
Prologue: events from February to July 2011

Geoffrey Poitras

The first half of 2011 produced an apparent acceleration in the already rapid pace of stock market globalization. Since the 'Introduction' to this volume was completed in early 2011, there has been a flurry of activity covering four continents. This brief prologue is provided to benchmark the contents of this collection of academic contributions against significant recent events. Included in these events are the final resolution of a bid by the Singapore Exchange Limited (SGX), initiated in October 2010, to take over the Australian Securities Exchange (ASX). Significantly, this bid was voided in April 2011 by Australian regulators under foreign investment review legislation requiring such transactions to be in the national interest. Facing a decision under similar investment review legislation, the Canadian government ultimately did not have to determine whether a 'merger' proposed in February 2011 between the London Stock Exchange (LSE) and the Toronto Stock Exchange (TMX) to form the 'LTMX' exchange would be in the national interest. Based on early returns from a TMX shareholder vote on the LTMX deal, the merger proposal was withdrawn in June 2011. The proposed LTMX transaction was complicated by the presence of a hostile and vigorous competing bid made in May 2011 from the 'Maple' group led by prominent Canadian chartered banks and investment dealers. Friendly talks between Maple and TMX commenced following failure of the LTMX merger proposal. If successful the Maple bid would be subject to overview by the Canadian government under competition legislation.

On the global playing field, the LSE, TMX, SGX and ASX deals are small relative to the friendly Deutsche Bourse bid to merge with NYSE Euronext announced in February 2011.¹ In April 2011, this bid was challenged by an unfriendly takeover bid made by a combination of NASDAQ OMX and ICE. Based on discussions with the US Department of Justice associated with antitrust and other competitive considerations and a unanimous rejection of the bid by the NYSE Euronext board of directors, NASDAQ OMX and ICE withdrew the unfriendly bid in May 2011 allowing the Deutsche Bourse and NYSE merger to proceed to the last stage of shareholder approval in July 2011, with only final approval by US and European Union (EU) regulators as the last hurdle. This continues the trend to consolidation of the major continental European exchanges initiated by a number of EU Directives. In contrast, progress toward consolidation of important exchanges in East Asia has been much slower. The Tokyo and Osaka stock exchanges entered merger talks in July 2011 while the Hong Kong Exchange is exploring expanded consolidation with the two important exchanges in Mainland China.

The flurry of proposed mergers and takeovers occurring in the first half of 2011 serves to reinforce the relevance of the contributed chapters in this book. For example, a key theme associated with Part I of this volume is that stock market globalization is an ongoing historical process with roots stretching back to the beginnings of exchange trading. Recent events are now part of the history of that process. Advances in trading and communication technology have induced fundamental changes in regulatory

structures that govern exchange ownership and stock market organization. Stock exchange demutualization has facilitated the ability of exchanges to consolidate and merge both national and internationally. Traditional stock market regulation, organized along national lines, is increasingly being challenged by the globalization of trading and ownership. These changes did not just appear in 2011. While contributions in Part I of this volume demonstrate that close parallels arising from the impact of advances in trading and communication technology can be found in the stock market globalization process of the nineteenth century, Parts II and III of this volume explore other key aspects of the globalization process.

The public debates surrounding the merger and takeover proposals from the first half of 2011 illustrate the need for solid academic research on the issues associated with stock market globalization. Shareholders of demutualized exchanges seek guidance on whether to tender to bids from other exchanges against a backdrop of national regulators reflecting a bewildering assortment of views. In rejecting the SGX bid under federal investment review legislation, Australian Treasurer Wayne Swan referred to the decision as a ‘no-brainer’. Given the deal involved the ASX becoming a junior partner to a smaller regional exchange, the SGX, ‘the deal would risk us losing many of our financial sector jobs . . . it’s a takeover that would see Australia’s financial sector become a subsidiary to a competitor in Asia’ (*Sydney Morning Herald*, 21 April 2011). In contrast, since the inception of the EU, regulators have actively promoted international exchange consolidation. All the while, the progress of communications and trading technology have produced a dramatic erosion in the traditional profit drivers for exchanges. The significant benefits of reduced execution costs and enhanced liquidity produced by technological change have in turn created serious gaps in the regulatory framework that threaten the stability of the price discovery process. This volume provides reasoned and insightful treatments by leading academic researchers on important issues associated with the progress of stock market globalization.

NOTE

1. As discussed in more detail in the ‘Introduction’ to this volume, NYSE Euronext is the result of combining a number of exchanges including the US-based New York Stock Exchange (NYSE), Archipelago Holdings and the American Stock Exchange, together with five European-based exchanges in Paris, Brussels, Lisbon, Amsterdam and the London International Financial Futures exchange (LIFFE). NASDAQ OMX was formed as a combination of the US-based electronic National Association of Securities Dealers Automated Quotation exchange and a combination of smaller Northern European exchanges. ICE is the Intercontinental Exchange, a relatively new exchange initiated in 2000 that focuses on commodities and related derivative security trading.