MERGING EXCHANGES NOTHING NEW FOR MAGNUS BOCKER

Building bigger pools of funds

CHRIS WRIGHT

IF Magnus Bocker has appeared sanguine about the sometimes vicious reception of his proposed merger of Singapore Exchange and the ASX, that's because he has seen it before. This is, by his count, his 10th potential exchange merger, and none of them have been easy.

''There are normally four groups you need to work with: clients, shareholders, regulatory and political,'' Singapore Exchange's Swedish chief executive says.

"And in my experience on exchange mergers, I've had the pleasure of having issues with all of them. I don't know which is the toughest. But you very rarely find an integration that takes everybody on board straight away."

What's remarkable about Bocker's story is that his sequence of mergers only began in 2003, when he was deputy chief executive of a company called OM Technology, which operated the Swedish stock exchange.

That year, OM merged with HEX Integrated Markets, which ran the exchanges of Finland, Estonia and Latvia.

Rising quickly to chief executive, he then orchestrated mergers with exchanges in Lithuania, Denmark, Iceland and a stake in Norway, before triggering a bidding competition for this entire Nordic-Baltic bloc between Nasdaq and Borse Dubai (Nasdaq won). Nasdaq OMX was formed in February 2008, by which time he had overseen another merger in Armenia — and Bocker, just five years on from being a tech company deputy in Stockholm, was president of the world's largest exchange company.

Asked what he learned along the way that he could apply now, his answers are characteristically logistical and practical rather than political: he is an operations man and his comments are peppered with references to efficiency and service rather than the landmark vision one might expect.

"When you talk about a merger you talk about cultures coming together, learning to work and live together," he says.

"One experience I've had is that sometimes there is more in common between stock exchanges regardless of borders."

Stockholm's and Helsinki's stock exchanges had more in common than Sweden's own options and stock exchanges, he says. ''In our little world of exchange mergers, the challenges are sometimes local. It can be easier to get two together cross-border than in the same country."

The other lesson he highlights is that "money has started to go cross-border much faster than we as exchanges have helped it to do".

That's not true of other financial service providers, he says. If you want a Japanese mutual fund in Australia you don't expect to go to Japan to get it, you go to an Australian provider. "Exchanges have been a little bit behind on that. We come from an environment where we are not used to helping our clients facilitate their business."

Both comments are revealing, because they speak very much to Bocker's vision of exchanges as service providers, unromantic pieces of market infrastructure rather than staid national icons.

But after the political mauling his ASX bid has received in Australia, one would have expected him to raise that as a lesson mastered elsewhere. Asked if the political storm here has been worse than in other mergers, he responds: ''Absolutely not.'' He does, though, see the point.

"In all exchange mergers there is that nationalistic sadness that comes up. But it's not like Paris Bourse disappeared just because Euronext (which combines the Paris, Brussels and Luxembourg exchanges) got together with NYSE. And it's not like the ASX will disappear just because it continues to develop. But it takes a while before we get accustomed to the thought."

Moreover, he thinks some concerns politicians have highlighted are not only valid but essential. "It is very important that the question of national interest is raised," he says. ''Exchanges need to add value to countries. If we cannot deliver more national interest by this combination, we shouldn't do it. Politicians who don't ask that question are not understanding what we, as operating exchanges, are really here for."

He has less time for questions that belittle Singapore, insisting that the standards of governance, independence, transparency and shareholder feedback are at least as strong there as anywhere else, without state interference.

None of this has shaken his conviction that mergers are the right thing to do. There was a much clearer rationale in his early mergers in Nordic and Baltic countries, though: Europe at that time was amid sweeping regulatory change, and it was obvious to all that 40-odd exchanges could not survive independently in what was increasingly a single bloc of capital. "It was a natural driver to say: we need to reduce the number of exchanges, to simplify the network," he says.

'We ought to embrace new models when technology makes it possible'

It was a simple as, for example, thinking that Finland's Nokia and Sweden's Ericsson, or the pulp and paper companies of those countries, would represent a powerful sector in combination.

''There was a vision that in order for us to be more competitive in Europe, the Nordic exchanges (in combination) were big and strong enough to play a significant role in Europe."

But in his view it's money flows that drive consolidation. "If there is an opportunity for cross-border mergers it never starts with the exchanges, it starts with the underlying capital markets." The Nasdaq merger was of a different order again and more opportunistic, a symptom of its time. "When we started the journey with the Nordics, Nasdaq was not part of the plan. It was not even conceived as an opportunity."

But it wasn't the first such deal for Bocker. When Macquarie Bank made its bid for the London Stock Exchange in 2005, it did so with OMX in the background. Bocker, a big admirer of Macquarie and its people, denies he was in line to be the chief executive. "We never discussed it, I find it unlikely that I would" — but his impressions of Macquarie and its bid are instructive about how he sees exchanges.

"The team at Macquarie really saw what the exchange business is all about," he says. "At that time it made a lot of investments into airports, bridges, toll roads. And exchanges, to some extent, are not too far away from that: a lot of stable recurring revenues. It was very logical, and we saw we could do something together, fronted by Macquarie."

Logical is a very Bocker word, fitting into this rationale for creating progressively bigger liquidity pools around the world to meet a changing market. It fits, for example, his interesting decision to partner with the dark pool liquidity provider Chi-X just a few months after taking on the Singapore Exchange top job.

Exchanges generally are worried about dark pool providers and wondering how to deal with them. To Bocker, it therefore made sense to partner with them instead of fight them. "Over time, as the market develops there will be different ways to cross a trade,'' he says. "The way we traditionally do it, in exchanges, is one way but we shouldn't get stuck on one model.

''We ought to embrace new models when technology makes it possible.'' He accepts that Chi-East, the tie-up with Chi-X, "might have some short-term issues for us as Singapore Exchange, but long-term if it's good for our clients that will benefit our business".

Less logical, though, was taking the Singapore job in the first place. Bocker's president title at Nasdaq OMX was not ceremonial. He was responsible for listings, corporate services and, surely his favourite subject, market technology. His wife and three children, two of them then high-school age, were settled. His life and work, as he puts it, were "in harmony". Why move? Bocker says he was initially polite but not keen, but eventually decided to do his own due diligence on Asia, Singapore and Singapore Exchange itself.

He liked what he saw: the Asian time zone as an engine of world market growth and fund flow; Singapore as a senior financial centre within it with the necessary regulatory stability, market strength and ''willingness to change and improve''; and the exchange, ''a more open and embracing company than I thought".

The challenge has been different. "What we did in the Nordics and OMX Nasdaq was a competitive situation where we needed to bulk up and start saving costs and work differently. At Singapore Exchange it's a question of how do we grow faster, how do we bring on all those products we don't have today."

But the prospect of European-style change in Asia must have attracted this consummate dealmaker. "There will be new opportunities, new combinations we never thought of before."

LAW KIAN-YAN

Magnus Bocker says discussion of national interest is an essential part of exchange mergers

ASX-SGX 'no threat' to HK hold on China

EXCLUSIVE

MICHAEL SAINSBURY
CHINA CORRESPONDENT

HONG Kong chief executive Donald Tsang does not see the proposed merger of the Australian and Singapore stock exchanges as a threat to the hub's growing dominance in the region.

With the ASX-SGX merger this week given the nod from the Australian competition regulator, the deal must now pass the political test. It is part of a global trend that has seen a raft of stockmarket mergers over the past decade as competition for capital in different jurisdictions increases.

Sir Donald said the merger would effectively be more nominal than competitive because the two countries were unlikely to cede regulatory control to each other.

''But you have to remember there will still be two sets of rules: the Australian board will still be governed by Australian regulations and the Singapore board by the Singapore authorities,'' he told *The Weekend Australian* in an exclusive interview. "Unless there will be a united merged regulatory authority, but that's a long way off.

"So you can buy into each others shares and you may achieve greater complementarities commercially. But it will not be a major enhancement in terms of competition, as such.

"In terms of listing, you have to inspire confidence in the company who wants to be listed. You have to have a proper valuation, you have to have a large pool of liquidity, you have to have available stock — all these things you have to do for IPOs — to do more listings."

Hong Kong was the global No 1 for initial public offerings last year and is likely to take the crown again this year, outstripping London and New York.

Sir Donald said he also believed that even a merged entity would not be able to crack the Chinese market, and that it would be better to focus on Southeast Asia.

"They work in the ASEAN context serving those countries, we work with mainland China,'' he said. "I cannot do as much business with Indonesia as the Singaporeans can. Nor would the Singaporeans be able to do as much with the mainland as I do.

"We are the No 1 investor in the mainland, we are the No 1 investor in each and every province in China, and we are still the No 1 investor in Beijing and Shanghai — so I think the connectivity here is unrivalled as far as the mainland market is concerned.

"But we will always be competing. There is always the possibility of rivalry coming from Tokyo, Seoul or Singapore. I think they are worthy — they keep us on our toes making sure we continue to compete and so on. But eventually we have to follow global standards, we have to offer the best for people and, more importantly, we have the liquidity pool.

"Commercially, it will remove unnecessary and vicious competition, but at the end of the day it will depend on the entities and where they want to list on their respective boards.

"There is a sense they will be harmonising their rules; for instance, if you want to come and list on my board I will say I think you are better listing here, at the end of the day. Do I list in Singapore or do I list in Sydney? Do I get a better deal compared with coming to Hong Kong?"

Asked whether he thought the ASX-SGX merger would go ahead, Sir Donald appeared to have a bet each way. "Oh, it can happen, but politicians say we don't like that at all — and politicians are politicians."

INSIDE

The Weekend Australian Magazine

Hong Kong wants to become a cultural capital to rival New York. Start spreading the news, chief executive Donald Tsang tells **MICHAEL SAINSBURY**

Village Roadshow up after sale of attractions

TERESA OOI
ENTERTAINMENT

SHARES in Village Roadshow have jumped almost 4 per cent to $2.45 after the company sold its Sydney Attractions subsidiary to European operator Merlin Entertainments Group, netting about $115 million.

After the repayment of debt in Sydney Attractions, the disposal of the assets would result in a $5m loss for Village.

Sydney Attractions includes Sydney Aquarium, Sydney Wildlife World, Oceanworld Manly, Sydney Tower Observation Deck and Sky Walk, Hamilton Island Wildlife Park in Queensland and Kelly Tarlton's Antarctic Encounter and Underwater World in New Zealand.

Village chief executive Graham Burke said the deal also meant the company would form a strategic alliance with Merlin — the world's second largest operator of tourism attractions and owner of Sea Life, Madame Tussauds and the London Eye.

This would mean that Village and Merlin would consider developing brands such as Legoland Discovery Centres in Australia.

Merlin chief executive Nick Varney said: "This is an important step for Merlin, significantly strengthening our presence in the dynamic Asia-Pacific region.

"The deal means that in Sydney, we will have a cluster of leading visitor attractions to match our strength in the London and Berlin markets."

The sale will cut back Village's earnings before interest, tax, depreciation and amortisation in the current financial year by $11.7m for the period from January to June 2011.

The net profit after tax effect for the full year will be immaterial as the company will make a $5m loss on the sale.

Bourse ignores Wall Street increases

DAVID ROGERS
DOW JONES NEWSWIRES

THE Australian sharemarket weakened slightly in quiet trading yesterday, despite moderate gains on Wall Street .

Resources and energy stocks were weighed down by a pullback in commodity prices and a capital raising by Santos, while financials were mixed and defensives outperformed before the weekend.

The benchmark S&P/ASX 200 closed down 20.9 points, or 0.4 per cent, at 4763.1, which was also the low of the day.

The Australian dollar nudged higher in rapidly thinning holiday season trading, but some forecasters are already looking into 2011 and saying the year may bring a reversal of fortunes for the currency.

Robert Rennie, head of currency strategy at Westpac, said the Australian dollar could be under some pressure given the recent rise in US Treasury yields and increasing optimism about the US economy.

"I would have thought (the rise in yields) would be US dollar supportive," Mr Rennie said.

"We still think it will be and is a story that will play out, but with Christmas and New Year we might have to wait for next year."

More immediately, the Reserve Bank of Australia's policy meeting minutes will be the focus next week, with a lack of data releases. The minutes will be released on Tuesday.

At the close, the Australian dollar was trading at US99c, up US0.38c from Thursday.

Against the yen, the currency traded at Y83.11, up from Y83.045.

Santos launched a $500 million capital raising at a slim 3.2 per cent discount, after securing an LNG offtake deal with Korea Gas.

It also agreed to sell a 15 per cent stake in its Gladstone LNG project to Korea Gas and France's Total for $665m.

Woodside Petroleum fell 0.5 per cent to $45.17 and **Origin Energy** fell 0.9 per cent to $17, while **Santos** remained in a trading halt before the capital raising.

Resources stocks **BHP Billiton, Rio Tinto** and **Newcrest Mining** fell 0.8 per cent to 1.7 per cent after copper and gold fell earlier in the day.

Among financial stocks, **Westpac** rose 0.2 per cent to $23.19 and **QBE Insurance** rose 1.7 per cent to $18.30, while **National Australia Bank** fell 1.2 per cent to $24.15 and **ANZ** fell 0.7 per cent to $23.59.

Defensive stocks, including **Telstra** and **CSL** rose 0.5 per cent to 0.7 per cent.

The Australian sharemarket was unable to match a 0.6 per cent rise on Wall Street, but traders were expecting it to remain well supported on dips.

"The market is continually absorbing all the short-term negative influences that have been hanging around for six months or so," said Shaw Stockbroking head of trading Jamie Spiteri.

''Equity markets appear less sensitive to European sovereign debt problems. Money is flowing into Australian equities before year-end and I see ongoing upside potential into the new year."

Boart Longyear rose 1.2 per cent to $4.35 after upgrading its 2010 earnings guidance by 8.3 per cent to $US222m.

Boart said 2011 contract planning in drilling services was showing increasing demand and positive pricing trends, consistent with recent comments from global resource companies about increased capital spending.

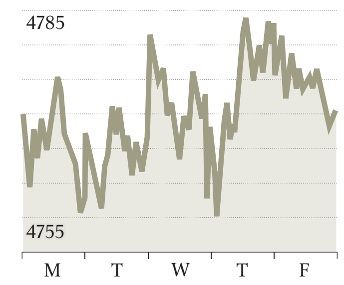
Hills Holdings fell 12 per cent to $1.90 after flagging a 30 per cent fall in its first-half net profit, worsening from November 5 guidance of a 10 per cent fall.

Westfield fell 2.8 per cent to $9.60 after Macquarie downgraded the stock to neutral.

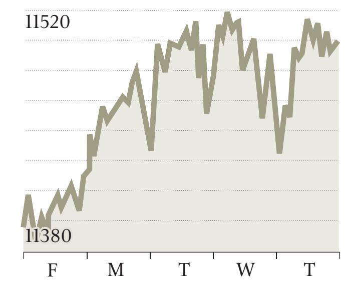
UBS said the Australian sharemarket remained on track to reach 5500 next year.

It expects a flatter profile for the Australian dollar.

S&P/ASX 200
4763.1 ▼ -20.9



DOW JONES
11499.25 ▲ +41.78



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NIKKEI
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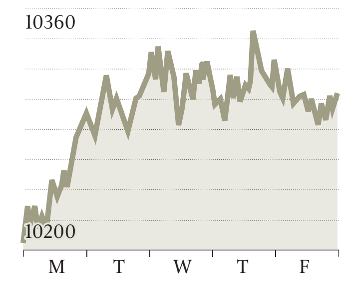


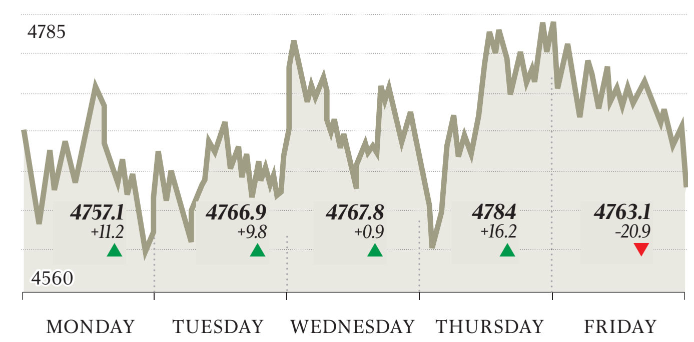
HANG SENG
22714.85 ▲ +46.07

$AUD/$USD
US99.0¢ ▲ +US0.38¢

ALL ORDS	4853.0	▼ -15.8
S&P 500	1242.87	▲ +7.64
EURONEXT	701.5	▲ +1.66
€EUR/$US	$US1.3315	▲ +$US0.0072
$US/¥YEN	¥83.9300	▲ +¥0.0300
$AUD/€EUR	€0.7441	▼ -€0.0033
COPPER	$US4.10	▼ -$US0.03
WHEAT	US749.8¢	▼ -US15¢
GOLD	$US1378.20	▲ +$US7.20
OIL	$US88.20	▲ +$US0.47

S&P/ASX 200

Closed at 4763.1 points, up 17.2 points for the week



Source: Bloomberg

TOP 100 {Top 10 highlighted}

	Rank	Market cap ($m)	Share price	$ Change
AGL ENERGY	36	7,057	15.40	-.09
AMP	22	11,247	5.37	+.05
ANZ BANKING	4	63,613	23.59	-.17
APA GROUP	100	2,290	4.15	+.02
ASX	38	6,752	38.55	-.15
AXA ASIA PAC	19	12,940	6.26	-.01
ALCOA INC	20	12,557	14.50	-
ALUMINA	40	6,369	2.61	+.11
AMCOR	34	8,149	6.65	-.08
ANEKA TAMBANG	87	2,594	1.36	-
AQUARIUS PLAT	91	2,492	5.38	-.08
AQUILA RES	76	3,406	9.56	-.43
ARGO	68	3,690	6.07	-.11
ASCIANO	53	4,682	1.60	-.035
AFIC	51	4,914	4.85	-.01
B & A BANK	65	3,866	9.98	-.16
BHP BILLITON	1	151,124	45.03	-.35
BANK OF QLD	88	2,566	10.69	+.02
BLUESCOPE	57	4,219	2.29	-.02
BORAL	74	3,499	4.83	-
BRAMBLES	26	9,998	6.97	-.09
CBA	2	82,034	50.70	-.24
CFS RETAIL UNITS	50	5,072	1.795	-.005
CSL	15	20,177	36.82	+.18
CSR	86	2,596	1.71	-.02
CALTEX AUST	66	3,850	14.26	-.13
CAMPBELL BROS	89	2,563	38.27	+.77
CHALLENGER	97	2,341	4.66	-
COAL ALLIED	25	10,217	118.00	+3.00
COCA-COLA	32	8,301	10.98	-.21
COCHLEAR	55	4,535	80.03	-.29
COMPUTER SHARE	43	6,046	10.88	-
CROWN	42	6,199	8.22	+.06
DAVID JONES	98	2,323	4.52	+.10
DEXUS PROPERTY	64	3,871	.80	-.005
ENERGY RES	90	2,544	13.34	-.16
EQUINOX MIN	60	4,143	5.84	-.05
FAIRFAX MEDIA	72	3,554	1.385	-.005
FLETCHER BUILD	73	3,515	5.75	-.01
FLIGHT CENTRE	95	2,402	24.07	+.24
FORTESCUE MET	14	21,102	6.78	+.06
FOSTERS GROUP	24	10,819	5.59	+.05
GPT	47	5,400	2.91	-.03
GOODMAN GRP	62	4,013	.63	-.03
HARVEY NORMAN	79	3,198	3.01	-
IAG	33	8,273	3.81	+.03
ILUKA RESOURCES	70	3,567	8.52	-.07
INCITEC PIVOT	41	6,271	3.85	+.05
JAMES HARDIE	84	2,911	6.68	-.09
LEIGHTON	27	9,839	32.70	-.60
LEND LEASE	52	4,847	8.57	+.17
LYNAS CORP	93	2,478	1.495	+.005
MAP GROUP	46	5,472	2.94	-.08
MACARTHUR COAL	67	3,720	12.42	-.03
MACQUARIE	18	12,995	37.48	-.16
METCASH	81	3,129	4.07	-.03
MIRVAC GROUP	59	4,167	1.22	-.04
NAT AUST BANK	5	53,244	24.15	-.29
NEW HOPE CORP	61	4,027	4.85	-.02
NEWCREST MINING	12	31,198	40.77	-.69
NEWS CORP	6	39,678	16.24	-.02
OIL SEARCH	30	9,190	7.00	-
ONESTEEL	75	3,497	2.62	-.05
ORICA	28	9,689	25.39	+.19
ORIGIN ENERGY	17	15,040	17.00	-.15
OZ MINERALS	45	5,489	1.695	+.04
PALADIN ENERGY	71	3,562	4.91	-.12
PANAUST	94	2,423	.82	-.005
PLATINUM ASSET	85	2,840	5.06	-.01
QBE INSURANCE	16	19,245	18.30	+.30
QR NATIONAL	37	7,027	2.88	-.02
QANTAS	44	5,935	2.62	-.03
RAMSAY HEALTH	69	3,623	16.64	+.30
RESMED INC	48	5,307	3.50	-.05
RIO TINTO	7	37,323	85.65	-1.35
RIVERSDALE	63	3,884	16.42	+.03
SP AUSNET	92	2,487	.905	+.01
SANTOS	23	10,819	12.97	-
SEEK	99	2,306	6.85	-.01
SEVEN GRP HLDG	82	3,067	8.58	+.08
SIMS METAL	56	4,526	22.10	+.52
SONIC HEALTH	54	4,626	11.91	+.27
SOUL PATTINSON	83	3,007	12.60	+.01
STOCKLAND	31	8,555	3.59	-.08
SUNCORP METWAY	21	12,259	8.78	-.10
TABCORP	49	5,209	7.17	+.11
TATTS GROUP	78	3,291	2.53	-.03
TELECOM NZ	80	3,185	1.655	+.035
TELSTRA CORP	9	34,467	2.77	+.02
TOLL HOLDINGS	58	4,190	5.93	-.02
TRANSURBAN	35	7,610	5.28	+.02
UGL	96	2,359	14.21	-.04
WESFARMERS	8	36,553	31.52	-.08
WESTFIELD GRP DEFS	13	22,155	9.60	-.28
WESTFIELD RT DEFS	29	9,632	2.69	+.06
WESTPAC BANK	3	71,399	23.19	+.04
WHITEHAVEN	77	3,401	6.89	-.07
WOODSIDE PETROLEUM	10	33,819	43.17	-.23
WOOLWORTHS	11	33,139	26.84	-.31
WORLEY PARSONS	39	6,461	26.91	-.04