How did the Malta Stock Exchange get to where it is today?

The exchange was set up 20 years ago. It primarily serves the domestic market, which is a hybrid market but also a highly retail one. Retail clients hold 40 percent of government paper. Ninety-five percent of those holders have less than €5000, so you can imagine the widespread that the percentage of this is. Also, the equity/corporate bond market is very active and highly retail. It is a domestic market that has a highly retail component to it.

I think this highly retail aspect is the result of a political decision. When the exchange was set up, the idea of an exchange—the idea of actually risking your savings to trade was out of the comfort zone of the Maltese. The Maltese are savers; they are not high risk takers. They take risks, but they are calculated ones. To trade was a very big leap for the Maltese. To set up an exchange was a political decision of the government of the time, as it wanted a wider spread of ownership. All government debt was in the hands of banks and the institutional investors, but the government wanted to popularise government paper. That is where the exchange began.

What changes has the exchange undergone since its inception?

The exchange has undergone many changes since its inception. It began as a self-regulatory organisation, the regulator of the capital market, the listing authority and the licence issuer. That all changed in 2002 when the Malta Financial Services Authority (MFSA) came into being and the exchange was divested of its regulatory responsibilities. This actually pre-empted what was going to happen in 2004 when we joined the EU. In the EU, the model is very much to have a separate, single regulator.

In 2007, there were major legislative changes that affected the exchange, which also brought in the transparency directive and MiFID. One thing that affected the exchange directly was the clauses in the law that allowed the exchange to go from a public authority to a group of companies structure. What we have now is a holding company that holds 100 percent of the shares in two subsidiaries, the regulated market and the CSD.

Another big change to the law that affected the exchange was the introduction of a whole new section on the regulation and oversight of depositories. Everything that we have in our law is actually included in the CSD regulation that is being discussed within the EU at the moment. I think we pre-empted a lot of things. The reason that this new section was originally put in was because when we were a regulator, our internal by-laws were deemed to have force of law. When we became an operator in 2002, and therefore ourselves licensed by the MFSA, that robustness of our own internal by-laws was deemed to be dilute. The advice we were given was to create a legal regulatory structure purely for CSDs, particularly as it was beneficial from a risk management and financial stability point of view.

What is the exchange’s strategy going forward?

The exchange’s strategy is now very focused on bringing in international business. We believe that local growth is finite and we have probably reached a plateau. We haven’t reached our maximum yet, but definitely a plateau, especially on the supply side. The exchange is looking to leverage Malta’s good reputation as a financial centre and I think that we’re getting very positive results from this.

We’re also very focused on developing the exchange’s market and depository as individual strands of the strategy. Because of the way the exchange was set up, we’ve tended to look at ourselves as a one-stop-shop that can cover the whole value chain of a transaction. We’re very proud and happy that we can provide all of the pieces of the value trade of a transaction, but we also believe that in a way we may have unintentionally undervalued the development of the depository. Not in the sense of the financial value of a depository or, because of the way are laws are structured, the many services that a depository can offer. Essentially, we were not exploiting the depository in terms of developing what the exchange can offer as a CSD.

How much interest is there in the exchange’s depository services?

What we’re seeing at the moment in is a lot of interest from overseas companies that are very focused in their interest. Some want the listing service, while others want the market, but a lot of them want the depository. The industry is telling us that different users have different needs.

What has enhanced the profile of the exchange’s depository is its link with Clearstream, which we implemented via Clearstream Frankfurt in 2011.
This generated huge interest because, in the capital market world, the post-trading infrastructure is always the most expensive, the most difficult and the most risky. Therefore, the more you can facilitate that, the more interest you will have, and we’re starting to see dividends.

What is the situation with T2S?

T2S is happening and we’re looking to sign the agreement in June. We don’t see any particular reason why we shouldn’t sign T2S, but there are some issues.

Primarily, we do not see many short term benefits to signing up to T2S. Of course, this is not just particular to the exchange’s CSD—but is common to many direct holding markets. We have to keep in mind that we are a very small CSD and we do not have the volumes that can increase cost-effectiveness. Also, in the same way as any direct holding CSD, the savings are actually very limited. Of course, T2S is a settlement platform—it doesn’t do anything else, so it doesn’t affect the other responsibilities and services that you have to offer to your end clients. Therefore, we believe that we will not garner many cost savings as a result of reshaping our CSD post-T2S.

Having said that, we see a lot of disadvantages in remaining outside of T2S, because as soon as you are outside of something like this, you lose your competitive edge. Everything we have done to enhance connectivity would actually be lost because we would isolate ourselves. Given our size, there would be no way we would be able to compete on pricing because of volumes. We cannot fathom remaining outside of T2S; it will isolate Malta, investors, companies and it would be a huge barrier to doing business with Malta.

We do see a lot of immediate advantages to signing up, particularly from the harmonisation that has to come from T2S. The contingency and risk management sides are all advantages that will accrue once we go on to T2S.

How is the exchange’s migration to the Xetra platform going?

We are in countdown mode—on 11 June, we will begin using the Xetra trading platform. It’s a very big change—a technology change and a strategic one. Our current trading platform contract expires in July—so we needed to upgrade our technology anyway—but in looking for new technology we looked at new technology as a business enabler.

We’re getting indications that a number of overseas users who are familiar with Xetra are very interested in taking membership. A lot of people have asked us why we have opted for Xetra over another platform. We were looking for a hosted system that is used in many other markets. We also wanted a system that is familiar to many users and has a global reach. A global reach from the point of view of issuers, from the point of view of connectivity to its users, and of course, we already have the link with Clearstream.

We also wanted it to be future proof to the extent that it has significant capacity, as well as sufficient functionality, for it to cope with all of the different projects that we have. We wanted a European system too, because we wanted a system that is MIFID compliant.

We looked at various systems, but what we wanted in the end was a business enabler. The system isn’t an end in itself; it’s a means of achieving an expansion in business and the services that we can provide. Technically, one trading system is similar to another. A trading system is a sophisticated matching engine and nothing else. You have to look at what suits you best from every angle—technical, functional, commercial, contractual and opportunities—we certainly didn’t want a system that would keep us isolated. Connectivity was the big issue when we were looking at trading systems. International growth is the name of the game at the moment, so having the Clearstream link and the Xetra link will give us the passport to being able to go out there, beyond our shores, and attract business to Malta. AST