exchange.
2. Off Book: Business transacted bilaterally by intermediaries and investors, away from the order book (e.g. deal made via the telephone in a SEAQ, SETSmm or SETS stock). As the transaction takes place under our rules it will be reported to the Exchange and subsequently published to the market.

Off Exchange

This business is transacted outside the Exchange's structure (i.e. OTC) between fund managers, for example. There is no Exchange involvement (of order books/rule books) and the trades are not currently published on the Exchange's data feed.

Best Execution

MiFID imposes a requirement on firms to achieve best execution for clients, taking into account a number of factors such as price, costs, speed etc and those clients must have agreed to the firm's execution policy.

Clients have control over how a trade is executed:

in selecting an execution venue, a customer can insist that it is dealt under the rules or systems of a regulated market or MTF, even when not executing on the order book (i.e. On Exchange but Off Book). Under MiFID firms will be obliged to follow specific instructions made by the client.

An executing broker has to get consent

to report elsewhere: clients must consent to their orders being executed outside a regulated market or an MTF.

Risk of Data Fragmentation

Greater choice in execution and reporting venues may lead to data fragmentation, where quotes and trades in the same security are published via a number of channels. This means that without data consolidation, there is a risk that market participants will have an incomplete picture of the UK marketplace.

Participants would, ultimately, find it more challenging to identify best price which may undermine the efficiency of the market.

*However, a motion has been tabled to extend this to October 2007.



Maintaining the Quality of the UK Market

The London Stock Exchange's commitment to providing a trusted infrastructure for fair and transparent trading and competitive execution are long-established. Over the past four years, the Exchange has actively participated in the development of MiFID to ensure that the UK Market continues its high level of integrity, quality and transparency.

The Role of the Exchange

Whether conducted on or off book, all business is monitored and published by the Exchange and benefits from:

- A reliable and transparent trading environment providing best execution.
- A well-regulated environment that publishes accurate price and trade information in real time.
- Post-trade transparency of off book trades enabling investors to benchmark performance.
- A highly reliable and fast trading platform enabling efficient trade execution.
- A dedicated supervision team which ensures data integrity via real time monitoring.
- Competitively priced trade reporting fees.

As well as a centralised and well-regulated market, the Exchange is also able to provide investors with significant protections as a result of its stringent rules. These rules cover:

- Terms of contract between trading counterparts.
- Transparency.
- Administration of default procedures in the event of member failure.
- Enforcement of settlement rules.
- Structure for the market making system.

“The Exchange will continue to offer its trade execution and reporting services enabling firms to achieve MiFID compliance, while ensuring the quality and integrity of the price and trade information published to market is maintained.”

Keeping you updated on future MiFID developments

We aim to provide you with timely information regarding MiFID, and will continue to:

- Communicate developments through our website: www.londonstockexchange.com/mifid, seminars and via regular email updates. Dates for upcoming seminars will be published shortly.
- Ensure changes required to trading activity will be highlighted in a timely manner.
- Continue to provide the best possible service to the buy side when it comes to equity orders and trade reporting data and tools.

If you have any questions regarding MiFID or want to find out more, please contact your Primary Account Manager:

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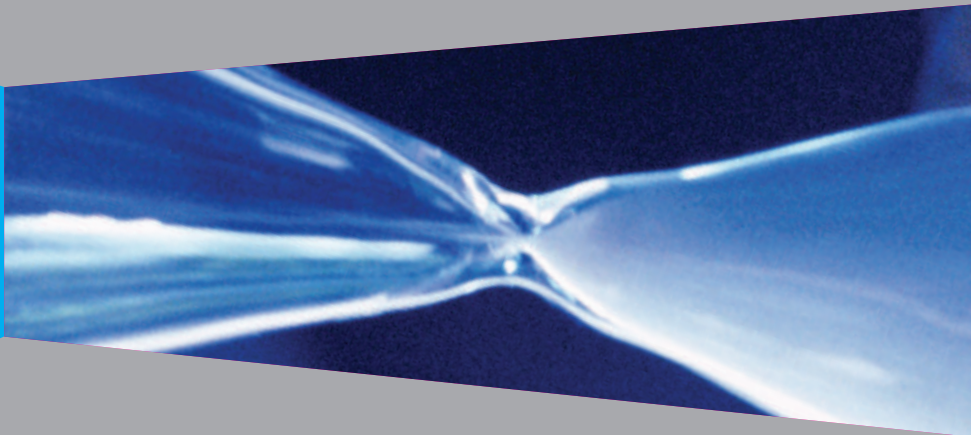
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