

# **A Stock Exchange for Scotland: Executive Summary November 2018**



**MOMENTOUS CHANGE**  
LTD.

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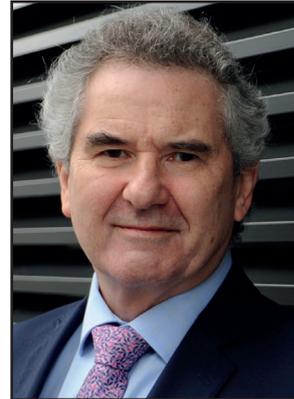


# MOMENTOUS CHANGE

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## **Roger Mullin**

Roger has over 30 years' experience in leading research and consultancy companies. He is Honorary Professor at the University of Stirling's Management School and before entering parliament, he undertook 27 international assignments for UN agencies, the World Bank and Asian Development Bank. Since leaving parliament in 2017 he has been appointed Chair of the Board for Revive Campaign Ltd which supports the All Party Parliamentary Group for Explosive Threats.



## **John Millar**

John is a doctoral researcher at the University of Edinburgh Business School where his research is looking at a number of strategic topics relating to the Scottish asset management industry. Prior to this he worked for 24 years as a portfolio manager for two investment management firms based in Edinburgh.



## **Michelle Thomson**

Michelle has a background in financial services, IT, property and the creative sector as well as a breadth of experience in private business. She was a key member of parliament serving on the Business, Energy & Industrial Strategy Select Committee, leading on a range of inquiries which achieved national prominence. Since stepping down from parliament in 2017 she has been appointed as Ambassador for the All Party Parliamentary Group for Fair Business Banking and is currently leading on their Contracts workstream.



**This study highlights why reintroducing a stock exchange, built on modern lines, with a keen focus on impact investing, will be a significant and valuable initiative for Scotland.**



**I would welcome the return of a Stock Exchange to Scotland especially if it returns with the highest possible emphasis on its core functions of:**

- raising capital,**
- enabling companies to buy productive assets and grow in Scotland and**
- ensuring liquidity... and commits itself to helping Scotland retain much more of the wealth that it generates.**

**Jim Mather**  
**Former Minister for Enterprise**  
**Energy and Tourism**  
**Visiting Professor at Strathclyde and**  
**Heriot Watt universities**





**Across the country Scotland historically had quite a number of Stock Markets. When they closed organisations not only lost the ability to raise funds locally – we also lost the local infrastructure in the form of corporate financing and the legal services. I welcome this announcement and am delighted to see the plans for it to be headquartered in Edinburgh – the largest UK financial centre outside of London.**

**Frank Ross**  
**Lord Provost of Edinburgh**



The proposition is to create an international stock exchange for Scotland, with headquarters in Edinburgh. Plans are in place for representative offices in Glasgow and Aberdeen. It will offer a channel for international and domestic investors into the Scottish economy. Trading will be in debt, equities and investment trusts.

The exchange will offer investors the ability to invest in Ethical, Social and Good Corporate Governance investments.

This initiative will not be Scotland's first experience of locally based stock exchanges. Scotland's first exchanges were established in Glasgow and Edinburgh in 1844. They were followed by Aberdeen (1845), Dundee (1879) and Greenock (1888).

Over time, pressure for merger resulted in the Jenkins report of 1962, which led to the creation of a single Scottish Stock Exchange in 1964. Initially, the exchanges operated as before until a full merger in 1971 with operations based in Glasgow. In 1973 it in turn merged with the London Stock Exchange, since when Scotland has lacked its own stock exchange.

Scotland is recognised worldwide as a centre of excellence in investment management. Figures from the Investment Association (IA) show that at the end of 2017 the assets managed in Scotland by IA members amounted to £615bn: 8% of the UK total<sup>1</sup>. This rises sharply when measured by headquarters location: 23%

of the assets managed by UK-headquartered asset managers are run by firms with headquarters in Scotland<sup>2</sup>.

Particularly important in differentiating Scottish investors from their rivals elsewhere has been their focus on long-term investing and the responsible stewardship of their clients' capital.

Another differentiator particularly important given the intent of the proposed new Stock Exchange for Scotland is the growing emphasis on impact investing. Aberdeen Standard Investments (ASI), for example, has already established itself as a leading player in this area.

Impact investing is defined by ASI as "investing in companies and investment portfolios that have the intention of generating positive social and environmental impacts alongside financial returns".

For businesses in Scotland private equity is a major source of funding for young businesses. Our analysis concludes however, that the means by which investors exit their positions are by trade sales with the number of IPO listings much lower currently.

The simplest market on which to list is AIM, the London Stock Exchange's international market for smaller growing companies. Only 25 Scottish-based firms are currently listed there<sup>3</sup>. Of these, only five (Beeks Financial Cloud, IDE Group Holdings, Nucleus Financial, Quiz, and Springfield Properties) have listed since 2013 and remain listed.

“

**We floated our family company on the London Stock Exchange last year. Had there been an option of a Scottish Stock Exchange, then that would have been something that we would have seriously considered. A Scottish Stock Exchange will bring jobs and investment to Scotland.**

**Sandy Adam**  
**Chairman, Springfield Properties**

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In more recent times there has been an expansion of the number of exchanges internationally. This has, in part, been fuelled by political changes, such as the formation of the European Common Market; the collapse of empires and growth in the number of new independent nations, and the collapse of the Soviet Union. The World Federation of Exchanges now represents over 200 exchanges and CCPs of all sizes, from every corner of the world, with full membership from 71 exchanges and affiliated membership from a further 31.

Many much less mature markets and economies than Scotland's have established exchanges. There are real opportunities for Scotland to find its place amongst the world's exchanges.

We considered a number of countries of similar maturity and scale to Scotland which have exchanges. If, for example, a Scottish exchange had existed in 2017 and attained the market capitalization to GDP ratio of Portugal, the market capitalization figure for Scotland's exchange would have been \$76.6billion. If it matched Ireland's ratio, its market capitalization would have been some \$96.9billion. If its trading turnover matched Ireland's rate, it would have been of the order of \$19.2billion. These are not predictions, but are indicative of possibilities.

Further analysis of the impact of Ireland's exchange identifies a wide range of beneficial impacts. These include:

1. Source of equity for enterprise
2. Lowers the cost of capital for domestic firms
3. Creates local knowledge and specialization
4. Delivers macroeconomic benefits including greater R&D intensity and higher levels of foreign direct investment

A new Stock Exchange for Scotland, while having international ambitions, will complement the drive to grow Scotland's economy in a sustainable fashion fuelled by other initiatives such as the establishment of a Scottish National Investment Bank<sup>4</sup>.

The Scottish Government's strategic sectors will provide significant avenues of opportunity for a stock exchange, and particularly one with a focus on impact investment. The main sectors are as follows.

## Financial services

Scotland has a long history, and a global reputation in financial services, particularly in high value areas. A stock exchange for Scotland will therefore will be launched into a very well established market place, with all the benefits that presents.

## Energy

Scotland has been an energy



**There are stock exchanges in London that compete with each other in the capital-raising business. Some have specialist niches, others are global in reach. From nothing in 1990 China now has three functioning stock markets all serving different purposes. The Stock Exchange for Scotland need not compete with London; it can complement it and, at the same time, serve Scottish companies directly.**

**In this time of global capital flows a new Stock Exchange for Scotland is a golden opportunity for Scottish enterprises to make their mark and broaden their appeal internationally.**

**Dr Jim Walker  
Chief Economist,  
Aletheia Capital Ltd, Hong Kong**



producing country for centuries. Of particular interest however, is the growing emphasis on renewable sources of energy, as the global economy tries to find ways of meeting the challenge of climate change. Scotland has a competitive advantage in this area. For example, in 2016, Scotland generated 54% of its electricity needs from renewable sources – mainly hydro and wind power<sup>5</sup>. Scotland has most of the UK on shore wind resources and up to 25% of Europe's tidal power, 10% of its wave power and approximately 25% of the European off shore wind potential<sup>6</sup>.

### Life Sciences

The life sciences sector is another of Scotland's great strengths with huge potential. This has most recently been confirmed on 12 November 2018<sup>7</sup>, by the release by the Scottish Government of the latest figures showing that turnover stood at £5.2billion in 2016 and on trend for achieving the strategic target of £8billion by 2025.

### Food and drink

Scotland has an international reputation for its food and drink. In 2017 Scotland exported approximately £6billion worth of food and drink<sup>8</sup>.

### Tourism

Scotland also has a growing tourism sector<sup>9</sup> whose performance is strong. Latest figures from Visit Scotland, for

example, state in their summary report for 2017 that:

*“Tourism in Scotland in 2017 saw 166million tourism trips (International, domestic overnight, and domestic day trips) taken generating over £11.2billion in expenditure.”*

### Creative Industries

Scotland's creative industries comprise over 15,000 businesses employing over 70,000 people. Scottish Government data<sup>10</sup>, reports the sector as worth around £5billion annually.

There is considerable synergy between the intentions of the proposed Scottish Stock Exchange and Scottish Government policy in the areas of sustainability and social impact. As Scotland's First Minister has said<sup>11</sup>,

*“We need to tackle the underlying challenges in our economy and labour market, increase the competitiveness and sustainability of the Scottish economy and reduce inequality. We need to ensure that there are sufficiently skilled and well-paid job opportunities available, support the move to the low carbon age, take advantage of the opportunities presented by globalisation and technological change and ensure that the benefits of economic success are shared by everyone.”*

“

**Few things are more important to the economic well-being of any area than that local businesses should flourish. All too frequently they have difficulty in raising sufficient capital. So a proposal to set up a recognised and regulated stock exchange in Scotland with local representation is very much to be welcomed.**

**David Simpson**

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**Professor David Simpson founded the Fraser of Allander Institute in 1975. From 1988 to 2001 he was Economic Adviser to Standard Life. From 2005 to 2012 he was Vice-Chairman of the Water Industry Commission for Scotland.**

## References

<sup>1</sup>Source: Asset Management in the UK 2017-2018: The Investment Association Annual Survey, p.17. <https://www.theinvestmentassociation.org/assets/files/research/2018/20180913-full-summary.pdf.pdf>. Accessed 12 November 2018.

<sup>2</sup>*ibid.*, p.17. The discrepancy is for the most part explained by the large volume of assets overseen by fund managers working for Aberdeen Standard Investments (a company headquartered in Scotland) in locations outside Scotland.

<sup>3</sup><https://www.londonstockexchange.com/exchange/companies-and-advisors/aim/for-companies/information-search/aim-company-search-result.html?codeName=&admissionInLast=&ukRegionId=Scotland&internationalRegionId=&sectorId=&nominatedAdvisorId=&brokerId=&search=search&page=2>. Accessed 18 November 2018.

<sup>4</sup>See, for example, the SNIB implementation plan here: <https://www.gov.scot/publications/scottish-national-investment-bank-implementation-plan/> [Accessed 17 November 2018]

<sup>5</sup>Scottish Government, 2017, Energy Statistics Summary.

<sup>6</sup><https://www2.gov.scot/Topics/marine/marineenergy> [Accessed 18 November 2018]

<sup>7</sup>See <https://www.lifesciencesscotland.com/news/scotlands-life-sciences-sector-is-on-track-to-meet-8bn-target-by-2025> [Accessed 20 November, 2018]

<sup>8</sup>See <https://news.gov.scot/news/exports-hit-record-gbp-6-billion> [Accessed 19 November 2018]

<sup>9</sup>Visit Scotland, 2018, Scotland's Tourism Performance, 2017.

<sup>10</sup>See <https://www.gov.scot/policies/creative-industries/> [Accessed 18 November 2018]

<sup>11</sup>*ibid*



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