

# An overview of BTA Consulting Limited

## Demutualisation, Commercialisation and Listing of Central Market Institutions

(Exchanges, CCPs and CSDs)

### Capability Statement

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## INTRODUCTION

BTA Consulting has furthered the demutualisation, commercialisation and listing process. We are unique amongst all consultancies because we:

- Are the only consultancy to have a former CEO of a demutualised exchange as our Managing Director;
- Are at the leading edge of innovation and intellectual thinking; and
- Invest in knowledge. We have successful research on demutualisation, where 24% of the world's exchanges participated. Over 80% of demutualised exchanges also took part in the survey, which has allowed us to uniquely distil the key issues that encapsulate the demutualisation debate, and draw authoritative conclusions from the data collected. The survey represents in excess of 50% of the world's trading liquidity. We have also conducted research on European clearing and settlement, which uniquely identified that privatised clearing and settlement monopolies that are subsidiaries of listed vertical silos are a barrier to low cost clearing and settlement.

Our research is a benchmark to gauge progress, and understand the complexities facing central market institutions addressing demutualisation and in the post demutualisation era. Following the release of the survey, BTA Consulting has been contracted to provide professional advice, and has also presented the survey findings to numerous exchanges, financial institutions and governmental agencies.

### WHAT DOES BTA'S DEMUTUALISATION PROGRAM OFFER?

- BTA Consulting offers a comprehensive range of strategic and technical advice, planning and implementation capabilities for all exchanges considering and ignoring the issue of demutualisation.
- BTA Consulting also offers a quality benchmark review of exchange demutualisation programmes to help exchanges ensure they are on track with the whole commercialisation process.
- These services are based on the experience by BTA's professional, multi-disciplinary team in this growing area of development and structural change.
- Demutualisation is not achieved by a "one size fits all process" for all exchanges – BTA does not propose a one size fits all strategy. Demutualisation manifests itself in a variety of legal and structural forms. The use and assistance of BTA Consulting's capabilities enables exchanges and markets to evaluate and implement the optimal solution to reflect specific requirements.

## RELEVANT EXPERIENCE

BTA Consulting is the only consulting company that offers the following combined services:

- Practical client advice on demutualisation, together with
- Robust research backed by business intelligence tools (e.g customer relationship management technologies);
- Practical insource executive experience of setting up and running demutualised exchanges.;
- A Demutualisation Methodology

We explain this in this section.

### CENTRAL MARKETS ADVISORY EXPERIENCE:

Due to the confidential nature of the demutualisation and commercialisation of exchanges some of the references cannot be named.

#### **BTA RESEARCH REPORT: EUROPEAN CROSS BORDER CLEARING & SETTLEMENT 2005-2007**

BTA recently launched it's independent thought leadership research report that assimilates the results of 40 interviews with eminent financial services professionals who collectively represent most of the "who's who" of European clearing and settlement.

Many ground breaking findings are identified. In particular, this report is the first (to our knowledge) to uncover the implications of moving clearing and settlement to the "for profit" governance model in an environment where market forces do not operate. As the report explains, this has significant long-term practical and economic implications for European capital markets - not least for the goals of the Lisbon Agenda.

The issues raised by this research are complex. Shareholders in the "for profit" clearing and settlement organisations bring a whole new dimension of influence to which the industry has yet to find an answer. The end of era of mutualised utilities, combined with the inability to drive market forces into the business in the short term, marked a significant barrier to achieving low cost efficient cross border clearing and settlement.

#### **A EUROPEAN DERIVATIVES EXCHANGE**

As a part of the programme undertaken in 2000, to obtain third party investment capital from a strategic venture capitalists and technology partners, BTA Consulting provided advice to the Board on the potential business models that could be pursued (in both the traditional markets and the dot.com space), the revenue and cost structures, and how these would need to be organised from a legal and regulatory viewpoint. This covered models for splitting the Recognised Investment Exchange, into a range of sub-companies, and the impact this would have on the trading and allocation of shares in the company.

## **A EUROPEAN EXCHANGE**

Undertook a strategic workshop on the development of the demutualisation structure for this exchange and wrote a paper for the CEO, explaining the benefits of a range of structures on the institutional, retail, and employee share programme for the demutualisation and public trading of shares in the exchange. Issues considered were the impact of the aftermarket, the potential for trading abuse, ownership convergence issues and other key strategic matters that would influence the marketing and success of the IPO.

## **BAHAMAS INTERNATIONAL SECURITIES EXCHANGE (BISX)**

BTA Consulting provided an interim insource executive team to the BISX from July 1999 – Sept 2001. This role included the following with respect to demutualisation:

1. Undertook private workshops with the brokerage community and the Bahamas Financial Services Board (BFSB) to evaluate the legal and business benefits of establishing BISX as a demutualised exchange (the initial white papers produced by the BFSB envisaged a mutualised exchange)
2. Convinced all interested parties of adopting a simpler, commercial model.
3. Wrote the Memorandum and Articles of Association for the demutualised exchange.
4. Wrote a private placement offering memorandum (PPOM), and to ensure universal buy-in liaised with the national regulator, the Securities Commission of the Bahamas, to obtain acceptance of the PPOM;
5. Defined the pricing and acceptance criteria for applicants.
6. Worked with the BFSB to market the PPOM and shares.
7. Launched the PPOM, and marketed it to the domestic and international communities to achieve the objectives of the demutualisation which included a wide distribution of shares amongst professional and retail investors.
8. Successfully raised more than the required funding levels.
9. Wrote the Rules for the exchange and settlement service, reflecting the demutualised exchange.
10. Ran the exchange for 15 months as a profit making demutualised exchange, reporting to shareholders and other stakeholders in accordance with the business plan contained in the PPOM.

### **RMS CZECH AND SLOVAK REPUBLICS (1992 – 3)**

Created the third demutualised market in the world. RM-S was set up as an OTC exchange for the origination and trading of voucher-privatised securities. Non-financial services players totally privately owned the exchange. BTA Consulting provided the legal, regulatory and strategic advice to create these exchanges, including:

1. Undertook private workshops with interested parties and the Ministry of Finance to evaluate the legal and business benefits of establishing RM-S as a demutualised exchange
2. Convinced all interested parties of adopting a simpler, commercial model to provide competition for the Prague Stock Exchange.
3. Advised on the content of the Memorandum and Articles of Association for the demutualised exchange.

### **WORKSHOPS**

Undertaken private workshops and conferences with a range of exchanges following the publication of the BTA survey "Demutualisation – To be or Not to be" including:

- The Financial Services Authority (FSA)
- The London Stock Exchange
- Oslo Børs
- Tokyo Stock Exchange (London office)
- KDPW Poland
- The Federation of European Stock Exchanges
- A North American exchange
- SIA s.p.a
- Expert commentary on news channels such as CNBC, Reuters, Bloomberg and to the newspapers.  
..and the review of papers prepared by the research department of the Stock Exchange of Thailand.

### **THE INVESTORS NOTICEBOARD LIMITED**

Set up a private alternative exchange vehicle to provide “Client to Client” share trading in small to medium sized stocks. This vehicle was to be regulated by the FSA. Wrote the private placement memorandum including a definition of the corporate structure, successfully obtained first round of funding, and then set up the company and provided interim executive leasing of a non-executive Director to help develop the company.

### **A EUROPEAN DEPOSITORY**

BTA Consulting are currently providing strategic consulting on the future direction of this organisation in the context of market developments and anticipated EU evolution. The strategic consulting covers the potential options for the demutualised ownership structures, product development and associated legal and regulatory requirements.

### **A GLOBAL INVESTMENT BANK**

Wrote the business rules for an “internalisation division” which was set up to compete with recognised investment exchanges, as well as provide added value and low credit risk services to an institutional client base. Provided advice on the selection of technology for the internationalised trading.

### **A NEW EXCHANGE, NETHERLANDS**

Strategic business consultancy, business planning and a complete feasibility study resulting in the creation of a private placement-offering memorandum for a new internet securities exchange for small to medium cap stocks. The share ownership structure was designed to be demutualised.

### **KENYA CENTRAL DEPOSITORY SYSTEM**

As a part of the feasibility study and private placement corporate finance work, designed the share ownership structure for the KCDS, which was designed as partially demutualised from the outset. Undertook a range of workshops with market participants, the Nairobi Stock Exchange and the regulator (the Capital Markets Authority) to gain buy-in to the proposal.

### **A NEW ECONOMY EXCHANGE**

Created the share ownership structure of a new economy exchange, which was demutualised from the outset.

**CAYMAN AUTOMATED PAYMENT SYSTEM:**

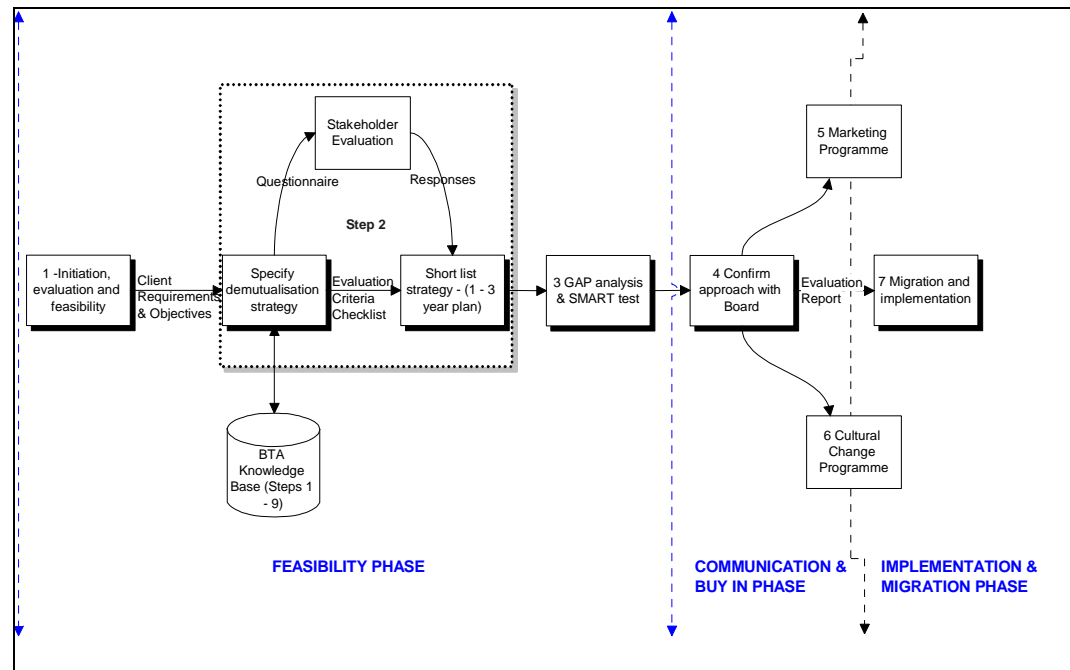
As a part of the feasibility study, designed the share ownership structure, wrote the memorandum and articles of association for a partially demutualised national payment system, which was designed as partially demutualised from the outset. Undertook a range of workshops with market participants, the Ministry of Finance to gain buy-in to the proposals.

**THE BTA  
DEMUTUALISATION  
METHODOLOGY:**

BTA has developed and refined a methodology using our knowledge management processes. Over the past ten years BTA has built a vast resource of information regarding capital markets, strategies, processes and technologies We therefore manage this knowledge to maintain its value and to ensure we can work quickly with our clients.

The demutualisation methodology has a range of phases, which are encapsulated in Figure 1 below. Supporting this high level work-flow process, we have a detailed methodology document that documents our intellectual property, defining the significant steps, processes and deliverables which we can demonstrate at a bid winning presentations to our clients. We must stress that this methodology is a knowledge base and a guide – it is not prescriptive and mandatory. We always agree with our clients how, where and when it will be used.

**Figure 1: The Consulting Process**



The knowledge base Steps 1 to 9 are shown in Figure 2 below.

Figure 2: The BTA Demutualisation Knowledge Base “Staircase”



## WHY SELECT BTA CONSULTING?

**“Our whole objective is for our clients to win. We never take our eye off this goal.”**

BTA Consulting delivers new and innovative strategies and solutions. We only undertake engagements where we are sure we add value and surpass client objectives – otherwise it is expensive for the client, costly in terms of time and destroys their brand as well as our own. BTA personnel have been exchange, CSD and global investment bank executives combined with training in Big 4 consulting/accounting organisations. As a consequence we understand the challenges and needs of our clients. This means our advice is not theoretical. Indeed to the contrary our team are in demand under executive lease contracts.

Figure 3: Our model for the creation of client success



Table 1: Why clients select BTA Consulting

<b>Our own objectives and values answer the question - why select BTA Consulting?</b>	<b>Thought and knowledge leadership</b>	We invest in knowledge leadership and methodologies to ensure success and brand development, across many business models. Our internal knowledge management tools share our information throughout our firm, enabling us to reduce time and cost and increase quality.
	<b>Think “outside the box”</b>	BTA has the in-built ability to “think outside the box” and re-engineer business norms into original forms. We lead the field in both the old and new economy strategies. The hybrid is essential. Digital markets cannot ignore the complexities of history.
	<b>Create a quantum leap in client business progress</b>	We challenge fundamental assumptions. BTA are a premier consultancy house combining the needs of the 21 <sup>st</sup> century economy and traditional businesses, placing our clients in a position of strength for the markets of today and tomorrow.
	<b>Create competitive advantage</b>	Client surveys show that they become “Number One” when they select us – they claim this is not necessarily the case with our competitors.
	<b>Deliver quality, to time and budget</b>	BTA has a world-wide reputation for its market leading consulting services to exchanges, clearing houses and members founded on quality, timing and financial prudence.
	<b>Independence</b>	BTA Consulting is independent of mind, technology and capital providers. This creates clarity of delivery as opposed to confusion due to pre-arranged non-transparent ties, ill-conceived capital structures or strange ethical practices
	<b>Scale</b>	BTA Consulting is a niche firm that is currently being re-engineered through external investment and organic/inorganic growth programmes.

Our client list, overleaf, speaks for itself

**UK**

ABN Amro Hoare Govett	SWIFT
Dresdner Kleinwort Benson	Percival Software
Kleinwort Benson Securities	Perot Systems
Merrill Lynch	TCAM Stratus
Jeffries International	Investors Notice Board
UBS Services Limited	BT Syntegra
LIFFE	Finsbury Asset Management
S2 International	Ernst & Young
CS RAND	Bank of Ireland
Lexit Financial	Allied Irish Bank
Department for Constitutional Affairs	First Mercantile plc
	Computershare
	CityWebWatch

**EUROPE**

SIA S.p.A Italy	Budapest Stock Exchange
Broker Systems Greece	Keler/ Fornax Hungary
Alpha Bank Greece	Estonia CSD Ltd
Cedborsa S.p.A, Italy	2 New ECNs
Finanzmarkt in Mittel-und Osteuropa	KDPW Poland
Rabobank	Lithuania Stock Exchange
HP	Perm Securities Market
Compaq Milan @ exchange	Ministry of Finance Czech Rep.
OM Jiway	KSI BV
Oslo Børs	Czech Securities Market
CMA Small Systems	Slovak Securities Market
Malta Stock Exchange	Cyprus Stock Exchange
	Ministry of Finance Slovakia
	Icelandic Securities Depository
	SWX virt-x

**NORTH AMERICA**

Price Waterhouse Washington  
 TCAM Stratus  
 E\*Trade  
 EFA Software  
 Compaq TANDEM  
 John Hancock  
 Alberta Market Solutions

**FAR EAST**

OTC Exchange of Thailand  
 Malaysian Central Depository  
 Tandem Singapore  
 Rubber Authority Singapore  
 Computershare

**CARIBBEAN**

Cable & Wireless Cayman Islands  
 Price Waterhouse Coopers Bahamas  
 Bahamas International Securities Exchange  
 BVRD Dominican Republic  
 CAPS  
 CIBC Bank Cayman Islands

**CENTRAL AMERICA**  
 Mexico Stock Exchange  
 Compaq Mexico

**SOUTH AMERICA**  
 Mercado Aviento Electronico  
 Price Waterhouse

**AFRICA**

Nairobi Stock Exchange  
 Capital Markets Authority Kenya  
 British Council Kenya  
 Government of Kenya  
 Organisation of African Unity

**MIDDLE EAST**

Al Khaldiya  
 Kuwait Stock Exchange  
 Batelco B.S.C  
 Bahrain Stock Exchange  
 Abu Dhabi Stock Exchange  
 Doha Securities Market  
 Gulf Business Machines

**INDIA**

OTC Exchange of India  
 Bombay Stock Exchange  
 Stock Holding Corp. of India  
 CMC India

