

NASDAQ OMX



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Focus on market maturity for long term growth

Creating powerful partnerships

During most of 2008 markets across the globe were in high growth mode. Market activity steadily increased, and indices moved to new heights. Looking to diversify, investors increased their cross-border holdings, despite being less knowledgeable about foreign markets. The international flow of capital forced mutual fund managers to learn about different economies and new ways to trade and settle. Pressure mounted to even out differences among markets.

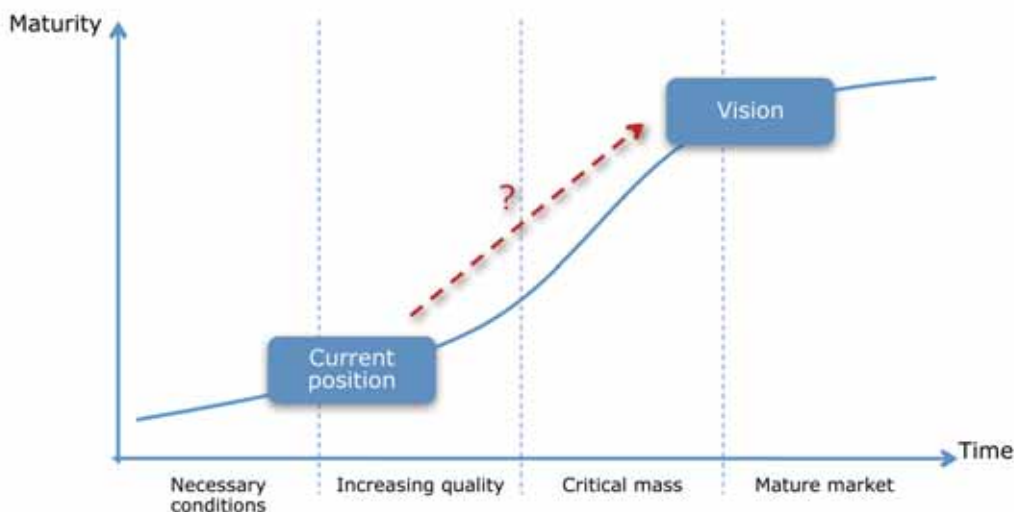
Then, as the financial crisis hit, a sea change occurred. Investors quickly became risk-averse and many started pulling out of smaller and less developed markets. In many cases, budding efforts by these markets to become more international were abandoned. While this may be a natural response to a sudden drop in foreign investments, it may not be the best response. Rather, aiming for market maturity may well be the best way to faster regain volumes, prepare for future growth, and decrease perceived risk.

The Market Maturity model shown below is a generic tool that can also be applied to financial markets. In the first phase of a country's development, the focus is on delivering the necessary conditions to sustain a financial market. There has to be laws to protect private ownership, courts to uphold the laws and police or other functions to enforce court rulings. Similarly, the market needs basic infrastructure, capital markets laws, a regulator to oversee the market, and a surveillance function to ensure a fair and orderly market. Usually an OTC bond market is developed in parallel to a cash equity market. The government often supports this model by issuing tradable treasury securities and privatizing through initial public offerings.

As the market develops, quality increases and volumes tend to grow faster than the surrounding economy. Quality comes in many forms. Stakeholders form lobbying bodies, e.g., a trader association or an issuer organization. These bodies have opinions on market development and drive changes to increase investor attractiveness. By

encouraging the creation of stakeholder bodies, market operators can gain access to valuable advice that is hard to get in one-on-one meetings with stakeholders. Corporate governance of listed entities is another important quality measure. If a single shareholder or an organized group effectively controls a listed entity, the rights of other shareholders could be put at risk. Transparent criteria for initial and continued listing, periodic disclosure of the company's recent financial performance and independent outside audit as well as disclosure of its financial statements are some of the key tools that serve to improve governance and protect shareholders.

Overall, market transparency is a key focus to increase quality. To ensure market fairness, corporate news should be released in a manner that does not unfairly disadvantage any group of investors. Rules that govern trading by company insiders may also be necessary, as well as effective trading surveillance and monitoring of issuer compliance with continued listing standards.



As the market gains greater trust, it can launch organized trading in new instruments, such as indices, options and futures.

By now, the market is close to reaching critical mass. Local end investor awareness of the market increases, leading to a surge in investments and a broader ownership base of listed entities. International trading firms start seeing the market as a feasible investment opportunity. If traders can more easily learn market rules, and understand how trading, clearing and settlement works, trust comes faster. Naturally, adapting to international best practices and standards will be important. Also, by enabling remote members, markets can attract trading from medium-sized firms that cannot afford a local presence but have a regional office.

As volumes increase, the market can improve business development, thereby making itself more attractive to a broader investor base. At the same time, larger volumes mean lower unit costs, which can facilitate more aggressive pricing strategies.

Finally, the mature market has adopted most commonly accepted standards and offers a wide range of products in a transparent and fair manner. For many markets in this category, business development may focus on international expansion and partnerships, paired with cost control. The local economy benefits from a vibrant capital market that serves as a source of capital for new investments.

To tackle the large volume drops in the wake of the current financial downturn and to prepare for future growth, markets must think about their current position and future vision. How can the market become more relevant? How can it reach critical mass? There is a wide range of potential actions. Some, though long term, need to be started now to have the desired future effect. Other actions have more immediate consequences and can give a

quick boost to market relevance. The plan does not have to be grand and cover every step to full maturity, but without a long term strategic plan, a market is likely to lag in comparison to other venues. So, take a step back and review your situation. What is your vision for the future and what is your plan to get there?

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We focus on the core businesses of the securities industry: issuer services, trading, clearing, order routing, market data, surveillance, settlement, depository, and registry. Our approach is practical and issue driven. We view benchmarking against best practices as an essential tool to align different stakeholder views as changes are introduced and implemented. Our management consultants have broad experience in strategy, operations and change management. For each Advisory assignment, we also bring in subject matter experts from across the NASDAQ OMX organization.

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