

How to regulate a financial market?

The impact of the 1893-1898 regulatory reforms on the Paris Bourse ¹

Pierre-Cyrille Hautcoeur, EHESS-PSE

Amir Rezaee, Université d'Orléans-EDHEC

Angelo Riva, EBS-IDHE Paris Ouest²

Abstract

Theoretical and historical experience suggests a financial centre may either include a single, consolidated and loosely regulated stock exchange attracting all intermediaries and actors, or a variety of exchanges going from strictly regulated to completely unregulated and adapted to the needs of different categories of intermediaries, investors and issuers. Choosing between these two solutions is uneasy because few substantial changes occur at this “meta-regulatory” level. The history of the Paris exchanges provides a good example, since two changes in opposite directions occurred in the late 19th century, when Paris was the second financial centre in the world. In 1893, a law threatened the existing two-exchange equilibrium by diminishing the advantages of the more regulated exchange; in 1898, another law brought them back. We analyse the impact of these two changes on the competition between the exchanges in terms of securities listed, traded volumes and spreads. We conclude competition among exchanges is a delicate matter and efficiency is not always where one would think.

JEL codes: G14 G18 G24 N13 N23 N43

Keywords: Paris stock exchange, market microstructures, reforms, regulation, monopoly, spreads.

¹ This paper results from a research project partly financed by Europlace and by the Paris City council. A first draft was presented at the 7th EIF Forum “Financial Crisis, Market Liquidity and Corporate Governance, Paris, December 16th, 2009. The authors thank Roland Bellegarde, Thierry Foucault, Paul Lagneau-Ymonet and Eugene White for their constructive comments.

² E-mails : hautcoeur@pse.ens.fr, amir.rezaee@edhec.edu, angeloriva@ebs-paris.com