



**London**

Stock Exchange Group

# London Stock Exchange Group plc

**Xavier Rolet**

Chief Executive

September 2010



## Agenda

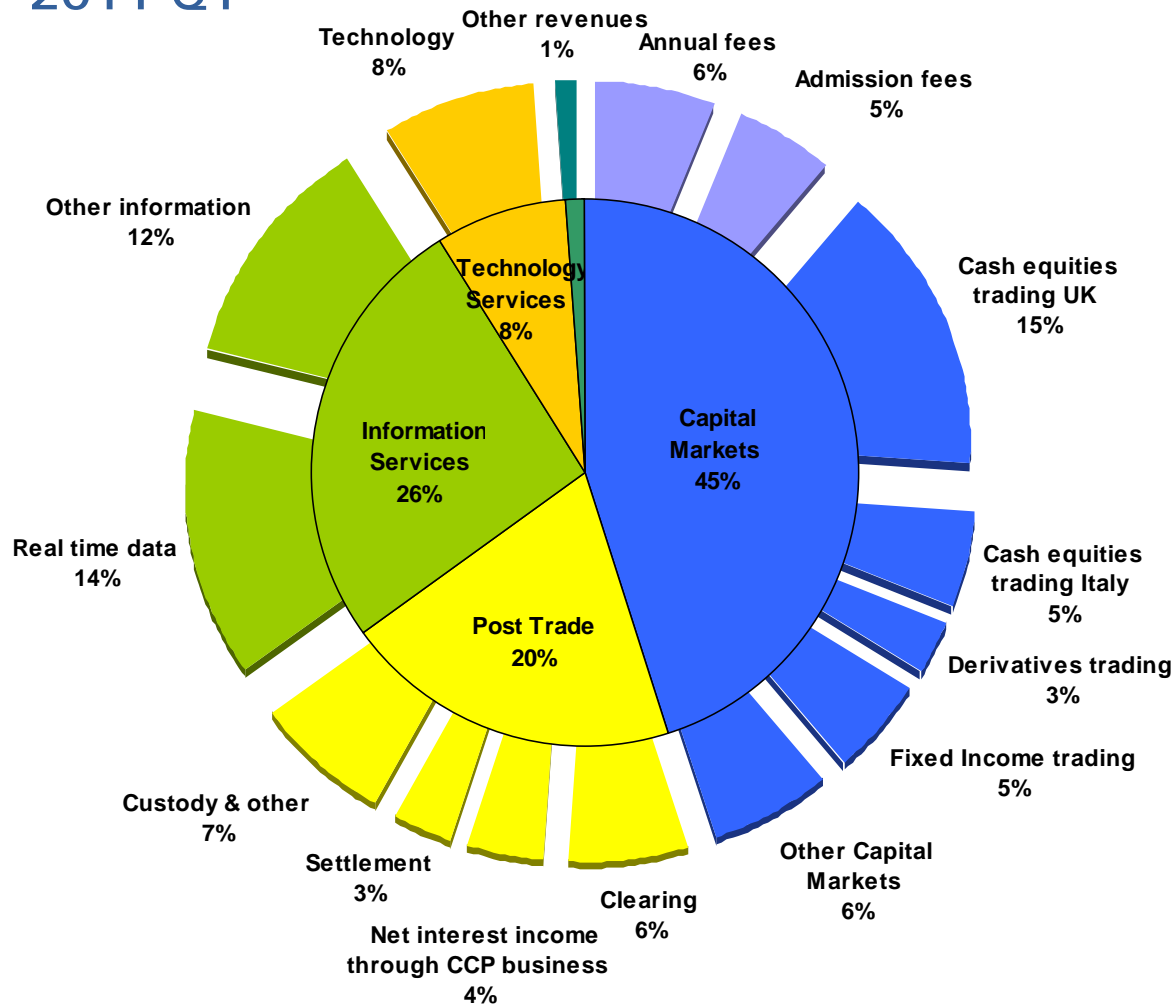
### “Competing in an Age of Austerity”

- Overview of business and strategy
- Cash equities - markets overview and actions to strengthen our market position
- Information Services - importance of LSE data and development of other services
- Development - expanding Post Trade and Derivatives businesses
- Regulatory uncertainty

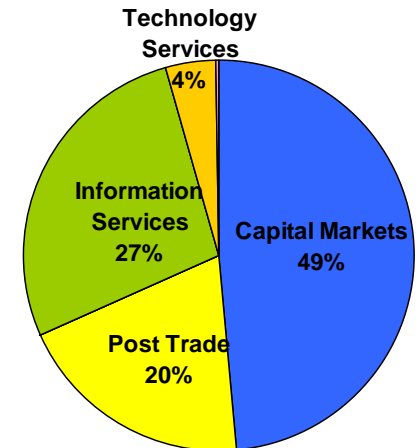


# Diversified revenues

FY 2011 Q1



FY 2010 Q1





## Strategy and priorities

Strategic focus and priorities:

### 1) Drive efficiencies - "Getting in shape"

- *Lowering costs, re-focusing the business on major clients, transforming the technology, strengthening the management team*

### 2) Build scale, increase scope, extend reach - "Leveraging our assets"

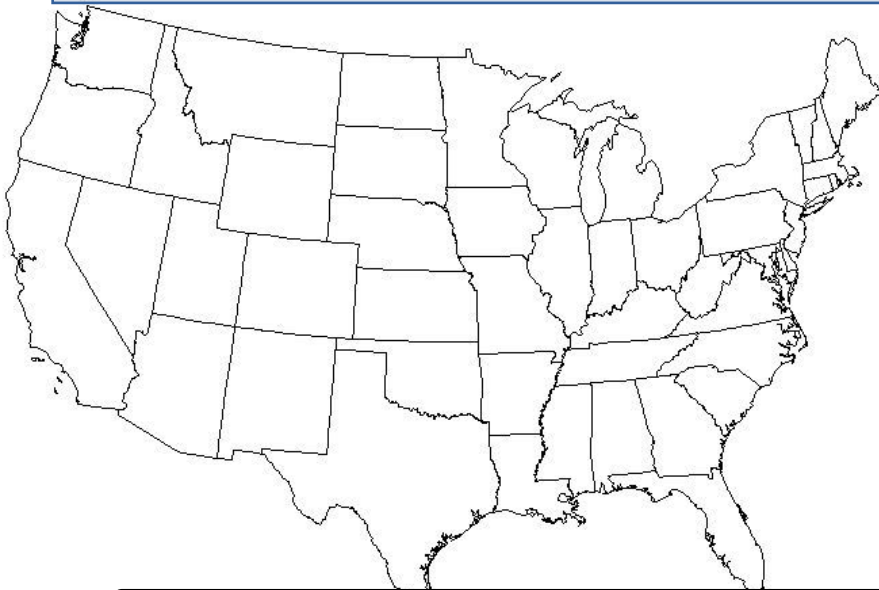
- *organic growth across range of assets - equities, derivatives, fixed income, information products and post trade services*

### 3) "Developing other opportunities"

- *JVs, partnerships, other links to grow the Group's scale and scope*

**Objective : to be a leading global exchange group within 5 years**

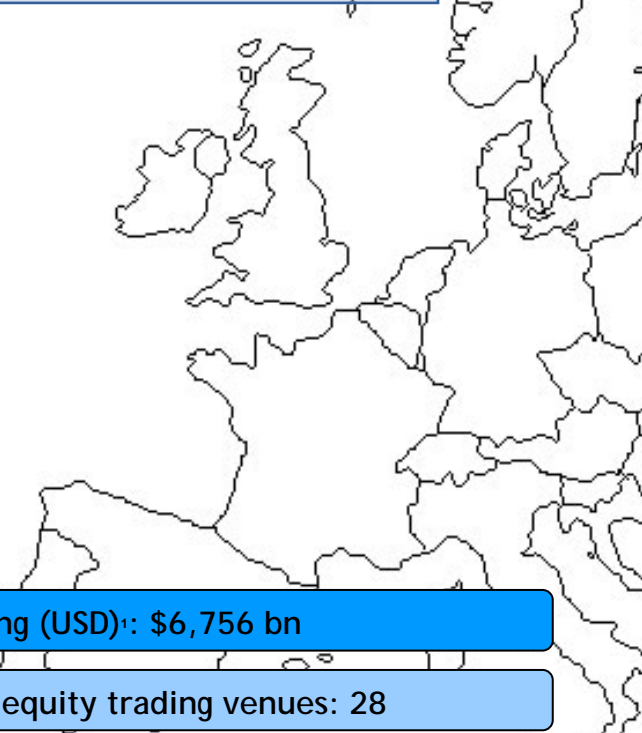
# The Future of the Sector - European consolidation



Order Book Trading (USD)<sup>1</sup>: \$23,902 bn

Number of major equity trading venues<sup>2</sup>: 4

Total fee pool<sup>3</sup>: \$630 million



Order Book Trading (USD)<sup>1</sup>: \$6,756 bn

Number of major equity trading venues: 28

Total notional fee pool using MTF tariff<sup>4</sup>: €75 million

<sup>1</sup> Figures for Jan- Sep 09, Source: WFE, FESE

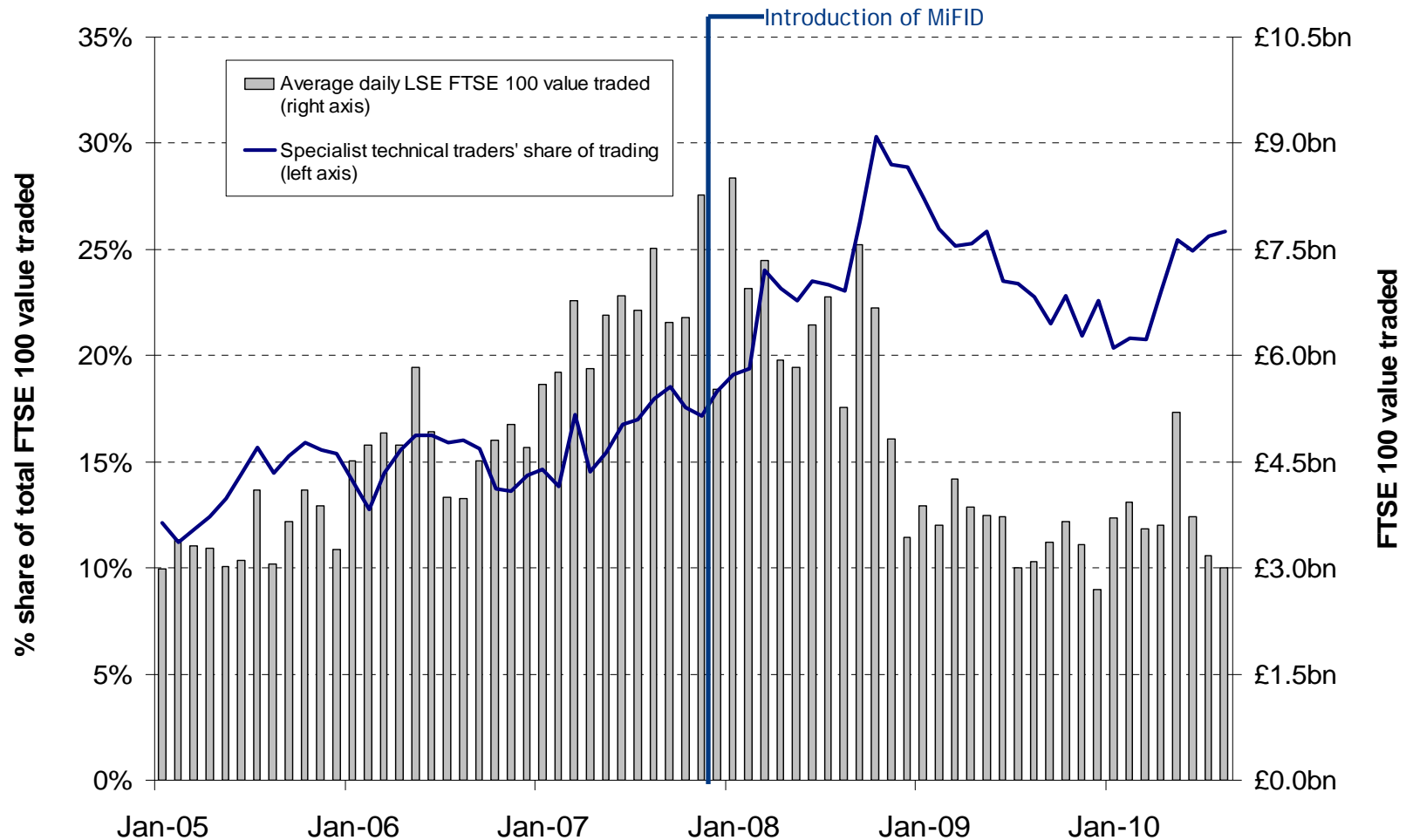
<sup>2</sup> Four venues have a market share over 2.5% of trading in 2009: NASDAQ 27.1%, NYSE 37.3%, DirectEdge 13.9%, BATS 12.9%

<sup>3</sup> Per annum calculated using data from the Goldman Sachs Global Investment Research (November 2009)

<sup>4</sup> Per annum calculated using an MTF tariff and Thomson Reuters data



# Specialist technical traders' share of FTSE 100

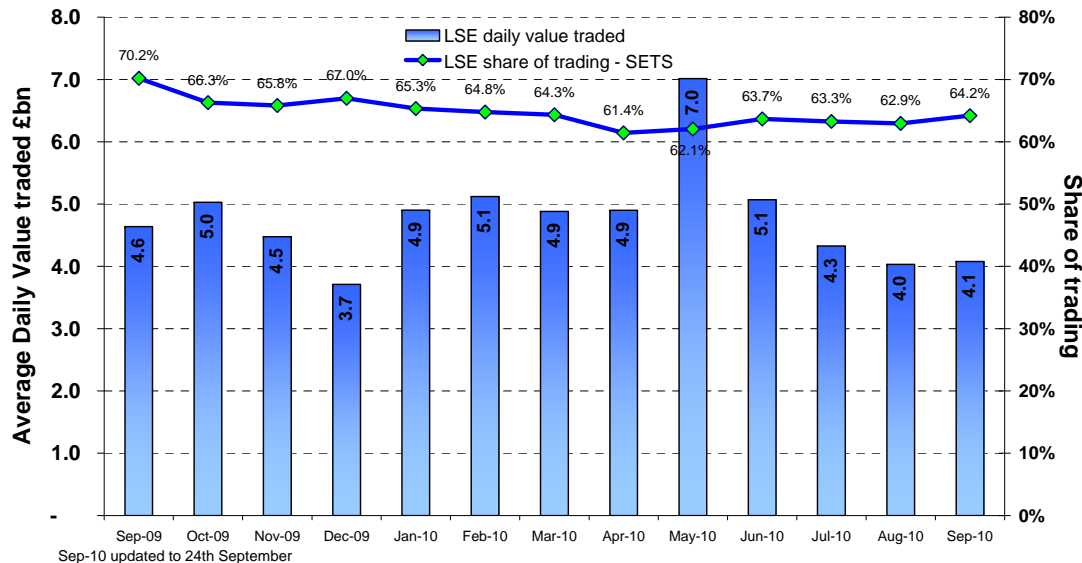




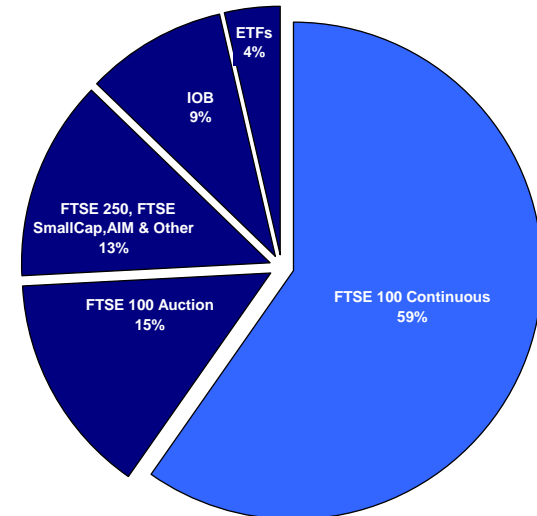
# Capital markets - secondary

## Share of trading stable

LSE order-book value traded and share of trading



LSE order book trading profile (value traded)



## Actions taken

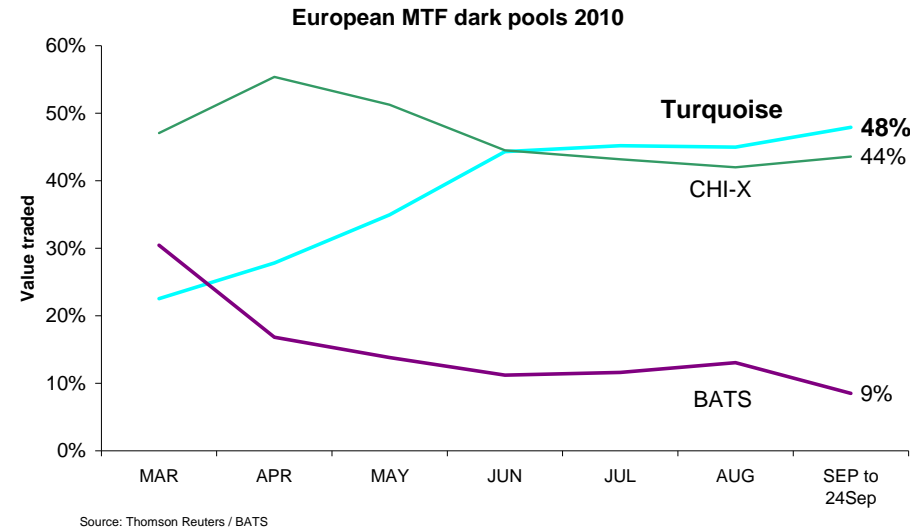
- [SETS Pricing changes](#) - Sep 2009 and May 2010, removal of maker/taker, qualifying aggressive fee 0.29bps and qualifying passive free
- [Post trade](#) fees reduced Feb 2010 - LCH / Euroclear netting fee reduced for large users
- [MillenniumIT](#) acquired Oct 2009 - TradElect trading platform to be replaced Nov 2010
- [Retail incentives](#) introduced Aug 2010 - low cost real-time data and no trading fees for 6 months

\*Trading figures exclude Turquoise



## Turquoise - Pan-European opportunity

- Important opportunity to partner with largest banking clients
  - Acquired February 2010
  - Now partnered with 12 banks;
  - LSEG retains 51 per cent
- Pan-European offering, recently extended to US securities
- Significant development opportunity as a dark venue; value up c.100% during last quarter
- Scope to benefit from sharing LSEG infrastructure:
  - Access to London Stock Exchange membership base; another 180 clients could connect at no extra cost
  - Server co-location facility covers Turquoise as well as London Stock Exchange



#1 European MTF dark pool





## Technology

- MillenniumIT (MIT)
  - Trading platform migration work in progress:
    - Turquoise go-live 4<sup>th</sup> October 2010
    - SETS go-live 1<sup>st</sup> November 2010
  - Planned migrations 2011:
    - Italian equity and fixed income
    - Johannesburg SE & Oslo Bors
  - Shutdown TradElect FY 2012, savings at least £10m pa
- Co-location services
  - Strong demand, further facilities will become available on migration to MIT



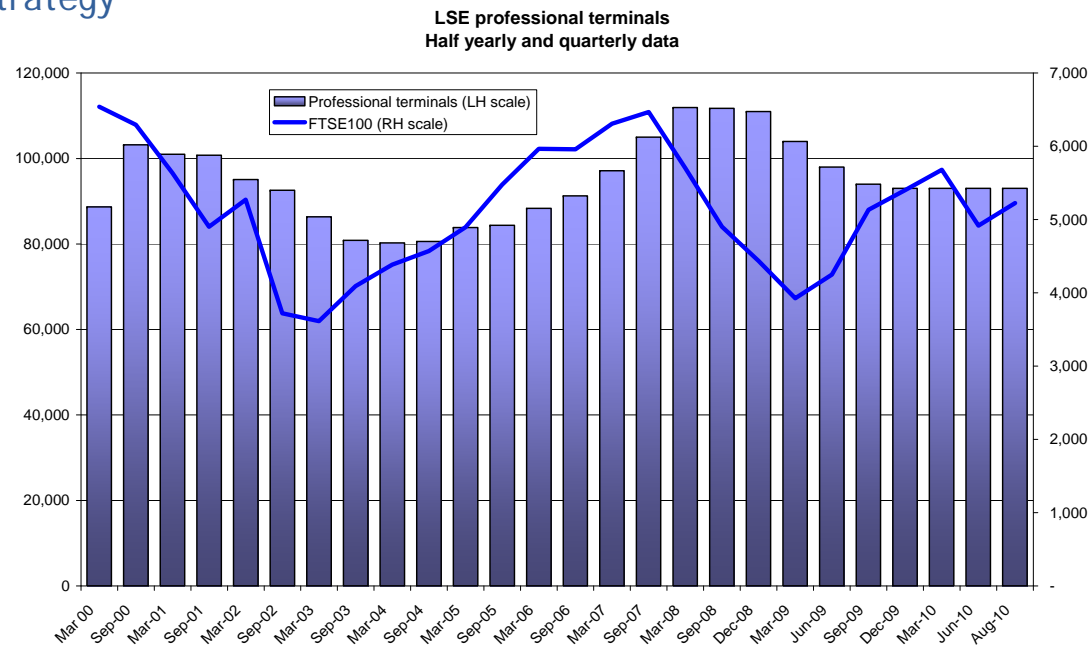


# Leveraging our core assets: Information Services

Significant potential areas of business development:

- **Index business:** Leveraging 50:50 JV FTSE to create significant value
  - 120,000 indices covering 80 countries
  - FTSE Xinhua China - largest Chinese ETF benchmark
- **Trade processing:** Developing Proquote, SEDOL, UnaVista and X-TRM into an expanding trade processing market segment
  - Trade processing market is inefficient, firms are at risk
  - Transaction reporting - Approved Reporting Mechanism (ARM)
  - Proquote - OMS support for retail strategy

- **Real time data:**
  - New unbundled post-trade market data service
  - Post trade data costs = same as US consolidated tape
  - Private investor volume discount pricing scheme - as low as 20p per investor per month





## Leveraging our core assets: Derivatives

- Small scale at present, but good base to develop
- IDEM trades Italian equity, equity index and electricity futures and options
- EDX trades International Order Book (mostly Russian) and Scandinavian futures and options
- TMX SOLA technology - EDX migration completed, IDEM go-live 23<sup>rd</sup> October 2010
- Exploring European and Emerging Markets opportunities
  - 73% of European equity derivatives traded OTC\*
  - USD600bn European equity OTC derivatives outstanding vs USD 250bn US equity\*

\*source BIS / ECB study published Sep 2009



# Leveraging our core assets: Post Trade

- Determining opportunities to extend scope and scale of our assets inorganically into a pan-European platform to support Capital Markets business

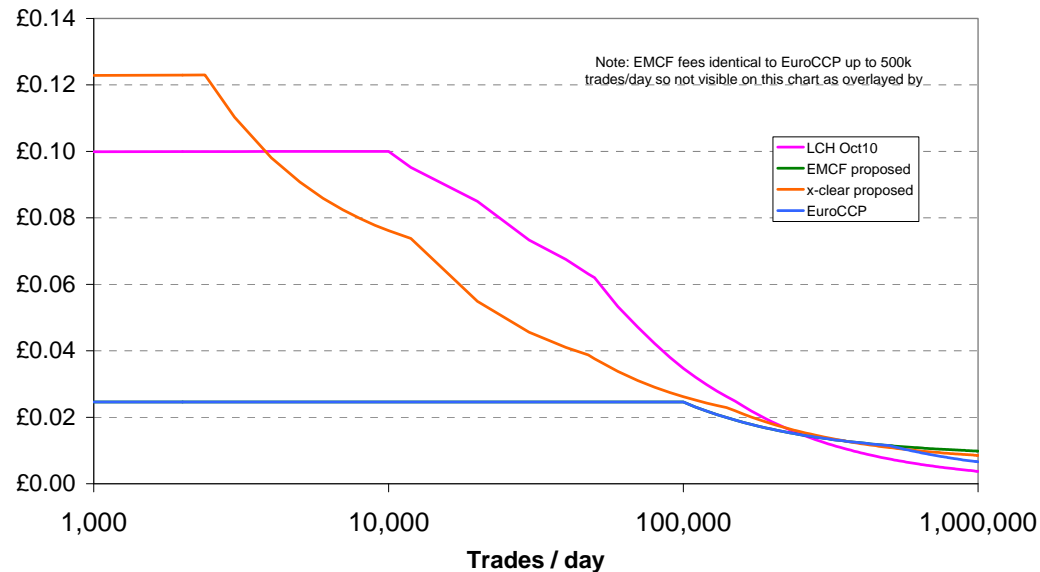
- MillenniumIT
- CC&G
- Monte Titoli

- Reducing fees

- LCH.Clearnet reduced clearing fees to large users 1st October 2010
- Euroclear reduced post trade costs by removing the gross charge for netting 1st March 2010



LSE analysis, including: Eurex Clearing, Xetra clearing division, LCH Ltd, CC&G, Helex Ex. post trading divisions, NOMX





## Regulatory changes / uncertainty

- Basel III
  - Attempts to address over leverage should be welcomed
  - If fully implemented, reality could be capital requirements up to 10-12%
  - Must beware reduction in lending - 70% of SME funding is bank finance
- Short selling
  - Reaction to sovereign debt crisis
  - No evidence that short selling is harmful
  - Our research indicated it reduces volatility
- Post Trade
  - Driving down cost is key
  - Harmonisation of CCP standards will support risk management and competition
  - Central clearing not suitable for all OTC assets
  - Access to central bank liquidity
- MiFID II
  - Appears to be driven by London's competitors
  - We support drive towards better post trade data as a means to improve transparency
  - Dark pools do offer choice, we should be careful not to damage price formation



## Summary

- Clear strategy - delivery progressing
- Management team strengthened - broader experience and skills
- Developing our competencies and capabilities - priority now to continue efficiencies and develop post trade and derivatives products
- More to be done - infrastructure changes over time
- Opportunities across the business
- Strong cash generation
- Expect further progress against strategy in coming year



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