



## FOREWORD

As the center of the global economy shifts to Asia, the importance of Asian exchanges in the global equity market is rising. According to the World Federation of Exchanges, the total market capitalization of companies listed on Asia-Pacific exchanges (including Japan, China and India) comprised 35.8 percent of the global total in December 2017, up from 29.3 percent in December 2007.

Turning our attention to the Western developed countries, the 21st century financial system enables companies and investors to select and utilize the most favorable market anywhere and therefore global competition among stock exchanges has become fierce. Exchanges are also required to make huge investments in technology in order to respond to participants' requirements for such things as automation, high frequency trading and complicated equity trading. In many cases, the world's largest stock exchanges took transformative actions to demutualize or to merge with commodity/derivative exchanges, and some have even undertaken cross-border M&As.

Policymakers in ASEAN countries are trying to implement various strategies and measures regarding exchanges in order to gain market competitiveness. However, the stock exchanges in ASEAN remain relatively small in terms of number of listed companies or trading volume and they are not yet recognized as international financial centers. In reality, many emerging companies in the region may want to list on the New York Stock Exchange or London Stock Exchange as the venue for their initial public offerings (IPO).

This issue focuses on the "Future of Exchanges." The articles remind us that all countries are making efforts to strengthen the capacity and quality of their exchanges, backed by the favorable market conditions of recent years. More specifically, we see exchanges around the world employing strategies for diversifying listed products to include derivatives, bonds, exchange traded funds (ETFs) and real estate investment funds (REITs). Also, they are undertaking bold measures to improve the quality of listed companies, such as by tightening listing standards and disclosure requirements, aiming to highlight the strengths of each market or to introduce best practices to the domestic market. Listing more blue-chip companies or inviting eye-catching IPOs seems important, but always there is no shortcut to success without developing the investor base.

Another global trend engaging exchanges is integration or alliance, even though it seems contradictory to the trend of fragmentation or competition. Considering the rapid expansion of passive or index investing, global investors may be more attracted to invest in asset classes such as ASEAN or Asian growth, rather than to stock-pick their investments. In Japan, for example, the release of the Nikkei Asia 300 index in 2016 was followed by the launch of many open-end investment trust funds (mutual funds) based on that index. Maybe now is the time for ASEAN market professionals to consider new alliance strategies to take the place of the ASEAN trading link which was shut down quietly in October 2017.