



One nation no more

These electronic marketplaces already concentrate orders from buyers with orders from sellers, thus allowing investors to meet and transact and reduce the search costs of dealing, but without the guarantee of execution. With niche-trading, automated price discovery and dissemination opening up

courtesy of Instinet and Tradepoint, there are understandable fears that competition for orderflow could soon fragment the European markets to the point where the price-discovery mechanism becomes impaired.

This situation may well be exacerbated if unregulated entities such as corporates decide to make use of the Internet as a public trading mechanism. Clearly, adequate market supervision and regulation will be critical. After all, both exist to safeguard market quality and to ensure transparency – but at a cost to members. Given economic pressures for brokers and investors to trade on minimum margins, it may be hard for exchanges with regulatory “baggage” to compete on cost with off-exchange vendors.

What of the back offices of intermediaries who service the securities industry? Will they be equipped technologically to cope with the stresses and the risks arising from global capital flows into and out of Europe? Not if today's track record is anything to go by. A 1994 study by consultants Thomas Murray which surveyed communications technologies used by non-bank buyers in the UK or continental Europe revealed a near-25% preference towards secured fax or tested telex facilities. And it is not just the back office which is beginning to notice – the Baring and

Daiwa fiascos have illustrated the potential for disaster when the back office is unable to hold the front office to account.

There is a danger that a crevasse will open, separating trading potentiality from settlement reality, especially under conditions of shortening settlement timeframes. The global orientation of investors already contrasts sharply with today's nationalistic characteristics of central securities depositories; although securities can theoretically be traded in cyberspace, they are still largely settled in national domestic marketplaces. As competition for business and proprietary trading erodes margins and as information providers narrow the potential for arbitrage, head traders are increasingly aware that labour-intensive back offices waste hard-earned profits and struggle to move money and securities as quickly as the front office demands.

