

The Alternative Swiss Bourse

Unlike its competitors in Switzerland, the Bern Exchange didn't merge with the other exchanges in 1995 to create the Swiss Exchange, and now remains the only alternative Swiss stock market. Although it accounts for a small part of the total trading in the country, it fills an interesting niche. It is usually the first step in the road of private companies becoming public as it offers them more visibility, lower fees, and less rigid disclosure requirements.

Q: What is the role of the Bern Stock Exchange on the Swiss market?

A: Currently, there are only two stock exchanges in Switzerland. The main one is the Swiss Exchange, based in Zurich, while I am the president of the smaller one, the Bern Exchange. We operate a niche market that accounts for less than 1% of the total trading volume in Switzerland, so we are not representative of the big market. While the Swiss Exchange is looking for the companies with big market capitalization, we attract the small companies that might have a problem with visibility if traded on a large exchange.

Switzerland has had stock exchanges for the last 130 years. The country is politically organized in different cantons, and many cantons had their own stock exchanges, with the main ones being in Geneva, Zurich and Basel. In 1995, however, the government introduced the Swiss law that regulates the trading activity. After the law was introduced, the three big exchanges decided to merge, while the smaller ones ceased operations. The merger created the Swiss Exchange, the main stock market of Switzerland.

We were the only exchange that didn't participate in the merger. Instead, we retained the legal form of a private association under the Swiss law with members being the major banks operating in Bern, including UBS and Credit Suisse Private Banking.

We decided to keep the exchange as an alternative to the main market for two reasons. First, it is always good to have more than one exchange, and keeping the license was much easier than starting a new exchange and receiving a new license. Second, we acknowledged that small companies might have a problem with the visibility, the expenses, and the disclosure policy of a big exchange. That's the situation that we face today and it provides us with a niche and an opportunity.

In Switzerland, there is also an OTC market, which is an independent market run by banks and brokers, governed by the banking law, not by the exchange law. Our exchange provides the opportunity for the companies from the OTC market to get ready for the big stock exchange and handle all the legal, transparency, and reporting



PETER HELLER President of the Berne Stock Exchange, has served as General Manager of PK-AETAS since 2004. Prior to that, Heller worked for UBS; Berner Kantonalbank; and served as CFO at Bank Von Graffenried in Bern.

In 1979, Heller completed a Swiss Business Administration ("Betriebsökonomie") degree course at the University of Applied Science, School of Economics (HWW) in Bern, Switzerland.

“The Bern Exchange is focused on enabling the smaller private companies to take the step towards going public, and on providing investors with liquidity and exposure to more names.”

issues. If they feel big and important enough, they can move to the Swiss Exchange later, when they fulfill the legal requirements.

That's how Switzerland ended up with two stock exchanges, focused on two different types of companies. Of course, we communicate with each other, but the two exchanges are totally independent from each other.

Q: How is the trading organized on the Bern Exchange? What trading systems do you use?

A: Both of the exchanges use highly electronic trading and settlement. Clearing is also fully automatic since 1999, when we entirely changed the systems, both in the Swiss Exchange and the Bern Exchange.

The orders drive the market and, essentially, our system matches the buy/sell orders for the number of shares. That process is guided by clear rules and regulations and is done automatically. The trading continues throughout the day, from 9 am to 4 pm. The orders may still come after the market is closed, but we match them only during the trading hours on a first-come, first-served basis.

Q: Could you highlight some of the characteristics of the companies that trade on the Bern Exchange? Do they come from specific sectors? Are they mainly local or international?

A: We don't target specific sectors, but while the companies that go to the main market are mainly interested in getting money through the IPO, the companies that come to our alternative stock are different and require a different approach.

These companies usually have been in private hands for the last 10, 20, or 50 years, and need to get a feeling of what it means to be traded on the

stock market and to be open to the public. That means that we don't usually have young companies and most of them come from the OTC market. The revenues of most of the companies listed on the Bern Exchange fall in the range of 20 million to 50 million Swiss Francs.

But targeting any specific sectors would be difficult for us in that environment. In Switzerland, there are about 400 listed companies. From those 400 companies, about 10 companies account for approximately 90% of the total volume. The new company listings are relatively small, at about 8 to 12 companies per year.

The total size of the Swiss market in terms of volume is approximately 1.5 trillion Swiss Francs. The biggest sector is healthcare and pharmaceuticals, which account for about 28% of the total market capitalization. The second biggest sector is banking, with about 18% of the total capitalization. Next is the food industry, where a single company, Nestle, accounts for 17% of the market. Industrials account for 9.5%, and insurance for about 8.5%.

In general, Switzerland targets the bio sector because many of the bio companies geographically are situated around Switzerland. The acceptance for an IPO in Switzerland seems to be better than in Germany, France or Italy.

Q: What is the total number of companies listed on the Bern Exchange?

A: There are 24 listed companies but the number is growing. In the past, we had a more closed policy because, during the period of the implementation of the new Swiss law, nobody really knew how it was going to be organized. Prior to that, the banks made most of the turnover selling the stocks to each other, and everyone traded UBS and Novartis. Now the investor in Nestle,

for example, can look up the price himself. We have an order driven system on both stock markets, and the buyer and the seller can follow their trades exactly, trade by trade and share by share.

The market trend has been positive in the last few years. Of course, we also have volatility and quiet periods, but as long as the trend remains positive, I expect more interest and more listed companies. The potential for development is good because there are many companies already on the OTC market, which will be more and more interested in becoming public.

Q: How the forthcoming new EU regulations will impact the Swiss market, if at all, since Switzerland is not part of the EU?

A: The new regulations would still have an impact, as all the previous political and economic EU regulations. The effect is that the Swiss Exchange will be under pressure to follow the international standards. The Bern Exchange, however, will not be affected because, as a national oriented exchange, we don't have international targets.

Q: Do you see future for new products, such as ETFs, derivatives, contracts in oil, gold, agricultural, or financial products, on the Bern Exchange?

A: The derivatives represent an entirely different market, which is much more sophisticated, not in terms of technical understanding, but in terms of investment understanding. I expect greater interest and importance of the derivatives market, but at the moment I don't see it as very relevant for the Bern Exchange. The Bern Exchange is more focused on enabling the smaller private companies to take the step towards going public, and on providing investors with liquidity and exposure to more names.

Q: What are the expenses for trading on the Bern Exchange, compared to the Swiss Exchange? Does your revenue stream include trading commissions or the sale of stock market data?

A: The listing fees depend on how big the company is and how many shares it has, but the fee would be no more than about \$10,000 per year. Our approach is to offer much lower fees than the Swiss Exchange. We do sell some data, but it is a small-scale operation because of our size. The Swiss Exchange can afford to sell market data, and they even sell their technical trading as a commodity.

Forward-looking, I expect the exchange to be generating the bulk of its revenues from annual fees. So far the revenues have always been calculated based on the trading volume, but trading volume can go up and down. To have better predictability, we lean more towards annual fees paid by the companies and the participants who are licensed to trade with our system. Overall, there should be three relatively equal revenue streams - volume trading, participants, and listings.

Q: What is your strategy on transparency and disclosure?

A: One of the unique features of the Bern Exchange is that we don't have to follow the international standards, which means that the disclosure may be less prominent than on the big stock markets. The big exchanges can afford to ask for a lot of information, while we are trying to attract the young companies, and it is more difficult for them to provide detailed figures. For example, a company owned by a few other shareholders would hate to say how much it earned.

But once they are used to disclosure, it is no longer a problem for them to comply with higher standards. Disclosure requires a change of mindset,

and that's why we have set lower initial requirements. In that way we attract new companies that would disclose information for a chance to finance the company. They don't have to give out too much information, and then they get used to it.

Another special feature of the Bern exchange is that it is entirely Internet-based. Any company or any broker who wants to trade on the Exchange can do so, if he is under the banking law of Switzerland. The Swiss security exchange law says that participants can trade only when they have the license or the back of a broker in Switzerland. But, technically, we are open for any broker in the world.

Q: Does that strategy bring more market makers?

A: The strategy brings market participants, but we don't actually have market making in Switzerland. We have an order-driven system, not an action-driven system like in the U.S. or the U.K. This is strictly an order-matching market. If we get a new participant and he gets a new issuer, for example, we treat him as a market maker. But if nobody wants to buy the stock and everybody sells the stock, the bank or the broker in Switzerland is not really willing to stand there for the stock. And that's a good system because, after all, market makers make markets only when they can make money first. 

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SEGMENTS & MARKETS

Amount of Shares Listed*	27
Amount of New Listings 2006	8
Amount of New Listings 2007	7

MARKET PERFORMANCE

Total Market Cap**	CHF 14.32 billion
Turnover in 2006	CHF 2.47 billion

KEY EXECUTIVE

Chairman of BSE	Peter Heller
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*shares only **index shares only

Data through: 10/31/07	
Source: BSE	

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