

Industry Overview

Overview of the Exchange Industry

Exchanges are organised markets designed to provide centralised facilities for the trading of financial instruments, including securities issued by companies, governments and other entities, as well as commodities and derivatives.

Exchanges typically generate core revenue by collecting fees from issuers for the admission to trading of their securities, fees from financial intermediaries who deal in the financial instruments traded on the exchange and the sale of market data and technological solutions.

In many countries, depository, clearing and settlement services are provided by independent organisations, although there is an increasing consolidation trend, with several leading exchanges adopting a vertical structure and integrating most or all of these activities within a single group. Thus, for vertically integrated exchanges, additional revenue streams include, among others, clearing and settlement charges, custody and depository fees and net interest income earned from client funds held on the exchange group's balance sheet.

The exchange industry is generally supervised by a financial regulatory agency; in some cases, exchanges may also exercise quasi-governmental authority as a self-regulatory organisation (SRO) responsible for policing their members and affiliated markets.

Key Trends

Over the past decade, the industry has undergone significant re-structuring, characterised by consolidation of exchanges through mergers, acquisitions and alliances both globally and within Europe. For example, ICE's acquisition of the NYSE in 2013 established one of the world's largest exchanges by market capitalisation. Significant transactions in Europe include: NASDAQ's 2007 acquisition of OMX (Nordic region) and LSE's 2007 acquisition of Borsa Italiana and 2013 acquisition of a majority stake in LCH Clearnet. In 2011 MICEX's merger with RTS combined Russia's two largest exchange groups.

Other than the major wave of consolidation in the sector, recent industry trends and developments include:

- Demutualisation and subsequent self-listing of exchanges, providing them with additional liquidity and capital to expand their businesses and leading to increased competition in the sector globally;
- Electronification and significant automation of trading, drastically increasing the emphasis on low latency levels at execution venues and certainty of execution leading to significant modernisation and upgrades of the IT infrastructures and exchange platforms;
- Diversification into new products and services by bringing new types of financial instruments, such as derivatives, investment fund units, trusts and fixed income securities onto exchanges, in addition to the creation of new business models to encompass complimentary activities related to the trading of instruments, including the sale of market data and the licensing of software;
- Emphasis on vertically integrated business models, which allow exchange groups to capture a greater share of the total wallet of customers while also enhancing risk management, improving connectivity and streamlining the customer experience through the trade cycle;
- Development of "alternative" exchange-regulated markets that provide a venue and facilitate listings and raising of capital by small- and medium-sized enterprises that would typically not qualify for Main Boards/ Official Markets;
- Development of new technologies and the rise in popularity of Electronic Communication Networks (ECNs), Multilateral Trading Facilities (MTFs) and Organized Trading Facilities (OTFs), which compete with traditional exchanges in terms of cost, speed and efficiency, as well as transparency;

- Increasing importance of data, analytical tools and risk management as part of services provided by exchanges and Central Counterparties (CCPs).

To succeed in this highly competitive industry, exchanges have made large-scale investments in their information technology platforms in order to improve performance and increase trading volumes, to diversify sources of revenue and to offer more sophisticated solutions to their customers. Moreover, faced with intensified competition from ECNs, MTFs and OTFs, some exchanges have been induced to cut fees or launch their own ECNs, MTFs or OTFs.

Moscow Exchange Competitors

The key competitors of Moscow Exchange are the London Stock Exchange, the New York Stock Exchange and NASDAQ, EBS FX Platform (ICAP Group), the Chicago Mercantile Exchange (CME Group), the Deutsche Börse, and the Hong Kong Stock Exchange.

The LSE is both one of the largest global exchange groups and the major overseas venue for trading in global depositary receipts of Russian companies. When a company chooses to join the LSE, it can list shares on the Main Market or the Alternative Investment Market (AIM). The LSE boasts an advanced electronic trading system that supports several market types. The LSE Group also owns Turquoise, a trading platform competing with Moscow Exchange in Russian stocks and the index derivatives segment.

The NYSE is one of the world's largest exchange groups and it hosts trading in global depositary receipts of Russian corporate issuers. It has been in competition with Moscow Exchange since 1996, when the NYSE became the first international exchange to list depositary receipts of a Russian company.

Moscow Exchange in the Global Context

Among the top 3 fixed income exchanges in 2016¹

	Exchange	Country	Trading volume (USD bn)	Including repo
1	BME	Spain	6,875	✓
2	Moscow Exchange	Russia	3,764	✓
3	Korea Exchange	South Korea	2,843	✗
4	LSE Group	UK	1,976	✗
5	Johannesburg SE	South Africa	1,850	✓
6	Nasdaq OMX	USA	1,712	✓
7	Oslo Borse	Norway	713	✓
8	Bolsa de Valores de Colombia	Colombia	417	✗
9	Shanghai SE	China	398	✗
10	Taipei Exchange	Taiwan	268	✗

¹ Due to the difference in methodology, data on the volume of bond trades may not be comparable between sites.

Among the top 3 derivatives exchanges in 2016

	Exchange	Country	Trading volume (contracts, m)
1	CME Group	USA	3,942
2	NSE India	India	2,135
3	Moscow Exchange	Russia	1,963
4	Shanghai Futures Exchange	China	1,681
5	Deutsche Börse	Germany	1,592
6	Dalian Commodity Exchange	China	1,537
7	BM&FBOVESPA	Brazil	1,358
8	CBOE	USA	1,124
9	Nasdaq OMX	USA	998
10	Zhengzhou Commodity Exchange	China	901

Source: Moscow Exchange, WFE, Bloomberg

NASDAQ is one of the leading global exchange groups trading in global depositary receipts of Russian corporate issuers. It has been in competition with Moscow Exchange since 2000. A new period of competition for Russian issuers began with the IPO of Yandex 2011.

The ICAP's EBS FX Platform is the world's major inter-dealer broker and one of the global FX trading market leaders. In addition to FX instruments, ICAP also provides venues for other developed and developing market instruments, including commodity derivatives, bonds, shares and depositary receipts as well as interest rate-based derivatives. The EBS is MOEX's main competitor in spot trading of the USD-RUB and EUR-RUB currency pairs.

The CME is one of the largest derivative exchanges globally with a wide offering of derivative instruments based on various asset classes, including equity indices, interest rates, FX exchange rates, commodities, and real estate. CME Group provides matching, CCP clearing and settlement services. It is MOEX's primary competitor in the segment of USD-RUB futures and options.

One of the major exchange groups in Europe and globally, Deutsche Börse is a vertically integrated holding comprising the Xetra trading system, the Clearstream settlement depository and the EUREX derivatives exchange. EUREX offers a trading venue for RDX futures (RDX is an index for depositary receipts issued by the Russian blue chips calculated by Wiener Börse).

HKEx is one of Asia's leading exchange groups. It has been competing with the Moscow Exchange since 2010, when RUSAL (an off-shore company incorporated in Jersey) listed its shares on HKEx.

Among the top 24 stock exchanges in 2016¹

	Exchange	Country	Market cap (USD bn)	Number of issuers	Trading volume (USD bn)
1	ICE&NYSE	USA	19,573	2,307	17,318
2	Nasdaq OMX	USA	8,965	3,835	11,781
3	Shenzhen SE	China	3,217	1,870	11,606
4	Shanghai SE	China	4,104	1,182	7,492
5	Japan Exchange	Japan	5,061	3,541	5,618
6	LSE Group	UK	3,496	2,590	2,286
7	Euronext	EU	3,493	1,051	1,766
8	Korea Exchange	South Korea	1,282	2,059	1,673
9	HKEx	Hong Kong	3,193	1,973	1,350
10	Deutsche Börse	Germany	1,732	592	1,306
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24	Moscow Exchange	Russia	622	245	129

¹ The largest stock exchanges have been ranked by equity trading volumes (EOB only). The ranking excludes BATS because no data on market capitalisation and the number of traded companies has been made available.

Among the top 12 publicly traded exchanges by market capitalisation²

	Exchange	Country	Market Capitalisation (USD bn)
1	CME	USA	39.9
2	ICE&NYSE	USA	34.2
3	HKEx	Hong Kong	29.2
4	Deutsche Börse	Germany	16.7
5	LSE Group	UK	13.5
6	Nasdaq OMX	USA	11.2
7	BM&F Bovespa	Brazil	10.4
8	Japan Exchange	Japan	7.6
9	ASX	Australia	7.2
10	CBOE	USA	6.2
11	SGX	Singapore	5.7
12	Moscow Exchange	Russia	5.1

² Bloomberg data as of 24 January 2017.