



# Fisher Funds

## Investor Education Centre

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### **Super exchange's huge opportunity**

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Australian share market investors have had an exciting week with the prospect of their Stock Exchange merging with (well, being taken over by) the Singapore Stock Exchange (SGX). But it's not just the Aussies who have reason to find this mega deal interesting.

We shouldn't be sidelined by the variety of concerns that threaten to scupper the deal. Despite political resistance in Australia and criticism in Singapore that SGX is paying too much and taking on too much debt, I reckon the deal is going to happen. It might take some months to consummate, and it will likely be just one of many such mega deals which will significantly impact the global stock exchange landscape forever.

As interesting as this deal is, at the same time as he was negotiating with Australia, the SGX boss Magnus Bocker was signing an agreement with the New York based Nasdaq exchange to allow Singapore listed firms to cross-list there. Once both deals are completed, investors will be able to trade around the clock across three major stock exchanges in three different time zones.

Global consolidation amongst stock exchanges has been talked about for years. There was a flurry of merger and acquisition activity between United States and Europe stock exchanges back in 2007, but this deal is the first major Asia-Pacific transaction, and Asia is a prize that lots of Western stock exchanges would like a piece of.

Running a stock exchange is a competitive and challenging business. Stock exchanges around the world face competition from alternative trading systems and investments that completely bypass stock exchanges such as the mysterious- sounding 'dark pools of liquidity'.

Since the financial crisis, stock exchanges have struggled to attract investor attention, but they need investors to buy and sell and take an interest in their listed companies if they are to be profitable.

Companies that want to be listed now have real choice, which is why Singapore feels it needs to grow by acquisition. Increasingly companies are choosing to list in both Singapore and Hong Kong (because Hong Kong is larger and faster growing) or are bypassing Singapore altogether to go straight to the 'main market'.

Big mega deals are exciting in any industry, but particularly when they happen amongst stock exchanges because stock exchanges are all about deals and money-making and bigger being better. It is important though to remember who the clients of stock exchanges are ... the listed companies.

Companies list on a stock exchange in order to attract investor attention so that they can raise equity capital (as opposed to debt capital). How is a company to attract investor attention when it is one of five thousand companies listed on a mega exchange? How are investors to even begin to pick the best companies when the smorgasbord is so enormous? If stock exchanges are finding it difficult to attract investors and companies in their current form, they are arguably going to find it even tougher when they are twice the size.

When investors are spoiled for choice, the opportunity to find overlooked, undiscovered investments becomes immense.

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