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*Navigating The World's
Exchanges and OTC Markets*

GEORGE W. ARNETT III

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Global Securities Markets

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*To my father and grandfather, both of whom were
stockbrokers and my first guides to the securities markets;
and to my entire family.*

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Foreword

The financial markets touch all of our lives. If you didn't believe that in years past, you surely do now after the tumultuous events of the late 2000s.

The workings and integrity of those markets are vital to our increasingly global and interconnected economies.

If you've chosen a career that involves working in the securities industry, you have a front-row seat in a dynamic and sometimes unpredictable field. George (Tres) Arnett and I met many years ago at Yale University where we both studied economics. And we have both spent our careers connected to the financial services industry. The Tres I remember from those days was intelligent, articulate, interesting, purposeful, and ethical. This book is a reflection of those values and attributes.

Tres's new book can help you to learn the rich history of the global securities markets, how those markets work, and important legal concepts. In short, Tres's book will make you more competent in your field and better informed. And, it should make you a better investor!

ERIC TYSON
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Personal Finance for Dummies (John Wiley & Sons)
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February 1, 2011

Preface

This book is Global Securities Markets 101. But it is not a dry textbook. It is full of rich history, interesting anecdotes, and understandable mathematical and legal concepts. There is no book quite like it anywhere that weaves together all the facets of the global securities market and tells the tale in plain readable English, at a high global level, and in less than 200 entertaining pages. And it is a feature of this book, like the hub of a wheel arrayed with spokes, to point the reader to the right materials by Internet link or further reading sources for more information on any given topic.

The lodestar for this guidebook is the familiar five-point star known as a pentagram. For many (Christians, Jews, and Taoists, to name a few), the pentagram is a symbol of faith. For ancient Greeks, the pentagram represented mathematical perfection. And for some, a pentagram contains dark forces and magic. In many ways, the global securities market embodies everything in the symbology associated with a pentagram star. Markets exist on the faith that one party will exchange with another. Markets thrive on mathematical precision. And markets can be mysterious.

However, the global securities market is not sorcery. Using the pentagram illustration featured in Chapter 1, concise explanations, and other graphic presentations, this book seeks to demystify the global securities markets for market participants as well as the educated investor.

There is an emphasis on history, because, as Oliver Wendell Holmes Jr. famously declared, “A page of history is worth a volume of logic.” There is also an emphasis on graphic presentation so the reader can easily visualize complex material.

I would like to thank a number of my Pershing and Bank of New York Mellon colleagues as well as our customers who have provided valuable suggestions and input in connection with the creation of this book. Ethan Johnson Esq. of Morgan, Lewis & Bockius (www.morganlewis.com) and Ajay Pathak Esq., as well as Alex Leitch, Esq., of SJ Berwin (www.sjberwin.com) provided additional legal expertise. Charlie Saulenas created the graphics. Ana Pierro, Daiana Urena, Chenice Brinson, Jodi Vitale, Olga Pavez, and

Mary Neufeld organized it all. Last, I would like to thank my wife, M'lou, for her support during the creation of this book, as well as my children (who inspired the idea for the star pentagram chart).

GEORGE W. (TRES) ARNETT III
Jersey City
February 2011

Introduction

With more than 190 countries in the world, 320 distinct legal jurisdictions, 110 securities exchanges, 40 derivatives exchanges, and a withering notional value of over-the-counter derivatives and alternative investments regularly bought and sold, investing in the global securities markets poses challenges beyond selecting a suitable security likely to provide a decent return on investment.

In the sections that follow, we touch on fundamental concepts such as the definition of a security; the mechanics of execution, clearing, settlement, and custody; and the development and regulation of exchange markets and market participants. For those interested in global equity investing, we set forth the principal exchanges around the world and their most actively traded stocks with Internet links for more information. In addition to covering margin, short selling, and prime brokerage, we also examine briefly the evolving disciplines of risk management, anti-money laundering, and international compliance. For the high-net-worth investor, there is a short chapter on managed accounts. In brief, it is the theme of this book to tie everything together for the global investor (and those who support him) so that a clear and broad picture emerges of the legal, commercial, and practical aspects of the global securities markets.

Since the law, regulation and practice developed in the United States, United Kingdom, and European markets inform the worldwide marketplace for securities, our vantage point is principally United States, United Kingdom, and European law and practice. Distinctions among these markets and others around the world are noted.

