POSITION PAPER

ESBG response to CESR call for evidence on micro-structural issues of the European equity markets

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The European Savings Banks Group (ESBG) welcomes the opportunity to comment on the CESR call for evidence on micro-structural issues of the European equity market. ESBG members are not active in high frequency trading and therefore limit ESBG in its comments to some sections of the CESR consultation paper.

Sponsored access

Response to question 1:
The benefits of sponsored access are multidimensional. For trading platform sponsored access manifests in an increased number of deals and an increased volume, through giving access to high frequency traders. Trading platforms have a competitive advantage if they offer sponsored access and thus have the potential to increase their revenues. For sponsoring firms sponsored access reduces latency. Furthermore it constitutes an additional revenue opportunity and ensures access to volume discount. For clients sponsored access means access to low latency markets (especially high frequency traders) without pre-trade checks, faster access to markets, low execution and clearing costs. Finally, for the wider market sponsored access leads to increased liquidity

Response to question 2:
Sponsored access also bears risks for trading platforms, in particular related to technical errors, market errors, market abuse, missing credit lines, uncleared trades. Therefore risk mitigation (through pre-trade checks, post-trade checks and quick system shut downs in case of troubles) needs to take place.

Response to question 3:
For sponsoring firms the potential risks consist in the lack of limit controls, late recognition of errors, market abuse and existence of uncleared trades. In addition, the firm takes full responsibility for clients' actions, linked to potential damage for reputation. In consequence risk mitigation (validation, control, monitoring, risk management and quick system shut down when required) has to be strong.

Response to question 4:
ESBG supports CESR's proposals for additional regulatory requirements for sponsored access.

Response to question 5:
ESBG refers to the following implications: threats to market stability, decrease in brokers ability to effectively compete with larger firms, complex technology, overall systemic risk. Against this background ESBG confirms its support for regulatory measures.

Tick size

Response to question 1:
ESBG does not identify a significant impact of smaller tick sizes for equity on the bid-ask spreads.

Response to question 2:
ESBG does also not identify any benefit of smaller tick size regimes for shares in Europe, but admits that they might be beneficial for banks with high frequency trading or algo trading.

Response to question 3:
A harmonised regime of tick sizes for all European Markets, including Multi-lateral Trading Facilities, would in ESBG's view be desirable.

Response to question 4:
ESBG agrees that there is a role for regulators to play in the standardization of tick size regimes.

Response to question 7:
ESBG recommends the following tick sizes: under 1 euro- tick size 0,005; over 1 euro- tick size 0,01; over 100 euro- tick size 0,1. A simple regime will certainly prove most efficient.

Indications of interest

Response to question 2:
Benefits can be seen in the identification of liquidity possibilities and in lower trading costs. It is possible to move blocks of stock without moving the market. On the other hand, downsides also exist. Notably, these encompass the following: a diversion of the order flow from public markets, negative effects on the execution quality, risk of misused information and market manipulation, decreased liquidity, lack of clarity regarding real flow, impact on competition among brokers.

Response to question 3:
In ESBG's view MiFID should be amended in order to clarify that actionable IOIs should be subject to pre-trade transparency requirements.

Response to question 4:
Circumstances where it would be appropriate for IOIs to be provided to a selected group of market participants could look as follows: Large blocks of stocks could only be shown to clients with "real" interest; otherwise the whole market would know of an investor's indication of interest, which in return could lead to misuse and price manipulation.

About ESBG (European Savings Banks Group)

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising about one third of the retail banking market in Europe, with total assets of € 5967 billion (1 January 2008). It represents the interest of its Members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

ESBG Members are typically savings and retail banks or associations thereof. They are often organized in decentralized networks and offer their services throughout their region. ESBG Member banks have reinvested responsibly in their region for many decades and are one distinct benchmark for corporate social responsibility activities throughout Europe and the world.

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