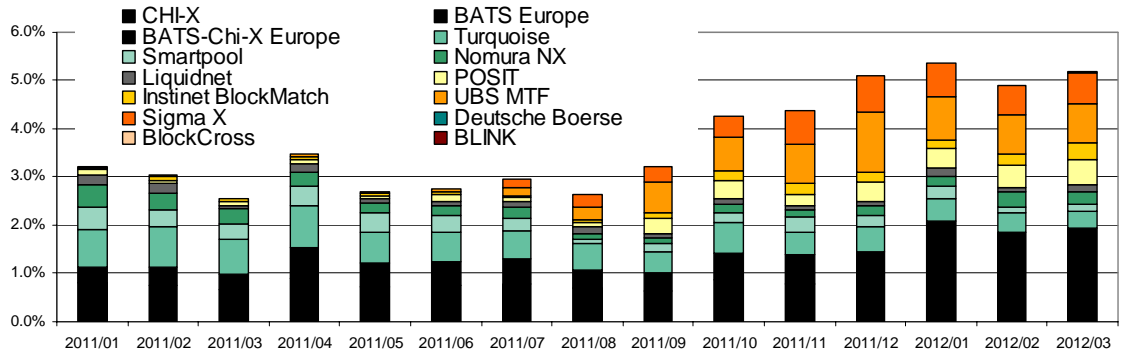


A QUICK LOOK AT BLINK

BLINK MTF GOES LIVE!

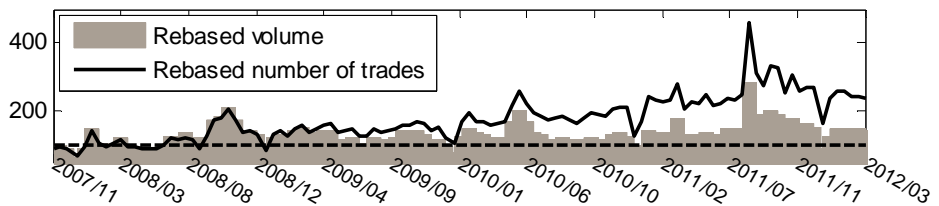
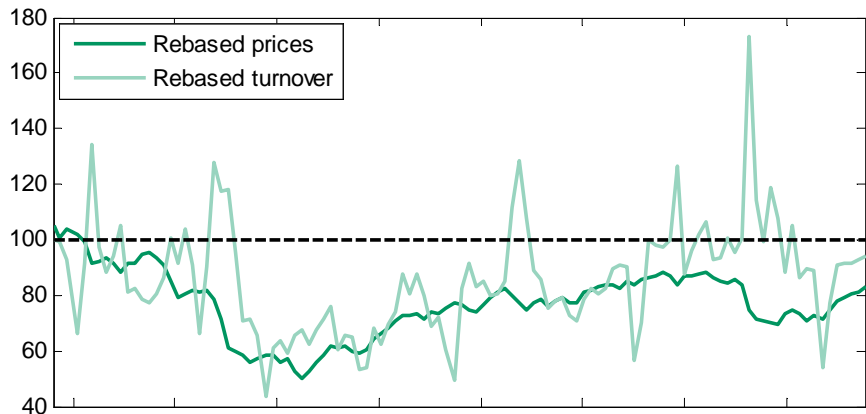
Monday 16 April, CA Cheuvreux launched BLINK, its pan-European regulated mid-point MTF to offer investors access to natural liquidity. The orders posted into this new prop-flow-free primary-pegged trading pool will remain hidden from HFTs. As shown in the top chart below, the recent increase in hidden transactions in Europe comes from regulated BCNs.

BROKER CROSSING NETWORKS SOARED OVER RECENT MONTHS (Reuters Monthly Market Share Report)



TURNOVER DIVERGES FROM PRICES BECAUSE OF THE RISE OF HIGH-FREQUENCY TRADING

VOLUMES (EUR AND SHARES), PRICES AND NUMBER OF TRADES SINCE END 2007



The upper chart just above represents the trend in average turnover (volume traded in EUR) per stock on European LMIs (Local Main Indices), simultaneously with the trend in prices since the end of 2007. The lower chart shows that the number of shares traded can explain how turnover increases more sharply than prices. All values are rebased at 100 at the beginning of our sample. We can see that **turnover is relatively lower than at the end of 2007**, but with a very different composition: **lower prices on paper offset by a higher number of shares traded, a large portion of which coming from HFT activity rather than from final investors** (as shown by the uptrend in the number of trades).

In March, average daily turnover on European LMIs increased by 0.5% (to EUR20.8bn vs. EUR20.7bn in February). For MTFs, this stemmed from a **large decrease in the average daily number of trades, but with greater sizes**. Our auction liquidity indicator increased significantly, due to the triple witching day on 16 March.

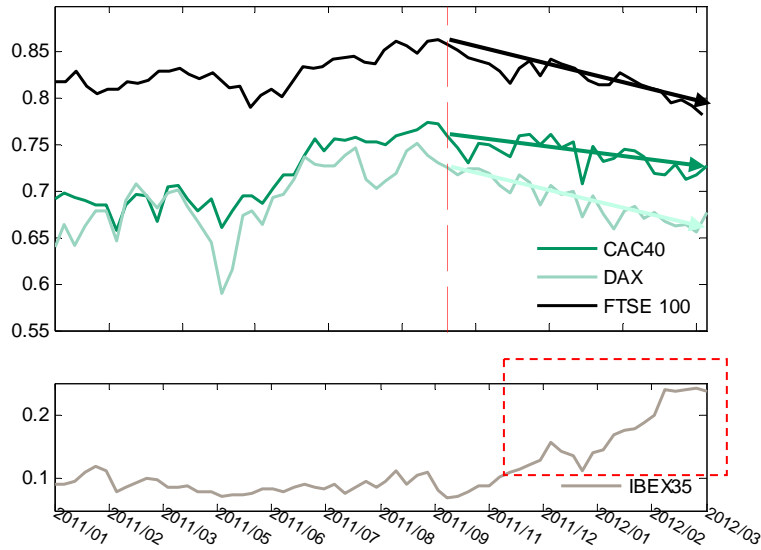
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A SIX-MONTH DECREASE IN EUROPEAN FRAGMENTATION

CA CHEUVREUX's FRAGMENTATION EFFICIENCY INDEX



The chart to the left shows that **fragmentation has posted a several-month downtrend on three main European indices: CAC40, DAX30 and FTSE 100.**

Unlike the other two indices, the FTSE 100 has reached its lowest levels since the beginning of 2011. March figures are no exception, as the London Stock Exchange went from 55.6% of market share on FTSE 100 stocks in February to 58.2% in March.

On the six LMLs of our Quant Insight, **MTFs only had 35% market shares, vs. 37% in February.** The **increase in Primary Markets' market shares** is in line with a **significant improvement of their percentage of time spent at EBO with greatest size.**

Conversely, **IBEX35 stocks continue to jump in terms of fragmentation** (see the lower chart above) thanks to the promotions initiated by Chi-X in Spain. Chi-X, which had reached 4.3% market share in February, slowed down to 4.1% solely due to the witching day on 16 March when the fixing auction represented more than half of volumes (excluding this day, Chi-X holds steady at 4.3% market share).

TECHNOLOGY: FAILURES AND UPGRADES

In the US, **BATS' technology failed on the day of its IPO (23 March):** due to a technical issue, trading on this stock was halted. BATS' share price had fallen to near zero in the first moments of trading. The IPO was postponed to a further date, in order to maintain a fair trading environment for investors.

NYSE Euronext also faced issues with its acknowledgement messages before market opening on 2 April. Trading started as usual at 9:00am, except for NYSE Arca Europe where it remained halted until 11:20am. This followed technical operations carried out during the week end.

Chi-X will move to BATS' platform on 21 April. The Spanish exchange has moved to a new platform on 16 April, while Borsa Italiana will adopt Millennium and come back to Italy at the end of June.

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EUROPEAN COMMISSION'S MiFID II REVAMPED BY MEP MARKUS FERBER:
MORE REGULATION AHEAD

Markus Ferber is the EC's lead rapporteur for MiFID II. His working group has proposed some modifications to the European Commission's proposal.

The main modifications are:

- "To end the practice of direct electronic access": the EC version of MiFID II proposed regulating DEA, Mr Ferber proposes to ban it. This practice seemed too risky in that DEA could be sold more than once with a tight link between the initial member of the market and the end user.
- A clear emphasis on the need for a consolidated tape: "it is essential that an effective consolidated tape is in operation as soon as possible". This consolidated post-trade tape favours a level playing field between the order book operators, as market participants will not focus on just one exchange (usually the historical market) to know where the price forms. Moreover, with all the "dark pools" publishing their trades as fast as possible in this tape, they will no longer be that dark. CA Cheuvreux was one of the market participants that did not believe that the initial proposal (just putting in place administrative conditions for the creation of this tape) was enough. We see this amendment as progress.
- HFTs are defined as prop trading firms having at least four of the following characteristics: co-located, daily portfolio turnover of at least 50%, ratio of orders to trades exceeding 4:1, proportion of orders cancelled exceeding 20%, majority of positions unwound within the same day, over 50% of the orders or transactions made on trading venues offering rebates or discounts. Thanks to this definition, the obligation to "post firm quotes at competitive prices [...] on a regular basis" will just apply to HFT and not to any trading algorithm, which is a clear improvement to the EC's version.

Moreover Ferber's team proposes that the OTF (Organised Trading Facility) status not be opened to equity markets, but be kept for other asset classes. Last but not least, he does not seem to be in favour of the creation of a specific status to list SMEs.

ESMA GUIDELINES SOON TO ENTER INTO FORCE

Earlier this year, the European Securities and Market Authority provided guidelines entitled "Systems and controls in an automated trading environment for trading platforms, investment firms and competent authorities"; they will enter into force in most member states in early May.

The guidelines cover different topics:

- Governance, resilience, continuity, testing, monitoring, security, staffing, etc) for MTFs and firms operating electronic trading systems;
- Standardisation, trading controls, information on members, monitoring for MTFs;
- Controls, risk management, regulation, training, etc. for firms operating electronic trading systems;
- Market abuse prevention practices for MTFs and RMs; with a precise description of some prohibited behaviour (pinging, quote stuffing, momentum ignition, layering and spoofing);
- Good practices and organisational requirements for DMA/SA providers (responsibility, due diligence, monitoring, etc.).

Most MTFs, RMs or brokers providing electronic systems have already implemented similar guidelines, the main effort for these participants will be to keep track of the application of their own guidelines. They have to make them evolve, and query them regularly.

Investment firms using electronic trading systems for prop trading may have to change their habits to comply with the ESMA guidelines.

Simultaneously, at the end of March, the Securities and Exchange Board of India (SEBI) issued "Broad Guidelines on Algorithmic Trading", which is a new step in the global uniformisation of electronic trading.

Links to the PDF files:

- on the ESMA website: <http://www.fsa.gov.uk/static/pubs/other/esma-guidelines.pdf>
- on SEBI's website: http://www.sebi.gov.in/cms/sebi_data/attachdocs/1333109064175.pdf

CONTACTS

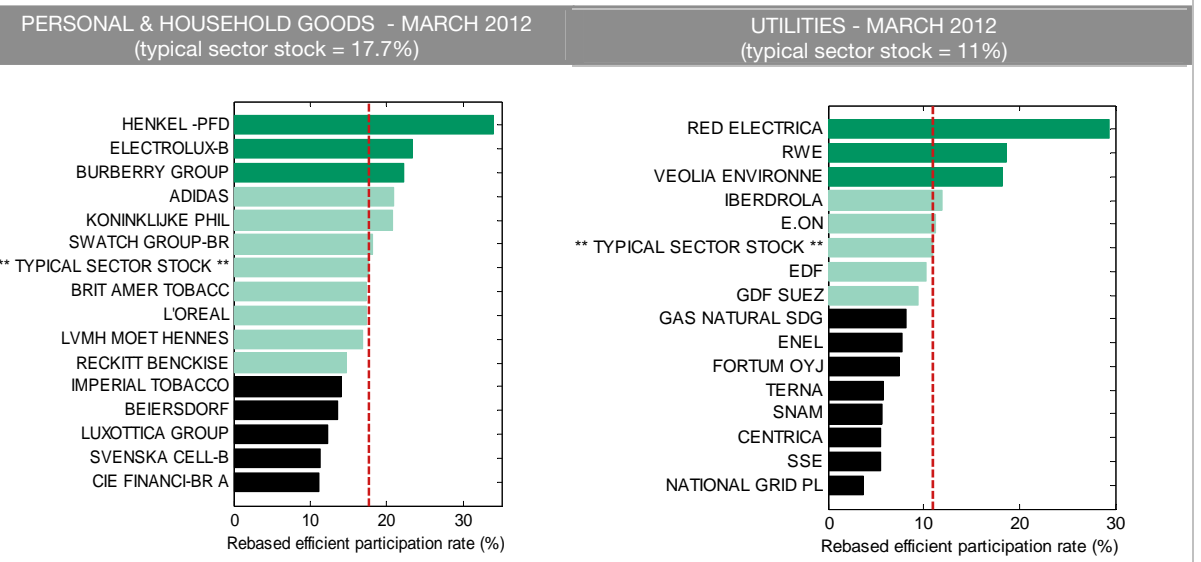
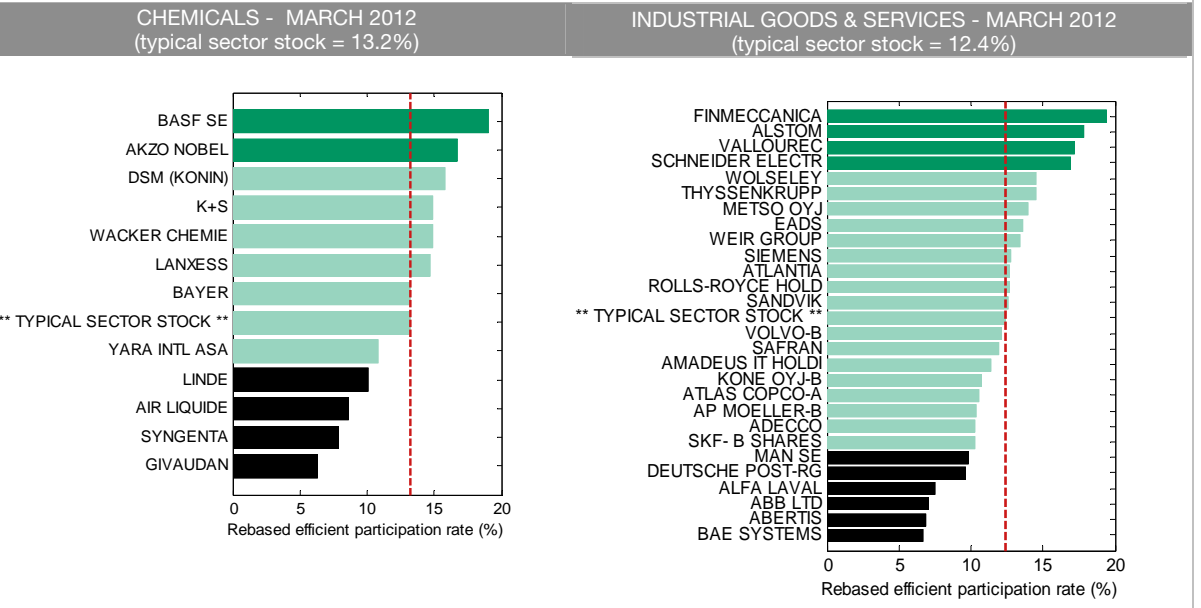
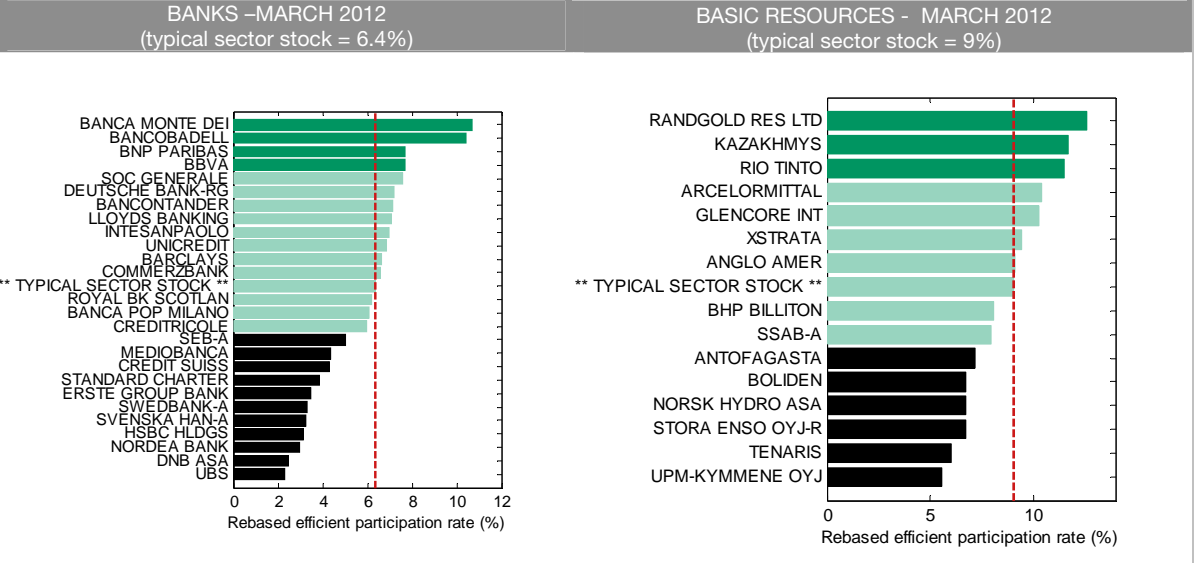
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UPDATE ON CA CHEUVREUX'S EFFICIENT TRADING RATE.

CURRENT EFFICIENT TRADING RATE FOR LIQUID EUROPEAN STOCKS BY SECTOR

Considering a typical 10% of ADV order on a large basket of liquid European stocks, the tables below indicate the efficient trading rate that should be applied to each stock in the main European sectors (based on March 2012 figures).



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QUANT INSIGHT

#1 - MARCH 2012

LIQUIDITY TABLE (REFERENCE PERIOD: 1 March to 31 March 2012)



| | | THREE-MONTH TREND | ONE-MONTH TREND | TWO-WEEK TREND | MARKET SHARE | DARK (MID-POINT) MARKET SHARE | AUCTION LIQUIDITY* | AVG DAILY NO. of TRADES | Average Trade Size (ATS) | Bid-ASK Spread (VWAS in bp) | % time at BEST BID & OFFER* | % time at BEST BID & OFFER with greatest size* |
|---------------------|-----------|-------------------|-----------------|----------------|--------------|-------------------------------|--------------------|-------------------------|--------------------------|-----------------------------|-----------------------------|--|
| AEX | EURONEXT | ↑ | ↑ | ↓ | 64.6% | 0.0% | 9.1 | 5 661 | 6 565 | 4.5 | 53% | 22% |
| | CHI-X | ↓ | ↓ | ↑ | 25.0% | 1.1% | | 3 952 | 4 504 | 3.8 | 52% | 7% |
| | TURQUOISE | ↓ | → | → | 6.0% | 0.2% | | 1 112 | 3 856 | 5.8 | 22% | 0% |
| | BATS | → | → | → | 4.4% | 0.3% | | 849 | 3 702 | 6.6 | 16% | 0% |
| BEL20 | EURONEXT | ↑ | ↑ | ↑ | 66.3% | 0.1% | 11.0 | 3 205 | 4 630 | 6.3 | 58% | 32% |
| | CHI-X | ↓ | ↓ | ↓ | 21.6% | 0.9% | | 1 652 | 3 775 | 6.5 | 42% | 5% |
| | TURQUOISE | → | ↑ | → | 7.9% | 0.3% | | 767 | 2 980 | 7.8 | 33% | 3% |
| | BATS | ↓ | ↓ | → | 4.2% | 0.4% | | 425 | 2 828 | 11.5 | 13% | 0% |
| CAC40 | EURONEXT | ↑ | ↑ | ↓ | 65.9% | 0.1% | 11.3 | 8 140 | 7 095 | 4.5 | 61% | 32% |
| | CHI-X | ↓ | ↓ | ↑ | 23.8% | 1.3% | | 5 691 | 4 793 | 3.7 | 58% | 7% |
| | TURQUOISE | ↓ | → | → | 6.0% | 0.3% | | 1 589 | 4 292 | 5.7 | 25% | 0% |
| | BATS | ↓ | → | → | 4.2% | 0.4% | | 1 232 | 3 936 | 5.9 | 22% | 0% |
| DAX | XETRA | ↑ | ↑ | ↓ | 69.9% | - | 6.9 | 5 406 | 16 223 | 3.4 | 63% | 28% |
| | CHI-X | ↓ | ↓ | ↑ | 22.8% | 0.8% | | 6 155 | 6 305 | 3.2 | 60% | 11% |
| | TURQUOISE | ↓ | → | ↑ | 4.3% | 0.2% | | 1 457 | 4 995 | 5.6 | 26% | 0% |
| | BATS | ↓ | → | → | 3.0% | 0.3% | | 1 095 | 4 711 | 6.6 | 18% | 0% |
| FTSE 100 | LSE | ↑ | ↑ | → | 58.2% | - | 11.4 | 3 972 | 6 722 | 5.9 | 76% | 26% |
| | CHI-X | ↓ | ↓ | → | 29.0% | 1.7% | | 3 657 | 4 828 | 4.9 | 83% | 16% |
| | TURQUOISE | ↓ | ↓ | → | 6.7% | 0.5% | | 1 061 | 3 869 | 6.2 | 52% | 0% |
| | BATS | ↓ | ↓ | → | 6.0% | 0.9% | | 995 | 3 688 | 5.9 | 50% | 0% |
| SLI 30 | SIX | ↑ | → | ↓ | 69.4% | - | 10.5 | 2 519 | 16 439 | 7.2 | 79% | 51% |
| | CHI-X | ↓ | ↑ | ↑ | 22.2% | 0.8% | | 1 949 | 9 467 | 7.2 | 75% | 7% |
| | TURQUOISE | ↓ | → | → | 4.3% | 0.2% | | 474 | 7 589 | 8.1 | 47% | 0% |
| | BATS | → | → | ↑ | 4.1% | 0.3% | | 462 | 7 338 | 8.4 | 44% | 0% |
| EUROSTOXX 50 | PMs** | - | - | - | 73.5% | - | - | - | - | - | - | - |
| | CHI-X | ↓ | ↓ | ↑ | 19.3% | 0.8% | | 6 866 | 5 958 | 3.5 | 66% | 9% |
| | TURQUOISE | ↓ | → | ↑ | 4.1% | 0.2% | | 1 660 | 5 237 | 5.0 | 41% | 0% |
| | BATS | → | → | → | 3.1% | 0.3% | | 1 594 | 4 796 | 5.3 | 42% | 0% |

* Exclusive CA Cheuvreux – TAG

** Primary Markets for EURO STOXX 50 stocks

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DEFINITIONS

Market Share: For local main indices, this is the ratio of the venue's turnover over the sum of the turnover of all the four venues considered. For the Eurostoxx 50, it is the ratio of the venue's turnover over the sum of the turnover of all venues trading Eurostoxx 50 components.

Dark (mid-point) Market Share: For local main indices, this is the ratio of the venue's dark turnover (mid-point type) over the sum of the visible turnover of all the four venues considered. Euronext lines correspond to Smartpool turnover, whereas Chi-X represents Chi-Delta figures, Turquoise Dark and BATS is BATS Dark. Volumes occurring in Broker Crossing Networks or Over The Counter are not taken into account.

Auction Liquidity: This is the ratio of the proportion of the turnover traded during auctions compared to the typical time ratio between the continuous auction phase (generally 8½ hours) and the fixing auctions (usually two 5-minute phases), which is less than 2%. It is only available for primary exchanges. The higher it is, the more turnover one will find during auctions.

Average Daily Number of Trades: The higher it is, the more chance an investor has to be present when a trade happens. *Contrary to block venues, the granularity of a venue is a must to attract different order flows.*

Average Trade Size (ATS): Mean trading size in euros. This can be considered as the "natural size" of orders on the venue

Bid-Ask Spread (Volume Weighted Average Spread): The average spread when a trade occurs, weighted by the turnover of the trade. It is the bid-ask spread from the liquidity provider's point of view.

% Time at EBBO at Best Bid and Offer: This is the proportion of the day during which the venue offers a spread equal to the EBBO.

% Time at EBBO at Best Bid and Offer with Greatest Size: This is the proportion of the day during which the venue offers the greatest sizes at a spread equal to the EBBO.

Cheuvreux' Efficient Trading Rate: The methodology is explained in our Quant Note: "Market impact and its connection with trading rates".

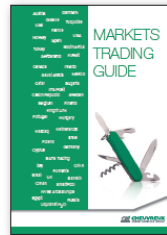
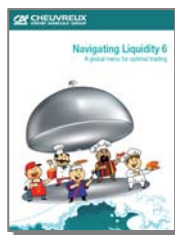
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OTHER CA CHEUVREUX PUBLICATIONS



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