

The Zurich Stock Exchange and securities regulation — overview and summary

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Anyone who walks today from Paradeplatz down the Bahnhofstrasse towards the lake passes, at the corner of the Börsenstrasse, a Neo-Renaissance building with a rounded corner tower that now houses a department store and the offices of an American investment bank. Few passers-by know that the great hall behind this façade was, for half a century, the place where the prices of Swiss railway shares, bank shares, industrial shares and government bonds were made. The electronic order book of SIX Swiss Exchange in the Selnau district, which operates the principal Swiss market for equities and bonds, is the direct institutional descendant of the trading that began in this hall in 1880. The street name that survives next to it, the Börsenstrasse, keeps the memory of that origin in the address of the building itself.

This chapter follows the Zurich exchange from its informal beginnings to the eve of the First World War. It begins with the older world of the Zurich merchants, whose brokers (Sensale) had been regulated since the seventeenth century by the Kaufmännisches Direktorium, and with the Börsenverein of 1855, which brought the merchants of the city together at regular meetings. It then describes the founding of the Effektenbörsenverein, the construction of the first exchange building between 1877 and 1880, the collapse of railway share prices in the 1870s, and the cantonal statute of 1883 on securities brokers and exchange agents, which placed trading in Zurich under state supervision from 1884. Two further cantonal laws, of 1896 and 1912, completed this regulatory model. Around them the chapter sets the federal Code of Obligations of 1881, which created a uniform Swiss company law, the rise of state and foreign bonds as the core of the listed market, the rivalry between Zurich, Basel and Geneva, and the long debate about taxing securities transactions that ended with the federal stamp duty of 1917.

Three perspectives guide the account. The historian sees a merchant city that came late to organised securities trading, since Geneva and Basel had the older banking traditions, but that used the railway age, the Kreditanstalt and a strong cantonal state to build the exchange that would become the leading one in the country. The lawyer sees a distinctive Swiss solution, in which the canton licensed the persons who traded, supervised the market through a public official and published the official price list, while leaving the organisation of trading largely to a private association of members. The practitioner recognises in this arrangement several habits that the Swiss market still carries: a preference for self-regulation within a public frame, a close link between the exchange and the large banks, and a sensitivity to transaction taxes that shaped the market's competitiveness for more than a century. The Kreditanstalt itself is treated in Chapter D.II, the Zürcher Kantonalbank in Chapter D.V and the modern federal law of financial market infrastructures in Part H.

1 Conclusion

The Zurich stock exchange grew in layers over half a century. Its roots lie in the brokers regulated by the Kaufmännisches Direktorium from 1662 and in the regular meetings of Zurich merchants. The Börsenverein of 1855 organised these meetings as an association and published the first price list. Its initiative in 1873 created the chamber of commerce, while the Effektenbörsenverein, to which the exchange traced its centenary in 1977, organised securities trading as a separate activity. Between 1877 and 1880 the city acquired a purpose-built exchange on the Bahnhofstrasse, a hall of monumental proportions that expressed the ambitions of the railway age.

The crash of railway shares in the 1870s, with the Nordostbahn share falling from 670 to 53 francs and the Nationalbahn in liquidation, showed how fragile the new market was. The cantonal response came through three statutes adopted by the voters: the law on securities brokers and exchange agents of 2 December 1883, the law on professional dealing in securities of 31 May 1896 and the law of 22 December 1912. They licensed the intermediaries, supervised the market and gave the price list official status, while leaving the organisation of trading to the private association of members. Zurich thereby chose a middle course between the Geneva model of independent brokers and the Basel model of a nationalised exchange.

The federal Code of Obligations of 1881, in force from 1883, supplied the legal instrument of the listed company, the Aktiengesellschaft, on a liberal and uniform basis. On this foundation the Zurich exchange traded railway

shares and bonds, the shares of banks and finance companies, a growing volume of federal and cantonal bonds after the nationalisation of the railways in 1898, and foreign securities that reflected Switzerland's position as a major capital exporter. Once the bank cartels of 1897, 1907 and 1911 organised the placement of public bonds, the Zurich exchange became the market in which their success was measured.

By 1914 Zurich was well on its way to overtaking Geneva and Basel as the principal Swiss exchange. The cantonal model it developed survived until the federal Stock Exchange Act of 1995 replaced it. Its principle of self-regulation within a public framework remains the basis of Swiss exchange law. For the financial centre of today, the exchange of the period before 1914 left an institution, a regulatory method and a set of habits: close ties between the exchange and the large banks, confidence in official prices and a constant awareness that transaction taxes and regulatory burdens decide where business is done.

2 In five sentences

1. Securities trading in Zurich grew out of the older world of merchants and brokers regulated by the Kaufmännisches Direktorium, took organised form with the Börsenverein of 1855 and acquired its own association and price list in the 1870s.
2. The exchange building on the Bahnhofstrasse, built between 1877 and 1880 by Albert Müller and Caspar Conrad Ulrich, housed Zurich securities trading for fifty years and still stands at the corner of the Börsenstrasse.
3. After the collapse of railway share prices in the 1870s, the voters of the canton adopted the law on securities brokers and exchange agents of 1883, followed by the securities laws of 1896 and 1912, which created a model of licensed intermediaries, cantonal supervision and official prices under a private operator.
4. The federal Code of Obligations of 1881 supplied a liberal and uniform company law, while the nationalisation of the railways in 1898 and the bank cartels of 1897 to 1911 turned public bonds into the core of the listed market.

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5. Zurich, which was drawing ahead of Basel and Geneva by 1914, bequeathed its cantonal model of self-regulation within a public framework to the federal Stock Exchange Act of 1995 and to SIX Swiss Exchange today.

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