

# Information and competition. The Paris Financial Center in the 19th century

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# Information and transparency

- Transparency: “the ability of market participants to observe information about the trading process” (Madhavan, 2000, p. 235).
- Pre-trade and post-trade transparency (Madhavan, 2000, p. 235-236)
  - Pre-trade: dissemination of current quotations, depths, and possibly also information about limit orders away from the best prices, as well as other pertinent trade related information such as the existence of large order imbalances
  - Post-trade: the public and timely transmission of information on past trades
- Post-trade transparency depends on:
  - Pre-trade transparency: the ability to publish abundant and high-quality financial information depends on transparency of price discovery
  - Choice of the exchange, competitive tool.

# Historical setting in a nutshell

- Prices in the Paris Paris Financial Centre during the 19th century: the genetic moment
- From the beginning of the 19th century Paris Financial Centre organized around two markets
  - Paris Stock Exchange: a regulated and transparent market; numerus clausus and pure brokers (unlimited responsibility)
  - Coulisse: opaque OTC market; dual capacity operators
  - Heterogeneity of operators and progressive differentiation of microstructures => heterogeneous needs of heterogeneous investors => complementarity and competition
- Paris Bourse: by law, open-outcry and monopoly to make the market transparent
  - Open-outcry => transparency of price discovery system
  - Monopoly => centralization of trades in time and space
- Coulisse: opaque and illegal trade
  - Illegal but largely tolerated trade because of the services the Coulisse provides, first to the Government
  - Bilateral and private (low-voice) trade => Paris Bourse 's competitive differentiation: the Bourse elaborates on legal obligation to make Gov and clients happy

# Historical setting in a nutshell

- The publication of prices
  - Bourse: an organizational challenge
    - The Building of a transparent market and the publication of fair information
  - Coulisse: the potential conflict of interest (dual capacity operators)
    - A number of 'feuilles', cotes with prices
    - However, overtime, "serious" private lists emerge
    - At the turn of the 20th century, formalization of the coulisse => an "official" list
  - Private lists withstand the competition from the "official list" of the Coulisse and Bourse
- In this presentation, we do not deal with important issues
  - Listing policy
  - Publication of additional financial information on the lists
  - History of financial press (some examples)

# 1802 - 1858: the challenged monopoly

- After the Revolution, the Décret 27 Prairial an X (16/6/1802) comes back to Ancient Regime with innovations
  - Only agents de change trade and trade on the Parquet from 1774
  - The anonymous “cri”: quotes announced by agents and closed deals (without counterparties; professional secrecy) announced and registered by the crieur => official list publishes all the prices in chronological order
    - Before that: ex-post transparency, announcement of closed deals (with identities of counterparties) by écrivain-crieur registering the deals then published on the list
  - The authorization to publish prices of private companies on the list
    - Before that: arrêtés du conseil 7/8/1785 and 14/7/1787 impose publication of prices of “royal” securities but forbid to publicly trade and publish prices of private companies on newspapers like the Gazette de France (against speculation), but from 1790 they come back.
- 1807 commercial code: only 16 articles devoted to exchanges and brokers: a recap

# 1802 - 1858: the challenged monopoly

- Paris Bourse, an unstable market, brokers' failures
- 1816 to 1823: k-events driving to increasing self-regulation
  - Creation of empowered Chambre syndicale: enforceable rules, monitoring, sanctions
  - Common fund
  - Forward operations no more enforced by judges
- Until 1820s, no separation btw Bourse and Coulisse
  - Coulissiers are "clients" of the Agents to balance order-driven market => liquidity suppliers of the Bourse
  - Organization of the Bourse => scope for an alternative market
  - Increasing issues of rentes and "widespread" ownerships => diversified investors
  - Railways and foreign securities in the 1840s and 1850s increases the need of the Coulisse

# 1802 - 1858: the challenged monopoly

- Official and “unofficial” but identical lists (at least from 1802 to 1804)
  - Cours des effets commercable à la Bourse de Paris
  - Cours authentique des effets commercables à la Bourse de Paris; sold at the exchange, not distributed
- Transparency as a competitive hedge of the Bourse from the very beginning:
  - “la publicité des cours des actions dans une entreprise sera la sauvegarde des co-intéressés parce qu’elle doit prévenir la mauvaise foi, l’infidélité et la fraude. Cette publicité rendra les gérants comptables tous les jours à tous les actionnaires et en donnant une mesure de ce que leurs gestions méritent de confiance, elle excitera leur émulation (the publicity of share prices will be the safeguard of the co-interested parties because it must prevent bad faith, infidelity and fraud. This publicity will make the managers accountable every day to all the shareholders and by giving a measure of what their management deserves of confidence, it will excite their emulation)” (Minutes of the Comité, June 3, 1807)
  - “Il s’agit de l’expression réelle et légale des transactions des agents de change. Donc, les agents doivent encourager la diffusion de cette publication afin de battre la concurrence qu’encore existe (It is the real and legal expression of the brokers' transactions. Therefore, the brokers must encourage the diffusion of this publication in order to beat the competition that still exists)”. General Assembly, December 12, **1844**
- The imperfections of the official lists
  - Brokers quote prices done in small transactions: the need to verify that the price made corresponds to the price of the effect by multiple comparisons of supply and demand and by taking forward prices into account => not representative
  - The “commis” trade spot on behalf of the brokers => not entitled to.
  - Too many errors because “number of agents are not precise enough in writing” 1826-1828
  - Too many errors of the printers
    - Fines to the printer in 1828 (printing in the building of the Exchange)
    - Change of the printer in 1844 (both outside printers)

# 1802 - 1858: the challenged monopoly

- The development of public securities trading pushes stockbrokers to neglect foreign exchange trading
  - in 1820, bankers complain that prices of their operations intermediated by brokers were not systematically published on the lists => Specific brokers to monitor forex list (commissaires)
  - in 1825 a list published by coulissiers is published: the Chambre Syndicale remind brokers they must care about forex
  - Commissaires collect prices done at the Bourse by specialized bankers
- 1837 “fièvre des commandites”
  - cannot be published on official list
  - Bourse published “cote des sociétés industrielles afin d’en constater la valeur réelle et d’en soustraire la négo aux marrons” ....”aucune valeurs officielle. Seulement à titre de renseignement
  - 3 types of trading: A/ négo aux enchères et double liquidation par mois B/ négo au parquet seulement au comptant C/ négo par agents de change seulement dans leur cabinet ou dans leurs courses.
- Forward trading
  - Forbidden by Ancient Regime’s laws, but enforced by courts until 1823
  - Private “unofficial” list for forward prices; only spot prices on the official list until 1844
  - forward trading regularly published on Coullisse’s lists: Coullisse mostly trades forward
  - 1844 Parère endorsed by bankers => informal authorization to publish the forward prices on the official list



# 1802 - 1858: the challenged monopoly

- In the second half of the 1820s, evidence of lists of the coulisse (history of sources)
  - the Choisy frères, bankers
    - “Changes et effets publics. Cours de la banque”, at least from 1827
    - It becomes the Cours de la banque et de la Bourse
    - Authors of Histoire particulière des fonds publics et d'industrie de tous les pays, précédée d'une notice sur le crédit (1842)
  - Jacques Bresson
    - Already active in the 1820s (yearbooks and books on finance)
    - In 1830, he founds a press agency: “Office-Correspondance pour les journaux français et étrangers et pour les affaires en fonds publics à la Bourse de Paris” transmitting prices
    - From 1834, “Cours général de la Bourse de Paris” published by Jacques Bresson on the model of the “Course of the Exchange”
  - In 1829, the Bourse complains that Gazette de France and Journal du commerce published prices of unlisted securities => intervention of the Préfet
  - No clear how they get prices nor how prices are made:
    - Conflicts of interests given the dual capacity however, long lasting publication...
- A number of short living “feuilles” and “circulaires, particularly at the beginning of the 1850s
- Advertising in the newspapers: we buy/sell securities...

# 1802 - 1858: the challenged monopoly

- The rise of the Coulisse

- 1850: political troubles and the fall in prices of public bonds => Coulissiers' fault. .
  - Cercle de l'Opéra where the Coulissiers meet, is closed
  - Measures are taken to prevent newspapers from publishing prices not made by agents de change
  - “Il ne faut pas dissimuler qu'il y aura des difficultés à maintenir cet état des choses. Les intérêts privés qui ont été froissé vont essayer de se réorganiser (It should not be concealed that there will be difficulties in maintaining this state of affairs. The private interests that have been hurt will try to reorganize themselves.) General Assembly of the CAC, October 16, 1850
  - Indeed.... “Les mesures prises l'année dernière n'ont pas eu d'effet complet (The measures taken last year have not had their full effect.)” General Assembly of the CAC, December 17, 1851
- 1858: “ marronnage a une extension jamais atteinte (illegal trading has an extension never reached before)” General Assembly of the CAC, December 20, 1858
  - “Nombre d'agents ont signé un exposé de protestations pour inviter la cs à agir. Déjà, la chambre syndicale et syndic ont présenté nombre de plaintes à l'administration. (A number of brokers signed a statement of protest inviting the chambre syndicale to take action. Already, the chambre syndicale and the syndic have submitted a number of complaints to the administration.)”
  - The press no longer publish Coulisse's prices, just Bourse's prices published .

# 1859-1897: “The Coullisse, suis generis Phoenix , always tends to reborn from its ashes”

- 1859: The Bourse files and wins a lawsuit against their competitor beaching the monopoly => Coullisse expected stops its trading
  - Bourse’s brokers hire some former Coullissiers as trading clerks (commis principaux, new role at Bourse), authorized to trade after the end of the Bourse
  - Official list publishes the prices of these transactions on the day N+1
  - Attention to the prices of the official lists: fines and exclusions for errors and “false prices” (=off-exchange prices). but...
  - ... the Bourse trades shares of bankrupt companies without being informed (1862)
    - Tribunaux de commerce asked to regularly send lists of bankrupt companies
- 1861: Cours de la Bourse et de la Banque publishes Coullisse’s prices
  - Merger with Bresson’s “Cours général de la Bourse de Paris (Cotes Choisy and Bresson réunies)

# 1859-1897: “The Coulisse, suis generis Phoenix , always tends to reborn from its ashes”

- 1863: Bourse requests the Préfet to ensure that the court's decision is respected
  - Prohibition to publish Coulisse’s prices => stop publishing
- Second half of the 1860s, Coulisse resumes trading
- Official list as competitive edge
  - “Inaccurate quotes and delays in the printing of lists are causing damage” (1869)
  - Warnings on the attention needed to the composition of the list
  - New organization to print the lists
    - 1868: the printer delivers the lists too late (printing of 2.500 copies of the lists expected in 40 minutes)
    - 1869: internalisation of the printing

# 1859-1897: “The Coullisse, suis generis Phoenix , always tends to reborn from its ashes”

- Franco-prussian war: France must pay war indemnity (20% GDP) to Prussia
- Issue of 5 billions of public debt; Coullisse needed to give liquidity = > legitimization
- Victor Antoine Desfossés, linked to the maison de Coullisse Desfossés, buys the Cours de la banque et de la Bourse
  - It becomes “Cote Desfossés” in 1920, then La Tribune (still existing).
  - Many newspapers, Yearbooks (wins competition vs. yearbook of the Bourse) .
- The Cote de la Bourse et de la Banque, founded in 1874
  - Merge with Le Messenger de la Bourse in 1879: Cote de la Bourse et de la banque et le Messenger de la Bourse réunis, until 1940
  - Vidal (Banque des Fonds publics et des valeurs industrielles) buys in 1888; known as Cote Vidal

## 1859-1897: “The Coullisse, suis generis Phoenix , always tends to reborn from its ashes”

- 1885: The law legalizes forward trading and the highest French Court narrows the scope of the monopoly (limited to listed securities)
- 1890 Decree regulating for the first time trading acknowledges a change in the practises of spot trading
  - open outcry for spot transactions abandoned because increase in trading volumes (for a while, juste public bonds and Baque de France shares)
  - “Cotation par opposition”: coteurs keep order books where trading clerks insert limit orders => price and time priorities respected.
    - number of coteurs increase when volumes go up
    - number of trading clerks regulated: overcrowding prevent monitoring and smooth transactions
  - Open outcry around a pit for forward transactions by brokers

# 1859-1897: “The Coulisse, suis generis Phoenix , always tends to reborn from its ashes”

- Beginning of the 1890s, Coulisse is the main French market
- 1892: Bourse opens an unofficial junior market to compete with the Coulisse on small and medium caps => “2ème partie de la cote”
  - light listing requirements
  - unofficial quotations
- Printing and dissemination of lists as competitive edge
  - “la diffusion de nos cotes doit être l’une des première mesures à réaliser....Pour lutter avantageusement contre la concurrence des autres publications de cette nature, il nous faut donner nos cotes presque pour rien et les répandre coûte que coûte dans le public (the diffusion of our lists must be one of the first measures to be taken.... To compete advantageously with other publications of this nature, we must give our lists almost for nothing and spread it to the public at all costs) ”
  - New printing machines and new spaces for them

# 1859-1897: “The Coulisse, suis generis Phoenix , always tends to reborn from its ashes”

- Petite Bourse du soir
  - “Old” tradition of the Coulisse at least from 1880: evening session
  - from 1891, the Crédit Lyonnais welcomes the Coulissier in its hall for this evening session: it takes on the appearances of a truly organized market
  - Publication of the prices and dissemination in France and Europe
    - a “continuous trading in France: Paris and Lyon
    - Evening session at the Genoa Stock Exchange gets started when the telegram with the prices of the Coulisse evening session is delivered at the Exchange building
  - After struggles with Coulissiers and Crédit Lyonnais, the Bourse obtains the Minister’s intervention = > the Crédit Lyonnais closes its doors in 1892
    - the Petite Bourse du soir loses impetus
- Pyrrhic victory: in 1893, a new fiscal law recognizes Coulisse’s trading in listed securities.



## 1898-1913 : Price currents after the reorganisation of the market

- 1898 Reform :
  - Enforcement of the Bourse monopoly
  - 1901 Modus vivendi: the Coulistiers might continue trading listed securities if they share their commissions with the official stockbrokers → prices published on the (Bourse) official list.
  - Still : Couliste keep going forward trading public bonds (“Couliste de la rente”), prices published on newspapers.
- Formal organization of the Couliste:
  - Two organizations (or *syndicats*), respectively for spot and forward operations
  - A clearly defined listing policy = > An ‘official’ list for the Couliste:
    - from 130 companies listed in 1900 to 280 in 1913
    - information on prices (lowest, highest and last), dividends (number of coupon paid and amount), number of listed securities, nominal value, etc.
    - but it did not mean the end of the publication of other Couliste lists by private publishers

## 1898-1913 : Price currents after the reorganisation of the market

- Competitors:
  - Mainly : Cote Desfossés / Cote Vidal
  - Main differences : these newspapers include prices done after the Coulisse session, more securities (securities listed at the Coulisse, but also unlisted securities)
- In spite of the 1898 reform:
  - The Brussels episode: some former coulissiers moved (nominally) to Brussels to continue trading on listed securities:
    - Prices published on the Cours de la Bourse et de la Banque
  - The development of a “free market” (*marché libre*)
    - Prices published on a newspaper (*Le marché libre*)
  - The “*contrepartistes*” (financial counterparties)
    - Emergence of private circulars published by these banks / intermediaries (bid/ask prices)

# Conclusion

- Bourse: the building of transparent market has been achieved with huge organizational efforts
  - Defending the monopoly
  - Competitive differentiation
  
- Coulisse: potential conflicts of interests
  - Many short living feuilles and cotes
  - Formalization of the coulisse => official list
  - Long-lasting “serious” private emerge