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BUSINESS

London's 'Big Bang' shakes out some big brokerage firms

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Nobody predicted London's "Big Bang" would be a placid process. But after only five months of trading, major players are already dropping by the wayside.

Last Friday, Greenwell Montagu Securities, a subsidiary of Midland Bank PLC, withdrew from stock trading altogether. And recently three more firms, including a Shearson Lehman Brothers subsidiary, have sharply pared their market-making activities in dozens of stocks.

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"There's no question others will be backing out, too," says Gavin Dobson, manager of the Kemper International Fund, who just returned from London. "I suspect you'll be seeing casualties for the next year to 18 months."

Competition has been fierce since the liberalization of the London market began Oct. 27. Where once there were four major traders or jobbers, more than 30 firms are scrambling to be top marketmakers.

A marketmaker stands ready to buy or sell specific stocks for its own account. The Big Bang reforms ended fixed commissions and set up a computerized trading system similar to the United States over-the-counter system where a popular stock, say, Apple Computer, may have a dozen marketmakers.

London firms vying to become the leading marketmakers in certain industries or specific securites have slashed fees charged for executing a trade. In some stocks, trading margins are thin or nonexistent. Yet operating overhead for even a small firm can run to $60,000 a day.

"The big institutions are playing chicken, trying to see who will duck out first," says Mr. Dobson, apologizing for the mixed metaphor. Greenwell Montagu reported losses of $9.5 million before fowling out.

Of course, you won't hear investors complaining about such developments. Liquidity is better and cut-rate trading commissions are a boon. Stock prices and volume on the London Stock Exchange are at record levels. Tuesday's unveiling of a deficit-paring Thatcher budget (complete with a tax break) met with the City's approval.

But historians of Wall Street's own deregulation know that if trading volume should ebb, so will brokerage profits, thus quickening the consolidation process.

Separately, the transatlantic tiff between the New York Stock Exchange (NYSE) and the London Stock Exchange has cooled.

Earlier this month, a row erupted when an official of the Big Board said it would apply Rule 390 to the London Exchange when the latter completely phases out floor trading in favor of a new computerized system at year-end.

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Rule 390 bars member firms from doing trades in NYSE-listed stocks in any over-the-counter market when the Big Board is open. If it is applied, some 200 stocks would be affected. Till now London has been considered a stock exchange.

But now both exchanges are officially backpedaling from the Rule 390 rift.

"Nothing's going on," says an NYSE spokesman. "As long as the British Parliament recognizes it as an exchange, that's OK by us."

Still, the feud illustrates that despite the spread of global securities trading, the exchanges are separate and competing.

"There's a lot of positioning going on. says Graciela Chichilnisky, head of Financial Telecommunications Inc., a firm specializing in international equity clearing systems. "The London exchange has great aspirations to become the leader in world equity markets. The NYSE may see London's computer upgrade as a threat."

It's not yet clear whether New York is losing any business to London. Most member firms say Rule 390 restrictions would not be a problem. But one head equity trader suggests that the New York exchange may already be concerned about block trading going through London.

If the NYSE does apply Rule 390 to London, or to Tokyo, which also has automation plans, it may be a futile attempt to counter "the deregulation and electronic tide of the times," Dr. Chichilnisky says.