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(Updates with further comment and information from group.)

By Adam Bradbery  
OF DOW JONES NEWSWIRES

LONDON (Dow Jones)--European Union regulations designed to introduce more competition in stock trading have created a fragmented marketplace highly vulnerable to market abuse, a new group of four financial markets consultancy companies said Tuesday.

The Alliance of Independent Advisors to Financial Markets, or Avenues, said investors could be losing up to EUR1 billion a year as companies exploit the markets unfairly by front-running trades or posting bids and offers designed simply to skew prices.

Regulations governing market abuse need to be overhauled and supervisors need to force all trading venues to submit a standard set of data to supervisors, according to representatives of Avenues who are due to discuss the issue Friday with Maria Velentza, the head of the securities market unit at the European Commission, the EU's executive body.

"Markets are structured on a balance of fear and greed, and now the balance has gone the wrong way...there is no fear that anyone is going to be detected for abusing the market," said Brian Taylor, managing director of BTA Consulting. Avenues is made up of representatives of BTA Consulting, Bryok Systems Ltd., Capstan Consulting and Golden Advisors.

The EU's market abuse directive was introduced in 2005 to usher in a pan-European set of standards governing the way national regulators clamp down on market abuse. It was brought in at a time when stock trading in the region was transacted largely on exchanges that are responsible for identifying abuse on their systems under the directive.














However, the introduction of the region's Markets in Financial Instruments Directive, or Mifid, at the end of 2007 encouraged the creation of alternative trading platforms that aren't governed by as stringent a set of rules as that laid out by the market abuse directive.

The result is a situation in which only a limited portion of stock trading is adequately monitored for market abuse, according to Avenues.

The group said a study it undertook of trading in shares of Vodafone Group PLC (VOD, VOD.LN), the U.K. telecommunications company that has a primary listing on the London Stock Exchange, found that only 33% of trades went through the LSE, with 50% being transacted on dark pools, a type of alternative trading system, and 18% on other nonexchange platforms.

"Mifid...has probably taken innovation too far," said Taylor. "It's introduced such a level of competition and fragmentation that we've gone away from the original point at the beginning, which is a fair and orderly market."

-By Adam Bradbery, Dow Jones Newswires; 44 20 7842 9305; adam.bradbery@dowjones.com

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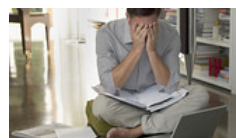
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