

London New Issues - only for the few (Does IPO now mean Investors Pushed Out ?)

I have been following the UK new issues scene for many years and feel very strongly that private investors have become almost totally excluded from this important function of the London Stock Exchange (LSE). From the viewpoint of the private investor it is bad enough that virtually all new issues are now placed directly with the institutional and professional investing clients of the sponsoring brokers and banks and are never offered to investors outside this tight circle. Even worse is the fact that the fundamental information that is vital for any serious evaluation of any share before making an investment is not made readily available either.

The whole process of new issues is important both for companies on the one hand and for investors on the other. For companies access to one of the London markets enables them to raise additional funds and also provides a market for their shares. For investors the market acts as a mechanism whereby they may be able to invest in the early growth stages of a new company. It would seem crystal clear to any outside observer that for a market to meet both these objectives all information relevant to making a reasoned investment assessment should be made freely available to all interested parties before trading in shares actually starts in the market. In this context "interested parties" must surely include private investors as well as a small inner circle of institutional investors. Without an efficient flow of data the much vaunted level playing field is way out of sight.

The really irritating feature of the information deficit is that some twenty years ago, before the widespread use of the internet, it was a simple matter for a private investor to ask a stockbroker for the prospectus on any forthcoming listing and the document was in their hands well before dealings started. Now here we are in the electronic age when virtually all prospectuses are published electronically and are capable of being sent, via the Internet, to anyone at almost zero marginal cost as a file attachment and private investors are starved of information. Just try asking one of the leading London stockbrokers for the prospectus of a large upcoming main market flotation before the shares start trading and you are met with a totally negative response. I have done just that with several recent issues and been told by the likes of Merrill Lynch that prospectuses are only made available to their institutional clients. In fact more than once I was told that it was illegal for this information to be sent out, a statement that is clearly incorrect.

The irony of the current situation is that the ability of private investors to obtain information about new issues varies inversely with the size and quality of the company concerned. It seems incredible but is sadly true that it is vastly easier to get hold of prospectuses and listing particulars relating to small companies, often with no trading record, than it is to get any detailed pre-listing information on large company issues such as Halfords and Jessops.

The problem is really quite simple. No-one cares a toss whether there is a level playing field or not when it comes to keeping private investors fully informed about IPOs on the London Stock Exchange. With these thoughts in mind I have, over the past three years, had several conversations with the Listing Authority - the body charged with control of main market listings and also with the London Stock Exchange. Previously the Listing Authority was part of the LSE but it is now under the wing of the Financial Services Authority. They have pointed out that larger companies that are planning to list on the LSE primary or main market, for whom there is usually a large amount of historical trading and financial data, are only required to make available the full listing information in printed format at a viewing facility located at Canary Wharf in London's Docklands. The problem with this is, of course, that such limited exposure to listing information means that in practice it is only available to those who live in or near the City and even then only to those who can spare the time for the journey there and back. The situation for the ever increasing number of companies seeking a listing on the LSE's Alternative Investment Market (AIM) is not dissimilar in that the brokers to the issue are usually only required to make a copy of the prospectus available for viewing at their office for a month after dealings start.

If the Financial Services Authority and the London Stock Exchange have any interest in improving the flow of new issues information to the wider public and thereby widening the aftermarket in shares they should make it obligatory for all companies to make their prospectus information publicly available several days before trading starts. Given the negligible cost of providing downloadable copies of prospectuses on the Internet and the fact that virtually all such documents are prepared in electronic format this should be no problem. By way of example it is often easier to find information about small companies planning to list on the OFEX facility than it is to find anything other than the most skimpy details about forthcoming flotations on the LSE main and AIM markets.

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16th November 2004