Developments at The Stock Exchange

Under the agreement reached in 1983 between The Stock Exchange and the Secretary of State for Trade and Industry, The Stock Exchange undertook to abandon minimum commissions before the end of 1986. Since then much progress has been made in designing appropriate new trading systems for equities and gilts and in developing the necessary technology to support them. The last major subject to be tackled has been the future constitution of The Stock Exchange. In a poll of members taken following an Extraordinary General Meeting in early June there was a very large majority in favour of allowing non-members to own up to 100% of a member firm. However, a resolution approving arrangements to ensure that ownership of the Exchange would in due course pass from the individual members to member firms narrowly failed to gain the requisite 75% majority. Nevertheless, the way is in principle now clear for the consummation of the various arrangements under which outside institutions have taken minority interests in Stock Exchange member firms with the intention of increasing them, and in most cases of proceeding to full or majority ownership, once the Stock Exchange rules permit. The relevant rule changes are expected to come into effect in March 1986. The period from now until the abolition of minimum commissions and the introduction of the new trading system later in 1986 is likely to be one of increasing tension in The Stock Exchange. The Bank continues to attach considerable importance to an orderly process of change and to the preservation of the standards of regulation, efficiency and liquidity which a good central market can provide.

There has been some speculation about the extent to which securities dealers outside The Stock Exchange, acting in dual capacity, have been able to capture domestic business in listed UK equities. This has given rise to fears that The Stock Exchange might be forced prematurely into dual capacity by competitive pressures. Against this background, the Bank recently carried out an informal survey of twelve insurance companies, six self-administered pension funds, three unit trust management groups and ten accepting houses, all being major users of the equity market, to assess the amount of trading in listed UK equities outside The Stock Exchange. These firms were asked whether they dealt in listed UK equities through UK firms which are not members of The Stock Exchange, and in addition whether they dealt in American Depositary Receipts (ADRs), or through Ariel. The results showed that more than half the respondents had at some time dealt in listed UK equities through UK firms which were not members of The Stock Exchange, but overall the volume of such transactions (which were concentrated in one sector of the market) had been modest. Just under a third of those surveyed had made occasional purchases of listed UK equities in ADR form. While over half of them used Ariel, the number and size of the transactions were both small. The results overall indicated that the degree of fragmentation that has so far occurred is slight and should not threaten the careful and orderly introduction of change or the Stock Exchange's broad timetable.

Following the publication by The Stock Exchange of its discussion paper *The future structure of The Stock Exchange* in April 1984, the Bank entered into a series of informal consultations with interested parties about the future structure of the gilt-edged market. In November, in the light of these consultations, the Bank published its draft proposals for its dealing and supervisory relationships with certain participants in the gilt-edged market within the overall structure set out in the Stock Exchange paper *The market in gilt-edged securities* which had been published in August.

The Bank's November paper invited comments, and a new version of it, revised in the light of comments received, was published in April this year (reproduced on pages 250–82). It requested applications from firms wishing to be market makers in the future market structure; having reviewed the applications, the Bank stated on 3 June (the press notice is reproduced on page 283) that there were thirty-one firms whose applications were under active consideration, with a provisional total capitalisation of between £600 million and £700 million. The Bank was encouraged by the variety of types of business which the firms intended to undertake and in particular by the interest expressed by thirteen of them in providing facilities for smaller investors.

The names of the twenty-nine firms with which the Bank had expressed willingness, in principle, to deal and which had confirmed their intention to become gilt-edged market makers, were published on 17 June in a press notice which is reproduced on pages 283–4.