

# Should there be a unification of the Manila and Makati stock exchanges?

ONCE again the question of unification of the Philippine stock exchanges has reared its head. Surprisingly, it has been raised as an issue at the Capital Markets Development Conference which took place recently. Even more surprising is the fact that the question was not even mentioned as being on the agenda by the organizers of the conference.

It should be remembered that during the public hearings held by the Securities and Exchange Commission in August 1987, the positions of both the Manila and Makati Stock Exchanges were made very clear and explicit to the effect that neither Exchange was interested in a unification. An official representative of the Manila Stock Exchange even manifested that to push the Exchanges into a unification against their wills would violate the Constitutional policy on the promotion of free enterprise and the avoidance of monopolies.

Numerous reasons were cited but in essence the following main arguments were given as to why unification is undesirable:

1. At present there are *two viable* operating stock exchanges. The stockbrokers in each exchange have very substantial investments in their operating firms. There can be no assurance that a unified exchange would be able to operate viably. Therefore, why tamper with a successful operation, which could be adversely affected by a unification?

2. Under the present system of board trading, a unification could

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lead to chaotic trading conditions during a very active market.

3. Those who are truly familiar with actual trading operations know that trading would be quite impossible, and could actually lead to a *collapse of the trading mechanism*, during hectic trading, such as what took place in June and July of 1987.

3. Each exchange has its own character and set of personalities. The Exchanges complement each other, in a spirit of friendly competition.

In June of 1965 the Supreme Court declared that a spirit of competition is very healthy, and that two stock exchanges are conducive to such competition.

4. It has never been clearly demonstrated what purpose a unification would serve, and what *important benefits* would result.

It stands to reason that if there were important arguments of an overwhelming nature in favor of a unification, the stockbrokers, who understand the intricacies of the business more thoroughly than others, would already have made a concerted move in that decision.

5. From a practical viewpoint, it has been estimated that a fully computerized system (which would eliminate the board trading presently being used) would cost in

the neighborhood of \$20 to \$25 million or P400 to P500 million.

Even if our stockbrokers could afford to put up such large sum (which is presently impossible), would they want to do so? Would they be willing to risk such a large sum, knowing that such a project might *not* even increase their present revenues? And if we ever should return to their trading volumes of 1981 to 1985, what would happen to the \$20 million investment?

6. It has been said that one reason for justifying unification of the Exchanges is that foreign investors would rather deal with one Exchange than two.

While I would be the first to agree that we should always encourage foreign investment in securities, nevertheless, the *more important vision of the future* is to encourage greater numbers of Filipino investors. The Filipino investors in the stock market will be with us through good times and bad times.

Many of the investors in our stock market from abroad will leave us at the first sign of bad weather, as they did in 1980 and through 1981 and 1982. Our greatest efforts then must be directed towards making our stock market attractive to our Filipino investors. In the Philippines, the surface has hardly been scratched.

(Note: Our guest columnist is a member of the Board of Governors and Treasurer of the Makati Stock Exchange. He is also the President of the stock brokerage firm bearing his name.)