



B Ø R S M Æ G L E R F O R E N I N G E N

FESE
via NASDAQ OMX
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European Tick Size Consultation

The Danish Securities Dealers Association (DSDA) has received a questionnaire regarding harmonising the European tick size regime. As the association most closely concerned with the development of the Danish market, DSDA welcomes the opportunity to respond. DSDA has consulted its respective members, and they all support this response.

First of all, DSDA recognize the expressed wish to simplify the European tick size regime to improve efficiency when trading across multiple venues and markets. A harmonised, European approach might also stop the ongoing tick size competition, which is devastating to the overall market quality. This is illustrated by most tick size studies, which show that the spread, depth and market liquidity all decrease following a tick size reduction. This implies increased market impact, hence reducing the overall market quality. An illustrative, relevant study from the Nordic region was the Norwegian tick size reduction in June 2003: The spread on the 4 largest shares was reduced with 50 percent, while the depth was reduced with 29 percent.

However, DSDA believes that the proposed changes are much too aggressive, and DSDA welcomes further discussions on optimal, harmonised European tick size structure.

Each share has individual, optimal levels of a tick size choice, which depends on e.g. the current market price of the instrument, the trading activity, the average trade size, the depth of the order books on the best as well as on all price levels. In consequence, it is a balance to identify the right level for tick sizes across all the shares in the market in question.

Hence, any changes should only be imposed on shares which are 1) traded on more than one market place and 2) traded on the smallest tick most of the time with considerable depth. It is not an applicable argument solely if the share is traded on the smallest tick most of the time without considerable depth – then the tick size is too small to attract volume.

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When using these conditions on the Danish market, the tick sizes should not be changed at present. However, as pointed out above, DSDA welcomes further discussions on the optimal, harmonised European tick size structure for shares traded on more than one market place.

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Yours sincerely

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