The unlisted securities market

The unlisted securities market (USM) has now been in existence for five years. An earlier article[1] described the origins of the market, its main features and its early development. This article[2] makes use of the larger amount of information now available to assess the progress of the USM as a market place for trading the equity of small companies and as a vehicle for generating equity finance. Longer experience of the market also makes it possible to examine the type of company entering the USM as well as the involvement of different institutions in the process of bringing companies to the market. The main points are:

- *By the end of September 1985, a total of 406 firms had entered the USM; of these, 45 had graduated to a full listing, and 37 had withdrawn for other reasons, leaving the shares of 324 firms being traded on the market. At that date, shares on the USM had a market value of £3.6 billion.*
- *A total of £1 billion has been raised so far on the USM, either on admission or by way of rights issues. About one quarter of this has flowed to existing shareholders, the remainder to the companies themselves.*
- *Published indices of USM share prices have risen significantly less than those of the fully listed market, but they may understate the overall performance of USM firms.*
- *The average market capitalisation of firms on the USM is about £11 million, although this figure conceals a wide range of company size. Oil companies are still the largest single group on the USM by market value, but their relative importance has declined as other activities have become better represented.*

In recent years there has been a growing recognition of the importance of small and medium-sized firms to the UK economy as a whole. During the present period of recovery, for example, Confederation of British Industry surveys have tended to give a more buoyant reading of industrial activity than suggested initially by official indicators, partly, it seems, because of the heavier weighting given by the CBI to strongly growing small companies. Over the last year, this interpretation appears to have been borne out by upward revisions to official statistics as the Central Statistical Office has incorporated more information on small companies, drawn primarily from the VAT register.

Small expanding companies may sometimes find it difficult to attract the equity finance they need, but, since the late 1970s, at least part of the equity gap thought to exist before a UK company is able to attain full Stock Exchange listing status has been bridged by the emergence of different types of venture capital fund,[3] by the Business Expansion Scheme, and by the development of the over-the-counter (OTC) market and the USM.

The United Kingdom is not the only country to have seen the introduction of new markets designed to channel risk capital towards companies which, by virtue of their size or lack of trading record, are unable to meet either the cost or the obligations of a full listing on a stock exchange. Although the objectives of these markets are the same, their form varies, reflecting the different institutional characteristics of individual countries. The widely used term 'unlisted securities market' may therefore cover a variety of arrangements ranging from markets which are second tiers of the main stock exchange (as in the UK case), with fairly comprehensive entry requirements and a high standard of regulation, to informal OTC markets where admission requirements are much less onerous. In the United States, a large part of the unlisted market is conducted on the NASDAQ[4] system, a highly automated electronic network, which disseminates precise and up-to-date price information to broker-dealers and the public. This system, which is a separate entity from the fully listed markets, was introduced in the early 1970s, superseding a more fragmented over-the-counter market; the computer-based network performs the function of a trading floor, enabling brokers to deal and make markets

(1) 'The unlisted securities market': June 1983 *Bulletin*, page 227.
(2) Prepared by D H A Ingram of the Bank's Financial Supervision—General Division.
(3) The growth of venture capital as a source of company finance has been described in the December 1982 and June 1984 *Bulletins*, and more recently in the Treasury's *Economic Progress Report*, September/October 1985.
(4) National Association of Securities Dealers Automated Quotations.

Table A
New entrants to the USM and full listing
Number of companies

	New entrants to USM	Departures from USM(a) Total	of which: to full listing	New entrants to full listing(b)
1980(c)	23	—	—	6
1981	63	—	—	63
1982	62	12	*7*	59
1983	88	20	*10*	79
1984	101	37	*25*	87
1985 Q1	17	3	—	8
Q2	25	7	*2*	25
Q3	27	3	*1*	15

(a) Comprises firms which have left the market as a result of takeovers, reorganisations, suspensions (possibly temporary) or transfers to full listing.
(b) UK and Republic of Ireland companies; includes transfers from the USM.
(c) 10 November to end-December only.

irrespective of their location. In France, an unlisted market ('le second marché') was created in 1983, designed to serve either as a transition to the main stock market or as a permanent equity market for companies wishing to remain there.[1] Other fairly active unlisted markets are to be found in Canada, Australia and the Netherlands (in Amsterdam's 'parallel market'). In Germany, preparations are currently going ahead to establish a USM under the auspices of the Stock Exchange Act, with the aim of providing a more formal, regulated market for stocks which are at present traded on a semi-official basis.

Growth of the London USM[2]

Between November 1980 and the end of September 1985, a total of 406 companies came to the London USM, compared with the 342 firms arriving on the main market—a figure which in any case includes transfers from the USM. With a further 37 companies having withdrawn for other reasons (see below), the number of firms being traded on the market had reached 324 at end-September of this year. Their market capitalisation stood at £3.6 billion, still a small figure in relation to the main exchange, where UK listed equities were valued at £222 billion at that date. If the 45 firms that moved to full listing had remained on the USM, its capitalisation would have been about £5 billion; similarly, firms which have left the market because they have been taken over will have represented a significant drain on its overall size.

Table B
USM: companies traded and market capitalisation

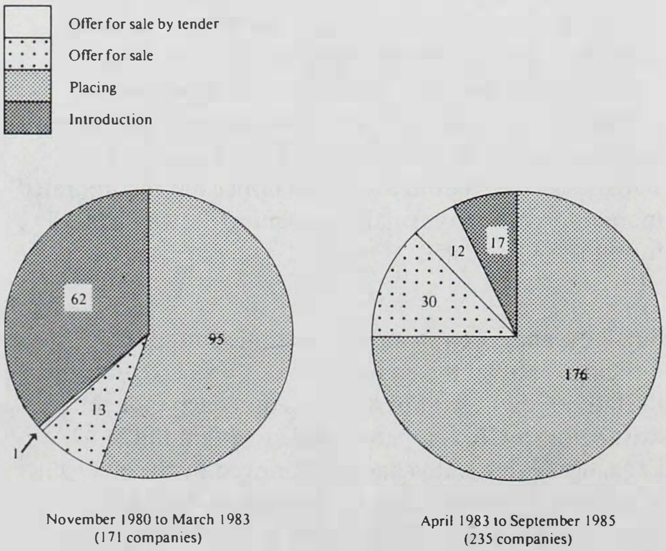
End-period	Number of companies traded	Market capitalisation (£ billions)
1980	23	..
1981	86	..
1982	136	1.2
1983	204	2.4
1984	268	2.9
1985 Q1	282	3.3
Q2	300	3.1
Q3	324	3.6

.. not available.

The main method of entry to the USM in its first five years has been via placing—two thirds of the firms have come to the market in this way. On a placing, the sponsoring broker will sell 75% of the new shares to its clients, most of whom are likely to be institutions; the remainder of the issue has to be offered to other USM jobbers, in order to give private investors the opportunity to purchase shares. About one fifth of firms have entered the market through introduction. This method—the cheapest way of obtaining a quote on the USM—can be employed when sufficient of a firm's equity (over 10%) is already in the hands of the public. On introduction, a firm has to meet The Stock Exchange's terms and conditions for admission to the USM, but, as no shares are marketed, no prospectus is required. Finally, one firm in seven has joined the USM through an offer for sale; a few of these have been by tender. Under Stock Exchange rules, an offer for sale is required for a new company where the issue exceeds £3 million, or where the market valuation of the firm is greater than £15 million.

The pattern of market entry has altered as the USM has matured. In the early phase, introductions were prominent, as firms that had previously been traded under the then Stock Exchange Rule 163(2)[3] transferred to the unlisted market. By March 1983 (the cut-off date for figures in the June 1983 *Bulletin* article), introductions still accounted for some 36% of market entries, but the cumulative share of placings had risen to more than 55%. As Chart 1 shows, introductions have been comparatively rare since then, while placings have become by far the most common form of market entry, and offers for sale have grown further in importance.

Chart 1
Methods of entry to the USM



November 1980 to March 1983 (171 companies)

April 1983 to September 1985 (235 companies)

(1) For a more detailed discussion of unlisted markets in the United States and France, see *Financial Market Trends*, published by the OECD in June 1985.
(2) An article on the first five years of the USM, including a large amount of individual company detail, was published recently in the October edition of *The Stock Exchange Quarterly*.
(3) Under Rule 163(2) Stock Exchange member firms were allowed to do occasional deals in unlisted securities, although they had to seek Stock Exchange permission for each transaction. This latter feature did not hinder trading, but increasing turnover in the late 1970s brought with it the need for the introduction of a more formally regulated market environment.

Not all the entrants to the USM have been UK firms; a total of fifteen foreign businesses have been admitted, most of them from the United States. Although the requirements for obtaining a NASDAQ quote are less costly and rigorous than those for a full exchange listing, US disclosure rules (as laid down by the Securities and Exchange Commission) are considered less flexible than the terms and conditions for entering the London USM. Other countries represented on the USM are Canada, France and Bermuda.

As noted above, a significant number of companies have already left the USM—the first departures occurred when the market was little more than a year old, and the flow has continued steadily since then, to produce a total of 82 so far. The pattern of exits during the life of the USM provides another way of judging the market's progress (see Table C). The most encouraging feature is that more than half of the departures represent transfers to full listing.

Table C
Exits from the USM: November 1980 to September 1985

Reason for exit	Number of companies
Transfer to full listing	45
Acquisition/merger	21
Reorganisation	8
Suspension/cancellation	8
Total	**82**

The rate of transfer was particularly high in 1984 (25 companies), as companies rushed to achieve full market status ahead of the implementation at the end of the year of European Community Directives on official stock exchange listing requirements. Further encouragement can be taken from the fact that so few USM companies have failed; two companies have had their quotations cancelled, and a further six, some of which have gone either into liquidation, or into the hands of receivers, are currently suspended. The second largest grouping is made up of firms that have been the subject of take-overs or mergers. Not all of these represented a loss to the USM, as two of the acquisitions were made by other USM firms, while one merger involved two USM firms that subsequently re-entered the market as a new entity. Similarly, the eight companies that have reorganised their structure have been readmitted to the USM in their new form. In the majority of these cases, new equity capital was raised on re-entry, while the remainder came back to the market by way of an introduction.

Fund-raising on the USM

As discussed in the introduction, one of the primary roles of the USM is as a source of equity finance for small, expanding companies. In addition, membership of the USM enhances the marketability of a company's shares, enabling the investors who provided finance in the earlier stages of its development to realise some, at least, of their shareholding. Reflecting this, more than one third of the £756 million raised by firms on admission to the USM since November 1980 has been directed towards existing shareholders rather than to the firms themselves. This ability to realise part of their shareholding also gives investors greater flexibility in respect of taxation (possibly leading them to favour the retention of profits because of the relative incidence of income and capital gains taxes). The volume of equity being issued each year on entry has risen sharply over the life of the USM, in part as a result in the increase in the number of firms coming to the market and in part because the proportion of introductions (when no funds are raised) has fallen. Equity issues by new entrants to the USM have been especially buoyant in 1985, the first three quarters of which have yielded nearly £200 million.

Table D
Funds raised on the USM and the listed market
£ millions

	Unlisted securities market					Listed market
	Raised on entry		Rights issues	**Total amount for company**	USM Total	Net amount raised(a)
	For share-holders	For company				
1980(b)	2	11	2	**13**	14	243
1981 Year	24	51	12	**63**	87	1,832
1982 Year	32	50	35	**86**	118	1,167
1983 Year	73	123	56	**179**	252	2,812
1984 Year	85	111	66	**177**	262	1,721
1984 Q1	19	28	20	**49**	67	153
Q2	30	42	22	**64**	94	596
Q3	17	22	8	**30**	47	653
Q4	20	18	16	**34**	54	319
1985 Q1	11	34	28	**62**	72	1,199
Q2	23	49	21	**70**	94	2,035
Q3	22	56	19	**75**	97	1,252

(a) Issues less redemptions by UK listed companies.
(b) November/December only.

The USM is also growing in importance as a vehicle for rights issues by firms that are already established in the market. Up to the third quarter of 1985, seventy-eight such issues had taken place, generating new funds of almost £240 million. Excluding the amounts realised by existing shareholders, the money raised for USM companies has therefore totalled nearly £725 million over the past five years. As the last two columns of Table D show, the total amount raised on the USM (for companies and for shareholders) is small in relation to that raised by UK listed companies on the main exchange. If account is taken of the respective sizes of the two markets, however, the picture is rather different, no doubt reflecting the fund-raising activities of new entrants to the USM. In the first three quarters of 1985, for example, the total funds raised on the USM (£263 million) were equivalent to about 8% of the market's capitalisation; the comparable figure for the main market was just 2%.

Turnover and share prices

Turnover on the USM has risen from just over £1 million per day in 1981 to nearly £7 million per day on average in the first three quarters of 1985. Over the same period, the number of daily bargains has climbed from 255 to more than 1,300, although the average value of individual bargains has typically remained in or close to the range £4,500–£5,000 throughout. Again, these various figures appear small in relation to the scale of trading on the fully listed market (see Table E), but if the relative sizes of the

Table E
Turnover on the USM and the main market: 1985 Q1-Q3

Period averages

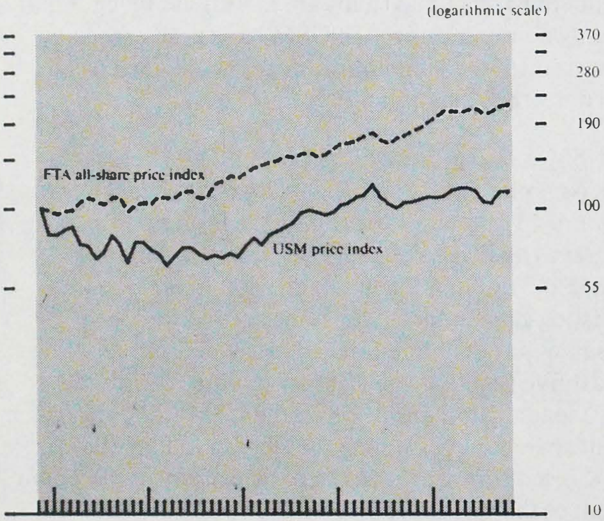
	USM	Listed market
Bargains per day	1,310	21,610
Turnover per day (£ millions)	6.6	389.3
Average value per bargain (£)	5,130	18,150
Market capitalisation (£ billions)(a)	3.3	216.3

(a) Based on valuations at end-March, end-June and end-September.

markets and their member firms are taken into account, the USM proves to be relatively more active overall.

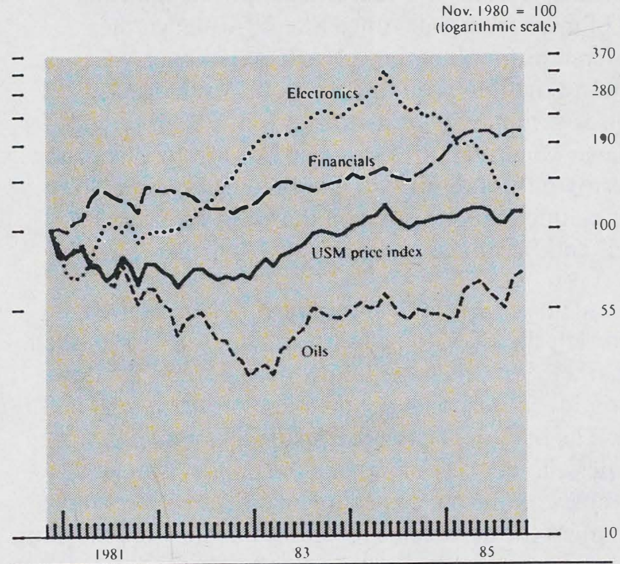
By comparison with prices on the fully listed market, share prices on the USM—as measured by the Datastream index[(1)]—have performed poorly since late 1980. For much of the period since the market's inception, the USM index has been below its opening level, and although it has recovered since early 1983, the index has made a net gain of only about 10% over the USM's first five years. By contrast, the FT-Actuaries all-share index has risen strongly overall, and has more than doubled since November 1980.

Chart 2
Listed and unlisted share prices



This disparity between the performance of the USM and the fully listed market is striking, and needs some explanation. Part of the difference may result from the problems of compiling a share price index the constituents of which change frequently (ie as new firms enter the market and others quit). A particular feature of the construction of the Datastream USM index is that it is regularly recalculated for its entire time-span to exclude the past history of certain of the firms that have left the USM. Although it is clear that not all of these firms have been successful, it seems likely on balance that the exclusion of some of them will have imparted a downward bias to the USM index presented in Charts 2 and 3.

Chart 3
USM : Datastream price indices



Apart from this essentially statistical problem, two other factors may have a bearing on USM share price performance. The first is that firms often enter the USM with a high price/earnings ratio by comparison with fully listed companies. USM share prices are likely to be especially vulnerable if the expectations of rapid profits growth on which these high ratings are based are subsequently disappointed. Of the 324 firms quoted on the USM at the end of September 1985, the shares of just over half were being traded above their issue price, and of these about 90 had risen by more than 50% since flotation (some spectacularly so). On the other side of the coin, however, the share prices of nearly 150 USM firms had fallen since issue; the prices of one third of these had fallen 50% or more. This diversity of experience is perhaps only to be expected in a sample of relatively immature firms, and underlines the need for caution when interpreting the index for the USM as a whole.

Second, the composition of the USM by type of economic activity and specialisation is also likely to have had a dampening effect on the market's overall share price performance at various times. In the early days of the USM, the largest group of companies, by capitalisation at least, was involved in oil and gas related activities; many of these companies will have entered the market on the back of the oil price rises of 1978 and 1979. The subsequent weakening of the oil market had a more severe effect on small, specialised companies in the sector than on the widely diversified oil majors. The share prices of oil companies on the USM fell particularly sharply during 1981 and 1982, and, by virtue of their weight, depressed the whole index at a time when other sectors were showing healthy price gains (Chart 3). Thereafter, the USM index staged a recovery as oil share prices revived and as high technology stocks continued to flourish; but the rise in the market was checked after mid-1984 as the computing

(1) This USM index, compiled by Datastream, is a market-capitalisation-weighted index covering approximately 200 companies, or the equivalent of 80%-90% of the market value of the USM. The more widely published Datastream USM Leaders Index covers less than 100 companies, or two thirds of the capitalisation of the market.

sector in particular ran into a crisis of confidence. Again, the impact of this fell more upon the specialised firms to be found on the USM than on the more broadly-based firms in the fully listed market. In contrast to the other main sectors, the grouping of financial companies has seen its share price index grow steadily over the whole of the period in question.

The profile of USM companies

Although the USM is often characterised as a market for high technology companies, it has, in fact, attracted firms involved in a wide range of activities, some of which are fairly conventional. The broad classifications set out in Table F[1] provide some measure of this spread of interests, although even this conceals a remarkable diversity, especially under the headings of 'Electricals' (which covers many of the high technology applications of computers and electronics), 'Other industrials' (covering a range of high technology processes as well as more conventional products in engineering, textiles, etc) and 'Leisure, hotels, food, drink' (which takes in breweries, television companies and several forms of entertainment). Numerically, these three are the largest groupings, although when market capitalisation is taken into account, the category of oil and gas companies emerges as the biggest group.

Table F
Industries represented on the USM: end-September 1985

	Number of companies	*Per cent*	Market capitalisation (£ millions)	*Per cent*
Oil and gas	24	*7*	632.8	*17*
Electricals(a)	67	*21*	578.1	*16*
Other industrials	75	*23*	612.8	*17*
Property, building, etc	29	*9*	260.0	*7*
Publishing, printing, etc	22	*7*	320.9	*9*
Drapery and stores	23	*7*	297.1	*8*
Leisure, hotels, food, drink	55	*17*	594.6	*16*
Financial(b)	17	*5*	229.9	*6*
Other	12	*4*	93.2	*3*
Total	**324**		**3,619.4**	

(a) Most electronics/computer firms are to be found in this category, although some are classified under 'Other industrials'.

(b) Includes hire purchase, leasing, insurance, trusts, etc.

As regards size, USM firms can be classified in various ways from available data. The 'average' USM firm has a market value of £11 million and turnover of almost £11 million, and employs about 230 staff.[2] Again, these figures mask great diversity, and there is, moreover, little correspondence between the three measures of size at the level of the individual company. For example, the company with the largest capitalisation (£233 million) at end-September 1985 had a turnover of only £15.7 million and employed just 29 staff. Some two thirds of USM firms have a market valuation of less than £10 million, while only a handful of firms are valued at more than £30 million (Table G). When measured by capitalisation,

Table G
Distribution of USM firms by market capitalisation: end-September 1985

Range of capitalisation (£ millions)	Number of companies	*Per cent*	Market capitalisation (£ millions)	*Per cent*
Under 2	40	*12*	50.7	*1*
2–4.9	82	*25*	290.1	*8*
5–9.9	93	*29*	667.7	*19*
10–14.9	40	*12*	496.8	*14*
15–19.9	28	*9*	485.2	*13*
20–29.9	22	*7*	500.9	*14*
30–49.9	14	*4*	556.9	*15*
Over 50	5	*2*	571.1	*16*
Total	**324**		**3,619.4**	

the picture is substantially reversed, with the bulk of the market being accounted for by a relatively small number of large firms.

The average figure for the annual turnover of USM companies, £11 million, hides a wide range from zero[3] to more than £150 million. Almost three quarters of USM firms have an annual turnover of less than £10 million, however. Similarly, USM firms are typically small-scale employers, with half employing less than 100 staff, and only a few (about one in ten) employing more than 500.

Assessment and outlook

In its short existence, the USM can be regarded as having been a success on most of the measures that can be applied. An active, relatively liquid market for the equity of small companies has now become firmly established. The degree of marketability that this confers upon the shares of a particular company obviously depends to a great extent on its subsequent commercial performance. But, in general, USM entry opens up opportunities for fund-raising and for firms' original owners and/or investors to realise part of their holdings; opportunities which in the absence of the USM would not have been available to the type of firm attracted to this market. The benefits to be derived from injections of equity finance are obvious, especially for rapidly growing companies unable to generate adequate internal funds. Equally, the value of the availability of the USM as an exit mechanism for original investors (either at the time of flotation or through the subsequent marketability of their shares) should not be underestimated. In the first place, venture capital is likely to be more readily forthcoming if potential investors have this exit route open to them; second, the resources released in this way can then be channelled to other small companies; and third, as noted earlier, the marketability of shares may provide investors with certain tax advantages.

In addition to providing a liquid market in its own right, the USM has played an important role as a stepping stone to fully listed status for a significant number of firms. For many companies, this intermediate stage will have

(1) The categories in this table are based on the sectoral classifications used by The Financial Times, although for convenience some of these groupings have been combined in the table.

(2) Data on market capitalisation are based on all 324 firms traded on the USM at end-September 1985; company turnover and employment figures relate to a smaller number of firms and are based on latest available sets of accounts. Source: *The Stock Exchange Quarterly*, Table E2.

(3) A number of financial companies and non-trading businesses record their turnover as zero.

allowed them to achieve a degree of market exposure, while giving their management and reporting systems time to adapt to the more stringent disclosure requirements of full listing.

The achievements of the USM over the past five years appear to reflect three main factors. First, the USM represents, for a small company, a substantially cheaper route to a market quote than full listing, in terms both of issue costs and of the continuing burden of compliance with Stock Exchange rules. Second, the USM, as a market within the confines of The Stock Exchange, with its facilities for price dissemination, its settlement systems, and its arrangements for client compensation and investor protection more generally, provides an attractive environment for investors. Third, the USM has benefited from the expertise and active support of the professions and financial institutions established in the business of raising capital and bringing firms to the market. To give some examples: for the 406 admissions to the USM prior to the end of September 1985, a total of 90 firms of solicitors and 135 reporting accountants(1) were involved. A significant number of these hold themselves out as specialists in preparing firms for USM entry. In addition, a potential USM entrant has to secure the services of a financial sponsor to guide and support the issue. Typically a sponsor will be a stockbroker or a merchant bank; in all, 115 have been used—again some houses are regarded as specialists in this area. Finally, each issue requires a broker, of which more than 80 have been involved. In each of these areas, legal, accounting, issuing and broking, a significant number of firms are active in providing information for would-be USM entrants.

Separate from the influences described above, but also contributing to the well-being of the USM, has been the environment in which it has grown up. Government policy, for example, has played a positive role in the encouragement it has given to small companies. On the financing side, companies have benefited from the tax incentives available under the Business Expansion Scheme (BES) and various share option schemes, and from the government-backed Loan Guarantee Scheme. At the same time, efforts have been made to ease the regulatory burden on small companies, as well as to provide advice and guidance through Department of Trade and Industry centres around the country.

The performance of the USM over its five-year life also has to be seen against the background of a steady economic recovery since early 1981 and an almost continuous bull market for UK equities. A setback on either or both of these fronts could test the resilience of the USM and expose the weaknesses that are bound to exist below the surface in a market in which small, immature companies predominate. As has already been seen in the oil and computer sectors, cyclical factors tend to bear more heavily on specialised companies typical on the USM than on their counterparts on the main market, the activities of which are likely to be more widely diversified. A similar type of vulnerability derives from the high rating at which the shares of most companies trade on the USM. Price/earnings ratios range widely on the USM, although the average has usually been close to 20 through most of 1985, compared with a figure of about 12 on the main market. This differential may be rational and sustainable if growth prospects can be viewed with a reasonable degree of confidence; if this prop falls away, however, the market is likely to have extreme difficulty in valuing companies with a short track record and relatively untested products. This uncertainty could be compounded by the fact that research by brokers and financial analysts tends to be sparser on USM companies than on fully listed ones. As the market grows in both depth and breadth this problem may ease, although by virtue of the kind of companies catered for by the USM it will not be eliminated. However, experience suggests that as the market has grown in maturity, a more discriminating and selective approach towards potential new entrants has come to be adopted by market institutions and investors; one consequence of this is that the USM is now only rarely considered as a launch pad for new (or 'greenfields') companies. Such firms have tended to become the preserve of the over-the-counter market, which has grown up almost in parallel with the USM, albeit on a much smaller scale.

The rapid emergence of the OTC market has been taken by some commentators as a sign that The Stock Exchange is setting too high a standard for the USM, thereby discouraging worthy new entrants. This highlights the difficult balance that has to be struck between the desire to provide finance and stock market recognition to small dynamic firms on the one hand, and the need to maintain market confidence on the other. On paper at least, The Stock Exchange has the discretion to permit firms with trading records of less than three years to enter the USM; in practice, as implied above, the absence of such firms may reflect a more searching appraisal of the risks inherent in such propositions. In any event, firms have continued to enter the USM at a high rate.

The recent growth of the OTC market in unlisted shares has, moreover, reflected other factors, notably the working of the Business Expansion Scheme,(2) which was introduced in 1983 as a successor to the Business Start-up Scheme. The BES allows individuals to claim income tax relief for money invested in unquoted UK trading companies with which they are not closely connected. For the purposes of the BES, a company is 'unquoted' if its shares are not dealt in on the main market of The Stock Exchange or the USM. Investment may be direct, or indirect through an approved fund; in either case, the investor acquires shares in the business in question. In order to qualify for tax

(1) A firm considering USM entry needs to appoint a reporting accountant (who may also be its auditor) to prepare a report on the company, addressed to its directors. This report, on the history, activities, management and financial position of the company, will be used by its financial sponsor to assess the company's suitability for USM entry.

(2) A description of the progress of the Business Expansion Scheme is contained in the Treasury's *Economic Progress Report*, November/December 1984.

relief, the shares must be held for five years; and the tax relief would be lost if the shares of the firm were to become quoted within three years of the investment's being made. For small companies which have recently benefited or wish to benefit in the future from the BES, this last feature may pose an important barrier to entry to the USM. Shares of BES ventures can, however, be traded on the OTC market without loss of tax relief, and this has given a significant boost to its growth.

Recent estimates suggest that the 15 main OTC market makers now quote the shares of more than 150 firms, valued at more than £500 million; in 1982, only 30 stocks were quoted. Where firms have taken advantage of the BES, it will not be clear for some years whether they will step up from the OTC to the USM.

Looking to the future, the format of the USM will change in the latter part of 1986 as a result of the changes currently in train in the London Stock Exchange. These are described in a separate article on page 544. For USM stocks, the most fundamental change may be the shift to a screen-based quote dissemination system, SEAQ.[1] Along with the fully listed market, the USM will resemble the US OTC market on NASDAQ, with the facilities for distributing prices to a far wider clientele than at present. An important unknown at this stage is the degree of involvement in the USM that can be expected of the new-style securities houses and financial conglomerates that are forming in London in preparation for the Big Bang. Many of the jobbers, brokers and merchant banks at present closely identified with the USM are being integrated into larger groupings. In some quarters, the fear has been expressed that market participants will put most of their resources into trading in high volume, high turnover equities, to the detriment of markets such as the USM. A more likely outturn is that the relative profitability of trading in high and low volume stocks will ensure that market makers or broker-dealers will be adequately represented in each sector. Moreover, a number of houses may wish to remain as specialists in particular types of equity, including those of USM firms, perhaps offering complete in-house corporate finance package deals designed, inter alia, to bring firms to the market.

(1) Stock Exchange Automated Quotations.