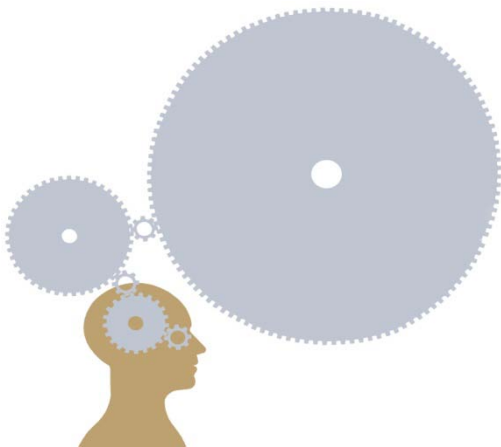


# Monitoring prices, costs and volumes of trading and post-trading services

4th Annual bwf/ICMA Capital Markets Conference

Fod Barnes, Senior Adviser

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# Overview

- background to the study
- the costs of using infrastructure providers
- the costs of using intermediaries
- value chain and basis point analysis
- international evidence
- market integration

# Objectives and context

- a number of initiatives launched by the European Commission to encourage integration of markets and achieve greater competition
- the Commission requested analysis of:
  - equities and fixed income
  - 18 financial centres
  - domestic and cross-border transactions
  - entire value chain (infrastructure providers and intermediaries)
  - time period: 2006–2008–2009
- previous studies
  - looked mainly at costs using data from annual accounts or pricing schedules, and only part of the value chain
- context
  - Giovannini barriers, CESAME group, Code of Conduct, etc

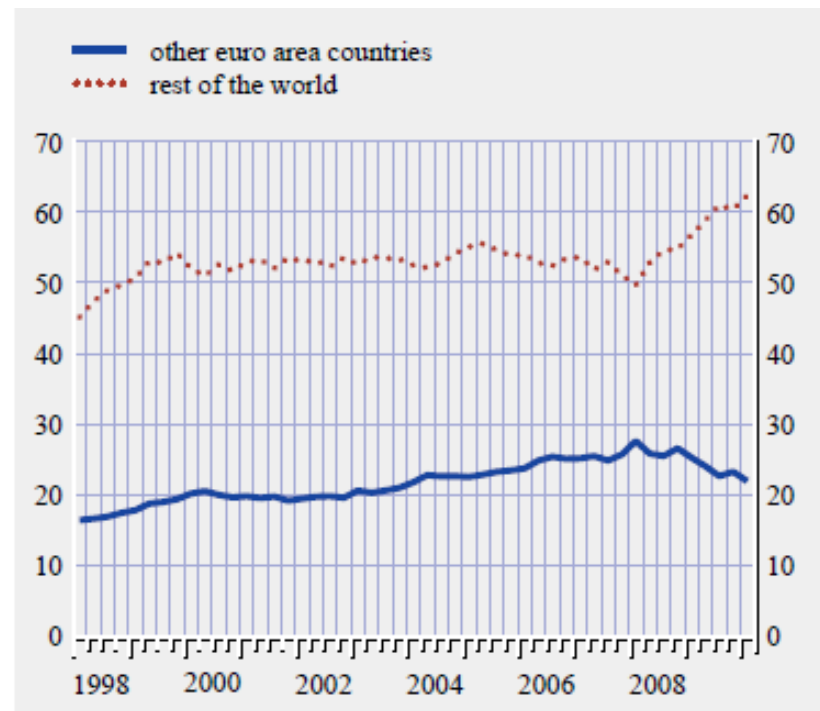
# Market integration: equities

The degree of cross-border holding of equities issued by Euro Area residents (%)



Source: ECB.

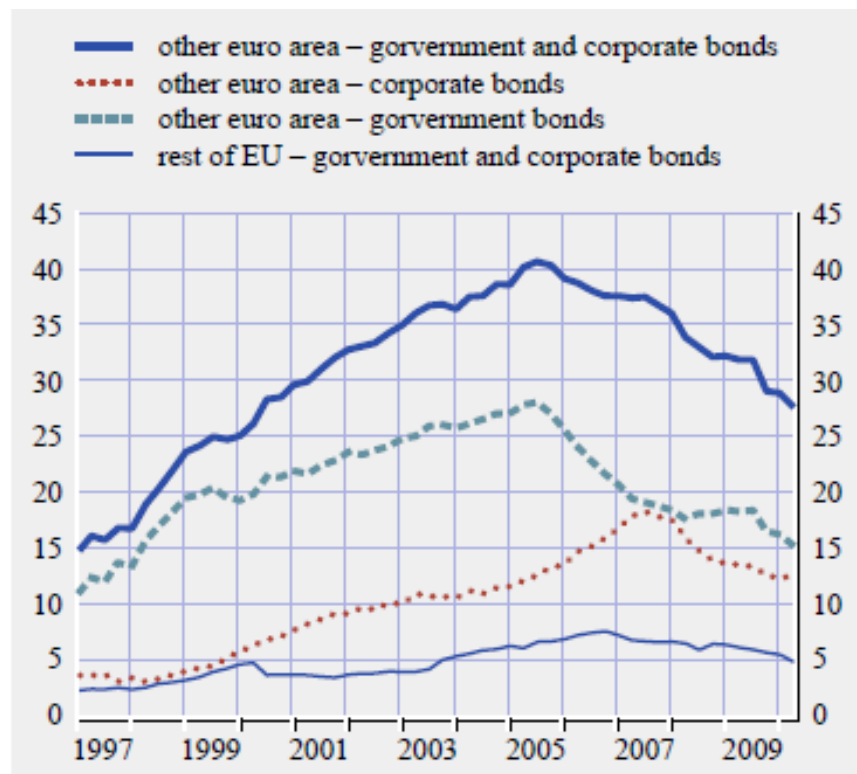
Investment funds' holdings of equity issued in other Euro Area countries and the rest of the world (% share of total holdings of equity)



Source: ECB.

# Market integration: government bonds

Share of MFI cross-border holdings of debt securities issued by Euro Area and EU non-MFIs: outstanding amounts by residency of the issuer (% share of total holdings excluding Eurosystems)



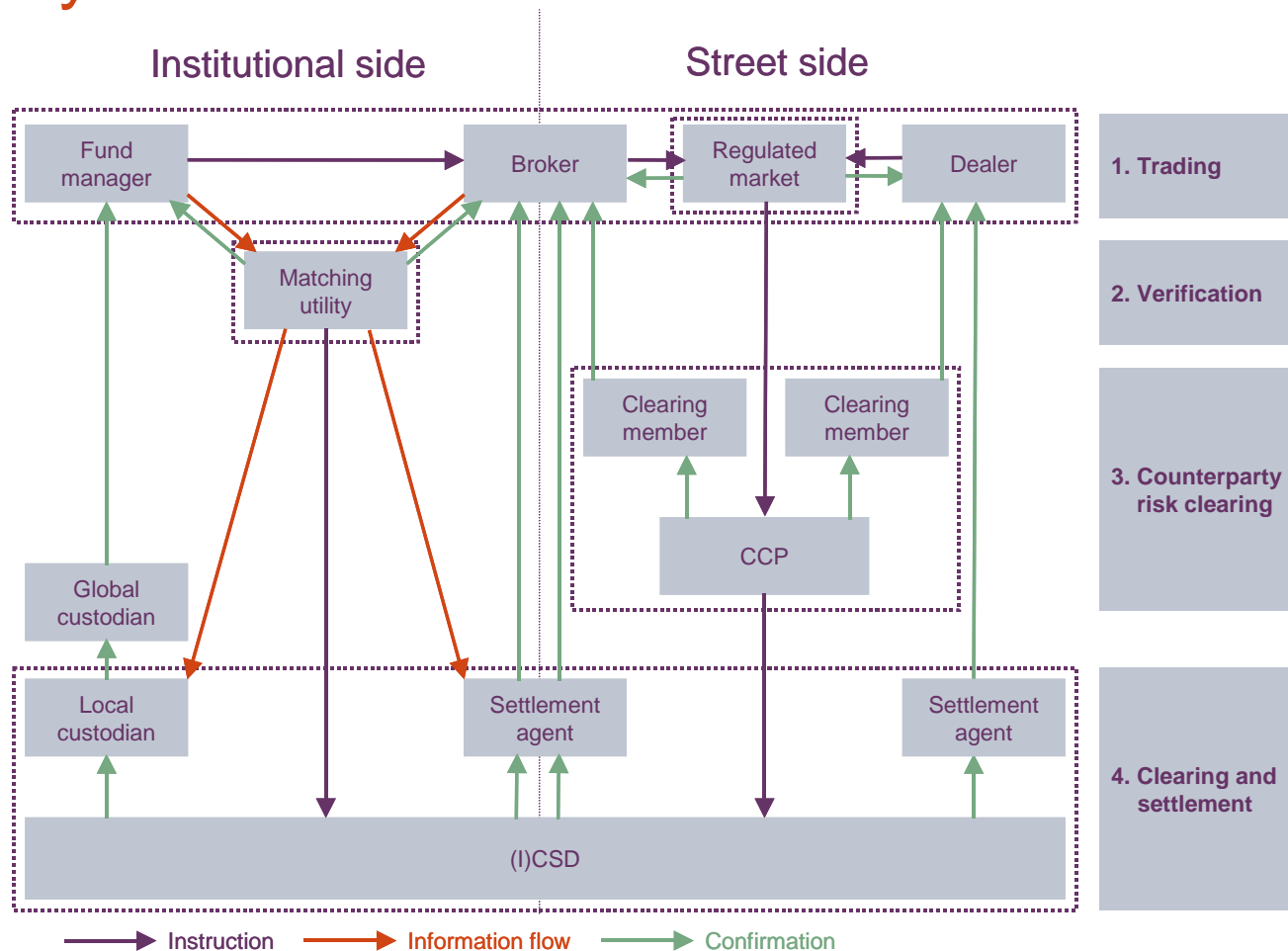
Note: This indicator compares the geographical counterparty diversification of securities held by Euro Area MFIs with the non-MFI sector as a share of the total outstanding amount. Debt securities issued by domestic and rest of world non-MFIs are not displayed in the figure.

Source: ECB.

# Joint industry and Oxera effort

- starting point in 2005: no data and considerable scepticism
  - industry too complex to analyse? No common definitions; infrastructure providers not willing to participate?
- 2007: Oxera methodology paper published
  - (still some scepticism but also agreement on way forward)
- 2009: first report with analysis of costs of infrastructure providers over time (2006–08) and snapshot analysis of data from intermediaries
  - brokers' request: analysis in basis points
- 2011: analysis of entire value chain, and costs measured in basis points, focusing on 2006–09

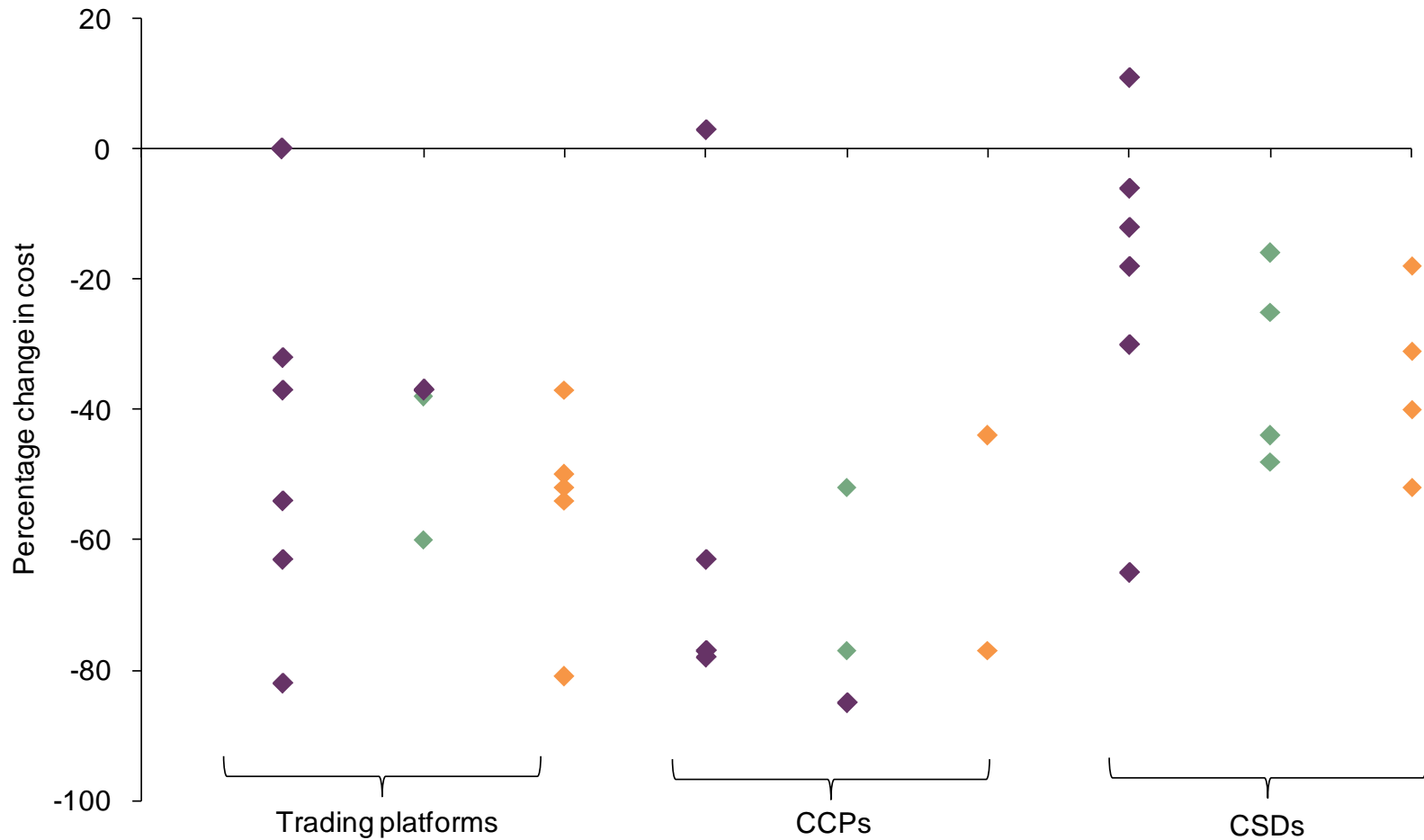
# Stylised illustration of the value chain



Note: This is a stylised illustration combining a regulated market with a CCP on the street side with a centralised matching utility on the institutional side. As such, this diagram shows the interaction of the transactions on the street side and the institutional side, and does not capture all the possible value chains.

Source: SWIFT and Oxera.

# Infrastructure providers (I)



Source: Oxera (2011), 'Monitoring Prices, Costs and Volumes of Trading and Post-trading Services', report prepared for European Commission, DG Internal Market and Services, May, Figure 2.



## Infrastructure providers (II)

- significant variation across trading platforms
  - the costs of using trading platforms for transactions in UK equities ranged from €0.03 to around €0.30 per transaction for a typical large broker
- average transaction size fell by between 22% and 80% in each financial centre
  - increasing costs per value of transaction
- trading platforms account for 78% of costs, CCPs for 19%, and CSD 4%

## Basis point analysis—trading platforms

Trading platform(s) domiciled in the following financial centres	2006–09 (%)		2006–09
	Change in cost per transaction	Change in bp costs	% change in average value of transactions
<b>Major financial centres</b>			
France	–37	71	–63
Germany	–54	8	–57
Italy	0	90	–47
Spain	–32	26	–46
Switzerland	–63	–27	–49
UK	–82	–24	–76
<b>Secondary financial centres</b>			
Belgium	–37	71	–63
The Netherlands	–37	71	–63
Norway	–60	13	–64
Poland	–38	–22	–22
Sweden	–60	8	–62

Source: Oxera (2011), 'Monitoring Prices, Costs and Volumes of Trading and Post-trading Services', report prepared for European Commission, DG Internal Market and Services, May, table 3.2.

## Basis point analysis—CCPs

CCPs domiciled in the following financial centres	2006–09 (%)		2006–09
	Change in cost per transaction	Change in bp costs	% change in average value of transactions
<b>Major financial centres</b>			
France	-77	-37	-63
Germany	-63	-14	-57
Italy	3	94	-47
Switzerland	-77	151	-49
UK	-78	-7	-76
<b>Secondary financial centres</b>			
Belgium	-77	-37	-63
The Netherlands	-85	-59	-63
Poland	-52	-39	-22

Source: Oxera (2011), 'Monitoring Prices, Costs and Volumes of Trading and Post-trading Services', report prepared for European Commission, DG Internal Market and Services, May, table 3.3.

# Brokers

- input costs have gone up (measured in terms of bp)
- commission rates have come down (by 20%)
  - based on data from both fund managers and brokers
  - large variation across financial centres
  - rough estimates (possibly distorted by other services such as research)
- cost differential between domestic and cross-border falling



## Custodians (I)

- 44% fall in fee per transaction (based on revenue data)
  - 22% fall in fee per transaction (based on customer profile analysis)
  - (customer profile approach worked reasonably well)
- the costs of domestic transactions have come down more than the costs of cross-border transactions
  - the ratio of costs of cross-border to domestic transactions almost doubled (from brokers' perspective)
- cross-border members increasing slightly, proportion of services supplied to them falling slightly

## Custodians (II)

	Settlement fees (base data is €per transaction) (2006)		Settlement fees (base data is €per transaction) (2009)	
	Domestic	Cross-border	Domestic	Cross-border
Custodian	100	219	38	131
Institutional investor	100	176	82	165
Broker	100	227	69	292

Source: Oxera (2011), 'Monitoring Prices, Costs and Volumes of Trading and Post-trading Services', report prepared for European Commission, DG Internal Market and Services, May.

## Basis point analysis

- advantages:
  - useful measure from end-user perspective
  - facilitates comparison across infrastructure providers
- may need to adjust for average transaction value (and netting efficiency) to get 'fair' comparison
- data becoming more available?
  - ECB data now obtains value of transaction data from most CCPs and CSDs
  - invoices?
- is there more of a role for the industry?



## Industry trends

- the cost per transaction on trading platforms has fallen
  - however, the cost per value of transaction has increased in some financial centres (eg, Belgium, France, Germany, Italy, the Netherlands, Norway, Spain, and Sweden)
  - this may reflect a trend towards smaller transactions
    - brokers split trade orders into more transactions
- rise in 'cross-border' users of trading platforms, CSDs and CCPs
- trend towards unbundling of services



## The debate: clearer but still unsettled?

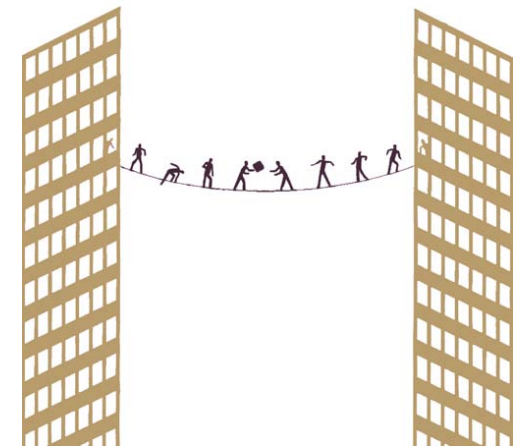
- what is the optimal market structure?
  - competition appears to be having its effect on prices, but how many CCPs can the market sustain?
- to what extent can national markets be integrated?

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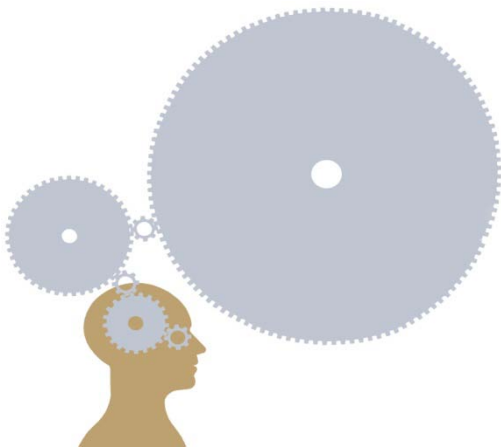
[www.oxera.com](http://www.oxera.com)

Contact:

Fod Barnes

+44 (0) 1865 253048

[fod.barnes@oxera.com](mailto:fod.barnes@oxera.com)



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