THE MARKET THAT NEVER SLEEPS: HOW DO WE GET THERE?

Richard R. Lindsey

Callcott Group LLC

May 14, 2008

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KEY IDEAS

- National/Local Identity
- Differing Regulatory Schemes
- Trading Issues
- Clearance and Settlement Issues

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NATIONAL/LOCAL IDENTITY

- If you don't have a stock exchange can you be a "developed" country?
- If you have a stock exchange you want to protect it.
- Are stock exchanges important to national security?
- Or to the domestic economy?

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DIFFERING REGULATORY SCHEMES

Regulation of:

- Securities
- Intermediaries
- Markets

Differs Widely

- Tied strongly to economic policy and "control" over the economy (and, perhaps, investor protection).

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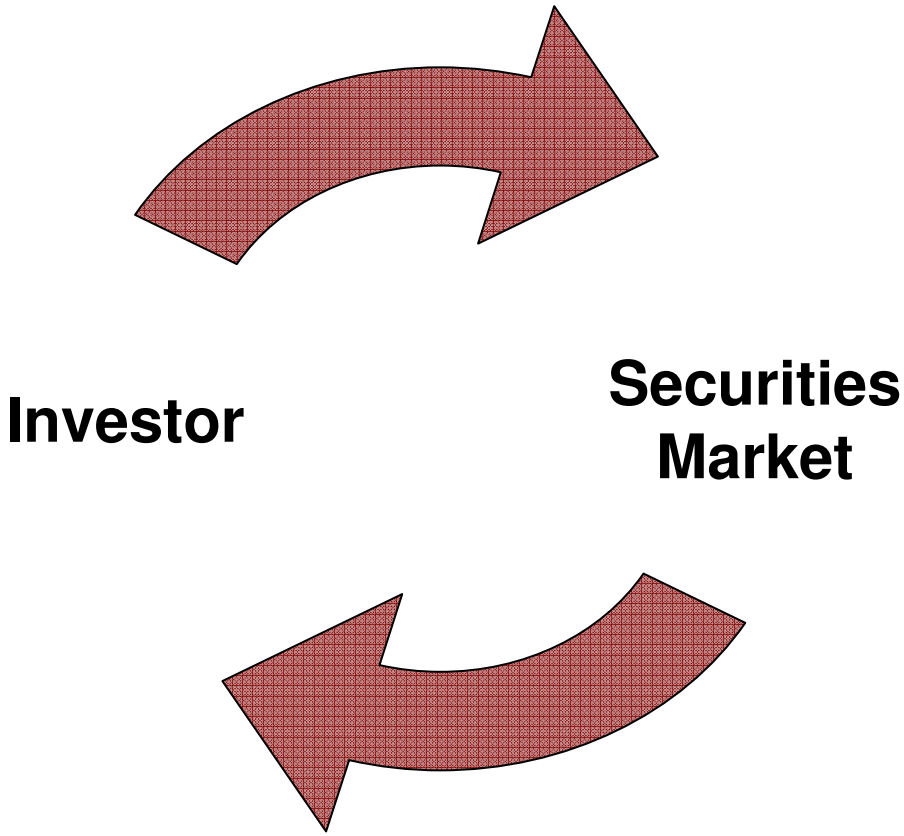
OVER SIMPLIFIED VIEW OF SECURITIES TRADING



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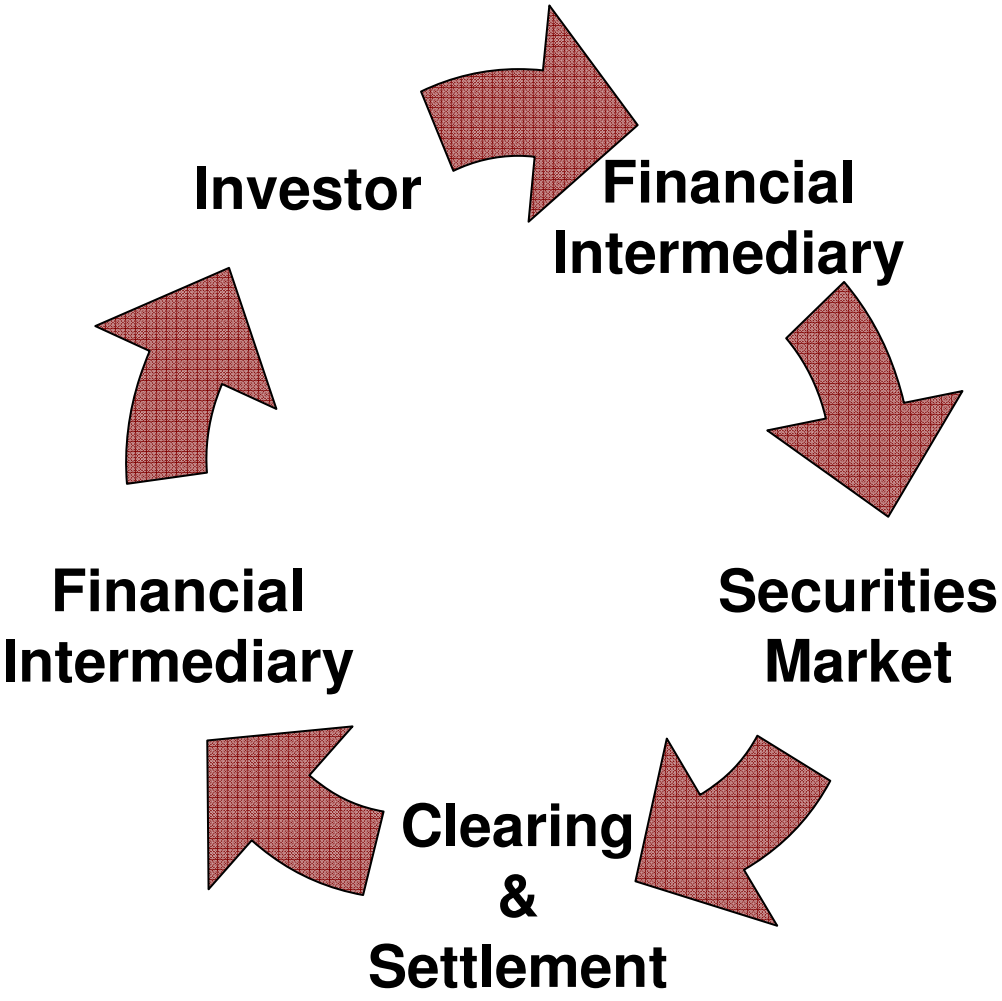
ACTUAL CYCLE OF SECURITIES TRADING



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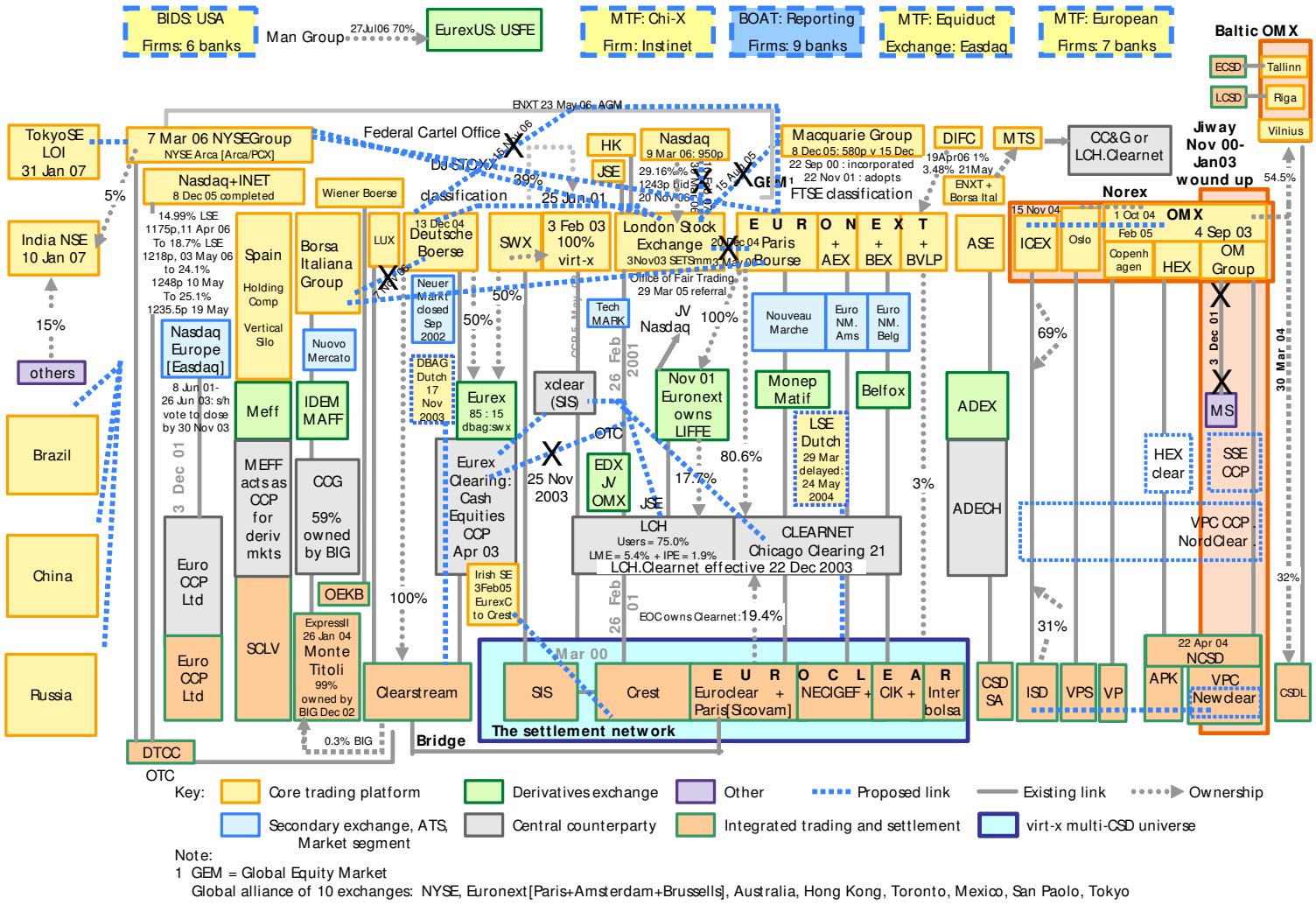
MARKET LANDSCAPE CIRCA 2007



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THREE PRIMARY CONSIDERATIONS

- The trading of non-US-registered securities in the US
- Non-US-registered broker/dealers doing business in the US
- Access to non-US-registered exchanges from the US

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NON-US REGISTERED SECURITIES

Concerned with:

- Comparability of reporting and disclosure requirements
- Enforceability of anti-fraud provisions of US securities laws
- GAAP reconciliation
- Sarbanes-Oxley compliance

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US BROKER-DEALER REGISTRATION

- Competency and integrity qualifications
- Member of a self regulatory organization
- Comply with:
  - Prohibitions on fraud, deceit and manipulation
  - Safeguarding of customer funds
  - Rules about providing margin
  - Maintaining capital adequacy standards
  - Specific record keeping and reporting obligations
- Subject to SEC enforcement powers

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NON-US REGISTERED BROKER-DEALERS

15a-6 Controls

- Can execute only unsolicited orders
- Can solicit US institutional investors if a US registered broker/dealer intermediates contacts and executions
- Can solicit and transact with US registered broker/dealers

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US EXCHANGE REGISTRATION

- Transparency, access and evenhandedness
- Rules against market manipulation, insider trading and sales of fraudulent securities
- Surveillance, trade reporting and enforcement of rules
- Approval of trading rules/market design
- Consistent clearance and settlement system

- Subject to SEC regulation and enforcement

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NON-US REGISTERED EXCHANGES

No-Action Letters Control

- Can conduct solicitation in the US limited to US registered broker/dealers and qualified institutional buyers (QIBs)

- Can link with a US registered exchange
  - Boston-Montreal
  - American-Toronto
  - Midwest-Toronto
  - Nasdaq-London
  - Nasdaq-Singapore

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EU REGIME FOR NON-EU EXCHANGES

- Joint venture with an EU exchange
- Takeover of an EU exchange
- Application to an EU national authority to operate within that national jurisdiction
- Application to an EU national authority to operate throughout EU under "single passport"

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TRADING ISSUES

- Markets tend to operate where people are awake – during normal business hours.

- Either:
  - We have “round the clock” trading now, or
  - We need to “pass the book”, or
  - We need to run trading “shifts”.

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CLEARING AND SETTLEMENT ISSUES

- STP does not currently exist within most firms – need to "close the day"

Differences in:

- Regulations
- Mechanisms
- Cycles
- Costs

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DOES IT MATTER?

- Market Cap of Top Three US Exchanges in World Federation of Exchanges is 45% of Total
- US Companies Represent 60% of the Top 100 Global Companies
- US Investors Hold Approximately 10% of Their Holdings in Foreign Equities
- Top 25 Pension Funds Hold Approximately 20% of Their Funds in Foreign Equities
- US Investors Hold More EU Securities than Vice-Versa

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