

What is the purpose of stock exchanges?

(or...The paradox of stock exchanges)

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Fig. I Going up...

The growth in UK and US stockmarkets from 1967 to 2017

i) Market capitalisation in real terms ii) market capitalisation as a % of GDP iii) trading as a % of market capitalisation

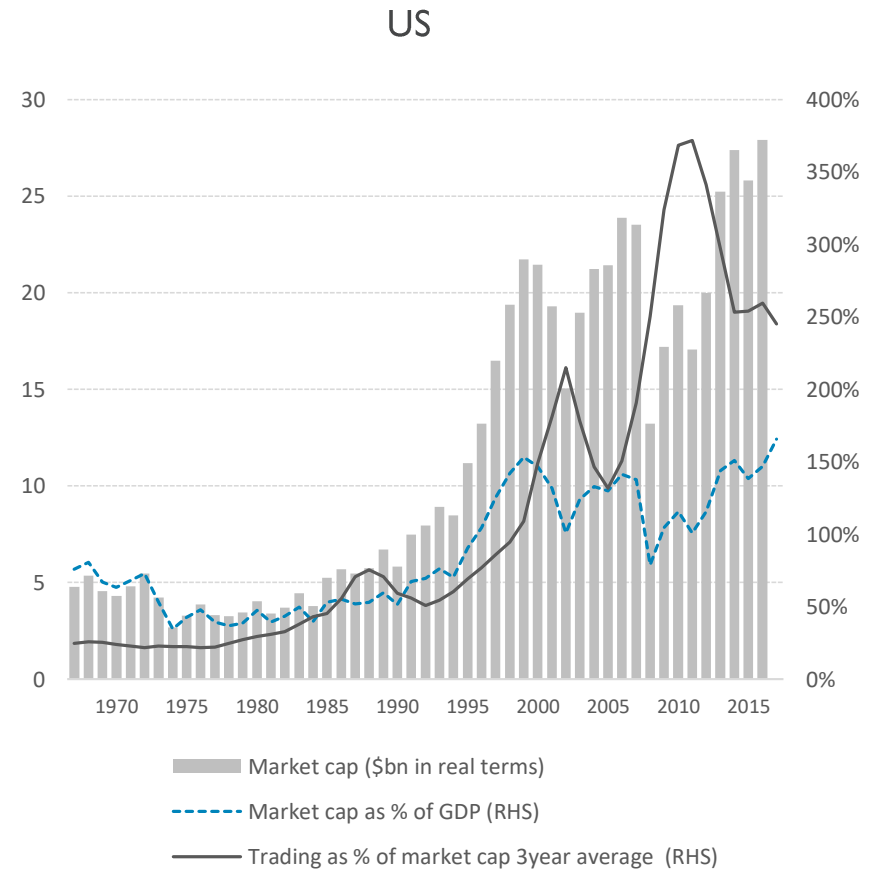
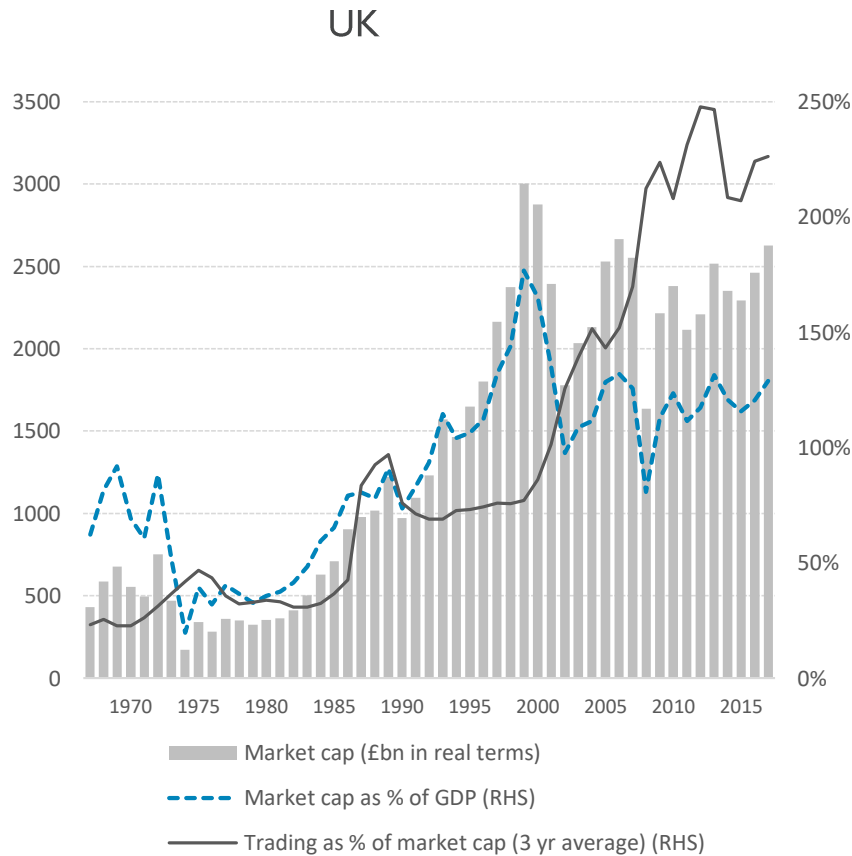
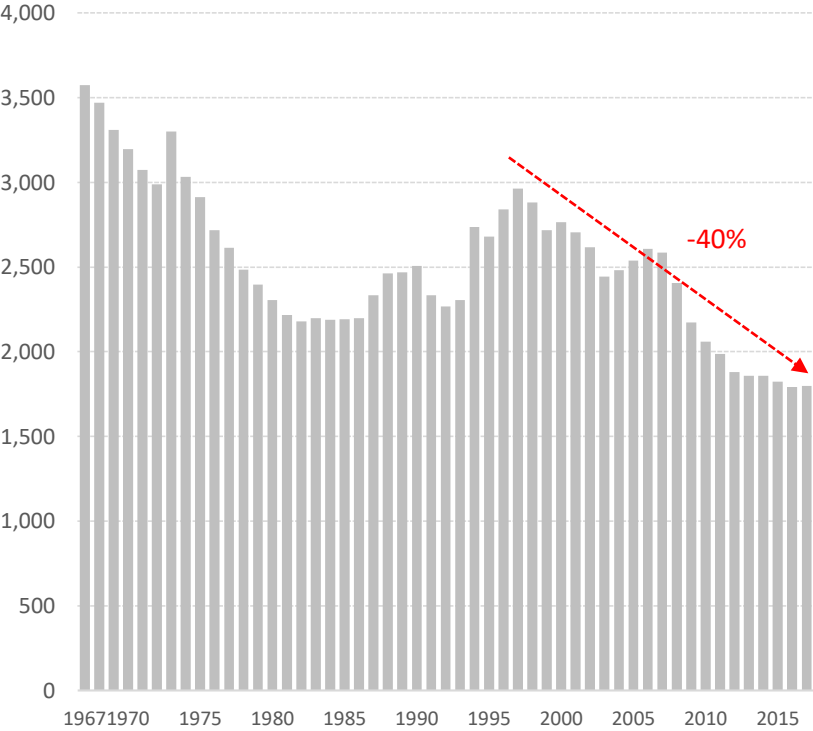


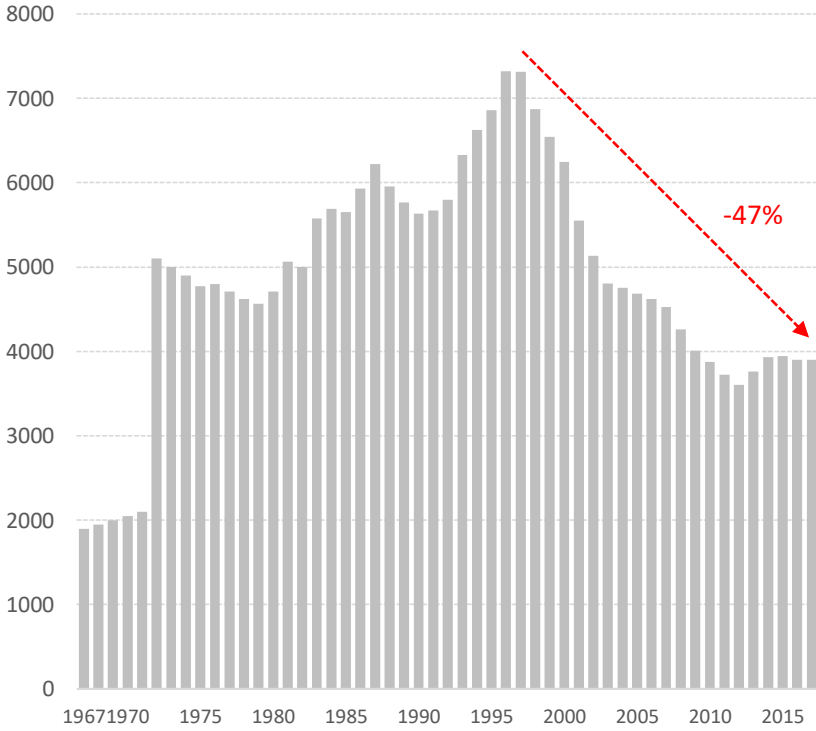
Fig.2 Going down...

The number of domestic listed companies in UK and US stockmarkets from 1967 to 2017

UK



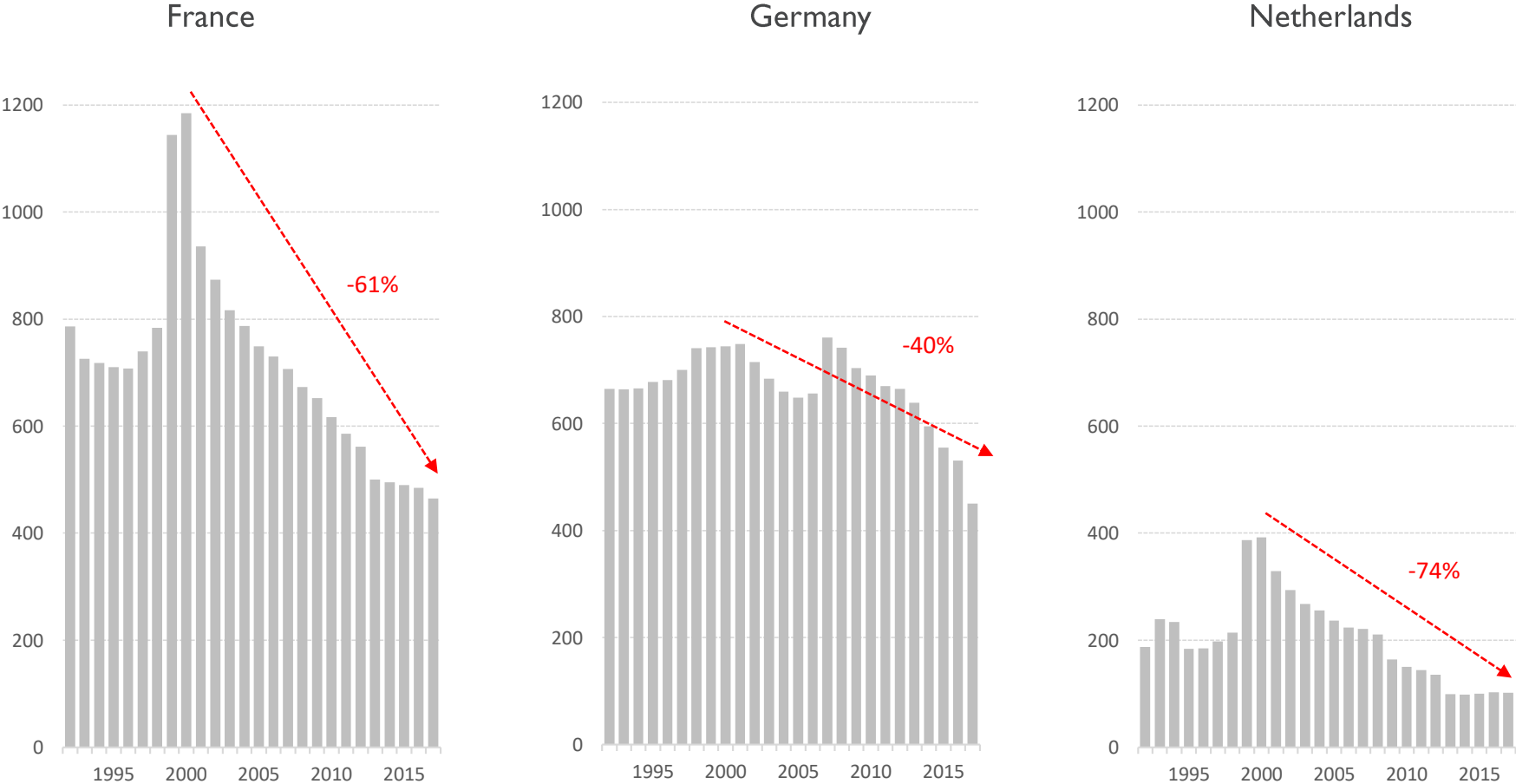
US



Source: New Financial

Fig.3 Going down...

The number of domestic listed companies in France, Germany and the Netherlands from 1992 to 2017



Source: World Bank / New Financial

Fig.4 And down...

The number of new issues and the value of capital raised by new issues in the UK and US from 1970 to 2017
(Values in real terms)

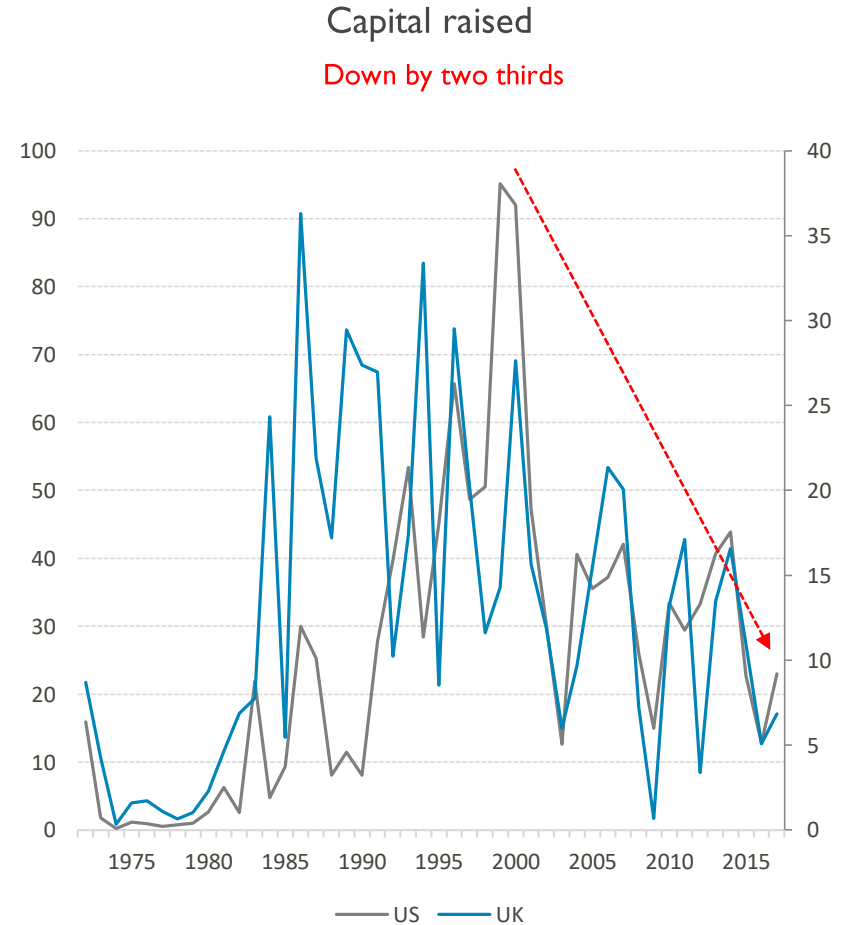
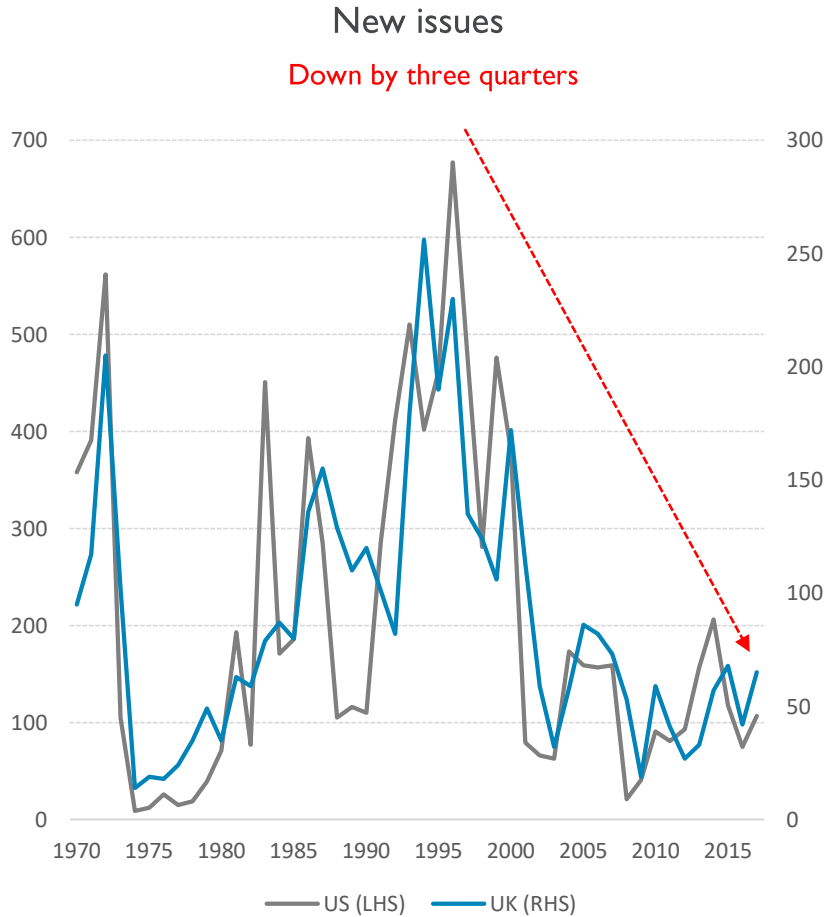
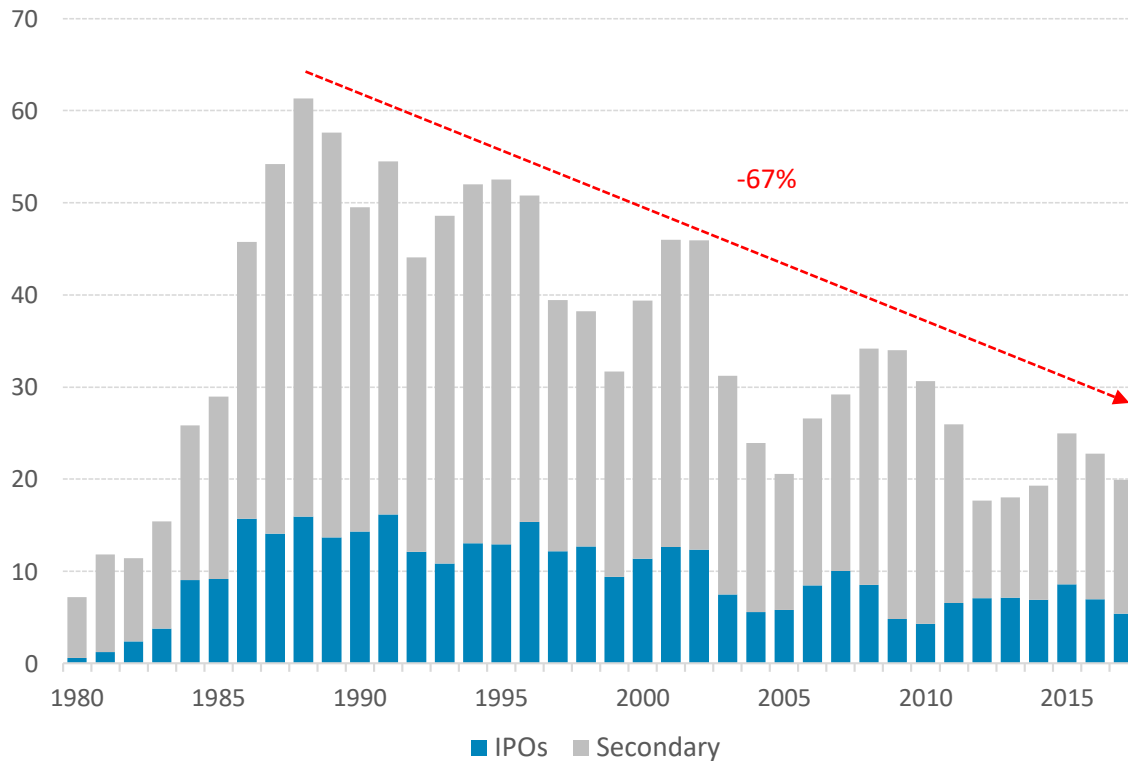


Fig.5 And down...

The value of IPOs and secondary issues in the UK from 1980 to 2017
(Three year rolling average in real terms)



The paradox of stock exchanges

‘The paradox of stock exchanges: stock exchanges are bigger, deeper and more efficient than ever before - but fewer and fewer companies are choosing to be listed on them or to use them to raise capital. Discuss.’

Why should we care?

Growth & investment

They finance growth and investment by providing long-term risk capital to companies

Innovation & productivity

They drive innovation, improvements in productivity and long-term economic growth

Wealth creation

They help democratise wealth creation through people's pensions and investments

Standards & accountability

They set standards for corporate governance, improve transparency and accountability

Sustainability

They support the social licence for business and finance

What has been driving this?

The growth of private capital

- Growth in pools of private equity, venture capital, direct investing, SWFs
- Corporate bond market (+ tax advantages)
- Too much cash

The cost and burden of being listed

- Governance, disclosure, regulation
- Public scrutiny / anger
- High cost of listing (and antiquated process)

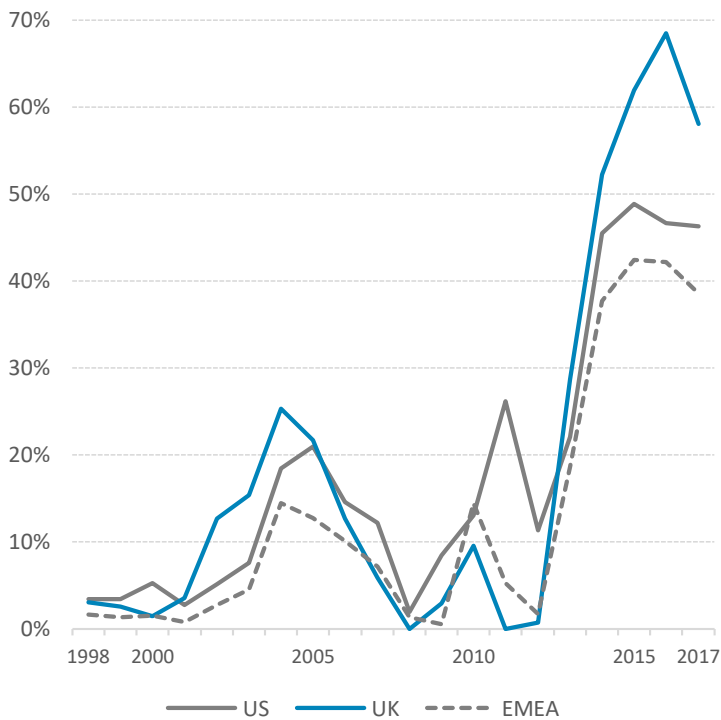
Big shifts in the finance industry

- Increase in scale, speed and complexity across the industry
- Bi-furcation: a hyper-efficient market for capital raising and trading for the biggest companies at the top end, and a less efficient and less active market for smaller companies at the other.
- Stock exchange industry?

Fig.6 A private affair...

The influence of private equity on the IPO market 1998 to 2017

i) % of IPOs by value involving private equity sellers



ii) % of new shares issued in IPOs by value

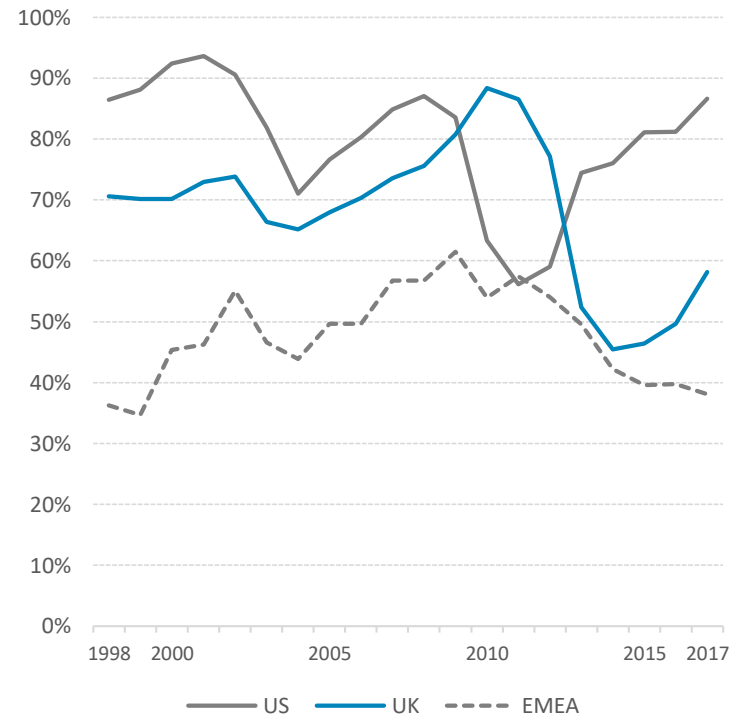


Fig.7 Free money?

Capital raising in corporate bond and equity markets in the UK from 1992 to 2017

£bn in real terms, three year rolling average

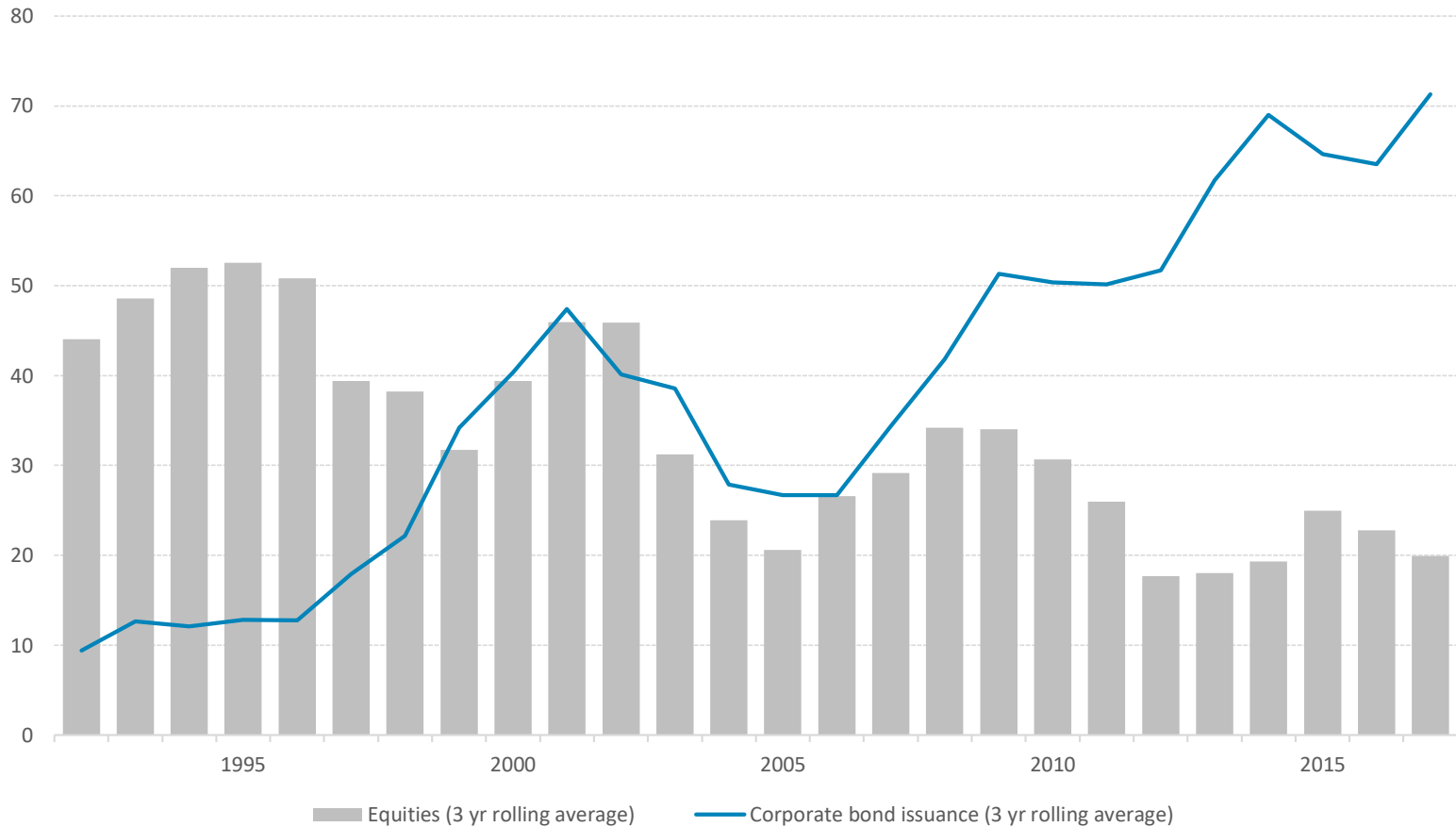
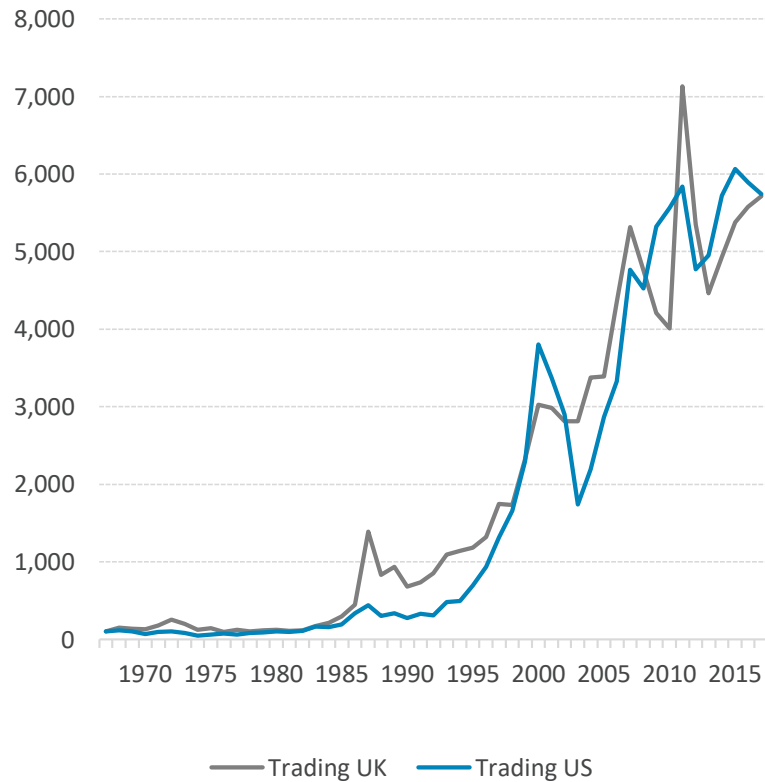
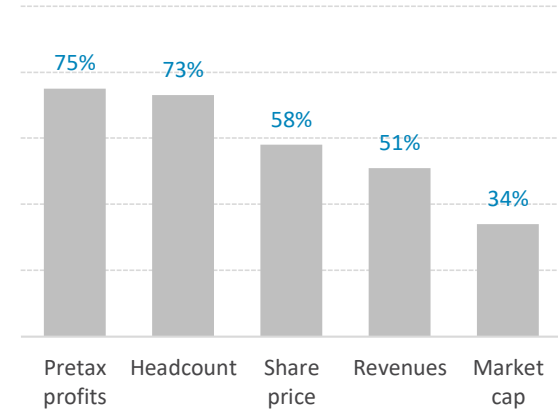


Fig.8 The transformation of the stock exchange industry

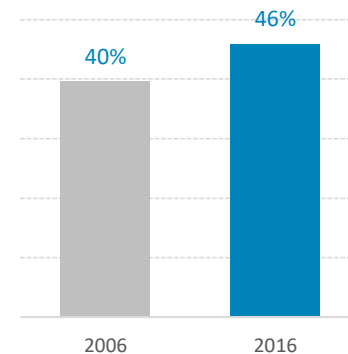
i) Equity trading volumes in the UK and US 1967 to 2017
Rebased to 1967 = 100



ii) Stock exchange indicators 2006 to 2016



ii) Pretax margins at stock exchanges 2006 to 2016



What can we do about it?

Rethinking regulation:

- reforming the tax treatment of equity finance
- encouraging more investment in equity markets by long-term asset owners;
- reducing the disclosure gap between privately-held and public companies by raising standards for large private companies;
- developing a less onerous regulatory framework for smaller companies.

Rethinking exchanges

- rationalisation and consolidation of exchanges and market infrastructure
- introducing more effective competition between exchanges, particularly for new listings
- introducing more speed bumps and auctions into trading;
- investing in corporate services to support listed companies;

Collective action:

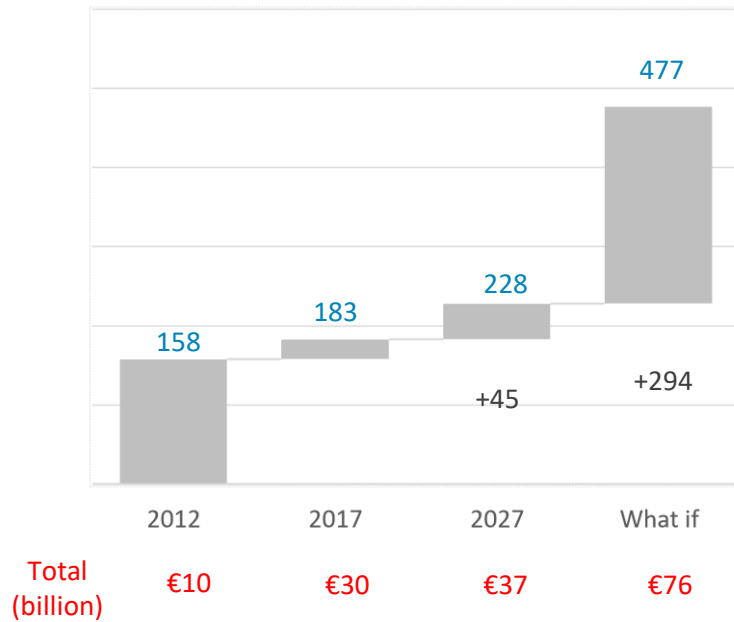
- modernising the IPO process (such as shortening the timeframe, wider use of technology, widening access and improving the allocation process) ;
- encouraging more direct retail interest in equity;
- creating industry-wide initiatives to support investing in smaller companies and helping to fund the ecosystem around them.

Some good news...

Game-changing growth? What would stock markets look like in the EU27 if the market every country were as big relative to GDP as the average of the top five countries in the EU?

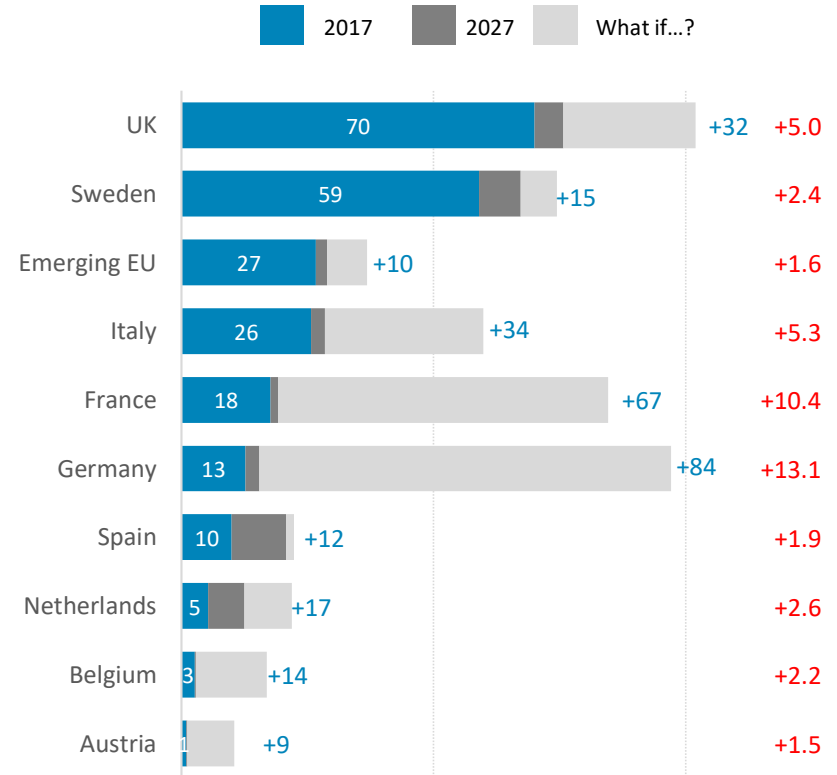
Fig.9 What if...? – IPOs

i) The growth potential in the IPO market in the EU27



Source: New Financial

ii) The growth potential in selected countries



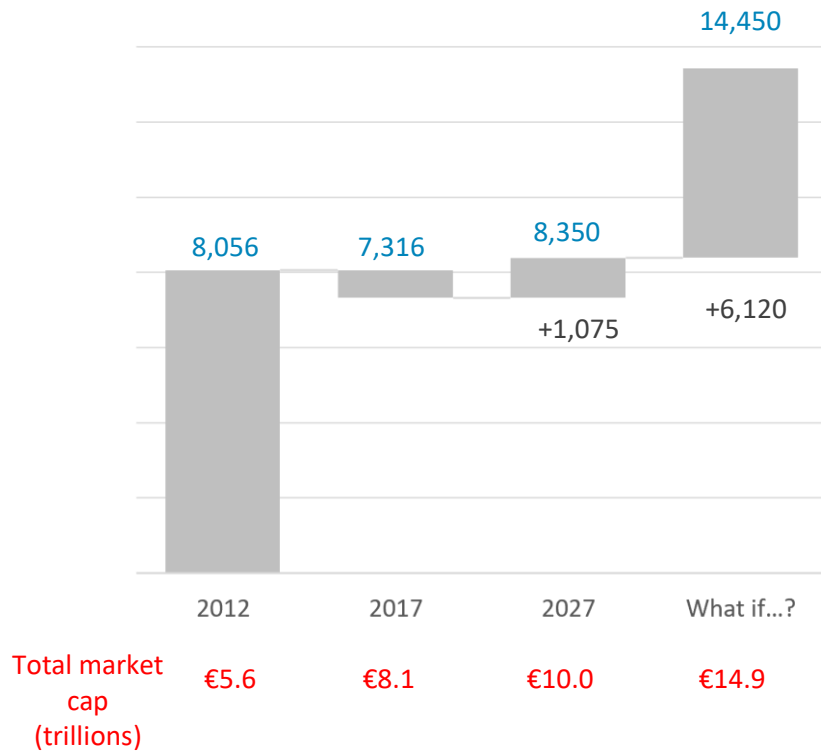
Note: the number in red shows the additional capital that could be raised in (€bn)



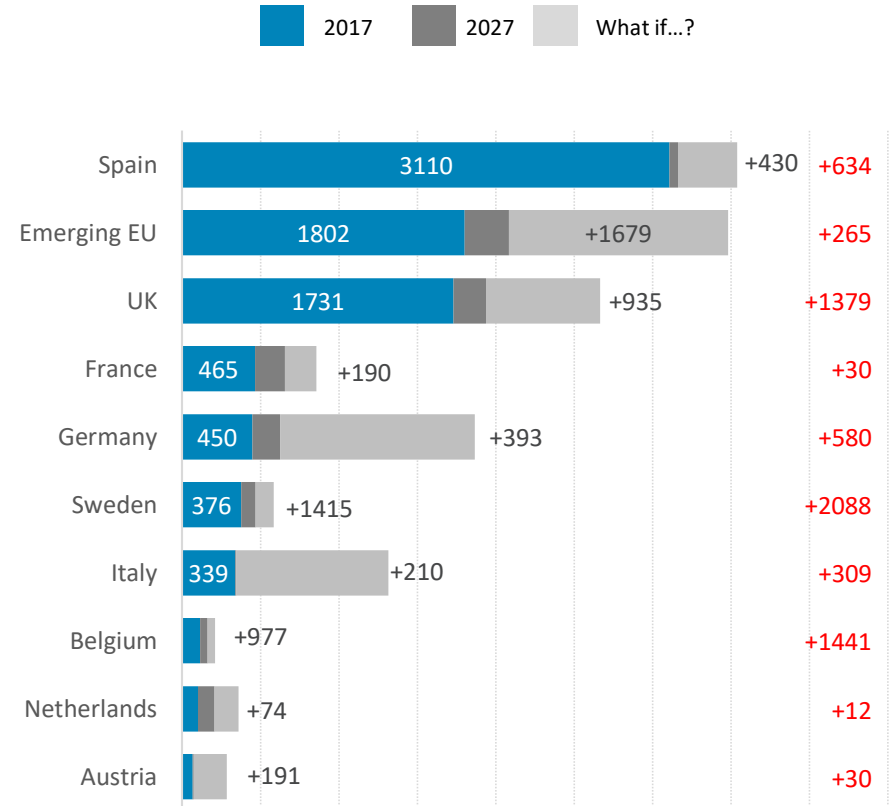
An extra **300** IPOs a year raising an extra **€45bn** a year

Fig.10 What if...? – Stockmarkets

i) The growth potential in the stockmarket in the EU27



ii) The growth potential in selected countries



An extra **6,120** listed companies with combined value of **€6.8tn**

Thank you – and good luck

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