Prime Minister (4)
To note
AT 18/10

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MR TURNBULL

cc Mr Mount

THE STOCK EXCHANGE CHANGES

Now that the Stock Exchange has approved the deal struck with the Secretary of State for Trade and Industry, events are likely to move quickly in the Square Mile. We should claim more credit for breaking a cosy cartel and introducing competition and innovation.

1. Minimum commissions on gilt-edged securities will be abolished from the beginning of 1984. It is quite likely that commissions for larger bargains in the Government securities market will halve.

2. Some market players are keen to speed up the reduction in commissions on equities. The US experience would point to something like a 40 per cent decline in the institutional commission rates on larger bargains, although the US did start from a higher level of commission than we are starting from.

3. There will be "unbundling" of the different services stockbrokers provide. There will be a separate negotiation over the amount of research material to be provided, and it is likely that some stockbrokers will specialise as "execution houses", merely carrying out bargains and providing no other services.

4. It is difficult to see that single capacity, the separation of stockbroking from stock-jobbing, can survive indefinitely. Mr Alex Fletcher, the Minister for corporate and consumer affairs, acknowledged this in New York yesterday. Already important institutional houses like Flemings have made the necessary moves to be able to trade freely in stocks on their own account and for their clients, should the single capacity system break down.

5. It is likely that new businesses will enter the general financial service area and aim to take a share of the stockbroking and even stock-jobbing market.

6. The key to success for any business in this new environment will be access to the retail client.

Conclusion

The deregulation of the Stock Exchange could be welcomed as an example of how competition will indeed work. So far, we have failed to capitalise on the radical nature of the deal and the likely changes. Our vulnerability lies on two counts. Firstly, commission rates for the smallest bargains for private individuals may have to rise, as they are currently uneconomic. Secondly, unless stamp duty is abolished, there will be a tendency for the market in main board UK equity stocks to gravitate towards the US, where they are American Depository Receipt quotations in such stocks. By dealing in ADRs and leaving the stock in the US, it is possible to avoid the 2 per cent tax on the purchase of new shares. Whilst it is not an expedient time to be recommending an extension of tax expenditures, it is nonetheless true that the competitiveness of the London market would be greatly enhanced if, at the same time as commission rates and jobbing turns are being squeezed, the Government also made its contribution to making dealing in London internationally competitive.

JOHN REDWOOD