

Emerging markets need to learn to walk before they can run, a meeting of Association of Futures Markets heard last month

Exchange of views

Emerging market exchanges need to decide whether they want to focus on their domestic clientele or reach out to international participants as they structure their business, a gathering of Association of Futures Markets (AFM) heard in Budapest in March.

UBS's Paul Meier, chairman of the Swiss Futures & Options Association (SFOA) said exchanges seeking the international route would need to enter into agreements with existing, established exchanges to enable them to develop a global presence. But, he warned, the development of derivatives exchanges would depend on the existence of sound underlying markets and close co-operation with regulatory authorities. "Before they start to run, they need to walk," Meier cautioned.

Exchanges in new markets also had a lot to learn from established exchanges in selecting the best trading and clearing technology and in adopting the best risk management practices, he added.

Examples of emerging market exchanges looking for support from more established

counterparts include Chicago Mercantile Exchange's memorandum of understanding (MOU) with Shanghai Futures Exchange, signed a year ago, Chicago Board of Trade's agreement with Dalian Commodity Exchange and the more recent MOU between New York Mercantile Exchange and Dubai Development and Investment Authority (see page 10).

Some delegates at the AFM conference noted, however, that mature international exchanges may also be able to learn a thing or two from emerging exchanges, particularly when it comes to attracting retail business. Jagannathan Ravichandran, director of India's National Securities Exchange (NSE) pointed to the exchange's position as the world's foremost market in single stock futures, with 97% of volume coming from private investors. While Taiwan Futures Exchange (Taifex) president, Dr Foo-shiung Ho, echoed the importance of the retail sector, which provided 68% of Taifex volume in 2003. □

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