

The rise and fall of the penny-share offer: A historical sociology of London's smaller company markets



Dr Philip Roscoe
School of Management
The University of St Andrews

The rise and fall of the penny-share offer:
A historical sociology of London's
smaller company markets

Dr Philip Roscoe
School of Management
The University of St Andrews

©Philip Roscoe
School of Management
The University of St Andrews



University of
St Andrews

The University of St Andrews is a charity registered in Scotland: No SC013532.

Contents

1.	Summary findings	5
2.	Introductory remarks	8
3.	Dog tracks and matched-bargains	10
3.1.	Gorgonzola Hall	10
3.2.	S Jenkins & Son	15
3.3.	Big Bang	19
4.	Regulation, technology, and the birth of OFEX	23
4.1.	OTC, USM and Third Market.	23
4.2.	Formalizing 535.2: J P Jenkins Ltd.	29
4.3.	The market's 'place'	35
5.	Elite lobbying and the AIM?	44
5.1.	'Firestorm'	44
5.2.	Building a market	52
5.3.	Privatized regulation	55
6.	1995 to 2000: Dotcom bubble and IPO boom	62
6.1.	The advisory ecosystem and raising funds on OFEX	66
7.	Bear market travails and the end of OFEX	71
7.1.	The decision to float on AIM	74
7.2.	The Jenkins family loses control	79
8.	From 2004 to 2010: Markets at war.	82
8.1.	AIM's change of direction	83
8.2.	The new contender – PLUS Markets	88
8.3.	Project Tortoise.	95
8.4.	Head to head with AIM.	98
9.	Decline and fall: the final days of PLUS	102
10.	Afterword: Changing AIM.	107
11.	Timeline of relevant events.	113
12.	Appendix i: Interviewees	115
13.	Appendix ii: References	117

1. Summary findings

1. The history of the UK's smaller company stock markets shows an ongoing, though cyclical, demand for growth funding and share trading mechanisms (on the part of companies) and investment opportunities (on the part of retail investors and institutions). Skilled, entrepreneurial intermediaries have exploited the opportunities presented by this two-way flow of supply and demand. These intermediaries comprise a financial ecology essential to the effective functioning of the markets; equally, an effective financial ecology must be anchored to the institution of a viable and trusted stock market.
2. Markets are historically and materially embedded entities. They take a particular form as a result of historical forces and material constraints: organisational path dependencies, regulatory changes, advances (or otherwise) in technological systems and market infrastructure, reactions to external stimuli and competitive pressures, and the personal projects and interests of individuals. The distinctive regulatory shape of AIM is an example of one such path dependency, and the launch of OFEX another. The social and cultural contexts in which the exchanges were launched and operate have also been influential in shaping the markets. Recognising path dependencies as the source of institutional form can facilitate discussion over appropriate organisational changes as and when necessary.
3. Market architectures, cultures and trading mechanisms give rise to distinctive kinds of 'ethics of office' among participants. Examples are the code of practice among those apprenticed as blue buttons on the floor of the old London Stock Exchange, or the project-based frame of reference of classroom-educated MBAs. These value systems have shaped the developing markets and clashes between them underlie some of the most bitter disputes in my history.
4. AIM has achieved a critically important position in the financial infrastructure of UK plc, raising over £100 billion of investment in the primary and secondary markets. Nonetheless, there are growing strains within the system, notably in terms of regulatory pressures on nominated advisers and a regulatory ambivalence towards retail investors. An over-cautious regulatory stance does not necessarily reflect the realities of growth funding mechanisms, especially in the face of ongoing demand for investment opportunities among the general

public. Should regulatory activity make retail investment in small company stocks unrealistic, those demands are likely to be satisfied in other, less reputable fora.

5. Academic research has highlighted the importance of high-growth firms (gazelles) with certain characteristics, notably maturity and heterogeneity of industrial sector. AIM, in its more mature form, has a constituency manifesting these characteristics. Research has also drawn attention to the importance of physically located entrepreneurial ecosystems. It should be noted that the AIM community comprises one such ecosystem in itself, and supports many others through the provision of legitimacy, publicity and financial support.
6. Launching AIM constituted a radical change for the conservative and risk averse London Stock Exchange. It is now clear that the reputation, institutional solidity, and infrastructure of the Exchange have been crucial factors in the success of AIM. My study suggests that there is only room for one full scale growth market in the British economy, and that more benefits accrue from the concentration of trading activity than from the fragmentation required by competition. The Exchange therefore has a heavy responsibility in terms of stewardship of this national resource for the future.
7. The ongoing enthusiasm of financial intermediaries and their clients for earlier-stage sources of funding indicates that AIM should be supplemented by a variety of transparent and clearly supervised funding mechanisms appropriate for growing businesses that are not yet ready for a full market listing. Structural factors suggest that 'dual-capacity' arrangements, where market-making revenues subsidize market infrastructure, may be viable here. These would need to be well regulated, but the example of JP Jenkins and OFEX shows that such 'markets' can be beneficial for growing firms. Technological innovations linked to more localised economic activity (for example algorithmic micro-exchanges for locally crowd funded start-ups) also offer promising solutions. The London Stock Exchange has been historically supportive of noncompeting funding mechanisms, which it views as feeders for its own business.
8. Technological and regulatory developments, notably the Internet, have concentrated financial ecologies in bridgehead cities such as London. This is neither necessarily desirable nor in keeping with the political

aspirations and responsibilities of a national small company market. The perspective of British enterprise – an important political and rhetorical motif in this story – demands mechanisms to reinvigorate issuer activity in Scotland, Wales and the English regions. Growing infrastructure costs and associated economies of scale suggest that ‘white label’ serviced offered by large providers may be a more effective solution than de novo start-ups.

9. It should be stressed that AIM is a stock exchange of a distinctive kind: it is a mechanism for fundraising and stock trading growth companies. Trading mechanisms have evolved to reflect the natural irregularity in supply and demand of stock. Supervisory mechanisms delegate oversight to corporate advisors with close knowledge of the companies in question. Maintaining effective supervision through mechanisms based on reputation and social networks poses a key challenge to the exchange going forward.
10. Finally, my study also shows that stock markets are simply talked into being. Infrastructure, an appropriate regulatory environment and underlying demand are necessary but not sufficient conditions for the successful formation of a market. Markets reflect the collective commitment of participants acted out through multiple, ongoing conversations, and successful market innovations stem from a collective recognition that change is due. We may soon be at another such moment, with Brexit and the aftermath of austerity necessitating a refocusing of our national economic intellect. Smaller company stock markets – and trading mechanisms for even earlier-stage equity finance – should form an increasingly important part of that conversation.

2. Introductory remarks

The following pages offer a 'historical sociology' of two markets established in London in 1995 in response to a series of rule changes at the London Stock Exchange (LSE). The first, the Alternative Investment Market, or AIM, was set up by the LSE. It was established as part of LSE chief executive Michael Lawrence's 'seven-point plan' for the repositioning of the Exchange as an engine for economic growth focused on the UK regions. AIM was also, in part, a reactive move allowing the Exchange to deal with competitive threats in Europe and at home, particularly growing activity under its own Rule 535. It has acted as a proving ground for many smaller companies and plays an important role in the political positioning of the LSE. The second, OFEX (renamed PLUS in 2004) was privately operated and driven by commercial demand. Originally operated as a trading facility, it achieved legal recognition as a 'designated market' in 2001, and then as a Recognized Investment Exchange (RIE) in 2007. As OFEX it coexisted with the LSE and rode the dotcom wave; as PLUS it served as a vehicle for a market rebellion against the LSE. It struggled to maintain a commitment to its original small company constituency and to compete as a trading venue of choice against the Exchange. While AIM has flourished, PLUS faltered after the financial crisis of 2008, and my narrative finishes in 2012 with the sale of the PLUS RIE licence to ICAP, now NEX.

I suggest that the sociology of these exchanges is rooted in the interactions on the old floor of the LSE prior to the 1986 'Big Bang' and my narrative begins there. The first section, 'Dog tracks and matched bargains,' discusses the period up to the stock market crash at the end of the 1980s. I then discuss the regulatory and technological path dependencies that led to the inception of OFEX in 1995 ('Regulation, technology, and the birth of OFEX'), and the elite political lobbying in response to these changes that led to the foundation of AIM ('Elite lobbying and the AIM?'). The next sections, '1995 to 2000 on OFEX: Dotcom bubble and IPO boom' and 'Bear market travails and the end of OFEX,' follow the development of OFEX from trading facility to prescribed market, culminating in the refinancing that saw the Jenkins family lose control of the firm. Against a backdrop of AIM's flourishing internationalisation I explore the repositioning of OFEX, now PLUS, as a competitor to the LSE ('From 2004 to 2010: Markets at war') and the eventual failure of PLUS ('Decline and fall: the final days of Plus'). I conclude with some brief reflections upon the challenges and opportunities facing stock markets serving the smaller company sector, as illuminated by this history.

The narrative is based on interviews and documentary sources. I have conducted 54 interviews totalling 73 hours.¹ I have spoken with almost all of the major market participants of the time. Many interviews were conducted on a named basis, although some interviewees expressed a wish to remain anonymous. My documentary sources currently stand at over 1000 pages and comprise newspaper articles, company documents (prospectuses and annual reports), regulatory disclosures, press releases, newsletters and marketing materials. Many of these materials were provided by interviewees from their personal records. I have made use of data gleaned from personal communications and informal conversations. Finally, I have benefitted from the work of other scholars, notably Ranald Michie's *London Stock Exchange: a History*, Elliot Posner's *Origin of Europe's New Stock Markets*, and Bernard Attard's oral histories of the jobbers of the LSE. The project has been funded by a Leverhulme Trust Research Fellowship (RF-2016-078).

I would like to take this opportunity to thank all of those who have supported this research. The project would have been impossible without the generosity of interviewees, who offered time, materials and the willingness to review and discuss my preliminary findings. I hope that all involved find the account below of value. Errors and omissions remain my responsibility alone.

Dr Philip Roscoe
St Andrews
pjr10@st-andrews.ac.uk
August 2017

3. Dog tracks and matched-bargains

AIM and OFEX, London's two smaller company stock markets, were both founded in 1995. Markets are not conjured out of thin air, however, and the genesis of both is tied to a broader historical context within the UK in the second half of the 20th century. Both markets inherited their distinctive shapes as a result of historical path dependencies in terms of regulation, material infrastructure, and business practices. It is therefore necessary to understand some of this background to appreciate, not only how they were founded, but also why they took their particular forms. I will argue that the distinctive supervisory regime of AIM has its roots in the dense social networks created in the London Stock Exchange's 'Gorgonzola Hall' even before the Big Bang of 1986. The business practices and market networks that sustained OFEX in its first decade were formed in the same period, and the regulatory infrastructure that led to both markets has its roots in the City of the 1970s and 1980s. This chapter returns to the time of ambulatory, spoken trading on the floor of the London Stock Exchange. It examines the social and material architectures and trading practices of the market during that period, before considering the formation of S Jenkins & Son, the forebear of OFEX. It then briefly considers the reforms of 1986 and the crash of 1987 to the extent that these shaped the destiny of key actors within the small-company world and the existing arrangements for financing smaller companies in the LSE. The LSE's smaller company offerings during the 1980s – the USM, Third Market, and Rule 535 will be covered in chapter two.

3.1. Gorgonzola Hall

Until the Big Bang reforms of 27 October 1986 the London Stock Exchange (LSE) remained a closed organisation with multiple, monopolistic functions. Owned by and representing its members, who also had the right to trade on the floor, it was the sole authority for the listing of UK securities and held the ability to set the level of fees and commissions. It was the UK's only regulated investment exchange.¹ Despite these privileges the 1960s and 1970s were difficult times for members of the Stock Exchange. The LSE was being used as a de facto regulatory arm of the government, often with consequences deleterious to its membership. Small-scale flotations had been made impossible by regulatory changes, while high levels of state borrowing provided an attractive, risk-free return for investors that made equity investing look distinctly unappealing. As a consequence there was

1 Elliot Posner, *The Origins of Europe's New Stock Markets* (Cambridge, Mass.: Harvard University Press, 2009).

little business, and members had little flexibility to pursue new opportunities. Member firms saw capital and skills lost through retirement, while high levels of personal taxation made it difficult for individuals to recapitalise their partnerships. Member firms responded with a decade of consolidation. In 1960, 405 firms held memberships of the LSE; by 1970 only 223 remained, although the number of partners remained almost constant.² Randal Michie, author of the preminent history of the LSE, concludes that 'the problem for the LSE in the 1960s was that it took its quasi-public role more seriously than that of creating and maintaining an orderly but dynamic securities market', for example rejecting FIAT's application for a quotation in 1962.³ The membership structure of the Exchange, with many small firms located in the provinces, made modernisation difficult; in 1966 the Exchange held and lost two votes on the admission of women to the membership, and women were only allowed on the trading floor in 1973.

Until 1966, the LSE occupied a large building on the corner of Throgmorton Street and Old Broad Street, 'crowned with a dome 100 feet high and 70 feet in diameter, earning for the entire edifice the nickname 'Gorgonzola Hall' because of the marble used to face its walls and supporting pillars.'⁴ Members said the dome was surpassed only by the cathedrals of St Peter in Rome and St Paul in London. In this hall, the London markets employed a unique system of 'single capacity' where the occupation of 'jobber' (market-makers dealing on their own account) was separated from that of broker (dealing as agent for external customers).⁵ The occupation of jobber had evolved organically with the development of the exchange in the 18th and 19th century as a class of professional speculator able to accommodate the buy and sell orders of brokers. Having developed into a robust and successful mode of operation by the end of the 19th century the characteristics of jobbing remained remarkably constant, and the jobbers were seen as essential contributors to the depth and liquidity of the market.⁶ Each jobbing firm occupied a particular spot on the Exchange floor, a 'pitch', often passed from father to son, while the brokers spent market hours in their 'boxes' at the edge of the floor.⁷ Larger jobbers might carve out an established pitch by a wall or a pillar,

2 Randal C. Michie, *The London Stock Exchange: A History* (Oxford: Oxford University Press, 2001).

3 *Ibid.*, 477.

4 Bernard Attard, "Making a Market. The Jobbers of the London Stock Exchange, 1800–1986," *Financial History Review* 7, no. 1: 9.

5 Pardo-Guerra contrasts economic labour (of dealing with clients) with epistemic labour (of making prices): Juan Pablo Pardo-Guerra, "Creating Flows of Interpersonal Bits: The Automation of the London Stock Exchange, C. 1955–90," *Economy and Society* 39, no. 1 (2010).

6 Bernard Attard, "The Jobbers of the London Stock Exchange an Oral History," *Oral History* 22, no. 1 (1994); ———, "Making a Market. The Jobbers of the London Stock Exchange, 1800–1986."

7 *Ibid.*

furnishing it with seating and makeshift shelves; smaller firms simply had to stand among the crowds on the open floor. Jobbers traded with their own capital, buying a nomination to become a member of the Exchange. Business was conducted by physically walking around the pitches buying and selling according to a complicated verbal etiquette set out at length in the Stock Exchange's *Code of Dealing*.⁸ Brokers circulated around the floor while the jobbers manned the pitches; the location of the pitch within the Exchange floor would make a material contribution to the success of a firm. During trading hours as many as 3000 men stood under the dome, manning pitches or circulating around the Exchange floor. When business was slow on a slow Friday afternoon, songs would burst out. The jobbers

'would sing the Marsellaise to [one fellow] because he was supposedly a Frenchman...In the old market we had these high desks with the flaps on – the sort you would experience in a school classroom – and when it came to the cannons parts in the "la-la la la, la-la la la", all these desks would crash down all round the Stock Exchange and you'd probably have a good thousand people singing.'⁹

Jobbers served a lengthy apprenticeship, first as messengers, then 'red buttons' and 'blue buttons', each colour of badge denoting an increased level of seniority and certain powers and responsibilities. Dealers wore no buttons and junior employees would have to remember who was who, lest they disgraced themselves by speaking out of turn to a senior member. Blue buttons communicated between jobbers and brokers, as well as marking up prices on the boards. When not so employed they were free to ask questions and learn from their employers who doubled as tutors and mentors, sponsoring the careers of juniors and thereby preserving the future of firms that were, typically, very small. The oral histories recorded in 1990 by Dr Bernard Attard testify to the positive benefits of such relationships: the working class, East End blue button Tommy attached to a generous mentor (Pat Durlacher, senior partner of one of the larger firms) who he described as 'a jobber out of this world'.¹⁰ In my interview, Brian Winterflood, another East

8 Pardo-Guerra, "Creating Flows of Interpersonal Bits: The Automation of the London Stock Exchange, C. 1955–90."

9 In 1990 Dr Bernard Attard of Leicester University conducted a series of oral history interviews with former jobbers, capturing the details of what was by then a vanished world. By lucky chance he interviewed two central figures in the small company world: Brian Winterflood, one of my own interviewees, and Anthony Jenkins, older brother of John Jenkins and partner in SJ Jenkins. The Jenkins interview, from which this quotation is taken, can be found online at <http://sas-space.sas.ac.uk/id/eprint/2598> [accessed 17 march 2017]

10 Attard, "The Jobbers of the London Stock Exchange an Oral History," 45; ———, "Making a Market. The Jobbers of the London Stock Exchange, 1800–1986."

End boy, recalls an almost accidental arrival in the City thanks to a generous school teacher:

'I said I don't want to drive a bus because my father was a tram driver...what I would like to do is to make some money, and he said, "Well if you want to make money you should go to where money is made". I thought that was a sensible thing to say. He said, "I have got a friend who is a partner in a stockbroking firm and I wonder if you would want to go up the City." I did not think anything about it and I said, "Yes, I would," and I went up and became a messenger with a firm that is long since dead. And so I started right at the bottom...well thank God I did start there, running round the City, getting to know the city, getting to know the people and it was magical, absolutely magical.'¹¹

Tommy recalls his transition to 'authorised clerk' (or 'dealer') with awe:

'I was called into the partner's room and they said, "How would you like to become a dealer?" I said, "I don't know". I was absolutely dumbfounded. Where I come from I couldn't have anticipated anything like this. So "I said I'd love to, I'd love to have a try." So I was authorised, and I'll never forget the first morning...'¹²

The account continues in similarly glowing terms, as Tommy is supported by the ever generous Durlacher. But it would be a mistake to assume that life on the floor was always a bed of roses. Winterflood's first day was less charmed:

'To go up the ladder and become a dealer...to do that was really like the Oscars, it was fantastic to be authorised. Go upstairs [to the Exchange floor] and get your badge and so on. I had a particularly nasty senior partner and I remember the day that I got authorised, and he was a moody so-and-so and he used to gamble everyday on the horses, his life was terrible, he ran off with another woman. Anyhow the day that I got authorised, you go on to the floor of the Exchange, he puts his hand in his pocket...and he says, "All right Winterflood, now you are authorised", and he took his hand out like that and he gave it to me, it was my badge, my authorised badge. And he said, "Mind your fucking eye."¹³

11 Winterflood interview

12 Attard, "The Jobbers of the London Stock Exchange an Oral History," 45.

13 'Mind your eye', a common phrase on the floor meaning 'watch out'

Winterflood goes on to reflect on the sudden responsibility of holding a trading book as an authorised dealer in a partnership, trading with the partners' own money and unlimited liability. The supervision extended by the partners to their own property was markedly different from the target driven gambling familiar from more recent, incorporated trading vehicles.¹⁴

'It was good looking over everybody's shoulder when they were doing this [i.e. trading], but when the senior partner says "Mind your fucking eye", I mean you are terrified... I remember when he came back from a bad day at the races, which was the bookie outside the Exchange, he would sit in the pitch and say, "What have you done?" I would say, "Well not a lot Sir but there are one or two things that you might like," and he goes across and looks at the page, of course this was in a book and he was going through like that and that, and there was one particular page and he looked at, I said "Have you noticed sir, so and so," and he said, "It only pays for the bad ones."¹⁵

This lengthy apprenticeship would lead eventually to membership of the Exchange. Younger jobbers had to pass the Stock Exchange exams, introduced in 1971 as an attempt to control risk in the market. More importantly, for this account, it gave rise to a tightknit social community, with trust built up by many hours of trading face to face, making and honouring spoken bargains.¹⁶ *Dictum meum pactum* – my word is my bond – was, and still is, the LSE's motto. A stock exchange, like any effective organization, depends upon trust and reliable sanctions, and both of these operated in the LSE's club-like system.¹⁷ There was a kind of schoolboy justice, too. One of Attard's interviews recalls an insider dealing ring profiteering on Sunday Express recommendations. The jobbers and the newspaper editor struck back with a fake news story, a bogus article on left on the editor's desk; the culprit was not apprehended but the firm made its money back and the trading ceased. Social conventions remained hidebound, the revolution of the swinging sixties restricted to sartorial innovations like soft collars, Cuban heels, sideburns and mohair suits: 'we were the leaders of change... when I look back on it I looked a total prat but I thought that it looked good.'¹⁸ (A

14 See, for example, the transformation of Salomon Brothers in the 1980s. M Lewis, *Liar's Poker* (London: Coronet, 1989).

15 Winterflood interview

16 Pardo-Guerra, "Creating Flows of Interpersonal Bits: The Automation of the London Stock Exchange, C. 1955–90."

17 Göran Ahrne, Patrik Aspers, and Nils Brunsson, "The Organization of Markets," *Organization Studies* 36, no. 1 (2015).

18 John Jenkins interview.

decade earlier, such garb would have been unacceptable: as a messenger boy in 1953, Winterflood inadvertently stepped on to the exchange floor without the regulation black shoes and was driven away by cries of 'Brown boots! Brown boots!')¹⁹

Despite the LSE's monopoly position and member privileges, times were hard during the 1960s and the depression of the early 1970s.²⁰ The market crash in 1974 saw the total of staff employed by LSE members shrink by roughly a third in a single year.²¹ All partners of the broking and jobbing firms had to be members of the LSE and had to accept unlimited liability. Jobbers scrambled for extra income. During the downturn of 1969 to 1974 Winterflood and his wife ran a small bric-a-brac shop named Fludds in Valance Road, at the end of Petticoat Lane. He recalls meeting a colleague hawking carpet squares – 'not even whole carpets, carpet squares!'²² Increased capital requirements made life harder for members but provided little protection; the crisis of 1974 saw the failure even of large firms such as Mitton, Butler and Priest, with £200,000 in capital.²³

3.2. S Jenkins & Son

It was in this milieu that S Jenkins & Son Ltd, a small jobbing firm formed on the 1 April 1960, began to build a reputation for trading leisure stocks, described as the 'spivvier end' of the market. S Jenkin & Son, despite being one of the smallest firms of jobbers on the Exchange, represents the very beginnings of the OFEX market.²⁴ My account traces its genealogy accordingly. Anthony Jenkins recalls how the firm began:

'I went back to father[s firm] in 1956 when he became established with a firm called E.S. Godden and they more or less financed my father's book and he was really trading in the same leisure compan[ies]. ... In 1960, father took the business over, I became a member in 1960 and the firm became S. Jenkins & Son and that was the partnership. We took the staff over from the old firm and I think we had three on the staff. And eventually we grew, as the years went on my brother [John] was introduced into the business

19 <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/9308913/The-City-60-years-ago-bowler-hats-financial-feudalism-and-no-brown-shoes-or-Big-Bang.html>

20 Beeson, Winterflood, Jenkins interviews

21 Michie, *The London Stock Exchange: A History*, 490.

22 Winterflood interview. The anecdote is also recounted in <http://www.thisismoney.co.uk/money/article-1163041/THE-CITY-INTERVIEW-Time-bury-gold-coins-garden.html>

23 Michie, *The London Stock Exchange: A History*, 484.

24 Jonathan Jenkins interview

and two other partners. There were five partners and we actually had five on the staff, so we were ten overall... It was a family firm and everybody knew one another. We knew when people had families and passed their driving tests and they were good days.²⁵

At one edge of the Exchange's vast dome, father Sid, with his sons Tony and young John (who joined the firm in 1962, aged 15), traded shares in dog tracks, betting shops, casinos, and holiday camps:

'Clacton Stadium, White City...Northumbrian and Crayford, Brent Cross was a dog track, when whatshisname, George Walker, I don't know whether you have heard of George Walker, but George and his brother, Billy Walker, was a boxer, George was his manager and they ended up taking over Hackney and Hendon Greyhounds [which they built into the Brent Cross retail development]...Butlin's and Pontin's Holiday Camps.'²⁶

The firm was conservatively run. Sid Jenkins had a horror of overtrading and the dreaded 'hammerings', when firms unable to meet their obligations were shut down by the sound of a gavel, and the partners' personal assets fell into the hands of the administrators.

'We never borrowed money and we never borrowed stock, which were two facilities that most other firms did [use]. And father's attitude was "I like to sleep at night." And we earned a good living out of the business and the staff all did well and father's attitude was, "Why should I over-trade?" That was something that he was always frightened of. You've got to remember also father saw a lot of hammerings, a lot firms went broke in his time and I suppose he always had it in the back of his mind, "Well, I won't overtrade, I'm going to survive."²⁷

Sid Jenkins died in 1981, and Anthony briefly became senior partner. A year later, in 1982, John became senior partner. While financially conservative, John was forward-looking and could see the great changes ahead. He travelled to the USA, visiting a broking firm named Herzog Heine Geduld, and watching the novel computer-based trading.

25 Attard Jenkins interview

26 John Jenkins interview

27 Attard Jenkins interview

'It was coming, scary, but people did not believe it, people honestly did not believe. I'd come back and I would say, "I have sat with a trader in the room with NASDAQ, there is no market floor, I have sat with these guys in a room, sitting there with a computer terminal and they are doing their trades and this, that and the other." You could see even my own lot think, "That is not going to happen here is it, you know, it is just not going to happen."²⁸

After Sid Jenkins died, John recruited Paul Brown to the firm as a junior. Even in the early 1980s, the apprenticeship model persisted, evidence of the remarkable stability and durability of the jobbing role:

'John really looked after me there as regards to he promised me that he would make me a member of the London Stock Exchange if I was to do my exams, which I did. I became the youngest member of the London Stock Exchange at just under 21. You should be 21 but I managed to get just under the umbrella. So that's where John and I really went back.'²⁹

The bond between apprentice and master remained a durable one, and important for this account, as the relationship between John Jenkins and Paul Brown became the trigger for the formation of OFEX.

A small firm specialising in a single sector, S Jenkins & Son developed a distinctive set of business practices which persisted into future firms. It boasted strong networks with broking clients and firms in the leisure sector and had a good reputation on the floor:

'We had a super rep in leisure I think. My dad was a close friend of Fred Pontin plus a friend of Billy Butlin... we were straight, we did not rip people off and we did what it said on the can... We just had a good market reputation, which we were very proud of.'³⁰

Led by the conservative Sid Jenkins, it developed risk averse trading routines. Anthony Jenkins remembers late afternoon work in the office, settling and closing down trading positions:

28 John Jenkins interview

29 Brown interview

30 John Jenkins interview

'You'd finish putting all your bargains on the checking sheets then the most important thing was to agree your positions so you take your bull and bear book which is your overnight position and then you would take the difference on the day's trade and work that out from the overnight position and it had to agree with the position in the jobbing book. Most bargains that we did you would finish up with a position at the end and that was altered on every bargain and you never went home at night until you had agreed your position...Some firms, I know father used to say there was one firm – Frisby Brothers used to agree their positions every three months but it horrified me. We not only used to take the positions out, we used to take our profit and loss out every night as well, so by five o'clock we knew exactly our positions in the book were true and correct and we also knew that we had made a profit or a loss that day by five o'clock and tomorrow was another day.'³¹

Many of the stocks traded were so illiquid that it would be difficult, as well as risky, to quote two-way prices in these. As Buckland and Davis noted of the USM in 1989, 'such modest volumes of stock are available as to render the concept of liquidity, if not meaningless, a very unlikely attribute of most OTC securities.'³² Trading in illiquid stocks meant storing up orders and negotiating between buyers and sellers: jobbers would indicate 'basis prices' and record indications of interest. When two sides of a bargain could be matched, the order would be 'put through', with the jobber taking 1.25% on each side. There was some work involved in matching the two sides of a trade together, patiently negotiating between buyer and seller. Much of this trading was done under the LSE's unquoted securities exemptions (discussed in the next section) which necessitated matched bargain trading as firms were not allowed to hold positions overnight. This work was naturally suited to the obscure stocks of the leisure sector as well as the cautious business habits ingrained by Sid Jenkins, and became John Jenkins' main source of revenue:

'In those days you were not allowed to have a position in [a stock] at all, so you would have a list of buyers and a list of sellers and you would have to try to knit them all together. And at the end of the day whatever you bought you had to sell, you could not go short or long, so you had to be completely flat and I used to love doing that... I reckon this is back in the early 80s... I could make a grand

31 Attard Jenkins interview

32 Roger Buckland and Edward W Davis, *The Unlisted Securities Market* (Oxford: Clarendon Press, 1989), 130.

a day out of those, which was matching, matching and matching. Nobody else wanted to do it, nobody else wanted to fill the forms out, run round and you would fiddle about in those days, would the client take 1,049, well I know he wants to buy 1,000 but will he take 963 and then you would have to piece it all together and do it...But for a grand a day, in those days!³³

Settlement was also awkward, with paper share certificates coming in different sizes ('shapes') and often needing to be broken up into smaller units. 'There were different shapes as well, I just remember that, shares came in different shapes. So you might have a certificate for five shares and a certificate for 10 shares and a certificate for one share.'³⁴

Along with the family reputation and networks, these trading practices persisted until the end of the millennium: 'You've got to get the shapes right John!' was a frequent cry in the firm's offices right until the late 1990s.

3.3. Big Bang

By the late 1970s, the LSE was under pressure from a number of directions. Single capacity trading (the separation of jobbers from brokers) and the fixed commission regime seemed anachronistic; while computers were not regarded as serious alternatives to floor-based trading, rival systems were starting to appear, prompting the LSE to introduce the TOPIC price display system in 1978; most importantly, the new Conservative government began to take exception to the restrictive practices in which the LSE had engaged during the last two decades.³⁵

The 'Big Bang' saw fixed commissions and single capacity abolished on the 27 October 1986, but in many ways this represented the end of a process begun with the abolition of exchange controls in 1979. It was recognized at the time as the end of an era: the last day of the single-capacity trading, 24 October 1986, saw a 'rowdy Irish wake', involving a pantomime horse and the Spitting Image puppet of Chancellor Nigel Lawson.³⁶

After the Big Bang it was possible for foreign firms to be members of the LSE, but international firms had been taking stakes in jobbers and brokers

33 John Jenkins interview

34 Emma Jenkins interview

35 Michie, *The London Stock Exchange: A History*. ch. 11

36 Elizabeth Hennessy, *Coffee House to Cyber Market: 200 Years of the London Stock Exchange* (London: Ebury Press, 2001), 184.

throughout the 1980s, since it became clear that reforms were in train and that a deregulated exchange would offer opportunities for larger integrated banking and securities firms. Michie catalogues some of these deals: US bank Security Pacific paid £8.1 million for a 29.9% stake in Hoare, Govett, then:

‘a number of the leading London merchant banks acquired stakes in 11 brokers and three jobbers. Warburgs teamed up with the jobbers Akroyd & Smithers and two brokers, Rowe & Pitman and Mullens. A similar course was followed by some of the major commercial banks, such as Barclays, who linked up with the jobbers Wedd, Durlacher and the brokers de Zoete & Bevan. There was also a rush of foreign banks cementing relationships with London brokers such as Phillips & Drew and Union Bank of Switzerland. The giant New York bank, Citicorp, teamed up with three brokers, Vickers da Costa, Scrimgeour Kemp Gee, and J. & E. Davy while its US rival, Chase Manhattan, contented itself with two, namely Laurie Milbank and Simon & Coates. Even the chairman’s own firm, Quilter Goodison, sold a 100 per cent stake to the French bank, Paribas, in 1986.’³⁷

In the early 1980s foreign bidders circled. At the same time, by a happy confluence of policy, the jobbers’ profits (and therefore sale values) had been enhanced by the public offers of national industries. One such was British Telecom, offered for sale in November 1984 and June 1985.³⁸ Even the niche leisure player S Jenkins & Son saw plenty of the action:

‘The boys heard about this BT issue coming up and they went up and saw the shop broker and said “We want to have a go at this”. We had no track record at all in British Telecom, nothing, or any electronic business, nothing at all. They went and saw the shop broker and all of the market makers were issued with the same amount of stock...900,000 shares in British Telecom, which we sold first thing on the morning of the float and we took nearly one million profit.’³⁹

Anthony Jenkins recalls that the issue also presented a small firm with considerable risk:

37 Michie, *The London Stock Exchange: A History*, 555.

38 <http://www.btplc.com/Sharesandperformance/Financialandotherinformation/Listinginformation/Listinginformation.htm#ee>

39 John Jenkins interview

‘It was a most complicated issue and we actually finished up with something like 950,000 shares and when you think that Akroyd and Wedd all the large people I think got 1.4 million; for a little tiny firm of our size to get 950,000 was absolutely amazing because we got all these profits, but at the same time I wasn’t entirely happy with this because whatever bargain you’ve got you are still at risk. My thoughts would have been, well, if anything happens to Maggie Thatcher or if another war breaks out then its pay and be paid with this sort of stock – it’s all new issue, bearer stock which you need to pay the next day as it were, once it’s been checked. But anyway we accepted this underwriting and we did extremely well that year.’

Three crucial figures in the history of the new stock markets emerged from this milieu. Brian Winterflood, John Jenkins (both of whom we have already met) and Andrew Beeson (latterly chairman of Schroders, having spent a career in the small company broking sector) learned their trade on the stock exchange floor in the 1960s and before, all with a focus on smaller company stocks. Winterflood, Jenkins and Beeson were among those who sold their firms to foreign banks and Thatcher’s programme of deregulation made all three wealthy men, despite prior misgivings that removal of the single capacity, fixed commission ‘cartel’ – a very comfortable way of existing’ – would be difficult.⁴⁰ All three described the subsequent years as among the unhappiest of their careers, as they suffered a change in culture from staid partnership to brash, hierarchical, target driven regimes. The newly merged firms rode out a year of boom but were found lacking by the bear market that followed the crash of Black Monday, 19 October 1987. Strategic mistakes, of the lack of strategy altogether, became apparent:

‘Suddenly...someone was going to pay us [the partners] £11 million... for this business. We thought that Christmas had come, but nevertheless we were tied in. The mistake we made when ANZ bought [us] was that they did not know what they were going to do with it, and we assumed that an owner would have a plan. Come the crash of 1987 it was quite clear by then that they did not know what they were going to do with it.’⁴¹

Former partners, now bought out, remained burdened by the responsibilities they had accumulated under their firms’ previous structure. Beeson

40 Beeson interview

41 Beeson interview

continues, explaining how he sought to discharge his responsibility.

'I formed up to the management of ANZ Bank and said, "Either you shrink this business to what it is really good at" – because despite the fact that we had these specialisations it was still all things to all men – "or we might buy the business back, or I'm leaving with five of my former partners and we are going to start again." The reason I did that rather than just walking out of the door [was] that clearly having been a partner for fifteen plus years you know you had a responsibility to quite a lot of people. Where of course Australians are wonderful people but they don't like to be bowled out, if you know what I mean, and so they fired me.'⁴²

There was, it seems, a fundamental clash in corporate culture between the new arrivals and the incumbents of the Stock Exchange, with often tragic consequences for the former jobbing firms:

'In this firm, the senior partner was saying to the other partners, they had just received a bid of £12 million, "Gentlemen, we have been kissed by the Holy Ghost," and they are all rejoicing. And within twelve weeks it did not exist, it did not exist. They really had been kissed by the Holy Ghost! That was the Americans, they came in like the Fifth Cavalry and they thought they knew everything and they didn't, they certainly did not understand our culture and it cost them a fortune.'⁴³

By the end of the decade all three men had separated from their new employers and over the course of the next two or three years went on to set up their own firms specialising in smaller company stocks. The dense social networks that they had built up and the conventions of trading that they had learned were to sustain their businesses and give shape to the new markets of the 1990s.

42 Beeson interview

43 Winterflood interview

4. Regulation, technology, and the birth of OFEX

The financing of Britain's entrepreneurs had, meanwhile, become a policy preoccupation. A succession of government-sponsored reports, beginning with the MacMillan committee report in 1931 and followed by the Bolton and Wilson committees in the 1970s, emphasised the funding difficulties facing growing businesses in the UK.¹ Throughout the 1960s and 1970s the vast expansion of government debt had made it difficult for all but the largest companies to find equity funding on attractive terms. The growth of professional asset management in the late 1970s exacerbated this difficulty as managed funds tended to be restricted in the amount they could invest in smaller companies and higher risk securities. Overall, the LSE had struggled throughout the post-war period with the expectation that it should act as provider of risk capital for growing firms, a role that sat uncomfortably with its regulatory responsibilities yet received a disproportionate amount of political attention. Nevertheless, mechanisms for financing smaller companies did begin to appear by the late 1970s, and this chapter follows that process. It covers the growth of the OTC market under the 'licensed dealer' regulation, the subsequent formation of the USM, and the Exchange's Rule 535. The chapter then focuses on the latter. It examines how John Jenkins developed Rule 535 into a small-scale capital market, eventually provoking the LSE into a defensive action, which then triggered the formation of OFEX. The LSE's reaction, meanwhile, gave further impetus to the formation of AIM, discussed in the next chapter.

4.1. OTC, USM and Third Market

The LSE had been discussing a designated smaller company market throughout the 1970s but had made little progress. It had already come under pressure for failing to provide finance to North Sea oil exploration companies.² A fix came in the shape of LSE rule 163(2), (later 535(2), and finally 4.2a), which permitted trading in unlisted securities and sought to meet political demands while preserving the existing shape and primacy of the Exchange. The London Stock Exchange promoted Rule 163 in a 1977 brochure and drew attention to the facility in submissions to the Wilson committee in 1978 and 1979.³ Meanwhile, an over-the-counter (OTC) market sprang up entirely independently of the LSE. Stockbroking

1 DJ Storey, *Understanding the Small Business Sector* (London: Routledge, 1994); Raymond Frost, "The Macmillan Gap 1931-53," *Oxford Economic Papers* 6, no. 2 (1954).

2 Michie, *The London Stock Exchange: A History*, 532. Posner, *The Origins of Europe's New Stock Markets*.

3 ———, *The Origins of Europe's New Stock Markets*.

firms could apply to the DTI for a licence to deal in securities and become a 'licensed dealer' able to act in 'dual capacity' as broker and market maker. MJH Nightingale Ltd, later known as Granville & Co, was an early innovator trading stocks in high-quality private companies on a matched bargain basis. It was highly reputable: the government backed venture capital house ICFC had a small department investing in privately held firms and bought heavily from Nightingale. While the sums involved were small, the demand for the OTC trading mechanism further demonstrated the need for a lower tier market.⁴

Rule 163(2) and the OTC markets presented the LSE with a problem. On the one hand the rule offered a defence against accusations that the Exchange preferred to use its monopoly position to trade liquid, large stocks at the expense of Great Britain's entrepreneurs and growing companies. On the other, the Exchange was extending its regulatory oversight and therefore its reputation to companies over which it had no control. Moreover, the public and regulators alike did not necessarily distinguish between exchange members and licensed dealers. Here, a more prominent but far less reputable operator came in the shape of Harvard Securities, run by Tom Wilmot, an outspoken stockbroker temporarily popular with the public. Wilmot published an investor's guide to the market in 1985, describing the OTC as 'a seed-bed of innovation, wealth and employment', and making direct comparisons with the NASDAQ market in the United States, another over-the-counter arrangement.⁵ Insiders had a different view of Wilmot:

'Tom was the biggest rogue of the lot and whilst Tom was dealing [his] instructions to his dealers were, "Don't buy anything, you are only a seller". So just to convince people it was right, he would put in his list of stocks [in the financial press], not many of them, 20 or 30 and he would move them up 1p a day, down 1p a day and then he would move them down 2p a day and he got this thing going and people thought that it was all right but in fact they had bought a load of rubbish and of course he was a crook.'⁶

Harvard Securities collapsed in 1988 having failed to become a member of the London Stock Exchange and Wilmot was investigated by the DTI. It transpired that many investors had been pressure-sold investments and

4 e.g. Buckland and Davis, *The Unlisted Securities Market*. Corporate advisor 6 interview.

5 Tom Wilmot, *Inside the over-the-Counter Market in the UK* (Westport, Connecticut: Quorum Books, 1985), xiii.

6 Winterflood interview

now found themselves holding stock that had been overvalued by Harvard Securities in its role as sole 'market-maker' and was now worthless.⁷

The recommendations of the Wilson Committee of 1979, together with a desire to 'ingratiate itself with the new Conservative government', led the Exchange to set up the Unlisted Securities Market (USM) in November 1981.⁸ This market offered much lighter admission rules including a three, rather than five-year trading record, no minimum capitalisation or pre-vetting of listing particulars, and a smaller public float.⁹ The USM was an immediate success, with 600 companies admitted before the end of 1987; as Arcot et al. note, its success was driven by a general revival of the stock market, an entrepreneurial boom and policy focus in the 1980s, as well as the extension of certain tax advantages and the suitability of the market and exit route for investments made by the growing British venture capital community. Buckland and Davis' analysis of the USM contains a foreword from Sir Nicholas Goodison, businessman and chairman of the Stock Exchange from 1976 to 1986, describing the introduction of the market as 'a very important event in Britain's commercial history... [the USM] greatly helped the progress of the British economy in terms of products, services, and jobs... this new market did a lot to alter attitudes to risk among investors who, during the 1960s and 1970s, had become averse to risk'.¹⁰ The USM was also a response to the threat posed by OTC market: a 1981 circular to members of the Stock Exchange urged companies to move from the OTC to the USM, and rule 163(2) was changed to 535(2) on what was expected to be a temporary basis. Some participants claimed credit for putting the likes of Wilmot out of business:

'I said to the Stock Exchange, look we have got to stop this, we have got to get this under the umbrella of the Stock Exchange, some regulatory body... And that is how it started, and of course that effectively put Tom out of business because well people could deal and feel that they were dealing in something that meant something.'¹¹

7 In August 2011 Wilmot was sent to prison for his involvement in a 'boiler room' share selling scam, along with his two sons. Telegraph, 24 August 2011, 'Fraudster Tomas Wilmot failed to learn from Harvard collapse and DTI investigation', Jonathan Russell. <http://www.telegraph.co.uk/finance/financial-crime/8718862/Fraudster-Tomas-Wilmot-failed-to-learn-from-Harvard-collapse-and-DTI-investigation.html>

8 Posner, *The Origins of Europe's New Stock Markets*, 66.

9 Sridhar Arcot, Julia Black, and Geoffrey Owen, "From Local to Global: The Rise of Aim as a Stock Market for Growing Companies: A Comprehensive Report Analysing the Growth of Aim," (London: London School of Economics, 2007).

10 Buckland and Davis, *The Unlisted Securities Market*.

11 Winterflood interview

Unfortunately the USM could not match the tax advantages available to OTC shares and by the late 1980s 22 dealers traded the stock of 210 companies.¹² Only the creation of a 'Third Market' in January 1987 with even lighter regulation, and the 1986 and 1988 Financial Services Acts' requirement that OTC dealers hold a certain amount of capital, managed to slow down the OTC market. But the launch of the USM certainly offered investors a reputable venue for trading in higher risk shares, and entrepreneurial jobbers found a new tranche of trading opportunities.

Brian Winterflood, now a partner at Bisgood Bishop, was one such jobber. He had become synonymous with the success of the USM, his firm's pitch a 'wall of stocks' and his nickname 'Mr USM'.¹³ Jobbers undertook to provide a certain amount of liquidity in these stocks, using their own capital, and therefore constituted the market in a very real sense. By undertaking to trade in any USM stock, Bisgood Bishop literally made the market and stood to lose heavily in the event of a swing in sentiment. We should not underestimate the moral force of such an undertaking and the significance of the role of market-maker for the broader concerns of UK plc. Nonetheless, market-making on the USM could be a profitable business with the lack of competition among market-makers allowing spreads to widen substantially. As one interviewee noted, the obligation to make prices in a whole market could lead to wide spreads, noting acerbically that 'Winterflood made a fortune because his bid-offer spreads were embarrassing...you could drive an 18-wheel truck through them'.¹⁴ Moreover, market-makers still enjoyed considerable flexibility in their trading and could avoid some of the riskier positions:

'there was no regulation for them to make a price... They won't make you a price, they'll indicate. So if they're 43 to 45, that's an indication. And it's certainly not definitely a price. When the business got difficult, then it could be in 500 shares one end and 10,000 shares the other end.'¹⁵

Spreads widened still further due to a collapse in trade after the 1987 crash as retail investors lost interest in the markets; turnover on the USM fell from £200m a day in October 1987 to £40m a day in 1991, while average spreads

12 Arcot, Black, and Owen, "From Local to Global: The Rise of Aim as a Stock Market for Growing Companies: A Comprehensive Report Analysing the Growth of Aim." Posner, *The Origins of Europe's New Stock Markets*, 69.

13 Nathan interview

14 Winterflood replied (in my interview) by drawing attention to the important job that his firm was doing in making prices.

15 Nathan interview

grew from 3pc to 11pc.¹⁶ Lack of trading was also driven by changes in the structure of market interactions that the boom years of 1986/7 obscured, as:

'a by-product of the cessation of the stock jobbers' monopoly will be correspondingly greater selectivity in the shares in which they deal with the result of the less liquid, even stagnant, market in trading in smaller, lesser-known companies...'¹⁷

The LSE responded with a modified version of the NASDAQ 'specialist' system where trade was mandated through a market maker, though this met much protest, especially as it was paired with an electronic bulletin-board that precluded any possibility of a profitable 'turn' by making bargains widely visible.¹⁸ In 1992 the LSE replaced the bulletin board with SEATS (Stock Exchange Alternative Trading Service), a screen that showed indicative prices and orders and required only one market maker, usually Winterflood Securities. David Macnamara, Winterflood's head of dealing, acidly commented that SEATS 'can't work any worse than the old idea.'¹⁹

During the early 1990s the USM saw its distinctive selling points, such as lighter listing requirements, had been eroded by European legislation that shortened the trading record needed by the Official List to three years. The LSE had launched the 'Third Market', a higher-risk trading venue, in January 1987 and closed it again in 1990. Crippled by the crash of 1987, the Third Market had acquired the reputation of 'a complete shambles... a cowboy charter'. It was merged with the struggling USM in an attempt to revive the latter, which proved only to damage the USM further.²⁰ The boom years that had made the USM an easy venue to raise money had ended: in 1992 only two companies had joined the market, from a peak of 103 new arrivals in 1988.²¹ Eventually, just 30 companies remained listed on the USM.²² Cyclical change in the UK economy had lessened its appeal, and the appeal of 'equity risk' more generally.²³ The market had become harder for investors to access, with one market-maker Bikuben-Whitefriars (owned by the Danish bank Sparekassen Bikuben) pulling out of market-making in December 1992, denying that it had been nudged to do so by regulators. More generally, the market's reputation had been harmed by the exuberance and collapse of

16 Michie, *The London Stock Exchange: A History*, 618.

17 Buckland and Davis, *The Unlisted Securities Market*, 150.

18 Michie, *The London Stock Exchange: A History*, 610.

19 The Sunday Times, November 15, 1992, 'Small can be beautiful with new share system', Margaret Dibben

20 Buchanan interview

21 The Independent, December 1, 1992, 'Time is running out for the Unlisted Securities Market', Neil Thapar, p.21

22 Michie, *The London Stock Exchange: A History*, 619.

23 Buchanan interview

the late 1980s; a Stock Exchange consultation, published in December 1992, conceded that 'the quality and attractiveness of the USM has deteriorated in the eyes of companies and investors.'²⁴ The sentiment was shared by many in the City. The USM had a 'spotty reputation' and it served as an unfortunate

'back door into the old traditional markets, because ... it [the LSE] suddenly had a route, for a small company that would have never made the cut, to try and...to come in. I don't know whether they had...with hindsight whether they analysed the accounts for long enough or maybe let some in too soon...or maybe they hadn't vetted some of the people that were running the companies.'²⁵

The LSE's consultation recommended the closure of the USM by 1995, with existing stocks fast-tracked to the Official List. It promised a formal decision by late 1993, but the decision had effectively already been taken. Posner quotes from a speech given by an anonymous official of the LSE to the annual Guildhall Dinner, on 15 June 1993:

'Now, in response to European directives entry to the Official List is available on essentially identical terms to those of the USM. It is often said that you cannot have too much of a good thing, but to have two, almost identical, markets in one exchange is going too far.'²⁶

The USM is widely held, therefore, to have suffered from the bear market of the early 1990s and from its diminishing competitive position eroding both the volume of trading and the flow of new entries: 'Given the greater prestige and visibility of the Official List, most companies that might have contemplated going to the USM preferred to wait another year so that they could qualify for the main market.'²⁷ It seems that there was an organisational dimension to the decision as well. The Stock Exchange, and particularly its listing department, was burdened by the administration required in running two parallel markets from the same office and on the basis of the same handbook: the USM was – in reality – a small set of rules heavily cross-referenced to the Official List rulebook, making administration difficult for those involved:

24 Daily Mail, December 22, 1992, 'USM the latest victim of stock market forces', Cliff Feltham, p.34

25 Hazell-Smith interview, Nathan interview

26 Posner, *The Origins of Europe's New Stock Markets*.

27 Arcot, Black, and Owen, "From Local to Global: The Rise of Aim as a Stock Market for Growing Companies: A Comprehensive Report Analysing the Growth of Aim," 7.

'you had your main listing rules and then you'd have a section at the back which would say... clauses 1.3 apply of the main rules, clauses this, that and the other don't apply...You had the same people in the listing department who were reviewing prospectuses both for USM and for listed companies.'²⁸

The listings department existed as an almost entirely separate entity from the rest of the Exchange. Its office contained much market sensitive information so it was separated by coded door locks. It had a reputation for bureaucratic stolidity and for being focused on what it saw as correct process and quality of new issues; it had unparalleled expertise in the regulatory aspects of market administration, but was disconnected from the commercial side of what was by then a business in its own right. Its members, often lawyers, were 'rather pompous characters...who saw themselves as the guardians of this ephemeral thing called the Official List'.²⁹ A new generation of LSE executives had started to pay attention to commercial concerns such as marketing and business development and regarded the listing department as ill-equipped to deal with such matters.

'They weren't commercial...I remember the...management meeting, and the Head of Listing came into the room and said, "We've been looking at the USM, and we've done a contrast and compare of the rules of the USM with the main markets. And there's so little difference...there's really no point in maintaining a separate section. What we'll do is bang the whole thing together. Yeah, and we're going to write to the companies and say they've got a year to either comply with the main market rules or basically they can piss off"...It was all about laziness...And they saw this entirely in terms of the box ticking rule thing, they didn't see anything beyond that. They'd almost made the decision and sent out the letters. And, of course, there was an absolute maelstrom.'³⁰

4.2. Formalizing 535.2: J P Jenkins Ltd

The closure of the USM in 1995 triggered the formation of both AIM and OFEX but the stories of the markets are very different: the former a large-scale institutional project and the latter a private, almost accidental start-up. Despite the difference in scale both are interesting to the student of markets, and I will consider each in turn. For chronological reasons I will begin with

28 Wallis interview

29 Vardey interview

30 Vardey interview

OFEX, returning to the early 1990s. After two fallow years recovering from the stress of his exit from the Japanese bank that had purchased his firm (via a purchase of Guinness Mahon) in the 1980s, John Jenkins wrote a plan for a market-making business. He made two unsuccessful applications to the LSE and had almost given up the idea of returning to the market but was spurred on by a desire to help Paul Brown, his former blue-button from S Jenkins & Son, who had just been made redundant:

'I was fiddling about thinking I would actually quite like to go back, I liked the boys, I liked the company, and honestly it sounds corny and clichéd but I did love chatting to the lads. I tried a couple of times and put my business plan in and got turned down. Made my mind up, it was no good, I was going to buy a smallholding in Norfolk and just enjoy life and I was not going to bother trying again. Then a lad who worked with me, Paul...people were hiring people and they were firing people just as quick as they hired and Paul got caught up in that.'³¹

Brown concurs:

'I rang John up and I said to him, "Look, John, just to let you know, before you hear it, I have been made redundant." And he went, "Okay". I'll never forget it. He said to me, "Okay, Brownie, I'll come back to you". And that was it. And he rung me back the next day and he said, "Look, I went for a walk along the river, and I've thought about it. I've had this idea, trading what was 535(2) stocks then. How about you and I give it a go?" He said, "I can't pay you a lot of money but it's a start-up, we'll get an office, just you and me, and we'll give it a go." So I said, "Yeah, fine."³²

On the third submission, Jenkins managed to get it accepted by the London Stock Exchange. On 11 February 1991, Jenkins and Brown set up JP Jenkins Ltd with a mandate to trade unquoted stocks 'over the counter' under the Stock Exchange rules.

There followed a period John remembers as one of the happiest in his working life. JP Jenkins occupied a small office above the 'Our Price' music store in Finsbury Square. There was a friendly Dutchman on the floor above who would descend on their office mid-afternoon bearing a bottle of gin.

31 John Jenkins interview

32 Brown interview

It was just 'two guys and a sofa' trading with pen, paper and phone.³³ Early attempts at computerisation were superficial, to say the least:

'John had this old computer, so he brought it in, so it sat on the desk, but we never used it. We just had it there for show... it was a sofa and a computer that didn't work. It did absolutely nothing. I mean it did nothing. It just sat there.'³⁴

Business built up through existing networks and hard work on the part of the two men, if not the computer:

'I knew a lot of the boys in the market, so it's word of mouth. I hadn't been out that long, John hadn't been out that long relatively really, it was only a year and a bit. And so then we did quite a big PR splurge on it. I took a lot of the younger blokes out obviously, because they were the traders of their day. John knew all the bosses of the firms, I knew all the dealers of the firms, so it worked quite well. So we just did a PR blitz.'³⁵

The timing appeared to be right, perhaps because of the closure of the OTC licensed dealers in the late 1980s. One can speculate also that the growing prominence of stock investing among retail shareholders led to a demand for trading in the dispersed shareholdings of certain private companies. In any case, Jenkins' instincts were correct and there was a profitable opportunity to be exploited:

'We found that a lot of brokers had pent up business in these stocks and they'd had nowhere to go. And then when we came along, as I say, we did a publication and we sent it out to all the brokers, and that's it. And they started coming back to us. We'd build up a list of indicated orders from brokers, things they wanted to trade. And if we didn't do it we'd go away and find out about that company, and if we could do it we'd put it on our system. So it was a great time really, because it just grew and grew, because as I say, a lot of the brokers needed this at the time. We never said no. We said "We'll take a note".'³⁶

33 John Jenkins interview

34 Brown interview

35 Brown interview

36 Brown interview

As noted above, trading under Rule 535 needed to be on a matched bargain basis, with the market-maker (the title jobber having been abolished in 1986) taking a turn on each side. This kind of trading was natural continuation of John Jenkins' prior trading experience and extensive networks. 'I'll take a note' came to be the catchphrase of the business:

'They just sort of grew this list of stuff and if anybody rang up and said...I have shares that I want to get rid of, [John would say] "Okay I will take a note", and that was probably the thing that I remember saying the most, "I will take a note"... especially at the start, there was not a lot of natural two-way business, it was "I will take a note and go and find the other side."' ³⁷

JP Jenkins' innovation was to centralize this trade under a well-recognized market name. Market makers and brokers are exposed to a considerable counterparty risk in terms of non-payment or non-delivery of stock. In a formal exchange setting market-makers protect themselves through informal measures, such as blackballing delinquent traders, and through formal disciplinary mechanisms.³⁸ The Jenkins family reputation signalled reliability to clients and solid networks allowed John to judge the quality of his trading counterparties and to take care over whom he offered a price. Matched bargain trade also had the happy side-benefit of lowering the firm's exposure as traders did not have to hold stock themselves; overall, the firm began trading in the careful, risk averse manner that had characterised S Jenkins & Son.

In 1992 the firm moved to Moor House in Moorgate, and in December John's daughter Emma joined the firm. There was a separate room for the back office. Shares traded did not fall under the London Stock Exchange's Talisman regime, so trades were settled in house, by the 'manual XSP' method.³⁹ A typewritten and copied booklet from that period (see figure 1) catalogues the stocks traded by JP Jenkins. The list includes some well-established entities such as Rangers and Liverpool football clubs, National Parking Corporation (NCP), breweries such as Daniel Thwaites and Shepherd Neame, Yates' Wine Lodges, and even Weetabix. In some cases, such as the brewing firms, unusual share structures and family interests precluded a full listing on the LSE; in others, such as Weetabix, the share register of a private company had grown

37 Jonathan Jenkins interview

38 Wayne E Baker, "The Social Structure of a National Securities Market," *American Journal of Sociology* 89, no. 4 (1984).

39 J P Jenkins 535(2) list, n.d.

through gifts and payments-in-kind to a point where a trading mechanism was necessary. Alongside these were the stocks of smaller, high-risk, or less frequently-traded entities: Pan Andean Resources, Dart Valley Light Railway and the Ecclesiastical Insurance Office, to name three at random. These firms could also make use of the Jenkins trading facility to raise risk capital in a limited manner.

Life was not taken too seriously, even as the business began to grow. When the traders faxed end of day prices to brokers' offices they would include joke stocks to test their readers' attention; Underground Airways plc and Sahara Sand and Ballast plc were popular non-firms, a testament to the sophisticated humour of the trading room.⁴⁰ In all, the firm was successful in its chosen niche, matching bargains under the Rule 535(2). It had formed an easy truce with the LSE by staying firmly away from the Exchange's core business of larger firms. The style of trading had not changed much over the preceding decades, and the success of the business was rooted in a reputation and networks built up over years on the trading floor. Trading business grew steadily and the firm was profitable; John Jenkins' horizons were not much bigger – no 'delusions of grandeur' as he put it.

40 John Jenkins interview

```

Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)
)Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rule535(
2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rule535
(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rule53
5(2)Rule53
35(2)Rule5 J P JENKINS LTD (421) 535(2)Rule
535(2)Rule MARKET MAKERS e535(2)Rul
e535(2)Rul le535(2)Ru
le535(2)Ru 11TH FLOOR ule535(2)R
ule535(2)R MOOR HOUSE Rule535(2)
)Rule535(2) 119 LONDON WALL )Rule535(2
)Rule535(2 LONDON EC2Y 5ET 2)Rule535(
2)Rule535( 2)Rule535(
(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rule53
5(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rule5
35(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rule5
535(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rul
e535(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)Ru
le535(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)R
ule535(2)Rule (2)Rule535(2)
Rule535(2)Rul TEL:071 638 3323 5(2)Rule535(2)
)Rule535(2)Ru STX:76086 (4 LINES) 35(2)Rule535(
2)Rule535(2)R FAX:071 638 3912 535(2)Rule535
(2)Rule535(2) e535(2)Rule53
5(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rule53
35(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rule
535(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rul
e535(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)Ru
le535(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)R
ule535(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)
Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)
2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rule535
(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rule53
5( e5
35 le
53 ul
e5 Ru
le )R
ul )
Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)
)Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rule535(
2)Rule535(2)Rule535(2)Rule535(2)Rule535(2)Rule535

```

ADDITIONS/AMENDMENTS TO STOCK LIST SINCE GOING TO PRINT

007-658 Active Investments plc - CHANGE OF NAME TO
Hampshire Company plc Ord 15p

051-075 Arnos Village plc Ord 10p

158-749 Butte Unsecured Loan Stock

182-317 Cellular Telecom Holdings Ord 10p

222-699 Cooper Clarke Ord 50p

251-701 Dalkeith Holdings plc - CHANGE OF NAME TO
Dalkeith Inns plc Ord 10p

621-672 National Grid Holdings plc Ord 10p

648-228 Northumbrian Residential Properties Ord 10p

692-645 Poddingtons plc - CHANGE OF NAME TO
Creative Products Group plc Ord 5p

702-436 Professional Enterprise Group plc Ord E1

887-366 Total Repro Ltd Ord 10p

006-053 Ackrill Carr plc Ord 5p

007-573 Adams & Co plc "A" Ord 25p

007-584 Adams & Co plc "B" Ord E1

011-198 Airsprung Group plc 10s (Net) Cum Prf E1

015-510 All England Lawn Tennis Ground Ltd Deb 91/95 E2000

025-036 Alliance Trust plc 4s A Cum Prf E1

146-711 Allied Satellite Communications plc Ord 5p

024-602 Amalgamated Metal Corporation plc Ord E1

024-668 Amalgamated Metal Corporation plc 5.4s Cum Prf E1

024-646 Amalgamated Metal Corporation plc 6s Cum Prf E1

781-509 Anglo American Agriculture plc Ord 25p

042-842 Ann Street Breweries Co Ltd Ord E1

042-864 Ann Street Breweries Co Ltd Cnv Red 2nd Prf E1

051-707 Arsenal Football Club plc Ord E1

056-230 Associated British Industries plc Ord E1

060-286 Aston Villa Football Club plc Ord E5 (1 vote)

060-264 Aston Villa Football Club plc Ord E5 (15 votes)

066-466 Average Trust plc Ord E1

082-729 Barton Transport plc Dfd 160p

085-375 Bayford & Co Ltd 11.9s Cum Prf E1

089-548 Bell & Co plc 3.5s Cum Prf E1

097-615 Biocure Holdings plc Ord 3p

337-991 Birkby plc 7s Cnv Uns Red Ln Stk 1995

116-178 Bonmass Leisure plc Ord E1

120-083 Brancote Holdings Ord 5p

120-287 Bray Technologies plc Ord 10p

130-004 British Channel Island Ferries Ltd Ord 10p

781-974 British Polythene Ind plc 9.75s Uns Gtd Ln Nts 90/94

416-232 Brookbank Group plc Ord 10p

159-463 C C L Group plc Ord E1

Figure 1. Extract from JP Jenkins Ltd 535(2) listing booklet. The left hand column is a separate sheet, stapled into the booklet.

4.3. The market's 'place'

Big Bang had ended open-outcry trading in London, and in doing so had forced the market to find other 'places'. These new marketplaces took the form of electronic screens, telephone networks and messaging services. The LSE's development of digital trading systems during the 1980s had resulted in the new SEAQ (Stock Exchange Automated Quotation) electronic notice board, launched in 1986. Built into the existing TOPIC screens, SEAQ rapidly became the physical site of the market: a central venue for bids and offers to be advertised and trades reported. SEAQ provided a technological architecture to support the new dual capacity arrangements, as market makers were now required to maintain quotes for the securities they traded.⁴¹ Although the 1987 crash showed the shortcomings of electronic trading, it had by this time become normalized and there was no possibility of a backwards step.⁴² Market participants had found other means of taking the temperature of trading: the innovative FTSE100 'trigger page' became the most visited on TOPIC and the 'keystone of a self-referring representational system that made the floor redundant as an informational device'.⁴³

Smaller-company trading had also found an electronic home in the 'non-SEAQ' board, developed by the London Stock Exchange for Rule 535 stocks. Also running through TOPIC, it was a primitive bulletin board where brokers could post bid and offer prices, alongside basis prices for stocks that traded infrequently.⁴⁴ It also published historic trades, and thus the market markers' margins:

[It] didn't show price, didn't show any live prices, didn't show mid-price. It showed the previous day's close and it would show you the price at which trades had happened. It used to piss people off because you'd get someone saying, "I bought them off you at nine and it prints on there you bought them at six." So it showed everybody exactly what we were doing. And in really illiquid stuff, you could see that we'd had some quite wide prices.⁴⁵

At some point in the early 1990s, JP Jenkins took over the operation of the LSE's non-SEAQ notice board, which the LSE had threatened to discontinue.

41 "Creating Flows of Interpersonal Bits: The Automation of the London Stock Exchange, C. 1955–90"

42 Michie, *The London Stock Exchange: A History*.

43 Pardo-Guerra, "Creating Flows of Interpersonal Bits: The Automation of the London Stock Exchange, C. 1955–90," 101.

44 Emma Jenkins personal communication

45 Jonathan Jenkins interview

There is uncertainty over the precise date, but closure of the non-SEAQ board was announced in parallel with the announcement of AIM, so it is probable that JP Jenkins' involvement began in mid to late 1994:

'When the LSE decided to go ahead with creating AIM, they decided to withdraw Rule 535.2 and not continue to support the provision of the Non SEAQ Noticeboard. For continuity, JP Jenkins offered to take over the running of this board. [Until] 2 October 1995, we ran this for free for brokers so that indicated business was still visible... We made the Non SEAQ Noticeboard available via ICV (previously TOPIC), Reuters and Bloomberg on their electronic screen-based services.'⁴⁶

According to John Jenkins, his firm took on the running of the non-SEAQ board because 'we could not imagine life without some form of publicity'. Following Pardo-Guerra's analysis, more than publicity was at stake, for the SEAQ board had become central to the organization of trading practices; Jenkins' comment recognizes that to be excluded from what sociologist Karin Knorr Cetina calls the 'appresentation' of the market – the electronic production of a virtual form – is to be excluded from the market itself.⁴⁷

In this move it is also possible to see the first germs of friction with the LSE, as JP Jenkins sought to disseminate the prices of Rule 535 stocks through commercial providers as well as the Exchange's Official List. Alongside the non-SEAQ board the firm created 'Newstrack', a rudimentary news service for the small companies that it traded, displaying prices and a limited amount of company information over the Reuters network. Newstrack was the brainchild of Barry Hocken, a former market-maker who joined the firm in June 1993 and Emma Jenkins, who quickly became responsible for managing the information service and the compliance issues that it involved. There was a family business logic to the decision: John Jenkins had by this time realised that Emma's talents were of a more organisational variety, and when Hocken mooted a news service he could see that his daughter would be better occupied with this than as a trader.⁴⁸ Hocken had initially proposed a printed newsletter, but Jenkins was an early adopter of technology and argued that electronic distribution would be a more appropriate channel. It happened that Reuters was looking to expand

46 Emma Jenkins personal communication

47 Karin Knorr Cetina and Urs Bruegger, "Global Microstructures: The Virtual Societies of Financial Markets," *American Journal of Sociology* 107, no. 4 (2002).

48 Hocken and John Jenkins interviews

the range of content on offer through its screens, and JP Jenkins struck a chance deal.

'It coincided with [John] deciding that the dealers needed Reuters on their desk...so the Reuters people came in and talked about kit for our dealers, started talking about information, company information, and this chap said to us, "We are starting to provide this service where people can have bespoke pages on their terminals, would you be interested in those?" We said, "Oh yes we would be really interested in that". "How many pages would you like?" And I said, "Well, about 100", and the bloke went a bit white, he said, "Yes, okay". [We] basically beta tested the software because it was a way of being able to put this information on spreadsheets, press a magic button and it would arrive on our pages on Reuters and that was how simplistic it was in those days. Reuters was our first news vendor, they took it on first and then Bloomberg after that.'⁴⁹

The service provided market capitalisation and some volume information. A rudimentary connectivity between the market makers and Newstrack meant that that if the price moved the market capitalisation would also move. Dividends were also published: although many companies were too small for this to be relevant, some of the larger firms were good dividend payers. Firms released final and interim results through the pages, were encouraged to make trading announcements though Newstrack was careful that these shouldn't be 'advertorial'. In other words, Newstrack consciously mimicked the London Stock Exchange's Regulatory News Service (RNS).⁵⁰ A Reuters circular dated October 1993 states:

'Reuters has been experiencing repeated demands for more prices and information in and on niche markets such as SEATS (Stock Exchange Alternative Trading System) and rule 535 (2) on the London Stock Exchange. The Stock Exchange has recently addressed the problem of accessibility to SEATS by providing a live feed to Reuters and other information vendors, but has not been able to offer the facility on rule 535 (2) stocks. Consequently, to overcome this problem, Reuters has joined forces with London market-makers JP Jenkins Ltd to offer mid-market prices in over 75 Rule 535 (2) listed stocks... SJ and S Holdings Ltd, has created

49 Emma Jenkins interview

50 Hocken interview

a further subsidiary, Newstrack who will, in turn offer a company news and data service for smaller Rule 535(2), USM and listed companies. "For every call we get from someone in the market wanting a price of a 535(2) stock, we get another two from people wanting information on the companies," says John Jenkins, chairman of JP Jenkins.⁵¹

From 1993 to 1995 Newstrack grew to occupy a small office (figure 2). The venture opened up another revenue stream: companies joining OFEX would 'enjoy the market-making skills of JP Jenkins Ltd and the news distribution expertise of Newstrack Limited for an annual cost of £2000 plus VAT.'⁵² Stock markets strengthened and the firm grew. Marketing efforts focused on finding private companies with extensive share registers that could benefit from the 535(2) service.⁵³ JP Jenkins recruited new traders and moved offices, taking a larger space in Goodman's Yard, London. The bigger space allowed for installation of electronic systems, and for the necessary separation between trading and information provision services, each on one side of a long corridor running down the centre of the building. John commissioned an engineer to build a bespoke trading system; but established trading practices persisted, and the computers effectively reduplicated his old notebooks. The traders were men (see figure 4) who had served their apprenticeship as blue-buttons on the LSE floor, often lacking a formal education beyond 'O'levels, but steeped in the practices and etiquette of Exchange trading.⁵⁴

51 Pamphlet: Reuters Contact, issue 6, October 1993

52 OFEX brochure, July 1995

53 Brown interview

54 Johnathan Jenkins interview



Figure 2. 'The Newstrack team in action', Source The OFEX Opportunity, brochure, 1999.

TRAK DGLBn Govt TRAK

...NEWstrack...

In Association with J P Jenkins Ltd

This service covers AIM, OFEX and overseas listed stocks, providing prices, data & news which are updated daily.

Page 1 of 02

1. RULE 2.1 STOCKS (EXCEPT CANADA)	2. STOCKS (A - TO - L)	3. STOCKS (M - TO - Z)
4. CANADIAN STOCKS (RULE 2.1)	5. NON-SEAO NOTICE BOARD	6. NEW ISSUES
7. BEACON INVT TRUST plc	8. DISCLAIMER	9. HEADLINES
	10. OFEX	

◆ Check Your Prices With A Registered Market Maker & The NON SEAO Noticeboard ◆

Bloomberg-all rights reserved. Frankfurt:69-920410 Hong Kong:2-521-3000 London:171-330-7500 New York:212-318-2000
Princeton:609-279-3000 Singapore:226-3000 Sydney:2-777-8600 Tokyo:3-3201-8900 Washington DC:202-434-1800
G220-2-12 03-Jul-95 17:28:49

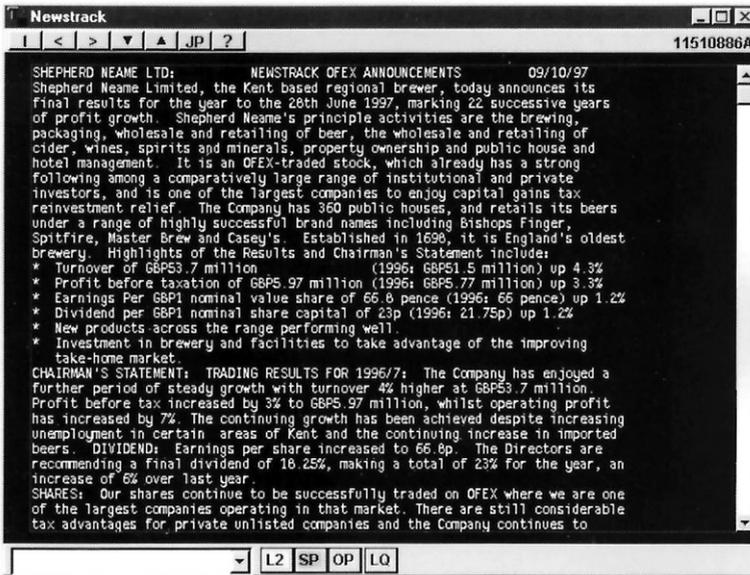
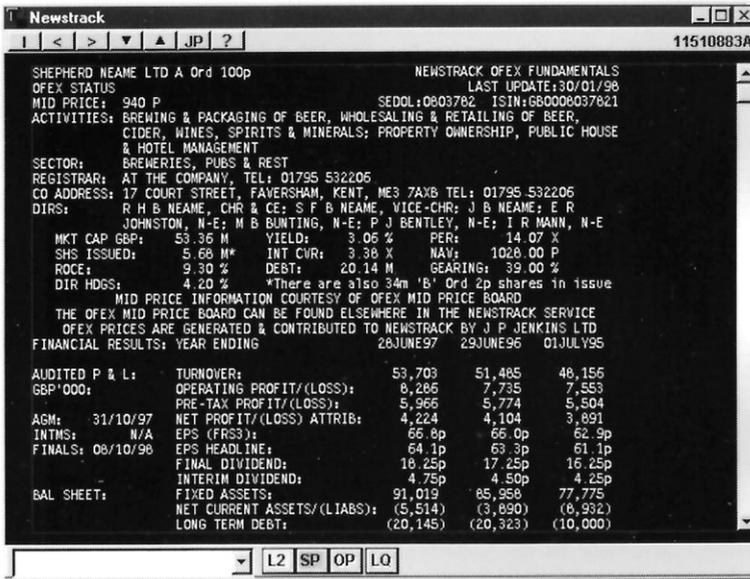


Figure 3a,b,c. Newstrack screens, Source a) The OFEX Facility, brochure, July 1995; b,c) The OFEX opportunity brochure, 1999.



Figure 4. Paul Brown sits in the foreground of the JP Jenkins dealing room. Source *The OFEX opportunity* brochure, 1999.

Posner suggests that the Reuters-Jenkins venture, while seemingly inconsequential, unsettled the LSE and was one of the catalysts which subsequently prompted the Exchange to announce that it would transform Rule 535(2) into a full-scale market.⁵⁵ My own interviews corroborate his claim. Newstrack did not anticipate such a development, however. As late as July 1995 the Newstrack screen, which resembled a teletext screen, printed a clear health warning: ‘*Check your price with a registered market-maker and the Non-SEAQ noticeboard*’ (Fig 3.a). JP Jenkins had never intended the mechanism to be a place for raising funds but, as equity investing started to rebound during the early 1990s, entrepreneurial corporate advisors began to issue prospectuses for firms arriving on the facility. The LSE was uncomfortable about the growth of the over-the-counter markets conducted under the 535(2) banner, particularly when they were being used for capital raising.⁵⁶ It had nothing to gain from Jenkins’ growing operations, but much to lose in terms of reputation. The LSE was also, as we shall see in the next section, under intense political pressure following the closure of the USM; these factors led to the birth of AIM, which not only took the place of the

55 Posner, *The Origins of Europe’s New Stock Markets*.

56 Corporate advisor 2 interview; Wallis interview

USM but also rolled the 535(2) trade into a more regulated setting within the Exchange's purview.

On launching AIM, the Exchange closed Rule 535(2) (by now renamed Rule 4.2). It encouraged companies to move on to the new market, whether from the former USM or 535(2), but an LSE listing was not suitable for all. For example, Weetabix was a private company and therefore could not float on AIM, but had accumulated a substantial roster of shareholders. Breweries and football clubs also predominated, many having unusual and therefore ineligible share structures. Other companies found their audit out of date and were faced with a costly mid-year audit, or several months' suspension from the market.⁵⁷ These companies, the story goes, petitioned John Jenkins:

"John, you've been trading our shares on rule 4.2, can you do something?" And John went to the Exchange and said, "Look, we've got these companies who we currently trade under rule 4.2 they're going to be homeless. They don't fit into AIM. Is it okay if we carry on trading these off the exchange?" And the Exchange went, "Don't know why not." John asked the SFA and they went, "Well, we've got no rule that says you can't."⁵⁸

As noted above, John Jenkins had no larger ambition than running a successful trading business in 535(2) stocks. He was now – following the LSE's changes – likely to find himself out of business and was amenable to the suggestion that he set out his own OTC market, trading shares 'off-exchange'.

JP Jenkins also faced the closure of its trade reporting mechanism via the LSE's Official List and the Exchange's market information system, as the end of rule 535(2) coincided with the closure of the non-SEAQ board. The Jenkins-LSE arrangement concerning the board had always been intended as a temporary measure while the Exchange pursued its own process of modernisation. In 1995 the LSE introduced a new digital information feed, London Market Information Link, and the non-SEAQ noticeboard was removed. JP Jenkins lost its public face. In combination with the loss of trading business the firm had no option but to start up its own facility.

'The non-SEAQ notice board wasn't very efficient but at least it was the focal point for unlimited and unquoted securities that brokers

57 Market executive 3 interview

58 Market executive 3 interview; also Corporate advisor 1 interview. A similar account is given in the OFEX's 2004 AIM offer document

could go and leave limits and do that sort of stuff on... So on the back of the Newstrack thing that we created, the information hub in a modern day parlance... we decided that if the Non-SEAQ notice board goes we need to have a marker, we need to have something out there.⁵⁹

JP Jenkins opened its OTC facility, named OFEX, on 2 October 1995, the first Monday after the Daily Official List ceased to publish closing prices (the 'marks') for stocks under the old rules. At this point OFEX existed only as a badge. It was sometimes described as a trading facility operated by JP Jenkins, and it certainly was not a market:

'The name OFEX is a Registered Trademark of SJ&S Holdings Limited and the facilities operated by JP Jenkins Limited in conjunction with Newstrack Limited.'⁶⁰

59 John Jenkins interview

60 Emma Jenkins interview, reading from a press release

5. Elite lobbying and the AIM?

The circumstances that provoked the creation of AIM are complicated. Lobbying by the small-company sector in defence of UK plc was a major factor. Yet the LSE remained a powerful institution, resistant to external pressure – though at the time it may have been weakened by the public humiliation of having to abandon its high profile settlement system project. In replacing the USM, the Exchange was also able to roll up Rule 535, by then a major worry for an institution that took reputation and compliance most seriously; the Jenkins-Newstrack venture appears to have been an important factor in the process of launching AIM. The work around the new market coincided with a movement in the British regions and Scotland to improve the regional participation in the Stock Exchange; Michael Lawrence, then head of the LSE, took a keen interest in the regions and was fond of remarking that future customers would not be found on the streets of the City of London.¹ Finally, the successful inception of the market in 1995 owed much to the skill, energy and determination of a single individual – Theresa Wallis, an executive at the LSE who became the first Head of AIM. It is clear, however, that the Exchange's decision to launch a smaller company market was initially reactive, and that as on many other occasions, the LSE deployed its 'second mover advantage',² and that the new focus on smaller companies remained alien to others. The Listing Department especially associated smaller companies with greater risk – this, despite a string of high-profile embarrassments concerning large quoted companies including Eurotunnel, Maxwell Communications and Polly Peck.

5.1. 'Firestorm'

Late in 1992 the London Stock Exchange suggested that the USM should be closed, a point made ever more strongly throughout 1993. This outcome would have left a number of powerful market figures in a difficult position. These included Brian Winterflood, the market-maker nicknamed 'Mr USM', Andrew Beeson, then senior partner of Beeson Gregory, a successful small-company stockbroker, and (now Sir) Ronald Cohen, a leading venture capitalist. Those unhappy with the LSE's decision made a noise:

1 Hughes interview

2 Ward interview

‘Suddenly King Herod had just been appointed to the Board of Mothercare, right. You know, the Exchange is out to kill the entrepreneur. I mean, the press was just relentless...this firestorm.’³

Cohen argued that the closure of the USM would be a particular problem for the venture capital community. Left without an exit route for its investments, financial contributions to the venture capital sector would shrink, and a politically important part of Britain’s smaller company ecology would grind to a halt. Winterflood, who was in the process of selling his recently-founded Winterflood Securities to Close Brothers for £15 million, campaigned so forcibly that he is sometimes held to be the founder of AIM.⁴ Cohen, Beeson and Winterflood formed a ‘ginger group’ (in Winterflood’s words) to lobby politicians and the LSE on behalf of UK plc, and by doing so look after their own interests. This group became the City Group for Smaller Companies (CISCO, later the Quoted Companies Alliance, or QCA), formed in December 1992. CISCO set about lobbying and raising awareness via the press. CISCO’s suggestions were elaborate, as Tim Ward, the current chief executive of QCA, explains:

‘CISCO...got together as the City participants to say, “Hang on a minute, we need something in place of the Unlisted Securities Market, you ought to re-visit your decision.” I think initially the Stock Exchange said, “No we won’t”, so they came up with a plan [suggesting] that the Stock Exchange reformulated its offering so that it had...something like, a global market, a national market, which had obviously national companies on it and what they called an enterprise market.’⁵

CISCO argued that there was an underlying demand for a junior market, that the Exchange was reacting too hastily to a long and deep recession, and that looking towards the mid-1990s, an economic upturn would once again create a climate conducive to equity finance and that appropriate institutional arrangements to support this should be put in place. Its April 1993 newsletter contained a long plan for a three tier equity market, the lowest tier being an ‘Enterprise Market’. Admission requirements would reflect the legal minimum – no trading history or capitalization requirements – but the proposal did suggest a minimum stock issuance of £500,000 on the

3 Vardey interview

4 The Observer, 7 March 1993, ‘Close pays pounds 15m for Winterflood’, George Parker-Jervis, p.27; Corporate advisor 5 interview

5 Ward interview

basis that this would encourage bona fide motivations for listing. Another proposed innovation was a proposed short trading window, perhaps one hour twice daily, to concentrate liquidity. The documents hinted that CISCO would be prepared to support a new market beyond the purview of the LSE, if necessary.⁶

The story of market and government pressure on the LSE was pervasive in my interviews:

'I think [there was] a lot of pressure...from HM Treasury and the bank of England to say, "Look, we need somewhere for early stage pre-listed companies to actually be tradable. You, the Stock Exchange cannot wash your hands of this." They were getting it from members and from HMG. That led to the creation of AIM.'⁷

Those managers at the LSE who faced the financial community after the closure of the USM remember a deep anger among brokers and investment managers in the City and across the regions. There was a concern that a uniquely British small-company equity culture would wither away.

'There's always been a culture of small and big companies in the UK and if you didn't have a USM or some dedicated market then the chances are that a lot of the infrastructure around it in terms of market makers and investors and portfolios and all that kind of stuff would have died away. So it was quite important that we did set something else up.'⁸

In short, the community saw the Exchange as out of step with the zeitgeist of a nation trying hard to recover from a sharp economic downturn:

'It was that bad. I got shouted down at conferences...People hate bad publicity, including the Government, and there'd be phone calls coming in from Treasury, "What are you doing?" So on and so forth. And, of course, the listing department had to report to the Treasury directly. [The board] came to me and said... "you've got to find an alternative for the USM."⁹

6 Cisco Newsletter, February 1993, p.8; April 1993, p.5-16.

7 Market executive 3 interview

8 Fund manager 1

9 Vardey interview

By March 1993 Nigel Atkinson, head of the LSE's Listing Department, had begun to give ground.¹⁰ CISCO held talks with the LSE, forcing the Exchange to extend the USM's life by several months and set up a working party to consider a new market.¹¹ The Exchange opened a consultation and received sixty responses from City bodies. It established a practitioners' committee chaired by Ian Macpherson, a Scottish business grandee, and comprising Winterflood, Cohen, Patrick Burgess (a lawyer, now chairman of blue chip British property firm Intu plc) and others.¹² Different parties advocated different positions, Cohen preferring a high-growth market modelled on NASDAQ, for instance, while the practitioner committee 'fizzled out'.¹³ But the LSE enjoyed a powerful position and did not cave in to pressure at once.¹⁴ It called the response to the consultation 'disappointing'. Despite government support the LSE initially rejected the CISCO plan for an enterprise market. In fact, the LSE denied the fundamental claim that it was prejudicing the entrepreneurial dynamism of the United Kingdom. Atkinson was quoted as saying:

'I totally refute suggestions that by recommending the closure of the USM the Exchange is somehow stifling entrepreneurs. Even those most vociferous in their demands for a new market to replace the USM do not dispute the fact that the distinction between the USM and the Official List no longer justifies two separate regulatory regimes.'¹⁵

Many in the broking community shared this view, arguing that marketability of stock was a function of quality rather than the structure of markets:

I don't think anybody was really caught out [by the closure of the USM]. They transposed to something else. If you couldn't deal in a stock it was because it was shit. Anything with quality survived in one guise or another.'¹⁶

10 The Independent, March 5, 1993, 'Temporary reprieve expected for USM', Neil Thapar, p.25

11 The Times, April 2, 1993, 'SE bows to calls for an alternative to the USM', Jon Ashworth; The Guardian, April 2, 1993, 'Redundant USM is given an extra year's working life', Dan Atkinson, p.17

12 Panel members included Ian Macpherson (Scottish business grandee, appointments including chairman of Caledonian Newspapers, panel chair) Nigel Atkinson of the LSE, Neil Austen of KPMG, Patrick Burgess, partner in Gouldens, Ronald Cohen, chairman of Apax venture capitalists, Mark Cramsie of Singer & Friedlander, J. Davies of 3i, Jim Findlay, partner in Cazenove, G. Fitzgerald, Framlington Investment Management, John Gregory of Beeson Gregory, Geoffrey Madrell of Proshare, E McCutcheon of Albert Sharp, G R A Metcalfe, UMECO, David Quysner, Abingworth Management, Giles Vardey, LSE markets development officer, and Brian Winterflood of Winterflood Securities. Source: The Herald (Glasgow), April 30, 1993, 'Macpherson chairs SE working party', Eric Baird, p.17

13 Ward interview; Wallis interview

14 Posner, *The Origins of Europe's New Stock Markets*.

15 Evening Standard, March 5, 1993, 'Exchange hits back over USM', p.33

16 Nathan interview; similar sentiments, less pithily expressed, from Williams and Buchanan interviews

We can speculate that the Exchange was at the time unusually vulnerable to media attention. In March 1993, the London Stock Exchange had been forced to scrap its Taurus paperless settlement system and its reforming chief executive Peter Rawlins had resigned. Work on Taurus had begun as early as 1981, but the project had been dogged by opposition from banks and registrars, who stood to lose work and had to rebuild their own systems to be compatible with the new one. The project spanned a decade of revolutionary change in the architecture of London's markets and so never stood on solid ground; it was only the LSE's firm, if mistaken, belief that it should pursue the revenues attached to settlement services that sustained the effort.¹⁷ The media did not spare its barbs: Rawlins, reported the Independent, 'was a frustrated thespian whose early search for fame took him as far as an appearance on Bruce Forsyth's Generation Game.'¹⁸

The Taurus affair cost the LSE £75m and the City as a whole several times that amount; it received global news coverage and left the institution looking old-fashioned and directionless.¹⁹ Michael Lawrence became the new chief executive of the LSE late in 1993, recruited from beyond the broking community with a mandate to give the struggling institution a new direction. In April 1994, he announced a 'seven-point plan' mapping out the Exchange's future direction. CISCO reported that 'the cornerstone of this plan was the development and relaunch of the 535.2 "trading facility" as a distinct market.'²⁰ Further to this a consultation document published in September 1994 again positioned the LSE's proposal as a specific move to develop and relaunch Rule 4.2, as well as offering a home to companies unable or unwilling to move from the USM to the Official List.

The decision to launch a new market also coincided with a new interest in Scotland, Northern Ireland and the regions on the part of the LSE, and a parallel recognition in those places that the financing of entrepreneurial businesses might offer a remedy to the economic collapse that followed the rapid de-industrialisation of the late 1980s.

'There was a major enquiry into Scotland's relatively low level of company formation in the early nineties. I think a key strand of

17 Michie, *The London Stock Exchange: A History*, 608-9.

18 The Independent, November 14, 1993, 'Profile: Enter the man from the Pru; The Stock Exchange's new chief tells William Kay that he's his own man and it's time to end the mistakes', William Kay, Business p8

19 See, e.g. Investors Chronicle, September 3, 1993, 'Who Needs The Stock Exchange? - The Stock Exchange has lost an empire and has not yet found a role. Is it really worth preserving?', Diane Coyle, p.12

20 Ward and Wallis interviews, CISCO Newsletter, September 1994, p.2. Wallis remembers being physically handed the plan as she stepped into her new role.

that, why is it Scotland has this problem, the access to finance issue was raised. ...There was some sort of advisory or steering group that was established in Scotland to look at what Scotland's response might be to the AIM proposal...from the stock exchange side, the Chief Exec, Michael Lawrence, who was promoting the whole idea of AIM, which was to for the London Stock Exchange to re-engage with the regions, I think Michael's idea was a lot of these smaller companies, earlier stage companies are not going to be walking about the City of London, you know, they're going to be in the UK regions. This was like a kind of back to the future to I think the older days where there were regional exchanges...he was a champion of the stock exchange being much more relevant in the regions of the UK and Ireland'²¹

There was money in the regions and money is vital to a viable small company exchange. Hughes recalls meeting a broker from Northern Ireland with '£1.2 billion of old money' under management. Despite the depredations of the 1980s there was still a regional infrastructure capable of supporting the new market: a Birmingham Stock Exchange, brokers in the Channel Islands bringing companies and business to 535/4.2, a stock exchange office in Glasgow.²² Received wisdom at the Exchange held that local investors preferred local businesses:

'One of the things I heard and learnt when I first came on with the role was... investors, when it comes to small companies they'd rather invest close to home where they can go and visit the companies and they look them in the eye and all that sort of thing.'²³

The attention to regional networks was constant throughout the whole process. Martin Hughes and David Walker were seconded from Scottish Enterprise and Scottish Financial Enterprise respectively, along with Damian McLaughlin, seconded from Midland Bank. Hughes was based in London initially and then in Glasgow, and had responsibility for promoting the market in Scotland, Northern Ireland and north-west England. Coverage was substantial:

'Once we issued the consultation document we then had to present it all around the country, every city even up to Inverness. We had a roadshow

21 Hughes interview

22 Buchanan interview

23 Wallis interview

going round a lot of cities in the UK where we explained the new proposal what our thinking of what the market would look like.²⁴

The legal scholar Elliot Posner sees the evolution of AIM in terms of a series of competitive responses that allowed the LSE to preserve its monopoly position in the UK. He suggests that the LSE acted to preserve its interests on two fronts: the threat of a pan-European small-company market, a project driven by Cohen and Jos Peeters, a Belgian venture-capitalist with close ties to the European Union and JP Jenkins' joint venture with Reuters to provide information on 535.2 stocks (namely Newstrack).²⁵ The launch of EASDAQ was delayed until 1996 and, although it was soon regarded as a major threat, there was considerable scepticism among interviewees that EASDAQ alone had provoked the LSE into an about turn: AIM was intended as a national market for all kinds of businesses, and this was driven by the perception that the smaller company investor preferred national, even local investments.²⁶ It does seem the case, however, that JP Jenkins' Newstrack–Reuters venture unsettled the Exchange. Those working within the LSE on the launch of AIM remember anxiety about the risks posed by the Jenkins–Newstrack venture:

'The rule 535.2 facility morphed into an informal unofficial market...I remember seeing prospectuses which were public offer prospectuses but they said on them "the shares will be traded on the Rule 4.2 or Rule 535.2 market"... Something was happening by itself...I was advised to use [the narrative that]... the European Regulations no longer allow us to be associated in any way with an unregulated market... Under the rules if two member firms did a deal with each other, then the price at which that was done could be recorded in the Daily Official List and it would be viewed as the price of that company...But I think John Jenkins was taking it all a bit further and making the pricing a bit more visible...it was turning into a market which benefited from the London Stock Exchange's name and reputation but we weren't regulating it.'²⁷

These accounts find further support from Stephen Hazell-Smith, a specialist smaller company fund manager who launched the Beacon Investment Trust to capitalise on the forthcoming AIM opportunity. Like all fund managers launching a new scheme, Hazell-Smith conducted a roadshow of potential

24 Wallis interview

25 Posner, *The Origins of Europe's New Stock Markets*.

26 Vardey and Wallis interviews

27 Wallis interview

investors, and to reassure them of the viability of the forthcoming market he used trading figures from the Rule 535 market, provided by John Jenkins.

‘John’s family had dealt for years in the old what was known as the Rule 535 market and we needed data to be able to prove to our potential subscribers, to the investment trusts that there was activity, interest, call it what you will, in these very small companies. And John, bless him, had that data, provided that data to us free of charge and we were able to go on the road, Andrew and I, and demonstrate that there was potential here.’²⁸

In other words, those active in the practitioner community recognised the continuity between the 535 market, soon to close, and AIM. Andrew Buchanan, Hazell-Smith’s partner at Beacon, felt that the Exchange had made a mistake in closing the USM and that the existing 4.2 mechanism offered a convenient way forward:

‘[We] put a suggestion to the stock exchange that actually here was a group of companies in which there seemed to be some perfectly reasonable trading activity but no obvious mechanism. And yet the lack of a mechanism didn’t seem to inhibit the liquidity in the stock. So, in so many words, what was the problem? It seemed to be somewhat short-sighted to us. It was a mistake to have shut the USM and they could build on 4.2 to make it a reasonable market, a quote-driven market place... To help it on its way, Rutherford launched a little investment trust called Beacon in August ’94 to invest in effectively the 4.2 matched bargain facility and any successor market and that successor market, June ’95, becomes AIM.’

It seems the embattled Exchange simply did not have the stomach for a prolonged ‘firestorm’ surrounding small companies, and there was a broader question too: after so many changes, what was the Exchange to do? The loss of the settlement system was a major blow to an institution that had divested itself of mutual status and was seeing its regulatory ambit diminished. Everyone within the LSE was aware that change was at hand:

‘The days that I was living through in the Exchange were transformational. The settlement business had just gone to Crestco and all the old stockbrokers

and jobbers used to say that was the glue that held the market together. So what was next that was going to go? Well, obviously the regulatory function. There was going to be changes in regulation... Then we had the loss of the member firms, the mutual status.²⁹

A focus on UK plc, on the raising of risk capital, and on the UK regions offered the LSE a new direction and potentially a new lease of life. A new market in the form of AIM could supply all of these things and at the same time save face following the closure of the USM and deal with the regulatory worries that Rule 535/4.2 now presented. The LSE pushed ahead.

5.2. Building a market

The Exchange was mindful that the USM's failure to establish its own market position had led to its closure. A central question for any new market, therefore, was how to differentiate itself from the Official List. Michael Lawrence recognized that a new approach to listing would be vital, and that, in the conservative institutional culture of the LSE, this would require an entirely new listing team. Lawrence placed Theresa Wallis in charge of a working party with a brief to think about listing in a completely new way. Wallis had already demonstrated her management – and marketing – skills at the Exchange by developing the Eurobond listing activities to match the customer-friendly, turnkey service offered by the Luxembourg Stock Exchange. A pivotal figure in this history, Wallis' efforts have never been fully recognised, though it is clear she displayed a remarkable energy and competence in making the market happen. She had been instructed to 'walk through walls,' said one interviewee, 'and she did'. Another described her as an 'incredible leader, a team player, politically aware... phenomenal... it was a blessing to be working with her.' Wallis remembers that she was 'inspired by the ability to [do] anything that can help the UK economy and can help... helping smaller companies grow, helping the UK economy.'³⁰ She emphasises how much support the working group received from the rest of the Exchange; she remembers colleagues with deep expertise in listing practices and regulations and the minutiae of running an exchange, while her own team fizzed with excitement and a real commitment towards helping the British economy. The working group was driven by the twin concerns of keeping quality up and making the market accessible, which in practice meant keeping costs down. By May 1994 it was clear that

29 Hughes interview

30 Interviews, Wallis interviews

‘the market had to have three aspects, clear identity, differentiation and... appropriate regulation, something like that... whatever new market happened, didn’t have a name, the vaguest idea of what it would be...it had to be clearly differentiated from the main market, have its own identity so that it’s not managed via a part of the listing department... People were saying... the reason NASDAQ has been successful is that NASDAQ is separate from the New York Stock Exchange and it was kind of, ‘Well we can do that inside the London Stock Exchange but from a separate team within the Exchange.’³¹

At the same time, the new market could make use of the LSE’s expertise, infrastructure, and prestige:

‘The Stock Exchange knew how to operate markets, it had got the facilities, it had got the people, it had got the resources, and it had got the prestige. On the other hand, I think having a separate department was absolutely key and from those early days of AIM working under Theresa I became convinced that AIM could have its separate values, its own separate rules, its own separate problems, opportunities and so on and that was Michael Lawrence’s vision.’³²

The resulting market was a peculiar organizational mix of neoliberal laissez-faire and old fashioned club. AIM was to operate as a ‘disclosure-based market’, following the American model, where the emphasis was on providing information and allowing choice. Simon Brickles, a barrister by training who later became the LSE’s Head of AIM, articulates a clear vision of what such a market should be:

‘I always tried throughout my career to maintain the vision that Michael had for a small ... market based on pure regulations... I don’t think [heavy regulation] is the business of a Stock Exchange, we should be the high temple of capitalism, we should allow as much choice and freedom as compatible with a reasonable level of investor protection’³³

31 Wallis interview. The ‘Alternative Investment Market’ name was thought up by Wallis and two colleagues sketching on a flip-chart. Michael Lawrence subsequently suggested with the brand abbreviation.

32 Brickles interview

33 Brickles interview

The listing department acted as quality control for the Official List but this model was not deemed appropriate for a smaller market. The new market took the success of Rule 4.2 as a model:

'[It] seems to be reasonably successful in that the private investors, investors who are buying on Rule 4.2 don't seem to mind – it's very much a caveat market – don't seem to mind that it's not regulated. They know what they're going in for. Maybe this is going to be the solution, [if] we build a market around what was Rule 535.2 dealing... This new market that was going to be created was simply regulating rule 535.2 to a level which we thought was commensurate with a) what the market needs, meeting those criteria and b) it's got our badge on it so we can...we feel it's well enough regulated.'³⁴

The day-to-day construction of the new market was driven by the consultation document. As responses were received they were distributed among the small team, reviewed, and discussed at a morning meeting. Megan Butler, then a young lawyer at the LSE (now Director of Supervision at the FCA) advised the group on developing the Rulebook and regulatory compliance. The team had to manage such technical issues, often with the support of the community from beyond the Exchange. But most of all, the new market had to be talked into being. Hughes describes the process in detail, as

'Knowledge building, consensus building, to inform an emergent model. This was a continuous iterative process. The Exchange was very diligent and quite pedantic in the way that they would issue their consultation document. They would receive the responses, the responses would be considered, we would discuss them during our morning review meetings. If there was anything, [if] there was a point of clarification, it was dealt with quite quickly, either by a phone-call or by a meeting. There were continuous meetings because as well as the consensus building element was that you were continuing to raise awareness at the meetings. So you'd maybe have things that some of the legal firms during the day or at night there would be something on, or you'd be invited round for dinner at Clifford Chance, or something. It was all about the market, getting to understand it, and that engagement. You

34 Wallis interview.

could tell that the relationship was very close. You could tell that it was understood why it was important... there was never anyone who was not willing to engage properly, and think about it. Some of the legal firms as well, who were quite high end, at very senior level, they would have you in and they would talk about things and give you real valuable guidance, because I think, as I say, there was a recognition and an understanding that this is going to be important so we really should make sure it's right.³⁵

5.3. Privatized regulation

Organized around the key principles of disclosure, accessibility and low cost the proposed rules placed the onus on company directors to publish full information and keep the market updated with price sensitive news. As part of the drive to keep costs down the consultation document suggested that sponsorship (the arrangement by which a qualified firm takes formal responsibility for supervising the conduct of the listee, compulsory on the Official List) would be optional. Firms would need a member firm (a broker) to support trading. From an institutional investor's point of view this compromise made sense: investors were sophisticated enough to navigate a caveat emptor market, but the natural lack of liquidity in small company stocks would still require some kind of intermediary to facilitate institutional trading. This was certainly the line taken by Hazell-Smith and Buchanan's Beacon Trust, but as responses to the AIM consultation came in the few voices of institutional investors were outnumbered by those who suggested that some kind of sponsor would still be necessary, if only to offer reassurance to the investing public. A purely 'caveat market' was too much for the community to bear. The LSE therefore proposed the role of Nominated Advisor, or Nomad, with certain guaranteed professional qualifications and experience. Finance scholars describe the Nomad system as 'private sector regulation' and have debated its efficacy;³⁶ it is clear, however, that outsourcing regulation to a third party has cost implications for listee firms, the very reason that the working group had sought to avoid it in the first place.

35 Hughes interview

36 According Gerakos et al., firms listing on AIM underperform peers listed on more regulated exchanges, less regulated exchanges (e.g. the American 'Pink Sheets' OTC market) and even private equity, and are more likely to fail than firms on other markets. On the other hand, Nielsson argues that AIM-listed firms are of equivalent quality to those listing in more regulated markets, and simply do not meet the listing criteria of more established markets. Scholars do agree that AIM offers a successful fund-raising venue for smaller companies. Joseph Gerakos, Mark Lang, and Mark Maffett, "Post-Listing Performance and Private Sector Regulation: The Experience of London's Alternative Investment Market," *Journal of Accounting and Economics* 56, no. 2-3, Supplement 1 (2013); Ulf Nielsson, "Do Less Regulated Markets Attract Lower Quality Firms? Evidence from the London Aim Market," *Journal of Financial Intermediation* 22, no. 3 (2013).

Nomads were to be policed by reputation alone. Much depended upon the 'advanced equity culture' that had grown up in the market:

'I think practices had arisen over many years whereby brokers would make sure that a good level of due diligence was done on companies before they bought them to the market, and due diligence of a particular type, which advisors they would use to do what particular exercise. And they'd had many years of experience doing it so they knew what pitfalls to look for, they knew what could go wrong.'³⁷

The advisors would have ample opportunity to get to know clients, thinking held. Compiling a public offer document over a period of several months provides ample opportunity for scrutiny of products, books and management. Certain financial events, such as a bankruptcy, would signal financial recklessness on the part of a potential listee and would be enough to deter many advisors.³⁸ Nomads who willingly brought poor-quality goods to market would find themselves struggling to sell future offerings to investors and concern for their own commercial prospects would lead them to act diligently and scrupulously.

The team believed that a certain level of experience would be necessary and ruled that each Nomad had a four 'qualified executives', defined as market professionals who had completed three qualifying transactions in the past year. Tim Ward, at the time a young accountant seconded from the LSE's Listing Department, was responsible for drafting the eligibility criteria for these Nomad firms and overseeing initial applications. In effect, the rules guaranteed that each Nomad had sufficient reputational capital at stake to make it conscious of the quality of firms that it brought to market.

'The Exchange did not want firms which did not have a reputation to suddenly pop on this market and build their reputation on the back of the market. It was necessary for the firms that were nominated advisors to have a reputation that they needed to protect and enhance, rather than one to create. So it was not one for new boys to come in saying we are going to build our business off the back of this....the idea was that there had to be four people within any firm who had done relevant transactions, and a certain number within the last two years I think it was, so that they were

37 Wallis interview

38 Norcorss interview

experienced, qualified and able to do the role that had been set out for them by the Exchange.³⁹

Some saw the requirement to have a minimum of four qualified executives as a restrictive practice. It placed firms in a very weak position relative to their executives, who could leave and thereby strip their employer's regulatory status:

'We eventually became a NOMAD. Not an enjoyable experience... We got the four QEs... One of our chaps qualified, we took two from another firm, and I can't remember where the fourth one came from. But the two that came from [rival firm] also brought another person with them and those three... just kept forcing the [salary] prices up, and constantly threatening to leave. And of course as soon as you lose one you've got to go and replace them. This is where you get into this bidding auction to try and find QEs.'⁴⁰

Other firms opted to avoid becoming Nomads altogether, and offered advisory services contracted through a registered Nomad.

The Exchange's vision harnessed the close social networks that persisted in the City in the 1990s, many of which stemmed from before the Big Bang. In the words of Simon Brickles, it relied upon 'the tools and instruments of a club':

'I think in many ways the essence of AIM, and if you like, the way in which it was operated, [owed] more to the clubbable aspect of the Exchange, and the black-balling and the fact if you look at the sanctions the Stock Exchange had they were not those that modern regulators have to impose an unlimited fine. I think there was a fining power on issuers but hardly to be used. The censure was the thing, a private censure... [and] the public censure, which was really only ever used when you were trying to give a signal that somebody was a wrong 'un... These are very much the tools and the instruments of a club.'⁴¹

And,

'When you run a stock exchange... you have two rulebooks. One is the written rulebook and the other is the unwritten rulebook.'

39 Ward interview

40 Hoodless interview

41 Brickles interview

Now the unwritten rulebook is when you turn up and say, "Hello, I'm [so and so] stockbroker, I've got this really interesting company and I want bring them on your market". And you, as the regulator, say, "Don't even think about it. If you turn up, we just won't let you do it, we'll remove your licence, you'll stop being an authorised broker"...When it came to AIM, there was a network underneath which says, that company, don't touch it. And so an awful lot of this stuff was unwritten, unrecorded, but by and large, one of the reasons why AIM survived better than most was because we did things like that. Can't discuss it publicly, deny all knowledge.⁴²

The Nomad structure proved successful, although it is not clear how much power the early managers of AIM actually wielded, and there have been persistent concerns that the market is not strict enough in dealing with errant Nomads. The response to the initial consultation had noted:

'The performance of nominated advisers will be assessed on an annual basis and firms may be censured or removed from the register if it is considered that the integrity and reputation of AIM may have been impaired as a result of the conduct or judgement of a nominated adviser.'

Or, more succinctly:

'It was always implicit...we would shoot one a year *pour encourager les autres*...I think the Stock Exchange didn't do that. They were too obsessed with the marketing, getting companies on.'⁴³

A former senior executive of the LSE remarked to me that he felt that managers of AIM became too close to the NOMAD community for the health of the market.⁴⁴ Certainly there was an ongoing conflict between issue volume and quality, a tension that only became more difficult in the bull market of the late 1990s.

AIM listed companies also needed to retain a broker whose role it was to maintain an orderly market, helping investors to dispose of shares and placing new stock in the case of fundraising, to 'oil the wheels of the stock':⁴⁵

42 Vardey interview

43 Vardey interview

44 Source, telephone conversation

45 Hoodless interview

If [an institution] had a line of shares in an AIM company and they weren't marketable, it's very unlikely they would drop them into the market. They would try and find a broker to place them. And that was where we as a firm tried to fit in...we had institutions asking us to take stock from them. And then they used to get very upset because we didn't offer them a very good price...we dissipated those shares over a wide number of shareholders.⁴⁶

Effective brokering depended upon strong networks and a good reputation,

'understanding the business, dealing with honest people, doing the due diligence effectively with the help of lawyers and accountants, it would be a good network... and then having very good distribution through the salesman and good research...In 1994/95, we started a market bank, along with others, so we acted both as an agent and as a principal...Liquidity was the principal reason, providing liquidity because institutions want liquidity. Also the margin...you tended to have a buyer and a seller and something in between and why would you do a put-through... and...give the job to the market-maker at a small turn? So we took it ourselves.'⁴⁷

A central role of the broker is to manage supply and demand of the stock, particularly dealing with large purchase and sale orders. A corporate broker is expected to understand the secondary market for a given stock, and has to expend considerable energy building networks with institutional buyers and sellers in order to facilitate these transfers – what Beeson refers to as a 'put-through' in the quote above. Maintaining these networks is an ongoing effort, based around a continuous process of marketing for each client company. Nevertheless, brokers can find their efforts frustrated by relatively small purchases and sales from the retail market:

'The market price, the price you see on the screen, is generally set by the retail investor, the balance of buyers and sellers, all these five grands and ten grands and 20 grands worth of stock...so they will interact with our market makers, which will adjust the price depending on the supply and demand in the market. The institutional investors generally stay out of that. They don't deal in

46 Nathan interview

47 Beeson interview

small amounts. But if they want to sell a million pounds worth of stock, they will look at the market price, they'll probably give us the stock at the mid-market price. I know I've got a seller, I've got that order, and I can ring up another institutional investor, and if he agrees to buy it at that price, we match them. So the million pounds worth of stock goes through the market, one's sold, one's bought. But it doesn't change the market price. Someone can come on and buy ten thousand pounds worth and it will put it up, or if they buy or sell, it could put it up or down by five to ten per cent.⁴⁸

Of course, broking could lead to its own difficulties in terms of compliance, especially during periods of rapid expansion or contraction when many of the salesmen worked on their own account, colloquially known as 'eat what you kill'. These 'half-commission men' split their revenues 50-50 with the firm through which they operated, and could be difficult to manage:

'The business got better, there were more people on board, we got employed salesmen who were – they could tell a story... they were a bit rough and ready ... didn't know what the limit in terms of what they could do, what they could say [it was] a constant nightmare keeping track of them. It wasn't boiler room stuff because we were dealing with companies we knew about and we had done due diligence on those companies before any selling was going on. They just – the whole point about marketing at any level and, you know, any IPO we do now, is you have a document which had been verified and approved – that is the message – you can only talk to what's in that admission document, draft or whatever you want to call it. You can't say, yes, it's going to go gang bust because of X, Y and Z if that's not in the document – I think those sort of lines get blurred sometimes.'⁴⁹

AIM was launched in June 1995, with the full weight of the LSE behind it. On its first day of trading in 1995 10 companies with an aggregate value of £82 million joined the market. It offered streamlined listing for companies already trading on Rule 4.2 or listed on the USM. It took time for interest and confidence to grow. The Beacon Trust, with its relatively small £19m, was the only larger investor in the sector – '£19m doesn't sound a lot but it was 17, 18

48 Norcross interview

49 Corporate advisor 4 interview

more than anybody else.⁵⁰ Yet it turned out to be a propitious time to launch a new market and AIM began to flourish in the boom of the late 1990s. As a privately regulated market it proved an excellent venue for new issues of younger, higher risk companies and grew rapidly, especially during the dot-com bubble.

'AIM was a slow burner, institutions were not invested initially, [just] retail investors, and there were some very odd little companies floated. Then gradually a few brokers realised the potential of it, so some slightly better companies were floated on the market and in 1999 there was a rush, there was certainly a lot of technology exposure through the AIM market ... All you had to do was to have a knitting pattern and put .net and people would buy the shares and that worked for three years.'⁵¹

50 Hazell-Smith interview

51 Market maker 1 interview

6. 1995 to 2000: Dotcom bubble and IPO boom

By the late 1990s OFEX had come to resemble a small-scale capital market. It flourished in the dotcom boom and suffered in the bear market that followed. The boom years set in train a process of restructuring in pursuit of growth and legitimacy, with OFEX gaining regulatory recognition as a 'prescribed market'. It floated on AIM, and then following a disastrous fundraising, slipped from the Jenkins family's control. The next two chapters deal with those events.

Entering the late 1990s, the group's structure remained that established prior to 1995. Newstrack Ltd and JP Jenkins Ltd operated as independent companies, owned by SJ & S Holdings, which John Jenkins chaired. John ran the trading business, and Emma and Jonathan (her younger brother, who re-joined the firm in 1997) ran the growing exchange business as joint managing directors. Initially, OFEX's entry requirements were light: a fact sheet published in 1996 states that

'The facility welcomes both established trading companies or start-up enterprises which can meet the entry requirements. These requirements include free transfer of shares, compliance with Public Offers of Securities requirements if a fund-raiser, provision of audited accounts or a detailed business plan if a start-up, directors' declarations and basic company fundamental data.'¹

Application was straightforward: a Stock Exchange member firm, or a member of a recognised professional body such as an accountant, could apply on a company's behalf. It needed to present an application form, a questionnaire, and some directors' declarations, together with a non-refundable application fee of £250 plus VAT.

The first public offer of securities on the trading mechanism had been Syence Skin Care, which started trading in OFEX on 18 October 1995. The firm raised £250,000 in a public offer conducted by corporate advisor St James Capital. John Jenkins reportedly told John Bridges, the advisor responsible, that he 'scared the hell' out of OFEX's management, who had never envisaged that a company would raise money on the market. Although there had been a history of firms issuing offer documents through Rule 4.2 and therefore under the LSE's auspices, under the new arrangement OFEX had suddenly taken

1 Ofex factsheet, n.d.

responsibility for its listings and thus inherited the LSE's concerns about the reputational liability carried for companies listed on the market. In regulatory terms, the ability of OFEX to act as a primary market (for capital-raising) was unclear; it operated as an Alternative Trading System (ATS), a regime designed not for new issues but for trading.²

Despite the claim that all applications were reviewed by an independent panel of experts, unpleasant scandals rocked the young market. The most infamous was Skynet, a firm which offered satellite-operated tracking devices for cars. Having listed at 27p, the stock climbed to 275p, valuing the company – despite an absence of sales, or even a viable product – at £30m. Following outrage from investors, board resignations, demands from the tax office and the landlord, and finally an auditor's declaration of insolvency, the shares were suspended in January 1998 at 4p. The firm's demise was compounded by a rescue plan from OTC fraudster Tom Wilmot himself.³ For this reason JP Jenkins moved to tighten standards, and in October 1997 published a code of best practice, recruiting David Webb from the LSE's compliance department to supervise new issues.

Meanwhile, JP Jenkins began to promote OFEX in a more systematic way. It supplied price and company data to resellers such as Bloomberg, Reuters, ADP, and ICV-TOPIC3. The Financial Times and the London Evening Standard carried closing prices of some of the more important shares. Newstrack published an 'OFEX Monthly Review', containing a summary of news and company activity and distributed to the OFEX community every month. On the trading floor of Gorgonzola Hall inexperienced jobbers and trainees had relied upon a publication known as the 'Squirt's Guide'; much to the chagrin of some older members of the community, the firm registered the name 'Squirt's Guide' as a limited company and used it to produce various promotional materials.⁴ A 1999 brochure titled 'The OFEX Opportunity' sang the market's praises and promoted the firm's national roadshow, which had by 1999 developed into a full-scale exhibition at the Business Design Centre, in Islington, London. By 1999 a redeveloped website allowed private investors to access content that had previously been distributed via Newstrack, such as company fundamentals and announcements. In what OFEX described as 'a turning point in the battle to get up-to-the-minute OFEX information freely accessible' the site provided data in real-time and clearly signalled the firm's increasing recognition that its investor base comprised retail investors,

2 Market executive 6

3 Cliff Feltham, 'Skynet echoes warning of dangers on the Ofex', Daily Mail, January 10, 1998

4 Squirt is a slang term for a young man, or boy

commenting that 'the ever increasing demands of the user have not allowed the web team time to catch breath'.⁵

The firm sought to shake off its 'wild west' image and to reassure regulators by enacting regulation designed to protect investors at a standard appropriate to a recognised investment exchange, even though it was not one in regulatory terms. The 1995 pamphlet states that 'the insider dealing provisions of the Criminal Justice act 1993 are *likely to apply* to OFEX' but it was by no means clear that they did.⁶ In fact JP Jenkins operated a trading facility where insider dealing was technically legal yet presented huge financial risk to the market maker. The management of OFEX sought regulatory protection: executives lobbied the Takeover Panel to ensure that OFEX fell within its remit, and the DTI to include the trading facility within the scope of the insider dealing regime.⁷ Being covered by the Takeover Panel provided shareholder protection in the case of a bid and was part of a more general push towards respectability. The firm established a selection panel to screen firms that wished to join the market and emphasised compliance structures to the point of seeming 'paranoid'.⁸ One member recalls the panel comprising about 18 people, and being too big and unwieldy to conduct efficient business.⁹ Such caution was justified as OFEX did receive considerable public and regulatory scrutiny, despite strict internal policies and John's repeated assertion that trading was driven by 'old-school' values. The firm was also judged by the reputation of the advisory community around it and the quality of firms listed on the facility:

'the reputation of OFEX was solid, [but] they had some...advisors which I can best class as shake hands and count your fingers. And some deals which I'm surprised they felt they should be taking on board. Which, of course...didn't exactly enhance the reputation.'¹⁰

By the late 1990s, booming markets per technology new issues and regulatory concerns led to a repositioning of the commercial offering from purely market-making to a broader sweep of market-related services. In 1998, OFEX ceased to be a name for the trading facility and moved to the

5 *The OFEX Opportunity*, p.5

6 *The OFEX Facility*, July 1995, p.3, emphasis added

7 Jonathan Jenkins and market executive 3, interviews. OFEX may have been unaware of the LSE's own experience after the 1980 criminalization of insider dealing. The change to criminal prosecution greatly raised the burden of proof, lowering conviction rates and robbing the Exchange of the means to deal with an insidious and damaging practice. Michie, *The London Stock Exchange: A History*, 600.

8 Emma Jenkins interview

9 French interview

10 French interview

company Newstrack Ltd. In other words, 'OFEX' changed from being a badge for a trading operation to a fully-fledged market, its business model based on charging listing fees to companies and providing market information. JP Jenkins was sole

'market maker in all OFEX securities and as such, JP Jenkins Ltd undertakes to quote a firm two-way price in a given quantity of stock for most OFEX securities. For less liquid or illiquid OFEX securities JP Jenkins Ltd will quote a basis price and seek to match the trade with existing indicated business which has been previously noted. JP Jenkins Ltd may elect to change from a basis price to a two-way price (or vice versa), depending on the prevailing market conditions for the stock in question.'¹¹

In other words, JP Jenkins continued to hold a trading monopoly quoting prices or matching previously indicated business, depending on levels of liquidity. Matching bargains was a direct continuation of JP Jenkins' original trading operation making notes and keeping only indicative 'basis prices' on the screen. The two-way prices did require the firm to take positions, however, and during the final months of 1999 trading volume grew exponentially and as it did so the firm's exposure grew too. For a few months the JP Jenkins made extraordinary profits, both from trading revenues and from the book value of carried stock. Even John Jenkins, by now chairman of the group, found himself back answering the phone:

'November 1999 was when we used to have to wedge all of the doors open. We were taking over 7,000 telephone calls per day between four people, I have never seen anything like that in my life. People if they wanted to go to the loo had to run up the other end of the building that is why all of the doors were wedged open so that the boys could get to the loo. All the doors were wedged open, it was bizarre.'¹²

A story – clearly something of a myth – circulated that the traders had put a bucket in the corner so they did not have to make even those short trips to the lavatory.¹³ The reality may have been less colourful, but the traders were certainly busy:

11 The OFEX Opportunity, 1999 version, p8

12 John Jenkins interview

13 Hocken interview

‘[John would] come around with “Anyone want a drink? I’ll get you a drink”... You didn’t go out. When you work up here and you’ve been through the times when you’re doing nothing all day, you’re quite happy to be trading all day and you can see the P&L as it’s coming in or whatever, so you don’t care. But it was literally...it didn’t stop, from the time you got in, and we had to leave... In the end John used to go at half past four, “Right, we’re leaving”. And we used to turn them off. Just turn the phones off and go home. Because what are you going to do? You can’t keep doing it. And it was... But again, we all did very well out of it, so not going to complain about it.’¹⁴

The boom in orders was unexpected. JP Jenkins had ordered a new telephone system to be installed in the run up to the Millennium, when the market was likely to be quiet. The new system was overwhelmed by calls from brokers and failed; John Jenkins ended up on Bloomberg television offering a grovelling apology: ‘it was awful. I mean it was beyond awful... that was a nightmare.’¹⁵

6.1. The advisory ecosystem and raising funds on OFEX

As a technology-focused bull market gathered speed in the second half of the 1990s the ready availability of cash from retail investors encouraged new issues and OFEX became a reliable venue for raising money, often for very speculative ventures: one interviewee remembers a firm called printpotato.com, set to revolutionize t-shirt printing via the internet.¹⁶ New issues on OFEX became seen as a sure-fire way of making money. It was one of the few avenues that retail investors had to join the dot.com party at the beginning, as opposed to buying already inflated stock in the secondary market.

‘OFEX...allowed the punter to...get into dotcom, which [otherwise] the punter could not get into because they were institutional placings, even the AIM stocks...you had to get a bit of dotcom, and this was really the only way in to a lot of these things. Obviously you could buy shares in all of the .coms, but if you wanted to get in and take advantage of a big uptick on day one then really OFEX was the only way forward.’¹⁷

14 Brown interview

15 John Jenkins interview

16 Public relations 4, interview

17 Corporate advisor 1 interview

The AIM community was also making hay, even in a more institutional market. Beacon Trust issued a special dividend as the money flowed in market euphoria fired up the ambitions of the meekest firms:

'I knew people who walked into financial advisers and merchant banks and so forth with a business plan and said, "We'd like a million quid please to see if we can prove the point," only to discover that two days later they had a fully blown prospectus and they were raising at least 25 million.'¹⁸

Fundraising rapidly became an essential part of the advisory role. Each issuing firm would prepare a prospectus, a legally valid document that could be distributed widely. Prospectuses were issued under the Public Offer of Security Regulations (POSRegs) and found their form as advisors ploughed through and imitated the Official List documents:

'An AIM admission document will look like an ISDX admission document, will look like what we used in old POSRegs prospectus, before they brought in proper prospectuses. The level of information and the format is pretty much the same.'¹⁹

Offer rules were based upon caveat emptor, so however imaginative the offer structure might be – including a sale of founder stock, for example, or warrants for early-stage investors that massively diluted other stockholders in the case of success – it need only be displayed in the prospectus and buyers were expected to discriminate accordingly. On the back page, a tear-off slip invited anyone inclined to send in a cheque:

'Then you would get the slips back and obviously it is the days before scanning and not many people had internet banking and so it was all a bit old fashioned and labour intensive, and you would get a load of cheques and you would bank them and then occasionally you would get somebody calling up saying, "Oh I have just sent in a £1,000 cheque for whatever it was, but when are you going to cash the cheque?" "I will probably go to the bank later today." "Oh I will not get paid until the end of the month"'²⁰

18 Buchanan interview. A £25 million fundraising would not have landed on OFEX, but the comment is illustrative nonetheless

19 Corporate advisor 2 and 4, interviews

20 Corporate advisor 1, interview

As quotation suggests, many investors lacked the sophistication needed to untangle the issue documents, but the excitement surrounding the new technology stocks, combined with a thriving media circus to stoke the imagination of the investing public:

'You'd get Ian [James, a renowned small-company public relations man] to put a piece in The Sunday Telegraph and you say that ... or whoever, were the advisor, and on the Monday morning you would get lots of calls, we had already built up a list from the previous ones that we had done and people would chuck money at these things...'²¹

Public relations drove the media commentary and followed a simple formula, described as 'If I take you [journalists] out and get you pissed a lot you'll write about my company.'²² There was, however, more nuance to this strategy than first appeared. The rule was to keep the journalists at lunch until late in the afternoon so they had no time to do any research, and, cushioned by a warm cloud of *foie gras* would write the story as it had been passed to them. There was a fine line between good natured inebriation and incapacity, so it was the task of the host to send the journalist back to the office while they could still write. Experience held 4.30pm to be the ideal breaking-up time for lunch.²³ Regional reporters would be entertained at 'ARCE lunches' – Association of Regional City Editors – each given topped-and-tailed press releases with a regional anecdote or focus, and the issues would receive coverage all over the UK.²⁴ Journalists, often young and inexperienced writers for the financial pages, lived a charmed life. In an interview, one former journalist recalled the excitement of the dotcom years. A young man in his first job after university, he would find himself speaking to one chief executive on the telephone, his mobile ringing, thrown in a drawer, with a stream of callers trying to get him on another line. On one occasion he tipped a small firm and saw the shares rise 50%, adding £11m to its market cap. 'At the age of 24', he said, 'that was a big deal'.²⁵

The extraordinary demand for stock threatened to overwhelm the small advisory firms – sometimes just two or three executives and support staff – working on these issues:

21 Corporate advisor 1 interview

22 Public relations 1, interview

23 Public relations 2, public relations 3, interview

24 Public relations 2, interview

25 Public relations 4, interview

‘There was one particular day when I personally fielded over 300 phone calls. I had three telephones...but my receptionist logged 275 phone calls that she couldn’t put through to me, because I was on the phone, so that’s more than 500 phone calls in a day, and they were almost always all the same, “Did I get a piece in your last float, can you put me down for the next one?” That shows the madness of it all, 1999, the madness of it all. I used to come into the office on a Sunday to try and keep on top of paperwork. Now, there was no way in which we advertised that we were open on a Sunday, I used to come in to phones which rang all day long, people in the hope of getting somebody on the line that they could give money to.’²⁶

Many advisory firms made a great deal of money in a short space of time. It had become customary to issue warrants (a form of stock option) as delayed payment for advisory services, and firms found themselves suddenly sitting on enormous paper gains. Like independent record labels, small advisory firms only really needed a single success to enjoy a comfortable life hereafter: one such, Loeb Aron, found success with its public offer of Applied Robotics, a stock that ‘went to the moon and back’, the firm exercising its warrant along the way.²⁷ One mid-tier advisory firm, Durlacher – founded by Peter Durlacher, scion of the Durlacher broking family mentioned in jobber Tommy’s testimony above – saw its book value climb enough for it to qualify for the FTSE100. Durlacher later became a shell and was reversed into by Panmure Gordon, another broking firm. Individuals, also, found themselves in possession of substantial paper fortunes:

‘In January 2000, one of my colleagues came to me and said, “I’ve just worked out what your options are worth”...In January 2000, my personal options, according to my colleague, were worth substantial double figures of millions. I’m glad I didn’t go out and spend it, but that was the nonsense of the day, it really was.’²⁸

Of course, this was a bubble and bubbles end in disaster. Retail investors, once burned, did not hurry back. Many of the companies that raised funds

26 Corporate advisor 2 interview

27 Corporate advisor 1 interview

28 Corporate advisor 2. Khurshed et al. note that the UK, unlike the US, places no limits on advisors’ fees and that the issue of warrants does help firms lower the costs of listing and also signals that the issue will not be overpriced. Firms that are risky or short of cash are most likely to issue warrants, as are those with higher quality advisors. Arif Khurshed, Dimitris Kostas, and Brahim Saadouni, “Warrants in Underwritten Ipos: The Alternative Investment Market (Aim) Experience,” *Journal of Corporate Finance* 40 (2016).

were taking advantage of readily available money and soon went out of business, though other more reputable firms suffered too. Hocken recalls the change in conditions as like 'a tap being turned off', a return to the difficult trading of the 1990s when the market had begun. According to Paul Brown, 'it stopped...virtually overnight really.' As home to some of the more speculative ventures, OFEX suffered greatly:

'Pro rata to its size, OFEX probably had more rubbish listed on it during the dotcom boom than either of the other two markets... So when they all started going bust, OFEX lost more companies, and a number of companies went down very, very quickly.'²⁹

The profits of 1999 faded into memory. JP Jenkins

'did lots of trades, made lots of money and then proceeded to give that money back through the January-February-March...the small company markets just went down the toilet in that period. Positions we had just became totally illiquid, we wrote them down, wrote them down, wrote them down and most of that lovely profit we made we wrote off.'

Despite his best efforts at quality control, John Jenkins remained confounded by some of the stocks that were floated on his market. He had taken to the airwaves (again via Bloomberg) to warn of the dangers of the bubble and dot.com stocks. Looking back, he offered an explanation, saddened by the failure of some of the better firms he had worked to support:

'The dodgy ones, they were the ones who folded first, the blokes saw that it was going wrong and so they nicked what they could out of it and bugged off. The really nice ones went later because people had thrown money at them to keep going.'

29 Corporate advisor 2

7. Bear market travails and the end of OFEX

The period from 2000 saw OFEX engage in a slow period of legitimacy-building. From July 2000 the market was included within the insider dealing legislation, and in December 2001 it became a Prescribed Market under the Financial Services and Markets Act (FSMA) and therefore covered by existing market abuse regulations. In 2002 it secured exemptions from stamp duty in line with the privileges available to a Recognised Investment Exchange (RIE), although it was not classed as an RIE. These exemptions and inclusions were the result of extensive lobbying by the firm and were ratified by the House of Lords in 2002.¹ The decision to become a Prescribed Market followed long discussions with the regulators about what kind of creature OFEX really was:

‘There was a glorious conversation when we were talking through the whole process. We had the SFA in the room...and two guys from the Treasury. And the guy from the Treasury said, “I’m really confused. You don’t call yourself a market when you patently are a market. Why don’t you call yourself a market?” I just went, “You’ve got to ask the SFA because they won’t let us call ourselves a market,” and there was just daggers coming [from the other side of the table]... The Treasury went, “Well, you know, sorry, it’s got feathers, webbed feet and a bill and it goes quack. It’s a market. Why don’t we call it a market and we can put it in the market abuse regime?”’²

The regulators had initially been keen to see OFEX classed as a Recognised Investment Exchange (RIE) but the management resisted on the grounds that it was unnecessary, expensive and that their operation was distinctively different from the big, recognised stock exchanges of world. Paul Brown recalls the group’s compliance officer, Peter Freeman, estimating the cost of obtaining an RIE to be in the region of £1 million, a huge sum for a relatively small enterprise. So the regulators suggested an alternative route and on 1 December 2001, FSMA’s ‘A-day’, OFEX finally became a market in the eyes of the law:

1 See Hansard reports at <http://www.publications.parliament.uk/pa/cm200102/cmstand/f/st020625/pm/20625s07.htm>

<http://www.publications.parliament.uk/pa/cm200102/cmhsand/vo020703/debtext/20703-10.htm>
<http://www.publications.parliament.uk/pa/cm200102/cmstand/deleg4/st020624/20624s01.htm>
[last accessed October 2016]

2 Market executive 3 interview

'The Treasury, in exercise of the powers conferred on them by section 118 (three) of the Financial Services and Markets Act 2000 (a), hereby make the following Order: 4A. There is prescribed, as a market to which section 118 of the act applies, the market known as OFEX.'³

On 4 January 2002, the market was moved into a new vehicle, OFEX plc, which absorbed the Newstrack operation. There was now a parent company, SJ&S (named after the original family firm) with two subsidiaries, the market maker JP Jenkins Ltd and OFEX plc. Jonathan and Emma Jenkins became joint managing directors of the latter. No longer operating a trading facility, JP Jenkins could target advisory revenues too. John Jenkins and Barry Hocken, having witnessed the 'very comfortable living' being made by corporate advisors bringing firms to market in the late 1990s, established their own advisory boutique called Gateway Securities. Advisory and market-making operations became physically separated from the market as they moved out of the existing offices and into Fenchurch Street.

The FSMA reorganisation brought in other reforms. In January 2002, the OFEX Rule Book was published, replacing the existing code of conduct. These rules established the regulatory structure of the market and established categories of membership, notably broker-dealer, corporate advisor, and specialist (effectively a market maker); more importantly, the rules codified the professional responsibilities of members in terms of acting in accordance with the interests of the market and ultimately the regulatory authorities:

'It is the responsibility of each member firm to support OFEX in achieving the objectives of the OFEX market and at all times to observe these rules both in letter and in spirit and to promote and maintain the highest standards of integrity and fair dealing with every other member firm and those who use the facilities of the OFEX market.'⁴

These rules were drafted to be as familiar as possible, and to this end relied heavily upon the existing London Stock Exchange rules, augmented by small company relevant experience built up in the business. From March 2002, corporate advisors also had to apply for membership before they could bring stocks to the market, offering OFEX another means of controlling the quality of new issues.

3 Hansard.

4 OFEX Rulebook 1.1:2.4

From 2000 onwards OFEX faced a dramatic slowdown in the numbers of companies listing and in trading volumes. Revenues fell, a situation exacerbated by the group's new structure. The market, which had historically acted only as a front-end for more profitable market-making business, suddenly had to stand on its own. Revenues could potentially come from data sales, listing fees and corporate memberships. The former had been an effective source of revenue in the 1990s while the facility was booming, but the economics of charging for data are very sensitive to the savings that market-makers can gain through better information and therefore depend upon admissions and trading volumes. Listing fees depended upon a steady stream of admissions, which were difficult to achieve in the bear market of the early 'noughties'. Corporate advisory fees had been waived to encourage new advisers to sign up.⁵ The FSMA-related reorganisation, hugely costly in terms of management time, had been driven by the belief that increased legitimacy would lead to higher trading volumes and crucially, increased institutional participation. The latter was a goal that seemed to edge away, whatever the firm did:

'I think we chased legitimacy because we thought it would lead to more transactions going through, whether it was retail or whether it was institutional. But the institutional investors kept telling us we weren't legitimate enough because we weren't an exchange. And at the end of the day, eventually we're down to... yeah, but you're not the London Stock Exchange. So we could only win that battle so much... And I think we genuinely strived for legitimacy, because we thought it would help the business case. If we thought we could sit for hours, forever and a day making a million pound a week and being unregulated I think we would have stayed.'⁶

There was also a personal aspect to the pursuit of legitimacy. John Jenkins had never overcome his family reputation for trading dog tracks and sports grounds while his peers were trading blue-chip corporations. Even now, interviewees were frequently dismissive of OFEX – 'I liked John but OFEX was a dot on the horizon really', 'on OFEX you had to trade by appointment', and so forth. The press was frequently scathing, as were the regulators: 'If it's a case of 'buyer beware' with AIM, it's a case of 'buyer beware' twice over with OFEX,' SFA chief executive Richard Farrant had said in 1996, and despite its best efforts the market had struggled to overcome such prejudice.⁷

5 Market executive 1 interview

6 Jonathan Jenkins interview

7 *Investors Chronicle*, August 9, 1996, 'Low standards plague Ofex', p.16

'[The family] were really, really sensitive to the legitimacy questions, [John] was particularly... The headlines that used to really hurt were the cowboy market, and all this sort of stuff, really, really hurt... Having been on the market floor as non-establishment, he wanted to be recognised by the establishment as doing something, which is why his OBE was so important to him.'⁸

7.1. The decision to float on AIM

During 2002 just 29 companies joined the market, and OFEX booked a pre-tax loss of £662,000.⁹ OFEX's struggle to attract new issues was exacerbated by the fact that the fees available for AIM advisory work greatly exceeded those charged by OFEX practitioners and advisors tended to direct potential listees accordingly.¹⁰

On February 18, 2003 OFEX announced that it would list on AIM and in doing so raise up to £2 million at a valuation of £4.5 million. The firm had been led to believe that the absence of competing market-makers was a pivotal factor in excluding institutions from the market, although John Jenkins was well aware of the limited profits available to two, competing market makers:

'We said, "John, we'd like to come and do business with you because we can do corporate finance work and book building [i.e. broking work] on OFEX. But we can't do it unless there are two market makers in a security. We can't do it, and the reason why is because we get a shot across our bows from the regulator by asking us have we given best execution. So we have two competing market makers, and we say yes..." John resisted that and the last conversation I recall with him, he said "Well, okay, you can become a market maker, but if you do I'm going to stop market-making in that security". I said, "No, John, that's not the question." So I don't think we ever became a market maker on OFEX.'¹¹

The rationale for the fund-raising was, therefore, to open up the market by moving to a system of competing market-makers, encouraging clients and placating the regulators who felt that investors were suffering on account

8 Jonathan Jenkins interview

9 OFEX plc initial public offer document, p8

10 Market executives, interviews

11 Hoodless interview

of the single market maker. The listing applied to the OFEX-Newstrack part of the business and not JP Jenkins market makers, which remained in John Jenkins' control. OFEX first of all attempted to raise money in a private deal with the brokers who used the market, but potential investors demanded 80% of the business and a move to what would have been in practice a member-owned organisation, an arrangement that the family naturally declined.¹²

The decision to float on what many saw as a rival market was contentious. Inside the company, it had been the subject of lengthy debate.

'We floated on AIM and I remember there being a big discussion... Looking back you think, why did we do it...it was rational at the time but it jarred. I think we were doing the right thing in terms of going to competing market makers and everything else but I think it was the beginning of the end as far as we as a family were concerned.'¹³

The decision to list on AIM was inappropriate in terms of the size and financial needs of the company, and for the operator of a small-company market to contract the services of another looked odd. While OFEX may have carefully positioned itself so as not to be a competitor to AIM, this distinction was lost on observers when the announcement was made. In fact, the move was a technical, regulatory decision hinging upon the perceived competence of any firm to supervise itself as a listee on the market that it ran, while a clearly related company continued to be the sole market maker in its stock.¹⁴

'We got a lot of crap from that and we couldn't turn round and go, "Look, the only reason we did it is because the FSA said we would. Actually we think AIM is entirely the wrong place to be, for where we are and what we do. We should be on OFEX. We're a classic OFEX company.'¹⁵

Ironically, promoters had suggested that OFEX float at the height of the boom, but John's sense of market etiquette precluded such a course:

12 Jonathan Jenkins interview

13 Jonathan Jenkins interview

14 Market executives, interviews

15 Market executive 3 interview

'We'd spoken to [names a respectable broker] at the time, and they put such a stupid valuation on us, like a good valuation. But John and I sat down one evening after the market had shut and he said to me, "Brownie, I can't justify taking that money". Because we'd had a fantastic year and the PE was like whatever, and they were valuing us at like five times earnings or six times earnings. And he said, "If we do that, we're not going to repeat this next year, but you know how it goes, we know how it goes, if we do great, we can't guarantee it, but you're going to get punters in on this stock at that level and I can't sit there in an AGM or whatever and explain myself ... I just don't feel it's right that we should take that sort of money." So we didn't, but we could've taken probably £5m or £6m.'¹⁶

Discussions around multiple market makers and institutional participation circled around a much bigger issue, the nature of the firm as a family business. John, while a talented trader, had little experience in the regulatory minefield of running an investment exchange, and the joint managing director status held by Emma and Jonathan sat uncomfortably with investors. In April 2003 the offer got away, but only just, with £1.45 million raised rather than the expected £2 million. The market moved out of the family group and onto AIM as OFEX plc. As part of the deal John Jenkins wrote off roughly £1 million owed by OFEX to JP Jenkins, with the outstanding balance of the loan converted into stock at the end of 2004.¹⁷ The offer was in the most part taken up by brokers and market-makers with whom OFEX had regular dealings, Winterflood Securities becoming an important shareholder at this point.

After the fundraising, the company continued to make progress in its stated aims: August 2003 saw Teather & Greenwood join as the first new market-maker, and in November, Winterflood Securities also agreed to make markets in OFEX stocks, subject to the installation of a new quote-driven trading system.¹⁸ 12 July 2004 was 'impact day' when the competing market maker system went live. OFEX claimed that four firms – Jenkins, Winterflood, Teather & Greenwood and Hoodless Brennan – would join as market-makers and that each security would benefit from two-way quotes from at least two market makers. It's not clear whether this ever happened in practice: Geoff Hoodless believes that his firm never actually became an OFEX market maker.¹⁹

¹⁶ Brown interview

¹⁷ OFEX offer document note 16, 2003 accounts, Jonathan Jenkins interview

¹⁸ Birmingham Post, November 22, 2003, Saturday, 'Close Brothers join Ofex', Business p17

¹⁹ OFEX plc 2003 annual results, Hoodless interview



Figure 5. OFEX's management celebrate the AIM flotation. Left to right: John Jenkins, Peter Freeman, Simon Brickles, John Wedgewood, and Jonathan Jenkins.

According to the press, the prospect of institutional investment seemed even closer. But for the family, the move to competing market-makers jeopardized the only part of the business that had ever been profitable:

'We thought the upside of having a multi-market maker system and the credibility that would bring, would actually bring the market up to a standard. And okay, it would hurt JP Jenkins Limited, but we thought it was a sacrifice worth making for the benefit of the market. And with hindsight, I think all we did was drive the businesses to Winterfloods.'²⁰

In late November a small but significant event took place: Simon Brickles suddenly stepped down from his role as Head of AIM at the London Stock Exchange, and was almost immediately recruited by Jonathan Jenkins as a consultant to OFEX. Brickles arrival presaged a shift in the firm's relations with the LSE. OFEX had long coexisted with the Exchange, having clearly identified

20 Jonathan Jenkins, interview

a niche trading companies too small or otherwise unsuited to AIM. It had made, said one executive, 'a very early strategic decision that there is no point picking the fight with the biggest gorilla in the room.' Rumours that OFEX was getting ready to take on AIM began to circulate: 'In November, I said Ofex was flexing its muscles to challenge AIM, the Stock Exchange's junior market. Now it is gathering the financial ammunition to strengthen its assault', said veteran pundit Derek Pain, writing in the Independent.²¹ Journalists suggested that the multiple market maker system, combined with the availability of institutional funds, made OFEX look an ever more attractive destination, especially as EU regulation threatened to drive up the costs of an AIM listing. Listed companies did not seem convinced: in 2003 OFEX offered to waive the listing fees of companies moving from AIM, and few, if any, took up the offer.²²

Meanwhile, the LSE's attitude to small company markets had once again shifted. For strategic reasons, discussed shortly, the senior management of the Exchange had decided to populate AIM with larger companies and international companies, a deliberate move away from the market's regional, small-company focus. The Exchange's management compounded matters by rolling out its order book trading through the smaller end of the Official List and AIM, greatly eroding profitability. Moreover, the LSE had been forced to defend itself against repeated takeover bids and the community was justly concerned that a merger of some kind would spell the end for the small company markets. Winterflood Securities' investment now seemed like a strategic bet on an alternative trading venue, particularly as AIM's head had moved to OFEX. This political dimension placed further pressure on the Jenkins family management, who were perceived, fairly or otherwise, as approaching the limits of their competence:

'They weren't exactly out of their depth but they were absolutely not in a position, if the industry was going to move from AIM to OFEX as it were, if the Deutsche Boerse thing went ahead they were not...they couldn't have done that in a million...they just couldn't, they needed rather deeper help I think.'²³

Difficult trading conditions had continued through the year, with interim results posted in August showing a loss of £273,000. December 2003 saw OFEX raise a further £1 million to implement a new computer system.

21 The Independent (London), January 10, 2004, Saturday, 'No pain, no gain: I've changed my mind about Ofex. I may even buy shares', Derek Pain, Features p5.

22 The Daily Telegraph, May 02, 2003, Friday, 'Ofex offers a haven below the horizon' p.40

23 Hazell-Smith interview

Among the investors was Luke Johnson, a City personality and businessman soon to become chairman of Channel 4, who took 6.3% of the company at £340,000 (valuing the whole at £5.4 million). Discussions about Johnson joining the board of the company came to nothing. Full year results for 2003 saw turnover at £1.1 million, an increase driven by the decision to charge fees to corporate advisers. Still the company burned through cash, booking a full-year loss of roughly half a million pounds, as it continued to work on its regulatory status. In February 2004 Simon Brickles became a director of OFEX and formed a new, streamlined advisory board, led by Rachel Maguire, a former Stock Exchange regulator. The board comprised 'a couple of good accountants, a couple of good lawyers and some fund managers. And these [last] were the guys that actually put their hands in their pocket, so let's listen to what they think we should be doing.'²⁴

7.2. The Jenkins family loses control

In the last week of September, 2004, disaster struck. As a quoted company OFEX plc was obliged to report its results on a fixed schedule and interims were due out in late September. The firm had been struggling financially but had put together a substantial fundraising package together with a plan that would see it moving towards the status of Recognised Investment Exchange and a restructuring of the management team, for the Jenkins family had realized that it was time to relinquish control.

'We were going to raise £5 million, Dad was sort of retiring and stepping back, Simon was coming in as CEO, I was stepping back into the background a bit, Emma was always in the background and we were going to work towards becoming a Recognised Investment Exchange... I have the press release for that, I mean we were that close. The problem was that you have to release your accounts six months after the date, we knew all the way, we ran out of time basically and so we knew we had to release, I think it was at the end of September, and by mid-September we were closing the fundraising deal and we were going to say, "Here are the interims, they are a bit shitty, but don't worry we have just raised £5 million and this is the change." That was the way that we were doing it. Then the fundraising fell apart and so we then had to come out with, here are our results, they are a bit shitty, and we had six weeks [of money left in the bank].'²⁵

²⁴ John French was involved with the reformed board. Interview.

²⁵ Jonathan Jenkins interview

The collapse of the fundraising was so sudden that Jonathan Jenkins found out at the very moment that he was obliquely announcing its success, clearly satisfied that the deal was done:

'I did a retail investor thing at Bloomberg ... I can remember standing on the platform on a Monday night [27 September] saying, "Watch this space there is some interesting news to come out and I think Ofex is going to go from strength to strength". I said that on the Monday evening, and as I was speaking my phone vibrated in my pocket, I then rang, and it was Cyril Theret, who was our business development guy, and he was in tears and he told me that the cornerstone investor wasn't in... Suddenly, not only had we lost an investor we had lost our cornerstone that we used to lever everybody else in.'

OFEX reported its results on Wednesday 29 September. First half losses had almost doubled – to £533,000 – and the number of stocks traded on the market had fallen from 170 to 136. Trading volumes had increased, but not by enough. One of the market's stalwarts, cereal manufacturer Weetabix, had withdrawn after being taken over. Media reports spread word of the disaster quickly, and in some cases with undisguised glee. 'Shares in OFEX dive as it fights imminent collapse', crowed the Times, 'OFEX, founded by John Jenkins and controlled by his family, said it had only enough money to remain solvent for another nine weeks. The announcement precipitated a 54 per cent plunge in OFEX's shares', adding, 'It is understood that the revelation of OFEX's dire financial position took the company's senior management by surprise.' Elsewhere the Times spoke of 'grim news' for a firm that 'did not do itself any favours when it decided to list its own shares on AIM'. The more sympathetic Independent reported that 'an emergency fund-raising put together by the company's broker, Numis, collapsed at the last minute, forcing the OFEX to admit spiralling losses and a looming cash crunch.'²⁶ Like a bank, a stock market exists as an act of faith and confidence is crucial. In the highly regulated sector of financial services, nasty surprises are also unacceptable. For these reasons, the announcement that the company had just enough money to survive until the end of November signalled its inevitable demise.

During the first week of October, 535X, a small company notice-board-cum-trading-facility (its owner, broker Wills & Co had already been investigated by the Serious Fraud Office and was soon to be shut down by the Financial

26 The Times, September 30, 2004, Thursday, 'Shares in Ofex dive as it fights imminent collapse', Peter Klinger, Business p. 53; The Times, September 30, 2004, Thursday, 'AIM's appeal is Ofex's problem', Patience Wheatcroft, Business, p. 45; The Independent, September 30, 2004, Thursday, 'Spiralling losses spell crisis for OFEX', Stephen Foley, Business p. 46

Conduct Authority) made an informal approach, with a view to turning OFEX into a bulletin board based system. Simon Kiero-Watson, managing director of 535X, was quoted as saying:

“The current market system is expensive and unsustainable. A bulletin board is much cheaper. We’ve approached Numis [the broker] and we’d like to find a deal which will work for JP Jenkins, the market and OFEX.”²⁷

Another approach came from cash shell with the unlikely name of Zyzygy; Peter Hoskins, its promoter, offered a lone voice in support of the Jenkins family who, he said, had done a ‘tremendous job’.²⁸ On Friday, 8 October, a rescue package was announced comprising more or less the same investors but without the cornerstone investor. It also offered OFEX much harsher terms. The firm announced that it would raise £3.15m through a placing at 5p per share; the Jenkins family were to be diluted from 55% to 12%. Winterflood Securities agreed to take a 16.6% holding and Emma and Jonathan Jenkins were forced to leave the company, having been excoriated in the press. The bid still had to be ratified by shareholders at the end of October, and on Friday the 29 October a rival bid was tabled by Shield Investments, a new vehicle chaired by Keith Smith of Nabarro Wells. Shield offered stock and cash, one share and 6p for each OFEX share up to £645k, conditional on the placing not going ahead and the Jenkins remaining at the helm. Mindful of their obligations to the market itself, the management of OFEX rejected Shield’s offer on the grounds of uncertainty in the source of funds. With understandable bitterness Jonathan commented ‘I’m resentful that we’ve fought so hard to get this market back on its feet and now I won’t be a part of its future.’²⁹ The funding went ahead and the market moved out of the hands of the family that had launched it. Throughout the second half of the 1990s OFEX had occupied a niche providing both funds for small companies and start-ups and a trading facility for privately held concerns such as Weetabix. When things went well it acted as a ‘stepping stone’ for companies to move to AIM; the public offer prospectus of 2003 boasted that 80 companies had moved to more senior markets, predominantly AIM, and that since 1995 OFEX had raised more than £1 billion in capital for small firms. In 2004, with the departure of the Jenkins, this truce would begin to break down.

27 Financial Mail, 7 October.

28 The Evening Standard, October 7, 2004, ‘Bidders queue up to talk takeover with ailing Ofex’, Magnus Grimond, p42.

29 The Daily Telegraph, November 02, 2004, Tuesday, ‘Jenkins family pays price for Ofex refinancing deal’, Harry Wallop, p. 29

8. From 2004 to 2010: Markets at war

While OFEX struggled through the post-dot-com slump, AIM began a strong process of recovery. Marcus Stuttard, the LSE's Head of Primary Markets and Head of AIM, believes that the diversity of sectors it represented, in part inherited from the USM and Rule 4.2, helped to sustain the market during and after the bust:

'With AIM even during the dotcom boom we were very careful not to pitch it as just a technology market and so...we have over 40 sectors represented there are companies with assets, operation and management in over 19 different countries ...that broad spread is very important and it is one of the reasons that AIM has continued to endure and it has the maturity that it has.'¹

In fact, the LSE executive had chosen not to promote AIM as the venue of choice for some of the larger technology issues. In September 1999 the Exchange announced that it would create a new index named techMARK, billed as the British answer to NASDAQ. The index, launched in November, helped draw attention to the many (over 180) technology companies already trading on the exchange and provided an attractive 'venue' for new arrivals; techMARK provided a focus for investment and the possibility of a new index without the labour of launching a completely new market. Although techMARK arrivals benefitted from a lighter trading history requirement in line with privileges according to biotech firms, the listing requirements remained relatively stringent. techMARK was a simple and effective marketing solution and created a new category around which investor and issuer activity could coalesce.² It was also in part a response to EASDAQ, which by the late 1990s was regarded as a serious threat to the Exchange. AIM and techMARK were promoted alongside each other as a coherent growth and technology offering available to British firms – some of which, like Autonomy, had been tempted onto the European offering.³

By its very nature small company investing is the subject of fashions. The dot-com boom and bust severed the link between the LSE's growth market and smaller businesses in the U.K.'s regions. This separation was also driven by lack of customer enthusiasm for a regional offering. In April 2001 the LSE launched

1 Stuttard interview

2 Ward interview. The LSE's defence document of 2000 describes ward as the prime architect of techMARK. Also Sunday Times, September 19, 1999, 'Lukewarm welcome for new high flyers', Kirstie Hamilton

3 Wallis and Ward interviews

a service paralleling techMARK and directed towards the regions. Named LandMARK, this sought to increase awareness about the Exchange's regional constituents, but it was never a great success.⁴ From the autumn of 2001 the LSE's senior management directed AIM towards a more international market, one that became highly focused on overseas resource exploration stocks and led to an enormous expansion in numbers. This change of direction provoked a movement of executives committed to the small company vision from the LSE to OFEX. In time OFEX, renamed PLUS, came to see itself as a direct competitor to AIM capable of offering a low-cost, efficient trading venue for constituents of the Official List. It culminated in legal action against the LSE as PLUS sought the right to trade AIM stocks. Eventually the LSE made certain concessions and the community returned to the Exchange, discarding PLUS. The current chapter deals with these events.

8.1. AIM's change of direction

By the middle of 2001, AIM was claiming to have attracted 800 companies and raised £7bn since launch, pointing to a failure rate of a 'more than respectable 3%'.⁵ During a period when the City as a whole looked overseas for new business, the focus of the market began to move away from a focus on the British regions and the entrepreneurial flourishing of UK plc.

There was an immediate, pragmatic motivation for this change. Throughout the autumn of 2000 the LSE had been fighting a hostile takeover bid from the Swedish stock market operator OMX. The third and final defence document, published on 19 October, sets out the Exchange's vision for building the business: Don Cruickshank, the LSE's chairman, explicitly promises to develop AIM and techMARK as international markets. The document boasts that in AIM and techMARK the LSE already has the largest growth and technology market in Europe with 688 companies, 40 of which had come from overseas. It continues:

'The London Stock Exchange is now committing to reposition techMARK and AIM as international markets by: increasing promotional spend significantly to extend the reach and profile of these markets, particularly amongst overseas investors across Europe; competing for new members and issuers from other European jurisdictions; continuing to compete outside Europe for

⁴ Birmingham Post, April 10, 2001, 'Business: LandMARK for the regions'

⁵ Investors Chronicle, July 20, 2001, 'Alternative Investment Market: Aiming For Success - The Alternative', Miles Nolan, p.24

issuers, building on existing successes; providing broader trading access to the London market for non-UK brokers⁶

The document notes that Tim Ward, then the Exchange's head of marketing and company services, would be left in charge of the expansion. Together with Simon Brickles, who had replaced Theresa Wallis as Head of AIM in 2001, he pursued a vision of internationalisation in order to drive new issues. There were, felt some within the organisation, convincing strategic reasons for the new direction:

'It was a management decision to internationalise AIM, and I think to some extent for some good reason. It was a very successful market in the UK and there are two ways to look at a small cap market, I think. One of them would be about geographical location...at the end of the day London is an international centre of finance, so you have oil and gas expertise which is unrivalled anywhere in the world, this is where it is, so why not attract, given that the expertise is here? So I think some of the key countries that were targeted were Australia and Canada for a simple reason, but it did change therefore the nature of AIM, and it became much more international.'⁷

Others felt that this new direction had been set after conversations between the Chairman and a handful of institutional investors and was not ultimately helpful to the direction of the institution.

Immediately on taking over the role, Brickles had set about courting overseas listings, visiting Australia to promote the market and enlist Australian advisors.⁸ In May 2002, he formed part of a trade delegation to Tel Aviv and a visit to New Zealand followed in 2003.⁹ The market also prospered at the expense of the Official List, with a number of companies choosing AIM's lighter listing requirements to the point where The Times cruelly described AIM as a 'dumping ground for those who cannot cut it on the London Stock Exchange's Official List'.¹⁰ The real lure for companies, however, was the prospect of raising funds: AIM companies had access to

6 London Stock Exchange plc, Third Response to OMX's Offer, October 2000, p.11. <https://www.lseg.com/sites/default/files/.../documents/OMX-third-document-oct00.pdf> [Accessed 6 March 2017]

7 Market executive 6

8 Australian Financial Review, August 28, 2001, 'Taking AIM for listings here but careful about ASX turf', Andrew Main, p.16; Herald Sun (Melbourne, Australia), March 14, 2002, 'Wanted: talent scouts', Bruce Brammall, p.69.

9 Independent on Sunday, May 12, 2002, 'London Stock Exchange courts controversy in Israel', Jason Nisse, p.5; The New Zealand Herald, March 23, 2002, 'London touting Down Under', Ellen Read

10 The Times (London), January 3, 2003, 'Corporate wrecks find home in new firms nursery', Nick Hasell, p.30

a community of investors who were actually prepared to part with their money.

The new Sarbanes-Oxley legislation in the USA placed heavier reporting and responsibility burdens on listed companies and helped to make London a more attractive destination for public offers. In London, earlier fears about over-heavy EU regulation proved unjustified as Brickles managed to change the regulatory status of the market to 'exchange regulated'.¹¹ The Designated Markets Initiative and AIM's move to opt-out of the EU Prospectus Directive allowed the market to continue under the LSE's supervision and avoid a repeat of the cycle that had led to the closure of the USM. This favourable regulatory environment helped greatly, as did the arrival of new advisers such as the Canadian broker Canaccord.¹² Canada, as it happened, was a natural market for the LSE:

'The key task was about promoting London as a venue for listings, and I guess Canada became straightaway a very appealing market, and that must have been around 2002, something like that, simply because there were a number of companies that historically listed on the LSE, simply because historically the LSE had financed the Canadian railways, so there's a long history of Canadian issuers on the London Stock Exchange'¹³

Overall, the market benefitted from a happy confluence of the upswing in the commodities cycle in the first half of the decade, a move to internationalisation and therefore exposure to the resource-exploitation focused equity culture of the Australian financial community, and the willingness of British investors to back speculative exploration ventures. These three factors gave rise to a boom in new issues from the mining and oil and gas sector.

'I went off to Australia for six weeks. I made a point of visiting brokers, and all they could talk about was mining. Mining, mining, mining. And up to a point I had shunned mining, because I always regarded it as being so problematic, why get involved? But you couldn't ignore it. These people started talking about the first major bull market in oil prices for a long,

11 i.e. unregulated

12 Arcot, Black, and Owen, "From Local to Global: The Rise of Aim as a Stock Market for Growing Companies: A Comprehensive Report Analysing the Growth of Aim."

13 Market executive 6, involved in broadening the LSE's reach

long while because China was buying anything...I came back to London and I thought well, I ought to have a look at this and see if there are opportunities that we can get involved in. And we did.’¹⁴

As Arcot et al. note,

‘By 2007 AIM was a much more broadly-based market than it had been five years earlier. The average size of company had increased with an increasing number valued at more than £50 million at the time of flotation. It was also attracting a new class of property and closed entities, some of which were concerned with exploiting investment opportunities in emerging markets such as China, India and Vietnam.’¹⁵

AIM’s internationalization peaked in 2006, with 77 international issues raising £2.9bn; during the period from 1995 to 2009 77% of all IPOs on the exchange regulated (junior tier) markets of Germany, France, Italy and the UK took place on AIM.¹⁶ Eventually, however, the interest in international issues and commodities came to resemble a bubble, and stories started to circulate: the promoter who banked his investors’ money and ‘went straight out and bought a boat’ or the Chinese companies that seduced investors ‘who didn’t realize that there were ‘three sets of books, one for the market, one for the accountant, and one that tells it like it really is.’¹⁷

The move to international positioning was mirrored by a change of internal management strategy within the LSE, shifting away from the independent-department approach that had proved so successful in establishing the market. This meant, among other things, moving regulatory responsibility back towards the listing authorities. Brickles had ‘persuasive and moral authority’ but no longer had direct regulatory control over AIM, an absence that struck him as problematic when expanding into new and unknown markets. By the middle of the decade, AIM had been reabsorbed into the organizational structure of the LSE. The Exchange management now sees integration as vital to the market’s operation. It is

14 Hoodless interview

15 Arcot, Black, and Owen, “From Local to Global: The Rise of Aim as a Stock Market for Growing Companies: A Comprehensive Report Analysing the Growth of Aim,” 17.

16 Khurshed, Kostas, and Saadouni, “Warrants in Underwritten Ipos: The Alternative Investment Market (Aim) Experience.”

17 Public relations 1, Public relations 2, interviews

‘a really important point that AIM is not a separate, discreet or somehow backwater part of the London Stock Exchange. It is absolutely integral to the material of the group from senior management through to our trading services, to our primary markets, our comms, our government relations, right the way through it is fully integrated into the business... it is an interesting example of how the market and how our offering has moved on, because I think when AIM was first launched, it was quite important to people that there was someone with a separate and distinct role as Head of AIM but I think as people have become very comfortable that it is an integral part of our offering’¹⁸

Trading mechanisms were also in flux and the long-running struggle between quote-driven and order driven markets was now drifting towards the smaller company space. The London Stock Exchange had been aware of order-driven markets as a solution to large bid-offer spreads since the late 1980s. In 1992 it had begun designing a new electronic trading platform – Sequence – completed in August 1996 at a cost of £81 million. This platform could support either quote-driven (market-maker) or order-driven markets. Although an attempt to forcibly introduce an order-driven system in 1995 led to a members’ rebellion and the sacking of chief executive Michael Lawrence, order-driven trading remained inevitable and in October 1997 the LSE introduced SETS, at the same time removing rules forcing trade to be directed to particular market-makers and the obligation on market-makers to quote prices in given stocks.¹⁹ Brickles felt that the LSE was moving away from his vision for a light-touch small company market and neglecting its core constituency:

‘I also could see that the drift of Stock Exchange thinking was increasingly towards order books and I believe very strongly that once you get below the FTSE250 or certainly 350 order books just don’t work and the market making system, for all of its many, many well-documented faults, does... the Stock Exchange was never going to long-term deliver on the small-cap focus.’²⁰

Brickles left the LSE in November 2003, and the role of Head of AIM was taken on by Martin Graham, then Director of Markets at the Exchange. Graham argued that his taking of the role, albeit in a largely nominal manner while

18 Stuttgart interview

19 Michie, *The London Stock Exchange: A History*, 616.

20 Brickles interview

Stuttard looked after the day-to-day running of the market, signalled a commitment to the importance of AIM within the LSE; Graham wrote in the Financial Times that AIM was 'the lifeblood of the market' and of 'massive strategic importance'.²¹

8.2. The new contender – PLUS Markets

For those remaining at the refinanced but crippled OFEX, the immediate task was to save the business, so Simon Brickles and his team embarked on

'a refresh, a rebrand, a rewriting of the rules... a marketing campaign to effectively re-launch the markets. We try our best to try and hang on to the businesses on the market, because of course in the meantime all the Nomads are going crazy trying to get all the OFEX companies to move to the AIM market and earn a nice juicy fee out of it at the same time. All our income is walking out the door because we're losing so many companies. And in the meantime, you know, in 2005, 2006, 2007 AIM's attracting 500 companies a year, so it's really boom time. And we are on our knees. So we're trying hard to protect our income.'²²

Brickles was faced with difficult redundancies, while maintaining the team he had imported from the Stock Exchange: Nemone Wynn-Evans and Cyril Theret (hired by Jonathan Jenkins) to fill business development roles, and Jamie Whitehorn in regulation. Brickles' reorganisation put paid to the final vestiges of the family firm:

'A whole load of people were being made redundant from right across all departments. And effectively it was left with as skeleton a staff as it could get away with, to just run the day-to-day operations. And there were an awful lot of people that had been... who'd been there for a long time,... recruited in during better market conditions, by 2004, were still there and really didn't have any reason to be... Although it was a PLC by that time, there's no question that it still had the feeling of a family business.'²³

21 Graham personal communication. Arcot, Black, and Owen, "From Local to Global: The Rise of Aim as a Stock Market for Growing Companies: A Comprehensive Report Analysing the Growth of Aim," 16.

22 Market executive 1 interview

23 Market executive 1 interview

Once costs had been cut, Brickles embarked on the process of building an entity that was a stock exchange in legal, regulatory and material terms. The rulebook, which had become more onerous than that of AIM, was re-written and published in January 2005, and the company set about developing a functioning electronic trading platform:

'I remember [them] saying to me pretty much on day one when I walked in, 'By the way, there's no trading platform'. So how are we trading stocks? Well there was a very rudimentary connectivity mechanism which connected those few market makers involved in trading OFEX stocks. But there was certainly no platform.'²⁴

Much of the impetus for this expansion came from market-maker-investors such as Winterfloods who were, as Brickles suspected, upset about the London Stock Exchange's decision to extend the coverage of its SETSmm electronic system to smaller companies. Brickles says that the new strategy simply emerged from the hand he was dealt:

'I then found myself, if you like, last man standing on the director front and far from being, "Yippee... I'm going to make it into a market", I was thinking, "Crikey!", because in those days the regulators were saying, "Well what are you going to do with it?"; the investors were saying, "Right what is going to happen with it?"; the customers were all saying "We are leaving, we are all off to AIM", everybody who could have a crack was having a crack in the press, so I found myself then effectively running the business. We could develop it a bit but it was in a problem position, particularly given the strength of AIM. Then, I suppose with thinking caps [on] and the fact that the Stock Exchange was pushing the order books...I thought that we could launch a rival exchange, that it would be based on the market-maker system and that it would be exclusively [targeted at smaller companies].'²⁵

A number of factors gave impetus to the plan. First of all, there was no business-as-usual option available. OFEX's corporate restructuring had made it impossible for market-making revenues to subsidise the market, now held in an entirely separate legal vehicle.²⁶ OFEX needed a steady stream of

²⁴ Market executive 1 interview

²⁵ Brickles interview

²⁶ John Jenkins had retained control of the market-making business when the market was floated onto AIM, but had lost his monopoly on trading at the same time and had been largely outcompeted by Winterflood Securities

new listings, but by 2004 the stream was barely a trickle. Received wisdom held that new listings were dependent upon the availability of capital from institutional investors which could only be forthcoming in a market with more competitive prices driven by multiple market-makers.²⁷ At the same time, the market-makers who had supported the rescue fundraising to become major shareholders in OFEX were chafing at the high fees imposed by the London Stock Exchange – now a deregulated and revenue-focused global corporation – for settlement and transaction. The MiFID regulations, expected in 2007, sought to open up competition between markets, but there was no possibility of competition unless a vehicle to challenge the LSE could be found. Finally, Brickles is widely held to have bought an element of personal rivalry into his new role as chief executive of OFEX, now renamed PLUS Markets Group.

Brickles therefore began to expand the market's offering, assisted by Stephen Hazell-Smith who joined as non-executive chairman in January 2005. Interim results published in September 2005 announced that the new rules, published in January, had reassured investors to the point where 'a number of the key institutional investors in smaller companies have publicly declared that they are now prepared to invest in appropriate OFEX securities.' Turnover was up and losses greatly reduced. The company announced a £2.5 million fundraising to pay for an expansion in the number of securities traded, stating

'the company intends to markedly broaden its existing trading services to encompass an extended range of securities. The enlarged trading service will allow *brokers and investors flexibility in selecting their execution venue* and should focus more attention on existing OFEX securities. The company believes that it can offer a wider trading service that will be very competitive and will provide an efficient platform for brokers, retail service providers and market makers.'²⁸

In other words, the junior market was to be positioned as a direct competitor to LSE's smaller company markets and AIM. On November 10, 2005, the Times reported a private meeting at the offices of mid-tier broker Charles Stanley: 'Present at the meeting were representatives from Stanley and dealers such as Seymour Pierce, Peel Hunt and Winterflood Securities, which has led the opposition to the LSE. Some brokers are upset at the extension of the LSE's

²⁷ Jonathan Jenkins interview

²⁸ Interim statement, 6 September 2005, emphasis added

SETSmm part-electronic trading platform to various small-cap and AIM stocks, for which they claim it is unsuitable.²⁹

On 30 November 2005, after a period of intensive work, the PLUS service (as it was now called) was launched. It enabled brokers to trade any stock on the Official List, 'everything from Vodafone, down to the smallest FTSE All-Share.'³⁰ It was possible to offer a market in these stocks because the London Stock Exchange had lost its monopoly position as competent listing authority (giving it effective ownership of the right to trade stocks) that role having been passed to the UKLA.³¹ The new system expanded the potential revenues available to PLUS, which up to that point could only charge listing fees:

'So the PLUS service enabled the PLUS holdings company to introduce two new strands of revenue. As it was, we chose not to introduce trading fees, but we did charge a membership charge for brokers and market makers to trade on the PLUS Service. So that was our second strand of revenue. And the third strand of revenue was being able to charge for the data relating to that trading activity. So the exchange's sources of revenue went from one to three overnight.'³²

The PLUS rebranding continued to sit alongside the OFEX name until the second half of 2006. The regulatory advances achieved by the previous management, such as becoming a prescribed market, were linked in statute to the OFEX name, and changing the name of the market therefore required a formal process of re-registration. The second half of 2006 saw the growth of a much more advanced ambition, with PLUS Markets setting out to gain the RIE license that the OFEX management had turned down some years earlier. This time round, the application would be hugely demanding project.

'It involved getting a licence but nobody had done it before, you see. When I first saw the people at the FSA about becoming a stock exchange, and I said, "Well what is involved?"... Apart from the London Stock Exchange, *the Exchange*, there was not really

29 The Times, November 10, 2005, Thursday, 'Ofex meets brokers in attempt to poach trade from LSE', Martin Waller, Business p. 54

30 Market executive 1. The service launched with trading in the FTSE 350 extending to the FTSE 250 in June 2006 and eventually to the FTSE 100.

31 Significantly, the LSE remained the listing authority for AIM stocks, a point that would soon become most relevant

32 Market executive 1 interview

another full exchange, so I asked the FSA, as I think it had just become, what would be involved and they said, "About 100 pages, blah blah blah," and I said, "Well what is on those 100 pages?" and they said, "We will have to go away and think about it". And there were in fact recognition requirements and so on, there ended up being about 7,000 pages, at a cost of over £1 million in legal fees and so on, and a hell of a lot of time.³³

Becoming a Recognised Investment Exchange conferred numerous regulatory advances. The statutory provisions that had been achieved piecemeal by OFEX would be replaced by an integrated and comprehensive market regime. The RIE had a clearly designed primary market (i.e. capital raising) component.³⁴ The PLUS ambition was to achieve regulatory status that would allow it to compete not only with AIM, but also with the Official List, providing a technologically advanced and financially competitive trading venue for fully quoted stocks on absolutely equivalent regulatory terms.³⁵ This move was made to coincide with MiFID, a European directive designed to stimulate competition between stock markets, a market in markets for financial services.

The ambition to achieve the RIE served as the justification for a further fundraising, an order of magnitude bigger than previous offers. Announced on 13 December 2006, the offer set out to raise £25m at 14 per share. According to the offer document, the firm, currently focused 'on providing cost-effective quote and trading services dovetailed to the needs of small and mid-cap companies... is seeking to expand into offering services to meet the quotation and trading needs of larger companies and the UK institutional community.' The offer document suggests that MiFID, due to be implemented from November 2007, would offer 'an opportunity for investment firms to review the current products and services provided to them by traditional stock exchanges.'³⁶ The directors, it continued, believed that trading on PLUS could reduce transaction costs by eliminating trade reporting fees; it was at the time a habitual complaint among brokers and market makers that the London Stock Exchange exploited its position to charge fees on the reporting of transactions carried out on the exchange. Moreover, the directors believed that 'PLUS markets is the only FSA

33 Bricles interview

34 It is noteworthy that AIM had stepped 'down' to MTF – multilateral trading facility – status, but that it enjoyed an unusually privileged status position as part of the LSE. AIM would also have no intention to compete with the Official List.

35 Market executive 6 interview

36 Plus Markets Group offer document, 13 December 2006, p5.

regulated entity that meets the regulatory requirements to offer a market in AIM securities.³⁷

The document elaborated on the proposed services to be offered: electronic connectivity with brokers, including a messaging service; the display of client limit orders; and extensive trade-reporting services. It also noted the intention to broaden trading coverage to include investment trusts and other structured vehicles.³⁸ In other words, the newly recognised investment exchange would stand as a serious competitor to the LSE, using the RIE wrapper and an accompanying trading system to take a share of the LSE's trading activity and eventually go head-to-head with AIM:

[The strategy was] two-fold really. One was to develop the market as an RIE and to generate a lot more interest from the institutions which is fine. But it's not just market status that does that, you need to have the bigger companies that are going to be interesting to the institutions. Then part of the funding was also then to develop a sort of state of the art trading system, because another strand to the strategy was to become...initially an alternative trading platform but a new trading platform for AIM.³⁹

In February 2007 the offer, heavily oversubscribed, saw the firm's net assets increase from £2.6m to £24.1m, and valued the company at £43m. Alongside the placing two LSE stalwarts – Ian Salter and Giles Vardey – joined the board as non-executives, and the company announced its intention to move to the Official List. An IT consultant named Brian Taylor was recruited as Chief Financial Officer with a brief to order and implement a new trading system. In April 2007 he ordered a trading platform from Swedish market operator OMX, a supplier of NASDAQ (soon to be taken over and become NASDAQ OMX), with a view to getting it up and running in six months.

PLUS' trading system was central to the whole endeavour of competing with the London Stock Exchange. Tradelect, the LSE's new £40m trading system, went live on 18 June 2007; cutting order processing time to 10 milliseconds, and greatly reducing trading costs.⁴⁰ PLUS' efforts show

37 Ibid p.6

38 Ibid p.7.

39 Market executive 5 interview

40 Daily Mail (London), June 21, 2007 Thursday, 'Buy would be a Plus for Turquoise', Geoff Foster

that the process of setting up a new stock exchange had evolved from a primarily social to a material and technological project:

‘When you are launching a Stock Exchange you don’t just have technology, you don’t just have a trading platform. All your market-makers and brokers have to connect to the platform. That platform has to connect to your website and it also has to connect to data vendors like Reuters, Bloomberg and so on. It has got to connect separately to your surveillance system, so that you can monitor it, and it has not got to go down ever, virtually. It is a huge spider’s web and if any one of those bits of the spider’s web doesn’t connect you cannot launch the market.’⁴¹

July 2007 saw the granting of the RIE license, and the OMX X-Stream platform launched in November 2007, just as MiFID came into force. Both took up quantities of management time and were finished in time for the November deadline: ‘No mean feat. We were running pretty hard.’⁴²

PLUS’ concentration on the material infrastructure perhaps overwhelmed the social and discursive labour involved in setting up a new exchange. Despite a shared management expertise, PLUS failed to engage in the processes that had made the AIM launch a success: prolonged, interactive consultation with the investee community. Indeed, many in the smaller company community felt that PLUS was no longer seriously committed to its original constituency. The market was forced to repeatedly state its commitment to companies and advisers, who levelled against PLUS the same critique that PLUS itself had been making against the LSE: a steady drift upstream towards bigger companies and more lucrative business. Members of the advisory panel, chaired by businessman John French, grew frustrated with managers who

‘ignored the real opportunity to enhance the standards of companies coming to the junior market, the quality of some of the Advisers at that time and introduce acceptance of what PLUS could offer to the investment community in terms of small cap and developing companies.’⁴³

41 Bricles interview

42 Market executive 1

43 French, personal communication

French described the task of maintaining a focused market for smaller company shares as being like 'pushing water uphill' in the face of scant interest from institutional investors and the market's own management. Perhaps this feeling ran both ways: PLUS executives found themselves frustrated by the unwillingness of the community to take its small cap offering seriously.⁴⁴

8.3. Project Tortoise

Any doubts over the market's direction of travel – from smaller company nursery to discount trading and trade reporting venue – would have been settled by the Turquoise affair, a significant and 'traumatic' distraction for management in the autumn of 2007. There had already been rumours of ventures that never came to fruition, tempting PLUS to set up off exchange 'dark pools'. Like PLUS' move to compete with the LSE's small-cap markets, Turquoise sprung from the fact that in the mid-2000s 'people hated the LSE,' then run by Clara Furse, 'it was...vicious.'⁴⁵ A number of senior UK executives of global investment banks came together with the idea of setting up their own lightly regulated trading system (an MTF) to take their business away from the Exchange. These were

'big swinging dicks...big players, nothing to do with small company investing but big players...[who] got it into their heads, probably rightly, that the LSE was taking too much of the pot in trading terms "We're going to set up the alternative, we know what we're doing...we're masters of the universe, we will create an alternative dealing venue. But the problem is that none of them had actually run a market, they were all participating in the markets but none of them actually run a bloody market and that means the regulatory aspects which are not insignificant, all those good things and they're not to be underestimated. And so they approached us and said, "How's about it? This is what we want to do, you guys have got the expertise...can we team up?"'⁴⁶

Turquoise was a consortium of seven investment banks including Goldman Sachs, Merrill Lynch and Deutsche Bank, credit Suisse and Citigroup; by all accounts it was an ad hoc grouping of individual bankers representing those institutions. Although it had first been mentioned in the press in April 2007,

44 French interview; market executive 6, interview

45 Market executive 2

46 Hazell-Smith interview

and the possibility of a merger with PLUS was mooted by the Daily Mail in August, it had not made much progress, earning itself the sobriquet 'Project Tortoise'.⁴⁷

Brickles recalls that he approached the group to suggest a collaboration, with PLUS supplying the trading platform and the management expertise:

'[Some of] the Stock Exchange's biggest trading firms were looking at setting up their own trading entity called Turquoise. We went to Turquoise and said, "Well you have all the trading that is on the London Stock Exchange in the main market... we should be able to get most of the trading in the small cap. We have a stock exchange licence and we can do primary markets. So if you create this new exchange why would you not float companies on it?" If you compete with the monopoly on half of its business then it is going to switch its fees in other business. We provide a complete new Stock Exchange and so we were looking at putting that together. At this point we could have been looking at a £1 billion business.'⁴⁸

By October, details were leaking out. On 6 October 2007 the Daily Telegraph 'revealed' that PLUS was negotiating the terms of a 'takeover' with Turquoise, and the Independent announced a 'merger'. PLUS shares were suspended at 28p following the announcement of a 'non-binding heads-of-terms agreement with a third party'.⁴⁹ It was (and still is) rumoured that

'Turquoise made a very generous offer, which would probably have got a very large chunk of the shareholders' money back again, a very large chunk, but... personalities got involved'.⁵⁰

But this excitement was misplaced:

'People were talking about it in terms of a takeover or a merger and they were talking about consideration. And the reality was

47 The Guardian, April 19, 2007 Thursday, 'London Stock Exchange faces challenges from investment banks and AIM rival', Jill Treanor and Marianne Barriaux, Financial Pages, p.25; Daily Mail, August 7, 2007 Tuesday, 'Why Project Turquoise is feeling blue', Sam Fleming, p.59; The Times (London), October 6, 2007, 'Project Tortoise' in the running for takeover of Plus Markets, Dominic Walsh, Business, p.53

48 Brickles interview

49 Mail on Sunday, October 7, 2007 Sunday, 'Turquoise threat to Exchange, Simon Watkins, C1, p.5; The Daily Telegraph, October 6, 2007, 'Plus Markets in talks for reverse takeover of Project Turquoise', Ben Bland, City, p.33

50 Market executive 2

that there wasn't any consideration on the table. The reality was that, while the benefits to Turquoise of an RIE licence and a trading platform in situ looked pretty obvious...the structure of the transaction offered significant delivery risk to PLUS shareholders. Because Turquoise was basically a bunch of investment banks with a lot of ideas but who themselves actually at that point hadn't delivered anything. It was just an idea. And in seeking to take control of what we had at PLUS, there was nothing [left] on the table for PLUS shareholders.⁵¹

Brickles found the investment bank traders 'difficult characters' and Turquoise' lack of a leader made negotiations very difficult. A particular sticking point for Brickles was the suggestion that PLUS left the market, locking shareholders into an unquoted vehicle with no obvious means of returning their investment. The deal was nearly done, but he backed out.

'It was just before we were going to announce that they were – I called off, I said that the deal could not go ahead because there was one term about how long the entity would be listed for that I said I could not compromise on...I did not do the deal because I thought that it was against my shareholders' interest. In retrospect with the financial crash...I should have just done it, it would have made six times the money and everybody would have been happy.'⁵²

By 19 October talks were over, and Turquoise was reported as looking for a deal with Cinnober, a Swedish technology firm.⁵³ Still no progress was made and eventually the whole thing was quietly reabsorbed by the London Stock Exchange, now run by the shrewd and politically aware Xavier Rolet:

'They made a big enough noise to worry Rolet who [said], "We can see you're struggling here a bit. Look, what about if we take it off your hands? We'll make sure we don't do anything nasty on the transaction fees, we'll play your game." And all breathed a sigh of relief because they were getting nowhere with this thing and it was starting to look rather embarrassing.'⁵⁴

51 Market executive 1

52 Brickles interview

53 The Times, October 23, 2007, Tuesday, 'Time for red faces over at Turquoise', Martin Waller, Business p.47

54 Hazell-Smith interview

8.4. Head to head with AIM

2008 saw the new exchange making progress with its ambition to tackle the LSE. News stories reported that PLUS had captured more than half of private investor deals for a particularly turbulent week of trading in January 2008.⁵⁵ In May, PLUS handled 'virtually all' of the trade reporting for one new admission to AIM, and the following months Mears plc became the first company to take up a joint PLUS listing.⁵⁶ September saw a partnership with the New Zealand Stock Exchange and November a proposed partnership with the US electronic trading service Direct Edge. The 2007 annual figures showed revenues of £3.1 million and a loss of £2.98 million, well within expectations in view of the development work the firm had carried out.

Then came a problem. PLUS's competitive offering was predicated on the ability to trade in Official List Stocks without incurring the LSE's reporting costs. Brickles believed that his market could capture a majority of trading in the bottom two thirds of the LSE's constituents, and on that basis generate some £4 million annually in data sales.⁵⁷ But MiFID did not apply to the 'exchange regulated' AIM, only regulated markets such as the Official List. PLUS's main customers,

'the likes of Wins, Teathers, the core market makers in the smaller company markets, all wanted to be able to trade AIM [stocks] on PLUS and they couldn't. AIM wasn't caught by MiFID, because the regulations didn't apply. It wasn't a fully listed market, and MiFID only applied to fully listed markets...So what do you think the LSE are going to do? Are they going to say, "Hey, yeah, we're in this wonderful deregulated world. Come and have a share of the pie." Well, of course not. So the only way we were going to be able to persuade them to...well we did have some goes at trying to persuade them to let us trade AIM stocks as well. But they wouldn't do it.'⁵⁸

AIM remained the property of the LSE, while supervision of the Official List had been taken over by UKLA. Beyond the scope of the MiFID anti-monopoly legislation, the LSE insisted that all trades were reported back through its own infrastructure. The LSE lobbied hard. It invoked its long-established

55 Mail on Sunday, January 27, 2008 'Plus takes away trades from LSE', Simon Watkins, p.73

56 Mail on Sunday, May 18, 2008, 'A Plus for 'upstart' exchange', Simon Watkins, p.79; Mail on Sunday, June 29, 2008, 'A Plus for exchange', p.77.

57 Brickles personal communication

58 Market executive 1 interview

reputation to good effect: the FSA made it difficult for PLUS to trade AIM stocks, even in cases where it should have been eligible to trade the non-AIM side of a dual listed security.

Brickles suggests that the root of PLUS' difficulties lay in a change of attitude on the part of the government and the regulators. From 2004 to 2006 the LSE had been fighting a succession of hostile bids from Deutsche Boerse, the Australian Macquarrie Bank and finally NASDAQ. Had any of these approaches been successful it is likely that AIM would have suffered and perhaps even been closed, and regulators worried about the future of small company equity markets in the UK were receptive to alternative solutions. Once the threat of takeover had receded, the LSE lobbied to protect its position and government support was lacking: PLUS was no longer needed as a saviour of the U.K.'s entrepreneurial companies.⁵⁹ Brickles attempted to use EU passporting regulations to report business through the Munich Stock Exchange but this scheme met with regulatory disapproval. The only other way of being permitted to trade was to seek consent from the companies themselves. Here, according to PLUS' management, vested interests in the form of high supervisory fees earned by AIM advisors got in the way:

'We had to go to every single AIM company and say, "Do you want your share to be traded on another market as well as the LSE's market?" And unsurprisingly enough the issuers were very suspicious. And they would ring their Nomad and say, "What do you think?" And the Nomad said, "Don't do it". Why? Because they're running an absolute gravy train of Nomad fees from the London Stock Exchange's AIM market, why on earth would they do anything to stop that gravy train from running?...So the only way we were going to [earn the] right to persuade the LSE to dual trade AIM stocks was to sue them. So we did. So we spent four million quid on that legal case.'⁶⁰

Ironically, the source of PLUS' discomfort was Brickles' own innovation at the LSE, opting into exchange-regulated status and out of European regulated market status:

'I had been told by the Treasury that I would have the right to trade AIM Securities. Ed Balls had written to me twice, I had letters from Ed Balls saying, "Yes you will get it." [But while at the LSE] I

⁵⁹ Brickles, personal communication

⁶⁰ Market executive 1

had made AIM a non-regulated market under EU Directives so it was legally complicated. I set up a doppelganger market, sued the LSE and I had just got the right to trade AIM Securities but by that point we were going into economic recession... It was agreed at the Court that we would have the right to trade AIM Securities but it was a bit of a pyrrhic victory because then we were going into economic meltdown'⁶¹

The action, launched in September 2008, was hugely expensive both in terms of cash and management time. Market Executive 5 'spent days with barristers and lawyers', and it was rumoured that the legal firm dealing with the case had to set aside an entire room to store the paperwork. Full year figures for 2008 showed a loss of £10 million, leaving £15 million cash in the bank.

The case was settled out of court. Received wisdom holds that the LSE's newly arrived chief executive Xavier Rolet had no wish for a high-profile legal action and gave way to PLUS' demands. The LSE then cut its charges, leaving PLUS with no price advantage; those backing PLUS, having waged a successful resistance, drifted back to the incumbent exchange. Moreover, as interviewees pointed out, the global economy had entered a very difficult period. Applications shrank and constituent companies went out of business.

'Looking back, during 2008 and by the end of it, it was starting to look a bit rocky and at the same time of course a lot of the cash had been spent on the trading system. So over the next couple of years there was rumours in the market from 2009 onwards that PLUS was running out of money. It was the capital adequacy requirements rather than the operating costs that were the issue. So there were rumours going around for a long time, which of course then become self-perpetuating because everyone is worried that it is not going to be around for much longer so you are not going to punt anything on to the market.'⁶²

The regulatory status as RIE, now PLUS's prime asset, was hugely expensive to maintain, roughly ten times the cost of the prescribed market status.⁶³ It was fragile, in regulatory terms, subject to cancellation by the FCA if they felt that it was not being used properly (or indeed at all). It also made admission to the primary market (MTF) more difficult:

61 Bricles interview

62 Market executive 5

63 Market executive 2

'Before PLUS become an RIE there were two ways that you could get on to the market. One was by producing an admission document and the other was...called introduction at that time, and you just basically filled in a few forms if you were not raising money and you were just having shares admitted to trading, you filled in some forms and that was it. That could be done by an advisor very quickly they just had to say, "Yes we have had a look at this company and it looks fine to us," and then you were on-market, which was a much, much cheaper and much faster route to market. Once the market became an RIE, that had to go.'⁶⁴

In August 2009 trade reporting commenced in all AIM securities, but it came too late for the firm, which by this point was in need of still more capital. New issues remained difficult, with advisers deterred by the expectation that the fees they could charge for the same work would be substantially lower if they listed on PLUS. A PLUS listing, lacking the LSE's stamp, was hard to sell to potential listees. PLUS simply never enjoyed the kudos of the LSE, although Brickles remains confident that it would have been recognized in time.

'We came, I think very close with PLUS, closer than people know, to really wrecking the Stock Exchange business and I think that accounts for some of the hostility. Clara, who I had no personal animosity towards, had a committee watching everything we did on PLUS. They had a committee monitoring us all of the time because, of course, people were willing to pay £1.5 billion, £3.5 billion, £4 billion for the LSE because it was the only show in town. But we had got exactly the same licences and liquidity and so on.'⁶⁵

64 Market executive 5

65 Brickles interview

9. Decline and fall: the final days of PLUS

PLUS found itself in a difficult position. It had betted heavily on the trading and reporting venture, ramping up infrastructure and recruiting employees. The expected levels of business had failed to materialize and the costs of legal action had drained its coffers. A sudden change in market conditions spelled trouble for the primary market as appetite for funding risky smaller companies disappeared following the financial crisis.¹ The company was in bad financial shape. Vardey, who later became Chairman of PLUS, suggested that there were fundamental issues with the business model.

‘We got listing fees if a company came on to the PLUS trading market, so five grand a year or eight grand a year, whatever it was. So... you needed at least three or four hundred companies to cover the running costs of the exchange. Well, we never got there. And the second fatal flaw of the model was that you had no control of the trading system that your market actually operated. In other words, you were entirely reliant on market makers, particularly Winterflood Securities with a few others as well, to make two-way prices, and any profits from secondary trading as such went straight into the pockets of the traders and brokers, not the exchange.’

In other words, the separation of market-making (trading) revenues from market administration revenues (listing fees, memberships and data sales) fundamentally undermined the commercial proposition: secondary market profits form a crucial part of developing a viable small-company investment exchange.

The second half of 2009 therefore saw another change of direction for PLUS. The company now had its licence and systems in place, but was suffering from an acute lack of business and cash. A document issued to shareholders in September 2009 stated:

‘Primary markets are currently extremely challenging with a dearth of companies coming to the market. Moreover, the delay in obtaining the right to trade all AIM securities and the cost of the associated litigation requires the Company to strengthen its

1 Market executives 1 and 6 interview

balance sheet, increase its regulatory capital and to diversify its geographical reach.'

In September 2009 PLUS raised £5m from Kuwaiti group Amara Dhari, a loosely affiliated collection of investors representing powerful business interests in the Middle East. The deal, at 7.5p per share, valued the company at £29.5 million and left Amara Dhari with 17% of the stock. Non-executive directors Ian Salter and Giles Vardey stepped down from the board and were replaced by two Amara Dhari nominees, Ahmed Ibrahim Al Asfour and Hisham S. Al Otaibi, the latter former Minister of Commerce and Industry for the State of Kuwait. The stated purpose of this deal was to open up PLUS' market to the Middle East. According to the circular, 'Amara Dhari and its shareholders intend to use their relationships with financial institutions, high net-worth individuals, family and international companies headquartered in the GCC' to develop new lines of business, including a Shariah compliant trading platform, and introduce businesses from the region onto a London exchange.²

The Amara Dhari arrangement constituted a sudden change in strategy and was not unanimously supported by the board. It was rumoured that the company had turned down a would-be purchaser, a prominent, international exchange, to pursue the deal. Several board members were sceptical that international business would be delivered, and certainly that it would happen on the necessary timescale for a business that was losing money far too quickly, overburdened with staff, infrastructure and regulatory costs. The new approach created confusion in the market, with observers, customers, and market investors unsure why the company had taken money from that particular source.³ 'PLUS' own shareholders were also wrongfooted by the deal and after the announcement several important institutional investors, including Cazenove and Scottish Widows, sold their holdings.

By February 2010 matters had moved on. In a major board reshuffle Cyril Theret, hitherto business development director, became chief executive while Giles Vardey returned as executive chairman, replacing Stephen Hazell-Smith. Nemone Wynn Evans, also a business development executive, had

2 PLUS Markets Group plc, 'Letter from the Chairman', 8 September 2009, p.7. Amara Dhari also took a substantial warrant, conditional on the successful introduction of new business. The warrant allowed Amara Dhari to subscribe for a total of 58 million shares at par (5p) on the condition that the firm had introduced £1.5 million worth of new business to PLUS over a 12 month period. Exercising this warrant would have left Amara Dhari with 29% of the PLUS' equity, and required regulatory approval. PLUS paid the Qatar Consulting Company £275,000 for broking the Amara Dhari deal.

3 Market executive 1, interview

become chief financial officer in September 2008. Simon Brickles moved to take the role of vice chairman with focus on Gulf region, leaving Theret, Wynn Evans and Vardey as the executive. The firm's annual results, published on 25 March 2010, report losses of £8.4m and a cash position of £11m, including the proceeds of the September funding, down from £14m at the end of 2009. The board commenced a strategic review, seeking to cut costs and reduce the company's cash burn, as well as seeking new revenues. The firm pursued two main strategic directions. The first was to develop an offering in market services. PLUS gave notice on its expensive but outdated OMX platform and began to develop an in-house trading platform and associated services that could be sold to others in the market. The second approach was to develop a derivatives trading service, an idea that never really had time to come to fruition.⁴

In November 2011, following an acrimonious war of words in the press, Amara Dhari succeeded in ousting Vardey from the chairman's role. The Kuwaiti group was said to be frustrated by Vardey's unwillingness to pursue opportunities in the Middle East; Vardey simply did not believe that sufficient business existed in a region dominated by family-owned firms to constitute an opportunity worth pursuing. The PLUS board was concerned about the identity of Amara Dhari syndicate members, but its investigation led only to the resignation of a senior board member.⁵ By this point the group was under constant regulatory supervision. Executives were forced to attend weekly meetings with the regulator to discuss capital adequacy and plans for orderly closure. The executives felt the pressure of the supervision keenly: it was made clear that they had responsibilities beyond their immediate shareholders, particularly to the regulators and the issuer companies.⁶

In December the group announced that it had turned down an offer for Plus-DX, its fledgling derivatives exchange, hinting that this offer came from the executive until recently in charge of the operation. PLUS claimed that it remained committed to launching the service.⁷ The same month, however, PLUS appointed an independent corporate financier to sell the business, news that became public in early February. Despite some interest, no buyer came forward. On 14 May 2012 PLUS announced its intention to conduct an orderly closure in accordance with FSA rules; four days later, on 18 May, it

4 Market executives 1 and 5. The technology projects were set up in stand-alone companies in order to ease regulatory capital requirements.

5 Market executive 6 interview

6 Market executive 6

7 The Daily Telegraph (London), December 30, 2011, 'Plus Markets Group turns down offer for its derivatives unit', Jamie Dunkley, p.29

announced that the giant inter-broker dealer ICAP would buy the exchange for £1, taking a core staff and committing to all associated liabilities. This done, the management expected to close down the company and return what little cash remained to investors. Discontented shareholders, largely in the person of Spencer Wilson, who had seized control of the Amara Dhari board in June, reacted with fury to 'Project Chardonnay'⁸ Further acrimony broke out in the press, with the Amara Dhari faction objecting to the sale of the exchange, and particularly to the payment of nearly £1 million in success fees to advisers, and a £423,000 payment to Theret and Wynn-Evans based on severance pay and ownership clauses. PLUS executives, for their part, simply insisted that they had worked hard to bring about the best deal possible both for shareholders and for constituents of the market, whose interests the regulator particularly represented.

Amara Dhari sought to gain the support of heavyweight small-cap investor Bruce Rowan, who had accumulated some 15% of the stock when the price collapsed, and the media speculated on how he would vote in the coming general meeting. On 14 June ICAP increased its offer to £500,000. The following day it was announced that the company's market infrastructure business, PLUS Trading Solutions, would be sold to Forum Trading Solutions for deferred consideration of £281,251. 'The rebel shareholders,' wrote the Financial Times, 'say that the nominal valuation of PLUS-TS is unjustified, and argue the deal will benefit the PLUS board's former colleagues at Forum... PLUS valued the platform at £4m when it was seeking investment last autumn.' An acrimonious general meeting of 29 June 2012 saw the sale agreed, the directors dispatched from the board, and largely at Rowan's insistence the AIM-listed carcass retained as a shell company.

It seems, in the end, that there was only room for one large-scale small company market. PLUS' ambition grew out of the confluence of a boom in international new issuance and a temporary dissatisfaction with the LSE. It left

'this little vacuum in the middle which I think Simon and the original crew thought they could fill, and in a sort of philosophical strategic way they were right. But I think the problem was there

8 A regulatory announcement from PLUS Markets Group, dated 8 June 2011, states 'Mr Al Asfour, whose family hold over 50% of the share capital of AD, has informed the board that they refute the right of Spencer Wilson to have committed AD to formally support the additional resolutions proposed at the Company's forthcoming annual general meeting'. A week later it emerged, via an open letter from Amara Dhari, that Spencer Wilson had forced Al Asfour to step down from the board of Amara Dhari for supporting the ICAP deal (Source: PR Newswire Europe, June 14, 2012, 'Amara Issues Open Letter to the Board of PLUS Markets Plc')

weren't either the resources or the ambition frankly to run a full exchange...there aren't enough intermediation fees in the small cap area...to feed brokers, exchanges, information providers and research firms – there just isn't enough intermediation fee to do that. The biodiversity of the area is just not sustainable.⁹

Or, as one of the advisors put it,

'I sold out [of my advisory business] I was very lucky, and I got a quarter of a million pounds for my shares...I've always said, if I'd been an AIM Nomad, I could probably have made two and a half million, and I'd been a hedge fund manager, I'd have made twenty five million. There just wasn't the money there.'¹⁰

9 Vardey interview

10 Corporate advisor 5 interview

10. Afterword: Changing AIM

Unlike PLUS – now rebranded as NEX Exchange, and establishing its direction for a new lease of life – AIM has continued to flourish. The business of a stock exchange is supplying infrastructure, and AIM has been successful in part because it piggybacks on LSE’s price feeds and trading mechanisms.¹ It has also greatly benefitted from the reputation and reach of its parent, from inception to the present. The launch of AIM constituted a radical change for the conservative and risk averse London Stock Exchange, but the decision to allow an independent, innovative team to design a bespoke market for smaller companies led to an institution that has now entered its third decade. Its contribution to the British – and global – economy has been substantial: AIM has recently passed the significant milestone of £100 billion raised through public offers and in the secondary market. More than 3500 companies have passed through the market since it was launched in 1995,² and the ‘AIM model’ has been adopted by growth markets worldwide. AIM has adapted its infrastructure to serve a diverse constituency and has managed to cope with a wide range of company sizes by providing a menu of trading operations. It thereby achieves a careful balance in the politics of market trading, offering an electronic order book for larger securities, the market-maker driven SEAQ, and a hybrid system. The Exchange has made space for market-makers in the smaller-company markets; it has come to recognise

‘the fundamentally important role that market-makers have always played and continue to play in making sure that there are always prices quoted...[but] towards the larger end where you have got much larger and more liquid stocks we want to make sure that everyone can participate in the trading of those stocks.’³

During the still-short history of AIM two booms in new issues – the dotcom boom and the international commodities boom – have resulted in an excess of ‘scar tissue’. Despite this, there have been many individual success stories on AIM, making it a ‘stock picker’s market’.⁴ Looking forward, the composition of the market is changing, and companies are increasingly

‘regular businesses, not necessarily massive growth markets but growing markets, cash flow returns, investing for a future

1 Market Executive 3 interview. LSE Group describes itself as an ‘international markets infrastructure group’
2 London Stock Exchange press release
3 Stuttard interview
4 Buchanan and Williams interviews

productivity, generating good and growing dividend yields. So the nature of AIM I would say has radically changed in the last eight years...38 per cent of the AIM market is involved in defensive companies.⁵

Academic research has highlighted the importance of high-growth firms (gazelles) with certain characteristics, notably maturity and heterogeneity of industrial sector. AIM, in its more mature form, has developed a constituency manifesting these characteristics. Research has also drawn attention to the importance of physically located entrepreneurial ecosystems, and the AIM community itself comprises one such ecosystem, and supports many others through the provision of legitimacy, publicity and financial support.⁶

The tangled story of OFEX/PLUS suggests that there is only room for one full scale growth market in the British economy, and that more benefits accrue from the concentration of trading activity than from the fragmentation required by competition. The London Stock Exchange therefore has a heavy responsibility in terms of stewardship of this national resource for the future. AIM's contribution to 'UK plc' has been part of its mission statement since the beginning and continues to be so:

'As an exchange, we are very proud of the fact that AIM, just the UK companies on AIM are responsible for a £25 billion contribution to UK GDP and 730,000 jobs. These are businesses that many of them may well have been sold early or wouldn't have gained the scale or the credibility they have gained without AIM and so it is a market where we are fundamentally making a difference to the economy and to the quality of jobs and employment.'⁷

In view of this commitment, the decision in 2001 to internationalise in pursuit of shareholder value seems wrongheaded, and we should applaud AIM's renewed focus on the UK, manifested in such things as its 'Elite' training programme for SMEs and an ongoing marketing effort in the British regions.

The history of the UK's smaller company stock markets also shows an ongoing, though cyclical, demand for growth funding and share trading

5 Williams interview

6 Ross Brown, Suzanne Mawson, and Colin Mason, "Myth-Busting and Entrepreneurship Policy: The Case of High Growth Firms," *Entrepreneurship & Regional Development* 29, no. 5-6 (2017); Ross Brown and Colin Mason, "Looking inside the Spiky Bits: A Critical Review and Conceptualisation of Entrepreneurial Ecosystems," *Small Business Economics* (2017).

7 Stuttard interview

mechanisms (on the part of companies) and investment opportunities (on the part of retail investors and institutions). Yet regulation seems, to practitioners at least, to be out of step with this demand. Many interviewees felt that regulatory oversight verged, at times, on the hostile, and that regulatory changes have made it increasingly difficult to secure retail investor participation in growth stocks. Regulators pursue the laudable aim of protecting individuals from investing loss, but retail investors have traditionally been a crucial source of funds for growing businesses, investing locally in companies they can see and with which they can interact.⁸ A regulatory tightening of smaller company markets is likely to drive investors into informal arrangements or crowd-sourced funding mechanisms which lack the disclosure and transparency necessary for any kind of effective investing.

AIM must also deal with the changing nature of social relationships within the financial world. Its regulatory structure was based on a currency of reputation within a small community. This relied heavily upon links built up over many years on the trading floor of the Exchange and a clearly articulated understanding of acceptable financial practice. The passage of time has eroded these links and the commonly understood norms that accompanied them. There was a sense among interviewees that the Nomad structure could no longer be expected to wield the influence that it once had done, and that it had come to resemble a restrictive practice resulting in high fees and excessive turnover of staff within advisory organisations.

Small company investing is a fashion-driven and volatile occupation, and the fortunes of any market are necessarily tied to those fashions. AIM's position within a much larger organisation has helped to insulate it from the vicissitudes of investor sentiment, yet at the same time makes it vulnerable to internal politics. While I was conducting interviews the small company community was worried by the possibility of a merger with Deutsche Boerse. The expectation was that incoming management would be unfamiliar with equity finance for junior firms and unfriendly to the UK smaller companies sector. I heard rumours of another 'ginger group' forming to discuss what might happen should AIM be closed. Even an institution that is broadly supportive of AIM's endeavour stands to lose much more in reputational terms than it can gain from revenue, and many interviews believe that this has caused the LSE to run AIM in a conservative manner, drifting away from smaller, higher risk fund raisings. Yet it does not seem reasonable to expect a

8 Philip Roscoe, "Elephants Can't Gallop": Performativity, Knowledge and Power in the Market for Lay-Investing," *Journal of Marketing Management*, no. 1-2 (2015).

return to the pure caveat market of 1995. We should welcome the maturing of AIM as a higher tier in a panoply of funding options for growing companies and recognise that quality of supervision may be inextricably linked to fees: for example, retaining high quality advisors, a clear signal of quality in the market, is an expensive option only available to more developed and larger growing companies.

The ongoing enthusiasm of financial intermediaries and their clients for earlier-stage sources of funding does imply that AIM should be supplemented by a variety of transparent and clearly supervised funding mechanisms. Structural factors suggest that a full-scale recognised exchange is not an appropriate solution, but other 'dual-capacity' arrangements, where market-making revenues subsidize market infrastructure, may be viable. Clearly, these need to be well regulated, and one would have no wish to go back to a 1980s-style over-the-counter market. But the example of JP Jenkins and OFEX shows that such 'markets' can be beneficial for growing firms; OFEX had, by 2003, raised over £1 billion for new businesses, most of which would have been far too small to consider a listing on AIM. Technological innovations linked to more localised economic activity (for example algorithmic micro-exchanges for locally crowd funded start-ups) might also offer promising solutions. The London Stock Exchange has been historically supportive of noncompeting funding mechanisms, which it views as feeders for its own business. Such mechanisms might also help to counterbalance two decades of technological and regulatory developments, notably the Internet, that have concentrated financial ecologies in bridgehead cities such as London.⁹ This concentration is neither necessarily desirable nor in keeping with the political aspirations and responsibilities of a national small company market. The perspective of British enterprise – an important political and rhetorical motif in this story – demands mechanisms to reinvigorate issuer activity in Scotland, Wales and the English regions. Growing infrastructure costs and associated economies of scale suggest that 'white label' serviced offered by large providers may be a more effective solution than de novo start-ups.

An important and perhaps unexpected inference we might draw from the study is that a stock exchange is talked into being. Although it is a creature of regulation, and regulation has played an important role in the development of these markets, my account suggests that the two are not connected by a direct line of causality. The history of OFEX/PLUS shows that regulation and

9 GL Clark, "Money Flows Like Mercury: The Geography of Global Finance," *Geografiska Annaler B: Human Geography* 87B, no. 2 (2005).

material infrastructure were not, in and of themselves, enough to sustain a market; while Rule 535 made the initial venture possible, subsequent regulatory innovations and the eventual gaining of the RIE licence did not lead to long term success. Both AIM and OFEX came into being as a result of a collective conversational effort: the enormous push on the part of Wallis and her team to persuade the community that the new market would be important and had to be taken seriously, and a similar conversational effort on the part of John Jenkins and Paul Brown to revive old networks and unlock a flow of demand. More than mere marketing, these discussions talked the market into being, and at the same time secured the participation and the goodwill of those who would form part of the community. By this account the continued success of AIM was due to the ability of the LSE to maintain and expand such conversations through difficult times. The eventual failure of PLUS, on the other hand, suggests that even the most promising conversations are fickle and liable to collapse, a discursive failure exacerbated by the management's focus on the purely technical aspects of running a market (although this problem points again to the economies of scale available to incumbent exchanges). Stock exchanges, just as much as banks, are narrations sustained by the confidence of the community that they serve.

Most of all, the history shows us that markets are historically and materially embedded entities. They take a particular form as a result of historical forces and material constraints, including organisational path dependencies, regulatory changes, advances (or otherwise) in technological systems and market infrastructure, reactions to external stimuli and competitive pressures, and the personal projects and interests of individuals. The distinctive regulatory shape of AIM is an example of one such path dependency, and the launch of OFEX in 1995 another. These market architectures, cultures and trading mechanisms give rise to distinctive kinds of 'ethics of office' among participants. Examples are the code of practice among those apprenticed as blue buttons on the floor of the old London Stock Exchange, or the project-based frame of reference of classroom-educated MBAs. These value systems have shaped the developing markets and clashes between them underlie some of the most bitter disputes in my history. Recognising path dependencies and the value-systems of participants as the fundamental source of institutional form can facilitate discussion of appropriate organisational changes as and when necessary. As Michie pointed out almost 20 years ago, there is no reason why the task of providing risk capital should fall entirely to the LSE. It seems unreasonable to expect the London Stock Exchange to be involved in financing of very small enterprises or the provision of a market for their shares. But demand will not go away.

The recent growth of crowd funding and online platforms for business angel investment is likely to create a need for micro-level trading platforms going forward as investors seek to realise gains or simply to dispose of their holdings. It is likely that some of these needs will be met by matched-bargain services of the kind that John Jenkins and Paul Brown first established in 1992. Indeed, JP Jenkins Ltd, never absorbed into the OFEX vehicle, has found its way back to Brown who is reviving it as an exit route for crowd-funded businesses. Several other individuals spoke to me in confidence about their coming plans for equity trading vehicles. NEX Exchange has repackaged its RIE licence as a growth market and main market and may yet challenge the LSE's hegemony. It appears, therefore, that there is both need and scope for the development of small-scale, inexpensive mechanisms for the trading of smaller company shares and the provision of risk capital, integrated with the regional broking (wealth management) and advisory communities in the UK.

11. Timeline of relevant events

1 April 1966	S Jenkins & Son established
1970s	OTC markets growing under Rule 163.2 and licenced dealer regulation
1973	Women admitted to Stock Exchange membership
1979	Wilson Committee criticises LSE. Margaret Thatcher becomes Prime Minister
November 1981	Unlisted Securities Market launched
November 1984	British Telecom public offer
27 October 1986	'Big Bang' ends single capacity, opens City to foreign competition
January 1987	Third Market launched
19 October 1987	'Black Monday' market crash
1990	Third Market merged with USM
11 February 1991	John Jenkins and Paul Brown establish J P Jenkins Ltd.
December 1992	LSE recommends closure of the USM within two years. CISCO established
March 1993	LSE scraps Taurus project and loses settlement function. Peter Rawlins resigns as Exchange chief executive
October 1993	Newstrack launched as joint venture between Reuters and JP Jenkins
7 September 1994	LSE proposal to create AIM circulated, consultation begins
June 1995	AIM launched
29 September 1995	LSE's Daily Official List ceases to publish 535 prices. LSE closes non-SEAQ board
2 October 1995	OFEX launched as 'trading facility'
October 1997	LSE introduces SETS order book trading system. OFEX publishes code of practice
September 1999	LSE launches techMARK index. Dotcom mania approaches climax
August 2000	Sweden's OMX makes hostile bid for LSE. Defence document promises rapid internationalization of AIM and techMark
1 December 2001	OFEX becomes prescribed market under FSMA
January 2002	OFEX rule book published
February 2003	OFEX floats on AIM
September 2004	Jenkins family loses control of OFEX. Simon Brickles takes over as CEO
November 2005	PLUS Service launched

December 2006	PLUS raises £25m to launch RIE
18 June 2007	Tradelect, LSE's £40m trading system, launched
July 2007	PLUS gains RIE
November 2007	MiFID comes into force. LSE blocks trading in AIM stocks
September 2008	PLUS launches legal action against LSE. Lehman Brothers collapses 15 September
August 2009	PLUS commences trading in AIM securities
September 2009	PLUS raises £5m from Amara Dhari
14 May 2012	PLUS announces intention to conduct orderly closure
29 June 2012	ICAP purchase ratified at EGM
June 2015	AIM celebrates 20th anniversary
January 2017	AIM reaches '£100bn funds raised' milestone

12. Appendix i: Interviewees

Interviews were conducted during the period December 2015 to May 2017.

* denotes multiple interviews.

Name/Pseudonym	Role
Andrew Beeson	Founder Beeson Gregory, broker, Chairman of Schroders
Andrew Buchanan	Fund manager
Barry Hocken	OFEX executive, Newstrack founder, small company financier
Brian Winterflood*	Founder, Winterflood Securities, marketmaker
Corporate advisor 1*	Small company financier
Corporate advisor 2*	Small company financier
Corporate advisor 4*	Small company financier
Corporate advisor 5	Small company financier
Emma Jenkins	Former MD of OFEX, daughter of John Jenkins
Fund manager 1	Fund Manager
Geoff Hoodless*	Founder Hoodless Brennan, broker
Gervais Williams	Fund manager
Giles Vardey*	LSE Director of Market Development, Chairman of PLUS
John Jenkins	Founder, JP Jenkins, founder OFEX, former chairman of OFEX
Jonathan Jenkins*	Former MD of OFEX, son of John Jenkins
John French	Company promoter
Marcus Stuttard*	Current Head of AIM and UK Primary Markets at the LSE
Market executive 1*	Market executive
Market executive 2	Market executive
Market executive 3	Market executive
Market executive 4	Market executive
Market executive 5	Market executive
Market executive 6*	Market executive
Market maker 1	Market maker
Market maker 2	Market maker
Martin Hughes	Market executive
Paul Brown	Cofounder JP Jenkins Ltd
Phil Nathan	Director of broking, Charles Stanley
Promoter 2	Company promoter
Public relations 1	Former journalist, Public relations

Public relations 2	Public relations
Public relations 3	Public relations
Public relations 4	Former journalist, Public relations
Simon Brickles	Former Head of AIM, former CEO of OFEX
Stephen Hazell-Smith*	Fund manager, former Chairman of PLUS
Stephen Norcross*	Director of broking, Finncap
Theresa Wallis*	Former Head of AIM
Tim Ward*	Former member of AIM launch team, CEO of QCA

13. Appendix ii: References

- Ahrne, Göran, Patrik Aspers, and Nils Brunsson. "The Organization of Markets." *Organization Studies* 36, no. 1 (2015): 7-27.
- Arcot, Sridhar, Julia Black, and Geoffrey Owen. "From Local to Global: The Rise of AIM as a Stock Market for Growing Companies: A Comprehensive Report Analysing the Growth of AIM." London: London School of Economics (2007).
- Attard, Bernard. "The Jobbers of the London Stock Exchange an Oral History." *Oral History* 22, no. 1 (1994): 43-48.
- . "Making a Market. The Jobbers of the London Stock Exchange, 1800–1986." *Financial History Review* 7, no. 1 (2000): 5-24.
- Baker, Wayne E. "The Social Structure of a National Securities Market." *American Journal of Sociology* 89, no. 4 (1984): 775-811.
- Brown, Ross, and Colin Mason. "Looking inside the Spiky Bits: A Critical Review and Conceptualisation of Entrepreneurial Ecosystems." *Small Business Economics* (2017): 1-20.
- Brown, Ross, Suzanne Mawson, and Colin Mason. "Myth-Busting and Entrepreneurship Policy: The Case of High Growth Firms." *Entrepreneurship & Regional Development* 29, no. 5-6 (2017): 414-43.
- Buckland, Roger, and Edward W Davis. *The Unlisted Securities Market*. Oxford: Clarendon Press (1989).
- Clark, Gordon. "Money Flows Like Mercury: The Geography of Global Finance." *Geografiska Annaler B: Human Geography* 87B, no. 2 (2005): 119-12.
- Frost, Raymond. "The Macmillan Gap 1931-53." *Oxford Economic Papers* 6, no. 2 (1954): 181-201.
- Gerakos, Joseph, Mark Lang, and Mark Maffett. "Post-Listing Performance and Private Sector Regulation: The Experience of London's Alternative Investment Market." *Journal of Accounting and Economics* 56, no. 2-3, Supplement 1 (2013): 189-215.
- Hennessy, Elizabeth. *Coffee House to Cyber Market: 200 Years of the London Stock Exchange*. London: Ebury Press (2001).
- Khurshed, Arif, Dimitris Kostas, and Brahim Saadouni. "Warrants in Underwritten IPOS: The Alternative Investment Market (AIM) Experience." *Journal of Corporate Finance* 40 (2016): 97-109.
- Knorr Cetina, Karin, and Urs Bruegger. "Global Microstructures: The Virtual Societies of Financial Markets." *American Journal of Sociology* 107, no. 4 (2002): 905-50.
- Lewis, M. *Liar's Poker*. London: Coronet (1989).
- Michie, Ranald C. *The London Stock Exchange: A History*. Oxford: Oxford University Press (2001).

- Nielsson, Ulf. "Do Less Regulated Markets Attract Lower Quality Firms? Evidence from the London AIM Market." *Journal of Financial Intermediation* 22, no. 3 (2013): 335-52.
- Pardo-Guerra, Juan Pablo. "Creating Flows of Interpersonal Bits: The Automation of the London Stock Exchange, C. 1955–90." *Economy and Society* 39, no. 1 (2010): 84-109.
- Posner, Elliot. *The Origins of Europe's New Stock Markets*. Cambridge, Mass.: Harvard University Press (2009).
- Roscoe, Philip. "'Elephants Can't Gallop': Performativity, Knowledge and Power in the Market for Lay-Investing." *Journal of Marketing Management*, no. 1-2 (2015): 193-218.
- Storey, David. *Understanding the Small Business Sector*. London: Routledge (1994).
- Wilmot, Tom. *Inside the over-the-Counter Market in the UK*. Westport, Connecticut: Quorum Books (1985).



University of
St Andrews