

## Fee structures

### Introduction

1. This appendix describes in simple terms the structure of exchange fees for listing and trading as well as fees for post-trade services. It begins by describing briefly the regulation of exchange fees for LSE, Euronext and DBAG. It then looks at the structure of listing, trading and post-trade service fees charged by each exchange and their associated post-trade services providers. As an example of the fee structure of other exchanges, the last section of this appendix outlines these fees for two US stock exchanges, NASDAQ and NYSE.

### Regulation of exchange fees

2. There is no regulatory regime in place for LSE trading fees. However, LSE, in accordance with the OFT's decision concerning LSE's issuer fees,<sup>1</sup> agreed not to increase annual and admission to trading fees for Main Market primary-listed and AIM-quoted issuers, other than to reflect increases in the Service Sector Wage Index, until April 2007.
3. There is no regulatory regime in place for exchange fees for Euronext.
4. In Germany, issuer and membership fees for listed companies are set by the independent Management Board of the Frankfurt Stock Exchange and approved by the Exchange Council. DBAG's board sets trading and post-trade fees.

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<sup>1</sup>London Stock Exchange issuer fees: Report of the OFT's investigation, Office of Fair Trading, OFT713, March 2004.

## Summary of fees

5. Table 1 shows a simplified summary of the structure of fees charged by each of the three exchanges and their associated post-trade service providers.

**Table 1: Structure of exchange fees**

	<i>LSE</i>	<i>Euronext (Amsterdam)</i>	<i>DBAG</i>
<i>Listing</i>			
One-off	Varies by market capitalization	Varies by market capitalization	Fixed
Annual	Varies by market capitalization	Varies by number of securities issued	Fixed
<i>Trading</i>			
One-off	Fixed	Yes	No
Annual	Varies by no of employees	Yes	Fixed
Variable	Varies by value* and volume††	Varies by value* and volume††	Varies by value* and volume‡
<i>Clearing</i>			
One-off	Fixed	Fixed	Fixed
Annual	No	No	Fixed
Variable	Varies by volume‡	Fixed	Varies by value*§
<i>Settlement</i>			
One-off	No	Fixed	Fixed
Annual	Fixed	Fixed	Fixed
Variable	Fixed	Varies by volume‡	Fixed

Source: Parties' and post-trade service providers' web sites.

\*Value: number of securities traded multiplied by their market price.

†An additional fee is also charged irrespective of an order being executed. For Euronext, an additional fee is charged only if the order to trade ratio exceeds certain thresholds.

‡Volume: number of trades (LSE and Euronext) or the number of executed orders (DBAG).

§DBAG's clearing fee on Xetra is based on the cleared value of shares plus a fixed fee per executed order, both subject to a cap on the overall fee per executed order.

## Exchange listing fees

6. There are two principal exchange fees associated with listing: first, an admission fee paid when a business is first admitted to trading on an exchange; second, an annual fee paid by issuers for their existing shares to continue to be admitted to trading on the exchange. All three exchanges charge both an admission fee and an annual fee.

### **LSE**

7. LSE's admission fee for the Main Market increases with market capitalization.<sup>2</sup> The fee ranges from £5,320 to £256,988. Companies listing additional equity pay an

<sup>2</sup>The LSE admission charge is a decreasing function of market capitalization, ie the higher the market capitalization, the lower the fee charged per pound of market capitalization.

additional admission fee, equivalent to 75 per cent of the joining fee, if the value of the equity is above a certain threshold (currently £50,000).

8. LSE's annual fee for the Main Market increases with a company's market capitalization, ie the higher a company's market capitalization, the higher its annual fee.<sup>3</sup> The fee ranges from £3,503 to £34,517.
9. While LSE's admission fee for primary and secondary listings is the same, secondary listings have a lower annual fee (approximately 50 per cent less).

### ***Euronext***

10. Euronext's admission fees range from £6,800 to £2,040,000 and annual fees range from £2,040 to £13,600.<sup>4</sup>
11. Euronext also charges fees for the listing of non-domestic (ie non-French, Dutch, Belgian or Portuguese) companies that are generally lower than for domestic companies.

### ***DBAG***

12. DBAG charges a fixed one-off admission fee (£3,400) as well as a fixed annual listing fee (£5,100).

### **Exchange trading fees**

13. Exchanges may levy trading fees for placing, modifying or cancelling orders as well as for their execution. They may also charge traders an annual membership fee.

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<sup>3</sup>Like LSE's admission charge, its annual listing fee is also a decreasing function of market capitalization.

<sup>4</sup>Here and elsewhere, euros have been converted into sterling using the exchange rate of £0.68 to €1 as of 12 April 2005.

## **LSE**

14. LSE charges an annual membership fee which varies according to the number of people employed by the company and ranges from £5,150 to £51,500. It also charges a one-off entrance fee of £10,000.
15. LSE levies trading fees that are connected to the value of each executed trade, the manner in which the trade is executed (removing or providing liquidity<sup>5</sup>) and the volume of trades executed. These range from £0.04 to £0.08 per £1,000 of a trade's value and, where a charge is levied, is subject to a minimum and maximum charge.<sup>6</sup> Only one party to each trade pays this charge; there is no corresponding charge to the other party.
16. Stamp duty is essentially a charge on certain documents, not transactions. However, an equivalent tax is charged on equity transfers. The duty is 0.5 per cent on equity transfers. Stamp duty is only payable when buying shares, not when selling them.<sup>7</sup> We are not aware of a similar tax that affects traders on DBAG or Euronext.

## **Euronext**

17. Euronext charges no fixed annual membership fee. Three equities trading packages are available to Euronext's members, each of which has a different minimum activity charge (MAC)<sup>8</sup> as well as volume- and value-related fee components.

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<sup>5</sup>LSE distinguishes between aggressive and passive trades or between parties who provide, and parties who use, liquidity. Each trade executed on the exchange's order book has one aggressive party (the party which hits an order) and one passive party (the party whose order is hit) during continuous trading.

<sup>6</sup>LSE also imposes an order charge, whether or not the order has been executed, of £0.01 per order.

<sup>7</sup>LSE told us that member firms are eligible for intermediary stamp duty relief.

<sup>8</sup>The MAC is payable in the event of a member not reaching the minimum level of trading activity per month required for the chosen package.

18. The first package has no MAC. The remaining two packages have a MAC of £10,200 and £68,000 respectively. Fees per trade range from £0.48<sup>9</sup> to £0.82.<sup>10</sup> Trades with a value of £17,000 and above are charged an additional 0.1 basis points (bp) of the value of the trade up to a maximum of £5.44 per trade.<sup>11,12</sup> In contrast to LSE, both parties to a trade pay this charge.

## **DBAG**

19. DBAG charges a fixed annual admission fee for Xetra of £1,020 and also charges fees for trading which vary according to value and volume of trade.<sup>13</sup>
20. Currently, traders can choose from three price models which vary in terms of minimum transaction fees (£1,360; £3,400 and £13,600 per month<sup>14</sup>) and fees per executed order (ranging from £0.40 to £12.24). All other things being equal, the higher the minimum transaction fee, the lower the fee per trade. In contrast to LSE, both parties to a trade pay these charges.

## **Trade reporting fees**

21. Trade reporting fees are included in LSE, Euronext and DBAG's fee structures. If a trade is executed off-book but reported to the exchange, a reporting fee has to be paid. In the case of LSE, this reporting fee varies between 0.1bp and 0.65bp depending on the trade's value. Only one party to the trade pays a reporting fee. Euronext charges a constant trade reporting fee of £0.68, which is also paid by both

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<sup>9</sup>Package with highest minimum activity charge.

<sup>10</sup>Package with lowest minimum activity charge.

<sup>11</sup>May apply to partial transaction.

<sup>12</sup>Placing an order on Euronext is free of charge unless a daily order/trade ratio exceeds a certain threshold.

<sup>13</sup>DBAG's fee schedule has three different price models, high, medium and low volume, each of which has a different minimum and maximum transaction and an ad valorem charge.

<sup>14</sup>The two lower fees have an additional premium.

parties to the trade. DBAG's trade reporting fee ranges from 0.28bp to 0.322bp, depending on the trade's value, and is paid by both parties.<sup>15</sup>

### **Post-trade services**

22. Different stock exchanges use different clearing and settlement procedures. In the case of DBAG and Euronext, the use of clearing and settlement facilities is compulsory. This is not the case for LSE if a trade takes place on the quote book<sup>16</sup> or off-book as opposed to on the order book.<sup>17</sup>
23. Clearing and settlement fees are not charged by stock exchanges, but by the providers of these clearing and settlement services. LCH.Clearnet provides clearing services to both LSE and Euronext. However, notwithstanding their common ownership, LCH.Clearnet Ltd and LCH.Clearnet SA operate separate services and tariffs for LSE and Euronext respectively. Settlement services are provided to the two exchanges either by Euroclear or the domestic CSD owned by Euroclear or Euronext.
24. In the case of DBAG, clearing services are provided by Eurex Clearing and settlement services are provided by Clearstream..

### **Clearing fees (LSE)**

25. LCH.Clearnet charges a one-off membership fee of £1,500 and no annual fee.

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<sup>15</sup>DBAG noted that the fees referred to in its case refer to the use of the Xetra OTC functionality and consists of a basic off-order-book matching functionality. This matching functionality is more than pure trade reporting, and thus is not comparable with the trade reporting fee which Euronext and LSE offer.

<sup>16</sup>Quote book: an electronic facility operated by the exchange that facilitates the display of buy and sell quotes made by market makers.

<sup>17</sup>Order book: an electronic execution facility operated by the exchange.

26. For clearing orders, a fixed per order fee is charged for each leg<sup>18</sup> of a trade, which, depending on the number of trades, ranges from £0.17 to £0.25. Clearing fees are only applicable to transactions executed on the order book.

### ***Clearing fees (Euronext)***

27. At present, LCH.Clearnet SA fees vary across the Euronext markets. In Amsterdam, there is an annual fee of £2,278 and a fixed fee of £0.44 per cleared trade. In Lisbon, there is no annual fee and a fixed fee of £0.44 per trade. In Paris, there is an annual fee that varies from £15,300 to £33,456 according to the number of trades cleared and the type of securities. In addition, there is a fixed fee of £0.10 per trade cleared plus a variable fee of between 0.003 per cent and 0.005 per cent according to the value of the trade. The maximum fee per trade is £12.31.

### ***Settlement fees (LSE)***

28. CRESTCo, the Euroclear subsidiary which provides settlement services to LSE, charges an annual membership admission fee of £5,000.<sup>19</sup> There are also transaction charges that are subject to discounts based on certain eligible fees. The standard non-discounted settlement fee is £0.50, and is charged before netting. LSE told us that discounts could amount to a reduction of 80 per cent of this standard fee. Settlement netting is also available for transactions executed on the order book.

### ***Settlement fees (Euronext)***

29. Settlement for trades executed on Euronext exchanges is provided by either the domestic CSD or Euroclear. The domestic CSDs in France and the Netherlands are owned by Euroclear, while those in Portugal and Belgium are owned by Euronext<sup>20</sup>.

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<sup>18</sup>A transaction always has two legs: buy and sell.

<sup>19</sup>For a standard user.

<sup>20</sup>Euronext has stated its intention to divest its interests in settlement activities and has signed a letter of intent with Euroclear in relation to the sale to Euroclear of the Belgian CSD.

The settlement fees vary for each CSD. For example, the Portuguese CSD does not charge a settlement fee and the settlement fee in Brussels is generally £0.75 per trade. In the Netherlands there is a fixed one-off fee, a membership fee of £35 on a daily basis and a variable fee is £0.54 per trade.

### ***Clearing and settlement fees (DBAG)***

30. Eurex Clearing and Clearstream provide clearing and settlement services for all trades on the Frankfurt Stock Exchange via Xetra, DBAG's electronic trading platform. These account for more than 90 per cent of all equity trades on the Frankfurt Stock Exchange.
  
31. In terms of membership and annual fees, there is a one-off membership fee of £34,000 as well as an annual licence fee of £17,000 that covers the clearing of cash and derivatives. There is no membership or annual fee for Clearstream, although settlement charges for CCP eligible securities are levied by Eurex Clearing.<sup>21</sup>
  
32. In terms of transaction fees, clearing fees partially depend on a trade's value and range from £0.35 to £4.21, while settlement fees are based on the number of settlement instructions and are charged at a fixed rate of £0.29, although only approximately 5 per cent of Xetra transactions are actually settled.

## **Exchange and post-trade service fees for NASDAQ and NYSE**

### ***NASDAQ listing and trading fees***

33. In terms of listing, NASDAQ charges companies a one-off fee for admission to their National Market<sup>22</sup>, which varies according to the number of shares issued, and

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<sup>21</sup>Currently, only equities in collective safe custody at Clearstream Banking Frankfurt are CCP eligible.

<sup>22</sup>NASDAQ charges different fees for admission to the NASDAQ Small Cap Market.

ranges from £56,450 to £83,330.<sup>23</sup> It charges an annual listing fee that also varies according to the number of shares issued and ranges from £13,170 to £40,320. There is also a fixed annual administration fee of £2,690.

34. NASDAQ's trading fees generally distinguish between trading NASDAQ-listed equities and trading equities with primary listings on other US markets. The primary fee for trading in NASDAQ-listed equities is a transaction execution charge, assessed on a per share basis to the party that accesses the liquidity provided by another trading firm. In short, whether a trading firm in a particular execution involving a NASDAQ-listed equity pays a fee to NASDAQ, or receives a rebate from NASDAQ, depends on whether the trading firm is accessing or providing liquidity. At present, there are no fees for trading in equities with primary listings on other US equities markets.

### ***NYSE listing and trading fees***

35. NYSE charges companies listing on its exchange listing fees based on the total number of shares listed that range from £7,930 per million shares for the first and second million shares, to £1,020 per million for in excess of 300 million shares. The exchange also charges an annual fee of £500 per million shares listed. The minimum level of this annual fee is £18,820 a year; the maximum is £268,820.
36. NYSE charges an annual membership fee of £810 per member.
37. The exchange charges trading fees that vary according to the number of shares traded. No charge is levied for trades of less than 2,100 shares. The minimum fee thereafter is £2.60. The maximum fee is £43.

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<sup>23</sup>Assuming an exchange rate of \$1.86 to £1 sterling as of 12 May 2005.

### ***Clearing and settlement fees for NASDAQ and NYSE***

38. The Depository Trust and Clearing Corporation (DTCC), through its subsidiaries, provides services including centralized clearing and settlement for US exchanges. According to its published fee schedule, the DTCC charges an annual membership fee of between £2,160 and £4,840.
  
39. For clearing orders, a fee will be charged which partly depends on the number of shares per trade. Each side of a trade is charged £0.08 per trade for clearing. For trade comparison and recording services, £0.05 per 100 shares, with a minimum fee of £0.16 and a maximum fee of £0.32, is charged.
  
40. According to its published fee schedule, the DTCC charges an annual 'account' fee of £4,900 a year, and a settlement fee of £0.09 per trade.<sup>24</sup>

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<sup>24</sup>[www.dtcc.com](http://www.dtcc.com)