



PRESS RELEASE

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Exchanges losing out to European trading venues

New trading venues cost less than a fifth of the traditional exchanges according to the latest research from TowerGroup

LONDON, 19 February, 2009 – Multilateral trading facilities (MTFs) are considerably cheaper than traditional exchanges, according to the latest analysis from TowerGroup. For example, in a typical high- or low-volume trading scenario, Chi-X Europe charged a fifth of what the London Stock Exchange (LSE) charged for the same volume of trades and a tenth of the charges levied by Deutsche Börse and NYSE Euronext.

The lower charges have resulted in MTFs eroding the traditional exchanges' market share of equities trading volumes. The exchanges are now under increasing pressure to reduce their margins and compete on other factors, such as value-added services and lower latency.

Launched in response to the European Union's Markets in Financial Instruments Directive (MiFID), MTFs such as Chi-X Europe have already attracted significant trade volumes, and according to TowerGroup, will continue to reduce the market share of traditional exchanges. TowerGroup predicts the move will be gradual as their lower transaction costs and increasing concentration of liquidity become more apparent.

Bob McDowall, European Research Director at TowerGroup, says: "Equities trading is an area in which MiFID has made a real difference. The new MTFs have an opportunity to take considerable market share from the traditional exchanges. Their opportunity is heightened as organisations look to cut costs under current economic pressures. The traditional exchanges need to look at their business plans very carefully and evolve accordingly in order to survive."

TowerGroup predicts the proliferation of trading venues in Europe will lead to short-term fragmentation of liquidity before eventual market consolidation and reaggregation. Within the next five years, TowerGroup expects to see no more than eight to ten alternative venues, though more realistically as few as five. Traditional exchanges will gradually transform and become lower-cost providers to compete with the MTFs, either through organic growth or acquisition.

TowerGroup reached these conclusions by comparing trading costs on Chi-X Europe over a two-year period with costs on the LSE, Deutsche Börse, and NYSE Euronext. The four comprise nearly 70% of European equities trading volumes.

The TowerGroup Research Note, titled “Lower Costs Enable European Trading Venues to Gain Market Share from Exchanges,” is available to qualified members of the press for review. To request a copy of this research, or to arrange an interview with Bob McDowall, please contact Beth Moore at 02030 472068 or beth.moore@edelman.com.

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