

DEMUTUALIZATION OF STOCK EXCHANGES

PROBLEMS, SOLUTIONS AND CASE STUDIES

Edited by

SHAMSHAD AKHTAR

Director, Governance, Finance and Trade Division,
East and Central Asia Department,
Asian Development Bank

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FOREWORD

Demutualization of a stock exchange is entire process by which a non-profit member-owned mutual organization is transformed into a for-profit shareholder corporation. Exchanges around the world have been demutualizing because of international competition and technological challenges to traditional modes of trading securities. The change of a stock exchange from a member-owned organization to a for-profit shareholder corporation triggers a number of questions about regulatory oversight. When a demutualized exchange is listed on its own board, some regulatory oversight needs to be transferred to a government regulator. In many countries, demutualization of the major national stock exchange has been accompanied by general securities regulatory reform.

This book grew out of a conference on Demutualization of Stock Exchanges held in Manila on 13-14 August 2001 organized under the APEC Financial Regulators Training Initiative sponsored by the Asian Development Bank. The conference focused on developing greater understanding of demutualization by discussing the general problems it engenders and how these might be solved, developing common themes and lessons from case studies and also seeing how different countries have evolved different approaches to demutualization.

This book is divided into three parts. Part I, consisting of Chapters 1-11, discuss various dimensions and issues involved in the process of stock exchange demutualization. Chapters 1-3 give a broad overview of the reasons for demutualization, the critical issues and challenges, the decision-making process relating to demutualization and the possible models stock exchanges may choose, including that of a privately owned for-profit corporation and that of a publicly held company listed on the exchange's own board. Chapter 4 sets forth the critical issues an exchange and its regulator must confront in connection with the demutualization process from the vantage point of a particular jurisdiction—Australia. Chapters 5-7 discuss the conflicts of interest raised by an exchange's demutualization and then Chapters 8-11 set forth how regulators in Canada, Singapore, the United States and Australia attempted to deal with some of these conflicts through regulation.

Part II of this book is a series of case studies. Chapters 12-17 discuss the demutualization experience in Australia, Hong Kong, Singapore,

Toronto and the Philippines. Part III of this book provides information about jurisdictions that have not demutualized their exchanges. Chapters 18-22 discuss the Colombo, Kuala Lumpur, Shanghai and Shenzhen, Taiwan and Thailand exchanges.

Chapters 1-16 were submitted as papers by professionals who presented papers at the conference. Chapters 17-22 were submitted by participants in the conference who were not presenters.

This conference was coordinated by the Finance and Industry Division (East) of ADB under the overall guidance and supervision of Ms. Shamshad Akhtar, Director, Governance, Finance and Trade, East and Central Asia Department. Special thanks are due to the various contributors as well as the organizers. The book has been edited by Ms. Akhtar. Ms. Roberta Karmel, Professor of Law at Brooklyn Law School, was engaged to integrate the conference materials and provide editorial advice. R. Jane Lee, a student at Brooklyn Law School supported the compilation of this book. Mr. Lyle Raquipiso coordinated the publication of this book and Ms. Nancy Bustamante provided administrative support.



Geert H.P.B. van der Linden
Director General
East and Central Asia Department
Asian Development Bank

PRINCIPAL AUTHORS

SHAMSHAD AKHTAR is Director, Governance, Finance and Trade Division of the Asian Development Bank's (ADB's) East and Central Asia Department. She oversees ADB's financial market operations in the People's Republic of China, Mongolia and the Central Asian Republics, including SME, microfinance and other rural market financial intermediation; governance and private sector assessment work; and trade liberalization and facilitation. Concurrent to holding other portfolio from 1998-2001, she was head of ADB Secretariat for Asia Pacific Economic Cooperation, leading the policy dialogue and preparation of all papers/documents for this forum, involving interactions with Finance Ministers and Central Bank Governors and their Deputies. Before joining ADB in 1990, she worked as Economist in the World Bank in the 1980's, and prior to that, in Pakistan's Planning Agency. She obtained a B.A. in Economics and M.Sc. in Economics from Islamabad, an M.A. in Development Economics from University of Sussex in the United Kingdom (UK), and a Ph.D. in Economics also from UK. She had her post-doctoral fellowship as a Fulbright scholar and was visiting fellow at the Department of Economics, Harvard University in 1987. Ms. Akhtar has presented numerous papers on economics and finance in international conferences.

TIMOTHY BAIKIE is Director, Global Market Initiatives at the Toronto Stock Exchange and is responsible for analyzing market structure issues from a broad, strategic standpoint, including the market model for the Global Equity Market (GEM). Previously, he was Special Counsel, Market Regulation and Director of the Regulatory and Market Policy Division of the Exchange, which is responsible for policy and rule development for the equities and derivatives market. He has spoken at numerous conferences on market regulation, market structure and corporate governance issues and was a member of the Advisory Board for the 1999 Canadian Corporate/Securities Law Moot Court Competition. He received a B.A. from York University (Glendon College), an LL.B. and a B.C.L. from McGill University and an LL.M. from the University of Illinois at Urbana-Champaign. He was called to the Ontario Bar in 1987.

LAWRENCE FOK is the Deputy Chief Operating Officer of Hong Kong Exchanges and Clearing Limited and the Chief Executive of the Stock Exchange. Mr. Fok joined the Stock Exchange in February 1992 and was

appointed Executive Director of the Listing Division in February 1997 and Senior Executive Director of its Regulatory Affairs Group in November 1998. Mr. Fok has over 19 years of experience in financial services and securities regulatory work. Before joining the Stock Exchange he worked for the Securities and Futures Commission, the Office of the Commissioner for Securities and Commodities Trading of the Hong Kong Government and other private organisations in areas of corporate finance advisory work, securities dealing, venture capital investment, mainland China trade and investment management.

CLAIRE GROSE is Special Counsel, Regulatory Policy Branch at the Australian Securities and Investments Commission (ASIC). For two years prior to July 2001, she held the position of ASIC's Director, National Markets Unit. Before joining ASIC in January 1999, Ms. Grose was a senior partner in the national Australian law firm Freehill Hillingdale & Page, specialising in corporations and securities law. She has more than 20 years experience as a corporate lawyer and played a major part in developing changes to the Corporations Law in Australia in her role as a member of the Corporations Law Simplification Task Force from October 1993 to March 1997.

DAVID HOLTHOUSE is National Manager, International Affairs, at the Australian Stock Exchange (ASX), which he joined in February 1996. His responsibilities include fostering links with governments, businesses and market participants to ensure that ASX has a role in shaping the regional capital market environment, coordinating ASX's international activities to ensure strategic fit, identifying cross-border listing opportunities where ASX can add value, and providing an effective protocol service on behalf of the Exchange. He has been a member of the Working Committee of the East Asian and Oceanian Stock Exchanges Federation (EAOSEF) since 1997 and is currently the Federation's Working Committee Chairman. A key activity of the Committee during this time has been the facilitation of cross-border trading. He was formerly a career naval officer, retiring as a Rear Admiral in 1993. He is a member of the governing bodies of a number of professional and charitable organisations, and a Graduate of the Australian Institute of Company Directors. He is a Chartered Professional Engineer, and a Fellow of both the Institute of Engineers Australia and the Institute of Marine Engineers (UK). He was appointed as an Officer in the Order of Australia in 1991.

PAMELA S. HUGHES is a securities law partner at Blake, Cassels & Graydon LLP in Toronto. Her practice focuses on international corporate finance and mergers and acquisitions transactions and advice regarding capital market regulatory reform. Ms. Hughes is a member of the team of lawyers from Blake, Cassels & Graydon involved in the ongoing Ontario Securities Commission (OSC) Policy Reformulation Project which commenced in 1995. Prior to February 1, 1995, Ms. Hughes was Director of the Capital Markets/International Markets Branch of the OSC. Ms. Hughes has also taught international securities regulation in the LL.M. programme at Osgoode Hall and the LL.B. programme at the University of Toronto, and was a contributing editor to *North American Corporate Lawyer*. Ms. Hughes updated the chapter on Philippines securities law in *International Securities Regulation: Pacific Rim, Volumes I and II* (New York: Oceana) released in 2000. In 2000, Ms. Hughes was nominated by the federal Department of Finance to the financial services roster for dispute resolution under the North American Free Trade Agreement.

ROBERTA S. KARMEL is a Professor of Law and Co-Director of the Center for the Study of International Business Law at Brooklyn Law School and Of Counsel to the law firm of Kelley Drye & Warren LLP. In addition, she is a director of the Kemper Insurance Companies. She was a Commissioner of the Securities and Exchange Commission from 1977-80, and a public director of the New York Stock Exchange, Inc. from 1983-89. She received a B.A. cum laude from Radcliffe College in 1959 and an LL.B. cum laude from New York University School of Law in 1962. Professor Karmel is the author of over 30 articles in legal journals, and writes a regular column on securities regulation for the *New York Law Journal*. Her book entitled *Regulation by Prosecution: The Securities and Exchange Commission vs. Corporate America* was published by Simon and Schuster in 1982.

LEE BOON NGIAP heads the securities regulatory policy function in Monetary Authority of Singapore (MAS). His division is responsible for regulatory framework development, policy coordination and market analysis of the securities, futures and asset management industries in Singapore. Prior to taking up his responsibility in the Securities and Futures Department, Mr. Lee was the Representative in the MAS office in London, responsible for spearheading the promotion of Singapore as an attractive place for UK and European financial institutions to invest and set up operations. Mr. Lee joined MAS in 1986 and worked in several departments before joining the Markets and Investment Department, where he rose to become a Senior Assistant Director in the Monetary Management Division.

There his responsibilities included the conduct of Singapore's exchange rate and monetary policies, and management and evaluation of the foreign exchange exposures of public sector entities. He holds an honours degree in Civil Engineering from the National University of Singapore and is a Chartered Financial Analyst.

NATALIE A. MARKMAN is Counsel to Commissioner Thomas J. Erickson of the US Commodity Futures Trading Commission. She provides legal counsel and analyzes such policy issues as those created by derivatives market deregulation, electronic trading, and exchange demutualization. Ms. Markman reviews and evaluates all documents submitted by staff for Commission approval, including exchange designations, contract and rule approvals, rulemakings, opinions, and enforcement actions. Previously, she served as Special Counsel in the Commission's Office of International Affairs, as an Attorney-Advisor in the Office of the Chief Counsel of the Commission's Division of Trading and Markets, and as an Attorney-Advisor to Commission Administrative Law Judge George H. Painter. Ms. Markman also was a Teaching Fellow for the Foundations of American Law and Legal Education program at the Georgetown University Law Center, where she received her J.D. degree in 1993.

WILLIAM PEARSON is Director in the Corporate Finance Division of the Securities and Futures Commission (SFC) in Hong Kong. He is responsible for assisting in formulating policies for the effective regulation of listed companies and the securities markets. Daily work involves monitoring and regulating corporate activities of publicly listed companies, overseeing the Stock Exchange in its listing related functions, and approving offerings of shares and debentures to the public by non-listed companies. Mr. Pearson joined the SFC as a Senior Manager in the Corporate Finance Division in 1998. Prior to that he spent nine years as a lawyer with Norton Rose, a London law firm, practicing in the areas of corporate finance and M&A. He graduated as a lawyer from King's College, London in 1987.

ALAN JOSEPH SHAW is Executive Vice-President of the Singapore Exchange Limited, Head of Risk Management and Regulation. Previously, from 1991-2000, he was National Manager, Supervision of the Australian Stock Exchange Limited, Melbourne. He was educated at the University of Melbourne, from which he received a Bachelor of Laws in 1979, a Graduate Diploma of Public Policy in 1988, and a Master of Arts in Public Policy in 1994. From 1980-91, he served as a Principal

Legal Officer for the National Companies and Securities Commission, as a Judge's Associate, and as a Barrister. He has authored a number of articles on company law.

ABBREVIATIONS

Amex	American Stock Exchange
APEC	Asia Pacific Economic Cooperation
Archipelago	Archipelago Holdings, LLC
Archipelago Exchange	Archipelago Exchange, LLC
ASIC	Australian Securities and Investments Commission
ASTC	Australian Settlement and Transfer Corporation Pty Ltd
ASX	Australian Stock Exchange
ATS	alternative trading system
BOT	Bank of Thailand
CATS	computer assisted trading system
CBA	Colombo Brokers Association
CBI	Canadian-based interlisted issuer
CBOT	Chicago Board of Trade
CCASS	Central Clearing and Settlement System
CDNX	Canadian Venture Exchange
CDS	Central Depository System
CFE	communication front-end system
CFTC	Commodity Futures Trading Commission
CGE	Committee on the Governance of the Exchanges
CME	Chicago Mercantile Exchange
CMP	Capital Market Masterplan
CNS	Continuous Net Settlement
CSE	Colombo Stock Exchange
CSRC	China Securities Regulatory Commission
DTF	derivatives transaction execution facility
EBOT	exempt board of trade
ECM	exempt commercial market
ECN	electronic communications network

ETF	exchange traded fund
ETP	equity trading permit
FCM	futures commission merchant
FIBV	International Federation of Stock Exchanges
GEM	Growth and Emerging Market
HIBOR	Hong Kong Interbank Offered Rate
HKCC	HKFE Clearing Company
HKEC	Hong Kong Exchanges and Clearing
HKEx	Hong Kong Exchanges and Clearing Limited
HKFE	Hong Kong Futures Exchange Limited
HKFECC	HKFE Clearing Corporation Limited
HKSCC	Hong Kong Securities Clearing Company
IDA	Investment Dealers Association
IISL	India Index Services & Products Limited
IMM	International Monetary Market
IOM	Index and Option Market
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offer
KLSE	Kuala Lumpur Stock Exchange
KULBER	KLSE-Bername Real-Time Information Services
LFX	Labuan International Financial Exchange
LSE	London Stock Exchange Plc
MAS	Monetary Authority of Singapore
MCD	Malaysian Central Depository
MDEX	Malaysia Derivatives Exchange
ME	Montreal Exchange
MESDAQ	Malaysian Exchange of Securities Dealing and Automated Quotation Bhd
MkSE	Makati Stock Exchange
MMCD	Mark to Market Collateral Deposit
MOF	Ministry of Finance
MOU	memorandum of understanding
MSE	Manila Stock Exchange

MSRS	Malaysian Share Registration Services
NASD	National Association of Securities Dealers, Inc.
NASDAQ	NASDAQ Stock Market, Inc.
NASDR	NASD Regulation, Inc.
NSE	National Stock Exchange of India
NYSE	New York Stock Exchange
OECD	Organisation for Economic Co-operation and Development
OM	OM Gruppen AB
OSC	Ontario Securities Commission
OTC	over-the-counter
PCX	Pacific Exchange
PCX	PCX Equities, Inc.
PCX Holdings	PCX Holdings, Inc.
PCXE	PCX Equities, Inc.
PSE	Philippine Stock Exchange, Inc.
REC	recognized exchange controller
RIIAM	Research Institute of Investment Analysts Malaysia
SAFE	South Asian Federation of Exchanges
SC	Securities Commission
SCA	Securities Commission Act 1993
SCANS	Securities Clearing Automated Network Services Sdn Bhd
SCCP	Securities Clearing Corporation of the Philippines
SCORE	System on Computerised Order Routing and Execution
SCH	Securities Clearing House
SEA	Securities and Exchange Act of 1992
SEC	Securities and Exchange Commission
SEHK	The Stock Exchange of Hong Kong Limited
SEL	Taiwanese Securities and Exchange Law
SEOCH	SEHK Options Clearing House Limited
SES	Stock Exchange of Singapore
SET	Stock Exchange of Thailand

SFA	Securities and Futures Act
SFC	Securities and Future Commission
SFE	SFE Corporation Limited (formally known as Sydney Futures Exchange Limited)
SGX	Singapore Exchange Limited
SGX-ST	Singapore Exchange Securities Trading Ltd
SIA	Securities Industry Act 1983
SIIS	Special Isolated Immediate Settlement
SIMEX	Singapore International Monetary Exchange Limited
SIPF	Securities Investors Protection Fund
SME	Small Medium Enterprise Board
SRC	Securities Regulation Code
SRO	Self-regulatory organization
STAMP	standard message protocol
TBDC	Thai Bond Dealing Center
TSD	Thailand Securities Depository Co., Ltd.
TSE	The Toronto Stock Exchange
TSE RS	TSE regulatory services
TSE	Tokyo Stock Exchange
TSEC	Taiwan Stock Exchange Corporation
TSI	Thailand Securities Institute