

**INTESA SANPAOLO GROUP RESPONSE ON THE CALL FOR EVIDENCE OF MIFID ON SECONDARY
MARKET FUNCTIONING
CESR/08-872
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The Intesa Sanpaolo is one of the largest European banking groups active on different EU markets both through Banca IMI, its investment bank, and through its subsidiaries based in the new Member states.

We welcome CESR call for evidence on the impact of Mifid on secondary market functioning one year after Mifid entering into force and would like to provide the following comments.

General comments

Mifid has come to fruition under extraordinary stressful market conditions that have tested the robustness of the EU regulatory framework. Generally speaking, we believe that markets have withstood the shocks both at the level of trading and post trading infrastructures thanks to a sound regulatory framework. However, we believe that it is too early to draw any final conclusion, firstly because of the limited time of operation of the new legal framework and secondly because of the impact that the turmoil is having on market functioning, so that it may prove difficult to discern the impact of Mifid from that of the current market conditions.

Benefits

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 equity secondary markets?

The main key benefits Mifid have brought to our Group are the abolition of the concentration rule that has had the effect of unleashing competition on the trading side with a consequent substantial decrease of trading costs and the ensuing liquidity increase, despite the difficult market conditions.

Besides their positive effects on trading prices, MTFs have also brought transparency on their connected non visible dark pools, thus increasing liquidity to the market.

2. Do you consider that there are any remaining barriers to a pan-European level playing field across trading venues? If so, please explain.

We believe that the main remaining barrier to a pan-European level playing field across trading venues lies at the post trading level. The lack of interoperable links between CCPs and between CSDs makes any arbitrage between equities listed on different trading venues very difficult and thus costly.

The Intesa Sanpaolo Group advocates the removal of the remaining Giovannini barriers and the establishment of sound clearing and settlement links. In this context we also strongly supports the ESCB sponsored Target 2 securities platform.

3. Do you think that MiFID has supported innovation in the equity secondary markets? Please elaborate.

By opening trading and post trading to competition, Mifid has spurred the emergence of a number of new market infrastructures that are challenging the existing ones. Competition in markets that were traditionally dominated by natural monopolies is mainly occurring at the price level, which we certainly welcome, since this is one of the Mifid aims. However, in our view, competition on prices should not come to the detriment of risk management, in particular for the post trading levels, since that could jeopardize the European financial markets stability. In this respect, we very much welcome the European Association of Clearing Houses commitment to prevent competition among them to lead to a decline of risk management standards.

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.

Costs

The European banking system has faced significant costs in order to become Mifid compliant, in particular in relation to the best execution requirement. Firms providing a dynamic best execution need to connect to several trading venues, to on going monitor the quality of the execution and to adjust the execution policy according to the results achieved in order to be able to secure at all times the best possible result. It is fair to say that this process entails considerable investment costs and fees.

Moreover, the lack of interoperable links between CCPs and CSDs makes extremely difficult, if not impossible, to take advantage of the arbitrage opportunities that could occur on the trading level. In the Intesa Sanpaolo Group's view, this represents the current main obstacle to the efficiency of European financial markets.

The fragmentation of the liquidity across different trading venues represents also a cost for firms, since very often they have to split clients' orders among the trading venues that offer the best possible results according to the factors provided for by Article 21 of L1 Directive. Firms have to consolidate the reports to their clients on every single trade, since very often they are not willing to receive the confirmation of each part of a transaction order. In this respect, Mifid has put a considerable strain on middle and back offices, by obliging firms to upgrade their internal organizational infrastructures so as to ensure that they can manage a bulk of new transactions.

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

We do not have yet experienced any unexpected consequences in terms of level playing field, since there is still little competition on the Italian equity secondary market, which mainly takes place on regulated markets.

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.

The emergence of new trading venues has increased competition which is mainly taking place at the price level, with rebates offered for client limit orders. Although rebates are good in principle, it should however also be acknowledged that linking to new trading venues implies connections costs, IT upgrading and new processes, and these costs have to be reflected in the final price offered to clients

Potential fragmentation

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 those concerns.

Mifid has undoubtedly generated a significant fragmentation of trading on some large capitalization shares, which are traded on new MTFs, as it is evidenced by market statistics produced by the new trading venues. This fragmentation is having an impact not only on liquidity, but also on the price formation process, which is particularly relevant in times with little liquidity as the current ones. Firms are in fact obliged to fragment the trades on several execution venues in order to secure best execution for their clients.

8. Do you think that MiFID pre- and post-trade transparency requirements adequately mitigate potential concerns arising from market fragmentation?

No elements are so far available to assess whether pre- and post-trade transparency have mitigated concerns arising from market fragmentation.

However, we believe that the crucial issue related to pre- and post-trade transparency lies in the lack of consolidated data. In this respect, data vendors have been slow in responding to users' demands.

See the following paragraph for a more thorough response.

Transparency

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 since Mifid has come into force in exceptional market conditions, we would suggest to leave the categorizations of "standard market size", "orders large in scale" and "deferred publication" unchanged until normal market conditions are restored.

10. 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 the market model or on the type or size of orders)? If so, what are they?

11. 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 that dark pools play an important role in the financial markets functioning, since they enable investors to buy and sell large blocks of securities without major price

impacts. In this perspective, pre-trade transparency waivers are essential in making sure that there is no impact on price.

12. Do you consider the MiFID pre- and post-trade transparency regime is working effectively? If not, why not?

The current regime of pre and post transparency is not working adequately in our view, since it is fragmented across the several firms. Aggregation of the information by commercial data vendors or made at national level and then consolidated at the CESR one, could enable the market to take advantage of these information.

Data

13. 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?

The availability of information is certainly crucial for investors, but also for firms that need real time data in order to be able to secure best execution for their clients. The data are also needed for ongoing monitoring the trading venues that are not included in their execution policy, with the view of possible changes.

Prices and volumes are the main information used as to pre-trade transparency in order to secure best execution for our clients.

14. 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.

Post trade transparency arrangements could be greatly improved by aggregating data related to transactions executed on EU trading venues, so that firms could have a consolidated picture of trading across the EU and better information about the number and types of transactions. The quality of the data is good, although accessibility is somewhat cumbersome.

15. Do you think that 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 process, the overall efficiency of the markets, search costs)? If so, please elaborate on those concerns.

Mifid has definitively fragmented the market data in the EEA equity markets following the abolition of the concentration rule and of the emergence of new trading venues.

Such a fragmentation is having an impact on the price formation mechanism and may have also an impact on the overall market efficiency. Search costs have also increased and stock exchanges having uncovered a new business, they have considerably increased prices for information.

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

The current availability of data is not facilitating best execution, because of high level costs to access information.

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

Commercial data providers have been slow in adapting their services to the new Mifid environment, whereby data come from different trading venues and need to be consolidated and elaborated. So far, the solutions proposed by them have been only partially satisfactory to us.

Therefore, we believe that CESR should play a more active role in ensuring that commercial forces commit to promptly and regularly make available data on traded securities at an aggregate level on the basis of the transaction reports. The benefits for the market would be substantial and could even outweigh the costs faced by firms for their transaction reports.

General

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 those objectives have not been met?

We believe that it is too early to make an overall assessment of Mifid achievements in relation to equity secondary markets objectives. We can say that firms have so far made significant investments in order to become Mifid compliant and do not have yet reaped substantial tangible results.

19. Do you see any other impact or consequence of MiFID on equity secondary markets functioning?

The most evident consequence of the entering into force of Mifid is the current liquidity fragmentation. We expect that in the coming months/years a consolidation of trading venues will take place and therefore this inconvenient will be overcome.

For any further comments or questions, please contact:

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