Legal & General Group's Response to CESR Call for Evidence on Impact of MIFID on Equity Secondary Markets Functioning

Legal & General Group Plc is one of UK's top 100 FTSE companies. The core business of the group is the provision of a broad range of savings and protection products for individuals through our major retail channels. This product range includes term assurance, mortgage protection, household insurance, private medical insurance, saving for retirement, annuities, unit trusts and ISAs. Our corporate business (pensions, group life assurance, and group income protection) complements our individual business, drawing on our fund management, actuarial and administrative skills.

Legal & General Investment Management Limited (LGIM) is a subsidiary of Legal & General Plc and provides fund management expertise to the Group's retail and corporate businesses as well as to trustees of pension schemes and other institutional clients. Total funds under management were £272 billion at 30 September 2008, of which pension fund assets exceeded £190 billion, underlining Legal & General's position as a major UK investment house and a leading provider of index tracking services.

Legal & General's primary focus is on UK business, but the Group has operations in the USA, the Netherlands and France. Some cross-border sales are also made in Germany.

Please find below our response in respect of your call for evidence on the impact of MIFID on equity secondary markets.

Question 1: *What do you think are the key benefits for yourself or the market more generally that have arisen as a result of MIFID provisions relating to the equity secondary markets?*

The increase in competition between trading venues across Europe is seen as a key benefit, with the expectation that lower fees and tighter spreads will lead to a reduction in overall trading costs.

Question 2: *Do you consider that there are any remaining barriers to a pan-European level playing field across trading venues?*

The clearing and settlement structure is still fragmented.

Question 3: *Do you think that MIFID has supported innovation in the equity secondary markets? Please elaborate?*

Yes, in that MIFID has led to the emergence of new MTFs and dark pools of liquidity. In addition, the developments in algorithmic trading (for example 'smart order routing') have probably been delivered more quickly than would otherwise be the case due to the best execution requirements in MIFID.

Question 4: *Have you faced significant costs or any other disadvantages as a result of MIFID relating to equity secondary markets? If so, please elaborate. Have these been outweighed by benefits, or do you expect that to be the case in the long run? If so, please elaborate.*

In terms of trading, due to the market fragmentation, there has been a significant increase in costs for obtaining market data. In addition, particularly for UK equities, the fragmentation and delayed trading regime has led to a decrease in market data quality and overall transparency. Transaction cost analysis provided to us for a fee by an external party has also suffered due to issues around fragmentation and data quality.

We have faced significant IT costs in implementing the transaction reporting requirements of MIFID, due to the stance taken by UK, which seems to be alone in Europe in requiring such reporting from the buy side. With regard to transaction reporting, we cannot see that these costs are justified, as the information would be better obtained in other ways [e.g. abolition of the anomaly of the "introducing broker" concept in the UK or providing client information upon request].

We believe that, on balance, the deterioration of data quality negatively outweighs the benefits outlined in response to Question 1. We also believe that a mandatory, regulated, consolidated tape, coupled with a review of the delayed trading regime, would go some way to resolving the issue.

Question 5: *Have you seen/experienced any unexpected consequences in terms of the level playing field arising from the implementation of MIFID provisions relating to equity secondary markets? If so, please elaborate.*

We believe that technology investment is key, and that firms with larger budgets will potentially have an advantage over smaller firms.

Question 6: *What impact do you consider that increased competition between equity trading venues is having on overall (i.e. implicit and explicit) trading costs? Please elaborate.*

We have not yet experienced the anticipated lowering of explicit costs from the increase in venues. Any cost savings in exchange fees realised by the broker have not been directly passed on to us as the underlying client.
The evidence points to a rise in implicit costs, although this is probably more a consequence of the recent market volatility.

Question 7: *Do you think that there has been significant fragmentation of trading and/or liquidity in European equity markets? If so, please elaborate. Do you think that such fragmentation raises concerns (for example, does it impact on the price formation process, the overall efficiency of the markets, search costs, best execution requirements)? If so, please elaborate on these concerns.*

Yes, there has been fragmentation of both trading and liquidity and this is continuing to evolve. Liquidity has become harder to quantify due to the fragmentation of trade reporting, the duplication (or worse) of reporting, the increase of delays in reporting and questions over whether the correct date and time is reported when the delay is lifted.

The lack of a consolidated, verified tape is a major handicap. It is not possible to have consolidated reports unless we subscribe individually to each European exchange and even then, the reported volumes are suspect. The buy side is in the position of paying more for data of lesser quality while not necessarily benefiting from the reduction in fees to access venues through brokers.

Without a consolidated tape, the fragmentation of trading will lead to issues concerning price formation, reference prices and the calculation of average daily turnover as the new participants gain market share.

Question 8: *Do you think that MIFID pre- and post- trade transparency requirements adequately mitigate potential concerns arising from market fragmentation?*

No, see answer to question 7 above.

Question 9: *Is the categorisation of shares appropriate in relation to: the definition of liquid shares, "standard market size", "orders large in scale", and "deferred publication"? If not, please elaborate.*

We believe that the delayed trade regime urgently needs to be reviewed. The number of trades put through on a delayed basis is much higher than anticipated prior to the implementation of MiFID, and leads to a severely distorted view of the market.

Question 10 - 11: *Do you see any benefits (e.g. no market impact) to dark pools of liquidity (to be understood as trading platforms using MIFID pre-trade transparency waivers based either on market model or on the type or size of orders)? If so, what are they?*

Do you see any downsides to dark pools of liquidity (e.g. impacts on the informational content of light order books)? If so, what are they?

We believe there are clear benefits in dark pools of liquidity for firms that trade in large sizes or illiquid securities. However, we are disappointed that many dark pools remain segregated – i.e. there is, as yet, no single entry point to all dark pools. We do not envisage that dark pools will create problems for pre-trade transparency.

Question 12: *Do you consider the MIFID pre- and post- trade transparency regime is working effectively? If not, why not?*

No, we do not think it is working effectively. Please see our response to Question 7.

Question 13- 14- 15: *What MIFID pre- and post-trade transparency data do you use, and for what purpose? Does the available data meet your needs and the needs of the market in general?*
Do you think that MIFID pre- and post- trade transparency data is of sufficient quality? If not, please elaborate why and how you think it could be improved.
Do you think there has been significant fragmentation of market data in the EEA equity markets? If so, please elaborate. Do you think that such fragmentation raises concerns (for example, does it impact on the price formation, the overall efficiency of the markets, search costs?) If so, please elaborate.

As already described, we have had to subscribe to more data feeds for information that we feel is less accurate than pre-MIFID. Please see our response to Question 7.

Question 16: *Does the current availability of data facilitate best execution? If not, please elaborate.*

The poor quality of the data has had a major and negative impact on transaction cost analysis and post-trade analytics, making it more difficult for us to prove best execution and assess trading venues.

Question 17: *Do you think that commercial forces provide effective consolidation of data? If not, please elaborate.*

We do not believe that commercial forces currently provide effective consolidation of data. The speed with which reporting brokers dropped the use of flags for crossed trades or delayed trades, the rapid rise in the number of trades delayed once regulations were lifted or relaxed in the UK markets and the immediate duplication of trade reporting on multiple platforms casts doubts on whether any commercial solution could enforce good practice. We strongly feel that the introduction of a real time consolidated tape across Europe, which is rigorously vetted for accuracy, and which has suitable flags for trade types is necessary for markets to work efficiently.

Question 18: *Do you think that the implementation of MIFID is delivering the directive's objectives in relation to equity secondary markets (e.g. fostering competition and a level playing field between EEA trading venues, upholding the integrity and overall efficiency of the markets)? If not, why do you think that those objectives have not been met?*

While the emergence of new venues and the abolition of the concentration rule in many European countries should lead eventually to lower explicit transaction costs, this has been more than offset by the deterioration in the quality of data. Therefore, while the directive's objective of fostering competition has been met, we would argue that it is questionable whether the integrity and overall efficiency of the markets has been upheld in a way that would satisfy the directive's objective.

Question 19: *Do you see any other impact or consequence of MIFID on equity secondary markets functioning?*

One of MiFID's objectives was to level the playing field for the retail investor, but we believe they face the same issues as institutions, with regard to market data quality.