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The PSE is finally unified, faces new challenges

THE Philippine Stock Exchange is finally physically unified, for the first time in almost 55 years, with its relocation to its swanky new headquarters - the PSE Tower in Bonifacio Global City.

The exchange chose an auspicious start by coinciding its first trading in its new headquarters with the first trading day of the Lunar New Year, no doubt upon the advice of feng shui experts—since a lot of investors are either Asian or at least lend an ear to what geomancers advise.

The Philippine bourse is recognized as one of the oldest stock exchanges in Asia, having been in continuous operation since the establishment of the Manila Stock Exchange (MSE) on August 8, 1927. However, some brokers broke away to put up the Makati Stock Exchange (MkSE) on May 27, 1963.

While both the MSE and the MkSE traded the same stocks of the same companies, the bourses were separate stock exchanges for nearly 30 years and rivalry between the two can sometimes be stiff although many benefited from the situation due to arbitrage, buying a stock at one exchange if it is cheaper and selling it at the other market when the price is higher.

However, this made stock trading confusing for many, especially foreign investors since one stock may close at two different prices in a given day. Thus, the government decided to step in and the Securities and Exchange ordered the merger of the two bourses.

It may sound simple, but it was not—due to the rivalry between the Manila and Makati brokers and add to the mix the competing bids of two real estate firms jousting for the prestige of having the unified bourse in their territory.

Ayala Land wanted to retain having a stock exchange in Makati and the former members of the MkSE naturally took its side while MSE members took up the cudgels for Philippine Realty Holdings Corporation which wanted to elevate the status of the Ortigas CBD with the relocation of the PSE there.

A Solomonic solution was eventually reached, with the PSE having offices and trading floors in both Makati and Ortigas (Tektite) , thanks to new technology which allowed an electronic link between the two trading floors so that there would be just one price for each stock at any given time. Goodbye arbitrage!

This also meant the PSE was much richer by having two donated offices which it can do as it pleases after having occupied them for at least 10 years. Before the 10 years were over, a new offer for free headquarters came from an upcoming CBD -The Bonifacio Global City - which was then controlled by the Metro Pacific Group.

Now, after years of delay, partly because control over BGC was sold to Ayala Land, the PSE is finally united physically. However, there is no more need for brokers to relocate to the unified trading floor because trading can now be done at the comfort of their own offices through their personal computers while some brokerages have even set up their own trading rooms.

But it all does not end there and the PSE Board is not putting their feet up or rest on their laurels. The PSE now faces new challenges as it needs to bring down the ownership of stock brokers in the exchange to 20 percent as mandated by law.

Complying with the ownership cap will also give the PSE a chance to acquired the fixed income bourse, the Philippine Dealing and Exchange Corporation (PDEx), and merge with it to unify both the equities and bonds markets.

This move is now appearing to be an uphill battle as the government is again stepping in with the Finance Department declaring that government now wants to buy the PDEx for itself after expressing impatience at the PSE's long-delayed compliance with the 20 percent ownership cap.

This story is still developing and market watchers are keenly awaiting the PSE's planned stock rights offering which will dilute brokers and allow the bourse to comply with the ownership cap. The question will then arise, will this be enough for the SEC to approve PSE's acquiring and merger with PDEx? Or will government still pursue its plan to buy the fixed income exchange?

We eagerly wait for the story to unfold.

* PHIL. STOCK EXCHANGE (PSE)