The IA Position Paper on The Automation of IPOs and Placing "Block Trades"

Streamlining the IPO order placing process with electronic orders

INTRODUCTION

The Investment Association (IA) champions UK investment management, a world-leading industry representing the buy side community in the UK and supporting savers, investors and businesses in the UK and throughout the world. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £9.1 trillion of assets on behalf of their clients. As of the end of 2023, IA members provided a total of £1.4 trillion in financing for the UK economy through investments in equities, sterling-denominated bonds, infrastructure and commercial property. Of this, £780 billion is invested in UK equities, representing almost one-third (32%) of total UK equity market capitalisation.[1]

As a major allocator of capital, the investment management sector has a strong interest in the development of a more efficient, competitive and attractive UK capital markets and the IA, champions "Modernising Capital Markets" as a key organisational priority. Innovation is at the core of this shared mission, and we recognise and contribute to the number of initiatives and industry participants that have continued to collaborate at pace to drive reform and tackle critical issues such as the development of consolidated tape, transition to T+1, introducing new optionality for payment for research and of course, the reform of the UK listing rules.

Much of the capital markets reform in the UK has been focused on public markets and listings and the critical role they play in the UK economy by providing businesses with access to capital and liquidity, and enabling both retail and institutional investors to participate in the growth of companies. To put this in context, in the past five years, £28bn was raised through 254 Initial Public Offerings ("IPOs") at the London Stock Exchange, bringing £77bn market value to the UK public market.[2] Despite this significant contribution to the UK capital market, the performance of the UK IPO market has fallen short of other competing financial centres in the

[1] Investment Association, "Investment Management in the UK 2023-24"
[2] From 2020 to July 2024. London Stock Exchange, New Issues and IPOs reports

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US and Asia in the past few years and much has already been done to address this, including a full reform of the UK Listing Rules.

In this rapidly evolving environment, the placement of equity IPOs and secondary placings remains a manual process.

Improving the efficiency of the listing process was among the key recommendations of the UK Listing Review.[3] The buy side community is in strong favour of a more streamlined and efficient process and in particular, to place orders electronically. In 2015, the FIX Trading Community produced an IPO Recommended Practice Guidelines that identified the requirements for the configuration for the electronic transmission of orders for equity IPOs and fixed income new issues. Almost a decade has passed since the publication of these Guidelines, but the IPO process has yet to undergo transformative change.

Given the emergence of new third-party services, innovations, and technology, the IA membership considers this the ideal moment to reinitiate dialogue on IPO automation and urge market participants to collaborate for the change.

This Position Paper sets the stage for an open discussion on the need for IPO automation, the challenges faced by the current system, and the proposed direction for solutions to enhance the IPO process.

We call for collaboration between the buy-side and sell-side to achieve successful automation and would welcome active engagement and collective effort to adopt the necessary technological advancements.

THE NEED FOR CHANGE

Issues in the current practice

IPO and secondary market placement remain one of the few areas in the capital market that is still reliant on manual processing to communicate demand. In the current placement processes, sell-side brokers take multiple calls or messages from various sources to place orders. This practice is inefficient and prone to errors or misinterpretation in order transmission. There is also a risk of order amendments before they reach the syndicate book, which can leave investors unaware of their commitments or exposure to wrongly placed or received order errors during the IPO offer periods.

Electronic order placement would enhance efficiency and transparency as well as reduce risk. Most importantly, existing systems lack compatibility. Market participants need to work together to resolve issues with system connectivity and data standardisation.

Benefits of an automated process

Executing IPO and placing orders electronically would enhance efficiency, reduce risk and provide more transparency for investors. From the asset manager's viewpoint, this method offers a fully audited process with time-stamped order generation that has passed pre-trade compliance checks, ensuring adherence to mandates and risk controls before being forwarded to the deal manager. By using an electronic platform to place orders, it is also possible to place orders after the market closes. This can provide a centralised view of book builds and reduce the requirement to re-key orders, which reduces the risk of transmission error by both the sell side and the buy side. This is considered hugely beneficial by the asset managers.

The efficiency of the allocation process on deal completion would also be improved with the designated counterparty filling orders via a vendor/platform. Ideally, the allocation would contain all necessary information including timestamps, MIC codes etc. Although this side of the process requires the market

[3] HMT, UK Listing Review

participants to coordinate on what needs to be communicated in the orders, it would again improve time efficiencies and reduce manual entry errors.

For the sell side, an efficient portal could standardise and widely distribute deals, allowing for quality assurance in distribution lists as well as ensuring deals reach a wide variety of potential investors. An enhanced order placing process can also reduce the cost incurred by errors to the sell side. The automated process could potentially be scaled to serve as a new distribution channel for the sell side.

It is critical for the UK capital market to evolve with technology to maintain its competitiveness. Increased automation could facilitate capital raising and enhance the market's appeal. This improvement would benefit all market participants by optimising market structure and efficiency.

SOLUTIONS: SCOPE AND DIRECTIONS FOR CHANGE

New trading services vendors have emerged to provide the possibility to manage the new order placements process. The buy side community believes that with the new services available**, it is possible to achieve such electronification without requiring a challenging amount of infrastructure change from market participants.** For instance, both the sell side and the buy side can subscribe to service vendors that provide electronic new deals allocation platforms, instead of building the systems in-house. While not endorsing any vendor-specific solutions, the IA members proposed the following scope and directions for change:

- As a start, the effort could focus on IPOs but the solution should eventually cover all kinds of book building processes involved in the Equity Capital Market (ECM) desk.
- Any IPO automation solution should be long-term and expandable to the secondary market, such as placing follow-on issuance orders. The IA members believe the efficiency gain from further electronification does not start with and stop at the IPO process.
- Market participants should adopt a unified approach to system communication and integration that ECM systems can readily connect to, such as FIX connectivity and API connectivity.

CALL FOR ACTION

To realise these benefits of IPO automation, all market participants will need to actively engage in the collective effort to adopt and integrate these technological advancements. This transformation is not about enhancing individual firm’s operations but about elevating the entire market structure to a new level of efficiency and transparency.

IPO automation will not be a success without collaborations between the buy side and the sell side. **The IA calls for a sell-side agreement on the scope and directions for change proposed in this paper to advance the initiative. We also welcome engagements with wider capital markets players.**

In conclusion, the call for action is clear: let us join forces to modernise our market infrastructure, ensuring that it meets the demands of the future. Through collaboration and a shared commitment to progress, we can unlock unprecedented opportunities and drive the evolution of the Equity Capital Market.