

What's really best in the exchanges' merger games

THE London Stock Exchange delivered a further robust claim to its continued independence yesterday with a rousing increase in profits and the forecast yet more to come in the second half of the year.

With world stock markets on a roll and share trading becoming more electronic and computer-driven in ways that play to its technological strengths, the LSE can scarcely put a foot wrong. It helps too that it is an unregulated monopoly — though that is not the whole story. The trailing performance of other equity markets in Europe and America shows there is no business so good that management cannot renege on it if it has a mind to — and London has avoided the traps.

But, as everyone knows, the LSE is under threat because the trend is toward consolidation of the world's exchanges into even bigger monopolies. The New York Stock Exchange is seeking to merge with the equity markets grouped under the Euronext umbrella, which includes Liffe, the London-based financial futures market. The NYSE's American rival, Nasdaq, thinks its way to stay in the global game is to buy the LSE and has already built a 25% stake in pursuit of that goal.

From London's perspective, there seems little doubt that the best result would be for New York to get Euronext and for Nasdaq to fail to buy the LSE. The reason the New York-Euronext deal matters is that the attraction for the Americans is not really the low-volume equity changes in Paris, Amsterdam, Brussels, and Lisbon but rather that would give the Big Board entry to the derivatives business through ownership of Liffe.

The executives at Liffe, for their part, are greatly enthused by this



ANTHONY HILTON
CITY COMMENT

because they think the combination of their derivatives expertise with the huge equity base of New York would give them massive traction around the world and unrivalled scope for launching new equity-based derivative products. They see it as the best way to make London a derivatives centre with the muscle to rival Chicago, albeit they will need the help of New York to get there.

This, of course, is also why Liffe chief executive Hugh Freedburg has been so vigorously against an alternative merger with Frankfurt-based Eurex. He has raised the spectre of Liffe being effectively closed were such a deal to go through — a suggestion that is patently absurd but plays well to the fears of the casual onlookers.

That said, derivatives, not cash equity markets, are where the future is so it is important for London that Liffe gets into a partnership that will really allow it to grow. However, the same logic does not apply to Nasdaq buying the London Stock Exchange. Even after months of courtship,

there is still very little sign of business sense in the deal.

There might be some benefit to be gained from migrating to a common technology platform, but that will take years. Meanwhile, the need to preserve sufficient separateness to maintain an independent regulatory regime rules out any significant effort to merge the two businesses — a point Nasdaq seems unable to grasp but which is nevertheless true.

But Nasdaq now has such a large stake it almost has to go forward because it can't go back. So to avoid that uncomfortable fate, LSE chief executive Clara Furse needs to find someone else with whom she can merge. Unfortunately, no one can afford a deal because the LSE is doing so well. But that, of course, is also why it should not be sold out in the first place.

Sincerity? Let's just Binney it

THE economist Milton Friedman once made a rather telling contribution to the debate about the social and environmental responsibility of companies. There was, he said, "only one instance when social and environmental aspirations can be tolerated — when they are insincere".

It was OK if the executive espoused such causes as a way of making money for shareholders, "like putting a good-looking girl in front of an automobile to sell [it]". But if the executive

was deflected from the goal of shareholder value, it was wrong.

The uncompromising views of Friedman and his Chicago School colleagues might sit uncomfortably with today's business leaders, but as companies come under more and more pressure to accommodate the aspirations of people other than shareholders the dilemma he highlighted is real enough.

So it is nothing if not timely for George Binney, once a finance director at a subsidiary of Lord Weinstock's GEC, to look at how companies choose to define their goals. The findings are published this week by the think tank Tomorrow's Company.

The first point he makes is that such research as has been done suggests firms that deliver most shareholder value are not those which have made it the summit of their ambitions. The leading companies were those with a strong culture and sense of purpose and vision, and they increased their returns by some 15 times the market average over the 70-plus years for which the researchers had data. So the blind pursuit of shareholder value is not actually the answer.

His second point is that companies are for the most part very bad at articulating their vision. Annual reports are full of mission statements, but too often they are bland PR-speak that reduces customers and outsiders to fury because the high ideals they express are so different from the day-to-day behaviour of the business (the equivalent of being on put hold by a call-centre machine which says "your call is important to us" but no one ever answers).

It would be much better, Binney says, if instead of pretending to care about customers and the environment while cutting every corner to boost their profits, companies produced no high-minded statements of values at all.

'The New York-Euronext deal's attraction to the Americans is that it would give the Big Board entry into derivatives through Liffe'
