JUNE 2024

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

London’s listing challenges - are multiple headwinds to blame?

The last few months may have seen a little bit more love returning for London equities, M&A activity is on the increase and valuations are starting to tick higher. However following the IPO boom seen during the pandemic, the temptation has been to try and pin the subsequent slowdown on a single factor, be that high interest rates, political uncertainty, inflationary woes and so on. However, a point arguably deserving greater scrutiny is whether, in an increasingly globalised world, has London left itself at a competitive disadvantage given the seemingly relentless burdens listed companies have to navigate?

Stamp Duty

This remains a bug-bear of the markets. Whilst London isn’t the only venue where governments collect a transaction tax on each trade - thankfully AIM shares are exempt - the tax levied is noticeably higher than that charged by peers. In France the tax is just 0.3%, it’s 0.1% in Italy and in Germany there’s no levy at all. Indeed at Avenir we recently assisted a company list on the Paris market, with the 40% lower tax being seen as offering a significant boost to secondary market liquidity.

Broker fees

Whether it’s a blue chip paying brokers or an AIM company being obligated to engage the services of a NOMAD, the fees here have been steadily increasing over time. Feedback from a growing number of issuers is that they see this as being a market-specific issue that’s both dragging on the cost of maintaining a listing and deterring some from coming to market in the first place.

Communication costs

The price tag when it comes maintaining necessary communications with investors is proving to be another market challenge when the cost of physical document production and distribution has risen by more than 50% over the last five years. As noted in last month’s AIM Journal, we’re working with issuers to move them to a digital first register that - subject to the relevant resolutions being passed at a general meeting - speeds investor communication and dramatically reduces costs. However changes to the Companies Act could make this an automatic process and bring about wide reaching benefits.

JUNE 2024

AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

London's listing challenges - are multiple headwinds to blame? (cont'd...)

MiFID II implications

With brokers now unable to provide free or "bundled" research to clients, the burden especially for smaller companies typically falls to the issuer to commission this work. Whilst this legislation is being reversed as part of post-Brexit reform, it will take time to filter through the market. Until comprehensive analyst coverage is available, funding this will again add to issuers' listing fees.

Cost of Capital

It's a mainstay but can't go without a mention. With interest rates high, the temptation to invest in equities is muted, yet it's easy to feel that the one track initiative to bring down inflation is failing to work. A blend of fiscal and monetary policies here would at least lower the cost of capital and maybe show a more forward-thinking approach by those involved.

Nominee or Carry Costs

Companies face costs when facilitating investors' holdings of shares. With an increased push to digitise these holdings via nominees, new issuers are often left having to help their holders find appropriate venues to hold shares; this makes the process more difficult as well as disenfranchising some securities holders. Wider adoption of using e-shares as the default option then augmenting with paper certificates would deliver a secure, viable and lower cost option.

Equity markets have faced an unprecedented series of challenges over the last few years, but it's vital that policymakers understand the growing number of hurdles that need to be overcome in order to maintain a listing whilst also delivering shareholder value. And whilst some barriers to entry may act as a way of preserving the quality of companies who can obtain a listing, there becomes a point when this relationship collapses. It's difficult to ignore that London's woes right now may be the result of many small challenges converging, not a easy to resolve single issue.

This article originally appeared in the June 2024 edition of AIM Journal.

Hardeep Tamana, Managing Director, Avenir Registrars