

Stock Exchanges

IN A GLOBALIZING WORLD

Looking at the effect of a “shrinking planet” on capital markets.

BY JAMES LEWIS

The advent of near-instantaneous communication has led many to refer to the planet as “shrinking.” Not physically, of course, but in the sense that formerly exotic and distant places seem much more familiar now. Against this backdrop, the University of Toronto’s Capital Markets Institute brought together more than 60 delegates on August 16 and 17 last year for a conference titled “The Future of Stock Exchanges in a Globalizing World,” to talk about the evolving role of the world’s stock exchanges. As international trade borders succumb to free market agreements, larger exchanges abandon open-cry trading for electronic stock order systems, and multinational corporations merge with like-minded firms in other jurisdictions, many believe the validity of some smaller national/regional exchanges has been called into question. Much of the evidence presented at the conference, however, would indicate there is still a future for such players.

Citing lower trading and administration costs as a prime factor, the Alberta Stock Exchange—based in Calgary—and the Vancouver Stock Exchange united as the Canadian Venture Exchange (CDNX) in 1999. A year later, European and Australian exchanges were looking for merger partners of their own. Despite exchanges’ desires to reduce costs and improve profits through consolidation, there were still more than 300 stock exchanges, commodity exchanges and electronic trading networks worldwide in 2001.

One of the conference’s sponsors, the TSX Group—which owns the Toronto Stock Exchange—itsself acquired the CDNX in 2001. (Professors Paul Halpern of the University of Toronto and Robert Jennings of Indiana University also helped organize the event.) Stephen Butler, director, corporate development, TSX Markets, noted in his comments to attendees that the merging of Canada’s stock

exchanges was in part driven by the desire to win over large Canadian firms, many of which saw a U.S. listing as more desirable. For European markets, the common Euro currency no doubt played a part in easing any friction caused by cross-border stock trading, and quite a few European and Asian firms have successfully listed on the NASDAQ.

Trading shares between investors—as opposed to companies offering their shares for purchase for the first time—is a role that’s traditionally fallen to traders on regional markets, a function that could continue because of those traders’ specialized local knowledge or “home bias”. “They tend to trade what they know, where it is known,” Butler told the conference audience. “How can one be sure if that U.S. stock for sale in Tokyo is a bargain or a swindle if the ‘real’ market is sleeping?”

Canadian Investment Review selected three of the papers presented at the conference to appear in this special report, all of which seem to support the belief that smaller, more specialized markets are here to stay. “The Value of U.S. Listing,” by Usha Mittoo of the University of Manitoba, looks at a popular theme of the conference, namely “Do foreign firms who secure a cross-listing on a U.S. exchange see a surge in their stock price?” For years, a U.S. listing was the *ne plus ultra* for many Canadian firms, but the results of Mittoo’s paper are surprising. On a related note, Henry Oppenheimer and Sanjiv Sabherwal, both of the University of Rhode Island, examine how those Canadian firms listed on U.S. exchanges fared after the latter moved to a decimalized quote system, abandoning the fractional prices U.S. stock markets used for nearly 200 years. Finally, Johannes Skjeltorp and Randi Naes of Norges Bank look at the characteristics of off-market trades, which bypass public stock exchanges altogether in favour of private crossing networks. ■