亞洲資本市場的合作契機與挑戰
Capital Market Cooperation in Asia: To Do, or Not to Do

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Agenda

0. Prelude: How Capital Markets Cooperate?

I. Global Capital Market Cooperation: Trend and Progress

II. Asian Capital Markets: Mode of Cooperation

III. Opportunities for Cooperation in Asia

IV. Challenges Ahead

V. Conclusions
Prelude:

How Global Capital Markets Cooperate?
Markets Opening up

- Foreign Listing: ADR, GDR, etc
- securities firms overseas operations
- Inward / outward portfolio investment

Source: NYSE Euronext Market Model Blueprint Presentation
How Global Capital Markets Connect to Each Other?

- **Investors**
  - Domestic / Foreign Investors invest outward/inward

- **Products**
  - Cross-Border/ Dual-listing
    - IPO
    - ETF
    - Warrant
    - DR

- **Brokers**
  - Overseas Operations
  - Foreign Securities Firms

- **Exchanges**
  - Merge
  - Acquisition
  - Cooperation
Capital Market Depth vs. Globalization

Strong correlation between financial market depth and openness

Financial depth in emerging countries is roughly half the level seen in developed economies

Financial depth, 2Q12
% of regional GDP

- United States: 463 (116), Hong Kong, Singapore, South Korea, Taiwan
- Japan: 453 (61), Indonesia, Malaysia, Philippines, Thailand
- Western Europe: 369 (59)
- Other developed: 333 (46)
- China: 226 (47)
- Middle East: 153 (42)
- Other emerging Asia: 151 (58)
- India: 148 (60)
- Africa: 131 (56)
- Latin America: 126 (40)
- CEE/CIS: 108 (28)

1 Calculated as total regional debt and equity outstanding divided by regional GDP

I. Global Capital Market Cooperation: Trend and Progress
Euro-American Consolidation

Country A

- **Spot Market**
  - Listing
  - Trading
  - Clearing and Settlement

- **Futures**
  - Listing
  - Trading
  - Clearing and Settlement

Country B

- **Spot Market**
  - Listing
  - Trading
  - Clearing and Settlement

- **Futures**
  - Listing
  - Trading
  - Clearing and Settlement

**Integration Types**
- **Horizontal Integration**
- **Vertical Integration**
- **Cross-Border Integration**

**Additional Features**
- **Comprehensive**
- **Vertical Integration**
## Euro-American Consolidation Activities

### Domestic Consolidation

| Horizontal Integration | 2007 U.S.: Chicago Mercantile Exchange (CME) merges with Chicago Board of Trade (CBOT) *(Merge)*  
2011 Russia: Moscow Interbank Currency Exchange (MICEX) merges with Russian Trading System (RTS) *(Merge)* |
|------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| Vertical Integration   | 2002 Borsa Italiana integrates domestic clearing and settlement entities *(Acquire)*  
2012 LSE acquires LCH clearnet with ownership stake of more than 60% *(Acquire)* |
| Comprehensive (Horizontal + Vertical) | 2012 Canada: Maple Group Acquisition Corp acquires TMX Inc. Group in addition to other Canadian clearing houses and small-scale domestic exchanges to form TMX Group Ltd *(Acquire)* |

### Cross-Border Integration

2007 NYSE merges with Euronext to form NYSE Euronext; Nasdaq acquires OMX to form Nasdaq OMX *(Merge)*  
2007 London Stock Exchange (LSE) merges with Borsa Italiana *(Merge)*  
2007 Kansas-based BATS acquires Chi-X Europe *(Acquisition)*  
2010 CEESEG forms via the merger of the four Central/Eastern European bourses Vienna, Budapest, Ljubljana, and Prague *(Merge)*  
2011 stock markets of Columbia, Chile, and Peru combine to form MILA *(Merge)* |
|------------------------|----------------------------------------------------------------------------------------------------------------------------------|

**Hypothesis:** Cross-border horizontal integration easier, more “mainstream” Euro-American exchanges.
II. Asian Capital Markets: Mode of Cooperation
# Asian Exchange Consolidation Activities

## Domestic Consolidation

<table>
<thead>
<tr>
<th>Horizontal Integration</th>
<th>1999 Singapore: Stock Exchange of Singapore merges with Singapore International Monetary Exchange (SIMEX) to form SGX</th>
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<tbody>
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<td>2005 South Korea: KRX forms via the integration of Korea Stock Exchange, Korea Futures Exchange and KOSDAQ</td>
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<td>2006 Australia: Australian Stock Exchange acquires Sydney Futures Exchange to form ASX</td>
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<td>2013 Japan: TSE and OSE merger approved by regulators, listed in Jan. 2013 as Topix</td>
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<td>(In the pipeline) Vietnam: Merger talks between Hanoi and Ho Chi Minh City Stock exchange</td>
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| Comprehensive (Horizontal + Vertical) | 2000 Hong Kong: Combined merger of Stock Exchange of Hong Kong Ltd., Hong Kong Futures Exchange Ltd., Hong Kong Securities Clearing Company Ltd., Central Clearing and Settlement System, and Options Clearing House Ltd., to form HKEx |

## Cross-Border M&A

| Horizontal Integration | 2012 Hong Kong: HKEx acquisition of London Metal Exchange |
### Cooperation among Asian Exchanges

<table>
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<tr>
<th>Region</th>
<th>Regional Cooperation</th>
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| Singapore   | • **Cross-border trading linkage:** joined ASEAN Exchanges (Jun 2012); entered into cross-quotation agreement with LSE to trade SGX-listed stocks on LSE international board (Jul 2012)  
• **Introduction of ADR trading:** collaborated with Nasdaq OMX to bring ADR quotations to the SGX GlobalQuote board (Oct 2010)  
• **Data center sharing:** hosts ASX’s trading hub in SGX data center (Jul 2012); also linked to Eurex’s derivatives co-location data center |
| Hong Kong   | • **Joint venture:** established “China Securities Trading Center” with Shanghai and Shenzhen stock exchanges to develop index and equity derivative products and compile cross-market indexes (Sept 2012)  
• **Acquisition of London Metal Exchange** (Feb 2012)  
• **Establishes market data hub in Shanghai:** disseminates data from HKEx securities and derivatives market to Chinese investors (2013) |
| South Korea | • **Export of IT and trading systems to emerging markets:** currently 5th biggest exporter of trading systems with a focus toward Southeast Asia; helped Laos (Jan 2011) and Cambodia (Dec 2011) launch stock exchanges as JVs  
• **Forges cross-border alliances to expand territory:** signed market linkage agreement with CME Group (Nov 2010) and Eurex (Aug 2010) to enable whole-day trading of KRX |
| Japan       | • **Helped Myanmar launch stock exchange** (April 2012) |
| ASEAN       | • **Launch of ASEAN Trading Link:** launched jointly by ASEAN Exchanges collaboration, i.e. Singapore, Malaysia, Thailand, Ho Chi Minh and Hanoi, Indonesia, and the Philippines stock exchanges; currently, only Singapore, Malaysia, and Thailand have joined (Sept-Oct 2012), but plans are underway for complete market integration |
### Types of Exchange Cooperation in Asia

#### Products
- **Cross-Border Listing**
  - ETF
  - Warrant
- **Dual Listings**
  - Primary
  - DR
  - Dual Currency Trading

#### Exchanges
- **Information Sharing**
- **Index Compilation**
  - Time Extension
- **Trading Platforms**
- **Technology Assistance**

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**Cooperation and Competition coexisting among Asian exchanges**

**Example of blocked cross-border integration:** SGX failed take-over of ASX
## Types of Exchange Cooperation in Asia

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<tr>
<th></th>
<th>Dual Currency</th>
<th>Info. Sharing Agreement</th>
<th>Index Compilation</th>
<th>Index Foreign Listings</th>
<th>Trading Platform</th>
<th>Technology Assistance</th>
<th>Foreign Exchange M&amp;A</th>
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<tr>
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<td>Stock ETF</td>
<td>Database Linkage MOU</td>
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- ●: Accomplished
- ○: In the pipeline
- ★: Not exactly a stock exchange
- △: Turned-Down
III. Opportunities for Asian Capital Markets
Opportunities for Capital Market Cooperation

- Joint Product Development
- Common Trading Platforms
- Regional Development Assistance
- Market Opportunities
- Inter-Ex Business Collaboration
## Prospects for Cooperation

| Joint Product Development on | • Foreign SPOs, cross-listed financial instruments  
|                             | • Cross-border products (ETF, bonds, warrants)  
|                             | • Multiple currency-denominated products        |
| Inter-ex Collaboration       | • MOUs, strategic alliances  
|                             | • Joint marketing of products  
|                             | • Harmonization (or extension) of trading hours |
| Common Trading Platforms     | • ASEAN Trading Link—complete integration  
|                             | • East Asian Trading Platform (Taiwan, Japan, South Korea?)  
|                             | • the Greater China Trading Platform (Taiwan, Hong Kong, Shenzhen?) |
| Regional Development Assistance | • Exploit the potential offered by emerging markets  
|                               | • Expand fundraising services to SMEs, including foreign ones |
IV. Challenges Ahead
Challenges to Integration

Exchange integration unlikely

- Stages of development among Asian exchanges are not at the same level
- Exchanges regarded as symbols of state interest and sovereignty
- Integrations are highly problematic, but there is room for cooperation

Dissimilar market structure

- Sizeable divergence in trading mechanism, institutional framework, and market opening

Regulatory differences

- Different systems of market surveillance and investor protection may become barriers for collaboration
V. Conclusions
Conclusions

- Global M&As in different modes took place only in Europe, and between Europe and the U.S.
- Institution harmonization plus friendly government policy are prerequisites of cross-border M&As. Therefore, Regional Trade Agreements (RTAs) help facilitate cross-border M&As. e.g., ASEAN+ and TPP
- Nevertheless, various types of cooperation among regional exchanges are already in place, providing viable alternatives for further development.
Thank you