Regulation of Markets

Survey 2004

With the collaboration of
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WORLD FEDERATION OF EXCHANGES

List of WFE Members

(as of January 2005)

American Stock Exchange
Athens Exchange
Australian Stock Exchange
Bermuda Stock Exchange
BME Spanish Exchanges
Bolsa de Comercio de Buenos Aires
Bolsa de Comercio de Santiago
Bolsa de Valores de Colombia
Bolsa de Valores de Lima
Bolsa de Valores do São Paulo
Bolsa Mexicana de Valores
Borsa Italiana SpA
Bourse de Luxembourg
Bourse de Montréal
BSE The Stock Exchange, Mumbai
Budapest Stock Exchange Ltd.
Bursa Malaysia
Chicago Board Options Exchange
Colombo Stock Exchange
Copenhagen Stock Exchange
Deutsche Börse AG
Euronext Amsterdam
Euronext Brussels
Euronext Lisbon
Euronext Paris
Hong Kong Exchanges and Clearing
Irish Stock Exchange
Istanbul Stock Exchange
Jakarta Stock Exchange
JSE Securities Exchange, South Africa
Korea Stock Exchange
Ljubljana Stock Exchange
London Stock Exchange
Malta Stock Exchange
NASD
National Stock Exchange of India Limited
New York Stock Exchange
New Zealand Exchange
OMX Exchanges Ltd.
Osaka Securities Exchange
Oslo Børs
Philippine Stock Exchange
Shanghai Stock Exchange
Shenzhen Stock Exchange
Singapore Exchange
Stock Exchange of Tehran
Stock Exchange of Thailand
SWX Swiss Exchange
Taiwan Stock Exchange Corp.
Tel-Aviv Stock Exchange
Tokyo Stock Exchange
TSX Group
Warsaw Stock Exchange
Wiener Börse AG

WFE REPORT ON REGULATION OF MARKETS

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INTRODUCTION

In October 2003, the WFE Working Committee decided to go forward with a project on market regulation by exchanges, with an emphasis on market quality. This project was endorsed by the WFE Board of Directors in January 2004. Professor Roberta Karmel was then retained as a consultant to assist with this project. She met with Working Committee members in March 2004, and again in June 2004, to develop a questionnaire intended to go beyond debates about exchanges as SROs, and to focus on what regulatory tasks exchanges are actually performing, the extent to which such tasks are shared with government regulators or regulatory service providers, and to ascertain the costs of such regulation. Almost 80% of the WFE members responded to the questionnaire, although not all exchanges responded to all of the questions asked.

The responding exchanges were :

American Stock Exchange
Australian Stock Exchange
BME Spanish Exchanges
Bolsa de Comercio de Santiago
Bolsa de Valores de Lima
Bolsa de Valores do São Paulo
Bolsa Mexicana de Valores
Bourse de Luxembourg
Bourse de Montréal
Budapest Stock Exchange Ltd.
Bursa Malaysia
Chicago Board Options Exchange
Colombo Stock Exchange
Copenhagen Stock Exchange
Deutsche Börse AG
Euronext
Hong Kong Exchanges & Clearing
Irish Stock Exchange
Istanbul Stock Exchange
JSE Securities Exchange, South Africa
Korea Stock Exchange
Ljubljana Stock Exchange
London Stock Exchange
Malta Stock Exchange
NASD
National Stock Exchange of India Ltd.
New York Stock Exchange
Philippine Stock Exchange
Shanghai Stock Exchange
Shenzhen Stock Exchange
Singapore Exchange
Stock Exchange of Tehran
Stock Exchange of Thailand
SWX Swiss Exchange
Taiwan Stock Exchange Corp.
Tokyo Stock Exchange
TSX Group
Warsaw Stock Exchange
Wiener Börse AG

The survey had three parts – a checklist format; questions about regulation costs; and some qualitative questions designed to elicit answers about the direction of regulatory activities and current problems in the performance of regulatory functions by exchanges.

A copy of the questionnaire sent to WFE members is annexed to this report. It has been suggested that in the future questionnaires of this type would benefit from definitions of key terms.

SUMMARY

Most exchanges believe that regulation is a part of their brand, and most exchanges are engaged in market regulation. Many continue to license trading members and supervise clearing and settlement activities. Many continue to regulate listed company disclosure and corporate governance. The costs of regulation are a significant portion of exchange operating expenses, although the answers to questions about costs in this survey were somewhat disappointing in terms of genuine comparability for the group. Some exchanges did not respond to these questions, and some answers seemed somewhat arbitrary, and perhaps even erroneous due to diverse costing measures.

A majority of exchanges wished their answers to remain confidential. Whether they wished all or only some answers to be confidential was unclear, so this report gives all exchanges anonymity.

Most, if not all, exchanges expressed the view that their regulatory responsibilities would not change in the next year, but that response seemed more of a hope than a reality. Exchange regulation is clearly in a state of flux. Perhaps an inability by exchanges to fully understand or control what is happening to the exchange markets and to their regulation explains some of the difficulties exchanges had in answering the questions. Perhaps that is an important conclusion in itself.

Another possible impediment to clearer responses is that as exchanges become commercial enterprises in a global capital market, they are all competitors on some level. That also makes giving quantitative information a sensitive matter. But if most exchanges become public companies in the future, they will have to learn how to disclose financial information in an accurate and fulsome manner. A good exercise for any exchange contemplating a public offering would be to look at the U.S. SEC requirements for a Management Discussion and Analysis in an annual report and see if it is willing or able to make such a presentation.

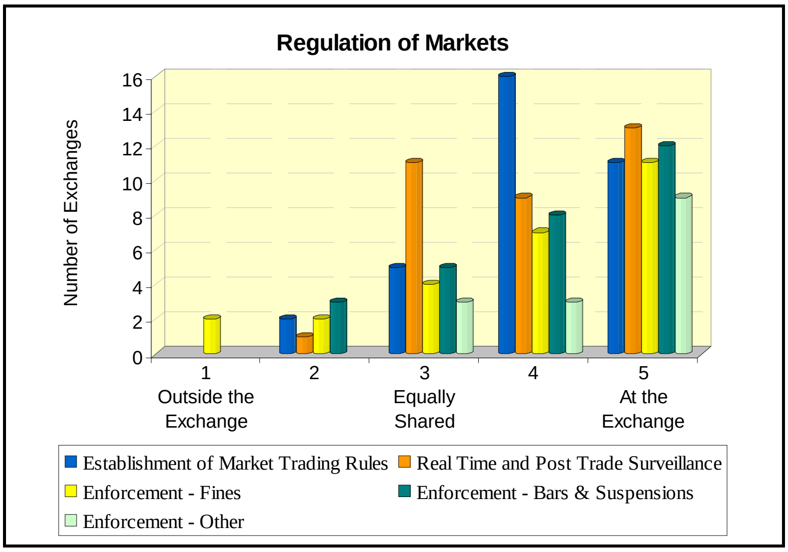
1. TASKS PERFORMED BY EXCHANGES

a. Regulation of Markets

Virtually all of the respondent exchanges establish market trading rules and then conduct real-time and post-trade surveillance. Further, virtually all exchanges enforce these trading rules by either fines, or bars or suspensions of trading members.

- <u>Establishment of market trading rules</u>
  97% of **38** exchanges
- <u>Real-time and post-trade surveillance</u>
  97% of **36** exchanges
- <u>Enforcement</u>
  83% of **36** exchanges = *Fines*
  95% of **37** exchanges = *Bars & Suspensions*
  73% of **22** exchanges = *Other*

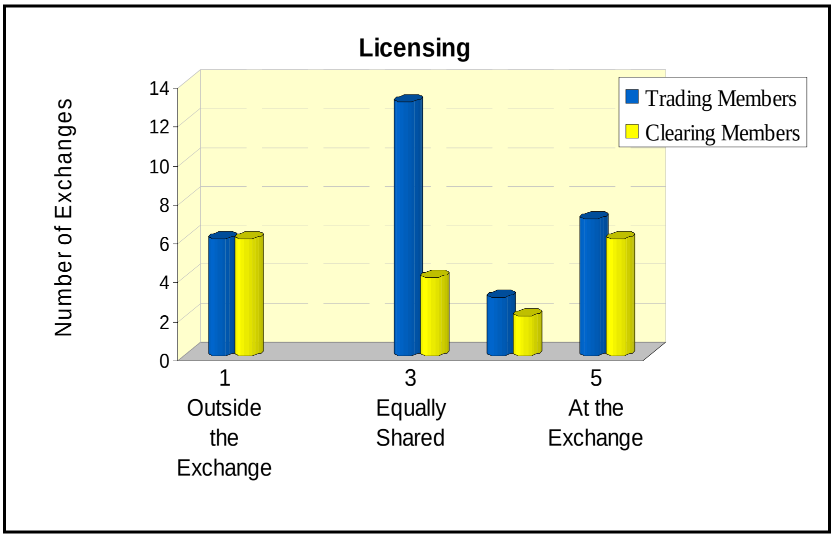
Enforcement of trading rules frequently is shared with government regulators. Since very few exchanges contract with outside regulatory service providers for regulation, our results only reflect shared responsibilities with government regulators.



b. Licensing

88% of the 33 exchanges which responded to this question stated that they license trading members; only a little over half of the respondents are responsible for licensing clearing members. Over half of the exchanges which license members share this responsibility with government regulators.

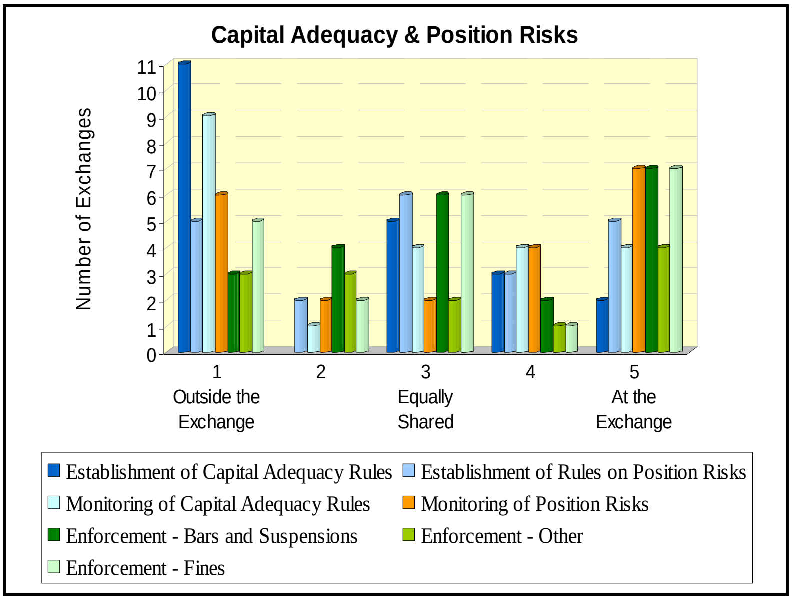
- **88%** of the **33** exchanges that responded said their exchange was responsible for licensing *trading* members
- **53%** of the **36** exchanges that responded said their exchange was responsible for licensing *clearing* members



c. Capital Adequacy and Position Risks

Approximately half of the exchanges which responded to this question establish and/or monitor capital adequacy rules. A greater number establish and/or monitor position risk rules. And an even larger number enforce such rules. As the graph below shows, government regulators in a number of jurisdictions establish and/or enforce such rules, and often responsibility for such rules is shared by exchanges with government regulators.

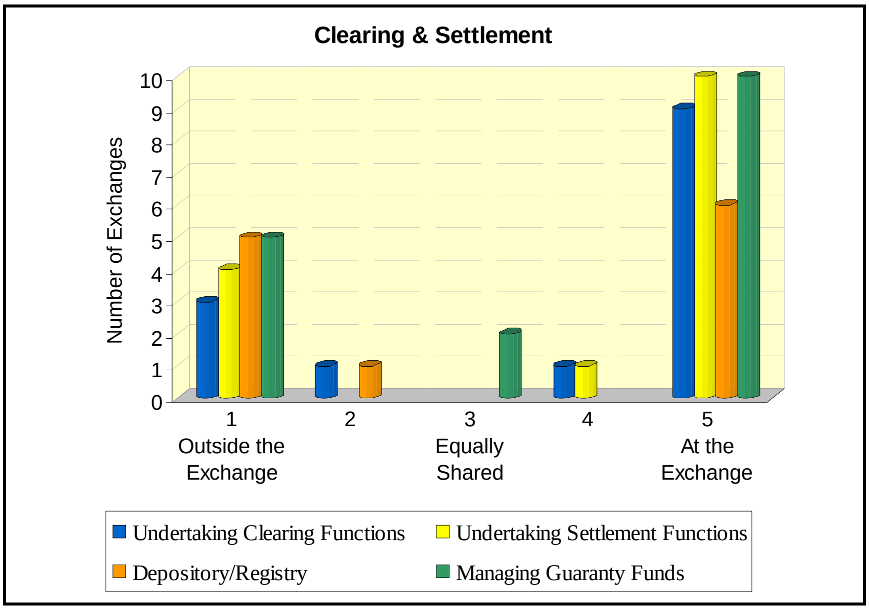
- **Capital Adequacy Rules**
  - *Establishing :* **47%** of **36** exchanges
  - *Monitoring :* **51%** of **37** exchanges
- **Rules on Position Risks**
  - *Establishing : **61%** of **38** exchanges*
  - *Monitoring : **56%** of **39** exchanges*
- **Enforcement**
  - *Fines : **68%** of **28** exchanges*
  - *Bars & Suspensions : **79%** of **29** exchanges*
  - *Other : **65%** of **17** exchanges*



d. Clearing and Settlement

Over half the exchanges which responded to this question undertake clearing and settlement functions, but only about one-third have a depository. 49% manage guaranty funds. Such functions are generally not shared, but undertaken either by exchanges or government regulators.

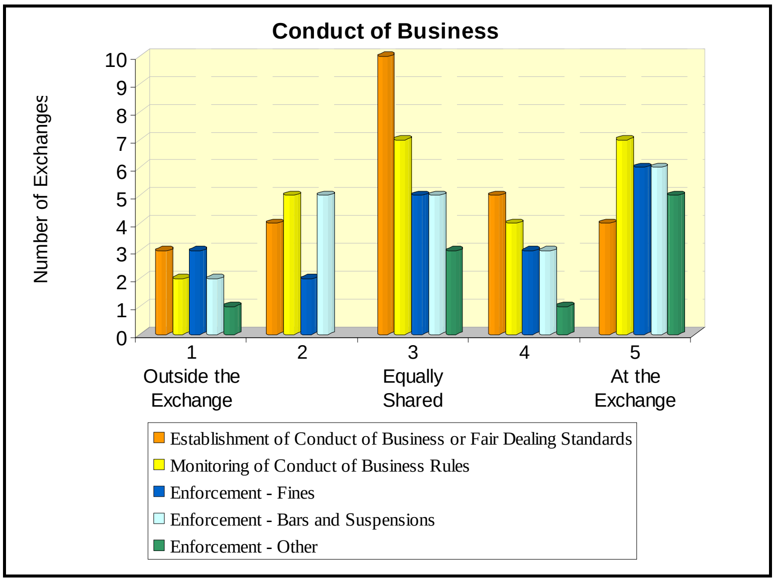
- **55%** of **38** respondents undertake *Clearing* Function
- **58%** of **38** respondents undertake *Settlement* Functions
- **32%** of **38** respondents have a *Depository/Registry*
- **49%** of **37** respondents manage *Guaranty* Funds



e. Conduct of Business Rules

Approximately 80% of the exchanges which answered this question establish, monitor and enforce conduct of business or fair dealing rules by their trading members. Responsibility for such rules are sometimes handled by government regulators, and frequently shared with government regulators.

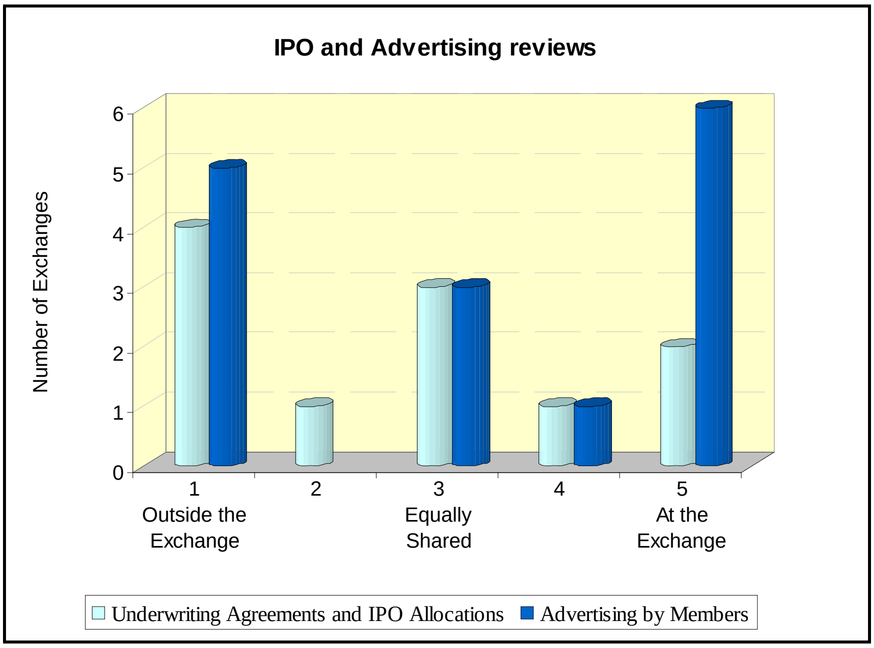
- Establishment
  80% of **35** exchanges
- Monitoring
  77% of **35** exchanges
- Enforcement
  81% of **27** exchanges used *Fines*
  96% of **26** exchanges used *Bars & Suspensions*
  83% of **12** exchanges used *Other methods*



f. IPO and Advertising Reviews

For a variety of reasons, only about a quarter of exchanges responding to this question continue to review underwriting agreements and IPO allocations, and only about one-third review advertising by members. Some of this work is conducted by government or other agencies.

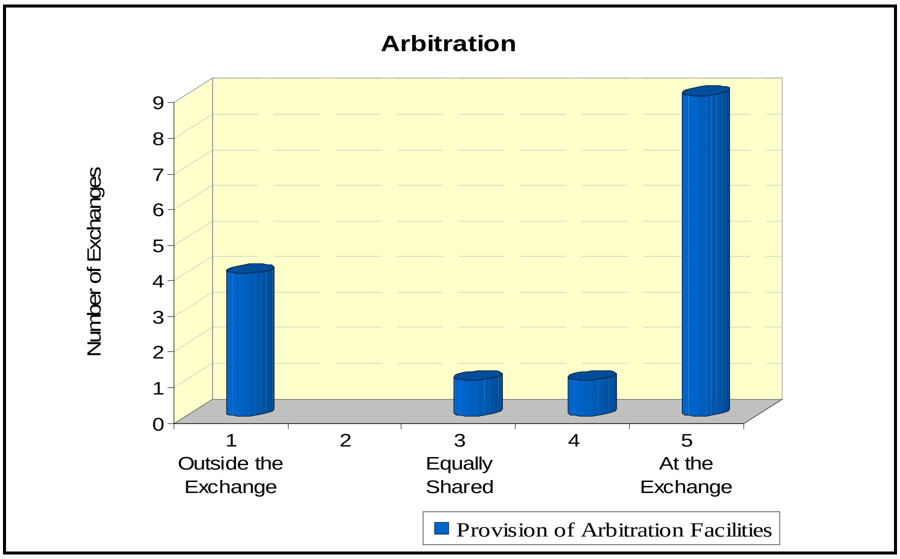
- **24%** of **38** exchanges are responsible for review of *underwriting agreements* and *IPO allocations*
- **31%** of **36** exchanges are responsible for review of *advertising* by members



g. Arbitration Facilities

➢ **56%** of **36** exchanges were responsible for the provision of arbitration facilities

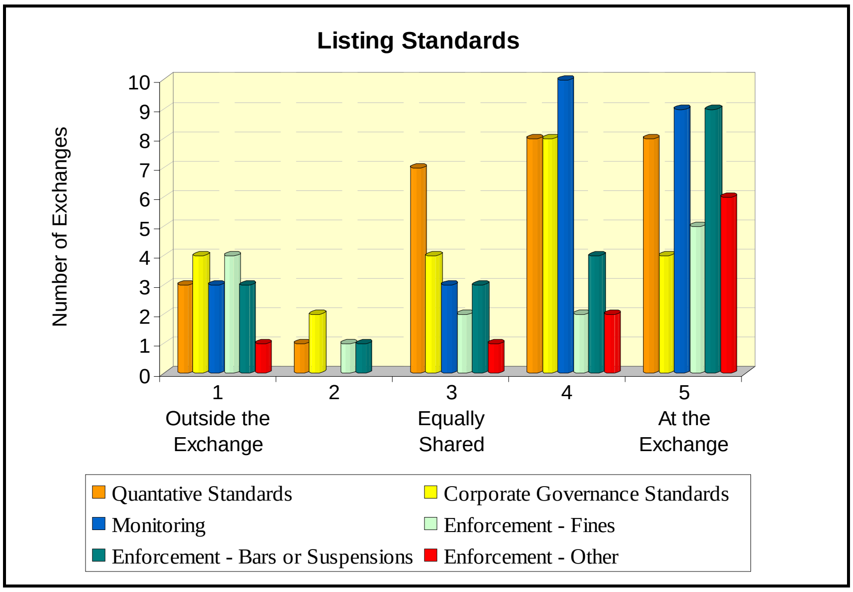
Over half of responding exchanges provide arbitration facilities. Four exchanges responded that arbitration facilities were provided by government regulators.



h. Listing Standards

79% of the exchanges responding to this question establish quantitative listing standards; 69% establish corporate governance standards. A higher percentage - 86% - monitor such standards, and a large number of exchanges enforce such standards. Government regulators share in these responsibilities.

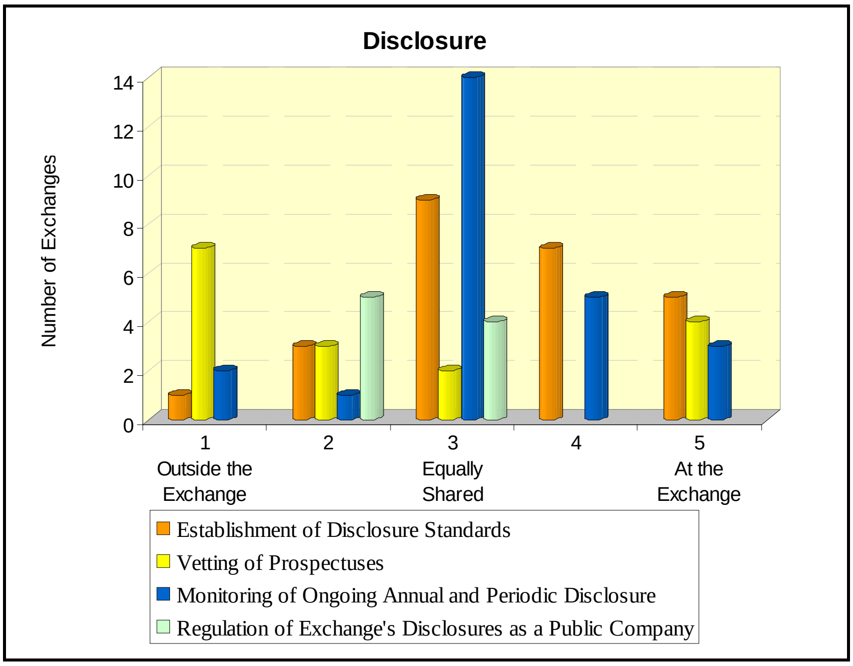
- Establishment
  Quantitative Standards = **79%** of **34** exchanges
  Corporate Governance Standards = **69%** of **35** exchanges
- Monitoring
  86% of **36** exchanges
- Enforcement
  39% of **31** exchanges = *Fines*
  75% of **32** exchanges = *Bars & Suspensions*
  59% of **17** exchanges = *Other*



i. Disclosure by Issuers

About 3/4 of the exchanges responding to this question establish and monitor disclosure standards by listed companies, including annual and periodic disclosure, but only 49% now vet prospectuses. But many share this responsibility with government regulators. A number of European exchanges expressed regret that they will lose the regulation of IPOs as a result of changes in the law in the EU.

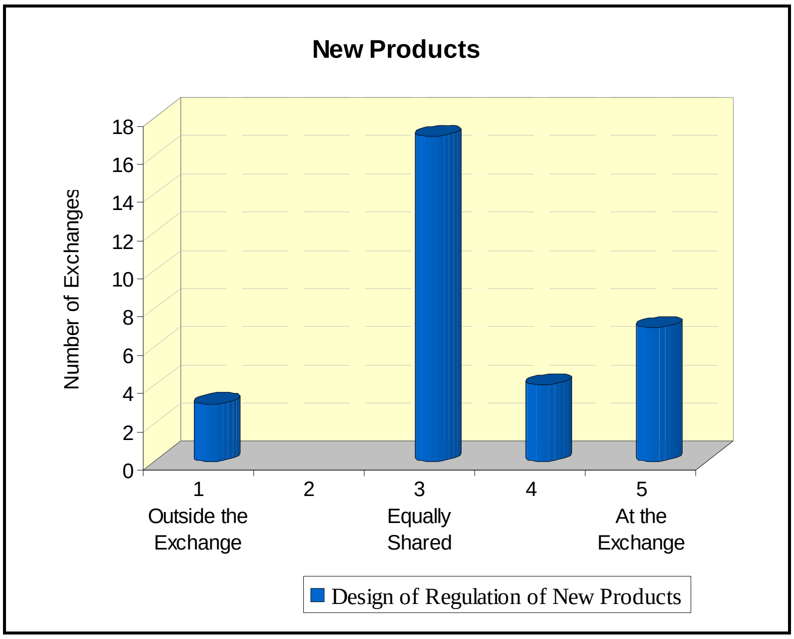
- Establishment of disclosure standards
  77% of **35** exchanges
- Vetting of prospectuses
  49% of **35** exchanges
- Monitoring of annual and periodic disclosure
  74% of **35** exchanges
- Regulation of exchange's disclosures as a public company
  12% of **33** exchanges

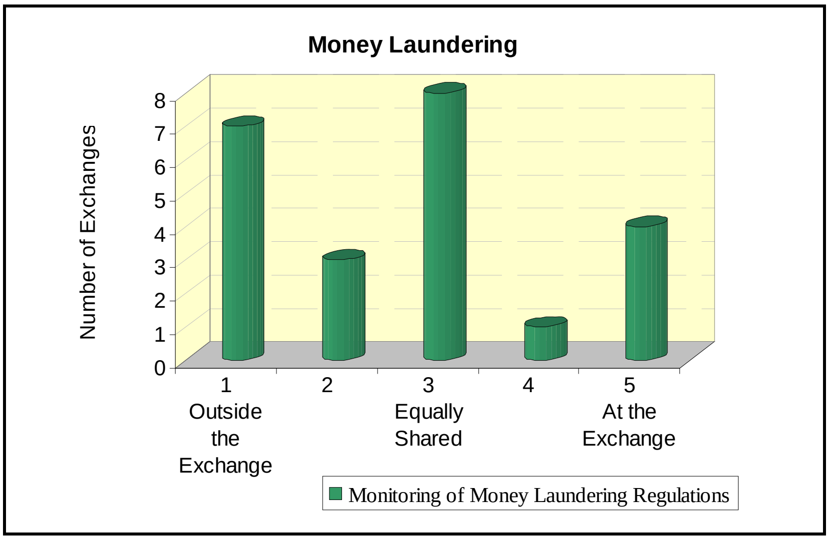


j. Other Regulatory Activities

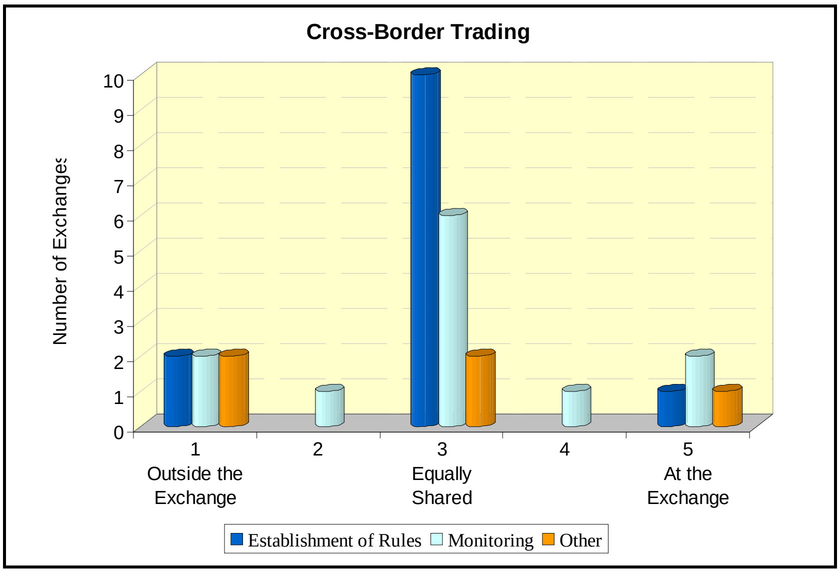
These graphs cover the design of new products, monitoring of money laundering regulations, and the regulation of cross-border trading. The results speak for themselves.

- Design of new products
  88% of **33** exchanges
- Monitoring of money laundering regulations
  44% of **34** exchanges
- Regulation of cross-border trading
  Establishment of rules = **42%** of **26** exchanges
  Monitoring of rules = **42%** of **26** exchanges
  Other = **13%** of **15** exchanges





Money Laundering
Number of Exchanges
0
1
2
3
4
5
6
7
8
1
Outside the Exchange
2
3
Equally Shared
4
5
At the Exchange
Monitoring of Money Laundering Regulations

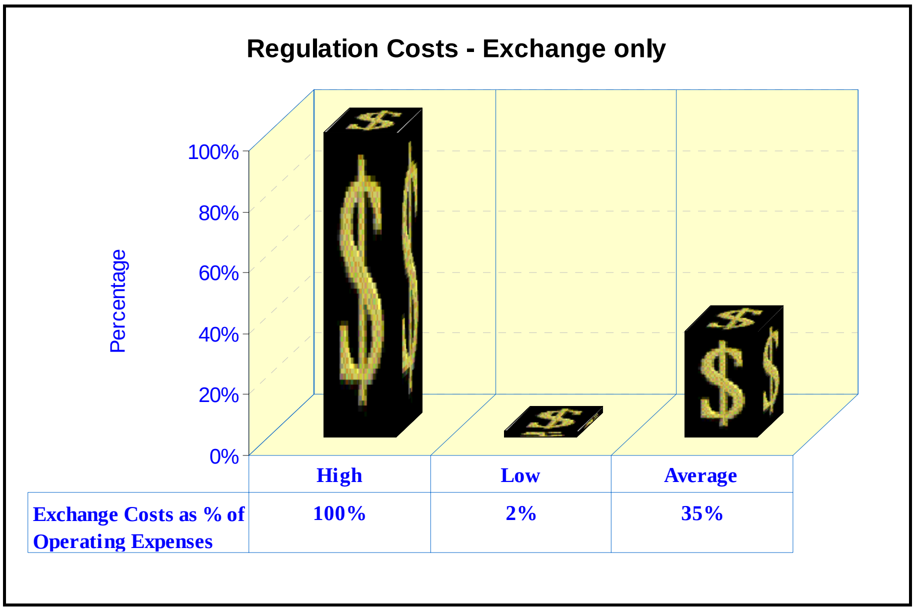


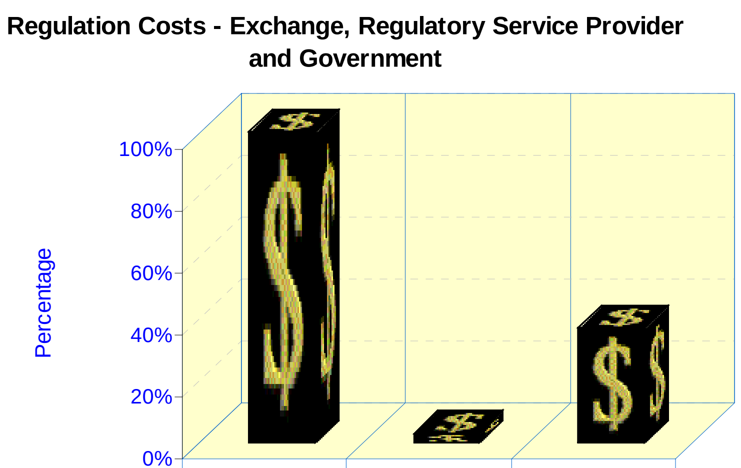
Cross-Border Trading
Number of Exchanges
0
1
2
3
4
5
6
7
8
9
10
1
Outside the Exchange
2
3
Equally Shared
4
5
At the Exchange
Establishment of Rules
Monitoring
Other

2. COSTS OF REGULATION

a. Operations

Although many exchanges failed to give us complete information as to their operating budgets and regulations costs, 18 exchanges did so in a manner that enabled us to compute what percentage of exchange expenses are allocated to the costs of regulation. The first graph on this response reflects that ratio, and the second graph reflects what that ratio is taking into consideration payments to regulatory service providers and government agencies.

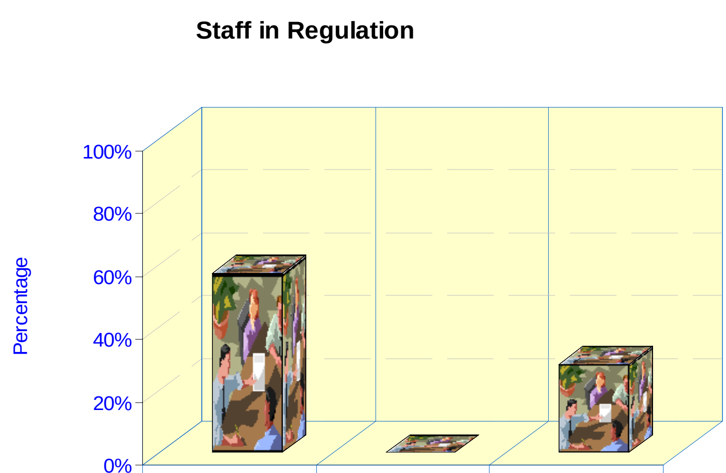




	High	Low	Average
Exchange, Regulatory Service Provider & Gov't Costs as % of Operating Costs	100%	3%	37%

b. Staff

Exchanges seemed to have less trouble disclosing the number of staff members charged with regulatory responsibilities as a percentage of total staff. These ranged from a low of none (for an exchange that contracts with a regulatory service provider) to a high of 57%. The average number of staff working on regulatory matters was 28%, so regulation is obviously a high cost of exchange operations.



	High	Low	Average
Percentage of Total Staff in Regulation	57%	0%	28%

3. RESPONSES TO QUALITATIVE INQUIRIES

The responses to our qualitative questions are perhaps more interesting than the previous numerical information. And in describing these answers, we will quote from some of the questionnaires, although we have slightly altered a few answers to preserve anonymity and the flow of this presentation.

a. The Changing Regulatory Climate

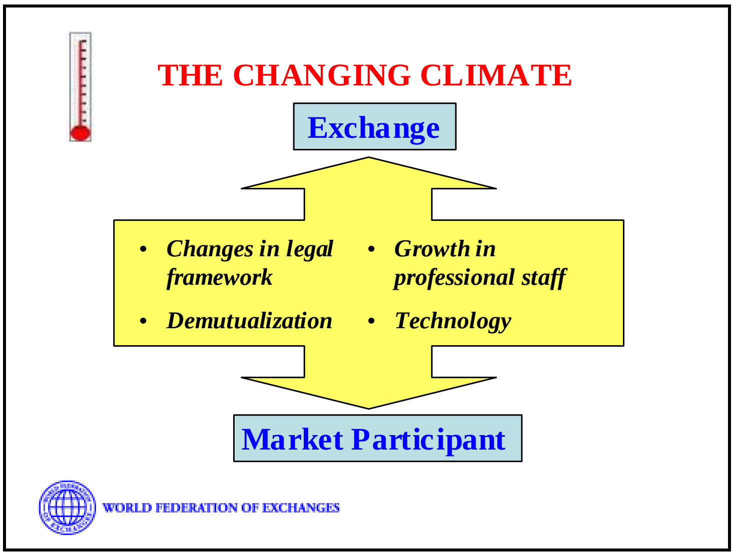
Exchanges were asked: How is your exchange's relationship with market participants evolving? Why?

All exchanges which answered this question responded in the affirmative by commenting on changes in their relationship with market participants. Most exchanges characterized their evolving relationship as effective, mentioning, for example, "higher involvement of the market participants," and "constant dialogue with market participants because their comments and suggestions can help enhance effective market regulations." This close relationship with market participants is in tune with the role of many exchanges as front-line regulators.

Nevertheless, some exchanges see their relationship with market participants as growing more distant, a thought in the following quotes: "Ties are getting looser and loyalty is diminishing;" "the exchange used to be responsible for licensing members and therefore had a direct relationship with them. The exchange is now only responsible for providing access to the market and regulation of the trading function. The implementation of remote trading and cross-border access has also added a different dimension to the membership."

The suggested reasons for changes differed. Among the reasons were:

- Changes in the legal framework for exchange regulation;
- Demutualization;
- Technology;
- Changes in exchange governance due to the growth of a professional exchange staff.



As market participants shift from being the owners and managers of a mutual enterprise to being shareholders and customers, a distancing of market participants from the exchange seems to be taking place.

At the same time, greater effort is being expended by exchanges to be in touch with the needs of market participants. As one exchange noted: "investors, broker-dealers and issuers are now our customers, and we must balance each of their needs as we provide a quality market place." One way of dealing with the conflicts between these groups has been the establishment of mediation committees and advisory committees, and the development of new tools for the protection of investors.

Insofar as listed companies are concerned, EU legal developments are depriving the exchanges of their former role in vetting prospectuses. In Asia, and in some emerging markets elsewhere, a shift from a merit to a market-based IPO regime has also resulted in some changes in the regulatory responsibilities of exchanges. Finally, there seems to be some changes in the composition of market participants due to the growing size of broker-dealers, and the growing role of institutional investors.

b. Regulatory Tasks

Exchanges were asked: What regulatory areas does your exchange wish to retain? What areas would it be willing to dispose of? How would you like to see market regulation evolve?

Only 3 exchanges which answered this question responded that there were regulatory tasks they wished to dispose of. These were regulation of activities outside the trading market, such as "upstairs activity and surveillance for insider-trading," and "multi-market investigations into potential market manipulation and abuse."

Virtually all exchanges wish to retain regulation of their trading markets. One typical answer was: “The exchange would like to retain the tasks that are associated with price formation. We believe than an exchange must be in a position to regulate, supervise and control all aspects which can influence price formation while it takes place.”

Most exchanges wish to continue to regulate some aspect of listed company corporate governance. One exchange said: “The exchange sees its main role as one of maintaining standards for our listed issuers.” Another exchange, which noted that its government regulator was responsible for approving new listings, stated that it wished to be delegated this task.

Many exchanges expressed the view that there should be a reduction of duplicative government and exchange regulation, some complaining that there was not a clear-cut delineation of responsibilities between the government authority and the exchange. More coordination and transparency between different agencies was requested. Also requested was an increased separation of functions between the government and independent regulatory bodies. One exchange expressed the wish that the exchange and the government regulator should “work closely together like a pair of wheels.”

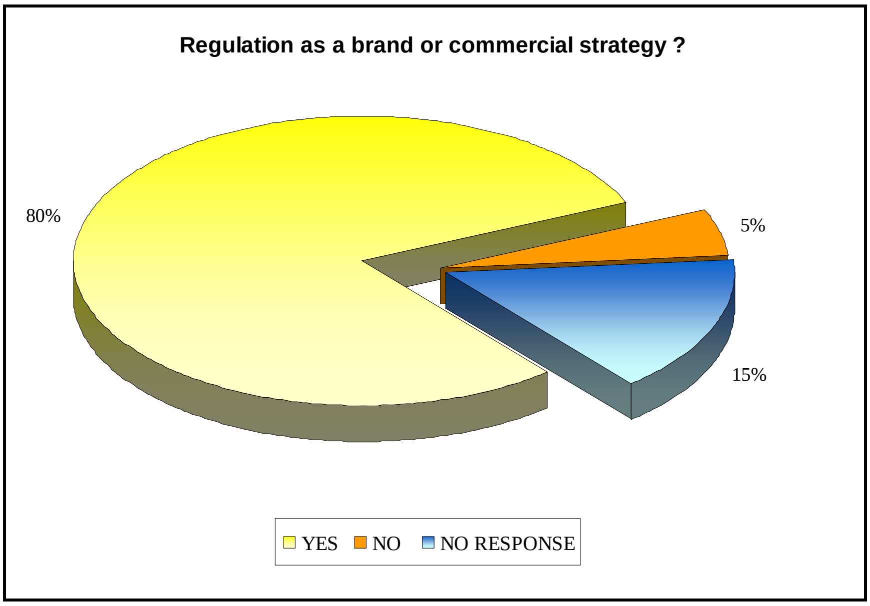
Some exchanges, particularly in Europe, expressed the view that there should be more uniform regulation by exchanges in different jurisdictions. There was a perceived need to avoid both excessive regulation and under regulation in a competitive global environment.

Typical comments on this theme were as follows: “The exchange would like regulators to promulgate more common regulatory standards across markets as well as common surveillance standards.” “The regulators must take more steps to ensure the substantial equality of regulation across exchanges while at the same time retaining the benefits of the regulators being intimately familiar with the workings of the particular exchange.” “An increasing number of broker-dealers are members or participants of numerous exchanges, and it becomes increasingly difficult for them to fully comply with various exchange regulations which contain requirements that are very often different . . . and sometimes even contradictory.” A related theme was the need for cost/benefit analyses. One exchange stated: “The exchange would like to see market regulation evolving on a cost balance approach, in order to avoid over regulation and excessive costs to listed companies.”

c. Regulation as a brand or commercial strategy

Exchanges were asked two related questions: Is regulation a significant part of your brand or your commercial strategy? What corporate purposes are served by engaging in regulatory activities?

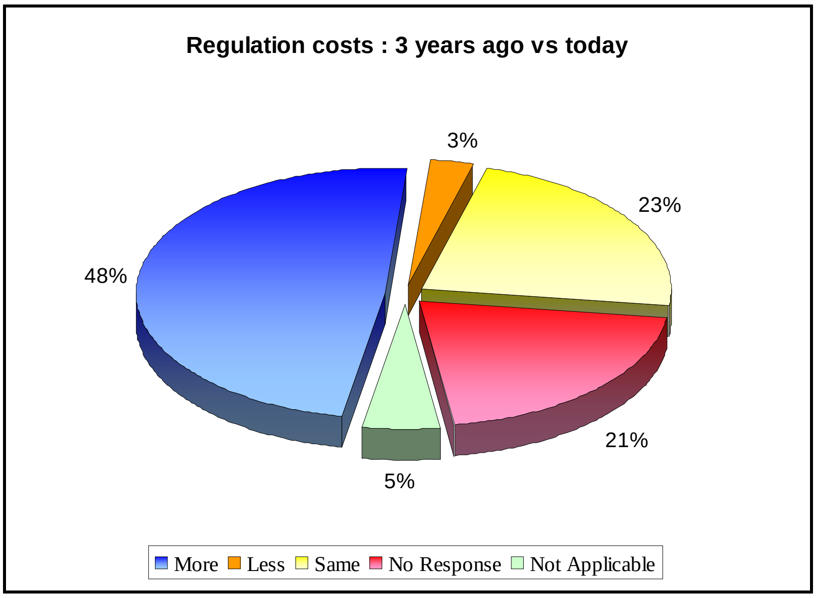
Almost all exchanges which answered this question replied that regulation is a significant part of their brand or commercial strategy. Only two exchanges answered this question negatively. The view most of them expressed was that regulation was necessary and appropriate to assure fair and orderly markets and market transparency in order to maintain investor confidence. One exchange explained that "only being an operator makes a market just like any other service provider. Engaging in regulatory activities adds a dimension of self-regulation, adding confidence to the users." Another exchange wrote that "member supervision and risk management reduce the company's exposure to default in the clearing houses."



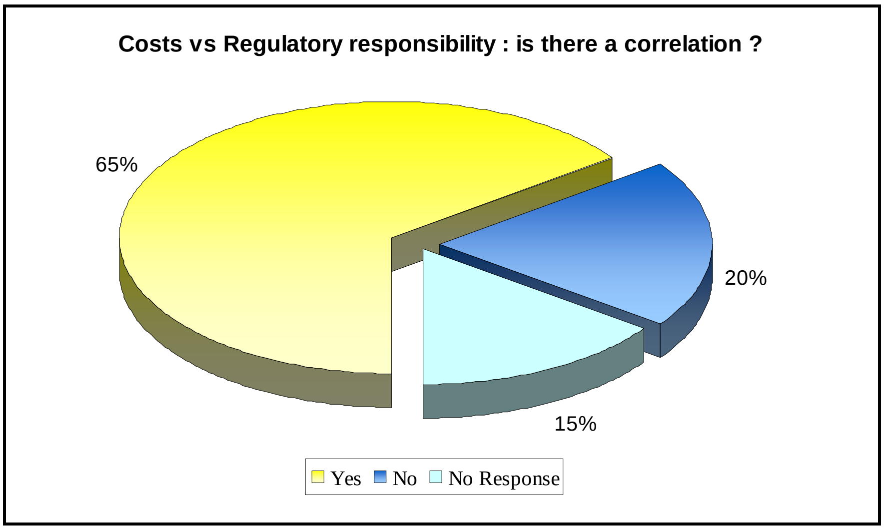
d. Costs of Regulation and Technology

Exchanges were asked: Is regulation costing more or less than it did three years ago? Is this due to an increase (or decrease) in your regulatory responsibilities? Is regulation of the same activities more intensive? How has technology changed your regulatory activities?

Most exchanges replied that regulation costs are slightly higher or about the same as they were three years ago, even if their regulatory responsibilities have changed.



Some correlation was perceived between regulation costs and regulatory responsibilities.

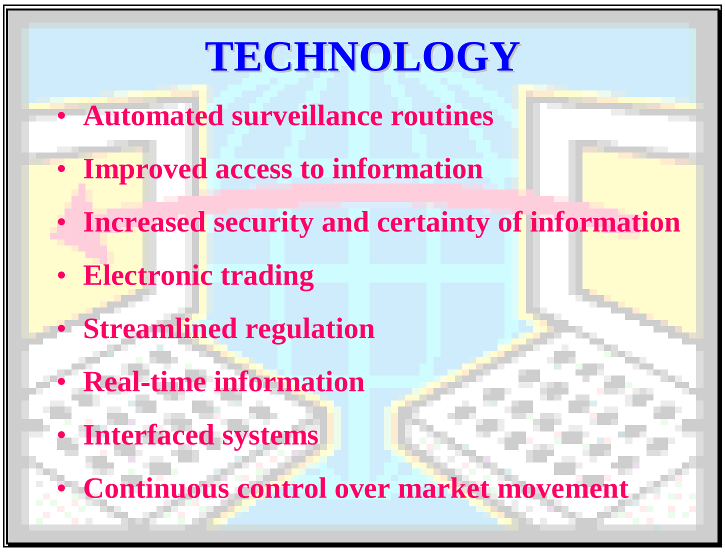


Among the new responsibilities noted were monitoring corporate governance disclosure, increased surveillance due to increased market activity, and new legislation adding obligations.

68% of **19** exchanges indicated that regulation was more intensive than it was 3 years ago:

- New listing segments
- Monitoring corporate governance disclosure
- Increased market activity and market expectations
- Increased surveillance
- Staff costs
- New legislation

Most thought that technological advances made more intensive regulation possible. Some exchanges noted that they had changed from a floor system to electronic trading.

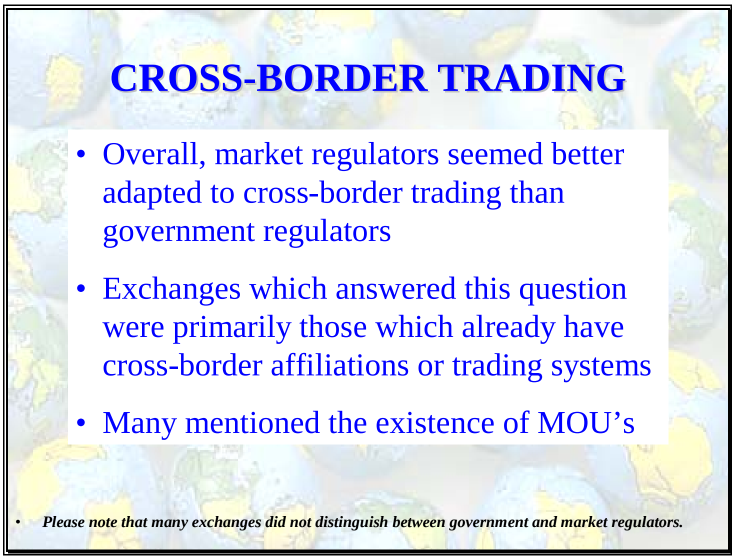


The key regulatory feature of electronic trading systems is real-time client level surveillance. As one exchange commented: “This enhances our regulatory insight into activity on our market and also enables quick resolution of any issues which are identified.” Some exchanges also mentioned redesigning of their trading system to prepare them for cross-market and cross-border trading with multi-products. Many hoped that regulatory costs would eventually decrease due to technology.

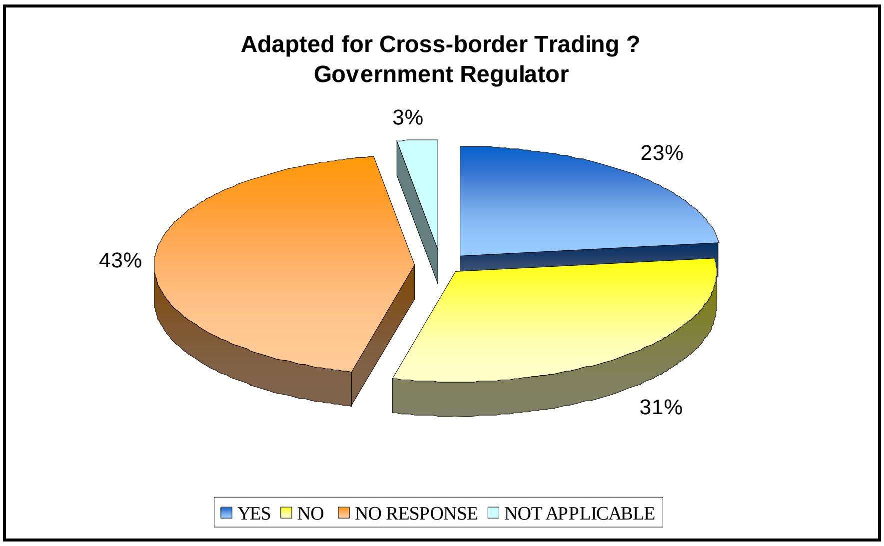
e. *Cross-Border Trading*

Exchanges were asked: Is your market regulation well adapted for cross-border trading? Is your government agency regulator well adapted for cross-border trading?

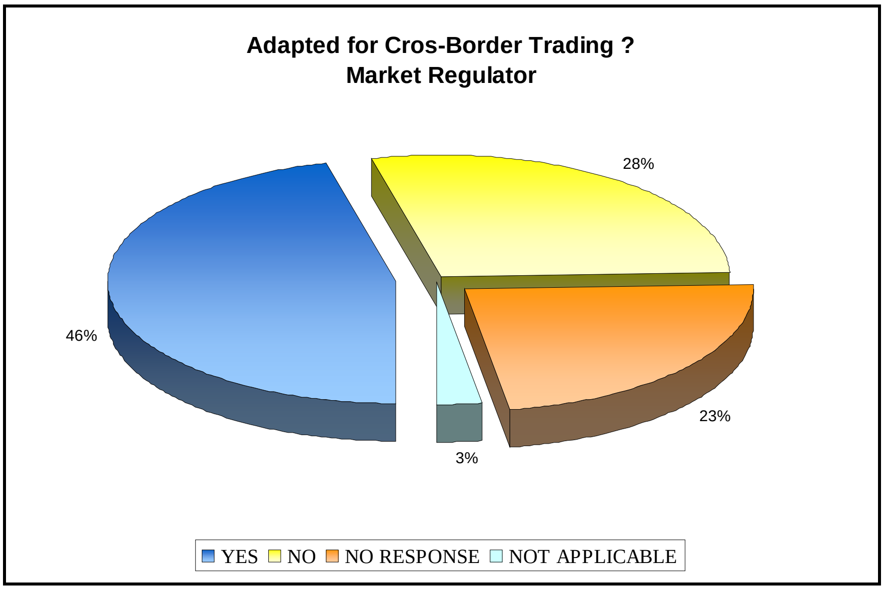
The responses to these questions were difficult to analyze, since the exchanges which answered to the effect that their regulation was well adapted for cross-border trading were primarily those exchanges which already have cross-border affiliations or trading systems.



Some exchanges commented that they were well adapted for cross-border trading, but their government regulators were focused on domestic interests. One example: "The market is well-adapted for such trading. Our regulator perhaps has a more domestic focus."



The level of adaptability to cross-border trading is higher in European markets. One exchange noted that "EU has passporting arrangements in place which allow investment firms and credit institutions to provide services to other EU countries outside of their host country, and also allows them to deal on other Exchanges – thus our Exchange has been able to attract members from other EU countries." However, most exchanges apparently did not feel their government regulators were ready to deal with cross-border trading, although many respondents mentioned the existence of MOUs.



f. Demutualization

Exchanges were asked: If your exchange has demutualized/and or become a public company within the past three years, did this impact market regulation? How?

This question was answered affirmatively by 14 exchanges out of 33 that gave answers, but in fact, there are more demutualized exchanges because some demutualized more than 3 years ago. The exchanges that answered the survey are in different stages of the demutualization and public offering process. Some plan to demutualize in the near future. Being at different stages of the demutualization process may explain the range of answers to the question of how demutualization or transformation to a public company changed regulatory responsibilities.

Surprisingly, 5 exchanges out of 14 which answered they had recently demutualized did not notice any significant changes in their regulatory responsibilities. But although there have been no changes in regulatory responsibilities, there have been some changes in the way demutualized exchanges carry out these responsibilities. One exchange commented: "There have been no changes in the regulatory activities performed by the exchange. This is due to the fact that the departments primarily responsible for trading supervision and listing still operate under public law, as quasi-governmental agencies."

In response to the question regarding the change in their responsibilities, some exchanges mentioned mechanisms to deal with new conflicts of interest between becoming a commercial market place and remaining a regulator. Among the mechanisms mentioned were: information barriers or Chinese walls spinning off regulation into a separate subsidiary; and ceding some functions to a regulatory service provider. For example, there were such comments as: "Following demutalization, regulatory activities of the stock exchange were separated from its commercial activities by the creation of a Regulatory Division having a budget and administrative structure entirely distinct and independent from the stock exchange. Chinese walls were also put in place in order to ensure complete independence and confidentiality." "Demutualization in conjunction with legislative change gave significantly more power and responsibility to the national financial regulators. Exchange market regulation was therefore trimmed back in certain areas and continues to evolve as the regulatory regime develops."

CONCLUSION

Regulation by exchanges is changing rapidly due to new laws, new trading platforms, technology, demutualization and globalization. Public confidence in the securities industry generally and exchange regulation has been shaken by the numerous scandals in the U.S. and elsewhere since the bursting of the technology bubble in 2000. There is a risk that exchanges will lose their power to regulate their markets, market participants and listed companies. Both exchanges and investors would be poorly served if such an eventuality occurs. Virtually all exchanges believe that regulation is a part of their brand, and that they should make every effort to maintain their regulatory authority by adapting to changing market conditions and changing laws by the creative use of technology and creative solutions to the new conflicts of interest which are emerging from new markets and new organizational forms.

For the World Federation of Exchanges
Roberta S. Karmel
Brooklyn Law School

ANNEX : QUESTIONNAIRE

As a reminder, the reasons for conducting this survey are to go beyond the question of the SRO status of exchanges. Members need to know :

- *which market quality tasks are being performed,*
- *whether they are performed solely by the exchange,*
- *what the corresponding costs might be (in approximate terms),*
- *and how your exchange views the future of this work.*

Instructions for the questionnaire :

1) The questionnaire is in two parts. The first part is a check list of tasks performed, classified in five groups. The second part of the questionnaire concerns costs. The total costs should include monies paid to regulators outside the exchange as well as costs incurred within the exchange.

2) The purpose of asking for costs is to gather information on exchanges gross regulatory expenses, not their budget figures. In the event that your exchange offsets this cost by selling regulatory services, you may also add a net figure. However, the focus of the study is gross costs.

3) For WFE members running more than one exchange, you may either combine answers for the group or fill in separate responses. Please state your choice.

4) Include capitalized computer costs and allocable administrative costs, if possible.

5) When providing the number of staff engaged in regulation, please include all staff involved in supervision, regulation or enforcement. You may also include persons working in IT and other departments only for those applications concerning supervision, regulation or enforcement.

6) A "regulatory service provider" is a private sector body, as opposed to a government regulator. The National Futures Association and the NASD are such bodies. This does not include outsourcing to a computer service.

7) "Shared" regulatory activity refers to situations where two organizations are regulating the same activity, for example surveillance of the market. Please estimate on a scale from 1 to 5 the work preformed by the exchange or other institution. In the event the exchange is equally active, the correct response is 3. Where a regulator has oversight authorization, but in practice leaves this duty to the exchange, the response could be 4 or 5. Where the exchange implements rules, but is not on the front line, the answer could be 1 or 2. If different conditions apply for main markets and junior markets operated by the exchange, please fill in a separate form or choose consistently to answer for one market.

8) In the second part, the questionnaire includes qualitative questions for market operators. You need not reply to all questions, but your answers will be most useful. Please feel free to add other comments.

1. Regulation and Supervision of Markets

1A. Regulation of Markets

	Exchange Responsibility *(yes or no)*	Shared with Government Regulator *(from 1 to 5)**	Shared with Regulatory Service Provider *(from 1 to 5)**	Likely to Change Within 1 year *(yes or no)*
A. Establishment of Market Trading Rules				
B. Real Time and Post Trade Surveillance				
C. Enforcement of Market Trading Rules				
1. Fines				
2. Bars or Suspensions				
3. Other				

**Estimates of sharing : 1 is mostly done outside the exchange, 3 is equally shared, 5 is mostly done at the exchange (see instructions)*

1B. Regulation of Trading Members

	Exchange Responsibility *(yes or no)*	Shared with Government Regulator *(from 1 to 5)**	Shared with Regulatory Service Provider *(from 1 to 5)**	Likely to Change Within 1 year *(yes or no)*
A. Licensing of Trading Members				
B. Licensing of Clearing Members				
C. Establishment of Capital Adequacy Rules				
D. Establishment of Rules on Position Risks				
E. Monitoring of Capital Adequacy Rules				
F. Monitoring of Position Risks				
G. Undertaking Clearing Functions				
H. Undertaking Settlement Functions				
I. Depository/Registry				
J. Managing Guaranty Funds				
K. Enforcement of Financial Responsibility Regulations				
1. Fines				
2. Bars or Suspensions				
3. Other				

**Estimates of sharing : 1 is mostly done outside the exchange, 3 is equally shared, 5 is mostly done at the exchange (see instructions)*

1C. Regulation of Conduct of Trading Members vis-à-vis Customers

	Exchange Responsibility *(yes or no)*	**Shared with Government Regulator** *(from 1 to 5)**	**Shared with Regulatory Service Provider** *(from 1 to 5)**	**Likely to Change Within 1 year** *(yes or no)*
A. Establishment of Conduct of Business or Fair Dealing Standards				
B. Monitoring of Conduct of Business Rules				
C. Enforcement of Conduct of Business Rules				
1. Fines				
2. Bars or Suspensions				
3. Other				
D. Review of Underwriting Agreements and IPO Allocations				
E. Review of Advertising by Members				
F. Provision of Arbitration Facilities				

**Estimates of sharing : 1 is mostly done outside the exchange, 3 is equally shared, 5 is mostly done at the exchange (see instructions)*

1D. Regulation of Issuers

	Exchange Responsibility *(yes or no)*	**Shared with Government Regulator** *(from 1 to 5)**	**Shared with Regulatory Service Provider** *(from 1 to 5)**	**Likely to Change Within 1 year** *(yes or no)*
A. Establishment of Listing Standards				
1 Quantitative Standards				
2. Corporate Governance Standards				
B. Monitoring of Listing Standards				
C. Enforcement of Listing Standards				
1. Fines				
2. Bars or Suspensions				
3. Other				
D. Establishment of Disclosure Standards				
E. Vetting of Prospectuses				
F. Monitoring of Ongoing Annual and Periodic Disclosure				
G. Regulation of Exchange's Disclosures as a Public Company				

**Estimates of sharing : 1 is mostly done outside the exchange, 3 is equally shared, 5 is mostly done at the exchange (see instructions)*

1E. Other

	Exchange Responsibility *(yes or no)*	Shared with Government Regulator *(from 1 to 5)**	Shared with Regulatory Service Provider *(from 1 to 5)**	Likely to Change Within 1 year *(yes or no)*
A. Design of Regulation of New Products				
B. Monitoring of Money Laundering Regulations				
C. Regulation of Cross-Border Trading				
1. Establishment of Rules				
2. Monitoring				
3. Other				
D. Cost for Licenses for the Exchange				

**Estimates of sharing : 1 is mostly done outside the exchange, 3 is equally shared, 5 is mostly done at the exchange (see instructions)*

2. Costs of Regulation, Enforcement and Surveillance

2A. Total operating expenses

Total operating expenses for your exchange in 2003, or the market(s), for which you are completing this questionnaire.

(in USD – K)

$

2B. Total Regulation, Enforcement, Surveillance Costs.

This represents the part in your total operating expenses dedicated to regulation, enforcement and surveillance.

(in USD - K)

	Exchange costs	Paid to Regulatory Service Provider	Paid to Government Agency	Net Costs *
Total estimated costs	**$**	**$**	**$**	**$**

** Net costs for exchanges = total costs – any associated revenue streams*

2C. Breakdown in percentage of total exchange expenditure 2003

As defined in the five sections above, please estimate the percentage of these costs.

	Exchange Costs % of Total Costs (in 2003)	Paid to Regulatory Service Provider (% of total costs)	Paid to Government Agency (% of total costs)
1. Regulation of Markets			
2. Regulation of Trading Members			
3. Regulation of Conduct of Trading members vis-à-vis Customers			
4. Regulation of Issuers			
5. Other			

These percentages are a breakdown of the corresponding dollar figures in 2B.

2D. Number of staff

Total number of employees at your exchange or in the market(s) for which you are completing this questionnaire

Total staff at your exchange/market(s)	
Of which : Staff in regulation, surveillance, supervision at the exchange	

3. Qualitative questions

	Yes	No
This information can be shared among WFE members		

1) How is your exchange's relationship with market participants evolving? Why?

2) What regulatory areas does you exchange wish to retain? What areas would it be willing to dispose of?

3) How would your exchange like to see market regulation evolve?

4) Is regulation a significant part of your brand or your commercial strategy?

5) What corporate purposes are served by engaging in regulatory activities?

6) Is regulation costing more or less than it did three years ago?
   a)Is this due to an increase (decrease) in your regulatory responsibilities?
   b)Is regulation of the same activities more intensive?

7) How has technology changed your regulatory activities?

8) Is your market regulation well adapted for cross-border trading? Is your government agency regulator well adapted for cross-border trading?

9) If your exchange has demutualized and/or become a public company within the past three years, did this impact market regulation? How?

10) Other comments

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