Out in the cold

The New Zealand Stock Exchange is in danger of missing the merger party. By Mark Story

By Mark Story, Auckland

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There's a stock market merger party going on but no one's sure if New Zealand's going to make it on time, or if it is even on the guest list.

At least one of the hosts, Richard Humphrey, chief executive of the Australian Stock Exchange, is keen to have the New Zealand Stock Exchange invited, if for nothing other than to save its sorry ass. He recently told a Melbourne business lunch audience that the NZSE will continue to shrivel unless a merger is embraced.

Sadly, the Ocker's probably right. The decline in listed companies continues unabated as the need to raise more capital and be closer to offshore markets means many of our top companies, like Lion Nathan, Fernz and maybe now even Telecom, are relocating head offices to Australia; their market capitalisation will inevitably follow. Once Lion Nathan (capitalised at $2.4 billion) transfers its primary listing to the ASX, the NZSE will have lost a third of its market capitalisation in just six years.

The way Humphrey calls it, strategic alliances or mergers with other exchanges are the only way small exchanges can survive globalisation. Merging will reduce share market volatility, expand investment choices and lower brokerage fees. It will also help the NZSE tap into a computerised market surveillance system needed to track insider trading.

On paper, Humphrey's argument is hard to ignore. Especially as the ASX already accounts for 50% of the trades done by New Zealand customers of larger brokers such as JB Were. However, NZSE chairman Eion Edgar is adamant a merger with the ASX is not inevitable. In fact, the Exchange says it hasn't even formally approached Humphrey about a trans-Tasman merger.

Marry in haste

By contrast, the ASX (which demutualised to form a listed company in 1998) is touting itself everywhere. Humphrey says he wants a piece of European merger action as the London Stock Exchange merges with Frankfurt's Deutsche Börse in a mega-European exchange, called iX. The ASX is also in talks with numerous other exchanges, including the New York Stock Exchange, with a view to linking electronic trading systems in a Global Equity Market (GEM) (see "Party on, dudes", page 22). Humphrey has also drawn up agreements with the Nasdaq and markets in the Philippines, Thailand, Korea, Malaysia and Taiwan. And despite the NZSE's seeming indifference, he believes a trans-Tasman merger fits clearly within its strategy of developing international alliances.

Asked what's up, the unforthcoming NZSE chief executive Bill Foster says he is still consulting his members. But in one of those annoying "you first", "no, you first" stand-offs, larger brokers such as Merrill Lynch and UBS Warburg say they are reluctant to develop a house view until the NZSE outlines its preferred options. With eight of the largest NZSE members being little more than branches of global firms, mostly headquartered in Australia, asking them if they favour merging the NZSE with the ASX must be a bit like asking Lassie if she'd like a bone.

Not all the members will be so acquiescent. Don Turkington of broker Cavill White, one of two top 10 brokers that is New Zealand owned, says there are benefits to members in having a separate market. “We get business because overseas investors have jurisdictional hurdles to jump to buy New Zealand-based stocks. In other words, they have to buy and sell shares through a local broker.”

Other key issues, says Turkington, are size and liquidity. He says being part of a bigger entity risks marginalising the NZSE more than it is already. “There’s a big difference between a full merger with the demutualised ASX and bringing an international trading platform onto the screen through dealing system software. Until outcomes are clearly identified by NZSE members, a clear consensus opinion is unlikely to surface.”

Time, gentlemen

While the members contemplate their navels, time may be running out. Since negotiating its new trading platform with the Singapore Stock Exchange (see “Party on”), the ASX’s interest in hooking-up with the NZSE has waned, says ASX spokesman Gervase Greene. After numerous informal discussions, the ball is now in the NZSE’s court, he told *Unlimited*.

“Our real priority is to increase the depth and liquidity of the capital market to make the cost of capital cheaper. The quickest road is via multilateral trading links, and Singapore is a major coup.”

Paul Richardson, head of research with UBS Warburg, says the NZSE’s options depend on how it views its future role. Key options as he sees them include:

- Join a global alliance to facilitate trades within different time zones;

- Merge with the ASX to create greater liquidity through one exchange. Under this option, the NZSE (total equity and assets $8 million) demutualises and the 273 individual and 41 NZSE members take shares in the ASX; and

- Status quo, which is unlikely, due to growing market sentiment.

For Richardson’s money, the NZSE is likely to opt for a global trading platform ahead of a merger. Further afield, he suspects that currency and cross-border settlement issues and successfully integrating trading rules, tax laws and dividend imputations, mean grandiose schemes to merge mega-exchanges could be light-years away.

Founder of New Zealand’s New Capital Market (NCM) Greg Harris shares this view. He says if the world’s most closely aligned share markets — New Zealand and Australia — can’t merge after years of dialogue, how will markets with even less in common manage it? “Regulatory hurdles make this a bigger fish to fry than most people think. My prediction is it’s going to take a long time to evolve, if ever.”

Harris says whether the NZSE merges or not, it’s crucial the NCM remains intact. Investors already have access to world markets and many large caps already participate in these markets through co-listings. So he questions whether an Australian/international-dominated board of a merged Australasian stock exchange would really have the interests of New Zealand at heart.

“Losing the NZSE would go against world trends. Smaller exchanges have popped up in recent times because smaller economies recognise that a vibrant stock exchange serves a vital purpose in national policy. New Zealand could become a financing centre for small deals. But if the NCM dries up, so will smaller entrepreneurs’ ability to access public markets ... this is crucial to economic growth."

Whether the NZSE is uninvited or simply chooses to not attend the party, the night's looking long and stormy for the New Zealand investment community.

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Party on, dudes

Stock exchange merger parties

iX (International Exchange)

The result of a merger between London and Frankfurt's Deutsche Börse, iX looks like forming an alliance with Nasdaq.

It is already being joined by Milan and Madrid next year and possibly Euronext. Assuming it does, iX is expected to represent 18.22% of world equities market, based on the Morgan Stanley Capital Index.

GEM (Global Equity Market)

Nasdaq competitor the New York Stock Exchange (NYSE) is involved in early-stage talks with exchanges in Hong Kong, Mexico, Brazil, Tokyo, Toronto Stock Exchange and Euronext with a view to establishing an exchange to rival iX. Interconnecting with participating exchanges, GEM will seek to provide investors worldwide with around-the-clock trading. The market capitalisation of the new entity would exceed $US20 trillion, of which the NYSE's listed domestic companies represent half.

Euronext

This merger of Dutch, Belgium and French exchanges has a market cap of $US2.1 trillion.

ASX/Singapore

A common trading platform recently negotiated between the ASX and the Singapore Stock Exchange will launch July 2001.

It means Aussie investors will be able to buy Singapore stocks through an Australian broker and vice versa. This merger will have a 2.8% net share of the MCSI.

Nasdaq Japan

A joint venture between Japan's Softbank and Nasdaq will trade both Japanese and Nasdaq stocks. It starts this year.