

## **Primary and Secondary Listing**

1. In the CC's report in Deutsche Börse AG, Euronext NV and the London Stock Exchange plc (CC Report)<sup>1</sup> it was suggested that companies list on the exchange that raises the capital required at the least cost. In general, this will be where the company has a strong market presence and a good reputation so that investors are familiar with their product or services, and where there is good analyst coverage of their sector—generally their domestic market. This is the phenomenon of 'home bias'. For these companies, exchanges outside the UK are not substitutable.

Do you think that the above mentioned still holds true in relation to the present transaction? If not, please explain your answer.

***The IMA believes that the above mentioned continues to hold true.***

2. As regards the market for secondary listing services, in Europe, the EU Prospectus Directive (2003/71/EC) introduced, with effect from July 2005, a "passport" mechanism that allows companies listed on an EU "regulated market" to make offers across the EEA with a single prospectus approved by the competent authority of the company's home Member State would. This is likely to largely obviate the need for companies incorporated in EU Member States to seek secondary listings on an EU exchange other than their home exchange.

Do you agree with this statement? Please elaborate your answer.

***The IMA generally agrees, although where a company has grown so significantly that it becomes of disproportionate size relative to its home market and has attracted a global investor base then it is likely to seek a secondary listing in a market where it can more easily raise capital and which can offer sufficient investor liquidity.***

3. Do you have a view on how non-UK companies seek a primary/secondary listing? In particular, we would be interested in any views you have on which exchanges you consider compete for international listings of non-UK listings and how competition manifests itself in relation to international listings (i.e. where any promotion of international listings and negotiations surrounding the listing take place)?

***The IMA believes that most of the competition for international listings of non-UK companies is amongst the NYSE, NASDAQ and the LSE. Exchanges do promote themselves globally as attractive venues for listing, often recently to companies in developing countries.***

4. If fees for listing on either LSE or NASDAQ were to increase by (for example) 5-10% do you think that non-UK companies would switch to another exchange for a listing? Which exchanges would they switch to? If increases of 5-10% would be insufficient to induce a switch, how much would the increase have to be in order to compel a switch?

***We do not believe that a 5-10% increase in fees would be sufficiently large that a company would switch its listing to another exchange. We***

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<sup>1</sup> Competition Commission Report, November 2005.

**point out two further relevant factors. First, by far the largest cost to the issuer of getting his stock listed is the fees that are paid to the various intermediaries acting on his behalf, principally the investment bank or broker but also, not insignificantly, the necessary lawyers, accountants and auditors. Secondly, the Competent Authorities for listing within the EU are constrained to charge fees that will cover their costs and they are not permitted to make a profit. A further fee usually arises when the exchange charges for what is, in the EU, termed as 'admission to trading' on the exchange's market. Sometimes these two fees are combined. However, since an exchange's business model requires a flow of transaction fees from on-going secondary trading in the admitted stock, including usually income from the onward sale of such trading data, they have some incentive to restrain entry charges.**

### **On-book equities trading services**

5. If an individual company has its stock listed on both the LSE and NASDAQ, but its liquidity is concentrated primarily on LSE, would NASDAQ provide an alternative choice for those wishing to trade stock in the company? Would the reverse hold true (i.e. if liquidity was concentrated primarily on NASDAQ, would LSE represent a reasonable alternative)?

**The NASDAQ would not provide an alternative choice if the liquidity were concentrated on the LSE. Nor would the reverse hold true.**

6. Do you view LSE and NASDAQ as actual or potential competitors? If so how do they compete? How close competitors are they and how many other potential competitors do you foresee? If you do not see them as competitors, what exchanges or other institutions do you see as the main competitive constraint on each of the above exchanges?

**The IMA believes that any competition between the LSE and NASDAQ currently is in the area of foreign listings. We do not believe that they are close competitors otherwise. Potential competitors of the LSE are the broker/dealers who are also its members, but in particular those who deal substantially on own account and are prepared to commit liquidity to the secondary market in equities. These investment firms (called 'systematic internalisers' in MiFID<sup>2</sup>) are likely to be actual, rather than potential, competitors once MiFID is implemented in November 2007. We do not believe that other EU exchanges offer any real competitive challenge to the LSE. To do so, such exchanges would have to compete in the same securities (ie Vodafone, British Airways), not merely in the same type of securities (ie equities, principally). The NYSE and NASDAQ clearly compete with each other in the US market both for domestic issues and foreign listings.**

7. If not, what exchanges or other institutions do you see as the main competitive constraint on each of the above exchanges?

**As mentioned above, systematic internalisers are likely to be a significant constraint on the LSE in the future, post-MiFID. Of course, it is to be hoped that the Exchange will in turn act as a constraint on them, such that the market continues to operate efficiently and the cost of**

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<sup>2</sup> MiFID: Markets in Financial Instruments Directive 39/2004EC and implementing legislation;

**trading stabilises or diminishes. We do not anticipate, post MiFID, that other exchanges will provide much real competition with the LSE. Multi-lateral Trading Facilities may do so, although we note that there is little evidence of competition at present. Currently there are few competitive constraints on the exchanges, as the reality is that liquidity pools most effectively in one place, in a given security, and the exchanges control the venue. It is for this reason that we have been strong advocates of regulation, as the natural and desirable pooling of liquidity also acts to produce a potentially monopolistic and anti-competitive result.**

8. Do you see NASDAQ as potential entrants in the UK market for on-book equities trading services? Do you consider NASDAQ to be a more likely entrant in this market than other potential entrants (e.g. Deutsche Börse, NYSE, Euronext, Borsa Italiana, Bolsas y Mercados Espanoles (BME), SWX etc)? If so, please explain why you consider this to be the case.

**If the question means will NASDAQ enter the UK market by establishing a start-up trading service then the IMA does not think that the NASDAQ would contemplate this as a credible strategy and would prefer to enter the UK market by way of acquisition. The most likely other entrants would be Deutsche Borse, the NYSE and Euronext firstly by virtue of their size and secondly because they have all shown interest in entering the UK market. But in each case we do not anticipate any significant challenge. Such a challenge could be made now, but it has not been made because, presumably, the exchanges know that only a very radical change of business model, with a very substantial reduction in costs, is likely to prove attractive enough to tempt liquidity to move. This does not look particularly attractive commercially. Moreover, an exchange's regulatory responsibilities carry a minimum level of cost that cannot be removed and the cost of developing robust systems are also high. Both factors act to inhibit change.**

9. If trading costs on one of LSE or NASDAQ were to increase by (for example) 5-10% would you switch some trading volume to one of the others? Where would you switch the volume? If so how much would this be and how long would it take to carry out the switch? If increases of 5-10% would be insufficient to induce a switch, how much would the increase have to be in order to compel a switch?

**The amount of liquidity available is one of the main determinants of trading costs and so trading volume will always migrate to where sufficient pools of liquidity can be accessed as that will be the most cost effective trading platform. If sufficient liquidity were available elsewhere at a lower cost, however marginal, then trading would migrate to that venue.**

10. What other factors are important or determinative in deciding the exchange on which to trade?

**Other important factors are that the users of the market have confidence in the admissions and supervisory regime that the exchange operates. The exchange plays a critical part in ensuring that the securities traded are capable of being traded on a public market and that an adequate level of issuer-specific transparency and trading transparency is made available to all users of the market. This in itself will attract significant**

**pooling of liquidity. Also, market users must be confident that the exchange itself, and the clearing and settlement arrangements made available for users, are financially well-founded and may be used securely and without legal challenge. The cost of clearing and settlement, or restrictions on these services, may act to make a market less attractive to users. However, it is not always in the power of the user to object to high and unjustified charges when an exchange is able to assert control over the processing of a deal. The abuse of clearing and settlement monopoly services is well documented within the EU.**

11. Do you think that trading fees on exchanges are constrained by your members' ability to use off exchange alternatives?

**Given that exchanges offer greater pools of liquidity than alternative venues then trading fees are not the primary consideration. It would undoubtedly be the case that trading fees would be constrained by competition, but since effective competition would also split the liquidity pool, the cure may be worse than the illness.**

12. Do your members trade on Alternative Trading Systems (ATS)? If so, what proportion of trades is executed in this way (by value and number of trades)? If not, why not?

**IMA members do use ATSs to execute trades. The proportion of trades by value however is low (around 5%) due to lack of liquidity on those venues.**

13. What leverage do your members have in your negotiations with exchanges given that there appear to be relatively few alternatives to trading on an exchange? For example do your members threaten to switch trading volumes to another exchange or trade in other instruments?

**IMA members have found that they have very little leverage with exchanges. We have been in discussions for over two years with both the LSE and OMX regarding anomalous tick sizes on a number of the largest stocks traded on those exchanges, which IMA members believe should be reduced. The effect of these anomalous tick sizes is to permit the exchange's broker/members to retain the benefit of wide spreads at the expense of the user, or end-investor, who is forced to pay for these spreads. We have encountered considerable resistance from both exchanges to our submissions and protestations, and likewise very strong resistance from the broker/members of the exchanges. We can only conclude that the exchanges put their members' interests before those of end-investors and before their regulatory responsibilities to operate fair and orderly markets. After making a commitment to introduce a pilot scheme on 1 January 2007 which would have reduced tick sizes on stocks below 200p (first proposed by the LSE in late 2004), the LSE has subsequently backed away from that commitment.**

**It is difficult for our members to switch trading volumes to another exchange unless it can offer sufficient liquidity. Neither exchange nor broker/members have an incentive to deal with this issue, rather the reverse.**

## **General Issues**

14. What is impact of the MiFID on: i) listings, iii) on-book equities trading?

*i) We believe that MiFID has no impact on listings.*

*ii) In theory MiFID should introduce more competition in on-book equities trading as it allows investment firms to set themselves up as systematic internalisers and they would therefore be potential alternative trading venues to established exchanges.*

15. Would you think that sponsorship of a new exchange is a feasible and viable alternative? What factors would determine the success of such a move?

*There is no reason why a new exchange cannot be established assuming that the sponsors' commitment, management skills and financial resources are sufficient. Success criteria would include attracting significant pools of liquidity which in turn would depend on the new exchange operating a transparent, orderly and efficient trading service. As you are aware a consortium of investment banks announced recently that it is looking to establish an alternative exchange to the LSE. The consortium members are all currently members of the LSE and we expect will remain so post-MiFID. At its best, the consortium may put pressure on the exchange to reduce costs whilst also ensuring liquidity is available for market users at all trading levels. But it is also possible that the consortium will act to split the market into different tiers, reflecting the size of trades undertaken. There may be little potential for true competition in each tier, but considerable benefit flowing to the consortium through knowledge of order flow information from customers. The exchange cannot benefit in the same degree from such order flow information as it does not itself trade in the market. The value the exchange can extract relates to the publication of trade data.*

16. Are there in your opinion any overlaps in the parties activities' in the markets for:

- the provision of clearing services to LSE
- the national provision of settlement services
- the trading of derivatives
- the listing and trading of bonds?

Do you foresee any competitive harm arising in these markets?

*The IMA is not aware of any overlaps in the above mentioned activities between the LSE and NASDAQ.*

17. Overall, do you have any competition concerns about this merger? Please explain your answer.

*The IMA is in general in favour of competition between trading platforms in the belief that, provided there is sufficient transparency, particularly in relation to price formation, then the benefits of competition exerting downward pressure on costs outweigh any downside due to fragmentation of trading.*

*Fewer and larger exchanges, however, may have the capacity to slow down innovation, raise barriers to entry, be less sensitive to the needs of end*

***investors and retain scale benefits for their shareholders if there is no effective competition.***

***In addition, we see no obvious synergies between the LSE and NASDAQ businesses that would act to enhance either platform.***