

FOCUS ON THE EUROPEAN TRADING LANDSCAPE

European stock exchanges will have a decisive part to play in the trading and investment environment laid down by MiFID. We have therefore asked Jim Gollan, CEO of virt-x, to outline his strategies with regards to the directive.

How well is the financial industry coping with the growing number of regulation?

Jim Gollan: Coping needs to be judged in two ways. Firstly, are firms preparing adequately for compliance with the new regulations? Secondly, is the economic policy agenda behind the regulation being achieved?

On the question of compliance, firms are coping surprisingly well considering how much new regulation there has been in recent years. Not only have they had to respond to new regulation at a national level, but they have also had to deal with the stream of regulation arising from the Financial Services Action Plan (FSAP). Since its inception in 1999, the FSAP has resulted in 40 or so directives affecting financial services within the EU.

On the question of fulfilling the economic agenda, the assessment is

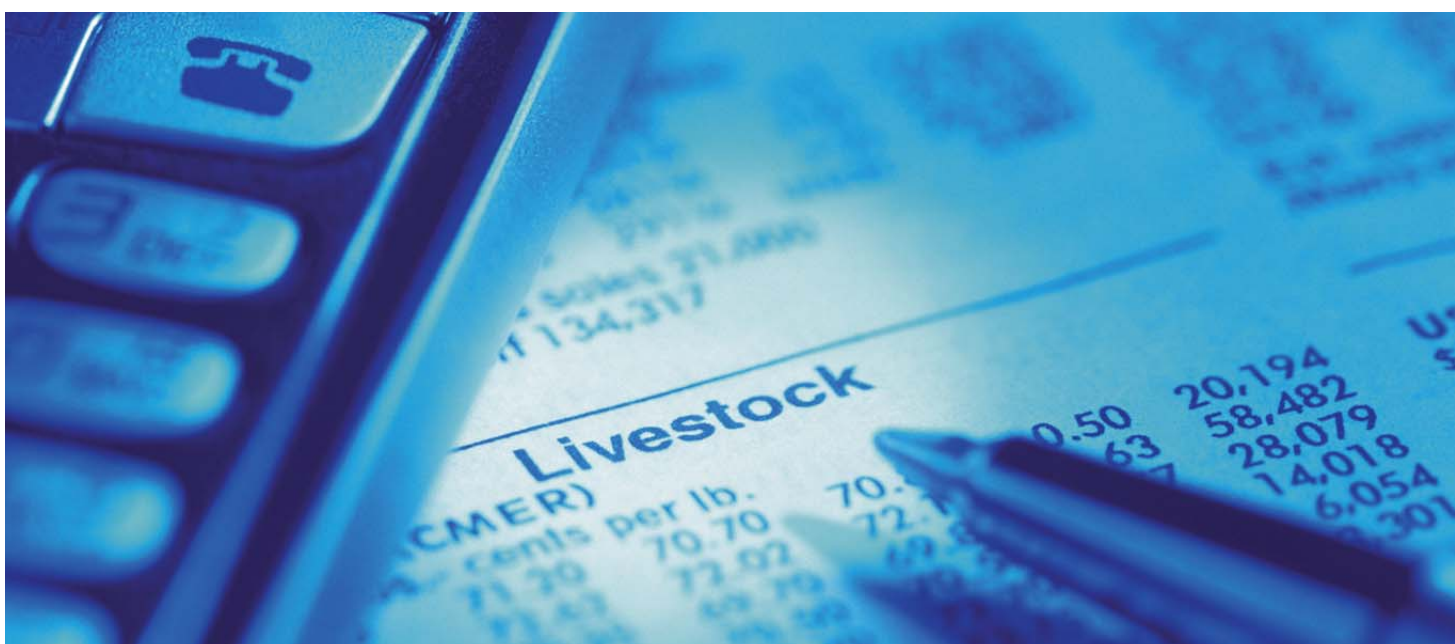
whether or not FSAP is achieving its stated goal of creating a single integrated market in financial services. The aim of greater integration is to make Europe's financial services sector more competitive with the US and with the fast emerging countries of Asia. At present, it is too early to judge. On the one hand, we may look back in 5 years time and see the FSAP as an expensive experiment which did little to improve competitiveness. On the other hand, we may see profound change as market forces create a more efficient financial services industry in Europe. Only time will tell.

How does MiFID differ from other regulation?

Jim Gollan: MiFID is different from other directives in the Financial Services Action Plan in three ways. Firstly, its focus is on securities trading, where in the name of European integration it harmonises regulation and

removes barriers to competition. Secondly, its implementation follows the Lamfalussy process, which is designed to reduce the "time to market" of EU regulation. This process has been used for three other directives also affecting the securities sector. Early results of speeding up directive setting and implementation were encouraging. However, the delay in MiFID's live date by 18 months from 1 April 2006 to 1 November 2007 has rather taken the shine off this initial promise.

Finally, MiFID's demands are some of the most profound requirements for change in the FSAP. We may never know how much MiFID cost to implement. However, if the FSA's estimates prove accurate, the cost for the UK alone is between £ 900 million and £ 1 200 million. In addition to this one-off expenditure, the ongoing compliance costs for UK securities firms are expected to be £100 million per year.





How will MiFID regulation affect the European stock markets?

Jim Gollan: European stock markets will need to focus on three areas of their business models. The first is insuring that their markets continue to offer as much best execution as possible to their participants, who in turn need to establish suitable execution policies for their own customers. Secondly, the business models for transparency will change. In markets with concentration rules today, such as France, Italy and Spain, the national exchanges will no longer be a monopoly supplier of pre- and post trade transparency. Consequently, business could move to alternative venues. Similarly, in other markets exchanges will find greater competition in transparency services and as a result their revenues from trade reporting will fall. Finally, the margins on data vending will be squeezed both by customer resistance to paying more for market information at the same time as production cost in-

creases due to wider transparency requirements.

Do you expect more merger and take-over activity for European stock markets due to MiFID?

Jim Gollan: The drivers of exchange consolidation are demutualisation followed by the search for economies of scale, and also on occasions a touch of empire building. Regulation, or rather de-regulation, can at best remove barriers which unnaturally inhibit natural economic forces. However, the main obstacle to consolidation in Europe is not current regulation. Rather, it is the complexity of finding merger terms which satisfy all of the key stakeholders in an exchange – shareholders, customers, issuers, regulators and politicians. For this reason, exchange consolidation has been a stuttering process in Europe and is likely to remain so. Consequently, MiFID is an unlikely catalyst for greater merger activity in European capital markets.

Will the creation of new trading venues (e.g. MTFs, SIs) drastically change the European trading landscape in a long-term perspective?

Jim Gollan: Certainly, this is MiFID's intention. On systematic internalisation, those markets with concentration rules today will see these swept away. Over time the national exchange can expect to lose business through greater internalisation of trading flows. In those centres, like London, which actively internalise already, the systematic internaliser regime is unlikely to increase internalisation from its current level.

What we have seen already is the announcement by a consortium of seven banks in London that it intends to establish a MTF to operate a pan European market. It is too early to say how this initiative will develop but its progress will be an important signal for the prospects for greater competition in securities trading in Europe.



About Jim Gollan

Jim Gollan is CEO of virt-x, the pan-European equities exchange based in London. Jim Gollan is also a member of the Management Committee of SWX Group, virt-x's parent organisation. He has worked for virt-x since its inception in 2001, initially as Deputy CEO and Chief Financial Officer, moving up to CEO in July 2005. A graduate in modern languages from Bristol University, he trained as a UK Chartered Accountant. His career includes roles as Managing Director, KPMG Consulting (Financial Services) Asia Pacific and CFO, Hong Kong and China at Standard Chartered.

MiFID needs to be implemented in all 30 countries of the EEA. Are all these countries really ready and capable to implement the directive until the end of November 2007?

Jim Gollan: It seems very likely that some states in Europe will not be ready on 1 November 2007 to comply fully with MiFID. This is not surprising given how ambitious MiFID is, nor is it necessarily disastrous that some states have failed to make the starting line by the due date.

What is the strategy of virt-x regarding MiFID?

Jim Gollan: virt-x will be fully compliant with MiFID regulations in readiness for MiFID live date. The necessary minor service enhancement will be implemented in a forthcoming system release available for customer testing in the summer. Beyond these changes, as a mutual organisation, virt-x will respond to its customers' demand for services which meet their needs, and are commercially viable for us to provide, in a post-MiFID environment. We are in open and active dialogue with our members concerning their needs of us regarding MiFID.

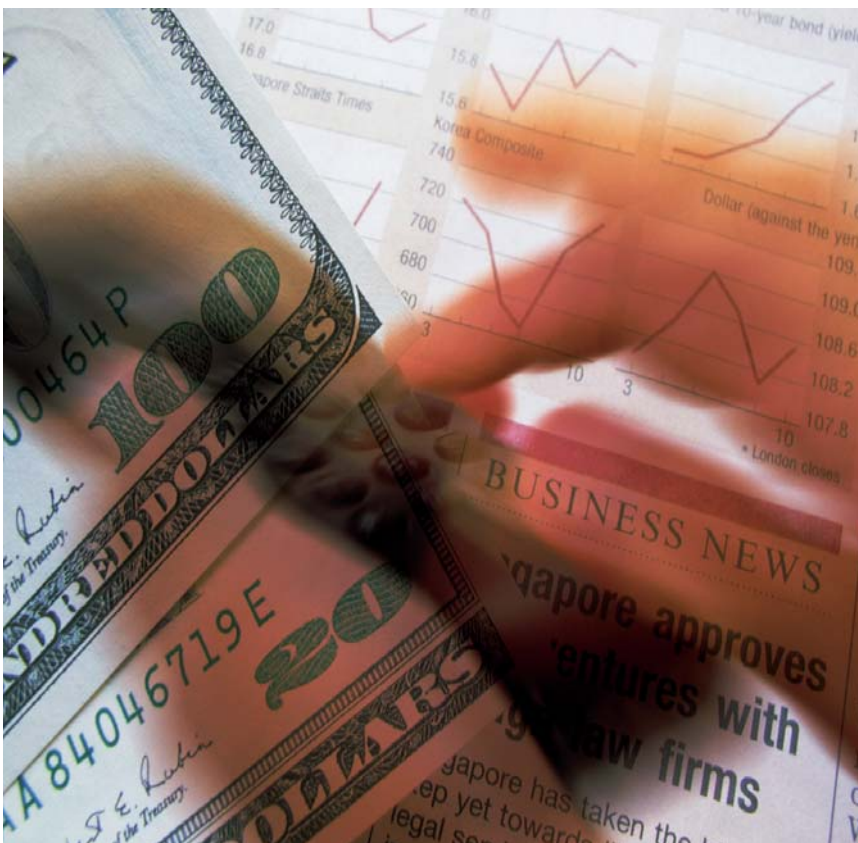
About virt-x

virt-x Exchange Limited (virt-x) was founded in 2001 as the first cross-border trading platform for pan-European blue chips. virt-x is a wholly-owned subsidiary of the SWX Group. The SWX Group's technological expertise enables the exchange to offer optimal border-spanning solutions in various segments of the securities markets delivering cost-effective, competitive advantages.

Being a wholly owned subsidiary of SWX Group, the SWX Swiss Exchange cooperates with Telekurs Group companies together with other institutions of the Swiss financial industry in the "Swiss Value Chain".

The Swiss Value Chain enables a fully electronic integration of all three stages of a security transaction, i.e. trading (through SWX Swiss Exchange), settlement and custody (through SIS SegalInterSettle) and payment (Swiss Interbank Clearing).

Telekurs Financial offers market data of SWX Swiss Exchange and virt-x in its display and processing products.



Does virt-x have common or similar goals with other affected exchanges or institutions?

Jim Gollan: We cannot comment on the goals of other affected exchanges or institutions but reiterate our goal to serve our customers in whatever way they need today and as their businesses evolve in response to regulatory and commercial imperatives. virt-x, and its parent SWX Group, offers its members and participants proven, market driven, solutions to their Swiss and, where required, European equity market requirements. We will continue to hold active dialogue with all of our members reflecting their needs and requirements in our service propositions whenever they are commercially applicable.

How will virt-x position itself in the post-MiFID landscape?

Jim Gollan: Whilst liquidity in the order books is strong and reliability of the exchange's trading system is unrivalled, we will continue to evolve to meet the changing business requirements of the global investment community. As well as serving conventional investors well, going forward we aim to provide improved support to automated trading strategies and direct market access, thereby releasing untapped potential for increased liquidity. This will involve migrating the securities on virt-x, most particularly the constituents of the SMI and SMIM but also our pan-European market segment, to a High Transaction Platform. This move will enable us to deliver high transaction capacity at significantly lower costs with increased flexibility for yet further service expansion. ■

