Cross Border Stock Exchange Mergers

Stock exchanges are distinctive business organisations with a leading exchange per country with larger market share, product offerings, technology and regulatory compliance among all. To understand the concept of Cross Border Exchange mergers, it is necessary to understand the organisation and functions of stock exchanges. Generally, it can be defined as a market place where debt, equity and forex instruments are issued or traded in primary and secondary markets. It facilitates buyer and sellers, providing information, price discovery, liquidity and centralisation of trades, etc. Read on to know more…

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Cross border stock exchange mergers in particular have gained popularity in the past two decades due to globalisation of economic climate. A lot of companies and firms benefit from this as their market presence gets enlarged and internationalised by being listed on both the domestic exchange as well as foreign market. A spike in cross border stock exchange merger took place in the year 2006 and 2007 when The Chicago Mercantile Exchange acquired CBOT Holdings Inc., Euronext NV was acquired by NYSE group and Sweden's OMX AB was acquired by NASDAQ etc to name a few. Following table depicts ten biggest stock exchange markets in the world by domestic market capitalisation 2005[1]

Stock Exchange	US$ billions
NYSE	13,310,592
Tokyo SE	4,572,901
Nasdaq	3,603,985
London SE	3,058,182
Osaka SE	2,969,815
Euronext	2,706,804
TSX Group	1,482,185
Deutsche Borse	1,221,106
Hong Kong Exchanges	1,054,999
BME Spanish Exchanges	959,910

Mergers and acquisitions are part of business strategy. The emergence of stock exchange mergers can be traced during the Great Merger Movement in US in 1895. These mergers can be classified into six different cycles starting from 1895 till date. Each cycle had distinctive

[1] *Some issues on cross-border stock exchange mergers by Ioannis Kokkoris & Rodrigo Olivares-Caminal (published by Penn Law)*

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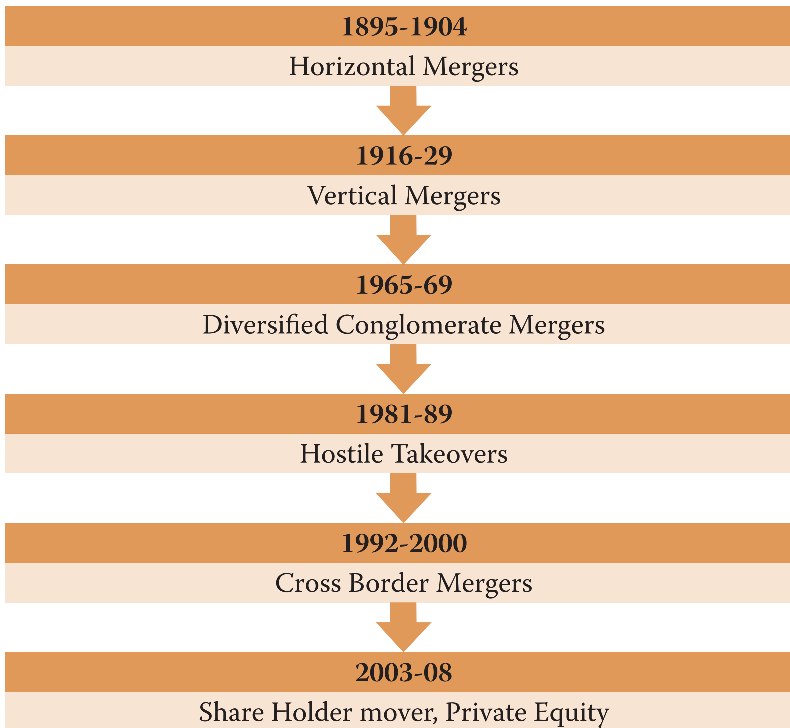
characteristic/theory for mergers as shown in the figure below.[2]



Benefits of Cross Border Stock Exchange Mergers

Multiple motives observed behind each type of merger like economies of scale, economies of scope, increased market share, increased revenue, cross selling, cost reduction, product differentiation and taxation etc. A cross border stock exchange merger provides benefits not only to the Stock Exchange and the listed firms but also to the investors. Let us look at those benefits from different perspectives.

Benefits to the stock exchange

A great opportunity to increase the volume of trading and business arise in cross borders merger. As trading volume increases, the options to make more investments in new and unexplored sectors also increases that can satisfy the demands of investors. For example, when NYSE merged with Euronext in 2006, it was reported that a significant saving was managed. This was mostly because three cash trading systems were successfully integrated into one global cash platform and also the total number of data centers were reduced to less than half.

This kind of merger also opens avenues for offering of a larger number of financial instruments through one single entity. The NYSE-Euronext merger is an instance in which more number of derivative platforms were added to NYSE which improved its overall range of products on offering. In addition, these stock exchanges also benefit greatly from economies of scale which results from merger of diverse geographic markets.

Benefits to listed entities

The benefits to accruing to listed entities from cross border stock exchange merger can be significant. Most importantly, when a company which is listed on a domestic market, also gets listed on an international market, the cost of raising capital gets reduced dramatically. This cost reduction results not only from reduced direct cost of listing fees but also other forms of indirect cost such as those of international regulation, regulatory compliances etc. Listing on two markets results in greater transparency and therefore is attractive to the cost conscious investors. The greater transparency is an outcome of stringent dual listing framework which will make the information available in public domain more reliable and accurate and hence, greater trust.

The resultant increase in trading volume makes it easier for investors to find buyers for their stocks. This availability of quick and efficient sale of stocks increases the liquidity at the hands of investors and firms which leads to further expansion of trading volume.

Benefits to the Investors

The most prominent benefit to the investors from cross border stock exchange mergers is the reduced transaction cost in trading a variety of financial instruments across different and wide geographical markets. Moreover, such merger results in simplified trading and better economic outcome especially on those exchanges that operate fewer trading platforms post mergers. Further, we have already discussed how the resultant greater liquidity leads to greater efficiency and a more transparent mechanism of pricing.

The Other Side Analysis

1. "National Interest" as a barrier to Stock Exchange Mergers

[2] *Weston Chung and Hong 1990*

In April 2011, it came to the limelight that Singapore Stock Exchange (SGX) proposed to take over Australian Stock Exchange (ASX) and entered an agreement to this regard in the year 2010. However, in April 2011, the then deputy prime minister and the treasurer of the country expressed that this takeover was not in the "national interest" of Australia.

Such mergers in Australia are to be notified to the Australian Securities and Investment Commission (ASIC) as well as take necessary approval from the treasurer of the country. The Australian law provides that such merger will be approved only "if the treasurer (minister) is satisfied that it is in the 'national interest' to approve the application". The treasurer exercising his powers under law outrightly rejected[3] the merger and SGX and ASX had no choice but to terminate the merger agreement. This is problematic because the two exchanges after signing the agreement in the year 2010 had put efforts to ensure that the national interest of Australia and Australian economy is assured and therefore provisions providing for "equal number of Australian and Singaporean directors", "assurance that the key staff, central management, assets shall be based in Australia" were included. However, since the minister had overriding discretionary powers, all these efforts went to waste.

On the similar lines the merger agreement between LSE and TMX group was frustrated in the year 2011. The deal faced a lot of opposition in Canada as some people believed that since TMC shareholders will be able to hold on forty five (45) percent of equity stake in the resultant merged company, it will be unfair and against their interest.

In this background, in the year 2011 itself Maple Group Acquisition Corporation which is owned by Canadians offered to buy TMX group, however, the offer they made was not as attractive and cost effective as that offered by the LSE. The shareholders even then declined to be merged with LSE and rather chose Maple group mostly because of nationalistic feelings and pride; and fear of foreign invasion and exploitation.

The conclusion from the above two examples is that countries and investors still give more importance to nationalistic sentiments and feeling over pure economic benefit and this leads to irrational decision making that frustrates the potential economic gain not only to the investors but to the entire economy of the country.

2. The antitrust law - another barrier

NASDAQ OMX abandonment of acquisition of NYSE in February, 2011 is the primary example to explain this argument. In February, 2011 a major impact on NASDAQ OMX was made due to announcement that a merger was planned between NYSE Euronext and Deutsche Borse. Since NASDAQ and NYSE have been rival for a long time, NYSE was apprehensive and fearful that such acquisition will make NYSE Euronext an unchallengeable world leader in this field.

Therefore, in April 2011, NASDAQ OMX jointly with a few other investors made a counter offer to purchase NYSE Euronext. The proposal was such that upon purchase the components of NYSE Euronext shall be broken down and NASDAQ OMX will acquire cash, options and equities on the other hand derivative markets will be taken by ICE.

However, in May 2011 the Antitrust Division of the US Department of Justice informed NASDAQ OMC and ICE that this entire proposal of merger violated the antitrust laws of the USA and if the former decided to proceed with this idea, an antitrust lawsuit to block the deal shall be filed before the court of law. The reason for such order was that the Department of Justice believed that this acquisition will lead to elimination of competition most importantly for IPO and other stock trade reporting service. On the similar lines, later in 2012 the EU Competition law blocked merger between NYSE Euronext and Deutsche Borse citing the reason that such merger will "create a quasi monopoly in the field of derivative markets".

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Conclusion

It is interesting to see future of Cross Border Stock Exchange Mergers as CME proposes to buy Spencer's NEX for $5.5 billion.

Such merger benefits not only the stock market and the firms listed upon them, but also benefits the current and potential investors and drives the overall economy of the countries involved in such merger. Increase in level of informational efficiency may be treated as another advantage. Success in six different cycles of past mergers (as discussed above) is testimonials to positive impact.

It is clear that nations need to work on their legal policy so as to facilitate cross border stock exchange mergers as the unparalleled potential benefits it accrues to the economy. It is also important for governments to trust the self-balancing nature of free market and avoid excessive intervention in the name of 'national interest' or 'fair competition'. ■

[3] https://www.smh.com.au/business/how-the-asx-sgx-merger-failed-20110421-1dqb2.html

All change is not growth, as all movement is not forward. *- Ellen Glasgow*