

Listing in a Brexit era

By Fiona Le Poidevin, CEO, The International Stock Exchange Group

The ripple effects of the UK's decision to leave the EU are being felt globally, including in the Channel Islands and the Isle of Man, which are seeing renewed demand for their alternative stock market option.

On Thursday 23 June last year, the UK voted to leave the European Union. This had some immediate effects with a plunging pound and a higher FTSE 100 (as many of those companies have foreign earnings, for example in dollars) but the implications will be far-reaching and long-lasting.

The exchange was already seeing strong growth through 2015 and the first half of 2016, and the effects of Brexit could help grow it further in the next few years. In 2016 there were 502 new listed securities, which was a rise of 19% on the previous year and the total value of all listings rose 10%. In the first five months of 2017, there have been 270 new listed securities, a rise of 50% year-on-year. By the end of May there were 2,394 listed securities with a total value of £398 billion (\$507.4 billion).

A significant proportion of new business continues to be debt securities and in particular, high yield bonds. We have also seen an uptick in investment vehicles, including open and closed ended funds, and in Real Estate Investment Trusts (REITs) investing into UK property, with the latter seeing a resurgence in the wake of the Brexit vote.

“By the end of May there were 2,394 listed securities with a total value of £398 billion (\$507.4 billion).”

In addition, we have seen another trading company list in recent months and this is an area on which we will be focussing in the future in terms of additional business growth. We believe that the certainty and stability that we can offer during Brexit strengthen our case for being able to provide an alternative stock market option for UK Small and Medium Sized Enterprises (SMEs) to raise growth capital.

Global business

The exchange business was established in the Channel Islands in 1998. Its growth was slightly different to most other exchanges in that, whereas usually they would tend to serve their domestic market, the exchange in the Channel Islands grew most of its business base out of serving the global financial services industry of which Guernsey and Jersey are key centres.

It was rebranded from the Channel Islands Securities Exchange to The International Stock Exchange (TISE) in March this year. This was predominantly to reflect the fact that much of its existing business is global in nature, with international investors subscribing to securities issued by companies which are investing/operating in different parts of the world.

For example, debt issuers include some of the world's most recognisable brands, and our 400 listed investment securities include open and closed ended funds from some of the largest asset management groups.

We have also seen increased geographical diversification in recent years. For example, in 2015, China Cinda Finance [2014] II Limited became the first issuer with an ultimate Chinese parent to have securities admitted for listing on our exchange. In 2016, Fast Issuer SPV (RF) Limited became the first South African domiciled issuer to have securities admitted to the exchange. The Exchange has also been home to some world firsts. For example, the world's first listed private catastrophe bond came to our exchange and in 2016, GABI was admitted to our Official List and in doing so, became the first regulated bitcoin fund to be listed on any exchange globally.

“The listing of debt, investment vehicles and trading companies on TISE can now be facilitated directly from the Isle of Man”

Changing its name also made sense because the exchange had already amended the membership rules to allow for listing sponsors from beyond the Channel Islands and to reflect the opening of a new office in the Isle of Man in March. Three months after this, the exchange had its first member from the island. It means that the listing of debt, investment vehicles and trading companies on TISE can now be facilitated directly from the Isle of Man.

MAR and high yield bonds

The exchange is present in the three British Crown Dependencies, which are leading international finance centres at the forefront of cooperation on international tax initiatives and have some of the highest regulatory standards globally. In addition, they are English speaking, use the British pound sterling and in the same time zone as and with close links to the UK but outside of the European Union.

Being outside of the EU means that its regulations and directives do not apply unless voluntarily accepted. For example, from July 3 last year, the EU introduced the Market Abuse Regulation (MAR) aimed at improving transparency of trading in the equity markets where there are retail investors. However, the blanket approach has also brought into scope debt listings, and is disproportionately onerous on high yield bonds which are less frequently traded and held by sophisticated investors.

TISE has not changed its rules and the fact that it has the ability to regulate according to the type of product means it can offer a more proportionate regime. As a result, we have seen some migrations from Ireland and Luxembourg but predominantly, we are seeing new issuances coming to us. Since July last year, TISE has been chosen by more than 30 issuers – comprising a mix of private and public, and EU and US companies – including a €1.3 billion [\$1.45 billion] high yield bond from Netflix.

REITs

Last June's unexpected Brexit vote had a number of immediate impacts on the UK economy, not least a loss of confidence in the real estate market, and led to some of even the largest open ended property funds having to protect themselves against a run of investor redemptions.

However, fast forward a couple of months and groups of international investors, including sovereign wealth funds, started seeking to take advantage of new opportunities in the UK property market given the backdrop of revaluations and the exchange rate implications of a lower pound. This has provided a catalyst for foreign investment into UK property, whether through participation in debt issuances or, combining with HMRC's changes to the regime in recent years, REITs.

This is evidenced by the applications and enquiries we have seen so that today, one-quarter of all UK REITs are listed on TISE. We not only fulfil the requirement of being listed on an HMRC recognised stock exchange but we have a pragmatic and cost-effective admissions process.

“Today, one-quarter of all UK REITs are listed on TISE”

In September last year, TISE's rules for investment vehicles were modernised to ensure that they were fit for purpose, not least explicitly catering for non-fund structures such as REITs. They also specifically exempt REITs from the free-float rule requiring 25% of the issued share capital to be held in public hands. This is a similar approach to the UK REIT regime, and it has proved particularly attractive for those REITs where there are a smaller number of institutional investors – especially where they are likely to hold for the long-term and therefore do not require significant levels of liquidity. Having said that, there has been a recent trend towards TISE also proving attractive to more widely held REITs and those who want the option to trade through its bespoke system.

While UK REITs must be tax resident in the UK, they can be incorporated in other jurisdictions. TISE-listed REITs include not just England and Wales companies but also those established in Luxembourg [particularly attractive for French investors] and the Channel Islands.

Using Guernsey or Jersey incorporated companies to avail of the UK REIT regime has some advantages compared to a UK equivalent. These include company law in Guernsey and Jersey enabling distributions to be made on a cash flow solvency basis and there being no stamp duty payable on the transfer of shares in a Guernsey or Jersey company.

Trading companies

We also believe that the stability and certainty which the Crown Dependencies can offer means that TISE provides an alternative venue for SMEs to raise finance.

The UK government has identified SMEs as the engine room which will provide jobs and generate growth in the economy. To do that they will need to find suitable sources of capital to assist in their development. However, SMEs are already facing squeezed bank lending since the financial crisis. Alternative financing such as peer-to-peer lending or crowdfunding remains limited in scale, and owners are often worried about the loss of control afforded by private equity while listing on a major stock exchange is often prohibitively expensive and/or bureaucratic.

“We can help to oil the wheels of economic growth in the UK, especially given the context of Brexit”

TISE provides a complementary offering to those which already exist by offering a capital markets option which is better suited, for example in terms of costs, to SMEs. It might be that in the longer term the company will grow and migrate to a major venue but by acting as an ‘incubator’ exchange, TISE can help to oil the wheels of economic growth in the UK, especially given the context of Brexit.

Conclusion

TISE has seen considerable growth in new listings in the last two years and while there are a number of factors at play, one is the catalyst that Brexit has provided for investment into UK property.

We also believe that our proposition for offering an alternative stock market option for companies seeking to access growth finance has been strengthened by the fact that we can offer stability and certainty to those companies at a time of such uncertainty being created in the UK by Brexit.

Date published: 6 July 2017

DISCLAIMER: This document is intended to provide general information regarding The International Stock Exchange Group Limited and its subsidiary, The International Stock Exchange Authority Limited (together, the TISE Entities) and their products and services and it is not intended to, nor does it, constitute investment or other professional advice and the information contained in this document should not be construed as a recommendation to buy, sell, hold or solicit any investment, security or other financial instrument or product.

All material set out in this document is provided for general information purposes only without any representation or warranty being given by the TISE Entities as to the accuracy, completeness or otherwise of its content and to the extent permitted by law, no responsibility or liability of any kind or nature, howsoever arising (including in negligence), is accepted by any TISE Entity, their officers, employees and agents for any errors contained in, or for any loss or damage arising to any person from use of, or reliance on, this document and its contents. It is prudent to always consult suitably qualified professional advisers before making any investment decision or taking any action or omitting to take any action which might affect your personal finances or business affairs.

Neither of the TISE Entities have taken any steps to verify the accuracy of the content or implications of any third party quote included in this document.

The material and information on this document is intended only to be viewed by persons who fall outside the scope of any law, order or regulation that regulates financial advertisements in any country to which it has been communicated and is not intended for distribution in or into, or for use by any person or entity in, any jurisdiction where any such distribution or use would be contrary to any local law, order or regulation.

TISE is a registered trademark of The International Stock Exchange Group Limited (Guernsey registered company number 57524). It wholly owns The International Stock Exchange Authority Limited (Guernsey registered company number 57527), which is licensed by the Guernsey Financial Services Commission to operate an investment exchange under the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended.

**The International Stock
Exchange Group Limited**

Registered Office

PO Box 623, Helvetia Court,
Block B, 3rd Floor,
Les Echelons, St Peter Port,
Guernsey, GY1 1AR
T: +44 (0) 1481 753000

Jersey

No.3 The Forum,
Grenville Street,
St Helier,
Jersey, JE4 4UF
T: +44 (0) 1534 737151

Isle of Man

Merchants House,
24 North Quay,
Douglas,
Isle of Man, IM1 4LE
T: +44 (0) 1624 675907

 follow @tisegroup
 follow us on LinkedIn

E: info@tisegroup.com
www.tisegroup.com

TISE[®]
The International
Stock Exchange[™]