

# Deutsche Börse and Bulgarian Stock Exchange: Cooperation with Perspectives

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# Consolidation and Competition: Maintaining and Increasing Liquidity is Key for Exchanges



- Ø Very active market consolidation in 2007 including first cross-Atlantic deals (e.g. NYSE-Euronext, Nasdaq-OMX, Eurex-ISE) while economies of scale drive for increased system load
- Ø Competition increases as investment firm groups become marketplace operators (e.g. Turquoise) and new entrants emerge (e.g. Chi-X), supported by regulatory focus on Customer Protection and Interoperability
- Ø OTC markets capture large parts of the total order flow. Various so-called “Dark Pools” were established
- Ø Challenge for exchanges is still to uphold efficiency of public price discovery, to avoid the fragmentation of liquidity and to integrate OTC markets

## Deutsche Börse:

- § Deutsche Börse actively manages the liquidity of its markets by continuously measuring liquidity costs and selecting the right market model for each instrument
- § Furthermore, Deutsche Börse consistently introduces new innovative products, e.g. Exchange-Traded Commodities (“ETCs”) and “Xetra-Gold” recently
- § Last but not least, cooperation and partnerships with other exchanges ensure economics of scale for Deutsche Börse's trading platforms.
- § On June 16, 2007 the Bulgarian Stock Exchange with its 81 members successfully went live on Deutsche Börse's Xetra platform



# Partnership in South-Eastern Europe



## Motivation

- § Leading exchanges like Deutsche Börse are mostly active across various asset classes and the whole value chain of exchange trading
- § Their international network of trading & clearing member as well as settlement institutions, CSDs and data vendors provides high synergies and unique potential for smaller exchanges
- § Joint marketing & sales activities (e.g. road shows and investor conferences in major international financial centers) highly valued by local issuers
- § Re-using exchange infrastructure of an exchange partner comes only at marginal costs for smaller exchanges
- § Difficult projects (e.g. setting up derivatives trading and/or a full fledged clearing house) become feasible for smaller exchanges in a much shorter timeframe

## Deutsche Börse's Approach

- § Concept of "Partner Exchanges" with various options and close integration into Deutsche Börse's infrastructure
- § Various success stories (latest: Bulgarian Stock Exchange) demonstrating development of time of such a partnership (first cash market infrastructure, expansion of asset classes, set-up of a CCP, CSD linkage)
- § Flexible engagement models offered
- § Highly attractive pricing possible due to synergies (re-using of existing hardware and trading networks)

## Lessons Learnt

- § Trustful and long-term partnership required as well as strong commitment from both sides
- § Focus shall be on the whole value chain, not only on cash trading – right from the beginning
- § Exchange partner needs to be willing to act as a mentor rather than solely as a provider of trading software
- § Share of risks and benefits as a superior way to achieve full commitment on both sides

# Partnership in South-Eastern Europe Bulgarian Stock Exchange & Deutsche Börse



The co-operation between the Bulgarian Stock Exchange and Deutsche Börse combines the experiences from both partners to expand the Bulgarian capital market.

## Phase 1: Co-operation has been started

- § Successful implementation of a common state-of-the-art trading platform (Xetra) on 16 June, 2008
- § Acquisition of further international vendors for BSE market data; distribution of BSE data via Deutsche Börse's network in parallel to BSE
- § Joint analysis of the product portfolio and potential business opportunities (e.g. derivatives listing)

## Phase 2: Outlook

- § Improvement of settlement infrastructure esp. for foreign members, e.g. by creating a CSD link between Clearstream and CDAD
- § Enlargement of member and end-customer base by attraction of foreign investors
- § Increase liquidity by potential introduction of specialists, joint marketing efforts etc.
- § Introduction of a derivatives market on a common trading platform considering local requirements
- § Joint cash market and product development (e.g. ETFs, certificates and warrants)
- § Setup of a clearinghouse and central counterparty for the Bulgarian Market

# Bulgarian Stock Exchange & Deutsche Börse: Dual Listings



## Advantages of dual listings in Frankfurt and Sofia:

- § Improved access to local and international pools of investors
- § Increased visibility through internationally accepted indices
- § Benefit from a higher valuation alongside global market leaders and peer groups
- § Improve the market penetration to the EU market

## Capital Raising Scheme:

- § Listing of ordinary/preferred shares on the Bulgarian Stock Exchange
- § Listing of DRs on the Frankfurt Stock Exchange

## Next Steps:

- § Improvement of the clearing & settlement infrastructure in Bulgaria
- § Organisation of capital market events for companies and advisors



Thank you!