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Xchange UK

# 𝒳 Change UK

**A proposal for the establishment of independent regional stock exchanges in provincial or devolved national capitals throughout the United Kingdom.**

The idea is not new. There have been regional stock exchanges throughout Britain and Ireland before, the last of them finally fading away in the mid 1970's. Their reintroduction has been discussed at government level within the past few years and yet nothing is done. This paper will set out arguments for their re-establishment as engines of widespread economic regeneration and suggest, in outline, how this may best be achieved.

**The objective is to re-balance the wider UK economy, setting it on the road to a self-financing recovery** by providing local, self-generated, private capital funding for local businesses, allowing them the opportunity to prosper and grow in their regions of origin. It is anticipated that local investors will support local enterprises whose early beginnings they are aware of in a more direct way than are investors in global companies listed on the London Stock Exchange. A corresponding growth in employment will lead to a proliferation of smaller businesses serving a more prosperous community. The result will surely be regions that take command of their own economic futures along with a restoration of civic pride in those cities where new stock exchanges are founded. The relentless bleeding away of talent and entrepreneurial skill to London and the south east will be staunched.

**Why is this necessary?**

Too often, regionally based businesses have found that their growth was constrained by the loans that family, friends and banks were willing to give them. When seeking funding for expansion on the London Stock Exchange the directors of regional companies have frequently found that brokerage firms showed scant interest in taking them on, mentoring them and preparing them for introduction to the market. Their businesses were too far away, their culture, markets and day to day challenges too hard to imagine. Equally discouraging is the dauntingly high cost of listing on the London Stock Exchange and even the less demanding Alternative Investment Market, the ostensible purpose of which is to fund companies which are growing but not yet qualified for full listing, often proved out of reach. For such companies, the options have been threefold:

a. Remove the entire operation to the south east or at least have a costly and chiefly ornamental London Headquarters
b. Accept that the business will never grow larger than family, friends, self-funding and bank finance will permit.
c. Sell out to a public limited company in the south east, London or abroad

None of these options have served the regions well.

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The late Sir Ken Morrison, before his retirement, Chairman of MORRISONS SUPERMARKETS plc, the business his father founded with a single egg and butter stall in Rawson Market in Bradford, once remarked that companies outside the M25 enclave are often undervalued. His own company was first floated in 1967 when the Northern Stock Exchange, an amalgamation of the Leeds, Manchester, Liverpool and Newcastle exchanges, still existed.* The shares were 174 times over subscribed as 80,000 buyers attempted to acquire them. The Yorkshire folk who invested, many of them already his customers (a surprising number of them known to him personally) and notoriously discerning in matters of quality and value, knew what Ken Morrison's business was worth.

Would today's London Stock Exchange have taken much notice of a grocer from Yorkshire, with, at that time, an entirely regionally based supermarket business to offer? Yet the business now has stores in Gibraltar and Hong Kong.

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**The lessons of history should be learned. What previously grew up in the wild followed the cycle of nature and died.**

The pre-existing Regional stock exchanges which sprang into being in the nineteenth century during an epoch of unprecedented industrial activity, grew organically and withered away under the pressure of environmental change. In those early days public confidence was high and investors were not far to seek. The foundational bedrock of regional markets such as Manchester, Newcastle, Cardiff, Leeds, Liverpool, Glasgow and others, was then the increasing number of railway companies and the joint stock banks which grew up beside them. However, successive amalgamations of the railway companies and banks represented a significant thinning of each individual stock market's homegrown portfolio. By the 1900's a thirty year decline had begun resulting in closures of the smaller markets and a number of amalgamations of the of the larger, more powerful exchanges. Such a one took place between the Leeds, Manchester, Liverpool and Newcastle markets which joined together forming the Northern Stock Exchange. Based in Manchester it survived until 1973 when it was itself absorbed into the London Stock Exchange. In addition, constantly improving communication technologies developed since the mid nineteenth century had the natural effect of creating an inter-market porosity, blurring and merging the markets together. Their local character including their merits of specific location, close (often quite personal) interaction of brokerage firms, business directors and investors, was lost.

It follows that the new market types will need to be resistant to environmental hazard, hardy, and quite deliberately planted. Natural growth will not occur in the deep shadow cast by the south-eastern region and London. New, regional stock exchanges, specially designed for tough, provincial conditions, will provide light, warmth and nourishment to regionally based companies and a potential future for start-ups. Perhaps it is not too homespun to speak of neighbourhood finance in the effective practise of which, excessive mechanisation, digitalisation and roboticization is avoided. **People do like to see with whom and with what are dealing.**

**How can it be done?**

The steps to be taken in creating new stock markets need not be many or complicated in outline. **The hardest thing for government to do, is to decide to do it,** and then give unwavering support to the initiative in the early days of implementation. No primary legislation is needed.

<u>The Financial Conduct Authority</u> is the natural arm of government to initiate and supervise the formation of new stock markets, which will be, as stock markets always are, businesses in themselves.

1. The FCA's first action after receiving government instruction, is to invite the capitals of devolved nations, other provincial cities or towns to signal their interest in having a new stock exchange established in their town.

2. From these, a choice must be made of, say, an initial half dozen as setting up will not be quite without cost to the taxpayer. Those towns and cities which have already been, in the past, financial centres and those with highly reputable universities, the science, medical, engineering and business faculties of which have a track record of giving significant help to industry in developing and marketing new products, will have an advantage. Oxford-Astra Zeneca provides the most obvious example here.

> Thackray Ltd* of Leeds, first founded as a Victorian pharmacy operating in premises directly opposite the then newly built Leeds Infirmary, developed into a world class designer and producer of both surgical instruments and of prosthetic surgical implants, arising from their co-operation with the City's great teaching hospitals and celebrated surgeons such as Archibald McIndoe and John Charnley.
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> Thackrays also approached Leeds Polytechnic's (now Leeds Metropolitan University) Industrial Liaison Unit for advice on how to meet their growing production needs as their order book began to challenge the company's ability to meet the demand. Until the 1990's producing instruments and implants to extremely fine tolerances had been something close to a craft operation. Leeds Polytechnic's involvement meant that Thackrays were put in touch with manufacturers who were able to meet highly exacting specifications, even improving on quality in some instances and vastly expanding the volume and speed of output.

Edinburgh, too, with its still surviving, freestanding finance industry and first-class university is a natural candidate for selection.

3. Having chosen the regional centres and demarcated their hinterland, (for example, Leeds, serving the whole of West Yorkshire and, perhaps, Bristol serving the south western region), the FCA then invites brokerage firms to signify their interest in entering into partnership with others in any of the selected locations. The objectives of the initiative will be fully described to the Finance Industry Companies and Firms. Since it cannot be entirely about self interest at the outset, the new markets needing time to grow, participation may be best suited to large, well established brokerage firms willing to commit an appropriately staffed branch office

to the designated city. Redmayne Bentley, for example, (once a partner in the old Leeds stock exchange) already has one in Leeds. The FCA itself will best know how to assess the qualifications of applicant firms. Approved firms will then be introduced to potential partners, whom they may already know.

4. To give maximum status to the newly formed stock exchange partnerships, they should be **incorporated by Royal Charter**. This protects the new stock market partnerships from sale, take-over, amalgamation or other variation of the founding charter without Privy Council approval. It will also ensure the maintenance of a regional stock exchange in its original location where it was placed to serve that particular region.

5. It is to be expected that the partnerships would be willing to bear some of the cost of start-up themselves. Nonetheless, the initiative is for the public good and national advantage; it should therefore receive some government support until the new stock exchanges mature and are returning profits which justify the venture.

**Development: The matter to be traded.**

What range of securities, bonds, derivatives etc. are to be sold on these new exchanges will ultimately be the decision of the partners of each individual market.

However, they should **all have one thing in common, written into their founding constitution or Charter: namely, that their fundamental business is to reach out to local companies seeking capital finance**. Their task is to mentor them through the Nominated Advisor scheme and, when satisfied that they match criteria which would make them acceptable to the existing London Alternative Investment Market *or* conform to modified qualifications devised by the individual local stock exchanges and Nominated Advisors themselves, present them to the market, offering their shares to local investors, first. The latter will be defined by residence within regional boundaries relating to the stock market concerned.

Inevitably, secondary markets will develop as shares in these companies are sold by the initial investors. Locals, of course, along with any other investor, can sell and buy back in at any time. The local privilege is restricted to the first issue.

Some of these companies will go on to both require and qualify for main market listing. No doubt the regional stock exchanges who first introduced them to market based finance will want the prestige and the profits of quoting a list of main market companies themselves. How this is to be managed alongside the London Stock Exchange is beyond the scope of this paper.

It may be optimistic, even romantic, to envisage a day when bonds and unit trusts composed entirely of local constituents might be viable investment products. But a mature, sturdily built local stock market should, one day, be able to sell these.

**Governance:**

Where there are markets there are rats, as many a town mayor responsible for a municipal covered market will attest. Only scrupulous hygiene and relentless vigilance will keep the reputation wrecking disease of fraudulent dealings at bay. This must apply particularly to organisations that are young, small and artificially seeded. The Financial Conduct Authority may consider it necessary to appoint dedicated personnel to the task of monitoring each separate market. This, too, is a cost which the government should be willing to underwrite.

Nor is technology an unvarying benefit to markets. The phenomenon of High Frequency Trading which infected the New York Stock Exchange, causing stock prices to be hiked by means of automated algorithms whilst an agreed trade was already in progress, led to the foundation of the IEX Stock Market by former NYSE trader, Brad Katsuyaman and his partners. This market is committed to the exclusion of abusive practises such as HFT. In this respect it may serve as a model for the proposed new stock exchanges.

**Public Relations and Communication:**

Crucial to the success of the initiative is the support and understanding of the public throughout the regions. Glossy advertising campaigns should be eschewed. They look too much like confidence trickery. The sell-off of public utilities under Mrs Thatcher relied on campaigns which majored on moorland scenery and puzzlingly cryptic but folksy dialogue. Their effect on the public, who were supposed to become part of a “share owning democracy” was skin deep. They bought the shares in British Gas for example … and sold them again for small profit. That the public were unconvinced and had not become, as was hoped, overnight capitalists, was small wonder. Nothing had been properly explained.

What is needed is serious public service broadcasting, **explaining what every citizen has to gain for themselves, their family, their region and country,** by getting behind this initiative. Leafleting, lectures (and question and answer sessions) in community venues, coverage by newspapers, announcements by mayors and all digital media should aim to domesticate local investment in local business as a natural activity.

It is said that during the twentieth century colonial era in Hong Kong, cleaners, taxi drivers, laundry staff and others with modest occupations, discussed stock movements on the Hong Kong Stock Exchange as readily as they discussed noodles. If there, why not here?

Buildings: actual, tangible architecture has a role to play in transforming an idea in the mind into reality. A physical trading floor may no longer be practical but a place a passer-by can point to and call “our stock exchange”, is. Designated buildings might function as offices for the founding brokerage firms, and as a club for their members where Directors of local companies interested in flotation can be entertained. A building serves an important representational purpose. Local governments, often burdened with the upkeep of Grade A listed Victorian buildings in their city centres, may be grateful to grant repair and insurance leases to the new stock exchanges in return for a peppercorn rent. **A place to see; a place to go, engenders warmer feelings than a website and with those, more business.**

The new stock exchanges must advertise their wares and promote their businesses. There are opportunities here for local newspapers to generate business supplements (some have them already) and independent publishers both in the print and on-line media, not only to update their readership on stock prices but to provide profiles of listed companies alongside those considering flotation in the future. And, in due course, investor case histories.

**Has it worked elsewhere?**

Germany has eight regional stock exchanges. Its prosperity, the driver of the European project, is in direct contrast to that of France where there are no regional stock exchanges left. (The Bordeaux Bourse survived until 1990).

France, with its lavish social welfare expenditure actually had to dip into its citizenry's bank accounts *directly* to meet the nation's bills within the last decade.

COBUS INDUSTRIES founded in Wiesbaden in 1990, exports its purpose designed airport shuttle buses all over the world. It is listed on the Frankfurt Stock Exchange.

**Political feasibility:**

It is hard to imagine that any City, Town or Urban District Council of whatever political stripe could do other than heartily endorse the prospect of their region potentially generating wealth which might astonish the world within a decade. The implications for council tax revenue are clear. The great cultural and educational civic projects of the past may be matched in the future. High quality social housing might be built, low carbon infrastructure and utilities created … and Local Government Bonds may even become saleable again.

Will the London Stock Exchange feel its business to be threatened with corresponding objections from groups within Westminster? Hardly, and if so, with scant legitimacy considering that this initiative concerns itself with business which the LSE has failed, perhaps even disdained to serve.

Given the go ahead, **𝔛 Change UK** could change the economic landscape of Britain and Northern Ireland, restoring a long lost confidence and pride in what we can achieve in this country.

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*Note:*

1. *Despite the strong likelihood, it has not been possible to provide conclusive evidence that Morrisons Supermarkets were first quoted on the Northern Stock Exchange. According to Queen's University Centre for Economic History, Belfast, records of the exact content of these markets have been lost . Their study (The Rise and Decline of the UK's provincial stock markets) mentions no companies by name.*

2. *Ironically, Thackrays decided against flotation.*

***(2,772 words)***