
Industry overview

OVERVIEW OF THE EXCHANGE INDUSTRY

Exchanges are organised markets designed to facilitate centralised trading of financial instruments, including stocks and bonds, currencies, commodities and derivatives. Exchanges typically generate their core revenue by collecting fees from issuers for admitting their securities to trading; collecting fees from financial intermediaries who deal directly in the financial instruments traded on the exchange; and by selling market data and technological solutions and services.

In many countries, depository, clearing and settlement services are provided by separate independent organisations. However, in recent years there has been a tendency for major exchange operators to adopt a vertical structure

and integrate most or all types of operations within a single group of companies. Vertically integrated exchanges receive additional income from settlement and from clearing and depository services, as well as net interest income from placing customer funds held on the group's balance sheet.

The exchange industry is generally supervised by a regulatory agency responsible for oversight of the financial sector. In some cases, exchanges have quasi-governmental authority and act as self-regulatory organizations (SRO).

Global trends

Key trends observed in previous years continued in 2019. Exchanges expanded the range of instruments available to their members, primarily derivatives; launched new types of mini-futures and derivatives with non-standard terms of performance; and developed a range of fixed-term contracts for commodities. The popularity of passive investments grew, with passively managed funds in the US overtaking active funds by assets under management. Investments into exchange-traded funds (ETFs) continued to increase. However, concerns have been raised regarding the risks involved in passive investments, as higher volumes of securities held in fund portfolios undermines core liquidity and increases the volatility of basic assets.

In 2019, stock exchanges continued to pursue cooperation with one another and the globalization of access to markets. London Stock Exchange and Shanghai Stock Exchange started to cooperate on the Shanghai-London Stock Connect project, while China and Japan launched the Japan-China ETF Connectivity project to promote cross-listing of exchange-traded funds. Deutsche Börse opened its stock market to external clearing; EuroCCP continues to provide clearing services to Frankfurt Stock Exchange based on an interoperability model. Euronext acquired Norwegian exchange Oslo Borse, while London Stock Exchange (LSE) announced the acquisition of analytics company Refinitiv (and also rejected an offer from HKEx), and SIX Swiss Exchange announced its intention to buy Spain's BME exchange.

The exchange industry continued developing artificial intelligence technologies and big data analytics. In particular, the Australian Securities Exchange (ASX) is using AI as an auxiliary tool to identify significant events requiring disclosure, while NASDAQ has introduced artificial intelligence and cloud services to monitor the stock market.

A number of exchanges undertook projects to create OTC platforms. B3 Brazilian Exchange launched the NoMe platform for registering collateral and other encumbrances on assets put up as collateral for exchange and OTC transactions. Intercontinental Exchange launched ETF Hub, a platform for issuing and redeeming exchange-traded funds, around which an ecosystem will be formed bringing together issuers, investors, market makers and custodians. Thai Exchange launched Thailand's first virtual platform to promote start-ups, SMEs and socially oriented companies.

In recent years, climate change, inequality and cybersecurity have become increasingly important topics. Investors around the world are starting to integrate environmental, social and governance (ESG) factors into their investment decision-making processes to improve risk management and seek sustainable long-term returns on investment, and are increasingly paying attention to companies that use ESG best practices. In response to investor demand, global exchanges are increasingly introducing ESG principles into their activities:

- ▶ 94 exchanges have joined the UN Sustainable Stock Exchanges (SSE) global initiative, which aims to promote sustainable development practices and responsible business conduct on financial markets;
- ▶ Exchanges are creating special sectors for securities of companies that support the green economy;
- ▶ New indices have appeared based on ESG principles: in 2019, FTSE launched the global government bond index, weighted by a country's preparedness for and immunity to climate change risk;
- ▶ Markets for ESG derivatives are developing, including ETFs, futures and index options (Eurex, NASDAQ);
- ▶ Some exchanges are publishing ESG reports about their adherence to ESG principles and how they observe them in their strategy, and include ESG elements in recommendations and requirements for issuers.

Moscow Exchange's competitors

MOEX's main competitors are London Stock Exchange (LSE), the New York Stock Exchange (NYSE), NASDAQ, EBS FX Platform (ICAP Group), CME Group, Deutsche Börse and the Hong Kong Stock Exchange (HKEx).

The LSE is both one of the largest financial global centers and the largest overseas venue for trading in global depository receipts on shares 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 Group also owns Turquoise, a trading platform competing with Moscow Exchange in Russian equities and index derivatives.

The NYSE (owned by ICE) is one of the largest global stock exchanges and has hosted trading in global depository receipts of Russian corporate issuers since 1996.

NASDAQ is one of the largest global stock exchanges, and has traded in global depository receipts on shares of Russian corporate issuers since 1999.

The CME is one of the largest global derivative exchanges with a wide offering of derivative instruments based on various asset classes, including equity indices, interest rates, FX, commodities and real estate. The CME is MOEX's primary competitor in USD/RUB futures and options.

Deutsche Börse is one of the largest exchange groups in Europe and worldwide. 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 and an index for depository receipts on Russian blue chips calculated by Wiener Börse.

HKEx is one of the largest Asian exchanges. At present, shares of one Russian company are traded on HKEx.