



# DEMUTUALIZATION OF STOCK EXCHANGES

## TRENDS AND ISSUES

## ROLE OF REGULATORS

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**way the opinions expressed herein can condition the criteria or the decisions that, on these and other**

**issues could be adopted in the future by the Comisión Nacional del Mercado de Valores**

## Exchange' demutualization process

- An exchange' demutualization is an evolving process from a non-for-profit member-owned exchange to a shareholder-owned exchange, which is likely to be a for-profit corporation

- **Main changes that a demutualization process will produce**
  - ✓ **The decisions will be made in the company on a one share, one vote basis instead of on a one-member, one-vote basis**
  - ✓ **The owners, decision-makers and direct users of the exchange's trading services could be different persons**
  - ✓ **Shares of the company will be more freely tradable than the old ownership rights**

### ➤ **Main changes ...**

- ✓ **It will be possible for the exchange to raise capital from other entities than market participants so favoring the capital increase of the market**
- ✓ **The entrance of new participants in the exchange will be facilitated**
- ✓ **To be a market participant will be dissociated and not related to the necessity of being market member or shareholder**

- **Main drivers for demutualization**
  - ✓ **Increasing competition**
    - Requires more efficiency in all activities
    - Including the decision-making process
  - ✓ **Changes in technology**
    - More efficient trading systems require significant investments in new technology
    - There is need for broader access to capital
  - ✓ **Additionally, certain responses to competition**
    - Alliances and mergers between exchanges
    - May be facilitated by demutualization

- **Recent trends of demutualization**
  - ✓ In 2000 and 2001 demutualization processes were more frequent than before
  - ✓ The majority of European Securities Markets are currently demutualized
  - ✓ Demutualization processes have been more recently accelerated in the U.S.A.
  - ✓ In most of the cases the demutualization was followed for the listing of the shares
    - Either immediately or after a short period
    - Very often in the exchange's own market

## Recent trends

| Demutualized and listed exchanges |                      |                        |
|-----------------------------------|----------------------|------------------------|
| Exchange                          | Demutualization date | Listing date           |
| Stockholm Stock Exchange (OMX)    | 1993                 | 1998                   |
| Helsinki Stock Exchange (OMX)     | 1995                 | Integrated in OMX      |
| Australian Stock Exchange         | 1996                 | Oct. 1998              |
| Copenhagen Stock Exchange         | 1996                 | Integrated in OMX      |
| Amsterdam Stock Exchange          | 1997                 | Integrated in Euronext |
| Borsa Italiana                    | 1997                 |                        |
| Iceland Stock Exchange            | 1999                 | Integrated in Euronext |
| TSX Group                         | 1999                 | 2002                   |
| Singapore Exchange                | 1999                 | Nov. 2000              |
| Hong Kong Stock Exchange          | 2000                 | Jun. 2000              |
| Nasdaq                            | 2000                 | Feb. 2005              |
| Euronext NV                       | 2000                 | Jul. 2001              |
| London Stock Exchange             | 2000                 | Jul. 2001              |
| Sydney Futures Exchange           | 2000                 | April. 2002            |
| Chicago Mercantile Exchange       | 2000                 | Dec. 2002              |
| Bolsas y Mercados Españoles (BME) | 2000                 | Jul. 2006              |
| Greece Stock Exchange             | 2001                 | Feb. 2001              |
| Deutsche Börse                    | 2001                 | Feb. 2001              |
| Oslo Stock Exchange               | 2001                 | OTC                    |
| Swiss Exchange (SWX)              | 2001                 |                        |
| New York Stock Exchange (NYSE)    | 2006                 | Mar. 2006              |
| Bursa Malaysia                    | 2004                 | Mar. 2005              |
| CBOT Holdings Inc.                | 2005                 | Oct. 2005              |

Sources: IOSCO and Madrid Stock Exchange



- **Demutualization raises some key issues to be analyzed for securities regulators**
  - ✓ **The adequacy of the regulatory and public interest functions and responsibilities assigned to a for-profit exchange should be analyzed with regard to**
    - **Potential conflicts of interest between the shareholders (maximize benefits) and market participants (efficient and competitive trading services)**

- **... some key issues to be analyzed ...**
  - **Reduction of the resources allocated for the exchange' regulation and supervision functions**
  - **Potential incentives for softening the level of regulation with regard to**
    - **Eligibility requirements for listing**
    - **Trading rules**
    - **Eligibility requirements for market participants**
    - **Risk mitigation requirements for clearing and settlement**

- **... some key issues to be analyzed ...**
  - ✓ **Potential threats to the financial viability of the exchange**
    - **Possible incentives for assuming more commercial risks in its business model**
  - ✓ **Those problems could be exacerbated if the demutualized exchange is going to be listed**
  - ✓ **Additional conflicts of interest may appear in case of self-listing**
    - **Would be appropriate for the exchange to be its own regulator as issuer and its own supervisor for its trading as instrument?**

### ➤ **Regulatory responses to the exchanges demutualization**

- ✓ They have been different and there is not a universal regulatory solution to be followed.

It

depends on the circumstances

- ✓ Sometimes regulatory legal framework was modified before demutualization arrived
- ✓ In some cases the clearing and settlement activities were transferred to another institution

- **Some common regulatory responses to demutualization**
  - ✓ Increasing the scope of statutory regulation and the regulatory oversight
  - ✓ Transferring the regulatory functions of the exchange to the securities regulator, another independent entity, or a SRO
  - ✓ Requiring exchanges to have all changes in their rules approved by the securities regulator authority

- **... common regulatory responses ...**
- ✓ **Establishing corporate governance mechanisms and restrictions to shareholding as for instance**
    - **Appropriate governance arrangements**
    - **Specific and separate regulatory divisions in the exchange**
    - **Caps to the quotes of individual shareholders and previous approval requirements for exceeding those thresholds**
    - **Fit and proper requisites for relevant shareholders**

- **IOSCO ([www.iosco.org](http://www.iosco.org))**
- ✓ **Reports of the Technical Committee**
  - "Issues Paper on Exchange Demutualization", June 2001
  - "Consultation Report on Regulatory Issues Arising From Exchange Evolution", March 2006
  - "Regulatory Issues Arising From Exchange Evolution". Responses to the Consultation Report, June 2006
- ✓ **Emerging Markets Committee**
  - "Exchange Demutualization en Emerging Markets", April 2005

**THANK YOU VERY MUCH  
FOR YOUR ATTENTION !**