BROKERS FORUM

your questions answered

PRASHANT AJMERA

Lawyer & Founder
Ajmera Law Group
Global Investment Advisors

INVESTMENT DESTINATION: UNITED KINGDOM

Continuously adapting to new ideas, regulating the market, and protecting investors makes the United Kingdom the most favoured investment destination for global investors.

1. Why is London, UK, an important centre for the financial markets of the world?

The UK has almost 475 years of financial market history, which has undergone major changes over time to meet the demands of the market. At the same time, the UK as a country continues to protect investors by regulating the financial market and its players quite vigilantly.

The UK stock market has survived several wars and pandemics in the last 475 years. At the present time, it provides several platforms and products to attract investors not only from within the UK and Europe, but also from around the world.

The UK financial market is evolving to keep up with the times and is far from being a stagnant market. It is a continuous work in progress.

In addition, the UK is in the GMT time zone, which makes it easy to follow Asian and North American markets during the same day. This also makes travelling to and from London easy around the world.

2. Can you provide us with a brief history of the UK financial market and how the London Stock Exchange (LSE) came into existence?

The Royal Exchange was founded by English financiers, Thomas Gresham and Sir Richard Clough, and was based on the model of the Antwerp Bourse. It was inaugurated by Queen Elizabeth I of England in 1571. At the time it was not accessible to stockbrokers because the elite class considered their behaviour as uncouth. Hence the trading of stocks and commodities took place in the coffee houses of London.

Stocks grew and money was raised by the new companies and also the royal court. This was the start of organised trading in marketable securities in London, and perhaps the world.

In 1669, the Royal Exchange building was rebuilt and the exchange was re-established after being destroyed during the Great Fire of London in 1666. The Royal Exchange housed not only brokers but also merchants and merchandise. This was the birth of a regulated stock market.

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It was in 1773 when a new and more formal "Stock Exchange" was opened in Sweeting's Alley. An entrance fee was introduced on a daily basis and from then on, an annual fee was charged. However, as there were no trading guidelines, frauds were rampant.

On 18th May, 1801, the foundation stone was laid for a new stock exchange building. It was finished on 30th December of the same year and the words, "The Stock Exchange", were incised on the entrance.

The first rule book of the stock exchange was introduced in February 1812 that gave detailed definition of 'settlement and default'.

Between 1820 and 1840, the foreign market at the Exchange allowed for merchants and traders to participate, and the Royal Exchange hosted all transactions where foreign parties were involved. The constant increase in overseas business eventually meant that dealing in foreign securities had to be allowed within all of the Exchange's premises. This was a boom period for the financial market in the UK, which eventually became an integral part of London.

After going up and down for almost 100 years, the UK stock market finally came into prominence after the Second World War and a new stock exchange tower was opened in 1972.

The year 1973 was a land mark year in the history of London financial market. Firstly, it was marked by the admittance of both women and foreign-born members on the floor. Secondly, during this year, the London Stock Exchange formally merged with eleven other British and Irish regional exchanges, including the Scottish Stock Exchange.

On 3rd January, 1984, the Financial Times and the Stock Exchange partnered together to launch the FTSE 100 Index. This is one of the most useful indices of all, and tracks the movements of the 100 leading companies listed on the Exchange.

In 1991, when the Governing Council of the Exchange was replaced by a Board of Directors drawn from the Exchange's executive, customer and user base, the trading name of the Exchange was changed to, "The London Stock Exchange" (LSE).

From the above history, one can easily see how the LSE has continuously evolved over centuries and adapted to changing times to meet the needs of business persons and investors.

3. What is the "Big Bang" in context of the London / UK financial market and stock exchange and what are the major changes that followed the same?

In 1986, the UK financial market introduced a series of changes. The term 'Big Bang' was coined to describe these deregulatory measures that included eradicating fixed commission charges, removing the distinction between stockjobbers and stockbrokers on the London Stock Exchange and changing the open outcry market to electronic trading platforms.

The Big Bang was followed by major developments at the LSE, such as, the launching of the Alternative Investment Market (AIM) for smaller companies to expand into international markets in 1995.

In 1997, Electronic Trading Service, popularly known as SETS, was launched to give speed and efficiency to the market. This was followed by the introduction of CREST settlement services in 2000.

In the year 2000, a very unique thing happened. The London Stock Exchange went public and became a listed company on its own stock market. LSE thus transferred its role as UK Listing Authority to the Financial Services Authority (FSA-UKLA).

EDX London, an international equity derivatives business, was created in 2003 in partnership with OM Group.

In 2004, the London Stock Exchange moved to a brand-new headquarters in Paternoster Square, close to St Paul's Cathedral.

In 2007, the London Stock Exchange merged with Borsa Italiana, creating the London Stock Exchange Group (LSEG).

Once again we can see that following the 'Big Bang', other major changes were introduced by LSE to incorporate technology and meet the growing demands of the investors. Not only that, but in order to allow small and medium sized companies to raise funds at the LSE, more than one exchange was created. This made LSE the most popular exchange around the world and many foreign companies launched their IPOs and listed on LSE.

4. What are the various trading platforms or exchanges on the London Stock Exchange?

There is the Main Market of LSE and it is divided in to three segments - Premium, Standard and High Growth Segment. Each exchange is designed to cater to different sizes and types of companies to raise capital.

Premium Main Market is for the world's leading companies with potential to join the FTSE UK Indices.

Standard Main Market is for core European listing standards for international issuers.

High Growth Segment is designed for innovative, high growth companies allowing additional flexibilities.

On the other hand, Alternative Investment Market (AIM) is a platform for small and medium size growth companies in need of access to capital to realise their growth and innovation potential. Growing companies from around the world and at different stages of development can join AIM.

For each of these markets, one needs to fulfil entry, listing, trading and compliance requirements.

Hence, rather than having just one market and platform, there are several markets and platforms available for different companies where they can raise the capital. This gives investors the choice and option to invest in different companies depending on their type and size. The indices corresponding with each platform gives investors a fair indication of the movement of the market so that they can make an informed decision about their investments.

5. What will be the effect of BREXIT on LSEG and its members?

Procedurally, the UK will officially cease to be a member of the EU as of 31st December, 2020. If there is no trade deal before this date, the UK will automatically drop out of the EU's main trading arrangements (the single market and the customs union). In view of a negotiation stalemate, LSEG has already prepared a contingency plan. London based CBOE has set up an Amsterdam hub, while London based Aquis Exchange has set up a Paris hub.

LSEG has also launched the Turquoise platform which will give access to 19 European stock markets from a single account. Through this platform, LSEG offers market participants - including retail investors, institutions and SMEs, access to Europe's capital markets. This platform has won the Financial News 2015 Award for Excellence in Trading and Technology for the Most Innovative Trading Product/Service.

6. What is the size of the LSE market and how has it performed before, during and after COVID-19?

If we talk about the Main Market, it is home to around 1,100 companies with a combined market cap of £3 trillion. The FTSE 100 cap is 1.81 trillion. Before the start of the COVID-19 pandemic, the FTSE 100 Index was at 7610 points. During the pandemic, the performance of LSE plummeted like every other market in the world and it went down to 4993 points. UK stocks recovered in November 2020 and in December 2020, it went up to 6578 points.

On the other hand, the FTSE AIM 100 Index was at 4973 points before the pandemic and during the pandemic it went down to 3006 points. In December 2020, it recovered beyond the pre-pandemic time and went up to 5470 points.

The FTSE Techmark 100 Index was at 6100 points before the start of the pandemic. It went down to 3800 points during the peak of the pandemic. In December 2020, it bounced back to 6200 points.

However, in the coming months, two main factors are likely to affect the market. The first – the nature of deal made with the EU following BREXIT, and second - the resurgence of the current pandemic and the efficacy of the COVID-19 vaccine in controlling this resurgence.

7. How much foreign investment has come into the UK in the past few years?

According to UNCTAD's World Investment Report 2020, FDI inflows to the United Kingdom fell for the second year in a row, reaching USD 59 billion in 2019, compared to USD 65 billion in 2018 and USD 101 billion in 2017.

FDI stock in 2019 was about USD 2 trillion, compared to USD 1430 billion in 2018. The United Kingdom was the 8th recipient of global FDI flows.

The BREXIT process has raised concerns among some investors about the increase in trade costs with Europe and the volatility of the pound sterling.

London remains the financial capital of Europe, home to the European headquarters of almost 60% of companies on the Fortune 500 ranking. Furthermore, Great Britain maintains a strong currency, despite its recent depreciation, and the country remains one of the most important European consumer markets.

The United Kingdom was eighth out of 190 economies in the Doing Business 2020 ranking established by the World Bank, gaining a position compared to the previous year.

8. How is the real estate market doing in the UK?

As the UK has one of the largest financial markets in the world, it is home to several multinational companies. It is also home to many rich and famous personalities of the world. Hence, after the financial market, the UK real estate market has become one of the most favoured destinations for foreign investment, both into commercial as well as residential properties. This makes the UK, and in particular the city of London, one of the most expensive real estate markets in the world.

As per the UK Statistic Department report, the UK is the biggest commercial real estate market in Europe, followed by Germany and France.

In the UK, commercial property investments have increased since 2016, reaching 512 billion British pounds in 2018. This dynamic of the market is impacted by multiple factors.

Unsurprisingly, London is the biggest office real estate market in the UK, with a total of over 270 million square feet of office stock as of the third quarter of 2019.

These processes also affect the residential sector; increasing demand and subsequently house prices around bigger cities, and thus, causing concerns about affordable housing. The average house prices in London at 479,000 British pounds were nearly twice as high as in South West England.

9. How has the COVID-19 pandemic affected the real estate market in the UK?

COVID-19 has affected the market considerably and in order to encourage the residential real estate market, the UK government has introduced the Stamp Duty Land Tax (SDLT) holiday.

Under this holiday, both UK and foreign citizens will be exempt from paying stamp duty until 31st March, 2021.

UK real estate is an attractive asset for international buyers, particularly when we look at the top end of the market. For example, in 2019 alone, non-UK residents were responsible for over half (55%) of all prime central London (PCL) property transactions. Its historical resilience and rate of capital growth over long-term periods ensures consistent market demand for bricks and mortar in London.

COVID-19 has not dampened this demand, particularly when it comes to buyers based in Hong Kong, mainland China, and Singapore. According to Beauchamp Estates, the amount of Hong Kong and mainland Chinese investment it handled into PCL property between December 2019 and June 2020 totalled $374 million. It also found that this group of buyers accounted for 20% of deals above 10 million pounds in the capital.

On top of this, the political situation in Hong Kong is compelling investors in the jurisdiction to consider stable markets with assets that can deliver modest capital growth in the medium to long term. The PCL property market is a popular destination, and based on the current circumstances, there is good reason to expect an influx of investment from these investors in the coming months.

Additionally, during the pandemic, many ultra HNI investors who wanted to invest more than 5 million pounds saw a bargain in investing in the London residential market and the demand went up by 30%. Many brokers offering prime Central London properties witnessed the busiest summer months during 2020. Properties with asking price of 6 million pounds in the year 2019 were sold for 4.65 million pounds during the pandemic.

On the other hand, because of the travel restrictions, the influx of foreign investors to the UK was reduced considerably during the pandemic resulting in bargain prices for local buyers as well in the lower to middle range residential sector.

10. How can Indian business persons and start-ups enter the UK market and expand their business across Europe?

Last year, the UK government introduced the UK Start-Up Visa program and the Innovator Visa program to attract entrepreneurs, innovators and start-up founders to the country.

Under the Start-Up Visa Program of the UK, any start-up in the world can present their innovative idea to a Home Office designated organisation. If the idea is accepted, the start-up can set up a company in the UK. In general, the business idea must be innovative, viable and a scalable business venture. Indian start-ups have a good prospect of qualifying under this program.

Under the Innovator Visa program, a revenue generating company having an innovative business proposal and ready to invest a minimum of 50,000 British pounds, may qualify for the Innovator Visa of the UK. The endorsing body must confirm that the business is active, trading and sustainable.

Obtaining this Innovator Visa can eventually lead to an indefinite right to live in the UK and subsequently to citizenship.

11. What are the new announcements made by the UK government to attract international students and professionals?

As the UK moves towards BREXIT, the government has announced new immigration rules to attract international professionals to the UK. Under these rules, foreign nationals should have a job offer from a government approved UK company and meet education, experience, language, minimum pay and other security requirements.

There are two types of visas available for skilled workers and professionals:

i) Temporary visa (Work permit)
ii) Permanent visa (Indefinite right to live in the UK)

12. Does the UK have any investment based program for granting residency?

The UK immigration rules are set to attract investors, entrepreneurs, and people of talent. The investor category is designed to allow wealthy individuals, who make a substantial financial investment in the UK, to obtain permission from the UK to enter as investors under the Tier 1 category.

It requires an investment of at least 2,000,000 British pounds either in British corporate bonds, share capital or loan capital in active and trading UK registered companies. This is one of the fastest and most secure ways to obtain UK residency. One can be approved in as little as 10 weeks!

Prashant Ajmera (B Sc. LL.B. (India) ICSA (UK)) is a reputed Indian immigration lawyer, NRI and Canadian citizen with more than twenty-five years of experience in the field of corporate and migration law and international trade. He assists HNIs and UHNIs in making investments outside of India in real estate, stock markets, businesses and a second passport.

In recent times he has spoken at various financial events in India on the subject, "Why and how should Indian HNIs consider investing abroad?"

He is a member of the International Bar Association (IBA) and has addressed the IBA Annual Conference as a speaker on two occasions (Cancun-2001 & Durban-2002). Over the years he has authored a number of articles for various media and publications.

In January 2019, he published a first of its kind book, "Millionaires On The Move", which is available on Amazon.in. This book explains how one can obtain a second passport through business immigration by investing in residency and citizenship programs and Start Up programs of several countries.

His second book, "How to plan for your child's foreign education in 2020ne - Myth v/s Reality", is available on Google play and Amazon.in. It is a handy reference for Indian parents who wish to send their children abroad for higher education.

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