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CAN THE CITY ADAPT?

Lecture 2

FORMAL CITY MARKETS AND THE GLOBAL CHALLENGE

by

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There is a vast and splendid art deco building which faces you as you gaze down the canyon of LaSalle Street in Chicago. It symbolises power, wealth and civic pride, and the statue of Ceres which surmounts it reminds the already awed onlooker that those who work within its portals are in some way in closer contact with the gods.

Inside, tucked away, can be found grimy 19th century photographs of a huge room with many hundreds of men going about their business – men in boaters and bowlers, men with ancient telephones, mouthpiece stand in one hand and ear piece in the other, men sitting and standing, in shirt sleeves and overcoats, but always with a clear purpose and sense of belonging to an exclusive yet vitally important club at the heart of the city's affairs.

If you push past the bustle in the entrance hall you can find the modern equivalent of this scene – a vast modern arena, able so they say to house a jumbo jet, and crammed to the gunwales with seething people in technicolor jackets, the walls consisting of vast electronic boards containing endless rows and columns of financial information, banks of booths with screens, keyboards and telephones, and all focussing on a small number of near circular arenas where the drama of the day's business takes place.

The Chicago Board of Trade (or CBOT) – whose building it is – has symbolised throughout its long, fascinating and romantic history the role of the formal exchange at the centre of the affairs of a proud and important commercial city. Everything about it speaks of permanence and confidence in the future, and if you boil it down not much has changed between the 1890s as portrayed in those elderly photographs and today's brash equivalent.

And yet the truth is that this mighty institution is being shaken to the roots by the hurricane of change and is still struggling to find its way forward in a world which is moving rapidly from physical reality to virtual reality and where no exchange, however venerable and successful in the past, will be shown mercy if it cannot adapt. It is a minor irony that the Strowger switch, the basis of all automatic telephone exchanges for 80 years, and in itself a key part of the development of communications was a Chicagoan called Almon B Strowger. His profession? You'll never guess. He was an undertaker.

I intend in this lecture to describe the nature of such old line institutions, and then to give a glimpse of how they might evolve a few years from now. I see them as global, virtual, ie totally electronic, institutions with plc structure and governance, and broad product ranges, perhaps operating divisions of larger entities with comparable business interests. I will go on to examine alternative strategies to accomplish the radical change involved, and will argue that above all they must ruthlessly pursue commercial agendae regardless of their past affiliations and natural affinities and aspersions. I will examine their future role in the cities where they are located and conclude that they will lose their favourite son status. The success of financial centres will be judged in part on the number of traders, managers and decision makers located there, and this in turn will be reflected in the number of employees from exchanges from all over the globe who work there.

There was a joke that every Ruritanian country set out to have an army, an opera house and an exchange. Nor is this a new phenomenon. Every market place from ancient times onwards was potentially an exchange and indeed some did take on sufficient formality to be considered equivalent to today's model. Notable examples are the rice exchanges in old Japan, and the 17th century tulip exchange in Holland.

And so exchanges sprang up which were representative of the business life of the cities where they were located. Thus the two great Chicago exchanges, the CBOT and its Ceres topped building and the Chicago Mercantile exchange were founded on the commodities which made the Middle West of America rich, such as wheat, soya and pork bellies. London in contrast as a great international mercantile centre developed exchanges for all its wide range of activities. Including equities, soft commodities, metals precious and non precious, shipping and most recently financial derivatives. And similar patterns developed all over the world, the underlying activity bringing participants and liquidity to the relevant exchanges, and then contributing importantly to maintaining the importance of that activity to the city and its prosperity. A liquid and well used exchange was indeed a symbol of civic success and wealth.

They share, for the most part, a number of characteristics and at this stage I make no distinction between exchanges which deal in commodities which are dealt and delivered immediately (often called 'spot'), predominantly trading in equities; and those which are generically described as derivative – that is those which are concerned with the delivery of the underlying commodity at some time in the future and not immediately. The latter may be for any physical commodity or a variety of financial ones, including interest rates, bonds and equity indices.

They are typically co-operative, that is owned by their participants, who may be a combination of traders and brokers, individuals, partnerships and corporate entities. They will trade by open outcry on a trading floor which may be as small as a room or as big as the aircraft hangar recently built by the Chicago Board of Trade. There will have been a common purpose in their origin, to create a central market in the commodity, financial or physical, concerned for the benefit of the owner/ participants and the community at large. A pervading feeling will be a sense of clubbiness, of belonging to a special and powerful society with an important purpose. Their success was their common vision and drive, and the cumbersome governance that so often accompanies co-operatives worked because of the need for mutual support. A key indicator of this is the typical self regulating nature of such institutions. Every participant, whose living depended on it, knew that users would only come to the exchange if it was and was seen to be fair and open in its dealings.

But what will the exchange of the future look like, and will it be able to provide the same economic benefit to its participants and to the city community in which it resides as in the past, in the traditional format?

Such an exchange will be a limited company with shareholders independent of its participants. In my previous lecture I explained how co-operative governance had failed LIFFE when put to the test in driving the exchange through a necessary period of rapid technical change. The system simply cannot handle complex and controversial decisions. There is therefore every reason to suppose that today's trend towards shareholder owned exchanges and away from the traditional co-operative structure will continue. It is indeed, given the hurdles ahead and with nimble footed competitors, hard to see how co-operative exchanges can survive.

Its trading platform – the method by which it puts buyers and sellers together – will be electronic. The combination of the distributive power of electronic trading combined with its relative cheapness is likely gradually to close exchange floors wherever they exist. Electronic trading has demonstrated its ability to simulate, in most respects, the so-called benefits of open outcry.

Indeed, the exchange will take the fullest possible advantage of the opportunities afforded by technology, and its ability to distribute globally, and to customise within a general framework. Thus, users and traders – let us call them investors – will trade on the exchange from screens anywhere in the world, but always with the intermediation of a so-called member of the exchange, who will be responsible for monitoring their creditworthiness and will have electronic means of controlling their exposure. The electronic messages from investors will pass through the members' systems to provide such control. The look, feel and structure of the presentation of the exchange's page on the screen of the investor will be entirely customised, either by his clearing member or himself, through the wonders of so-called front-end software. In fact, given that some products may be competitively traded on different exchanges, the investor may well be indifferent to which one he uses provided the price and the volume is right and the only difference he may notice will be the small icon on the screen which indicates on which exchange he is trading.

A further twist to the tale is the selection of the exchange will soon, in my view, become automated. Sophisticated car buyers are familiar with the e-commerce providers who find exactly the car you are looking for and at the cheapest price. You prescribe the make, model and colour (and year if the car is to be a used version) and they will tell you exactly where the vehicle is to be found. Such technology will soon become standard in respect of exchange trading, and as some equity markets in particular become split into a number of different pools of liquidity, so it will become increasingly important. Clever electrons, dispatched from the investor's screen, will, in a fraction of a second, find the volume he desires at the best price, the latter being potentially blended from two or more sources.

This only serves to underline the conclusion that the investor will probably be indifferent to the exchange on which the transaction has been performed, and indeed to its city of origin or owners.

In such circumstances it's hard to argue against the suggestion that pools of liquidity in the same product will merge simply because de facto electronics are making that happen anyway. There has long been a conventional wisdom in derivative contracts that in head to head competition on a single contract only one exchange per time zone can survive. In the case of the German Bund futures contract the open competition between LIFFE and the DTB/Eurex lasted a long time, but it was based on a very important product differential – that between open outcry and electronic trading. This process is set to continue.

But in equities the situation is different and the current trend is towards the creation of more rather than less pools of liquidity. Thus in the exchange arena Tradepoint has set itself up as a direct competitor to the London Stock Exchange and has begun to build up respectable liquidity in many stocks. Furthermore recent history has seen the rise of unregulated off exchange matching engines which, acting nominally as a broker, put buyers and sellers together. Instinet is one such, on both sides of the Atlantic, whilst the proliferation of so-called ECNs, or Electronic Communications Networks in the US has created a profusion of ponds of liquidity.

I cannot see how they can survive as separate entities. The process I have described above will inevitably lead to these ponds merging as seas and most likely turning in the long run into one ocean of liquidity.

But will this single liquidity provider be an exchange rather than an ECN? I believe that latter will become a short-lived phenomenon, first and most importantly because the game, in the totally automated environment of the future, is more likely to go to the established liquidity provider with critical mass, and that in its turn is more likely to be an exchange. Furthermore, there is one key and potentially valued differentiation between ECNs and exchanges, that of an appropriate regulatory environment. Of course the challenge to exchanges is to ensure that all things are indeed equal and to learn from those elements of ECNs which make them so attractive.

So regulation may become a critical factor. How will it look in the future? The regulatory environment in which the exchange will operate will vary although the basic principles will be closely harmonised, as country regulators work more closely together. The continuing role of the intermediary – clearing member/ broker – will remain the fulcrum of the regulatory system, with far more onerous obligations on the retail broker serving the person in the street, than on the wholesale broker dealing with sophisticated investors who can for the most part look after themselves. The balance between self-regulation and regulation performed by a third party will differ, too, but it is likely that less self regulation will be the rule in the future, given the conflict of interest in which a for profit institution potentially finds itself in respect of regulation, where the doctrine of enlightened self interest served co-operative self regulating exchanges well – the members wanted to run as well regulated an exchange as possible to ensure the attractiveness of the forum to users.

Clearing is a different matter. In derivative contracts, an essential feature will be the right of any participant to know that the obligations created by a counter-party to a trade will be fulfilled and thus the exchange will use a clearing house, which will stand as guarantor for the undertakings created by trading to which the exchange's members will belong This is an essential feature of derivative exchanges and is accompanied by a system of margining or collateral to assure the clearing house and in turn the client of the intermediary that the bargain will be fulfilled.

My next lecture will address the subject in detail, and all I will say tonight is that the ability to take and hold positions at the same clearing house is highly valued by broker/intermediaries in the derivatives markets, not least in order reduce the amount of margin that they hold there. Turning to stock exchanges, and focussing on settlement, I argued at my last lecture that it would become totally commoditised which would lead inexorably to increasingly centralised settlement certainly on a European, and perhaps one day on a global scale. In addition settlement will undoubtedly become increasingly real time, removing any serious credit or counter-party exposure. But participants in the equity markets seek anonymity and increasingly stock exchanges are seeking clearing houses (often using their own) to stand in the middle of electronic trades so that the two sides to the business do not know each other's identity. This adds a further dimension, namely the desirability from the viewpoint of intermediaries trading on many exchanges, to concentrate as much holding as possible at one or a limited number of clearing houses with the additional convenience of equities clearing through the same mechanism. The exchange of the future will be under great pressure to clear at a diminishing number of clearing houses, and where it clears will be an important ingredient in its success.

What will the pricing and financial structure look like? The mighty institution at the end of LaSalle street was able to charge as much as $1 per transaction to outside participants, but the impact of competition and the comparative cheapness of electronic trading has, particularly in Europe, ground down prices to a very low level, even in certain cases to zero. Of course the latter is unsustainable in a commercial environment, but there is nonetheless every reason to suppose that the price tag for most exchange transactions will be minimal, but only where there is the potential for competition. The marginal cost of trading is tiny and as long as liquidity is shared or has the capacity to be shared between exchanges exchange trading will be based on penny transactions.

Thus for the most part exchanges will provide a commoditised and cheap service. Furthermore they have – despite their glamour and central role in financial market places – never been huge institutions. The capital value of the London Stock Exchange or LIFFE – as examples of some of the biggest – has never been significantly more than the a few hundred million pounds and is now probably falling. This is in high contrast to the multibillion pound values of many of their participants and also their suppliers, some of the activities of which they will increasingly resemble. In this regard I single out Reuters which in company with others has brought, through its real price feeds, global transparency to the market, and which, through Instinet, Dealing 2000 etc, has moved itself into the exchange arena. Another example are software manufacturers, since software is increasingly the stock in trade of exchanges. Thus the highly successful Swedish OM exchange, an early entrant into the electronic arena and producing its own software, is metamorphosing itself into a software house. And of course the global networking and distribution is essentially a telecommunications function.

Finally, in the globally distributed electronic markets of tomorrow it is hard go see how exchanges will be able to look for past levels of support from the local community government or institutions, such as the central bank. They will cease to be that important to the financial community and any pull that they may have will be increasingly based on lingering sentiment and not on the hard facts of commercial life. If I may be permitted a local example, for how long will the London Stock Exchange, as opposed to all the myriad of other overseas exchanges with distribution and screens in London, occupy a special place and receive special treatment within the City, and by the pillars of its establishment? Is it perhaps ominous that the amongst the wisest and most commercially effective decisions taken by the Bank of England was to open up its markets to free access to all comers? This led of course to the so-called Wimbledonisation of the City – we provide the courts, they play on them – and to the abandonment of great City institutions to the cold winds of competition, acquisition from abroad and, in some cases, to extinction. But also to a near-impregnable lead amongst international financial centres, and huge consequent prosperity to the community and the British people as a whole.

Commoditised, relatively small, potentially abandoned by their civic sponsors, looking to undergo not only change but competitive buffeting over the foreseeable future, and possible extinction, what price independence for most exchanges? It is hard to avoid the conclusion that they will for the most part either merge into mega-exchanges with global capacity and a wide product range including both derivatives and equities in order to create the operating economies of scale, critical mass and ability to absorb the impact of change; or become operating divisions of larger entities with comparable business interests. This should not drastically alter their usefulness to their users, but it will raise interesting questions of regulation, which I shall address at a later lecture, and of monopoly. The more immediate question is what strategies should they pursue to ensure survival in the exchange jungle?

There can be no guarantee, but there are undoubtedly several factors which can make continued existence more likely. Liquidity in key contracts must be at the head of the list, with economies of scale sufficient to ensure the cheapest possible pricing. The latter can be achieved by the high volumes engendered by the widest possible product range, and the latter will also be attractive from the efficiencies of clearing all such contracts in one place. More than one exchange clearing at the same clearing house could be a significant additional attraction. And a trusted, flexible system of regulation, able to assure a fair trading environment may be ultimately be a decision factor as fractionalised equity markets come back together.

But the first, and fundamental issue is always to pursue a focussed commercial strategy with a long term objective and without regard to short-term consequences. I have, in my last lecture, well documented the titanic struggle between LIFFE and the Frankfurt-based DTB, now Eurex, over the German Bund futures contract, and the differences in strategic approach could not have been more marked. The DTB set itself the target of repatriating, as it saw it, the Bund contract in which LIFFE had been able to build up a dominant position before the DTB's launch, and were prepared to pursue that ideal for as long as it took. First they calculated that only an electronic platform could succeed against an established open outcry contract, but that it needed to have actual and perceived liquidity. Achieving the latter involved continuous and loyal support from local Frankfurt banks with the consequence that the percentage market share – for literally years – stayed magically around 30%. The joke in the LIFFE market was that if the DTB's share fell to 25% in the morning, it was mysteriously and with great mathematical precision back to 30% in aggregate at the end of the day.

The perspicacity and determination paid off, of course, and the cool and surgical way in which DTB slowly strangled the LIFFE bund in the last few months of the latter's life by a combination of rapidly increasing distribution, marketing incentives and pricing tactics was in stark contrast to the inability of its competitor to identify a commercial strategy or easily to identify commercial tactics to meet the challenge. It was perhaps, as I have argued previously, already too late.

There was one other, later, moment where a commercial approach could have perhaps created a better outcome for LIFFE's shareholder/members, but it was stymied once more by the realpolitik of the exchange. The situation in the autumn of 1997 was that LIFFE had a totally dominant franchise in short term interest rate (or STIRs) and most bond products and a strong but threatened one in the key Bund contract; however it did not yet have a modern and globally distributable electronic trading system, but was in the process of developing one. The DTB on the other hand had no serious franchise in STIRs but was looking increasingly dangerous in the Bund, and it had an electronic system of the type that LIFFE needed but did not yet have. Furthermore it was nervous of LIFFE's electronic development, knowing that its own system though robust was ageing and would have to be expensively replaced earlier in the face of a successful and more technically advanced rival.

In a purely commercial environment, away from exchange and City politics, the strategic answer would have been blindingly obvious. Declare the great American exchanges as the ultimate enemy (this may still prove to be the case, by the way) and merge LIFFE and DTB Undertake to keep both electronic and open outcry trading platforms going as long as pit trading was viable and perhaps even launch some electronically traded contracts to trade in competition with similar products traded in the pit by other exchanges. This could have solved most problems for there was a natural complementarity about both franchise and trading platforms. It would have given the LIFFE floor traders a new lease of life, provided LIFFE itself with the system it needed and protected its ailing Bund, whilst enabling DTB to ward off a technological threat and to become part of a strong and undisputed European franchise in the run-up to the Euro. It would also have created a giant global exchange which could have pursued a 24 hour strategy from a position of enormous strength. Indeed it could have been a case of the whole being greater than the parts and the shareholder value for both sets of shareholders could have been dramatically enhanced at a stroke.

Nor is this suggestion made with the hindsight of an historical perspective for it was seriously considered on both sides, and publicly proposed on several occasions by the DTB.

There are of course fatal flaws in the concept – such a scheme, whilst commercially viable and even compelling, would have been hugely controversial, falling foul of strong xenophobic and City-chauvinistic feelings; it would have been hard to sell in a PLC environment, but realistically near impossible in a co-operative one.

Such anecdotes do lead naturally to an examination, within the need for a totally commercial approach, of one oft discussed, much less consummated, and usually unsuccessful measure, that of strategic partnership with another exchange. Organic growth is of course important, but in a rapidly evolving environment such arrangements may seem to represent a shortcut to survival.

The cruel facts however are that many have failed and where they have succeeded they have usually been built on four foundations: shared distribution, shared technology, a shared franchise, or shared clearing. Will these arrangements work in the future?

I have already argued strongly for the importance of shared clearing. Of the other motives, shared distribution will be totally inconsequential, although it had higher validity in the days when a private network had considerable value. The exchange of the future will, as I have described, be distributed via public, private or internet based networks – the choice of the participants and intermediaries – and most exchanges will be presented identically on the screen of the user.

Likewise in the days where exchanges developed bespoke electronic trading systems which were designed to give them a competitive edge alliance for joint development and/or exclusive use made sense. In the future however the availability of effective exchange systems from third party (or even exchange) sources will increase and again the participant front ends – the way the exchange looks to the user on the latter's screen – are likely to be identical.

The franchise motive may be influenced by the fact that users like the maximum of liquidity in any given product in one place and do not like to see it split between exchanges. They want the deepest possible market in one place. A continuing basis of partnership therefore could be one where, by arrangement, an exchange cedes its liquidity in one or more products in return for a similar reciprocal treatment for a range of equivalent products of its own. This would be particularly true of equity exchanges. I am however exercised by whether this isn't an inexorable process anyway. Are such partnerships or alliances merely anticipating and perhaps channelling the inevitable?

There are of course other problems with partnerships between substantial business entities, as against people, as any student of business history will know. Put bluntly, partnerships, strategic alliances, call them what you will, have a lousy track history. The reason is simple. The objectives of the partners may be clearly defined at the outset and in close harmony with each other, but this inevitably will change as time goes on, and the business circumstances of the individual partners change. A few partnerships have stood the test of time, and many more have ended happily with the merger of the participants or one taking over the partnership. Others have dissolved by agreement after a defined period, their purpose served. But a large percentage have ended in tears, recrimination, objectives shattered and usually with consequent financial and business loss to all concerned.

They are a risky business and not to be undertaken lightly. They tend to be long and difficult in negotiation, and particularly so where one or more partners are co-operatively governed exchanges. I would even go so far as to say that, in the demanding and fast moving world of tomorrow, for profit exchanges should think many times before committing to a negotiation with a cooperative exchange, or even one which has been only recently demutuatised so that it remains broadly in the same ownership and with a lingering mutual culture.

At this point it is worth considering some of the proposed major alliances now afoot.

A long running saga is the on-off relationship of Eurex (the merger of the DTB, the Frankfurt Stock Exchange, and the Swiss stock and derivative exchanges) and the CBOT. There is a natural affinity between the two, given their respective European and US domination of bond derivative products, but their very complementarity rules out the franchise sharing motive, and a technology motive is no longer relevant, although it might have been once.

But shared clearing certainly is a worthwhile objective, although anybody who has ever tried to negotiate a common clearing arrangement between exchanges with different clearing houses will tell you of the huge problems involved.

Even if commercial arguments can be made the real problem and barrier to successful conclusion of any kind of strategic transaction is the co-operative governance system of the CBOT and its emotional position at the centre of Chicago commercial and civic life. Until this is resolved, the exchange is effectively hamstrung in moving rapidly forward strategically. And this may be unlikely to occur in the immediate future in the absence of an iconoclastic and life threatening event, equivalent to the loss of the Bund contract which so effectively galvanised LIFFE in rushing through the necessary reforms in 1998.

Similar arguments apply to the plans of LIFFE with respect to the Chicago Mercantile Exchange (CME). Both are dominant in their time zones in short term interest rate (STIR) products, so the pooled franchise argument does not apply, but in their case some form of common clearing arrangement is very attractive, not least since the open interest – open positions stemming from trading – in respect of STIR contracts tends to be much larger than for bonds. Greater opportunities for financial savings from participants are thus available and indeed in this case some significant steps forward have been achieved on the clearing side, not least the ability in effect to reduce margin (or collateral) on positions held at each exchange's respective clearing house. And finally there are strong cultural and commercial affinities and ties between the two exchanges.

Again the real prize – part perhaps of a more covert agenda – could be merger, bringing with it economies of scale, common clearing and a shared vision. But the cooperative structure is currently an impervious barrier, although the CME has announced steps towards changing its constitution. How long however before outside shareholders and radical governance changes have fully swept away old attitudes and behaviours, both in the CME and, be it said, at LIFFE?

In both these alliances the commercial vision may have considerable attractions, but the structural problems will continue to be massive. Most importantly they will however be continuously complicated by Chicago exchange politics, and the latter may ultimately finesse whatever is proposed in favour of a merger or at any rate much closer collaboration between the CME and CBOT – an outcome which seems blindingly obvious to any body who is not a student of the arcane world of Chicago exchanges. If such setbacks occur both European exchanges may find themselves looking back across the Atlantic for more secure partners, in the face of such a mighty and ambitious Chicago based combine.

What then of the stumbling Euro alliance of stock exchanges, centred on Eurex and the London Stock Exchange? It is hard to see how, in an equity market where, as I have argued, the identity of the pool of liquidity or exchange will have shrunk to an icon on the user's personally customised screen, and technology considerations are irrelevant, it continues to have much attraction. Technology will do the job for the markets without the need for the hugely costly and time consuming discussions and negotiations which accompany the setting up of such an alliance. In fact the real prize is concentrated in the settlement area where the ability to unravel and rationalise the local procedures and smooth rivalries could accelerate the path towards the pan-European settlement system to which I referred earlier and which I believe to be absolutely inevitable. In my mind the latter is the only worthwhile goal of such a disparate partnership. Let the inexorable forward drive of technology do the rest.

But would the possible weakening of strategic transatlantic derivative and European equity partnerships leave a vacuum amongst European exchanges, who will be only too aware of many of the structural changes I foresee?

Is it time to consider a new (well almost...) blueprint in the light of future commercial realities? The recently announced NASDAQ (the very successful screen-based US stock market) initiative to set up a rival European equity exchange is undoubtedly the first shot in a global market campaign, quite probably based on US/European competition. And this is a contest into which a merged CME/CBOT – if it were to occur – would surely be tempted to be drawn. But NASDAQ is a long way ahead of the other great American exchanges, in structural and trading platform terms, and Europe has very significant assets – including specifically three world class exchanges with either complementary or overlapping product ranges, a commitment to electronic trading, and of course a for-profit motivation and outside shareholding. These are of course Eurex, the London Stock Exchange and LIFFE. Europe also has a state-of-the-art and, importantly, independent clearing house, in the London Clearing House, cooperatively owned by the global financial community, which will probably soon also become the central counterparty on the London Stock Exchange, and which has a multicurrency product range, including dollar and euro denominated over the counter – ie bilaterally agreed – products.

One template to be considered, as a bulwark against renewed competition from across the Atlantic, is therefore a pan European exchange based on broadly distributed ownership, containing each of these entities, and cleared by LCH, who could remain independent and in co-operative ownership.

A first step could be to create a rapprochement between LIFFE and LSE, building on the opportunity created by joint use of LCH, which could lead to a closely co-ordinated London approach, or perhaps even merger. This would be a strong bargaining platform with Eurex, from which could stem the creation of a European holding company to acquire the constituent entities and fund the resultant mega exchange. In due course other European and non-European would be sucked in by the sheer momentum of such an entity. And what an exchange....a robust and dominant European equity franchise combined with a stranglehold on European derivatives, cleared at what would become the world's largest clearing house, able to take on the US giants – and perhaps challenge them in the future on their own ground.

It would require a leap of faith, but what are the realistic alternatives? Probably the greatest barrier will be local pride and the continued perception of importance of strong local exchanges in the competition between rival financial centres, in this case London and Frankfurt. What has to be accepted, and already is, I believe, at least in London is that the power and importance of a city in global market terms is moving rapidly away from the strength of their traditional exchanges. I instance the encouragement received in London over the years to Tradepoint, to OM the Swedish exchange and very recently and quite explicitly to the NASDAQ initiative, thus recognising that real marbles are where the decision makers, traders and fund managers are. Thus the creation of the European mega exchange will not impact the outcome of the London/Frankfurt rivalry, the latter in itself not an unhealthy fact of European financial life.

Gone are the days of the great exchange as a symbol of local power and wealth, and indeed I would argue that continued support of such a notion may stand in the path of progress. Far more important today, one might say, is an open door policy to both overseas and local exchanges, forcing them to pay court to their users in their latters' own location, by means of, at least appropriate local levels of sales, marketing and technical staff.

So, as supporters of the City of London, we need not fear for the fate of the London Stock Exchange and LIFFE, past and current symbols of our success. What may be far more relevant in the future will be the importance of the City as measured by the attention paid to it by rival overseas exchanges, represented by the number of their local employees. On that score I am sure that it would have a significant global lead, and probably lengthening too.

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