

IBC's 8th World Stock Exchange conference London 27th/28th September 2004: Unity in diversity?

The annual World Stock Exchange conference brings together representatives of exchanges from around the world together with their industry bodies, representatives of those who use and service exchanges: brokers, custodians technology suppliers, listed companies and, of course, those who provide regulatory oversight of exchanges, the financial services regulators. Just as the roles and objectives of stock exchanges expand and diversify, so does the complexity of issues, which they have to address. This message came through clearly.

It was agreed that the core role of the exchange is to service companies who use its listing services (or the competent authority within the same jurisdiction). Without listing participants there would be no exchanges.

The basic requirements of listed companies have changed very little. As the Company Secretary of BP stated " We want access, simplicity in delivery of services, visibility, flexibility and, importantly the ability to withdraw or delist, if appropriate. and a regulated environment for monitoring and enforcement of exchange rules."

The scope of financial regulation has had an impact on listed companies. As the regulatory role of the exchanges has moved in many instances to independent financial regulators, the listed companies work much more directly with the regulators. While this is not in itself an issue, companies with listings under several regulatory regimes do find disparity of rules and the attendant lack of regulatory equivalents an unnecessary additional challenge. Much of the communication and dialogue by listed companies now takes place with the regulators and there is less communication and people contact with the exchanges.

The conference addressed most of the major issues affecting exchanges:
Revenues, industry structures, governance, regulation, politics and regionalisation:

Revenues

The historical sources of revenues such as membership fees, listing fees clearing and settlement have been impacted by a number of factors including the changing structures of exchanges, competition from various sources and regulation. A number of speakers from exchanges showed how they were countering this through introduction of new products such as exchange traded funds, the development and emphasis on their brands and linkage with other exchanges.

Industry structures

The current exchange structures, horizontal, vertical structures are being challenged by automation, and internalisation of transactions by major financial institutions. This has led to more intense competition by exchanges. Services such as netting and collateral management enable greater efficiency and economies of scale in usage of exchanges by participants but they do pose monopoly, risk and investor protection issues.

Governance

This focussed on the merits and challenges of the trend or fashion towards exchange demutualisation. While this may unlock capital and bring attendant benefits in terms such as responsiveness to customers, reward participants for usage and improved decision making, it does pose challenge in terms of governance, reconciliation and management of a wider range of interests and stakeholders. The relevant speakers did emphasise that demutualisation is not in itself a long-term panacea. In some instances the historical mutual structure was the better business model.

Regulation

No financial industry event today is complete without discussion of the impact of regulation. Who has access, pricing and transparency are issues high on the list of regulators' priorities. Conversely the exchanges would seek examination of the trend to internalisation of transactions by major financial institutions, which have posed competition and fragmentation to exchange based business.

Politics

Unfortunately politics is a factor. Exchanges still have a physical location and, especially in emerging economies, represent national and economic development. At a national and regional level there are vested interests in preserving the status quo and apprehension about demutualisation proposals and consolidation of power by some of the major exchanges. Conversely, the power of patronage, which major financial institutions may exercise in selection of exchanges to transact business and their ability to internalise major elements of their transaction flow.

Regionalisation

Viewed regionally the environment and challenges differ. In Europe large exchanges do dominate but the smaller ones remain and in many instances, continue to prosper. The consolidation of exchanges in Europe has lead to a sense of uneasiness by some stakeholders. This is against the background of the European Union a degree of political suspicion towards corporate development of exchanges. The USA continues to be dominated by two major very domestically focussed exchanges, the NYSE and NASDAQ supplemented by the mixed benefits of protectionist financial regulation. Asia has concentrated on technology structural and business development to gain more appeal to international investors. Co-operation between exchanges remains non-existent in an environment where exchanges have strong national economic symbolism. Exchanges have been created in many in emerging markets and receive aid and international support. Their longer-term viability should, perhaps, be viewed in a regional context, using the business model of low cost exchanges suitable for the SME sector.

Several key challenges emerged for the future:

- Where will they go next?
- Is regulation helping pave the way for development or is it becoming a burdensome?

Page 2

- What is the future for niche exchanges?
- Can more focus and emphasis on brand and quality criteria improve the perception of the value provided by stock exchanges?
- Will internalisation of transactions by some the major stock exchange members Have a commercial impact of the revenues and usage of exchanges?
- Will increased commercial linkages and co-operation between exchanges be the way to secure their collective future, or does merger and acquisition present a more stable future?

Bob McDowall
4th October 2004