

PRESS RELEASE

Investment banks call for action on derivatives exchange fees

Alan Yarrow, Chairman of LIBA, the London Investment Banking Association, gave the keynote speech today on 7th September 2005 at Bürgenstock, the Swiss Futures & Options Association's 26th annual international conference, on the theme of 'Financial Markets in Tomorrow's World'.

He referred to LIBA's work on the challenges facing the investment banking and securities industry in four areas:

- the proposed changes to the capital adequacy regime;
- European financial market reform;
- the reasonable case for European derivatives exchanges to reduce fees to users; and
- on user governance, he referred to the joint statement released by LIBA in conjunction with various European Trade Associations on 3 February 2005, which recognised the right of exchange owners to earn a reasonable return and stressed that users should benefit from falling costs.

Turning to derivatives exchange fees, LIBA is putting forward the reasonable case for fee reductions in exchange traded derivatives (ETD), which can simply be made based on publicly available data:

- First, the volume growth of ETD contracts is dramatic and obvious.
- Secondly, the substantial reduction in the unit cost of production within the exchanges has come about as a direct result of users growing volume and consistently directing their volumes onto exchanges.
- Thirdly, despite this, fees to users have remained broadly flat during a period of remarkable growth of ETD contracts.

"The evidence supporting our case is clear and compelling," Mr Yarrow said. "Given market developments and technical progress, users are asking, fairly and reasonably, to share the benefits." He also noted that welcome progress had been made in some areas but that the picture was patchy.

Mr Yarrow concluded: "We look forward to continuing to work with the senior executives at the European derivatives exchanges to address the fundamental issue of fees over the coming months. Our members intend to ensure that the issue of fee reduction in core products will remain a top priority of user interaction with the exchanges. We trust that senior management at exchanges will wish to give this their fullest attention at the earliest opportunity."

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Notes to Editors:

1. **London Investment Banking Association (LIBA)** is the principal trade association in the United Kingdom and Europe for firms active in the investment banking and securities industry. The Association represents the interests of its Members on all aspects of their business and promotes their views to the authorities in the United Kingdom, the European Union and elsewhere.
2. A further copy of the joint Associations' Press release of 3 February 2005 is attached.

For immediate release

3 FEBRUARY 2005

PRESS RELEASE

European Trading Associations publish statement of principles to be applied to consolidation of Stock Exchanges and Central Market Infrastructure.

On behalf of a group of leading European Trade Associations, the London Investment Banking Association (LIBA) is today releasing a statement (attached) calling on exchanges and public authorities to follow certain principles in any consolidation of Europe's Stock Exchanges and Central Market Infrastructure. In brief, the issues are:

- a) how best to ensure that market users continue to share the benefits of technical progress, market development and falling costs;
- b) how to avoid conflicts of interest, cross-subsidy and distorted competition;
- c) that the exchanges and other infrastructure providers should adopt robust and lasting systems of governance and give users a top priority in the affairs of their companies alongside shareholders;
- d) that the impact of any change on all relevant downstream markets is duly evaluated.

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Notes to Editors:

The French Association of Investment Firms (*AFEI Association Française des Entreprises d'Investissement*) comprises nearly 130 investment service providers, mainly investment firms, but also credit institutions authorised to provide investment services. The majority of AFEI members operate in the fields of equities and derivatives. Approximately one-third are subsidiaries or branches of foreign institutions.

Italian Association of Financial Intermediaries (*ASSOSIM Associazione Italiana Intermediari Mobiliari*) is the Italian Association of Financial Intermediaries, which represents the majority of financial intermediaries acting in the Italian Markets. ASSOSIM has nearly 80 members represented by banks, investment firms, and branches of foreign brokerage houses, active in the Investment Services Industry, mostly in primary and secondary markets of equities, bonds and derivatives, for some 82% of the total trading volume.

French Banking Federation (*FBF, Fédération Bancaire Française*) is the professional body representing over 500 commercial, cooperative and mutual banks operating in France.

London Investment Banking Association (LIBA) is the principal trade association in the United Kingdom and Europe for firms active in the investment banking and securities industry. The Association represents the interests of its Members on all aspects of their business and promotes their views to the authorities in the United Kingdom, the European Union and elsewhere.

Swedish Securities Dealers Association (SSDA) represents the Swedish Securities, Traders and Brokers in Sweden.

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AFEI ASSOSIM FBF SSDA
STATEMENT OF PRINCIPLES TO BE APPLIED TO THE
CONSOLIDATION OF STOCK EXCHANGE AND INFRASTRUCTURE
PROVIDERS IN EUROPE

There could well be very important changes in the machinery for trading, clearing and settling shares throughout Europe in the near future, as a result of proposals to merge with European Stock Exchanges. The turnover of Europe's exchanges and post-trade infrastructure is modest by the standards of major industries such as chemicals, construction or banking. However, the role of securities markets in the European Union is all-pervasive. It directly effects many thousands of public companies; millions of personal investors; the pensions, insurance and savings of almost of every household; and, last but emphatically not least, the financing of public sector activities.

Members of the London Investment Banking Association are together responsible for most of the turnover of the London Stock Exchange and a very substantial fraction of the trading undertaking on most other European Bourses together with the members of the Associations mentioned above (AFEI, ASSOSIM, FBF, SSDA). They have therefore considered carefully the principles which, as the dominant users of stock exchanges, they believe should be followed in future changes in stock exchanges and their infrastructure. Following such principles is central both to lowering the cost of capital in Europe, and to widening and deepening its markets. Since these principles and goals are material to the interests of the wider public and

economy, we are releasing them in the attached detailed public statement. In brief the issues are:

- a) how best to ensure that market users continue to share the benefits of technical progress, market development and falling costs;
- b) how to avoid conflicts of interest, cross-subsidy and distorted competition. Between the various stages of trading, clearing and settlement, there must be segregation or full separation of these various processes.
- c) that the exchanges and other infrastructure providers should adopt robust and lasting systems of governance which assure and underwrite these objectives and standards, and give users a top priority in the affairs of their companies alongside shareholders.
- d) that the impact on all relevant downstream markets is duly evaluated.

LIBA has shared these ideas with representatives of the Securities Industry in other European Countries, in particular with AFEI and FBF in France; ASSOSIM in Italy; and SSDA in Sweden. These Associations support the principles outlined in the attached statement, save that SSDA believe that a full separation of post-trade activities may not be appropriate for certain aspects of the Swedish market. In addition, AFEI and FBF stress that the consolidation of exchanges will further reinforce the domination of existing central clearing and settlements infrastructure (CCPs and CSDs) and may impact competition in custody and banking markets. They request the unbundling of CSDs from for-profit competitive custody and banking operations to ensure fair competition in these markets.

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AFEI ASSOSIM FBF SEDA

PRINCIPLES TO BE APPLIED TO THE CONSOLIDATION OF STOCK EXCHANGES AND INFRASTRUCTURE PROVIDERS IN EUROPE

A. OVERALL OBJECTIVE

To promote the further healthy development of the European Capital Markets, they must achieve over time the lowest overall costs of trading and post-trade services combined with the greatest responsiveness to users' and customers' needs.

The term "overall costs" means **the total end-to-end** cost of trading, clearing and settlement; and the internal costs incurred by market users when purchasing those services, including their costs of associated investment.

B. PRINCIPLES FOR TARIFF AND RELATED POLICIES OF EXCHANGES AND INFRASTRUCTURE PROVIDERS.

At all times, tariffs and terms of business should be so designed and implemented that:

- (1) **Exchange and Infrastructure providers (owners) are able to earn a reasonable return** from operational and market efficiency, and innovation. Improvements in costs and quality beyond that level of return should be shared with market users.
- (2)
 - a) Pricing should be **transparent**; based **on published tariffs**; and be properly **related to production costs**;
 - b) vertically integrated organisations should **charge separately** for trading, clearing and settlement;
 - c) Different categories of security may call for different tariffs, for example cash equities and derivatives;
 - d) users should benefit from fair access to the infrastructure;
 - e) Terms of business should reward/encourage members who **bring liquidity to the market**;
 - f) **Owners should collaborate actively with all market participants** to improve the range and quality of services provided to the market place;
 - g) Rules on the management of risk, crises, market interruption and similar issues must be transparent; and include proper arrangements for the liability of infrastructures.
- (3) **Market users should be consulted sincerely and well in advance about changes in tariffs and terms of business, and development projects.**

C. GENERAL PRINCIPLES FOR THE EVOLUTION AND CONSOLIDATION OF THE TRADING MARKET PLACE

- 1) **Providers of Trading, Clearing and Settlement Services** must seek to **minimise market users' costs over time**.

The term "Users' Costs" includes not only the charges of service providers ("direct costs"), but also the internal expenses incurred by the market in purchasing their services, including the market's costs of investment.

- 2) To give effect to the commitment to falling costs and involvement in proposed changes in services, **owners should adopt robust and durable systems of corporate governance which give users an appropriate and effective voice and influence**. Governance should reflect both the pattern of ownership and the composition of the users in the markets which the organisation serves.
- a) **Central Clearing and Settlement Services** should be provided by organisations whose ownership, governance and resource allocation procedures are designed to ensure that users' interests are given a top priority.
- b) **Central Clearing and Settlement Providers** should be owned by users, broadly in proportion to usage.
- c) Where possible **Trading Platforms and Central Clearing and Settlement operations should be owned separately**.
- d) Where there is **the same ownership of Trading, Clearing and Settlement, there must be effective separation, so that all conflicts are effectively handled in a way which commands market confidence**.
- e) **Methods which would contribute to such segregation/separation** include:
- separate companies with their own distinct constitutions;
 - total separation of financial accounts;
 - total separation of technical platform;
 - systematic avoidance of transfer pricing and cross-subsidy;
 - periodic external audit and review by independent and respected entities; and
 - appropriate oversight, if needed, by National and International Regulatory Authorities.
- f) The organisation for settlement must serve users on fair terms.
- g) Exclusive arrangements between trading platforms and CCPs and between CCPs and CSDs can only be justified on grounds of efficiency and investor protection.

D SPECIFIC PRINCIPLES NEEDED IN PRESENT CIRCUMSTANCES

- (1) Proposals for change arising in the present corporate actions should:
 - a) be designed to **promote and deliver further market efficiency** through standardisation, harmonisation and inter-operability and, where appropriate, further consolidation.
 - b) **Contribute to competition between trading platforms by ensuring:**
 - i) **low switching charges** for users wishing to move from one trading platform to another;
 - ii) **fair access to Clearing and Settlement Systems** for new entrants wishing to compete with incumbent trading platforms.
 - iii) that providers of **Clearing and Settlement Systems** are able and willing to **invest in systems, procedures and capacity** - including connections between Clearing and Settlement Systems – which providers of trading services may require.
- (2) Decisions that a given exchange should change central counter party or settlement provider/location should be taken by **common agreement between users and owners** of trading platforms.
- (3) **Proposals for change must strike a careful and appropriate balance between:**
 - (a) Limiting wasteful, duplicative investments; and
 - (b) Recognising the costs to users of a move away from established systems and procedures.