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OBSERVATOIRE DE L'ÉPARGNE EUROPÉENNE



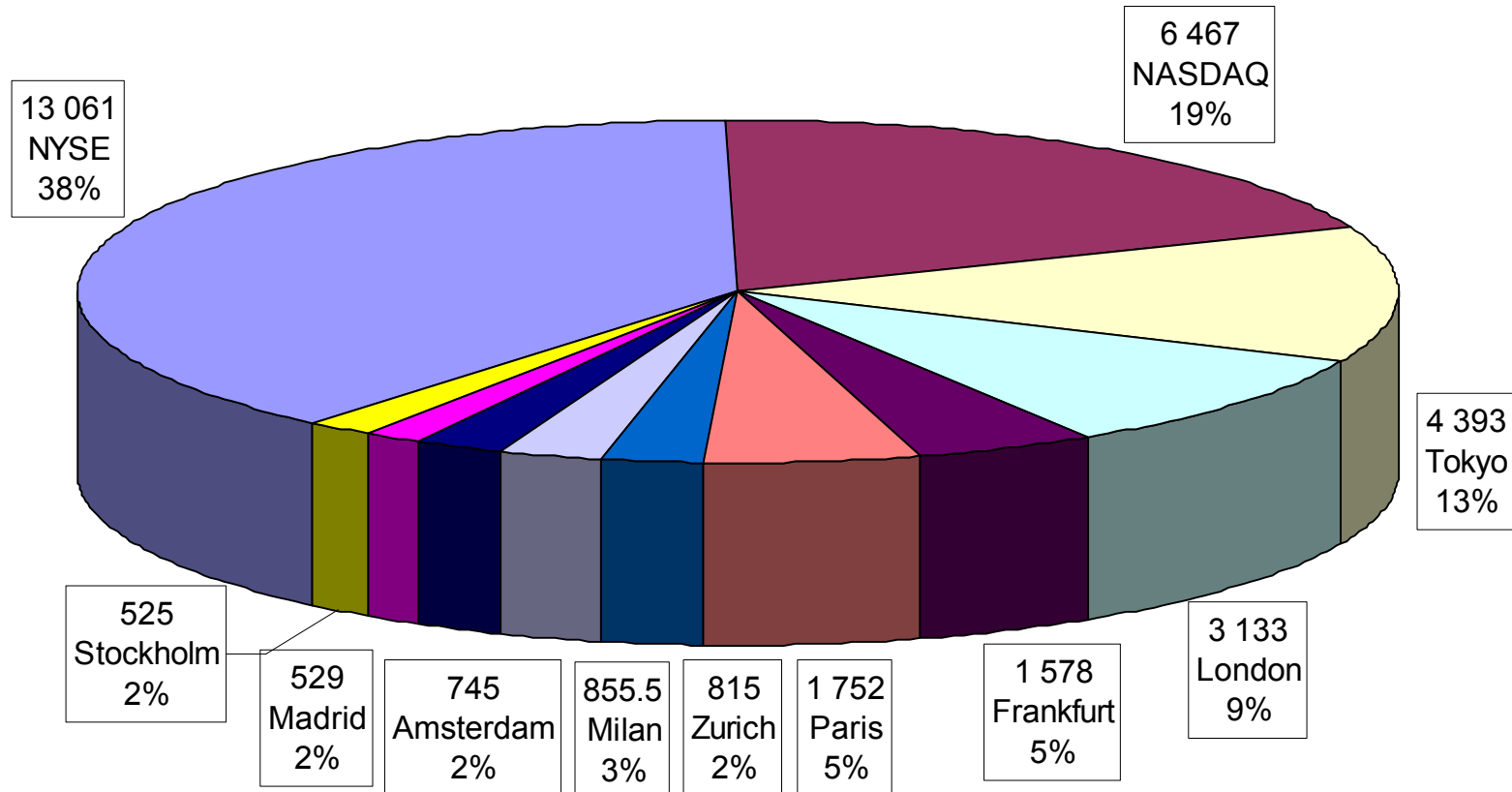
**STOCK EXCHANGE ALLIANCES IN EUROPE AND  
IMPLICATIONS FOR EUROPEAN SAVINGS**



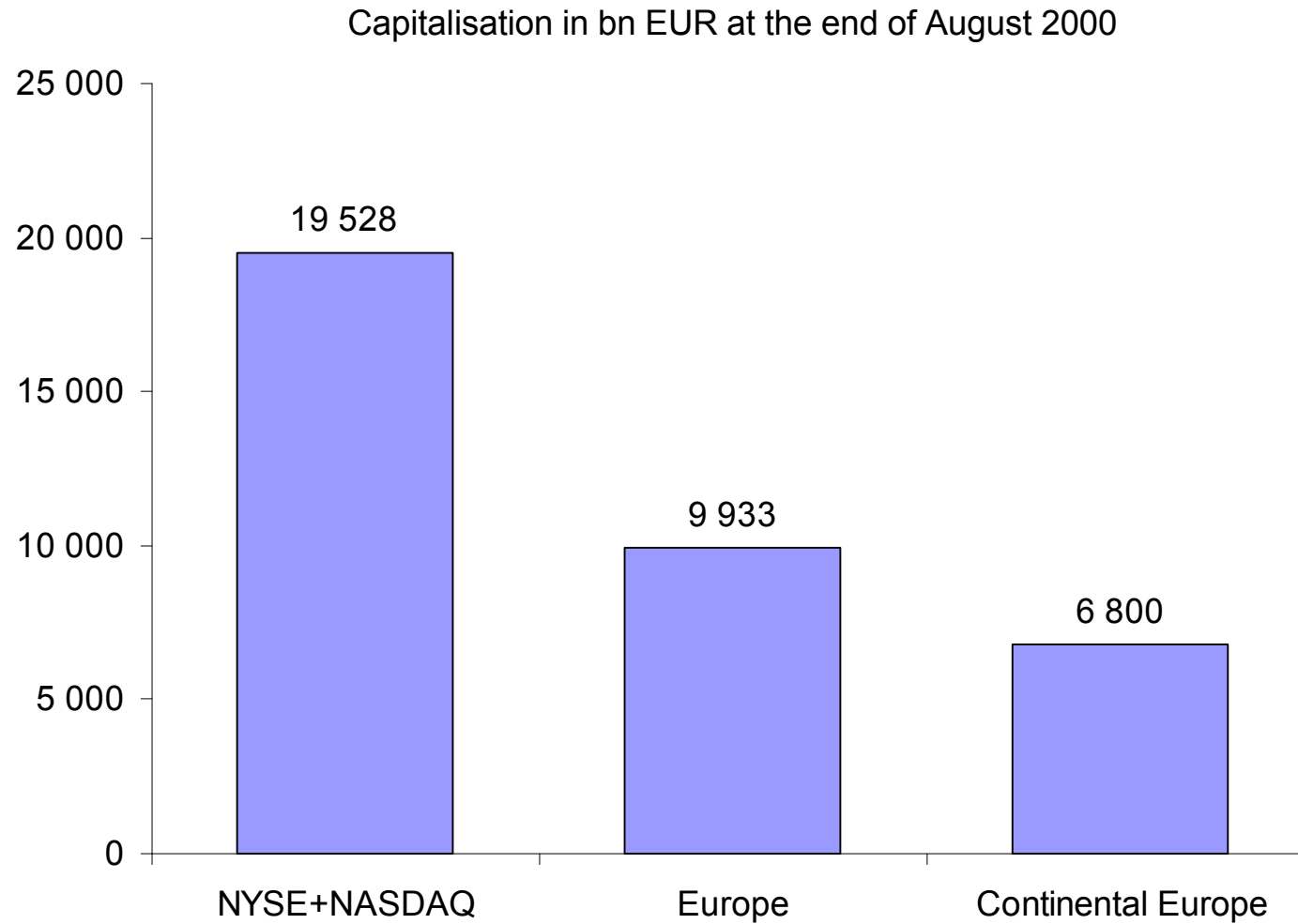
## Capital Markets in Europe

*Cash markets (1)*

Capitalisation in bn EUR at the end of August 2000



***Cash markets (2)***



## *Market Technology (1)*

### Cash markets

	<u>Market system</u>	<u>Used by</u>
<input type="checkbox"/> <b>NYSE</b>	DOT	
<input type="checkbox"/> <b>NASDAQ</b>	ACT	ParisBourse
<input type="checkbox"/> <b>Pacific S.E.</b>	Optimark	Nasdaq
<input type="checkbox"/> <b>Chicago</b> Manilla, Quito	DST      Market	Works      Athens, Johannesburg, Tel-Aviv, Bangkok,
<input type="checkbox"/> <b>Tokyo</b>	CORES	
<input type="checkbox"/> <b>London</b>	SETS	
<input type="checkbox"/> <b>ParisBourse</b> Beyrouth, Brussels, Casablanca, Lisbon, Mexico, Montreal, Sao Paolo, Toronto, Tunis, Varsovia	NSC	
<input type="checkbox"/> <b>Deutsche Börse</b>	Xetra	Dublin, Vienna, Amman
<input type="checkbox"/> <b>Zurich</b>	BES	
<input type="checkbox"/> <b>Milan</b>	Affari/MOT spe	
<input type="checkbox"/> <b>Amsterdam</b>	TSA	
<input type="checkbox"/> <b>Madrid</b>	SIBE	
<input type="checkbox"/> <b>Stockholm</b>	SAXESS	Copenhagen
<input type="checkbox"/> <b>Australie (ASX)</b>	SEATS	
<input type="checkbox"/> <b>Australie (Compushare)</b>	ASTS	Oslo, Oakland

***Market Technology (2)***

**□ Derivative markets**

	<b><u>Market system</u></b>	<b><u>Used by</u></b>
<b>□ NYMEX/CME</b>	<b>Clearing 21</b>	<b>ParisBourse</b>
<b>□ CBOT</b>	<b>Project A</b>	<b>Taiwan, Argentina, Turkey, Poland (project)</b>
<b>□ CBOE</b>	<b>BART (routing)</b>	
<b>□ LIFFE</b>	<b>Liffe Connect</b>	
<b>□ ParisBourse (Derivatives)</b>	<b>NSC</b>	<b>CME, Simex, BM&amp;F, ADX</b>
<b>□ EUREX</b>	<b>Eurex</b>	
<b>□ MEFF Renta Fija</b>	<b>TRACS</b>	
<b>□ MEFF Renta Variable</b>	<b>SMARTS</b>	
<b>□ AEX</b>	<b>SWITCH</b>	
<b>□ SFE</b>	<b>SYCOM IV</b>	
<b>□ Stockholm</b>	<b>OM-Click</b>	<b>Vienna*, Milan (IDEM), Hong-Kong, ASX, AMEX, London(OML)*, Toronto, Corea (KOFEX)</b>
<b>□ Tokyo CORES-F</b>		

**Derivative products (1)**

- Number of futures contracts in August 2000

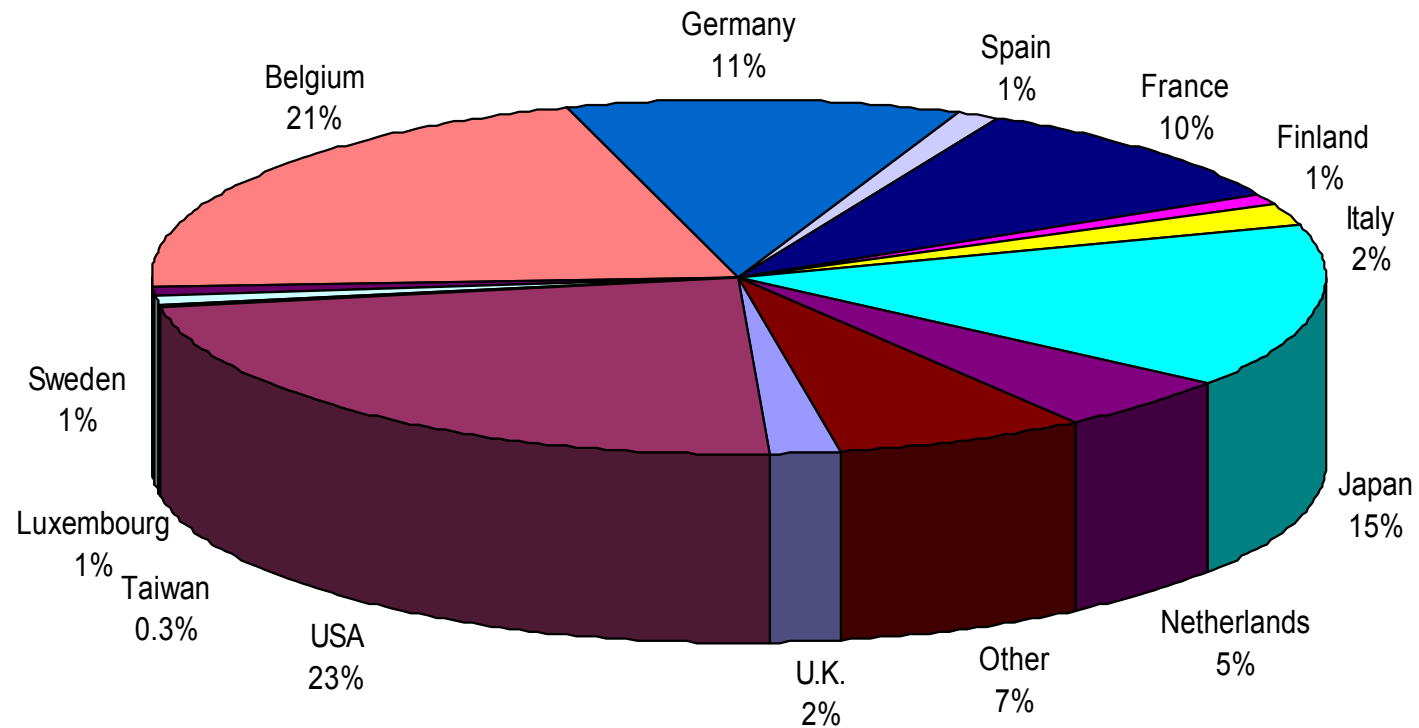
<b>Benchmark</b>	<b>Index</b>	<b>Exchange</b>	<b>Volume</b>	<b>Daily average</b>
<b>FTSE</b>	<b>Eurotop 100</b>	Liffe	14,394	626
<b>MSCI</b>	<b>MSCI Pan-Euro Index</b>	Liffe	10,659	463
<b>STOXX</b>	<b>STOXX 50</b>	Eurex	14,984	681
<b>STOXX</b>	<b>Euro STOXX 50</b>	Eurex	940,738	42,761

- Number of options contracts in August 2000

<b>Benchmark</b>	<b>Index</b>	<b>Exchange</b>	<b>Official volume</b>	<b>Daily average</b>
<b>FTSE</b>	<b>Eurotop 100</b>	Liffe	250	11
<b>STOXX</b>	<b>STOXX 50</b>	Eurex	3,103	141
<b>STOXX</b>	<b>Euro STOXX 50</b>	Eurex	671,350	30,516

***Derivative products (2)***

**Number of covered warrants listed at end of September 2000**







## Consolidation of European Stock Exchanges :A Long-Term Process

***The First Stage of European Exchanges' Consolidation: cross access***

**Summer 1998**

- First Announcement by London and Frankfurt : cross membership
  
- Followed by a cross access agreement between Paris and Zurich
  - ⇒ Cross access did not succeed:
    - As big firms already have subsidiaries in each country
    - And Small ones remain at a local level,
    - Only medium-sized firms could be targeted

***The Second Stage of European Exchanges' Consolidation: Demutualisation***

**First experiences**

- ❑ Three experiences initiated the whole process :
  - ⇒ The development of OM Gruppen and the demutualisation of the Stockholm Stock Exchange
  - ⇒ The Australian Stock Exchange's demutualisation
  - ⇒ The Tradepoint initiative : a catalyst
  
- ❑ But the acceleration of the concentration process -one might say the real start of European Stock Exchanges' consolidation- actually started in July 2000, when the London Stock Exchange demutualised

**Ice really started melting in Europe in July 2000**

***The Second Stage of European Exchanges' Consolidation: Merging Exchanges***

**Euronext**

- A merger of :
  - ⇒ the Amsterdam Stock Exchange (AEX)
  - ⇒ the Brussels Stock Exchange (BSX)
  - ⇒ ParisBourse (SBF)
  
- A project distinguishing :
  - ⇒ the listing of blue-chips (in London)
  - ⇒ from the New Economy segment (in Frankfurt)

**iX**

### *Current strategies*

#### **Current initiatives**

- ❑ Jiway: an initiative of Morgan Stanley and OM Gruppen targeting the retail market
- ❑ Euronext: One exchange, three regulations
- ❑ Virt-X: the projetct of Tradepoint and Swiss Exchange

#### **Strategies remain unclear**

- ❑ London: the issue at stake is the tender offer of OM Gruppen
- ❑ Frankfurt: Is dominant on derivatives, but uncertainty remains on the cash segment
- ❑ Milan: MTS might make it attractive in this context
- ❑ Madrid: Which dowry for a European marriage ?



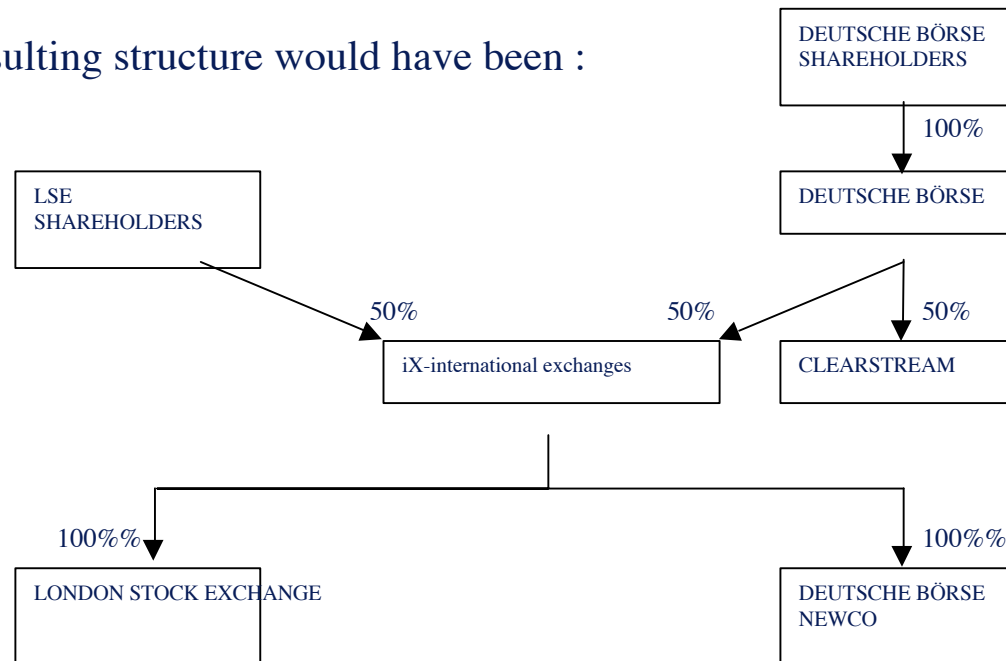
**iX vs Euronext?**

***The iX information Memorandum (1)***

**Conditions for the exchange of shares**

- Had the iX proposal been approved, a total of 118,4 millions iX shares would have been issued of which 50% would have been attributed to shareholders of the London Stock Exchange (LSE). Subsequently the latter would have received two ordinary iX shares for an LSE share. The remaining 50% of the shares would have been attributed to Deutsche Börse.

- The resulting structure would have been :



***The iX information Memorandum (2)***

**Trading platform**

- ❑ The motivations leading to the choice of the Xetra trading system and to the exclusion of SETS were detailed. The main argument consisted however in noting that Xetra is already used by a number of European Stock Exchanges (in particular in Dublin and Vienna).
- ❑ Transition costs of SETS to Xetra were forecasted to be substantial and a provision of EUR 13.3 mn was deemed necessary as to pay approximately EUR 50,000 to each member of the LSE. Calculation methods are however not detailed and it remained difficult for “small” brokers to estimate precisely the impact of the technological change implied by the merger.

**Clearing and settlement systems**

- ❑ On the crucial issue of clearing and settlement systems' integration few details were given, whereas the associated are deemed at present by professionals to represent more than half of total transaction costs and to remain six to ten times higher than in the United States. Up to that time two separate press releases -from Crest and from Clearstream were the only signs of a concrete intention to establish a common cross-border system linking both systems.



***The iX information Memorandum (3)***

**A central issue :  
clearing and  
settlement  
systems  
(continued)**

- Against that background, the uncertainty surrounding the creation of a central counterparty remained unaddressed. The article 3.4.5 of the information note reads « It is perceived that there are a number of alternatives:
  - ⇒ Eurex is planning to extend Eurex Clearing House's functionality to fixed income cash instruments and repos by the fourth quarter of 2000 and to cash equities and other instruments by 2001, becoming a market-driven institution serving the needs of market users; and
  - ⇒ the current initiative of London Stock Exchange, London Clearing House and CREST to develop a central counterparty is being developed in order to introduce equity cash clearing services in 2001.
- Given its goal to meet the needs of market participants, iX-international exchanges will support the above-mentioned initiatives, or a combination thereof, as well as those of third parties. »

***The iX information Memorandum (4)***

**Other central issue : the impact of regulatory changes**

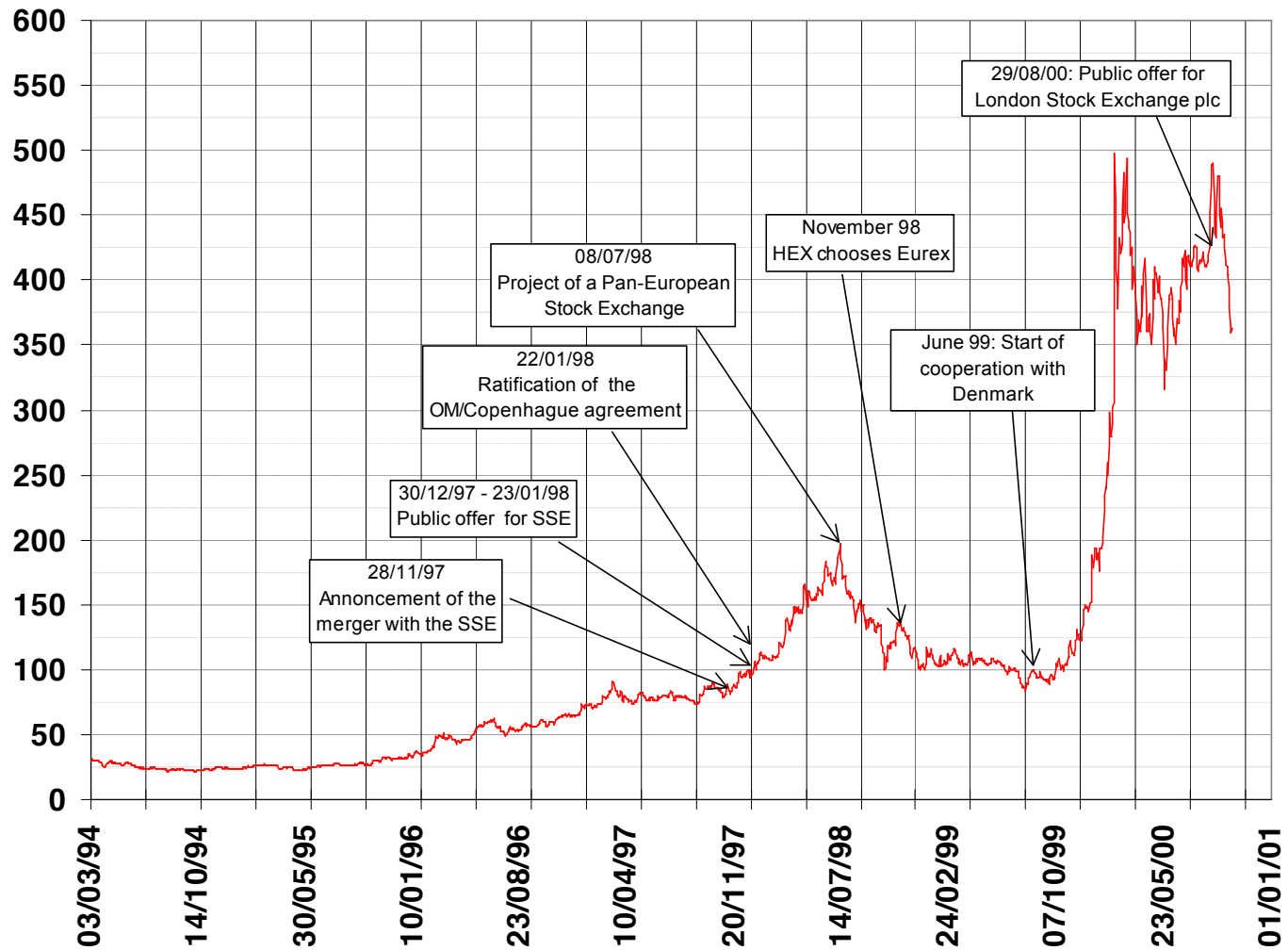
- ❑ The impact of regulatory changes remained unclear, in particular on listed companies' information publication obligations.
- ❑ In Germany, the professeur Schneider, advisor to the German regulator (BAWe) opened a debate when he recalled that the conditions of the merger, in the absence of a European passport for listed companies, that British rules applied to iX (he also added that this contadicts the statutes of Deutsche Börse).
- ❑ Solicited for giving details on the regulatory environment of the merger, regulators (BAW and FSA) promised to give additional information on the legal framework applicable to iX. But Few has been done since then
- ❑ Given these uncertainties important London brokers joined the Apcims association -representing already 100 of the 298 LSE members– in opposing the 14th September vote.

**Uncertainties led to a rejection of the project**

*OM Gruppen's bid for the LSE*

The market forecasts OM Gruppen offer's failure

OM Gruppen's share price



***London Stock Exchange : Where from now?***

**As success chances of both the iX merger and the OM bid vanish...**

**.. several options may be considered**

- The probable rejection of OM Gruppen's bid for the LSE leaves the door open to renewed speculation on the consolidation process of European Stock Exchanges. After the postponement *sine die* of the iX merger -and the resignation of the LSE's General Director- a new *statu quo* has emerged in which several options may be considered :
  - ⇒ a « British solution » according to which the LSE's would come closer to the Liffe. This option should have the support of « small » London brokers who weight for a good third of the LSE's shareownership
  - ⇒ a solution which would see a tightening of LSE relations with Euronext. This solution would be favoured by the LSE's biggest shareholder : UBS Warburg (owner of 3.6% of the London Stock Exchange);
  - ⇒ a solution where the German Stock Exchange and a number -still to be determined- of « partners » -be they European or not- would outdo OM Gruppen's offer.

***Euronext 's information circular (1)***

**Terms of the exchange of shares and structure of the merged entity**

- ❑ 100 millions of Euronext shares issued of which 8 millions for the BSX, 60 millions for SBF and 32 millions for AEX.

**Trading systems**

- ❑ Regarding cash transaction systems, the migration towards NSC will be operational by the end of the second quarter of 2001 (once the AEX will have adopted this system currently used in Paris).
- ❑ As far as trading platforms for derivative markets are concerned, Euronext has not yet made its final decision. It is still consulting users and considers a number of alternatives among which BTS, Liffe Connect, Switch and NSC. Euronext intends to make its final decision by October 31st.

***Euronext 's information circular (2)***

**Clearing and settlement systems : solutions are identified**

- ❑ Clearing : Clearnet -and its Clearing 21 real-time system dealing with open positions on various types of markets- will become the central counterparty for all trades on Euronext.
- ❑ Settlement : a single clearing and settlement through Euroclear, joined by SICOVAM (France), Negicef (AEX) and BXS-CIK
- ❑ All trades settled within three days

**Costs and benefits**

- ❑ Cost: 90 to 130 million EUR
  
- ❑ Benefit: 50 million EUR per year.

### ***Jiway***

**A new competitor on the European stage**

**The project's chances of succeeding come from its backing by investment banks**

- ❑ Announcement of the creation in November 2000 of a market of 6,000 European and American shares : Jiway.
  
- ❑ Jiway is held at 60 percent by OM Gruppen and at 40 percent by Morgan Stanley.
  
- ❑ The market's key principle : low operational costs
  - ⇒ Low costs are expected to attract institutional investors
  - ⇒ But Jiway appears to have the most strategic advantage for positioning itself on the retail market as market makers (Morgan Stanley, Commerzbank, Winterflood) guarantee that they will execute transactions
    - at least as cheaply as the best price proposed on the market on which the shares were originally listed
    - for a transaction volumes of up to EUR 50,000



**Regulatory Issues are Crucial**



*... given the European context*

**Various traditions across Europe**

- Various historical backgrounds :
  - ⇒ The FSA in London
  - ⇒ The BAWe in Germany
  - ⇒ COB and CMF in France

**The example of confidentiality rules**

- Confidentiality rules differ widely across Europe :
  - ⇒ In France, issuers have the right -under their own responsibility- not to disclose confidential information
  - ⇒ In Belgium, the right not to disclose confidential information is conditioned by an authorisation to do so

**The embryo of a European system**

- The European Commission's directives have already started to create a common framework:
  - ⇒ Listing requirements
  - ⇒ Prospectus
  - ⇒ ISD, CAD etc

***... for issuers***

**A number of  
drawbacks  
for issuers**

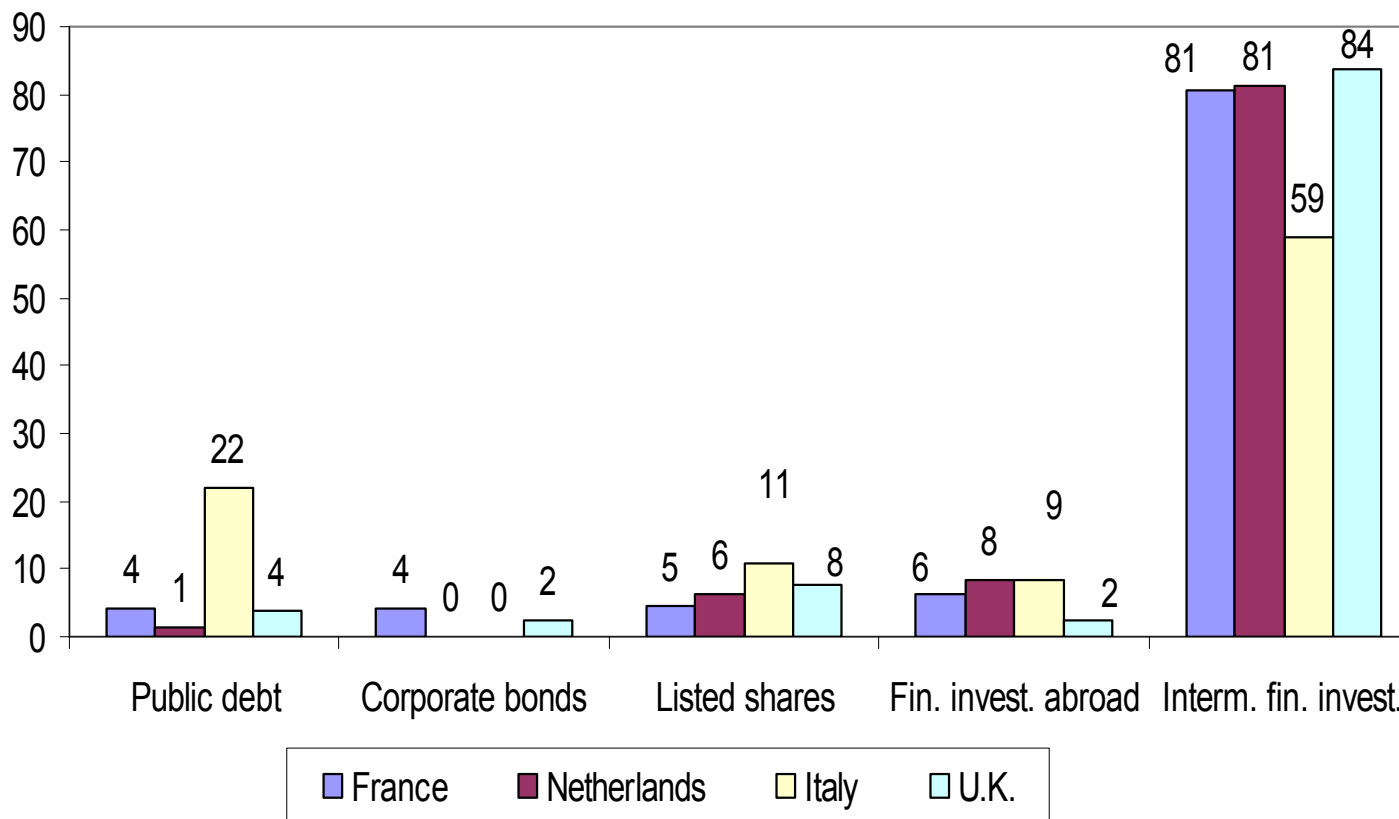
- ❑ iX's drawback :
  - ⇒ Issuers have to report to a foreign regulator and thus have to comply with foreign rules
  
- ❑ Euronext's drawback :
  - ⇒ Being listed only in one country does not -in the current regulation framework- open public offer to foreign investors unless rules are harmonised in Belgium, France and the Netherlands



**Toward a single European Savings Market?**

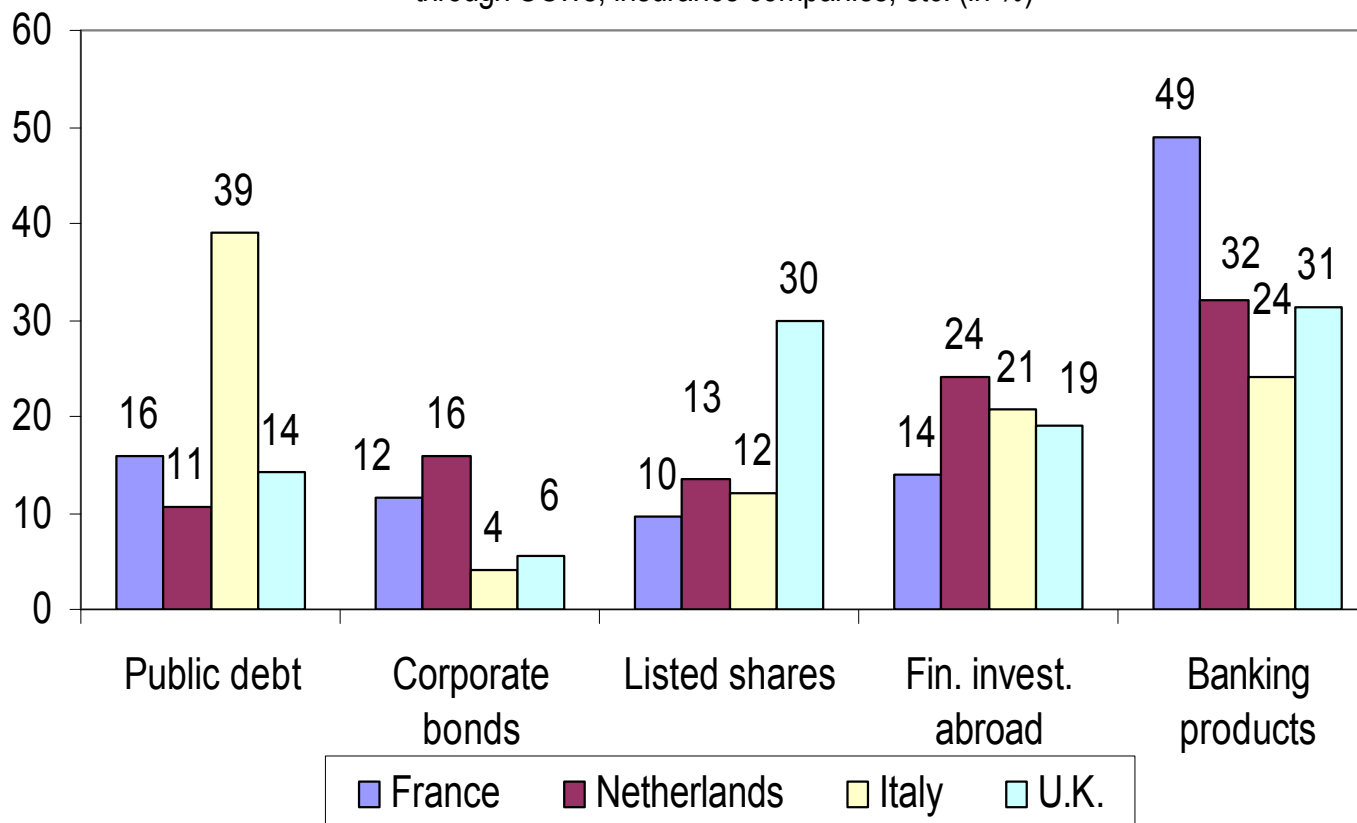
***Intermediated financial investment remains high in Europe***

European Households' Wealth in 1998 - Financial products held directly through UCITs, insurance companies, etc. (in %)

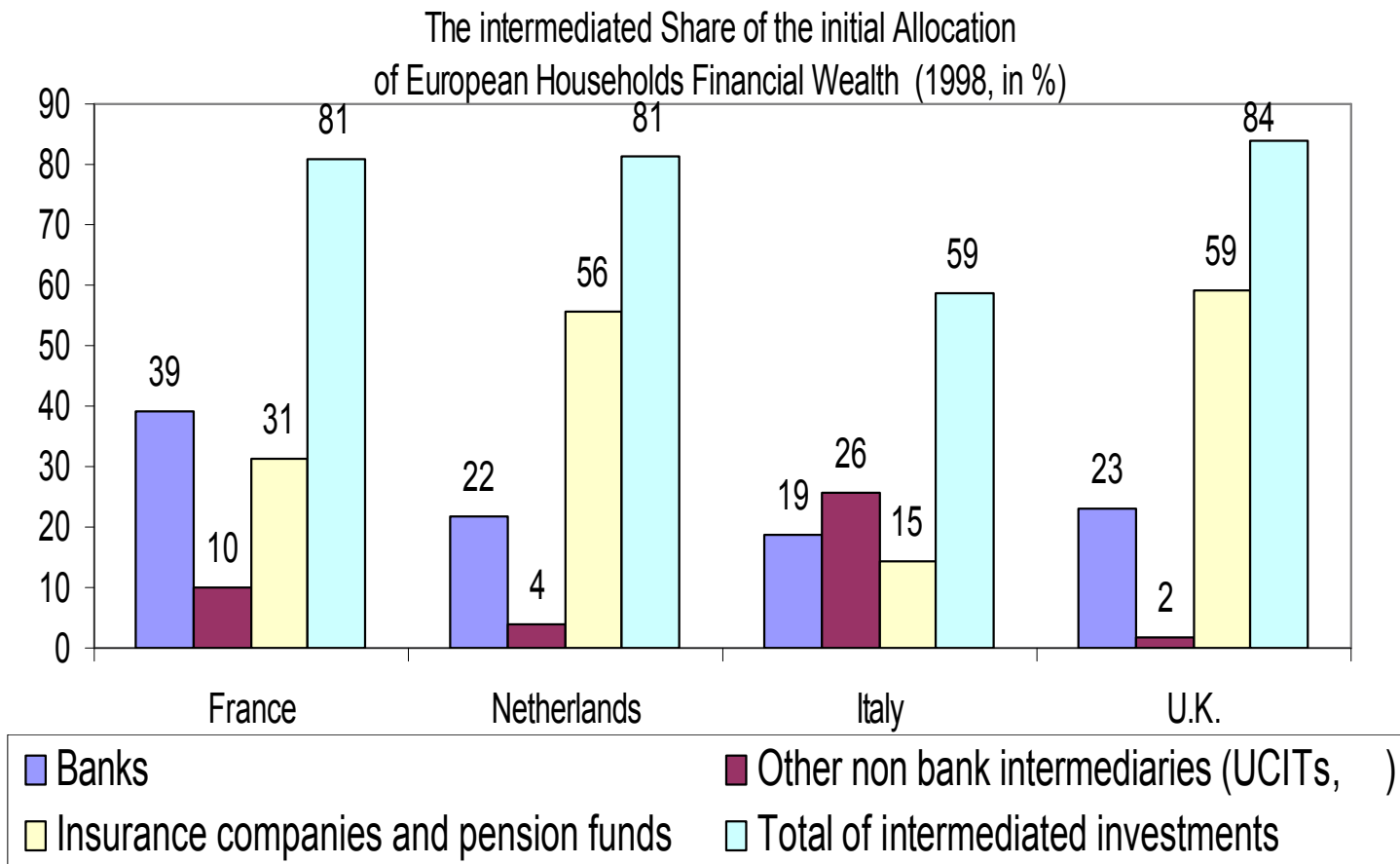


***Holdings of shares remain low on the continent***

European Households' Wealth in 1998 - Financial products held directly or indirectly through UCITs, insurance companies, etc. (in %)



***Market share of intermediation***

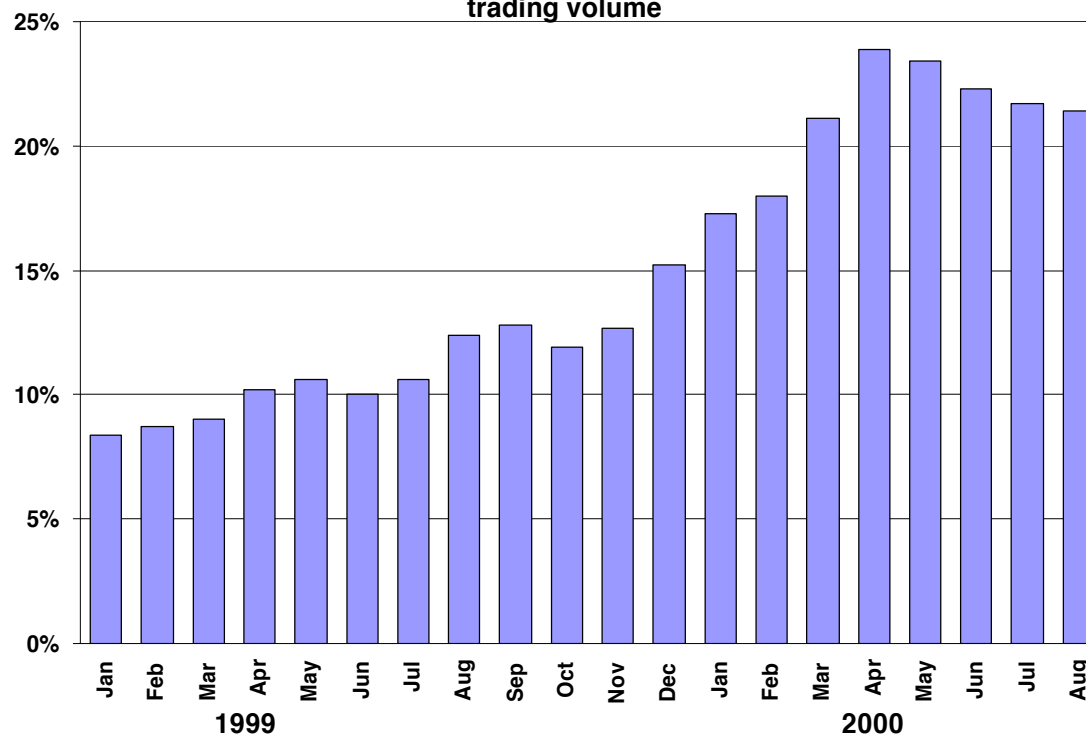


## *A new challenge: Online brokerage*

Promising developments ...

...mainly based on three factors

The share of online brokerage in the Paris Stock Exchange's total trading volume



- ⇒ Younger shareholder
- ⇒ More liquidity
- ⇒ Free access to the market



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