

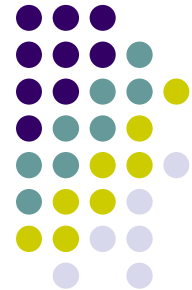
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The Evolving Global Exchange Landscape

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Unstoppable Change in Capital Markets Structure

- The global exchange landscape has changed dramatically in recent years. Major evolutions include:
 - Demutualization
 - Consolidation
 - Rising trading volumes
 - Exploding growth in derivatives
 - Deregulation (MiFID)
 - Electronic Trading
 - Dark pools

- It is not a question of if, but when similar transformations come to Asia



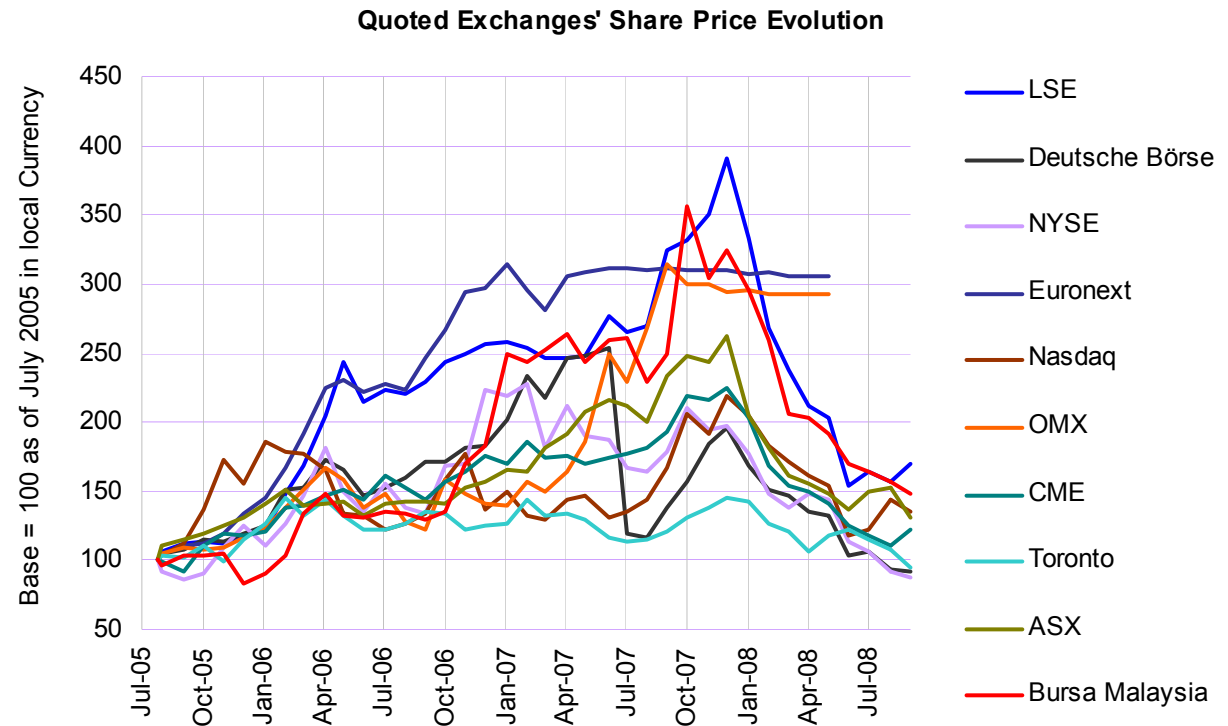
Business Environment Changes

- Competition between exchanges has been driven by technological innovation. All major exchanges went electronic before 2000, except for NYSE, that waited until 2005 to implement an hybrid system
- Competition on trading activities can come from broker-dealers which internalize their orders or plan to create their own trading platforms
 - E.g., Project Turquoise
- Competition has been intensified by new entrants such as Alternative Trading Systems (ATSs) which offer trading services at a lower price than traditional exchanges
- Capital markets regulations such as MiFID and Reg NMS vary according to the region. Hence, the competition from ATSs and brokers has not the same impact everywhere in the world



Demutualization

- Many exchanges changed their governance models, from member-owned and not-for-profit organizations to publicly traded companies
- Among the twelve major stock exchanges in terms of revenues, only four are not listed companies, and the demutualization trend also concerns major derivatives exchanges
- The evolution of their shares' value can be a good indicator of their performances

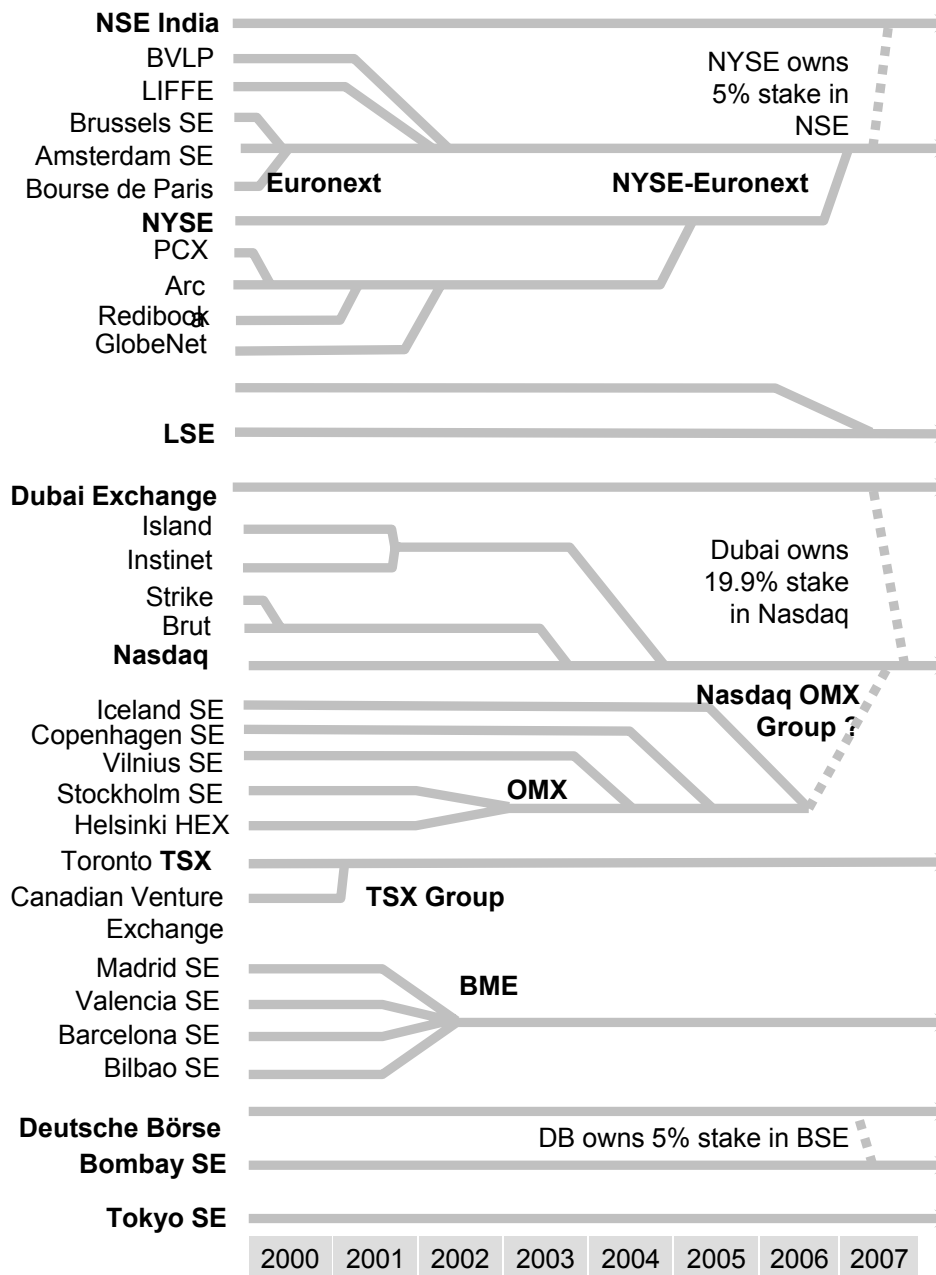


Source : Yahoo! Finance, Celent analysis



Consolidation

- Consolidation has occurred on a regional and global scale and represents a means of achieving revenue and cost synergies towards expanding trading activities and diversifying revenue sources

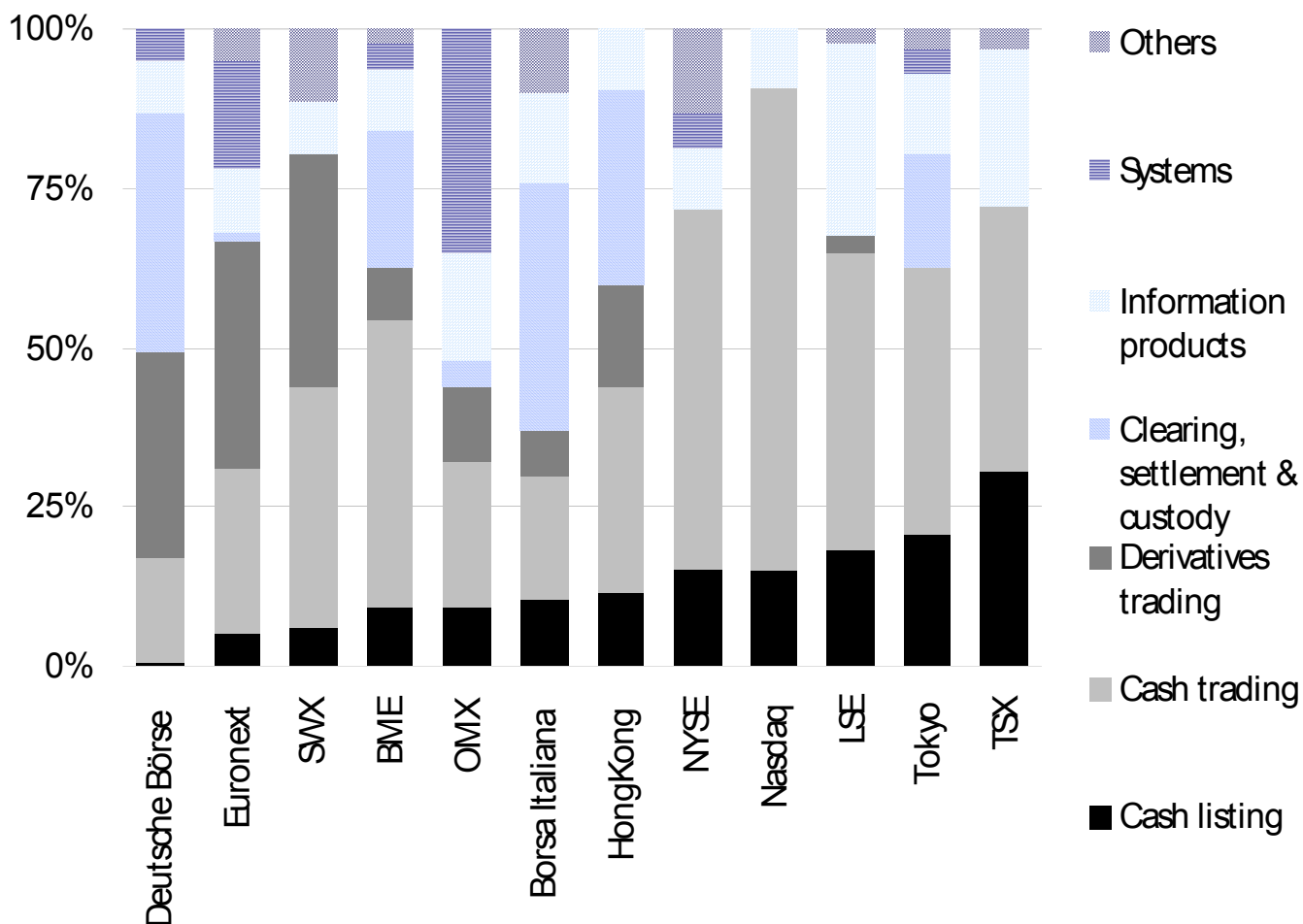


Source : Celent



Major Equity Exchanges: Diversified Revenue Sources

Major Exchanges' Revenue Breakdown

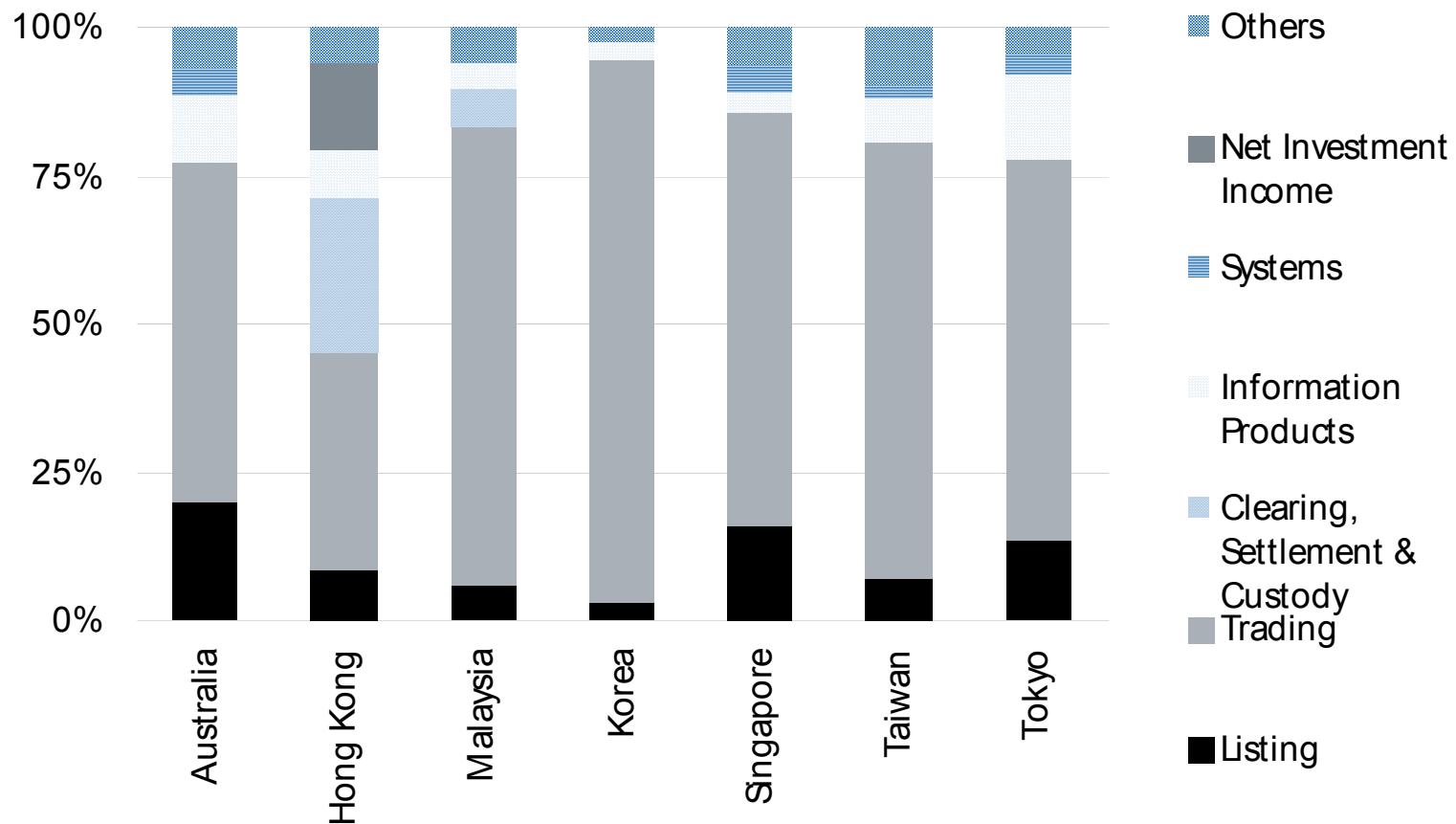


Source : Exchanges, Celent analysis



Asian Exchanges: Concentrated on Trading

Asian Exchanges' Revenue Breakdown

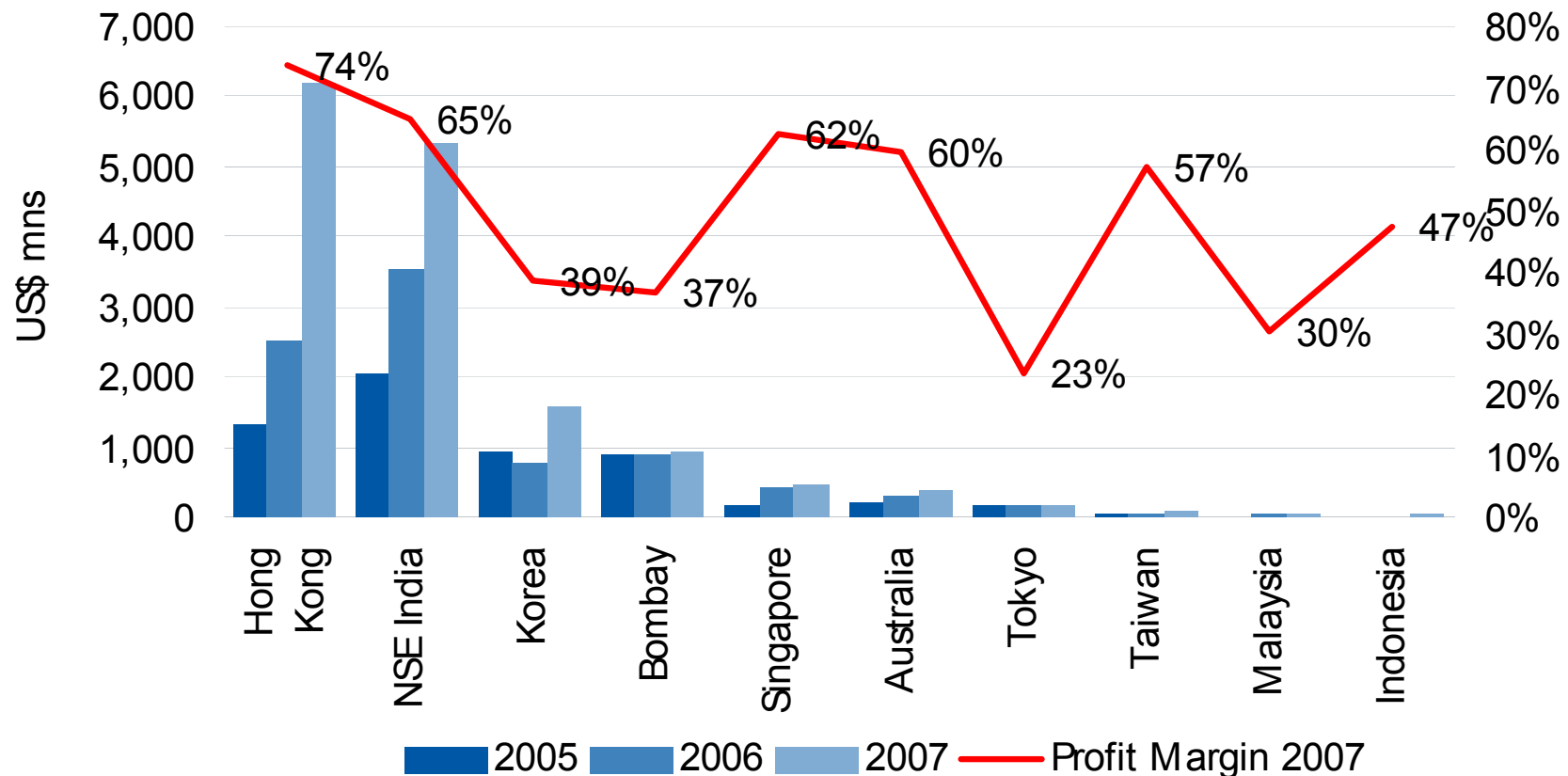


Source : Exchanges, Celent analysis



Profitability of Asian Exchanges

Revenue and Profit Trends at Asian Exchanges



Source : Exchanges, Celent analysis



Dark Liquidity Pools

- Dark liquidity pools or blind-book markets are alternative trading systems (ATSs) that have limited or no transparency on a pre-trade basis, and frequently on a post-trade basis as well
- Traders send the same information to blind-book markets as they do to the open-book but the main distinction is what these latter markets do with the information
- Dark liquidity pools can take the following forms:
 - Broker-Sponsored (“bulge bracket” or agency-only broker)
 - Broker Consortiums
 - Exchange-Sponsored
 - Technology firm with direct market access (DMA) and acting as an agency broker
- Broker-sponsored pools represent the vast majority of dark liquidity pools, with consortiums and exchanges increasing in number



Global Penetration of Dark Liquidity

- In the US, dark liquidity pools account for approximately 10% of equities volumes (500 million shares per day) and could grow to as much as 20% by 2010
- Before MiFID was adopted in November 2007, dark liquidity pools accounted for negligible volumes in the European equities market—under 1%
- However, the abolition of concentration rules at a number of European exchanges presented an opportunity for dark liquidity pools in Europe. ATS market share has risen dramatically
 - Instinet's Chi-X (London) has acquired 5 – 10% of equities trading in multiple European markets in less than one year



Global Exchange Landscape Overview

- The competition pressure in the capital market has been intensified over the past few years by brokers internalizing their orders and new entrants such as Alternative Trading Systems (ATSS), which offer similar trading services at a far lower price than traditional exchanges.
- The exchange industry landscape has evolved rapidly following two major trends: demutualization and consolidation
- Revenues and profits generated by the major exchanges have grown significantly in recent years and many exchanges have diversified their revenues sources.
- Bust and boom cycles exist, but over the long term these trends are expected to continue, and increasingly affect the exchange landscape in Asia



Thank you.

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