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# MiFID II should lead to more transparent markets

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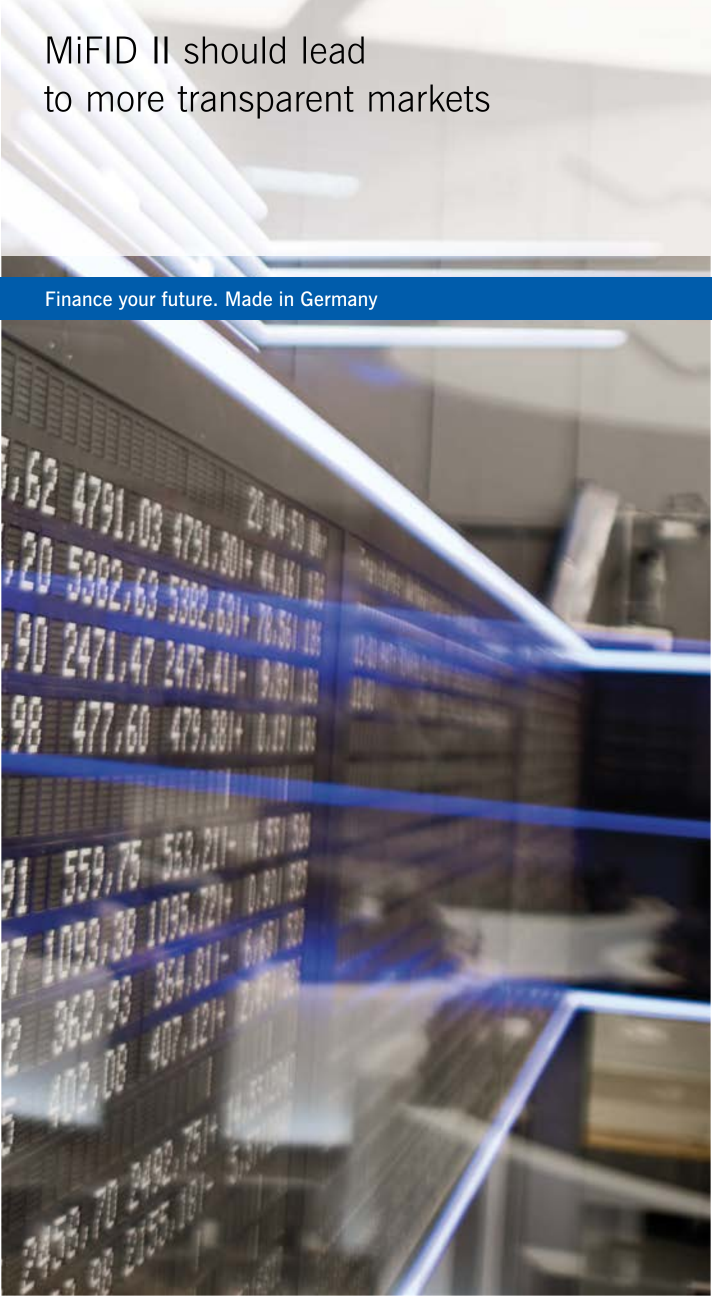


# MiFID changed the market structure

**MiFID aimed towards harmonisation of rules in securities trading and investor protection**

The Markets in Financial Instruments Directive (MiFID) of 2007 is an important piece of legislation that intended to harmonise rules of securities trading and improved investor protection, thereby strengthening market integrity and market transparency. It changed European market structure substantially. Five years after its introduction, MiFID is being reviewed. As of today, a final proposal for a second version of MiFID was released by the European Commission. Together with the European Parliament and Council, it aims to tackle those issues that have been missed in the first version of MiFID. Implementation of MiFID II is expected in 2015.

**MiFID improved competition in securities trading but left liquidity fragmented**

One major aim of MiFID was to improve competition in securities trading. However, competition had one major side effect: fragmentation of liquidity. While in the past European stocks were mainly traded on one exchange (where the issuer of the shares went public), they are now being traded at several venues. With MiFID, so-called Multi Trading Facilities (MTFs) emerged, which made European shares available for trading on their trading platforms (e.g. Xetra® for German stocks) instead of on their primary markets. MTFs have often been described as a form of “lite exchange” because they provide very similar trading services to incumbent exchanges and have similar rulebooks and surveillance in place. However, issuers cannot list their securities on this type of venue.

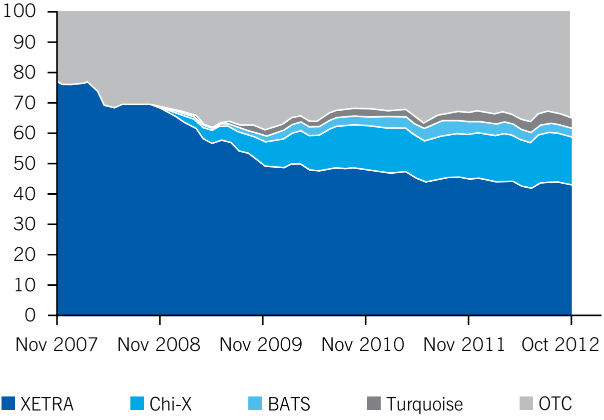
### Fragmentation makes price discovery more difficult

Throughout the last five years, MTFs (e.g. Chi-X, BATS, Turquoise) increased market share in blue-chip stocks, such as DAX®, MDAX®, FTSE and CAC40. Ultimately, where in the past information on a share price was only available on one exchange, information for one instrument can now be obtained by several venues. However, this makes it more difficult for investors to benefit from the transparency that MiFID was originally aiming to increase. Therefore, investors depend increasingly on sell-side (banks) expertise to navigate the now fragmented trading landscape and to obtain best execution. Eventually, the lack of transparency in fragmentation has decreased the quality of price discovery.

### Large amount of trading takes place OTC

In the past, the issuer of the shares knew exactly where its shares were being traded. This is no longer the case. The shares of an issuer are now being traded on many execution venues, including not only Regulated Markets and MTFs, but also systematic internalisers (SIs), which are investment firms that execute orders from their clients against their own book or match orders with orders from other clients, or over-the-counter (OTC). On average, around 30 per cent of volume is printed "OTC", whereas in certain times (dividend season) this share can go as high as 50 per cent.

DAX® market share according to order book turnover in per cent since November 2007




Data provided by LiquidMetrix – LiquidMetrix Workstation

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# Transparency is the key to success

**MiFID II aims to improve pre-trade and post-trade transparency requirements**
MiFID II will provide adjustments to pre-trade and post-trade transparency requirements. A lack of transparency can have an adverse effect on price discovery which is harmful on a fragmented market. Deutsche Börse supports the revision of the MiFID and actions to eliminate the deficiencies of the original regulation. The MiFID revision should also clearly define what may be traded OTC.

**Transparency helps investors to make investment decisions**
Transparency is important as it enables investors to make informed investment decisions, facilitates price formation, allows verification of best execution, and – possibly the most relevant to MiFID – heals adverse impacts of fragmentation. Today the transparency requirements of MiFID refer only to equities. But these principles should apply to all financial instruments: The transparency requirements should be extended in a modified form to all financial instruments.

**Contact**
Deutsche Börse's team of experts is there to answer all your questions concerning MiFID individually and personally.

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