CITIGROUP GLOBAL MARKETS LIMITED

response to

COMMITTEE OF EUROPEAN SECURITIES REGULATORS (CESR)

"Micro-structural issues of the European equity markets" call for evidence.

29th April 2010

Introduction

1. More than two years have passed since the implementation of the Markets in Financial Instruments Directive (MiFID). The Committee of European Securities Regulators (CESR) conducted a first evaluation of the workings of the new regulatory framework and its impact on market structure in equity secondary markets early 2009. The respective report on the impact of MiFID on equity secondary markets functioning was published on 10 June 2009 (http://www.cesr.eu/popup2.php?id=5771).

2. In its report CESR raised a number of issues which will be addressed in the context of its MiFID review work. However, since the publication of CESR"s report a number of technology-driven developments have intensified such as high frequency trading, sponsored access and co-location. Although these topics were not explicitly included within either the aforementioned CESR report or the MiFID Article 65 review clauses, CESR intends to assess these developments in greater depth due to their potential effects on overall equity market structure and the efficiency of those markets in the EU.

3. To assist this process, CESR is undertaking an evidence-collecting exercise. This will help it in assessing the impact of some of the latest developments in European equity markets and may also inform aspects of this year"s MiFID review (or any other CESR work streams, if appropriate). Specifically, CESR seeks information on the issues listed below:

- high frequency trading
- sponsored access
- co-location services
- fee structures
- tick size regimes
- indications of interest

Call for Evidence

4. CESR invites interested parties to submit their views in response to the questions set out below and on any related topic in respect of micro-structural issues that might be in the interest of CESR to address.

I. High frequency trading (HFT)

5. HFT is a form of automated trading and is generally understood as implying speed. Using very sophisticated computers and IT programs, HF traders execute trades in matters of milliseconds on electronic order books and hold new equity positions possibly down to a "sub-second". HFT generally involves getting in and out of positions throughout the day with a „flat" position at the end of the day. HF traders use their own capital and do not act on behalf of clients. HF traders follow different strategies (eg. arbitrage, trading on prices which appear out of equilibrium, trading on perceived trading patterns, etc.) but are generally geared towards extracting very small margins from trading financial instruments between different trading platforms at hyper fast speed. HFT is different from what is generally referred to as algorithmic trading or black-box trading**,** based on the use of computer programs for entering orders with the computer algorithm deciding on individual parameters of the order such as the timing, price, or quantity of the order.

Questions:

1. Please describe trading strategies used by high frequency traders and provide examples of how they are implemented.

High frequency trading strategies vary from firm to firm. Some strategies utilize price prediction technology to determine what prices to buy and sell securities. Others assess market data real-time and trade based on inefficiencies in the market. Some strategies are purely arbitrage driven, while others may trade based on technical and fundamental factors with a short term time horizon.

2. Please provide evidence on the amount of European trading executed by HF traders (including the source(s) of that information). CESR is particularly interested in statistical material on:

a) market share of HFT in orders/trades in Q1/2010 (and, if possible compared to 2008 and 2009),
b) average trade size in Q1/2010 (and, if possible compared to 2008 and 2009),
c) market participants,
d) financial instruments traded (including cash vs. derivatives). If possible, please distinguish between HFT on transparent organised trading platforms and on dark pools of liquidity.

Declined to respond publicly.

3. What are the key drivers of HFT, and (if any) limitations to the growth of HFT?

The key driver of HFT is the growth of competing trading venues to the primary exchanges and the overall effect of this competition on trading costs. These venues offer lower access fees, a neutral trading platform, high speed connectivity and technology, and unique order types which force the primary exchanges to improve their services and technologies to remain competitive. A market structure with many competitive, cost effective trading venues enables HFT strategies to exist and flourish. Regulatory changes are a threat to the growth of HFT, in particular any regulation that would curb innovation and any kind of trading tariff that would increase the cost of trading. It is important to note these regulatory changes also threaten to hamper all types of trading by increasing the overhead to trade. Ultimately this could hurt the end investor by leading to increased commissions and increased implicit trading costs (i.e. wider spreads, less liquidity).

4. In your view, what is the impact of high frequency trading on the market, particularly in relation to:

- **market structure (eg. tick sizes);**

Competitive forces, partly driven by HFT, will lobby for smaller tick sizes in order to create an edge on a particular trading venue, i.e. the ability to narrow the spread by a smaller increment. Note that this is driven by a desire for tick discrepancy across venues and not based on the notion that smaller ticks are better for the market in general. If allowed too, competing venues could potentially race toward zero tick sizes in an effort to try to capture marginal market share. The result is short term gains for individual trading venue, and long term negative effects on market structure resulting from increasingly small ticks. We believe this is an area where regulation should step in to curb unbridled competitive forces.

- liquidity, turnover, bid-offer spreads, market depth;

In general, HFT benefits the market through increased liquidity, narrower bid-offer spreads and increased market depth. Not all HFT trading strategies are created equal and some certainly provide more value to the market than others.

- volatility and price formation;

Our belief is that the narrower spreads and enhanced liquidity provided by HFT strategies tends to reduce volatility. Although some HFT quoting is transient in nature, the overall impact aids price formation in the visible markets.

- efficiency and orderliness of the market?

By increasing liquidity and decreasing spreads, HFT tends to increase the efficiency and orderliness of the markets

Please provide evidence supporting your views on the impact of HFT on the market.

The US equity markets demonstrate the affect of increases in HFT on market structure. Although plagued with many of the same issues as Europe, the US equity market is among the most efficient, lowest cost markets in which to trade for both retail and institutional investors. They have seen competitive forces largely driven by HFT increase liquidity dramatically and create an environment where transactions can be made efficiently for large size at low cost.

5. What are the key benefits from HFT? Do these benefits exist for all HFT trading strategies?

As mentioned above, the key benefits to HFT are increased liquidity and decreased spreads. In addition, they help drive innovation and competition amongst the primary exchanges and alternative trading venues, which benefits all trading participants through improved technology, services, and lower trading costs. Not all HFT strategies benefit market structure, but we believe that HFT provides an overall benefit.

6. Do you consider that HFT poses a risk to markets (eg. from an operational or systemic perspective)? In your view, are these risks adequately mitigated?

The ability for high speed computer programs to transact quickly is a powerful tool which inherently has its risks. However, this risk is the same in the HFT space as it is in any automated trading. The increasing use of technology is clearly a positive contributor to the market for European equities and at the same time the risk of automation must be thoroughly considered. Without proper systematic controls in place, the potential for a small technical issue to create a widespread problem in a short amount of time is greatly magnified by the use of automation. Again, it is important to note that this risk is not unique to HFT but rather to all types of automated trading.

7. Overall, do you consider HFT to be beneficial or detrimental to the markets? Please elaborate.

See response to HFT question 5.

8. How do you see HFT developing in Europe?

The continued success of MTFs in Europe will likely attract more HFT, both home-grown and from abroad. Improvements in post trade processes and lower costs realized through interoperability should also help spur the growth of HFT in Europe.

9. Do you consider that additional regulation may be desirable in relation to HF trading/ traders? If so, what kind of regulation would be suitable to address which risks?

Any additional regulation should be carefully thought out and take into account the far reaching implications to market structure that would result. These implications need to be evaluated against the actual cost or risk associated with HFT today in order to determine whether there is a net benefit to the end investor and market structure as a whole.

CESR would also be interested in receiving analytical studies on the impact of HFT on market efficiency.

II. Sponsored access

6. Sponsored access (SA) is an adaptation of the concept of direct market access (DMA). Under DMA arrangements, clients of firms that are members of an organised trading platform can access the trading platform directly without becoming members themselves. Under such arrangements, clients submit orders to the trading platform by routing them through the firm"s internal system. SA is similar, except clients send orders directly to the trading platform without passing through the firm"s internal system. Under both types of access the firm retains full responsibility for all orders submitted by its clients.

7. In the absence of proper controls, SA may present additional risks to those posed by DMA for trading platforms and intermediaries. On the market side there may be, for example, increased risk of error trades and potential for market abuse. On the intermediaries" side, credit risk could arise from the inability of sponsors to monitor their clients" business (and therefore their exposure) in the absence of suitable controls.

8. The SEC recently announced new measures in relation to sponsored access1. They are proposing to i) prohibit „naked" or „unfiltered" SA whereby clients" orders are entered into the trading platform without any prior control by the relevant firm and ii) to require broker-dealers to establish, document and maintain a system of risk management controls and supervisory procedures designed to manage the financial, regulatory and other risks related to its market access, including access on behalf of sponsored customers.

9. IOSCO has published a consultation document on *Policies on Direct Electronic Access*2. The consultation document considers risks arising from SA for organised trading platforms and firms providing SA to their clients and proposes a number of principles aimed at addressing these potential concerns

1 SEC website: http://www.sec.gov/news/press/2010/2010-7.htm
2 IOSCO Website http://www.iosco.org/library/pubdocs/pdf/IOSCOPD284.pdf
Questions:

1. **What are the benefits of SA arrangements for trading platforms, sponsoring firms, their clients and the wider market?**

SA allows firms to control their market connectivity. By not having to go through a "middle man," firms obviously benefit from decreased latency, but there can be other advantages as well. SA allows firms to trade in markets and on venues they otherwise wouldn't have access too, typically because of the overhead associated with having memberships to multiple markets. SA enables these firms to reduce their dependence on a third party for all technology development related to maintaining connectivity, including implementing compliance/regulatory changes, mandatory and/or optional system upgrades for each market connection, and certification of new order types. Firms that utilize SA are typically small and nimble, and this control is critical for them to be competitive and successful.

2. What risks does SA pose for the orderly functioning of organised trading platforms? How could these risks be mitigated?

SA distributes the responsibility for oversight and control to multiple parties versus the centralization of risk controls that exists with a DMA provider. SA does not necessarily pose a greater risk to the markets than the risk that exists when a direct member accesses a venue. A member firm is subject to the rules and regulations set forth by that trading venue (as well as any regulatory entity it is subject to review by) and must develop appropriate pre- and post trade surveillance and risk monitoring. It is the responsibility of any firm offering SA services to ensure that the firms they do business with, who will ultimately be trading in their name, comply with all of these necessary risk controls. A member firm's risk controls can be insufficient or break, just as those implemented by a firm utilizing SA can be insufficient or faulty.

3. What risks does SA pose for sponsoring firms? How should these risks be mitigated?

A sponsoring firm should perform a thorough due diligence process when on boarding a client who wishes to use SA. It is critical that they ensure the client has the appropriate capital, risk, regulatory and compliance checks in place and that their technology is extremely reliable. DMA lessens these risks to some extent because the broker can reject orders before they become actual trades should any red flags arise.

4. Is there a need for additional regulatory requirements for sponsored access, for example:

We believe that any additional regulatory requirements should address the question of who is ultimately responsible for trading done through sponsored access relationships. While the sponsoring firm is the obvious responsible party given that these trades are occurring in their name, the firms using sponsored access should also be liable to the market centre and regulators for their actions in order to balance the potential risk to the markets.

a. limitations on who can be a sponsoring firm;

This has some merit. Firms who regularly fail to meet their regulatory/compliance obligations around trading with a market centre should not be allowed to sponsor other firms' access to these markets.

b. restrictions on clients that can use sponsored access;

See above. The same should apply to clients using SA

c. additional market monitoring requirements;

Where controls/monitoring exist at market centre level, consideration should be given so that market centres can be relied upon by direct members for such control/monitoring. Market centres may be less able to monitor for other standards, such as credit limits, and it is therefore appropriate for members to monitor theses standards without use of market centres' systems.

d. pre-trade filters and controls on submitted orders.

If there is evidence that firms who utilize SA routinely enter orders that violate a market centre's rules, then additional regulation around pre-trade filters make sense. If the concern is simply that "something bad could happen" additional regulatory requirements should apply to all firms that have access to market centres, whether via direct memberships or SA.

5. Are there other market wide implications resulting from the development of SA?

III. Co-location

10. Co-location is a service offered by organised trading platforms aimed at minimising the latency of order submission and market information transmission by allowing trading participants to locate their devices (e.g. computer servers) in close physical proximity to the trading platform"s matching engine. As a result, co-location helps minimise network and other latencies between the matching engine and servers of trading participants. It can also increase access speeds and enable trading participants using these services to execute orders faster than trading participants which do not. For this reason, co-location services are often attractive to HF traders. Conceptually, co-location of technology is akin to an individual broker/dealer being in close proximity to market makers on the trading floor of an exchange.

Questions:

1. What are the benefits of co-location services for organised trading platforms, trading participants and clients/investors?

Co-location allows firms to be competitive regardless of where their office is located. It is no longer necessary for firms to be located in a major financial centre such as NYC or London to offer competitive execution and trading services, or to expect competitive executions when utilizing other firms who provide these services.

2. Are there any downsides arising from the provision of co-location services? If yes, please describe them.

Historically traders on the floor of the stock exchanges had the locational advantage; co-location is merely an evolution of the technology that has replaced the floor trader. A perceived downside to co-location is that it gives some firms a speed advantage over those that do not utilize this technology. However, the basis of this argument could be made about almost any competitive advantage that exists in any industry today. While it is likely that some trading firms profit at the expense of other firms with non-co-located data centres, it is not practical to assume that this is always the case. If it can be proven that a firm only profits from the speed advantage they gain by using co-location, then it seems justifiable to question whether their trading strategy is fair and provides value to the markets as a whole. Unfortunately this is not easy to prove given all of the complex variables that come into play now that trading is highly automated market wide. Does a firm that has a co-located data centre but uses 10 year old machines have an advantage over the firm that uses this year's model computers but is not co-located? Questions like these lead us to believe it is not possible to clearly label co-location as either negative or positive.

3. What impact do co-location services have on trading platforms, participants, and the wider market?

As per responses for Col-location questions 1 and 2.

4. Does the latency benefit for firms using co-location services create any issues for the fairness and efficiency of markets?

As per responses for Col-location questions 1 and 2.

5. In your view, do co-location services create an issue with the MiFID obligations on trading platforms to provide for fair access?

No, co-location is available to all firms who wish to utilize it. Just because some firms may not have the technical resources and capacity to use co-location does not mean others should be prevented from using it. A trading platform does not have to wait to release new order types until all of their members are certified. Similarly not all trading firms would have interest in co-location (or new order types) because it may not provide value to their trading strategies. Again, we are not saying it is good for market structure to have trading firms that solely exist and profit because of so called "latency arb" but rather that it is extremely difficult to draw a line in the sand as to what is an acceptable use of co-location versus what is unacceptable.

6. Do you see a need for regulatory action regarding any participants involved in co-location, i.e. firms using this service, markets providing the service and IT providers? Please elaborate.

It makes sense to keep a close eye on how this space evolves. General market oversight and routine regulatory review of firms' trading practices should highlight any questionable trading strategies that could be damaging to the fairness and efficiency of the markets. It is important to keep the playing field level, but not at the expense of innovation.

CESR would also be interested in receiving any statistical material on the extent to which co-location services are provided/used in Europe.

IV. Fee structure

11. Some trading platforms structure their trading fees in a way that rewards the initial placers of orders3 out of a higher fee that they charge to participants that lift those orders4 – the so-called „maker/taker" fee structure. In some cases, the initial placers of orders pay a fee but a lower fee than the lifter of the order; in others, they receive a payment. Some platforms have also been interested in incorporating this „transfer" into the traded price rather than effecting it directly through the trading fee charges. The maker/taker fee structure is used by a number of trading platforms, including the new entrants, to attract liquidity to their venues. These pricing schedules are often considered to be part of the bid-offer spread.

3 Often also referred to as „liquidity provider".
4 Aggressive orders such as fill-or-kill (FOK) or immediate-or-cancel (IOC) are commonly used when lifting the order.

Questions:

1. Please describe the key developments in fee structures used by trading platforms in Europe.

Fee structures in Europe have followed in the path of those in the US equity markets to some extent. Most MTFs offer maker/taker models with volume tiers enabling certain firms to achieve better rates, which is similar to the fee structure offered by ECNs in the US. The major exchanges in Europe have, for the most part, resisted this trend, unlike US exchanges.

2. What are the benefits of any fee structures that you are aware of?

Maker/taker fee structures tend to benefit firms trading for their own accounts as they have the flexibility to decide whether to add or take liquidity.

3. Are there any downsides to current fee structures and the maker/taker fee structure in particular? If yes, please describe them.

The downside to the maker/taker model is that firms who are trading for their own account can decide whether to be net makers or takers depending on their trading margins for their strategies, whereas firms trading on behalf of clients are typically net takers of liquidity. These fee structures also make tracking trading costs on a real-time basis challenging, especially when volume tiers are involved.

4. What are the impacts of current fee structures on trading platforms, participants, their trading strategies and the wider market and its efficiency?

The maker/taker fees create their own set of incentives for how and when to trade, but, in comparison to the U.S. equity markets, the value of maker fees in Europe is marginal in respect to total transaction costs. Should lower post trade costs come to Europe through interoperability, then this dynamic could change.

5. How important is the fee structure of a trading platform in determining whether to connect or not to it for trading. Please elaborate.

It is our intention to connect to new trading platforms that display viability through market share and other measures. A venue's trading fees would only be taken into consideration after all other measures of best execution are met.

6. Do you consider that the fee structures of trading platforms should be made public to all market participants? Please provide a rationale for your answer.

Yes for RM and MTF platforms.

7. Is there a role for regulators to play in the fee structures? If yes, please describe it.

Regulation may be needed to make sure fee schedules do not end up creating structural problems in the market. A potential example is if maker/taker fees become significantly larger than a stock's tick size. In its extreme form, the disincentive to take liquidity could inhibit proper functioning of the market.

V. Tick size

12. A tick size is the smallest increment (tick) by which the price of shares, futures contracts or other exchange traded instruments can move within the order book. Tick sizes can be uniform across all shares (e.g. USD 0.01 in the US except for shares that trade below USD 1) or set at a number of different levels according to the price of a share. Shares that trade at

higher price levels often trade with larger tick sizes. Generally, more liquid shares are given smaller tick sizes. The differences often reflect the potential costs of liquidity provision in a share. The absolute size of ticks and changes to that size, have implications for bid-ask spreads, liquidity, market depth and volatility. The use by trading venues of different tick sizes for the same share presents additional issues.

13. The implementation of MiFID has resulted in a variety of new trading platforms with tick size regimes that are different from those used by the primary exchanges. From the perspective of each trading venue, there are incentives to offer lower tick sizes. Smaller tick sizes than the primary exchange may provide for cheaper trading and create opportunities to realise profits by trading between the platform and the primary market. However, there may be a point when this competition may no longer be in the interests of market participants and market efficiency. This now appears to have been recognised in the EU. In June 2009, a number of MTFs and the Federation of European Securities Exchanges (FESE) announced their intention to restrict further tick size reduction, simplify the complexity and align certain tick size regimes in Europe (at that time there were approximately 25 different regimes in the EU)5.

5 See FESE website http://www.fese.eu/en/?inc=cat&id=34.

Questions:

1. In your view, what has been the impact of smaller tick sizes for equities in Europe on the bid-ask spreads, liquidity, market depth and volatility of these markets? Are there any spill-over effects on derivatives markets?

The *reduction of tick sizes up to a certain level has contributed to the liquidity/velocity of the market in Europe allowing market participants to avoid having to either "queue" at a certain level or cross the spread in order to achieve a trade. The reduction of tick sizes has probably brought more liquidity back onto the exchanges as it allowed market participants to become more granular in the price level they are trying to achieve. This has therefore increased transparency and on-exchange liquidity.*

2. What are the benefits/downsides of smaller tick size regimes for shares in Europe?

Smaller tick sizes can mean reduced trading costs but this is not always the case. Several studies of the US equity and options markets post decimalization/penny spreads have shown a decrease in liquidity at each price point, which means trading costs could go up for larger orders as they have to move through multiple price levels to find sufficient liquidity.

Spreading the liquidity across too many levels: as most market participants (including retail) can access the first 5 bid and offers of the order book, having the ability to spread liquidity across many different prices has actually potentially reduced the liquidity at a given price and made the rest of the order book less visible to a majority of participants.

Introducing a non-levelled playing field between market participants with a potential reduction of on-market liquidity/transparency: Technology savvy market participants can easily step ahead of other orders as the tick sizes decrease. This can introduce a skew between Institutional/Retail orders and higher velocity driven Stat Arb flows. There are evidences that led some bigger orders to stay out of the market to avoid being gamed.

3. Is there a need for greater harmonisation of tick size regimes across Europe? Please elaborate.

As we stated in an earlier response, competitive forces will lobby for smaller tick sizes in order to create an edge on a particular trading venue, i.e. the ability to narrow the spread by a smaller increment. Note that this is driven by a desire for tick discrepancy across venues and not based on the notion that smaller ticks are better for the market in general. If allowed too, competing venues could race toward zero tick sizes in an effort to try to capture marginal market share. The result is short term gains for individual trading venues, and long term negative effects on market structure resulting from increasingly small ticks. We believe this is an area where regulation should step in to curb unbridled competitive forces.

4. Is there a role for regulators to play in the standardisation of tick size regimes or should this be left to market forces?

See response to Tick Size question 3.

5. Have organised markets developed an appropriate approach to tick sizes?

The organized markets have made significant strides towards harmonizing tick sizes in Europe. New entrants to the market may prove less willing to voluntarily comply with the standards set forth by the other trading platforms.

6. Should regulators monitor compliance with the self-regulatory initiative of the MTFs and FESE? If this initiative fails, do you see a need for regulators to intervene?

It makes sense for the regulators to monitor whether trading platforms are voluntarily complying with tick size standards, and should market forces fail to harmonize tick sizes, the regulators should step in.

7. What principles should determine optimal tick sizes?

Sell side and Buy side associations should be consulted on the methodology to determine optimal tick sizes. Using historical studies and US precedents will also add quality/granularity to the exercise.

CESR would be particularly interested in receiving information about analytical studies on the impact of the tick size reduction in Europe in recent years beyond the second decimal.

VI. Indications of Interest (IOIs)

14. Indications of interest (IOIs) is the name commonly used to refer to messages sent between investment firms to convey information about available trading interest. IOIs are also used by investment firms that operate organised trading venues and other broker dealers that do not offer pre-trade transparency ("dark pools").

15. IOIs are used by dark pools to attract order flow and to maximise trading opportunities by enabling investors to find the contra-side of orders. The information provided in an IOI can include the symbol of the security, the side (i.e. buy or sell) and volume/price of trading interest.

16. In the US, the SEC"s proposals on dark pools raise concerns with IOIs where they are used to provide valuable information to a select group of market participants. The SEC is concerned that IOIs create the potential for two-tiered markets and may reduce the quality of quotation data made available to the public. To address those concerns, the SEC proposes to amend the Regulation NMS definition of bid and offer to include „actionable" IOIs6.

17. It is important to note that the US framework for transparency is different to the MiFID regime. However, some of the issues raised in the US may have relevance for European markets. For example, MiFID requires pre-trade transparency as an overarching principle for regulated markets (RMs) and multilateral trading facilities (MTFs). It is unclear where IOIs stand within this framework.

18. In addition, MiFID requires RMs/MTFs to have non-discretionary rules for fair and orderly trading. If IOIs were used to provide information to a select group of market participants to the exclusion of others, this may be inconsistent with the intention of MiFID.

6 SEC website: http://www.sec.gov/news/press/2009/2009-223.htm. An IOI is considered to be actionable when it includes the symbol of the shares, the quantity, the price and the side of the order (whether it is a sell or a buy).

Questions:

1. Please provide further information on how IOIs are currently used in European markets by investment firms, MTFs and RMs?

Citi does not send IOIs from our Dark Pool "Citimatch". There are 2 primary reasons for that:

- IOIs from Dark Pools could be considered as quotes and this could lead to pre-trade transparency issues we wish to avoid.

- Sending IOIs from Dark Pools would lead to information leakage to the market place.

IOIs are used to disseminate to our client base either potential crossing situations (Natural IOIs generated from Client flows, Derivatives Hedges...) or an interest to trade as part of our market-making capability (Non-Natural).

As our clients have increased their focus on best execution/reduction of market impact, Sell Side firms have been asked to provide these Indications of Interest in an electronic form allowing wider and faster distribution rather than relying on voice communication. This also allows clients to use historical data in order to determine which banks should be contacted on more difficult situations (illiquid stocks,…)

These IOIs are not tradable or actionable and are designed to open a conversation allowing Banks to act as intermediaries between buyers and sellers in order to match their respective interests.

2. Which are the key benefits/downsides of such IOIs? Please provide evidence to support your views.

Using IOIs is an efficient way to advertise potential flows and crossing opportunities, they are widely distributed and in a timely fashion.

Our IOIs are differentiated between our clients (Tiering process) to allow for customisation to the client needs.

- Some clients only want to see Natural and will do so.
- Tiers are also used to differentiate sizes. Significant shareholders in a given company or clients historically active in a given name in specific notionals will tend to receive bigger sized IOIs as the potential to find the other side in the size mentioned is more likely. Client less active in a name or with less likelihood of being in a position to trade in significant size will receive smaller sizes. We are trying to balance the interest of "working live" clients to find liquidity with the information leakage potentially triggered by showing sizeable tradable interests to client/market participants who would not have the capacity to take the other side.

3. Do you consider that MiFID should be amended to clarify that actionable IOIs should be subject to pre-trade transparency requirements?

We do not publish tradable IOIs for at present.

Tradable IOIs will be referenced to the consolidated tape Best Bid and Offer would need to deviate from it to reflect the risk attached to providing liquidity to our clients.

Tradable IOIs sizes would exceed the quantities observable on the market Best Bid and Offer but are extremely unlikely the represent very significant sizes, i.e. will not be large enough to distort the market.

4. Do you see circumstances where it would be appropriate for IOIs to be provided to a selected group of market participants? Please provide evidence/examples to support your views.

See second point on tiering in response to IOI question 2.

19. All contributions should be submitted online via CESR"s website under the heading Consultations at www.cesr.eu by 30 April 2010. All contributions received will be published following the close of the call for evidence, unless the respondent requests its submission or any annex containing commercially sensitive information to be confidential.