Political scientist assesses impact of NYSE sale

December 24 2012, by Bettye Miller

The announcement this week of the sale of the New York Stock Exhange to IntercontinentalExchange Inc. (ICE) for $8.2 billion reveals the continued ascendance of derivatives in contemporary finance, and may impact the NYSE's regulatory role as a self-regulatory organization., says John W. Cioffi, an associate professor of political science at the University of California, Riverside.

"The strategic logic of this acquisition tells us, first, that traditional equities markets continue to be eclipsed by almost wholly unregulated derivatives trading that nearly destroyed the global financial system in the fall of 2008 and, second, that concentration in financial services remains the dominant trend despite the dangers of institutions that are 'too big to fail," he says.

IntercontinentalExchange, a rival exchange based in Atlanta, is predominantly interested in global derivatives and futures trading, Cioffi explained.

"Buying the NYSE's parent corporation (NYSE Euronext Inc.) allows them to acquire the London-based LIFFE exchange, Europe's second-largest derivatives market, which handles a huge volume of credit default swaps. In fact, this deal may run into trouble with competition and antitrust regulators here and in the EU because it increases concentration of ownership across the world's major derivatives and stock exchanges," he says.

"However, the moves toward exchange consolidation reflect the weakness of the traditional stock exchanges as they lose volume and transaction share amid market fragmentation and an array of new, competitive trading technologies and platforms. The paradox of the traditional financial exchanges is that they may be too big to fail, yet too small and costly to thrive—and perhaps survive.

"An important question raised by this merger is the effect it may have on the NYSE's regulatory role as a self-regulatory organization. This already eroded public responsibility may be undermined further by the relentless pressures for increasing profits that accompany the 'corporatization' of the NYSE and an ownership more internationally oriented."

Provided by University of California - Riverside