volume because this is their source of revenue. Interlisting for major companies (that is, listing on more than one exchange) is quite common. Again, London has the edge with its concentration of securities houses, liberal regulatory framework, and the UK "equity culture". Institutions in the UK tend to hold higher proportions of both domestic and foreign equities in their portfolios than is the case in the rest of Europe. However, London has had problems with its stock exchange automation in recent years. Meanwhile, in Germany particularly, the stock market has historically been underdeveloped.

Currency has no particular impact on stock market listing and trading; in North America interlisted Canadian and US stocks trade well in both Toronto and New York, and the same happens with interlisted stocks in Europe now.

The adoption of the euro itself will probably have no direct impact on stock markets. But it may lead officials to promote the idea of "one capital market", with consequent Europe-wide regulation rather than national patchworks. This could lead to wide-ranging changes and consolidation among stock exchanges and the stock market.

5. Derivatives

Notwithstanding recent and continuing bad publicity, derivatives are an important and growing part of financial markets. They have grown because they provide a cheaper and more efficient way of structuring transactions than in the cash markets, facilitating the trading of risk characteristics to those most willing and able to bear them. It is recognized that a well functioning market in derivatives adds depth, liquidity, and efficiency to the cash securities markets. In recognition of this, Canada and Europe have taken steps to promote exchange-traded derivative markets, particularly interest rate futures (the US and the UK have no need for such promotion as well developed markets already exist there.)

In London, LIFFE (the dominant exchange in Europe for derivatives) has merged with the commodities exchange and claims to be ready to dominate Europe's exchange traded derivatives markets with the introduction of the euro. MATIF in France and the German exchange are also active, but it is likely that there will be consolidation when national interest rates and currencies disappear. Exchange traded interest rate and stock index futures need benchmark bonds and stock indexes on which to set and price the contracts, and so one interest rate contract is likely to dominate - LIFFE's.

It is likely that when the "in" countries are chosen for EMU, euro- based interest rate and currency futures and swap contracts will be designed and begin to trade before EMU begins, particularly in the innovative "over the counter" (non-exchange-traded) market. This process should be encouraged because it will facilitate the transition of financial markets towards EMU.