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I. INTRODUCTION

The trend toward the internationalization of securities trading is now entirely undisputable. World-class stocks which trade on at least one active market outside their home are increasing, numbering some 500 at present. Cross-listing of equities on several exchanges has experienced a marked rise in the recent past. Further, investors have indicated greater interest in expanding across national borders, and foreign investment is thus becoming an increasingly important element in the world's leading stock markets. Issuers are becoming more internationally minded as well. Financial intermediaries are striving to penetrate financial centers outside their homelands. Regulators, meanwhile, are expressing their concerns about these developments.

Several factors are at work behind this phenomenon of internationalization, including the growing interdependence of national economies, the deregulation of capital markets and exchange control, the institutionalization of savings and wealth, the volatility of exchange rates and stock prices, and the development of computer and communications technology. These developments tend to encourage thought concerning twenty-four hour trading of securities, the trading of the same instruments around the clock around the world.

In this light, this Paper attempts to identify major issues involved in twenty-four hour trading. The matter is viewed from the perspective of a market regulator, not that of private practitioners or of academics. After briefly reviewing the possibility of further internationalization of securities trading, the Paper attempts to define several alternative patterns of trading equities in the twenty-four hour system, analyzing their advantages and disadvantages and choosing from among them the most desirable method by the application of normative criteria. The Paper will then survey some recent developments that are relevant to the subject matter and assess the current situation. Finally, in summary, appropriate steps

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to be taken toward implementing a truly global securities market will be suggested.

II. FURTHER INTERNATIONALIZATION

Although the internationalization of the securities market is definitely progressing, the current situation is still far from being a truly global market for equities trading. A commodity's home market enjoys the lion's share of its trading, while foreign markets are no more than so-called "satellite markets." Some figures attest to this fact: currently, Japanese shares traded in New York amount to only three percent of those traded in Tokyo (in value terms), and those in London amount to one percent of Tokyo's; American shares traded in Tokyo amount to only one percent of those traded in New York, and those in London amount to five percent of New York's; and British shares traded in Tokyo amount to approximately one percent of those in London, and those in New York amount to approximately ten percent of London's.

This situation is in sharp contrast with the foreign exchange markets. These markets are the closest to being global in the sense that approximately the same amount of liquidity exists in three major marketplaces, Tokyo, London, and New York, and the traders are indifferent as to where they trade. In other words, almost the same market moves around the earth with the sun. It is always open and can be entered from any location in the world. In the case of equities, however, satellite markets are either simply gathering centers from which to relay orders to the home market or, at most, places of much less active trading and positioning of stocks than the home market.

The difference between the two markets is apparently due to the fact that while foreign exchange rates fluctuate because macroeconomic and other factors influencing them are always occurring, the factors affecting stock prices are occurring almost only during the hours in which home markets are operating. A pertinent question is whether the equity market will become globalized in the same sense as the foreign exchange markets.

One view on this interesting question is that home markets will continue to enjoy predominant shares vis-á-vis foreign markets. Accordingly, equity markets, unlike foreign exchange markets, will remain essentially local even in the future, because information affecting stock prices, such as company information, is local and allows the home market to dominate over other markets. Neither do Japanese investors want to trade NTT stock when the Tokyo market is closed, nor do American investors wish to trade GM stock when New York is asleep.

Another school of thought concerning the development of a global equities market puts more importance on liquidity and trading costs than on the availability of information. As evidenced by the substantial amount of trading of British shares in New York before the market crash of 1987, and that of French shares in London after the crash, it is argued, investors will become indifferent to a commodity's place of trading if they are provided with sufficient liquidity and cheap trading costs. According to this view, the process of liquidity breeding liquidity may occur, and there will be more than one center for the same stock issues.

Still another theory on the evolution of a global securities market may be in between the two mentioned above. While recognizing the primary importance of the origin of corporate information, it also considers that there are other factors at work, including liquidity, costs of trading, sophistication of investors, and presence or absence of barriers to investments abroad.

Whichever view is correct, it is important that market regulators are prepared to meet investors' needs in order for securities to be traded on a twenty-four hour basis.

III. CRITICAL ISSUES

Concerning the question of what the most important issue associated with such global trading might be, the answer, of course, depends on the perspective from which one views the phenomenon. Investors may be concerned about the usefulness of the twenty-four hour market, while financial intermediaries may be interested in the risks involved in creating such a market. Governmental regulators may stress the importance of the implications of twenty-four hour trading for systemic stability and market integrity. To market regulators, the most important issue is how to actually provide investors with such a global marketplace.

Generally, there appear to be four patterns for the development of a global equity marketplace. One approach is an exchange market which is open for twenty-four hours and hence is accessible from any place in the world. Under this approach, there will be a sort of international division of labor among different stock exchanges. For example, the New York Stock Exchange would be in charge of trading American shares and the Tokyo Stock Exchange in charge of Japanese shares. This approach is made possible by computer and communications technology. This approach is commendable for avoiding international frictions that might arise from severe competition among different markets, though some exchanges may find it difficult to stay open for twenty-four hours for technical and other reasons.

Another alternative is to link different exchanges in different time zones so that investors can trade equities, world-class stocks in particular, whenever they wish. Multiple listing is essential to this approach, and the market in effect travels around the world just as the foreign exchanges market currently does. This market linkage may begin with the exchange of price and other information between partner exchanges, and leads ultimately to passing an order book around the world among the exchanges concerned. Obviously, there is no need to open markets for twenty-four hours under this approach.

A third alternative is a global market run by financial intermediaries. Big securities firms can establish a twenty-four hour securities market by employing their networks around the world. In addition, to using organized stock exchanges where public orders gather, they may wish to actively make a market by themselves by meeting demands of investors for twenty-four hours. Essential to this approach is an emphasis on the use of financial intermediaries, who play a pivotal role as de facto markets. The feasibility depends on the willingness of financial intermediaries to act as a twenty-four hour market. If implemented, however, this plan is likely to create market segmentation.

A final pattern for the twenty-four hour trading of securities entails the use of communication networks held by third parties, notably information vendors. Because of well-developed communications technology, information vendors are now capable of serving trading facilities by combining electronic terminals, located all over the world, with a computerized order matching center. It is essential to this approach that information vendors act as a quasi-exchange, creating and maintaining such trading facilities for twenty-four hours.

Which is the best of these four patterns for creating a global market? There are various criteria by which to evaluate the different approaches and choose the best one from among them. Feasibility, ease of implementation, costs involved, and public acceptability are certainly among such criteria, but from the normative viewpoint, the most important one is whether the alternative approaches satisfactorily serve the interests of investors. More specifically, the criteria must be whether the model followed includes means for investors to trade at the best prices, to protect them from fraudulent activities, and to minimize risks involved in trading and settlements. It is also necessary to ascertain whether there is enough opportunity for different markets to compete with each other so that investors may enjoy competitive efficiency.

Judging from this investor protection criterion, the first pattern, the independent exchange approach, may be commended for its emphasis on an organized stock exchange. Because trading is to be done on this market for twenty-four hours, investors must enjoy every benefit of exchange trading such as liquidity, fairness, transparency, and protection against defaults. On the other hand, this approach falls short on the requirement of competitive efficiency, since there will be a sort of regional monopoly of securities trading and no intermarket competition can be expected. Each stock exchange will tend to become operationally inefficient in the absence of any challenge from the outside.

The third alternative, the intermediaries' market approach, lacks protective devices for the investors' interests. While the approach may be commended for its ease of implementation and facilitation of intermarket competition among such markets themselves or between organized exchanges, investors are left unprotected to the extent that trading occurs outside an organized stock exchange. Competitive price formation cannot be expected, nor may investors hope for protection against fraudulent activities and defaults.

The last approach, an information vendor's market, may suffer from similar but perhaps more serious problems of investor protection. Since the market is, by definition, not regulated at all, investors have no assurance that prices are fairly formed, or that fraud and abuses are fully prevented from occurring. Most importantly, unlike the exchange market where every transaction is made in the name of members who are familiar to each other, investors must trade with anonymous counterparties whose credibility is totally unknown.

These considerations lead to the conclusion that the second alternative, a linked exchange market approach, is the best form of twenty-four hour securities trading, at least from the normative viewpoint. It can satisfy investor protection requirements because of its concentration on organized stock exchanges. It can also meet the competitive efficiency norm because it allows several exchanges to compete with each other. The major difficulty with the approach is that its implementation is harder than the other approaches, due basically to the need for achieving agreement among stock exchanges with different policies and different market structures. But, if regulators really wish to establish a global market in the most desirable form, they must endeavor to overcome these difficulties.

An important implication of this discussion is that it becomes clear that regulators must also endeavor to standardize, and ultimately equalize, the different rules and regulations of securities trading all over the world. This is necessary because the basic idea underlying the approach outlined is to achieve competitive efficiency, which in turn requires that the rules and regulations must be the same among the markets concerned. Without such equality, the global market will be lacking a level playing field, since markets having more lenient rules and regulations will tend to dominate over other markets, to the detriment of overall efficiency in resource use. As a result, survival of the least regulated, instead of survival of the best regulated, may prevail.

On a more practical level, if the so-called "race to the bottom," the competitive relaxation of rules and regulations, is left uncontrolled among different markets, it will lead to a lack of willingness among those concerned to set up a global market by linking themselves together. Even if exchanges are actually linked in such circumstances, linkages will be quite vulnerable to the independent actions of each party.

IV. REALITIES

What has really taken place in the development of a global securities market? Unfortunately, current attempts are characterized by inconsistency, although some cooperative efforts are being made. The situation is not proceeding according to any grand plan agreed upon by those concerned worldwide.

The various stock exchanges are behaving differently. Some exchanges seek to link themselves with partner exchanges which have market structures similar to their own. Particularly, quote-driven markets tend to link with each other. The technical merits of such easy linkage hardly contemplates a meaningful step toward a global market, given that many major exchanges are structured differently than order-driven markets.

Some other stock exchanges are emphasizing the first alternative approach discussed above, by attempting to provide a twenty-four hour market through the use of computer and communications technology. As these endeavors are basically engendered by the markets' fears of losing their shares once major stock exchanges are linked to trade world-class stocks, the tendency is obviously an attempt to create regional monopolies.

Still other major exchanges, though contemplating the formation of a global market, have not yet taken actual steps toward its creation, perhaps because of the overwhelming difficulties involved.

Some futures exchanges have been much quicker than the securities markets to implement a global network of computer and communications technology. An electronic trading system called GLOBEX has now begun to operate in collaboration with an information vendor equipped with numerous computer terminals all over the world. Futures and options can be more readily traded internationally because of the simplicity of trading through a single market index without involving the troublesome procedures of settlement (changing ownership of instruments).

However, the implementation of such a global electronic market might have a profound impact on traditional exchanges. Membership structure may undergo fundamental changes because such an electronic market permits and benefits from as much direct participation as possible from any location in the world. Market information, such as order book information, whose availability is more or less limited, may easily be disseminated throughout the world by communication networks. More importantly, difficult issues and problems arising from subtle and dynamic interactions between cash and futures markets will be internationalized. A cash market might suffer from a "tail wagging the dog" syndrome on an international scale, with the problems being exacerbated by nationalistic elements.

International cooperation is nevertheless taking place, and is leading toward a harmonization or standardization of different systems. Thus, in 1989 the Group of Thirty recommended the standardization of differing practices of clearing and settling securities transactions. The recommendation is aimed at making the practices more even and secure, and more efficient worldwide, with the goal of removing obstacles to international investment flows. As such, the recommended measures are not intended to establish a global securities market, but they will be useful towards that purpose. Also, the International Federation of Stock Exchanges (FIBV), has recommended linkages between central securities depositories in different countries that will effect international clearing and settlements more efficiently and economically.

Governmental regulators are also anxious to strengthen cooperation among the stock exchanges. In addition to concluding the so-called Memorandum of Understanding (MOU) between exchanges to prevent fraudulent activities from occurring internationally, the International Organization of Securities Commissions (IOSCO) is endeavoring to harmonize differing rules for regulating securities transactions in different countries. Among IOSCO's major undertakings are the encouragement of the use of single disclosure documents for international issues, the harmonizing of accounting and auditing standards, and the adoption of a common conceptual framework for capital adequacy of securities firms. They are also taking up other issues, including the exchange of regulatory information and the establishment of common rules for ethical conduct of securities firms.

The FIBV is also striving to enhance international cooperation among self-regulated markets. Thus, it has adopted a multilateral agreement on the exchange of regulatory information and on simultaneous trading halting; both measures are intended to prevent insider and other fraudulent trading from occurring internationally.

Essentially, these efforts respond positively to the internationalization of securities transactions. They facilitate investment flows across international borders by standardizing clearance and settlement practices, removing barriers to international equities issues, coping with global systemic instabilities due to capital inadequacy of financial players, and by maintaining market fairness and integrity worldwide. The motivating factor behind these efforts may be that it is more realistic to recognize and solve problems that are preventing the further internationalization of markets than it is to plan and implement an ideal global market.

V. SUMMARY AND CONCLUDING REMARKS

This paper has discussed several alternative patterns for trading securities on a twenty-four hour basis. The linked-market approach is best justified as satisfying the normative criteria to the greatest extent possible. However, the current situation is rather muddled. While some international cooperation is taking place toward the harmonization and standardization of the different systems and practices of different countries, this does not indicate that a global market is clearly recognized as the ultimate goal of such undertakings. Further, different stock exchanges have differing ideas as to how a global market should be achieved, and they act accordingly. Some futures exchanges are more aggressively pursuing a global market in their own ways.

Basically, this disorganization is due to the fact that exchanges compete with each other, and almost instinctively aim at obtaining as much liquidity as possible in their own marketplaces. Although government regulators, who are less profit oriented and more regulation minded, are more likely to cooperate among themselves to promote internationalization, there exists no regime for international securities transactions comparable, for instance, to the General Agreement on Trade and Tariffs

(GATT) for trade, and to the International Monetary Fund (IMF) for international finance.

The greatest impetus for future change in the current market system will be investor demands and reactions thereto by financial players. If investors, especially institutional investors, are to diversify their portfolios any further across borders, hence needing to trade securities more continuously and in greater mass, and financial intermediaries are to provide their own markets to meet such investor demands, then organized stock exchanges will have to review and redefine their positions on internationalization so as to prevent securities trading from occurring outside their markets. Until such circumstances occur, the present half-hearted attitude of organized stock exchanges towards globalization will continue.

Nevertheless, market regulators should be prepared in advance for such possibilities. For that reason, the issues taken up by this paper may deserve consideration by those concerned. Without cooperation, the achievement of a global securities market cannot be approached in a consistent and constructive manner.

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