

Towards a Regional European Marketplace

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Towards a Regional European Marketplace

Overview

- 1) Introduction
- 2) Market Infrastructure
- 3) Governance
- 4) Law and Regulation
- 5) Conclusions

Introduction

Regional Integration - Definitions

◆ Identical Securities Traded at Same Price Across Markets

➔ **Focus on Costs**

◆ Participants do Business Across Markets without Restriction

➔ **Focus on Freedom**

◆ **Integration NOT = Cooperation**

Introduction

Benefits of Integration

- ◆ Lower Prices for Financial Services
- ◆ More Efficient, Liquid, Broader Markets
- ◆ Innovative Financial Products & Services
- ◆ Industrial Transformation of Markets
- ◆ Cheaper Corporate Financing
- ◆ More Efficient Allocation of Capital
- ◆ Higher Returns
- ◆ Enhanced Risk-Return Frontier
- ◆ Improved Macroeconomic Performance

Introduction

Costs of Integration

- ◆ Previously Protected Industries will Lose Out
- ◆ Some Individual Companies will Lose Out
- ◆ Transition Costs
- ◆ Regulatory Costs - Indirect and Direct
- ◆ Protectionism

Market Infrastructure

Elements of Infrastructure

- ◆ Listing
- ◆ Information Dissemination
- ◆ Order Routing
- ◆ Trading
- ◆ Central Counterparty Clearing
- ◆ Post-Trade Functions
- ◆ Settlement

Market Infrastructure

Typical Perceived Benefits of Linkages

- ◆ Economies of Scale and Scope
- ◆ Network Externalities
- ◆ Lower Costs for Market Participants
- ◆ Simplified and Cheaper Rules
- ◆ Best Practices can be Adopted
- ◆ Better Risk Management

Market Infrastructure

Problems with Cooperative Ventures

- ◆ Reduces Competition
- ◆ Transition Costs
- ◆ Difficult to Implement Successfully
- ◆ Falling IT costs, less need for Cooperation
- ◆ Governance Issues
- ◆ Exchange/Intermediary Relationship
- ◆ Technical Difficulties
- ◆ Credibility of Contractual Commitments

Governance

Optimal Structure

- ◆ Minimisation of Transaction Costs

- ◆ All Patrons:
 - Owners
 - Members
 - Management
 - Consumers
 - Suppliers
 - Financiers

Governance

The Co-operative Model

- ◆ Services for Members Only
- ◆ Only Consumers can be Members
- ◆ Only Members can Vote
- ◆ One Member, One Vote
- ◆ Non-Profit

Governance

The For-Profit Model

- ◆ Profits can be Distributed
- ◆ Non-Members can have Voting Rights
- ◆ Non-Members can Consume Services
- ◆ Maximisation of Profits

Governance

Transaction Costs

- ◆ Monopoly – Price and Access
- ◆ Collective Choice

Law and Regulation

Lamfalussy – Key Problems Identified

- ◆ Lack of Clear Europe-wide Regulation:
 - Prospectuses, Cross Border Collateral,
Market Abuse, Investment Service Provision
- ◆ No Implementation of Mutual Recognition
- ◆ Inefficient Regulatory System
- ◆ Inconsistent Implementation
- ◆ No Agreed Interpretation of Rules

Law and Regulation

Lamfalussy – Solution

- ◆ Appropriate Comitology
- ◆ More Transparency
- ◆ More Industry Involvement
- ◆ Threat of Euro-SEC

Law and Regulation

Causes of Problems Remain!

- ◆ Bureaucratic Inertia
- ◆ Protectionism

Law and Regulation

Historical Cycle

- ◆ Single National Exchange
- ◆ Competing National Exchanges
- ◆ Consolidated National Exchange
- ◆ Competing International Exchanges
- ◆ ATS, ECN, MONSTER, PTS, SBTS
- ◆ Consolidated European Exchange

Law and Regulation

Abusive Activity

- ◆ Exclusive Dealing
- ◆ Selling Below Cost
- ◆ Stifling Competition in Adjacent Market
- ◆ Contractual Tie-Ins
- ◆ Price Discrimination

Law and Regulation

DG IV – Competition

- ◆ Commission Not a Price Setter
- ◆ Investigation Resources Extremely Scarce
- ◆ Focuses on Cases with Widest Relevance
- ◆ Extremely Political

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Conclusions

- ◆ Benefits to Infrastructure Mergers
- ◆ But Most Linkages Fail
- ◆ Merits of Competition
- ◆ Problems of Different Governance Models
- ◆ Anti-Competitive Activity is Possible
- ◆ Politics of EU Competition Authority
- ◆ Securities Committee Won't Work

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