

Cooperative Arrangements Among Capital Markets

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Introduction

- Honor to speak in the home of last year's Nobel Peace laureate
- Cooperation among markets and regulators is an enthusiasm; no jurisdiction has a monopoly on solutions
- Agenda:
 - Forms of cooperation
 - Conditions for successful cooperation

Forms of Cooperation

By degree of combination or
integration

Mentoring, Dialogues, MOUs

- Means to share technology
- Means to understand each other's markets
- Means to enhance networks
- Means to enhance surveillance techniques
- Prelude to deeper arrangements
- Can reinforce or help establish regulatory brand

Franchising technology

- Outsource or insource
 - You develop it
 - They buy it
 - You service it OR
- Vice versa
- Requires service level/governance agreements
- Means of deepening relationships
- Means of establishing transaction cost lowering efficiencies
- Enhances flexibility, access to best of breed, updating

Hosting

- Provides platform and trading oversight (*i.e.*, self-regulatory/regulatory framework) to jurisdiction that wants secondary market but does not want to develop it or does not have sufficient domestic infra-structure
- Requires stringent access/security controls, appropriate information sharing, agreed disclosure levels, local permissions, and clearing and settlement protocols

Cross-Listing

- Common views on appropriate disclosure and transparency; facilitated by international standards or benchmarks
- Timing of halts; treatment of continuing disclosure
- Sharing of surveillance information related to potential market abuses
- Raises questions as to the interest of the issuer

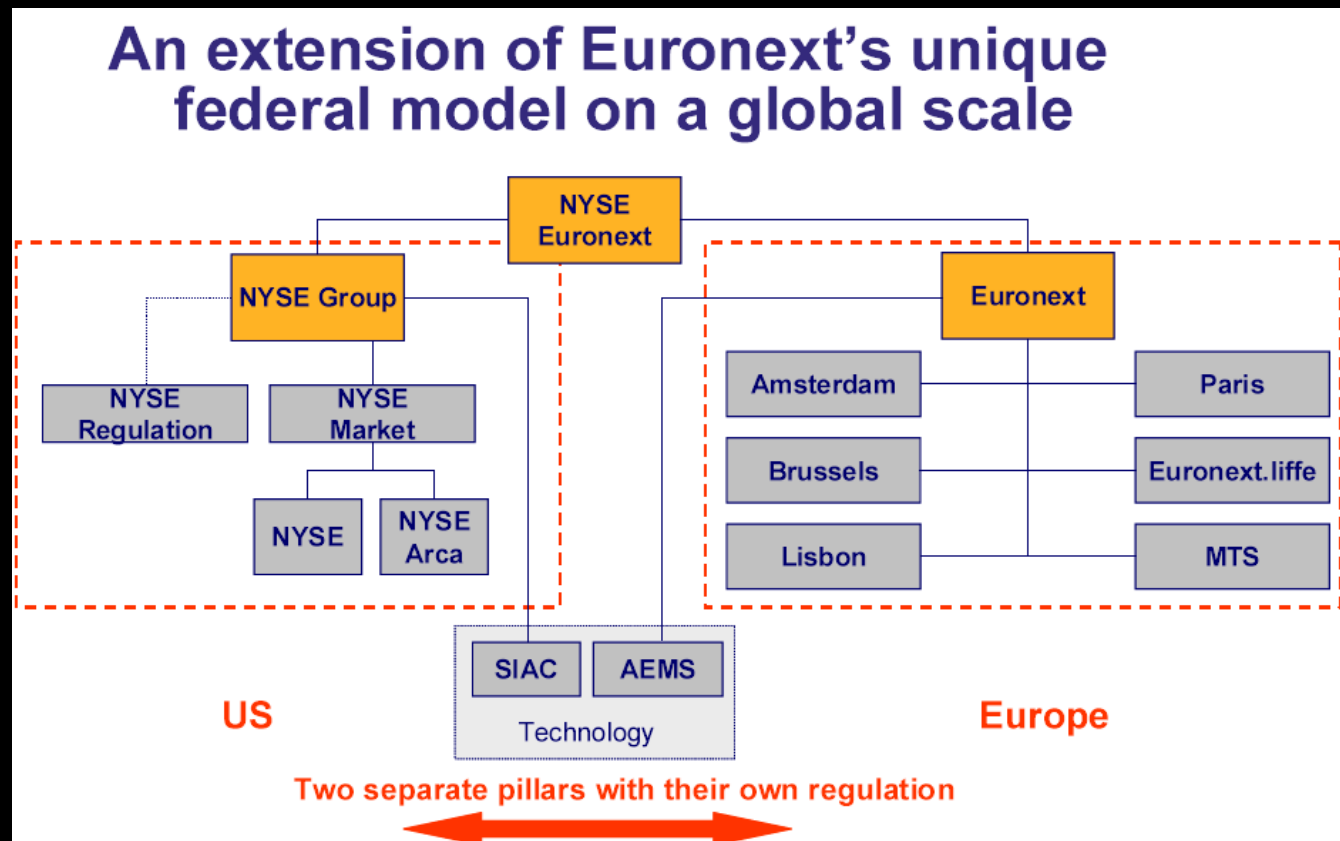
Links/Cross Access

- Clearing, settlement, trading
- Usually require one entity to become a special member of the other
- Require agreement on rules that govern the system (in electronic markets many are within the system itself)
- Require robust legal support; risk management
- Likely require local approvals and political support as well

Combinations—Federal Model

- Combines entities horizontally under an umbrella holding company
- Retains national regulatory structure, oversight and licenses/authorizations of the subsidiary exchange entities
- Uses agreements at commercial, regulatory, and national levels
- Requires consensus on which rules are necessary to harmonize
- Requires consensus on the sharing (or not) of access and the conditions of same
- Requires a governance structure for addressing the development of business and oversight of markets
- Requires information sharing and agreement on the scope of each national participant regulator's jurisdictional interest
- Integration of systems requires governance/SLAs/security, etc.

An Example of the Federal Model



Projected Savings Euronext Model

Significant IT infrastructure cost savings

	Today (2006)				Tomorrow (2009)
	NYSE Group	Euronext	Total		NYSE Euronext
Platforms	4	2			2
Cash	Hybrid NYSE Arca	NSC	6	From 3 to 1	1 Global Cash Platform accommodating Hybrid as it evolves
Derivatives	OX PCX +	Connect		From 3 to 1	1 Global Electronic Derivatives Platform
Data centers	6 SF, Chicago, NY(2), NJ, Boston	4 London(2), Paris (2)	10	From 10 to 4	4 Globally linked data centers
Networks	2	2	4	From 4 to 1	1 Global network

Combinations—Merger Model

- Requires decision on location
- Requires resolution of issues related to owners of each entity (M and A issues)
- Requires decision as to the regulatory locus of the business
- Requires various levels of approvals
- Must not result in anti-competitive structure
- May be prohibitive tax or other issues

Regional Arrangements

- Existed in history
 - Hanseatic League
 - Currency arrangements
- Exist now
 - Europe (EU)
 - US and Canada for Disclosure
 - Asian Bond Market Initiative (ABMI)
 - Caribbean Single Market and Economy (CSME)
- Raise special integration issues

Technical Assistance/Funding

- Inter-American Development Bank has grants for regional public goods, including harmonization of stock markets in Latin America
- UNCTAD—South/south trade, Africa

Some Conditions—Using the EU Example

- Determining equivalent levels of competition
- Desiring what should be harmonized at minimum and maximum levels
- Information sharing and notification provisions
- Deconstructing home and host interests in cross border transactions
- EU built on the pre-existing rule of law, including conflicts law, using treaties and Directives and the Lamfalussy process
- Comparable to the Federal example

At the Regulatory Level

- Mutual recognition
- Substituted compliance
- Information-sharing pre-conditions
- Standard-adherence pre-conditions
- Inability to end-run the domestic system