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LONDON'S GLOBAL REACH AND THE HALF A TRILLION DOLLARS EQUITY PRIZE

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Summary:

- As the world's leading international financial centre, London faces fascinating opportunities as well as some significant challenges in coming years. This is as a result of Brexit, increased international competition from other global financial centres, such as New York, and the changing face of finance itself.

- London has much to be positive about but it must not be complacent. UK policy makers need to remain on the front foot, vigilant and adaptive. The City should continue to take a proactive approach to maintain its position as the world's number one financial centre.

- The global reach of the London stock market is remarkable, evident from where the earnings of current listed firms emanate from. In the FTSE 100, the international exposure is 66%, while for the FTSE 250 it is a still high 46%. By market capitalisation the FTSE 100 is the world's fifth biggest stock market. But New York dominates in this area. Moreover, global competition is intensifying.

- One important, indeed essential and often overlooked, dimension is London's ability to attract global listings - highlighted over the last year by the international competition to attract Saudi Aramco's proposed listing.

- It is also vital London retains the listings it already has. One potentially vulnerable area is those major companies that have a dual listing - on London and on another exchange. There are seven of them: Unilever, Rio Tinto, BHP, Reed Elsevier, Carnival, Mondi and Investec with all but Investec in the FTSE 100.

- These have a market capitalisation of $235 billion. Each is dually listed on another exchange, where their aggregate market capitalisation is $259 billion. The downside would be to lose this $235 billion, the upside to retain it and to attract an additional $259 billion of market capitalisation to London: a swing factor of $495 billion. A huge prize of a half trillion dollars to play for!

- One way to safeguard this would be for the UK Listings Authority (UKLA) to be flexible in how it interprets its rules and in the messages it sends. In an environment of intense global competition, we explain that it would be to the benefit of London

if the UKLA and FTSE Russell deploy appropriate levels of discretion to ensure flexibility and continued access to the UK markets and indices such as the FTSE 100 for key international companies.

- It is important London highlights its attractions, and this has to include being flexible on rules such as listings - for instance, as it has shown in its attitude towards Saudi Aramco and as it could also demonstrate in other ways, as we outline here

- If the UK is to play a leading role in the global equity market village, it needs to continue to build on its approach of being an international index as this is the nexus for a wider wealth creating eco-system that a post Brexit UK should be seeking.

- Economic and financial change looks set to intensify further, driven by a host of factors linked to globalisation, rapid advances in technology, increased innovation and by policy and regulatory actions.

- While immediate attention may be on the terms of the future relationship with the EU, including a transition deal and the ability to continue to attract skilled labour, it is not only this regional component that is important. Also vital are global and national aspects too, with the City competing to retain its international cutting edge lead while doing more to service the domestic economy.

- This is another example of how London can be responsive and adapt speedily to optimise future global opportunities, and send a clear, positive message in the process.

- In the wake of the financial crisis, regulation took centre stage. Ahead of the crisis, the regulatory pendulum was at one extreme, too light. Now the regulatory pendulum may have swung to the other extreme, too heavy, and like any pendulum it needs to settle somewhere in the middle, supporting growth while ensuring financial stability.

- Attention has now also swung to technology. Over the last year, the major tech firms have committed new investments to London, to make it their global tech hub, outside of Silicon Valley. Given the growing interaction between finance and technology, this is another positive. London is already in pole position to be the financial technology (FinTech) capital of the globe.

- Many features of the City are deeply embedded, being “Brexit proof”. That is, they will remain, regardless of the outcome of the UK-EU negotiations. These include: the English language, the rule of law; the importance of contracts; that the courts are free of political interference; the independence of institutions; and the importance of English common law across the globe. To this can be added the London vibe, and that it is the only truly global mega city in Western Europe: a place where people want to live, work and study. All of these remain pull factors for London.

- The City has much to be positive about. It is the leading global financial centre and dominates with 39 per cent of Over The Counter derivatives trading, 37 per cent of foreign exchange trading, 30 per cent of international bond issuance, 23 per cent of insurance premium incomes, 22 per cent of global foreign equity trading and 16 per cent of cross-border lending. It is a leader in insurance, has a strong presence in asset management and in law and consultancy that is hard to replicate.

- The UK is also the leading exporter of financial services across the world, with a larger financial sector trade surplus than those of the next four leading countries.

- 2017 saw over 100 Initial Public Offerings on the London Stock Exchange, a year on year increase of 54%, the largest rise in Europe. The City has also seen hiring increase since the Referendum and international firms take out more office space. Yet, there is uncertainty and financial firms do not like this. Hence the powers that be - including the government, regulators and influencers - need to act to address issues and position for future growth.

- From a regional perspective, London looks set to remain the financial centre of Europe. The other major financial centres in Europe are niche players. They are unable to match the infrastructure, or attract the clients and market depth and liquidity that characterises the City.

- A key message is the City needs to play to its strengths but be prepared to adapt and change. To retain its premier status, its attitude to listing of firms needs to be an illustration of that future adaptability.

Introduction

London is the world’s leading international financial centre. One of the interesting issues as we enter 2018 is how this position will be impacted in coming years, as a result of Brexit, increased international competition from other global financial centres such as New York and by the changing face of finance itself.

Economic and financial change looks set to intensify further, driven by a host of factors linked to globalisation, rapid advances in technology, increased innovation and by policy and regulatory actions.

London has much to be positive about but the international competitive environment is intense, and there is no room for complacency. This report highlights that London should ensure it continues to take a proactive approach to position itself as the world’s number one global financial centre. We look at some of the key issues from a global, regional and domestic perspective.

In particular, we highlight how London can position itself with a particular focus on equities and its approach to existing rules to maintain and grow the City’s capital market. This important area can sometimes be overlooked in the present Brexit debate and has the potential to come more into focus as global growth rises, new brands emerge and household names grow and evolve and as competition in the world of finance intensifies.

Pull and push

London is the world’s fifth largest stock exchange by market capitalisation. Opportunities include the ability of the London Stock Exchange (LSE) to further enhance both the City’s international position by attracting more firms to list here and address the needs of the domestic UK economy by bringing more local firms to the market to raise capital and grow.

London, in a post Brexit world, can strengthen its position as the leading global financial centre, despite near-term uncertainty associated with leaving the EU. There is a need, and an opportunity for the City to consider the implications for all areas of the regulatory landscape in London.

One focus of this paper is to ask whether the relevant UK authorities should adopt a more flexible and pro-active approach towards listings and related index inclusion, in order to strengthen the “pull factor” - or attraction - of London as a global financial centre.

There is a “push factor” too - whereby international firms push for inclusion in the UK indexes. We should ensure an environment where international companies continue to contribute to London’s dynamic equity markets and international appeal by way of inclusion in key indexes such as the FTSE UK Series Index, which includes the FTSE 100.

Why now?

Where firms list attracted some significant attention during 2017. In particular, there was increased competition among exchanges to attract the planned listing by Saudi Aramco of five per cent of their stock. In the UK we learned that Andrew Bailey, head of the Financial Conduct Authority, was prepared to be proactive in order to attract the listing, by exempting state controlled firms from the rule that at least a quarter of the company must be sold in order to gain a premium listing. His Letter to members of the Treasury Select Committee stated, “Our proposal would add a fourth category (within Premium Listing), which would be open to sovereign-controlled companies.” (1)

While this highlighted the increasing global competition among different exchanges, the subsequent debate not only highlighted the benefits to the UK of an accommodative listing policy but also focused on the importance of the UK retaining its highly regarded governance standards. Although it has not been suggested that there should be a race to the bottom on standards that cover areas such as regulation and governance, it is important that this is stated. And, indeed to his credit, Andrew Bailey was quite clear about this. While exchanges and financial centres, as we outline below, need to ensure competitiveness based on a range of factors, incentivising good governance, while ensuring sensible and necessary regulations, is vital. That being said, the regulatory burden needs to be eased where it can. The economic context that drives regulatory changes is an important aspect of understanding current and future policy.

Another reason to focus on this issue now is the improving global economic environment, which has led to a resurgence of corporate activity, which looks set to continue. Indeed, this area of good news was seen in December, with confirmation that 2017 saw over 100 Initial Public Offerings (IPOs) on the London Stock Exchange (LSE). This represented an increase in the number of IPOs of 54% from the previous year, a larger rise than anywhere else in Europe. The amount raised, of £14.8 bln, was also nearly four times higher than the next European competitor. (2)

As the LSE itself highlighted, "London's IPOs became even more international in 2017, with 9/10 of the top IPOs by size coming from outside of the UK, including EN+ Group (Russia) and J2 Acquisition Ltd (USA). And Europe's largest IPO of the year chose to dual list in London, Allied Irish Bank listed raising £3 bln. 20 North American companies chose London for their listing in 2017, highlighting London Stock Exchange as the leading venue of choice for North American issuers outside of North America." (3)

It is not just about attracting global firms, but also about growing the ones that are here. In addition, during 2017, 44 companies floated on AIM raising nearly £2 bln. AIM is the market focused on smaller, growing firms across the world as well as in the UK. Also there was a rise of over 27 per cent from the previous year to over £5 bln raised on AIM in follow-on fundraising from existing issuers in 2017. As a result, over £40.4 bln was raised in London through IPOs and follow on capital in 2017, a third higher than the previous year. This is a strong position on which to build. It also provides another indication of how the UK is performing well since the Referendum. (4)

The size

Since the Referendum the future of the City of London has figured prominently in the Brexit debate. That is understandable. The City is one of the crown jewels of the UK economy. According to TheCityUK, one of the City's main bodies, 2.2 million people are employed in the UK's financial services industry, with just over 1 million in financial services such as banking and insurance, and 1.2 million in professional services such as management consultancy, accountancy and legal services. Finance accounts for 10.7 per cent of the UK economy (on the gross value added measure), employs 7.3 per cent of those in work and generates 11.5 per cent of tax receipts. (5)

London and New York are the world's leading financial centres, followed by Singapore, Hong Kong and Tokyo. There is no global competitor of the same calibre as London elsewhere in the EU. Instead, there are a number of niche financial centres, such as Zurich, Geneva, Frankfurt, Paris, Dublin and Luxembourg. See table one below, summarising results from the last four surveys ranking global financial centres. (6)

London's scale suggests it will not be easy for anywhere else in Europe to replicate the City. It also reflects the fact that the City has been one of the beneficiaries of the UK's EU membership, and helps explain why many of

Table one: The Z/Yen Ranking of Global Financial Centres

Centre	Mar 16	Sep 16	Mar 17	Sep 17
London	1	1	1	1
New York	2	2	2	2
Hong Kong	4	4	4	3
Singapore	3	3	3	4
Zurich	6	9	11	9
Frankfurt	18	19	23	11
Luxem-bourg	14	12	18	14
Geneva	15	23	20	15
Paris	32	29	29	26
Dublin	39	31	33	30
Amster-dam	34	33	40	33

Source: Parker Fitzgerald, October 2017, using the Z/Yen Global Financial Centres Index.

the biggest firms are keen for the UK's future relationship with the EU to be as close as possible to the present set-up.

Much of the City's post Referendum debate has been about how many jobs could be relocated from London. Yet, despite the uncertainty associated with Brexit since the Referendum, employment in the City has continued to rise and a number of large international firms have added to their office space in London.

Table one shows the ranking of global financial centres, from immediately before the Referendum and since. It is based on the widely cited Z/Yen financial centres index, Elsewhere in Europe, Zürich is ranked ninth, Frankfurt eleventh. While Frankfurt is regarded as the strongest possible EU challenger to London it does not have the critical mass of expertise, knowledge and infrastructure or the attraction and quality of life of a global city like London. Indeed, the number of people actually working in the Square Mile is almost as big as Frankfurt's population. It is also not clear that the German authorities are keen to house an even larger financial centre, given the lessons of the global financial crisis. Paris, meanwhile, suffers because of its regulation and labour market regimes, but London must be mindful of Paris's desire to reform both. Thus London must continue to take action, where needed, and guard against any complacency.

London's share in global finance is impressive. The City accounts for 39 per cent of OTC derivatives trading, 37 per cent of foreign exchange trading, 30 per cent of international bond issuance, 23 per cent of insurance premium incomes, 22 per cent of global foreign equity trading and 18 per cent of international bank lending. UK banks have made £1.1 trillion of loans to European companies. The UK is the leading exporter of financial services across the world, with a larger finance sector trade surplus than those of the next four leading countries (USA, Switzerland, Luxembourg and Singapore) combined. In many areas, the global capital market remains a tale of two cities. For instance, while London accounts for 37 per cent of the FX market, New York accounts for 20 per cent and the rest of the world 44 per cent, while for derivatives, London is 39 per cent, New York 41 per cent and the rest of the world 20 per cent. The other financial centres in Western Europe are unable to match the infrastructure, or attract the clients and market depth and liquidity that characterises The City. (7)

Yet when we look at the size of global equity markets, London needs to really focus on its priorities. Table two below ranks the major international stock exchanges based on their market size at the end of 2017, from the NYSE in first to Madrid in twentieth. Singapore would be 21st, Moscow 22nd. London is the fifth largest by market capitalisation.

New York dominates, with the NYSE's capitalisation of $19.6 trillion and NASDAQ's of $8.3 trillion compared with $3.61 trillion for the LSE. However, in relation to domestic GDP, as shown in the fourth column, the size of the exchanges varies considerably. Thus, while some exchanges are large relative to the size of their domestic economy, it is hard to suggest there is a typical scale. What one could say though is that some exchanges if they were to be truly global, could be far larger in size. A push factor encouraging firms like Saudi Aramco, and others, to seek international listings is that, to use the words of a senior banker at JP Morgan, "If you want these companies to grow, they just must have access to international capital markets." This comment was in reference to other Saudi firms, but the point is valid worldwide, as listings in the main global centres, as well as associated index inclusion, might help increase the liquidity of these companies and make them attractive for international investors. (8)

Table two: The world's largest stock markets, by market capitalisation

Exchange	Location	Market Cap $ Trn	...as % of GDP	GDP Rank	Popu-lation Rank
1. NYSE	New York	19.6	117.2	1	3
2. NASDAQ	New York	8.3	48.6	1	3
3. JPX	Tokyo	5.12	103.3	3	10
4. SSE	Shanghai	4.27	45.8	2	1
5. LSE	London	3.61	145.1	6	22
6. EURONEXT	Amsterdam	3.49	483.2	18	60
7. HKEX	Hong Kong	3.37	1,237.6	41	100
8. SZSE	Shenzhen	3.24	34.8	1	1
9. TSX	Toronto	2.07	113.4	10	36
10. FSX	Frankfurt	1.77	49.24	4	15
11. BSE	Bombay, Mumbai	1.66	99.6	11	2
12. NSE	India National Stock Exchange, Mumbai	1.63	97.8	11	2
13. SIX	Zurich	1.46	225.3	20	95
14. KRX	Seoul	1.33	110.6	15	26
15. ASX	Sydney	1.32	89.0	12	54
16. OMX	Stockholm	1.3	234.6	21	89
17. JSE	Johannesberg	0.995	281.2	34	25
18. TWSE	Taipei	0.891	183.8	26	50
19. BOVESPA	Sao Paolo	0.838	38.3	7	5
20. BME	Madrid	0.716	52.8	13	28

Source: Market data, exchanges own web sites. Year end 2017.

The key markets in Western Europe are the LSE, followed by EURONEXT, a pan-European Exchange and, some way behind, Frankfurt's FSX. The LSE Group has three core product areas: the provision of intellectual property such as indexes and benchmarks to help risk management; capital formation activities, particularly as a global leader for primary issuance for both equity and debt; and "post-trade", namely compressing or netting financial exposure via clearing, underpinned by the LCH. Also, there is a technology activity through provision of know-how across the globe. (9)

As noted above, last year London shared in the surge in IPOs. These rose globally by 45 per cent to $197.7 billion, according to Dealogic, with the numbers were up 44 per cent on the year to 1,700, according to the Financial Times. (10)

Globalisation points to this trend continuing.

This quote, from Nikhil Rathi of the London Stock Exchange, sums the position up well: “Despite the challenges Brexit presents, London’s highly global, deep and liquid capital markets continue to be the ideal partner for funding the world’s growth. It is particularly significant that the number of international listings in London is up, with North American listings up nearly seven-fold on last year.” (11)

Importance of the domestic component

Since the June 2016 Referendum the focus in London has been almost exclusively on the international aspect of The City. Remarkably, the role the City could - and should - play in rebalancing the domestic economy has not figured in much of the current debate. Yet, it is both the international and the domestic role of the City that should attract attention. Indeed, to make a success of Brexit, the UK needs to get three areas right: a good future relationship with the EU; position itself with the rest of the world; and boost its domestic economy. The City - including the LSE - has a vital role to play in all three, the first two being international, the latter being the domestic component.

Calls for the UK financial industry to do more to help the broader British economy are long-standing and will need to be addressed at some stage. In 1931, the Committee on Finance and Industry, more popularly known as the Macmillan Committee, examined the role the City played in financing local businesses. Its message still resonates today, concluding that banks needed to play a greater part in aiding small and medium-sized firms. The ‘Macmillan Gap’ was the name given to the shortfall between the finance that UK industry needed and that provided by the banks. Twenty-two general elections and eighty-seven years later this gap has not yet been closed. It can be closed, if policy makers and the City focus on it - and there is a greater upside from addressing it now, post Brexit. (12)

This domestic component feeds directly into the debate about the LSE, as it is not only the stock exchange‘s ability to attract more international firms that is important, but boosting the size of the London market complements the need and ability to raise finance for domestic based firms too.

London's global reach

The global reach of the London stock market is evident from where the earnings of current listed firms emanate from. Table three shows the UK exposure of FTSE 100 and 250 firms, based on revenues. The sectors are listed by ranking in terms of their domestic exposure based on the FTSE 250. In the FTSE 250, the domestic exposure is 56%, from 99% for utilities to 12% for the materials sector. Within the FTSE 100, the domestic exposure is 34% and thus the international exposure a massive 66%.

Table three: The domestic exposure of UK equities by sector

Sector	FTSE 100	FTSE250
Utilities	70%	99%
Financials	59%	87%
Real estate	82%	74%
Staples	48%	72%
Discretionary	40%	69%
Telecom	40%	67%
Industrials	29%	56%
IT	34%	40%
Health care	4%	23%
Energy	10%	19%
Materials	5%	12%
MARKET	34%	56%

Source: Bloomberg

For the financial sector, now finally emerging from the aftermath of the 2007-08 global financial crisis (GFC), one hallmark of this is likely to be intense global competition.

The equity angle and what London can do

It is in this context that more attention should focus on the future role of what London can do in terms of listing flexibility and access to its major equity indexes. The LSE will keep a close eye on how Brexit impacts clearing, as we note below. Whatever happens to that, there is anyway a need for the LSE Group to build on its success of recent years, and even more so in a post Brexit world, with two areas in particular that need to be strengthened even further:

- One, is to give the market greater depth and breadth by encouraging more domestic firms to list and access capital from the public markets. The latter reflects the need to address the de-equitisation and de-listing trend, evident in both New York and London. This has a number of facets to it, including start-ups opting to remain private and increased merger activity. London is already seeking to address this aspect, through an elite programme, and junior AIM Membership, as stepping stones for firms to come to the main markets.

- A second is its international standing and appeal. Exchanges need to think even more now about their global reach. This will entail increasing market capitalisation, as well as deep liquidity and sound regulation. This points to the need to attract more global companies to London - as well as retaining the ones that are already here - thus boosting market capitalisation. It points to a continued flexible approach towards listings policies and inclusion in the main indexes, as we outline below.

Throughout this century we have seen some exchanges consolidate with take-overs or strategic alliances, growing revenues, and capturing market share. One would expect such competition to continue, in multifaceted ways. The LSE's merger with Deutsche Börse was blocked. The list of major exchanges, cited earlier, has already witnessed an increased importance of emerging economies, and that is likely to continue. Across emerging economies, particularly in the Asia Pacific, it has long been recognised that there is a need to boost the depth and liquidity of domestic capital markets, to attract investors as well as issuers. China has been successful in recent years, but the issue of governance also figures prominently, which is where markets in the advanced economies, like London, have a head start. But, also as global brands in the emerging economies develop, they will be attracted to the big capitalised markets in the west.

The UK authorities should be asking whether this provides opportunities that could enhance London's international competitiveness?

A flexible approach to listing and index inclusion

There are a number of key players whose collective roles are key for the future standing of the London market. These include the UK Listings Authority (UKLA), which is part of the Financial Services Authority and, among other things, enforces the Listings Rules. They also include FTSE Russell, part of the London Stock Exchange Group, which is the benchmark administrator of the various FTSE indexes. Each index series has its own set of ground rules that determine inclusion within the relevant index.

In our view, the UKLA and FTSE Russell must continue to deploy appropriate levels of discretion to ensure flexibility and continued access to the UK markets and indexes for key international companies.

Under the ground rules for the FTSE UK Index Series, where an issuer is incorporated can play a large part in determining whether that issuer can benefit from inclusion in the UK Index Series. FTSE Russell currently adopts a 'country classification' led approach, tempered by an element of permitted discretion, with issuers requiring a UK nationality for inclusion in the UK Index Series, such as the FTSE 100.

If the London market is to grow - mirroring the potential competitive shift in New York, while recognising the increasing importance of some potentially big exchanges across emerging centres and also welcoming the move towards enhanced governance in other jurisdictions - then continued flexibility and perhaps a more proactive approach may be called for, to attract listings to London in greater numbers.

Taking a detailed look at the ground rules for the FTSE UK Index Series it is clear that while formulaic in parts, there is flexibility and scope that is left to the determination of FTSE. Current uncertainty around Brexit, plus intense global competition, may have an impact on international issuers' decisions on where to have their headquarters and country of incorporation, which is likely to bring the UK Index Series ground rules on determining issuer

“nationality” into the spotlight. (13)
Sensibly, and crucially, and perhaps of growing importance in a post-Brexit UK, FTSE has shown prior flexibility in interpreting these rules, particularly where established UK issuers were involved. Take the examples of BA and TUI, who have both experienced significant changes to their make-up. While a UK listing for these companies after their respective mergers may not have been in doubt, discretion was applied in determining their inclusion in the FTSE UK Series Index.

- British Airways and Iberia merged in 2011, and both ceased to be independent and became 100 per cent subsidiaries of IAG. Notwithstanding the fact that IAG was incorporated in Spain and had a listing in Madrid, FTSE exercised its discretion to ensure that IAG was recognised as having UK nationality and therefore inclusion in the FTSE 100.

- Likewise, in 2007 the merger of First Choice with Thomson Holidays saw the creation of TUI Travel plc. Later, in 2014, TUI Travel plc merged with TUI AG, resulting in TUI AG, a German incorporated company, with its head office in Hamburg, listed on the LSE and maintaining inclusion in the FTSE 100.

The FTSE exercised appropriate discretion to ensure continued inclusion for IAG and TUI. These examples highlight the scope for flexibility.

This could become of growing importance if the UK is to play a leading role in the global equity market village. The UK will need to continue to build on its approach of being an international index as this is the nexus for a wider wealth creating eco-system that a post Brexit UK should be seeking.

If not, then curtailing this flexible approach would be a serious negative signal to send.

Take dual listings, as they reflect a current issue - both as a challenge and an opportunity - for London.

The benefits of dual listing include access to fresh pools of capital, taxation, regulation or corporate governance, and increased exposure to a wider investor base. However, this might be at the expense of ongoing cost, management and regulatory implications.

First, let’s be clear on the definitions here, as dual listed companies differ from dual listings, and this matters for the policy approach. A dual-listed company (DLC) structure (also referred to as a “Siamese twin”) involves two companies incorporated in different countries contractually agreeing to operate their businesses as if they were a single enterprise, while retaining their separate legal identities and existing stock exchange listings.

There are seven active examples of these on the LSE and they include some household names. The seven, and their current market size, in London and overseas, are shown in table four: Unilever (dual listed in UK and Netherlands), Rio Tinto (UK/Australia), BHP (UK/Australia), Reed Elsevier (UK/Netherlands), Carnival (UK/US), Mondi (UK/South Africa) and Investec (South Africa/UK).

Table four: Dual Listed Companies, potential gain or loss of market capitalisation to London

Company	London	LND market cap, $bln	Other	Stock	NON-LND market cap, $bln
Unilever	ULVR LN	68,724	Amsterdam	UNA NA	96,795
Rio Tinto	RIO LN	71,533	Sydney	RIO AU	24,424
BHP	BLT LN	43,488	Sydney	BHP AU	74,190
RELX	REL LN	25,014	Amsterdam	REN NA	23,037
Carnival	CCL LN	12,169	USA	CCL US	35,417
Mondi	MNDI LN	9,590	South Africa	MND SJ	3,049
Investec	INVP LN	4,847	South Africa	INL SJ	2,250
Total Market Cap	London	235,365		Non-London	259,162
Total Size $bln					**494,527**

Source: Bloomberg, Market data, end December 2017

A DLC structure is not to be confused with dual listings, which are also known as cross listings. This is where a firm lists its equity shares on one or more foreign stock exchange in addition to its domestic exchange. There are a host of these. Using Bloomberg data, for instance, there are 127 dual listings on London and New York, looking at all the exchanges in both cities, and relating to firms of all sizes. Of course, in terms of major companies, the number of dual listings is less, and this is true across all exchanges.

There are also some major firms that were previously dual-listed, on various exchanges, but are no longer, including Zurich (listed previously under a different name on UK/Switzerland from 1998-2000), Dexia (Belgium/France 1996-2000), Fortis (Belgium/Netherlands 1990-2001) or Shell (UK/Netherlands 1907-2004), to name a few. (14)

The UK needs to counter the magnetic pull of New York, perhaps highlighted recently by confirmation that Spotify, a Swedish music steaming company, will list there. (15)

Valuations in New York, certainly for the likes of tech companies, where they can attract a higher premium than London, and attract more capital, are a huge advantage, but that can always change. Thus, it is important London highlights its attractions, and this has to include being flexible on rules such as listings - for instance as it has shown in its attitude towards Saudi Aramco - and by flexibility over the inclusion of international firms in the FTSE 100.

Of the DLCs highlighted above, both Unilever and BHP have figured in news stories over the last year regarding their corporate structure.

Take Unilever, which has been mentioned recently as considering its unification options, following possible tax changes on dividends in the Netherlands. It has delayed making a decision on whether to unify its DLC to the UK or Netherlands, following an extensive board review, to avoid any decision being caught up in the Brexit debate.

Given all this, FTSE should continue to ensure that appropriate levels of flexibility and discretion are applied to the applicable ground rules to ensure that key international companies like Unilever can maintain their inclusion in the FTSE 100, notwithstanding changes to their corporate structure, such as their country of incorporation.

For Unilever, BHP, and perhaps others, this could easily become a live issue soon. It would be disappointing for the UK if any large firms were forced to delist from the LSE, when in a more flexible and proactive environment, they might not only decide to stay, but others might possibly choose to list here.

Usually, the pros and cons of dual listed are looked at from the perspective of the firm, but there can also be significant implications for the exchange too.

Thus, in the changing financial infrastructure of the City of London, the flexibility displayed by the FTSE Russell and UKLA in the past might need to be shown again to ensure a favourable environment. FTSE Russell and the UKLA both need to give a clear indication in a post Brexit environment that their discretion can be deployed to provide flexibility, necessitating discretionary judgments on what constitutes being a UK listed company.

Flexibility is being seen elsewhere. In mid-December the Monetary Authority of Singapore announced that dual listed stocks in Singapore can continue to transact without being affected by the European Union's new financial markets regulations MiFID II. This is largely because the vast bulk of trading in these stocks occurs on the Singapore Exchange. Dual-listed stocks in Singapore and Europe include Jardine Matheson Holdings, Jardine Strategic Holdings and Hongkong Land. The EU trading obligation would apply to shares dual-listed in other recognised countries only if trading in the EU constitutes a significant percentage of the shares' global trading volume. (16)

Strong governance role

There are a number of pull factors that would encourage London to change its listing criteria, but governance is non-negotiable. The importance of regulation and governance, particularly post the global financial crisis and ahead of the monetary policy normalisation that is now underway, is vital, where there are worries about how markets will behave. High governance standards naturally have to be maintained. When any corporate wants a premium listing in London the lessons from the likes of ENRC or Bumi highlight, if anyone doubted it, the need for stringent governance standards.

Competition, and the potential dynamism in this area, has also been highlighted by the debate linked to some major global firms.

Given the focus on attracting Saudi Aramco and the recent coverage of Unilever, what lessons can we draw from the past? Sometimes, a delisting makes clear sense. Siemens, for instance, delisted from London in 2014. The previous year, the trading volumes on London were less than three per cent of its total; far too low to justify a continuation. It also delisted from Switzerland where the comparable figure was less than one per cent. In contrast, some delistings from London have seen a significant loss of market capitalisation to the London market.

Take the example of Allied Zurich, then a DLC, in April 2000, where after a merger it was 57% Swiss owned. At that time its London market capitalisation was $17.1 billion, versus its listing elsewhere of $24.4 billion.

This is shown in table five, which also gives a couple of other illustrations of firms that have been lost from London. Brambles, which delisted from London in 2005, to Sydney, or Thomson Reuters, which delisted from London in 2009 as well as from the NASDAQ, may have had bigger market capitalisations elsewhere, but at that time, their size in London was significant. (18)

If, in those days, the flexibility for FTSE inclusion had been available or pushed for by the exchange or the regulator, then this would have been a significant boost to market capitalisation, and in turn to trading volumes and the financial eco-system around each listing.

Table five: Loss of market capitalisation to London from former DLCs

Date	DLC	LND market cap, $bln	NON-LND market cap, $bln
17/4/00	Allied Zurich	17.1	24.4
29/11/05	Brambles	4.5	6.6
22/6/09	Thomson Reuters	4.8	18.8

Source: Bloomberg, market data

Nowadays, this argument is further strengthened by the growth of passive funds. While passive funds vary in terms of their approach, with different rules often applying, there is a significant holding of FTSE stocks by tracker and exchange traded funds. Thus if there was a removal from the relevant FTSE indexes then this would likely trigger a pro-cyclical reaction by such funds, into dumping of stock. Moreover, passive funds are set to grow, and even though there may be a need for some active funds to help in terms of the price discovery mechanism, to help determine the appropriate price of a stock, this is not expected to be large. As passive funds become more important, the bigger and more international an index the better, as a magnet, to attract such funds.

The challenge from the past, and the issue as highlighted by discussion of Unilever, is that when DLCs decide to unify, London is most often at risk.

Given the uncertainty created by Brexit this risk could be seen as greater than it should otherwise be. The risk then is of losing market capitalisation and also - indirectly - sending the wrong signal to other firms. For instance, consider the case of Zurich, mentioned above. The loss of capitalisation to London was $17.1 billion but the upside would have been $17.1 billion plus $24.4 billion, namely a $41.5 billion swing factor.

This is a bigger issue now. Based on current DLCs, table four illustrates the downside in terms of potential loss could be $235 billion to London if DLCs went elsewhere. But the upside would be to retain this $235 billion and attract an additional $259 billion, so a swing factor of $495 billion.

This half a trillion dollars swing factor compares with a market capitalisation of $3.6 trillion, as highlighted in table two.

A more flexible interpretation of the existing rules, or a slight tweaking to ensure consistent interpretation, would go a long way to enhance and maintain a robust market. Boosting the size of the market would also keep London ahead of the challenge being faced by major exchanges elsewhere - the need to ensure deep and liquid markets, attractive to investors and to firms alike.

Institutional infrastructure

This debate feeds into the significance of infrastructure, which is important for future economic and financial success. There are three aspects to infrastructure: hard, soft and institutional. Too often the latter aspect does not receive sufficient coverage. In terms of the City, its hard infrastructure is world class, with world leading firms and the Brexit proof features alluded to above. Then there is soft infrastructure, having enough people with the right skills and education. The UK should have moved quickly to guarantee EU citizens' rights but at least now there appears to be progress on this, and in the wider approach of London remaining open to attracting skilled, qualified people as part of the UK's necessary future migration policy. Then there is institutional infrastructure and how we organise our institutions and how they act. Infrastructure is an important issue for London and for the UK as the global economy grows, competition intensifies and a post Brexit world beckons.

There is a strong argument to be made for shaking up the institutional infrastructure in areas of UK macro-economic policy making, and that may become increasingly necessary in the wake of Brexit, in order to maximise future economic success. But the example we focused on here, in terms of the approach to listings, is just one illustration of how we may need to think post Brexit: adapting and changing where needed, while also playing to our strengths.

Addressing the institutional infrastructure and the approach to listings may reap far more significant rewards than is often appreciated. It may be possible to achieve a more flexible and responsive approach under the existing set-up. While the specific example we have given above - the decision on index inclusion - is made by those overseeing the market indexes, it may be an appropriate time to widen the debate to the roles played, and whether the institutional set-up should be different.

It should always be about ensuring the right institutional set-up that best achieves the necessary end goals.

Policy will change, globally

It would not be a surprise if there was increased future competition among major financial centres, as they seek to establish a pre-eminent position. Being an attractive location on which to list could play an important part within this. It is worth recalling the direction of travel ahead of the financial crisis. This was captured by the US Committee on Capital Markets Regulation, otherwise known as the Paulson Committee. (19)

Its report on the eve of the crisis, in November 2006, highlighted a number of signs that the US was losing its leading competitive position, including: a decline in share of IPOs; a shift in trading to less regulated markets, with their focus then being London and Hong Kong; and the increasing tendency of international firms to raise funds in the US via private and not public placement. That report suggested this was to avoid disclosure requirements and accompanying liability potential.

It was felt that US public policy could do little to reverse, or address these shifts elsewhere, as they reflected, among other factors, an increase in the integrity, trust and liquidity in other markets. Thus, the suggestion was that US policy should focus on legal and regulatory conditions to make US markets attractive to investors. The main thrust of the Paulson Committee had to be sidelined, as a direct result of the financial crisis, but now, the combination of US politics and economics could see the previous desire to ensure US financial market competitiveness take centre stage. If so, London needs to be responsive to the potential challenge.

Regulatory pendulum

Instead, in the wake of the crisis, regulation took centre stage. There has been a tightening of regulatory standards across the globe, aimed at enhancing the stability of the financial system.

The focus, via the Financial Stability Board (FSB), has been on monitoring and assessing vulnerabilities across the financial system, and in the immediate aftermath of the crisis focused largely on strengthening the resilience of the banking sector. Post crisis reforms have been entrenched, and the aim has been for a level playing field aimed at reducing financial arbitration. Getting the balance right between financial innovation and financial stability is key, with a FSB focus on a risk focused, proportionate regulatory approach. (19)

Equity markets are not seen as a vulnerability, although good governance is a necessity. The challenge for equity markets is a different one, more cyclical in nature, namely that markets may be due a correction and are not pricing properly for risk, particularly as valuations are already high and price movements may be highly correlated. Good governance underlined by high regulatory standards, as noted earlier, remains an important positive.

Ahead of the financial crisis, the regulatory pendulum was at one extreme, too light, now it has swung to the other extreme, too heavy, and like any pendulum it needs to settle somewhere in the middle, supporting growth while ensuring financial stability.

Technology

Whereas regulation dominated the outlook for the financial sector in the aftermath of the global crisis, the baton has now passed to technology.

The world economy is in the early stages of a fourth industrial revolution, stretching across a multitude of areas, from genomics, artificial intelligence, robotics, nanotechnology, connectivity, stem-cell research and how we address specific issues, such as waste or environmental challenges, through the green economy. The net result could have significant implications for globalisation and future economic growth. The financial sector will be both directly and indirectly impacted, as it tries to anticipate the implications for the global economy and also as it is affected itself. Moreover, this may further feed the growth of global firms, which a worldwide reach.

2017 saw good news for the City in the area of technology. Since the Referendum, many technology companies like Google have proceeded with their plans for London to be their global technology centre outside of Silicon Valley. Given the increasing relationship between technology and finance this can only be good for the City. Indeed, digitalisation and big data mean finance will continue to change in dramatic ways and London is well placed to respond, provided it is global in its outlook, attracting skilled workers and being attractive to inward investment.

That being said, it was worrying to note the global coverage that London's ban on Uber received - perhaps also being interpreted by some as a counterproductive signal to the tech sector about London's desire to be receptive to innovation - and again reinforcing the argument here about the need to avoid complacency and the importance of sending the right signals to the rest of the world.

In terms of this, many different parts of the financial system are researching into the impact of blockchain, including central banks like the Bank of England, and leading global stock exchanges. At the moment, it may be a case of expectations running ahead of reality, but there are already general common themes being talked about.

Last spring, for instance, the Governor of the Bank of England outlined the benefits of financial technology. For households and businesses these included: greater access, faster service, better connected, more empowered, greater choice, keener pricing and new credit. Meanwhile, in terms of financial stability the issues he outlined included greater diversity, increased redundancy, improved risk management, higher productivity, lower transaction costs, greater capital efficiency and stronger operational resilience. (20)

When it comes to stock exchanges, the general benefits are seen in terms of expanding the reach of the market and improving access to it, through improved transparency and efficiency, lowering costs and complexity, increasing the speed of trading and improving the settlement process. Distributed ledger technology, based on blockchain, enables two parties to send assets to one another easily, without the need for third-party verification.

This breakthrough has raised the possibility of a dramatic reduction in costs and in the time needed to fulfil trades. But the issue is often that there are unintended consequences. On the downside, the worry is likely to be whether there are unintended implications for financial stability. But the big upside impact may likely be seen in terms of the disruption to business models that allows new entrants to emerge and, more particularly, the greater potential global reach of exchanges themselves.

Globalisation and technology point to significant competition among stock exchanges. In a global environment, issuers always have the choice of where to list. Although the tendency is usually to opt for their home market, usually it is about the ability to access pools of capital to fund growth or innovation.

Brexit and the regional dimension

The UK, meanwhile, finds itself in a potentially dynamic environment, because of Brexit, which provides the opportunity - and also reinforces the need - for London to take a flexible and proactive future approach. Britain’s decision to leave the EU has triggered uncertainty, even if attitudes within the City towards Brexit have changed significantly and appear to have improved over the last year.

It is not easy to leave something that you have been in for over forty years, particularly when the terms of the exit are set by the EU-27 through the Article 50 process. Even allowing for this, too much of the narrative about the post-Brexit outlook for the UK is far too downbeat. Despite the economic shock from leaving the EU, there are many reasons to be positive about what lies ahead. The performance of the economy since the referendum highlights that expectations may have been too pessimistic. Instead of half a million jobs being lost in the first year after a vote to leave, as forecast by HM Treasury ahead of the Referendum, around a quarter of a million jobs were added.

The UK economy is one of the most adaptable and flexible within the EU and is thus able to cope with change - and this is particularly so for the City.

Many features of the City are deeply embedded, being “Brexit proof”. That is, they will remain, regardless of the outcome of the UK-EU negotiations. These include: the English language; the rule of law; the importance of contracts; that the courts are free of political interference; the independence of institutions; and the importance of English common law across the globe.

To this can be added the “London vibe”, and that it is the only truly global mega city in Western Europe: a place where people want to live, work and study. All of these remain pull factors for London.

Given this, it is widely accepted that London will remain the financial centre of Europe. That being said, it would not be a surprise if other European centres saw a net increase in business, as certain firms in London move some business, because of fears over the loss of passporting, in order to smoothly access clients with the EU. The initial driver here will be the business model of the firms and what happens to passporting, but the future direction will be determined by where the market is, and where clients want to do business, and also by the future direction of regulation. In addition to resolving the issue of citizens’ rights - as about one in eight in the City are EU workers from outside the UK - the other key issue is passporting, discussed below.

Over the years, the City has been successful at playing to its strengths, as well as adapting and changing. But there is a need for London to ensure this is the case in the future, as it has been in the past. In order for London to retain its international competitiveness this is likely to trigger increased future flexibility from the UK authorities, in areas of regulation and other policies that they might be able to change.

Some of the areas that London is seen as having already increased its attraction in over recent years include as a centre for China’s offshore currency, in Islamic finance, green energy bonds, in FinTech, as well as cementing its position as the main market for capital raising in Western Europe. But what about exchanges too? The debate over whether euro clearing should move from London to the euro area is both a debate about regulation and the competitiveness of exchanges.

Clearing

One of the most hotly disputed topics is the clearing of euro-denominated derivatives. About three quarters of euro clearing takes place in London; Paris has about one tenth. The EU would like the euro-clearing business that takes place in London to move to the euro area. Clearing takes place where it is most competitive, hence currency-denominated instruments can be cleared outside the country to which they relate. For instance, euro, sterling and yen instruments are routinely cleared in the US, a long way from the EU, UK or Japan.

Such clearing takes place within highly regulated clearing houses that allow banks and others to net their positions and reduce their overall costs. This attracts the volume of business needed to ensure markets are deep and liquid enough to operate efficiently, with costs and spreads low. As in many other areas, London has the combination of factors that gives it a cutting edge.

Economic and commercial realities determine where the market goes, not regulators in Brussels. The media often gives the misleading impression the EU could decide if the market will move. It cannot. What the EU can do is change regulations and rules to force EU banks to conduct their business in the EU, not outside. This might be seen as protectionist by, for instance, Washington, as it would mean transactions could not happen in North America or Asia – threatening retaliatory action by the US.

Such a move by the EU would also make no economic sense. London is where the liquidity is, where multiple global currencies are cleared and where banks can make effective use of their capital. In Paris, or Frankfurt, liquidity would be lower and bid-ask spreads subsequently higher. This would result in a fragmentation of this market, with costs higher. It would also force banks to set aside higher capital in the different centres. London is uniquely placed with its clearing houses, and that Europe overall would benefit from the ability to bring risk into one place. It is only if the EU was able to get the clearing houses to actually move from London that there would be a concern, but that seems very unlikely to happen.

Passporting is a hot topic

Passporting allows a firm to be based in one European Economic Area (EEA) location and to passport their services and to conduct business in another. In its present format passporting came into effect in 2007 - and thus it would be wrong to attribute the City's success to it, as the City was well established as a financial centre before then. Yet, since then, the business models of some financial firms have been predicated on using London as the base to service the EU. Thus, one size does not fit all, and the impact will depend upon the business model of different firms.

Passporting is a two-way issue. According to the Financial Conduct Authority, as of August 2016 there were 8,008 non-UK EEA-based firms holding 23,532 'inbound' passports enabling them to trade in the UK. Meanwhile, 5,476 financial services firms based in the UK held a total of 336,421 'outbound' passports allowing them to operate across the rest of the EEA. So there were more firms with passports into the UK but given the City's role as a financial hub, the number of passports out of the UK was higher, as many UK based firms hold multiple passports. (21)

Moreover, passporting is less of an issue in the retail sector where financial services tend not to work effectively across borders, compared with wholesale markets that deal with firms and financial institutions.

Within the asset management industry, many firms already run their assets under management out of London, with operations in Dublin and Luxembourg. At present, domestic supervisors have flexibility in interpreting EU regulations, allowing funds to be run out of centres that are different to where the legal structure is based, but this could change. It has been suggested that the centre of gravity for retail funds could move to these two centres, while for institutional funds, Frankfurt and Paris could gain. But the question is whether the EU curtails the delegation rule. If it continues, nothing much will change in the wholesale markets. If it is narrowed it is possible that wholesale managers will relocate to the continent. Alternatively the funds could redomicile in London and be reunited with the manager here.

In terms of insurance, London has the experience and infrastructure that cannot be matched elsewhere in the EU. The real opportunity for insurance is in the growth opportunities across the globe - and indeed this was the message that the insurance industry has stressed in recent years. That message was that no major economy has ever been able to prosper, on a long- term basis, without proper risk transfer, meaning the UK based insurance industry faced extraordinary opportunities for growth in the emerging economies, which are starting to use formal risk-transfer mechanisms.

Equivalence could be the new focus, rather than passporting. With MiFID II having come into effect in January 2018, a 'third country' firm operating outside the EU will be allowed to operate fully in the EU if that country's regulatory system is deemed 'equivalent'. There is no doubt that, at the moment we leave the EU, the UK's regulatory system and hence London would be viewed as such. Following this, each bank or broker in any third country that wanted to do business in the EU would then be considered for recognition. This should be straightforward. Also, MiFID II states, EU members 'shall not impose any additional requirements' on such third countries. This treatment will be symmetrical. Failing this, the firms that depend upon passports may consider setting up subsidiaries in those EU counties in which they plan to operate and seek regulatory approval.

As pointed out by Barney Reynolds, a lawyer who has produced much excellent work in this area, passporting is the harmonised application of identical rules, effectively by the same people. Equivalence permits a variance in the rules, so long as they achieve similar outcomes. However, how far apart the rules may be is something currently subject to the EU's discretion. So it is not necessarily the route all the City will want to go down.

One option might be a tiered system, with those firms that want to operate into the EU under equivalent rules adopting a different approach from those aiming to deal with the rest of the world outside the EU and those that want to service UK clients. The implication of Reynolds' analysis is one of four outcomes regarding the passport: (a) retain it with the UK remaining in the single market; (b) an effective continuation under equivalent rules without being in the single market; or the UK taking a new approach - a new blueprint as he calls it, either (c) through enhanced equivalence with a bilateral UK-EU agreement providing for certainty of equivalenced-based access or (d) via a financial centre model that would allow the UK to establish a market-friendly regulatory framework, set in line with global standards and best practices now operating, and to welcome businesses that met these standards to the UK.

This financial centre model would allow Britain to reshape its regulatory structures as well as moving away from what Reynolds sees as "the blanket of unnecessary processes introduced in EU laws" so as to "focus instead on outcomes". Important benefits could be gained from the UK having fuller control over its rule making. This could, if managed properly, more than offset any costs of removing the passport, by making the UK a more attractive place to do business than the EU in light of the latter's increasingly cumbersome and protectionist regulatory regime. (22)

Conclusion

London is the leading global financial centre. Here we have focused on some of the key issues it faces, and the challenges and opportunities that lie ahead.

In particular, we have focused on an important domestic component, linked to equities and the London Stock Exchange. We looked at the key factors influencing London's competitive position in this area. Since the Referendum, much focus in this area has been linked to the future of clearing, which is understandable.

But, as we have seen over the last year, there is also another important issue, the ability to attract global listings - highlighted by the global competition to attract Saudi Aramco's proposed listing - and also by the potential threat of losing some sizeable dual listed companies from London.

It is difficult to quantify, perhaps until too late, the devastating impact of losing a sizeable DLC. This threat calls for a vigilant pro-active approach, as we have suggested. In this, London reinforces and expands a flexible approach to both retain and attract dual listed companies to list fully here. This area has not received sufficient attention in the post Referendum debate about the City, but with a half a trillion dollars at stake now, it is another example of how London can employ the tools it already has and act to protect and strengthen its position.

We have also outlined some of the key global developments impacting the City, such as regulation, technology and the future competitive threat, particularly from New York. London is already in a strong position to be the financial technology (FinTech) capital of Europe, if not the globe. Then, we analysed some of the key regional issues, linked to Brexit, including passporting and clearing.

By market capitalisation London is one of the largest global stock markets. This is part of the story of London's position as the leading global financial centre. As we have outlined here, there are many reasons to expect London to retain this role, but it will face increased future competition. Thus the call to action outlined above.

Specifically, The City's attitude to listing of firms, ensuring flexibility and continued access to the UK markets and indices such as the FTSE 100 for key international companies, is a reflection of that future adaptability. London needs to adapt and change, while playing to its strengths as a place to do business "in" as well as to conduct business "from".

FOOTNOTES

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