

MARKET view

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Hong Kong moves to capitalize on

China expansion

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As the average execution size of trades has tumbled, it has become more difficult to provide the liquidity needed by large institutions. Automated block trading is one way, and newer, specialized firms are redefining this market.

»We have the advantage of being close to [mainland] China.«

Paul Chow, CEO at Hong Kong Exchanges and Clearing (HKEx)

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Toronto based CNQ is creating an alternative market for all Canadian equities. The market, Pure Trading, is designed to give traders a better, faster and cheaper trading environment.

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The Middle East is coming into its own in terms of financial services, enticing oil money to stay local and opening its doors to foreign investors.



SGX and OMX strengthen partnership

The Singapore Exchange (SGX) and OMX announced they will work more closely together to provide technology solutions and services for the Singapore capital markets. SGX CEO Hsieh Fu Hua comments: "In building SGX as an enduring marketplace, it is imperative that our IT infrastructure and capabilities stay relevant to meet the demands of higher volumes and more varied product features.

We look forward to providing integrated access to the securities and derivatives trading market and are happy that our partner, OMX, shares the same vision of convergence in our marketplace."

Final warning by the EU

The EU is giving Europe's stock exchanges and clearinghouses a final warning to cut the cost of cross border share trading by opening up their systems to competitors or face possible legislation.

Neelie Kroes, EU Competition Commissioner, and Charlie McCreevy, EU Internal Market Commissioner, are threatening the industry with action before the summer unless it helps create a pan-European capital market.

The order is aimed at European bourses that operate "vertical silos" – electronic trading platforms and post-trading clearing and settlement services, which make the cost of cross border share trading up to six times that of trading in domestic markets.



ICAP to acquire EBS Group

ICAP PLC, the world's largest broker of transactions between banks, has agreed to buy foreign exchange and commodities platform EBS Group Ltd. in a deal that will create the world's largest electronic over-the-counter trading system.

ICAP says it will merge its BrokerTec bond trading system with EBS to create an electronic trading network that will generate more than USD 400 million (EUR 330 million) in annual revenues and a third of ICAP's profits.

ICAP CEO Michael Spencer says, "We will merge the largest fixed income platform globally with the largest foreign exchange platform to create a reach that is enormously greater than any other network for OTC transactions."

ASX + SFE

Australian Stock Exchange Limited (ASX) has offered to buy the Sydney Futures Exchange (SFE) for USD 1.6 billion. Analysts back the strategic merit of the merger, saying it would let each exchange compete better globally. The deal, which is expected to be completed in July or August, will create the world's ninth biggest exchange by market value.

Thai Futures Exchange opens

The Thailand Futures Exchange was launched on April 28, on the 31st anniversary of the birth of the Stock Exchange of Thailand. Thai Finance Minister Thanong Bidaya, in commenting on the opening, says that, in this age of financial liberalization, Thailand is developing its capital markets to meet international standards.

"The derivatives market is a major contribution to this development, enhancing long term stability and offering flexible funds management," he says.

ISE forms equities exchange

The International Securities Exchange (ISE), the largest US options exchange, is launching its own equities exchange, backed by a group of Wall Street banks and trading firms, in a move that observers say sharply intensifies the battle with the NYSE Group and Nasdaq for market share in equity trading.

The ISE's partners in the venture, which will initially take the form of a crossing network, are Bear Stearns, Citadel Derivatives Group, Deutsche Bank, Interactive Brokers Group, JPMorgan, Knight Capital Group and Sun Trading. "In creating the ISE Stock Exchange, we seek to provide the same level of creative functionality and customer service in the equities market as we have delivered to date in the options market," says ISE President and CEO David Krell.



David Krell at ISE sharpens the battle with the NYSE Group and Nasdaq.

On the up and up

Changing market structures and technological demands are driving exchanges globally to become publicly listed companies. More than 15 exchanges in Europe, Asia-Pacific and the US have recently gone down this road, with the venerable NYSE being one of the latest exchanges to list on its own market. Today, there is a global sector of listed exchanges that is attracting investors like magnets.

During the past 12 months, the average share price of exchanges worldwide has more than doubled. And, looking at valuation multiples, using a price/earnings ratio, North American exchanges are valued at 27 times expected 2007 earnings while

»Exchange business models are almost universal, and a relatively high proportion of exchange costs are IT-related.«

the comparable ratio for European exchanges is 19. These multiples are substantially higher than the stock market on average.

Exchanges' business models in combination with strong growth prospects are supporting these high valuations. Over the next few years, analysts expect securities trading volumes to continue to grow at a rapid

pace. This growth is considered partly cyclical but, to a large degree, also structural and, thus, independent of the general economic climate. And since most exchange costs are fixed, a lot of that top line growth can be converted into cash and bottom line profit. Assuming an exchange has a flexible trading model and platform, the direct marginal costs of additional trades being executed on that exchange can be virtually zero.

In addition, there have been several mergers and takeover attempts among exchanges over the past couple of years, and many investors expect this consolidation trend to continue. Exchange business models are quite universal, and a relatively high proportion of an exchange's cost base is IT related. In most cases, exchange mergers result in relatively high levels of cost synergies, compared with mergers in other sectors.

With the demanding valuations of the dotcom boom and bust still fresh on investors' minds, some may question whether exchange share prices will continue to rise over the long haul. Admittedly, a recession or cyclical downturn could have a significant negative impact on these companies, with their high operational leverage.

BUT FOR NOW, the economy remains strong in North America and most parts of Europe even though, at the time of this writing, the bears seem to be ending their hibernation. It is also evident that financial market growth is now being driven by structural market shifts, such as cross border investing, automated trading and increasingly active hedge funds. In addition,

the consolidation play still has a long course to run in the exchange sector. As long as these fundamentals exist, there is probably scope for valuation multiples to be kept at high levels and for exchange share prices to trend even higher on the back of their rising profits and steady cash flows. ■

Jakob Håkanson
Vice President, Head of Investor
Relations, OMX



PHOTO: ANDERS KRISTON

STOCK NAME	PRICE	SHARE
杭州	ZHEJIANGEXPRESS	4.975
	LI & FUNG	14.70
銀六零六購	AA-CPACC0606	0.94
P集團	SCMP GROUP	2.96
	FITTEC	2.43
銀	EGANAGOLDFEIL	2.525
波六零七購	CS-SH PC9EC0607	0.37
銀	BESTWAY INT'L	6.265
銀	TIANJIN DEV	4.90
外匯	OOIL	27.35
店	ASIA STD HOTEL	8.162
	FE CONSORT INTL	3.30

一個月港元同業拆息 HIBOR

BY KEITH REGAN PHOTO RICHARD JONES

With a history of openness, a strong focus on financial services and sizable investments in technology and other infrastructure, Hong Kong Exchanges and Clearing hopes to leverage its historical advantages to become a gateway for Western investment in the Chinese economy.



Hong Kong grabs the tiger's tail

China's booming economy is hardly a secret. The world's fourth largest economy in terms of gross domestic product, it is forecast to see near double digit growth in coming years.

For decades, the closest foreign investors could get to a direct stake in the Chinese economy was to invest in Hong Kong. Now, with increasing openness in mainland China, that's no longer the case. Facing growing competition for Western investment, Hong Kong Exchanges and Clearing (HKEx) believes its

history is its strongest strategic advantage.

With an open, free economy, close ties to China and a history of investing in the telecommunications and information technology infrastructure needed to operate world class financial services, Hong Kong Exchanges and Clearing believes it is well positioned to capitalize on the China juggernaut, says CEO Paul Chow.

Chinese companies, he notes, are already comfortable listing on HKEx. Around 30 percent of



the listed companies have ties to Chinese enterprises. The growth of those companies is one reason for the record setting year the exchange experienced in 2005, with a daily value of USD 18.3 billion, up from USD 6.7 billion in 2002.

"You can see the growth we've experienced in that four year span," says Chow. He points out that the exchange is now fourth in the world in terms of funds raised through new offerings. "We continue to have major IPOs from mainland China choosing to list here," he says.



OMX and HKEx: Partnering for the future

The Hong Kong Futures Exchange was one of OMX's first clients in Asia. It has been using technology from OMX since 1994, several years before it merged with the Hong Kong Stock Exchange to create HKEx.

In 2004, HKEx added the SECUR system to the previous CLICK XT system. Ulf Carlsson, General Manager for North Asia at OMX, says that OMX now powers systems that handle trading, clearing and settlement for all derivatives products trading in Hong Kong.

HKEx CEO Paul Chow says the exchange has a positive relationship with OMX, one he expects will be increasingly important as the exchange moves to ensure its readiness for the continued strong growth of China's economy that is being predicted.

"Having a good partner is important when you are trying to expand a business," Chow says.

Recent examples include the China Construction Bank, which at around USD 9.1 billion, was the largest IPO in the history of Hong Kong and one of the largest worldwide. Energy firm China Shenhua and shipping firm China Cosco added to the activity, with more IPOs lined up for 2006.

Derivatives are seeing China related growth as well. About half of all futures and options traded on HKEx are related to Chinese firms, Chow says.

"We have the advantage of being close to China," he says. "We understand the history, culture and economy better than many countries. We have fund managers and research analysts whose job is to follow mainland China development."

WHILE OTHER FINANCIAL centers in the region are bidding to take a bite out of the China trade, Chow says Hong Kong has several advantages, from its use of business English and a favorable tax environment to its long history of investment in modern IT and telecommunications infrastructure.

"Our markets are transparent," Chow says. "We operate very fair mar-

kets with little restriction on investment flow and a free flow of news and information. We also have the rule of law, which is independently administered by impartial courts. Hong Kong is a very open city."

How will Hong Kong's role evolve as China develops more robust markets of its own and as others in the region, from the recently consolidated exchanges in Korea to Singapore, move to capitalize on the same trends?

"I have no crystal ball about when or how soon China will further deregulate its market," Chow says. "What I know is that we have to be ready to deal with increased volume. I'm not concerned about other exchanges. I'm more concerned about the challenge of continually improving ourselves to meet the opportunities." ■

»HKEx is well positioned to capitalize on the China juggernaut.«

Paul Chow,
CEO at HKEx

OMX in China

Institutions in mainland China are turning to OMX for its securities industry expertise. Since 2004, in keeping with a memorandum of understanding, OMX has been exchanging information with SD&C (China Securities Depository and Clearing Corporation Ltd.) about OMX's experiences with financial transactions that benefit the Chinese market.

OMX recently secured a contract in China, when it reached agreement with CFETS, the China Foreign Exchange Trade System and National Interbank Funding Center, a subsidiary of People's Bank of China, to provide financial training theory and best practice experience of financial derivatives in the foreign exchange and fixed income areas. The training activities will support and help speed up China's imminent move towards the advanced international derivatives market in which OMX is the world's leading supplier of technology and services.

OMX also has a memorandum of understanding with the Shanghai Stock Exchange, whereby the exchanges have agreed to share information to promote the maintenance of well-functioning securities markets.

The challenge: Use the merger between Hong Kong Futures Exchange and Hong Kong Stock Exchange to add to HKEx capabilities for handling more trades across more products and to give Western investors more access to China related opportunities.

The solution: In 2004, HKEx began using the SECUR system in addition to the CLICK XT platform, creating a consistent platform for trading, clearing and settlement for all derivatives products trading in Hong Kong.

A chip off the old block

A traditional block, defined as 10,000 shares or more, is just a drop in the bucket. Firms such as Liquidnet and Pipeline Trading Systems are redefining the block trading market and facilitating its expansion globally.

BY SHERREE DECOVNY ILLUSTRATION MÅNS ADOLFSSON

In the US, most individual investors access the financial markets through their pension plan, 401(k) or mutual fund. Large financial intermediaries serve as their trustees and manage huge pools of money. Once these fund managers decide to buy or sell a stock to reposition their portfolio, they need to be able to trade in size. But the market structure has changed in such a way that it is difficult to execute large trade orders. The proliferation of retail and algorithmic trading and recent government regulations have driven the average execution size on US exchanges from more than 2,000 shares down to about 340 shares. Moreover, decimalization has led to a 70 percent decline in what stock is available at any given price point on the exchanges.

“There is a huge disparity between the size of institutional orders [and] the amount of stock that is available for purchase on the exchange,” says Seth Merrin, CEO of Liquidnet in New York. “To avoid adversely moving the share price, institutions have to chop

up their orders into tiny pieces to make it look like they are retail.”

Alfred Berkeley, chairman of Pipeline Trading Systems, agrees. “No large investor wants to say to the public, ‘I want to sell a million shares of Ford Motor’ because they will get crucified. The price will change simply because they showed their hand.”

Given this scenario, the block market almost vanished until some pioneers in electronic trading came up with a formula to meet large investors’ needs. Five years ago, Liquidnet set up an electronic marketplace that allows institutions to trade large blocks of equities directly and anonymously with significant price improvement and little or no market impact.

BEFORE PIPELINE set up its Alternative Trading System in 2003, it asked asset managers how big the blocks should be. Their response: in very liquid stocks – those that trade more than five million shares a day on average – the minimum block size should be 100,000 shares. For illiquid stocks that trade



»We have a floating minimum block size, depending on the liquidity of the stock.«

Alfred Berkeley, chairman of Pipeline Trading Systems

fewer than 500,000 shares a day, the minimum should be 10,000 shares, and everything in between should be 25,000.

“We just listened to the customer and said, ‘OK, that’s what we’re going to establish as our minimum block,’” says Berkeley. “We have a floating minimum block size, depending on the liquidity of the stock.”

Pipeline also hides information useful to predators, so it is impossible to tell exactly how many shares sellers are offering or at what price they are willing to trade. Even Pipeline’s salespeople do not know the size of customer orders.

THIS PHENOMENON is emerging in other parts of the world as well, as evidenced by Liquidnet’s growth in Europe during the first quarter of 2006, which was up 43 percent over the fourth quarter of 2005. The firm is now planning to expand to Asia in the next year or so, targeting markets such as Japan, Hong Kong, Malaysia, Singapore, Australia and New Zealand.



In Europe, an institutional execution on Liquidnet is currently around 1.35 million euros, compared with an average execution size of around 40,000 euros on the local exchanges. In the UK, Liquidnet's principal trade size is, on average, 20 times larger than on the LSE.

What constitutes a block trade depends on the type of stock being traded and the percentage of a day's volume of that stock that investors want to trade. "If you're looking at

Vodafone or Ericsson, which trade many millions of shares daily, a block could be half a million or a million shares," says John Barker, Managing Director of Liquidnet Europe. "But when you get smaller and more thinly traded stocks, it's fair to say a block might be as little as 25,000 to 50,000 shares."

US and European exchanges trade an enormous number of blocks daily. But, as the average execution size continues to decline, it is becoming more



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John Barker, Managing Director of Liquidnet Europe



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Seth Merrin, CEO of Liquidnet

difficult to provide liquidity in the size institutions are demanding.

To deal with this issue, Nasdaq in the US is trying to restore institutional size liquidity by introducing an intra-day cross. A couple of times a day, exchange members aggregate their orders and execute as many deals as possible.

And several exchanges offer "icebergs." These allow institutions to put a block of, say, one million shares onto the order book but only show clips of 20,000. But as Barker points out, when a broker lifts the first 20,000 shares, and then immediately reloads with another 20,000, it is obvious that there is size behind the order.

"The challenge lies in coming up with a way to do this without having to give too much information away," he says. "I think the exchanges are getting partly there, but they've got some way to go." ■

Drivers behind block trading

- Growth in assets under management
- Reduced average execution size on US exchanges
- Need for liquidity in large size trades

CNQ: Building the Pure Trading alternative

In 2003, CNQ became the first new stock exchange to go live in Canada in some 70 years. Now, it is creating an alternative market for all Canadian equities. Pure Trading is designed to give traders a faster trading environment.

BY SHERREE DECOVNY PHOTO GETTY IMAGES

By summer 2006, stock traders in Canada will have Pure Trading – a new, fast option for making electronic trades through a platform that promises the same speed as they now find on a number of US markets. Those traders will have the Canadian Trading and Quotation System Inc. (CNQ) to thank for their speedy alternative.

Being on the cutting edge is nothing new to CNQ. Formed in 2001, CNQ went live in 2003 as the first new exchange to debut in Canada in more than 70 years. Today, it lists some 50 smaller, emerging companies, using a combination of a central auction market, direct trading and market making.

The exchange has also taken a novel approach to attracting firms to list.

ACCORDING TO CNQ President Rob Cook, the CNQ stock exchange has a disclosure-based regulation model that requires companies to post onto the CNQ web site more information than they are required to disclose as public companies. In return, they are not charged the high fees of other Canadian exchanges and do not have to subject all corporate transactions to advance review and approval by the exchange.

Now, CNQ is on the verge of launching Pure Trading, a new electronic exchange to trade stocks that already appear on other Canadian markets. Traders will have an option that offers

lower fees but, equally as important, they will find an environment that is “friendly to algorithmic traders,” says Cook.

Pure Trading, which is now being tested and may be live by the beginning of July 2006, will offer the type of “throughput, capacity and low latency that is demanded by algorithmic traders who react instantaneously to small moves in stock quotes and trading prices,” he says.

CURRENTLY, many Canadian traders who want to maximize their ability to take advantage of algorithmic trading techniques trade on US-based electronic communication networks or other US exchange platforms. Such trading also takes place in Canada, but, says Cook, “the algorithmic players can’t use the same strategies in the Canadian markets that they can in the US, where the latencies are very low and there are multiple venues for execution.”

While Canadian exchanges have had competitors in the form of alternative trading systems and the equivalent of US-style ECNs, Pure Trading’s improved capabilities will further heighten competition.

“We’re not shy about our efforts to bolster the marketplace with a facility and platform, method and mode of trading that is going to be an improvement for a lot of traders,” Cook adds. ■



»Traders will find a new environment that is friendly to algorithmic trading.«

Rob Cook, President, CNQ



CNQ and OMX: Targeting new opportunities together

Leading up to its launch in 2003, CNQ used the Horizon trading system from OMX that combines auction-style trades, direct trading and market maker trades.

“The Horizon system has performed flawlessly since its inception,” says CNQ President Rob Cook.

As it set out to launch a new alternative market for the Canadian market, CNQ recognized the need to offer traders a system that combines high performance and speed with low latency, says Len Schuman of OMX.

In addition, the system had to be what Cook calls “Canadian-ized,” so that it would work using a gateway and the STAMP message protocol, a securities protocol found mainly in Canada. CNQ will also provide a FIX gateway and a direct connection through an API.

“OMX brings great experience, global expertise and a tremendous brand,” Cook says. “We’re pleased to have them as a supplier of our technology.”

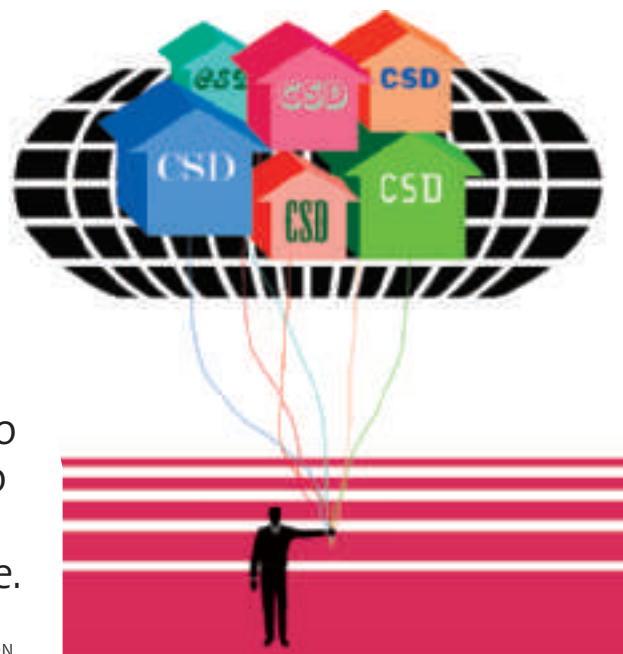
The challenge: Create an electronic trading system vigorous enough to attract algorithmic traders who need almost immediate results from their trades.

The solution: Building on the foundation of the existing Horizon system, OMX helped CNQ develop a faster platform to enable the high-speed trading required by traders using algorithmic techniques.

A unified front in the Americas

The Americas Central Securities Depositories Association provides members with a forum to discuss standards and best practices related to their services and to maintain communication with complementary organizations worldwide.

BY SHERREE DECOVNY ILLUSTRATION MÅNS ADOLFSSON



Every local market has its own Central Securities Depository (CSD) to cater to its unique needs. But changes in investment patterns such as trading across markets, sectors, borders and over the Internet are posing a challenge for these organizations. CSDs are part of a global network, and they have to stay up-to-date in a dynamic environment.

This trend has led to the creation in Latin America of the Americas Central Securities Depositories Association (ACSDA), a nonprofit organization incorporated in 1999 by the Central Securities Depositories and Clearing Houses of America, based in Lima, Peru. ACSDA provides a forum for its 23 members to discuss standards and best practices related to settlement, clearing and depository services. Members, which also include Strate from South Africa, also collaborate with regulators and maintain a dialogue with complementary organizations worldwide.

ALMOST ALL OF ACSDA's members are specialized custody, asset servicing and settlement providers. "Most of our services comply with international recommendations," says Fernando Yáñez, President of the ACSDA and CEO of the CSD in Chile. "As a result, there are few differences between the CSDs. Market practices and infrastructure solutions are more harmonized than before."

But there are some differences, nevertheless, he says. Some CSDs only

offer custodial services for fixed-income securities because there is no equity market in the country.

The degree to which depositories are integrated to other entities in their respective markets also varies. There are CSDs whose sole activity is to provide the infrastructure for custody and settlement of the securities traded on their markets. Other CSDs have created clearing and settlement subsidiaries, and they function either as a participating owner or as an operator.

REGARDLESS OF THEIR business model, ACSDA members continue to focus on improving the operations and services they provide to market constituents. "ACSDA members want to expand their services to create the best possible infrastructure and foster the development of the securities markets," says Yáñez. "Our goal is to become more integrated and interconnected, so we can provide an infrastructure for cross border securities transactions. Yet diversity enriches our discussions on these matters."

Like CSDs in other parts of the world, ACSDA members are trying to improve the transparency and accuracy of corporate actions information flows. A working group has been set up to establish best practices for corporate actions from announcement to payment; to provide national and regional information for markets that do not have a national securities market prac-



»Ultimately, a successful CSD is one that satisfies its customers by keeping close tabs on the market.«

Fernando Yáñez, President of the ACSDA and CEO of the CSD in Chile.

tice group; and to ensure ACSDA representation in relevant global initiatives.

An essential ingredient for success is maintaining close cooperation with stock exchanges, brokers, banks and clearinghouses while remaining autonomous. "Ultimately, a successful CSD is one that satisfies its customers by keeping close tabs on the market," says Yáñez. "CSDs should implement service level agreements, survey market participants and do benchmarking studies to ensure they are meeting their objectives." ■

Technology is key

Technology will continue to play an important role in CSD operations. OMX believes that CSDs need to upgrade their systems to keep up with the changes in the market. They can modify their existing systems but many choose not to do so because of the cost, time to market, limited availability of development resources and project risk. Instead, many are migrating toward standard CSD systems based on proven technologies that allow them to interoperate with an array of market participants.

"The advantage is that clearing and settlement can occur in a cross border, multicurrency environment that is adaptable to existing rules and functions and new standard interfaces," says Jens Bache, Senior Advisor at OMX. "In addition, a standard CSD system can be interfaced with central counterparty and straight through processing solutions."

Move over oil— make room for financial services

By improving their infrastructure, exchanges in the Middle East are moving fast to become international players. One of the reasons is to diversify their economies. And in a few years, the Gulf Cooperation Countries will have a common currency which will stimulate cross border trading within the region.

BY SHERREE DECOVNY PHOTO GETTY IMAGES

Today, just about every country in the Middle East has an exchange on which investors can trade equities and bonds. While these markets are still developing, they are making a concerted effort to become global players by improving their infrastructure, meeting international standards and attracting foreign investment.

This trend is driven by a couple of factors. One is the recognition that oil – the mainstay of the Middle East – is going to run out eventually, and most countries are keen to find alternative ways to grow their economies in the future. Second, oil revenues, once invested in hard assets such as foreign property, are increasingly being repatriated in the Middle East by investors willing to assume more risk for a higher return in an emerging market.

“With more funds being repatriated, a significant amount of money is flow-

ing through these economies,” says James Martin, Senior Sales Executive at OMX. “The Gulf States in particular are diversifying away from the oil and gas industry to tourism and financial services.”

TO THIS END, a number of reforms are underway to bolster the financial services industry in the region. Restrictions on foreign ownership of securities are slowly being lifted. Independent regulatory bodies have been established similar to the Securities and Exchange Commission in the US and the Financial Services Authority in the UK. There are moves to diversify into other asset classes including derivatives, which, to date, have been prohibited by Islamic law. There is even talk of changing the normal work week from Saturday-Wednesday to Sunday-Thursday to better align it with the rest of the world.



»...our IT investments are planned for the anticipated growth.«

Essa Kazim,
Director General
at Dubai Financial
Market

The Middle East will become even more attractive once a common currency is introduced in the Gulf Cooperation Countries (GCC), which is scheduled to happen by 2010. “A common currency will stimulate cross border trading within the GCC region,” says Ulf Axman, Senior Sales Executive - Middle East and North Africa at OMX. “That will pave the way for more regional cooperation and possibly consolidation in the longer term.”

Meanwhile, Saudi Arabia, the largest market in the Middle East, is building out its infrastructure and modernizing its marketplace to support steadily rising volumes. It recently announced plans to privatize its stock exchange and open a three million square meter financial center. Foreign ownership restrictions also have been relaxed, allowing expatriates with a residency permit to invest in securities.

SIMILARLY, the Dubai financial markets are expanding rapidly. Several new markets have been founded including the Dubai Financial Market (DFM), a gold exchange, the Dubai International Financial Exchange (DIFX), and the Dubai Mercantile Exchange, a petroleum exchange which will go live soon. The Dubai International Financial Centre (DIFC) has been set up with an autonomous regulator, and this model has been so successful that Saudi Arabia, Bahrain and Qatar are copying it.



Clearly, technology is an enabler for continued growth in the Middle East markets. “Foreign banks and brokers will only come in if they know the systems are advanced and stable enough that they can handle their trading patterns and trading models,” says Martin. “They also must be proven in mature markets around the world, reliable, continuously available, scalable and designed to meet international standards and regulations.”

EXCHANGES SUCH AS DIFX and DFM have taken this on board and are migrating to a fully integrated trading platform.

DIFX’s growth strategy hinges on building its remote membership base and enhancing its current equity and

bond offerings by adding new products including derivatives. “We have members beside the region disbursed throughout Europe and the US, and we plan to have members in Asia soon,” says Steffen Schubert, CEO of DIFX. “Technology will enable us to connect all of these people to our market in a fast, reliable manner.”

Essa Kazim, Director General at DFM echoes this sentiment. “DFM expects trade volumes to grow exponentially in the near future, and our IT investments are planned for the anticipated growth,” he says. “The new fully integrated trading platform will enable DFM to take the next big leap in modernizing the stock market and improving its performance.” ■

Exchanges in the Middle East are gearing up for increased volume and to attract foreign investment.

OMX to power Middle East marketplaces

OMX recently reached agreement with two major marketplaces in the Middle East regarding market technology and infrastructure.

In the United Arab Emirates, OMX will deliver, implement and support a new trading system to the Dubai Financial Market.

OMX will also deliver technology and infrastructure and act as the primary system integrator for the Saudi Stock Market Tadawul, the largest stock market in the Middle East region.

Abdul Rahman Al-Tuwaijri, Chairman and CEO of the Capital Market Authority said this agreement is part of the strategy to upgrade the technical infrastructure of the Saudi capital markets to meet growing market expectations and utilizing best available technologies.

OMX’s customers in the Middle East and North Africa:

- Abu Dhabi Securities Market
- Bahrain Stock Exchange
- Cairo & Alexandria Stock Exchanges
- Doha Securities Market
- Dubai Financial Market
- Palestine Securities Exchange
- Tadawul Saudi Stock Market

Paving the way for efficiency

Leading financier and academic Alberto Giovannini has devoted his life to reforming the European banking landscape. His name has become synonymous with the drive to break down the barriers to efficiency in the European securities clearing and settlement infrastructure.

BY SHERREE DECOVNY PHOTO COURTESY OF UNIFORTUNE

Alberto Giovannini always had a keen interest in public policy. This led him to become involved in the debates preceding the European Monetary Union. "I was thrilled to see monetary theory come alive as economic ideas were used to shape reform in Europe," he says.

As leader of the Giovannini Group, an advisory group to the European Commission on financial market issues, Giovannini has been a driving force for change in Europe. In 2001, the group published its initial findings on cross border clearing and settlement in the European Union. This was followed by a second report, published in 2003, which identified 15 barriers to efficiency and proposed a timetable for removing them. The barriers include differences in information systems, market practices and tax regimes.

To eliminate these barriers, the report suggests substituting old technical standards, conventions, rules, regulations and laws with new ones that are consistent with an integrated market. This endeavor requires a mix of private and government initiatives.

"Inventing a new convention or standard is all well and good, but adoption is the key to success," says Giovannini. "Adoption of private initiatives is both voluntary and costly. To this end, the adoption process associated with the elimination of each barrier caused

»...adoption is the key to success.«

by standards and conventions will take years. The elimination of barriers caused by regulations and laws could be immediate, however, once new regulations and laws are completed and enforced."

Progress so far has focused on determining the agenda for eliminating barriers as well as in getting projects started. For instance, SWIFT (Society for Worldwide Interbank Financial Telecommunication) has developed new ISO standards to address national differences in information technology and interfaces.



Quick facts on Alberto Giovannini

Current position: CEO, Unifortune Asset Management SGR SpA and Unifortune Investment Management Ltd.

Personal: Married, three children

Recommended reading: *Hedgehogging*, by Barton Biggs; *Postwar: A History of Europe Since 1945*, by Tony Judt

Leisure pursuits: Mountaineering, hiking, skiing

And with the help of the European Central Bank, Target 2, the new settlement system for high value payments, will eliminate some of the barriers related to differences in settlement periods and opening hours.

The Giovannini Group originally anticipated that it would take about three years to eliminate the 15 barriers detailed in the report. Giovannini now admits that estimate was optimistic considering that the Clearing and Settlement Advisory and Monitoring Group (CESAME) only began work around January 2005. In addition, he says, the political process of issuing directives and gaining approvals is neither straightforward nor efficient, and private interests often lead to controversy.

"That does not mean I'm trying to justify an incredibly slow process," says Giovannini. "I would like to see much more decision on the part of authorities, and more action on the part of the European Commission." ■

Market View

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