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IPO VIEW-CBOT may pave way for more exchange IPOs

Fri Oct 21, 2005 7:48 PM ET

By Scott Malone

NEW YORK, Oct 21 (Reuters) - After watching shares of CBOT Holdings Inc. <BOT.N> more than double in value in their first days of trading, officials at rival exchanges that are still privately held may feel it's time for an initial public offering of their own, experts said.

Shares of CBOT, which operates the second largest U.S. futures and commodities exchange, ended the week at $112, up 23.2 percent for the day on the New York Stock Exchange and more than double their $54 offering price.

"Any time firms in a particular industry see a big success that opens the door for more," said Timothy Pollock, professor of business at Penn State University, in State College, Pennsylvania. "Firms that weren't thinking about it might start thinking about it and firms that are thinking about it might be more likely to do it."

The New York Mercantile Exchange has said it's planning an IPO in the coming months and the New York Stock Exchange also is planning to go public, as a result of its pending acquisition of electronic trading platform Archipelago Holdings Inc. <AX.P>

The exchange industry is rapidly changing, as traditional floor exchanges like the NYSE seek to offer more electronic services and markets also seek to expand their offering of alternative investment products, like bonds, options and funds.

In another major pending deal, the Nasdaq Stock Market Inc. <NDAQ.O> plans to acquire online trading platform Instinet Group Inc. <INGP.O> to boost its online presence. Instinet is a majority-owned subsidiary of news and data provider Reuters Group Plc <RTR.L> <RTRSY.O>.

"Just like investors want to diversify their portfolios, an exchange ideally doesn't want to be too tied to a single asset class or product," said Bill Cline, head of the capital markets practice at the consulting company Accenture Ltd., <ACN.N> in New York.

Exchanges also are transforming from their traditional member-owned, collective models to for-profit enterprises. As they make that change, taking themselves public gives them more flexible access to capital to fund investments in technology or acquisitions.

Some of the inspiration for the CBOT's offering came from its larger rival, the Chicago Mercantile Exchange <CME.N>, which went public in December 2002 at $35 a share. Its shares closed at $348 on the NYSE on Friday.

The Chicago Board Options Exchange, the largest U.S. options exchange, also is in the process of converting from a member-owned organization to a for-profit stock entity. It has hired Goldman Sachs to advise it on its alternatives, which could include a strategic alliance, bringing in outside investors or an IPO.

The Philadelphia Stock Exchange in August said four banks were buying a 25 percent equity stake for $19 million. That could lead to the investors pushing the exchange to go down the route of becoming a public company, Lee said.

"It just seems like a huge trend now where market centers are recognizing that in order to remain competitive, they need to be a public company -- they need a different organizational structure to remain competitive," said Sang Lee, managing partner at Aite Group, a research advisory company in the financial services industry. (Additional reporting by Megan Davies in New York and Ros Krasny in Chicago)

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