

Central and Eastern European Exchanges: Strategic Options for (Smaller) National Markets

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The CBM Group, LLC

ABOUT THE CBM GROUP...

- Management consultancy specialized in financial services, based in New York, founded 1992
- Practice focus:
 - Capital markets infrastructure: exchanges, clearinghouses, depositories, interdealer brokers, market data providers, rating agencies

Wealth management: asset managers, distributors of investment and insurance products

CBM's clients include 20+ exchanges in North America, Europe, Latin America and Asia. In particular, the firm has advised emerging markets exchanges involved in regional cooperation alliances, such as ASEAN Link and MILA

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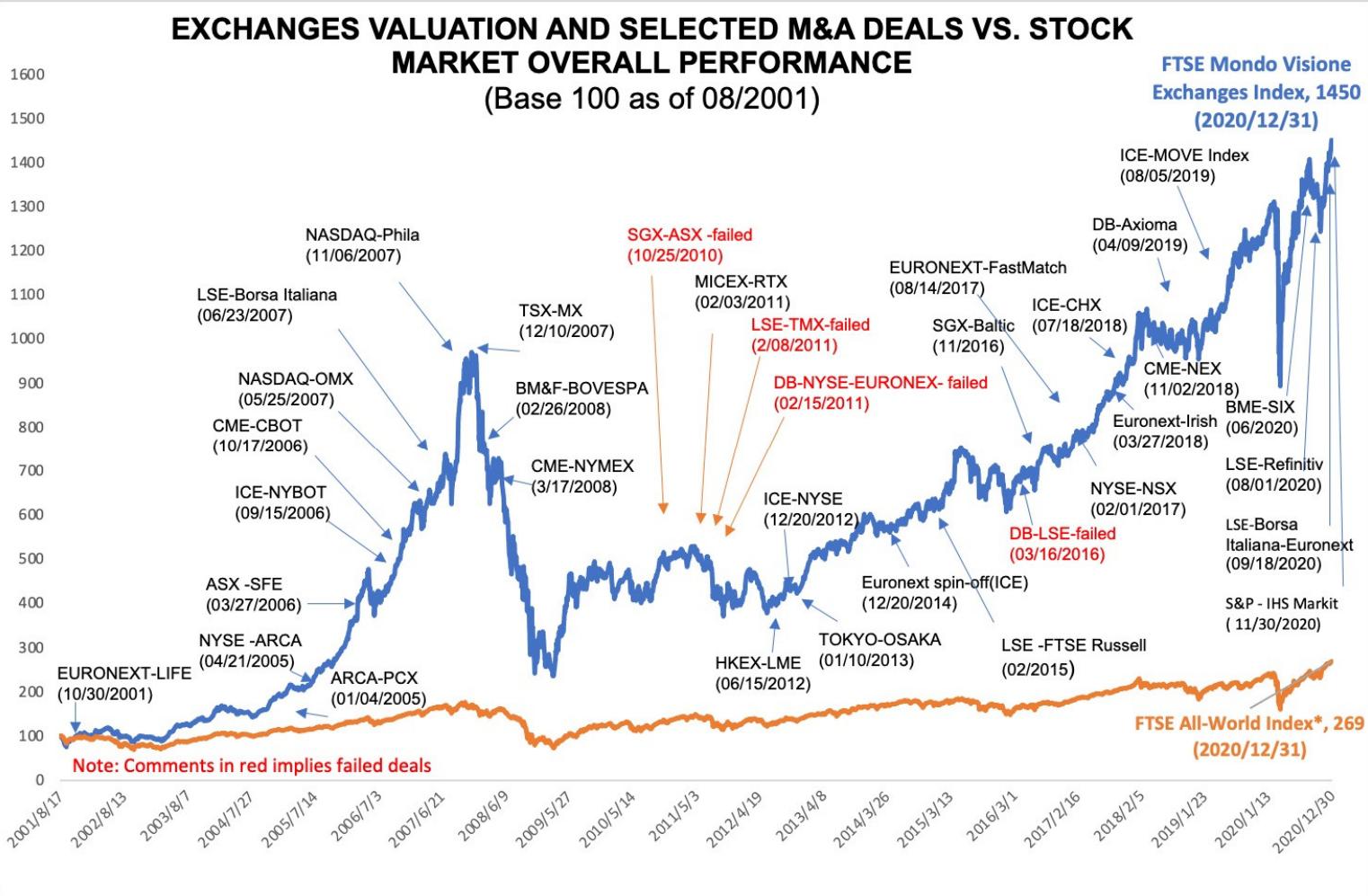
Recent publications:

- <https://mondovisione.com/media-and-resources/news/market-infrastructures-evolution-and-outlook-by-andre-cappon-yanlin-zhu-kevi/>
- <https://mondovisione.com/media-and-resources/news/derivatives-exchanges-in-emerging-markets-key-success-factors-andre-cappon-l/>

Agenda

- Exchange Consolidation
- Case Studies:
 - Nordics
 - Southeast Asia
 - Latin America
- What should (Smaller) National Markets do?
- A Proposal

EXCHANGE CONSOLIDATION...20+ YEARS



Source: Bloomberg, CBM Group as of 11/2020

EXCHANGE CONSOLIDATION...END-GAME?

1. Global exchanges: CME, NASDAQ, ICE, HKEX, Deutsche Borse, LSE Group
2. National giants/ Regional hubs: Euronext, SIX-BME, Japan, Brazil's B3, TMX, ASX, Singapore Exchanges, JSE (South Africa)
3. National exchanges (usually smaller markets)...
 - Preserve national identity and appeal
 - Achieve scale (asset class big enough to attract global investors)
 - Solutions: regional consolidation / regional coalitions?

NASDAQ Nordic

Nasdaq Nordic - subsidiaries of NASDAQ that operate securities exchanges in the Nordic/Baltic regions of Europe. NASDAQ owns 100% or majority equity stakes

- [Copenhagen Stock Exchange](#) (Nasdaq Copenhagen)
- [Stockholm Stock Exchange](#) (Nasdaq Stockholm)
- [Helsinki Stock Exchange](#) (Nasdaq Helsinki)
- [Iceland Stock Exchange](#) (Nasdaq Iceland)
- [Tallinn Stock Exchange](#) (Nasdaq Baltic)
- [Riga Stock Exchange](#) (Nasdaq Baltic)
- [Vilnius Stock Exchange](#) (Nasdaq Baltic)

Key features:

Serial acquisitions by OMX: OMX HEX (Sweden-Finland): Copenhagen (2005), Iceland (2006), 10% stake in Oslo Exchange, Armenia (2007) - then takeover by NASDAQ (2007)

Common technology core: OMX is global leader in exchange technology: trading, clearing and settlement

Equity stakes in exchange for technology: NASDAQ typically provides turnkey trading/clearing technology platforms and gets equity stakes (usually 10%)

ASEAN Exchanges

ASEAN Exchanges:

“Collaboration” of several exchanges in the Association of Southeast Asian Nations (ASEAN).

Objective: promote the growth of the capital markets in the region by bringing more ASEAN investment opportunities to more investors, both regional and global.

- [Bursa Malaysia](#), formerly [Kuala Lumpur](#) Stock Exchange (KLSE), [Malaysia](#)
- [HNX](#), [Hanoi](#) Stock Exchange, [Vietnam](#)
- [HOSE](#), [HoChiMinh](#) Stock Exchange, [Vietnam](#)
- [IDX](#), Indonesia Stock Exchange, previously [Jakarta](#) Stock Exchange, [Indonesia](#)
- [PSE](#), Philippine Stock Exchange, [Philippines](#)
- [SET](#), The Stock Exchange of Thailand, [Thailand](#)
- [SGX](#), Singapore Exchange, [Singapore](#)

Key Features

- **ASEAN « asset class »:** Market Capitalization: Over \$2 trillion ; Over 3500 companies, several derivatives markets
- **Common website:** market data, analytics, broker research
- **Regional Indexes and ETFs** (3 products, one listed on NYSE)
- **ASEAN Stars** – top blue chip stocks for the region
- **ASEAN Link** - order routing platform permitting members of each exchange to trade directly on the others
- **Clearing and Settlement:** remains in the home countries’ legacy institutions

MILA Mercado Integrado Latino-Americano

MILA, is a “program” that integrates the stock markets of

- Chile
- Colombia
- Mexico
- Peru.

Initially, attempt by these Pacific Alliance countries to compete with Brazil, the largest and most sophisticated Latin American market

Subsequently Brazil's B3 exchange acquired equity stakes and gained board seats in each market

Key Features:

- Market capitalization: around \$800 billion , 700+ companies
- Family of indices, including: legacy national indices, regional overall indices and sectoral indices
- Common website: prices, analytics
- Member community: around 60 interconnected brokers
- Order routing network
- Clearing and settlement remains in the home countries

What should (smaller) National Exchanges do?

Challenges

Scale disadvantages...

- Smaller markets have limited appeal for large global investors (especially passive funds)
- Smaller markets are usually less liquid, which further limits their appeal to large global investors
- Smaller markets are relatively unknown to the large investors
- Smaller markets cannot afford the large technology investments needed to compete with large markets

Possible Solutions

- Achieve scale through consolidation or mergers (but dilute/lose national roots...lose local financial centers?).
- Achieve scale through coalitions/federations
 - Family of indexes – regional/sectoral
 - ETF products – for the regions, with listings on major global markets (New York, London e.g.)
 - Common web site: prices, analytics, broker research and Independent quantitative research
 - Common blue chip category
 - Remote memberships
 - Order routing network
 - Shared technology

Proposal

- Central and Eastern Europe (CEE) stock markets should explore opportunities to cooperate and achieve « scale advantages »
 - Establish a Working Group of interested exchanges.
 - Analyze investment patterns: global investors into CEE, regional and local investors
 - Identify opportunities for cooperation among exchanges, while respecting national specificity
 - Recommend solutions