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## New Rules to Cut Hassle, Expense Of Trades in EU

**Financial Firms Face Greater Competition As Arena Is Transformed**

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Investing in Europe is about to become a lot easier -- and cheaper.

Beginning Thursday, new rules will eliminate many of the barriers within the European Union that have made trading in stocks an expensive hassle, introducing individuals and companies to a world of investing that their U.S. counterparts have long taken for granted.

The rules, adopted after a gestation period of more than seven years, will open the way for financial firms to compete with one another across Europe, force them to get the best prices for their customers and outlaw national monopolies that have allowed stock exchanges to charge exorbitant fees.

One of the most tangible results: The cost of trading stocks in Europe could fall by as much as 25% within a year.

"It's certainly the biggest thing for the European financial markets since the introduction of the euro" in 1999, says Richard Portes, professor of economics at London Business School and president of the Centre for Economic Policy Research.


The rules, known as the Markets in Financial Instruments Directive, or MiFID, still face hurdles: As of Friday, at least five of the 30 countries involved had yet to make them law, and bankers are complaining about the cost of compliance.

Unlike the "Big Bang" reforms of the mid-1980s that helped turn London into a global financial center, MiFID is expected to bring about a gradual transformation -- in some cases putting into law changes that have already been happening, and in others laying the groundwork for future changes.

The rules' expected arrival has already encouraged upstart trading operations to go after the business of established rivals, contributing to a wave of consolidation among European financial exchanges and their counterparts abroad. If the rules achieve their goal of accelerating Europe's financial development, some economists believe that the resulting drop in the cost of borrowing for companies and individuals could add more than 0.75 percentage point to the annual growth of European industry -- a change that would sharply boost living standards.

Despite more than a decade of efforts to form an efficient, common market, the financial-services sector in Europe remains far more fragmented and opaque than in the U.S. Banks often execute trades

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internally, leaving clients with little way to know whether they received a fair price. Many countries require trades to be routed through the national exchange, creating a monopoly that allows the exchange to charge higher fees.

As a result, the cost of executing a trade in Europe is about double that in the U.S., according to data provider Elkins/McSherry LLC. Various studies suggest that the cost of transferring shares and money between buyer and seller -- a process known as clearing and settlement -- is at least six times as high in Europe as in the U.S.

The new directive aims to change all that. A French retail investor who wants to buy shares in Renault SA, for instance, will be able to make the trade in Paris, Frankfurt, London or wherever the most attractive price and service can be found.

To ensure that banks are acting in the interests of their clients, the rules will require them to record the prices at which they execute trades, together with all the prices available at the time from exchanges and various other trading venues. The banks also will have to divide their clients into three categories, according to their level of sophistication: professional, eligible or retail. That is aimed at making sure that the banks don't sell to investors products they don't understand.

To stir up competition and cut down on red tape, the directive introduces the "single passport" concept: Financial firms that have gained approval to operate in one European country would be able to do business across the bloc. Asset management groups are now applying to sell their funds in other countries, knowing that now they won't need a physical presence in the host nation and have to jump through the same regulatory hoops.

"MiFID is the largest piece of financial legislation ever undertaken because of its breadth -- all the countries in the EU -- and its scope, across securities, brokers, exchanges and regulators," says John Lowrey, who runs electronic trading for Lehman Brothers in Europe and heads the bank's MiFID steering committee.

Already, entrepreneurs are gearing up to take advantage of the new rules. Peter Randall, European chief executive of stock-trading platform Chi-x, which has been taking market share from big European exchanges such as Deutsche Börse and the London Stock Exchange, describes his company as being a "child of MiFID."

Separately, a consortium of nine mainly U.S. investment banks is working to set up a rival platform called Project Turquoise, though their efforts have run into constant delays, earning it the nickname "Project Tortoise."

The emerging competition has pushed the established exchanges to protect their dominance, both by lowering prices and by merging with other European exchanges and overseas counterparts. Nordic exchange operator **OMX AB**, for example, has agreed to be bought by **Nasdaq Stock Market Inc.** in a complex deal involving Middle Eastern exchange operator Borse Dubai.

Nasdaq CEO Bob Greifeld says part of the rationale for the OMX deal is that MiFID makes it easier to take market share from established exchanges in Europe, in the way Nasdaq has with the New York Stock Exchange in the U.S. "We couldn't do it without the new rules. ... With MiFID, the environment there will mimic what we've seen in the U.S., and that means more competition," he said.

For many bankers, the rules represent a costly and time-consuming regulatory burden. The Financial Services Authority in the United Kingdom has calculated that MiFID could cost Britain's financial-services industry an extra £100 million (\$205.3 million) a year, after a one-time implementation

cost of between £870 million and £1 billion.

Still, Luc François, head of Société Générale's global-equities and derivatives-solutions division, believes that the new directive will benefit both the French bank and Europe. He estimates that it could bring down the cost of executing a trade by an average of 10% to 25% over the coming year -- and in some cases by as much as 75%.

The new rules could be tougher for some smaller firms, which don't have the scale to bear the costs of compliance and can't match the larger firms' ability to search far and wide for the best prices.

Critics and supporters, though, agree that MiFID is here to stay, and that countries and firms need to be prepared or lose out. "We are not going to wake up and the sky is a different color," Lehman's Mr. Lowrey says. "But 2½ years from now, we will look back and notice a lot of changes."

--Aaron Lucchetti contributed to this article.

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