



Insider

Nordic exchange operator OMX may have many suitors, but will Europe remain the exchange battleground, asks Frédéric Ponzo

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Northern lights

It's been a busy few months for OMX's executives sitting in Stockholm with Börse Dubai, Nasdaq and even the Qatar Investment Authority all in pursuit of the Nordic exchange operator. OMX is a popular prize, but what will the potential merger between itself and Nasdaq look like? What will it mean for trading, and what is the motivation behind the creation of another transatlantic marketplace?

The interest in OMX should come as no surprise. In 2001, for example, the exchange technology landscape was dominated by three major European players – Euronext, Deutsche Börse and OMX. US exchanges were yet to embrace electronic trading. Then in 2005, Reg NMS and MiFID outlined plans for a competitive and all-electronic marketplace. Last year, the world's largest equities market, NYSE merged with Euronext, a pan-European exchange which also develops one of the most popular software offerings for bourses. After a failed attempt to acquire the LSE, Nasdaq was left trailing behind its nearest rival. It reassessed and aimed for another pan-European market operator, OMX.

OMX is made up of a diversified group of exchange operators with a very modern and sellable technology platform. Nasdaq, on the other hand, is a major global brand and one of the largest exchanges by market capitalisation. OMX covers both equities and derivatives, but Nasdaq is home to some of the biggest technology brands in the world (Microsoft, Oracle, Cisco). Yet despite its association with technology, the Nasdaq platform is far from hi-tech. The technology that the operator pioneered goes back to the early 1970s, and things have moved on a lot since then.

The motivation for both parties is clear: to survive in this new competitive landscape, they simply have to merge. They have no choice. For Nasdaq, technology is the clear driver. It already has the market share, strong brand and client list, it now needs the cutting-edge technology. Like the GSM technology for mobile phones, exchange platforms are one of the very few technologies that Europe has, and America envies. Nasdaq, like CME, CBOT and NYSE before it, has chosen to buy the technology from Europe and make the leap to true electronic trading.

For OMX, the motivation is market share. While it is a sizeable player in Europe, it is no match against the European heavyweights of Euronext, Deutsche Börse and the LSE. And with the emergence of new investment bank consortia such as Project Turquoise and LiquidityHub on the horizon, OMX's position looks increasingly under threat. By teaming up with one of the biggest names in the business, OMX looks good to grow into its position as a technology heavyweight in Europe.

Liquidity is much like gravity in that the bigger you are, the more you attract. As the US is still the biggest marketplace in the world, American exchanges hold the most liquidity – much to the envy of Europe. But in a world where all trading is becoming electronic, technology is the main vector for the innovation, change and disruption of the established pecking order. It is here that the Europeans bring their expertise to the table.

We are living in a brave new world where competition is rife, but also where the battle lines are blurred: we have competition among exchanges, banks against exchanges, banks against consortia of banks, and a whole bunch of newcomers and wannabe alternative venues jumping into the fray. This is the whirlwind in which Western capital markets operate today, and the fastest growing part of the planet, Asia, hasn't even joined in yet. While an OMX/Nasdaq merger is interesting, it is nothing compared to what we may see in Asia. We are set for another interesting decade.

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