

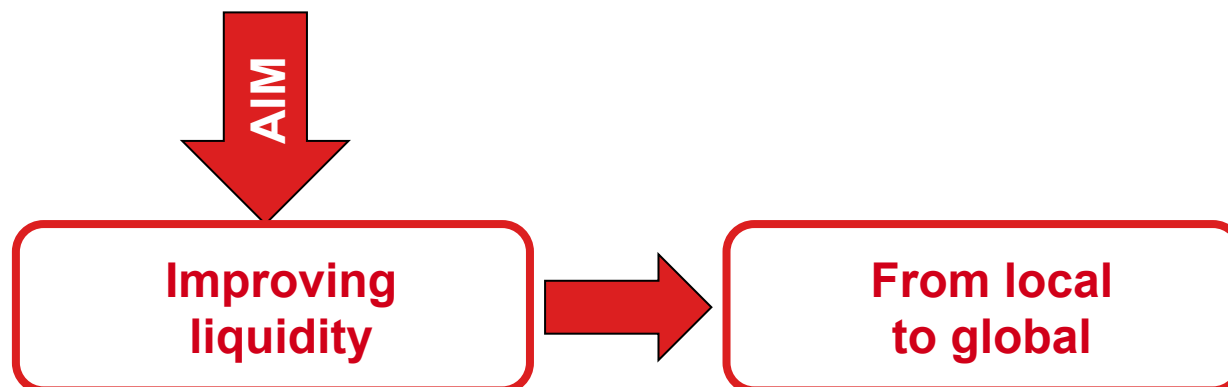


Consolidated Markets or Local Stock Exchanges? - Capital Market Development in CEE

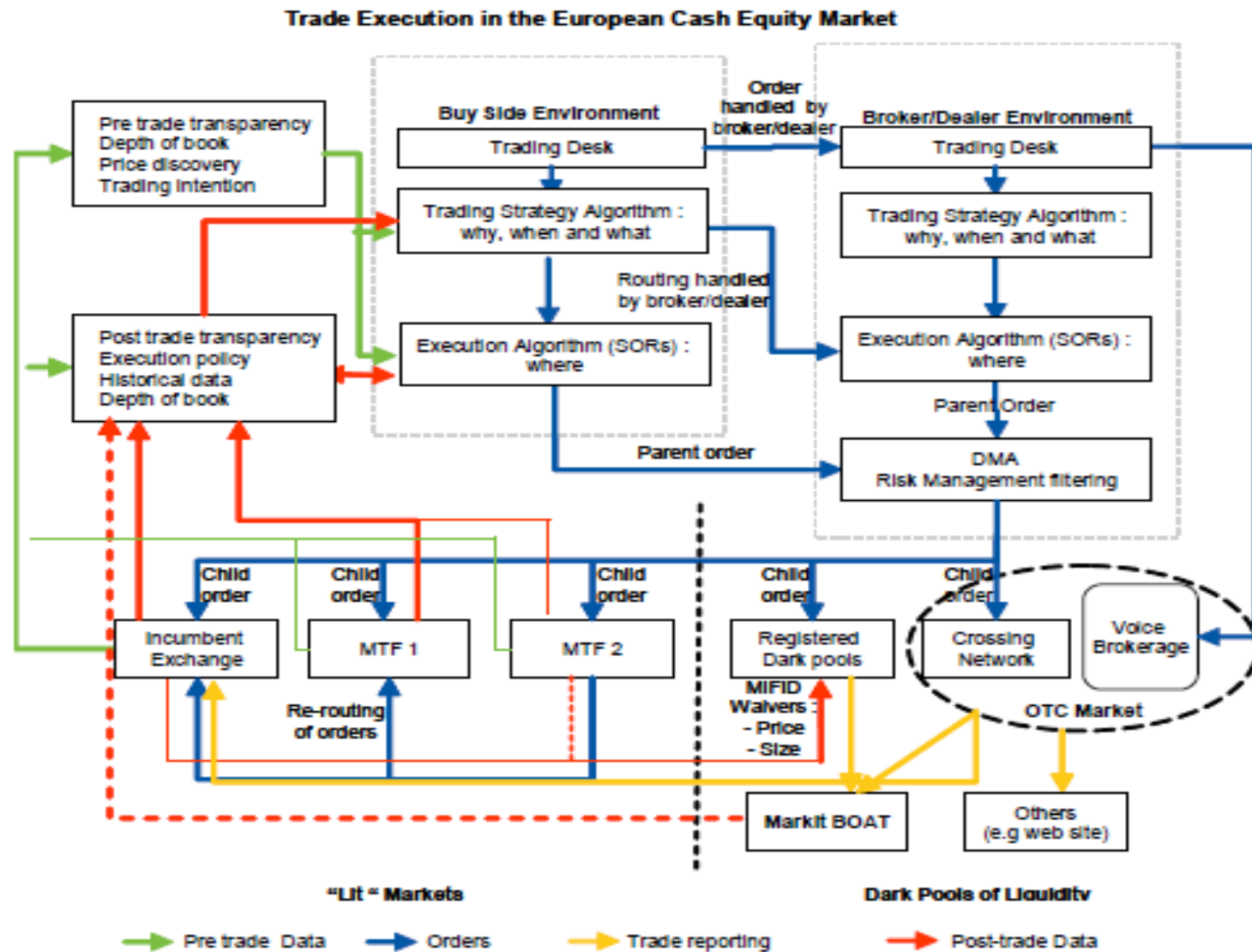
Zsolt Katona, CEO
Budapest Stock Exchange Ltd.

Growing challenges for traditional exchanges

- **Globalization**
- **Technology race**
- **Alternative trading possibilities**
 - MTFs, Dark pools, Internalisation, BCNs
- **Rapid changes in regulatory environment**
- **Increased competition in the whole industry**
 - Lowering fees and margins
 - Commoditisation of equity trading business



Hunt for the liquidity – the battlefield



2 main exchange strategies

DBAG, WSE Exploiting advantages of a strong economy Closed vertical silos and cross border listings



Organic growth strategy



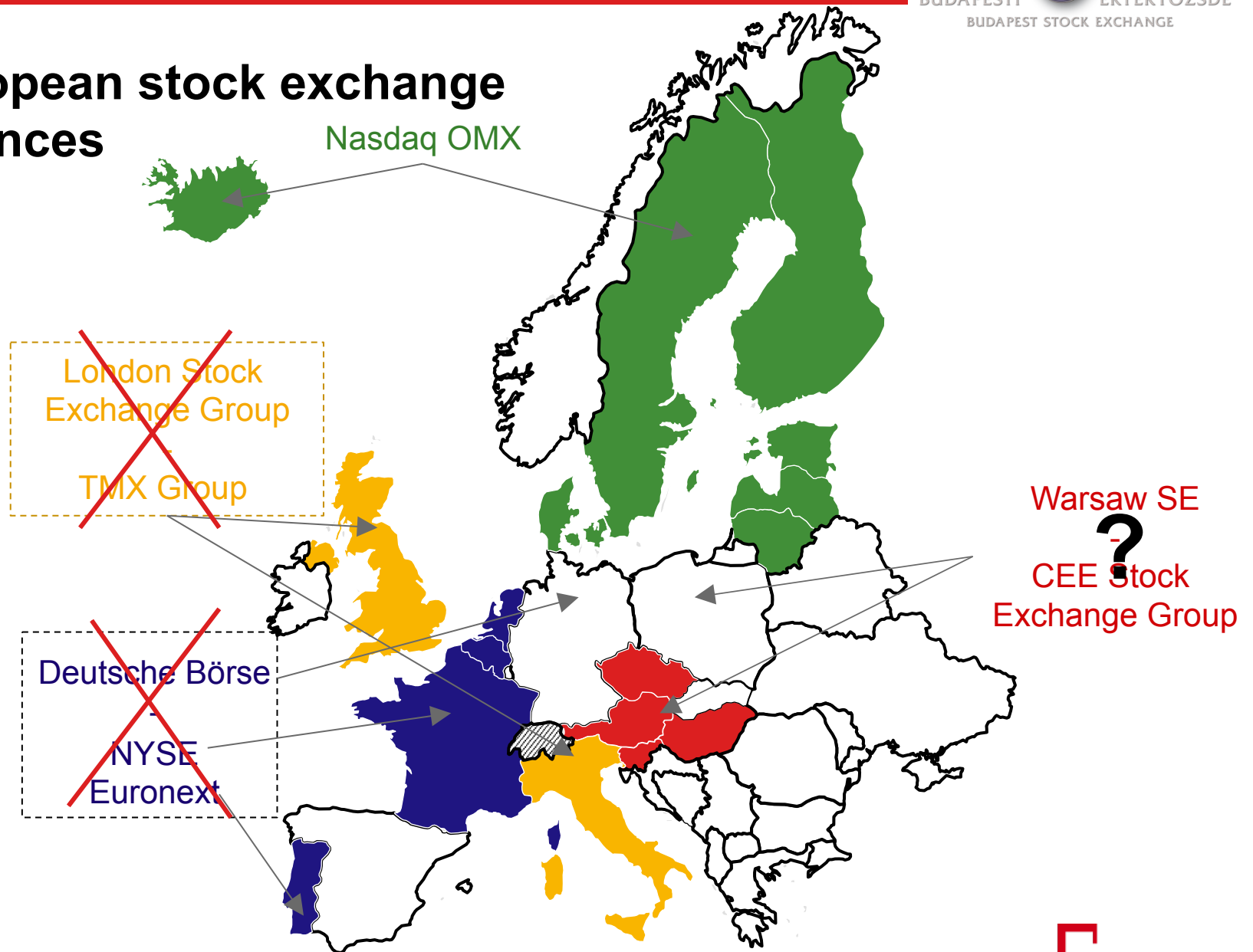
NYSE, NASDAQ Regional and/or transatlantic partnerships Synergies, harmonisation



Group/merger strategy



European stock exchange alliances



Main reasons behind the consolidation

- **Economies of scale**
 - Same platform
 - Function sharing
- **Single connection with uniform messaging**
- **Process harmonisation**
- **Could entail possible CCP mergers**
 - Common CCP and/or CSD linkages
 - Reduced collateral needs
 - Harmonised rules

Local members gain new
markets and products

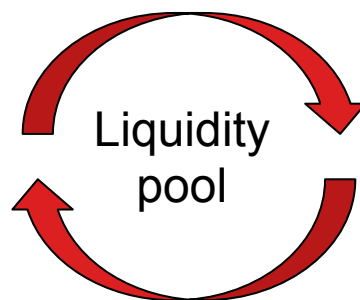
**The exchange becomes more attractive
to remote members**

Importance of local exchange presence

Presence in local financial network is necessary for every market player with a stock exchange in the centre

Issuers

- Big focus on them to list primarily on the national exchange
- Importance of state owned companies to use capital markets
- Helping SMEs with new market segments
- Index memberships (PR effects)



Exchange Members

- Cooperation in product and market structure development
- Enforcement of local needs
- New Market Making, Brokerage solutions to enhance liquidity
- Motivate analysts to analyse SMEs, not just big companies

Investors

- National savings – strong local investor base for long term investment thinking
- Enhancing the financial knowledge of potential investors
- Roadshows
- Investor's protection

Advantages of a regional partnership based on CEESEG experiences

- **Integrated trading platform**
 - Easy connection to Xetra markets – internationally attractive
 - Development of unified conditionalities for trading partners
- **Coordinated distribution of market data**
- **Harmonised sales of indice licences**
- **Long-term harmonisation plans**
 - Clearing and Settlement functions
 - Market segments
 - General terms and conditions of business