

Legal & General Group's response to CESR Call for Evidence CESR/07-108 Non-Equities Markets Transparency

Legal & General Group Plc is one of UK's top 50 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. We have over 5.2 million customers and employ over 8,500 staff.

Legal & General Investment Management Limited (LGIM) is a subsidiary of Legal & General Group 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 £233 billion at 31 December 2006, of which pension fund assets exceeded £150 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. Our rapidly growing business in the USA is now the country's second largest brokerage channel writer of term assurance for high net worth customers. Business is transacted through two subsidiaries - Banner Life and William Penn. In the Netherlands, we concentrate on both annual and single premium business for higher income households distributed via independent intermediaries and through banks. Our French business sells primarily single premium investment based products through a direct sales organisation.

Please find below our response in respect of your Call for Evidence on Non-Equities Markets Transparency.

Question 1: Does CESR consider there to be convincing evidence of market failure with respect to market transparency in any of the instrument markets under review?

We consider that there is no real evidence of market failure in the bond and non-equities markets. There is adequate transparency and price discovery though supranational and non-UK government bond markets would benefit from official price gathering such as that done by the DMO in the UK. Currently banks supply unrealistic end of day spreads to commercial third parties (such as IBxxx) which do not reflect the true level of the markets.

Question 2: What evidence is there that mandatory pre- and post-trade transparency would mitigate such a market failure?

As per question 1, we do not see any market failure. There is not sufficient liquidity in corporate bond markets to survive in their current structure if there was mandatory pre- and post-trade transparency. The likely outcome would be loss of liquidity as banks withdrew their capital and/or the imposition of commission fees which would make trading more, rather than less, expensive.

Question 3: To what extent can the implementation of MiFID be expected to change this picture?

MiFID should encourage fixed income markets in market led initiatives such as better communication of market interest to satisfy best execution requirements. Even if CESR felt there was a market failure to be addressed (and we refer you to the work done by the FSA showing there is no such market failure) we feel it is in any case premature at this time to look at transparency in the non-equity markets as these effects will take time to feed through.

Question 4: Can CESR indicate and describe a significant case or category of cases where investor protection has been significantly compromised as a result of a lack of mandatory transparency?

We are not aware of any.

Question 5: Could it be feasible and/or desirable to consider extending mandatory transparency only to certain segments of the market or certain types of investors?

The vast majority of the trading on non equity markets is on behalf of wholesale clients. Retail clients are protected through other MiFID requirements such as suitability and appropriateness and best execution. It is unclear how transparency could be extended to one type of investor in any case.

Question 6: What criteria does CESR recommend should be applied by the Commission in determining whether self-regulatory solutions are adequate to address any of the issues above?

No comment.