Stock Market Review

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The future of the MSE as global bourses merge

While in the past two weeks the turmoil in Libya has been dominating the news and sentiment across global financial markets has inevitably been hit, a few days earlier the wave of proposed mergers among international stock exchanges was hitting the headlines.

On February 9, the London Stock Exchange announced that it was acquiring the TMX Group, the operator of the Toronto Stock Exchange. Shortly after, on February 15, it was reported that Deutsche Boerse agreed to buy NYSE Euronext for $10.2 billion creating the world's largest exchange operator and effectively placing the New York Stock Exchange under German control as Deutsche Boerse shareholders are expected to hold 60 per cent of the new company to be registered in the Netherlands. Speculation is rife that some other exchange could come forward with a counterbid for NYSE with the most likely bidder being the NASDAQ OMX Group. Elsewhere, Australia's ASX and the Singapore Exchange are also seeking to merge.

Where does the future of the Malta Stock Exchange lie in this wave of consolidation? In 2006 various media interviews with Finance Minister Tonio Fenech and the then chairman of the MSE Joseph Zammit Tabona had indicated that the MSE was embarking on a restructuring exercise paving the way for privatisation through the possible involvement of a strategic partner. The restructuring included the creation of a holding company and the segregation of the duties of the Central Securities Depository.

The change in the corporate structure took place in 2007 with the formation of the Malta Stock Exchange plc and its sister company CSD (Malta) plc. At the time, apart from the corporate restructuring exercise necessary for eventual privatisation, the chairman of the MSE had talked about other initiatives that were being looked into, namely: (i) market-making and short-selling, (ii) an exchange-regulated market, and (iii) improvements to the MSE's technological infrastructure to increase connectivity with mainstream EU stockmarkets. So far none of these important initiatives have materialised.

In the 2008 Annual Report of the MSE, the chairman noted that the Exchange commissioned a study "aimed at seeking new ways of attracting more companies to listing, as well as to outline what options are available for closer relations with strategic partners". This study conducted by Ernst & Young was reportedly finalised in January 2009 and the Exchange had indicated that it "was studying its contents".

However, in January 2009 Mr Fenech explained in a media report that the decision on the privatisation of the MSE "now seems unlikely due to the global economic climate". While this stance was understandable at the time when the international financial crisis and recession brought to a halt plans for expansion also by various multi-national companies, M&A activity has since increased markedly in recent months on signs of improving economic performances in most parts of the world.

Since then, no mention was made of the MSE's strategy and possible privatisation plans by either the Finance Minister in the past two Budget speeches or the newly-appointed chairman of the Exchange Arthur Galea Salomone in the 2009 Annual Report of the MSE.

Although the government has repeatedly mentioned that Malta aims to be a centre of excellence in financial services as part of its Vision 2015, this deadline is fast approaching and a well-functioning capital market should be at the forefront of such a bold initiative.

The Minister of Finance and the Prime Minister regularly praise the developments and growth in the financial services sector. However, the risk is that this rate of development may be taken for granted and not sufficient attention is given to strategies that may need to be adopted to sustain this development. In last year's Finance Malta conference, the College of Stockbrokers had listed a number of the initiatives that had been on the drawing board at the MSE for far too many years. It seems that no further progress has been achieved on most of these proposals.

In our view, the MSE must revitalise its strategic review and bring to the fore the recommendations of the Ernst & Young study on the Exchange. Adopting a number of these initiatives will make the Exchange a more attractive asset once the government decides to proceed with an eventual privatisation.

The number of listings on the Malta Stock Exchange is another area which needs to be critically reviewed. ***Photo: Darrin Zammit Lupi***

The number of listings on the Exchange is another area which needs to be critically reviewed. While a degree of success has been achieved in increasing the number of corporate bond listings over the past two years, this has suddenly come to a halt. In our view it is not a mere co-incidence that bond issuance has dried up since the introduction of new policies adopted by the Listing Authority in summer 2010. A further consultation process between the MFSA, the MSE, market practitioners and the Ministry of Finance on the new policies and its effect on potential issuers needs to be undertaken.

The MSE should be among the primary motivators to see the number of listings increase. Apart from the lack of corporate bond issuance in the past few months which is possibly due to the new policies, another initiative which had been earmarked to increase equity listings was the launch of an Exchange Regulated Market (XRM). Former chairman Joseph Zammit Tabona had mentioned this initiative twice in the 2007 and 2008 annual reports. Moreover, in a media interview on March 13, 2008, the chairman of the MSE reported that the XRM proposals had also been presented to the Minister of Finance.

In the MSE's 2008 Annual Report, the former chairman had stated that this is currently being discussed with the Minister and "indications are that this may become a reality within the next few months". Apart from potentially attracting small local and mid-cap companies, one must also look beyond our shores in an effort to attract foreign companies to consider the MSE for their listing requirements.

Apart from the possible XRM mechanism, listings may also increase by seeking ways of enticing the numerous funds being re-domiciled to Malta to obtain a listing on the MSE as opposed to them being listed in other European financial jurisdictions such as Dublin or Luxembourg. In the Hedgeweek magazine published in September 2009, the previous CEO of the MSE Mark Guillaumier had stated that the Exchange is "reviewing the legislative and fiscal environment for listed funds in order to make listing more attractive to the international fund industry".

Here again, no news has since emerged on the progress achieved in adopting these legislative changes. In our view a reputable international partner for the Exchange will be beneficial to attract foreign listings of companies as well as funds.

The recent wave of mergers among global bourses should be an eye-opener that the industry is consolidating rapidly. In this respect, a review of the MSE's current and future plans including any strategic partnership must be seen to without any further delay.

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