

Oldstyle national [stock exchanges](#) cannot possibly survive. The London stock market will disappear altogether, as will every other national exchange in Europe to create a Pan-European Exchange.

This feature by Dr Patrick Dixon was published in The Times 19/10/98. See also [article in Time magazine 4/4/99](#)

. 2008 update at the bottom of this page.

The process could be complete in less than a decade with huge consequences for every financial institution in Europe and beyond. The impact on commercial and residential property prices in "exchange" cities such as London is likely to be negative and long lasting.

The very idea of a national stock exchange is a throw back to an ancient era when people still breathed the same air in order to trade. The rot set in the moment that electronic trading began, forever separating deal from the dealer. In that moment the London stock exchange became nothing more than a computer server in a basement. London should have seen the writing on the wall when the Liffe market suddenly found earlier this year it was losing the Bund contract to Frankfurt's more efficient new electronic trading system. A deal was struck in July with a proposed link between Frankfurt and London but an unstoppable process is continuing.

Three weeks ago (29 Sept 1998) General Paul Arlman, Chairman of the Federation of European Stock Exchanges declared the new London – Frankfurt alliance so powerful that it "will have an impact on the entire European market", possibly leading to one European Exchange – a step that seems ever more logical in the light of monetary union.

Of course, such a switch is technically straightforward: simply a question of which computer server lands up in which basement within a new regulatory framework. There is some resistance from exchanges who have spent a fortune creating incompatible electronic platforms of their own, but not enough to prevent a stampede into new alliances.

Eurex Chief Joerg Franke is talking about linking with Liffe. His goal is a single European platform for derivatives trading. The new Eurex, formed from Germany's DTB futures and options exchange and Switzerland's SOFFEX is now in talks with France's MATIF about a common platform and clearing system.

Werner Seifert, head of the German Borse said recently that he is seeking new partners for the London-Frankfurt alliance. Other exchanges in Europe are reconsidering their survival with

ripples felt in America where Chicago's Board of Trade has just approved a new global trading alliance with Eurex.

The trouble with national exchanges is that they embody national pride and psyche. Every day, Swiss investors watch movements on their Bourse with a mixture of pleasure, alarm and pride. The British and Americans likewise can hardly conceive of the death of their own markets.

There are other pressures on these ancient exchanges, caught in a late twentieth century timewarp. In a globalised world multinational companies want multiple listings, allowing their stocks to be traded across every time zone.

The notion of a multinational trading only in the country where its historical HQ is based is a nonsense. Multinationals are voting with their feet, running away from national exclusive listings.

Then there is the Internet: already 25% of all trades in the New York market are via the net, but we are still in the first ten minutes of the digital age. The transformation has hardly begun.

Who needs old stock markets anyway? At least one company has floated stock on the net, without using a traditional market at all. What is there to stop me selling my own share certificates on a bulletin board? What would happen if – say – ten medium sized companies created their own co-operative exchange just for their own shares, on the net, with 365 days a year 24 hour access, and ultra-low costs? What would happen if two or three major financial institutions began to experiment with creating a broader cyber-market, using the latest security encryption?

So then it is inconceivable that national exchanges in their current form will live beyond 2010. Expect major convulsions long before then. Once Europe begins to trade on one exchange, it would only take one other major player to announce a link to set in motion a rapid chain reaction. The result will be a single global exchange trading continuously, which raises the spectre of a rolling world market crash at some point in the not so distant future. Some exchanges might chose to remain outside the global trading alliance, but their longer term future will be uncertain. Key issues in any new formations will be trading confidence: liquidity and security. Both these barriers will be overcome, with time. Confidence comes with use, and with confidence volumes and value of trades begin to grow.

But the bigger questions are these: what happens to banks? What happens to brokers? What happens to communities of finance sector workers, in a virtual world?

Many banks are in serious "digital" trouble as it is. A gathering crowd of non-banking competitors is already taking their business, ranging from supermarkets to airlines.. Exchanges exist to serve their members and their members are banks and most banks are dinosaurs. This is a fundamental weakness of the structure of exchanges.

From the investors point of view, trading on-line should be simple and low cost, enabling someone with a computer in a hotel room to directly buy and sell in the market. But members insist that all trades are done via members, who cream off profits for doing nothing except

transmitting an electronic pulse from their server to the exchange.

What would happen if a stock market decided to allow direct internet access? Members would rightly condemn the move because it would mean the exchange was setting itself up in direct competition with the banks themselves.

There could be a creative option: allow all the banks a share in a new company set up exactly for this purpose. But that would defeat the point of abolishing an intermediary altogether. Middle men of any kind are redundant in a digital world. They get in the way and cost money.

So then, the industry is in for a huge shaking. Life will not be more of the same. With commission rates falling towards zero, old-style brokers will be unable to make a living. They will only survive as financial advisers. But most small to medium investors will object to handing back every penny they have saved in commissions. Job losses are inevitable. The process is well under way.

Communities of financial expertise will continue to be found in places like London, even if a regional or global server is based elsewhere, because quality people often need more than money to relocate and big national exchanges have attracted relatively immobile but highly skilled labour forces.

However, it is questionable how long that geographical bias will last. In the virtual world, any trader anywhere in the world with the right skills can be welded into a global investment team. Stock Exchanges such as London, New York and Tokyo need to wake up, move fast and try to take the lead. Either we take hold of the future or the future will take hold of us.

- Update 7/7/99: Merrill Lynch, Goldman Sachs and Bernard Madoff Investment Securities aims to be first with internet auction for market in shares which will be called Primex Trading. Meanwhile, Wit Capital is aiming to offer out of hours trades in US popular stocks very soon.

- Update 27/11/98: European Federation of Stock Exchanges - meeting in Paris to issue a memorandum of understanding on future co-operation. Behind the scenes discussions involving the French and the new LonFurt Exchange. Is it too late for the Paris Exchange? A Pan-European Stock Exchange is moving ever closer.

- Update 27/11/98: Reaction to the article above - universally the same - "You're right, inevitable, bound to happen". So why has no one said it before? Reason: existing markets have been trapped in late twentieth century structures - future-blind. But the future is so obvious once it's spelled out - you can never unsee what you have seen - we may argue about timescale but the process is beyond dispute.

- Update 4/4/99: [Time Magazine feature by Dr Dixon](#)

- Update 2000: What more can one say - a stampede continues across all European exchanges to form new alliances while new entrants continue to change the landscape themselves. The collapse of London and Frankfurt negotiations in September 2000 makes the whole process even more absurd since all the exchanges are being overtaken by other events.

- Update 2008: The London and New York Stock Exchanges continue but have become more "virtual" - with multiple listings of the same global companies on many different exchanges. Many new competing platforms are emerging. Expect many more alternative trading mechanisms and more battles for joint ownership of different exchanges.